



Government of the Republic of Serbia

ECONOMIC REFORM PROGRAMME FOR THE PERIOD 2022-2024

Belgrade, January 2022

Publisher

Ministry of Finance of the Republic of Serbia, Belgrade

Editor

Ministry of Finance of the Republic of Serbia in cooperation with The National Bank of Serbia and the Public Policy Secretariat

Economic Reform Programme 2022-2024

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Design

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Printing

Dia-Art doo, Belgrade, 2022

Circulation 80

Published in 2022

Place

Belgrade

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On the basis of Article 38. paragraph 1 of the Law on the Planning System of the Republic of Serbia (The Official Gazette of the Republic of Serbia, No. 30/18),

The Government adopts

ECONOMIC REFORM PROGRAMME FOR THE PERIOD 2022-2024

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The Republic of Serbia economic policy gave an adequate response to the Covid19 pandemic crisis. The two years of struggle in the fields of health care and economy turned out to be satisfactory. The achieved macroeconomic stability allowed for an adequate economic policy response both in its scope and structure. The fiscal policy enabled a comprehensive package of measures aimed at supporting the businesses and the population that, according to macroeconomic indicators, had a positive effect. The value of the package of measures delivered to support the businesses and the population in 2020 has been estimated at 12.8% of gross domestic product (hereinafter: GDP). The prolonged impact of pandemic in 2021 induced another substantial amount of aid provided to the businesses and the population, intended for a full recovery and growth of economy, accompanied by a mass vaccination of the population to counter the pandemic. The aid package provided in 2021 is estimated at 4.2% of GDP.

Major objectives set by the adopted Program of Economic Measures to Support the Serbian Economy have been met. The capacities of businesses have been preserved and they were offered the assistance in maintaining their liquidity in the course of the extraordinary circumstances. Thanks to the adequate response, Serbian economy achieved good results throughout the year 2020, despite the unprecedented limitation factors that held back the economic growth. In 2021, we expect full recovery and growth of economy that will exceed the initial forecasts.

The mid-term projections include gradual stabilization of public finances and directing of fiscal assets to public investments that would recover and promote economy. The fight against the pandemic and its economic consequences has temporarily degraded the country's fiscal position. The basic mid-term scenario of economic trends has been created with the assumption of the end of pandemic crisis and the economic recovery. Under these assumptions, the mid-term deficit trend declines and approaches a sustainable level towards the end of the respective period. Exceptionally, the increased public debt share in GDP in 2020 and 2021, having in mind the projected fiscal results, will start declining as of 2022 to reach its former sustainable level. The steady public finances have proven to be the prerequisite for not only achieving the sustainable growth, but above all, for providing an adequate response of the state under the exceptional circumstances such as the one caused by the coronavirus pandemic. The available fiscal assets in the next mid-term period would be used to maintain the current level of public investments. Public investments are critical for achieving a faster economic recovery and creating the basis for dynamic economic growth. Macroeconomic and fiscal risks relating to the presented baseline scenario are high. Reservations will remain regarding the course and duration of the pandemic, the swiftness of mass immunization, the way and speed with which economies will recover, the need for additional aid to businesses and numerous obligations that may arise from indirect and direct state guarantees that have supported the businesses during the pandemic.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

Fulfilment of the Policy Guidance (PG) for individual policies as part of the Joint Conclusions on the Economic Reform Program (ERP) 2021-2023, adopted at the ECOFIN Council meeting held on 12 July 2021 in Brussels, within the framework of “Economic and Financial Dialogue between the EU and the Western Balkans and Turkey”, is reflected in numerous reform measures and activities of the Government.

2.1. FULFILMENT OF THE RECOMMENDATIONS OF THE ECOFIN COUNCIL FROM JULY 2021 FOR THE REPUBLIC OF SERBIA

1. Provide well-targeted and temporary pandemic-related fiscal support to vulnerable households and businesses; provided the economic recovery is well entrenched, plan a gradual return to a deficit close to balance in the 2022 budget and medium-term fiscal framework.

In response to the pandemic, three packages of measures to help the economy and the population in the total amount of 17% of GDP were prepared, with the most allocated for the most endangered sections of the population, such as pensioners and the unemployed, and for the parts of the economy that suffered the most damage.

The medium-term fiscal framework envisages a reduction in the deficit to 1% of GDP by 2024, with a reduction to 3% of GDP next year. As part of the reduction of the deficit, the expenditure side will be taken into account, primarily the moderate growth of the largest expenditure categories, salaries and pensions, which will not grow faster than the nominal GDP.

Contain overall spending on wages as a percentage of GDP by adopting an adequate wage indexation mechanism and taking steps towards an appropriately designed public sector wage system reform. Adopt a credible and binding system of fiscal rules for entry into force as of 2022.

The pandemic and its effects on public finances and economic developments have delayed the adoption of a new set of fiscal rules and the reform of the public sector wage system. With a new arrangement with the IMF and expectations that the pandemic will have less and less impact on economic developments, the establishment of these two systems is expected in the near post-pandemic period. According to the agreement with the IMF, the new system of fiscal rules is expected to be agreed by June 2022 and to enter into force in 2023. As for the reform of the salary system, it has been postponed until 2025, also in agreement with the IMF.

2. To reduce the grey economy, increase VAT collection and improve the tax control process, implement the new model of electronic fiscalisation and the transition to electronic invoicing according to the ERP 2021 timeline.

Regarding the improvement of VAT collection in 2021: measured through the ratio of the number of VAT payments made by the legal maturity date and the total number of due VAT payments in percentages is 95.45%; and measured through the ratio of the value of VAT payments made on time and the total value of due VAT payments in percentages is 95.28%. It is important to note that both indicators are 100% for VAT taxpayers belonging to the Large Taxpayers Office.

Regarding the progress in the implementation of the recommendation to improve the tax audit process, the following has been undertaken: when it comes to audit methodologies (i.e. direct and indirect), direct audit methods are mostly represented, while the indirect method is used mainly in audits of unregistered activities. The project “Support to the Ministry of Finance within the Sectoral Reform Agreement for the Public Administration Reform Sector” is underway, which aims to actively apply indirect methods in the audit process (Technical Report “List of functional requirements for IT support in the application of the proposed methodology” is being developed). A User’s Guide for the application of the methodology for indirect assessment of the tax base has been prepared.

Regarding the new model of electronic fiscalization and the transition to electronic invoicing, all activities are carried out in accordance with the set deadlines. During April 2021 all bylaws related to the Law on Fiscalization (“Official Gazette of RS”, No. 153/20 and 96/21) were adopted. The Law on Electronic Invoicing (“Official Gazette of RS”, No. 44/21 and 129/21) was adopted in April and the accompanying bylaws in July 2021.

The centralized platform for electronic fiscalization was launched on November 1, 2021. The deadline for taxpayers to switch to the new system is April 30, 2022. As far as electronic invoicing is concerned, a phased introduction is planned, which will end on January 1, 2023.

Trainings for users of the new model of fiscalization and electronic invoicing began in July 2021 and are proceeding according to the planned dynamics by the end of the year. In this process, the Ministry of Finance has the support of NALED and the Serbian Chamber of Commerce, as selected partners for training and communication campaign for these two reforms.

To increase the transparency of the fiscal impact of state-owned enterprises, reinforce fiscal risk analysis capacity and publish quarterly reports on SOEs’ financial performance. Implement the first steps of the time-bound action plan for deployment of the new SOE ownership and management strategy to improve the governance of SOEs and reduce related fiscal risks.

For efficient monitoring of fiscal risks, on October 21st 2021, the Government of Serbia (GoS) adopted the Unified Methodology for Monitoring Fiscal Risks in the Republic of Serbia. This methodology refers to fiscal risks arising from the operations of public companies, threats to the budget of the Republic of Serbia, which arise from natural disasters, court disputes, and risks based on exercising the competencies of local self-government units. The MoF adopted the methodology with the support of international financial organizations (IMF, World Bank, SECO). In addition, continuous work is done to strengthen organizational and human capacities in the Fiscal Risks Monitoring Department (FRMD) by filling existing systematized jobs and training employees.

By adopting the methodology in question, an adequate basis for the reporting system of the Ministry of Finance on the operations of public companies was created, which contains quantitative and qualitative business indicators, such as e.g. review of general risk ranking results, etc.

It is expected that by adopting the Unified Methodology conditions for the FRMD to act preventively with more efficiency in the future to control better the spending of public funds and more minor deviations from the envisaged fiscal and budgetary framework, will be provided. The FRMD undertakes activities related to the implementation and application of this methodology in practice.

In order to establish a centralized database of economic entities in which the Republic of Serbia has ownership, as well as to create criteria for their classification, a questionnaire was prepared and forwarded to economic entities, in order to submit data. The requested data have been submitted and their processing is underway.

The Draft ERP 2022-2024 envisages a new structural reform relating to Sustainable and efficient management of business entities owned by the Republic of Serbia. This measure is envisaged within the second ERP key challenge related to Improvement of the business environment more favourable for investments.

3. Maintain a strong financial sector regulatory framework in line with international and EU best practices, maintain sound credit risk management, as well as a transparent display of asset quality and adequate provisioning.

Thanks to all the efforts and actions over the previous years, as well as macroeconomic stability in the Republic of Serbia and the constant strengthening of the business environment, the financial sector of the Republic of Serbia is strong and sound, with the bank regulatory and supervisory framework based on Basel 3 standards and best international and EU practices. This is among the key factors why the financial sector of the Republic of Serbia was ready to face the crisis caused by the Covid-19 pandemic. Since the pandemic broke out, legislative activities were mostly done in order to deal with the Covid-19 potential effects. To prevent or minimize negative effects, the National Bank of Serbia has carried out numerous and comprehensive activities, provided several debt repayment facilities to debtors, and created regulatory conditions that facilitate access to financing for clients and, hence, encourage credit growth. Regulatory and supervisory activities, supported by the banking sector's commitment to timely addressing any asset quality issues, resulted in preserved financial system stability and further reduction of the NPL ratio to 3.55% (in September 2021), lower by 0.55 p.p. than at the outset of the pandemic. It is clear confirmation of the readiness and ability of the banking sector to respond to challenges induced by the extraordinary health circumstances, to successfully implement the moratorium on repayment of client obligations, as well as to maintain healthy lending activity.

The NBS has been and remains committed to continuous improvement of the regulatory framework for banks, which includes an analysis of amendments in regulations governing the operations of credit institutions at the European Union level.

Further reduce remaining obstacles to swift and effective NPL resolution.

Resolving issues of the remaining problematic placements of banks in bankruptcy and placements in the name and for the account of the Republic of Serbia, managed by the Deposit Insurance Agency.

Continue efforts to promote the use of the national currency, including by further encouraging forex hedging and raising awareness of risks related to forex lending.

With a view to strengthen confidence in the national currency and promote its use in the financial system, in accordance with the dinarisation strategy, the NBS and the Government continued to tailor their policies and measures to maintain macroeconomic stability, promote development of the secondary financial market and instruments for hedging against the FX risk. The latest measures in this regard are:

- In May 2020, the National Bank of Serbia included dinar bonds issued by a domestic company of appropriate creditworthiness (determined by the Business Registers Agency) on the list of eligible collateral used for monetary operations. It is expected that this measure will contribute to the greater interest of banks to include the subject bonds in their portfolios, which would contribute to the development and greater liquidity of the domestic corporate bond market.
- The NBS has actively participated in the creating of the regulatory framework and the implementation of measures and activities that contribute to the development of the financial market, its better functioning and higher liquidity. Within the measures that will contribute to the development of the local capital market, one of the most prominent is the inclusion of dinar bonds of the Republic of Serbia in the international bond index JP Morgan GB Index as of the end of June 2021.
- In early October, Clearstream included the domestic capital market in its global network, thus enabling the direct settlement of dinar securities for foreign investors. This will contribute to improving the depth and liquidity of the domestic securities market and improving the conditions of state financing.
- The NBS brought a measure in July 2020 which further promotes dinar lending - all the banks that grant RSD loans within the guarantee scheme on favorable terms (at interest rate that is by at least 50 bp lower than the maximal prescribed interest rate provided by the first that is second guarantee scheme), receive interest compensation from the NBS on the allocated required reserve at a rate higher than the “standard” (0.6% vs. 0.1%, respectively). As significant amount of loans from the guarantee scheme was approved in dinars, which contributed to the progress in terms of dinarization of corporate placements of about 10 pp in a year and a half, it confirms that the measures of the Government and the NBS have given desired results.
- A new and more detailed supervisory requirement, which refer to the obligation of banks to adequately regulate risk management based on the bank’s exposure with a currency clause and in FX, from the level of strategy to the level of procedures, started to be applied since January 2021. The specific requirements, among other things, aim to reduce the total amount of FX indexed and FX loans that are not protected from the risk of changes in the exchange rate due to currency mismatch of the debtor’s income and liabilities.
- The Decision defining measures related to capital that discourage the granting of new, non-purpose and non-investment loans indexed in foreign currency and loans in foreign currency to enterprises, entrepreneurs and farmers, postponed due to pandemics, will start to be applied on July 1, 2022.

As a result of all past measures, in every aspect of dinarization is being recorded progress in last several years:

- the dinarization of household and corporate deposits, which are the main source of banks’ lending, remained at the upward path – at End-September it stood at 39%. As of it, household deposits recorded 27.3%, the highest level ever, led by the dinar savings that has doubled in the last three years and a half. At the same time, dinarization of corporate deposits has an upward trend– since August 2019 it is above 55% and in September 2021 it stood at 58%.
- the dinarization of household and corporate receivables was at all-time high of 38.6% at end-September. As of it:
- the dinarization reached the record level of 23.8%, which is the highest level in the last six years.

- the dinarization of lending to households is at 55% or above since June 2019, where it stood at End-September 2021.
- the share of dinar debt in total central government public debt has recorded long-term growth trend – from the end of 2012 to September 2021, it increased by 10.3 pp, to 29.4%.

The NBS will continue to support FX hedging activities by:

- organizing regular two week and three months EURRSD FX swap auctions available for banks and;
- promoting the use of hedging instruments against FX risk and other financial risks, such as interest rate risk, by regularly updating the page devoted to the FX hedging on the NBS's website, advising banks to improve the offer of hedging instruments and invest more efforts in educating clients, primarily from the corporate sector etc.

4. Further improve transparency in the adoption and implementation of legislation, particularly by ensuring a timely consultation of businesses and social partners on new legislation affecting their operations.

In accordance with the provisions of Article 77 of the Law on Public Administration (“Official Gazette of RS”, No. 79/05, 101/07, 95/10, 99/14, 30/18 - other law and 47/18), Articles 34 and 41 of the Law on the Planning System of the Republic of Serbia and the Rulebook on Guidelines for good practice for public participation in the preparation of draft laws and other regulations and acts (“Official Gazette of RS”, No. 51/19), state bodies are obliged to:

- provide conditions for public participation during the preparation of draft laws and other acts;
- inform the public through its website and e-Government portal about the start of drafting the law, with basic information on the proposed solutions;
- when starting the drafting of a law that significantly changes the legal regime in one area, or which regulates issues of particular interest to the public, they also publish a starting document (starting point) containing the challenges in a certain area and their causes, goals and expected effects of passing the law, as well as the basic principles for regulating social relations in that area, including the rights and obligations of the subjects to which the law applies;
- enable the submission of comments on starting points for seven to 15 days;
- consult with all relevant entities during the preparation of the draft law: state bodies, associations of citizens and business entities, the professional public, scientific researchers, professional and other organizations, as well as other stakeholders, in a way that ensures openness and effective public participation in that process;
- prepare and publish a report on the conducted consultations;
- conduct a public hearing on the prepared draft law.

In addition to the above, Article 19 of the Law on Chambers of Commerce (“Official Gazette of the RS”, No. 112/15) stipulates that:

- Chamber of Commerce of Serbia (CCS) participates in the preparation of draft laws and other regulations of importance to the economy, with the submission of an elaborated position of the economy to the competent ministry;

- CCS prepares and submits to the competent ministry an analysis of the application of individual regulations of importance to the economy, with proposals for improving the quality of application of these regulations;
- CCS submits to the Government a special analysis of the application of regulations of importance to the economy on a quarterly basis, with proposals for improving the quality of the application of these regulations.
- The CCS may, upon invitation, authorize its representatives to participate in the work of working groups of state administration bodies and institutions.

Also, a publicly available *Handbook for public participation in planning, drafting, and monitoring the implementation of public policies and regulations* was developed with the support of the EU.

Although these regulations provide a solid framework for involving the public in the law-making process, during 2020 for only 36% (15/42) of adopted laws a consultation process was conducted, which is 2 percentage points more than in 2019 (according to PPS records).

In order to further improve transparency on June 16, 2021, the Government passed a Decision (“Official Gazette of the RS”, No. 62/21) establishing the “e Konsultacije” Portal, which is an integral part of the eUprava Portal, with the aim of enabling the public, in a unique and equal way, electronically, to participate in the preparation and adoption of public policy documents and regulations. In accordance with the adopted Decision, the training of civil servants has begun, in order to use the “eKonsultacije” Portal in order to conduct the procedures of public consultations and public hearings. The “eKonsultacije” Portal has been operational since December 16, 2021, when the Draft Program of Economic Reforms 2022-2024 was posted on the portal for public consultations.

Ensure a harmonised approach for prioritising and monitoring all investments and base investment decisions on feasibility studies, cost-benefit analysis and environmental impact assessments.

Efficient and effective management of capital investments and realization of capital projects is one of the most important strategic goals of the Government, which is why this process has received a lot of attention in recent years. Therefore, in July 2019, the Decree on Capital Projects Management (“Official Gazette of the RS”, No. 51/19) was adopted at the proposal of the Ministry of Finance. Its adoption, as well as the adoption of the accompanying regulations in December 2019, completed the legal framework governing the procedure for managing capital projects in the Republic of Serbia. Article 1 of the Regulation stipulates that it is adopted precisely to ensure the evaluation of all positive and negative effects of projects and ensure effective and efficient management of public funds. In this way, the GoS made to improve the process of evaluation and monitoring of capital projects. As a precondition for the necessary resources to be allocated for the Government’s highest priorities, to reduce cost overruns, the shorter time interval from identifying needs to achieving results, providing better project results, reducing dormant or delayed projects, and avoiding those projects where costs outweigh the benefits, as well as identifying fiscal risks. Article 1 of the said regulation stipulates that the regulation was adopted in order to ensure the evaluation of all positive and negative effects of projects and to ensure effective and efficient management of public funds.

Following the adopted legal framework, the Republic Commission for Capital Investments was formed, which confirms the strategic relevance of capital projects and assumes a list of capital

projects that have been successfully evaluated and which considers issues of importance for infrastructure development.

So far, six regular sessions were held. At the constitutive session, the Commission adopted the Rules of Procedure. At the technical level, in 2019, the Act on Systematization of Jobs of the Ministry of Finance established the Fiscal Risks Monitoring Department (FRMD), which, among other things, deals with the evaluation and monitoring of capital projects and provides technical support to the Republic Commission for Capital Investments. In 2021, the MoF strengthened the capacity of capital investment management units both within the FRMD of the Ministry of Finance and other line ministries.

The full implementation of the methodology for evaluating and monitoring capital projects is still expected, bearing in mind the pandemic caused by the Sars-Cov-2 virus. In that sense, the FRMD has taken a number of steps to implement the methodology: a single record of capital projects implemented by line ministries in the capacity of authorized proposers; monitoring the implementation phase of active projects, including projects of particular importance for the Republic of Serbia; comparative analysis of data collected following the methodology of capital project management with the situation in the budget of the Republic of Serbia; more factual reporting of the Republic Commission for Capital Investments, so that the report includes a detailed classification of projects by phase and category, as well as a more detailed analysis of the spending of allocated public funds for project implementation.

The FRMD strives to improve the reporting on the pre-implementation phase of projects so that the inclusion in the budget of the Republic of Serbia is done on the basis of priorities determined by the Republic Commission for Capital Investments. Accordingly, activities of the FRMD are intensified and focused on the contribution of the so-called “Prioritization” of projects, so they are included in the budget after successfully passing the pre-implementation phase (after the assessment of the financial and implementation aspect, as well as the conducted “GAP” analysis, which includes monitoring and collecting files on feasibility studies, ie economic and financial audit of the feasibility study).

The final phase of the development of the PIMIS information system (“PIMIS” from *the Public Investment Management Information System*) is underway, the establishment and operationalization of which will improve the speed and efficiency of business processes in monitoring capital projects (currently manually monitored). Further, the MoF will complete the cycle of project monitoring from the project idea to the end of the project; a more straightforward access and approval system will be provided, with minimization of errors when entering.

Apply the principles of competition, equal treatment, non-discrimination and transparency in public procurement and state aid procedures in line with the EU acquis for all public investment projects regardless of the financing source and ensure an operational independence of the Commission for State Aid Control.

The new Public Procurement Law (“Official Gazette of the RS”, No. 91/19 - PPL) was adopted at the session of the National Assembly on December 23rd, 2019, and entered into force on January 1st, 2020. Its application began on July 1st, 2020. The provisions of the new PPL are harmonized with the relevant directives of the European Union. The PPL contains the principles of economy and efficiency, ensuring competition and non-discrimination, transparency of public procurement procedures, equality of economic operators, as well as the principle of

proportionality (Articles 5-10 of the PPL). With the new PPL, a new Public Procurement Portal was established, which fully digitizes the public procurement procedure and which is now conducting by electronic means on the Portal, which represents a significant step forward in the process of modernization and digitalization of public procurement procedures with aim to improve the economy and efficiency of the system through increasing the competition in public procurement procedures, greater transparency and reducing risk of irregularities. Also, in accordance with the provisions of the PPL, a number of bylaws have been adopted relating to the content of tender documents, use of the Public Procurement Portal, monitoring, publication of public procurement notices, etc. (all bylaws can be found at: <http://www.ujn.gov.rs/propisi/podzakonski-akti/>).

The new Law on State Aid Control (“Official Gazette of the RS“, No. 73/19, hereinafter: Law) has been adopted in October 2019 by the National Assembly and its full implementation started on January the 1st 2020. The Law is completely aligned with the provisions of Article 107 and 108 TFEU. Based on Law, the Government has adopted bylaws that further regulate the conditions and criteria of state aid compliance in the areas of: horizontal and regional state aid; rescue and restructuring; state aid for culture; state aid for environmental protection and energy sector; services of general economic interest and De minimis aid. In addition, the Commission has adopted several rulebooks that further regulate the implementation of mentioned legislation.

Due to the outbreak of the COVID-19 pandemic, as part of recovery measures, the Government adopted several regulations harmonized with the Law and Article 107 paragraph 3 of the TFEU and fully aligned with the Temporary Framework for State Aid Measures to Support the Economy given the current COVID pandemic. This regulate the conditions and criteria for state aid compliance in the area of: research and development of products and infrastructure for COVID-19 disease control; recapitalization of market participants; elimination of serious disturbance in the economy and harmful consequences caused by the COVID-19 pandemic.

The institutional framework is set up. The Commission for State Aid Control (CSAC) is a legal independent institution, which is responsible to the National Assembly. CSAC is responsible for implementing the legislative framework in the field of state aid control. The President and the members of Commission Council are elected by the National Assembly following a public competition. They are not members of political parties or organizations or other appointed persons, which ensures the independence and impartiality of the decisions of the Council, from political influences. The mandate of the President and members of the Commission Council may be terminated only for reasons established by law. CSAC capacities have been strengthened, but remain insufficient. Currently, CSAC employs 17 civil servants (without members of Commission Council). CSAC has moved to a new address, on August 1, 2021, and has increased its administrative and technical capacities. Also, CSAC is operationally independent, bearing in mind that it independently conducts procedures for vacancies and admission of employees. Funds for the work of CSAC are provided in the budget of the Republic of Serbia in a special section, which the CSAC independently disposes. The decisions of CSAC are final in the administrative procedure, and there is no second instance body in the administrative procedure, that can review the decisions made by the CSAC.

5. Develop a long-term energy and climate strategy in line with the Green Agenda for the Western Balkans and international commitments, and step up investments in modernising energy infrastructure and lowering carbon emissions. Implement regulatory, financial and institutional measures for higher take-up of renewables and energy efficiency, including introducing renewable

energy sources (RES) auction system and establishing a sustainable financing mechanism for energy efficiency.

In March 2021, the Republic of Serbia adopted the Law on Climate Change (“Official Gazette of RS”, No. 26/21) in order to establish a system for limiting greenhouse gas emissions and fulfilling international obligations. The Law on Climate Change envisages the adoption of the Low Carbon Development Strategy within two years from the day the law enters into force.

The Ministry of Mining and Energy is in the process of drafting the Integrated National Energy and Climate Plan of the Republic of Serbia for the period from 2021 to 2030, with projections until 2050. This document will define the goals in the field of renewable energy sources, energy efficiency and reduction of GHG emissions for 2030, as well as policies and measures for the five dimensions of the Energy Union. The drafting of the document is being implemented through the IPA 2017 project Further strengthening of energy planning capacity.

The Ministry of Mining and Energy is also in the process of drafting a new Energy Development Strategy of the Republic of Serbia until 2040 with projections until 2050 and a new Strategy Implementation Program. The Ministry is preparing an Action Plan for a fair transition.

In order to improve the regulatory framework, the Republic of Serbia passed four laws in April 2021: The Law on the Use of Renewable Energy Sources (“Official Gazette of RS”, No. 40/21 - ZOIE), the Law on Energy Efficiency and Rational Use of Energy (“Official Gazette of RS”, No. 40/21 - ZEERUE), Law on Amendments to the Law on Energy and Law on Amendments to the Law on Mining and Geological Research (“Official Gazette of RS”, No. 40/21). Through ZEERUE in the field of energy efficiency, harmonization with the valid EU regulations in the field of energy efficiency was performed, except with the directive on energy performance of buildings, the matter of which is regulated by regulations in the field of construction. Full harmonization will be done through the adoption of bylaws. The law also provides for the establishment of a sustainable financing mechanism in the form of the Directorate for Financing and Encouraging Energy Efficiency. The Administration will be established as a legal entity within the Ministry of Mining and Energy. In August, the director of the Administration was appointed, and the systematization of the Ministry of Mining and Energy which includes the systematisation of the Administration, came into force on November 25, 2021. The management will have 12 employees. The beginning of the work of the Administration is expected at the beginning of 2022. A budget of around 2 billion dinars has been provided for the work of the Administration in the next year. In addition, the Ministry of Mining and Energy, in cooperation with local self-government units, in 2021 initiated pilot activities for the allocation of subsidies to citizens for improving the energy efficiency of residential buildings as well as for the installation of solar panels for electricity production. In addition, intensive communication with international financial institutions is underway in order to provide funds to promote energy efficiency in the housing sector. In that sense, the Budget of the Republic of Serbia for 2022 envisages a loan from the World Bank in the amount of 50 million dollars and a loan of 20 million euros from the EBRD.

By adopting the Law on the Use of RES, the Republic of Serbia has harmonized with the EU RED II Directive (EU Directive 2018/2001), which entered into force in the EU on July 1, 2021.

The main goal of passing the new Law is to increase the use of RES. The law is aimed at enabling new investments, reducing the impact of the energy sector on the environment and

contributing to the sustainable use of natural and other resources. The law provides investments in large renewable sources, but also the direct involvement of citizens and the economy in the energy transition through the installation of solar panels on the roofs of private family houses and residential buildings, as well as the roofs of business and public buildings.

The drafting of bylaws necessary for the efficient implementation of the Law on the Use of Renewable Energy Sources is in progress. So far, the Decree on the criteria, conditions and manner of calculation of receivables and liabilities between the buyer - producer and supplier ("Official Gazette of the RS", No. 83/21), the Decree on quota for wind farms in the market premium system ("Official Gazette of the RS", No. 107/21), the Decree on market premiums and feed-in tariffs ("Official Gazette of the RS", No. 112/21) and the Decree on the model contract on market premium ("Official Gazette of the RS", No. 112/21) have been adopted. The first auctions for granting the right to a market premium for the production of electricity are being prepared. The deadline for the adoption of all bylaws is the beginning of 2022.

In accordance with its legal obligations, the Council of the Energy Agency adopted at the end of October the Methodology for determining the maximum purchase price of electricity and the Methodology for determining the maximum feed-in tariff for electricity. Also, at the next sessions, the Council of the Energy Agency adopted Methodologies for determining market premiums and Methodologies for determining feed-in tariffs for electricity produced in micro and small cogeneration, in accordance with the Law on Energy Efficiency and Rational Use of Energy.

Based on the adopted methodologies and the Decree on the quota in the market premium system for wind power plants, the Council of the Energy Agency, at its session held on November 25, 2021, made a decision on determining the maximum purchase price for auctions for electricity from wind power plants. The maximum purchase price for electricity produced in wind farms with an approved capacity of more than 3 MW is € 5.57 c/kWh.

With a view to further liberalising the energy market, address outstanding reforms, in particular of the energy utility EPS, including price and tariff reform, accelerate the unbundling of Srbijagas in a manner compliant with the EU acquis, and provide third-party access to gas infrastructure.

On February 1st 2021, the correction of tariffs was made for access to the transmission (10%) and distribution system of electricity (5.5%), as well as the correction of prices for guaranteed supply (3.4%).

A new price for access to the transmission system has been approved. The total growth of the approved price for access to the transmission system in relation to the approved price of February 1st 2021 is 12% and applies from October 1st 2021.

New prices have been approved for access to the distribution system. Total growth of the approved price for access to the distribution system in relation to the approved price of February 1st 2021 is 10% and is applied from October 1st 2021.

The Government passed the Decree on the amount of the special fee for the incentive of privileged electricity producers in 2021 ("Official Gazette of the RS", No. 152/20), which determined this fee in the amount of 0.437 dinars / kWh.

In accordance with the international obligations of the Republic of Serbia undertaken by the accession to the Treaty establishing the Energy Community and the provisions of the Energy Law (“Official Gazette of the RS”, No. 145/14, 95/18 - other law and 40/21) from 2014, which contains the transposed provisions of the Third Energy Package, the Government adopted a Conclusion on 17 December 2020 accepting the Report on the need to implement activities in order to harmonize the operations of electricity distribution system operators with the provisions of the Law on Public Enterprises (“Official Gazette of the RS”, No. 15/16 and 88/19) and the Law on Energy, as well as the Plan for implementing activities to reorganize electricity distribution system operators, which at that time represented a dependent company PE EPS Belgrade, as a vertically integrated company that performs energy activities related to energy production and supply.

Based on the Reorganization Plan, the following activities were undertaken: PE EPS transferred certain assets and increased the capital of DSO (distribution system operator), after which it transferred 100% of ownership shares in DSO to the Government, all during December 2020.

In January 2021, the Government, in its capacity as the founder and owner of DSO, passed the Decision on Amendments to the Decision on Establishment of DSO, which, among other things, changed the business name to Elektrodistribucija Srbije d.o.o. Belgrade.

At the same time, the Government appointed representatives in the Assembly of Elektrodistribucija Srbije d.o.o. Belgrade, in the capacity of authorized representatives of the founders.

Based on the above, in accordance with the Law on Energy, the Energy in April 2021 issued a decision by which Elektrodistribucija Srbije d.o.o. Belgrade is licensed to perform the energy activity of distribution and management of the electricity distribution system as an electricity distribution system operator.

Also, in accordance with the Law on Energy, at the end of September 2021, Elektrodistribucija Srbije d.o.o. Belgrade, submitted to the Energy Agency for approval a new Program for ensuring non-discriminatory behaviour, and at the end of October 2021, a proposal for a new representative to monitor that program. Proceedings before the Energy Agency to obtain these approvals are ongoing.

In October 2021, the Energy Agency, acting in accordance with the competencies established by law, issued a Reasoned Opinion on the Report on the Implementation of the Program for 2020 issued by the representative in charge of monitoring the Program (the Program for ensuring non-discriminatory behaviour and the representative for its monitoring, to which the Agency gave its consent in 2016, before the stated amendments to the acts on the establishment of the DSO.)

In the stated manner, the legal obligation of legal and functional separation of the electricity distribution system operator has been fully fulfilled, (here Elektrodistribucija Srbije d.o.o. Belgrade), from a vertically integrated company, (here PE EPS Belgrade).

On May 16, 2021, the Government adopted the Action Plan for the implementation of activities aimed at reorganizing the PE “Srbijagas” Novi Sad. After considering the issue of property and possible risks related to resolving the issue of property and relations with creditors, a model of separation of transmission system operators was proposed, which in the first phase includes

separation according to ISO (Independent System Operator) model in accordance with Article 227 of the Energy Law, and then, after the risk analysis related to the transition to the ownership unbundling model, at a later stage possible ownership unbundling in accordance with Article 224 of the Energy Law. In this regard, it is necessary that PE “Srbijagas” Novi Sad and the company “Transportgas Srbija” d.o.o. Novi Sad are implementing the prepared Action Plan.

On May 28, 2021, the Agreement on the transfer of shares between PE “Srbijagas” and the Government in the transport system operator “Transportgas Srbija” d.o.o. was concluded, and in July 2021, the founding act of PE “Srbijagas” was amended.

The decision on amendments to the Decision on harmonization of operations of the PE “Srbijagas”, Novi Sad with the Law on Public Enterprises (“Official Gazette of the RS”, No. 75/2021) was published on July 27, 2021.

At the Government session on October 14, 2021 a decision was made on changes and amendments to the Decision on the establishment of limited liability company “Transportgas Srbija” Novi Sad (“Official Gazette of the RS”, No. 97/2021), and it was published on October 15, 2021.

By the Decision of the Government of November 3, 2021, the text of the Public Competition Announcement for the election of the director of PE “Srbijagas” was determined. The public competition was announced on November 10, 2021.

By the Decision of October 27, 2021, members of the Supervisory Board of PE “Srbijagas” were appointed.

By Conclusion of 27 October 2021, the representatives of the Republic of Serbia in the Assembly of “Transportgas Srbija” d.o.o. were determined.

By the decision of the Supervisory Board of PE “Srbijagas” from October 12, 2021, a branch of PE “Srbijagas” was formed under the name PE “Srbijagas” Novi Sad, branch Supply. The branch was registered in the Business Register Agency.

In November 2021, “Transportgas Serbia” d.o.o. submitted to the Energy Agency a request for certification according to the ISO model. The certification process is ongoing.

In the following period, the implementation of activities will continue in accordance with the Conclusion of the Government, which adopted the Action Plan for the implementation of activities aimed at reorganizing the PE “Srbijagas” Novi Sad.

This plan stipulates that the deadline for opening the market through the Horgos access point is October 1, 2022.

6. Reduce poverty by increasing the adequacy of benefits of the Financial Social Assistance (FSA) scheme for individuals and families with children

It is very important when considering the social protection system in the Republic of Serbia to keep in mind the fact that the right to financial social assistance (FSA) is a ticket for exercising some other rights that are within the competence of local self-governments and does not

represent the only income for life, although it is really very low. Additional rights differ from one local self-government to another, but most LGUs provide for these users, e.g. benefits in the payment of communal services, the right to free textbooks, the right to scholarships for students, the right to compensation for a stay in a preschool institution, the right to a free meal in the soup kitchen, the right to free snacks for children at school, the right to one-time financial aid, permanent financial assistance for certain categories of users, etc.

According to the latest findings of the research “Mapping of social protection services and material support under the jurisdiction of local self-government units in the Republic of Serbia” published in 2020 and conducted in a three-year cycle (Social Inclusion Team of the RS Government, NGO Center for Social Policy, Republic Institute for Social Protection and the Standing Conference of Towns and Municipalities, with the financial support of the Government of Switzerland), the total expenditures for material support under the jurisdiction of the local self-government units in 2018 amounted to 7.3 billion dinars, ie. about 60 million euros. These expenditures are twice as high as expenditures for social protection services under the jurisdiction of local self-government units (3.65 billion dinars), and half as low as the allocation of the republic budget for financial social assistance (approximately 13.6 billion dinars).

Increasing the amount of FSA requires a large amount of funds. The results of the implementation of the Social Card Registry are expected, which should bring some savings, so an increase is planned at the expense of those savings. Implementation of the Register should begin on March 1, 2022. The social card registry provides the possibility of data crossover and is an effective mechanism for reducing “social inclusion errors” and “social exclusion errors”.

A big challenge is that half of the FSA recipients are part of the labour population whose employment is difficult due to low qualifications. Employment of these persons (about 100,000) would free up a large part of the funds for increasing the FSA of incapacitated persons (children, the elderly, persons with disabilities, etc.).

and by increasing substantially the untaxable wage base close or equal to the level of the minimum salary for workers.

We emphasize that the documents of the fiscal strategy on the goals of fiscal policy that refer to the years from 2018 to 2023 determine the reduction of the fiscal burden of work through the reduction of taxes and contributions on wages. Reducing the fiscal burden on labour is obtained by increasing the non-taxable amount of wages and reducing the rate of contributions for compulsory social insurance, all depending on the created additional fiscal space that can be used to reduce the tax burden on wages.

Progressive taxation of salaries is achieved by not paying tax on salaries up to the amount of the prescribed non-taxable amount. In this way, the lowest salaries are exempt from the tax part so that the tax is not paid on the prescribed non-taxable amount. In 2021, part of the salary in the amount of 18,300 dinars per month is not taxed. We emphasize that it is increased the non-taxable amount of salary, for 2022, to 19,300 dinars per month. Otherwise, the non-taxable amount of earnings is increased annually by adjusting the annual consumer price index.

In addition, progression is achieved by taxing the annual personal income tax. Earnings (as well as other income based on work) that natural persons earn during the calendar year are also taxed with an additional annual personal income tax after the end of the calendar year. The subject

of taxation with the annual tax is the income realized in a calendar year which is higher than the prescribed non-taxable amount (three times the amount of the average annual salary). The annual personal income tax rate is progressive and amounts to 10% for taxable income up to the amount of six times the average annual salary and 15% for taxable income over the stated amount.

We point out that within the measures of fiscal relief of wages, the reduction of the contribution rate for compulsory social insurance, namely the contribution rate for unemployment insurance, from 1.5% to 0.75% (in such a way that the employer is exempt from paying part of the contribution which is calculated and paid at his expense in the amount of 0.75%, while at the expense of the employee is paid a contribution at a rate of 0.75%) with application from 1 January 2019 and the contribution rate for mandatory pension and disability insurance, from 26% to 25.5%, with effect from 1 January 2020. Also, the contribution rate for mandatory pension and disability insurance was further reduced from 25.5% to 25%, with effect from January 1st 2022.

Facilitate school-to-work transitions by stepping up further VET, including dual VET, through revised curricula and the provision of infrastructure which enables the acquisition of practical skills.

New qualification standards have been created and the existing educational profiles have been modernized, which meet the needs of the economy and the labour market, in order to increase the employability of young people and their easier transition from the world of education to the world of work. The adoption of a methodology for the development of curricula for teaching and learning for dual educational profiles is underway. In the coming period, the establishment of regional training centres will continue as a form of support for both formal dual and non-formal education, in which training, vocational training, retraining and additional training of various population groups will be conducted. One such training centre is the Aviation Education Centre Aviation Academy, a training centre for secondary and higher dual education and training that includes Vrsac Airport with expanded capacity where for the first time the pilots, aircraft mechanics, air traffic controllers, cabin crew with EASA (European Union Aviation Safety Agency) standards are formally trained.

Develop in co-operation with all relevant ministries, their agencies and stakeholders a Youth Guarantee Implementation Plan.

Activities related to the preparation for the introduction and piloting of the Guarantee for Youth in Republic of Serbia are envisaged within the Employment Strategy in Republic of Serbia for the period from 2021 to 2026 ("Official Gazette of the RS", No. 18/21) and the accompanying Action Plan for the period from 2021 to 2023 for the implementation of the Employment Strategy in the Republic of Serbia for the period from 2021 to 2026 ("Official Gazette of the RS", No. 30/21), for first three-year period of implementation of the Strategy. The Ministry of Education, Science and Technological Development, the Ministry of Youth and Sports, youth offices, civil society organizations and others were recognized as partners of the Ministry of Labour, Employment, Veterans and Social Affairs and the National Employment Service.

Implemented activities:

- In order to implement the Economic and Investment Plan for the Western Balkans, i.e. the investment priority related to the Youth Guarantee Program, the European Commission has initiated a dialogue on this topic.
- In that direction, on June 7, 2021, a bilateral meeting was held with the European Commission at the operational level. Then, on June 23, 2021 a TAIEX workshop organized by the European Commission, the International Labour Organization and the ETF, was held. At the workshop, representatives of EU member states and Northern Macedonia presented their experience and lessons learned in the implementation of the Youth Guarantee.
- The second ministerial meeting on employment and social policy, with a focus on youth employment, including the Youth Guarantee program, was held on 8 July 2021. The meeting confirmed the Western Balkans Declaration on ensuring the sustainable integration of young people into the labour market. By confirming this declaration, the Republic of Serbia has agreed to work on the gradual introduction of the Youth Guarantee, determine the necessary human resources and financial resources, develop an Implementation Plan for the Youth Guarantee until June 2022 and use the Instrument for Pre-Accession Assistance (IPA) so as to contribute to the introduction and gradual establishment of the Youth Guarantee.
- ILO Technical assistance for the development of the Youth Guarantee Implementation Plan was approved at the request of the Ministry of Labour, Employment, Veteran and Social Affairs on August 19, 2021, and the implementation of the planned activities began.
- Meeting with the EC, ILO and ETF meeting on the occasion of launching the first phase of implementation in the establishment of the Youth Guarantee related to the development of the Youth Guarantee Implementation Plan, was held on 14 October.

The IPA 19/20 Technical Assistance project envisages the preparation of the basis and framework for piloting the Youth Guarantee, which will be further implemented through the NES Direct Grant. The activities of the Technical Assistance project envisage designing a plan, implementation procedures and modalities as well as a management mechanism for the implementation of activities at the national and local level.

Further planned activities:

- Establishment of multi-departmental groups for the needs of establishing and managing the Youth Guarantee,
- Development of a Youth Guarantee Implementation Plan.

The National Employment Service will, in accordance with the defined strategic goals of the employment policy, ie the Employment Strategy in the Republic of Serbia for the period from 2021 to 2026, as well as the accompanying Action Plan for the period from 2021 to 2023 for the implementation of the Employment Strategy in the Republic of Serbia for the period from 2021 to 2026, in cooperation with the relevant Ministry of Labor, Employment, Veteran and Social Affairs, will start implementing the elements of the Youth Guarantee within the defined deadlines.

Given that unemployment is one of the biggest challenges for young people at European and national level, it is crucial that the National Employment Service in the implementation of the Guarantee has sufficient funds for active employment policy measures to ensure their availability and continuity throughout the year. Also, the National Employment Service will make

every effort through intensive activities to provide vacancies in working with employers in that period, so that the young persons will receive an appropriate offer within the set deadlines. Rapid activation of young people in the labor market will ensure greater motivation of a person in the job search process, as well as rapid upgrading of knowledge and skills acquired in the education system.

The National Employment Service, in cooperation with other interested actors and institutions involved in this process, will examine its potential organizational and administrative challenges, which would result in the piloting of certain elements of the Youth Guarantee in a maximum of three branches of the National Employment Service, in the part of taking concrete measures to reach and activate young people who are passive, in cooperation with other partners and civil society organizations. Young people who would register in the unemployment register in this way would receive a job offer or an offer to participate in the measure of active employment policy in the National Employment Service.

The ERP 2022-2024, within the first key ERP challenge envisages a new structural reform relating to the Establishment of a framework for the introduction of Youth guarantees in the Republic of Serbia.

3. MACROECONOMIC FRAMEWORK

3.1. ESTIMATES OF INTERNATIONAL ECONOMIC ENVIRONMENT

Global economic recovery has continued, despite the new coronavirus waves, with the expectation that the ongoing fight against the pandemic will continue to have negative impact on economic growth in the mid-term period. The rapid spread and risks from new variants of the virus have increased uncertainty about the time required to overcome the pandemic. Uneven speed of economic recovery among different countries is associated with the respective availability of vaccines, as well as the scope and duration of economic support packages. Timely policy-making has been suspended due to the limited employment rate, rising inflation, potential long-term impact of the pandemic on human capital accumulation, and the fight against climate change. The discrepancy of expected recovery between the economic groups of countries has widened compared to the July forecast of the International Monetary Fund (hereinafter: the IMF). The group of developed market economies is expected to reach its pre-pandemic growth trajectory in 2022, and to exceed it by 0.9% in 2024. On the other hand, in 2024, the overall GDP of developing countries (except for China) is expected to drop by 5.5% compared to the pre-pandemic level. Mitigation of epidemiological measures induced demand for goods and raw materials, while factors on the side of aggregate supply remained limited. This has led to a significant rise in commodity prices, stronger inflationary pressures and uncertainty regarding the economic trends. In addition to efforts made towards curbing the pandemic crisis and encouraging the normalization process, future challenges for decision-makers will be to identify new sources of productivity and GDP growth, to implement green agenda and digitalisation, and reduce inequalities. In order to achieve this, significant international cooperation is needed, along with the harmonization of monetary and fiscal policy aimed at addressing the long-term consequences of this and any future health-related crises, as well as solving the long-term climate change issues.

According to the October analysis of the IMF, after the global shock caused by the “Great Lockdown”, the economic recovery has continued, however, it has lost its momentum, due to outbreak of new virus strains that are transmitted faster. This has led to prolonged disruptions in global supply chains than originally expected, which has further boosted inflation in many countries. Accordingly, the growth of the global economy in 2021 has been slightly revised downwards, from 6% to 5.9%, while the outlook for 2022 has remained unchanged with an expected growth of 4.9%. This minor deterioration in the growth perspective occurred due to disruptions in supply chains in developed countries, in addition to the unfavourable trends of pandemic in emerging countries. The risks of unfulfilling the forecasts remain high, which further hampers any compromises in the area of adopting and implementing any measures. The uncertainty about the future course of the pandemic is the highest risk for the IMF’s growth projection. The main source of concern is the possible emergence of a more aggressive virus variant before the mass vaccination of the majority of the population is achieved. Rising inflation, rising prices of raw materials and energy, are the risks whose materialization is certain if the elimination of bottlenecks between supply and demand takes too long. On the other hand, faster production, distribution and application of vaccines and a sharp increase in productivity due to a greater degree of automation of jobs and reliance on new technologies, would contribute to accelerating global recovery and normalizing economic activity. Strong international cooperation remains to be critical for recovery, especially in relation to the production and distribution of vaccines, but also in the access to the global financial market and support in combating climate change.

The 2021 growth in the group of developed countries has been lowered by 0.4 pp compared to the last projection. This revision was made due to the disruptions in the supply of the production sectors in the USA and Germany, including the Japanese economy lockdown in Q3 caused by the new pandemic wave. The announced aid to support the infrastructure and living standard in the USA and the expected recovery plan of the EU, together with the continuation of the vaccination process, slightly pushed up the projected growth in the developed countries for 2022 to 4.5%. On the other hand, the expected growth of emerging countries in 2021 has moderately increased, thanks to the improved results of export-oriented regions (Latin America, the Middle East and Central Asia) that have offset the effects of the pandemic. However, some emerging countries, such as Brazil, Mexico and Russia, are facing tougher funding conditions and a higher risk of inflationary pressures, and are narrowing the space for support in the fight against the pandemic. The outlook for Asian developing countries has been lowered in both 2021 and 2022, due to the increased number of infected persons. Also, thanks to the faster reduction of public investments, the estimated growth of China for the same period, has been slightly reduced. In the mid-term, global growth is expected to stabilize at around 3.3%, and it will depend on the vaccination speed and number of vaccinated persons, as well as the implementation of further measures to support the economy.

According to the autumn estimates of the European Commission (hereinafter: the EC), economic activity in the euro area is recovering from the recession caused by the pandemic faster than expected. Following the GDP growth of 5.0% in 2021, economic growth will slow down to reach 4.3% in 2022, followed by 2.4% in 2023, as the effects of beneficial measures introduced to combat the pandemic. The risks relating to the forecasts are significantly lower compared to the time of the pandemic, but they are still above the pre-crisis levels. In addition to the risks concerning the future pandemic trends, economic risks include the potentially prolonged impact of the existing difficulties with the supply and the related bottlenecks.

Along with the improvement of the epidemiological situation and gradual easing of restrictive measures during the second quarter, households started to use their savings for consumption, which promoted private consumption in the EU. Economic indicators suggest that the recovery continued in the same pace during the summer, also benefiting from the increased intra-EU travelling that was profitable for certain member states. On the other hand, rising energy prices, primarily gas and electricity, along with the constant struggle of supply to keep up with sudden changes in the level and composition of global demand will temporarily limit growth. Despite the forecasts that the growth will remain uneven across countries and sectors, the EU is ready to continue its path towards the economic recovery.

Due to adverse impacts, such as supply bottlenecks and rising of energy prices, the euro area growth forecasts for the year 2022 has been revised to be slightly lower than in May, from 4.4% to 4.3%, but it will improve thanks to improvements in the labour market, favourable conditions for financing and implementation of the EU recovery program, such significant growth will sustain. The revision of Germany's GDP growth projection to 4.6% in 2022 (an improvement of 0.5 pp compared to the spring projections) can be explained by significant growth in the service sector, while the manufacturing sector will also recover with gradual elimination of the supply bottleneck. In 2021, Italian economy will record high growth by more than 6%, while economic activity in 2022 will be fairly slower due to rising raw material prices and limited personal consumption.

The reference interest rate is expected to stagnate in the forthcoming period, as well as the continuance of the accommodative monetary policy of the European Central Bank (hereinafter: the ECB). However, the drop in the scope of purchase of securities is also anticipated, considering that they had been introduced as an emergency support measure during the pandemic, last year.

Table 1. Macroeconomic projections for euro area, changes compared to the previous year, %

	Current projection			Previous (Spring) projection		Previous (Autumn) projection*	
	2021	2022	2023	2021	2022	2021	2022
GDP	5.0	4.3	2.4	4.3	4.4	4.2	3.0
Private consumption	3.2	5.5	2.2	2.7	6.0	4.3	3.3
Government consumption	3.6	0.9	0.8	3.8	0.6	2.3	1.0
Gross fixed capital formation	5.2	4.4	3.9	6.7	5.3	6.1	4.2
Exports	9.7	7.3	5.2	8.7	6.5	6.2	4.7
Imports	8.2	7.2	5.1	8.0	6.9	6.0	4.7
Employment	0.8	1.0	0.7	0.0	1.2	2.5	1.6
Unemployment rate, labour force percentage	7.9	7.5	7.3	8.4	7.8	9.4	8.9
Inflation	2.4	2.2	1.4	1.7	1.3	1.1	1.3
Unit labour costs	-0.4	0.2	1.0	-0.7	-0.6	-0.5	0.0
General government fiscal result, % GDP	-7.1	-3.9	-2.4	-8.0	-3.8	-6.4	-4.7
General government gross debt, % GDP	100.0	97.9	97.0	102.4	100.8	102.3	102.6
Current account balance, % GDP	3.1	3.2	3.4	3.1	3.1	2.6	2.8

Source: EC, Autumn forecasts, November 2021

* EC, Autumn forecasts, November 2020

The labour market conditions in the EU have significantly improved: a growth in the employment rate and the labour hours has been reported with concurrent drop in the number of part-time employees. Further recovery of economy is expected to continue with its positive trend and employment rate growth of 1.0% has been forecasted in 2022, including the growth of productivity and unit labour cost. Anticipated generation of new jobs will reduce the unemployment rate in euro area in the next period, from 7.9% in 2021 to 7.3% in 2023.

After several years of low inflation, strong recovery of economic activities has been accompanied with strengthening of inflationary pressures that exceeded the expectations. Thus, the annual inflation in euro area reached a ten-year maximum with 3.4% in September, while the base inflation reached 1.9%, accounting for the highest rate since 2012. Inflation acceleration is vastly the result of strong base effects, considering that the price limiting factors during the 2020 pandemic will no longer exist in this year. However, given that those factors were only temporary, the inflationary pressures are expected to stabilize (from 2.4% in 2021 to 1.4% in 2023).

In view of the faster economic recovery than anticipated, the fiscal deficit is expected to decline moderately compared to the May forecast, despite the continued fiscal support measures for fighting coronavirus pandemic. In addition, fiscal deficit in EU is expected to be halved in 2022 on account of the cancellation of extraordinary measures for the economy and the increased revenue. It is anticipated that euro area will face fiscal deficit from 7.1% in 2021 to 2.4% in

2023, due to positive trends in global trade and improved exports. The share of overall debt in GDP will start declining gradually after achieving 100% in 2021, in majority of member states in the mid-term period.

Significant risks and uncertainties concerning the forecast realization are still present, primarily relating to the course of the pandemic. Although vaccination and measures to combat the pandemic gave good results, the health crisis still exist due to the emergence of new strains of the virus and the low number of vaccinated in some countries. Negative risks include the possibility of prolonged supply disruptions, rising energy prices beyond expectations and their impact on inflation, labour shortages, as well as external risks such as the crisis in China's real estate sector. On the other hand, increased demand could have a positive impact on growth if households redirected their accumulated savings into consumption. Also, structural changes and investments in innovative technologies would help increase the productivity and work efficiency.

3.2. RECENT ECONOMIC DEVELOPMENTS

Real sector. In 2020, economic activity recorded a decrease of 0.9%, which has been entirely achieved thanks to the implementation of measures to prevent the spread of coronavirus, along with the significant reduction in external demand caused by the recession of our most important foreign trade partners. To mitigate such shocks, the Government and the NBS have adopted a comprehensive economic program to support the economy and the population. Thus, a significant decline in economic activity was avoided and a dynamic economic recovery was enabled in the second half of 2020.

Positive economic trends continued during 2021. According to the Statistical Office of the Republic of Serbia (SORS), GDP growth in the first quarter of 2021 reached 1.8% year-on-year, which means that the domestic economy already exceeded the level of economic activity from the pre-pandemic period in Q1. Concerning the production side, GDP growth in this period was driven by construction and industrial production, each contributing with 0.8 pp. The recovery of private construction activities, accompanied with the continuation of infrastructure works, resulted in the growth of construction by 17.8%, while the favourable trends of industry continued and recorded the growth by 4.0%. For the first time since the outbreak of the pandemic, the services sector also recorded a positive contribution of 0.6 pp, primarily owing to the growth in trade, ICT and financial services. Observed by aggregates of GDP use, the effects of the pandemic during the Q1 of 2021 mostly affected personal consumption, despite the growth of real income of the population, due to current restrictions and the implementation of health measures and consequently decline of tourism, catering and transport industries. Investments recorded a 9.0% year-on-year increase in Q1 and contributed to GDP growth of 1.8 pp. Activation of new export-oriented capacities, including the increase in exports of agricultural products affected the strong growth of real exports during the first quarter of 2021, while import activity recorded a slight decrease, so that net exports with a contribution of 4.8 pp was the main generator of economic growth in Q1 of 2021.

According to the SORS, GDP growth in Q2 reached 13.7% year-on-year. Concerning the production side, GDP growth in this period was driven by the services sector, primarily due to growth in trade, tourism, transport, professional and technical services. Although the service sector was most severely affected by the pandemic during the Q2 of last year, given the growth

of around 15% partly due to the base effect, a significant number of service activities exceeded pre-pandemic levels. The industry continued with positive trends and contributed to the growth of GDP by 2.6 pp, while the recovery of private construction activities with continued infrastructure works resulted in an increase in the field of construction by 17.7%. Unfavourable agrometeorological conditions affected agricultural production, which according to the first estimates of the SORS in the second quarter recorded a decline by around 2%. Observed by aggregates of use, GDP growth in the Q2 was entirely driven by domestic demand as a result of growth in private consumption and investment, while the contribution of net exports was negative. The increase of real wages and employment along with increased spending propensity of the population thanks to the improved epidemiological situation compared to the Q2 of last year, brought about the boost in private consumption and its contribution to GDP growth of 11.9 pp. Acceleration of private investments with continued implementation of infrastructure works resulted in an increase in investment activity by 22.5%. Faster real growth of imports than exports, primarily imports of intermediate goods for the needs of the economy, had a negative impact on net exports to GDP growth of 5.9 pp.

According to the flash estimate of the SORS, in the Q3 of 2021, y-o-y GDP grew by 7.4%. As regards the production side, GDP growth in Q3, according to the Ministry of Finance estimate, was driven by the services sector, primarily due to growth in trade, tourism, transport, professional and technical services, as well as activities with predominantly state participation (Public Administration, Education and Health Care). The recovery of private construction operations with the continued implementation of infrastructure works resulted in an increase in construction of around 16%. Economic activity in the industrial sector slowed down in Q3, resulting in a modest contribution to GDP growth of 0.5 pp. The dry summer season affected agricultural production that reported a decline of around 5%. Observed by aggregates of use, GDP growth in Q3 was entirely driven by domestic demand as a result of growth in private consumption and investment, while the contribution of net exports was negative. The growth of real wages and employment, along with increased spending propensity of the population, induced private consumption growth and its contribution to GDP by 5.5 pp. Acceleration of private investments with continued implementation of infrastructure works resulted in an increase in investment activity of around 11%. Export and import activities recorded almost identical growth however, due to a higher share of imports in GDP, the net export growth contribution was negative. Taking into account the dynamics of economic activity in the first three quarters, real GDP growth of 7.5% y-o-y was achieved.

High-frequency indicators of economic activity also point to the positive macroeconomic developments during 2021. The physical volume of total industrial production in the first nine months of 2021 was higher by 7.3% y-o-y, followed by growth in all three sectors, with a dominant influence of the manufacturing industry, which recorded an increase by 6.4% y-o-y, while the volume of mining and electricity production was higher by 21.9% and 4.4% y-o-y, respectively. The good dynamics of production achieved in the manufacturing industry is largely the result of the activation of new production capacities, primarily through the effect of foreign direct investment (hereinafter: FDI) from the previous period, but also due to the gradual recovery of external demand. Owing to this, under the conditions of extremely negative pandemic related effects, industrial production registered a relatively rapid recovery in the second half of the previous year, and favourable trends continued in 2021. In the first nine months of 2021, two thirds of the industry growth was determined by the larger manufacturing industry, with diversified growth in 17 out of 24 activities overall. The most significant positive contribution to the movement of the manufacturing industry was made by the manufacture of electri-

cal equipment (growth of 24.9%, y-o-y), oil industry (10.3%), manufacture of other transport equipment (160.1%), rubber industry (8.3%) and machine industry (14.6%), together with a significant contribution of the metal industry (growth of 7.2%, y-o-y). Somewhat slower trend of the physical volume index of industrial production has been reported since the middle of Q2 of 2021, with September growth of 1.4% y-o-y. Nevertheless, good trends in other indicators in the industry, which indicate significantly better performance in this sector, are encouraging. Accordingly, the turnover in industry, i.e. sales revenue generated by producers of industrial products, continued to record strong real year-on-year growth by 20.3% and 12.8% in August and September, respectively, along with the increased export of industrial products by around 33% and 26% y-o-y.

The service sector is the part of the economy that, due to its structure, was most affected by the coronavirus epidemic, both in terms of the strength of that impact and in terms of duration. According to the initial forecast, full recovery of this sector from the shock caused by the pandemic was expected only at the end of Q2 of 2021. However, the service sector exceeded the pre-pandemic level of economic activity in Q1 already, and its strong growth continued in the course of Q2 and Q3. Some of the service activities that kept growing in the previous years, despite the pandemic, such as the trade, ICT and financial services, kept their positive trend in 2021. Higher disposable income of the population resulted in a real increase in retail trade turnover of 10.5% y-o-y in the first nine months, while the turnover in wholesale in the first six months was nominally higher by 21.7%. The physical volume of telecommunications services in the first half of 2021 was higher by 2.3%, followed by the increased exports of ICT services of 27.2% in the first nine months. The growth of economic activity of businesses and increased transport of passengers and goods were reflected in the increase in the physical volume of transport services of 23.7% in the first half of the year, along with the 29.6% growth of transport services exports in the first nine months. Activities such as tourism, arts, entertainment and recreation that saw a sharp decline, especially in Q2 of the last year, that are highly dependable on the pandemic circumstances, have not reached their pre-crisis levels yet, while professional, scientific, innovative and technical activities have almost reached their pre-pandemic level. Nonetheless, significant recovery is noticeable in these activities. Exports of tourist services in the period January–September 2021 increased by 52.2% compared to the same period last year. At the same time, the number of overnight stays of domestic tourists increased by 14.6% y-o-y compared with the first nine months of the previous year and dropped by only 3.8% compared with the same period of the pre-crisis 2019. The number of overnight stays of foreign tourists is growing strongly in 2021, primarily under the influence of the extremely low base from the same period last year, but in the first nine months it is still lower by 41.3% compared to the first nine months of pre-crisis 2019. Catering recorded strong growth in 2021, with the rise of the real turnover reached in the first eight months, by around 67% year-on-year, or by as much as 27% compared with the first eight months of pre-crisis 2019.

Labour market. As a result of the strong economic growth recovery and general stability of the economy, supported by the vaccination campaign and opening of the economy, 2021 trends exceeded the expectations in the labour market and in particular, the wages. The success of the economic package of measures was verified by the absence of significant negative effects of the pandemic on the labour market, and jobs and wages were significantly preserved, both in the private and public sectors, and the scenario of a significant increase in unemployment was avoided. According to the Central Register of Compulsory Social Insurance, in the period January–September, the average number of employees was higher by 3.3% year-over-year, chiefly resulting from the employment increase in the private sector (4.4%), along with 0.5% growth in

the public sector. At the same time, the strongest sectoral contribution to employment increase came from manufacturing, trade and ICT activities. According to the National Employment Service, the number of people actively seeking employment increased by 1.8% in the same period, however, the reported results were achieved due to the temporary increase in March and April caused by one-off factors, and so already in August and September saw a year-on-year decline in the number of unemployed by 0.4% and 1.3%, respectively. According to the Labour Force Survey, after the unemployment rate of 12.8% in the first quarter, during the second quarter of 2021 the unemployment rate was reduced to 11.1%. However, the increase by 3.2 pp year-on-year has been achieved. This unemployment rate increase was primarily the consequence of the circumstances that prevailed in 2020. Namely, measures against the pandemic suspended jobs of the majority of the population or they gave up seeking jobs. Consequentially, that part of the population, according to the methodology of the International Labour Organization (ILO), have been classified as the group of people who are “out of labour force”, meaning that they are not considered unemployed. As a consequence, the number of people out of labour force in Q2 of 2020 was at an extremely high level of 49.8%, while the unemployment rate was at low 7.9%. In Q2 of 2021, the out of labour force rate was significantly reduced by as much as 4.1 pp, and amounted to 45.7%. This is an indication of labour market recovery, considering the return to the pre-crisis level, despite the unemployment rate increase. The decline of the population out of labour force in Q2 2021, compared to the same period in 2020, led to almost equal increase in unemployment and employment, so that the unemployment rate rose from 7.9% to 11.1% and the employment rate rose from 46.3% to 48.3%. There have been extremely positive trends among the young population, whose employment rate grew by 7.8 pp, to reach 25.9%. At the same time, the out of labour force rate dropped by 10.1 pp, while the unemployment rate slightly grew by 0.5 pp, to reach 22.2%.

In the period January–September, the real average net earnings were increased by 5.6% y-o-y, to reach RSD 64,487 with four fifths of such increase coming from the private sector. In terms of business activities, more than one half of the total growth of earnings fall on the processing industry, trade, health care and ICT.

External sector. Republic of Serbia reduced its current account deficit significantly over the past eight years – from 10.9% in 2012 to 4.2% of GDP in 2020. In 2021, the current account deficit is projected to amount to around 4.1% of GDP, thus staying below the limit that ensures its medium-term sustainability for the ninth year in a row and remaining fully covered by net FDI inflows for the seventh year in a row.

During the first nine months of 2021, the current account deficit was around EUR 1.3 billion (3.5% of GDP), down by 23.4% (EUR 401.2 million) from the same period last year. At the same time, the rise in the surplus on the secondary income account (by EUR 544.1 million) and on services (by EUR 290.6 million) fully offset the increase in the deficit on goods (by EUR 282.3 million) and deficit on the primary income account (by EUR 151.2 million).

In the first nine months of 2021, goods exports went up by 30.2% y-o-y, receiving the strongest impetus from manufacturing (25.3% y-o-y, contribution of 22.8 pp), where export growth was registered in 20 out of 23 branches. Looking at markets, the recovery of goods exports was powered primarily by the rising exports to EU countries (30.1% y-o-y, contribution of 19.4 pp), followed by exports to the CEFTA countries (22.3% y-o-y, contribution of 3.6 pp), as well as to China (157.3% y-o-y, contribution of 3.1 pp). The key drivers of export activity were base metals (3.6 pp contribution), electrical equipment (3.4 pp), metal ores (3.3 pp), chemicals and

chemical products (2.7 pp), motor vehicles and trailers (2.7 pp), food (2.3 pp), and rubber and plastic products (2.2 pp). On the other hand, the largest negative contribution to exports during this period came from tobacco products (-0.3 pp).

In the first nine months of 2021, goods imports increased by 24.5% y-o-y, led by intermediate goods which provided a 15.7 pp contribution, partly under the impact of the global energy price hike. The largest contributions to import growth in the nine months of 2021 stemmed from base metals (2.9 pp), electrical equipment (2.3 pp), miscellaneous machinery and equipment (1.8 pp), chemicals and chemical products (1.7 pp), and crude oil and natural gas (1.6 pp).

The surplus on trade in services expanded in the nine months of 2021 by 39.6% y-o-y, driven mainly by the rising net exports of ICT services, tourism and other business services. The deficit on the primary income account widened by 13.9% y-o-y, primarily because of higher outflows based on direct investment income (by 9.4% y-o-y) amid rising FDI. The surplus on the secondary income account increased by 22.2% y-o-y, reflecting chiefly stronger inflow of remittances to Republic of Serbia, as well as grants to the public sector.

In the period January–September 2021, the financial transactions account (excluding changes in FX reserves) recorded a net inflow of EUR 4.1 billion, the largest part of which relating to FDI and portfolio investments. Net FDI inflow in the first nine months of 2021 amounted to EUR 2.7 billion (inflow to Republic of Serbia amounted to EUR 2.9 billion) and fully covered the current account deficit (207.2%). Compared to the same period of 2020, net FDI inflow was higher by 58.4%, while compared to the same period of the pre-crisis 2019 it was higher by 5.2%, though it should be taken into account that 2019 was the year of record high FDI inflows. In the nine months of 2021, FDI inflow remained project-diversified and channelled mostly to tradable sectors (over 60%). The bulk of FDI flowed into manufacturing (around 25%), construction (around 18%), transport (around 16%) and mining (around 10%). Observed by country, most FDI originated from EU (around 60%), Asian (around 25%) and EFTA countries (around 10%).

As regards portfolio investment, a net inflow of EUR 1.9 billion was registered in the period January–September 2021, owing mainly to successful issues of government securities in the international market. In September 2021, for the first time in history, Republic of Serbia issued a green eurobond worth EUR 1.0 billion, with the maturity of seven years, for the purposes of financing “green” projects¹. The bond was issued at the lowest coupon rate ever 1.0% and at a yield rate of 1.262%, making Serbia one of the few European and the only non-EU country to have issued a green instrument. In addition to the green bond, during 2021 Republic of Serbia issued in the international market another two eurobonds to support corporates and households and mitigate the negative effects of the pandemic, but also to finance the repayment of a eurobond issued in 2011 under considerably less favourable conditions, which matured in September 2021. This speaks additionally in favour of the macroeconomic progress Republic of Serbia has made over the past nine years.

Residents’ net external borrowing under financial loans came at EUR 112.8 million, with the private sector net repaying its debt by EUR 125.0 million and the public sector net borrowing EUR 237.8 million.

1 http://www.javnidug.gov.rs/upload/Eurobond/2021/09.09/Serbia%20Green%20Bond%20Framework_vf.pdf

NBS FX reserves (excluding cross-currency and asset price changes) increased during this period by EUR 3,185.5 million and were significantly above the level that ensures adequate protection from external shocks, as they covered more than six months' worth of the imports of goods and services (6.5 months) and 281.6% of debt² maturing in the next twelve months.

Exchange rate. The factors which reflect Serbia's improved macroeconomic performance and which generated appreciation pressures even before the pandemic renewed during 2021. Appreciation pressures were particularly strong in June and July, partly as a result of the inflow of foreign portfolio investment, especially in late June following the inclusion of dinar government bonds in the J. P. Morgan indices. Since October, depreciation pressures are somewhat more pronounced due to the start of the seasonally heightened FX demand of domestic companies, notably energy importers, but also due to the surge in global energy prices. Apart from this, a somewhat higher FX demand was also spurred by the dividend payments of companies with foreign ownership.

In the ten months of 2021, the NBS net bought EUR 960 million in the local FX market in order to ease excessive short-term volatility of the exchange rate of the dinar against the euro. In the same period the value of the exchange rate remained broadly unchanged at around 117.6 dinars per euro.

As in most other countries, **inflation** in Republic of Serbia is higher than in 2020. After under-shooting the target tolerance band in the first two months of the year, inflation moved around the target midpoint from April to July, only to head up since August and reach 6.6% y-o-y in October. Such inflation profile reflects the rise in global oil and other primary commodity prices, the low base effect, as well as disrupted global supply chains and higher transport costs. On top of this, local prices of unprocessed food, notably vegetables, recorded a seasonally untypical rise in Q3 due to the drought effects. That the factors driving inflation are of temporary character and on the supply side is confirmed by the fact that the contribution of food and energy prices to October inflation measured around 4.8 pp, while core inflation remained relatively low and stable at 2.7% y-o-y in October. Low and stable core inflation is underpinned by the relative stability of the exchange rate and inflation expectations of the financial and corporate sectors which are anchored within the target band.

Lending activity and monetary trends. Lending activity continued growing in 2021, though at a somewhat slower pace because of the high base effect due to the 2020 moratorium. With the waning of the moratorium effect³, y-o-y lending to the non-monetary sector stepped up in October to 7.7%. Lending growth is supported by favourable terms of financing, approval of guarantee scheme loans, other NBS measures (extension of maturity for cash loans, smaller degree of completion of real estate eligible for housing loan financing and extension of repayment term by five years, incentives for banks to lower interest rates on corporate dinar loans approved under the guarantee scheme, etc.), as well as by economic growth.

According to the results of NBS bank lending surveys, in 2021 banks eased their household credit standards. In the first two quarters of 2021, they also eased corporate credit standards, only to tighten them in Q3 in respect of FX-indexed loans. Throughout 2021, loan demand con-

2 As at June 2021.

3 The second moratorium on loan repayment expired at end-September 2020.

tinued up, on account of capital investment financing in the corporate sector and real estate purchases in the household sector. Loan demand is expected to continue up in the coming period.

In October, y-o-y growth in corporate loans equalled 6.5%, and the share of these loans in GDP was 24.3%. Lending growth since the start of the year has been led by the approval of liquidity and working capital loans, followed by investment loans, whose respective shares in total corporate loans stood at 45.7% and 42.0% in October. In terms of enterprise size, loans approved to micro, small and medium-sized enterprises accounted for 67.1% of total corporate loans. During nine months of 2021, EUR 674 million worth of loans were approved under the Guarantee Scheme, i.e. EUR 2.15 billion since the start of its implementation in May 2020. Almost two thirds of these loans in 2021 were in dinars (65.4%), which is why the share of the stock of dinar in total loans touched a new high in June (36.8%), where it stayed in October as well. The dinarisation of corporate loans increased to 23.9% in October, which is the highest level in the past six years, while the dinarisation of household loans was higher and stood at 55.0%. The growth in household loans equalled 9.9% y-o-y in October, and the share of these loans in GDP reached 22.7%. The highest growth in 2021 was recorded for housing loans, which went up by 16.8% y-o-y in October, while cash loans edged up by 9.5% y-o-y.

We expect total domestic loans to the non-monetary sector to increase by around 9% at year-level in 2021, under the programme exchange rate. They will continue up in 2022, though at a slightly slower pace (around 7%), with growth in household loans remaining somewhat faster than corporate loan growth. Lending growth will be supported by the anticipated economic growth and the maintenance of favourable borrowing terms, while the expected maturing of loans approved under the “first” Guarantee Scheme will work in the opposite direction.

The growth in money supply slowed in 2021 on account of a smaller volume of direct government aid compared to last year and the expiry of the moratorium on the repayment of corporate and household loans. In October, monetary aggregates M1, M2 and M3 expanded by 10.6%, 7.1% and 5.4% y-o-y, respectively. The growth in dinar money supply in 2021 was driven primarily by rising transaction deposits of corporates and households. Dinar household savings, which continued up in 2021, increased by RSD 7.8 billion to RSD 100.4 billion in October. The stable and continuous growth in dinar savings, which was two-digit in the past three years, suggests that citizens have confidence in the domestic currency and facilitates the preservation of financial and price stability. Moreover, higher attractiveness of dinar compared to FX savings is also due to higher interest rates and a more favourable tax treatment of dinar savings. This resulted in a rise in the share of dinar household deposits from 8.8% in late 2012 to 27.2% in October 2021, and an increase in the dinarisation of total corporate and household deposits from 19.3% to around 39%. This confirms that the Dinarisation Strategy⁴, adopted in 2012 and upgraded in late 2018, is yielding positive results. During ten months of 2021, FX deposits went up by EUR 1,457.2 million, owing mostly to the rise in household FX savings, which exceeded EUR 12 billion in late October.

Financial sector. There were no significant changes in the structure of the Serbian financial system during 2021 – the banking sector remains dominant with the share of over 90% in total financial sector assets. As at 30 September 2021, the banking sector in the Republic of Serbia comprised 24 banks, of which 19 are in majority foreign ownership (members of banking groups from 13 countries), two banks are in majority ownership of the Republic of Serbia,

4 In March 2012, the National Bank of Serbia and the Government signed a Memorandum on the dinarization strategy.

and three banks in majority ownership of domestic legal persons. Dominant in the market are banks in the majority ownership of foreign persons and they account for 86.3% of total balance sheet assets, 89.8% of total gross loans, and 85.2% of total banking sector deposits. The Herfindahl-Hirschman Index (HHI) shows the absence of concentration in the key balance sheet categories, indicating a satisfactory degree of market competition.

At end-September 2021, the balance sheet total and capital of the banking sector equalled RSD 4,935 billion and RSD 721 billion, respectively. Solid capital reserves built up by banks in the past several years made them more resilient to negative effects of the COVID-19 pandemic. The CAR and leverage ratio (under Basel III) stood at 21.68% and 11.50%, respectively, at end-Q3 2021, which is another confirmation of high banking sector solvency.

Banking sector liquidity reserves are more than sufficient to cover potential needs for liquid assets, as confirmed by the key liquidity ratios and the maturity structure of assets and liabilities. The monthly liquidity ratio at the banking sector level, calculated in accordance with domestic regulations, equalled 2.28 in September (regulatory minimum: 1.0) and was above 2 during entire 2021. Liquid assets made up 37.80% of total balance sheet assets and 50.17% of total short-term liabilities, while the liquidity coverage ratio (under Basel III) was 216.37% at end-September 2021.

Despite the pandemic, the banking sector maintained satisfactory profitability in 2021 as well. From the start of the year until end-September, total pre-tax net gain stood at RSD 41.5 billion, and profitability indicators ROA and ROE equalled 1.16% and 7.69%, respectively.

Although it carried out all activities from its Action Plan for implementation of the NPL Resolution Strategy ("Official Gazette of RS", No. 72/15 - hereinafter: Strategy), the NBS continued to undertake regulatory measures under its remit and use all available instruments and supervisory mechanisms to encourage banks to more efficiently resolve NPLs and establish a system to prevent their new build-up. The Decision on the Accounting Write-off of Bank Balance Sheet Assets, according to which banks are obliged to transfer all fully impaired NPLs to off-balance sheet records, has been in force since September 2017.

Six years after the adoption of the Strategy, the NPL share in total gross banking sector loans declined by 18.7 pp to 3.55% at end-September 2021. In the same period, the stock of gross NPLs fell by 75.71% (from RSD 427.3 billion to RSD 104.7 billion). The most important channels of the NPL reduction were the direct write-off and assignment (sale) of receivables, as well as collection since 2021 (full or partial, if criteria to exit the NPL status are fulfilled). Since the adoption of the Strategy until September 2021, the total reduction in NPLs that is due to direct write-off equalled RSD 229.2 billion and is present in all banks. Since the adoption of the Strategy, the total amount of assigned receivables is RSD 98.6 billion⁵. The share of NPLs in total corporate loans stood at 3.47% at end-September 2021, while their share in total loans to natural persons was 3.88%. At end-September 2021, the coverage of NPLs with allowances for impairment carried out in accordance with the IFRS equalled 59.3%, which is relatively high compared to the same indicator at the EU level (around 44% according to the latest available data). The concentration risk indicator, introduced in late 2018 with the aim of reducing the share of longer-maturity cash, consumer and other non-purpose household loans in regulatory capital and long-term liabilities, and with the aim of encouraging the practice of sustainable

5 Calculated based on the NPL 3 report which banks submit to the NBS.

lending to households, was reduced at the banking sector level by 14.42 pp in the period January 2019 – September 2021 (from 25.19% to 10.77%).

The NBS regularly reviews the banks' obligation to maintain capital buffers which limit systemic risks in the Serbian financial sector. The capital buffer for systemically important banks is reviewed at least once a year. In June 2021, eight banks were identified as systemically important for the domestic economy⁶, of which four are obliged to maintain additional Tier 1 capital at 2% of their risk-weighted assets, and the remaining four banks at 1% of their risk-weighted assets. In September 2021, to maintain all prescribed capital buffers (combined capital buffer), banks earmarked RSD 161.3 billion worth of Common Equity Tier 1 capital, or 5.5% of risk-weighted assets.

The analysis of lending activity from the aspect of determining the level of the countercyclical capital buffer rate as at June 2021 suggests that, despite its growth, lending activity measured by the share of total real loans in real GDP is below its long-term trend (-1.9 pp). In view of this and the continued global uncertainty caused by the spread of the coronavirus, in September 2021 the NBS decided to keep the countercyclical capital buffer rate at 0%. According to the analysis of lending activity by sector, neither the corporate nor the household sector is recording excessive credit growth.

Having in mind the complexity of the pandemic's fallout on households and corporates, on 14 December 2020 the NBS adopted the *Decision on Temporary Measures for Banks to Enable Adequate Credit Risk Management amid COVID-19 Pandemic* and the *Decision on Temporary Measures for Financial Lessors to Enable Adequate Credit Risk Management amid COVID-19 Pandemic*. By these Decisions, the NBS prescribed the measures and activities to be applied by banks and lessors in order to ensure adequate credit risk management, which implies timely identification of debtors faced with potential difficulties and taking of appropriate steps. Repayment facilities were introduced for natural persons, farmers, entrepreneurs and companies. Loans, credit cards and current account overdrafts were covered by the facilities on condition the debtor regularly settled liabilities to a bank in a relevant pre-pandemic period. The facilities that banks were obliged to offer to debtors fulfilling the criterion of earlier regularity in the settlement of liabilities and the prescribed conditions in relation to being affected by the pandemic include a six-month grace period during which the debtor was not obliged to settle debt in respect of principal, while it was up to the debtor to decide whether to pay interest (which was calculated anyway) during the grace period or after its expiry.

Furthermore, according to the *Decision Amending the Decision on Temporary Measures for Banks to Enable Adequate Credit Risk Management amid COVID-19 Pandemic* ("Official Gazette of RS", No. 21/21), adopted in March 2021, entitled to the facility is also the debtor who was (in addition to the earlier regularity in the settlement of liabilities towards a bank) as at 28 February 2021 more than 30 days past due in a materially significant amount on any obligation to the bank arising from products to which the Decision applies.

As the negative developments concerning the COVID-19 pandemic continued into 2021, the NBS postponed several times the application of measures discouraging the approval of new, non-purpose and non-investment, FX-indexed and FX loans to debtors from the non-finan-

⁶ In accordance with the Decision on Establishing a List of Systemically Important Banks in the Republic of Serbia and Capital Buffer Rates for those Banks of 10 June 2021.

cial and non-government sector, adopted in December 2019, in the part relating to capital by amending the Decision on Capital Adequacy of Banks.⁷ On the other hand, a part of measures concerning banks' risk management is applied as of 1 January 2021.

Under the latest *Decision Amending the Decision on Capital Adequacy of Banks* ("Official Gazette of RS", No. 59/21), from June 2021, due to the deferral of application by 12 months, new FX-indexed loans and FX loans extended as of 1 July 2022 are relevant for calculating the deductible from Common Equity Tier 1 capital of a bank. Consequently, the deductible will apply if the bank's exposures under FX-indexed dinar loans and FX loans extended as of 1 July 2022 to debtors from the non-financial and non-government sector exceed:

- 1) 71% of the amount of the bank's exposure under dinar loans (including FX-indexed loans) and FX loans – in the period from 1 July 2022 to 30 June 2023;
- 2) 64% of the amount of the bank's exposure under dinar loans (including FX-indexed loans) and FX loans – in the period from 1 July 2023 to 30 June 2024;
- 3) 57% of the amount of the bank's exposure under dinar loans (including FX-indexed loans) and FX loans – in the period from 1 July 2024 to 30 June 2025;
- 4) 50% of the amount of the bank's exposure under dinar loans (including FX-indexed loans) and FX loans – in the period from 1 July 2025.

The NBS is committed to constantly upgrading banking legislation and continues to improve the regulatory framework for banks. It has intensively analysed changes to prudential regulations for credit institutions in the EU. The NBS has so far been successful in tackling the challenges and has continuously monitored the situation in the financial sector and in the domestic and international market, taking all necessary activities within its remit in the interest of households and businesses.

By setting up the **instant payments system** – NBS IPS system, the NBS has created conditions for making retail payments in real time, 24/7/365. In 2020, in addition to developing the instant payments acceptance infrastructure at merchant POS through acceptance at POS terminals, as well as developing mobile apps for merchants and internet POS, in order to provide additional support to e-commerce development and popularise e-payments further the NBS also upgraded the internet instant payments service by implementing deep-link technology and enabling buyers to complete the entire purchasing process by using a single device only (e.g. the mobile phone). It has become easier to pay bills issued by large bill issuers – by scanning the NBS IPS QR code on bills/invoices without having to go to a bank, which has proved particularly efficient during the pandemic. As of September 2021, banks were able to offer their customers a new service – "Transfer", allowing citizens to make secure money transfers easily and promptly, using only the payee's mobile phone number.

Taking into account global trends, the **Law on Digital Assets** ("Official Gazette of RS", No. 153/20) **was adopted** in the Republic of Serbia, regulating in detail the issuance of and secondary trading in digital assets, including operation of virtual currency trading platforms and the exchange of virtual currencies for money. This Law regulates the operations of persons carrying out digital asset activities in the Republic of Serbia, in order to regulate this matter which was

⁷ The application of measures was postponed with the adoption of decisions in May and November 2020, while the latest postponement took place on 10 June 2021 with the adoption of the Decision Amending the Decision on Capital Adequacy of Banks, Decision Amending the Decision on Deadlines for Compliance of Banks' Internal Acts on Risk Management and for Reporting by Banks, and the Decision Amending the Decision on Reporting Requirements for Banks.

not previously regulated in our country except in the part relating to the prevention of money laundering and terrorism financing in virtual currency service providers. The Law came into effect on 29 June 2021, and the NBS adopted relevant by-laws regulating in more detail the licensing and operation of virtual currency service providers and supervision of their operations.

3.3. MEDIUM-TERM MACROECONOMIC SCENARIO

According to the medium-term macroeconomic projection, the cumulative growth rate in the period 2022–2024 will amount to 15.2% and will be driven by the growth of domestic demand and with the recovery of global trade additionally supported by a slight positive contribution of net exports. This source of growth is determined by both the permanent increase in investment and the growth of household consumption due to the growth of living standards. The Serbian economy will grow at an average rate of 4.8% per year, which is an upward revision of 0.8 percentage points compared to previous expectations, primarily due to the permanent growth of economic potential. The increase in private consumption is projected at a lower rate than the acceleration of economic activity and will average 3.5%. This increase does not contain disruptive elements, it is based on healthy sources, primarily on increasing employment, but also on the favourable impact of price and credit trends on disposable income. Stable growth of investments is expected, on average of 7.8% per year, which will gradually increase their share in the GDP structure, which should be close to 25% at the end of the projection period. With the recovery of foreign demand and the activation of new production capacities, the volume of foreign trade will increase. In addition, the effect of FDI from the previous period will contribute to increased competition and affect the efficiency of domestic producers, while on the other hand, new sales channels will be activated and new market niches will be opened. Exports will grow at an annual rate of 9.9%, which is faster than the expected annual growth of imports, which will average 8.0%. Such trend of foreign trade will enable the maintenance of the balance of payments deficit at the level of about 4.5% during the projection period.

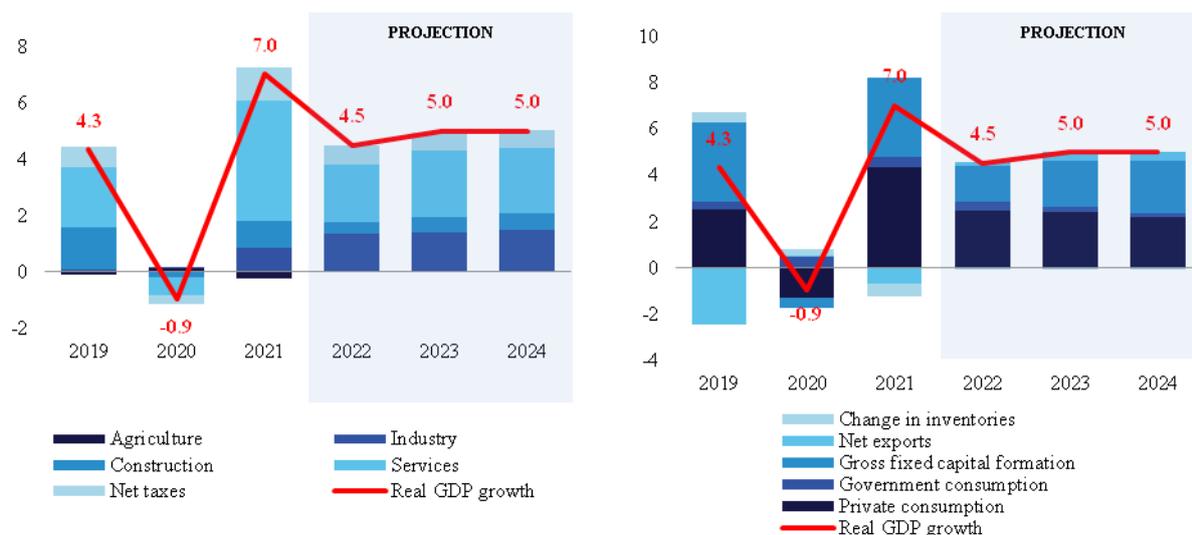
Table 2. Projection of basic macroeconomic indicators in the Republic of Serbia

	Estimate	Projection		
	2021	2022	2023	2024
GDP, in billions of RSD (current prices)	6,163.0	6,638.7	7,175.9	7,747.6
Real growth of GDP, %	7.0	4.5	5.0	5.0
GDP deflator, %	4.7	3.0	2.9	2.8
<i>Real growth of individual components of GDP, %</i>				
Private consumption	6.4	3.7	3.6	3.3
Government consumption	2.8	2.3	1.2	1.2
Gross fixed capital formation	15.2	6.4	8.1	8.9
Exports of goods and services	15.9	9.4	9.9	10.4
Imports of goods and services	14.2	7.6	7.9	8.5
Balance of goods and services in EUR, % GDP	-8.1	-7.7	-6.9	-6.2
Current account balance, in EUR, % GDP	-4.1	-4.4	-4.4	-4.8
Inflation, period average, %	4.0	4.9	3.0	3.0

Source: Ministry of Finance

Observed on the supply side, the service sector and industry will retain the role of dominant sources of growth and increase the generated GVA by an average of 4.4% and 6.9% per year, respectively. A positive contribution will also come from the growth of construction activity, which will average 9.4%. Achieving European standards and raising competitiveness in agriculture, by meeting the conditions for the opening of Chapter 11 and through the use of EU IPARD programs, will reduce the variability of production in this sector caused by agro-meteorological conditions.

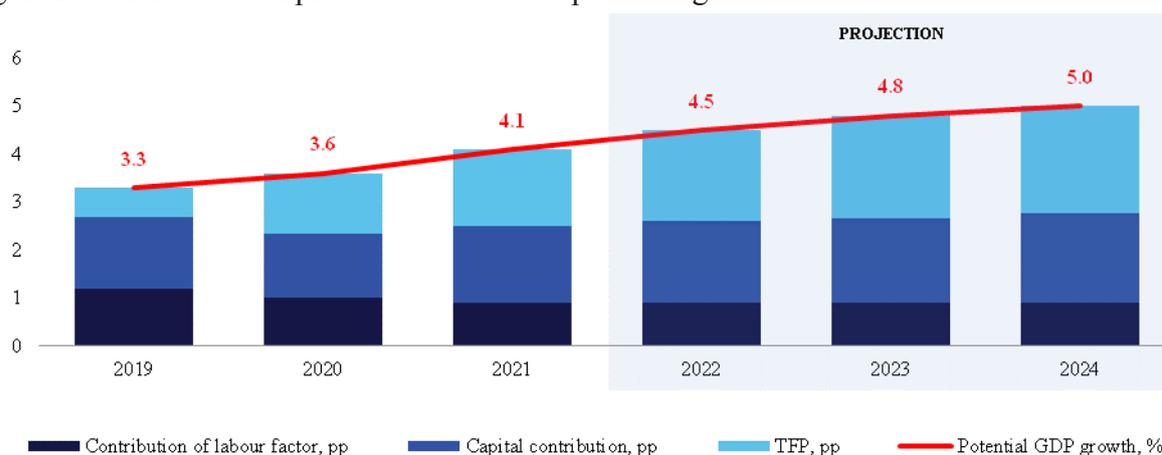
Figure 1. Contributions to real GDP growth rate, production and expenditure approach, pp



Source: Ministry of Finance

Even with this three-year scenario, the Government remains committed to maintaining a model of economic growth based on investment and exports, which is supported by the growth of private consumption on real and healthy sources. The share of gross fixed capital formation in GDP at the end of 2024 will be 24.6%, which is about 2 percentage points higher share compared to the pre-pandemic level, while the share of exports of goods and services will increase by 7.4 percentage points. After the jump in 2020, government consumption will gradually reduce its share in GDP, so that at the end of the projection period it will be close to the level of 2019. The Government is trying to strengthen the investment and export component of GDP with its activities and measures. Acceleration of all administrative procedures that accompany these activities, tax relief of the economy in order to increase its competitiveness, signing agreements to ensure the preservation of existing and opening new foreign markets, more intensive and efficient infrastructure works, implementation of green agenda projects are just some of the measures needed to provide sound foundations for potential GDP growth. Consistency in preserving fiscal stability prevents the generation of imbalances and the creation of uncertainties, and reform processes should provide stronger positive dynamics of basic macroeconomic variables. The digital transformation and construction of the digital ecosystem remains the strategic orientation of the Government. More efficient work of the state administration, shortening the procedures for the population and the economy with a focus on digitalization, will accelerate the convergence of our economy towards developed countries. The new system of fiscalization and changes in customs regulations will reduce the share of the grey economy in total economic flows, ensure affirmative competition and improve the economy and efficiency of procedures.

Figure 2. Contribution of production factors to potential growth rate



Source: Ministry of Finance

According to the central scenario, the growth of potential GDP is expected to accelerate in the medium term. After an increase of 4.1% in 2021, potential GDP will gradually increase and reach a rate of 5%. Accelerating the implementation of capital projects and continuing the ongoing investment cycle, supported by both stable FDI inflows and domestic innovative activities, will provide an increasingly strong contribution of capital and factor productivity to potential GDP growth. Digitalization will significantly speed up these processes and further increase the efficiency of available capacities. The Government will implement a comprehensive agenda of structural and institutional reforms to foster high, green, inclusive and sustainable growth in the medium term. Favourable developments in the labour market will also contribute to the growth of potential GDP, but at a slower pace than in the previous period.

Labour market. So far, favourable macroeconomic trends and well-balanced measures of economic policy makers, in response to the pandemic, which were aimed primarily at maintaining economic growth and preserving employment, but also full opening of the economy, enabled by the immunization process, created a strong basis to continue the positive trends in the labour market in the coming period. Therefore, with the expected high economic growth, as well as the Government's constant commitment to increasing the number of employees, it is projected to continue positive developments in the labour market, which will result in further reduction of non-employment rates and wage growth in the medium term. According to the Employment Strategy of the Republic of Serbia for the period from 2021 to 2026, in the post-crisis period, it is especially important to ensure stable funding of active employment policy measures, to ensure that unemployed people remain tied to the labour market, prevent loss and obsolescence of knowledge and skills of unemployed people and provide training for jobs created after overcoming the crisis, which contributes to long-term economic growth. In addition, positive expectations are the result of continuous work on improving working conditions, improving labour market institutions, encouraging employment and inclusion in the labour market of hard-to-employ persons, as well as support for regional and local employment policy. Also, we are continuously working on improving the workforce in terms of quality, as well as investing in human capital, all with the aim of facilitating general employment, especially in that part of the economy that has greater added value. Also, after the improvement of the labour legislation and the adopted measures in the direction of tax relief of labour, the reduction of the number of employees in the shadow zone will continue and their transfer to the contingent of formally employed. These measures will improve working conditions, in terms of workers' rights and

insurance, and will have a positive effect on budget revenues. At the end of the medium term, positive results of active training, retraining and support measures for social entrepreneurship are expected, which will facilitate the availability of jobs for socially vulnerable categories of society and thus further ensure the inclusiveness of economic growth. For the sake of economic sustainability, wage growth in the medium and especially long term should be based on productivity growth.

Monetary policy, exchange rate policy and inflation

Since 2009, the NBS has been pursuing the *inflation targeting regime* as its monetary strategy. Thanks to the achieved price stability, anchored inflation expectations, Serbia's significantly improved macroeconomic indicators and outlook and, most of all, to a sustainable reduction of external and internal imbalances, the inflation target was reduced since 2017 to **the level of 3%±1.5 pp, at which it is set until the end of 2024**. This confirms that the NBS and the Government are determined to take measures to keep inflation low, stable and predictable in the medium term. The main instrument for achieving the inflation target is the interest rate applied in one-week reverse repo operations, while other monetary policy instruments (lending and deposit facilities, required reserves and FX market interventions) have a supporting role.

The reserve requirement policy is formulated in such a way that the differentiated reserve requirement ratio, depending on the currency of liabilities and maturity, stimulates dinar and longer-term sources of bank funding. The reserve requirement ratio on dinar sources maturing in up to two years is 5% and that on sources maturing in over two years is 0%. The reserve requirement ratio on banks' FX sources maturing in up to two years is set at 20%, while that on sources maturing in over two years is 13%.

In line with its chosen monetary strategy, the NBS will **continue to pursue a managed floating exchange rate regime**. It will intervene in the FX market to mitigate excessive short-term oscillations of the dinar exchange rate against the euro, preserve price and financial system stability and maintain an adequate level of FX reserves. Timely and measured responses of the NBS in the FX market and the achieved macroeconomic stability, together with greater resilience of the domestic economy to external shocks, including those produced by the COVID-19 pandemic, will help maintain the relative stability of the dinar exchange rate in the medium term.

Faced with the COVID-19 crisis and in order to support economic recovery, in 2020 the NBS cut interest rates to record-low levels, lowering the key policy rate to 1.00% (by a total of 125 bp), the deposit facility rate to 0.10% (by a total of 90 bp) and the lending facility rate to 1.90% (by a total of 160 bp), while narrowing the interest rate corridor from ±1.25 pp to ±0.90 pp relative to the key policy rate. In 2021, the NBS Executive Board kept the key policy rate at 1.00%, and other interest rates of the NBS also remained unchanged.

In 2021, the NBS continued to provide additional dinar liquidity to the banking sector on favourable terms, by organising additional FX-purchase swap auctions and dinar securities purchase repo auctions, with the maturity of three months. The NBS held these auctions (introduced in mid-November 2020) in order to maintain a sufficiently high level of available and cheap liquidity in the banking sector, and by extension, in the corporate sector, as well as to provide continued stimulus to economic growth. After analysing liquidity movements in the banking system and monetary developments, the NBS assessed that additional FX-purchase swap auctions have fulfilled their purpose and that they no longer need to be held after 8 March 2021.

Though the NBS did not change its key policy rate in 2021, it has taken steps to reduce its monetary accommodation due to global cost-push pressures which have reflected on the domestic market, in order to contain future growth in inflation expectations and the spill-over to prices of other products and services. Using the flexibility of the current monetary policy framework which allows it to change monetary conditions without changing its main interest rates, **as of October the NBS increased its average rate at repo sales of securities by 19 bp. As at 17 November, this rate measured 0.30%**, involving higher withdrawal of excess liquidity of banks. Also, **as of October, the NBS discontinued the holding of securities purchase repo auctions which provided dinar liquidity to banks** on very favourable terms.

In its decision-making, the Executive Board also had in mind that the favourable financing conditions, which will support economic growth in the coming period as well, could be sustained at a somewhat lower degree of monetary accommodation. Timely and coordinated measures of the NBS and the Government taken since the pandemic was declared helped maintain macroeconomic stability, production capacities and jobs, as well as business and consumer confidence. This prevented a sharper fall in GDP in 2020, while pre-crisis GDP level was exceeded already in Q1 2021. In all three quarters of 2021, trends were more favourable than initially expected. **As a result, Serbia's economic growth outturn in the two years of the pandemic taken together will be among the best in Europe.**

The NBS assesses that the factors of higher headline inflation will for their major part be temporary in character and that their effect will dissipate next year. The NBS will continue to carefully monitor the movement and impact of key factors from the domestic and international environment on inflation, financial stability and the speed of economic recovery. The NBS stands ready to respond promptly by using all monetary policy instruments on hand should any of the risks that would keep inflation above the upper bound of the target band for a prolonged period of time materialise.

Medium-term inflation projection. Under the central November projection of the NBS, y-o-y inflation will hover temporarily above the upper bound of the target tolerance band ($3\pm 1.5\%$) until the middle of the next year when, as a result of the anticipated slowdown from Q2 2022, it will first retreat within the target tolerance band and then settle in its lower half until the end of 2022, where it will stay in 2023 as well. Such inflation movements reflect elevated global prices of oil and primary agricultural commodities, disruptions in global supply chains, much higher transport costs and the base effect for vegetable prices. As the impact of these transitory factors weakens and wears off altogether, y-o-y inflation will fall to its pre-pandemic levels in H2 2022.

No major inflationary pressures are expected from aggregate demand. The current inflation and GDP projection is consistent with a gradual narrowing of Serbia's negative output gap, which is estimated to remain mildly negative until the end of the projection horizon. In view of this and the expected relative stability of the dinar exchange rate in the coming period, core inflation should remain within the bounds of the target tolerance band throughout the projection horizon.

Uncertainties surrounding the inflation projection are still mostly associated with the international environment, most notably the pace of global economic recovery and the duration of disruptions in global supply chains, movement in world prices of energy and primary agricultural commodities, and the normalisation of monetary policies of leading central banks. In part, the risks to the projection are also associated with the domestic market – the agricultural season, speed of recovery of demand and movement in administered prices.

External sector and its medium-term sustainability

The diversification of Serbia's exports by product and geography has increased over the past few years thanks to the FDI inflow into export-oriented sectors, supported by the achieved macroeconomic stability, as well as a more conducive business environment. This is signalled by reduced values of the HHI by product, from 0.22 in 2013 to 0.19 in 2020, and by partner country, from 0.26 to 0.23. The concentration degree by product in the first nine months of this year remained almost unchanged (0.20), while dropping further by country, to 0.22. It should be borne in mind that cereals are exported mostly via Romania, and motor vehicles via Italy, wherefrom they are placed to other markets, so the degree of export concentration by country is actually lower than suggested by this index.

In terms of *phases of processing*, in the structure of commodity exports the greatest share in the first nine months of 2021 was that of medium-processed products (31.7%). Second come raw materials-based products with the share of 25.9%, followed by the products of lower processing phases accounting for 20.2% (furniture, iron and steel, plastic products, clothes), while primary products made up 13.3% of total exports. The share of high technology products (mainly electrical machinery) in the total exports amounted to 6.7% in the nine months of 2021, which is a rise of almost 2 pp relative to 2013, when the share stood at 4.8%.

Speaking of *indicators of price competitiveness*, it is important to point out that in cumulative terms the real effective exchange rate of the dinar (calculated based on consumer prices according to the euro and dollar currency basket⁸) remained almost unchanged in the last seven years. In the nine months of 2021, a mild average real effective appreciation of dinar was recorded, equivalent to 1.9% y-o-y. Calculated on the basis of unit labour costs, the dinar has appreciated against the euro in real terms since 2017, due to the faster rise in unit labour costs in Republic of Serbia than in the EU and in part also due to the mild nominal strengthening of the dinar against the euro. During nine months of 2021, the wages in the Republic of Serbia grew faster than economic activity (more sharply so in the private sector), so that unit labour costs in the Republic of Serbia continued up, which, coupled with the lower unit labour costs in the euro area and the unchanged value of the dinar against the euro, resulted in the real appreciation of the dinar of around 5% y-o-y. That cost-competitiveness is not a factor that more significantly affects the FDI inflow, while the achieved macroeconomic stability and structural improvements are, is evidenced by the fact that FDI inflow since 2017, concluding with September this year, amounted to close to EUR 16 billion (on average around 7.3% of GDP annually), despite the pandemic 2020.

International investment position. At end-Q2 2021, the negative international investment position (IIP) amounted to 87.1% of GDP (EUR 42.8 billion), declining by 3.2 pp from end-2020. The strongest impact on the assets side came from the growth in NBS FX reserves and residents' deposits abroad, and on the liabilities side, from the rise in FDI and portfolio investment in the country. **At end-Q2 2021, net FDI made up around 95% of the net IIP, which signals a favourable IIP composition in terms of external sustainability.**

In the composition of IIP liabilities, the share of debt instruments accounted for around 50%, of which inter-company loans made up 21.5%. Somewhat less than a half of *total external debt* referred to the public sector debt (49.1%). Observed by the remaining maturity, around 93%

8 In proportion 80:20.

of the external debt of the public sector (made up of the general government and the NBS) is long-term in nature, while around 70% is agreed at a fixed interest rate. External public debt is dominated by three currencies – the euro (61.0%), the dollar (18.9%) and the dinar (10.5%). It is important to note that the share of the euro and the dollar in FX reserves is fully matched with the currency structure of external public debt.

In the composition of private sector external debt, the greatest share refers to company debt (around 75%). Over 90% of company debt is denominated in euros, and due to the fact that over 90% of export collections are also made in euros, the currency risk arising from company external debt is low. In addition, 54% of the debt is agreed at a fixed interest rate. In terms of the remaining maturity, around 85% of the company debt is long-term in nature. Looking at bank external debt, over 90% is euro-denominated and over 80% agreed at a variable interest rate. By the remaining maturity, around 70% of the banking sector external debt (excluding deposits) is long-term.

Medium-term external sustainability. The projected medium-term current account deficit of around 4–5% of GDP is largely determined by structural factors. A continued rise in investment, primarily the planned large infrastructure investment, will boost equipment imports, so the real growth of goods and services imports will average around 8% annually in the next three years. On the other hand, as a result of past investment in tradable sectors, as well as the rebound in external demand, the real rise in goods and services exports will pick up and stabilise at around 10% annually on average, which will lead to a gradual reduction of the share of goods and services deficit in GDP to around 6–7% in the next three years. Medium-term external sustainability is also supported by the current account deficit below the threshold which stabilises debt at the current level (estimated at around 6–8% of GDP) and its full coverage by the net inflow of FDI.

The expected path of net FDI inflow will help the income deriving from their ownership to remain a solid expenditure item on the primary income account. On the other hand, we will have a lower outflow on account of interest on loans and securities, mainly owing to the financing under much more favourable terms (and the repayment of debt taken earlier at high interest rates). In the secondary income account, we expect a stable remittances inflow of around 8–9% of GDP in the medium term as well.

The composition of capital inflow will be dominated by FDI (around 5% of GDP on average annually). FDI is expected to continue to fully cover the current account deficit and be primarily directed at tradable sectors. At the same time, we expect net repayment under financial loans of the public sector and net borrowing of the private sector aimed at financing investment and future economic development.

FX reserves are expected to remain at an adequate level in the medium term as well. It is estimated that the average monthly import coverage by FX reserves will be over 6 months, with the increasing coverage of short-term debt (by remaining maturity) by FX reserves.

In all scenarios, except historical (based on ten-year averages of key macroeconomic indicators, which is a period marked by important structural changes in the economy and cannot serve as a benchmark), after a temporary increase in 2020 and 2021 (due to the efforts to mitigate the economic consequences of the pandemic), Serbia's external debt will decline **in the medium term. According to the baseline scenario, at end-2025 Serbia's external debt should mea-**

sure around 50% of GDP. One of the basic factors to contribute to this decline is the increase in the degree of openness of the Serbian economy (measured as the percentage of exports and imports of goods and services in GDP) to over 120% of GDP. Increased openness of the Serbian economy and its higher integration into the global trade flows is certainly impacted by the high inflow of FDI, which in the period since 2013 and concluding with September 2021 amounted to around EUR 23 billion. Given that the major share of these investments was channelled to tradable sectors, the major exporters in Serbia are mainly foreign-owned companies. The continuation of the EU integration process and the opening of new chapters in the area of economic policy, together with bilateral free-trade agreements (e.g. with Russia, Turkey, Belarus and Kazakhstan) and agreements with economic groups (CEFTA, EFTA, Euroasian Economic Union) which the Serbian Government has concluded, along with maintaining the achieved macroeconomic stability, will lead to a further improvement of the business climate, and, by extension, to the increase in international trade and a continued rise in FDI.

3.4. ALTERNATIVE SCENARIOS AND RISKS

The medium-term scenario of economic activity in the Republic of Serbia is accompanied by numerous risks, primarily from the international environment. The risks of the macroeconomic framework largely stem from uncertainty about the course of the pandemic at the global level and the efficiency in its suppression.

The baseline macroeconomic scenario assumed that the impact of the pandemic would decline in 2022 as virus transmission weakened and vaccine use increased. If otherwise, the deterioration of the epidemiological situation and the introduction of additional restrictive measures, potential tightening of financial conditions and pronounced cost pressures on global inflation would lead to recessionary trends. In addition to possible new waves of the pandemic and related epidemiological restrictions, the slowdown in economic growth may be influenced by factors such as rising prices of raw materials (primarily energy), i.e. accelerating global inflation. The uneven recovery of our most important trading partners is accompanied by the risk of further slowdown due to the spread of new strains of the virus. At the same time, bottlenecks in supply chains and imbalances in the labour market also contribute to the unfavourable medium-term growth prospects of these economies, as they increase production costs and fuel inflationary expectations.

In the short run, we assess the risks of the projection as symmetric, with downwards asymmetric based on factors from the international environment and slightly upwards based on factors from the domestic environment. Greater vaccine production and distribution should reduce the pandemic to acceptable levels and encourage a faster-than-expected recovery in consumer and investment confidence, and thus faster economic growth. On the other hand, difficulties in the process of vaccine production and distribution and the emergence of new strains of the virus, which are spreading faster, could prolong the duration of restrictive health measures and thus slow down recovery. Uncertainty in the international commodity and financial markets, trade tensions and collapsed business confidence would have a negative impact on capital flows. As for the commodity market, rising primary commodity prices may have an impact on Serbia's economic growth. The movement of the price of oil and other energy sources above the projected one would have a negative impact on production costs, but it would also change the structure of household consumption by increasing the share of imported goods, which would jointly slow

down economic growth. Risks related to the domestic market relate to the new agricultural season, as well as the speed of demand recovery.

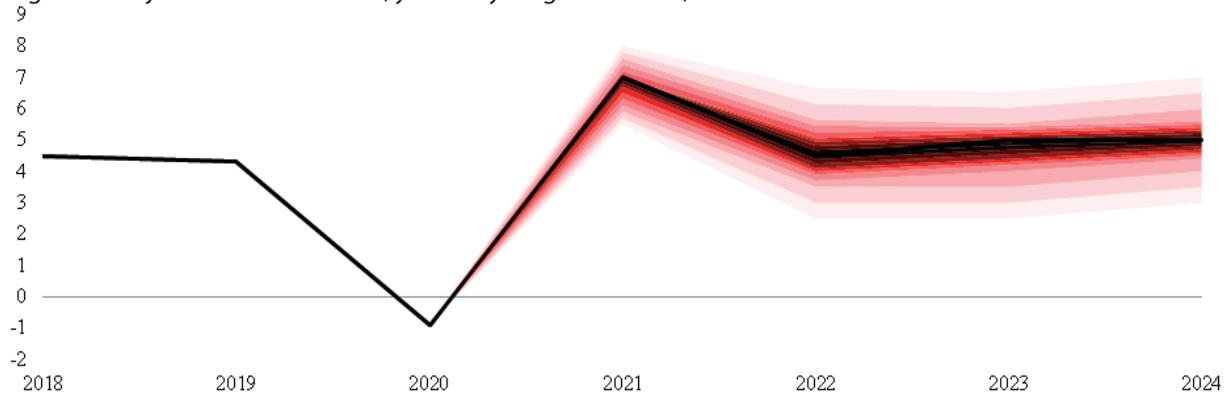
The Republic of Serbia has retained the role of a net exporter of base metals and ores, so that faster growth of their prices would positively affect economic activity. The activation of new and expansion of existing export capacities, more favourable trade relations will contribute to the mitigation of negative risks. Thanks to investments from the previous period, primarily in tradable sectors, Serbia's total exports were less affected by reduced external demand from the euro area, and the industrial sector remained relatively resilient to shocks from the global environment.

Endogenous risks have been identified as more pronounced upwards. The package of economic measures of the Government and the NBS preserved the disposable income of the population and existing jobs, and ensured a faster recovery than expected. The course of the pandemic will determine developments in the service sector, especially in the transport, catering and tourism sectors. The damage caused by the pandemic in these sectors can spill over to other industries. Other factors from the domestic environment relate to the volatility of agricultural production, efficiency in the implementation of public projects and the dynamics of the implementation of the initiated reforms. Continuation of structural reforms and further improvement of the business environment should contribute to faster growth. Despite the improvement and modernization of the agricultural sector, the production of major crops is still significantly dependent on agrometeorological conditions, which can lead to significant deviations from the long-term average agricultural production on the basis of which the movement of this sector is projected. The baseline scenario assumes average agricultural production and a neutral contribution of agriculture to GDP growth. The growth of construction in the coming period is based on the established growth path of private construction operations as well as on the continuation of the investment cycle of the state. Dynamics and efficiency in the implementation of public projects, as well as activities in the segment of building construction and production capacities, carry with them symmetrical risks. The movement of industrial production is largely determined by external factors.

Although the neutralization of internal and external imbalances in the previous period has increased the resistance of the Serbian economy to external shocks, we should not lose sight of the fact that we are a small and open economy that is significantly exposed to them.

Favourable macroeconomic perspective of the country, improved business environment, maintaining favourable financial conditions and efficient implementation of state investment projects will reduce the uncertainty present in terms of readiness for investment and expansion of production capacity.

Figure 3. Projection of GDP trends, year-on-year growth rates, %



Source: Ministry of Finance

The alternative scenario was created on the basis of identified risks to the realization of the projection. It incorporates the potential materialization of exogenous risks related to more pronounced cost pressures on inflation growth due to stronger growth in prices of raw materials, primarily energy, but also other products, as well as possible tightening of global financial conditions. Such developments would reflect an increase in production costs and a reduction in the potential of business entities to invest in new production capacity, which would result in lower-than-expected investment growth. In addition, higher price growth would negatively affect the real disposable income of the population and slower growth of private consumption than originally expected. Consequently, the expected volume of foreign trade would be reduced. Such developments would result in a lower rate of overall economic growth in the medium-term scenario of 2.0% in 2022, 3.0% in 2023 and 3.5% in 2024, respectively.

Table 3. Alternative macroeconomic scenario

	Estimate	Projection		
	2021	2022	2023	2024
GDP, in billions of RSD (current prices)	6,163	6,553	6,937	7,374
Real growth of GDP, %	7.0	2.0	3.0	3.5
GDP deflator, %	4.7	4.3	2.8	2.7
<i>Real growth of individual GDP components, %</i>				
Private consumption	6.4	2.4	2.8	2.9
Government consumption	2.8	0.9	1.0	1.2
Gross fixed capital formation	15.2	0.6	4.3	5.5
Exports of goods and services	15.9	5.5	8.9	9.6
Imports of goods and services	14.2	4.6	7.8	8.3

Source: Ministry of Finance

4. FISCAL FRAMEWORK

4.1. POLICY STRATEGY AND MEDIUM-TERM OBJECTIVES

The continuation of the fight against the coronavirus pandemic and economic recovery marked the year 2021. At the beginning of the year, a new package of measures to support the economy and the population in the amount of about 4.2% of GDP was provided. The package envisages direct assistance to the economy and citizens, with additional measures intended for sectors whose business is mostly limited to measures to combat the epidemic (catering, transport, hotels and tourism). In addition to direct assistance, this package of measures provided additional funds for maintaining the liquidity of economic entities and extended the deadline for the use of this form of assistance, and increased the amount of funds intended for the health sector.

The package of measures additionally helped the recovery of the economy, which was reflected in better revenue collection and consequently lower deficit and the level of public debt at the end of the year. The second revision envisages a general government deficit of 4.9% of GDP and a level of general government public debt of 58.2% of GDP, with an increase in the amount of funds intended for infrastructure projects.

The global pandemic is not over yet, so the upcoming period is full of uncertainty. The planning of economic and, in particular, fiscal policy will primarily depend on the suppression of the pandemic and its end. The general commitment is to enable gradual balancing and stabilization of public finances in the post-pandemic crisis, in order to reduce the share of public debt in GDP and create the basis for stable economic growth. Until then, it is necessary to provide space for a timely response of fiscal policy in the event of a deepening crisis. Possible fiscal intervention of the state in order to minimize the effects of the crisis will certainly be combined with efforts not to stop development programs and infrastructure projects financed from the budget.

The medium-term fiscal framework envisages a moderate abandonment of expansionary fiscal policy. Given the uncertain economic situation, the budget will certainly be a “safety net” in case of escalation of unfavourable trends. On the one hand, the continuity of development and social programs will be ensured, and on the other hand, the sustainability of public finances and the continued reduction of public debt levels in terms of participation in GDP will be ensured. Given the expected macroeconomic developments, the projected annual fiscal deficits allow for a reduction in the share of general government debt in GDP in the coming period.

In the coming period, fiscal policy will be focused on continuing to reduce the overall tax burden on labour, which further relieves the burden on the economy, ie increases the competitiveness of the private sector. On the expenditure side, priority will be given to infrastructure and capital projects, as well as pension and wage policies. At the same time, care will be taken not to go beyond the planned sustainable framework by increasing these two, the largest, categories of expenditures. In addition, the planned amendments to the Law on Budget System (“Official Gazette of RS”, No. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13 - correction, 108/13, 142/14, 68/15 - other law, 103/15, 99/16, 113/17, 95/18, 31/19, 72/19, 149/20 and 118/21 - other law) will contribute to the stability of public finances and a sustainable fiscal framework, which will, among other things, redesign a set of fiscal rules, general and special, and define special measures and consequences in case of non-compliance. Special emphasis will be placed

on amending the general rules regarding public debt and the general government deficit, as well as special rules related to the sustainable level of expenditures for salaries and pensions.

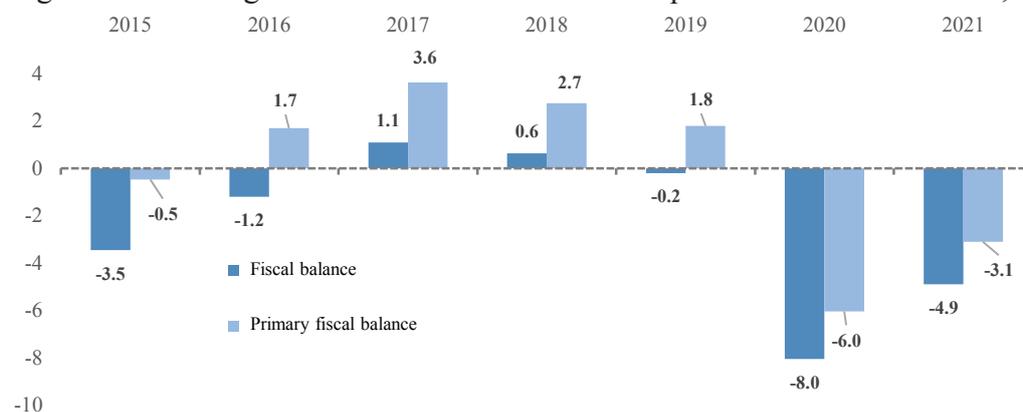
4.2. BUDGET IMPLEMENTATION IN 2021

The general government fiscal deficit in 2021, according to the latest estimates, will amount to 4.9% of GDP, which is significantly less than the April forecasts when the deficit is planned at 6.9% of GDP. Observed in relation to the result projected in the original budget for 2021, the deficit is higher by 1.9 percentage points (the planned deficit was 3% of GDP). The following factors led to the revision of the general government fiscal result in the current year:

- operationalization of the third package of economic support to the economy due to the extended duration of the COVID-19 pandemic;
- providing additional funds for health care of the population;
- increased investment in infrastructure projects in order to recover and stimulate economic growth;
- Significant revision of the general government revenue projection.

The trend of reducing the share of public debt in GDP, present since 2016, due to the crisis caused by the COVID-19 pandemic during 2020 and 2021, has been temporarily stopped. In the forthcoming period, it is expected that due to the stabilization of economic trends, accelerated economic recovery and the planned movement of the fiscal result in the medium term, the public debt path will be declining again.

Figure 4. General government fiscal balance in the period from 2015 to 2021, % of GDP



Source: Ministry of Finance

The coronavirus pandemic throughout 2020 had extremely negative health, economic and wider social consequences, both worldwide and in the Republic of Serbia. Since March 2020, when the first case of the disease was registered in the Republic of Serbia, epidemiological measures of varying intensity have been in force in order to preserve the health of citizens and reduce the pressure on public health. The crisis caused by the coronavirus pandemic continued in 2021. Epidemiological measures of varying degrees of limitation are still present around the world. The Republic of Serbia has provided, despite all the difficulties in procuring vaccines, sufficient quantities for mass vaccination of the population.

During 2020, the first and second packages of measures of economic support to the economy and the population for overcoming the crisis caused by the pandemic were implemented. The estimated volume of these two packages was 12.8% of GDP, while, according to preliminary data, measures worth 11.6% of GDP were implemented. The economic package of support to the economy and the population has significantly contributed to mitigating the negative effects of the crisis and has resulted in a smaller decline in the economy, especially compared to other European economies, and turbulence in the labour market has been avoided.

The fight against the pandemic continued during 2021. The application of epidemiological measures is in force with the simultaneous vaccination of the population. The positive effects of the previous program of economic support were transferred to the beginning of 2021, but the prolonged action of the pandemic, with an uncertain duration, conditioned the need for a new package of support to the economy and the population. Considering the economic trends during the fourth quarter of the previous year and the first quarter of 2021, the situation on the labour market, the effects of the implemented set of measures, and in the conditions of prolonged complex epidemiological situation, the Government decided to adopt an additional package of measures to support the economy. In order to preserve the achieved results and achieve the projected goals of recovery of economic activity in 2021, it was necessary to allocate additional support funds, with an emphasis on those activities that are disproportionately affected by prolonged application of epidemiological measures. Larger allocations are also planned in the form of assistance to the most endangered categories of the population. The package of aid measures was to some extent modified after implementation during the first and second quarters of the current year, with the amount of direct aid to the position being strengthened by additional funds.

The package of measures in 2021 is projected at 4.2% of GDP. The impact of the package of measures on the fiscal result in 2021 is estimated at 2.3% of GDP. Direct assistance to the economy in order to preserve jobs, in the amount of half of the minimum wage, for three months, is provided to all companies that have expressed interest, provided that they do not reduce the number of employees by more than 10% three months after receiving assistance. In addition to general assistance to the economy, additional assistance is provided to particularly affected sectors (catering, transport - bus transport, a certain segment of the hotel industry, tourism sector). In addition to direct assistance, funds for additional liquidity of the economy in the amount of EUR 500 million have been provided, as well as a longer deadline for the use of this form of assistance. In order to stimulate aggregate demand and accelerate the recovery of production and service activities, after the easing of epidemiological measures, as in the previous year, the payment of financial assistance to all adult citizens is planned. Vaccinated citizens over the age of 16 also received additional incentives in relation to general assistance.

Table 4. Overview of measures supporting the economy and the population in 2021

2021	Planned	
	in bill of RSD	in % of GDP
Direct support to private sector		
Direct support to private sector – 3 months 50% of minimum salary for all entrepreneurs, micro, small and medium enterprises	52	0.8
Direct support to hotels in urban areas	1.2	0.0
Direct support to industries - hospitality, travel agencies, hotels and car agencies	4.1	0.1
Independent artists	0.3	0.0
Direct support to industries – transport of passengers in road traffic and bus operators – EUR 600 per bus	2.7	0.0
Total	60.3	1.0
Measures to preserve private sector liquidity		
Extension of the existing guarantee scheme to support the economy during the COVID-19 crisis	60	1.0
Establishment of a new guarantee scheme to support the most affected sectors / enterprises	60	1.0
Total	120.0	1.9
Other measures		
Fiscal incentives – incentives to promote domestic demand	73.1	1.2
Vaccination bonus	7.1	0.1
Total	80.2	1.3
Estimated effects of fiscal measures	140.5	2.3
Total, package of measures	260.5	4.2

Source: Ministry of Finance

Along with the revision of the revenue and expenditure side and the adoption of the second rebalance of the Republic of Serbia budget, the fiscal framework of the general government for 2021 and the next three years were revised. The innovated fiscal framework for 2021 envisages a fiscal deficit of 4.9% of GDP. Compared to the originally planned fiscal framework, the revenue estimate increased by 254.9 billion dinars. On the expenditure side, there was an increase of RSD 380.1 billion, with significant changes in their structure.

The revision of the real GDP growth rate for 2021 is the most important factor of changes in the amount of the revenue side, with the original projection of general government revenue being conservative, due to caution and initial uncertainty regarding overall macroeconomic developments, especially in the labour market. The negative effects of the pandemic, as well as epidemiological measures, on economic and budget revenue trends are smaller than originally expected. Recovery of production activities at the global level is faster and the program of economic support measures in the country has been successfully implemented.

Table 5. Revenues, expenditures and results of the government sector in 2021 in billions of RSD

	budget 2021	New estimate 2021	Difference new/budget	% of change	2021 new est. % of GDP
PUBLIC REVENUES	2,423.9	2,678.9	254.9	10.5	43.5
Current revenues	2,404.4	2,658.8	254.4	10.6	43.1
Tax revenues	2,171.1	2,397.3	226.2	10.4	38.9
Personal income tax	225.4	253.0	27.6	12.2	4.1
Corporate income tax	107.1	157.0	49.9	46.6	2.5
VAT	600.3	654.0	53.7	8.9	10.6
Excise duties	315.8	329.2	13.4	4.3	5.3
Customs duties	53.1	59.0	5.9	11.1	1.0
Other tax revenues	84.9	90.0	5.1	6.0	1.5
Contributions	784.5	855.0	70.5	9.0	13.9
Non-tax revenues	233.3	261.6	28.2	12.1	4.2
Grants	19.5	20.1	0.6	2.8	0.3
PUBLIC EXPENDITURES	2,603.3	2,983.4	380.1	14.6	48.4
Current expenditures	2,237.2	2,473.3	236.1	10.6	40.1
Expenditure for employees	602.5	628.6	26.1	4.3	10.2
Purchase of goods and services	458.5	495.3	36.9	8.0	8.0
Repayment of interest	113.6	113.9	0.3	0.3	1.8
Subsidies	130.7	213.4	82.7	63.3	3.5
Social benefits and transfers	847.8	857.8	10.0	1.2	13.9
of which pensions	621.0	612.0	-9.0	-1.4	9.9
Other current expenditures	84.2	164.3	80.1	95.2	2.7
Capital expenditures	330.6	479.4	148.8	45.0	7.8
Net lending	23.7	22.4	-1.3	-5.4	0.4
Activated guarantees	11.7	8.2	-3.5	-29.8	0.1
Fiscal balance	-179.3	-304.5	-125.2		-4.9
Fiscal balance in % of GDP	-3.0	-4.9	-1.9		

Source: Ministry of Finance

The most relevant factors that caused changes in the amount and structure of general government include:

- baseline effect (better results at the end of the previous year);
- acceleration of economic activity, i.e. revision of real GDP growth rate that rose from 6% to 7%;
- conservative planning of specific categories of tax revenue (due to uncertainty of trends and effects of the prolonged pandemic);
- collection of tax revenue in 2021;
- more favourable labour trends than anticipated;
- recovery of foreign trade exchange;
- payment of originally not planned non-tax revenues and donations;
- positive impact of economic measures package on commercial activities and personal spending.

The projection of revenues from personal income tax increased by RSD 27.6 billion compared to the original amount. During the preparation of the original projection of income tax revenues, the projections of average wages and employment, estimates of early return of deferred taxes during 2020, as well as estimates of the effects of raising the non-taxable part of wages in 2021 were taken into account. The same assumptions are used for the projection of revenues from social contributions, which make up the largest individual income at the general government level.

The realization of these revenues at the end of 2020 was above expectations, and data on employment and the movement of average wages indicate maintained stability in the labour market. This trend continued during the first quarter of 2021. During the second and third quarters of the current year, the positive trends in the labour market continued, which created the conditions for another revision of this tax form upwards. The estimate of the return of deferred taxes and contributions during 2021 was slightly adjusted based on data on payments during the year. Accordingly, the revision of the projection of income from social contributions was performed, and it was increased by RSD 70.5 billion.

The rest of the personal income tax consists of other forms such as dividend tax, interest income tax, annual income tax, real estate lease income tax, etc. The previous program of measures, during 2020, provided for a moratorium on the payment of dividends to companies that use state support. As most of the profitable companies did not use state aid, dividends were paid to their shareholders on a regular basis. Some companies that used state aid paid dividends after the moratorium expired at the beginning of 2021. At the beginning of the year, a strong jump in dividend tax payments was recorded, and the revenue projection on that basis was revised.

The projection of personal income tax revenues has increased by around RSD 50 billion compared to the original budget plan for 2021, although it was not modified during the April revision. The main reason for the correction in this amount is caution during the preliminary assessment, bearing in mind that the data on profitability in 2020 at the time of making the April projection were not known. Despite the fact that in 2020 there was a slowdown in economic activity, the profit of companies recorded growth, which further increased the amount of paid income tax. As a result, payments based on dividend taxes paid by legal entities were increased.

Value added tax is projected at RSD 654 billion, representing an increase of 53.7 billion compared to the original projection. During the adoption of the April rebalance, the VAT projection was not changed. Moderately better-than-expected growth rates were recorded during the first quarter, but uncertainty about the unfavourable epidemiological situation and further implementation of epidemiological measures required caution when revising the revenue estimate. During the second and third quarters, the growth rate of VAT collection was further accelerated, which created the conditions for a significant revision of this form of tax upwards. The reasons for the accelerated growth of payments are a stronger recovery of personal consumption, the effects of government stimulus measures on consumption, a more favourable balance in the tourism sector and other service activities, which encouraged consumption in the domestic market, etc.

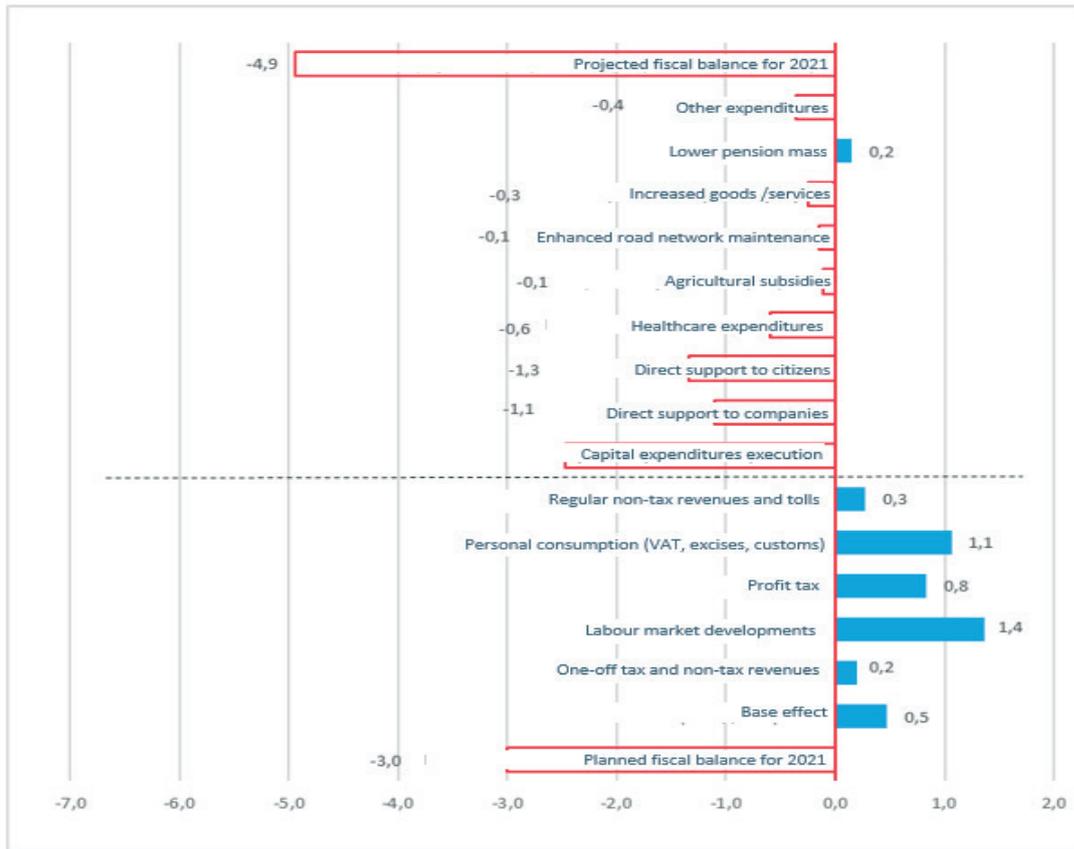
Revenues generated from customs duties were projected in the amount of RSD 59 billion, which is higher by RSD 5.9 billion compared to the original projection. Revenues from customs mostly follow the trend of VAT on imports, so in accordance with the change in the structure

of VAT, the volume of foreign trade and trends in customs collection in the first quarter, the projection of this revenue was revised.

Revenues generated from excise duties are projected in the total amount of RSD 329.2 billion, accounting for RSD 13.4 billion more than the original projection. Excise duties on tobacco products increased by 1.6 billion dinars, excise duties on oil derivatives by RSD 12 billion. The projection of revenues from other excises has not changed. The collection of excise duties on tobacco products, after strong growth and payments during the most generous summer months, has stabilized, which has led to a smaller correction in the estimate of this income, but with a positive risk that sales will be higher. For the budget projection of revenues from excises on oil derivatives, the reference basis is 2019, where, unlike 2020, there is the usual monthly dynamics. During the first quarter, a solid growth of this revenue was recorded, with additional acceleration during the second and third quarters. Despite the growth of prices of oil and derivatives on the domestic market, there is an increase in consumption. The level of transit traffic has significantly recovered, domestic consumers are using their own transport more (partly due to habits acquired during the pandemic), and there has been less departure of domestic tourists abroad, which has increased consumption in the domestic market. Also, it is realistic to assume that public transport, where there is a refund of part of the excise tax, takes place on a somewhat smaller scale. With other excises, somewhat lower consumption of alcoholic products and collection of excises on that basis is expected. This decline was offset by the expected higher collection of excise duty on electricity.

Non-tax revenues grew, compared to the amount forecasted by the original budget by RSD 28.2 billion. Regular non-tax revenues are various taxes, fees, penalties, revenues of bodies and organizations and all other revenues that are generated at a steady pace during the year, in approximately similar amounts on a monthly basis with certain seasonal variations. Regular non-tax revenues during the previous year were significantly affected by the economic and epidemiological situation in the country. Revenues from tolls have almost completely recovered, and the same can be said for other categories of regular non-tax revenues. This created the conditions for a more significant correction of the estimate of these revenues upwards. Extraordinary non-tax revenues include payments of profits of public companies and agencies, budget dividends, revenues based on collected receivables of the Deposit Insurance Agency, issue premiums, etc. Extraordinary non-tax revenues were adjusted upwards due to the realized payment of revenues that were not included in the budget plan (issue premium and budget dividends).

Figure 5. The contribution of individual factors to fiscal balance adjustment in relation to the 2021 plan, % of GDP



Source: Ministry of Finance

The estimate of general government expenditures increased by RSD 380.1 billion compared to the original budget. The largest part of this increase relates to the implementation of packages to support the economy and the population. The rest are expenses related to the direct fight against the pandemic, improvement of the country's health capacities as well as a significant increase in capital expenditures. In the period January-August, public expenditures grew at a rate of 1.8% compared to the same period in 2020, and by the end of the year it is expected that the total growth of expenditures will accelerate due to the implementation of measures in the rest of the year.

Expenses for employees increased by RSD 26.1 billion compared to the originally planned. The largest part refers to the increase in the number of people engaged in the health system, increased engagement and the number of working hours in other sectors that participated in the control of the epidemiological situation. Part of the increase is due to slightly higher execution at the end of 2020.

Expenses for goods and services increased by RSD 36.9 billion. The predominant part of the increase accounted for the procurement of vaccines, other medicines, medical equipment and funds by the RHIF. The second part of the increase refers to the current maintenance of roads at the PE "Roads of Serbia". At other levels of government, there is an increase in these expenditures, especially at the level of local self-government.

Subsidies have significantly increased compared to the original plan by RSD 82.7 billion. The largest part refers to the payment of direct aid to companies and entrepreneurs to overcome the crisis caused by the pandemic. Over RSD 66.3 billion have been planned for these purposes in 2021. One part of the increase in expenditures for subsidies is increased subsidies in agriculture (around 7 billion dinars), and railway transport.

Expenses for social welfare were increased by RSD 10 billion, compared to the original plan. Within this category of expenditures, part of the assistance to the population will be paid within the third package of measures. Specifically, the NES and the Pension and Disability Insurance Fund will pay 60 and 50 euros in dinars, respectively, to their beneficiaries. This is a form of additional assistance to vulnerable categories of the population, in addition to the one received by all adult citizens. Expenses for pensions have been reduced by 9 billion dinars compared to the original plan. Pensions in 2021 were indexed according to the “Swiss formula”, the parameters of which were known during the planning of this category of expenditures, but the projected increase in the number of pensioners was missing. The share of pension expenditures in GDP will be 9.9% in 2021.

Other current expenses increased by 80.1 billion dinars compared to the original plan, primarily due to the payment of direct financial assistance to the population (80 euros to all adult citizens in dinar equivalent calculated at the official middle exchange rate of the NBS) in the total amount of 58.8 billion dinars. The rest of the increase refers to the purchase of a part of vaccines for immunization of the population against COVID-19, which is not realized through the RHIF, as well as bonuses to vaccinated citizens.

It is estimated that the realization of public investments will be higher by 148.8 billion dinars than the original plan. Execution of capital expenditures in the period January-August 2021 compared to the same period last year increased by 40.1%. Capital expenditures reach a record level of 7.8% of GDP in 2021. Higher expenditures are planned for both new and existing infrastructure projects, primarily in road, railway and communal infrastructure. Higher investments will act to accelerate economic growth in 2021 and in the medium term. Larger investments are planned in new health facilities and equipment that has a longer service life. One part of the increased expenditures refers to further epidemiological protection of the population from COVID-19, and the other to the improvement of the health care system in the future. In the previous crisis periods, there was a decrease in capital expenditures, but this was not the case now, which is a positive change in the management of public finances. The rest of the increase in capital expenditures is investment in the renewal and modernization of military equipment.

The estimated fiscal deficit of 4.9% of GDP does not deviate from the average of fiscal results expected in the countries of the region and the EU. Such a result is a direct consequence of the implementation of the aid package, as well as the efforts to maintain and accelerate the economic recovery in the coming period. Structural analysis of the fiscal result identified that about 4.2% of GDP relates to one-off and temporary measures, which found that the sustainability of the country’s fiscal position is not impaired.

Table 6. Revenues, expenditures and results of government sector, January–September, in billions of RSD

	I–IX 2020	I–IX 2021	I–IX growth rate in %	2021/2020 growth rate in %
PUBLIC REVENUES	1,600.2	1,969.3	23.1	18.8
Current revenues	1,592.3	1,957.4	22.9	18.5
Tax revenues	1,419.1	1,764.5	24.3	20.4
Personal income tax	143.9	187.3	30.1	23.9
Corporate income tax	95.8	125.7	31.2	27.8
VAT	398.8	473.9	18.8	19.1
Excise duties	221.8	243.7	9.9	7.6
Customs duties	37.3	43.5	16.5	13.6
Other tax revenues	58.2	66.4	14.1	8.8
Contributions	463.2	623.9	34.7	26.9
Non-tax revenues	173.2	192.9	11.4	3.4
Grants	8.0	11.9	49.5	79.7
PUBLIC EXPENDITURES	1,961.0	2,037.3	3.9	10.6
Current expenditures	1,758.0	1,755.8	-0.1	5.2
Expenses for employees	426.2	466.4	9.4	8.6
Purchase of goods and services	305.0	325.7	6.8	12.5
Repayment of interest	87.0	98.1	12.7	3.3
Subsidies	209.1	142.2	-32.0	-15.3
Social benefits and transfers	593.9	633.4	6.7	6.4
of which pensions	437.3	456.7	4.4	4.9
Other current expenditures	136.7	90.0	-34.2	-0.2
Capital expenditures	174.8	264.5	51.3	63.2
Net lending	22.5	11.6	-48.5	-49.5
Activated guarantees	5.7	5.4	-5.3	9.7
Fiscal result	-360.8	-68.0		

Source: Ministry of Finance

The balance of arrears (over 60 days of delay)* of budget beneficiaries and organizations of compulsory social insurance on the last day of September 2021 amounted to RSD 2.7 billion (about 0.04% of GDP), and has slightly increased compared to the end of 2020. Budget beneficiaries and PE “Roads of Serbia” created the arrears of RSD 1.3 billion, while the balance of arrears in the organizations of compulsory social insurance amounts to RSD 1.4 billion.

Table 7. Overdue balance of budget beneficiaries and OCSI, end of 2020 and September 2021, in billions of RSD

	31 Dec 2020	30 Sep 2021
Budget beneficiaries and PE “Roads of Serbia”	1.2	1.3
OCSI	1.4	1.4
TOTAL	2.6	2.7

Source: Ministry of Finance

* In line with the definition used for the needs of monitoring the IMF arrangements.

S0 indicator of short-term fiscal sustainability

To assess short-term fiscal sustainability, the European Commission has designed a composite indicator S0, which seeks to anticipate fiscal stress in the coming year by identifying potential short-term risks in the current year. Where the value of the S0 indicator exceeds the set threshold, the country is considered to be at short-term risk of fiscal stress. In addition to the values for the entire indicator, in order to locate the Source from which the risk originates, the values of sub-indices and their components are also considered. The S0 composite indicator consists of two sub-indices, which contain variables of fiscal and macro-financial sustainability. The value of these sub-indices below the defined threshold indicates the absence of short-term fiscal risk.

In 2020, the value of the entire S0 indicator for the Republic of Serbia was below the defined threshold, which in principle indicates that there is no danger of macroeconomic instability in the next medium term. However, as a consequence of the crisis caused by the COVID-19 virus pandemic, the value of the fiscal sub-index (0.48) is above the threshold defined for it (0.36), which indicates that challenges in the fiscal sphere could arise. The value of the financial sub-index in 2020 (0.42) is within the threshold defined for it (0.49).

Figure 6. S0 indicator for Republic of Serbia in the period 2015–2020

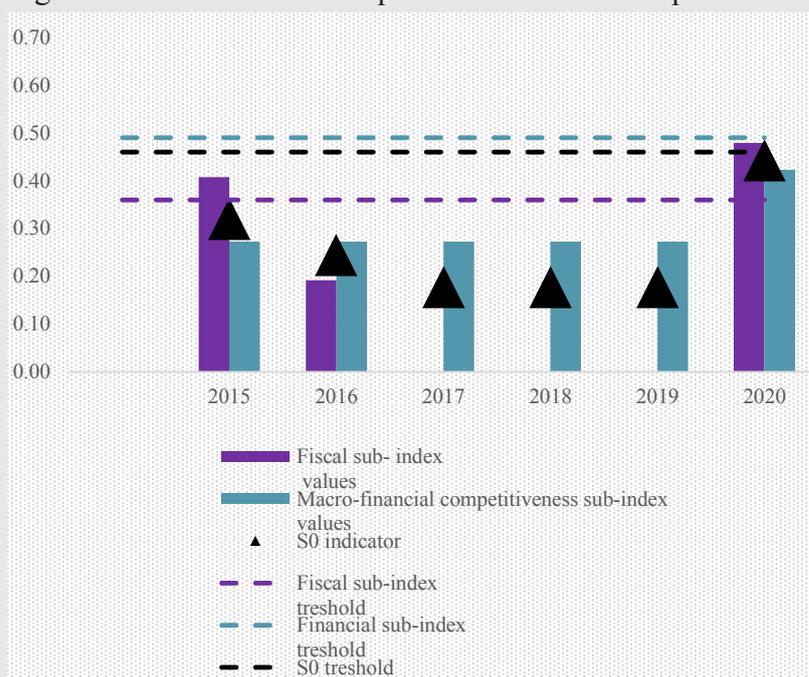
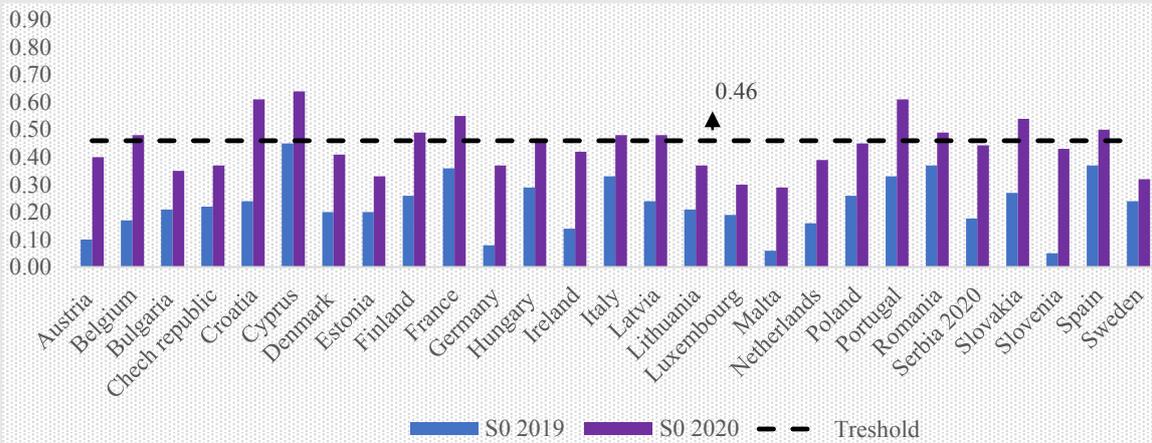


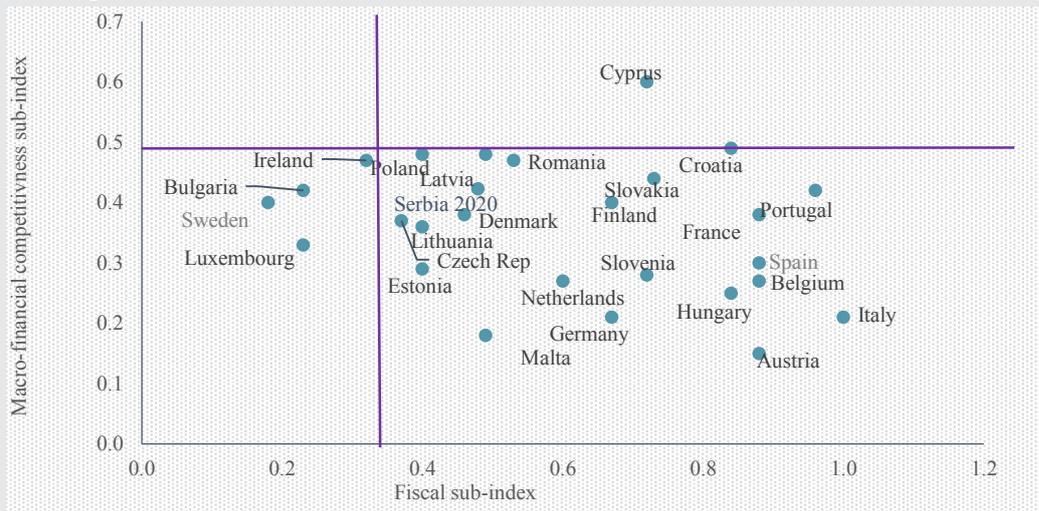
Figure 7. S0 EU countries and the Republic of Serbia



S0 indicators for Serbia have been assessed by the Ministry of Finance, and they are based on the EC methodology.

Based on the data of the EC for EU countries for 2020 and the calculation of the Ministry of Finance for the Republic of Serbia, we conclude that most of the observed countries, like the Republic of Serbia, are in a zone where they could be exposed to some kind of fiscal stress in the medium term. Minimizing the potential risks of fiscal stress in the observed countries will be necessary in order to create space for the adoption of economic policy measures in response to the health crisis that has spilled over into all spheres of the economy.

Figure 8. Fiscal sub-index and financial competitiveness sub-index for EU countries and the Republic of Serbia in 2020



4.3. FISCAL PROJECTIONS IN THE PERIOD 2022–2024

Fiscal policy objectives are aimed at maintaining fiscal stability and reducing the share of public debt in GDP. The medium-term fiscal framework envisages a gradual reduction of the general government deficit to 1.0% of GDP by 2024 and a decline in the share of general government public debt to 53.8% of GDP. Projections of fiscal aggregates in the period from 2022 to 2024 are based on projections of macroeconomic indicators for that period, planned tax policy which includes further harmonization with EU laws and directives and fiscal and structural measures, including further reform of large public companies.

Thanks to fiscal consolidation measures in the previous period, a fiscal space was created that enabled rich packages of measures to combat the effects of the crisis caused by the pandemic in 2020 and 2021. Next year, the same impact of the pandemic is not expected certain reserves in case of a new deterioration of economic trends. In 2022, investments in capital investments and the health care system are expected to continue, a moderate increase in pensions and salaries in the public sector, and on the revenue side, tax relief for the economy. These measures and their fiscal implications are designed not to jeopardize the stability of public finances and the pace of public debt reduction, then to maintain the living standards of the population and help economic development, but also to ensure flexibility to respond to possible new crises.

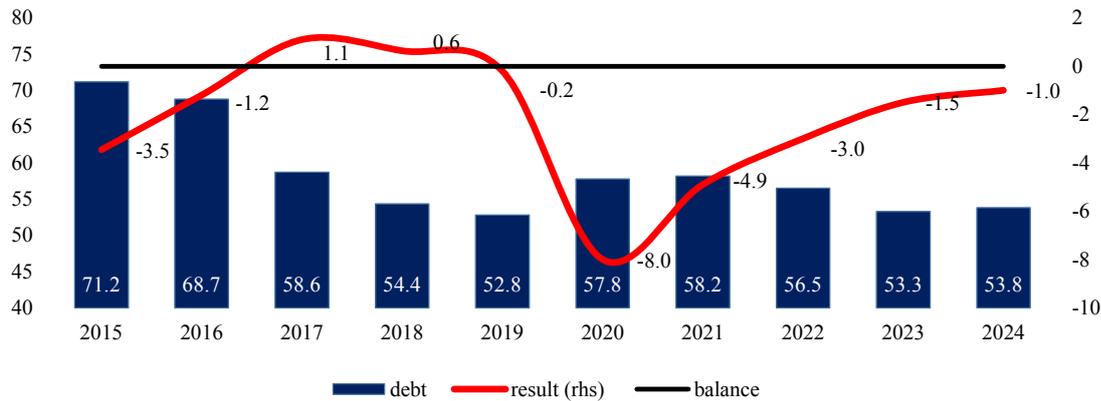
Table 8. Fiscal aggregates in the period 2020–2024, % of GDP

Description	Realization	Estimate	Projection		
	2020	2021	2022	2023	2024
Public revenues	41.0	43.5	42.2	41.4	41.1
Public expenditures	49.0	48.4	45.3	42.9	42.1
Consolidated fiscal balance	-8.0	-4.9	-3.0	-1.5	-1.0
Primary consolidated balance	-6.0	-3.1	-1.2	0.2	0.7
General Government debt	57.8	58.2	56.5	55.3	53.8
Real GDP growth rate	-0.9%	7.0%	4.5%	5.0%	5.0%

Source: Ministry of Finance

The goals of fiscal policy in the next medium-term period will be the stabilization of public finances and the return of public debt to a declining path. Reducing the share of debt is closely related to reducing the deficit as the main factor in borrowing, so that the dynamics of reducing the deficit determines the change in debt. Financial transactions, such as replacing expensive debt with cheaper ones, as well as a better position of the state in the international financial market, will contribute to further debt reduction.

Figure 9. Fiscal results and general government debt, % of GDP



Source: Ministry of Finance

Expansive fiscal policies during 2020 and 2021 mitigated the negative economic consequences of the pandemic. In the next medium-term period, a moderate reduction of the general government deficit is envisaged in order to ensure the necessary flexibility of the national economy to possible external shocks through fiscal policy. This primarily refers to the expenditure side, in the form of increased public investment, as well as additional investment in the health system. On the revenue side, the priority will remain to further reduce the tax burden on wages and continue the fight against tax evasion and the shadow economy.

The projection of income in the period from 2022 to 2024 was developed based on:

- projections of major macroeconomic indicators: GDP and its components, inflation, exchange rate, foreign trade, employment and wages;
- current and planned changes to the tax policy;
- estimated effects of fiscal and structural measures in the forthcoming period.

Table 9. Total revenues and grants in the period 2020-2024, % of GDP

Description	Realization	Estimate	Projection		
	2020	2021	2022	2023	2024
PUBLIC REVENUES	41.0	43.5	42.2	41.4	41.1
Current revenues	40.8	43.1	41.8	41.1	40.8
Tax revenues	36.2	38.9	38.1	37.4	37.3
Personal income tax	3.7	4.1	4.1	4.1	4.1
Corporate income tax	2.2	2.5	2.2	2.2	2.2
VAT	10.0	10.6	10.3	10.2	10.2
Excise duties	5.6	5.3	5.1	4.9	4.7
Customs duties	0.9	1.0	1.0	1.0	1.0
Other tax revenues	1.5	1.5	1.5	1.5	1.4
Contributions	12.2	13.9	13.9	13.6	13.7
Non-tax revenues	4.6	4.2	3.8	3.7	3.5
Grants	0.2	0.3	0.4	0.4	0.3

Source: Ministry of Finance

The declining trend of revenues in terms of participation in GDP is expected given the projected structure of medium-term growth of the Serbian economy. Collection of deferred liabilities

from 2020 will increase the level of revenues above the trend in 2022, but will increase the effect of the decline in the share of revenues in GDP in 2023. The projection of tax revenues implies maintaining the existing level of collection.

The most important measure of tax policy in 2022 is the increase of the non-taxable census from 18,300 dinars to 19,300 dinars, with the reduction of contributions for pension and disability insurance at the expense of the employer by 0.5 percentage points. The loss of income on this basis amounts to RSD 17.2 billion, of which RSD 14.2 billion are related to contributions and 3 billion to salaries tax. On the expenditure side, there will be lower expenditures for salaries in the amount of 3.5 billion dinars, considering that the amount of gross salaries is decreasing. The total effect of this measure on the result of the general government reached RSD 13.7 billion.

The predominant form of income tax is the payroll tax, so the movement of the wage bill and employment are the main factors influencing the movement of this tax form. In 2022 (as in the current one), these revenues will increase the collection of the part of the deferred salary tax from 2020 as part of the package of measures in the fight against the pandemic in the amount of about 6 billion dinars, and will reduce the extraordinary increase in the non-taxable census. In the coming period, the wage bill is expected to grow faster than nominal GDP as a result of continued favourable developments in the labour market, and wage tax revenue will grow in terms of share in GDP. The expected increase in the minimum wage will also affect the growth of the total wage bill in the economy, and thus this tax category.

Other forms of income tax (dividend tax, interest income tax, annual income tax, etc.) will grow more slowly, i.e. in line with general economic activity, so that a stable level of income is expected based on total tax on income, in terms of share in GDP. In the case of payroll taxes, the fight against the shadow economy is crucial, given the significant number of unregistered workers and the payment of wages “on hand”. In recent years, controls and sanctions have been intensified, which has yielded results in combating the shadow economy in the field of labour and employment, but it is important to continue with continuous engagement in this field in the future.

The trend of contribution share in GDP has a similar trajectory as the movement of the participation of the payroll tax, since the same assumptions on the movement of wages and employment were used for their projection. Part of the income will be collected from the collection of deferred contributions from 2020 in the amount of 30 billion dinars, and in 2022, while the reduction of the contribution rates for pension and disability insurance at the expense of the employer will negatively affect the income. Contributions are the tax category in which tax indiscipline is most pronounced and the largest debt of taxpayers is registered, and the consequences of a possible increase in fiscal indiscipline are most visible in this form of taxation.

Revenues from corporate income tax in the period 2022-2024 will depend on the path of economic growth, the relative stability of the dinar exchange rate and the general profitability of the economy. Estimation of income on this basis may be uncertain due to economic factors, as well as the possibility of using a tax credit or refund, as well as differences in accounting and tax balances. The growth of the economy's profitability in 2020, despite the slowdown in macroeconomic activities, has contributed to a significant jump in income tax revenues in 2021. Considering that a part of these revenues in 2021 refers to transferred liabilities from 2020, it is expected that in the period 2022-2024, the collection of profit tax will stabilize in accordance with the movement of GDP.

The main determinant of VAT trends is domestic demand driven by disposable income of the population. Disposable income as the largest determinant of consumption depends on the movement of wages in the public sector, pensions, social assistance, the movement of the mass of wages in the private sector and other forms of income, including remittances, as well as the dynamics of banks' lending to households.

In 2021, several factors contributed to stronger growth of personal consumption than expected, which contributed to an extraordinary increase in VAT revenues, such as government incentives, deferred spending from the previous year and a good balance in the tourism and other services sectors.

As with the personal income tax, the risks for the realization of the VAT projection in the coming period, in addition to the uncertainty regarding the pandemic, relate to the movement of wages in the private sector, growth of economic activity and the degree of grey economy, ie efficiency in reducing it.

The results of more efficient collection and control of taxpayers were evident in the previous period and it is expected that this trend will continue, with the effects of the fight against the grey economy not explicitly included in the medium-term projection of public revenues. The increase in the level of VAT collection in terms of the implementation of independent anti-erosion measures in the field of VAT has yielded results in the past period. There is room for further improvements in this segment, through strengthening and modernizing the tax administration.

The projection of excise revenues was made on the basis of the current excise policy and the projected consumption of excise products. Within the excise policy on tobacco products, further gradual harmonization with EU directives is expected in accordance with the medium-term plan of gradual increase of excise burden. In the case of cigarettes, it will be directed through a gradual increase in excise duties, in order to reach the EU minimum of 1.8 euros per pack in dinar equivalent, calculated at the official middle exchange rate of the NBS. In the coming period, for the needs of the projection of excise revenues, due to caution, a further natural decline in the market of tobacco products is planned, on average of about 3% per year. Unlike tobacco products, the situation on the market of oil derivatives is significantly less volatile. Better control and labelling effects of petroleum products have reduced the possibility and cost-effectiveness of illegal activities. In the coming years, due to caution, the growth of consumption of oil derivatives is not expected to continue, although it can be expected that the acceleration of economic activity will contribute to the growth of consumption. Revenues from excises on alcoholic beverages, coffee and electricity are projected in accordance with the existing consumption structure. The current nominal amounts of excise duties on alcoholic beverages and coffee are in line with the expected amounts of the inflation rate in the medium term. The harmonization of excise duties on alcoholic beverages in accordance with the EU directive will not have significant fiscal effects.

Customs revenues will stabilize at 1.0% of GDP in the coming period. The projection of customs revenue collection was made on the basis of projected trends in imports, exchange rates and consumption.

Stabilization of the share of other tax revenues in GDP is projected. The most significant tax revenue in this category is the property tax, which accounts for about 70%. A nominal increase in this income can be expected from the base expansion. Increasing the level of collection, through increasing the coverage of real estate on which tax is paid (ie based on the expansion of the tax base), is not included in the projections in the medium term and represents a positive risk. In

addition to property taxes, other tax revenues include taxes on the use, holding and carrying of goods, and other forms of taxes at the local level. They are projected in line with inflation trends, as the inflation component is embedded in a significant proportion of these tax forms.

It is planned to reduce the share of non-tax revenues in GDP, from 4.6% of revenues in 2020 to 3.5%, which is expected to be in 2024. The reason for the reduction of the projected share of non-tax revenues in GDP is the exclusion from the base 2020 of all those revenues that are not considered structural, ie permanent, and this primarily refers to extraordinary categories of non-tax revenues. Extraordinary non-tax revenues are mostly one-time, to some extent uncertain, both in terms of amount and at the time of payment. The largest part of these revenues are extraordinary payments of profits of public companies and agencies, budget dividends, revenues from collected receivables of Deposit Insurance Agency, issue premiums, etc. Regular non-tax revenues include various fees, charges, penalties, revenues of bodies and organizations and all other revenues that are generated at a steady pace during the year. These non-tax revenues are indexed to the inflation achieved in the previous year, or follow the change in the value of the basis on which they are applied and are adjusted to the projected inflation as a result.

The process of bringing the country closer to EU membership increases the available funds from IPA and IPARD funds, which make up the predominant part of donation revenues. The projected amounts based on donations also include funds based on EU sectoral budget support. Revenues from donations are neutral in relation to the result, since they are equal to expenditures in this category.

Responsible fiscal policy in combination with good macroeconomic performance in the past period has ensured the relaxation of wage and pension policy and a significant increase in capital investment as an important component of economic development. Special attention is paid to improving the efficiency of realization of state capital investments. The social component of the budget has been improved by better targeting of social assistance programs and greater allocation for health and education functions. The method of indexation of pensions is also defined. Salaries and pensions together account for over 40% of general government expenditures and their stabilization is crucial for the sustainability of public finances.

Table 10. Total expenditures in the period 2020–2024, % of GDP

Description	Realization	Estimate	Projection		
	2020	2021	2022	2023	2024
PUBLIC EXPENDITURES	49.0	48.4	45.3	42.9	42.1
Current expenditures	42.8	40.1	37.5	35.7	34.9
Expenditures for employees	10.5	10.2	10.1	10.1	10.0
Purchase of goods and services	8.0	8.0	7.7	7.4	7.1
Repayment of interest	2.0	1.8	1.8	1.8	1.7
Subsidies	4.6	3.5	2.5	2.1	1.9
Social benefits and transfers	14.7	13.9	13.8	12.9	12.6
<i>of which pensions</i>	10.6	9.9	9.7	9.5	9.3
Other current expenditures	3.0	2.7	1.6	1.5	1.5
Capital expenditures	5.3	7.8	7.3	6.9	6.9
Net lending	0.8	0.4	0.2	0.1	0.1
Activated guarantees	0.1	0.1	0.2	0.2	0.1

Source: Ministry of Finance

In 2020 and 2021, there was a change in the trend in public expenditures, given the scale of the crisis caused by the pandemic. The measures were significant on the expenditure side, which led to a one-time increase in the share of the expenditure side of the budget in GDP.

The increase in expenditures for employees, whose share in GDP in 2020 amounted to 10.5% of GDP, was influenced by an extraordinary increase in salaries of employees in the health care system, as well as increased payments of other forms of income such as overtime, wages and increasing the number of employees in this sector. Given the limited fiscal space in the coming period, wages will increase moderately and with control, taking into account their share in GDP.

The Law on the Budget System envisages lowering the level of wages without contributions at the expense of the employer to 7% of GDP, however, it seems that such a targeted level of wages is set quite low. Currently, the share of wages defined in this way in GDP is around 8.7%. The average level of wages at the level of the general government in the EU, before the pandemic, was about 10% of GDP, while in 2020 it was raised to 10.9% of GDP. During 2020, in the Republic of Serbia, as in all EU countries, the share of expenditures for employees in GDP increased.

In the previous period, a comprehensive reform of the public sector wage system was initiated, which aims to ensure fairness and reduce the gap between the salaries of public sector employees. Given the effects of the pandemic on the structure of employees and wage levels in the public sector, the implementation of the new reformed system should begin in 2025.

During the consolidation process, a ban on employment in the public sector was in force. On the one hand, this enabled control of the level of salaries, but on the other hand, the number of fixed-term employment contracts increased, as well as the lack of staff in certain parts of the public administration. A more flexible way of controlling employment is now in place, based on medium-term staffing planning in all areas of the public sector in line with budget constraints.

Expenditure on goods and services will gradually decrease in the medium term in terms of share in GDP, as nominal growth is projected to grow more slowly than nominal GDP growth. The high level in 2020 and 2021 is largely the result of higher health expenditures.

Decreased interest expenses account for one of the best indicators of successful fiscal and monetary policy, as well as their full coordination in the previous period. Sound fiscal results in the previous period reduced the need for borrowing, which, together with the easing of monetary policy, led to a fall in interest rates. In 2024, the level of interest expenditures will decrease to 1.7% of GDP.

Social aid and transfers to the population represent the largest expenditure category of the general government budget. The largest single item of this group of expenditures, and also the largest item of all expenditures, are pensions, which in 2020 reached the level of 10.6% of GDP. As of 2020, pensions have been adjusted to the so-called “Swiss formula”, in order to ensure the growth of the living standard of pensioners and the sustainability of the pension system and the public finance system. The “Swiss formula” implies indexation, ie the increase of pensions is equal to the sum of half the growth rate of the average salary and half the growth rate of consumer prices. It is estimated that the legal indexation of pensions in the next medium-term period will be between 5 and 6%, in 2022 it will be 5.5%, and in 2021, specifically, it was 5.9%. Other forms of social benefits and transfers to the population in the coming period will be harmonized by applying the prescribed indexation, current and planned policy changes in this area

and with the projected number of beneficiaries. The share of expenditures for social benefits in GDP is falling from 14.7% in 2020 to 12.6% in 2024. In 2022, a one-time payment is planned for all pensioners in the amount of 20,000 dinars, or about 34 billion dinars in total, which will be reflected in the share of social protection expenditures in GDP.

The reduction of subsidies that serve to help inefficient segments of the public sector enables an increase in the part of subsidies that represent real incentives to the economy, primarily agriculture and small and medium enterprises, and which lead to accelerated economic activity. The goal is to redirect subsidized funds to development programs in the economy and agriculture. The growth of subsidies in 2020 and 2021 is the result of the implementation of measures to overcome the problems caused by the pandemic crisis.

Categories of other current expenditures consist of various expenditures, such as grants to associations, political parties, religious and sports organizations, fines, damages, etc. As with subsidies, the one-off growth was caused by the fiscal response to the crisis, and a reduction in these expenditures in GDP is expected in the coming period.

Over the past three years, the efficiency of public investment has improved significantly. Capital expenditures have increased to 5.3% of GDP in 2020 thanks to the start of a new cycle of infrastructure projects, and in 2021 it is expected to reach levels of as much as 7.8% of GDP, despite the problems caused by the pandemic. In the next medium-term period, the level of investment in public infrastructure is expected to be significantly higher than in previous years. The most significant works are on road, railway, communal and water infrastructure, which are mainly financed from international loans. In addition to the transport infrastructure, funds have been provided for additional capital investments in health, environmental protection, education, culture, defence and other areas that represent the most important functions of the state. This is all part of a new investment cycle at the national level that has been made possible by the creation of fiscal space and supported by favourable conditions for borrowing in the international financial market.

The general commitment of fiscal policy in the medium term is to increase investment in infrastructure at all levels of government. When it comes to the local level of government, it primarily refers to investments in water supply and sewerage infrastructure, waste management, local road infrastructure and others.

In the medium-term fiscal framework, by the end of 2024, a balanced overall fiscal position of local self-government is projected. This means that in total, all cities and municipalities have an approximately balanced budget. The projection was made on the basis of the movement in the previous period, in which the collective local self-government units were mostly in surplus. This situation at the level of all local governments is a consequence of deleveraging in the previous period. This does not mean that individual LGUs cannot go into deficit, which depends on the fiscal position of each individual municipality and city.

It is projected to reduce the level of budget loans and debt repayment on the basis of guarantees in the next medium term. The total share of these two categories in GDP has been reduced to 0.4% of GDP in 2019, with temporary growth in 2020 and 2021. By the end of 2024, these expenditures will be minimal, with a share of up to 0.2% of GDP.

Repayment on the basis of issued guarantees and payment of guarantees on commercial transactions are obligations based on the debt of public companies taken over by the national budget, since those companies could not perform them independently. These expenses were a great burden on the budget, given the long-term inefficient operation of a large number of state-owned enterprises and companies. In the previous period, these expenses were significantly reduced, and the repayment plan envisages that by 2024 these expenses will be at the level of 0.1% of GDP.

4.4. CYCLICALLY ADJUSTED FISCAL BALANCE

Cyclically adjusted balance is the fiscal balance with excluded isolated impact of economic cycle, with the following underlying identity⁹:

$$FB = CB + CAB$$

The part of the fiscal balance (FB) that is not affected by cyclical fluctuations is called cyclically adjusted fiscal balance (CAB), and the aim of this procedure is to isolate the cyclical component of the fiscal balance (CB) which is the result of the output gap. The actual fiscal balance will be equal to the cyclically adjusted one if the output gap is zero, ie. if the real GDP growth rate is equal to the potential one. The structural fiscal balance is further calculated by eliminating one-off effects on the revenue and expenditure side, and thus shows the structural (permanent) fiscal position.

The cyclically-adjusted deficit is rapidly declining after 2014, along with the movement of the general fiscal result, and in 2017 it enters the surplus zone. The structural primary balance cleared of one-off factors in 2017 also recorded a high positive value. Structural changes in the tax system during 2012 and 2013 began to yield results in the coming period, thus essentially beginning the process of fiscal consolidation. The next phase of fiscal consolidation, conducted during the arrangement with the IMF, but this time with an emphasis on structural adjustment on the expenditure side, has significantly improved the country's fiscal position. The analysis and quantification of the structural primary balance can isolate, above all, one-time effects on the expenditure side, although in some years, one-time effects in the form of unplanned payments on the revenue side are not insignificant. The analysis of the structural primary balance assessed the fiscal position of the country. Thus, in the period from 2014 to 2019, the fiscal position was significantly improved, which confirmed the assessment of the success of the fiscal consolidation program.

The fiscal space created in the previous period and the significantly structurally improved fiscal position of the country, enabled the relaxation of fiscal policy in times of crisis.

With the outbreak of the COVID-19 pandemic in early 2020 and the introduction of measures for the health protection of the population, the global economy has entered an unprecedented crisis, which, despite indications of gradual recovery, is still not over. The specificity of the crisis is reflected in the very cause, which is not economic but health in nature, and the way of fighting to curb the further spread of the virus produces additional negative economic effects. The impact on

⁹ A more detailed description of used methodology and results have been presented in the Fiscal Strategy for the year 2013, with the projections for 2014 and 2015, or via the link: <http://www.mfin.gov.rs/pages/article.php?id=8626>

the fiscal position was visible through reduced budget revenues, which are a consequence of the slowdown in economic activity due to the pandemic, and dramatically higher expenditures due to higher health care costs and the adoption of a comprehensive package of assistance to businesses and citizens. In such a situation, the usual analysis of the economic cycle, quantification of fiscal multipliers and assessment of the elasticity of the fiscal balance in relation to the production gap does not give a completely correct assessment of the country's fiscal position.

Table 11. Fiscal balance and components for the assessment of cyclically-adjusted balance in the period 2005–2024, % in GDP*

	Output gap	Fiscal balance	Primary fiscal balance	Cyclically adjusted fiscal balance	Cyclically adjusted primary fiscal balance	Structural fiscal balance	Structural primary fiscal balance**	Fiscal impulse
2005	0.0	1.1	2.0	1.1	2.0	1.3	2.2	
2006	-2.7	-1.4	-0.1	-0.5	0.8	0.2	1.5	1.2
2007	0.8	-1.8	-1.2	-2.1	-1.5	-1.7	-1.2	2.3
2008	4.0	-2.5	-1.9	-3.9	-3.4	-4.0	-3.4	1.9
2009	-0.4	-4.2	-3.6	-4.0	-3.4	-4.1	-3.5	0.0
2010	-0.7	-4.3	-3.4	-4.1	-3.1	-4.2	-3.2	-0.3
2011	0.5	-4.5	-3.4	-4.7	-3.6	-4.9	-3.8	0.4
2012	-0.9	-6.4	-4.7	-6.1	-4.4	-6.1	-4.4	0.9
2013	1.2	-5.1	-3.0	-5.6	-3.4	-5.3	-3.1	-1.0
2014	-1.4	-6.2	-3.5	-5.7	-3.0	-4.8	-2.2	-0.3
2015	-1.1	-3.5	-0.5	-3.1	-0.1	-2.2	0.8	-3.0
2016	0.1	-1.2	1.7	-1.2	1.7	-1.1	1.8	-1.7
2017	-0.4	1.1	3.6	1.2	3.8	1.1	3.6	-2.1
2018	1.0	0.6	2.7	0.3	2.4	0.1	2.2	1.4
2019	1.9	-0.2	1.8	-0.9	1.1	-1.1	0.9	1.3
2020	-2.6	-8.0	-6.0	-7.1	-5.1	-0.3	1.7	6.2
2021	0.0	-4.9	-3.1	-4.9	-3.1	-0.7	1.1	-2.0
2022	0.0	-3.0	-1.2	-3.0	-1.2	-3.0	-1.3	-1.9
2023	0.2	-1.5	0.3	-1.6	0.2	-1.6	0.1	-1.4
2024	0.3	-1.0	0.7	-1.1	0.6	-1.1	0.6	-0.4

* Period 2021–2024 shows the projected values.

** Structural primary fiscal balance has been obtained by excluding the estimated one-off revenues and expenditures. The results showing a change in the structural primary deficit do not explicitly exclude the effect of increased revenue collection efficiency and consequentially, the estimation of structural adjustment in 2015 and 2016 partly deviates from the previously presented effects.

Source: Ministry of Finance

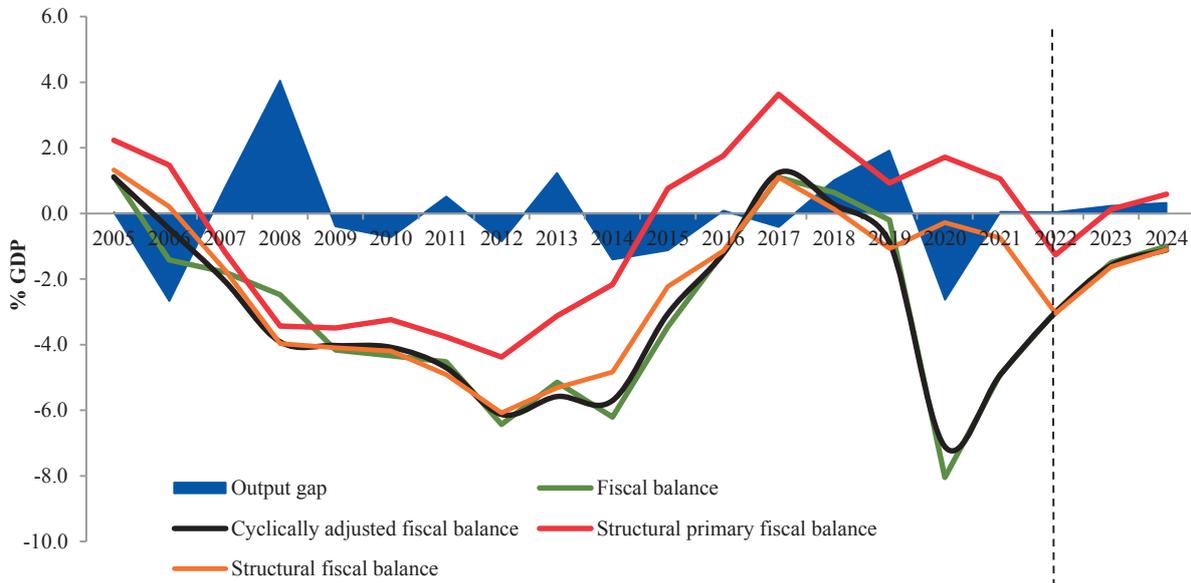
The response of fiscal policy to the complex economic situation caused by the coronavirus pandemic in 2020 is represented by a comprehensive package of measures to help the economy, the value of which is planned at 12.8% of GDP (realized 11.6% of GDP). It is estimated that the direct impact of this economic package on the cyclical position of the country amounted to over 7% of GDP, with a negative production gap reaching 2.6% of GDP. In the absence of measures to support the economy and the population, the decline in GDP in 2020 would be significantly higher, and would amount to over 5% due to greater economic contraction and slower recovery, and a negative production gap would be higher than 6% of GDP.

The estimated negative cyclical component of the fiscal result in 2020 was only 0.9% of GDP. Although the cyclical analysis of the fiscal result suggests that the savings generated by the non-implementation of the package of measures would outweigh the fiscal losses due to a larger fall in

GDP, the long-term negative effects of losing production potential and human resources would be immeasurably greater.

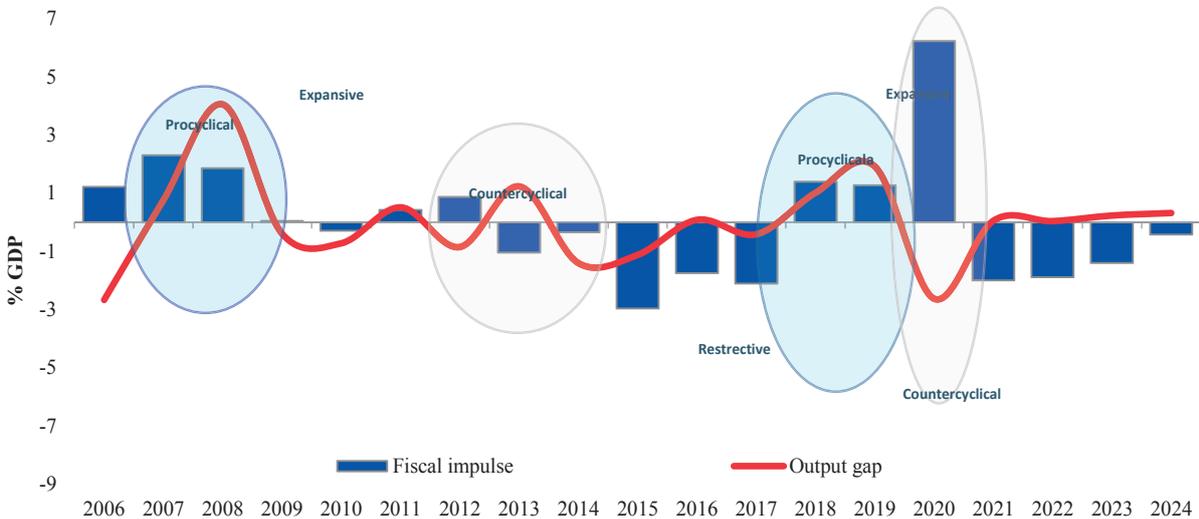
Due to the prolonged epidemiological and economic impact of the COVID-19 pandemic during 2021, it was necessary to adopt an additional package of measures of economic support to the economy and the population. The first and second budget revisions for 2021, among other things, envisage funds in the amount of 4.2% of GDP, as a form of support to the economy and citizens to more easily overcome the economic consequences of the pandemic. Emphasis is placed on sectors that are particularly affected by measures of epidemiological protection of the population. As in the previous package of measures, funds are provided to support the population, which will give an additional stimulus to aggregate demand. The estimated effect of the third package of measures on the country’s fiscal position is 2.3% of GDP.

Figure 10. Output gap, cyclically adjusted and structural fiscal balance in the period 2005-2024, % GDP *



*The period 2021–2024 includes projected data
Source: Ministry of Finance

Figure 11. Nature and effects of fiscal policy in the period 2006-2024, % GDP*

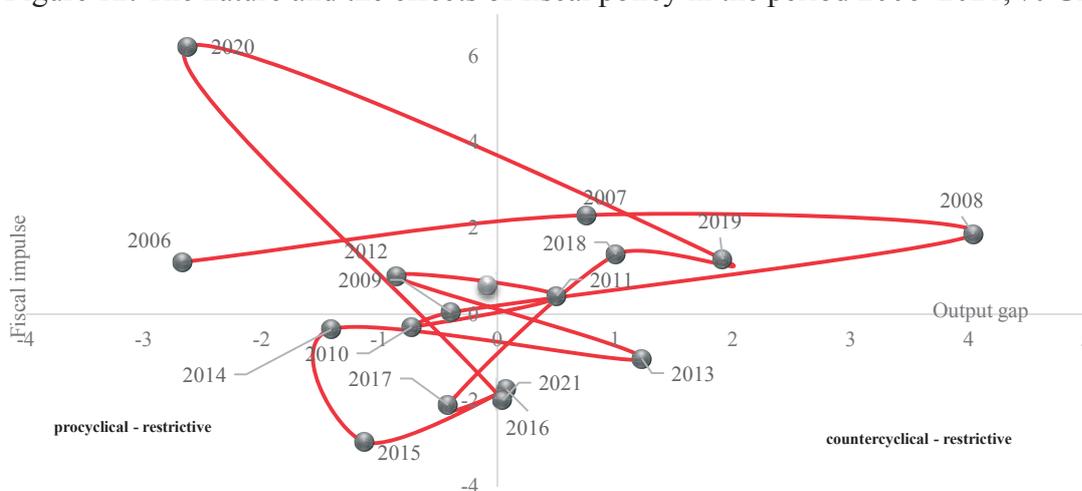


* The period 2021–2024 includes projected data.
Source: Ministry of Finance

The structural fiscal position of the country has not been significantly damaged, due to the implementation of measures to help the economy in the field of fiscal policy of a limited time. However, in the next medium-term period, the movement of the structural fiscal result will be affected by the transferred tax liabilities from 2020 to 2021 and 2022. Payment of revenues from tax and contribution deferrals in 2020 will have a temporary (non-structural) effect on the fiscal balance in 2021 and 2022. Due to the above, as well as on the basis of a significant increase in infrastructure expenditures during 2021 and later, there is a temporary, but sustainable, deterioration of the structural fiscal position. Reducing the volume of crisis measures creates space for a moderate increase in regular structural expenditures. On the other hand, increasing the share of public investment in GDP will have both direct and indirect impact on accelerating economic growth in the coming period.

As the fiscal impulse is defined as the difference between two consecutive, cyclically adjusted (primary) results, it is estimated that the fiscal policy during 2018 and 2019, in the conditions of a positive production gap, had a pro-cyclical character. On the other hand, fiscal policy during 2020 is extremely expansionary-countercyclical, aimed at mitigating the negative economic cycle. Due to the somewhat smaller scope of the package of economic support measures in 2021, fiscal policy is more restrictive than in the previous year, and neutral in nature. In the period from 2022 to 2024, restrictiveness still exists due to the abandonment of crisis measures and the reduction of the primary fiscal deficit. A certain countercyclical character is still present, due to the set goals of balancing and stabilizing public finances, in the conditions of a positive production gap.

Figure 12. The nature and the effects of fiscal policy in the period 2006–2021, % GDP*



Source: Ministry of Finance

4.5. PUBLIC DEBT MANAGEMENT

In accordance with international practice and according to the Law on Public Debt (“Official Gazette of RS”, No. 61/05, 107/09, 78/11, 68/15, 95/18, 91/19 and 149/20), the Public Debt Management Strategy for the next medium-term period should be supported and consistent with the Government’s general medium-term macroeconomic framework and is an integral part of the Fiscal Strategy. The Public Debt Management Strategy is based on the principles that define the need for a transparent and predictable borrowing process, with the permanent development of the government securities market and an acceptable level of exposure to financial risks.

At the end of September 2021, the total general government debt amounted to RSD 3,519.0 billion, or 57.1% of GDP. Out of that, RSD 3,479.2 billion referred to the central government debt, while RSD 31.7 billion referred to the unguaranteed debt of local government units and RSD 8.1 billion to the unguaranteed debt of PE Roads of Serbia and Corridors of Serbia LTD. Direct liabilities of the central government amounted to 3,316.6 billion dinars, and guaranteed liabilities of the central government amounted to 162.6 billion dinars. The internal public central government debt amounted to 1,371.9 billion dinars, and the external debt to RSD 2,107.3 billion. According to the data from September 30, 2021, the largest share of the general government debt is still denominated in euros and amounts 54.7%. Then the most represented are the dinar with 29.2% and the US dollar with 10.4%. The rest of the debt is denominated in special drawing rights with 2.0% and with other currencies 3.8%. As of September 30, 2021, the largest part of the general government debt is at fixed interest rate 86.9%, while a variable interest rate amounts to 13.1%. Among the variable interest rates the most represented are Euribor and Libor EUR with share of 81.6%, followed by the interest rate for special drawing rights 12.1%, Libor USD 2.5%, Belibor 2.3%, while the share of liabilities with other interest rates is 1.5%

Fiscal framework in the period 2022-2024: Year 2021 was featured by the continuation of the fight against the coronavirus pandemic and the economic recovery. New package of measures, from the beginning of the 2021 to support businesses, additionally helped the recovery of the economy, which was reflected in better revenue collection and consequently a smaller deficit and level of public debt at the end of the year. The global pandemic is not over yet. Planning of the economic and, in particular, fiscal policy will primarily depend on controlling and suppression of the pandemic and its ending. The general commitment is to enable gradual balancing and stabilization of public finances in the post-pandemic crisis, in order to reduce the share of public debt in GDP and create the basis for stable economic growth. Until then, it is necessary to provide space for a timely response of fiscal policy in the event of a deepening crisis. The goals of fiscal policy are certainly aimed at, on the one hand, maintaining fiscal stability and reduction the share of public debt in GDP, and on the other hand, continuing the development and social programs.

Bearing in mind the expected result of the budget of the Republic of Serbia for the period 2022-2024, including the volume of withdrawals of credit funds for project financing from budget users, the effects of changes in the dinar exchange rate against the euro and the US dollar, in the basic macroeconomic scenario, the central government debt should be at 52.7% of GDP by the end of 2024.

Table 12. Basic projection of general government public debt by 2024

	2021p	2022 p	2023 p	2024 p
Public debt (central government), in billions of RSD	3,529.8	3,682.3	3,893.8	4,085.8
Central government debt, in % of GDP	57.3%	55.5%	54.3%	52.7%
Non-guaranteed local self-government debt, in % of GDP	0.9%	1.0%	1.0%	1.1%
General government debt, in % of GDP	58.2%	56.5%	55.3%	53.8%

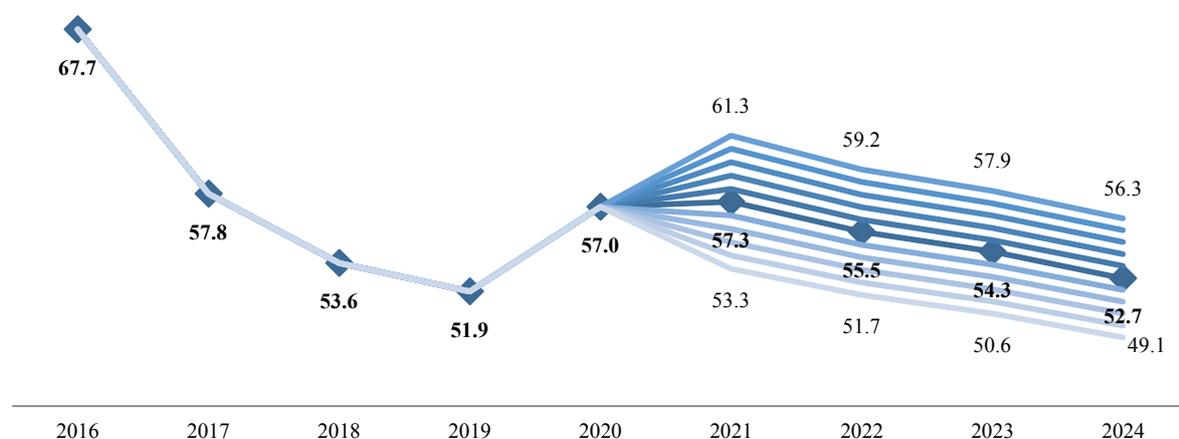
Source: Ministry of Finance

It is predicted that the non-guaranteed debt of the local government will be at the level of about 1.1% of GDP by the end of 2024. At the end of 2024, the general government debt level should be at the level of 53.8% of GDP.

Financial and fiscal risks can lead to an increase in public debt higher than anticipated in the baseline scenario. Risks that exist and may lead to increased indebtedness and public debt service costs are: refinancing risk, foreign exchange risk, market risk (interest rate risk, inflation risk), liquidity risk, credit and operational risks and risks related to the distribution of service costs (debt structure, concentration of liabilities).

Due to the high share of debt denominated in foreign currency (70.8%), it is evident that foreign exchange risk will determine the behaviour of debt to GDP ratio in the upcoming period and significantly condition the success of fiscal policy measures to consolidate public finances and reduce public debt to GDP.

Figure 13. Impact of changes in the RSD exchange rate against the basket of currencies from the central government public debt portfolio on the change in public debt-to-GDP ratio



Source: Ministry of Finance

The graph presents the movement of public debt ratios of the central government and GDP depending on the change in the dinar exchange rate against a certain basket of currencies. The basic projection is presented with alternative scenarios depending on the appreciation, i.e. depreciation of the dinar exchange rate in the range from 10% appreciation to 10% depreciation of the dinar in relation to the currency basket. Applying the above scenarios, it can be seen that the ratio for 2024 would range from 49.1% to 56.3%, while for the baseline scenario it would be at the level of 52.7%.

In order to reduce the exposure to variable interest rates, contracting new liabilities will be done at fixed interest rates, where possible, especially in the field of loans financing investment projects.

In order to optimize the portfolio and more efficient public debt management, a cost-risk analysis of alternative borrowing strategies was performed, using the World Bank model (Medium Term Debt Strategy Model - MTDS), in the conditions of the baseline scenario, but also in the conditions of shocks that may lead to changes in the baseline scenarios: exchange rate, change in interest rates on the international and domestic market, combined shock.

The Public Debt Management Strategy in the next medium-term period is based on the assumption that financing will be provided by borrowing on both the domestic and international financial markets. Flexibility will be reflected in the domain of the choice of the market in which the

borrowing will take place, the borrowing currency and the financing instrument and it is one of the necessary conditions for the financing of the Republic of Serbia budget expenditures to be provided. The decision on annual borrowing is made within the budget law for a particular fiscal year. Depending on the change in the basic fiscal aggregates, it is possible to adjust the borrowing plan during the fiscal year.

The development of the domestic government securities market by the Republic of Serbia was supported by the following measures:

Bonds of the Republic of Serbia are included in J.P. Morgan GBI-EM Index, which should significantly increase the investor base and additionally enhance secondary trading, which will further contribute to reduction of borrowing costs through issuing of dinar-denominated government securities;

Equal tax treatment of domestic and foreign investors established at the end of 2011 and steps to remove all possible obstacles to the free flow of capital in order to create the largest possible investor base and develop the secondary market for securities issued on the domestic market;

Amendments to the Public Debt Law from December 2019, enable the clearing and settlement of government securities issued on the domestic market, in addition to the Central Register, by another foreign legal entity that performs clearing and settlement operations.

In October 2021, Clearstream became the first international central securities registry, which enabled foreign investors to settle dinar (RSD) denominated government bonds through an intermediary - an authorized participant in the local market.

During 2021 and 2022, intensive actions will be taken to harmonize legislation relevant for Central Registry connecting with Euroclear through the I-link platform. This step should facilitate and enable direct access of foreign investors to the Serbian capital market and contribute to further increase the participation of foreign investors and increase liquidity in the secondary market of government securities.

4.6. SENSITIVITY ANALYSIS AND COMPARISON AWITH THE PREVIOUS PROGRAM

Fiscal risks represent the exposure of public finances to such circumstances that may cause deviations from the projected fiscal framework. Deviations with regard to revenues, expenses, fiscal results, including the assets and liabilities of the state, may take place in relation to what is planned and expected. External risks, such as natural disasters or global financial crises, cannot be influenced by the government, but it is possible to define exit strategies that would mitigate their effects (maintaining stability in times of stability, ensuring that fiscal policy would provide room for adequate response in times of recession or crisis. insurance in case of natural disasters, etc.). Internal risks, ie their materialization are a consequence of activities in the public sector, and the probability of their realization can be influenced by decisions and policies of the Government.

In the previous decade, Serbia was exposed to a number of risks that have jeopardized its fiscal position. The financial crisis and recession have affected the public finances, causing high defi-

cits and the growth of public debt. The global financial crisis, as an external factor, has activated internal risks and the repayment of guaranteed loans, execution of court decisions, resolving cases of state financial institutions and taking over the obligations of public companies that accumulated the public debt have further worsened the fiscal position. The Republic of Serbia, like most of the countries in the world, was affected by the health and economic crisis, which was caused by the SARS-Cov-2 virus pandemic. The pandemic can be considered a negative exogenous shock whose effects spread through the economic system, causing an economic downturn and recession, while measuring the effects of a pandemic is extremely complex and creates significant uncertainty about the economic outlook and accompanying negative consequences. Serbia reacted with strong intervention measures. A set of comprehensive packages of economic measures was adopted with the aim of reducing non-employment and expanding illiquidity of companies, maintaining investment, survival of certain industries (tourism, agriculture, etc.), assistance to certain segments of the population (retirees, health workers) and the general adult population in order to encourage the overall demand.

The Ministry of Finance has a leading role in managing fiscal risks. As a key institution for medium-term macroeconomic and fiscal planning, budget formulation and management, the Ministry of Finance also has a leading role in establishing the institutional and legal structure, and building the capacity needed to manage fiscal risks. The Fiscal Risk Monitoring Sector, an organizational unit for fiscal risk management in the Ministry of Finance, was established in 2019 with the aim of strengthening legislation and methodological framework, capacity building, and developing technical tools and models necessary for monitoring and assessing fiscal risks. The intention of these activities is to identify and assess risks and propose exit strategies, as an aid to the Government in maintaining the stability of public finances, which is a key goal of fiscal policy and one of the basic preconditions for more dynamic economic growth.

In order to implement the above process of monitoring fiscal risks, a Unified Methodology for Monitoring Fiscal Risks in the Republic of Serbia has been prepared, which includes four basic methodologies, specifically:

- 1) Methodology for monitoring fiscal risks relating to the operation of public enterprises;
- 2) Methodology for monitoring fiscal risks relating to the budget of the Republic of Serbia, arising from conducting the activities under the responsibility of the local self-government units;
- 3) Methodology for monitoring fiscal risks relating to court proceedings;
- 4) Methodology for monitoring fiscal risks arising as the consequence of natural disasters.

This methodology, adopted in October 2021, was developed based on the draft methodology prepared by the World Bank.

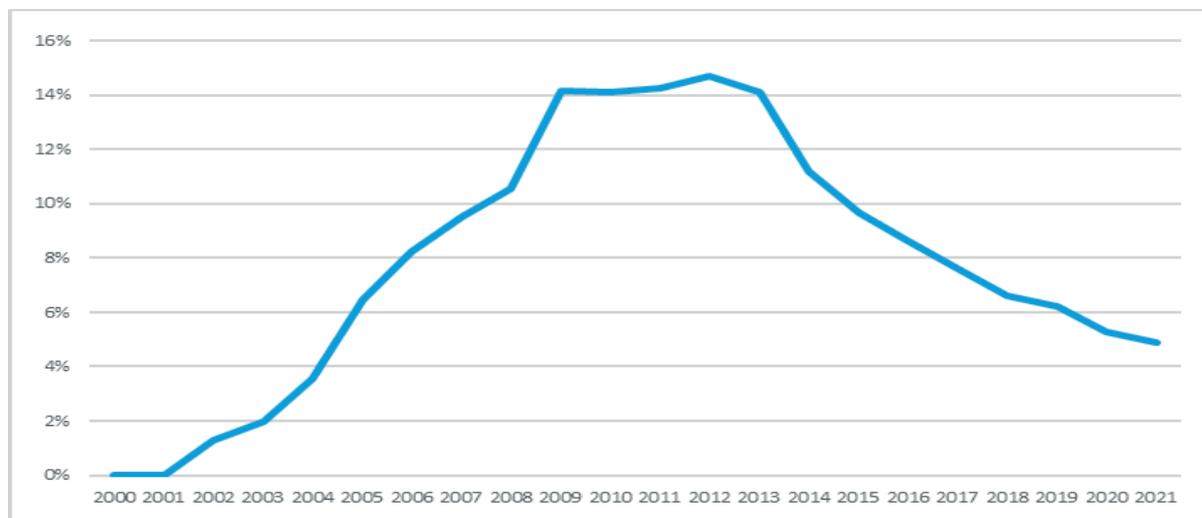
To alleviate the fiscal risks and maintain the level of expenditures at the projected level in the next medium-term period, the following activities have been initiated:

- Limitation imposed to the issuance of new guarantees: the amendments to the Law on Public Debt have laid down a ban to issue any new guarantees for the credit lines granted for liquidity purposes. Amendments to the Law on Development Fund of the Republic of Serbia suspended any further counter-guarantees to be issued by the Development Fund of the Republic of Serbia.

- Structural reforms of public and state-owned companies: A number of companies, which are also the largest beneficiaries of guarantees and subsidies, and in order to be able to compete in the market and financial sustainability, and able to repay loans, are in the process of restructuring, implementing restructuring plans.
- Continuation of reforms relating to state financial institutions, banking organizations and deposit insurance started in 2012 and 2015, respectively.
- Monitoring of risk-based court proceedings and risks posed due to natural disasters.

Guarantees issued by the state affect the amount of public debt, but also the amount of the deficit, if the repayment of the loan is taken over by the state instead of the original debtor. According to the definition determined by the Law on Public Debt, issued guarantees are part of indirect obligations and are included in the public debt¹⁰ in their total amount. Restrictions on the issuance of new guarantees have yielded results and the share of indirect liabilities in total public debt is declining. Indirect liabilities (guarantees issued by the Republic of Serbia) participated with 5.3% in total public debt, according to the national methodology, at the end of 2020. The share of these liabilities in public debt is approximately at the same level in the current year and at the end of June. In 2021, they reached 4.9% of total public debt. The highest share of these liabilities in the public debt, slightly above 14% in average, was reported in the period from 2009 to 2013.

Figure 14. Share of indirect debt in the total public debt of Serbia



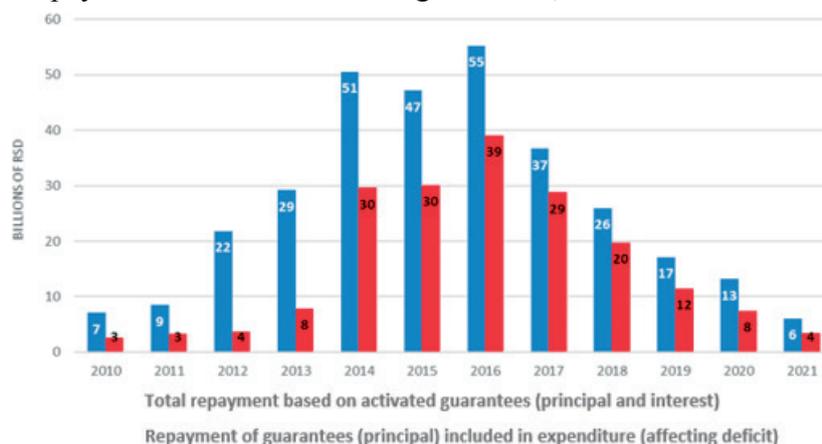
Source: Ministry of Finance

At the end of 2020, the debt balance on the basis of issued guarantees amounted to EUR 1.423 billion, or 3.1% of GDP. The debt balance on this basis was reduced by nearly 65 million euros compared to the end of 2019. By June this year, the debt balance on guarantees was reduced by EUR 22.3 million, compared to the end of 2020 and amounted to EUR 1.4 billion as at June 30, 2021.

¹⁰ Definition of debt, as per the criteria of the Ministry, among other, have different approaches to issued guarantees, compared to the definition set forth in the national laws. The public debt (general government debt) includes, according to the criteria of the Ministry, only the activated guarantees. National legislation has a more conservative approach on this matter, as it includes all the issued guarantees into the public debt.

The total repayment of the principal on the basis of guaranteed loans in 2020 was RSD 11.4 billion, of which 7.5 billion affects the deficit. Until 2014, the accounting methodology did not include guarantee¹¹ repayments in expenditures. Since 2014, part of these expenditures has been included in budget expenditures¹². Notwithstanding the budget and accounting presentation, the debt paid by the state instead of the main debtor increases the total borrowing requirement.

Figure 15. Debt repayment based on activated guarantees, RSD billion



Source: Ministry of Finance

The repayment plan for the guarantees (total principal and interest) in the budget revision for 2021 covers RSD 14.3 billion, of which RSD 3.52 billion for the repayment of principal under guarantees have been included in the expenditures that do not affect the result. The rebalance of the budget for 2021 forecasted the issuance of guarantees in the amount up to RSD 133.6 billion for loans intended for the implementation of infrastructure projects. No significant growth of this category of expenditures is planned in the coming years. The share of these expenditures in GDP is on average around 0.2% of GDP in the medium term.

The operation of public companies represents a significant source of fiscal risks, both on the side of budget revenues and on the side of expenditures, since the state as the founder and their sole owner is extremely responsible for operations and is the last resort in case of insolvency. There are several channels through which fiscal risks associated with the operation of public enterprises can materialize, which include government guarantees given for public enterprise loans, subsidies, inadequate business planning, traditional management that does not meet market needs, and so on. Sustainability, efficiency and profitability of public companies affect budget revenues, i.e. the amount of profit they pay into the budget. The quality of products and services provided by public companies affect the efficiency and profitability of the private sector and ultimately the level of taxes they pay to the budget.

Public companies are established to perform activities of general interest. Their work is regulated by the Law on Public Enterprises, adopted in February 2016, to include subordinate legislation laying down specific areas not covered by the Law on Public Enterprises (Energy

11 Repayment on the basis of guarantees from the republic budget is included in expenditures on a cash basis. International standards that use the accrual basis, include the entire amount of the remaining debt in expenses, at the moment when the guarantee is activated, while the debt repayment is treated as a financial transaction.

12 A part of expenditures based on the repayment of guarantees for PE "Putevi Srbije" is not included in the budget expenditures, as this enterprise is the part of the general government sector and therefore, the expenditures funded by the secured credits were the part of expenditures of general government expenditures at the moment of spending, while the very repayment is treated as the financial transaction ('below the threshold').

Law, Law on Companies (“Official Gazette of RS”, No. 36/11, 99/11, 83/14 - other law, 5/15, 44/18, 95/18, 91/19 and 109/21), etc.). Their headcount is around 81 thousand people with the assets at the end of 2020 reaching RSD 2,654 billion, while the closing balance was a net result of RSD 15.2 billion.

In 2020, subsidies, expressed as a percentage of total revenues, are at a higher level than in the previous year and account for 12.4% of total revenues of public enterprises. Certain subsidies have a capital character, such as subsidies for PE “Putevi Srbije”, which are intended for the reconstruction of road infrastructure.

Results of the operation of public enterprises in Q2 of 2021

The total net result was established in the first half of 2021 with the gains of RSD 14.7 billion. The current year’s results were overestimated in the segment of depreciation costs by the PE “Putevi Srbije” given that the enterprise enters those expenses in the books only at the end of the year, in the full amount for the respective year.

Table 13. Major financial indicators of operations by public enterprises, in billions of RSD.

Description	2019	2020
Total assets	2,854	2,654
Owner equity	1,751	1,033
Total revenue	524.3	536.4
Net profit	-18.1	15.2
Subsidies	33.4	66.7
Subsidies, excluding the PE “Putevi Srbije”	24.3	39.6

Source: Financial Statements for the years 2019 and 2020

In the first half of the current year, 22 companies made a profit in the total amount of 18.5 billion dinars, which is more than planned (10.1 billion dinars). The biggest impact on the positive net result in the observed period has PE “EPS”, which made a net profit of RSD 11.2 billion.

In order to reduce fiscal risks related to the operations of public companies, the process of restructuring the largest public companies is underway (groups of companies dealing with railway traffic - “Železnice Srbije” JSC, “Infrastruktura Železnice Srbije” JSC, “Srbija Voz” JSC, “Serbia Cargo” JSC, PE EPS and PE “Srbijagas”). The entire process is being carried out in cooperation with the world’s leading financial institutions - the IMF, the World Bank and the European Bank for Reconstruction and Development (hereinafter: the EBRD), in order to put these companies on a sound footing and start operating on a market basis. Potential fiscal costs that may arise from their operations. In addition, the process of implementing the Action Plan for the implementation of the Strategy of State Ownership and Management of Business Entities Owned by the Republic of Serbia for the period from 2021 to 2027, in the period from 2021 to 2023 (“Official Gazette of RS”, No. 68/21), which, among other things, provides for comprehensive corporatization of public companies.

Payment of profits by public companies and dividends of state-owned capital companies represent a significant part of non-tax revenues. The obligation for public companies to pay at least 50% of the profit realized in the previous year is also prescribed by the Law on the Budget of the Republic of Serbia for 2021 (“Official Gazette of RS”, No. 149/20, 40/21 and 100/21).

Prior to the period of fiscal consolidation, the Republic of Serbia had significant fiscal costs of rescuing state-owned banks. The total costs of state interventions in the banking sector in the period 2012-2015 amounted to about 900 million euros. This is the amount set aside for the recapitalization of banks, various financial transactions when merging failed banks with more successful ones, including the payment of insured and uninsured deposits (for which the funds of the Deposit Insurance Fund were used).

Today, the Republic of Serbia has a direct share in the capital in the country's banking sector

Serbia directly invested into the banking sector, having the shares in:

- Banka Poštanska Štedionica a.d. Belgrade (72.64%),
- Srpska banka a.d, Belgrade (76.69%).

With the support of the World Bank, the implementation of the strategy for the Postal Savings Bank will continue, with an emphasis on redirecting business with individuals, entrepreneurs, micro-enterprises and small businesses; improving the bank's internal organization, corporate governance and risk management; strengthening the IT infrastructure, as well as the business plan for the period 2021-2025. As for Srpska Banka, in accordance with the Government's strategy for state-owned banks, an Expert Working Group was formed to transform it into a specialized financial institution for providing all types of financial services and support to the dedicated industry of the Republic of Serbia on January 21, 2019 and began formal work in March 2019 when the constitutive session was held.

Komercijalna Banka. On February 26, 2020, the Purchase Agreement was concluded for 83.23% of ordinary shares of Komercijalna banka a.d. Belgrade between the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana. Completion of the transaction (transfer of ownership and payment of the purchase price) was realized on December 30, 2020.

The reform of regulations governing the Serbian financial system¹³ was implemented in February 2015. One of the characteristics of this reform is the transfer of responsibilities for monitoring the performance and management of banks, insurance companies and other financial institutions whose shareholder is the Republic of Serbia, as well as organizing and conducting proceedings sale of shares in them, from insured deposits to the Ministry of Finance, starting from April 1, 2015. With the reform of regulations, the Bank Recovery and Resolution Directive (BRRD) was transposed into domestic regulations and the NBS was entrusted with the function of bank restructuring. In December 2016, a set of regulations implementing Basel III standards in the domestic regulatory framework was adopted, thus achieving a significant degree of harmonization of domestic regulations with relevant EU regulations in this area, and in 2017 activities continued to improve domestic regulations governing banks, in order to further harmonize them with EU regulations. The main goals of adopting these regulations are to increase the resilience of the banking sector by increasing the quality of capital and introducing protective layers of capital, better monitoring and control of bank exposure to liquidity risk, further strengthening market discipline and transparency of banks in the Republic of Serbia reporting system with new regulatory solutions.

¹³ The National Parliament adopted amendments to the Law on NBS and the Law on the Banks, including the new Law on Deposit Insurance, Law on Bankruptcy and Liquidation of Banks and Insurance Undertakings. This adoption of a set of financial laws imposed the adoption of amendments to the Law on Ministries.

One of the limiting factors for the growth of borrowings was the relatively high level of non-performing loans. In August 2015, the Strategy for Resolving Non-performing Loans was adopted, which is implemented by implementing two three-year action plans, one prepared by the Government and the other prepared by the NBS, in order to lower the level of non-performing loans. Key areas of implementation included strengthening the capacity of banks to resolve non-performing loans, improving regulations for assessing the value of collateral, developing the market for non-performing loans, etc.

Since the adoption of the above-mentioned strategy, a number of laws and bylaws have been adopted and amended, institutional capacity has been improved and numerous measures have been implemented to facilitate the write-off and transfer of uncollectible receivables. By creating stable business conditions, the Serbian economy entered the investment cycle in 2015, and since then, investments in terms of volume represent a good part of economic growth. The profitability of the economy is growing in conditions of low and stable inflation and a relatively stable exchange rate. All of these were key factors for the sustainable resolution of the issue of non-performing loans. This is clearly seen from the fact that in the branches that are also carriers of growth, the largest decline in problem loans was recorded - which is evident in the manufacturing industry and construction.

Deposit insurance is a mechanism that contributes to preserving financial stability and provides protection for depositors. The deposit insurance system ensures that full amount of deposits in each bank is paid to each protected depositor¹⁴ up to the insured amount of EUR 50,000 in the event of bankruptcy or liquidation of the bank. Deposit insurance is regulated by the Law on Deposit Insurance ("Official Gazette of RS", No. 14/15, 51/17 and 73/19). Guarantee of payment of insured deposits by the state, either directly from the budget, or indirectly by issuing guarantees for borrowings for deposit insurance, is a source of fiscal risks and possible fiscal costs. However, thanks to the achieved stability of the banking sector, since 2015 there has been no need to use the funds of the Deposit Insurance Fund, nor the state on the basis of payments of insured deposit amounts.

Having in mind the situation created by declaring a state of emergency in the Republic of Serbia, in order to enable mitigation of economic and financial consequences caused by the SARS-CoV-2 virus pandemic COVID-19, measures were taken to support the economy aimed at increasing liquidity including agricultural holdings, entrepreneurs, micro, small and medium-sized companies in accordance with the law governing accounting.

One of the measures was the adoption of the Law on Determining the Guarantee Scheme as a measure of support to the economy for mitigating the consequences of the pandemic of the COVID-19 disease caused by the SARS-CoV-2 virus ("Official Gazette of RS", No. 153/20 and 40/21), passed in December 2020, as a measure to support the economy to mitigate the consequences of the COVID-19 pandemic caused by the SARS-CoV-2 virus. The Republic of Serbia has recognized the need to approve an additional EUR 500 million in assistance, in order to maintain liquidity, which will bring the total amount of funds placed through the I guarantee scheme to EUR 2.5 billion. The guarantee agreement of the Republic of Serbia has so far been signed by 24 banks, which have been provided with the planned EUR 2.5 billion, while the banks themselves have placed about 2.1 billion euros with their clients.

¹⁴ Insured depositors include: natural persons, entrepreneurs, small and medium enterprises, after exclusions laid down by the Law on insurance deposits.

There are high fiscal risks from the court decisions, domestic and international courts, penalties and damages borne by state authorities. The Republic of Serbia paid RSD 80.5 billion from the budget on the basis of court decisions in the period 2009-2018. In 2019, based on court decisions, RSD 17.6 billion were paid from the budget of the Republic of Serbia. During 2020, RSD 22.9 billion were paid on the basis of court decisions, while in the first eight months of 2021, RSD 8.5 billion were paid from the budget on the basis of court disputes. The decision of the European Court of Human Rights obliged the Republic of Serbia to pay the public debt on the basis of unpaid foreign currency savings that citizens of the former republics of SFRY and citizens of the Republic of Serbia deposited with banks based in the Republic of Serbia and their branches in the former republics of SFRY. Also, potential obligations may arise from decisions of the Constitutional Court on the basis of submitted constitutional appeals and decisions of the European Court of Human Rights on submitted applications of workers of former socially-owned enterprises (outstanding salaries, contributions for compulsory social insurance, default interest, costs of proceedings, claims transaction).

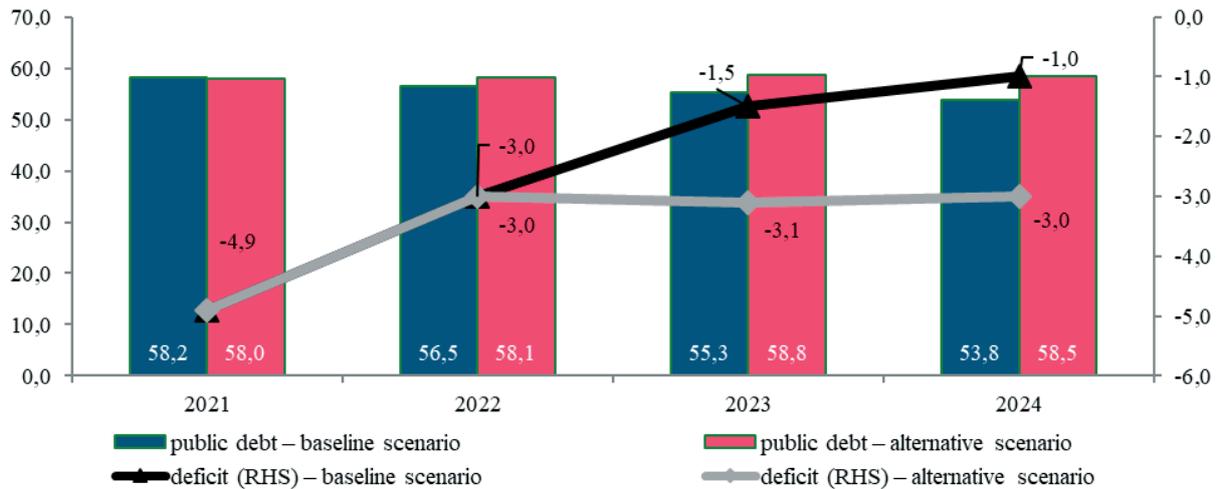
The persisting risk from natural disasters require investments into prevention programs in order to reduce potential fiscal costs for repairing the damage caused on that basis. Prevention refers to the inclusion of a wider range of financial instruments (such as reserve funds, potential credit lines, and especially insurance) that should be available to the state. In 2014, the Republic of Serbia faced the catastrophic consequences of the floods, whose total damage (including losses) was estimated at more than EUR 1.7 billion. In December 2014, the Government adopted the National Program for Disaster Risk Management, which will be implemented in cooperation with the World Bank, the United Nations and the EU. Within the National Program, in November 2018, another umbrella law was passed that deals with the issue of natural disasters and catastrophes, the Law on Disaster Risk Reduction and Emergency Management . (“Official Gazette of RS”, No. 87/18). In 2019, the Republic of Serbia paid 4.22 billion dinars from the budget for damages for injuries or damage caused by natural disasters or other natural causes. During 2020, RSD 2.8 billion were earmarked for this purpose, while in the first eight months of 2021, the amount spent on these purposes was RSD 247.4 million.

As mentioned earlier, the Unified Methodology for Monitoring Fiscal Risks in the Republic of Serbia was adopted, which includes the Methodology for Monitoring Fiscal Risks Occurring as a Consequence of Natural Disasters and the Methodology for Monitoring Fiscal Risks Based on Court Proceedings.

Alternative scenario of fiscal trends in the period 2021–2024

The graph presented below shows the trends of share of deficit and public debt in GDP based on alternative macroeconomic scenario, with the forecasted growth rates of 2.0%, 3.0% and 3.5% in the forthcoming three-year period.

Figure 16. Baseline and alternative scenarios of fiscal trends in the period 2021–2024



Source: Ministry of Finance

A slower growth pace of economic activity would generally affect the revenue side of the budget, primarily in the segment of labour related revenues and consumption taxes. A significant slowdown in the medium-term path of GDP growth would lead to the increased deficit and public debt, compared to the baseline scenario. The level of the deficit would stabilize at around 3% of GDP, and accordingly, the level of public debt, between 58 and 59% of GDP. The assumption in this scenario is that the salary and pension policy, as well as the nominal amounts envisaged for capital investments, would be the same as in the baseline scenario.

Variation from the former program

The medium-term fiscal framework has changed significantly compared to last year's document¹⁵ due to the negative effects of the pandemic on economic trends. The growth of revenues, expenditures and deficits are the main differences compared to the previous document. In 2021, the new package of measures to support the economy and the population had the greatest impact on the revision of the fiscal framework. In addition, the amendments to the republic budget envisage a significant increase in capital expenditures. In the coming period, expenditures will be gradually reduced in terms of participation in GDP, with a somewhat more expansive fiscal policy as long as the pandemic uncertainty persists. The deficit reduction plan has been moved by one year, so that the reduction to the level of 1% of GDP is planned for 2024 instead of 2023, as was foreseen in last year's document. Planned deficits enable the reduction of the share of public debt in GDP, and in the long run it is planned to return to low levels of deficit.

Table 14. Comparison of fiscal indicators of two programs, in % of GDP

	2020	2021	2022	2023	2024
Economic Reform Program 2021–2023 ¹⁶					
Revenues	40.4	39.3	39.1	38.0	–
Expenditures	49.3	42.2	40.7	39.0	–
Balance	-8.9	-2.9	-1.6	-1.0	–
Economic Reform Program 2022–2024					
Revenues	41.0	43.5	42.2	41.4	41.1
Expenditures	49.0	48.4	45.3	42.9	42.1
Balance	-8.0	-4.9	-3.0	-1.5	-1.0
Variation					
Revenues	0.6	4.2	3.1	1.4	–
Expenditures	-0.3	6.2	4.5	1.9	–
Balance	0.9	-2.0	-1.4	-0.5	–

Source: Ministry of Finance

4.7. QUALITY OF PUBLIC FINANCE

At the time of writing, the Republic of Serbia is still in uncertain conditions caused by the COVID-19 pandemic, implementing the third package of measures to support the economy and the population, while fighting for the health and lives of its citizens, newly built hospital facilities and vaccine factories and provided sufficient vaccines for all citizens, which in the foreseeable future should ensure the return of the state and society to normal flows. After the successful completion of the arrangement with the IMF at the beginning of the year, the Republic of Serbia concluded a new advisory arrangement with this institution in June. The new cooperation program - Policy Coordination Instrument (PCI) will last from June 2021 to the end of 2023, i.e. 30 months.

The new arrangement continues to support the preservation of macroeconomic and fiscal stability, strengthening the financial sector, further strengthening of dinar and capital market development, which, together with institutional and structural reforms, should ensure high rates of green, inclusive and sustainable growth in the medium term.

In the coming period, reforms in the field of employment, personnel management and the salary system in the state sector are expected to continue. The goal of fiscal policy in the medium term is to keep expenditures for employees at a sustainable level, with an adequate structure of employees, in order to ensure higher quality of services provided. In the next medium-term period, the emphasis is on structural measures, which, through planning the number of employees on the one hand and establishing a new salary system in the state sector, on the other hand, would contribute to increasing the efficiency and quality of public services.

In 2016, Law on the system of salaries of employees in the public sector (“Official Gazette of RS”, No. 18/16, 108/16, 113/17, 95/18, 86/19, 157/20 and 123/21) was adopted, and then the relevant bylaws were adopted, which regulate this area in a systematic and transparent manner,

¹⁶ The amounts have been calculated using the revised data of GDP series.

with the aim of ensuring the same level of salaries for the same type of work in the entire public sector.

The existing employment system managed by the Government Commission for approving of new recruitments and additional hiring with the beneficiaries of public funds will continue its work in the transitory period until 2023, that is, until the new system becomes fully operative. By the end of the previous year, amendments to the Law on Budget System were adopted to enable new hiring in the institutions, in order to cover 70% of the headcount leaving the organization or retiring, while any new hiring above the 70% would require the permit of the Commission 70%. Such measure was introduced with the intention to ensure better flexibility of hiring in the organizations, so as to fit their needs for new human resources. Also, a limit of 1% has been set for the increase of the overall headcount having the fixed term employment, compared to the number from the end of 2020. Drafting of electronic registry is under way for the public sector employees “Iskra”, which is planned to be introduced by the end of 2023, while the pilot project for all the employees in the Ministry of Finance has already been in place and functioning. The idea behind this system was to ensure better planning, execution and control of expenditures for the payroll, higher transparency and better management of human resources.

Reforms of public and state-owned enterprises will further reduce different forms of budget support. Reducing budget support to these companies includes: a) limiting direct and indirect subsidies, b) banning the issuance of guarantees to support liquidity and c) strengthening accountability and transparency in the operations of these companies, including control and reduction of late payments, especially to PE EPS and PE “Srbijagas” and prevention of their accumulation in the future.

The status of companies from the portfolio of the former Privatization Agency is resolved through bankruptcy or privatization proceedings. By October 2021, more than 310 companies had been declared bankrupt, while 68 had been privatized since the end of 2014. Close to 36,000 employees from 357 companies had accepted the social program. Intensive work is being done to find solutions for another 76 companies with almost 28,000 employees.

The Government, with the support of the EBRD, adopted the Strategy of State Ownership and Management of Business Entities Owned by the Republic of Serbia in the period from 2021 to 2027 (“Official Gazette of RS”, No. 36/21) as an integrated document providing a strategic vision and guidance on ownership management, financial and public policy objectives as well as principles of corporate governance and supervisory practices in accordance with international standards and best practices.

For companies that are strategic companies from the portfolio of the former Privatization Agency, the solution is found either through privatization tenders or through bankruptcy. A privatization advisor was elected for the transport company “Lasta” AD Belgrade in 2019, the capital assessment procedure is coming to an end and there are people interested in privatization. With the support of the World Bank, an action plan was defined for the PE PEU “Resavica”, the implementation of which includes finding solutions for closing economically unsustainable mines and a rationalization plan, with the possibility of voluntary departure with funds for social program and business support to prevent congestion late payments, especially according to PE EPS. One application was submitted to the public call for the selection of a strategic investor for HIP - Petrohemija, which was submitted by the company NIS. The subject of the public call was the selection of a strategic investor who, by recapitalizing the subject of privatization in the

amount of 150 million euros, becomes the owner of a maximum of 90 percent of the share. If the offer is accepted, privatization is expected by the end of the year. Bankruptcy was declared for HIP Azotara in September 2018, and after several unsuccessful auctions, the company was sold to Promist d.o.o. in May this year while for MSK Kikinda, a solution is sought in finding strategic partners or investors.

A number of state-owned companies require strategic partners or other models of privatization or the implementation of previously prepared reorganization plans (UPPR).

Improving public financial management is necessary not only to underpin the fiscal stabilization measures and structural reforms, but also as a process that raises the quality of public administration and provides an attractive environment for investors. The new Public Financial Management Reform Program for the period 2021-2025 was adopted in June this year.

The area of public financial management to which serious attention has been paid and which is being improved is the management of public investments. Strengthening the public investment management framework intensifies new infrastructure projects and raises the quality of existing infrastructure. In April 2018, the Law on the Planning System of the Republic of Serbia was adopted, which established the national planning framework and defined the Development Plan and the Investment Plan. The public investment management system, which is being developed with the help of the World Bank, includes an integrated database of investment projects, which is currently under development, and a single list of priority projects (Single Project Pipeline) established at the end of the year, it became fully functional.

Public-Private Partnerships (PPP), as a specific type of cooperation between the state and the private sector, require special attention and caution, so the Ministry of Finance will in the future evaluate all proposals in terms of cost-benefit analysis and risk sharing.

The new Action Plan for the Tax Administration Transformation in the period 2021-2025, adopted in May 2021, set forth the strategic guidelines and deadlines in which the activities necessary for a modern tax administration will be implemented and better control and collection of revenues, i.e. speed up the fight against the grey economy, together with the reform and modernization of inspection supervision. Organizational separation of basic activities from those considered to be secondary is being conducted, with basic activities now being performed in a smaller number of organizational units, i.e. their consolidation has been conducted. Analysis of business processes and necessary resources will enable the development of an adequate organizational structure and management, the improvement of project management and the design of an adequate structure of employees. The next phase of reforms is focused on information systems. A new model of fiscalization (e-fiscalization) is being introduced, which will enable real-time control, reduce costs, increase efficiency and create a better business environment. The process of transition to the new system begins in November, and the transition period will last until the end of April next year. The state will support this process with direct subsidies to taxpayers for the purchase of new fiscal devices in the amount of 100 euros for each location and an additional 100 euros for each device, for which applications have already begun and will last until the end of 2022. reduction of the average time for VAT refund, ie compliance with the prescribed deadlines, with the application of the precautionary principle, in order to reduce the possibility of fraud to a minimum, and low-risk taxpayers were paid refunds as soon as possible. The Centre for Large Taxpayers (CVPO) will expand, that is, the number of entities that pay their tax obligations through this system will grow, and at the same time the capacity of this

critical organizational unit operating within the Tax Administration will be strengthened. With the adoption of the Law on Determining the Origin of Property and Special Tax (“Official Gazette of RS”, No. 18/20 and 18/21) and the formation of a special organizational unit of the Tax Administration, conditions were created for cross-analysis of property and income of persons, in order to investigate cases of unjust enrichment and determine obligations based on special tax. The Tax Administration has played a significant role in implementing part of the measures taken in response to the pandemic crisis caused by COVID-19: deferred payment of taxes on salaries and contributions and their payment in 24 instalments, starting in January this year, deferral of advance payment of corporate income tax for the second quarter of 2020, a three-month moratorium on enforced collection and reduction of interest on tax debt.

4.8. FISCAL GOVERNANCE AND BUDGETARY FRAMEWORK

A functional system of fiscal rules is needed to ensure the stability and sustainability of public finances in the long run. The current fiscal rules were introduced in 2010, but did not help stop the growth of the deficit and public debt. Due to the pandemic, the adoption of a new set of fiscal rules has been postponed. From 2020, the indexation of pensions was reintroduced, where pensions are adjusted using the “Swiss formula”, while respecting the limit of 11% of GDP for total pension expenditures. Over the next year, a fiscal rule is expected to be adopted that defines the level of the deficit and ensures that the level of public debt is set on a downward trajectory. Apart from the Ministry of Finance, the IMF and the Fiscal Council will take an active part in defining the new set of fiscal rules.

The Budget Execution Information System - ISIB, is part of the public financial management system, which includes processes and procedures that are carried out by electronic communication with the Treasury Department within the Ministry of Finance. The development of this system will enable the inclusion of all indirect users of the central level of government. The system includes direct users of public funds, judicial bodies and indirect users of the Ministry of Culture and Information, the Ministry of Labour, Employment, Veterans and Social Affairs and the Directorate for the Execution of Criminal Sanctions, which were not part of the previous system (FMIS). At the beginning of 2018, indirect users of the Ministry of Education, Science and Technological Development are out of the system, and their inclusion is expected in the coming period. The system is capable of enabling the integration of new users in the future.

Improving the quality and transparency of national statistics is done by improving the comprehensive, timely and automatic exchange of data between competent institutions. In April 2018, a list of institutions that make up the general government sector, as well as other sectors, was published, in accordance with the European System of Accounts (ESA) 2010 and GFSM 2014, based on which the SSO (in cooperation with the Ministry of Finance and NBS) with data submission to the Extended General Data Dissemination System (e-GDDS). These data are published in accordance with the GFSM 2014 methodology. The Sector for Macroeconomic and Fiscal Analysis and Projections of the Ministry of Finance in cooperation with the IMF was the first to initiate the process of converting public finance data from the national methodology to the GFSM 2014 methodology by levels of government and their publication through the National Summary Data Page (NSDP), which is available on the SBS website, as well as in the IMF’s Dissemination Standards Bulletin Board – DSBB.

5. STRUCTURAL REFORMS IN THE PERIOD FROM 2022 TO 2024

5.1. IDENTIFICATION OF THREE KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH AND RELATED STRUCTURAL REFORMS

Key challenge no. 1: Increasing employment, particularly of young people, and alignment the qualification with the labour market needs

The impact of the COVID-19 pandemic on the Republic of Serbia labour market is not yet visible considering the available data from the Labour Force Survey (LFS) in Q3 of 2021¹⁷. **The employment rate (15+)**, which is **50%** in Q3 of 2021 (EU-27: 53% for the population 15+, Q2 2021, Eurostat) records an increase of **2.2 percentage points** compared to the same quarter of the previous year (revised data¹⁸), while the **number of employees is 2.92 million** (an increase of 107.7 thousand year on year). **Significant oscillations in employment indicators were prevented by a set of measures of the Government which were intended to preserve the liquidity of economic entities and maintain economic activity and employment¹⁹**, including wage subsidies for all sectors.

The difference in employment rates between men and women is high and amounts to **16.2 percentage points** in favour of men in Q3 of 2021 (58.4% men and 42.2% women) (EU-27: difference is 11.6 percentage points - 59% and 47.4% respectively, Q2 2021, Eurostat). Women over the age of 50 who lose their jobs are discouraged from trying to get a job again, while young women in the labour market are often faced with the problem of reconciling work and family life.

The unemployment rate (15-74) amounts to 10.5% in Q3 of 2021 (EU-27: 7.2% for the population 15-74, Q2 2021, Eurostat) which represents an **increase of 0.7 percentage points** in relation to the same quarter of the previous year (revised data), while **the number of unemployed is 341.5 thousand** (increase of 36.5 thousand year-on-year). The coronavirus pandemic contributed to the increase in unemployment, i.e. the increase in the number of unemployed was due to the “return” of persons from the inactive contingent (individuals could not look for work or were unable to start working due to measures focused on preventing the spread of coronavirus) to the unemployment contingent (the trend initiated in Q3 of 2020).

The status of young people (15-24) on the labour market in the Republic of Serbia is more unfavourable in relation to the general population (15 and more years), but also in relation to the status of young people in the EU. The share of young people in the labour force is very low by European standards - the youth activity rate (15-24) amounts to 35.5% in Q3

¹⁷ Source: Statistical Office of the RS, Labour Force Survey has been conducted from 2021 according to a new methodology, based on and in accordance with the Regulation of the European Parliament and the Council. The key novelty in the new LFS methodology is that those persons who produce agricultural goods and services intended for personal consumption are excluded from the contingent of employees, i.e. without placing the product on the market. The new definition of employment has led to a decrease in the number of employees, which has mostly spilled over into the contingent of the population outside the labour force, and to a lesser extent into the contingent of unemployed (comparison of the number of employees according to the new and old methodology, IV quarter 2020 - regular and pilot research).

¹⁸ Due to change in the methodology, the data from the LFS Q1 of 2021 are not comparable with the data prior to 2021. In order to ensure comparability of the basic indicators for the period preceding 2021 SORS has conducted the revision of the most important indicators. Given that the revision of data backwards includes only basic indicators and that the set of data collected from the pilot survey is limited, there is no possibility of a deeper and more accurate structural analysis of changes in the labour market.

¹⁹ For more information on measures to support the economy, see Table 4. For overview of the package of measures to support the economy and the population in 2021 see page 38.

of 2021, which is 3.6 percentage points lower than the EU average (EU-27: 39.1%, Q2 2021, Eurostat). The youth employment rate (15-24) is 27.3% in Q3 of 2021, which is 5 percentage points lower than the EU average (EU-27: 32.3%, Q2 2021, Eurostat). **One of the biggest challenges for young people in the Republic of Serbia who want to become independent is how to find and retain a stable job.** Young people with both secondary and higher education face difficulties in finding their first job. **The period of transition from the world of education till finding the first job in the Republic of Serbia is almost two years (23.4 months)** according to the research of the International Labour Market²⁰. That is much longer than 6.5 months (Eurostat, 2009), which is the average time for a young person to find his/her first job after completing their education in the EU. In addition to not being employed, a significant number of young people are also outside the education and training process - in the Republic of Serbia the NEET²¹ youth rate (15-24) is 18.1% in Q3 of 2021, which is higher than the EU average (EU-27: 11.1%, 2020, Eurostat). The youth unemployment rate (15-24), which is 23.1% in Q3 of 2021, is an indicator according to which young people in the Republic of Serbia are in the most unfavourable status compared to young people in the EU, i.e. this rate is higher by 5.7 percentage points from the EU youth unemployment rate (EU-27: 17.4%, Q2 2021, Eurostat).

Bearing in mind all these data, **it is necessary to strengthen the youth employment policy, i.e. work on gradual introduction of Youth Guarantee²²** in cooperation with all relevant ministries, social partners and other stakeholders, in accordance with the confirmed Western Balkans Declaration on the Sustainable Integration of Youth into the Labour Market²³.

In order to achieve **continuity in the implementation of employment policy, but also further development in accordance with the needs of the national labour market and continued harmonization with standards** in this area that apply to EU member states, the *Employment Strategy in the Republic of Serbia for 2021 to 2026*²⁴ has been adopted, as well as *the Action Plan for the period from 2021 to 2023*²⁵ for its implementation. The overall goal of the Employment Strategy is to establish **stable and sustainable employment growth based on knowledge and decent work**. **Cross-sectoral measures** are envisaged which will be implemented in cooperation with the sectors of education, economy, finance and social protection, while further development of local employment policy is planned with local self-government units. These cross-sectoral measures are aimed at **improving supply and demand at labour market** and should lead to an increase in quality employment. In order to improve the status of unemployed persons on the labour market, the measures envisaged in the Employment Strategy refer to the implementation of active labour market policies (ALMP), to the improvement of their implementation, to the creation of new ALMP measures, as well as to improve the monitoring of labour market conditions and outcomes and the impact of ALMP measures. Special measures are envisaged to **improve the position of women, youth, persons with disabilities, beneficiaries of financial social assistance**, as well as **Roma men and women**, having in mind their representation and other characteristics that indicate an unfavourable status on the labour market, but the focus will be on other vulnerable categories of the unemployed who,

20 Source: "Labour market transitions of young women and men in the Republic of Serbia" (2016) https://www.ilo.org/employment/areas/youth-employment/work-for-youth/publications/national-reports/WCMS_488799/lang-en/index.htm

21 NEET - Youth not in employment, education or training

22 The Youth Guarantee Programme, implemented in EU Member States, is an example of an intervention in which young people who are inactive and unemployed are approached through cooperation among various sectors and social partners, including civil society organizations, in order to integrate into the labour market.

23 The Declaration was confirmed at the Second EU Ministerial Meeting - Western Balkans, which was held in Slovenia on 8 July 8 2021.

24 February 2021 ("Official Gazette of the RS", No. 18/21 and 36/21 - Corrigendum)

25 March 2021 ("Official Gazette of the RS", number 30/21)

without additional and intensive support in finding a job, cannot independently improve their status on the labour market.

Allocations for ALMP, despite being insufficient for a larger coverage of the unemployed persons, have been increasing in recent years. For the implementation of the planned measures of active employment policy the total of 50 million euros (6 billion dinars²⁶) has been provided in 2022, which is an increase compared to 2021 (5.2 billion dinars or 43.3 million euros).

As an additional support to the economy in employment of young people, from March 2022, a tax relief will be available through which the employer, who enters into an employment relationship with a new employee, is exempt from paying 70% tax and 100% contribution to the salary of the newly employed person until December 31, 2024.

A newly employed person is considered to be a person who was not employed in the period from January 1, 2019 to February 28, 2022, and who earns a monthly gross salary of more than 76,500 dinars.

Students do not have the practical and applicable knowledge and skills needed to work in a real work environment after graduating from vocational high school. Also, **the lack of work experience is one of the most common obstacles for the employment of youth.** It is therefore necessary to enable young people to **make some contact with the labour market during the process of formal education.** Acquisition, improvement and development of competencies in accordance with the needs of the labour market are provided by **dual education**, a model of secondary vocational education in which theoretical classes and exercises are realized in school, along with learning through work in companies. Over 10,000 students is covered by the dual education system. The number of dual education profiles, which are implemented in more than 150 secondary vocational schools, has grown to 54. Of the total number of active educational profiles in secondary vocational education in the academic year 2021/2022, about 22% of them are dual educational profiles. Of the total number of students in the first grade of secondary vocational school in the academic year 2021/2022, **5.16% are in the system of dual education.** In line with the new situation caused by the Covid-19 pandemic, **a National online database for dual educational profiles** has been designed. The development of a plan for recording lessons for learning by working and the development of a unique methodology for recording materials broadcasted on the national platform of RTS Planet has also been initiated. During the state of emergency, 764 lessons were recorded in 33 schools for dual educational profiles with their partner companies. Likewise, online training of instructors in dual education has been developed, which is being implemented using the most modern platforms for online learning.

The introduction of dual education in higher education was ensured by the adoption of the *Law on the Dual Model of Studies in Higher Education* („Official Gazette of the RS”, No. 66/19), in response to the real needs of national and foreign companies operating in the Republic of Serbia for adequate, highly educated staff with practical and applicable knowledge. The first accredited dual study programs are being implemented from the school year 2021/2022 in various fields such as IT, textile industry, mechanical engineering and aviation.

²⁶ It is estimated that about 1.7 billion dinars of these funds will be spent for the "My First Salary" Programme, the implementation of which began in 2020(14.2 million euros).

Monitoring the harmonization of labour market and education needs, as well as planning and conducting public policies in the field of education and employment, **has been made possible** by developing and publishing a single **List of Qualifications**²⁷ which brings together more than **4,500 qualifications** for all levels of education as well as the application of the Classification of Occupations²⁸, <http://kodekssifara.minrzs.gov.rs/sifarnici/sifarnik-zanimanja>. This list is the basic database for registers that will be established within the Unified Education Management Information System (EMIS), and especially the Register of NQFS²⁹ which is available from May 2021 on the NQFS portal <https://noks.azk.gov.rs/>. The development of qualification standards based on the needs of the labour market and society as a whole has been ensured by the work of 12 sectoral councils, and so far 49 qualification standards have been developed in line with the new methodology.

With the aim of easing the transition from school to work, the programme “My first Salary”³⁰ has been developed as a measure of the active employment policy, whose implementation began in 2020. The programme was of great interest to both unemployed young people and representatives of the economy. This programme has covered **8,453 young people** (5,541 persons with secondary education and 2,912 persons with higher education) who were trained for independent work with **5,177 employers** according to the program from 2020. Out of the total number of persons involved, 2,908 persons were employed as of October 2021³¹ (including persons who terminated the measure due to employment). Of this number, 1,767 persons (60%) established an employment relationship with the employer with whom they were involved in the measure. Decree on Amendments to the *Decree on the Youth Employment Incentive Programme “My First Salary”* (“Official Gazette of the RS”, No. 79/21)³² enabled the continuation of the programme in 2021 with a plan to include about 10,000 more young people, while the monthly cash benefits for beneficiaries were also increased³³. In the new cycle of the project after the completion of the selection, 9,237 young people and 5,471 employers were included. The educational structure consists of 70% of young people with secondary and 30% with higher education, while a total of 60% of candidates are female.

Also, testing of a new way of organizing and conducting training for the labour market using **training vouchers**, with the aim of improving the availability of training for the unemployed and improving the effects of training on employment, was made possible by the adoption of the *Decree on conducting Pilot training for the labour market using vouchers* (“Official Gazette of the RS”, No 44/21)³⁴. The pilot training will cover 200 unemployed persons without completed secondary school, with completed primary school or who are completing primary education according to the model of functional primary education of adults, and who are on the records of the National Employment Service.

27 Published in late 2020, updated in April 2021

28 Decision on the Unified Code of Codes for Entering and Encrypting Data in Labor Records (“Official Gazette of the RS”, No. 56/18 and 101/20)

29 It consists of the Sub-Register of National Qualifications, the Sub-Register of Qualification Standards, as well as the Sub-Register of Publicly Recognized Organizers of Adult Education Activities with Employers where the Practical Work is performed (PROA Sub-Register).

30 The programme was created with the aim of training 10,000 young people with secondary and higher education, up to 30 years of age, without work experience, who are registered within the unemployment register of the National Employment Agency.

31 The overall effects of the Program under the 2020 Regulation will be available and processed 6 months after the person leaves the measure, bearing in mind that the measure lasts for 9 months.

32 The Government of the RS has adopted it in the course of its session on 5 August 2021.

33 Engaged persons are paid funds in the amount of 22,000 dinars (183 euros) for persons with secondary education and 26,000 dinars (217 euros) for persons with higher education.

34 The Government of the RS has adopted it in the course of its session on 28 April 2021.

Given the existing skills mismatch in the labour market, there is a need for significant investment in adult education. The participation rate in education and training of the population aged 25-64 in the Republic of Serbia was **3.7% in 2020**³⁵ which is significantly lower (about 2.5 times) than the average rate in the EU (EU-27 9.2%). Quality assurance in non-formal education is achieved through a training system with a publicly recognized organizer of activities (PROA) for adult education. This status was granted to **72 institutions**³⁶ for **262 training programs intended for adults** to acquire the competencies and qualifications needed by the labour market by 2020.³⁷

Since 2017, a retraining program for the ICT sector has been implemented, and so far over 2,200 participants have attended the program. An impact study from the end of 2019 showed that the percentage of employment in ICT positions after the retraining program is 34.7%. During 2019-2020, the first IT retraining program for people with disabilities, which resulted in 30% employment in the ICT sector 3 months after the end of the program. Another IT retraining program for people with disabilities is underway, as well as a new IT retraining program that includes programs focused on positions other than programming (QA testers, system administrators) and which is based on market needs analysis based on 35,000 IT ads. In addition to retraining programs for IT, the Digital Expedition initiative was piloted, which visited 16 cities across the Republic of Serbia in the fall of 2021, as well as the digital literacy initiative for senior citizens, which is implemented for 20 gerontology centers and institutions for the elderly people.

The Republic of Serbia is characterized by the process of demographic aging of the population. There is a decreasing volume of the population aged 15-24 due to the negative demographic trend, as well as emigration. The largest number of potential migrants is among the younger population mainly due to going abroad for further education, of which a large number return to the Republic of Serbia after completion of their studies. Net emigration of 18,500 persons aged 20-24 and net immigration of 15,000 persons aged 25-29 were recorded in the period 2015-2019.³⁸

Due to emigration, the economy and the whole society are facing the negative effects of that departure, which indicates the need to create an economic and social environment to slow down the departure of the working population, strengthen ties with the diaspora, encourage return and circular migrations, and attract foreigners of different educational profiles. The **Action Plan for the period 2021-2023 for the implementation of the Strategy on Economic Migration of the Republic of Serbia for the period 2021-2027** (“Official Gazette of the RS”, No. 89/21) was adopted in September 2021, which operationalizes the implementation of the *Strategy on Economic Migration of the Republic of Serbia for the period 2021-2027* (“Official Gazette of the RS”, No. 21/20).

35 Source: Eurostat, https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=trng_ifse_01&lang=en

36 Of the total number of institutions that have acquired the status of PROA, the status was given to 17 high schools for 51 programmes, 9 adult education institutions (people's, workers', open universities) for 76 programmes and 46 other organizations (centres, companies, business associations, institutes, etc.) for 135 programmes.

37 Source: Report on the implementation of the Annual Adult Education Plan in the RS in 2020 <http://www.mpn.gov.rs/wp-content/uploads/2021/03/Izvestaj-GPOO-u-2020-god-final-2.pdf>

38 Source: The Vienna Institute for International Economic Studies, Regional study „Migration dynamics from a human capital perspective in the Western Balkans“

a) Reforms

STRUCTURAL REFORM 1: ESTABLISHMENT OF A FRAMEWORK FOR THE INTRODUCTION OF THE YOUTH GUARANTEE IN THE REPUBLIC OF SERBIA

1. Description of the structural reform

The Youth Guarantee (hereinafter referred to as: the Guarantee) implemented in the EU member states implies that young people receive a quality job offer, continuation of their education, internship or training within a period of four months from entering the status of unemployment or leaving, i.e. completing their formal education. Under this programme, young people who are inactive and unemployed are approached through the cooperation of various sectors and social partners, including civil society organizations, to ensure their timely, adequate and quality integration or reintegration into the world of work.

The need to take significant steps towards improving the status of young people in the labour market stems from the fact that their unfavourable status was further damaged by the pandemic crisis, given that according to all labour market indicators, young people fared worse than the working age population.

Improving the status of young people in the labour market is recognized as a priority within the Employment Strategy in the Republic of Serbia for the period from 2021 to 2026 and its accompanying action plan for the first three-year period of implementation of the Strategy. In that sense, within the mentioned planning documents, the commitment towards the introduction of the Guarantee Programme in RS is affirmed, and the necessary activities are recognized. In addition, special emphasis is placed on NEET youth (young people who are not employed, are not in the process of education, are not in training), in accordance with the international employment policy framework and the Agenda for the implementation of sustainable development goals until 2030.

In October 2020, the European Commission adopted a comprehensive Economic and Investment Plan for the Western Balkans, with the aim of accelerating the long-term economic recovery of the region, supporting green and digital transition, regional integration and convergence with the European Union. The plan defined ten investment priorities, having the Guarantee recognised within the goals.

By ratifying the Western Balkans Declaration on Ensuring Sustainable Integration of Young People into the Labour Market, the Republic of Serbia has agreed to work on the gradual introduction of the Guarantee, determine the necessary human resources and financial resources and develop a Guarantee Implementation Plan.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Establishment of a high level multi sectoral group and an operational level expert group that will be tasked to implement preparatory activities and draft the Guarantee Implementation Plan, with continuous strengthening of appointed members for the implementation of assigned tasks												
2	Preparation of Analytical material needed for the development of the Guarantee Implementation Plan (assessment of the situation and needs of NEET youth, mapping of existing policies, ability of national institutions and relevant partners to implement a complex system of the Guarantee, etc.)												
3	Development and adoption of the Guarantee Implementation Plan												
4	Implementation of preparatory actions for the introduction of the Guarantee identified in the Implementation Plan (promotion, provision of necessary staff and capacity building of competent authorities, capacity building of civil society organizations for the implementation of outreach activities, changes in the regulatory framework, preparation of monitoring and evaluation framework)												
5	Piloting the elements of the Youth Guarantee in the area of selected NES branches, monitoring and evaluation												
6	Gradual introduction of the Guarantee in several regions												

3. Performance indicators

Indicator	Baseline value (year)	Intermediary target (year)	Target value (year)
The Guarantee Implementation Plan has been adopted	no (2021)	/	yes (2022)
A model for outreach, registering and activating young people from the NEET category who are outside the institutions of the system has been developed	no (2021)	/	yes (2022)
NEET rate (15-29) (SDG indicator for the Goal 8.6)	20% (2020)	15.7% (2023)	14.8% (2024)

4. Expected impact on competitiveness

Implementation of the Guarantee, i.e. removing systemic obstacles for better performance of young people in the labour market and continuous implementation of activities that improve their knowledge and skills and ensure the acquisition of recognized qualifications, enable ac-

quiring work experience, develop youth entrepreneurship, prevents unfavourable migratory flows, and contributes to development and greater utilization of potential labour.

Although it is necessary to invest certain efforts to introduce the Guarantee, it should be borne in mind that the cost of not taking any action is higher, i.e. high unemployment and youth inactivity rates in the long run represent a significant cost to the state.

5. Estimated costs of activities and sources of financing

Sources of financing: Budget of the Republic of Serbia, IPA 20.

The International Labour Organization (ILO) technical assistance for the development of the Guarantee Implementation Plan was approved on 19 August 2021, and the implementation of planned activities began.

Through the IPA 20 program cycle, it is planned to provide technical support (TA) to the Ministry of Labor, Employment, Veterans and Social Affairs and the National Employment Service, as well as to award a direct grant to the National Employment Service, to implement active employment policy measures that will be prepared and defined within the mentioned technical assistance.

One of the planned results, within the technical assistance, refers to the establishment of a pilot framework for the Guarantee. After the implementation of preparatory activities, the plan is to pilot the Guarantee from the funds of the direct grant in the area of selected branches of the National Employment Service.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The reform should contribute to facilitating the transition of young people to the labour market and encourage their employment. The establishment of the Youth Guarantee programme, which includes an offer to young people within four months from entering the status of unemployment or leaving, or upon completion of formal education, should have an impact on young people not being in NEET status for long, because during this status knowledge and skills become obsolete, they are further discouraged, which leads to social exclusion. The measure is gender neutral.

7. Expected impact on the environment and climate change

Structural reform is neutral in terms of environmental impact.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Insufficient commitment at a high level to implement the necessary reforms and initiatives	Moderate	Establishment of a multi-sectoral group whose members will be Ministers, State Secretaries, Assistant Ministers.
Insufficient capacities of institutions and relevant actors delegated for the implementation of activities on the establishment of the Guarantee framework	Moderate	Organizing workshops, gatherings to discuss the importance of the Youth Guarantee and the necessary resources for its successful implementation

STRUCTURAL REFORM 2: QUALIFICATIONS ORIENTED TO THE NEEDS OF THE LABOUR MARKET

1. Description of the structural reform

The implementation of dual education model in higher education will provide conditions for acquiring, improving and developing student competencies in accordance with the needs of the labour market, easier employment after completion of the higher education, further education and lifelong learning, and will contribute to strengthening the competitiveness of the Serbian economy.

The implementation of the system of the National Qualifications Framework in Serbia (NQFS) establishes a market-relevant qualifications system that responds to the needs of the individual, the economy and the labour market.

In the previous period, the National Online Database for Dual Education Profiles was created and the Framework for Monitoring and Evaluation of Dual Education was established. In the coming period, the promotional activities of the National Model of Dual Education will continue in order to increase the coverage of pupils and students in the dual education system. In addition, regional training centres will be established as a form of support for both formal dual and non-formal education, wherein different training sessions, vocational training session, vocational retraining and additional training session of various population groups will be organised. Also, the implementation of the procedure of recognition of previous learning and data entry in the NQFS Register will continue. In the coming period, special attention will be paid to the development of post-secondary education at the level of NQFS 5 (specialization, master education, short cycles).

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Promotion of dual educational model												
2	Establishment, infrastructural arrangement and equipping of regional training centres												
3	Development of new qualification standards in secondary vocational education												
4	Application of the Framework for monitoring and evaluation of the National Model of Dual Education and Dual Education Profiles												
5	Development of studies for the development and evaluation of dual education and various ways to achieve qualifications												
6	Development and accreditation of study programmes according to the dual model of studies												
7	Development of standards for qualifications acquired by attending a dual model of studies in higher education												
8	Implementation of the RPL procedure (Recognition of Prior Learning)												
9	Data entry in the NQFS Register (qualifications, qualification standards and PROA - Publicly recognized organizers of adult education activities)												
10	Development of post-secondary education at the level of NQFS 5 (specialization, master education, short cycles).												

3. Performance indicators

Indicator	Baseline value (year)	Intermediary target (year)	Target value (year)
Number of developed study programmes according to the dual model of studies	0 (2020)	8 (2022)	25 (2024)
Share of students enrolled in the first year in the dual education system in relation to the total number of students enrolled in the first year in secondary vocational education (%)	5.3% (2019)	8.2 % (2022)	10.9 % (2024)
Number of established regional training centres	0 (2019)	6 (2022)	12 (2024)
Number of candidates involved in the RPL procedure (Recognition of Prior Learning)	0 (2019)	35 (2022)	65 (2024)

4. Expected impact on competitiveness

Further development of dual education will ensure easier transition of pupils and students from the world of education into the world of work. The dual model of studies in higher education, which will begin with the implementation of the first study programmes in October 2021, will contribute to increasing the relevance of higher education and employability of graduates and modernizing the teaching process through cooperation with the economy and contact with modern technological achievements, as well as to fostering the competitiveness of the economy of the Republic of Serbia.

The establishment of the NQFS system will contribute to the development of a modern, relevant and flexible education system adapted to the requirements of socio-economic development, providing support for the application of the concept of lifelong learning and enabling easier mobility of the workforce. By connecting with the European Qualifications Framework, qualifications acquired in Serbia become visible and comparable with qualifications acquired in other countries, primarily in EU countries.

5. Estimated costs of activities and sources of financing

No additional funds are needed for the implementation of activities 1, 3, 4, 6 and 7. No additional funds are needed for the implementation of the NQFS system (activities 8, 9 and 10).

Funds from the budget of the Republic of Serbia in the amount of 123,600 euros for 2022 have been earmarked for the implementation of activity 5. The base year is 2020.

Funds for the construction and reconstruction of regional training centres (activity 2) will be provided through a loan in the amount of 15,400,000 euros for 2022 and for 2023 in the amount of 6,922,534 euros.

Funds for equipping regional training centres will be provided through a loan in the amount of 12,900,000 euros for 2022 and for 2023 in the amount of 909,475 euros. The base year is 2019.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Students who complete studies according to the dual model, given the significant and relevant practical experience, significantly increase their competitiveness in the labour market, and will have a better chance of employment with employers who have trained them through work, but also with other employers in the same industry. The results of monitoring and evaluation of dual education will enable clearer identification of the situation, better management of risks and opportunities, learning from experience, decision-making based on data. It will also provide a possibility to see the impact of current dual education policies on gender issues in order to improve it in the future.

7. Expected impact on the environment and climate change

Structural reform is neutral in terms of environmental impact.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Difficult realization of learning through work with employers due to the current epidemiological situation caused by COVID-19	Moderate	Implementation of learning through work in regional training centres
Lack of information of potential candidates and social partners about the RPL process	Moderate	Organizing meetings and info sessions to inform potential candidates and social partners in the RPL process

3. Performance indicators

Indicator	Baseline value (2019)	Intermediate value (2022)	Target value (2024)
Number of trainees from the bodies competent for migration movement monitoring	0	2	5
Number of beneficiaries of tax and other incentives intended for returnees	0	200	600
Number of citizens of the Republic of Serbia who used programmes or services dedicated to returnees	0	3000	4000
Number of foreign citizens of Serbian origin who requested a stay in the Republic of Serbia	0	800	1600
Number of mentors supporting the return of members of the diaspora	0	40	60

4. Expected impact on competitiveness

Strengthening the capacities of the competent institutions in charge of monitoring migration flows creates greater opportunities for achieving the general, but also individual goals of the Economic Migration Strategy of the Republic of Serbia for the period 2021-2027. In addition, conditions are created for better coordination and reporting and evaluation of the implementation of the Strategy, which assesses the effectiveness, efficiency and relevance of the implemented activities.

The economy of the Republic of Serbia is still facing the deficit in experienced staff who possess modern knowledge, which is the key to global competitiveness. The implementation of the reform measure will intensify activities focusing on attracting Serbian and foreign citizens who, in addition to knowledge and experience, can bring closer and open many markets through their contacts. The measure also contributes to creating a stimulating environment that is desirable for all industries, especially for the development and application of high technology and innovation, as well as attractive for scientists and engineers from around the world to come and be part of the ecosystem. In that way, the economy will be more competitive through access to new technologies, and the most modern ways of managing complex business operations and large development projects. In addition, the measures are aimed at attracting staff for research and development centres of institutes and businesses in the Republic of Serbia.

5. Estimated costs of activities and sources of financing

In order to implement the Strategy and Action Plan, a new programme activity was opened for 2021 within the budget for 2021, called Support to Economic Migration Policy.

Strengthening the capacity of institutions will be carried out with the support of the German Organization for International Cooperation (GIZ). Improving the environment for encouraging, supporting and monitoring circular and return migrations of the especially highly qualified Serbian diaspora will be realized with the support of donors in close cooperation with the institutions in charge of education and science.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Designing of measures and recommendations for migration management primarily refers to the provision of professional staff necessary for the economy of the Republic of Serbia, the acceleration of economic activities and the consequent reduction of poverty. Providing the necessary staff creates opportunities for additional employment, and attracting investors who locate their research and development capacities in the Republic of Serbia, which will result in additional improvements in the field of employability and reduction of poverty. It is estimated that the measure will not have an impact on equality and gender.

7. Expected impact on the environment and climate change

This structural reform is neutral in terms of environmental impact.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Missing financial resources for planned activities	Low	Capacity building through the implementation of the "Migration for Development II" and "Migration & Diaspora" programmes pertaining to the Implementation Agreement. Close cooperation with SCC, NES and continuous consultations with business representatives.
Reduced interest of the diaspora in return and cooperation with the Republic of Serbia	Low	Continuous dialogue with the diaspora in order to understand the needs of the diaspora and a proactive approach in order to solve identified key problems.

Key challenge no. 2: Improvement of the business environment more favourable for investments

Favourable macroeconomic perspective of the Republic of Serbia, implemented structural reforms and improved business environment have enabled Serbian companies to maintain their business operations during the pandemic. Through the *Program of Economic Measures to Reduce the Negative Effects Caused by the Covid-19 Virus Pandemic and Support the Serbian Economy*, 12.9% of GDP was invested in 2020 (and an additional 4.5% of GDP in 2021). Owing to that fact, the decline in economic activity in 2020 was only 1%, and the same employment levels were maintained (growth of 1.9% y-o-y). Nearly 20 thousand companies were established with about 57 thousand employees after the state of emergency in the period May 2020 - June 2021.

Transparency, reliability and predictability of the regulatory framework remain structural challenges that need to be improved. Through the adoption of certain regulations, the obligation of transparency in the preparation of draft laws and other regulations and enactments (new or amended) has already been established. First of all, they are the *Law on Public Administration* ("Official Gazette of the RS", No. 79/05, 101/07, 95/10, 99/14, 30/18 - other law and 47/18), *Law on the Planning System of the Republic of Serbia*, *Decree on the methodology of public policy management, analysis of the effects of public policies and regulations and the content of individual public policy documents* ("Official Gazette of the RS", No. 8/19), *Rulebook on guidelines of good practice for achieving public participation in the preparation of draft*

laws and other regulations and enactments, as well as the *Law on Chambers of Commerce*. However, out of 42 adopted laws in 2020, only 36% (15 laws) underwent a consultative process in the manner provided by the regulatory framework, which is 2 percentage points more than in 2019 (according to PPS records). A *Handbook on Public Participation in Planning, Developing and Monitoring the Implementation of Public Policies and Regulations*³⁹ has been prepared and made available with the support of the EU. In order to improve the process of consultations and public debates, the Government adopted a Decision, which establishes the Portal “eConsultations”, which is an integral part of the Portal eGovernment, in order to enable the public in a unique and equal way, electronically (online), participation in the process of preparation and adoption of public policy documents and regulations. After the trainings of civil servants on the procedure of conducting public consultations and public debates through this portal, the “eConsultations” portal became functional on December 16, 2021. Although these regulations provide a solid framework for public involvement in the drafting process, more intensive application of these legal provisions can be expected in the coming period.

In addition to the noticeable progress in reducing the administrative burden on the economy in recent years, the business environment in the Republic of Serbia remains burdened with costs and complicated administrative procedures, which adversely affect investment and development and growth of the SME sector. The administrative burden on the economy in the Republic of Serbia has been reduced to 3.0% of GDP in 2020⁴⁰ from 4.07% of GDP in 2010. With the adoption of the *Law on Fees for the Use of Public Goods* (“Official Gazette of the RS”, No. 95/18 and 49/19), all fees paid for the use of natural resources, goods of general interest and goods in general use were consolidated in one place (these fees were subject to regulation in 19 special laws) and the establishment of a public register of non-tax levies is underway. About 2,600 administrative procedures in 97 public administration bodies in the period 2016-2020 were listed and analysed. *Programme for the simplification of administrative procedures and regulations “e-Paper”* for the period 2019-2021 with the revised Action Plan for the implementation of the Programme (adopted in June 2020), it is planned to simplify 890 procedures and digitize 100 procedures. By the end of 2021, 39 procedures were digitized and made publicly available, recommendations for the simplification of 235 procedures were implemented (of which 13 procedures were abolished), and thus achieving the savings for the economy of around EUR 33 million per year. Pursuant to the *Law on the Register of Administrative Procedures* (“Official Gazette of the RS”, No. 44/21), *the Register of Administrative Procedures* has been established (in function since June 2021), where the necessary information for 2,200 procedures can currently be found, (request form and necessary information, as well as the amount of the fee or charge and the number of the account to which the payment should be made, the address to which the request should be sent if the procedure is not digitized, information on working hours, etc.), this allows the economy additional savings in time and money and improves legal certainty, predictability and uniformity of actions of the entire public administration.

The role of the state in the economy is declining, but it is still significant. The process of restructuring public companies in previous years has yielded results (for some this process is still ongoing), but these enterprises (596 or 0.5% of the total number of enterprises) still had a large impact on the results of the nonfinancial sector in 2020. Thus, public companies record the following shares in 2020 (compared to 2015): 9.4% (11.6% in 2015) of employment, 20.9%

39 <https://rsjp.gov.rs/wp-content/uploads/Final-Public-Consultation-Manual-16-07-2020-for-publication-1.pdf>

40 RSPP estimate, and the final value will be calculated by the end of Q2 2022.

(25.8%) of capital, 6.1% (6.4%) of total revenues, 5.4% (5.8%) net profit and 3.2% (5.8%) net loss. In order to improve the corporate governance of state-owned enterprises, *the Strategy of State Ownership and Management of Business Entities Owned by the Republic of Serbia for the period from 2021 to 2027* and the *Action Plan for implementation of the Strategy of State Ownership and Management of Business Entities Owned by the Republic of Serbia for the period from 2021 to 2027, in the period from 2021 to 2023*, were adopted. The Strategy envisages the development of a centralized ownership model, in which the centralized state entity will direct and manage the process of state ownership policy development. This will allow for more transparent monitoring and evaluation systems and facilitate the implementation of cross-policies.

The capital market in the Republic of Serbia is not sufficiently developed and currently fails to sufficiently fulfil its main function - the efficient allocation of financial resources of savings and investors (households) to the development of companies. Traditional financing through banking products (deposits and loans) is prevalent in the Republic of Serbia today, partly due to historical reasons. Obstacles to the development of capital markets in the Republic of Serbia, compared to developed world economies, are unbalanced distribution of household financial assets (mostly related to savings), underdeveloped awareness of companies about the possibility of financing regular business and research and development through capital market and inadequate supply of domestic financial instruments available to investors. The development of the capital market, along with the growth of foreign investments, can additionally encourage the continuous economic growth of the Republic of Serbia and the standard of its citizens. *Capital Market Development Strategy for the period from 2021 to 2026* ("Official Gazette of the RS", No. 102/21) and the accompanying *Action Plan for the period 2021 to 2023 for the implementation of the Capital Market Development Strategy for the period from 2021 to 2026* ("Official Gazette of the RS", No. 118/21), and the new *Law on Capital Market* ("Official Gazette of the RS", No. 129/21) will improve the Serbian capital market and will create conditions for the use of a wider range of financial instruments by the private sector. Its expected results are: reducing the dependence of small and medium enterprises on bank financing (and state subsidies), accelerated economic growth, increasing the number of jobs as well as, additional support for investments in innovative industries.

Given the significant infrastructural needs of the Republic of Serbia, the necessity to provide sufficiently comprehensive investment projects, with appropriate feasibility studies, cost-benefit analysis and realistic environmental impact assessment, has been identified. Challenges that existed during the realization of capital investments (resolving property-legal relations, timely obtaining of project documentation, construction permits, breaking deadlines) still exist, but are gradually being overcome. Total investments, according to the *Law on Budget of the Republic of Serbia for 2022* ("Official Gazette of the RS", No. 110/21), are planned in the amount of about 4.1 billion EUR, or about 7.3% of GDP. In terms of improving the systemic procedure for evaluation and selection of public investment projects, the Ministry of Finance in 2019 further improved the legal framework in this area by adopting a new Regulation on capital project management ("Official Gazette of the RS", No. 51/19) and accompanying regulations. Pursuant to the aforementioned Decree, the Commission for Capital Investments was established, which has held six sessions so far. The Commission is responsible for confirming the strategic relevance of capital projects, adopting a list of successfully evaluated projects that have passed the pre-implementation phase, and promoting systematic planning of infrastructure investments, regardless of the source of funding for capital projects monitored at the national level.

Significant efforts have been invested in combating informal business, but reforms are being slowly implemented. The implementation of the *National Programme for Suppression of the Grey Economy (Conclusion on the adoption of the National Program for the Suppression of the Grey Economy, “Official Gazette of the RS”, No. 110/15)* from 2015, which is accompanied by action plans, has established numerous mechanisms for more efficient suppression of the grey economy, and it is crucial to ensure continuity of implementation in the future, as well as to sanction those operating in the grey zone (the preparation of a new strategic document began in 2021). The share of informal employment in total employment at the end of 2020 amounted to 16.4% (22.0% in 2016).⁴¹ By applying *Law on Simplified Work Engagement on Seasonal Jobs in Certain Activities* (“Official Gazette of the RS”, No. 50/18), 31,025 seasonal workers were legally employed in agriculture in 2020, which is 4.2% times more than in 2019. The new *Law on Employment in Seasonal and Other Occasional Jobs in Certain Activities*, the adoption of which is expected in the upcoming period, will, apart from agriculture, extend the scope to jobs in the construction sector (manual labour jobs), accommodation and food services, tourism, as well as home help for the needs of individuals and cleaning for the needs of residential buildings.

In order to further strengthen the rule of law and strengthen the independence and responsibility of the judiciary, it is necessary to change the Constitution, as it is defined under the *Judicial Development Strategy for the period 2020–2025* (“Official Gazette of the RS”, No. 101/20) and revised *Action Plan for the Chapter 23*, adopted by the Government in July 2020. The National Assembly passed a *Decision on upholding the Proposal for changing the Constitution of the Republic of Serbia* (“Official Gazette of the RS”, No. 58/21) in June 2021. The text of the *Draft Amendment to the Constitution* was developed and the first public debate was held in September 2021. **Further efforts are needed to improve the quality and reduce the burden on the justice system.** There are 159 courts in the Republic of Serbia with a classified 3,038 judicial positions (effectively 2,570 judges in 2020, whose average age is 52). The average number of resolved cases per judge was 784 in 2020 (896 in 2019). 1.87 million new cases were filed in 2020 (727 per judge), which is less than in 2019 (879 new cases per judge). Although still high, the number of unresolved cases is continuously declining (to around 1.5 million in 2020 from 3.2 million in 2012), as is the time required to resolve cases (to 274 days in 2020 from 534 days in 2012). On average, 66% of cases are resolved in the first year, 31% of cases take two to three years to resolve, and 3% of court cases take more than three years to resolve.

The transparency of the public procurement process has been strengthened with the adoption of the *Law on Public Procurement* in 2019, but the **level of competition should continue to increase.** The representation of transparent and competitive procedures in the total value of public procurement in the Republic of Serbia in 2020 is 97.43% (about 304 billion dinars), while the participation of the negotiated procedure without any call for bids was only 2.57% (8 million dinars) according to the *Law on Public Procurement* (“Official Gazette of the RS, No. 124/12, 14/15, 68/15 and 91/19) which was in force until 30 June 2020.⁴² Taking into account only the period from 1 July 2020, when application of the new *Law on Public Procurement* began, the representation of transparent and competitive procedures in the total value of public procurement in Serbia in 2020 was 76.72% (about RSD 30 billion), while the share of the nego-

41 SORS, Labour Force Survey

42 Public Procurement Office, Annual Report on Public Procurement in RS for 2019 <http://www.ujn.gov.rs/izvestaji/izvestaji-uprave-zajavne-nabavke/>

tiated procedure without publishing a call for bids was 23.28% (about RSD 9 billion).⁴³ According to the new Law on Public Procurement, the most frequently used basis for the application of the negotiated procedure without publishing a public call, according to the provisions of the new Law on Public Procurement, was Article 61, paragraph 1, item 2), when due to extreme urgency caused by events that could not be foreseen by the procurer, it was not possible to act within the deadlines set for the open procedure or the restrictive procedure or the competitive negotiated procedure or the negotiated procedure with publication. In the total value of contracts concluded in the negotiated procedure without publishing a public call, the share of this basis is 75.31%, of which 66.15% are contracts concluded pursuant to Article 62, paragraph 9 of the new Law on Public Procurement, in procedures in which the Public Procurement Office did not give opinions on the merits of the application of this type of procedure.⁴⁴ The new Public Procurement Portal, which has been in operating since 1st July 2020, enabled electronic communication and data exchange in public procurement procedures, which was reflected in the reduction of the average duration of the open public procurement procedure to 52 days in 2020 (62 in 2019). The new portal encouraged greater involvement of economic entities in the public procurement process, the average number of bids under the public procurement procedure was increased to 2.6 in 2020. (from 2.5 in 2019)⁴⁵.

Establishing an up-to-date real-time real estate cadastre is a precondition for **shortening the procedures required for registering ownership rights in the cadastre**. According to the Global Index of Real Estate Ownership Security ⁴⁶ for 2020, the Republic of Serbia ranked 10th in Europe and 14th in the world in the field of property security. As many as 97% of property owners in the Republic of Serbia feel confident that they will not lose their real estate against their will, which is an important factor in attracting investors. **The digital platform National Spatial Data Infrastructure (NSDI)** is being continuously improved by adding new geospatial data sets and developing new services - a total of **310 data sets and 40 services** are available. In addition to the data of the Republic Geodetic Authority, there are also data of other bodies and institutions (a total of 31 institutions provide data through the NSDI). Currently, **154 institutions use the digital platform**. Submission of requests for registration in the cadastre takes place through the **e-Desk**, in digital form. Citizens can get direct legal assistance in over 2,000 law offices that are authorized users of the e-Desk, while other information can be obtained with the help of the improved RGA Info Centre, which has been in operation since 2021.

43 Public Procurement Office, Annual Report on Public Procurement in RS for 2020 <https://jnportal.ujn.gov.rs/annual-reports-ppo-public>

44 Namely, in accordance with Article 62, paragraph 9 of the LPP/2019, the procurer is not obliged to submit to the Public Procurement Office an explanation and documentation regarding the reasons justifying the application of this procedure, in case of conducting the procedure from Article 61, paragraph 1, item 2) of this Law, for the purpose of procurement in order to provide basic living conditions in cases of natural disasters or technical-technological accidents whose consequences endanger the safety, health and lives of people, material goods or the environment, in accordance with regulations governing emergencies. Taking into account that since the beginning of the application of LPP/2019, there has been a significant deterioration of the epidemiological situation caused by the corona virus, resulting in the declaration of a state of emergency in most parts of the territory of the Republic of Serbia, for procurements related to the need to eliminate the consequences of the epidemic, the procurers were conducting this type of procedure on the basis of Article 62, paragraph 9 of the LPP/2019. - <https://jnportal.ujn.gov.rs/annual-reports-ppo-public> - Annual Report on Public Procurement in RS for 2020

45 <http://www.ujn.gov.rs/izvestaji/izvestaji-uprave-za-javne-nabavke/>

46 The research, conducted in 140 countries around the world, is the result of the work of the Global Land Alliance and the Overseas Development Institute, with the support of the UK Government's Department for International Development and the Omidyar network of experts.

3. Performance indicator

Indicator	Baseline value (2018)	Intermediate value (2020)	Target value (2024)
The share of administrative burden for citizens and the economy in GDP	3.11%	3%	2.80%
Number of optimised administrative procedures	0	180	500
Number of digitised administrative procedures	0	27	220

4. Expected impact on competitiveness

In the previous period, the Republic of Serbia has made significant progress on international competitiveness lists in the field of e-government⁴⁷, which is, among other things, the result of numerous simplifications and digitalization of services provided by public administration to businesses and citizens. The establishment of a publicly available Register of Administrative Procedures, with all the necessary information for the economy in proceedings before public administration, has significantly contributed to the positive impact on competitiveness, thus creating a safer, more transparent and predictable business environment. All the necessary information for business available in one place, enables savings in time and money and at the same time increases the attractiveness of the Republic of Serbia as an investment destination. In the current planning cycle, it is envisaged that the public administration will continue to simplify and digitize its services in as many numbers as possible, as well as to improve and further develop the Register of Administrative Procedures. In the competition between 18 European countries within the global competition Open Government Partnership Impact Awards, the Program for Simplification of Administrative Procedures and Regulations “e-Paper” won second place as the reform with the greatest impact on citizens and the economy.

5. Estimated costs of activities and sources of financing

The implementation of the reform will mostly be financed by donor funds of the European Union, through a four-year IPA project implemented by the World Bank. A total of EUR 3.05 million has been provided for these activities, while 2.6 million euros have been allocated for this ERP cycle: 350,000 euros are planned for listing of administrative requirements, 200,000 euros for optimization of procedures, 1.9 million euros for the improvement of the infrastructure for e-services and digitalization of administrative procedures and 150,000 euros for the improvement of the Register of Administrative Procedures. No funds have been planned from the budget of the Republic of Serbia for these activities.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

An indirect effect on increasing employment is expected, as it will reduce costs for the economy in terms of administrative barriers and achieve savings that may affect the creation of new jobs. A direct impact on the gender aspect cannot be expected, as the reform is gender neutral.

47 Report: <https://ec.europa.eu/digital-single-market/en/news/egovernment-benchmark-2020-egovernment-works-people>; European Commission Report (Serbia 2020 Report), p. 17: https://ec.europa.eu/neighborhood-enlargement/countries/package_en; Report: <https://publicadministration.un.org/egovkb/en-us/Reports/UN-E-Government-Survey-2020>

7. Expected impact on the environment and climate change

Optimization and digitization of administrative procedures significantly reduces the use of paper documents, which will have a positive impact on environmental protection.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Delay of the project intended to connect the Registry with a PSEC	High	Availability of data on administrative procedures through the Registry Portal

STRUCTURAL REFORM 5: SUSTAINABLE AND EFFICIENT MANAGEMENT OF BUSINESS ENTITIES OWNED BY THE REPUBLIC OF SERBIA

1. Description of the structural reform

The exercise of state ownership rights, in accordance with OECD guidelines, should be clearly identified. *The Strategy of State Ownership and Management of Business Entities Owned by the Republic of Serbia for the period 2021-2027* (hereinafter: Strategy) and *the Action Plan for the implementation of the Strategy in the period 2021-2023* (hereinafter: the Action Plan) were adopted.

Pursuant to the Action Plan, in the following period, an analysis of the regulations to be applied by the EERS in their work will be conducted, in order to prepare the basis for the development of a new legal framework for the implementation of the Strategy. Also, a centralized database of all EERS will be established and their classification will be performed. In order to improve corporate governance, among other things, an analysis of the state of affairs will be conducted to establish a unified system of corporate governance.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Analysis of regulations applied by the EERS and development and adoption of a new legal framework												
2	Establishment of a centralized database of all EERS and classification of EERS was made												
3	Analysis of the situation for the establishment of a unified system of corporate governance in EERS												

* Activities after 2023 will be defined by the Action Plans for the period after 2023.

3. Performance indicator

Indicator	Baseline value (2020)	Intermediate value (2022)	Target value (2023)
New legal framework developed (laws and by-laws) to be applied on EERS	no	yes	yes
A centralized database of all EERS was established and classification of EERS was made	no	yes	yes
A percentage of EERS that have established the system of corporate governance	unavailable data	0%	12%

* The proposed measure is new, from the point of view of the ERP, but it has been implemented since 2021. For this reason, the base year is 2020.

4. Expected impact on competitiveness

The non-compliant legal framework in which the EERS operate needs to be changed, in order to establish a centralized state ownership function. A centralized ownership entity will enable a more transparent system of supervision and more efficient implementation of public policies.

Quality corporate governance reduces the information asymmetry between owners and management, which strengthens monitoring, facilitates the process of raising capital, and contributes to strengthening confidence in the financial system.

5. Estimated costs of activities and sources of financing

The proposed measure implies an institutional reform, which will be implemented with existing staff and existing equipment, so that no additional costs are required for its implementation.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

A more transparent system of oversight of the EERS contributes to more efficient implementation of public policies, and thus, indirectly, to improving competitiveness and raising living standards. The reform is gender neutral.

7. Expected impact on the environment and climate change

The proposed reform is environmentally and climate-neutral.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Lack of uniformity and coverage of the legal framework, which regulates the functioning of the EERS	High	Involvement of line ministries and competent authorities in the process of introducing a new legal framework.
Capacity and availability of resources in EERS necessary for the establishment of a unified system of corporate governance	High	Creating a promotional platform for training in the field of corporate governance and establishing a system of training in the field of corporate governance of the governing body of EERS

3. Performance indicator

Indicator	Baseline value (2020)	Intermediate value (2023)	Target value (2024)
New legal institutes in national regulations in the field of capital markets (related agents, organized trading platform, system of approved publications)	0	4	4
Increase in the market capitalization of the Belgrade Stock Exchange, in billion euros	4.36	6.25	8.33
Increasing the percentage of savings placed on the capital market (investing in investment/pension funds or through direct investment in securities)	2.32%	5%	5%

4. Expected impact on competitiveness

It is expected that the improvement of the volume and diversity of the offer of financial mechanisms on the market will lead to the development of the domestic capital market, diversification of sources of financing, and thus to the increase in domestic and foreign investments in the economy. A legislative framework that promotes legal certainty and economic stability further encourages the ability of the capital market to serve the real economy. This structural reform is expected to contribute to the efficiency of both the private and public sectors.

By creating a more attractive economic environment and diversifying sources of financing, interested companies will provide the opportunity to raise capital to finance growth and development, while at the same time ensuring a higher level of transparency and greater security of the financial system (enhanced oversight over the application of regulations governing the operations of market entities; high quality of financial reporting, etc.), and thus the growth of investor confidence and their interest in investing.

5. Estimated costs of activities and sources of financing

Taking into account that the activities planned within the structural reform “Development of the domestic capital market through introducing new legal institutes and providing a greater degree of investor protection” are already under the jurisdiction of the Ministry of Finance, the only additional costs, in the period 2022 – 2024 are the costs for employment of two civil servants in the Department for Financial System, the Group for Securities and Capital Market. In order to develop a competitive, highly efficient, transparent and productive capital market, it is necessary to increase the number of civil servants performing normative tasks in the field of capital market, which is why the costs of this structural reform include annual gross salaries and transport costs (EUR 12,100 per civil servant). It is planned to hire one civil servant in 2023 and another civil servant in 2024.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The general goal of harmonizing the domestic regulatory framework in the field of capital markets with the legal regulations of the European Union, in addition to fulfilling all conditions for acquiring the status of an EU member state, is to activate the capital market for economic growth, employment and better quality of life. An impact on reducing unemployment can be expected. Structural reform is gender neutral.

7. Expected impact on the environment and climate change

The adoption of the new Law on Capital Market will improve the existing domestic market through the diversification of financial mechanisms and will increase the transparency and trust of market participants. By prescribing new capital market legal mechanisms, the strategic measure in question could have an impact on the environment and climate change.

The implementation of the Capital Market Development Strategy for the period from 2021 to 2026 and the Action Plan of the strategy in question, on which the structural reform is based, will activate some hitherto unused financial mechanisms, such as green bonds, which will be used exclusively for financing projects in the field of ecology and environmental protection.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Creation of insufficiently attractive financial mechanisms and stagnation (or decline) in the number of capital market participants	High	In order to reduce the subject risk, a comprehensive situational analysis of the current state of affairs on the capital market and a survey of the needs of market participants will be performed.
Insufficient capacities of the Ministry of Finance to perform the planned normative tasks	Low	Employment in an organizational unit that performs normative tasks in the field of capital markets.

Key challenge no. 3: More efficient use of energy with further opening of the energy market

The energy sector in the Republic of Serbia accounts for about 4% of GDP. It is characterized by dependence on fossil fuels, low level of energy efficiency, insufficient use of renewable energy sources. Of the total electricity generated in the Republic of Serbia, coal-fired thermal power plants produced 68.6%, hydropower plants 26.5%, wind power plants connected to the transmission system 2.5%, and other power plants 2.4% of electricity (PE EPS generates 96% of the total electric energy)⁴⁸. In order to increase energy efficiency and meet the criteria in the field of environmental protection, investments in existing thermal power plants and mines will continue. The laws adopted in the middle of 2021 will also contribute to further energy transformation towards climate neutrality: *Law on Amendments to the Law on Energy* (“*Official Gazette of the RS*”, No. 40/21), *Law on Energy Efficiency and Rational Use of Energy* and *Law on Use of Renewable Energy Sources*. These laws are the basis for the development of the *Integrated National Energy and Climate Plan* until 2030 with vision until 2050 (which will define new national goals in the field of energy efficiency, renewable energy sources, reduction of greenhouse gas emissions, energy security and the internal energy market and provide an overview of planned policies and measures and the necessary financial resources to achieve these goals) and the *Energy Development Strategy* (with the *Strategy Implementation Program*) for the period until 2040, with vision until 2050 (which fully defines energy production in the Republic of Serbia, in order to ensure security of energy supply while respecting all environmental standards). The drafting of these two documents is underway. *The Law on Climate Change* enables a higher degree of planned harmonization of the energy sector to climate change. In order to implement the energy transition and preserve the environment, this law determines the adoption of the *Low Carbon Development Strategy with the Action Plan*, as well as the *Programme for Adaptation to Changed Climate Conditions* (the development of these documents is underway).

48 EARS, Report on the state of affair in the energy sector of Serbia for 2020

Existing power plants emit large amounts of harmful gases into the air, especially nitrogen and sulphur oxides, as well as suspended particles, which has an adverse effect on the environment and human health. Sulphur dioxide (SO₂) emissions in 2019 amounted to 395.4 kilotons (Gg), which is 14.0% more than in the previous year. The largest emission of SO₂ originates from the sector Electricity, gas and steam supply sector (primarily thermal power plants that use lignite) with a share of 91.5%, and it recorded a growth of 16.6% compared to 2018⁴⁹. *The National Plan for the Reduction of Emissions of Major Pollutants from Old Large Combustion Plants* (“Official Gazette of the RS”, No. 10/20) defines maximum emissions of major pollutants from old large combustion plants have been defined. Investments in coal quality management systems, systems for the reduction of sulphur and nitrogen oxides and the installation of electrostatic precipitators have reduced dust air pollution and made a contribution to denitrification and desulphurization of flue gases. The flue gas desulphurisation plant at TPP “Kostolac B” has been in operation since February 2020, and the construction of the gas desulphurisation system at TENT A blocks A3- A6 is expected to be completed by the end of 2022, which will reduce SO₂ emissions from blocks A3- A6 below 200 mg/Nm³ and emitting powdery substances at 20 mg/Nm³. The gas desulphurisation project at TENT B has been initiated and should be completed in early 2024. Large environmental pollutants are also individual furnaces, of which there are about 1.2 million in the Republic of Serbia (the total number of households is 2.6 million) in which coal and fuel oil are used for combustion. The plan is to subsidize the household for the transition to cleaner energy sources (pellets, gas, electricity). *The Law on Fees for the Use of Public Goods* introduced fees for the protection and improvement of the environment and prescribed the amounts that polluters pay depending on the type and amount of pollution. The amount of the fee is determined by the local self-government units for each calendar year. Generated revenues from fees are paid into the budgets of towns and municipalities.

Implementing energy efficiency measures and establishing an institutional approach to financing is a priority given the extremely high energy intensity. Improving energy efficiency requires increasing funding intended for these purposes, establishing a better institutional framework, as well as cooperation and coordination with stakeholders. Energy intensity in the Republic of Serbia is four times higher than in the average countries of the OECD. The average consumption of thermal energy per household in the Republic of Serbia is estimated at about 214 KWh/m² per year, while the average at the EU level is about 112 KWh/m² per year. It is also important that about 38% of total energy consumption in households is consumed in the form of electrical energy, while this percentage in the EU is about 25%. *The Law on Energy Efficiency and Rational Use of Energy* has set the foundation for the reduction of the energy use by 20-30% per year (regulates energy labelling of products introducing of eco-design requirements as well as improving energy audit and implementing energy management) and the formation of the Administration for Financing and Promoting Energy Efficiency. Through the project “Greening of the public sector” and “Energy Efficiency in central government buildings” and other projects, energy efficiency in public buildings and the use of renewable energy sources in the district heating sector will be improved. *The programme Rehabilitation of District Heating Systems in Serbia* contributes to the improvement of district heating systems. In order to apply renewable energy sources in the district heating sector, the implementation of the Program is underway: Encouraging the development of renewable energy - development of the biomass market in the Republic of Serbia and a number of other projects to use renewable energy sources in these systems are also being prepared. *The Law on Fees for the Use of*

49 SORS, Statement, Account for emissions into the air, 2019

Public Goods introduced a fee for energy efficiency. The amount of the fee is determined by this law per unit of delivered quantity of energy and energy source (oil derivatives, electricity and natural gas). The funds are directed into the *Budget of the Republic of Serbia*. In order to improve energy efficiency during 2021, the line ministry in cooperation with local governments has launched pilot projects to replace carpentry, heating boilers and installation of solar panels in the household sector, and energy efficiency improvement projects are being prepared to be implemented in cooperation with international financial institutions.

It is necessary to build new production capacities that would meet all the criteria in the field of environmental protection and further contribute to meeting the increased needs for electricity and gas. The development of the electricity sector and regional cooperation are limited due to outdated and inefficient generation capacities (average age over 30 years). The share of renewable sources in gross final energy consumption is increasing, but not to a sufficient extent (20.32% in 2018 and 21.44% in 2019⁵⁰ and preliminary 26.3%, for 2020, and the final percentage will be available in February). Units in HPP Zvornik and HPP Djerdap 1 have been revitalized (revitalization of another of the 6 units is planned to begin by the end of 2022) and in addition, it is planned to start with works on revitalization of units in HPP Djerdap 2, which will provide higher electricity production and lower costs maintenance. A total of 143 mini hydropower plants with a total capacity of 104 MW were built. Works on the construction of HPP Buk Bjela with a capacity of 114.5 MW have begun. The development of projects from unused hydro potentials (the Morava, Ibar and Drina Rivers), as well as the project of the reversible hydroelectric power plant Bistrica and Djerdap 3 will continue.

So far eight wind farms with a total capacity of about 398 MW have been built, and works on two wind farms with a total capacity of about 168 MW are underway. In 2021, energy certificates were issued for the construction of 5 wind farms with a total capacity of 279.1 MW, of which the wind farm Crni vrh with a capacity of 150 MW and the wind farm Pupin with a capacity of 95.5 MW. Work on the construction of biogas power plants has continued, which will provide 100 MW of installed capacity.

For the construction of new production capacities, the adoption of the Law on the Use of Renewable Sources and Energy is especially important, aimed at enabling new investments and increasing the share of renewable energy sources in gross final consumption. In the electricity sector, benefits have been introduced for all investors who do not use incentives: they have the right to priority access to the electricity system and have no balance responsibility until the establishment of a liquid intraday market. A new system of incentives in the form of market premiums has been introduced for electricity producers from RES, while feed-in tariffs have been retained only for small plants. The right to both types of incentives is acquired in the auction procedure, and the incentive period has been extended from 12 to 15 years. Conditions have been created for the stability of incentive measures. A new way of implementing RES projects has been introduced, in cases when auctions are not sufficient measures to achieve goals or when the needs of energy transition require it, the construction of new RES power plants can be achieved/done through a public tender for the selection of a strategic partner. A corporate electricity purchase agreement has been introduced that allows RES electricity producers to enter into an electricity purchase agreement directly with the end customer (without the mediation of suppliers as a rule on the market). A new legal institute, the buyer-producer (prosumer), has

50 MoME, Report on the implementation of the National Action Plan for the Use of Renewable Energy Sources of the Republic of Serbia for 2018 and 2019.

been introduced, with the right to connect its facility to RES for its own needs, and to deliver the unused excess energy it produces back to the system, and gets its bill reduced. The law also foresees communities of renewable energy sources (energy communities) in which natural and legal persons are associated for the production, consumption, storage and sales energy from RES. The use of RES in thermal energy and in traffic is planned. In the thermal energy sector, for the first time, it was specified for which type of RES incentive measures can be acquired (heat pumps, biomass, solar energy, geothermal energy).

Conditions have been created for the use and encouragement of innovative technologies in early development that use new renewable sources, such as renewable hydrogen.

A legal basis for e-energy has been introduced, as well as a measure to obtain documentation from official records, which will significantly speed up procedures and reduce costs for the economy and citizens.

A new investment plan has been prepared with projects in energy and mining worth about 17 billion euros, of which about 12 billion euros are planned for projects related to wind farms, solar power plants and hydroelectric power plants. In case of realization of all projects from the investment plan, the total CO₂ emission would be reduced by about 23 million tons.

In addition to the Kostolac wind farm with a capacity of 66 MW, investor PE EPS Belgrade, which is in the implementation phase, possible locations for the implementation of state wind power plant projects are Zabela and Kovin - Dubovac, as well as PPP with Fintel Energija a.d. for the construction of the Maestrle Ring wind farm with a capacity of approximately 600 MW etc. (total capacity around 3,000 MW, total project value around 3 billion euros).

State projects of solar power plants would be implemented on state land dominated by more than 200,000 hectares of abandoned agricultural land on which it is possible to build about 2,000 MW of solar power plants (within this plan, a Cooperation Agreement was signed between the Ministry of Mining and Energy and UGT Renewables LLC, which is negotiating the construction of solar panels with a total capacity of about 1,000 MW, on area of about 2,000 hectares and a dozen locations across the Republic of Serbia, which would provide additional capacity of one gigawatt of electricity and reduce carbon dioxide emissions by 1.9 million tons per year). On the land belonging to PE EPS (thermal power plant landfills), it is possible to build about 300 MW of solar power plants with a total value of about 200 million euros. The realization of a large state project for the promotion of a new buyer-seller institute has begun, within which the assessment of the total roof area in the Republic of Serbia, which amounts to about 600 km², has been done. Installing roof solar panels on 10% of this area would provide an installed capacity of 6,000 MW (70% of the total installed capacity at this moment), or an annual production of 7 TWh (about 20% of the total annual production). In total, the state projects of solar power plants bring new 8,300 MW of power, with a total value of 6.2 billion euros).

It is necessary to improve the energy distribution network on the territory of the Republic of Serbia through the installation of modern equipment and the introduction of a modern management and supervisory system. Total losses in the transmission and distribution of electricity in relation to gross electricity consumption amount to 13% in 2020⁵¹ (12.8% in

51 Report on the activities of the Agency for energy for 2020, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202020.pdf>

2019). In the gas sector, the total losses in delivery, distribution and for own consumption amount to 22 million m³ (26 million m³ in 2019)⁵². One of the basic means for reducing electricity losses and reducing the load on existing transmission capacities is the construction of new electricity infrastructure, therefore, among the planned projects in this area, the construction of the Trans-Balkan electricity transmission corridor is important. As part of this project, the construction of the 400 kV transmission line on the Kragujevac-Kraljevo route continued, and funds were provided for the construction of the 400 kV transmission line on the Obrenovac-Bajina Basta route, as well as raising the voltage level of the Bajina Basta substation to 400 kV. In order to reduce commercial and technical losses in the distribution system and improve the efficiency of management and control over the electricity distribution system, the realization of the Smart Meters Introduction Project and the Distribution Network Automation Project is planned, the total value of which is around 230 million euros. Works on the installation of new transformer substations and the introduction of mobile transformer substations, construction and commissioning of transmission lines have been intensified, and the automation and modernization of the distribution network will continue.

The legal and functional unbundling of the electricity distribution system operator has been completed. By the decision on amendments to the founding act of the distribution system Operator “EPS Distribucija” d.o.o. Belgrade (“Official Gazette of the RS”, No. 6/21), which was adopted by the Government on January 28, 2021, the founder of the company and the only member of the founders with a 100% share is the Republic of Serbia. The business name of the Company was changed to Elektrodistribucija Srbije d.o.o. Beograd. On April 6, 2021, Elektrodistribucija Srbije Beograd obtained a license to perform the energy activity of electricity distribution and management of the electricity distribution system (that is, AERS issued the license on April 1, 2021).

The ongoing gas market reforms need to be intensified so as to ensure security of gas supply. In accordance with the Reorganization Plan⁵³, Transportgas Srbija doo (natural gas transmission system operator) and Distribucijagas Srbija doo (natural gas distribution system operator) separated from JP Srbijagas. The ownership of Transportgas was transferred to the Republic of Serbia in order to create an independent transmission system operator. The Plan for the development of the transmission gas pipeline system for the period 2020-2029 was adopted in order to ensure greater security of gas supply, as well as the development of the transmission system through the expansion of the gas pipeline network and the construction of interconnectors with the transport systems of neighbouring countries.

It is necessary to increase the degree of gasification and diversify the direction and source of gas supply. About 60% of the territory of the Republic of Serbia is gasified, while only 10% of households are connected to gas.⁵⁴ Domestic production can meet 10.7% of total natural gas needs. A line transmission system with only two entrances to the country (from Hungary and Bulgaria) limits the development of the gas market. With the construction of the Balkan Stream gas pipeline, the supply of the Republic of Serbia through this gas pipeline began on January 1, 2021. From October 2021, this pipeline made it possible to transmit the first quantities of transit gas to Central Europe via Serbia. An EIB loan agreement has been signed for the construction of the Nis-Dimitrovgrad gas pipeline (gas interconnector Serbia-Bulgaria, on the territory of

52 Report on the activities of the Agency for energy for 2020, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202020.pdf>

53 MoME, <https://www.mre.gov.rs/dokumenta/sektor-za-medjunarodnu-saradnju-i-evropske-integracije/ostalo/akcioni-plan-za-sprovodjenje-aktivnosti-u-cilju-reorganizacije-jp-srbijagas-novi-sad>

54 Report on the activities of the Agency for energy for 2020, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202020.pdf>

Serbia), which is financed through IPA 2017, and the Contract for the execution of works was also signed, as well as the Contract on supervision over the execution of works. It is expected that this gas pipeline will be operational from the end of 2023.

It is necessary to set the price of electricity⁵⁵ so that it reflects the costs of regulated activities (network charges), as well as market prices for electricity, taking into account the standard of living and protection of energy-vulnerable customers. The price of electricity in the Republic of Serbia (for reference customers in the household category calculated according to the Eurostat methodology) in 2020 was 7.38 eurocents per kilowatt-hour (21.34 eurocent pre kilowatt-hour is EU-27 average, Eurostat) and is on average 20-45% lower than the price in other SEE countries. In the electricity sector, transmission and distribution energy tariffs reflect the required level of investment and maintenance.

The unregulated market accounted for 48% of total electricity consumption final customers in 2020, and 84.1% of total gas consumption by final consumers in 2019.

The protection of energy-vulnerable customers of electricity and natural gas in the Republic of Serbia is provided in accordance with the Decree on the energy-vulnerable customer (“Official Gazette of the RS”, No. 113/15 and 59/18).

The right of the vulnerable customer to reduce the electricity bill in the period January-December 2020 was used by an average of 70,205 households per month, and to reduce the gas bill by 87 households, which is a low level of protection of vulnerable households compared to the estimated number of low-income households, beneficiaries of financial social assistance and child allowance⁵⁶.

Amendments to the Law on Energy (“Official Gazette of the RS”, No. 40/21) include energy buyers in addition to electricity and gas customers, as well as heat energy customers. A new proposal for a regulation on energy-endangered customers is being prepared.

In the coming period, the procedures for exercising rights in the field of energy will be accelerated and simplified. *Law on Amendments to the Law on Energy* (“Official Gazette of the RS”, No. 40/21) provide for faster and simpler issuance of permits and approvals through the electronic business system (**e-Energy**). *Law on Amendments to the Law on Mining and Geological Surveys* (“Official Gazette of the RS”, No. 40/21) created the basis for faster submission of requests and more efficient issuance of permits, monitoring and control of geological surveys and exploitation of mineral raw materials, groundwater and geothermal resources (**e-mining**). With the introduction of e-mining, it is planned to reduce the time for issuing permits from the current 150 days to 15-20 days.

55 ECOFIN Council recommendation of 2020

56 Report on the work of the Energy Agency for 2020, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202020.pdf>

a) Reforms

STRUCTURAL REFORM 7: ENERGY MARKET DEVELOPMENT COUPLED WITH ENERGY INFRASTRUCTURE CONSTRUCTION

1. Description of the structural reform

The Project Trans-Balkan Corridor consists of four sections and aims to increase the transmission capacity of Western Serbia, increase the security and reliability of electricity supply to consumers in the Republic of Serbia, as well as to build new interconnectors (on the borders with Romania, BiH and Montenegro). Section 1 (two-system 400 kV transmission line TS Pančevo 2 - border with Romania) was constructed and was commissioned by the Republic of Serbia by the end of 2017. Section 2, which consists of the 400 kV transmission line TS Kragujevac - TS Kraljevo 3 (with raising TS Kraljevo 3 to 400 kV voltage level), is currently under construction. Section 3 of the project consists of the transmission line 2x400 TS Obrenovac - TS Bajina Basta with raising the voltage level of TS Bajina Basta to 400 kV. Section 4 consists of the 2x400 kV transmission line TS Bajina Bašta - state border with Montenegro - state border with BiH.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Reconstruction and upgrading of TS Kraljevo 3 and reconstruction of TS Kragujevac 2, needed for the introduction of the new transmission line Kragujevac - Kraljevo												
2	Construction of the Kragujevac - Kraljevo transmission line												
3	Construction of the transmission line Obrenovac – Bajina Bašta												
4	Upgrading TS 220/35kV Bajina Bašta to 400kV voltage level												

At the end of 2020, a loan agreement was signed for section 3, as well as a grant agreement. The technical documentation for this section should be completed by the beginning of 2022, and after that the resolution of ownership issues is expected. The beginning of construction is planned for the first quarter of 2023, while the end of construction is expected in the last quarter of 2025. The start of construction for section 4 depends on a donation to be received from the WBIF. If the requested amount of the donation is approved, the construction of this section could start at the end of 2024 or in the first half of 2025.

3. Performance indicators

Indicator	Baseline value (year)	Intermediary target (year)	Target value (year)
Construction (section 2)	10% (2020)	85% (2021)	100% (2022)
Construction agreement signed (section 3)	0 (2021)		1 (2022)
Construction (section 3)	0% (2022)	20% (2023)	40% (2024)

4. Expected impact on competitiveness

This measure can have the effect of reducing the differences in the wholesale price of electricity between the Western Balkans and Italy. The dynamics of the construction of the second core of the submarine cable between Montenegro and Italy also has a great influence on the reduction of price differences. The first phase of construction of this cable has been completed, and the 600 MW cable was put into operation in November 2019.

5. Estimated costs of activities and sources of financing

The construction of the electricity transmission project Trans-Balkan Corridor will be financed from EMS AD's own funds, WBIF donation and KfW bank loan.

The total cost of construction for the entire project is 156.460.000 euros. The implementation of the project commenced in 2012, and the completion is planned for 2026, when the construction of the section 4 will be finalised. According to the current point of view, the planned financial resources for the period 2022-2024, for the project implementation are 35.817.389 euros. On an annual basis and according to the source of financing the plan is presented as follows:

2022 - planned own funds EMS AD 310.244 euros, credit funds 1.615.910 euros, donation 1.660.460 euros. The planned funds are mostly envisaged for equipment and works for the section 2 of the project, while the rest is for the implementation of section 3 consultant services. The smallest amount is planned (10.391 euros from the own funds) for the financing of fees for the section 4.

2023 - planned own funds EMS AD 41.309 euros, credit funds 9.381.914 euros, donation 3.022.389 euros. The largest amount of the funds is planned for equipment and execution of works under the section 3, and the rest is planned for the consulting services for the implementation of the same section.

2024 - planned own funds EMS AD 302.521 euros, credit funds 14.973.803 euros, donation 4.508.839 euros. As presented for 2023, the amount of funds is planned for equipment and execution of works for the section 3, and smaller amount for the consulting services under the same section.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The new energy infrastructure can lead to the emergence of new users of the transmission system in the area in which it is being built and to the expected increase in the number of employees. The impact of the development of the energy market on the gender aspect in the long run is reflected in the development of society as a whole, which on the other hand implicitly opens greater opportunities for state assistance to socially vulnerable groups.

7. Expected impact on the environment and climate change

Minimal environmental impact is expected, as preparation and construction are carried out in accordance with the Law on Environmental Impact Assessment ("Official Gazette of the RS", No. 135/04 and 36/09) and relevant regulations. The Trans-Balkan Corridor is part of the EU Investment Plan for the Western Balkans, which provides financial support for the goals set by the European Green Agreement.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Failure to secure project financing	High	Own-source financing to be supplemented by loan agreement
Failure to secure credit funds	Low	Diversification of the request toward the international financial institutions

STRUCTURAL REFORM 8: IMPROVEMENT OF CONDITIONS FOR ENHANCING ENERGY EFFICIENCY THROUGH IMPROVING THE LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS AND PROVIDING INCENTIVES

1. Description of the structural reform

The goal of structural reform is to improve energy efficiency in the Republic of Serbia. The reform will encompass the activities of adopting bylaws stemming from the new Law on Energy Efficiency and Rational Use of Energy (LoEERUE) in order to fully harmonize regulations in the Republic of Serbia with EU regulations in the field of energy efficiency. The reform will also include capacity building for the implementation of energy efficiency (EE) policy through the establishment and support of the work of the Administration for Financing and Encouraging Energy Efficiency (hereinafter: the Administration), in accordance with the LoEERUE. Within the reform, a significant activity is the provision of permanent (directing at least the full amount of compensation to incentives for energy efficiency through the activities of the Administration) and additional sources of funds to encourage energy efficiency. Incentives will be especially focused on households, for the needs of energy rehabilitation of residential buildings and the installation of solar panels for the production of electricity for their own needs. For multi-apartment buildings connected to the district heating system, which receive incentives for the improvement of EE from the Administration, the transition to payment according to the consumption of thermal energy will be envisaged.

The reform is being implemented in accordance with the Program for the Implementation of the Energy Development Strategy of the Republic of Serbia until 2025 with projections until 2030 for the period from 2017 to 2023 (Decree on determining the Program for the Implementation of the Energy Development Strategy of the Republic of Serbia until 2025 with projections until 2030 for the period from 2017 to 2023, "Official Gazette of the RS", No. 104/17) and Section 3.7. Area of Energy Efficiency in the Energy Consumption Sector. The implementation of the reform will be an important element of the Integrated National Energy and Climate Plan and the new Energy Development Strategy, which is being drafted, and the basis for the implementation of the Long-Term Building Renovation Strategy, which is being finalized.

In the previous period, LoEERUE was prepared and adopted and the drafting of bylaws began. The collection of energy efficiency fees based on the Law on Fees for the Use of Public Goods takes place continuously throughout the year and revenues from this fee amount to about 10 million euros per year. The director of the Management Board has been appointed, and the systematization of the Administration came into force. As part of strengthening the capacity for financing energy efficiency, five additional persons were hired through service agreements.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Establishment of the Directorate for Financing and Encouraging Energy Efficiency												
2	Adoption of bylaws in order to reach full harmonisation with the <i>acquis communautaire</i> in the area of energy efficiency												
3	Directing the full amount of fees to incentives for energy efficiency through the activities of the Directorate												
4	Financing energy efficiency projects												
5	Strengthening the capacity to implement energy efficiency policy												

3. Performance indicators

Indicator	Baseline value (2021)	Intermediate value (2023)	Target value (2024)
Percentage of achieved energy savings through the implementation of EE projects in relation to energy consumption in the year before the project implementation	0	20%	20%

4. Expected impact on competitiveness

Improving energy efficiency in the industrial sector and the commercial sector leads to a reduction in energy consumption per unit of product, which means that it also contributes to their competitiveness.

5. Estimated costs of activities and sources of financing

For the implementation of structural reform, it is necessary to secure funds for investments and work of the Administration, as well as for the implementation of international projects financed by donors and international financial institutions. Estimated costs of the implementation of the reform: in 2022 about 57 million euros for investments and about 2 million euros to build the capacity of the Administration, in 2023, 112 million euros of which 111 million euros for investments and 1 million euros for strengthening the capacity and in 2024 about 117 million euros for investments. The commencement of the work of the Administration is expected at the beginning of 2022. The number of employees in the Administration is expected to gradually increase over the years. No additional funds are provided for the work on the bylaws, because the work on these jobs will be done by already employed persons in the Ministry with the possible support of donors whose support cannot be quantified in money.

In addition to the Budget funds, significant donations and loans from international financial institutions with a special focus on the household sector will be provided for the activities of the Administration in the coming period, as well as funds for technical assistance to build the capacity of the Administration.

In 2022, the required funds for the work of the administration are estimated at about 0.229 million euros (about 0.093 million euros for salaries and about 0.136 million euros for operating costs), while the costs for subsidies and transfers to increase energy efficiency allocated by the Administration are expected to be 20.83 million euros, which will be followed with another 13.9 million euros from the budget of local self-government units. IPA 2021 funds for technical assistance of around 2 million euros are also needed for the implementation. For the implementation of investments from international projects, international financial institutions funds of a total of 15.3 million euros and grants of about 6.9 million euros are needed, of which about 2.8 million grants with project loans and SECO donations of 4.14 million euros (0.54 million euros for technical assistance and 3.6 million euros for investment activities).

In 2023, the costs for the work of the Administration are expected to increase by about 20% due to the gradual increase in the number of employees and the volume of work. Thus, in 2023, the necessary funds for the work of the administration are estimated at about 0.28 million euros (about 0.112 million for salaries and about 0.166 million euros for operating costs), while for subsidies and transfers to increase energy efficiency allocated by the Administration, it is estimated that about 20.8 million euros are needed, from the budget which will be followed by another 13.9 million euros from the budget of local self-government units as in 2022. Strengthening the capacity also requires IPA 2021 funds for technical assistance of around 1 million euros and funds for a pilot investment projects of 2 million euros. For the realization of international projects, funds of international financial institutions of a total of 72.2 million euros are needed, followed by funds of donations of about 1.75 million euros.

In 2023, the costs for the work of the Administration are expected to increase by about 20% due to the gradual increase in the number of employees and the volume of work. Thus, in 2024, the necessary funds for the work of the administration are estimated at about 0.33 million euros (about 0.134 million euros for salaries and about 0.2 million euros for operating costs), while for subsidies and transfers to increase energy efficiency that allocates the administration estimates that around 20.8 million euros is needed, which will be followed by another 13.9 million euros from the budget of local self-government units, as in 2023. The implementation also requires IPA funds to support investments of around 10 million euros. For the realization of international projects, funds of international financial institutions of a total of 70.45 million euros are needed, followed by funds of donations of about 1.7 million euros.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The implementation of the reform may have a significant impact on the increased demand for labour force due to the need to implement numerous energy efficiency projects, especially in connection with the implementation of building construction projects. It is estimated that for every million euros of investment in the rehabilitation of residential buildings, 7 new jobs can be created. In addition, the implementation of energy efficiency projects reduces energy costs and thus contributes to the fight against poverty.

7. Expected impact on the environment and climate change

With an annual investment of about 150 million euros in the rehabilitation of buildings in the household sector, it is estimated that energy savings of 120,000 tons of CO₂ per year can be achieved.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Lack of funds in the budget	High	Provision of MFI loans and donations from IPA, WBIF and other donors
Delay in the adoption of bylaws, in relation to the deadlines set by law	Moderate	Technical assistance provided
Insufficient number of quality staff in the Directorate	Moderate	Provision of technical assistance from IPA 2021 for capacity building of the Directorate and hiring 6 experts to provide support in the first 3 years. Exchange of experiences with institutions from the region.

5.2. ANALYSIS OF OBSTACLES IN OTHER AREAS (NOT COVERED IN SECTION 5.1) AND RELATED STRUCTURAL REFORM MEASURES

5.2.1. Area PUBLIC FINANCIAL MANAGEMENT

a) Analysis of main obstacles

The new Public Financial Management Reform Programme for the period 2021-2025 (“Official Gazette of the RS”, No. 70/21), of which the Action Plan for the implementation of the Public Financial Management Reform Program for the period 2021-2025 is an integral part, envisage measures and activities that build on the results achieved in the previous five-year period. The programme envisages further progress in the process of strengthening programme budgeting through strengthening performance-related elements; further implementation of the established legal framework for capital investment management, as well as for monitoring the fiscal risks for which the establishment of the legal framework is planned; strengthening business processes, administrative capacity and IT solutions regarding collection and management of budget funds; further institutional strengthening of the budget inspection system and the bodies responsible for the management and control of EU funds; further improvement of the financial management and control system (FMC) in public sector institutions, strengthening of the internal audit function, monitoring of internal control and training; development of a plan for the improvement of accounting in the public sector, further process of certification of accountants and improvement of the coverage of accounting data. In the area of external oversight of public finances, it is necessary to ensure further strengthening of external audit, as well as the control function of the National Assembly.

As part of the implementation of public finance management reform, the analytical capacities of the Ministry of Finance, and other relevant institutions involved in the reform, have been significantly strengthened. The introduction of new organizational solutions, new models and analytical instruments, software, training, improved data exchange and increased transparency of data, has led to increased public insight into the flow of public finances and the adoption of EU standards in this area. Limited opportunities for new employments and personnel turnover are the identified challenges in the area of strengthening administrative capacity. The next challenge is the investments in improving and connecting IT capacities, sustainability as well as

involvement in the digitisation process, which is a prerequisite for any modern public administration and a basis for efficient management of the public finance system.

Further reform of the Tax Administration is a key factor in the process of increasing budget revenues and improving public financial management, while at the same time having an extremely large impact on improving the business environment for businesses and reducing the grey economy. Although in the past period organizational structure has been redesigned and business networks for basic and separate activities created, work and business processes in the Tax Administration improved, in the fight against informal business (which is reflected in higher collection of public revenues), there is room for further modernization of tax administration, automation of procedures, creating conditions for full implementation of the principles of voluntary compliance, retention of quality staff, strengthening the advisory function of tax inspectors, etc., in accordance with the new Program of Transformation of the Tax Administration, as well as improving the legal framework of tax policy.

The new fiscalisation system will also contribute to the improvement of the public finances, business environment and the reduction of the grey economy. The fiscalisation system, which has been in operation for 15 years, is inconsistent with the development of new technologies and solutions applied in international practice. The certification process of fiscal cash registers and printers is complicated, time-consuming and very expensive, which additionally burdens the economy sector, while the credibility of invoices can only be checked at the point of sale on the control bar. The new Law on Fiscalisation, adopted in December 2020, and whose implementation will begin in the period from 1st November 2021, and no later than 30th April 2022. This will enable more efficient control of turnover of goods and services, i.e. will create conditions for the Tax Administration to more effectively monitor and control taxpayers at risk of evading payments of their taxes.

Law on Electronic Invoicing and three accompanying Decrees (Decree on the conditions and manner of using the invoice management system (“Official Gazette of the RS”, No. 69/21 and 132/21), Decree on the conditions and manner of storing and making available electronic invoices and the manner of ensuring the authenticity and integrity of paper invoices (“Official Gazette of the RS”, No. 69/21 and 132/21) and the Decree on the procedure and conditions for giving and revoking consent for performing the activities of information intermediary (“Official Gazette of the RS”, No. 69/21 and 132/21)), adopted in mid-2021, will enable the complete replacement of the paper form of the invoice with a digital one. The phased introduction of the obligation to issue and receive electronic invoices is envisaged: from January 2022, it is the obligation of entities within the public sector (G2G), as the submission of e-Invoices to the public sector by the private sector (B2G); from July 2022, the public sector is obliged to submit e-Invoices to the private sector (G2B) and from January 2023, it is the obligation of economic entities in mutual transactions (B2B). The use of the electronic invoice system is free, legally safer and enables the acceleration of the work and business process, which will bring millions of savings to companies in the Republic of Serbia in administrative and operational costs, and more efficient control and collection of taxes to the state.

b) Reforms

STRUCTURAL REFORM 9: TAX ADMINISTRATION TRANSFORMATION

1. Description of the structural reform

The main goal of the reform is for the Tax Administration of the Republic of Serbia (TARS) to become an organization characterized by modern digital operations, featuring administration oriented towards providing services to taxpayers, the services being provided in accordance with the best international standards, and also to ensure risk analysis that allows TARS to efficiently use its available resources for optimization of revenue collection. The framework for the implementation of the TARS reform is defined by the new Transformation Programme for the period 2021-2025 and Action Plan for the period 2018-2023. By realizing 3 strategic goals of the 2021-2025 Transformation Programme: Establishing business processes and organization in accordance with the best international practice, and in order to increase the collection of public revenues, improvement of the quality of existing and introduction of the new types of services tailored to the needs of taxpayers and profiling a new tax officer of exceptional professionalism and competence, will set the foundations of a new Tax Administration architecture which are visible through three “products”, i.e. components: 1. Integrated information system based on ready-made commercial solution (COTS), which crosses references and checks the data of the Tax Administration and third parties in order to detect taxpayers who do not operate in accordance with regulations; 2. Personal e-Portal adapted to each taxpayer and which represents a module for direct communication of an individual with the Tax Administration and 3. Improving the professional education of tax officials.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Business process reengineering, including training of trainers to introduce new functions in the operational units of the Tax Administration of the Republic of Serbia												
2	Implementation of the activities from the TAMP Procurement Plan (Tax Administration Modernization Project)												
3	Analysis and introduction of a modern record management system through a comprehensive information management model												
4	Procurement of systems for the new ICT platform												

3. Performance indicators

Indicator	Baseline value (2017)	Intermediate value (2020)	Target value (2024)
Newly registered taxpayers in a calendar year (in %)*	114.68	79.64	102.18
Growth of newly discovered revenues by years (in %)**	90.96	94.24	111.33
Degree of realization of billing task (in %)***	107.9	107.7	101.00

*The indicator represents the index of the year we observe in relation to the previous year calculated on the basis of actual values, the total number of newly registered taxpayers, while the target value represents the index of two consecutive years based on the forecasted number of newly registered taxpayers.

**The indicator represents the index of the year we observe in relation to the previous year calculated on the basis of recorded newly discovered revenues, while the target value represents the index of two consecutive years calculated on the basis of forecasted newly discovered revenues.
***The indicator represents the ratio of the realized collection of the most important revenues of the budget of the Republic of Serbia in a given year, in relation to the budget planned amounts for that year.

4. Expected impact on competitiveness

One of the significant effects of the implementation of the Transformation Programme is the contribution of the Tax Administration to the creation of conditions for fair business and loyal competitiveness of economic entities. The implementation of the Transformation Programme indirectly strengthens the competitiveness of national companies. Through automatic/electronic, simple and free tax procedures, the administration of tax liabilities leaves companies more resources and time to devote to improving the quality of products and services, which directly affects the increase of competitiveness. The reduction of the grey economy increases the competitiveness of economic entities that operate in compliance with tax regulations.

5. Estimated costs of activities and sources of financing

The structural reform has been carried over from the previous years. All planned activities will be funded from the World Bank Loan. The estimated cost in the amount of about 8 million euros for 2022, specifically: 1.2 million euros for the reengineering of business processes, 5.3 million euros for the procurement of a system for new ICT platform, 1.1 million euros for the implementation of the activities relative to the TAMP procurement and 334 thousand euros for the analysis and introduction of a new record management system. The costs in the amount of 14.2 million euros were planned in 2023, specifically: 4.2 million euros for the analysis and introduction of a new record management system, 7.3 million euros for the procurement of a system for new ICT platform and 2.7 million euros for the implementation of the activities relative to the TAMP procurement and costs in amount of 12.2 million euros are planned in 2024, of which for the implementation of the following activities: analysis and introduction of a modern record management system through a comprehensive information management model 1.1 million euros, procurement of the system for the new ICT platform 7.7 million euros and for the implementation of the activities relative to TAMP procurement 3.4 million euros.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Improving the efficiency of the Tax Administration will make the process of assessment and paying taxes simpler, more predictable, more consistent and more economical, which will improve the equality of market participants. Clear tax rules encourage citizens to start their own business and thus contribute to increased employment and overall social growth. Better tax collection increases the possibility of budgetary allocations for social welfare, education and health. The reform will have an equally positive impact on both genders.

7. Expected impact on the environment and climate change

Environmental protection experts have been hired through the Project, whose task is to help TARS: to successfully implement and monitor project activities that are subject to environmental risks and to manage their impacts; to prepare specific environmental management plans (which include plans for subprojects for mitigation and monitoring the state of environment) in order to ensure effective environmental protection, health and safety at work.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Delays in new legislative frameworks based on ICT and the needs of TARS reform, or non-acceptance of amendments to the existing ones	Moderate	Stronger cooperation with the Ministry of Finance (Department for fiscal system) and the Office for Information Technology and electronic-Government
Lack of coordination/ communication between state institutions	Moderate	Work on improving coordination / communication between state institutions
Taxpayer distrust due to fear of novelties	Moderate	Education and information of taxpayers
Insufficient IT resources and skills to implement the reform	High	Increasing the number of IT employees and more active cooperation with the Strategic Project Implementation Unit
Lack of human resources and knowledge necessary for the functioning of the reformed TA	High	Additional hiring in 2022 and training of the staff for the under capacitated functions

STRUCTURAL REFORM 10: INTRODUCTION OF A NEW FISCALISATION MODEL AND TRANSITION TO ELECTRONIC INVOICING

1. Description of the structural reform

After developing the legal framework and informing the public about the reforms (including training programmes) in 2021 (Law on Fiscalisation adopted in December 2020 with the beginning of implementation from 1st November 2021 and no later than 30th April 2022, and accompanying bylaws in April 2021) implementation and transition to new digitized models of issuing fiscal receipts and invoicing will start in 2022, so that gradually, all taxpayers will switch to new models within a year.

The introduction of a new fiscalisation model implies a centralized digital platform within the Tax Administration, as well as online transmission and verification of data sent from fiscal devices to the Tax Administration. The goal is to suppress the grey economy and increase VAT collection, as well as to improve and automate the tax control process. The new model also contains the so-called security element (certified card) for each responsible entity, thus minimizing or eliminating the degree of abuse. Taxpayers from the private sector will be subsidized by the state for the amount of realistically estimated costs of transition to the new model.

The goal of introducing a centralized platform for the exchange of electronic invoices is to completely replace the paper form of the invoice with a digital one for all VAT payers, which is transferred through a centralized platform from the issuer to the recipient of the invoice without the physical form. The Law on Electronic Invoicing and the accompanying bylaws were adopted in 2021, with beginning of its application in January 2022.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Launching a new centralized fiscalisation platform												
2	Launching a centralized platform for electronic invoices												
3	Expanding the electronic invoices system to encompass the entire sector of the economy												
4	Educating and communicating with users of the fiscalisation platform and the electronic invoicing platform in order to prepare them for the transition to the new system												

3. Performance indicators

Indicator	Baseline value (year)	Intermediary target (year)	Target value (year)
Coverage of involved taxpayers with the new platform	0% 1.11.2021.	/	100% 31.12.2022.
Coverage of all B2G transactions	0% 1.1.2022.	/	100% 1.7.2022.
Coverage of all B2B transactions between legal entities that are subject to VAT	0% 1.7.2022.	/	100% 1.1.2023.

4. Expected impact on competitiveness

The new fiscalisation model will have a significant impact on increasing the competitiveness of the economy, taking into account lower operating costs and increased efficiency, in terms of: elimination of the double ribbon on the fiscal printer and cancellation of the obligation to keep it, the possibility to use various devices in addition to the classic electronic device cash register (computer, mobile phone, etc.), automation and reduction of costs related to data transmission to the Tax Administration, raising the efficiency of business entities through the use of modern software, etc. The application of electronic invoicing will significantly affect the acceleration of liquidity flows in the economy, the harmonization with the *acquis communautaire* and the appropriate business environment.

It is expected to achieve greater financial discipline and significantly higher collection of tax revenues, creation of equal conditions in terms of competitiveness for the private sector, enabling the Tax Administration partnership access to taxpayers, better and improved tax control, discouraging companies to avoid tax calculation and payment, etc.

5. Estimated costs of activities and sources of financing

Financing the introduction of electronic invoicing in 2022 implies additional adjustment of the central IT platform of the system and providing additional functionalities and services to users in the amount of 1,494,500 euros.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Structural reform will have a significant impact on enhancement of the business environment, which in turn may result in the reduction of unemployment. Structural reform is gender neutral.

7. Expected impact on the environment and climate change

Taking into account the complete transition to a new and largely electronic form of fiscalisation, as well as to the electronic form of invoicing, this structural reform will greatly reduce the amount of paper and toner that are in circulation in business operations, which significantly affects environmental protection.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Insufficient training of users for the transition to the new system of fiscalisation	Low	Adequate trainings and communication strategy towards the business
Insufficient training of users to switch to the new invoicing system	Low	Adequate trainings and communication strategy towards the business

5.2.2. Area GREEN TRANSITION

a) Analysis of main obstacles

The Republic of Serbian economy relies heavily on weather-dependent activities and is therefore sensitive to climate change, which adversely affects Serbia's overall competitiveness at the global market. The raising trend of the average temperature in the Republic of Serbia is three times higher than the rising trend of the average global temperature and the average global temperature of the mainland. Total material damage caused by extreme climatic and weather conditions in the Republic of Serbia, in the period from 2000-2015 is greater than 5 billion euros, of which 70% is related to drought and high temperatures. The value of damages and losses from the disastrous 2014 floods is 1.5 billion euros. It is very probable that in the following period, there will be an increased number of natural disasters in Serbia, primarily floods, droughts and fires. *The Law on Climate Change* enables the establishment of a system for reducing greenhouse gas emissions (GHG) in a cost-effective and cost-effective way, in order to avoid dangerous climate change at the global level and the adverse effects of climate change. This Law envisages the adoption of the *Low Carbon Development Strategy with the Action Plan*, as well as the *Programme for Adaptation to Changed Climate Conditions* (the development of these documents is underway), as well as the monitoring and reporting of GHG emissions.

Concentrations of air pollutants in cities, especially particulate matter (PM), regularly exceed the levels recommended in the WHO guidelines on air quality, which adversely affects human health and the environment. Exposure to air pollution, especially PM particles, is associated with increased mortality and morbidity. Sulphur dioxide emissions are 14.0% higher in 2019 compared to the previous year⁵⁷. Large air pollutants are also individual furnaces, of which there are about 1.2 million in the Republic of Serbia (the total number of households is 2.6 million) in which coal and fuel oil are used for combustion.⁵⁸ Out of the total emitted carbon monoxide, 60.9% are emissions from households in 2019, mainly due to heating. The plan is to subsidize the household for the transition to cleaner energy sources (pellets, gas, electricity). Air pollution also has an adverse economic effect, which is reflected in reduced productivity due

⁵⁷ More on air pollution from the energy sector could be found under Challenge 2.

⁵⁸ MoME, <https://www.mre.gov.rs/aktuelnosti/saopstenja/mihajloviceva-o-novim-zakonima-vise-energije-iz-oie-i-pomoc-drzave-gradjanima-za-zamenu-stolarije-i-individualnih-lozista>

to illness and increased costs of sick leave and medical treatment. The Air Protection Program in the Republic of Serbia for the period from 2022 to 2030 with the Action Plan was adopted.

The economy of the Republic of Serbia is currently mostly linear, so it is necessary to improve the efficiency of resource use and introduce the concept of circular economy. The biggest weaknesses are insufficiently developed legislation, inconsistency of public policy documents, poor waste management, inefficient energy consumption and inadequate inspection capacities. The Republic of Serbia generated 56.3 million tons of waste in 2020 (12.8% less than in 2019), of which 79.9% is non-hazardous and 20.1% hazardous waste⁵⁹. Out of the total waste generated, 95.8% is generated, and only 4.2% reused. Most waste is generated by mining and energy sector, but the share of municipal waste (about 2 million tons per year), which most often ends up in landfills, is also significant. With 327 kg of waste generated per 1,000 euros of GDP in 2018, the Republic of Serbia is very far from the EU average (70 kg). A *Roadmap for the circular economy* was prepared in 2020, which provides recommendations for the transition from linear to circular economy in the field of waste management. *The Programme for Circular Economy with the Action Plan*, which is currently being developed, will define measures for rational and sustainable use of resources and energy.

Green transformation requires additional investments, both for the state and the economic sector, and it is necessary to establish appropriate financing instruments. The funds from the Republic of Serbia budget, bilateral donations, IPA funds, WBIF and loans of international financial institutions are used to fund the green transition. *The Law on Fees for the Use of Public Goods* introduced fees for the protection and improvement of the environment and prescribed the amounts that polluters pay depending on the type and amount of pollution. The amount of the fee is set annually by the local self-government units, and the generated revenues from the fees are paid into the budgets of towns and municipalities. **Revenues from environmental fees⁶⁰ amounted to 1.9 billion** euros (4.1% of GDP) in 2019, which is 5.6% more than in the previous year. Energy taxes has the largest share in the revenue (85.9%) and taxes in the field of transport (7.1%), while pollution charges and fees for the use of resources participated with 5.6% and 1.5%, respectively. The Republic of Serbia also issued its first green bond of 1 billion euros in the international market in September 2021, and the funds will be used to finance projects in the field of green agenda. **The total costs for environmental protection⁶¹ amounted to 389 million euros** in 2020, which is 10.2% more than the previous year. As per the structure of these costs, investments for environmental protection account for 39.6% (of which 54.9% in the field of air protection), while the share of current expenditures is 60.4%. Investments in environmental protection of 153.9 million euros (0.34% of GDP) in 2020 are nominally higher by 59.1% compared to the previous year and are closer to the European Union average (0.4% of GDP). In the period 2020-2022 significant increases in investments in the environmental protection sector were recorded in the budget of the Republic of Serbia. In the budget for 2020, 11.7 billion dinars are planned, and in 2021, 18.2 billion dinars are planned, which is an increase of 54.7% compared to the previous year. In the budget for 2022, 21.6 billion dinars are planned, which is an increase of 83.8% compared to 2020. In the following period, it is planned to continue the trend of increasing allocations for environmental protection. **The lack of institutional infrastructure and administrative capacities at the national and local level for the implementation of the adopted legal solutions and intensification of the green transition process is also evident.** *The Green Agenda for the Western Balkans* (GAWB) signed

59 SORS, Press Release ZS60 dated 02.07.2021. year, <https://publikacije.stat.gov.rs/G2021/Pdf/G20211172.pdf>

60 SORS, Press Release ZS93 dated 17 September 2021. year, <https://publikacije.stat.gov.rs/G2021/Pdf/G20211256.pdf>

61 SORS, Press Release ZS91 dated 18.11.2021. year, <https://publikacije.stat.gov.rs/G2021/Pdf/G20211309.pdf>

3. Performance indicators

Indicator	Baseline value (year)	Intermediary target (year)	Target value (year)
Number of economic entities that switched to business models based on the principles of the circular economy	0 (2021)	/	5 (2024)
Number of employees in economic entities at the strategic level who attended training sessions on circular economy on an annual basis	0 (2020)	/	3,000 (2023)
Number of local governments that would have their local roadmap developed	0 (2021)	/	3 (2024)
Number of circular vouchers issued	0 (2021)	/	3 (2024)

4. Expected impact on competitiveness

The concept of circular economy provides for the savings in terms of resources and energy, which may result in new investments and encourage business growth. The circular economy contributes to the creation of a more prosperous and competitive society through incentives for the establishment of small and medium enterprises and the development of technologies that save resources and energy and do not pollute the environment. Businesses that transition from a linear to a circular economy gain in competitiveness since new production methods lead to savings due to raw material and energy efficiency and waste reduction.

5. Estimated costs of activities and sources of financing

International donors will provide funds for the implementation of the activities “Support to economic entities in their transition to the circular business model” for 2022, through their on-going projects, so that there will be no direct allocation from the budget. Funds in the amount of 125,000 euros will be provided from the budget for the activities pertaining to the “Promotion of the circular economy and education of economic entities” in 2022. Implementation of the activity “Support to local governments so as to introduce the concept of circular economy through the development of local roadmaps for the circular economy” will be funded by an international project in the total amount of 50,000 euros (16,000.00 in 2022; 17,000.00 in 2023 and 17,000.00 in 2024). Funds from an international donor in the amount of 35,000.00 euros for 2022 have been provided for the implementation of activities “Improving cooperation between the business and scientific research sectors through the issuance of circular vouchers for technological innovations that contribute to the application of the concept of circular economy”. The funds and the source of financing for the implementation of this activity, for 2023 and 2024, are to be determined.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Increasing employment through development of the circular economy will depend upon the size of public investment required to introduce this concept. Job creation in the circular economy may promote the employment of vulnerable groups and women. The final outcome of this structural reform are enhanced quality of the environment and quality of life for all members of the public, which also has a positive effect on human health.

7. Expected impact on the environment and climate change

The introduction of circular economy concepts will have a direct bearing on the achievement of strategic objectives and attainment of applicable environmental standards in the short, medium and long term. The circular economy has an important role in the development of a competitive economy that saves resources and reduces all types of pollution, and in particular reduces greenhouse gas emissions, which further affects low-carbon development, as aspired globally.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Failure of economic entities, local governments and the scientific research sector to recognize the benefits of introducing the concept of circular economy	Low	The programme for development of circular economy will define the direction of RS activities in the field of circular economy and sustainable development. It is planned that all identified actors will be involved in recognizing the benefits that the circular economy can bring them.

5.2.3. Area DIGITAL TRANSFORMATION

a) Analysis of main obstacles

Traditionally, Serbia has a developed industry and agricultural base with strong integration into international value chains. However, **the most dynamic sector in the Republic of Serbia in the past 10 years is the information and communication technology (ICT) sector, which makes this sector the driving engine of the development and economic growth.** Export of ICT services records a continuous growth of over 20% in the period from 2015-2019⁶². The outbreak of the global pandemic leads to a decrease in demand in all sectors, and thereby the export of ICT services increased by only 1.2% in 2020⁶³ compared to 2019 as a result of attachment to foreign markets. Exports of ICT services (1.44 billion euros) represents 23.3% of total exports of services in 2020, while the generated surplus in the exchange of ICT services of 908 million euros represents an increase of 13.3% compared to 2019. Despite the decline in revenues and the number of projects, IT companies in the Republic of Serbia managed to preserve liquidity and human resources, so that the export of ICT services recorded a growth of 28.1% in the period January-October 2021 compared to the same period last year. Although employees in the ICT sector represent only 2.5% of total registered employment⁶⁴, the number of employees in this sector is growing significantly from year to year (12% in 2020, 7% in 2019 and 10% in 2018).

Serbia's share in the export of IT services is about 0.3% of global exports and there is room for further growth but the IT experts, which are in deficit, are needed to that end. For example, to reach 2 billion euros of IT services exports, according to the current model of work, an additional 30,000 IT experts are needed⁶⁵. The biggest struggle among IT companies in the local market

62 Export of the ICT services amounted to: 611 million euros in 2015 (growth of 25.5% y-o-y), 740 million euros in 2016 (growth of 21.1% y-o-y), 899 million euros in 2017 (growth of 21.6% y-o-y), 1.13 billion euros in 2018 (growth of 26.2%) and 1.4 billion (growth 25.4% y-o-y). Source: NBS, Payment Balance of the RS, wider scheme, item "Telecommunications, computer and information services"

63 Source: NBS, Payment Balance of the RS, wider scheme, item "Telecommunications, computer and information services"

64 Source: SORS, Registered Employment, annual average 2020; item Telecommunications, Computer programming, consultancy and related activities, Information service activities <https://publikacije.stat.gov.rs/G2021/Pdf/G20211014.pdf>

65 Source: The research "Development of the information technology industry"

is attracting suitable workers - until a year or two ago, they competed for the best experts, and now for the best interns while they are still studying because the demand for staff is far greater than the supply.

According to the **Network Readiness Index 2020**⁶⁶, as an indicator of the development of the digital economy, i.e. the country's **readiness to join the IT sector**, in 2020 the Republic of Serbia ranked 52nd out of a total of 134 ranked countries. The highest progress has been made in the digital transformation in the field of economics.

The Republic of Serbia is committed to the development of digital transformation, which can be seen through the extraordinary improvement of the strategic and legal framework. The *Strategy of Digital Skills Development in the Republic of Serbia for the period from 2020 to 2024* has been adopted ("Official Gazette of the RS", No. 21/20) which implies the improvement of digital knowledge and skills of all citizens, the *E-Government Development Programme of the Republic of Serbia for the period from 2020 to 2022* and the *Action Plan* for its implementation ("Official Gazette of the RS", No. 85/20) with the aim of developing efficient and user-oriented administrations in the digital environment, as well as the *Strategy for the Development of the Information Society and Information Security for the period from 2021 to 2026* ("Official Gazette of the RS", No. 86/21). Three very important laws in this area, the *Law on Digital Assets*, the *Law on Electronic Invoicing* and *Law on Amendments to the Law on Electronic Document, Electronic Identification and Trust Services in Electronic Business* ("Official Gazette of the RS", No. 52/21) were adopted in the course of 2020 and 2021. The draft *Law on electronic communications*, which is expected to be adopted in 2022, includes the transposition of the provisions of the European Electronic Communications Code, which will complete the harmonization with the EU regulatory framework in the field of electronic communications.

Global trends, such as the digital transformation of business models, are increasingly having an impact on all industries and sectors in the Republic of Serbia. The primary needs of small and medium enterprises in this process are the creation of a favourable business climate and legal framework, combined with the provision of practical knowledge and advice on how to initiate and successfully implement digital solutions in companies of all sizes and management structures of all kinds. Following these needs, the **Centre for Digital Transformation** was established by the Serbian Chamber of Commerce, as a **national hub of innovative practices**, aimed primarily at micro, small and medium enterprises. The Centre supports the digital transformation of the Serbian economy through education, consulting, as well as through the creation of strategic partnerships with technology carriers on the one hand, and companies that would apply these solutions in their business, on the other.

The implementation of the **StarTech programme**⁶⁷ to support the digital transformation of small and medium enterprises began in October 2020 as a three-year project to promote innovation and technological development in the Republic of Serbia. The goal of the project is to accelerate the growth of Serbian companies and the traditional economy based on agriculture and the processing industry into a digital, export-oriented economy based on knowledge and innovation.⁶⁸ The first annual public call for grant award to start-ups, entrepreneurs, micro, small and medium enterprises that have innovative business ideas or want to transform their business

66 Network Readiness Index 2020, <https://networkreadinessindex.org/countries/serbia/>

67 Programme worth 5 million euros is implemented by NALED in cooperation with the Government of the Republic of Serbia and with the support of Philip Morris International.

68 Source: NALED <https://naled.rs/projekti-startech-program-podrske-za-inovaciju-i-transformaciju-malih-i-srednjih-preduzeca-4697>

by introducing new technologies was published on 30 March 2021. More than 200 small and medium enterprises, entrepreneurs and start-up teams⁶⁹ from all over the Republic of Serbia applied for support. 29 projects were selected in three categories (support for start-ups with innovative ideas, small business in the commercialization of innovation and digital transformation and innovation and digital transformation for export and new jobs), which will receive grants and professional support for innovation and digitalization, new jobs and conquering new markets.

Although the ICT sector is constantly growing, **the communication infrastructure in the Republic of Serbia needs to be further improved. The development of communication infrastructure in rural areas** (“white or grey zones”) takes place through the project “Construction of broadband ICT in rural areas of the Republic of Serbia - Phase 1”. Until July 2021, contracts have been concluded with electronic communications operators for the construction of broadband access communication infrastructure for 400 settlements which created the conditions for the construction of access communication infrastructure with a total length of 1,500 km.

The improvement of the information and communication infrastructure in all primary and secondary schools in the Republic of Serbia is taking place through the “Connected Schools” Project, and so far the Internet has been introduced in more than 22,000 classrooms. The construction of the network is an infrastructural precondition for the digital classroom program, i.e. equipping schools with appropriate computer equipment and creating digital teaching content. It is planned to equip 10,000 digital classrooms through the Project.

One of the key events for e-Government is the infrastructure investment of 30 million Euros to the **National Data Centre in Kragujevac**, which **opened at the end of 2020**. The data centre will contribute to the smooth and reliable operation of e-government services, secure storage of data from registers, as well as the development of future services. Also, the first **state platform for artificial intelligence** is located in the Data Centre, which will be available to the state, local self-government units, but also to universities, science and technology parks and start-up companies.

The number of fixed broadband Internet subscribers is about 1.79 million⁷⁰ in Q3 of 2021 which covers almost 80% of the total number of households. The use of computers by individuals and in households is constantly increasing (72.4% and 74.3%, respectively, in 2020), as well as the use of the Internet (78.4% and 81%, respectively, in 2020), while all economic companies use computers and are connected to the Internet⁷¹.

The focus of the Government is on the further introduction and development of e-services, i.e. the positioning of the national e-Government portal as a central place for the provision of e-services. Almost one million users are active on the e-Government Portal, who can use 900 electronic services of various state authorities, most of which are at a level higher than the level of information, which means an electronic service where it is possible to download a form or submit an application online. Electronic signing of documents is also made possible, as well as payment of administrative fees by electronic banking, payment cards and instant payment. The total of 835,340 accounts of citizens (e-Citizens) were registered on the portal for authen-

69 After analysing the applications and field visits, the Expert Committee selected 40 finalists who presented their ideas at the pitching session on September 28, 2021.

70 Source: RATEL, Overview of the electronic communications market for the second quarter of 2021.

71 Source: SORS, Use of information and communication technologies in Serbia, 2020

tication of e-government users (eID) by July 2021 (on average, 1,190 citizens register daily), while the number of users of the e-Government portal who have initiated at least one service is 285,548⁷².

The central information system in the field of catering and tourism - **e-Tourist**, is in its full implementation from 1 October 2020. It contains all relevant data on accommodation service providers and accommodation facilities, through which their records are made and other data derived from the performance of tourist activities are entered. A total of 18,220 catering facilities registered for accommodation applied to be entered on the e-Tourist portal by August 2021.

Digital transformation in the field of energy brings simplification of procedures in exercising rights in this area, such as reducing the time for issuing permits for geological survey and exploitation of mineral resources, groundwater and geothermal resources (**e-mining**) from the existing 150 days to 15-20 days (more information can be found under the Key Challenge 3. *More efficient use of energy with further opening of the energy market* p. 112).

The importance of the **digitalization process in trade** was especially evident in conditions of limited movement during the state of emergency due to the pandemic, as well as later, so that e-commerce during 2020 recorded significant growth (more information can be found in the area *Agriculture, industry and services*, p. 161).

Preconditions for **digitization in the field of education** are created by providing ICT equipment for primary and secondary schools for the use of electronic educational systems. Electronic gradebook - **esGradebook** was created and established for all primary and secondary schools in the Republic of Serbia, and allows parents/other legal representatives of students to see the achievements of students via Internet using the module “*moj.esDnevnik*”. The **e-Enrolment** service enables electronic enrolment of students in the first grade of primary school and the first grade of secondary school More information on digitisation in the field of education can be found in the area *Education and skills*, p. 170.

The importance of the process of **digitisation of health care services** came to the forefront especially due to the Covid-19 pandemic (more information can be found in the area *Healthcare system*, p. 177).

b) Reforms

STRUCTURAL REFORM 12: DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL INFORMATION AND COMMUNICATION INFRASTRUCTURE

1. Description of the structural reform

By supporting the Green Agenda for the Western Balkans, economies in the region have recognized digitisation as an opportunity to contribute to a sustainable, climate-neutral and resource-efficient economy with digital solutions, as well as better public services for citizens. With this in mind, digitisation will be a key driver in these areas in line with the concept of joint implementation of green and digital transition. The most important goals of the implementation of structural reform are: 1. Development of broadband networks for access by providing state

72 Source: Report on the implementation of the APIGP

incentives for joint construction of communication infrastructure through the implementation of the project of building a broadband network in rural areas; 2. Improving the conditions of education and increasing the use of e-government services by connecting educational and cultural institutions to AMRES, as well as through the implementation of the “Connected Schools” project.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Connecting educational and cultural institutions to AMRES												
2	Activities on the improvement of IC infrastructure in primary and secondary schools in RS - “Connected schools”												
3	Construction of optical broadband network in rural areas of the Republic of Serbia - phase 1												
4	Preparation and construction of optical broadband network in rural areas of the Republic of Serbia - phase 2												

3. Performance indicators

Indicator	Baseline value (2019)	Intermediate value (2022)	Target value (2024)
Number of rural settlements in white areas to which a subsidized optical network has been built	0	450	1,500
Number of school buildings in which a wireless local computer network has been built	377	1,880	1,880

4. Expected impact on competitiveness

Support for the digitisation of formal education, as well as Internet access itself, are necessary infrastructure for the development of the digital economy and society. The positive effect of the reform is reflected in the development of rural areas, connecting economic regions, development of industrial zones, as well as increasing the use of new technologies and innovations in business and education. Broadband access to the Internet and information and communication technologies affects faster, safer and more efficient business, which increases the productivity of companies and reduces business costs.

5. Estimated costs of activities and sources of financing

In 2022, 1.925 million euros from the budget will be secured to connect educational and cultural institutions to AMRES (improving quality and speed). For the implementation of the project “Connected Schools” - phase 3, 5.6 million euros will be allocated from the project loan. For the implementation of activities on the construction of optical broadband network in rural areas - phase 1 the amount of 10.8 million euros. The funds needed for financing the preparation and the construction of optical broadband network in rural areas - phase 2, have not been provided yet.

In 2023, budget funds in the amount of 1,925 million euros are planned for connecting educational and cultural institutions to the AMRES network (improving quality and speed). The

funds needed for financing the preparation and the construction of optical broadband network in rural areas - phase 2, have not been provided yet.

In 2024, budget funds in the amount of 1,925 million euros are planned for connecting educational and cultural institutions to the AMRES network (improving quality and speed). The funds needed for financing the preparation and the construction of optical broadband network in rural areas - phase 2, have not been provided yet.

The Loan Agreement (Project Construction of broadband ICT in rural areas 2) between the Republic of Serbia and the European Bank for Reconstruction and Development was signed on December 24, 2021, approving a 100 million euros loan to the Republic of Serbia for the preparation and construction of optical broadband networks in rural areas-phase 2.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The construction of broadband communication networks enables employment, but also work over the Internet and an increase in the number of jobs in practically all sectors, including the ICT sector. Raising the level of knowledge, competencies and skills in the field of ICT contributes to employment opportunities in the fields where there is the introduction or increase in the use of new technologies in business. Providing next-generation broadband access would reduce regional disparities between rural and urban and suburban settlements and enable the balanced development of all regions of Serbia, which would prevent the depopulation of rural areas.

7. Expected impact on the environment and climate change

The construction of the planned communication infrastructure does not pose a danger to human health and has no impact on the environment.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Untimely finding of stable sources of financing, in order to meet the defined deadlines	High	Timely planning and application to international financial institutions
Low level of cooperation of operators in terms of providing data on the availability of broadband services	Low	Hiring a supplier to do online and field data collection in rural areas/enacting regulations establishing the obligation of operators to submit data to the relevant ministry
Insufficient interest of operators in building common infrastructure	High	Increasing the share of the budget of the Republic of Serbia in funding the building common infrastructure
Timely obtaining the necessary building permits	High	Hiring a consultant to coordinate with the other state authorities and LSGs

STRUCTURAL REFORM 13: SETTING THE INFRASTRUCTURE AND ENVIRONMENT FOR THE CREATION AND APPLICATION OF INNOVATIVE AND ARTIFICIAL INTELLIGENCE BASED SOLUTIONS

1. Description of the structural reform

The digitisation programme is mostly implemented through the project *Serbia at your fingertips - Digital Transformation for Development*, which includes support for the implementation of large infrastructure projects. The reform consists of three components:

1. Construction of the complex of the State Center for Data Management and Storage in Kragujevac,
2. The Smart City project realization,
3. Construction of the Creative-Innovative Multifunctional Center "Ložionica".

The construction of the necessary infrastructure in the complex of the State Centre for Data Management and Storage - Data Centre (DC) in Kragujevac continues, which is envisaged by the e-Government Development Programme and the Strategy for the Development of Artificial Intelligence in the Republic of Serbia for the period from 2020 to 2025. Modern infrastructure will enable further development of artificial intelligence (AI) and an evolutionary step in the process of digitalization of our society through even faster and stronger development of the research and innovation community, as well as eGovernment. In order to provide a space that will stimulate innovation and creativity, preparations are underway for the construction of the Creative-Innovative Multifunctional Centre "Ložionica" in Belgrade. The Centre should be a place where Serbian creative business will connect and network with each other and internationally, exchange knowledge and experiences, and at the same time will be a hub for the development of new ideas and initiatives.

Through the implementation of the Smart City project, work will be focused on strengthening sustainable functioning of local self-government units through the use of innovative solutions. Smart sensor networks and predictive control algorithms are some of the tools that will transform urban environments into more attractive and sustainable, more attractive for the innovative economy, with a wide range of other benefits that contribute to the quality of life of citizens. Priority will be given to those solutions that deal with social inclusion and environmental protection, and that affect the overall socio-economic growth.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Provision of indispensable infrastructure and resources for the development of AI and DC in Kragujevac												
2	Conducting Public Call for 7 towns/LSGs for participation in the Smart City project, in partnership with the economy and the academic community												
3	Production of technical documentation and preparation for the start of construction of the centre "Ložionica"												
4	Completion of the construction of the centre "Ložionica" and obtaining an occupancy permit												
5	Equipping and commission of the "Ložionica" Centre												

3. Performance indicators

Indicator	Baseline value (year)	Intermediary target (year)	Target value (year)
Number of mini-modules (with 20 rack cabinets each)	1 (2022)	4 (2023)	6 (2024)
Number of towns wherein the Smart City was implemented (cumulative)	0 (2021)	3 (2023)	7 (2024)
Number of square meters constructed for the facility (Ložionica)	0 (2021)	3,600 (2023)	11,000 (2024)

4. Expected impact on competitiveness

All activities envisaged under this measure aim at providing necessary technical infrastructure, but also at creating a stimulating environment for the development of innovative solutions and solutions based on artificial intelligence. In this way, on the one hand, start-ups and innovative economy are stimulated to use the available infrastructure so as to create and pilot their solutions, and on the other hand, to open doors for practical solutions by changing the culture and way of accepting innovations among urban representatives.

5. Estimated costs of activities and sources of financing

The planned funds for the construction of second facility within the complex of the State Centre for Data Management and Storage - Data Centre (DC) in Kragujevac by years are: 13.68 million euros for 2022, 12.5 million euros for 2023 (total 26.18 million euros). The total planned funds for the implementation of the Smart City project amount to 18.75 million euros in the period from 2022 to 2024 (annually 6.25 million euros). The planned funds for the construction of the "Ložionica" Centre per years amount to: 2.08 million euros for 2022, 14.17 million euros for 2023, 23.33 million euros for 2024 (total 39.58 million euros).

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The reform will contribute to increasing the volume of work done via the Internet, raising the level of knowledge, competencies and skills in the field of ICT, with an increase in the number of jobs. Towns and municipalities, together with their universities and the private sector, will be actively involved in the Smart City project. Creative hubs have a positive impact on the creation of new products and services, talent development, social and economic networks, regional research and innovative models of organization. Through strengthening the competitiveness of domestic companies and the application of innovative solutions, the quality of life of citizens is also indirectly affected. The measure is neutral in terms of gender equality.

7. Expected impact on the environment and climate change

The impact on the environment is neutral.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Difficulties in procuring the necessary equipment	Low	Compliance with contractual provisions and procurement procedures. Resumption of production at foreign suppliers and uninterrupted distribution of equipment to the place of delivery will depend upon the Covid-19 pandemic
Long-term installation works and dependence on readiness for other process steps	Low	Intensified monitoring of the implementation of planned activities in accordance with the foreseen deadlines

5.2.4. Area BUSINESS ENVIRONMENT AND REDUCTION OF GREY ECONOMY

This area and relevant reforms (4. *Improvement of the quality of public services through optimization and digitalization of administrative procedures – e-paper*, 5. *Sustainable and efficient management of business entities owned by the Republic of Serbia* and 6. *Development of the domestic capital market through the introduction of new legal mechanisms and provision of a greater level of investor protection*) have been analysed in the Chapter 5.1. under the *Key Challenge 2. Improvement of the business environment more favourable for investments*.

5.2.5. Area RESEARCH, DEVELOPMENT AND INNOVATIONS

a) Analysis of main obstacles

In relation to the countries of the European Union, the Republic of Serbia is seen as an **emerging innovator** measured by the summary innovation index (*European innovation Scoreboard 2021*⁷³), which is 66.2 in relation to the EU in 2021.

73 European innovation scoreboard 2021 https://ec.europa.eu/info/research-and-innovation/statistics/performance-indicators/european-innovation-scoreboard_en

Investments in research and development, although the amount of funds has been increasing in recent years, are still insufficient for the integration of Serbia's research network into European and global networks. Total allocations for science in Serbia amounted to 0.91%⁷⁴ of GDP in 2020 (by 0.02 percentage points more than in the previous year) and are twice lower than the EU-28 average (2.14%⁷⁵ of GDP in 2019). Business sector investments amount to 0.36% of GDP, which is significantly below the EU-28 average (1.42% of GDP in 2019).

The Republic of Serbia has opted to strategically approach all reforms in science by adopting strategies that plan significant investments in scientific infrastructure and science. *Strategy of Scientific and Technological Development of the Republic of Serbia for the period from 2021 to 2025 The Power of Knowledge* ("Official Gazette of the RS", No. 10/21) with the accompanying *Action Plan of the Strategy of Scientific and Technological Development for the period 2021 to 2023*, adopted in February 2021, is one of the most important strategic documents in this area. The strategy envisages the development of an environment in which the actors of the scientific research and innovation system can make a step forward in quality and impact. Weaknesses and threats have been identified, and they are being addressed by prescribed measures. Identified **weaknesses are observed in fragmented scientific research space with subcritical research capacities, insufficient recognition of institutions at the wider regional, European and global level, lack of administrative procedures, practices and capacities to attract investments and projects, insufficient investments in scientific research infrastructure and insufficient degree of conversion of scientific results into added value for the economy, the state and society as a whole, as well as insufficient capacities for technology transfer.** The threats are, in addition to long-term declining demographic trends, a potential "brain drain" in both research and innovation, as well as a drastic increase in investment in science in other countries and the risk of the departure of the most qualified staff and technological backwardness. Some of the measures refer to the target level of budget financing, development of human resources, strengthening of scientific and research infrastructure, reform of the network of institutes, etc.

The orientation of scientific research towards the economy is relatively low. Cooperation between companies and academia in the Republic of Serbia is still weak and is not systematically supported, which is reflected in the ranking of the Republic of Serbia in the *Global Competitiveness Report (GCI)*⁷⁶ for 2019, wherein the Republic of Serbia ranks 80th (out of 141 countries) according to the quality of university cooperation and economy. In order to improve cooperation, primarily with the business sector, **the Action Plan for the period from 2021 to 2022 for the implementation of the Smart Specialization Strategy for the period from 2020 to 2027** ("Official Gazette of the RS", No. 42/21) for implementation of the *Smart Specialization Strategy for the period from 2020 to 2027* **was adopted in April 2021.** It plans measures and activities targeted to support research, development and innovation activities, with an emphasis on ongoing dialogue with all stakeholders and institutions implementing the measures.

A big step forward has been made with the reform of the organization and financing of science and research, which implies the introduction of combined institutional-project financing, which eliminates uncertainty in work and enables multi-year planning of activities of scientific research institutions. The Science Fund is fully operational and provides support

74 Source: SORS <https://data.stat.gov.rs/Home/Result/100109?languageCode=sr-Cyrl>

75 Source: Eurostat <https://ec.europa.eu/eurostat/databrowser/view/tsc00001/default/table?lang=en>

76 The Global Competitiveness Report for 2020 is a special edition dedicated to developing priorities for recovery from the pandemic, and does not contain data on the ranking of countries.

to scientific research activities by announcing public calls and carrying out the complete procedure and management of competitive project calls. The implementation of projects within the following programmes is in progress⁷⁷: *Programme for excellent projects of young researchers* (PROMIS) - 59 projects with a total value of about 9 million euros; *Programme for the development of projects in the field of artificial intelligence* - 12 projects worth 2.2 million euros; *Programme of cooperation of Serbian science with the diaspora* - 92 projects worth 798 thousand euros; *Special research programme of Covid-19* - 14 projects worth about 2 million. Within the IDEAS Programme, 917 project proposals were submitted and the second stage of evaluation of project proposals is underway.

Through various financial instruments, the Innovation Fund supports the creation of innovations, strengthening the link between science and the economy, establishing new ones and strengthening existing companies with innovative potential. The fund has so far supported 1,248 innovative projects with just over 43 million euros⁷⁸ for – 36.8 million euros for 275 innovative projects, 4.1 million euros for 843 for innovation vouchers and 580 thousand euros for the support in technology transfer, as well as 1.75 million euros to prove design.

Numerous opportunities have been opened up for institutions in the Republic of Serbia to participate in the Horizon 2020 programme and other EU programmes. Currently, 586 institutions from the Republic of Serbia⁷⁹ participate in the Horizon 2020 programme on a total of 409 projects approved for funding, and the number of participations from the private sector is 196. For the implementation of these projects, 132.7 million euros by the European Commission, and the private sector withdrew 41.16 million euros of total funds. The average success rate of the Republic of Serbia is 11.37%, which is close to the EU average (13.34%). The largest number of approved projects is, in addition to the Marie Skłodowska-Curie programme related to talent development and advanced research, in the areas of: food, then, information and communication technologies, energy, health, etc.

The Research and Development Institute for Artificial Intelligence of the Republic of Serbia was founded in March 2021 (located in ST Park Novi Sad) which will deal with research related to the application of artificial intelligence in various fields, as well as analysis and monitoring of the situation in the field of artificial intelligence in the Republic of Serbia. In addition to projects funded by the Science Fund in this area, the Innovation Fund also issued a public call for the *Science and Economy Cooperation Programme* in February 2021, and 29 applications for innovative projects in the field of artificial intelligence were submitted, and the evaluation of the filed application is currently underway.

The innovation ecosystem is being developed by further investment in innovation infrastructure and technological entrepreneurship in university centres and regions in the Republic of Serbia. Four state-of-the-art science and technology parks (ST Parks Belgrade, Novi Sad, Niš and Čačak) have been built, wherein science and economy are working together to develop innovations for the global market. As a large occupancy of spatial capacities in science and technology parks have already been identified, work is underway to expand the

77 Source: MoESTD, Report on the implementation of the APIGP

78 Source: Innovation Fund

79 <https://webgate.ec.europa.eu/dashboard/sense/app/a976d168-2023-41d8-acec-e77640154726/sheet/0c8af38b-b73c-4da2-ba41-73ea34ab7ac4/state/analysis>

spatial capacities of ST Park Belgrade (Preliminary design for a new facility of 4,000m² is underway)⁸⁰.

The start-up ecosystem in the Republic of Serbia has been attracting more and more attention from the domestic and international business, innovation and scientific community in recent years. In the Start-up Genome⁸¹ report for 2020⁸², the Republic of Serbia was assessed as one of the five best countries in the category of talent accessibility, while Belgrade and Novi Sad (viewed as a single start up ecosystem) were singled out with five other cities in Europe and the Middle East as the most promising. Successful innovators from the Republic of Serbia create business solutions that achieve notable results on a global level. However, these successes are the result of the individual engagement of the founders, not the community as a whole. In order to provide future start-ups with a better environment for the development and expansion of innovative ideas, the *Strategy for the Development of Start-up Ecosystems of the Republic of Serbia for the period from 2021 to 2025* (“Official Gazette of the RS”, No. 125/21) and *Action plan for the period until 31st December 2022 for the implementation of the Startup Ecosystems of the Republic of Serbia for the period from 2021 to 2025* (05 Number: 023-12110/2021-1 of 23 December 2021), have been adopted. Also, the new Law on Innovation Activity (“Official Gazette of the RS”, No. 129/21) has been adopted, which identifies the subjects of the national innovation system, and obliges the formation of their registry.

Science is one of the areas of society that has not only **played an important role in terms of rapid response to the Covid-19 pandemic**, but its development in the coming period will be strongly influenced by emerging needs. Technological progress substantially changes the current approach to health and represents, in addition to raising the quality of life of the population, also a significant opportunity for the economic development of the country. **The construction of the BIO4 Campus** will create an opportunity for concentration of people, accumulation of multidisciplinary knowledge and development of infrastructure (faculties, institutes, science and technology park, etc.) in the fields of **biotechnology, biomedicine, bioinformatics and biodiversity**. Over time, such an institution will attract more and more partners from the economy. It will also enable a faster and better transition of the health system into the direction of modern, innovative diagnostics and treatment based on data and the latest scientific knowledge.

In December 2021, the establishment of a **comprehensive information system of science “eScience”** began. The system will enable greater visibility and accessibility of scientific results and research infrastructure to the academic and business community in national and international frameworks. Organized recording, information centralization and public availability of scientific data will also modernize the management and rationalization of funding for the scientific sector, increase the transparency of the work of institutions and enable decision-making based on reliable and verified information. Successful implementation of the eScience system will significantly increase the efficiency of the administration and thus ensure the use of resources for the improvement of scientific research activities in the Republic of Serbia.

There is still a lack of human resources in research and development, which limits economic growth and innovation. The Republic of Serbia had 3,410 employees in the field of re-

80 Source: MoESTD, Report on the implementation of the APIGP

81 Serbia is the only country in the region to be included in the report of the world's most renowned research agency for startup ecosystems, Startup Genome from San Francisco.

82 <https://startupgenome.com/reports/gser2020>

search and development⁸³ per million inhabitants in 2020. Their share in registered employment in the Republic of Serbia is 1.1% in 2020, which is significantly less compared to the EU-28 average of 1.51%⁸⁴ in 2019. The total of 16,662 researchers are engaged in science (of which 67.3% or 11,222 are Doctors of Philosophy⁸⁵), and only 9.4% are employed in the business sector. The unregulated reintegration of returnee researchers is one of the reasons for Serbia's low competitiveness in science.

b) Reforms

STRUCTURAL REFORM 14: DEVELOPMENT OF THE STARTUP ECOSYSTEM

1. Description of the structural reform

The reform includes the creation of a stimulating environment for the development of start-ups that will contribute to economic growth based on the knowledge economy, strengthening the competitiveness of the economy, as well as recognition at the national and global level. The recently adopted *Strategy for the Start-up Ecosystems of the Republic of Serbia for the period from 2021 to 2025* and *Action plan for the period until 31st December 2022 for the implementation of the Startup Ecosystems of the Republic of Serbia for the period from 2021 to 2025* (05 Number: 023-12110/2021-1 of 23 December 2021) aim to encourage the development of these ecosystems, so that the Republic of Serbia has between 800 and 1,200 active startups that will attract quality staff and investors from the country and the world and further support startup ideas. The improvement of start-up entrepreneurial capacities and culture through educational programs will be supported, the improvement of infrastructural and program support to start-ups is also planned, especially support to start-ups in the early phase of development, as well as improvement of start-up financing mechanisms. In addition to improving business conditions and the tax environment, the state will be the first to benefit from some innovative solutions through the GovTech program.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Creating a call for the Innovation Fund to co-finance entrepreneurial capital funds and investments of business angels												
2	Establishment of the Start-up Register												
3	Establishment of GovTech												
4	Preparation and implementation of training for civil servants in work with start-ups												
5	Connecting start-up ecosystem actors with international ecosystems, with a special focus on mentors and investors												
6	Strengthening start-ups to attract investment through inclusion in the acceleration programme of the Innovation Fund (SAIGE)												

83 Source: SORS, PPS calculation

84 Source: Eurostat https://ec.europa.eu/eurostat/databrowser/view/rd_p_perslf/default/table?lang=en

85 SORS: Bulletin "Scientific research in RS, 2020"

3. Performance indicators

Indicator	Baseline value (year)	Intermediary target (year)	Target value (year)
Number of start-ups registered in the newly-established Register	0 (2021)	300 (2022)	700 (2024)
Amount of financial support generated by start-ups in the Republic of Serbia, in million euros	23 (2020)	40 (2022)	80 (2024)

4. Expected impact on competitiveness

Start-ups are a special type of innovative micro, small and medium enterprises that have the potential for rapid and high growth and that operate in high risk conditions. By creating new markets or disrupting existing ones, start-ups, when they achieve market success, reach valuations that are measured in hundreds of millions of dollars and represent new drivers of development. The value of start-up ecosystems in Belgrade and Novi Sad is estimated at 502 million United States dollars according to Start-up Genome of 2020. Increasing the number of start-ups stimulates economic growth, increases exports and GDP, and creates jobs needed to develop a knowledge-based economy.

5. Estimated costs of activities and sources of financing

The budget of the Innovation Fund provides funds to support entrepreneurial capital funds and other private investments in the amount of 15 million euros, while funds for financing the Programme for Acceleration are provided from a World Bank loan (Innovation Acceleration Project and Entrepreneurship Growth in the Republic of Serbia - SAIGE Project) in the amount of 7 million euros and European Union Pre-Accession Funds (IPA 2019) in the amount of 10 million euros. The establishment of the Start-up Register will be financed from the budget of the Office for IT and e-Government in the amount of 300,000 euros. The creation of a web page for start-ups, was previously funded by donors (UNDP and GIZ) and additional upgrades will be financed from the budget of the Ministry of Economy of the Republic of Serbia, in the amount of 16,400 euros. Conduction of the study and implementation of the GovTech program will be financed by donors (GIZ) during the period 2021-2023, in the total amount of 200,000 euros.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

By creating new markets, start-ups generate new jobs, especially for enterprising, young and educated people, and investing in start-ups creates human capital with the competencies and skills needed for a modern economy based on knowledge and innovation.

7. Expected impact on the environment and climate change

The implementation of this reform measure will not have an impact on the environment and climate change.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Insufficient quality and informative web page for start-ups	Low	Detailed analysis of the needs of start-ups and continuous communication with them in order to achieve the desired effect.
Insufficient interest of start-ups to participate in support programmes	Moderate	Intensive promotion of support.

STRUCTURAL REFORM 15: CREATION OF CONDITIONS FOR THE DEVELOPMENT OF BIO SCIENCE AND BIOECONOMY THROUGH THE CONSTRUCTION OF BIO4 CAMPUS

1. Description of the structural reform

Due to its exceptional potential in intensifying the development in the fields of biotechnology, biomedicine, bioinformatics and biodiversity (BIO4), the *BIO4 Campus* Project is a project of national importance. The construction of the BIO4 Campus will create an opportunity for concentration of people, accumulation of multidisciplinary knowledge and development of infrastructure (faculties, institutes, science and technology park, etc.) in the mentioned areas, which will attract more and more business partners, but also enable faster and better health care system transition into the direction of modern, innovative diagnostics and treatment based on data and the latest scientific knowledge. Technological progress will support the strong economic development of the Republic of Serbia and substantially change the current approach to health, improve security and improve the quality of life of citizens. BIO4 Campus will be the first campus of this kind in the wider region.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Development of the architectural-urban competition and obtaining the conceptual design and location conditions for the entire campus												
2	Preparation of project documentation for construction and the Realization of the construction Phase 1												
43	Preparation of specifications and procurement of necessary equipment *												
54	Connecting BIO4 Campus users with international scientific and corporate partners												
65	Implementation of transformation plans of scientific research institutes (IMGGE)												

* Technical preparations include the transformation of the business of scientific research institutes, primarily the Institute of Molecular Genetics and Genetic Engineering (IMGGE), which has a key role in the establishment of the BIO4 Campus

3. Performance indicators

Indicator	Baseline value (2020)	Intermediate value (2024)	Target value (2026)
Number of institutions users of BIO4 Campus	0	5	7
Number of square meters constructed	0	40,000	70,000
Number of companies having their research divisions in the Campus	0	5	15

4. Expected impact on competitiveness

It is estimated that the market of the BIO4 area in the world will be worth more than a trillion US dollars in a few years, and it is important for the Republic of Serbia to be an active participant in that market. The similar campuses around the world do record a noticeable trend for pharmaceutical companies to move huge resources from bureaucratized internal research and development departments to innovation hubs in which ecosystems, which include both start-ups and academia, are created. A similar trend of attracting companies can be expected from the BIO4 Campus, and the initial interest is already visible. The Centre for Genome Sequencing and Bioinformatics at IMGGE has recently been established. It is a pillar of the future BIO4 Campus and is already achieving significant commercial cooperation with the domestic health system and economy, as well as abroad. IMGGE is one of the institutes for which a detailed transformation plan has been made, the implementation of which will begin soon. All activities in the BIO4 Campus will contribute to GDP growth.

5. Estimated costs of activities and sources of financing

The activities that need to be carried out in the development, announcement and implementation of urban-architectural competition in accordance with the Law on Public Procurement, which have begun in September 2021 and will last until March 2022, will be funded with the funds allocated from the budget of the Republic of Serbia in the amount of 500 thousand euros (200 thousand euros in 2021, and 300 thousand euros in 2022). The Public Investment Management Office budget provides funding for architectural design, although the source of funding will be determined soon. The projected value of the construction and equipping of facilities is approximately 180 million euros over 3 years.

Development of plans for the transformation of scientific research institutes (one of them is IMGGE) and their implementation is funded from a loan from the World Bank (Project for Acceleration of Innovation and Encouragement of Entrepreneurship Growth - SAIGE Project) in the amount of 8 million euros.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The implementation of the planned activities will improve the quality of health care, and provide an opportunity for additional employment of experts in the aforementioned areas. Gender equality will be taken into account in the implementation of the reform measure.

7. Expected impact on the environment and climate change

During the construction of facilities and implementation of plans for the transformation of the institute, the environment and energy efficiency (green construction) will be taken into account, and the existence of BIO4 Campus, where experts will deal with biodiversity, will contribute to environmental quality and climate change monitoring in the long run.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Delay in preparation of project documentation	Low	Effective planning of all activities and connecting actors
Failure to meet deadlines in the implementation of planned activities and construction	Low	Continuous monitoring of progress and identification of potential bottlenecks

5.2.6. Area REFORMS IN THE AREA OF ECONOMIC INTEGRATIONS

a) Analysis of main obstacles

Republic of Serbia is not fully integrated into the international economic system, as it is not yet a member of the World Trade Organization (WTO). Within the multilateral component of accession (systemic issues), currently the only open issue is the ban on foreign trade in products from genetically modified organisms (GMO) and the adoption of the Law on Amendments to the Law on Genetically Modified Organisms (“Official Gazette of the RS”, No. 41/09), which presents one of the obstacles to completing the WTO accession process. At the same time, several bilateral negotiations on market access within the WTO, which are being conducted with individual states members of the organization, remain to be completed.

Regional cooperation is one of the priorities of the Republic of Serbia, as a foundation for maintaining and increasing stability and promoting overall good neighbourly cooperation. Continuous progress and deepening of regional cooperation, especially through regional initiatives, also contribute to the integration of this part of Europe into the European Union. The implementation of the *Multi-Annual Action Plan for the Development of the Regional Economic Area* (MAP REA) equates the price of mobile roaming traffic with the prices in the national traffic of the Republic of Serbia, Montenegro, Bosnia and Herzegovina, Northern Macedonia and Albania, on the principle of “roaming like at home”. The measure came into force on 1 July 2021 and is valid for all mobile network operators. *The Common Regional Market Action Plan within the framework of the Berlin Process* was adopted at the Western Balkans Summit in Sofia on 10 November 2020. A number of activities are envisaged to be implemented by the end of 2024 in the following areas: a) promote four freedoms (through agreements of mutual recognition, removal of barriers and reduction of costs and time of movement of goods, services, capital and people), b) improve the region’s attractiveness for investments (through a campaign to promote regional investments, developing regional guidelines and procedures for screening mechanisms), c) integrate the Western Balkans into pan-European digital space (harmonization with the principles and practice of the EU Digital Single Market, cooperation in the field of data protection approaches, mutual recognition of electronic signatures) and g) upgrade the development of industrial base and innovation infrastructures (supporting youth entrepreneurship,

start-ups and early stage firms by introducing mechanisms for diaspora knowledge transfer, fostering green and women entrepreneurship).

The joint initiative “Mini Schengen” of the Republic of Serbia, Albania and Northern Macedonia, signed in October 2019 in Novi Sad, aims at improving mutual economic integration through free movement of people, goods, services and capital, travel with an ID card, employment with a certificate of qualification, recognition of diplomas in the region, better co-operation in the fight against organized crime and assistance in the event of natural disasters. The name of the “Mini Schengen” initiative was changed to “*Open Balkans*” at the Forum for Regional Economic Cooperation in Skopje in July 2021. On that occasion, the Republic of Serbia signed three memoranda on cooperation in disaster protection, ease of import, export and movement of goods and free access to the labour market in the Western Balkans. The establishment of the regime of free movement in the territory of the Republic of Serbia, Macedonia and Albania without borders has been planned from 1 January 2023. At the meeting in Tirana held on December 21, 2021. A number of agreements have been signed, as follows:

- *Work Permit Agreement* - the agreement enters into force immediately and provides 90 days for the states to prepare for implementation.
- *Agreement on Free Access to the Labor Market* - the agreement provides a period of 6 months in order for the signatory countries to harmonize their legal framework.
- *Agreement on Integrated Electronic Service Systems* - the agreement enters into force immediately and provides 90 days for the states to prepare for implementation.
- *Four agreements in the field of veterinary and phytosanitary inspection* - the agreements enter into force immediately and a deadline of 90 days is given for the states to prepare for implementation.
- *Agreement between the Government of Serbia and the Council of Ministers of Albania on mutual recognition of approvals of authorized economic entities for security and safety (AEOS)* - the agreement enters into force immediately and provides 90 days to prepare countries for implementation.
- *Agreement on cooperation of accreditation bodies of three countries* - the agreement enters into force immediately and a deadline of 90 days is given for the countries to prepare for implementation.

The decline in Serbia’s foreign trade, in addition to the decline in economic activity, was also influenced by epidemiological measures that made it difficult or even impossible for people and goods to move between countries. The total foreign trade of the Republic of Serbia is lower by 3.4% in 2020 (40 billion euros). Exports of 17.1 billion euros in 2020, recorded a decline of 2.7% y-o-y, while imports fell by 3.8% (23 billion euros). The decline in Serbia’s foreign trade is accompanied by a reduction in the foreign trade deficit (5.9 billion euros) by 6.9% y-o-y, and exports covered 74.3% of imports in 2020, which is at the level of the previous year (73.4%). The wide dispersion of exports is ensured by the diversification of FDI into a large number of sectors that produce tradable goods. The recovery of foreign trade is indicated by higher exports of the Republic of Serbia by 18.9% y-o-y and imports by 15.8% y-o-y over eight months of 2021 (13.7 billion euros and 17.9 billion euros, respectively), in relation to the same period in 2019 before the declaration of the pandemic.

The current account deficit amounted to 4.1% of GDP in 2020 and is lower by 39% y-o-y mostly due to the reduction of the trade deficit of 7.5% and the increase of the surplus of 8.9%

on service accounts, as well as due to the reduction of the primary income deficit by 42.5%. The current account deficit was fully covered by net FDI inflows (3 billion euros).

Serbia's most important foreign trade partners are those with which the Republic of Serbia has signed free trade agreements (EU-27, CEFTA, EFTA, Turkey, Russia, Belarus and Kazakhstan). By applying these agreements, a high degree of liberalization of Serbia's foreign trade was achieved, so that in 2020 about 81% of the total exchange of the Republic of Serbia with the world was done with partners with whom free trade agreements were signed, and almost 90% of Serbia's exports are placed in these markets. In the first 8 months of 2021, these participations are very similar, 80.3% of the total exchange of the Republic of Serbia was exchange with partners with whom free trade agreements were signed, i.e. 88% of the total export of the Republic of Serbia was placed in these markets.

In October 2019, the Republic of Serbia signed another free trade agreement with the members of the Eurasian Economic Union, including Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan. At the end of June 2021, the agreement entered into force, and it will enable the placement of products from the Republic of Serbia on the market that has over 180 million people.

In order to provide a new legal framework for regulating the overall bilateral relations with the United Kingdom after their withdrawal from the EU, in April 2021 a Partnership, Trade and Cooperation Agreement was signed between the Government of the Republic of Serbia and the Government of the United Kingdom and Northern Ireland, as well as accompanying joint declarations (Law on Ratification of the Partnership, Trade and Cooperation Agreement between the Government of the Republic of Serbia and the Government of the United Kingdom of Great Britain and Northern Ireland, the Joint Declaration on Trilateral Access to the Rules of Origin and the Joint Declaration on the Ireland-Northern Ireland Protocol and the Partnership, Trade and Cooperation, "Official Gazette of the RS-International Agreements", No. 13/21). Until their entry into force, the provisional application of this Agreement and the joint declarations began on 20 May, of this year. The United Kingdom completed the ratification procedure on 24 June 2021, while Serbian side ratified the Agreement and the joint declarations on 6 July 2021.

A 61.4% of the total exchange of the Republic of Serbia in 2020 took place with 27 EU member states. Exports to the EU decreased by about 292 million euros in 2020 or 2.6% y-o-y, with an increase in the trade deficit of 5% y-o-y. Over eight months of 2021, the EU's share in the total trade of the Republic of Serbia amounts to 61.2% (19.3 billion euros), which is 27.2% more than in the same period in 2020, when trade flows were disrupted by the outbreak of the Covid-19 virus. Due to faster growth of exports (31.4%) than imports (23.8%) in the same period, the trade deficit with the EU was reduced by 8.3% y-o-y. (1.5 billion euros). **The consequences of the introduction of protective measures (import quotas)** by the EU in January 2019 on certain groups of steel and iron products, for a period of three years, are still present. Due to the introduced quotas and the fall in international demand for these products, due to the outbreak of the Covid-19 pandemic, the export of iron and steel from the Republic of Serbia to the EU during 2020 decreased by 29.7% y-o-y. The situation is somewhat more favourable over eight months of 2021, when the year-on-year growth of exports of these products by 46.3% was recorded. Exports of steel to the EU decreased in volume by 15.3%, while due to higher prices it increased in value by 40%. The extension of EU quotas on steel imports and new regulations related to the control of carbon dioxide emissions (decarbonisation) may negatively affect the export of these products in the coming period.

3. Performance indicators

Indicator	Baseline value (year)	Intermediary target (year)	Target value (year)
The growth rate of the volume of foreign trade of Serbia - the world	8.4% (2019)	-3,4% ⁸⁶ (2020)	7% (2024)
Assessment of the fulfilment of trade facilitation measures received by the Republic of Serbia according to the UN Global Review on Digital and Sustainable Trade Facilitation ⁸⁷	61.3% (2019)	72.4% (2021)	75% (2023)

4. Expected impact on competitiveness

WTO membership, trade improvement through the implementation of CEFTA additional protocols, as well as NCBTF trade facilitation activities will have a significant impact on removing trade barriers, and thus increasing the competitiveness of Serbian companies in the regional market, as well as the growth and further development of Serbia's economy. The positive impact on competitiveness is reflected, among other things, in reducing the costs of foreign trade in goods, shortening the time frame for performing procedures at border crossings, as well as mutual recognition of documents and continued harmonization with the EU regulations in the field of free movement of goods.

5. Estimated costs of activities and sources of financing

The implementation of these activities affected the budget only in the part related to the increase in the number of employees dealing with these tasks, compared to 2019 which is taken as the base year. In this regard, additional employment of two new employees was planned in 2020 and this has been fully met. At the same time, additional funds were provided for assistance in the implementation of the planned activities from the donation in the amount of 100,000 euros for the period 2022-2024. The funds will be spent on improving the capacity in the field of trade policy, which will encourage more efficient implementation of these activities.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The described activities will have a positive impact on employment growth and the realization of the principle of gender equality. The reform is expected to have a positive impact on poverty reduction, while it is neutral in terms of access to health care.

7. Expected impact on the environment and climate change

Structural reform is neutral in terms of environmental impact.

⁸⁶ The result is a consequence of the COVID-19 pandemic.

⁸⁷ *UN Global Survey on Digital and Sustainable Trade Facilitation* is published every two years and covers 143 economies around the world through an analysis of the implementation of measures related to the implementation of the provisions of the World Trade Organization (WTO) Trade Facilitation Agreement. Based on the information from the questionnaire, UN experts evaluate the progress made in individual countries.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
COVID-19 pandemic - potential introduction of extraordinary trade measures by the most important foreign trading partners, change in the structure of demand, recession in the economies with the most important foreign trading partners	High (while the pandemic lasts)	Coordination with the most important trading partners in order to amortize the negative effects of potential trade restrictions.
Trade barriers and measures with economic and trade impact introduced by CEFTA parties	Low	Coordination and communication with CEFTA partners, dialogue on creating conditions for removing trade barriers.
WTO accession implies multilateral negotiations, so the end of the process depends on other participants (WTO members)	High	Closing bilateral negotiations with WTO members. In that regard, passing the Law on GMOs will facilitate bilateral negotiations with some WTO members.
Introduction of EU safeguards (on certain steel products)	High	Activities to exclude Serbia from the list of countries to which EU protection measures are applied.

5.2.7. Area REFORMS OF THE ENERGY MARKET

This area and relevant reforms (7. *Development of the energy market development coupled with energy infrastructure construction and 8. Improving the conditions for increasing energy efficiency through harmonization of the legislative framework with the EU, financing of energy efficiency projects and capacity building of the administration for financing and encouraging energy efficiency*) are analysed in section 5.1. under *Key Challenge No. 3. Greening the energy sector and fully opening the energy market.*

5.2.8. Area REFORMS OF THE TRANSPORT MARKET

a) Analysis of main obstacles

In the field of transport, there is a high level of alignment with the EU acquis. It is necessary to adopt a comprehensive traffic development strategy and general master plan, build and modernize road and railway infrastructure, improve the level of traffic safety, facilitate procedures at border crossings and establish combined/intermodal transport.

It is necessary to complete the reconstruction of the existing and build new sections of roads. The most significant risk for all infrastructure projects is resolving ownership relations, i.e. expropriation procedures that may jeopardize the dynamics of project implementation. It is necessary for the real estate cadastre to speed up the procedures for resolving cases and expropriation of cadastral plots in order to enable the unhindered implementation of infrastructure projects.⁸⁸ Infrastructure projects should be prioritised to a greater extent on the basis of prepared feasibility studies and cost-benefit analysis.⁸⁹ As part of the infrastructure project Route 4 Belgrade-South Adriatic, works are being executed on the section Preljina-Požega, 30.9 km

⁸⁸ MoCTI, <https://www.mgsi.gov.rs/cir/aktuelnosti/momirovitsh-digitalizacijom-rada-rgz-i-jachanjem-kadrovskih-kapaciteta-do-efikasnijeg>

⁸⁹ Serbia Progress Report for 2020 and 2021

long, and this section is planned to be completed in January 2022. The construction of the Belgrade-Sarajevo highway (Sremska Rača-Kuzmin 18 km) has continued, and works are currently being executed on the bridge over the Sava River, completion of the section by the end of 2022. Within the Moravian Corridor (Pojate-Preljina 109.6 km), works on the Pojate-Kruševac route are in progress, and the completion of the entire project is planned for March 2024. Within the highway Ruma-Šabac-Loznica, works have started on the section Ruma-Šabac, 21.6 km long. The bypass around Belgrade in sector B (31 km) is under construction and works are currently being carried out on the section Most over the river Sava near Ostružnica - Bubanj potok. Works on the reconstruction of 5,000 km of local roads and the construction of bypasses around larger settlements have been intensified. It is planned to start works on the Gruža and Fruška Gora corridors and on the Belgrade-Zrenjanin-Noví Sad highway. Economic, safety and environmental aspects must be taken into account when further investing in road infrastructure. Road construction and modernization is necessary to improve flow and reduce road vehicle retention.

Utility infrastructure should be further strengthened and improved. The project “Clean Serbia”, the implementation of which began in 2021, envisages the construction of a system for wastewater treatment and a sewerage network at the level of municipalities and towns. The project is planned to cover 65 local self-government units. The project also includes the rehabilitation or construction of regional landfills at six locations. The deadline for the implementation of each individual project is 39 months from the date of issuance of the first construction permit⁹⁰.

It is necessary to adjust the road tolls, increase the capacity of toll stations and the number of channels provided for electronic toll collection and solve the problem of occasional delays. The transition to a new performance-based regular road maintenance system is under way. There are 820 km of highways under toll collection (collection system comprises 65 tolling stations) and the number of users of electronic toll collection is increasing (over 400,000 active users of TAG device and more than 250 distribution points). It is possible to connect the entire toll collection system by introducing the TMSS data transmission system and connect to the data processing centre. Revenues from tolls decreased by 6%, while the number of vehicles in road traffic by 8 million (decrease of 14.22%) in 2020.⁹¹ The number of electronic toll collection is minimally decreased by 0.4%. Due to the impact of the COVID-19 pandemic, a smaller volume of passenger (decrease of 33.8%) and net tonne-kilometres (decrease by 5.3%) in road traffic was realized⁹². The volume of international transport also decreased. The total number of passenger vehicles entering Serbia decreased by 46.7%, and the number of passenger vehicles leaving Serbia decreased by 49.4% in 2020 (decrease of entries by 25.3% and decrease of exits by 33.8% in Q1 2021).⁹³ Continuity and regularity of the transport of goods and passengers will largely depend on the border crossings.

The outdated railway network restricts passenger and freight railway traffic. Modernization of railway infrastructure is a precondition for improving safety, efficiency, environmental sustainability and regional connectivity. It is necessary to increase the share of electrified lines, achieve full implementation of the European Rail Traffic Management System, especially on the lines of Corridor 10, reduce the number and strive to abolish speed limits and “slow rides”, increase the capacity of routes for the transport of goods within the strategic network of railways and improve the management of railway assets. A higher degree of use of railway traffic would

90 MoCTI, <https://www.mgsi.gov.rs/cir/aktuelnosti/momirovitsh-najznachajnji-projekat-izgradnje-komunalne-infrastrukture-u-srbiji>

91 Annual report on toll collection PERoads of Serbia, https://www.putevi-srbije.rs/images/pdf/suiss/UISS_godisnji_izvestaj_2020.pdf

92 SORS, <https://publikacije.stat.gov.rs/G2021/Pdf/G20211166.pdf>

93 SORS, <https://publikacije.stat.gov.rs/G2021/Pdf/G20211146.pdf>

contribute to relieving the road infrastructure and preserving the environment. The total length of the railway network in the Republic of Serbia is 3,333.4 km (electrified 1,273.7 km).⁹⁴ The total of 157 million passenger km and 2.7 billion net tonne-kilometres were achieved in 2020 (the decrease compared to 2019 was caused by the Covid-19 pandemic and the large volume of infrastructure works).⁹⁵ “Srbija Voz” JSC has the largest share in the number of realized routes (56.20%) and “Serbia Cargo” JSC (34.75%), while private carriers have a share of 9.05%.⁹⁶ A total of **13 railway undertakings** are present on the market in 2020. On most sections that are in the reconstruction phase, the maximum load capacity of the railway is 22.5 tons with a maximum train speed of 10-30 km/h. A total of 325.6 km of regional and local railways were reconstructed and built, while 254.9 km of main railways were reconstructed, modernized and built, and works are underway on another 53.9 km of regional and local, as well as 100 km of main railway.

In 2021, works on another 158.7 km of main, regional and local lines (73 km of main lines, 85.7 km of regional and local lines) were completed. At the end of 2021, the works on another 108 km of main lines (Novi Sad - Subotica).

As part of the Belgrade-Budapest high-speed railway construction project, works on the Belgrade-Novı Sad line are soon to be completed and the commissioning is expected in the mid-March 2022. Works have begun on the 26.4 km long Subotica-Horgoš line,⁹⁷ as well as on the line Novi Sad – Subotica. The plan is to start works on the line Belgrade-Niš (signing a contract for the section Stalać Đunis, lot 1, tunnel number 4, planned for the middle of 2022). Works are completed on the modernization of the 68.8 km long Jajinci - Mala Krsna line. Funds have been secured, loan agreements signed and loan effectiveness declared for the project of modernization of the railway sector in the Republic of Serbia, which envisages rehabilitation, reconstruction and construction of the railway network, management of railway assets, establishment of intelligent railway systems and analysis of human resources in railway companies.⁹⁸

The *Law on Metro and City Railways* (“Official Gazette of the RS”, No. 52/21) was adopted as a legal framework for establishing a metro system. A Memorandum of Understanding was signed for the “Belgrade Metro” project, which envisages the start of works on the first phase of the first project with a total length of 16.5 km at the end of 2021. The first metro line is expected to be completed by 2028, while the planned completion date of the entire project is scheduled for 2033.

It is necessary to improve traffic safety and strengthen the capacities of inspection services. Harmonization of the legislative framework, educational campaigns, improvement of human capacities and equipment of inspection services at the national and local level are a precondition for increasing the level of safety. The number of traffic accidents decreased by 13.1%, while the number of casualties decreased by 15.1% in 2020.⁹⁹ The number of road deaths is still above the EU average. It is necessary to expand the capacities of the Railway Directorate as a regulatory body and a body responsible for railway safety. It is necessary to adopt plans for

94 Report on the regulation of the railway services market for 2020, http://www.raildir.gov.rs/doc/izvestaji/Izvestaj%20o_regulisanju_trzista_zeleznickih_usluga_za_2020_godinu.pdf

95 SORS, <https://publikacije.stat.gov.rs/G2021/Pdf/G20211166.pdf>

96 Report on the regulation of the railway services market for 2020, http://www.raildir.gov.rs/doc/izvestaji/Izvestaj%20o_regulisanju_trzista_zeleznickih_usluga_za_2020_godinu.pdf

97 Serbian Railway Infrastructure JSC, <https://infrazs.rs/2021/07/pocelo-uklanjanje-starih-sina-u-okviru-pripremnih-radova-i-uredjenja-gradilista-za-pocetak-rekonstrukcije-pruge-subotica-horgos/2/>

98 Serbian Railway Infrastructure JSC <https://infrazs.rs/2021/07/objavljeno-obavestenje-o-novim-projektima-modernizacije-zeleznice-vrednim-102-miliona-evra/2/>

99 SORS, <https://www.stat.gov.rs/sr-latn/vesti/20210312-registrovana-drumska-motorna-i-prikljucna-vozila-i-saobracajne-nezgode-na-putevima-2020/>

the maintenance of road and railway infrastructure and take measures to remove black spots on sections of the road with a high degree of traffic accidents. There are still delays in establishing a methodology for calculating track access charges, as well as a new model for setting prices for access to railway infrastructure. The signing of the European Railway Safety Culture Declaration and the automation of road crossings (installation of vibro strips, solar markers and reflector lighting) improved the safety of railway traffic. The design of a unique dispatch centre is underway, which will contribute to the digitalisation and monitoring of trains in real time.

It is necessary to establish and strengthen the capacities of combined/intermodal transport. This type of transport contributes to relieving the city centre, reducing transport costs, traffic jams and road damage, and increasing road safety. Technical specifications for interoperability need to be adopted and implemented. The construction of the Intermodal Terminal in Batajnica was initiated in September 2020 and the works are planned to be completed by the end of 2022. The Batajnica terminal will enable the connection of road and railway traffic and the performance of all logistics works in one place.

A large number of procedures create traffic jams at border crossings and burden security controls. It is necessary to improve the operations of customs services, reduce and simplify border procedures, reduce the time spent at border crossings and improve regional cooperation. It is necessary to establish ICT in all types of traffic. In order to develop ICT in the territory of the Republic of Serbia, it is necessary to adopt a strategic framework, adjust legislation and provide capacity for implementation. The European Rail Traffic Management System (ERTMS) will be applied on the sections of the line Belgrade Center – Novi Sad, Novi Sad – Subotica – state border with Hungary, Subotica-Horgoš. The River Information Systems (RIS) system on the Sava and Danube rivers is currently in operation. It is necessary to enable the issuance of licenses for train drivers and safety certificates for railway companies and the mutual recognition of railway vehicles, in accordance with the Treaty establishing the Transport Community. Data exchange through the Electronic Data Interchange System (EDI) contributes to faster traffic at border crossings. The expansion of border crossings has begun and administrative processes have been accelerated with the introduction of a larger number of passport scanners and goods scanners. The application of the “Green Corridors” system at certain border crossings has continued. The construction and expansion of border crossings (towards Montenegro and BandH) is underway in order to increase throughput capacity. The practice of opening additional border crossing points during the summer season continued.

In the areas of maritime and inland waterway transport a high degree of alignment with the EU acquis has been achieved. The trade potential of river ports has not been fully exploited and it is necessary to achieve interoperability with road and railway infrastructure. The total volume of freight transport on inland waterways in the Republic of Serbia amounted to 15.6 million tons in 2020, which is an increase of 10.2% compared to 2019.¹⁰⁰ The types of cargo most commonly transhipped are gravel, sand and stone aggregates, and they together make up almost 26% of transhipments. The increase in the volume of transshipment was mostly due to the increase in business activity in the construction sector. In the period January-September 2021, 12 million tons of cargo were transhipped on inland waterways, which is an increase of 13% compared to the same period of 2020. (gravel, sand and stone aggregates account for 27.6% of total transshipment).¹⁰¹ The implementation of large infrastructure projects has contributed to the

100 Port Governance Agency, <https://www.aul.gov.rs/na-rekama-u-srbiji-pretovareno-15-miliona-tona-tereta>

101 Port Governance Agency, <https://www.aul.gov.rs/porast-pretovara-tereta-na-rekama-u-srbiji>

increase in transshipment in ports during 2020 and 2021. The strengthening of regional cooperation, active participation within the EU strategies for the development of the Danube region and the Adriatic-Ionian region and the implementation of RIS continued. All data on port operations are collected through the Integrated Port Information System (IPIS). *Law on Amendments to the Law on Navigation and Ports on Inland Waters* (“Official Gazette of the RS”, No. 52/21) have created conditions for improving the profitability of port services, the work of port operators and the level of port security.

Existing infrastructure capacities in the field of inland water transport limit the speed of transshipment in Serbian ports and the level of competitiveness of Serbian goods in foreign markets, but they are continuously improving. It is necessary to improve port capacities and include them in the Trans-European Transport Network (TEN-T) of river ports. Investments in the river navigation sector have continued, which contributes to the growth of involvement in the European network of river road and freight corridors. In order to connect the Danube and the Sava Rivers with the railway and passenger Corridor 10, the implementation of the projects for the construction of the port of Prahovo, the salvage of the sunken German fleet from the Second World War and the reconstruction of the Đerdap 2 substation have continued. A reconstructed river passenger terminal on the Danube River has been opened in Novi Sad, which will contribute to greater traffic of goods and passengers.¹⁰² A modern system of marking the waterway on the Danube River has been introduced. Preparatory works on the realization of the expansion of the ports in Bogojevo and Sremska Mitrovica are underway, while the preparation and completion of the technical and spatial documentation for the new port in Belgrade is planned for 2022. The international passenger port Kostolac has got an operator.¹⁰³ *The Decree on determining the port area of the international passenger port in Novi Sad* (“Official Gazette of the RS”, No. 9/21), *Decree on determining the port area of the international passenger port in Kostolac* (“Official Gazette of the RS”, No. 30/21) and *Decree on determining the port area of the international passenger port in Sremska Mitrovica* (“Official Gazette of the RS”, No. 75/21) were passed. The construction of an international port in the settlement of Ram and the preparation of documentation for the construction of an international port in Šabac are in progress. Through the implementation of the project of integrated development of the Sava and Drina Rivers corridors, the application of a multi-phase programme approach will enable the improvement of flood protection and the development of cross-border cooperation in the field of waters on the Sava and Drina Rivers corridors.

In the field of aviation, a good level of alignment with the acquis has been achieved. Fulfilment of obligations under the Agreement on the Establishment of a Common European Aviation Area has continued. The implementation of the SES I SES II initiatives for air transport has started within the programme Single European Sky (SES). The international airports “Nikola Tesla” in Belgrade, “Constantine the Great” in Niš and “Morava” near Kraljevo are operational. In the conditions caused by the Covid-19 pandemic, the scope of business activity was reduced. At the airport “Nikola Tesla” in Belgrade, the number of passengers decreased by 69.1%, the number of commercial flights decreased by 52.2%, and the total amount of transported goods decreased by 17.2% in 2020.¹⁰⁴ At the Airport “Constantine the Great” in Niš, the number of passengers was reduced by 63.5% and the transported goods by 55.7% in 2020.¹⁰⁵

102 MCTI, <https://www.mgsi.gov.rs/cir/aktuelnosti/otvoren-rekonstruisani-rechni-putnicki-terminal-u-novom-sadu>

103 Port Governance Agency, <https://www.aul.gov.rs/medjunarodno-putnicko-pristaniste-kostolac-dobilo-operatera>

104 Airport “Nikola Tesla”. Report on activities for 2020, https://beg.aero/sites/belgrade/files/pdf/beg_izvestaj_o_aktivnostima_2020.pdf

105 Airport “Constantine the Great”, Niš, <https://nis-airport.com/statistika/>

During the Covid-19 pandemic, the business of construction companies working on the largest infrastructure projects in the field of road, railway and water transport and communal infrastructure projects was continuous. *The Programme of scheduling and using subsidies to support the work of bus carriers due to business difficulties caused by the Covid-19 disease epidemic*¹⁰⁶ was adopted. This subsidy plan enables the award of grants to licensed bus carriers for six months in the amount of 600 euros per month.

b) Reforms

STRUCTURAL REFORM 17: IMPROVEMENT OF EFFICIENCY AND SAFETY IN RAILWAY TRAFFIC

1. Description of the structural reform

The Republic of Serbia has been intensively implementing activities on the reform of the railway sector since 2015, starting with the establishment of new railway companies, establishing the legislative framework, opening the market, improving the company's operations, resolving debt and surplus assets, optimizing the number of employees and streamlining the network. At the same time, efforts are being invested in creation of conditions for permanent sustainable business operations, further market opening and improvement of services in accordance with EU regulations, standards and practice. The railway infrastructure is being improved through projects of reconstruction, modernization and construction of railways and other capacities, in accordance with the *National Programme for Public Railway Infrastructure for the period from 2017-2021* (preparation of a new planning document is underway).

The main activities in the coming period, given that the harmonization of laws with the IV package of railway EU regulations and the adoption of a new Methodology for calculating the price of access to railway infrastructure are in the final phase, are: 1) application of the new Methodology for calculating the price of access to railway infrastructure, which aims at calculating access prices based on real costs, which will enable a more predictable market for railway services, 2) improving railway safety, especially when it comes to road-rail crossings, with the aim at reducing the number of traffic accidents and 3) improving the efficiency of passenger traffic through improved contractual relations, new services, promotional activities and improving business efficiency (sales networks, energy efficiency, resource management).

All investments in railways directly contribute to the implementation of the European Green Deal, given all the technical features and environmental benefits of this mode of transport.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Application of the new Methodology for calculating the price of access to railway infrastructure												
2	Increasing safety in railway traffic												
3	Improving the efficiency of passenger traffic												

¹⁰⁶ MoCTI, <https://www.mgsi.gov.rs/cir/aktuelnosti/momirovitsh-uz-subvencije-sachuvatshemo-radna-mesta-autobuskim-prevoznicima>

3. Performance indicators

Indicator	Baseline value (2016)	Intermediate value (2020)	Target value (2024)
Quantity of transported goods (tons)	11,896,000	10,692,840*	13,070,200
Number of transported passengers	6,092,000	2,605,615**	6,701,200
Number of railway accidents	253***	208	150
Kilometres of reconstructed (renewed) railways (cumulative since 2015)	36.3	580	1,092.3

* Estimate based on the quantity of goods transported by the national state carrier and the share of private carriers

** Covid measures and a large volume of infrastructure works

*** Data for 2017, bearing in mind that before 2017, extraordinary events were classified in a different way

4. Expected impact on competitiveness

The ultimate goal of the reform of the railway sector is to increase competitiveness, not only within the railway sector, where the prices of transport services will be formed exclusively as dictated by supply and demand, but also to increase the competitiveness of railways in relation to other modes of transport. The reform so far has enabled the existence of an open market at the national level, where, in addition to the two state-owned ones, 13 private railway carriers are currently actively operating, and their number is expected to grow further. Increasing efficiency of the restructured enterprises is still under way however, bearing in mind the current level of the market development, users of railway services in freight transport already benefit in terms of carrier choice. In addition, investments in capital projects affect the growth of industrial production, employment of the domestic economy, reduction of the number of unemployed and GDP growth. On the other hand, given the Covid-19 pandemic and its negative impact on economic activities, in 2020, compared to 2019, the volume of transported goods decreased by 8.7%, and the number of transported passengers decreased by about 38% due to restrictive measures and traffic restrictions due to infrastructure works. Given the uncertainty of the epidemiological situation and the continuation of a large volume of works on the reconstruction and modernization of infrastructure, it is necessary to make additional efforts to raise the efficiency of railway transport, and in the context of global environmental trends, especially passenger transport. The share of railways in the total volume of transported goods and passengers is the final indicator of the success of this reform. According to the data of the Statistical Office of the RS, the share of railway traffic in the total transport of goods in 2020 was 23.1% (tonne km), and in the transport of passengers 5.9% (number of passengers).

5. Estimated costs of activities and sources of financing

Considering that the activities on the development and adoption of the Methodology for calculating the price of access to railway infrastructure and the harmonization with the 4th package of EU regulations are in the final phase, and that the proposal of a new agreement between the Government and “Srbija Voz” JSC developed within the extended project “Comprehensive Railway Reform”, other additional expenses of the reform relate to the estimated value of the work of additional persons engaged (goods and services) for activities for the purposes of applying the Methodology for calculating the access price for the period 2022-2024, in the total amount of 4.515 euros (counting also 1,250 euros estimated by the Directorate of Railways as the amount needed to hire a consultant). In addition to the 141,102 euros related to the estimated value of hiring additional employees (for goods and services) in the period 2022-2024, funds from the World Bank loan for the modernization of road crossings in the amount of 10.9 million

euros were also provided for activities to increase railway safety, (works are expected during 2022 and 2023, 50% each – referring to 58 road crossings). In addition, the EBRD approved the reallocation of the remaining funds from the existing loan (10 million euros) to finance works focusing on the improvement of the safety at 33 road crossings (33% each 2022, 2023 and 2024). In addition, loan agreements have been signed with the World Bank and the French Development Agency for the Railway Sector Modernization Project in Serbia - the first phase includes improvement component at 150-200 road crossings in the amount of 22 million euros (implementation is expected in 2023 and 2024 the rest until 2026). Related to the improvement of the efficiency of passenger transport, it is planned to increase the compensation for the obligation of public passenger transport in 2022 from the budget of about 7 million euros (other costs of this activity are not included in the additional ones).

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The increase in economic activities and the work of the economy contributes to the increase in the number of employees among participants and users of services in railway transport, which directly affects the reduction of poverty. Gender equality is largely taken into account when increasing the number of employees. On the other hand, the impact that Covid-19 has on economic activities is actively monitored, with the aim of minimizing its impact on the railway sector.

7. Expected impact on the environment and climate change

By improving the railway as a transport system, a positive impact on the environment is achieved, bearing in mind that the railway is considered environmentally friendly, even the “cleanest” mode of transport. This characteristic of the railway is a consequence of its technical features, i.e. that for a certain energy consumption it is possible to transport a larger amount of goods and passengers compared to other competitive modes of transport, but also due to the use of electricity as a fuel. For all these reasons, the increase in the share of railways in the market of transport services directly contributes to the realization of the Green Deal.

8. Potential risks

Risk	Risk probability (low or high)	Planned activities to mitigate negative effects of the risks
Loss of goods and passengers as a consequence of the large volume of infrastructure works and the impact of Covid-19	High	More efficient implementation of projects by SRI, provision of alternative transport routes and lifting all obstacles in order to perform traffic without delays, additional activities to improve passenger traffic

5.2.9. Area AGRICULTURE, INDUSTRY AND SERVICES

a) Analysis of main obstacles

Relatively high share of GVA of the agriculture, forestry and fisheries and food processing sectors in the total GDP of the Republic of Serbia (6.0% and 2.3% in 2019 and 6.3% and 2.4% in 2020) is partly the result of favourable natural conditions (geographical position, natural resources, climate factor) and resources for agricultural production (agricultural land used for farming accounts for some 40% of the national territory), but is also the consequence of low tech-

nological level of the rest of the economy. Agricultural potential is not fully exploited due to lack of technological development in all branches of agriculture and sparsely populated rural areas.

Agriculture accounted for some 16.9% of all employment in 2020 (188.3 thousand people in formal employment, but also 233.1 thousand undeclared workers)¹⁰⁷. Due to the special characteristics and conditions of seasonal work in the sector of agriculture, forestry and fisheries, the new law enables a simplified way of employment of persons and payment of taxes and contributions for seasonal work in this sector.

The value of exports of agri-food products in 2020 amounted to close to **3.7 billion euros** which is by 12.3% higher than the value of exports in 2019, or 25.8% compared to the five-year average (2015-2019). At the same time, the value of imports of agri-food products amounted to close to 2 billion euros, which is higher by 8.3% y.o.y, or 25.6% compared to the five-year average (2015-2019). **The growth trend of the surplus** in the exchange of agri-food products continued during 2020, with the value of around 1.6 billion euros, which is the largest surplus in trade so far (higher by almost 40% compared to 2015). The degree of coverage of imports by exports of agri-food products was 179.7% in 2020.

Although **diversification** is envisaged under Serbia's strategic framework for rural development, **the level of infrastructure at which it is able to support a broader supply of agricultural sector to the market is yet to reach**. The first public call for the submission of applications for approval of projects for IPARD incentives for diversification of farms and business development was published in 2020.

Economic weakness of the majority of agricultural operators together with insufficient technical and technological equipment poses the main challenge to the development of Serbia's agriculture activities (farms and other legal forms). The majority of farms are small or medium-sized engaging in extensive farming, without specialized production in a particular sector. Farms of up to 5 hectares in area account for 71.47% of the total number, while the average area of utilised agricultural land in the Republic of Serbia comes to 6.16 ha¹⁰⁸. Such farms are too small to be competitive, both for direct sales on the European market and for the sale of raw materials for processing. The inefficiency of the consolidation process regulated by the *Law on Agricultural Land* ("Official Gazette of the RS", No. 62/06, 65/08 - other law, 41/09, 112/15, 80/17 and 95/18- other law) is reflected in the average duration of the procedure from the adoption of the consolidation programme by the assembly of local self-government to vesting the owner in property of consolidated areas, which takes about three years and four months¹⁰⁹. The fragmentation of estates means a significant portion of arable land goes uncultivated, which discourages investment in agriculture, holds back productivity growth, and makes hiring more difficult (adoption of the new *Law on Agricultural Land* and *Law on Land Consolidation* are expected by the end of 2022). The net inflow of FDI into agriculture during the first half of 2021 amounted to 17.1 million euros (which is 3.4 million euros less compared to the same period last year), or 0.97% of the total FDI inflow in Serbia, which shows that this sector is not attractive enough for foreign investors.

Reduction of the rural population and outmigration of young people is the result of the poor economic position of the rural population and unfavourable infrastructure condi-

107 SORS, Labour Force Survey, 2020, calculation by PPS <https://publikacije.stat.gov.rs/G2021/Pdf/G20215671.pdf>

108 SORS, Survey on the structure of agricultural holdings, 2018. <https://publikacije.stat.gov.rs/G2019/Pdf/G20196002.pdf>

109 Source: <https://naled.rs/htdocs/Files/01428/Komasacija-vodic-web.pdf>

tions. In the implementation of national rural development support measures, as well as the accredited IPARD measures that are currently implemented, young farmers have the advantage of scoring and ranking projects/beneficiaries. *Regulation on the allocation of subsidies in agriculture and rural development* in 2021 (“Official Gazette of the RS”, No. 159/20, 15/21, 32/21, 46/21, 64/21, 90/21, 109/21 и 120/21) to support young farmers resulted in disbursement of 5.8 million euros (1.7 million euros in 2020).

The share of irrigated areas is low (at about 4.6%¹¹⁰ of the total area of agricultural land in use), but in the previous period, since 2017, **works** that create conditions for **irrigation of about 47,954 ha** of additional areas of agricultural land **have been completed.** Ten contracts on the execution of the works on the construction and rehabilitation of water structures to provide conditions for irrigation of additional 57,248 ha of agricultural land were signed through the project “Development of irrigation systems - Phase I” in 2020. Through the implementation of the “Serbian Climate Resilience & Irrigation Programme SCRIP - Phase I”, is planned building and rehabilitation of the critical irrigation infrastructure in eastern (870 ha that have not been irrigated so far, as well as water for 1,100 ha of land that is currently partially irrigated) and Central Serbia (1,040 ha of land). Procurement of irrigation systems for agricultural holdings is supported through national measures to promote rural development and through the IPARD programme.

Lack of effective mechanisms to combat drought and other unfavourable weather conditions reduce yields relative to potentials. To reduce damage caused by natural disasters, the Government has been subsidising insurance premiums. Scope of allocated funds for this purpose have been increasing over the years. The number of insured farms rose from 2,594 applications in 2006 to 29,707 in 2021 (28,576 for crop insurance and 1,131 for animal insurance), when over 327,044,110.11 dinars was disbursed.

Farmers must be registered with the Farm Register (FR) in the status of a legal entity in order to be eligible to apply for funds from national subsidies or funds from the IPARD fund. Currently, 449,452¹¹¹ agricultural holdings (AH) are registered in the FR, of which 446,080 are registered as natural persons, while only 3,372 are registered as AH having the status of a legal entity. This ratio indicates how underdeveloped business environment is in the context of agricultural activities.

A total of twelve open calls for IPARD support have been advertised. A total of 2,117 applications were submitted for the approval of projects. A total of 764 requests in the amount of 126 million euros were approved on 28 October 2021. The total of 72 million euros of 764 approved requests were contracted, and a total of 458 requests worth 24.9 million euros were paid by 28 October 2021. There are many difficulties in the initial phase of IPARD implementation. The limited number of persons hired and trained in the Directorate for Agrarian Paying Agency has led to slower processing of applications, and the processing process has been additionally slowed down due to the fact that incomplete requests have been filed by beneficiaries. The fourth public call within Measure 3 (Investments in physical assets concerning processing and marketing of agricultural and fishery products) was published on 16 August 2021 and 15 requests had been submitted by the end of October. The second public call within Measure 7 (agricultural holdings diversification and business development), which refers to the diversification of agricultural holdings and business development, was published on 23 September 2021 and also 15 requests had been submitted by the end of October.

110 SORS, The structure of agricultural holdings, 2018. <https://publikacije.stat.gov.rs/G2019/Pdf/G201922002.pdf>

111 <https://www.trezor.gov.rs/files/services/rpg/statistika/Broj%20registrovanih%20poljoprivrednih%20gazdinstava.pdf>

Self-reliant work without a tendency to association, insufficient level of investment in agriculture and fragmented market chain limit the development of agricultural activity.

It is necessary to support investments in sectors where the Republic of Serbia has comparative advantages (fruit, vegetable, livestock production sectors), improve business management and provide adequate logistical support.

As in the case of EU member states, which will implement the provisions and postulates of the **European Green Deal** in their national legislation and multi-annual strategic plans, the future legal framework in the field of agriculture in the Republic of Serbia will include the goals and activities of this plan, in terms of establishing a fair, healthy and environmentally friendly supply chain of food products, and through reduced use of pesticides, fertilisers and antibiotics, as well as reduced risk of their use on the one hand, and improvement of environmental protection and biodiversity conservation, on the other. The process of development of IPARD III programme is under way which is being prepared in line with the European Green Deal. It is planned to simplify procedures and introduce advance payments in order to increase the absorption of funds. All investments in machinery and equipment that are the subject of support must meet the standards concerning the emission of harmful gases.

Industrial production has maintained its level in the conditions of the pandemic, regardless of the lack of imported raw materials, the interruption of trade chains and the reduction of demand

(y-o-y. industry growth 0.4%, manufacturing industry 0.1% in 2020). The share of industry in the creation of total GVA was 24.7% in 2020. The overall industry showed a rapid recovery after the recession and in the period January-September of 2021 reached a growth of 12.1% (taking into account the low base from the same period last year). FDI in the manufacturing production also contributed to the recovery of the industry (33.3% of total FDI in 2020 and 20.1% in the first half of 2021). Despite the risk that the crisis will produce serious disruptions in the labour market, employment in the manufacturing production¹¹² was maintained and increased by 3.6% in 2020, and this trend continued in the 2021, when growth of 3.6% was recorded in the third quarter. (20,624persons) compared to average from 2020. Also, exports of total industry recorded a growth of 36% y-o-y in the first half of 2021 (a decrease of 10.2% in the same period in 2020 due to the introduction of epidemiological measures around the world, which made it difficult or even impossible to move people and goods between borders), with the growth of the processing industry being 35% y-o-y (about 90% of total exports).

Access to finance for SMEs is improving year by year. The legal framework in the field of financing was improved by the adoption of the *Law on Open-End Investment Funds with a Public Offering* (“Official Gazette of the RS”, No. 73/19) and the *Law on Alternative Investment Funds* (“Official Gazette of the RS”, No. 73/19), which enable alternative sources of financing¹¹³. Systematic monitoring of SMEs lending has been established on a monthly basis since 2017, which shows a constant improvement in SMEs financing conditions (lower interest rates, longer loan maturity, higher loan volume). The competitiveness of the SMEs sector has improved, whose productivity (GVA ratio per employee) is higher by 12.6% in 2018 compared to 2010. To support the SMEs sector in overcoming the problems caused by the pandemic, two guarantee schemes have been approved for loans to maintain the liquidity of economic entities worth about 2.5 billion euros and 0.5 billion euros (only for companies from the most affected industries and companies with a revenue decline of more than 20% in 2020), which are available

112 Source: SORS, Registered Employment, Q3 2021;

113 Recommendation 4. ECOFIN Council of May 2019: “Adopt special laws on alternative investment vehicles”.

until the end of July 2022. These schemes have contributed to the fact that almost 2/3 of loans approved to the economy in the previous period are loans to small and medium enterprises. Implementation of the new *Industrial Policy Strategy from 2021 to 2030 of the Republic of Serbia* and the *Action Plan* for implementation of the *Industrial Policy Strategy from 2021 to 2030 of the Republic of Serbia* (“Official Gazette of the RS”, No. 37/21) will enable the improvement of competitiveness of domestic industry, primarily in the SMEEs sector, increased volume of quality investments, change of technological structure of industry, greater automation and digitalization of business processes, scientific support -research and innovative solutions.

Harmonization of national regulations with technical regulations of the European Union and their efficient application through a developed quality infrastructure system are a prerequisite for product safety on the domestic market and Serbia’s inclusion in international and European integration flows and ensuring free movement of goods and services. In this regard, the adoption of the *Law on Accreditation* and the *Law on Control of Precious Metal Articles* (“Official Gazette of the RS”, No. 47/21), as well as the *Law on Technical Requirements for Products and Conformity Assessment* (“Official Gazette of the RS”, No. 49/21), in May 2021, is important. In response to the needs of the economy, an instrument of financial support was created for economic entities, primarily small and medium enterprises, to increase the level of use of standards in production and business organization, product certification, management systems and improving the availability of all other services in quality infrastructure. The development of the *Programme* of financial support to economic entities on improving the quality of products and services is in progress.

The service sector (including construction) with a dominant share in GDP (57%) was most affected by the 2020 pandemic. The most significant negative contribution of GDP, observed by aggregates of use, was made by private consumption due to the present restrictions and application of health measures and consequently less use of tourist, catering and transport services due to the prolonged effect of the epidemic. At the same time, there was a record surplus in trade in services in 2020 (about 1.1 billion euros), with a growth of 8.9% y-o-y, which shows the independence of this sector from the impact of the pandemic, as well as its progressive development from year to year. The services sector is characterized by positive trends in 2021. For the first time since the pandemic outbreak, the sector made a positive contribution to GDP growth of 0.5 percentage points in the first quarter of 2021, primarily due to growth in trade, ICT and financial services. In the same period, tourist destinations were visited by 989 thousand tourists, which is an increase of 26.7% y-o-y, with an increase in the number of realized overnight stays by 22.5% y-o-y and foreign exchange inflow based on tourism by 33.1% y-o-y. The growth of exports of services in the first half of the year of 18.1% y-o-y was accompanied by the growth of almost all service activities, with exports of tourism and ICT services providing the most significant positive contribution (growth of 33.1% and 17.6% y-o-y respectively).

Recovery in the tourism sector depends on the further spread of the pandemic, and will largely affect the arrival of foreign tourists. In order to overcome the current crisis in the tourism sector, in addition to state support, it is necessary to adjust the offer of tourist products and services in accordance with the new situation. Capacities in tourism need to be further improved so as to achieve sustainability and meet environmental goals and reduce global warming in line with the European Green Deal and in addition, destination management systems to innovate domestic destinations innovating the marketing and management system is to be implemented. Encouragement of the development of domestic tourism is implemented through the allocation of vouchers for subsidized use of accommodation services in catering facilities on

the territory of the Republic of Serbia. During 2020, 272,856¹¹⁴ holiday vouchers were issued in the Republic of Serbia, while in 2021, funds were provided for 150,000 vouchers, which were distributed to interested citizens.

In the conditions of limited movement during the state of emergency due to the pandemic, e-commerce became especially important in 2020. 20.2 million transactions were realized by using payment cards via Internet for the purchase of goods and services in selected currencies from the basket of currencies used to purchase goods and services via Internet, which is 65.9% more than in 2019, while dinar transactions by using payment card doubled (from 7 million transactions in 2019 to 14.2 million in 2020). At the same time, the number of consumer complaints about online shopping has doubled (1,640 in 2020 compared to 792 in 2019)¹¹⁵. The positive tendencies of e-commerce continued during the first half of 2021 (14.6 million transactions realized by using payment cards via Internet for the purchase of goods and services, which is an increase of 71% y-o-y).

The total number of virtual points of sale also increased, so that at the end of 2020 there were a total of 2,013 virtual points of sale (1,139 at the end of 2019), or 2,492¹¹⁶ virtual points of sale at the end of the second quarter of 2021.

One of the most modern payment methods that can be used also for Internet payments is instant payments. Apart from lower processing costs and instant transfer and availability of funds, instant payments on the Internet do not require leaving any information about the payment instrument. In addition to instant payments at Internet points of sale that will be possible by using a single mobile device via deep-link technology, instant payments are also possible at physical points of sale, also by scanning the NBS IPS QR code on invoices, and by knowing the number of mobile phone by using the Transfer service (*Preinesi*).

b) Reforms

STRUCTURAL REFORM 18: IMPROVEMENTS OF THE AGRICULTURE COMPETITIVENESS

1. Description of the structural reform

The market chain in the domestic market is currently very fragmented and insufficiently organized, both in the field of production and processing, with an obvious lack of bodies and organizations to provide adequate logistical support and as such, hinders further growth of competitiveness of the agricultural and food sector. The reform includes (1) the improvement of infrastructure in rural areas with the establishment of a regulatory framework for the land consolidation process (during 2021, the Rulebook on Investment Incentives for the Improvement and Development of Rural Public Infrastructure was adopted (“Official Gazette of the RS”, No. 67/21, 83/21 and 125/21)). The first public call for support for investments in the construction of roads and water supply networks in rural areas was realized); (2) regulation of the legal framework in the field of agricultural products markets, quality schemes for agricultural and

114 Due to the great interest in 2020, funds were provided for about 500,000 vouchers, which were not taken over due to the situation with the Corona virus pandemic.

115 <https://mtt.gov.rs/download/Izve%C5%A1taj%20o%20radu%20Nacionalnog%20registra%20potro%C5%A1a%C4%8Dkih%20prigovora%20za%202020.%20godinu.pdf>

116 NBS, Reception network, https://nbs.rs/export/sites/NBS_site/documents/platni-sistem/statistika/el_novac/prihvatna_mreza.xlsx

3. Performance indicators

Indicator	Baseline value (2019)	Intermediate value (2020)	Target value (2024)
GVA of agriculture, in billion euros	2.7	3.0	3.8
Share of agricultural and food products in export	18.5%	21.3%	19%

4. Expected impact on competitiveness

In order to realize investments that aid to develop competitiveness in rural areas, it is necessary to provide appropriate infrastructure that will contribute to the quantitative and qualitative development of processing plants and which enables the construction of new storage and processing capacities. Developing quality schemes for agricultural and food products will enable domestic producers to protect their products with protected geographical indications of origin at EU level. In addition to recognisability, the products will be standardised and competitively priced. Also, the introduction of international standards in organic production will directly affect the increase of competitiveness of producers, both in the domestic and foreign markets. The increase in the value of agricultural products directly affects the increase in exports and GDP.

More efficient implementation of the land consolidation process is expected to enlarge the land, form plots of regular shape suitable for access to mechanization, arrange infrastructure, more efficient lease of state agricultural land, which will reflect an increase in agricultural production and GDP growth.

The improved liquidity affects the possibility of investing in fixed assets, which together affects the competitiveness of agriculture and can indirectly lead to an increase in credit support for investment loans in agriculture and processing.

5. Estimated costs of activities and sources of financing

Estimated costs for the improvement of rural infrastructure through announcing a public call in 2022 amount to about 4.5 million euros. During 2022, the measure will be financed from the national budget. These costs in 2023 will be financed from sources that have yet to be determined, and as of 2024 through the IPARD III programme. Estimated costs for establishing systems related to the implementation of market regulation requirements and measures based on the Law on Agricultural Market Regulation, conducting trainings, introducing producers to changes that will occur through the application of certain provisions of the law, procurement of hardware and software, establishing a registry and increasing administrative capacity are planned to amount to about 8.7 million euros in total.

Part of these funds will be provided through the EU funded projects, amounting to 1.8 million euros (600,000 euros in 2022, 1.02 million euros in 2023, and 180,000 euros in 2024). The total estimated costs to the beneficiaries of market regulation subsidies measures amount to 3.3 million euros in average in 2023 and 2024. In accordance with the adopted Law on Regulation of the Market of Agricultural Products in 2024, the amount of 146,250 euros is planned for the preparation of the register of traders. Adoption of the Law on Quality Schemes for Agri-Food Products and the Law on Organic Production, as well as their implementation requires certain costs related to increasing administrative capacity, conducting trainings and information campaigns. The estimated costs are provided through the FAO project in the total amount of

170,372 euros, 85,000 euros in 2022 and 85,372 euros in 2023. The second part of these costs will be financed from national funds, after the adoption of the laws.

The estimated costs for consolidation of agricultural land in accordance with the estimated needs total to 3.1 million euros. Funds related to professional and administrative support in the management of agricultural land in 2022 are earmarked for the costs of salaries, training and office equipment for the needs of five newly hired employees, as well as goods and services in the amount of 252,260 euros, and the source of funding is the budget of the Republic of Serbia and funds from the donation. In 2023, funds in the amount of 902,260 euros are earmarked for the needs of hiring experts in the drafting of bylaws, for the costs of salaries, training and office equipment for the needs of five newly hired employees, translation services, server procurement and network infrastructure development, and the source of funding is the budget of the Republic of Serbia and funds from the project, while the source of funding should be determined for part of the funds in the amount of 650,000 euros. Funds related to professional and administrative support in the management of agricultural land in 2024 in the amount of 1.95 million euros are earmarked for the costs of salaries, training and office equipment for the needs of five employees, software development and the costs of implementing pilot consolidations, and the source of funding is the budget of the Republic of Serbia and funds from IPA 2021.

During 2022, the development of RAH and LPIS software will be carried out and the estimated value is around 730 thousand euros - 900 thousand euros; and linking these two registers with the Animal Register, where the estimated value of the activity is 150 thousand euros. The total estimated maximum value is 1.050.000 euros (900.000 euros + 150.000 euros) which will be financed from the World Bank credit loan in the amount of 416.666 euros (funding source 11) and national budget funds in the amount of 633,334 euros (source 01). During 2023-2025, work on the development of the remaining parts of the IACS elements (except AMS) will continue. The source of funding is from the IPA 2021 fund, the total value of the project is 3.79 million euros. To strengthen institutional and administrative capacity Directorate for Agrarian Payments in the period 2022-2024 it is necessary to provide 1,056,260 euros (159,285 euros in 2022, 372,695 euros in 2023 and 524,280 euros in 2024).

During 2022, it is planned to place 15,000,000 euros from the World Bank loan within the project of competitive agriculture to farms through subsidies for improving competitiveness, while in 2023 the amount of 5,833,333 euros is planned and in 2024 the amount of 4,750,000 euros for subsidies for improving competitiveness, all from World Bank loans.

The estimated costs of the Republic Geodetic Authority for the implementation of the information system to support the implementation of professional supervision in the consolidation process (control module and integration module for connecting to the real estate cadastre information system and training of employees in the implementation of professional supervision) in 2023 are about 900,000 euros and in 2024, about 750,000 euros. Sources of funding for these activities have yet to be determined. The estimated costs of drafting a bylaw that regulates professional supervision in land consolidation procedures from the scope of work of the Republic Geodetic Authority are regular operating costs of the Republic Geodetic Authority which are financed from the budget of the Republic of Serbia and do not require additional costs.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The structural measure directly affects the increased volume of employment and the reduction of poverty of the local population. The development of rural infrastructure enables individuals and legal entities to develop their own businesses, i.e. their self-employment and employment of the local population. The application of the *Law on Regulation of the Market of Agricultural Products* enables a legally regulated appearance of all entities on the market and will directly encourage the emergence of new legal entities in the sector of production, processing and trade of agricultural products, including employment. The implementation of the *Law on Quality Schemes for Agricultural and Food Products* will contribute to better regulation of the system of protection of geographical indications of agricultural and food products, which will additionally encourage new producers to enter the system of protection of geographical indications and unite. Rural areas with a high unemployment rate, which have favourable conditions for organic food production, can benefit from organic production. Increasing the efficiency in the payment of support to agricultural production and increasing the effectiveness in the planning of agricultural policy measures contributes to accelerating the movement of goods and services in agriculture, which will contribute to increasing employment and reducing poverty. Facilitated access to measures to support agricultural production contributes to a level playing field between all market players. It is expected that the structural reform will have a neutral impact on the gender aspect, but after the consolidation procedure, a mechanism for the transfer of unused land to young people and women can be established.

7. Expected impact on the environment and climate change

By accelerating the land consolidation procedures, conditions are created for the enlargement of cadastral plots, prevention of disturbances of the natural functions of the land, as well as preservation of the quality of agricultural land. The construction of a drainage system along with the land consolidation creates a favourable water-air regime of the soil, which leads to the prevention of the unfavourable impact of water retention in agricultural land and the reduction of soil fertility. In addition, transparency of the land consolidation procedure and public access to environmental information in the land consolidation area will be ensured.

Improvements in rural infrastructure contribute to the preservation of the environment, since they are intended to finance investments that, among other things, relate to the construction of wastewater treatment plants and waste management. Organic production is based on a “holistic” production system that promotes and strengthens the agroecosystem, health, including biodiversity, biological cycles, and soil. The greatest benefit of organic production is that it contributes to the sustainable use and conservation of natural resources.

The establishment of IACS creates conditions for the application of CAP rules and verification of compliance with environmental requirements for the payment of incentives as well as payments based on incentives for environmental measures, which will contribute to greening, investing in reducing the greenhouse effect in agriculture, effectively contributing to the European Green Deal.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
A large number of persons interested in resolving property-legal relations and the complexity of procedures for resolving them and the uncertain inflow of funds from the budget of the Republic of Serbia for land consolidation in the part related to: works accompanying pilot land consolidation, procurement of software and other equipment necessary for fast information exchange, available and allocated funds from the budget	High	Conducting public hearings, round tables and other ways of informing stakeholders in the process of adopting the regulatory framework. Funds allocated in the budget of the Republic of Serbia for the duration of the reform and sources of additional funds determined up to the estimated value of planned costs.
Inability to hire missing staff/lack of employment approval	Moderate	Systematize and fill job positions of different educational profiles.
Non-adoption of laws and delays in the adoption of bylaws	Moderate	Agricultural policy created in a way to support the measures listed through the Law on Incentives in Agriculture and Rural Development ("Official Gazette of the RS", No.10/13, 142/14, 103/15 and 101/16). Provide for the adoption of a regulatory framework in the Government's Work Plan for the next calendar year.
Unsuccessful procurement or delay in the development of LPIS/RPG software, incomplete and/or untimely download of data from the Treasury Administration and not upgrading the animal registry	Low	Defining accurately set deadlines with experts and their monitoring for the development of technical specifications for LPIS/RAH software and downloading data from the Treasury Administration, as well as concluding agreements with the Veterinary Administration in the part of upgrading the animal registry and monitoring the implementation of the upgrade.

STRUCTURAL REFORM 19: SAFE AND QUALITY PRODUCT - INDUSTRY DEVELOPMENT FACTOR

1. Description of the structural reform

The aim of the reform is to support economic entities to improve the competitiveness, safety and quality of products and services, using the latest standards in production and business organization and digitisation of services in the area of the quality infrastructure (hereinafter: QI). The reform has been carried over from the previous year and includes two components.

The first is a response to the needs of the economy and includes an instrument of financial support to businesses, primarily small and medium enterprises, to increase the use of standards in production and business organization, product certification, management systems and improving the availability of all other services in the field of QI. The structural reform has a foothold in the *Industrial Policy Strategy of the Republic of Serbia 2021-2030*. The Financial Support Program has been developed - "Using standards to more competitive products", and the adop-

tion of the decree by the Government, which will enable the implementation of this program, is expected in January 2022. Having in mind the above, the realization of this component is taking place in accordance with the anticipated time dynamics.

The second component, “Product-Info” refers to the development of a single digital service to improve the information and availability of digital services in connection with the application of technical regulations. It implies networking and improvement of databases of QI institutions¹¹⁷ and ministries responsible for the adoption of technical regulations, in order to ensure the accuracy and timeliness of data on technical requirements, standards, compliance assessment activities, accreditation and metrology. The development of digital services related to the application of technical regulations will contribute to the reduction of costs of production, import, export and placing of goods on the market. The implementation of this measure improves the efficiency of the process of harmonization of technical regulations within the Negotiating Chapter 1 - Freedom of movement of goods and standards with the EU, rules of international organizations (WTO/Agreement on Technical Barriers to Trade, CEFTA etc.). The reform fulfils the recommendation of the European Commission for the improvement of the Product Contact Point (PCP) (EC Serbia Report, 2019 and 2020) and in accordance with the European Regulation 2019/515, as well as Regulation 2018/1724. The implementation of the component “Product-Info” is ongoing and is late in relation to the plan. After two unsuccessful procedures, the third public procurement procedure was completed in September 2021 and a bidder was selected who started analysing the state of existing IT capacities and software solutions and the need for their improvement in QI institutions after which it will prepare project documentation with the specification of required funds. Due to these delays, the activities on the improvement of databases in the Ministry of Economy and Digital Service have been postponed to 2022 (planned in the second half of 2021).

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Implementation of business support programmes for the business entities (Ministry of Justice, Serbian Development Agency – SDA)												
2	Analysis of the state of existing IT capacities and software solutions and the need for their improvement and preparation of project documentation in QI institutions (Ministry of Economy, ISS, ABS and DMPM)												
3	Improvement of databases and digital service in the Ministry of Economy in connection with technical requirements for products and the portal “TBT-Enquire point” (Product Contact Point) and improvement of databases and digital service in QI institutions (ISS, ABS and DMPM)												
4	Networking of digital services and promotion to stakeholders and the general public												

117 IQ institution: Ministry of Economy, Institute for Standardization of Serbia - ISS, Accreditation Body of Serbia - ATS, Directorate for Measures and Precious Metals - DMDM

3. Performance indicators

Indicator	Baseline value (year)	Intermediary target (year)	Target value (year)
Number of beneficiaries (business entities) of the support programme	0 (2021)	100 (2022)	150 (2023)
Number of users - repeated users (who use more than one time the services of the "Product info" portal)	0 (2020)	1000 (2023)	2000 (2024)

4. Expected impact on competitiveness

Due to the increase in the level of product quality and safety, the reform will contribute to increasing the level of product competitiveness in foreign markets and thus will positively affect the growth of the absolute amount of exports and the share of industrial exports (within NC 1) in total exports of the Republic of Serbia. Incentives for increasing for use of standards and improving product quality will directly affect the reduction of technical barriers to trade.

5. Estimated costs of activities and sources of financing

This structural reform consists of two components. Both components represent the continuation of the activities from the previous programming period.

Total value of the structural reform for the period 2022-2024 amounts to 1,500,000 euros. The value of the first component amounts to 1,000,000 euros (funds from the budget of the Republic of Serbia), and of the other to 500,000 euros (out of which 180,000 euros will be secured from the budget of the Republic of Serbia, around 120,000 euros from the own-source funds of the partner institutions: DMPM, ISS and ABS and around 200,000 euros from grants - agreements are underway with bilateral donors to secure the amount of these funds).

Costs related to the implementation of this reform include (a) subsidies to economic entities (100% from the budget of the Republic of Serbia); (b) analysis of the state of existing IT and available software solutions in the institutions covered by the reform (financing 100% from the budget of the Republic of Serbia); (c) procurement of missing IT equipment and software (financing about 40% from the RS budget, 25% from partner institutions, other funds from other donors) and (d) professional development of staff in networking and continuous updating of portal content as well as costs of promotional activities (financing 50% from the budget of the Republic of Serbia and 50% from other donors).

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The reform has no negative impact on employment, poverty reduction and is gender neutral. It neither has any impact on the health care system.

7. Expected impact on the environment and climate change

Structural reform contributes to the improvement of technical regulations and the application of standards that include environmental requirements. Through the programme of subsidies to economic entities, a refund of part of the funds will be made, if they decide to harmonize their

business operations with the requirements of the standard SRPS ISO 14001 - Environmental Management System. Likewise, this subsidy programme supports the certification of management systems according to the standard SRPS ISO 50001 - Energy Management Systems, which will enable the Programme beneficiaries to increase their responsibility towards energy efficiency, and thus the environment and climate change.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Requests of economic entities interested in the Financial Support Program exceed the allocated budget	Moderate	Provision of financial resources from donor sources; Tightening the conditions for granting support, planning support programmes as a continuous activity in the coming years.
Lack of financial resources for the needs of implementation of the project "Product info"	Moderate	Intensive communication with donors to provide support. Increasing the allocation from the budget of the Republic of Serbia and partner institutions involved in the implementation of the reform.

5.2.10. Area EDUCATION AND SKILLS

Obstacles in this area related to structural reform 2. *Qualifications oriented to the needs of the labour market are analysed in section 5.1. under Key Challenge No. 1. Increasing employment, especially of young people, and aligning qualifications with labour market needs.*

a) Analysis of main obstacles

The basis for the **systemic improvement of education** is the newly adopted¹¹⁸ *Strategy for the Development of Education in the Republic of Serbia until 2030* with its accompanying *Action Plan for the period from 2021 to 2023*¹¹⁹. The strategy focuses on achieving two general goals - improving pre-university and higher education, and constitutes a plan to continue reforms that will increase the coverage of children's education at all levels (especially among high school students, **providing conditions for the introduction of compulsory secondary education**¹²⁰), preventing dropout of vulnerable groups from educational circles, better student achievement, better quality program (response of the educational system to the demands of the labour market) and better support for teachers.

The current practice of graduation exams is not standardized. A significant systemic step in the development of secondary education is the introduction of the **state graduation exam**¹²¹ (includes **general, vocational and artistic** graduation and final exam), which will, through standardization, enable an objective assessment of the quality of education which is the basis for further improvement of the education system. The generation of students who enrolled in high school in the 2020/2021 academic year will be the first to take the new national standardized exams at the end of secondary education. Those students who attend secondary vocational

118 The Government of the RS has adopted it in the course of its session on 3 June 2021.

119 "Official Gazette of the RS", No. 63/2021.

120 It is important to emphasize that the introduction of secondary education as a mandatory requires a change in the Constitution of the Republic of Serbia. Article 71 The Constitution of the RS states that primary education is compulsory and free, while for secondary education it states only that it is free, so it is necessary to amend the Constitution to make also the secondary education compulsory and free.

121 Project Improving the quality of education through the introduction of exams at the end of secondary education, IPA 2015.

schools for three years will take the final exam in the 2022/2023 academic year, while students who go to four-year secondary schools (grammar school or vocational schools) will take the general, vocational or artistic graduation exam at the end of the 2023/2024 academic year.

Public expenditure for education amounts to 3.56% of GDP in the budget of the Republic of Serbia for 2021, which makes the level of these expenditures stable in the last decade, but they are below the average of public allocations at the EU level (which is around 4.6% of GDP). In total budget expenditures, expenditures for education participate with 14.2%¹²².

In the pandemic conditions of the 2020/2021 school year, during the realization of direct educational work, including schools that opted for the basic model of work and schools that taught according to the combined model, if the number of students in the class was more than 15, the class was divided into two groups. Exceptionally, the group could count up to 18 students, if the size of the classroom provides the prescribed security measures. Bearing in mind that all teaching in the Republic of Serbia, in addition to Serbian, is conducted in eight languages of national minorities, the Ministry of Education, Science and Technological Development, in cooperation with national councils of national minorities and teachers, prepared a total of 7,077 online classes in languages of national minorities. Students and teachers also have at their disposal 300 online classes for *Serbian as a non-native language* according to the A and B models.

In the academic year 2020/2021, higher education institutions in the Republic of Serbia harmonized the teaching process with the epidemiological situation in the country, and most of them switched to a “combined” model of teaching. One part of the classes is held in the premises of the higher education institution, while the other part of the classes is held online. Theoretical material can be transferred relatively efficiently through online teaching, while it is necessary for practical teaching (such as laboratory exercises) to be performed in the premises of higher education institutions.

The entire education system will have to find a balance between two priorities in the academic year 2021/2022 as well: **continuing the education process** and preserving knowledge among students on the one hand, and **protecting the entire student population from the Covid-19 pandemic** on the other hand. Teaching available through public service channels is more equal (in terms of TV accessibility), but is less effective due to lack of interaction, while on the other hand online teaching is interactive, but has a lower degree of equality because fewer children, especially from marginalized groups, have access to the Internet. At the beginning of the academic year 2021/2022, tablets for monitoring classes (with a card for free internet), as well as digital textbooks, were provided for all students from the 3rd to the 6th grade of Belgrade primary schools. As part of the program for the improvement of digital libraries, over 3,000 tablets and laptops and other computer equipment were procured, primarily for schools attended by students from vulnerable social groups.

Equipping schools with ICT equipment and providing the Internet to schools throughout the Republic of Serbia are necessary preconditions for the digitisation of education. The advantages that digital technologies provide have been used to improve the teaching process through the introduction of digital teaching content and various services and greater use of ICT in schools. Activities on providing **digital educational content - digital textbooks that are provided** for all students who receive education according to the reformed curricula (in the

122 Source MoF, https://www.mfin.gov.rs/upload/media/LJW4tX_60f00bcd5f5ef.pdf

academic year 2020/2021 they are first, second, third, fifth, sixth and seventh grade) are continued, as well as the activities on the development of a **Unified Education Management Information System (EMIS)**, in order to provide a quality and efficient system of education and upbringing while rationalizing funding and reducing the administrative burden on employees. **EMIS was put into operation on 31 March 2021**, and educational institutions are currently entering data partly manually and partly through the integration of their information systems.

The integration of EMIS with CROSO is also underway, and automatic data exchange will be enabled after the full implementation of EMIS and the entry of all planned data into it. In order to improve the digital competencies of professors, there is a special curriculum for the development of digital skills¹²³, and their digital competence is also checked.

b) Reforms

STRUCTURAL REFORM 20: DIGITALIZATION OF THE EDUCATION SYSTEM AND INTRODUCTION OF A UNIFORM EDUCATION INFORMATION SYSTEM

1. Description of the structural reform

The main goal of this reform is to modernize the education system through the introduction of modern digital technologies, which should provide a higher level of learning outcomes and raise the quality of digital competencies of young people enabling them to compete in the labour market through digital transformation. The advantages that digital technologies can provide will be used to improve the teaching process through the introduction of digital teaching content, as well as the establishment of a *Unified Education Management Information System (EMIS)* which is the basis for modernizing management, making decisions based on information to ensure quality and efficient education system with rationalization of financing and reduction of administrative burden of all employees in the system of education and upbringing. The Unified Education Management Information System includes integration with the Central Register of Compulsory Social Insurance, which enables the monitoring of graduates in the labour market. Analyses based on data obtained from this system will contribute to the creation of education policies based on the needs of the labour market. Basic registers that enable data entry by users (educational and upbringing institutions) have been established. In the coming period, work will be carried out in the field of the development and establishment of additional modules that will enable data analysis and reports for decision makers.

The development of a repository of open educational resources is also planned, as a database of digital resources for schools. Teachers will be able to search and obtain didactic materials in accordance with the curriculum for primary and secondary education, which can be easily used in the classroom or modified and adapted to different contexts and needs (including distance learning). In addition, this activity will support the creation of an inventory of existing content that will be deployed on a national distance learning platform.

The reform has been carried over from the previous year. The project task for the Repository of Open Educational Resources has been defined and a software solution will be developed in the coming period.

¹²³ The Framework of Digital Competences of Teachers - Teacher for the Digital Age, was adopted, 2019, Ministry of Education, Science and Technological Development and Institute for the Improvement of Education.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Equipping classrooms and cabinets with computer equipment												
2	Analysis of the effects of using the Education Management Information System												
3	Improving the quality assurance system for the application of digital textbooks												
4	Development of open educational resources repository aggregators												
5	Increasing the scope of study programmes and profiles in computer science and programming in the field of higher and secondary education in accordance with the needs of the market												

3. Performance indicators

Indicator	Baseline value (2021)	Intermediate value (2022)	Target value (2024)
Number of accredited study programmes and teaching and learning programmes in the field of ICT and programming	692	735	737
Number of generated reports from the EMIS system Source of verification: Registers (EMIS)	6	10	20
Number of digital classrooms Source of verification: Report Ministry of Education, Science and Technological Development	10,000	31,500	31,500
Number of new computers in computer cabinets Source of verification: Report Ministry of Education, Science and Technological Development	0	27,000	40,000
Open educational resources available within the repository of open educational resources. Source of verification: Repository of open educational resources.	0	3	5

4. Expected impact on competitiveness

The implementation of digitalization of education at the level of secondary and higher education will contribute to the improvement of digital competencies of all participants in the process, which will ensure easier and faster integration of high school students and teaching staff, as well as improving the competitiveness of businesses operating in the Republic of Serbia. The establishment of the Education Management Information System will contribute to the greater relevance of the education system, which will, using modern information technologies, enable raising the quality, efficiency, effectiveness and economy of education, as well as precise monitoring of progress, greater transparency in work, possibility of rational resource planning and future investments.

5. Estimated costs of activities and sources of financing

Financial resources for the development and implementation of EMIS are provided within the budget of the Republic of Serbia. Funds in the budget of the Republic of Serbia in the amount of 10,000 euros are planned for the development of the aggregator of the repository of open educational resources in 2022.

Funds from credit arrangements in the amount of 35 million euros were provided for the purchase of computer equipment for digital classrooms, laptops for teachers and a number of computers in computer classrooms. Public procurements have been conducted and their finalization is expected in 2022.

Within the budget of the Republic of Serbia, funds have been provided for equipping computer cabinets in primary and secondary schools in Serbia.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Acquiring modern knowledge in a quality and efficient way that will accelerate the acquisition of knowledge and raise the level of understanding of acquired knowledge, mastering the necessary ICT knowledge and skills, while constantly monitoring and maintaining the quality of education through the use of EMIS will make high school graduates and students better prepared for labour market, find their way to employment faster and better paid jobs.

7. Expected impact on the environment and climate change

Structural reform is neutral in terms of environmental impact.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Unclearly defined roles and responsibilities of the participants involved in the implementation of the process.	Moderate	Full involvement in the process by all participants. Defined and monitored intercommunication in the process, constant risk reviews, escalations.
Inadequate coordination with other parties that provide services that directly affect or are necessary for the process.	Moderate	Full involvement in the process by all participants. Defined and monitored intercommunication in the process, constant risk reviews, escalations.
Unmotivated participants in the process to achieve these goals.	Moderate	Creating different models of financial benefits. Creating efficient procedures for the realization of the process.

5.2.11. Area EMPLOYMENT AND LABOUR MARKET

This area and relevant reforms (1. Establishment of a framework for the introduction of the Youth Guarantee in the Republic of Serbia and 3. Improving the environment for encouraging, supporting and monitoring circular and economic migration) are analysed in section 5.1. under Key Challenge No. 1. Increasing employment, especially of young people, and aligning qualifications with labour market needs.

5.2.12. Area SOCIAL PROTECTION AND INCLUSION

a) Analysis of main obstacles

Poverty, and in particular child poverty, is a significant problem in the Republic of Serbia. The at-risk-poverty rate¹²⁴ was 21.7% in 2020¹²⁵ (these individuals are not necessarily poor, but only have a higher risk of becoming so), which is above EU levels (EU-27; 17.1%, SILC, 2020¹²⁶). A decline in the at-risk-of-poverty rate of 1.5 p.p. compared to the previous year is attributed to incentives during the pandemic that were introduced to protect jobs and income.

The risk of poverty varies depending on age groups and employment status. Persons younger than 18 are most exposed to the risk of poverty - 24.2%, as well as persons aged 18 to 24 - 23.6%. Persons aged 25 to 54 - 19.6% were at the lowest at-risk-of-poverty rate. Depending on the employment status, among persons older than 18, the most exposed to the risk of poverty were the unemployed persons - 46.7%, while the lowest at-risk-of-poverty rate was among employees with the employer - 6.2%. For the self-employed, this rate was 18.8%, and for pensioners 19.4%. According to the type of household, persons in households consisting of two adults with three or more dependent children - 37.2% were at the highest at-risk-of-poverty rate, followed by persons in households consisting of single parents with one or more dependent children - 31.9%. The risk of child poverty mostly depends on the working status of the parents.

The poverty risk threshold was 22,000 dinars (183 euros) on average per month for a one-member household. Inequality of income distribution is high, because the quantile ration indicators (C80/C20) was 6,1¹²⁷ in 2020. This means that the richest 20% of the population had 6.1 times higher income than the 20% of the poorest ones. The Gini coefficient in the Republic of Serbia was 33.3, which is above this coefficient in the EU-27 in 2019 (30.2)¹²⁸.

The share of public expenditures on social assistance and budget transfers in GDP of the Republic of Serbia has been gradually decreasing in recent years, so that it amounts to 14.8%¹²⁹ of GDP in 2020. The structure of expenditures is dominated by expenditures for pensions with 72.4% of total expenditures for social assistance and transfers or 10.7% of GDP. In the area of the pension system, the Swiss formula for indexation of pensions was adopted at the end of 2019 (pensions are indexed with a combination of inflation and wage growth to protect their real purchasing power to enable the standard of pensioners to follow economic growth and the standard of employees). The major challenge for the pension system is the poor demographic situation. In order for the pension system to be sustainable according to the concept of intra-generational redistribution, a ratio of at least 3 employees per one pensioner is needed, and currently in the Republic of Serbia that ratio is 1.3 employees per one pensioner.

Expenditures for social assistance amount to 2,9 % of GDP¹³⁰ in 2020, which is insufficient to focus more systematically on those beneficiaries who need assistance the most. The average minimum consumer basket for a three-member household in the Republic of Serbia was

124 Percentage of persons whose equivalent income is less than the relative poverty line

125 Source: Survey on incomes and living conditions for 2020 <https://publikacije.stat.gov.rs/G2021/Pdf/G20211282.pdf>

126 Source: EUROSTAT: People at risk of poverty <https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

127 Source: Survey on incomes and living conditions for 2020 <https://publikacije.stat.gov.rs/G2021/Pdf/G20211282.pdf>

128 Source: GINI Coefficient. Statistics | Eurostat (europa.eu)

129 Source: MoF, Consolidated balance sheet of the state. <https://www.mfin.gov.rs/dokumenti2/makroekonomski-i-fiskalni-podaci>

130 Source: MoF, Consolidated balance sheet of the state. <https://www.mfin.gov.rs/dokumenti2/makroekonomski-i-fiskalni-podaci>

37,860.56 dinars¹³¹ (315 euros) in 2020, while the at-risk-of-poverty threshold for a three-member household (two adults and one child under 14) was 39,600 dinars¹³² (330 euros). At the same time, **the amount of cash social assistance provided by a family of three** (right holder, adult allowance and child allowance) **is 15,806.00 dinars (132 euros)**, which is less than half of both the average minimum consumer basket and at-risk-of-poverty threshold. Therefore, providing adequate financial and institutional resources for social policy is a priority for the coming period.

Improving the adequacy of social benefits for the population below the poverty line and redistributing resources between existing programmes is a challenge. In order to solve these problems, the *Law on the Social Card* (“Official Gazette of the RS”, No. 14/21) **was adopted, and its application will begin on 1 March 2022**. The goal of the law is a fairer distribution of money for the most socially endangered population, as well as better control of social benefits, that is, by establishing and maintaining a single register of the Social Card, inclusion and exclusion errors will be reduced. The connection of internal payment databases at the level of the relevant ministry (social, child and veteran-disability protection databases) has been completed. The Social Card Register should be connected to other registers and records of the six main organs by January 2022 at the latest. Database networking significantly simplifies procedures for users and improves service availability. The purpose of the Social Card register is not limited to the use of data in administrative proceedings, but is much broader and allows a qualitative leap in the digitalization of social protection procedures, poverty prevention, social policy and other tasks that improve the social protection system.

Drafting of the *Draft Law on Amendments to the Law on Social Protection* is ongoing. Analysis is being done on the financial effects of increasing the amount of cash social assistance and increasing the coverage of beneficiaries of cash social assistance by prescribing more favourable conditions for exercising this right in accordance with budgetary possibilities. The draft law stipulates that children up to the age of seven are not placed in an institution and that only in exceptionally justified cases, with the consent of the minister responsible for social protection, can they be accommodated. One of the strategic goals in this area is complete deinstitutionalization, but it is still not possible to determine the exact deadline for completing this process.

Also, the analysis of the implementation of the *Regulation on earmarked transfers in social protection* (“Official Gazette of the RS”, No. 18/16 and 38/21) is underway, in order to improve it through amendments.

Efforts have been intensified to **develop the occasional foster care service**, which is applied to children with developmental or health difficulties, who live in a biological or foster family and who are placed in another foster family for a shorter period in order to resume and preserve the capacity of the foster or biological family further child care and prevention of crisis situations that may jeopardize the functionality of the family. The **implementation of the service of a family associate** is also underway, the goal of which is to provide support to a family dealing with various and intense difficulties in order to prevent the relocation of children from the family.

A strategic framework for the development of social protection policies needs to be adopted. In this context, an *ex-post* analysis of the Social Welfare Development Strategy (“Official

131 Source: MoTTT <https://mtt.gov.rs/informacije/potrosacka-korpa/?0=lat>

132 Source: SORS, Poverty and social inequality, 2020 <https://publikacije.stat.gov.rs/G2021/Pdf/G20211282.pdf>

Gazette of the RS”, No. 108/05) adopted in 2005 has been prepared, and an *ex-ante* analysis for the new *Social Welfare Strategy* is underway. It is planned to form a working group to draft this document, in which civil society organizations and other interested actors will have representatives. The starting point in this process will be the working version of the Draft Social Protection Strategy that was drafted in the previous period.

The level of gender equality in the Republic of Serbia is still unsatisfactory. Women make up 51.3% of the general population¹³³, but there are still fewer of them among decision-makers: women hold 40% of parliamentary seats (100 deputies out of a total of 250 deputies), and 43% are represented in the government. A woman has been the Prime Minister since 2017.

A new *Law on Gender Equality* (“Official Gazette of the RS”, No. 52/21) was adopted, which improves the institutional framework and creates conditions for the implementation of equal opportunities for women and men. The new legal solution determines the obligations of public authorities, employers and other natural and legal persons in relation to gender equality. Also, measures are planned to combat gender discrimination and achieve and promote gender equality, which is one of the basic international standards in ensuring human rights.

5.2.13. Area HEALTH CARE SYSTEM

a) Analysis of main obstacles

The health system of the Republic of Serbia is ranked 18th in Europe, among 35 countries, according to the results of the *European Health Consumer Index*¹³⁴ (EHCI) for 2018. The continued digitalization of the health system, the successful implementation of electronic prescriptions, measures taken and work to reduce waiting lists, significant results in reduced use of antibiotics, as well as activities in the field of mental health are among the most notable results.

The health care of the population is directly implemented through the **network of health care institutions**, of which there were **336** in **2020**, while the health care system employed about **105.2 thousand workers**. The number of doctors per 100,000 inhabitants in Serbia was **291**.

Health care¹³⁵ at the primary level is provided by state-owned **health centres (141)**, established for the territory of one or more municipalities, i.e. towns. **Inpatient (hospital) health care** is provided by **120 health institutions**. A total of **8,870 doctors** (of which **75.5% are specialists**), **5,274 health workers with higher education** and **22,114 with secondary education** work in inpatient institutions. **Bed stock** in inpatient facilities amounts to **42,089 beds**, or **6.1 beds per 1,000 inhabitants**. This number also includes **outpatient clinics (2,133)**, **dialysis** and **neonatology**. The average duration of treatment per patient is **6.5 days**, and the average occupancy of hospital beds is **45%**.

Despite a **well-established institutional framework for public health in Serbia**, there are a number of difficulties that point to shortcomings and weaknesses in its functioning. **The health**

133 Source: SORS, Population estimates in mid-2020

134 <https://healthpowerhouse.com/media/EHCI-2018/EHCI-2018-report.pdf>

135 All mentioned data refer to 2020. Source: Public Health Institute of the RS “Dr. Milan Jovanović Batut” - Statistical Booklet 2020 <https://www.batut.org.rs/download/publikacije/pub2020.pdf>

care system, even in the period preceding the COVID-19 pandemic, faced **serious challenges in terms of funding, hospital equipment and the quality of services** provided.

Total **health expenditures** in the Republic of Serbia amounted to **8.56%** of GDP in **2018**¹³⁶, while **per capita allocations** amounted to **600 US dollars**. The dominant financier of health care is the state, which allocates **60% of the total funds**, while the share of the private sector is **40%**. The allocations for health have increased by 11% in the budget of the Republic of Serbia for 2022, compared to 2020.

The infrastructure in the health care is undergoing improvements. Three new hospitals have been built specifically for the **treatment of COVID-19** in Batajnica, Kruševac and Novi Sad with capacities of a total of 2,124 beds, of which 570 in intensive care and 1,554 in semi-intensive care. Also, the upgrade and reconstruction of University Medical Centre of Serbia in Belgrade and University Medical Centre in Novi Sad are in progress, as well as the reconstruction of the Clinic for Infectious and Tropical Diseases “Prof. Dr. Kosta Todorović “.

Insufficient equipment of health care institutions with diagnostic medical devices is a consequence of low investments in health care, so the Republic of Serbia has 27 magnetic resonance imaging (0.4 per 100,000 inhabitants), 78 CT scanners (1.1 per 100,000 inhabitants), 20 gamma cameras (0.3 per 100,000 inhabitants), 24 angiography units (0.34 per 100,000 inhabitants - data for 2016), 30 radiotherapy units (0.43 per 100,000 inhabitants)¹³⁷, 126 mammograms (1.8 per 100,000 inhabitants) and 2 PET scanners¹³⁸.

The challenge that the health care system in the Republic of Serbia is facing is **the outflow of health personnel abroad**¹³⁹ and **the lack of labour force due to the natural outflow of doctors, i.e. the retirement of doctors**. With the aim of staff empowerment and improvement of the professional structure of employed health workers in the health system, within the “Employment Program of the most successful graduates of medical schools and high schools” the best 200 graduates from medical schools and 500 nurses and technicians, started their careers in health care institutions in the Republic of Serbia in December 2021.

Insufficient investments and equipment of health institutions and lack of medical staff have a negative impact on **waiting lists**. **The unique waiting list** for 26 health services is updated on a daily basis and published on the RHIF website¹⁴⁰, and the total number of people on this list was **52,700** at the end of **December 2021**.

The process of digitisation in general, and above **all digitisation in public administration, improves the quality of life of the citizens of the Republic of Serbia**, which is of special importance now in the conditions of a pandemic. **The use of information technology in health care** brings greater transparency and efficiency of the health system. The establishment of a central system of **electronic health records** will enable all data on and for the patient to be in

136 Source: Public Health Institute of the RS “Dr. Milan Jovanović Batut”, National Account for Health https://www.batut.org.rs/index.php?category_id=50

137 Source: Eurostat

https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Availability_of_treatment_equipment_%E2%80%94_radiation_therapy_equipment_2018_Health20.png

138 Data for 2018 Source: Eurostat

https://ec.europa.eu/eurostat/statistics-explained/images/1/1e/Availability_of_medical_technology_%E2%80%94_imaging_equipment%2C_2018_Health20.png

139 The Medical Chamber of Serbia issues Good Standing certificates that enable doctors to work abroad.

140 Source: <https://www.rfzo.rs/index.php/osiguranalica/listecekkanja/lc-dnevni-presek>

electronic form, and thus become available to employees in the health sector, as well as to the patients themselves. So far, 151 institutions have been connected to e-Medicalrecord (out of the planned 220). Further development goes in the direction of establishing a central system for collecting data from all laboratory systems and their distribution. It is also planned to expand the implementation of e-Prescription, as well as to introduce a system for checking the interaction of drugs and a system for supporting clinical decision-making.

The COVID-19 virus pandemic has triggered the activities of experts around the world on the development of the vaccine. **The first vaccines against coronavirus received a use permit** (World Health Organization and health authorities of specific countries) **at the end of 2020**.

Mass vaccination of the population in the Republic of Serbia began in the second half of January 2021. The total of **5 types of vaccines** are provided: Pfizer-Biontek, Sinofarm, Sputnik V, Astra Zeneca and Moderna. When the first contingents of vaccines arrived, **the priority for vaccination** was given to **the medical and non-medical staff** who worked in the Covid system, **the police, the army**, as well as **the oldest** and medically **most endangered** citizens. The system of **electronic registration for vaccination** on the e-Government portal¹⁴¹ is in function, as well as the option of registration by telephone. Vaccination is carried out in **health centres** and organized points that included **fair** and **sports halls**, while it was necessary. After the **excellent response** of the population at the beginning of the mass vaccination, the interest, and thus the speed of vaccination, began to decline¹⁴². Given the more favourable epidemiological situation, from the middle of June 2021, the relaxation of restrictive anti-epidemic measures was observed. Due to the aforementioned, as well as the appearance of a new strains of the virus in our country, a **trend of increasing the incidence of the disease** is registered, which makes the movement of the epidemic **uncertain** in the near future.

Production of the Russian vaccine Sputnik V in the Republic of Serbia began in July 2021, at the Institute of Virology, Vaccines and Serums “Torlak”. The quality of the produced vaccines was confirmed by the Russian institute “Gamaleja”, where this vaccine was developed. The total of 1.5 million doses were produced (from the projected 4 million by the end of the year) by the beginning of October 2021, whereby the vaccine is being produced by merging the two imported components. **The production of the Chinese vaccine Sinofarm is also planned**. The filling process will initially take place in the factory “Hemofarm” in Vršac, until the completion of construction and the beginning of the work of a special factory for that purpose in Zemun, at the end of March 2022. The plan envisages filling 30 million vaccines a year, and at the beginning of 2023 it is expected to open a plant for the production of the active substance for the vaccine.

Insufficient interest of citizens in immunization endangers the achievement of collective immunity. At least one dose of the vaccine received **3.1 million** citizens, while **with both doses**¹⁴³ of the vaccine on January 14, 2022 about **3 million RS citizens** were vaccinated. **Vaccination with the third dose of the coronavirus vaccine** began in August 2021, and so far **1.7 million RS citizens** have received it.

141 Citizens have the option to choose the vaccine they want to be vaccinated with, the municipality where they will be vaccinated, and they can also express a wish after which date they want to receive the vaccine.

142 In order to encourage a greater response to vaccination, the Government has introduced an incentive measure of 3,000 dinars for each individual who has been vaccinated with at least one dose by May 31, 2021.

143 <https://vakcinacija.gov.rs>

The **digital green certificate** has been available to the citizens of the Republic of Serbia on the e-Government¹⁴⁴ portal since May 2021. The certificate is a consolidated certificate proving whether you have received the COVID-19 vaccine, tested for SARS-CoV-2, or recovered from COVID-19, to facilitate safe and free movement outside the country. The EU Digital Green Certificate, intended for citizens when travelling to one of the European Union countries, as well as to non-EU countries that use the EU Digital Covid Certificate standard, is available from 19 November 2021.

b) Reforms

STRUCTURAL REFORM 21: IMPROVEMENT OF THE EFFICIENCY OF THE HEALTH-CARE SYSTEM THROUGH THE PROCESS OF DIGITALIZATION

1. Description of the structural reform

Digitization of the health system contributes to the efficiency of the health system, higher quality of diagnostics and treatment and enables authorized access to information crucial for making clinical decisions. The single electronic health card will establish a mechanism of digital authorized access to patient information, which will enable patients the electronic access to their own health information and active participation in the process of diagnosis and treatment. The unique electronic health card will standardize the basic extract of medical data from the medical file, in order to enable easier exchange of data on the patient's condition within the health system, as well as the possibility of cross-border cooperation.

After the introduction of electronic instructions, it is planned to establish a central system for collecting data from all laboratory systems and their distribution. The e-SickLeave project has started and its full implementation is expected in Q1 2022. Also, the plan is to expand the implementation of e-Prescription, as well as to introduce a system for checking the interaction of drugs and a system for supporting clinical decision-making. In addition to the aforementioned, the possibilities of applying artificial intelligence over certain processes exclusively in the field of radiology are being considered, where the application of this technology would achieve better resource utilization because in certain diagnostics first reading or marking certain anomalies could be done by artificial intelligence.

2. Activities planned by year

No.	Planned activities	2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Connecting health care institutions to the central system of electronic health records												
2	Establishment of central laboratory system – e-Laboratory												
3	Implementation of drug interaction checking systems and clinical decision support systems												
4	Extension of e-Prescription for specialists												
5	Establishment of a centralized e-File system												
6	Establishment of the e-SickLeave Platform – the part related to health												

144 The digital green certificate can also be obtained at post offices across the country, with a valid passport.

3. Performance indicator

Indicator	Baseline value (year)	Intermediary target (year)	Target value (year)
Number of institutions that use electronic health records (cumulative)	0 (2019)	225 (2021)	250 (2022)
Number of laboratories included in the e-Laboratory system (cumulative)	0 (2021)	50 (2022)	200 (2023)

4. Expected impact on competitiveness

The implementation of this measure affects the efficiency of the health system and the quality of health care. It has no impact on the competitiveness of the economy, but contributes to significant savings that can be directed to innovative solutions.

5. Estimated costs of activities and sources of financing

For 2022, funds in the budget of the Republic of Serbia of 8,333,333.33 euros are earmarked for the realization of the previously mentioned activities and regular maintenance of the existing systems.

6. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The implementation of the planned activities will improve access to health care primarily by using electronic health records and increasing efficiency, which will be visible through the abolition of waiting lists. Patients will be more informed about their health data, as well as about the services that the health system enables and provides.

7. Expected impact on the environment and climate change

Structural reform has a positive impact on the environment, due to the transition from paper to e-business.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Potential inconsistency of numerous actors in the process of implementation of complex projects	Low	Creating effective mechanisms of strategic and tactical coordination in project implementation
Unpredictable course of the corona virus pandemic	Low	Timely redirection of resources to the implementation of individual activities

5.3. STRUCTURAL REFORMS SUMMARY

THREE KEY CHALLENGES FOR COMPETITIVENESS AND INCLUSIVE GROWTH AND RELATED STRUCTURAL REFORMS		
Key challenge no. 1: Increasing employment, particularly of young people, and alignment the qualification with the labour market needs		
SR No.	Title of Structural Reform	Description of Structural Reform
1	Establishment of a framework for the introduction of Youth Guarantees in the Republic of Serbia	The reform implies the establishment of a framework for the introduction of Youth Guarantees, which will provide young people with a quality job offer, continuation of their education, internship or training after entering the status of unemployment or leaving, or completing formal education. Under this programme, young people who are inactive and unemployed are approached through the cooperation of various sectors and social partners, including civil society organizations, to ensure their timely, adequate and quality integration or reintegration into the world of work. In addition, special emphasis is placed on NEET youth (young people who are not employed, are not in the process of education, are not in training).
2	Qualifications oriented to the needs of the labour market	The reform implies the implementation of the system of the National Qualifications Framework in Serbia (NQFS) establishing a market-relevant qualifications system that responds to the needs of the individual, the economy and the labour market as well as the implementation of a dual model in higher education which will provide conditions for acquiring, improving and developing student competencies in accordance with the needs of the labor market, easier employment after completion of higher education, further education and lifelong learning which will contribute to strengthening the competitiveness of the economy of the Republic of Serbia.
3	Improvement of the environment for encouraging, supporting and monitoring circular and economic migration	The reform implies creating an environment for slowing down the departure and attracting the working age population, encouraging circular migration and relations with the diaspora, strengthening mechanisms for monitoring migratory flows and attracting foreigners is in accordance with the Strategy for Economic Migration of the Republic of Serbia 2021-2027. Special focus will be on regulatory reforms as well as easier attraction of foreigners. The intention is to promote existing tax and other incentives for the employment of returnees, and to influence on the building of trust with the diaspora through frequent dialogues and through various activities and research.
Key challenge no. 2: Improvement of the business environment more favourable for investments		
SR No.	Title of Structural Reform	Description of Structural Reform
4	Improvement of the quality of public services through optimization and digitalization of administrative procedures – e-Paper	The reform implies simplification of administrative procedures (elimination of redundant by guillotine and simplification of other administrative procedures) for businesses and citizens, as well as the establishment of a Single Public Registry of Administrative Procedures and Other Business Conditions. The Register represents the starting point for the establishment of the single electronic contact (PSEC). The effect of the reform will be reflected in the reduction of administrative costs for the economy by 15-20%, based on analysis and proposals for abolition and simplification, as well as optimisation of at least 50% of the most frequent and most expensive administrative procedures.

5	Sustainable and efficient management of business entities owned by the Republic of Serbia	The goal of structural reform is to establish sustainable and efficient management of RS-owned economic entities (EERS) Pursuant to the Strategy of State Ownership and Management of Business Entities Owned by the Republic of Serbia for the period 2021-2027 and the Action Plan for the implementation of the Strategy in the period 2021-2023, an analysis of the regulations to be applied by the EERS in their work will be conducted, in order to prepare the basis for the development of a new legal framework for the implementation of the Strategy. In addition, a centralized database of all EERS will be established and their classification will be performed. In order to improve corporate governance, among other things, an analysis of the state of affairs will be conducted to establish a unified system of corporate governance.
6	Development of the domestic capital market through the introduction of new legal mechanisms and provision of a greater level of investor protection	The structural reform envisages the development of competitive, highly efficient, transparent and productive capital market providing a wide range of financial instruments and services, comparable to leading regional and European financial markets. The goal is to create and develop financial mechanisms offered on the capital market, in order to increase the attractiveness of the domestic market for both domestic and foreign investors. Alignment of the domestic legal and institutional framework with the EU acquis will provide a greater degree of investor protection and increase the efficiency of the capital market, ensuring greater clarity of legislation and a greater degree of legal certainty. The reform is based on the Capital Market Development Strategy for the period 2021-2026.
Key challenge no. 3: More efficient use of energy with further opening of the energy market		
SR No.	Title of Structural Reform	Description of Structural Reform
7	Energy market development coupled with energy infrastructure construction	Structural reform implies the energy market development coupled with energy infrastructure, and aims to increase the transmission capacity of Western Serbia, to increase security and reliability of electricity supply to consumers in the Republic of Serbia, as well as to build new interconnectors on the borders with Romania, BiH and Montenegro.
8	Improvement of conditions for enhancing energy efficiency through improving the legislative and institutional frameworks and providing incentives	The reform will encompass the activities of adopting bylaws stemming from the new Law on Energy Efficiency and Rational Use of Energy in order to fully harmonize regulations in Serbia with EU regulations in the field of energy efficiency. The reform will also include capacity building for the implementation of energy efficiency policy through the establishment and support of the work of the Administration for Financing and Encouraging Energy Efficiency

OBSTACLES IN OTHER AREAS AND CORRESPONDING STRUCTURAL REFORMS		
Area 1: PUBLIC FINANCIAL MANAGEMENT		
9	Tax Administration transformation	The main goal of the reform is for the Tax Administration of the Republic of Serbia to become an organization characterized by modern digital operations, featuring administration oriented towards providing services to taxpayers, the services being provided in accordance with the best international standards, and also to ensure risk analysis that allows TARS to efficiently use its available resources for optimization of revenue collection. The reform implies three components: 1. Integrated information system based on ready-made commercial solution (COTS), which crosses references and checks the data of the Tax Administration and third parties in order to detect taxpayers who do not operate in accordance with regulations (the launch of the COTS procurement process is expected in 2022); 2. Personal e-Portal adapted to each taxpayer and which represents a module for direct communication of an individual with the Tax Administration and 3. Improving the professional education of tax officials.
10	Introduction of a new fiscalisation model and transition to electronic invoicing	Structural reform includes two measures - the introduction of a new fiscalisation model (e-fiscalisation) and transition to electronic invoicing. As in 2021 the focus was on creating a legal framework and informing the public about reforms (including training programs), the implementation and transition to new digitized models of issuing fiscal receipts and invoicing will start in 2022. It is envisaged that during 2022, gradually, all VAT payers will switch to new models and that the period of complete transition will end within a year.
Area 2: GREEN TRANSITION		
11	Introduction of the circular economy concept	Structural reform that implies the introduction of the concept of circular economy as a multidisciplinary model that connects many areas, aims at initiating a green economic transition of the Republic of Serbia, with efficient use of resources and energy and preservation and improvement of the environment and human health. The development of innovative design, digitisation and new technological achievements will contribute to the creation of a modern, competitive and climate-neutral society. The reform will be implemented through support to economic entities, local self-governments and through the improvement of cooperation between the business and scientific-research sectors.
Area 3: DIGITAL TRANSFORMATION		
12	Development and improvement of the national information and communication infrastructure	The reform implies development of broadband networks for access by providing state incentives for joint construction of communication infrastructure through the implementation of the project of building a broadband network in rural areas, improving the conditions of education and increasing the use of e-government services by connecting educational and cultural institutions to AMRES, as well as through the implementation of the "Connected Schools" project. The positive effect of the reform is reflected in the development of rural areas, connecting economic regions, development of industrial zones, as well as increasing the use of new technologies and innovations in business and education.

13	Setting the infrastructure and environment for the creation and application of innovative and artificial intelligence based solutions	Structural reform aims to provide the necessary technical infrastructure, but also to create a stimulating environment for the development of innovative and solutions based on artificial intelligence. The reform includes the construction of the necessary infrastructure in the complex of the State Center for Data Management and Storage in Kragujevac (Data Center), empowerment of local self governments through the implementation of the Smart City project and construction of a creative- innovative multifunctional center "Ložionica" in Belgrade.
Area 5: RESEARCH, DEVELOPMENT AND INNOVATIONS		
14	Development of the startup ecosystem	The reform includes the creation of a stimulating environment for the development of start-ups that will contribute to economic growth based on the knowledge economy, strengthening the competitiveness of the economy, as well as recognition at the national and global level. In this regard, the recently adopted Strategy for the Development of Startup Ecosystems in the Republic of Serbia for the period 2020-2025 and accompanying Action plan aim to encourage the development of these ecosystems, so that Republic of Serbia has between 800 and 1,200 active startups that will attract quality staff and investors from the country and the world and further support startup ideas. The improvement of startup entrepreneurial capacities and culture will be supported through educational programs. The improvement of infrastructural and program support to startups is also planned, especially support to startups at an early stage of development, as well as improvement of startup financing mechanisms, above all, encouraging the development of the entrepreneurial capital market. In addition to improving business conditions and the tax environment, the state will, through the GovTech program, become the first to benefit from some of the innovative solutions.
15	Creation of conditions for the development of bio science and bioeconomy through the construction of BIO4 Campus	The reform envisages intensification of developments in the field of biotechnology, biomedicine, bioinformatics and biodiversity (BIO4). Technological progress changes the current approach to health, raises the quality of life of the population, improves state security and represents a significant opportunity for the economic development of RS. The construction of BIO4 Campus will create an opportunity for concentration of people, accumulation of multidisciplinary knowledge and development of infrastructure (faculties, institutes, science and technology park, etc.) in the mentioned areas, which will attract more and more business partners, but also enable faster and better health care system transition towards modern, innovative diagnostics and treatment based on data and the latest scientific knowledge.
Area 6: REFORMS IN THE AREA OF ECONOMIC INTEGRATIONS		
16	Improving conditions and removing barriers to trade	The goal of the reform is to intensify, improve, diversify and further grow Serbia's foreign trade at both regional and global levels. Activities are also aimed at strengthening the competitiveness of Serbian companies in order to prepare for EU membership and easier inclusion in the single European market. The reform includes the continuation of bilateral negotiations on WTO accession, the adoption of regulations in line with WTO rules and principles, the implementation of activities to implement obligations under CEFTA Additional Protocols 5 and 6 and the continuation of negotiations on CEFTA Additional Protocol 7, further trade integration in the region. market, as well as the development and implementation of a new Action Plan of the National Coordination Body for Trade Facilitation (NCBTF) for 2022-2023 in order to identify and remove barriers to trade, especially technical and phytosanitary measures, as well as facilitating customs procedures.

Area 8: REFORMS OF THE TRANSPORT MARKET		
17	Improvement of efficiency and safety in railway traffic	Improving the regulatory framework through the adoption and implementation of a new Methodology for calculating the price of access to railway infrastructure and harmonization of laws in the field of railways with the IV package of railway EU regulations. In addition to the renewal, reconstruction and modernization of railways, the modernization of road-rail crossings is also planned.
Area 9: AGRICULTURE, INDUSTRY AND SERVICES		
18	Improvements of the agriculture competitiveness	The reform aims to improve the competitiveness of agriculture and includes several components that contribute to meeting the economic criteria for EU accession and achieving the goals of sustainable development. The reform includes the improvement of infrastructure in rural areas with the establishment of a regulatory framework for the land consolidation process, regulation of the legal framework in the field of agricultural products markets, quality schemes for agricultural and food products and organic production, in order to create conditions for improving competitiveness in all sectors of production as well as improving the existing capacities through digitisation and automation of the system of financial support to farmers with easier access to available incentives.
19	Safe and quality product - industry development factor	The reform envisages financial support to economic entities, primarily small and medium enterprises, aimed at increasing the level standards used in production and business organization, product certification, management systems and improving the availability of all other services in the field of quality infrastructure. Also, the development of a unique digital service "Product-info" is planned, with the aim of improving information and availability of digital services related to the application of technical regulations.
Area 10: EDUCATION AND SKILLS		
20	Digitalization of the education system and introduction of a uniform education information system	The main goal of this reform is to modernize the education system through the introduction of modern digital technologies, which should provide a higher level of learning outcomes and raise the quality of digital competencies of young people enabling them to compete in the labour market through digital transformation. Also, the reform implies the use of the Unified Information System in Education (EMIS) as an IT basis for modernization of management and decision-making in the education system.
Area 12: SOCIAL PROTECTION AND INCLUSION and Area 13: HEALTH CARE SYSTEM		
21	Improvement of the efficiency of the healthcare system through the process of digitalization	The reform contributes to the efficiency of the health system, higher quality of diagnostics and treatment and enables authorized access to information crucial for making clinical decisions. The single electronic health card will establish a mechanism of digital authorized access to patient information, which will enable patients the electronic access to their own health information. It is planned to establish a central system for collecting data from all laboratory systems and their distribution. Also, the plan is to expand the implementation of e-Prescription, as well as to introduce a system for checking the interaction of drugs and a system for supporting clinical decision-making. These activities will have a positive impact on the efficiency of the health system and the quality of health care.

6. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

Additional costs of implementing structural reforms in the period 2022-2024 amount to 872.9 million euros compared to the base year before the start of each individual reform. By year, the additional costs of implementing structural reforms amount to 223 million euros in 2022, a total of 342 million euros in 2023 and 308 million euros in 2024.

The structure of the costs of reform measures in the next three years is dominated by capital expenditures with 73% in total costs, subsidies and transfers with 16%, goods and services with a share of 11% in total costs, and salaries with participation of 0.37%.

Regarding the sources funding in the period 2022-2024, the key source of additional financing for structural reforms is project loan funds with a share of 39% , then follow the central level budget with a share of 26%, IPA funds representing 5.5% and other donations 2.6% of all available sources, as well as local budgets with 5.5%. Other domestic sources of funding have a negligible share in the total additional financing of structural reforms in the next three years with 0.01% of total funds. The share of sources that have yet to be determined for financing structural reforms is 22% and they refer to the financing of structural reforms in the period 2023-2024.

Financial resources for the implementation of structural reforms in 2022 are planned in accordance with the Law on Budget for 2022, budget funds and loans, inflows from donations or from other sources.

Financial resources from the budget of the Republic of Serbia for the implementation of structural reforms in 2023 and 2024 must be planned in accordance with the allocated limits for their holders during the budget procedure. Due to the maintenance of fiscal stability, the provision of additional financial resources for the implementation of structural reforms in 2023 and 2024 is limited and must be in line with the budget constraints.

The implementation of structural reforms will depend on the provision of financial resources in the annual budget laws.

Detailed information on the additional costs of implementing each individual structural reform to the budget and potential non-budgetary financing is presented in Tables 10a and 10b in the Annex.

7. INSTITUTIONAL MATTERS AND STAKEHOLDER PARTICIPATION

The Republic of Serbia has a developed structure of inter-ministerial ERP coordination. By the conclusion of the Government of 28 August 2018, the Minister of Finance, Siniša Mali, was appointed the national coordinator and head of the Working Group for the development and monitoring of the implementation of the ERP. By the Decision of the Ministry of Finance of 5 April 2021, new members of the Working Group for the development and monitoring of the implementation of the ERP coming from the following institutions were appointed:

- Ministry of Finance,
- Public Policy Secretariat,
- General Secretariat of the Government,
- Prime Minister's Office,
- National Bank of Serbia,
- Ministry of Trade, Tourism and Telecommunications,
- Ministry of Foreign Affairs
- Ministry of Economy,
- Ministry of Construction, Transport and Infrastructure;
- Ministry of Agriculture, Forestry and Water Management
- Ministry of Environmental Protection,
- Ministry of Mining and Energy;
- Ministry of Justice,
- Ministry of Education, Science and Technological Development,
- Ministry of Health,
- Ministry of Public Administration and Local Self-Government,
- Ministry of European Integration,
- Ministry of Labour, Employment, Veteran and Social Affairs,
- Ministry of Youth and Sport,
- Ministry of Human and Minority Rights and Social Dialogue,
- Office of the Minister without portfolio responsible for improving the development of underdeveloped municipalities
- Republic Geodetic Authority,
- Public Procurement Office,
- Social Inclusion and Poverty Reduction Unit,
- Office of the Minister responsible for innovation and technological development,
- Office for Information Technologies and E-Government,
- Commission for State Aid Control,
- National Employment Agency,
- Statistical Office of the Republic of Serbia.

In accordance with the already established practice, the first part of the document, which refers to the macro-fiscal framework, was prepared by the Ministry of Finance and the National Bank of Serbia, and it mostly relies on the Fiscal Strategy for 2022 with projections for 2023 and 2024 ("Official Gazette of the RS", No. 106/21). The work on the preparation of the contents of other chapters of this document related to structural reforms was coordinated by the Ministry of Finance and the Public Policy Secretariat.

The eight cycle of ERP development for the period 2022-2024 began on 24 and 25 June 2021, via an introductory regional meeting organised by the European Commission with the support from CEF from Ljubljana. New European Commission Guidelines for the development of ERP 2022-2024 were presented in the course of the meeting. Shortly after the mentioned meeting, a meeting of the ECOFIN Council was held on 12 July 2021, at which the Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey were adopted, after which activities on the drafting of the ERP 2022-2024 were intensified.

At the national introductory meeting held on 27 July 2021, the results achieved in the previous period, the recommendations of the ECOFIN Council, key innovations from the EC Guidelines for the development of ERP 2022-2024 and further activities related to the new document development cycle were discussed, and all participants were invited to nominate structural reform proposals. This meeting was attended, aside from the members of the Working Group for the development and monitoring of the implementation of the ERP, by representatives of the EU Delegation, National Assembly and the CSOs. After the introductory meeting, UNICEF submitted documents with a suggestion that they could be useful for improving the ERP (email from 17 August 2021). In the same period (email from 31 August 2021), the proposal of the non-governmental organization Network of Organizations for Children of Serbia (MODS) was received, which referred to the part of social protection. All proposals were forwarded to the line ministries.

In parallel with these activities, work was underway on the development of the Fiscal Strategy for 2022 with projections for 2023 and 2024, which was adopted on June 3, and the Revised Fiscal Strategy with projections for 2023 and 2024, which was adopted 3 November, which is the basis for the preparation of the relevant chapters of the ERP.

The national introductory meeting was followed by activities on diagnostics of the situation by areas, submission of reports on the implementation of structural reforms, implementation of ECOFIN recommendations, as well as nomination and further improvement of the description of structural reforms, through numerous meetings with representatives of line ministries.

The Preliminary List of Structural Reforms, which included 22 structural reforms, was made available to the public through the websites of the Ministry of Finance and the Public Policy Secretariat from 25 October to 8 November 2021, and all stakeholders were invited to give their comments and suggestions. On the basis of this invitation, comments were received from MODS (e-mail of 7 November) and UNICEF (e-mail of 8 November).

Meetings with representatives of the European Commission and RS institutions responsible for individual areas of ERP were held on 15 and 16 November 2021, and they discussed the fulfilment of the recommendations of the ECOFIN Council and the key challenges defined in the first draft ERP, which was previously submitted to the European Commission.

Within the eighth cycle of ERP development, a number of activities were organized with the support of the regional IPA project “Strengthening Line Ministries’ Capacities to Assess Fiscal Implications of Structural Reforms - FISR” implemented by the Centre for Excellence in Finance (CEF, Slovenia) and the project of Serbian- German Development Cooperation “Public Finance Reform and 2030 Agenda” implemented by the German Organization for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit - GIZ).

Workshops were organized covering all key topics and challenges pertaining to the eighth cycle of ERP development; an analysis of key challenges and structural reforms by areas, indicators and sustainable development goals in structural reforms (16 and 17 September 2021) were presented; and workshop on determining the costs of the implementation and sources of funding for structural reforms under the ERP 2022-2024 (22 November 2021) was also organised. Special activities are related to providing support for the automation of the ERP preparation process (reporting on the implementation of structural reforms and description of nominated structural reforms with a Gantt chart/planned dynamics of structural reforms implementation, etc.).

With a view to exchanging experiences in the preparation of the ERP, bilateral consultations were organized with colleagues from Montenegro in Belgrade on 6 December 2021.

Work on the segment of the document related to the financial effects of the ERP 2022-2024 was completed in December, after the adoption of the Law on Budget for 2022 in November 2021.

The Draft ERP 2022-2024, which contains 21 structural reforms, was made available to the public upon its posting on the website of the Ministry of Finance and the Public Policy Secretariat in the period from 7 to 21 December 2021. Bearing in mind that in this period e-Consultation portal became operation and that it allows citizens and all stakeholders to participate in the process of preparation and adoption of public policy documents and regulations, and to give their own and read other people's opinions on planned changes, Draft ERP 2022 -2024 was the first document that was made available on this portal. All stakeholder were invited to submit their comments and suggestions and thus contribute to the improvement of the document. The invitation to submit comments was especially sent to the Standing Conference of Towns and Municipalities (SCTM), which shared the document on its website, and thus a larger number of local self-government units had the opportunity to get acquainted with the Draft ERP. Also, a special invitation for submitting comments and suggestions on the Draft ERP 2022-2024 was sent to the National Assembly of the RS. During this period, comments were received from the Serbian Chamber of Commerce, MODS, the Association of Citizens of the Left-Wing, and members of the National Convention on the EU.

Final consultations with representatives of civil society, i.e. members of the cross-sectoral working group of the National Convention on the European Union for ERP monitoring, were held on 23 December 2021. The National Convention on the European Union brings together over 700 civil society organizations and is a permanent body within which the thematically structured debate on the accession of the Republic of Serbia to the European Union takes place, thematically divided into negotiating chapters and special topics between NGOs, experts, economy, unions and professional associations on the one hand and government representatives on the other, and has a very important role in this process. Within its structures, the National Convention has established a mechanism for monitoring and evaluation of ERP, through a special horizontal Working Group for ERP and its members actively participate in this process.

A detailed overview of the comments of all stakeholders in the process of drafting ERP 2022-2024 is given in the Annex 3 to this document. Bearing in mind that the ERP is a rolling document, and that the preparation is a continuous process, a large number of objections from stakeholders from the previous cycle are taken into account in the current ERP development cycle.

Due to general pandemic preventive measures, meetings and training sessions in the eighth cycle of ERP preparation were held via electronic platforms.

After the completion of consultations with stakeholders and completion of the internal procedure, the document was adopted by the Government of the Republic of Serbia and submitted to the European Commission within the set deadline, i.e. by the end of January 2022. The ERP is then further discussed with the representatives of EU institutions and member states in the process of the European Semester Light for the Western Balkans and Turkey, and in the middle of 2022 the next (ninth) cycle of drafting this document is expected to begin.

8. ANNEXES

The Programme contains Annexes 1-3 which are integral part of the document. Those are:

1. Annex 1 – Tables
2. Annex 2 - Links between reform areas and relevant public policy documents
3. Annex 3 - External contribution to the ERP 2022-2024

9. FINAL PROVISIONS

This Program shall be published on the website of the Government, portal e-Government and the website of the Ministry of Finance within seven working days from the day of its adoption.

05 Number

In Belgrade,

GOVERNMENT

PRESIDENT

Ana Brnabić

ANNEX 1 – TABLES

Country:	Serbia
Year of submission (deadline)	2022
Pre-year prices prices (no = 0, yes = 1)	0
BOP-Data: National Currency = 0, EUR = 1	1

Table 1: Macroeconomic framework

1a: Demand side, const. prices (Bn. NCU/EUR)	ESA Code	2019	2020	2021	2022	2023	2024
GDP at market prices	B1*g	4,963.5	4,916.6	5,261.8	5,500.7	5,775.8	6,064.8
Private consumption expenditure	P3	3,456.2	3,389.6	3,604.8	3,736.4	3,870.9	3,998.6
Government consumption expenditure	P3	771.1	792.7	814.5	833.3	843.3	853.4
Gross fixed capital formation	P51	1,130.5	1,108.9	1,277.0	1,358.0	1,468.6	1,598.6
Domestic Demand		5,357.7	5,291.1	5,696.3	5,927.7	6,182.7	6,450.6
6. Changes in inventories and net acquisition of valuables	P52+P53	155.1	171.6	144.6	142.1	139.8	138.2
Exports of goods and services	P6	2,735.3	2,619.8	3,036.3	3,321.1	3,649.3	4,028.8
Imports of goods and services	P7	3,284.6	3,165.9	3,615.5	3,890.2	4,196.0	4,552.7
Net exports		-549.3	-546.1	-579.1	-569.1	-546.8	-523.9
1a: Demand side, curr. prices (Bn. NCU)							
GDP at market prices	B1*g	5,421.9	5,502.2	6,163.0	6,638.7	7,175.9	7,747.6
Private consumption expenditure	P3	3,699.1	3,664.5	4,021.9	4,291.7	4,557.8	4,823.5
Government consumption expenditure	P3	901.1	962.2	1,049.1	1,121.1	1,189.7	1,257.5
Gross fixed capital formation	P51	1,218.0	1,180.1	1,432.9	1,575.1	1,753.4	1,965.7
Domestic Demand		5,818.2	5,806.8	6,503.8	6,987.9	7,500.9	8,046.8
6. Changes in inventories and net acquisition of valuables	P52+P53	142.2	151.3	113.2	112.3	110.3	106.9
Exports of goods and services	P6	2,765.7	2,654.2	3,267.8	3,650.6	4,097.5	4,635.0
Imports of goods and services	P7	3,304.3	3,110.0	3,722.1	4,112.1	4,532.9	5,041.1
Net exports		-538.5	-455.8	-454.3	-461.5	-435.3	-406.1
1a: Exchange rate							
Exchange rate National Currency Unit/EUR (Annual average)	NCU/EUR	117.9	117.6	117.6			
Exchange rate National Currency Unit/EUR (End year)	NCU/EUR	117.6	117.6	117.6			

Table 1b: Price developments									
		2019	2020	2021	2022	2023	2024		
1. GDP deflator	Index	109.2	111.9	117.1	120.7	124.2	127.7		
2. Private consumption deflator	Index	107.0	108.1	111.6	114.9	117.7	120.6		
3. HICP	Index	100.0	101.8						
4. National CPI	Index	100.0	101.6	105.7	110.8	114.2	117.6		
5. Public consumption deflator	Index	116.9	121.4	128.8	134.5	141.1	147.4		
6. Investment deflator	Index	107.7	106.4	112.2	116.0	119.4	123.0		
7. Export price deflator (goods & services)	Index	101.1	101.3	107.6	109.9	112.3	115.0		
8. Import price deflator (goods & services)	Index	100.6	98.2	102.9	105.7	108.0	110.7		
Table 1c: Labour markets developments									
1. Population (thousands)	1000 pers.	6,945	6,899	6,872	6,844	6,817	6,789		
3. Working-age population (persons)[1]	1000 pers.	4,504	4,445	4,446	4,449	4,431	4,413		
Total labour force	1000 pers.	3,010	2,952	3,019	3,025	3,022	3,023		
5. Employment, persons [2]	1000 pers.	2,661	2,654	2,686	2,715	2,748	2,781		
6. Employment, hours worked[3]	1000 pers.								
8. Public sector employment (persons)	1000 pers.								
13. Compensation of employees	Bn. NCU								
Table 1d: Sectoral balances									
1. Net lending/borrowing vis-à-vis the rest of the world	bn EUR	-3.2	-1.9	-2.2	-2.5	-2.7	-3.1		
of which:									
- Balance of goods and services	bn EUR	-4.6	-4.1	-4.2	-4.3	-4.4	-4.5		
- Balance of primary incomes and transfers	bn EUR	1.6	2.2	2.1	1.7	1.7	1.4		
- Capital account	bn EUR	-0.1	0.0	0.0	0.0	0.0	0.0		
Table 1e: GDP, investment and gross value added									
1. Agriculture	const. prices	312.3	319.1	303.9	305.5	305.5	305.5		
2. Industry (excluding construction)	const. prices	1,008.5	1,011.2	1,066.8	1,136.2	1,215.0	1,303.7		
3. Construction	const. prices	272.1	262.3	303.2	325.7	358.0	397.1		
4. Services	const. prices	2,516.5	2,486.4	2,693.1	2,801.9	2,930.8	3,064.4		
1. Agriculture	curr. prices	322.8	349.0						
2. Industry (excluding construction)	curr. prices	1,078.1	1,070.2						
3. Construction	curr. prices	309.8	299.3						
4. Services	curr. prices	2,774.2	2,853.6						

Table 1f: External sector developments		2019	2020	2021	2022	2023	2024
2. Export of goods	bn EUR	16.4	16.1	20.6	23.1	25.8	28.7
3. Import of goods	bn EUR	22.0	21.3	26.3	29.0	32.3	35.5
4. Trade balance	bn EUR	-5.6	-5.2	-5.7	-6.0	-6.5	-6.9
5. Export of services	bn EUR	6.9	6.2	7.7	8.6	9.7	10.6
6. Import of services	bn EUR	5.9	5.1	6.2	6.9	7.6	8.3
7. Service balance	bn EUR	1.0	1.1	1.5	1.7	2.0	2.3
8. Net interest payments from abroad	bn EUR	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
9. Other net factor income from abroad	bn EUR	-1.8	-0.9	-1.5	-1.9	-2.1	-2.5
9a. Remittances	bn EUR	3.5	3.1	3.6	3.7	3.8	3.9
10. Current transfers	bn EUR	3.9	3.6	4.1	4.2	4.4	4.5
11. Of which from EU	bn EUR	2.3	2.0	2.3	2.4	2.6	2.7
12. Current account balance	bn EUR	-3.2	-1.9	-2.2	-2.5	-2.7	-3.1
13. Capital and financial account	bn EUR	3.2	2.1	2.2	2.5	2.7	3.1
14. of which: Net Foreign direct investment	bn EUR	3.6	2.9	3.2	2.9	3.0	3.2
14.a Of which: Net-FDI (Equity)	bn EUR	2.9	1.6	1.8	2.2	2.2	2.4
14.b Of which: Portfolio investment	bn EUR	0.2	1.6	1.9	0.4	0.5	0.2
14.c Of which: Net-Portfolio investment (Equity)	bn EUR	0.0	0.0	0.0	0.0	0.0	0.0
14.d. Foreign direct investment, inward	bn EUR	3.8	3.0	3.4	3.2	3.3	3.5
14.e. Foreign direct investment, outward	bn EUR	0.3	0.1	0.2	0.3	0.3	0.3
15. Foreign reserves	bn EUR	13.4	13.5	16.5	17.3	18.1	18.2
16. Net External debt	bn EUR	16.1	16.8	16.9	17.2	17.5	17.8
16a. Of which: foreign currency denominated external debt	bn EUR	14.1	14.8	15.3	15.6	15.9	16.2
16b. Of which: public external debt	bn EUR	4.0	5.5	6.1	6.1	6.1	6.2
16c. Of which: interest payments	bn EUR	0.6	0.6	0.6	0.6	0.5	0.5
16d. Of which: repayments due	bn EUR	5.4	4.5	4.3	4.3	4.2	4.2
17. Net foreign saving	bn EUR						
18. Domestic private saving	bn EUR						
19. Domestic private investment	bn EUR						
20. Domestic public saving	bn EUR						
21. Domestic public investment	bn EUR						

[1] Age group of 15-64 years

[2] Occupied population, LFS definition

[3] National accounts definition

1g: Sustainability indicators		2016	2017	2018	2019	2020	2021
1. Current Account Balance[1]	Bn EUR	-1.1	-2.1	-2.1	-3.2	-1.9	-2.2
2. Net International Investment Position[2]	Bn EUR	-34.7	-35.6	-37.6	-40.5	-42.3	-42.8
3. Export market shares[3]	% of total export market	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
4. Real Effective Exchange Rate[4]	Index	114.8	118.7	123.0	122.8	124.9	127.5
5. Nominal Unit Labour Costs	Index						
6. Private sector credit flow[5]	bn RSD	110.1	83.6	188.8	178.0	220.2	176.6
7. Private sector debt[6]	bn RSD	1,811.4	1,895.0	2,083.8	2,261.8	2,482.0	2,658.6
8. General Government Debt	bn RSD	3,110.8	2,790.5	2,757.3	2,864.0	3,181.2	3,586.7
p.m. GDP at current market prices	bn RSD	4,528.2	4,760.7	5,072.9	5,421.9	5,502.2	6,163.0
p.m. Exchange rate (Annual average)	RSD/EUR	123.1	121.3	118.3	117.9	117.6	117.6

[1] 2021 NBS projection

[2] data for end-of-June 2021

[3] data for 2021 NBS projection

[4] 2021 Jan-Oct

[5] 2021 Jan-Oct

[6] 2021 Oct

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	Year	Year	Year	Year	Year	Year
		2020	2020	2021	2022	2023	2024
1. Real GDP at market prices	B1* ^g	41.8	-0.9	7.0	4.5	5.0	5.0
2. Current GDP at market prices	B1* ^g	46.8	1.5	12.0	7.7	8.1	8.0
Components of real GDP							
3. Private consumption expenditure	P3	28.8	-1.9	6.3	3.7	3.6	3.3
4. Government consumption expenditure	P3	6.7	2.8	2.8	2.3	1.2	1.2
5. Gross fixed capital formation	P51	9.4	-1.9	15.2	6.3	8.1	8.9
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	1.5	3.5	2.7	2.6	2.4	2.3
7. Exports of goods and services	P6	22.3	-4.2	15.9	9.4	9.9	10.4
8. Imports of goods and services	P7	26.9	-3.6	14.2	7.6	7.9	8.5

Serbia

Contribution to real GDP growth						
	ESA Code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
9. Final domestic demand	45.0	-1.3	8.2	4.4	4.6	4.6
10. Change in inventories and net acquisition of valuables	P52+P53	0.3	-0.5	0.0	0.0	0.0
11. External balance of goods/services	B11	0.1	-0.7	0.2	0.4	0.4

Table 1b: Price developments

	ESA Code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
Percentage changes, annual averages						
1. GDP deflator		2.4	4.7	3.0	2.9	2.8
2. Private consumption deflator		1.0	3.2	3.0	2.5	2.5
3. HICP		1.8	:	:	:	:
4. National CPI change		1.6	4.0	4.9	3.0	3.0
5. Public consumption deflator		3.9	6.1	4.5	4.9	4.5
6. Investment deflator		-1.2	5.4	3.4	2.9	3.0
7. Export price deflator (goods & services)		0.2	6.2	2.1	2.2	2.5
8. Import price deflator (goods & services)		-2.4	4.8	2.7	2.2	2.5

Table 1c: Labour markets developments

	ESA Code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
1. Population (thousands)		6,899	6,872	6,844	6,817	6,789
2. Population (growth rate in %)		-0.7	-0.4	-0.4	-0.4	-0.4
3. Working-age population (persons)[1]		4,445	4,446	4,449	4,431	4,413
4. Participation rate		66.4	67.9	68.0	68.2	68.5
5. Employment, persons [2]		2,654	2,686	2,715	2,748	2,781
6. Employment, hours worked[3]		:	:	:	:	:
7. Employment (growth rate in %)		-0.3	1.2	1.1	1.2	1.2
8. Public sector employment (persons)		:	:	:	:	:
9. Public sector employment (growth in %)		:	:	:	:	:
10. Unemployment rate [4]		10.1	11.0	10.2	9.1	8.0
11. Labour productivity, persons[5]	1,852.7	-0.7	5.8	3.4	3.8	3.8
12. Labour productivity, hours worked[6]		:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:

- [1] Age group of 15-64 years
 [2] Occupied population, LFS definition
 [3] National accounts definition
 [4] Harmonised definition, Eurostat; levels
 [5] Real GDP per person employed
 [6] Real GDP per hour worked

Table 1d: Sectoral balances

	ESA code	Serbia				
		Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
Percentages of GDP						
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-4.1	-4.1	-4.4	-4.4	-4.8
<i>of which:</i>						
- <i>Balance of goods and services</i>		-8.8	-8.0	-7.4	-7.2	-6.8
- <i>Balance of primary incomes and transfers</i>		4.7	3.9	3.0	2.7	2.1
- <i>Capital account</i>		-0.1	0.0	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	B.9/EDP B.9	4.0	0.8	-1.4	-2.9	-3.8
3. Net lending/borrowing of general government		-8.0	-4.9	-3.0	-1.5	-1.0
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	Serbia				
		Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	5,502.2	6,163.0	6,638.7	7,175.9	7,747.6
Investment ratio (% of GDP)		21.4	23.2	23.7	24.4	25.4
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		2.2	-4.7	0.5	0.0	0.0
2. Industry (excluding construction)		0.3	5.5	6.5	6.9	7.3
3. Construction		-3.6	15.6	7.4	9.9	10.9
4. Services		-1.2	8.3	4.0	4.6	4.6

Billion Euro unless otherwise indicated	Serbia				
	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
1. Current account balance (% of GDP)	% of GDP	-4.1	-4.4	-4.4	-4.8
2. Export of goods	bn EUR	16.1	20.6	23.1	25.8
3. Import of goods	bn EUR	21.3	26.3	29.0	32.3
4. Trade balance	bn EUR	-5.2	-5.7	-6.0	-6.5
5. Export of services	bn EUR	6.2	7.7	8.6	9.7
6. Import of services	bn EUR	5.1	6.2	6.9	7.6
7. Service balance	bn EUR	1.1	1.5	1.7	2.0
8. Net interest payments from abroad	bn EUR	-0.6	-0.6	-0.6	-0.6
9. Other net factor income from abroad	bn EUR	-0.9	-1.5	-1.9	-2.1
9a. Remittances	bn EUR	3.1	3.6	3.7	3.8
10. Current transfers	bn EUR	3.6	4.1	4.2	4.4
11. Of which from EU	bn EUR	2.0	2.3	2.4	2.6
12. Current account balance	bn EUR	-1.9	-2.2	-2.5	-2.7
13. Capital and financial account	bn EUR	2.1	2.2	2.5	2.7
14. Foreign direct investment, net	bn EUR	2.9	3.2	2.9	3.0
14a. Of which: Net-FDI (Equity)	bn EUR	1.6	1.8	2.2	2.2
14b. Of which: Portfolio investment	bn EUR	1.6	1.9	0.4	0.5
14c. Of which: Net-Portfolio investment (Equity)	bn EUR	0.0	0.0	0.0	0.0
14d. Foreign direct investment, inward	bn EUR	3.0	3.4	3.2	3.3
14e. Foreign direct investment, outward	bn EUR	0.1	0.2	0.3	0.3
15. Foreign reserves	bn EUR	13.5	16.5	17.3	18.1
16. Net foreign debt	bn EUR	16.8	16.9	17.2	17.5
16a. Of which: foreign currency denominated	bn EUR	14.8	6.1	6.1	6.1
16b. Of which: public external debt	bn EUR	5.5	0.6	0.6	0.5
16c. Of which: interest payments	bn EUR	0.6	6.1	6.1	6.1
16d. of which: repayments due	bn EUR	4.5	4.3	4.3	4.2
17. Exchange rate vis-à-vis EUR (annual average)	RSD/EUR	117.6	117.6	:	:
p.m. Exchange rate vis-à-vis EUR (annual average)	% , year-on-year	-0.2	0.0	:	:
17a. Exchange rate vis-à-vis EUR (end-year)	RSD/EUR	117.6	117.6	:	:
p.m. Exchange rate vis-à-vis EUR (end-year)	% , year-on-year	0.0	0.0	:	:
18. Net foreign saving	% of GDP	:	:	:	:

19. Domestic private saving	% of GDP	:	:	:	:	:	:	:
20. Domestic private investment	% of GDP	:	:	:	:	:	:	:
21. Domestic public saving	% of GDP	:	:	:	:	:	:	:
22. Domestic public investment	% of GDP	:	:	:	:	:	:	:

Table 1g: Sustainability indicators

	Dimension	Serbia				
		Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. Current Account Balance[1]	% of GDP	-5.2	-4.8	-6.9	-4.1	-4.1
2. Net International Investment Position[2]	% of GDP	-90.7	-87.6	-88.0	-90.3	-86.6
3. Export market shares[3]	%, yoy	2.5	4.6	4.7	6.8	10.0
4. Real Effective Exchange Rate[4]	%, yoy	3.3	3.6	-0.2	1.7	2.1
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:
6. Private sector credit flow[5]	% of GDP	1.8	3.7	3.3	4.0	2.9
7. Private sector debt[6]	% of GDP	39.8	41.1	41.7	45.1	43.1
8. General Government Debt	% of GDP	58.6	54.4	52.8	57.8	58.2

[1] 2021 NBS projection

[2] data for end-of-June 2021

[3] data for 2021 NBS projection

[4] 2021 Jan-Oct

[5] 2021 Jan-Oct

[6] 2021 Oct

Table 2: General government budgetary prospects

	bn NCU	2019	2020	2021	2022	2023	2024
Net lending (B9) by sub-sectors							
1. General government	S13	-11.1	-442.8	-304.5	-200.2	-109.7	-74.1
2. Central government	S1311	-0.8	-458.4	-310.5	-200.2	-109.7	-74.1
3. State government	S1312						
4. Local government	S1313	-5.4	6.6	6.0	0.0	0.0	0.0
5. Social security funds	S1314	-5.0	9.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	2,278.6	2,255.0	2,678.9	2,804.1	2,972.4	3,187.1
7. Total expenditure ^[1]	TE	2,289.7	2,697.7	2,983.4	3,004.3	3,082.1	3,261.2
8. Net borrowing/lending	EDP:B9	-11.1	-442.8	-304.5	-200.2	-109.7	-74.1
9. Interest expenditure	EDP:D41 incl. FISIM	108.9	110.2	113.9	118.6	125.6	131.7
10. Primary balance ^[2]		97.8	-332.5	-190.5	-81.7	15.9	57.6
11. One-off and other temporary measures ^[3]							
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,317.8	1,317.0	1,542.1	1,600.8	1,707.9	1,827.8
12a. Taxes on production and imports	D2	943.4	944.1	1,084.9	1,132.7	1,209.9	1,290.6
12b. Current taxes on income and wealth	D5	373.3	371.6	455.8	466.6	496.3	535.4
12c. Capital taxes	D91	1.2	1.3	1.4	1.5	1.6	1.8
13. Social contributions	D61	675.9	673.7	855.0	925.8	976.4	1,063.5
14. Property income	D4	68.8	73.2	76.1	79.1	82.2	85.5
15. Other (15 = 16-(12+13+14)) ^[4]		216.1	191.0	205.6	198.3	205.8	210.3
16 = 6. Total revenue	TR	2,278.6	2,255.0	2,678.9	2,804.1	2,972.4	3,187.1
p.m.: Tax burden (D2+D5+D61+D91-D995) ^[5]		1,993.7	1,990.8	2,397.2	2,526.6	2,684.3	2,891.3
Selected components of expenditures							
17. Collective consumption	P32	895.6	1,019.9	1,124.0	1,184.2	1,253.3	1,329.9
18. Total social transfers	D62 + D63	782.9	806.3	857.8	914.7	924.9	977.6
18a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	782.9	806.3	857.8	914.7	924.9	977.6
19 = 9. Interest expenditure (incl. FISIM)	EDP:D41 + FISIM	108.9	110.2	113.9	118.6	125.6	131.7
20. Subsidies	D3	121.2	251.5	213.4	165.6	150.0	150.8

	Year 2020	Year 2020	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
21. Gross fixed capital formation	266.3	293.2	479.4	485.8	495.6	536.9	
22. Other (22 = 23-(17+18+19+20+21) [6])	114.8	216.5	194.8	135.3	132.7	134.3	
23. Total expenditures [7]	2,289.7	2,697.7	2,983.4	3,004.3	3,082.1	3,261.2	
p.m. compensation of public sector employees	516.3	578.9	628.6	673.1	724.2	776.6	

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] 2The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3] A plus sign means deficit-reducing one-off measures

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+

D.5+D.7+D.9+P.52+P.53+K.2+D.8

[7] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects

	Year 2020	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
ESA code	Year 2020 Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors						
1. General government	-442.8	-8.0	-4.9	-3.0	-1.5	-1.0
2. Central government	-458.4	-8.3	-5.0	-3.0	-1.5	-1.0
3. State government	:	:	:	:	:	:
4. Local government	6.6	0.1	0.1	0.0	0.0	0.0
5. Social security funds	9.0	0.2	0.0	0.0	0.0	0.0
General government (S13)						
6. Total revenue	2,255.0	41.0	43.5	42.2	41.4	41.1
7. Total expenditure[1]	2,697.7	49.0	48.4	45.3	42.9	42.1
8. Net borrowing/lending	-442.8	-8.0	-4.9	-3.0	-1.5	-1.0
9. Interest expenditure	110.2	2.0	1.8	1.8	1.8	1.7
10. Primary balance[2]	-332.5	-6.0	-3.1	-1.2	0.2	0.7
11. One-off and other temporary measures [3]	:	:	:	:	:	:
Components of revenues						

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12. Total taxes (12 = 12a+12b+12c)		1,317.0	23.9	25.0	24.1	23.8	23.6
12a. Taxes on production and imports	D2	944.1	17.2	17.6	17.1	16.9	16.7
12b. Current taxes on income and wealth	D5	371.6	6.8	7.4	7.0	6.9	6.9
12c. Capital taxes	D91	1.3	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	673.7	12.2	13.9	13.9	13.6	13.7
14. Property income	D4	73.2	1.3	1.2	1.2	1.1	1.1
15. Other (15 = 16-(12+13+14)) [4]		191.0	3.5	3.3	3.0	2.9	2.7
16 = 6. Total revenue	TR	2,255.0	41.0	43.5	42.2	41.4	41.1
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,990.8	36.2	38.9	38.1	37.4	37.3
Selected components of expenditures							
16. Collective consumption	P32	1,019.9	18.5	18.2	17.8	17.5	17.2
17. Total social transfers	D62 + D63	806.3	14.7	13.9	13.8	12.9	12.6
17a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0	0.0
17b. Social transfers other than in kind	D62	806.3	14.7	13.9	13.8	12.9	12.6
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	110.2	2.0	1.8	1.8	1.8	1.7
19. Subsidies	D3	251.5	4.6	3.5	2.5	2.1	1.9
20. Gross fixed capital formation	P51	293.2	5.3	7.8	7.3	6.9	6.9
21. Other (21 = 22-(16+17+18+19+20)) [6]		216.5	3.9	3.2	2.0	1.8	1.7
22. Total expenditures	TE [1]	2,697.7	49.0	48.4	45.3	42.9	42.1
p.m. compensation of public sector employees	D1	578.9	10.5	10.2	10.1	10.1	10.0

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3] A plus sign means deficit-reducing one-off measures

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 2b: General government budgetary prospects

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	ESA code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
Net lending (B9) by sub-sectors						
bn NCU						
1. General government	S13	-442.79	-304.47	-200.25	-109.70	-74.06
2. Central government	S1311	-458.36	-310.49	-200.25	-109.74	-74.06
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	6.58	6.02	-0.01	0.00	0.00
5. Social security funds	S1314	9.00	0.00	0.00	0.00	0.00
General government (S13)						
6. Total revenue	TR	2,254.96	2,678.89	2,804.05	2,972.35	3,187.13
7. Total expenditure ^[1]	TE	2,697.74	2,983.36	3,004.30	3,082.06	3,261.19
8. Net borrowing/lending	EDP.B9	-442.79	-304.47	-200.25	-109.70	-74.06
9. Interest expenditure	EDP.D41	110.25	113.93	118.57	125.60	131.70
10. Primary balance ^[2]	incl. FISIM	-332.54	-190.55	-81.67	15.90	57.64
11. One-off and other temporary measures ^[3]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1,317.03	1,542.13	1,600.80	1,707.89	1,827.82
12a. Taxes on production and imports	D2	944.12	1,084.89	1,132.68	1,209.95	1,290.61
12b. Current taxes on income and wealth	D5	371.61	455.83	466.61	496.30	535.44
12c. Capital taxes	D91	1.30	1.40	1.52	1.64	1.77
13. Social contributions	D61	673.74	855.04	925.80	976.44	1,063.51
14. Property income	D4	73.24	76.12	79.11	82.23	85.47
15. Other (15 = 16-(12+13+14)) ^[4]		190.95	205.60	198.34	205.79	210.33
16 = 6. Total revenue	TR	2,254.96	2,678.89	2,804.05	2,972.35	3,187.13
p.m.: Tax burden (D2+D5+D61+D91-D995) ^[5]		1,990.77	2,397.17	2,526.60	2,684.33	2,891.33
Selected components of expenditures						
16. Collective consumption	P32	1,019.94	1,123.96	1,184.24	1,253.27	1,329.86
17. Total social transfers	D62 + D63	806.31	857.79	914.68	924.87	977.64
17a. Social transfers in kind	P31 = D63	0.00	0.00	0.00	0.00	0.00
17b. Social transfers other than in kind	D62	806.31	857.79	914.68	924.87	977.64

18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	110.25	113.93	118.57	125.60	131.70
19. Subsidies	D3	251.48	213.41	165.64	149.99	150.79
20. Gross fixed capital formation	P51	293.22	479.43	485.85	495.65	536.95
21. Other (21 = 22-(16+17+18+19+20) [6]	TE [1]	216.53	194.84	135.32	132.68	134.27
22. Total expenditures		2,697.74	2,983.36	3,004.30	3,082.06	3,261.19
p.m. compensation of public sector employees	D1	578.94	628.64	673.08	724.21	776.65

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3] A plus sign means deficit-reducing one-off measures

[4] P.11+P.12+P.13+D.39+D.7+D.9 (other than D.91).

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 2c) Discretionary measures adopted/announced according to the Programme

Measures	ESA Code (Expenditure / Revenue component)	Date of adoption	Budgetary impact (% of GDP - change from previous year)				
			2020	2021	2022	2023	2024
<i>Temporary measures¹</i>	D5, D61	:	-2.2	:	:	:	
		:	-0.2	:	:	:	
	D3	:	-1.2	-1.3	:	:	
	D3	:	-0.3	:	:	:	
	D7	:	-0.2	-1.1	:	:	
	D5	:	-0.1	:	:	:	
	D62	:	-0.1	0.3	-0.5	:	
	D63			-0.1			
Subtotal			0.0	-4.4	-2.1	-0.5	0.0

Table 3: General government expenditure by function

% of GDP	COFOG Code	Year					Serbia	
		2020	2021	2022	2023	2024	Year 2023	Year 2024
1. General public services	1	7.7	7.3	6.6	6.2	6.0		
2. Defence	2	2.0	2.5	2.0	2.0	2.0		
3. Public order and safety	3	2.7	2.7	2.5	2.5	2.5		
4. Economic affairs	4	9.0	8.9	7.7	6.5	6.2		
5. Environmental protection	5	0.3	0.4	0.4	0.4	0.4		
6. Housing and community amenities	6	1.4	1.5	1.5	1.5	1.5		
7. Health	7	7.1	7.1	6.6	6.4	6.3		
8. Recreation, culture and religion	8	0.9	1.0	0.9	0.9	0.9		
9. Education	9	3.3	3.3	3.2	3.2	3.2		
10. Social protection	10	14.7	14.0	13.8	13.4	13.1		
11. Total expenditure (item 7 = 23 in Table 2)	TE	49.0	48.4	45.3	42.9	42.1		

Table 4: General government debt developments

	2019	2020	2021	2022	2023	2024
1. Gross debt [1]	2,864.0	3,181.2	3,586.7	3,750.9	3,968.5	4,168.9
Contributions to change in gross debt						
5. Stock-flow adjustment	95.6	-125.5	101.0	-36.1	107.9	126.4
<i>of which:</i>						
- Differences between cash and accruals[4]						
- Net accumulation of financial assets[5]						
<i>of which:</i>						
- Privatisation proceeds						
- Valuation effects and other[6]						
Other relevant variables						
6. Liquid financial assets[8]						

[1] As defined in Regulation 3605/93 (not an ESA concept).

[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6] Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 4: General government debt developments

		Serbia				
	ESA code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
% of GDP						
1. Gross debt [1]		57.8	58.2	56.5	55.3	53.8
2. Change in gross debt ratio		5.0	0.4	-1.7	-1.2	-1.5
Contributions to change in gross debt						
3. Primary balance [2]		6.0	3.1	1.2	-0.2	-0.7
4. Interest expenditure [3]	EDP D.41	2.0	1.8	1.8	1.8	1.7
5. Real growth effect		0.5	-3.6	-2.5	-2.6	-2.6
6. Inflation effect		-1.3	-2.4	-1.6	-1.5	-1.4
7. Stock-flow adjustment		-2.3	1.5	-0.6	1.4	1.6
<i>of which:</i>						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		3.8	3.6	3.3	3.3	3.3
Other relevant variables						
8. Liquid financial assets [8]		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

[1] As defined in Regulation 3605/93 (not an ESA concept).

[2] Cf. item 10 in Table 2.

[3] Cf. item 9 in Table 2.

[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6] Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

[7] Proxied by interest expenditure divided by the debt level of the previous year.

[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 5: Cyclical developments

		2020	2021	2022	2023	2024
4. One-off and other temporary measures [1]	% of GDP	6.8	4.2	0.0	0.0	0.0
5. Potential GDP growth	%, yoy	3.6	4.1	4.5	4.8	5.0
Contributions:						
- labour		1.0	0.9	0.9	0.9	0.9
- capital		1.3	1.6	1.7	1.8	1.9
- total factor productivity		1.3	1.6	1.9	2.1	2.2
6. Output gap	% of GDP	-2.6	0.0	0.0	0.2	0.3
7. Cyclical budgetary component	% of GDP	-0.9	0.0	0.0	0.1	0.1

[1] A plus sign means deficit-reducing one-off measures.

Table 5: Cyclical developments

		Year	Year	Year	Year	Year
1. Real GDP growth (% yoy)	ESA Code	2020	2021	2022	2023	2024
2. Net lending of general government	B1g	-0.9	7.0	4.5	5.0	5.0
3. Interest expenditure	EDP.B.9	-8.0	-4.9	-3.0	-1.5	-1.0
4. One-off and other temporary measures [1]	EDP.D.41	2.0	1.8	1.8	1.8	1.7
5. Potential GDP growth (% yoy)		6.8	4.2	0.0	0.0	0.0
		3.6	4.1	4.5	4.8	5.0
Contributions:						
- labour		1.0	0.9	0.9	0.9	0.9
- capital		1.3	1.6	1.7	1.8	1.9
- total factor productivity		1.3	1.6	1.9	2.1	2.2
6. Output gap		-2.6	0.0	0.0	0.2	0.3
7. Cyclical budgetary component		-0.9	0.0	0.0	0.1	0.1
8. Cyclically-adjusted balance (2-7)		-7.1	-5.0	-3.0	-1.6	-1.1
9. Cyclically-adjusted primary balance (8+3)		-5.1	-3.1	-1.2	0.1	0.6
10. Structural balance (8-4)		-13.9	-9.2	-3.0	-1.6	-1.1

[1] A plus sign means deficit-reducing one-off measures.

Table 6: Divergence from previous programme

	2020	2021	2022	2023	2024
1. GDP growth	-1.0	6.0	4.0	4.0	
2. General government net lending	-8.9	-3.0	-1.6	-1.0	
3. General government gross debt	59.0	58.7	57.9	56.0	

Table 6: Divergence from previous programme

	Year	Year	Year	Year	Year
	2020	2021	2022	2023	2024
1. GDP growth (% , yoy)					
Previous programme	-1.0	6.0	4.0	4.0	:
Latest update	-0.9	7.0	4.5	5.0	5.0
Difference (percentage points)	0.1	1.0	0.5	1.0	:
2. General government net lending (% of GDP)					
Previous programme	-8.9	-3.0	-1.6	-1.0	:
Latest update	-8.0	-4.9	-3.0	-1.5	-1.0
Difference	0.9	-1.9	-1.4	-0.5	:
3. General government gross debt (% of GDP)					
Previous programme	59.0	58.7	57.9	56.0	:
Latest update	57.8	58.2	56.5	55.3	53.8
Difference	-1.2	-0.5	-1.4	-0.7	:

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Table 7: Long-term sustainability of public finances (% GDP)

	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
of which:							
- Age-related expenditures							
- Pension expenditure							
- Social security pension							
- Old-age and early pensions							
- Other pensions (disability, survivors)							
- Occupational pensions (if in general government)							
- Health care							
- Long-term care (this was earlier included in the health care)							
Education expenditure							
Other age-related expenditures							
Interest expenditure							
Total revenues							
of which: property income							
of which: from pensions contributions (or social contributions, if appropriate)							
Pension reserve fund assets							
of which: consolidated public pension fund assets (assets other than government liabilities)							
Assumptions							
Labour productivity growth							
Real GDP growth							
Participation rate males (aged 20-64)							
Participation rate females (aged 20-64)							
Total participation rates (20-64)							
Unemployment rate							
Population aged 65+ over total population							

Table 7: Long-term sustainability of public finances

	Serbia						
	2007	2010	2020	2030	2040	2050	2060
% of GDP							
Total expenditure	:	:	:	:	:	:	:
of which:	:	:	:	:	:	:	:
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	:	:	:	:	:	:
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (ff in general government)	:	:	:	:	:	:	:
- Health care	:	:	:	:	:	:	:
- Long-term care (this was earlier included in the health care)	:	:	:	:	:	:	:
Education expenditure	:	:	:	:	:	:	:
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	:	:	:	:	:	:
Total revenues	:	:	:	:	:	:	:
of which: property income	:	:	:	:	:	:	:
of which: from pensions contributions (or social contributions, if appropriate)	:	:	:	:	:	:	:
Pension reserve fund assets	:	:	:	:	:	:	:
of which: consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	:	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:
Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	:	:	:	:	:	:	:

Table 7a: Stock of General Government guarantees adopted/announced at [month-year] according to the Programme

Measures		Date of adoption	Maximum amount of contingent liabilities ¹ (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19	:	:	2021	2021
	:	:	:	:
	:	:	:	:
	:	:	:	:
	:	:	:	:
	:	:	:	:
	:	:	:	:
Others	Subtotal	% of GDP	0.0	0.0
	EDS	:	0.1	:
	Srbijagas	:	0.1	:
	Srbijagas	:	0.1	:
	Srbijagas	:	0.1	:
	Srbijagas	:	0.1	:
	Srbijagas	:	0.1	:
Subtotal	% of GDP	0.6	0.0	
Total	% of GDP	0.6	0.0	

¹ Any possible budgetary impact related to the call of those guarantees should be provided in the table on the discretionary measures in the ERP

Serbia

Table 8: Basic assumptions on external economic environment [1]

	Dimension	2020	2021	2022	2023	2024
Short-term interest rate [1]	Annual average					
Long-term interest rate	Annual average					
USD/EUR exchange rate	Annual average					
Nominal effective exchange rate	Annual average					
Exchange rate vis-à-vis the EUR	Annual average					
Global GDP growth, excluding EU	Annual average					
EU GDP growth	Annual average					
Growth of relevant foreign markets	Annual average					
World import volumes, excluding EU	Annual average					
Oil prices (Brent, USD/barrel)	Annual average					

[1] If necessary, purely technical assumption.

Table 8: Basic assumptions on the external economic environment [1]

	Dimension	Serbia				
		Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
Short-term interest rate	Annual average	:	:	:	:	:
Long-term interest rate	Annual average	:	:	:	:	:
USD/EUR exchange rate	Annual average	:	:	:	:	:
Nominal effective exchange rate	Annual average	:	:	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	:	:	:	:	:
Global GDP growth, excluding EU	Annual average	:	:	:	:	:
EU GDP growth	Annual average	:	:	:	:	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	:	:	:	:	:
Oil prices (Brent, USD/barrel)	Annual average	:	:	:	:	:

[1] If necessary, purely technical assumption.

Table 9 a: Social scoreboard indicators

	Data source	2017	2018	2019	2020
Equal opportunities					
1. Adult participation in learning during the last 12 months. age 25-64	EUROSTAT	4.4	4.1	4.3	3.7
2. Share of early leavers from education and training. age 18-24	EUROSTAT	6.2	6.8	6.6	5.6
3. Share of population with basic overall digital skills or above. age 16-74	EUROSTAT	39		46	
4. Young people neither in employment nor in education or training (NEET rate). age 15-29	EUROSTAT	21.7	20.1	19	20
5. Gender gap in employment rate. age 20-64	EUROSTAT	14	14.7	13.9	14
6. Income quintile share ratio - S80/S20	EUROSTAT	9.38	8.58	6.46	6.06
Working conditions					
7. Employment rate. age 20-64	EUROSTAT	61.4	63.1	65.2	65.9
8. Unemployment rate. age 15-74	EUROSTAT	13.6	12.8	10.5	9.1
9. Long-term unemployment rate. age 15-74	EUROSTAT	7.2	6.5	5.3	4.3
10. Gross disposable income of households in real terms. per capita	EUROSTAT	:	:	:	:
Social protection and inclusion					
11. At-risk-of-poverty or social exclusion rate (AROPE)	EUROSTAT	36.7	34.3	31.7	29.8
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (0-17)	EUROSTAT	41.7	36	34.5	30.6
13. Impact of social transfers (other than pensions) on poverty reduction	EUROSTAT	18.67	17.91	18.02	18.73
14. Disability employment gap. age 20-64	EUROSTAT	25.4	27.2	36	34.8
15. Housing cost overburden rate	EUROSTAT	33.6	31.3	21.6	17.8
16. Children aged less than 3 years in formal childcare	EUROSTAT	14.5	13.3	17.2	18.1
17. Self-reported unmet needs for medical care	EUROSTAT	4.8	5.8	4.8	3.8

* (:) data not available

Table 9 b: Other selected indicators

	Data source	2017	2018	2019	2020
Other social and healthcare indicators					
1. Public social protection expenditure in % of GDP					
2. Public healthcare expenditure in % of GDP	WB	8.2	8.5		
3. Household out-of-pocket payments as a % of total health expenditure	WB	40.6	38.3		
4. Percentage of population not covered by health insurance					
5. Ratio of doctors per 1000 inhabitants	RSO	3.1	3.1	2.9	2.9
6. Ratio of nurses per 1000 inhabitants	RSO	6.5	6.6	6.0	6.2
Environment					
7. Total environmental tax revenues as a share of total revenues from taxes and social contributions	RSO	11.1	11.1	11	
8. Greenhouse gas emissions per capita					
9. Generation of waste excluding major mineral wastes, kg per capita	EUROSTAT		1,704		
Digital economy					
10. Percentage of households with broadband access (mobile and fixed)	EUROSTAT	65	73	79	81
11. Share of total population using internet [NB: population 16-74]	EUROSTAT	53	57	62	
Energy					
12. Energy imports dependency (%)	EUROSTAT	33.8	34.6	35.6	
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	EUROSTAT	453.34	427.84	407.21	424.23
14. Share of renewable energy sources (RES) in final energy consumption (%)	EUROSTAT	20.3	20.3	21.4	
Transport					
15. Railway Network Density (meters of line per km2 of land area)	UNECE	42.53	42.53	42.52	
16. Motorization rate (Passenger cars per 1000 inhabitants)	OECD	278.2	284.1	297.6	
Agriculture					
17. Share of gross value added (Agriculture, Forestry and Fishing)	EUROSTAT	7.2	7.7	7.2	7.6
18. Share of employment (Agriculture, Forestry and Fishing)	WB	17.2	15.9	15.6	

	Data source	2017	2018	2019	2020
19. Utilised agricultural area (% of total land area)	WB	39.1	39.6		
Industry (except construction)					
20. Share of gross value added	EUROSTAT	26.5	25.4	24.0	23.4
21. Contribution to employment (% of total employment)	WB	21.2	22.5	22.6	
Services					
22. Share of gross value added	EUROSTAT	61.3	61.5	61.9	62.4
23. Contribution to employment (% of total employment)	WB	57.5	57.2	57.0	
Business Environment					
24. Rank in Global Competitiveness Index (Source: World Economic Forum)	WEO	78	65	72	
25. Estimated share of informal economy in GDP (as % of GDP)	Business Conditions Survey of business entities (companies and entrepreneurs)	14.9			
Research, Development and Innovation					
26. R&D intensity of GDP (R&D expenditure as % of GDP)	EUROSTAT	0.87	0.92	0.89	0.91
27. R&D expenditure – EUR per inhabitant	EUROSTAT	48.6	56.3	58.6	61.2
Trade					
28. Export of goods and services (as % of GDP)	EUROSTAT	50.5	50.4	51.0	48.2
29. Import of goods and services (as % of GDP)	EUROSTAT	57.1	59.1	60.9	56.5
30. Trade balance (as % of GDP)	EUROSTAT	-6.6	-8.6	-9.9	-8.3

Table 10: The effects of structural reforms on the budget

Table 10 a: Costing of structural reform measures for the period 2022-2024 in EUR

1. Establishment of a framework for the introduction of Youth Guarantees in the Republic of Serbia					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	505,750.00	2,674,917.00	0	3,180,667.00
2023	0	416,500.00	2,236,208.00	0	2,652,708.00
2024	0	565,250.00	543,800.00	0	1,109,050.00
2. Qualifications oriented to the needs of the labour market					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	123,600.00	0	28,300,000.00	28,423,600.00
2023	0	0	0	7,832,009.00	7,832,009.00
2024	0	0	0	0	0
3. Improvement of the environment for encouraging, supporting and monitoring circular and economic migration					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	136,200.00	321,000.00	0	0	457,200.00
2023	166,200.00	389,000.00	0	0	555,200.00
2024	166,200.00	406,000.00	0	0	572,200.00
4. Improvement of the quality of public services through optimization and digitalization of administrative procedures – e-Paper					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	1,515,000.00	0	0	1,515,000.00
2023	0	785,000.00	0	0	785,000.00
2024	0	300,000.00	0	0	300,000.00
5. Sustainable and efficient management of business entities owned by the Republic of Serbia					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	0	0	0	0
2023	0	0	0	0	0
2024	0	0	0	0	0
6. Development of the domestic capital market through the introduction of new legal mechanisms and provision of a greater level of investor protection					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	0	0	0	0
2023	12,100.00	0	0	0	12,100.00
2024	24,200.00	0	0	0	24,200.00
7. Energy market development coupled with energy infrastructure construction					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	0	0	3,586,614.00	3,586,614.00
2023	0	0	0	12,445,612.00	12,445,612.00
2024	0	0	0	19,785,163.00	19,785,163.00

8. Improvement of conditions for enhancing energy efficiency through improving the legislative and institutional frameworks and providing incentives					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	93,333.33	5,490,589.93	20,833,333.33	32,757,396.47	59,174,653.06
2023	112,000.00	2,912,869.49	20,833,333.33	88,044,736.35	111,902,939.17
2024	134,400.00	1,894,403.39	20,833,333.33	94,340,075.33	117,202,212.05
9. Tax Administration transformation					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	5,441,464.00	0	2,552,412.00	7,993,876.00
2023	0	8,192,769.00	0	5,981,999.00	14,174,768.00
2024	0	8,218,618.00	0	3,936,892.00	12,155,510.00
10. Introduction of a new fiscalisation model and transition to electronic invoicing					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	0	0	1,494,500.00	1,494,500.00
2023	0	0	0	0	0
2024	0	0	0	0	0
11. Introduction of the circular economy concept					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	176,000.00	0	0	176,000.00
2023	0	17,000.00	0	0	17,000.00
2024	0	17,000.00	0	0	17,000.00
12. Development and improvement of the national information and communication infrastructure					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	1,925,000.00	0	16,400,000.00	18,325,000.00
2023	0	1,925,000.00	0	0	1,925,000.00
2024	0	1,925,000.00	0	0	1,925,000.00
13. Setting the infrastructure and environment for the creation and application of innovative and artificial intelligence based solutions					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	0	0	22,009,783.33	22,009,783.33
2023	0	0	0	32,916,666.67	32,916,666.67
2024	0	0	0	29,583,333.33	29,583,333.33
14. Development of the start-up ecosystem					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	18,666,380.00	2,000,000.00	0	20,666,380.00
2023	0	150,000.00	4,000,000.00	0	4,150,000.00
2024	0	0	4,000,000.00	0	4,000,000.00
15. Creation of conditions for the development of bioscience and bio economy through the construction of BIO4 Campus					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	716,666.67	3,000,000.00	0	3,716,666.67

2023	0	3,283,750.00	3,000,000.00	100,000,000.00	106,283,750.00
2024	0	1,082,491.67	1,500,000.00	80,000,000.00	82,582,491.67
16. Improving conditions and removing barriers to trade					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	17,670.00	47,100.00	0	0	64,770.00
2023	17,670.00	42,100.00	0	0	59,770.00
2024	17,670.00	17,100.00	0	0	34,770.00
17. Improvement of efficiency and safety in railway traffic					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	48,937.00	7,000,000.00	8,783,333.00	15,832,270.00
2023	0	48,340.00	0	14,283,333.00	14,331,673.00
2024	0	48,340.00	0	8,833,333.00	8,881,673.00
18. Improvements of the agriculture competitiveness					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	211,545.00	1,301,666.00	19,500,000.00	633,334.00	21,646,545.00
2023	424,955.00	2,672,038.00	13,633,333.00	600,000.00	17,330,326.00
2024	576,540.00	1,396,666.00	12,550,000.00	1,996,250.00	16,519,456.00
19. Safe and quality product - industry development factor					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	220,000.00	420,000.00	0	640,000.00
2023	0	210,000.00	580,000.00	0	790,000.00
2024	0	70,000.00	0	0	70,000.00
20. Digitalization of the education system and introduction of a uniform education information system					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	373,333.00	5,010,000.00	0	0	5,383,333.00
2023	373,333.00	5,000,000.00	0	0	5,373,333.00
2024	373,333.00	5,000,000.00	0	0	5,373,333.00
21. Improvement of the efficiency of the healthcare system through the process of digitalization					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2022	0	2,922,850.00	0	5,410,483.33	8,333,333.33
2023	0	2,922,850.00	0	5,410,483.33	8,333,333.33
2024	0	2,922,850.00	0	5,410,483.33	8,333,333.33
TOTAL	3,230,682.33	97,262,939.15	139,138,257.99	633,328,225.47	872,960,104.94

Table 10 b: Financing of structural reform measures for the period 2022-2024 in EUR

1. Establishment of a framework for the introduction of Youth Guarantees in the Republic of Serbia									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	731,250.00	0	0	2,449,417.00	0	0	0	3,180,667.00	
2023	609,875.00	0	0	2,042,833.00	0	0	0	2,652,708.00	
2024	147,133.00	0	0	961,917.00	0	0	0	1,109,050.00	
2. Qualifications oriented to the needs of the labour market									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	123,600.00	0	0	0	0	28,300,000.00	0	28,423,600.00	
2023	0	0	0	0	0	7,832,009.00	0	7,832,009.00	
2024	0	0	0	0	0	0	0	0	
3. Improvement of the environment for encouraging, supporting and monitoring circular and economic migration									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	16,200.00	0	0	0	441,000.00	0	0	457,200.00	
2023	16,200.00	0	0	0	539,000.00	0	0	555,200.00	
2024	16,200.00	0	0	0	556,000.00	0	0	572,200.00	
4. Improvement of the quality of public services through optimization and digitalization of administrative procedures – e-Paper									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	0	0	0	1,515,000.00	0	0	0	1,515,000.00	
2023	0	0	0	785,000.00	0	0	0	785,000.00	
2024	0	0	0	300,000.00	0	0	0	300,000.00	

5. Sustainable and efficient management of business entities owned by the Republic of Serbia									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	0	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0	0
2024	0	0	0	0	0	0	0	0	0
6. Development of the domestic capital market through the introduction of new legal mechanisms and provision of a greater level of investor protection									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	0	0	0	0	0	0	0	0	0
2023	12,100.00	0	0	0	0	0	0	12,100.00	
2024	24,200.00	0	0	0	0	0	0	24,200.00	
7. Energy market development coupled with energy infrastructure construction									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	0	0	0	0	1,660,460.00	1,615,910.00	0	3,586,614.00	
2023	0	0	0	0	3,022,389.00	9,381,914.00	0	12,445,612.00	
2024	0	0	0	0	4,508,839.00	14,973,803.00	0	19,785,163.00	
*Total funds differ from the sum of given sources of financing for the value of own funds of EMS AD, which cannot be classified in any given category. EMS AD's own funds, amount to: EUR 310,244.00, EUR 41,309.00 and EUR 302,521.00, respectively, for the years 2022-2024.									
8. Improvement of conditions for enhancing energy efficiency through improving the legislative and institutional frameworks and providing incentives									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	21,062,833.33	13,888,888.89	0	2,000,000.00	6,952,846.10	15,270,084.75	0	59,174,653.06	
2023	21,111,502.82	13,888,888.89	0	3,000,000.00	1,746,700.00	72,155,847.46	0	111,902,939.17	
2024	21,167,136.72	13,888,888.89	0	10,000,000.00	1,695,000.00	70,451,186.44	0	117,202,212.05	

9. Tax Administration transformation									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	0	0	0	0	0	7,993,876.00	0	7,993,876.00	
2023	0	0	0	0	0	14,174,768.00	0	14,174,768.00	
2024	0	0	0	0	0	12,155,510.00	0	12,155,510.00	
10. Introduction of a new fiscalisation model and transition to electronic invoicing									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	1,350,000.00	0	0	144,500.00	0	0	0	1,494,500.00	
2023	0	0	0	0	0	0	0	0	
2024	0	0	0	0	0	0	0	0	
11. Introduction of the circular economy concept									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	125,000.00	0	0	0	51,000.00	0	0	176,000.00	
2023	0	0	0	0	17,000.00	0	0	17,000.00	
2024	0	0	0	0	17,000.00	0	0	17,000.00	
12. Development and improvement of the national information and communication infrastructure									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	1,925,000.00	0	0	0	0	16,400,000.00	0	18,325,000.00	
2023	1,925,000.00	0	0	0	0	0	0	1,925,000.00	
2024	1,925,000.00	0	0	0	0	0	0	1,925,000.00	

13. Setting the infrastructure and environment for the creation and application of innovative and artificial intelligence based solutions									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	22,009,783.33	0	0	0	0	0	0	22,009,783.33	
2023	32,916,666.67	0	0	0	0	0	0	32,916,666.67	
2024	29,583,333.33	0	0	0	0	0	0	29,583,333.33	
14. Development of the start-up ecosystem									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	15,016,380.00	0	0	2,000,000.00	100,000.00	3,550,000.00	0	20,666,380.00	
2023	0	0	0	4,000,000.00	50,000.00	100,000.00	0	4,150,000.00	
2024	0	0	0	4,000,000.00	0	0	0	4,000,000.00	
15. Creation of conditions for the development of bioscience and bio economy through the construction of BIO4 Campus									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	300,000.00	0	0	3,000,000.00	0	416,666.67	0	3,716,666.67	
2023	0	0	0	3,000,000.00	0	3,283,750.00	100,000,000.00	106,283,750.00	
2024	0	0	0	1,500,000.00	0	1,082,491.67	80,000,000.00	82,582,491.67	
16. Improving conditions and removing barriers to trade									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	19,770.00	0	0	0	45,000.00	0	0	64,770.00	
2023	19,770.00	0	0	0	40,000.00	0	0	59,770.00	
2024	19,770.00	0	0	0	15,000.00	0	0	34,770.00	

17. Improvement of efficiency and safety in railway traffic									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	7,048,937.00	0	0	0	0	8,783,333.00	0	15,832,270.00	
2023	48,340.00	0	0	0	0	14,283,333.00	0	14,331,673.00	
2024	48,340.00	0	0	0	0	8,833,333.00	0	8,881,673.00	
18. Improvements of the agriculture competitiveness									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	5,344,879.00	0	0	600,000.00	285,000.00	15,416,666.00	0	21,646,545.00	
2023	424,955.00	0	0	1,020,000.00	285,372.00	6,249,999.00	9,350,000.00	17,330,326.00	
2024	1,826,540.00	0	0	5,330,000.00	0	5,166,666.00	4,196,250.00	16,519,456.00	
19. Safe and quality product - industry development factor									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	500,000.00	0	60,000.00	0	80,000.00	0	0	640,000.00	
2023	650,000.00	0	60,000.00	0	80,000.00	0	0	790,000.00	
2024	30,000.00	0	0	0	40,000.00	0	0	70,000.00	
20. Digitalization of the education system and introduction of a uniform education information system									
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total	
2022	5,383,333.00	0	0	0	0	0	0	5,383,333.00	
2023	5,373,333.00	0	0	0	0	0	0	5,373,333.00	
2024	5,373,333.00	0	0	0	0	0	0	5,373,333.00	

21. Improvement of the efficiency of the healthcare system through the process of digitalization								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	8,333,333.33	0	0	0	0	0	0	8,333,333.33
2023	8,333,333.33	0	0	0	0	0	0	8,333,333.33
2024	8,333,333.33	0	0	0	0	0	0	8,333,333.33
TOTAL	229,225,694.19	41,666,666.67	120,000.00	47,648,667.00	22,227,606.10	337,871,146.99	193,546,250.00	872,960,104.95

Table 11: Report on the implementation of the structural reforms of the ERP 2021-2023

SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 (activities from the Gant Chart)	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 BEEN IMPLEMENTED?	IN CASE THE ACTIVITIES HAVE NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW (steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES (unplanned, but activities realised in other to implement the SR)
SR 1. Energy market development coupled with energy infrastructure construction				
1. Preparation of the technical documentation for TL B. Bašta - Višegrad - Pijevlja	implementation is advanced	Geo-technical documentation has been devised. The construction and electrical part of the design for the construction permit is at 80% of completion. The main design document is expected to be finalised by the end of 2021.		
2. Preparation of the technical documentation for TL Obrenovac - B. Bašta	implementation is advanced	All previous problems relative to transmission line noise have been eliminated; slow administration in obtaining a positive report of the audit committee, along with changes in the project team of consultants, are reasons for prolonging the completion of the activities. No further problems are expected. A request for building permit has been submitted. Completion of the development and technical control of the main design document is expected.		

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3. Reconstruction and upgrading of TS Kraljevo 3 and reconstruction of TS Kragujevac 2, needed for the introduction of the new transmission line Kragujevac - Kraljevo*	implementation is advanced	<p>TS Kragujevac 2 - works are being executed as planned, all construction works were completed and the voltage level in 400 kV field has been raised. Subwiring cables for powering were installed in the relay box, as well as HV equipment cables connected to the relay box. Protection and control cabinets were placed in the relay box and they are currently being connected. Testing of SMT and NMT in the field A02 were executed and primary connection of the HV equipment is pending.</p> <p>TS Kraljevo 3 - beginning of works has been delayed due to poor weather conditions at the beginning of the year. Construction works of the 400 kV distribution switchgear are in progress. Busbar portals have been erected, the construction of the fire wall and cable channel have been completed, and preparatory works for the construction of the road are being carried out. The erection of the remaining transverse and busbar connections in the 400 kV plant has been completed. Protection and control cabinets are in the relay boxes. Works on electrical and telecommunication installations in the power control building are being performed. High-voltage equipment was installed in all 400 kV fields. TR 400/220 kV is partially installed.</p>		
4. Construction of the Kragujevac - Kraljevo transmission line	implementation is advanced	<p>All 174 foundations are prepared, all 174 poles were erected and 152 poles were painted. 125 of the 127 poles with supporting insulator chains, conductor extension (53.1 km of 59.365 km), OPGW (47.3 km of 59.365 km) and AWG ropes (51.3 km of 59.365 km) were completed. An internal technical inspection of the transmission line is underway. The completion of the works is planned in accordance with the contractual deadlines, hence until the end of January 2022.</p>		
	80%			

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SR 2. Improvement of conditions for enhancing energy efficiency through harmonization of the legislative framework and establishing a sustainable mechanism for financing energy efficiency projects				
1. Amendments to the Law on Efficient Use of Energy	full implementation	note: Instead of amending the Law on Efficient Use of Energy, a new one was adopted, specifically Law on Energy Efficiency and Rational Energy Use ("Official Gazette of the RS", 40/21).		
2. Provision of sustainable funding for energy efficiency	implementation is advanced	Law on Energy Efficiency and Rational Use of Energy ("Official Gazette of the RS", no. 40/21) has set the legal grounds to establish the Administration for Funding and Encouraging Energy Efficiency as a legal entity within the Ministry of Mining and Energy. Job Systematisation Act of the Ministry has been modified in a way that Administration was incorporated with 12 posts.		
3. Adoption of bylaws in order to ensure complete alignment with EU energy efficiency regulations	initial steps have been taken	Law on Energy Efficiency and Rational Use of Energy ("Official Gazette of the RS", no. 40/21) has been to a great extent harmonized with the EU regulations in the field of energy efficiency and thereby a legal framework to adopt stemming by-laws was created. Those by-laws would enable full harmonization with the current EU Regulation governing the field.		
4. Collection of energy efficiency charge pursuant to Law on Charges	full implementation			
5. Financing energy efficiency projects	full implementation			
6. Strengthening the capacity to implement energy efficiency policy	implementation is advanced	Newly recruited staff are not performing jobs pertaining to the Department for Energy Efficiency, but 5 people were engaged through Service Contracts to perform tasks related to the Financing of energy efficiency.		
	83%			

SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 (activities from the Gant Chart)	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 BEEN IMPLEMENTED?	IN CASE THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW (steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES (unplanned, but activities realised in other to implement the SR)
SR 3. Railways reform through harmonisation of the regulatory framework and enhancement of rail transport safety				
1. Harmonisation of railways legislation with EU Fourth Railway Package	implementation ongoing with some initial results	Working groups for drafting new Law on Interoperability of the Railway System and the Law on the Amendments to the Law on Railway Safety, have drafted both Laws. Draft Law on Interoperability of the Railway System has entered into the official procedure of gathering opinions prior to its sending to the Government for its deliberation, while the final harmonization of the text of the Draft Law on the Amendment to the Law on Railway Safety is still ongoing. It is envisaged that both laws will be adopted by the Government in the upcoming period.		
2. Enhancement of rail transport safety	initial steps have been taken	Funds have been provided to increase railway safety within the Western Balkans Trade and Transport Facilitation Project, which is financed by the World Bank loan, for the modernization of 58 level crossings, in the amount of 10.9 million euros (implementation started in 2020, while works are expected to begin during 2022). Also, the EBRD has approved the reallocation of the remaining funds from the existing loan (10 million euros) to finance works for improving safety at 33 level crossing points (realization is expected during 2022, 2023 and 2024). During 2019, "Infrastruktura železnice Srbije" JSC has invested about 170 million dinars (1.4 million euros) in the modernization and maintenance of level crossings. In addition, loan agreements have been signed with the World Bank and the French Development Agency for the Railway Sector Modernization Project in Serbia - the first phase, includes safety improvement component at 150-200 crossings, in the amount of 22 million euros (first part of the amount is envisaged to be executed in the course of 2022 and 2023).		

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3.	Application of new Methodology for Calculating Railway Infrastructure Access Charges	no implementation	The application of the Methodology is conditioned by its adoption, which is planned for the beginning of 2022. KPMG consultants have devised a methodology proposal, within the continuation of the project Comprehensive Railway Reform. A working group has been formed, which is currently carrying out activities on drafting the Decree on Methodology.		
33%					
SR 4. Improvement of the land consolidation process					
1.	Preparation and adoption of the legal framework for the implementation of land consolidation (Law on Land Consolidation, Amendments to the Law on Agricultural Land, Amendments to the Law on State Survey and Cadastre)	initial steps have been taken	Draft Law on Land Consolidation and Draft Law on Agricultural Land are currently undergoing stage of analysis. Draft Law on State Survey and Cadastre, under the competence of the Republic Geodetic Authority has been developed.		
2.	Conducting training sessions for 9 employees on land consolidation in the Agricultural Land Management (ALM) and procurement of office equipment	implementation is being prepared	Recruitment of two more staff members is under deliberation, in addition to one already recruited and in charge of land consolidation tasks. Post is in accordance with Systematisation Act.		
3.	Adoption of a by-law defining the Methodology for performing professional supervision in consolidation procedures (RGA)	no implementation	Activities to adopt by-law, within the competence of the Republic Geodetic Authority, defining Methodology to conduct professional control in the land consolidation procedure, have not yet been initiated.		
4.	Introduction of information system to support the implementation of expert supervision in the consolidation process - control module	no implementation	Given that not all prerequisites have been met (adoption of legal framework and adoption of the stemming by-laws) the implementation of this activity under the competence of the Republic Geodetic Authority has not yet been initiated.		
15%					

SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 (activities from the Gant Chart)	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 BEEN IMPLEMENTED?	IN CASE THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW (steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES (unplanned, but activities realised in other to implement the SR)
SR 5. Improvement of the financial support system for agriculture through digitization and process automation				
1. Development of the Roadmap on the establishment of the Directorate for Agrarian Payments	full implementation	Making the Study on Agrarian Paying Agency establishment has been completed. Draft Strategy has been devised through the IPA 15 projects, the note is that it is not yet adopted.		
2. Development of MAFWM information strategy	implementation is being prepared			
3. Development of Farm Register software	implementation is being prepared	A consultant to develop a Farm Register software technical specification has been selected ad is currently working on the document.		
4. Development of LPIS software	no implementation	The public procurement procedure for LPIS software will be conducted in the quarter after the successful completion of the public procurement for the selection of a consultant for the development of technical specifications for LPIS software.	The announcement of the public procurement for the selection of bidders for the development of LPIS software is expected in the last quarter of 2021.	
5. Development of the MAFWM data bus	implementation is being prepared			
	32%			

SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 (activities from the Gant Chart)	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 BEEN IMPLEMENTED?	IN CASE THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW (steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES (unplanned, but activities realised in other to implement the SR)
SR 6. Improvements of the agriculture competitiveness				
1. Preparation of rulebooks for the implementation of measures to improve rural infrastructure	full implementation			
2. Training of employees who will implement the measure of improvement of rural infrastructure	implementation is advanced	Measure relating to the improvement of the rural infrastructure has started to be implemented. The Rulebook has been adopted, funds amounting to RSD 200,000,000 allocated and first public procurement call announced. Staff members in the Rural Development Sector, engaged in planning measures and rulebooks preparation, have underwent one part of the training. Additional training is needed for the staff members in the Agrarian Paying Agency working on approving subsidies for this type of investments.		
3. Announcement of a public call for measures to improve rural infrastructure	full implementation			
4. Adoption of the Law on Regulation of the Market of Agricultural Products	full implementation	The Law has been adopted within the envisaged deadline. The Law is partially harmonized with the EU Directive 1308/2013, the full harmonization is planned upon the accession of the Republic of Serbia to EU. The adoption of this law provided the legal basis for the drafting of a large number of bylaws that should regulate this area. Assistance in drafting bylaws and training of employees will be implemented through an EU-funded Tweening project.		
5. Adoption of the Law on Quality Schemes for Agricultural and Food Sector	implementation is being prepared	A working version of the text of the Draft Law was prepared and sent to the Sector for Legal and Normative Affairs for legal and technical editing.		
6. Adoption of the Law on Organic Production	implementation is being prepared	Work on the working version of the Draft Law with the members of the Working Group is underway.		
	70%			

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SR 7. Boosting industrial competitiveness					
1.	Promotion and education in the field of business digitisation, with the implementation of the Programme Supporting the Digital Transformation of industry in the Republic of Serbia	implementation is advanced	The Project supporting digital transformation is being implemented in cooperation with the Centre for Digital Transformation (CDT) of the Serbian Chamber of Commerce and Industry, and the total of 285 companies applied by the end of October. The CDT database has been upgraded and improved. It enables the improvement of the knowledge of certified consultants in the implementation of digital transformation. A series of promotional and educational events in the digital transformation areas have been planned by the end of 2021 and the first quarter of 2022.		
2.	Encouraging investments in industrial production through further improvement and adjustment of conditions and criteria for attracting investments, implementing investment incentive programmes, promoting the Republic of Serbia as an investment location, investment in the infrastructure of industrial zones and balancing regional development	implementation is advanced	<p>In cooperation with the Development Agency of Serbia, a total of 55 projects of potential investors from the medium and medium-high technologies have been active since the beginning of 2021. 21 meetings were organized with the existing investors in the after care activity part.</p> <p>By the Decision on the allocation and use of funds to support the improvement of business infrastructure for 2021, the Ministry of Economy approved funds in the amount of RSD 1,048,070,000.00 for co-financing the implementation of 36 infrastructure projects, of which 18 projects have been completed and 18 are in the final phase realization.</p> <p>With the realization of all 36 projects, 34 km of roads, 27 km of water supply network, about 5 km of sewerage network, 4.4 km of atmospheric sewerage, 1300 m of energy line, 6 substations, 184 public lighting poles will be built.</p> <p>The goal of this programme is better equipped business zones, and improved tourist destinations, which has the effect on new jobs creation, increasing the number of new investors, and raising tourist and production capacities.</p>		

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3. Encouraging export-oriented industry sectors through the implementation of programmes to support internationalisation and entry into the supply chains of multinational companies	implementation is advanced	As part of the support for export promotion, since the beginning of 2021, diagnostics of export capabilities has been conducted for 8 companies and 5 grant agreements have been concluded, while activities related to the preparation of a new Programme to be published in December are underway. In the same period, 7 international fairs were held in the UAE, Russian Federation, Germany and Albania, where a total of 110 Serbian companies presented themselves. The business performance of 9 companies was also performed within the Support Programme for entering the supply chains of multinational companies, with which grant agreements will be concluded.		
	80%			

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SR 8. Introduction of the circular economy concept				
1. Preparation and adoption of policy documents for circular economy	initial steps have been taken	The Ministry of Environmental Protection, with the budget for 2021, provided funds for the service of drafting policy documents, the Programme for the Development of the Circular Economy in the RS for the period from 2022 to 2024. This activity was included in the Public Procurement Plan for 2021, with the realization planned for the first quarter of the year. The public procurement was announced on 17 April 2021, and since the procedure was opened due to the value of the public procurement, the deadline for submitting the bid was 12 May. As bidders had additional questions, the deadline for submitting bids was extended to 9 June. Three bidders filed their bids for the public invitation, and the Faculty of Technology and Metallurgy of the University of Belgrade was selected. The contract between the Ministry of Environmental Protection and the selected bidder was signed on 5 July 2021. The drafting started after the signing. During the preparation of the document, consultations were conducted with the interested parties, and public consultations were held on 26 October 2021. The public hearing is being held in the period from December 23, 2021 to January 14, 2022, and the public presentation of the program proposal was held on December 28, 2021. Given that the public debate is scheduled for the end of December and that there will be no time to take all necessary steps to adopt the document, it is considered that there is progress in implementation, because the drafting will be completed but not the adoption of the document, which has been postponed to the first quarter of 2022.		
	40%			

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SR 9. Improvement of the quality of public services through optimization and digitalization of administrative procedures – e-Paper				
1. Listing of administrative procedures for citizens	implementation ongoing with some initial results	1,948 administrative procedures for citizens conducted by 111 public administration bodies have been mapped. A listing of 150 procedures has started, which, in accordance with the established methodology, have been identified as a priority.		
2. Listing of administrative requirements and other conditions for doing business	implementation is being prepared	An application form for the list of administrative requests in the Register has been prepared. A detailed listing will be conducted during 2022.		
3. Optimization of administrative procedures for the economy and citizens	implementation is advanced	As of the second quarter of 2021, 13 procedures have been abolished, 235 procedures have been fully optimized, while optimization has begun for another 593. The realized savings for the economy amount to 33 million euros annually.		
4. Digitization of administrative procedures for the economy and citizens	implementation is advanced	By the end of 2021, 39 public administration services have been digitized and are publicly available, while another 32 digitized services are in the testing phase, so that digitalization and public availability of another 53 electronic services are expected at the beginning of 2022.		
5. Adoption of laws and by-laws for the establishment and maintenance of the Register	implementation ongoing with some initial results	The Law on Registry of Administrative Procedures was adopted and became effective on 7 May 2021. The text of the stemming bylaws is being finalized, the adoption of which is expected in the first quarter of 2022.		
6. Public availability of the Register	full implementation	As of 8 June 2021, the Register of Administrative Procedures has been publicly available portal at https://rap.euprava.gov.rs/ As of the third quarter of 2021, information on over 2,200 economic proceedings is available on the Registry's portal.		

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7.	Creation services (Life- Events and Business Episodes)	implementation ongoing with some initial results	On the Registry portal, in the Business Episodes section, information is available in the form of answers to 52 frequently asked questions regarding starting a business. 4 more business episodes are in preparation: Recruitment of staff members, Financial obligations, Business in the field of production, processing and trade of food and Placing drugs on the market.		
		66%			
SR 10. Tax administration Transformation					
1.	Further development of the information system platform	full implementation	The following activities are being implemented: improvement of the IIS of the Tax Administration, extension of electronic services on the eTaxes Portal, replacement and improvement of the server, storage, and network infrastructure. These activities have been implemented according to the planned dynamics.		

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2. Reengineering of business process for the introduction of international good practices in the operational functions of the RS Tax Administration.	implementation is advanced	The procedure of procuring consulting services for business process reengineering in tax affairs, including training of trainers for the introduction of new functions in organizational units of the Tax Administration, was completed after negotiations with the selected consultant. The Contract was signed with the consultant for reengineering business processes on 24 May 2021. The consultant has started working. By the decision of 10 June 2021, a working group was formed to work with the engaged consultant for business process reengineering activities. Along with the working group, teams were formed by functions, i.e. by business processes that are the subject of analysis. By the decision of 20 June 2021, the Operational Team for Change Management was formed. Its task is to implement the Change Management Plan. The Consultant submitted the Introductory Report and the Change Management Plan which were adopted in early July. After that, the consultant started the drafting of gap analysis between the existing business model of TARS and international best practice. The Gap Analysis Report was adopted on 14 September 2021. The Consultant continued with the drafting of the Draft General Business Model of TARS. After harmonization, the "General Business Model of the TARS" was adopted at 41st Committee for the Implementation of the Transformation Programme held on 29 October 2021. After the adoption, the consultant began with the implementation of trainings that were conducted in the period from November 22 to December 17, 2021 and immediately after that started workshops on redesigning business processes with members of project teams.		

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3. Implementation of the TAMP Procurement Plan (Tax Administration Modernization Project)	implementation ongoing with some initial results	The implementation of activities from the TAMP Procurement Plan is in accordance with the Procurement Plan. Contracts have been signed with an environmental protection consultant and a sociological management consultant. Project tasks were developed for 3 activities pertaining to the Plan. A call for bids was announced on July 29, 2021 for a consultant for the analysis and selection of COTS solutions. After the procedure, the consultant was selected and the contract was signed on November 10, 2021. The consultant started the implementation of the terms of reference and delivered the document "Introductory Report" which was adopted on December 20, 2021, after which the activity of market analysis and organizing workshops with business functions and ICT team related to the desired future situation from the perspective of COTS solutions. On November 16, 2021, a contract was signed for the purchase of specialized printers and toners for e-fiscalization. The procurement was fully implemented. The process of selecting a consultant for the human resources strategy has been initiated. The procedure for selecting a consultant for record management has been conducted. The contract with the legal consultant for record management was signed on January 4, 2022. The implementation of other activities is going according to plan.		
SR 11. Introduction of a new fiscalisation model and transition to electronic invoicing				
1. Adoption of bylaws in the field of fiscalization	full implementation	The whole set of by-laws was adopted in April 2021.		
2. Adoption of the legislative framework in the field of electronic invoicing	full implementation	Law on Electronic Invoicing was adopted in April, and the whole set of stemming by-laws in July 2021.		

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3.	Launching a centralized platform for electronic invoices	implementation is being prepared			
4.	Educating and communicating with future users of the fiscalization platform and the electronic invoicing platform in order to prepare them for the transition to the new system	implementation is advanced			
		75%			

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SR 12. Improvement of geospatial sector through development of a strategic digital platform to support investment decision-making				
1. Adoption of by-laws in the field of NSDI	implementation is advanced	Out of five (5) by-laws, two (2) were adopted (Decree on Monitoring and Reporting on Activities of National Spatial Data Infrastructure ("Official Gazette of the RS", no. 91/2020) and Decree on the Implementing Rules for Metadata of National Spatial Data Infrastructure ("Official Gazette of the RS", no. 54/2019)), while of the remaining 3 acts, one was submitted to the General Secretariat of the Government for consideration and decision-making at the next session of the Government, and two are being drafted. The draft regulation is expected to be adopted in January 2022, while the adoption of the other two regulations is expected in the second half of 2022. Due to the need to harmonize the activities on the drafting of bylaws with the current activities that are being implemented in order to develop a better and more successful functioning of the geospatial sector, there was less delay in the implementation of this activity.		It is important to mention the drafting of policy documents, i.e. updating the Draft Strategy for Improving the NSDI. Within the project financed by the World Bank (Socio-economic analysis of the benefits of NSDI in Serbia), a "Proposal to strengthen the NSDI Strategy in the period from 2021 to 2025" was prepared, based on which it is necessary to further harmonize the future Strategy Proposal. The Draft Amendments to the Law on NSDI are also being drafted ("Official Gazette of the RS", no. 27/2018) and its adoption is planned for the second half of 2022. The aim of the mentioned Draft is to harmonize the existing Law on NSDI with the progress made in the sector of geospatial data at the international level, findings and results from this socio-economic analysis, as well as findings from the NSDI Business Plan that was completed in december 2021.

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2. Development and availability of geospatial data services	implementation is advanced	<p>The digital platform National Spatial Data Infrastructure (NSDI) is being continuously improved by adding new geospatial data sets and developing new services - a total of 310 data sets and 40 services are available. In addition to the data of the RGA, there are also data of other bodies and institutions (a total of 31 institutions provide data through the NSDI). Currently, 146 institutions use digital platform, among which are 6 companies.</p> <p>The total number of data sets established in accordance with the INSPIRE Directive is 35, while the number for establishing services in accordance with the INSPIRE directive is 40. A new version of the National Metadata Catalogue is in operation by customizing the version of the GeoNetwork software solution for presenting and creating metadata. The development of metadata for the priority RGA data sets has been completed and there are currently 73 sets of metadata. Guidelines for finding and viewing metadata using metadata catalogues are available to users.</p> <p>Ten RGA data sets have been harmonized in accordance with the INSPIRE directive: register of spatial units, geographical names, orthophoto, height, topographic data, addresses, cadastral plots, plants, statistical units and land cover.</p> <p>Through the NSDI open data service, users can download data from the register of spatial units, the nomenclature of statistical units and the code list of the address register. RGA provides support to institutions, municipalities in using the digital platform of NSDI. Access to data through the NSDI service implies concluding contracts for the use of the NSDI service for RGA spatial data sets (digital cadastral plan, address register, digital orthophoto, register of spatial units, etc.), as well as creating accounts to access to register of facilities local self-government units for the purpose of performing activities in the process of legalization of facilities.</p>		<p>Within the Proposal for updating the NSDI Strategy in Serbia and the pertaining NSDI Strategic Action Plan, measures to establish a modern, innovative, financially stable and sustainable NSDI in Serbia are planned, including measure to strengthen the administrative and technical capacity of the RGA and other NSDI entities. Within the Project "Additional development of EU Environment approximation for Air, Chemicals and Horizontal acquisition - EAS 3, a Specific Implementation Plan (DSIP) for the INSPIRE Directive has been developed. The DSIP document identified implementation activities related to the reorganization of the Geospatial Data Management Centre; upgraded and comprehensive national geospatial (Geosrbija 2.0) and distribution of geospatial data systems for innovation purposes. The DSIP INSPIRE document was officially approved by the RGA and the final version of the DSIP was submitted to the project team for forwarding to the Ministry of Environment for further procedure, and is expected to be officially approved by the Working Group in early December. A final conference was held on the occasion of the completion of the DSIP INSPIRE document, at which the results and findings of the project were presented.</p>

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			<p>The mobile application Geosrbija Kat to access to spatial data of the real estate cadastre in the Republic of Serbia, which is available for free download, is functioning.</p> <p>At the end of December 2021, a new application "Cadastral Alarm" was launched with the aim of alerting the owner or anyone with a legal interest to all changes related to real estate, in order to protect real estate owners.</p> <p>As part of the project related to the improvement of Cyber Security, the expansion and improvement of the RGA's monitoring and detection capabilities related to digital security has been achieved. The project was successfully completed in December 2021.</p> <p>Within the project "Improving the business climate in Serbia" (IBCS), cooperation was established with the representatives of BRA. Also, by opening a new component concerning the improvement of town planning, cooperation with the representatives of MCTI and NALED has been secured. Since the beginning of the project, the RGA has concluded a cooperation agreement with a total of 11 municipalities, thus ensuring that potential investment locations are data that will be published within the national spatial data infrastructure.</p> <p>In November and December, the project was expanded with seven more municipalities to popularize the register of investment locations.</p>		<p>The DSIP document is the basis for the development of the Multiannual Investment Financial Plan (MIFP), which is a negotiating aid for Chapter 27. The MIFP will provide the RS Government with the necessary financial resources to implement the obligations and timeframe for full implementation of the INSPIRE Directive.</p>

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3. Alignment, merging, and consolidation of data held by real estate cadastre and local tax administrations in "pilot" municipalities to develop prototype real estate mass valuation system	implementation is advanced	Activities are underway in five pilot municipalities. A number of preparatory actions for the implementation of this activity have been performed: information was collected on available databases in the area of pilot municipalities; demographic and socio-economic data were collected for the pilot municipality; requirements for the functionalities of the data register system for mass appraisal have been developed. An Annex to the Agreement with the City of Belgrade was signed, which enabled the submission of LTA data for all city municipalities. In order to develop a prototype of the system of mass real estate appraisal, the analysis of the structure of the data of the real estate cadastre and local tax administrations was realized 100%. Functionalities in data entry and control in the Register of Real Estate Price (RREP) have been improved and daily updating of entries in this Register has been provided throughout the territory of the RS. Challenges remain in communication with all relevant participants in building a system of mass real estate appraisal, due to its complexity and large number of participants, as well as in providing and connecting necessary and up-to-date data from various sources.		
4. Development of a prototype real estate mass valuation system and establishment of procedures at pilot local authorities	implementation is advanced	In cooperation with an international expert, the first version of the global model for the housing market was presented. The formula was applied to the data for the City of Belgrade. The model will be tested. A preliminary model for residential buildings (houses and cottages) is being developed, where 25% of activities have been realized so far in cooperation with an international expert.		

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5.	Updating of Address Register on the territory of RS	implementation is advanced	In the continuation of the implementation of the project "Improvement of the address register in the Republic of Serbia", whose goal is to assign a street and a number to every existing building, i.e. to update the official database of the Address register RGA has updated data for 111 local self-government units so far, and is currently working on 17 more municipalities. Specifically they are entering streets and determining house numbers. So far, a total of 453,130 new and updated house numbers have been identified. By the end of 2021, not all the data of the address register in all 161 LGUs will be updated, as planned by the ERP 2021-2023. The main reason thereto is the delay on the side of the local self-government units in making their decisions on naming of streets based on the study of street systems submitted by the Republic Geodetic Authority. Also, the outbreak of the Covid-19 pandemic has made communication with the representatives of the local self-government more difficult and significantly slowed down the activities on updating the address register.		

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6. Establishment of data interoperability between Address Register and government bodies and organisations and local authorities	implementation is advanced	<p>The establishment of a central database of the address register and web services has enabled the use of up-to-date address register data. So far, three registers (the registry of home addresses, the registry of sales contracts, and the registry of resident communities) have been connected and have been using the data of the central address register. Also, two state authorities (Mol and Ministry of Justice), then BRA, as well as 169 local self-government units use the data of the central address register.</p> <p>Also, the RGA, through the National Spatial Data Infrastructure (NSDI), has provided all authorities with a link to the address register data.</p> <p>In accordance with the activities of the Government of the Republic of Serbia on opening public administration data and the law adopted by the Serbian Parliament, the address register codebook has become open data, available for use to the widest range of users without any restrictions. In cooperation with the Office for IT and eGovernment, the code list of the address register can be downloaded from the open data portal data.gov.rs, as well as on the geospatial platform "GeoSrbija" at opendata.geosrbija.rs.</p>		
	80%			

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SR 13. Improvement to spatial development management in the republic of Serbia through establishment of e-space digital platform				
1. Analysis of the situation in the field of spatial planning and development management in the Republic of Serbia	full implementation	In order to collect data on the current situation and challenges in the field of spatial planning, especially potential organizational-institutional and methodological constraints for digitisation of spatial and urban planning processes, an online survey was conducted among relevant representatives of local governments (mayors of municipalities, chiefs of municipal administrations and departments for town planning and communal activities), as well as with holders of public authority at the local and national level. Relying on the results of this survey and on the analysis of available professional literature (both national and international) related to spatial and town planning, the engaged experts have prepared and delivered the following three expert analyses: - Analysis of the legal framework for the implementation of e-Space; - Analysis of the best European practices of digitisation of planning documents (Kingdom of Sweden and other European countries); and - Analysis of the current state of spatial and urban planning in the Republic of Serbia.		

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2. Determining the needs and requirements of future users of the digital e-Space platform	implementation is advanced	As part of the online survey of relevant representatives of local governments and holders of public authority (activity 1), data have been collected on the current state and needs of these institutions in terms of technological and human capacity necessary for optimal use and sustainable operation of the future digital e-Space platform. Relying on the results obtained through this survey, as well as the conclusions highlighted in the "Analysis of best European practices for digitization of planning documents" (from activity 1), experts have prepared an expert analysis with a proposal for digital transformation in the field of spatial management in Serbia, entitled "Digitisation of the process of spatial and urban planning in Serbia". Based on the results and conclusions of all expert analyses (4 in total from activities 1 and 2), as well as measures identified by experts (legal, technological and planning) for the implementation of planned changes in the field of spatial planning policy in the Republic of Serbia, a public document has been prepared policies - a concept with an action plan - which sets out measures and general activities to reform the process of spatial and urban planning. The draft concept is currently being approved by SIDA, which financially supports its development, after which this document will be sent to the procedure of public consultations and seeking the opinion of relevant departments and, finally, sent for its adoption to the Government of Serbia.		
	90%			

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SR 14. Support for scientific research activity through strengthening scientific research capacities				
1. Institutional funding programme	implementation is advanced	The Rulebook on Institution Funding of Institutes - which adoption has been postponed due to postponement of the application of the salary coefficients envisaged by the Law on Salaries of Civil Servants and General Service Employees ("Official Gazette of the RS", no. 18/16, 108/16, 113/17, 95/18 and 86/19) and the financing is done in accordance with the Decree on norms and standards of distribution of funds to accredited scientific research organizations ("Official Gazette of RS", No. 90/19).		Rulebook on categorization and ranking of scientific journals "Official Gazette RS Gazette ", No. 159/20 Rulebook on acquiring research and scientific titles "Official Gazette RS Gazette ", No. 159/20
2. Implementation of the pilot transformation of the institute	implementation is advanced	Early transformation plans for the first 6 pilot institutes. Communication with the representatives of the institutes has started, a Memorandum of Understanding has been prepared which the institutes will sign with the MoESTD, implementation is starting. An external evaluation and development of transformation plans for the next 6 institutes will begin soon.		
3. Implementation of the PROMIS Programme by R&D organizations	implementation is advanced	Implementation of the programme lasts for two years, i.e. the implementation of the project within this programme lasts two years. The first year of the project implementation is currently coming to its end.		
4. Implementation of the Artificial Intelligence Programme	implementation is advanced	Implementation of the programme lasts for two years, i.e. the implementation of the project within this programme lasts two years. The first year of the project implementation is currently coming to its end.		Preparation of new Science Fund Programmes - Identities and Green Programme for Cooperation between Science and Economy - preparation of these programmes has begun, and it is expected that Public Calls will be announced in the course of the third / fourth quarter

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5.	Implementation of the Programme of Cooperation of Serbian Science with the diaspora	implementation is advanced	The implementation of the programme lasts 1 year, and the implementation of the project consists of scientific research activities and short-term visits to scientists from the diaspora. Due to the situation caused by the Covid-19 pandemic, there is still no possibility of organizing international cooperation or visits and trips on many projects, which is why there is a possibility to extend the implementation of projects for another 6 months.		
6.	Programme Ideas - implementation of evaluation and project selection activities	implementation is advanced	Evaluation procedure has been finalized. The final list of the projects to be selected for funding in line with the programme rules is expected. Agreement signing with the R&D organisations is expected in December.		
7.	Implementation of the Programme Ideas by the R&D organizations	implementation is being prepared	The implementation of the programme has commenced by announcing a Public call. Upon completion of the evaluation procedure, agreements on financing the implementation of scientific research projects will be concluded, upon which the implementation of projects that can last 36 months will commence.		
8.	Implementation of the COVID-19 Programme	implementation is advanced	Implementation of the programme lasts for two years, i.e. the implementation of the project within this programme lasts two years. Contracts on the implementation of projects were concluded at the end of December 2020 and the beginning of January 2021, so that their implementation will be completed in January 2023.		
9.	Preparation of new Science Fund Programmes - People	no implementation	By amending the Work Plan of the RS Science Fund for 2021, two new programmes Identity and Green Programme for the Cooperation between Science and Economy are envisaged instead of the People Programme. The partial attainment of the goals of the PEOPLE programme was made possible through the MoESTD activities and expanding the list of young researchers involved in scientific research work within the call MoESTD.		
		64%			

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SR 15. Improvement of institutional support for the development of smart specializations and innovations				
1. IPA 2014 - Development of new products and services through the commercialization of research in small and medium enterprises	implementation ongoing with some initial results	The final stage of implementation has been reached. Completion of implementation of the direct grant agreement 30 November 2021. A total of 10 projects were financed under the Co-financing Innovation Programme, 23 under the Early Development Programme. Final event was held on 30 November 2021.	Completion of the direct grant agreement 30 November 2021.	
2. IPA 2018 - Increased innovation capacity and technological readiness of small and medium enterprises	implementation is advanced	Direct Grant Agreement effective as of 8 March 2021. The first public call for the Early Development Program, the Innovation Co-financing Program and the Science and Economy Cooperation Programme was announced on 5 July 2021, with the deadline for submission of applications on 15 September 2021. The evaluation phase of the applications ended after the first public call was published. The second public call was published on November 30, 2021.		
3. Innovation Acceleration and Entrepreneurship Growth Project - Component 2 - Establishment of the Business Acceleration Programme, including IPA 2019 Funds	implementation ongoing with some initial results	Public call was announced on 15 October 2021. Deadline for file application was 6 December 2021. The promotion of the programme is in progress, as well as the organization of open door events every Friday for interested applicants.		
4. Establishment of the Institute for Artificial Intelligence and instruments for providing support to the economic sector	implementation is advanced	The employment of 45 people in the Institute has been approved. So far, 8 researchers have been employed and one administrative staff member. The institute will cooperate with scientific research organizations and the economy, and with a multidisciplinary approach will contribute to the development of innovation and entrepreneurship, as well as to attracting investments.		
	70%			

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SR 16. Increasing the availability of e-government by improving infrastructure and introducing new technologies				
1. Establishment of DC in Kragujevac	implementation is advanced	Activities are being implemented in accordance with the planned dynamics. No delays.		
2. Procurement of high performance computer system – Supercomputers	full implementation			
3. Digitization and automation of urban areas through mass placement of sensors and their connection, with each other and with the Data Centre	implementation is being prepared	Activities are being implemented in accordance with the planned dynamics. No delays. This year the focus is on planning.		
	67%			
SR 17. Development and improvement of the national information and communication infrastructure				
1. Connecting educational and cultural institutions to AMRES	full implementation			
2. Activities on the improvement of IC infrastructure in primary and secondary schools in RS “Connected schools“	full implementation			

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3.	Preparation for construction of optical broadband network in rural areas of Serbia - phase 1	implementation is advanced	The activity of preparation and concluding contracts with electronic communications operators on joint construction of broadband communication infrastructure with a total length of 1500 km was fully implemented; A contract was signed with consultants and the design of routes middle mile segments has begun; Harmonization of routes with operators and changes due to ownership status of cadastral parcels are in progress; Documentation for preparation of location conditions for 1070 km of the route was prepared and submitted, and location conditions were obtained for 405 km of the route; The Law on Ratification of the Loan Agreement (Project for the Construction of Broadband Communication Infrastructure in Rural Areas) was adopted between the Republic of Serbia and the European Bank for Reconstruction and Development ("Official Gazette of the RS - International Agreements", no. 006/2021) which entered into force on 9 April 2021.		
4.	Construction of optical broadband network in rural areas of Serbia - phase 1	implementation is being prepared	Designs for obtaining building permit are being prepared; The documentation for obtaining building permits for 72 km of the route has been prepared and submitted.		
SR 18. Improving conditions and removing barriers to trade					
1.	WTO accession negotiations - bilateral negotiations, adoption of regulations harmonized with WTO rules and principles	implementation ongoing with some initial results	Consultations with some WTO members, with whom bilateral negotiations are still ongoing, have been continued		
2.	MAPREA - CEFTA - Implementation of Additional Protocol 5 on Trade Facilitation	implementation ongoing with some initial results	Continuous activity.		

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3. MAP REA - CEFTA: Implementation of Additional Protocol 6 on Trade in Services Liberalization	implementation ongoing with some initial results	Continuous activity.		
4. MAP REA - CEFTA: Negotiations and adoption of Additional Protocol 7 on Dispute Settlement	implementation is advanced	Intensive dynamics of maintenance of negotiation rounds.		
5. Implementation of activities defined by the Action Plans for 2020 and 2021 within the National Committee for Trade Facilitation (NCBTF)	implementation is advanced	Continuous activity.		
	68%			
SR 19. Safe and quality product - industry development factor				
	Business support to improve the quality of products and services			
1. Development of support programmes for business entities	implementation is advanced	The proposal of Decree determining the Financial Support Programme - Using standards for more competitive products has been prepared and will be sent to the competent institutions for their opinion by the end of November, after which it will be sent to the Government for consideration and decision making. The adoption of the said Decree by the Government of the Republic of Serbia is expected in January 2022.		
	“Product info” - Establishment of a single digital service related to technical regulations			

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2. Analysis of the state of existing IT capacities and software solutions and the need for their improvement in QI institutions (MP, ISS, ABS and DMPM)	implementation is advanced	After two unsuccessful public procurement procedures, a bidder was selected in the third one. It has started the analysis of the situation by QI institutions (MP, ISS, ABS and DMDM). - by filling out a questionnaire on the state of IT capacity in each institution after which they will prepare project documentation with technical specifications for software solution and hardware-communication infrastructure, along with the analysis of the situation and needs for the construction of a single access point and upgrade of information systems in quality infrastructure institutions.		
3. Improvement of databases and digital service in the Ministry of Economy (Sector for Quality and Product Safety) in connection with technical requirements for products and the portal "TBT-Enquire point" (Product Contact Point)	no implementation		This activity is dependant upon the completion of the previous one. This one cannot be implemented until the previous one is not completed.	
SR 20. Qualifications oriented to the needs of the labour market				
1. Creating and updating an online database of dual educational programmes	full implementation			
2. Creating and revising market-relevant dual programmes to revitalize domestic companies and attract foreign investment	implementation ongoing with some initial results	Activity is continuous, harmonised with the economic needs.		

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3.	Development of studies necessary for the development of dual educational profiles	implementation is advanced			The Methodology for Development of Curricula for Dual Educational Profiles is completed. Through the amendments made to the Law on Budget of the RS for 2021, funds for development of studies have been reallocated to other activities.
4.	Promotion of the dual model of education (round tables, conferences, etc.)	initial steps have been taken	The first promotion cycle was finalized, and the new one has begun this academic year.		
5.	Establishment, infrastructural arrangement and equipping of regional training centres	initial steps have been taken	Three regional training centers became functional in 2021.		
6.	Development of new qualification standards in secondary vocational education	implementation is advanced	In the course of 2021, the total of 38 standard qualifications have been developed and adopted.		
7.	Establishment of the framework for monitoring and evaluation of the National Model of Dual Education and Dual Education Profiles	full implementation			
8.	Piloting and implementation of the PPU procedure	full implementation	The pilot phase of the recognition of previous learning procedure has been completed in 21 pilot schools, while two schools have gained accreditation. In the following period, the RRL procedure will be implemented in other schools as well.		
9.	Data entry in the NQFS Register (qualifications, qualification standards and PROA)	implementation is advanced	The total of 4626 qualification, 50 qualification standards and 102 PROA were entered in the NQFS Register.		
		76%			

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SR 21. Digitalization of the education system and introduction of a uniform education information system				
1. Development of the Unified Education Management Information System and preparation of the first reports	full implementation			
2. Increasing the scope of study programmes and profiles in computer science and programming in the field of higher and secondary education in accordance with the needs of the market	full implementation	During 2020 and 2021, a total of 92 study programmes (in total at all levels of study) in the field of information and communication technologies and programming were accredited. In the mentioned period, a new educational profile in the field of information and communication technologies and programming was implemented in the secondary vocational education.		
3. Equipping classrooms and cabins with computer equipment	initial steps have been taken	Procurement of computer equipment for 31500 digital classroom has been planned. Procurement will be conducted through three separate public procurements. The first public procurement of computer equipment was conducted and the delivery of computer equipment is expected (10,000 digital classrooms, of which 7,500 are large and 2,500 are small). The public procurement has been called for 11,500 digital classrooms (9,000 large and 2,000 small). According to the public procurement plan, all equipment will be procured by the end of the year.		
4. Development of open educational resources repository aggregators	initial steps have been taken	Public procurement specification is being prepared.		
	70%			

SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 (activities from the Gant Chart)	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 BEEN IMPLEMENTED?	IN CASE THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW (steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES (unplanned, but activities realised in other to implement the SR)
SR 22. Improvement of the administrative environment for encouraging, supporting and tracking circular and economic migrations				
1. Implementation of the Action Plan for the period 2021-2023 for the implementation of the Strategy on Economic Migration of the Republic of Serbia for the period 2021-2027.	initial steps have been taken	Action Plan was adopted on 15 September 2021.		
2. Strengthening the capacities of institutions responsible for monitoring migration movements and creating new groups, bodies, etc.	initial steps have been taken	Several workshops, training sessions and meetings were organised with a view of strengthening institutional capacities of the competent institutions. It is planned to keep on organising them throughout the whole period of the AP.		
3. Strengthening the capacity of the organization for establishing cooperation with the diaspora based on examples of good practice from countries with similar initiatives	implementation is advanced			
4. Improving the administrative framework and promoting tax incentives and improved procedures for employment and return to the country	implementation is advanced			
5. Establishing cooperation and dialogue with the diaspora through the organization of annual conferences Talent Gathering and promotion of successful stories of returnees	full implementation			
6. Implementation of the programme and preparation of content for returnees, foreign nationals, seniors and professionals at the end of their business careers	full implementation			
	73%			

SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 (activities from the Gant Chart)	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 BEEN IMPLEMENTED?	IN CASE THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW (steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES (unplanned, but activities realised in other to implement the SR)
SR 23. Improvement of the adequacy, quality and targeting of social protection measures				
<p>I.</p> <p>Connecting social work centres into a single network using software, i.e. an information system to support business processes in the implementation of social protection ("System for protection and automation of social protection instruments").</p>	<p>implementation is being prepared</p>	<p>During the first three quarters of 2021, a "Detailed functional specification - IS CSW" was developed. The focus was on the development of the software solution and in parallel on the configuration of the software solution in order to enter the production ready for use. Configuration includes defining enactments and forms as well as amending existing rulebooks. External integrations with other state authorities are underway. Three workshops on data harmonization and the legal basis, on the basis of which the centers for social work withdraw data were also organized. The environment in which the software solution will be built is set up in the IT Office. In addition to the records of users in the territory of the whole of Serbia, the unique software will enable authorized persons to have access to data from the common database at any time, but also in an individual case at each stage of its processing. The system should be available to all users in the social protection system by 12 December 2021. In addition to standardizing the work of all centers for social work, they will be connected with the Pension and Disability Insurance Fund, the RGA and the database of the Social Card Registry. The digitized system will facilitate the work of about 700,000 social protection beneficiaries and about 1,500 employees. At the meeting of professional workers in June 2021, the project was presented and the possibility of additional informing of experts on all issues related to future work in the new programme was given. Tables were sent to the centres for social work, which should be filled in with data from the existing databases in order to migrate them to the new system. The software development phase ended on 11 August, and on 13 August, the second part of the training of the team designated for software testing was held. The testing software phase began on 16 August and lasted until 11 October 2021.</p>		

SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 <i>(activities from the Gant Chart)</i>	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 BEEN IMPLEMENTED?	IN CASE THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW <i>(steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)</i>	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES <i>(unplanned, but activities realised in other to implement the SR)</i>
		<p>It was planned that team members submitted an excel spreadsheet once a week with comments and suggestions according to the test plan. In the period from 28 October 2021 until 3 November 2021 online training sessions for advanced users were organised, two users from each centre for social work. The training was attended by an average of 357 users. During the training sessions, the participants asked a number of questions related to procedural and business process topics, which were to be resolved during the next phase of the project.</p> <p>In the pre-production phase, it is necessary to determine whether all CSWs have adequate technical conditions to work in the new system (printers, scanners, computer equipment, e-mail addresses, etc.). In addition to the technical conditions in this phase, it is necessary to finalise all the necessary amendments to the rulebooks and the structure of the decision.</p>		

SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 <i>(activities from the Gant Chart)</i>	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 BEEN IMPLEMENTED?	IN CASE THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW <i>(steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)</i>	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES <i>(unplanned, but activities realised in other to implement the SR)</i>
2. Information connection with data sources important for the socio-economic status of individuals and families ("Social Card Registry").	implementation is being prepared	In February 2021. The Law on the Social Map ("Official Gazette of the RS", No. 14/2021) was passed, which was a prerequisite for connecting with external databases, i.e. records of other authorities and institutions. So far, the connection of internal payment databases at the level of MoLEVSA (social, child and veteran protection bases) has been completed, while the connection with their performing applications will be finalized to the extent of the development of these applications. By-law, Ron technical conditions for establishing and maintaining a social card was adopted in less than 6 months from the adoption of the Law, i.e. 2 July 2021 ("Official Gazette of the RS", No. 67/2021). After the adoption of the Law on 13 April 2021, a public procurement was initiated for the Social Card Registry - Phase 2. The procurement was conducted and the contract was concluded with the selected bidder on 9 June 2021, with the implementation deadline on 15 February 2022. The practical implementation of the contract is underway in six phases: analysis and design, functional specification and design, development of software application solution, integration with source and internal data sources, transition of the system to production environment and post-production phase. By January 2022, first four phases have been realized, the realization of phase five (transition to the production environment) is nearing completion, followed by the realization of the post-production phase. Activities related to the phase of integration with the original records were successfully implemented, where the records of all public authorities were connected (MoPALG, RPDIF, MoI, NEA, RGA), which is a very complex phase for implementation, both procedurally and technically, and it is critical for the success of obtaining data in the Register of Social Card, i.e. the functioning of the Register.		

SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 (activities from the Gant Chart)	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 BEEN IMPLEMENTED?	IN CASE THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW (steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES (unplanned, but activities realised in other to implement the SR)
		Also, the integration of the Social Card with the Electronic Identification System of e-Government of the Office for IT and eGovernment with redirection to the Social Card was successfully realized, thus providing beneficiary authentication by high reliability in accordance with eGovernment development requirements in the Republic of Serbia. The deadline for delivery of the complete system is 1 March 2022.		
3. Adoption of respective laws and bylaws - Law on Social Card - Rulebook on technical conditions for establishing and maintaining a social card	full implementation	The Law on Social Card was adopted in February 2021 ("Official Gazette of the RS", no. 14/2021). The Rulebook on technical conditions for establishing and maintaining a social card was adopted on 2 July 2021 ("Official Gazette of the RS", no. 67/2021).		
	53%			
SR 24. Digitisation of the health care system				
1. Connecting health care institutions to the central system of electronic health records	implementation is advanced	It remains to connect a certain number of institutions due to the implementation of the security aspect in the form of a firewall that allows the exit of health institutions, i.e. their pertaining health information systems on the open internet so that medical data is available to all health care institutions, as well as on the Patient Portal.		
2. Establishment of central electronic health services - eSickLeave	implementation ongoing with some initial results	In 2021, a tender was launched and the development of the system began. It is expected that in Q1 the system will be implemented for the part related to health institutions and business processes that take place there. Also, the entire project depends on the Government Office for IT and eGovernment as well as the Republic Health Insurance Fund, which also have certain activities within this project.		
3. Expansion of the national radiology imaging platform	implementation is advanced	Activities are in the final phase. The connecting of institutes has been initiated, and special hospitals were connected in 2021.		

	SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 <i>(activities from the Gant Chart)</i>	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2021 BEEN IMPLEMENTED?	IN CASE THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW <i>(steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)</i>	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES <i>(unplanned, but activities realised in other to implement the SR)</i>
4.	Application of solutions based on artificial intelligence in radiology	initial steps have been taken 65%	Preparation for the next year. The introduction of artificial intelligence in radiology for the fields of breast cancer screening or possibly screening of lung cancer, TB, and automatic detection of Covid-19 is being considered.		

ANNEX 2: LINKS BETWEEN REFORM AREAS AND RELEVANT PUBLIC POLICY DOCUMENTS

Structural reform (SR) ERP 2022-2024	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)	ERP Joint Conclusions 2021	2021 Enlargement package	2030 Sustainable development goals	Green Deal/ Green Agenda for the Western Balkans (GAWB)	European Digital Agenda / Digital Agenda for the Western Balkans	IPA III projects supporting this reform ¹⁴⁵
SR 1. Establishment of a Framework for the Introduction of Youth Guarantees in the Republic Of Serbia	KSC 1. Increasing employment, in particular of youth and women, and social protection from poverty	Recommendation 6. Develop a Youth Guarantee Plan in cooperation with all relevant ministries, their pertaining agencies and stakeholders	- Provide adequate financial and institutional resources for employment that are more systematically targeted at young people, women and the long-term unemployed	SDG 8.6 By 2020 substantially reduce the proportion of youth not in employment, education or training	Indirect impact on the goal 60 of the GAWB - Develop programmes and undertake necessary measures required to increase administrative capacities for the GAWB implementation in order to attain monitoring, promotion and respect for environmental obligations and ensure efficient mechanisms for public participation, access to information, access to judiciary in environmental issues, as well as reporting on the environment <i>Creating opportunities for the development of "green" jobs, while increasing cooperation with sectors and partners in the field of environmental protection within the youth guarantee programme.</i>	Key initiative 10. Youth Guarantee - Youth Guarantee establishment Western Balkans Declaration on ensuring sustainable labour market integration of young people	/

145 In January 2022, the annual IPA programs for 2021 and 2022 have not yet been adopted nor the Financial Agreements with the European Commission have been signed.

<p>Structural reform (SR) ERP 2022-2024</p> <p>SR 2. Qualifications oriented to the needs of the labour market</p>	<p>Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)</p> <p>KSC 1. Increasing employment, in particular of youth and women, and social protection from poverty</p>	<p>ERP Joint Conclusions 2021</p> <p>Recommendation 6. Facilitate the transition from the school to workplace by strengthening further vocational development, including dual vocational education, through a revised curriculum and the provision of an infrastructure that enables acquiring new practical skills.</p>	<p>2021 Enlargement package</p> <p>- Make the institutional structure for the NQF fully functional</p>	<p>2030 Sustainable development goals</p> <p>SDG 4.3. - By 2030 ensure equal access for all women and men to affordable quality technical, vocational and tertiary education, including university</p> <p>SDG 4.4. - By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.</p> <p>SDG 8.6 By 2020 substantially reduce the proportion of youth not in employment, education or training</p>	<p>Green Deal/ Green Agenda for the Western Balkans (GAWB)</p> <p>Direct impact on the goal 62 of the GAWB - Develop a plan for specific economic and regional awareness-raising activities in all five pillars, including the reflection of the Green Agenda for the Western Balkans in education system reforms</p> <p><i>Inclusion of environmental and climate topics in study programmes, curricula and the work of regional training centres. In this way, skills that contribute to the improvement of areas under the Green Deal for the Western Balkans and the European Green Agreement (climate, energy efficiency, transport, agriculture, biodiversity ...) are developed and support measures (standards, assessments, reporting, planning, evaluation, technology, financial instruments...) are set.</i></p>	<p>European Digital Agenda / Digital Agenda for the Western Balkans</p> <p>Chapter IX Investing in human capital</p> <ul style="list-style-type: none"> - Development of learning through the work within the vocational education and training - Linkage with the European Qualification Framework - Innovation Agenda for the Western Balkans - Promoting Human Capital Development, Stopping Brain Drain and Promoting Brain Circulation 	<p>IPA III projects supporting this reform¹⁴⁵</p>
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Structural reform (SR) ERP 2022-2024	SR 3. Improvement of the environment for encouraging, supporting and monitoring circular and economic migration	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)	KSC 1. Increasing employment, in particular of youth and women, and social protection from poverty	ERP Joint Conclusions 2021		2021 Enlargement package		2030 Sustainable development goals	SDG 8.2. Achieve higher levels of productivity of economies through diversification, technological upgrading and innovation, including through a focus on high value added and labour-intensive sectors SDG 10.7. Facilitate orderly, safe, and responsible migration and mobility of people, including through implementation of planned and well-managed migration policies	Green Deal/ Green Agenda for the Western Balkans (GAWB)	Indirect impact on the goal 60 of the GAWB - Develop programmes and undertake necessary measures required to increase administrative capacities for the Green Agenda for the Western Balkans implementation in order to attain monitoring, promotion and respect for environmental obligations and ensure efficient mechanisms for public participation, access to information, access to judiciary in environmental issues, as well as reporting on the environment <i>Providing support for the return of experts whose knowledge would contribute to capacity building in the areas contained in the Green Deal for the Western Balkans and the European Green Agreement.</i>	European Digital Agenda / Digital Agenda for the Western Balkans	Key initiative 10. Youth Guarantee - Contributes towards solving brain drain	IPA III projects supporting this reform ¹⁴⁵	/
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<p>Structural reform (SR) ERP 2022-2024</p>	<p>SR 4. Improvement of the quality of public services through optimization and digitalization of administrative procedures – e-Paper</p>	<p>Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)</p>	<p>KSC 2. Creation of the business environment more favourable for investments</p>	<p>ERP Joint Conclusions 2021</p>	<p>Recommendation 2. Reduction of grey economy</p>	<p>2021 Enlargement package</p>	<p>- Establishment of a public administration that is more user-oriented</p>	<p>2030 Sustainable development goals</p>	<p>SDG 16.5. Substantially reduce corruption and bribery in all its forms. SDG 16.10. Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements</p>	<p>Green Deal/ Green Agenda for the Western Balkans (GAWB)</p>	<p>Indirect impact on the goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation <i>Integrating administrative procedures within the register (in digital format) contributes towards reducing the use of paper.</i></p>	<p>European Digital Agenda / Digital Agenda for the Western Balkans</p>	<p>Chapter II Good governance as a foundation for sustainable economic growth - Companies need legal certainty, absence of corruption and efficient functioning of the administration in order to be able to establish their business operations. Key initiative 8. Digital infrastructure - Reduce costs and improve quality of services for citizens and economy</p>	<p>IPA III projects supporting this reform¹⁴⁵</p>	<p>/</p>
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Structural reform (SR) ERP 2022-2024	SR 5. Sustainable and Efficient Management of Business Entities Owned by the Republic of Serbia	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)	KSC 2. Creation of the business environment more favourable for investments	ERP Joint Conclusions 2021	Recommendation 2. Implement the first steps of a time-bound action plan to implement the new strategy in terms of ownership and management of the state-owned enterprises to better manage state-owned enterprises and reduce associated fiscal risks.	2021 Enlargement package	- Increase the transparency of the fiscal impact of state-owned enterprises and improve their management, including their further restructuring	2030 Sustainable development goals	SDG 16.7. Ensure responsive, inclusive, participatory and representative decision-making at all levels	Green Deal/ Green Agenda for the Western Balkans (GAWB)	Direct impact on the following goals: goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation goal 60 of the GAWB - Develop programmes and undertake necessary measures required to increase administrative capacities for the Green Agenda for the Western Balkans implementation in order to attain monitoring, promotion and compliance with environmental obligations and ensure efficient mechanisms for public participation, access to information, access to judiciary in environmental issues, as well as reporting on the environment.	European Digital Agenda / Digital Agenda for the Western Balkans	Chapter VIII Boosting the private sector - Ensure the existence of a functioning market economy	IPA III projects supporting this reform ¹⁴⁵	/
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<p>Structural reform (SR) ERP 2022-2024</p> <p>SR 6. Development of the Domestic Capital Market through the Introduction of New Legal Mechanisms and Provision of a Greater Level of Investor Protection</p>	<p>Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)</p> <p>KSC 2. Creation of the business environment more favourable for investments</p>	<p>ERP Joint Conclusions 2021</p> <p>Recommendation 3. Maintain a strong financial sector regulatory framework in line with international and EU best practice</p>	<p>2021 Enlargement package</p> <ul style="list-style-type: none"> - Liberalise the movement of capital - Improve further alignment with the acquis communautaire regarding the rights of companies (adoption of the Law on Capital Market and adoption of the Action Plan for the implementation of the Capital Market Development Strategy for the period 2021-2026) 	<p>2030 Sustainable development goals</p> <p>SDG 8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage formalisation and growth of micro-, small- and medium-sized enterprises including through access to financial services</p> <p>SDG 8.10. Strengthen the capacity of domestic financial institutions to encourage and to expand access to banking, insurance and financial services for all</p> <p>SDG 9.3. Increase the access of small-scale industrial and other enterprises, particularly in developing countries, to financial services including affordable credit and their integration into value chains and markets</p>	<p>Green Deal/ Green Agenda for the Western Balkans (GAWB)</p> <p>Direct impact on the following goals: realization of green finances and investments within the European Green Deal. <i>Creation and development of financial instruments in the field of capital markets that can be used to mobilize finance in order to stimulate green investments and inputs.</i></p>	<p>European Digital Agenda / Digital Agenda for the Western Balkans</p> <p>Chapter X Regional economic integration and integration with the EU - Contribute towards free movement of capital</p>	<p>IPA III projects supporting this reform¹⁴⁵</p>
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Structural reform (SR) ERP 2022-2024	SR 7. Energy market development coupled with energy infrastructure construction	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)	KSC 3. Greening the energy sector and fully opening the energy market	ERP Joint Conclusions 2021	Recommendation 5. Increase investments into the modernisation of the energy infrastructure	2021 Enlargement package	- Establish a regional electricity market	2030 Sustainable development goals	SDG 7.1. Ensure universal access to affordable, reliable, and modern energy services	Green Deal/ Green Agenda for the Western Balkans (GAWB)	Indirect impact on the following goals: goal 10 of the GAWB - Prioritising energy efficiency and its improvement in all sectors goal 8 of the European Green Deal - Strategy for Smart Sector Integration goal 10 of the European Green Deal - Evaluation and review of the Regulation of Trans-European Energy Network <i>The construction of new interconnectors enables the improvement of transmission systems, security and reliability of electricity supply. This approach can contribute towards increasing energy efficiency and strengthening regional cooperation.</i>	European Digital Agenda / Digital Agenda for the Western Balkans	Key initiative 5. Transition from coal exploitation - Construction of the Trans-Balkan Corridor project	IPA III projects supporting this reform ¹⁴⁵
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<p>Structural reform (SR) ERP 2022-2024</p>	<p>Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)</p>	<p>ERP Joint Conclusions 2021</p>	<p>2021 Enlargement package</p>	<p>2030 Sustainable development goals</p>	<p>Green Deal/ Green Agenda for the Western Balkans (GAWB)</p>	<p>European Digital Agenda / Digital Agenda for the Western Balkans</p>	<p>IPA III projects supporting this reform¹⁴⁵</p>
<p>SR 8. Improvement of Conditions for Enhancing Energy Efficiency Through Improving the Legislative and Institutional Frameworks and Providing Incentives</p>	<p>KSC 3. Greening the energy sector and fully opening the energy market</p>	<p>Recommendation 5. Reduce carbon emission. Implement regulatory, financial and institutional measures to increase the use of renewable energy sources and energy efficiency, including the introduction of a system of auctions for renewable energy sources (RES) and the establishment of a sustainable financing mechanism for energy efficiency.</p>	<p>- Accelerate the transition to green energy, reduce CO₂ emissions, increase the share of renewable sources and achieve energy savings. - Make specific activities in order to gradually eliminate the use of coal (Establishment of the Directorate for Financing and Encouraging Energy Efficiency and Project Financing, adoption of bylaws)</p>	<p>SDG 7.2. By 2030, increase substantially the share of renewable energy in the global energy mix SDG 7.3. By 2030, double the global rate of improvement in energy efficiency SDG 7.b. By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States and landlocked developing countries, in accordance with their respective programmes of support</p>	<p>Direct impact on the following goals: goal 10 of the GAWB - Prioritising energy efficiency and its improvement in all sectors goal 12 of the GAWB - Support for programmes for the reconstruction of both private and public buildings, as well as providing adequate funding goal 13 of the GAWB - Increasing the share of renewable energy sources and creating the necessary investment conditions goal 16 of the GAWB - Development of programmes for solving the problem of energy poverty and financing programmes for the reconstruction of households and ensuring the basic standard of living goal 8 of the European Green Deal - Strategy for Smart Sector Integration goal 9 of the European Green Deal - "Wave of Renewal" Initiative for the construction sector <i>Implement regulatory reform and align it with EU regulations, strengthen institutional capacity and provide financial resources and incentives to improve energy efficiency. A special focus is on supporting energy savings of households through energy rehabilitation of residential buildings and installation of solar panels, as well as the transition to payment based on thermal energy consumption.</i></p>	<p>Chapter V Investing in Clean Energy - Increasing energy efficiency, strengthening the energy market Key initiative 4. Renewable energy - Increased use of renewable sources of energy Key initiative 5. Transition from coal exploitation - Decarbonisation, use of renewable energy sources</p>	<p>IPA 2021 Support for the work of the Energy Efficiency Fund EUR 5 million, MME beneficiary and IPA 2022 Support for work and investments of the Energy Efficiency Fund, € 10 million, MME beneficiary</p>

Structural reform (SR) ERP 2022-2024	SR 9. Tax Administration Transformation	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)		ERP Joint Conclusions 2021	<p>Recommendation 2. Reduce the grey economy, improve VAT collection and improve the tax control process (Business Process Reengineering, Analysis and introduction of a modern record management system)</p>	2021 Enlargement package	<p>- Continue to implement the Tax Administration Reform Programme</p> <p>- Simplify the activities of the tax administration while providing a sufficient number of people and IT resources for this purpose</p> <p>- Improve tax collection and combating grey economy</p>	2030 Sustainable development goals	<p>SDG 16.6. Develop efficient, accountable and transparent institutions at all levels.</p> <p>SDG 17.1. Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection</p>	Green Deal/ Green Agenda for the Western Balkans (GAWB)	<p>Indirect impact on the goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation</p> <p><i>Improving the collection of public revenues, improving the quality of existing and introducing new types of services tailored to the needs of taxpayers can contribute to providing additional financial resources that could potentially be used in the environmental budget. Also, environmental experts have been hired to help the Tax Administration successfully implement and monitor project activities that are subject to environmental risks, manage their impacts and prepare environmental management plans to ensure effective environmental protection, health and safety at work.</i></p>	European Digital Agenda / Digital Agenda for the Western Balkans	/	IPA III projects supporting this reform ¹⁴⁵
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Structural reform (SR) ERP 2022-2024	SR 10. Introduction of a new fiscalisation model and transition to electronic invoicing	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)	Recommendation 2. Implement a new model of electronic fiscalisation and make the transition to electronic invoicing according to the time frame for 2021 ERP	ERP Joint Conclusions 2021	- Implement a new model of electronic fiscalisation and the transition to electronic invoicing (Launch of a new centralized platform for fiscalisation and platforms for electronic invoicing with the expansion of coverage and education)	2021 Enlargement package	SDG 16.6. - Develop efficient, accountable and transparent institutions at all levels.	2030 Sustainable development goals	Indirect impact on the goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation <i>The new model of fiscalisation and electronic invoicing can contribute to providing additional funds that could potentially be used within the environmental budget. Electronic invoicing greatly reduces paper usage.</i>	Green Deal/ Green Agenda for the Western Balkans (GAWB)	European Digital Agenda / Digital Agenda for the Western Balkans	IPA III projects supporting this reform ¹⁴⁵
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Structural reform (SR) ERP 2022-2024	SR 11. Introduction of the circular economy concept	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)		ERP Joint Conclusions 2021		2021 Enlargement package	<p>- Intensify work on the implementation and enforcement: compliance with the rules on environmental impact assessment, closure of non-compliant landfills, increase investment in waste reduction, separation and recycling while improving air and water quality</p> <p>- Improve inter-institutional coordination, increase investment in the environment and further improve strategic investment and management planning, including transparency of procedures</p>	2030 Sustainable development goals	<p>SDG 3-9. By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination</p> <p>SDG 11.5 By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations</p> <p>SDG 12.1. Implement the 10-Year Framework of Programs on sustainable consumption and production</p> <p>SDG 12.2. By 2030 achieve sustainable management and efficient use of natural resources.</p>	Green Deal/ Green Agenda for the Western Balkans (GAWB)	<p>Direct impact on the following goals:</p> <p>goal 30 of the GAWB - Apply an industrial ecosystem approach to achieve an environmentally sustainable, balanced economic recovery</p> <p>goal 31 of the GAWB - Development of circular economy strategies taking into account the entire product life cycle</p> <p>goal 13 of the European Green Deal - Circular Economy Action Plan, including the Sustainable Products Initiative and special emphasis on resource-intensive sectors such as the textile sector, construction, electronics and plastics</p> <p>goal 14 of the European Green Deal - Initiatives to stimulate leading markets for climate-neutral and circular products in energy-intensive industrial sectors</p> <p><i>The introduction of the concept of circular economy directly contributes to the implementation of green economic transition, efficient use of resources and energy, conservation of biodiversity and nature protection. Companies in the private and public sectors are encouraged to adopt the principles of the circular economy in their business processes.</i></p>	European Digital Agenda / Digital Agenda for the Western Balkans	<p>Chapter VI Greening the Western Balkans</p> <p>- Investing in the environment and climate</p> <p>- Application of the concept of circular economy at all levels and provision of institutional support</p> <p>Key initiative 7. Waste and Wastewater Management</p> <p>- Sustainable and reliable ways of managing water supply, wastewater and waste disposal are essential for the protection of the environment and the health of citizens</p>	IPA III projects supporting this reform ¹⁴⁵	/
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<p>Structural reform (SR) ERP 2022-2024</p> <p>SR 12. Development and improvement of the national information and communication infrastructure</p>	<p>Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)</p>	<p>ERP Joint Conclusions 2021</p>	<p>2021 Enlargement package</p>	<p>2030 Sustainable development goals</p> <p>SDG 4.4. - By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship. SDG 9.c - Significantly increase access to information and communication technologies and make efforts to ensure universal and affordable Internet access</p>	<p>Green Deal/ Green Agenda for the Western Balkans (GAWB)</p> <p>Indirect impact on the following goals: goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation goal 60 of the GAWB - Develop programmes and undertake necessary measures required to increase administrative capacities for the Western Balkan Green Deal implementation in order to attain monitoring, promotion and respect for environmental obligations and ensure efficient mechanisms for public participation, access to information, access to judiciary in environmental issues, as well as reporting on the environment <i>Strengthening the information and communication infrastructure indirectly contributes to increasing the level of information about the environment, the necessary skills and employment opportunities.</i></p>	<p>European Digital Agenda / Digital Agenda for the Western Balkans</p> <p>Chapter VII Investing in a digital future - Construction and improvement of a fast national broadband network with universal access Key initiative 8. Digital infrastructure - Development and introduction of national broadband infrastructure, with special focus on connecting rural areas</p>	<p>IPA III projects supporting this reform¹⁴⁵</p>
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Structural reform (SR) ERP 2022-2024	SR 13. Setting the Infrastructure and Environment for the Creation and Application of Innovative and Artificial Intelligence Based Solutions	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)	ERP Joint Conclusions 2021	2021 Enlargement package	2030 Sustainable development goals	Green Deal/ Green Agenda for the Western Balkans (GAWB)	European Digital Agenda / Digital Agenda for the Western Balkans	IPA III projects supporting this reform ¹⁴⁵
		- Encourage more intensive cooperation between industry and academia, in line with the national strategic framework		SDG 9.b Support domestic technology development, research and innovation in developing countries, including by ensuring a conducive policy environment for, inter alia, industrial diversification and value addition to commodities	Direct impact on the following goals: goal 17 of the GAWB – Support the development of smart transport infrastructure, promote the promotion of innovative technologies (such as paperless transport, artificial intelligence, multimodal passenger ticketing, mobility as a service, applications for cross-border / border crossings, 5G corridors, etc.) goal 35 of the GAWB - Further implementation of the Smart Specialisation Strategies, which represent location transformation plans for sustainability, based on innovation and indirect impact on the following goals: goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation goal 60 of the GAWB - Develop programmes and undertake necessary measures required to increase administrative capacities for the Western Balkan Green Deal implementation in order to attain monitoring, promotion and respect for environmental obligations and ensure efficient mechanisms for public participation, access to information,	Chapter VII Investing in a digital future - Development of regional centres for digital innovations and their connection with Science and Technology Parks - Supporting companies to increase their competitiveness by using digital technologies, especially the use of artificial intelligence in the business sector	/	

Structural reform (SR) ERP 2022-2024	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)	ERP Joint Conclusions 2021	2021 Enlargement package	2030 Sustainable development goals	Green Deal/ Green Agenda for the Western Balkans (GAWB)	European Digital Agenda / Digital Agenda for the Western Balkans	IPA III projects supporting this reform ¹⁴⁵
					<p>access to judiciary in environmental issues, as well as reporting on the environment</p> <p><i>The use of artificial intelligence in the development of innovative technologies and the implementation of the Smart City project, which directly supports the sustainability of urban areas and the economy, with priority given to solutions that, among other things, deal with environmental protection. It indirectly improves access to information, stimulates innovation and creativity, and promotes the exchange of knowledge, thus offering an opportunity for better engagement of the business sector and local self-government in efforts to protect the environment.</i></p>		

Structural reform (SR) ERP 2022-2024	SR 14. Development of the Startup Eco-system	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)		ERP Joint Conclusions 2021		2021 Enlargement package	- Encourage more intensive cooperation between industry and academia, in line with the national strategic framework	2030 Sustainable development goals	<p>SDG 8.2. Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors</p> <p>SDG 8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services</p> <p>SDG 8.5. Full and productive employment and decent work for all women and men</p> <p>SDG 9.3. Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets</p>	Green Deal/ Green Agenda for the Western Balkans (GAWB)	<p>Indirect impact in the field of mobilizing research and fostering innovation and green finance and investment under the European Green Deal.</p> <p><i>Strengthening the startup business environment through incentive measures creates conditions for the development of technologies and innovations that could contribute to the preservation of the environment and climate.</i></p>	European Digital Agenda / Digital Agenda for the Western Balkans	<p>Chapter VII Investing in a digital future</p> <ul style="list-style-type: none"> - Support for digital "startup" and "scale-up" companies and the development of digital skills. <p>Chapter VIII Boosting the private sector</p> <ul style="list-style-type: none"> - Strengthening the competitiveness of SMEs through investments to support "startup" companies and innovative companies in the growth phase ("scale-up") 	IPA III projects supporting this reform ¹⁴⁵	/
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<p>Structural reform (SR) ERP 2022-2024</p> <p>SR 15. Creation of Conditions for the Development of Bio-Science and Bioeconomy through the Construction of Bio4 Campus</p>	<p>Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)</p>	<p>ERP Joint Conclusions 2021</p>	<p>2021 Enlargement package</p> <p>- Encourage more intensive cooperation between industry and academia, in line with the national strategic framework</p>	<p>2030 Sustainable development goals</p> <p>SDG 8.2. Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors SDG 8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services SDG 9.5. Enhance scientific research, upgrade the technological capabilities and encouraging innovation</p>	<p>Green Deal/ Green Agenda for the Western Balkans (GAWB)</p> <p>Direct impact on the following goals: goal 35 of the GAWB - Further implementation of the Smart Specialisation Strategies, which represent location transformation plans for sustainability, based on innovation the goal 62 of the GAWB - Develop a plan for specific economic and regional awareness-raising activities in all five pillars, including the reflection of the Green Agenda for the Western Balkans in education system reforms <i>The Bio4 campus supports the development of biotechnology, biomedicine, bioinformatics and biodiversity, which directly contributes to capacity building and dissemination of knowledge in these areas. It is also planned to improve the connection of the participants of this campus with international scientific and corporate partners</i></p>	<p>European Digital Agenda / Digital Agenda for the Western Balkans</p>	<p>IPA III projects supporting this reform¹⁴⁵</p>
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Structural reform (SR) ERP 2022-2024	SR 16. Improving conditions and removing barriers to trade	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)	ERP Joint Conclusions 2021	2021 Enlargement package	2030 Sustainable development goals	Green Deal/ Green Agenda for the Western Balkans (GAWB)	European Digital Agenda / Digital Agenda for the Western Balkans	IPA III projects supporting this reform ¹⁴⁵
				<p>- Finalize WTO accession, inter alia by adopting a WTO-compliant Law on Genetically Modified Organisms and concluding the remaining bilateral market access negotiations</p> <p>- Implement activities within the Common Regional Market (CRT), in particular: ensure full implementation of CEFTA Additional Protocol 5 on Trade Facilitation, Additional Protocol 6 on Trade in Services and Additional Protocol 7 on Dispute Resolution</p>	<p>SDG 17.10. Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its ‘Doha Development Agenda’</p>	<p>Direct impact on the following goals:</p> <p>goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation</p> <p>goal 41 of the European Green Deal - Stakeholders identify and correct inconsistent legislation that minimise efficiency in the implementation of the European Green Deal</p> <p><i>Opening up trade, strengthening competitiveness and joining the European single market contribute to the integration of the environment and climate into the national legal framework. This includes the implementation of relevant EU directives and standards related to sustainability and the green agenda.</i></p>	<p>Chapter VIII Boosting the private sector</p> <ul style="list-style-type: none"> - Greater market integration and trade within the region and with the EU <p>Chapter X Regional economic integration and integration with the EU</p> <ul style="list-style-type: none"> - Market integration and cross-border trade in the region and with the European Union - Removal of technical barriers in trade, while ensuring equal conditions for participation - Cooperation through the Central European Free Trade Agreement (CEFTA) 	/

<p>Structural reform (SR) ERP 2022-2024</p> <p>SR 17. Improving efficiency and safety in railway traffic</p>	<p>Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)</p>	<p>ERP Joint Conclusions 2021</p>	<p>2021 Enlargement package</p> <p>- Continue the process of implementing railway reform, in particular by regulating contractual relations between railway infrastructure managers and operators in an economical and transparent manner</p> <p>- Further implement the adopted legislation and strengthen institutional capacities</p>	<p>2030 Sustainable development goals</p> <p>SDG 3.6. By 2020, half the number of global deaths and injuries from road traffic accidents</p> <p>SDG 9.1. Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all</p> <p>SDG 11.2. By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons</p>	<p>Green Deal/ Green Agenda for the Western Balkans (GAWB)</p> <p>Direct impact on the following goals: goal 17 of the GAWB - Support the development of smart transport infrastructure, promote the innovative technologies (such as paperless transport, artificial intelligence, multimodal passenger ticketing, mobility as a service, applications for cross-border / border crossings, 5G corridors, etc.) goal 18 of the GAWB - Implementation of the regional action plan for railway reform goal 20 of the GAWB - Defining a general strategy for shifting traffic from road to more environmentally friendly modalities goal 23 of the European Green Deal - Initiatives to increase the capacity of railways and inland waterways <i>Improving efficiency, safety and establishing a new method of calculating prices contribute to the strengthening of railway traffic. The planned higher traffic of goods and passengers in railway transport, as energy efficient and environmentally friendly areas of transport, directly contributes to the preservation of the environment and the reduction of pollution.</i></p>	<p>European Digital Agenda / Digital Agenda for the Western Balkans</p> <p>Chapter IV Investments in sustainable transport - Safety at level crossings - Providing assistance in designing and implementing maintenance programmes, - Improving the fragmented railway network</p>	<p>IPA III projects supporting this reform¹⁴⁵</p>
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Structural reform (SR) ERP 2022-2024	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)	ERP Joint Conclusions 2021	2021 Enlargement package	2030 Sustainable development goals	Green Deal/ Green Agenda for the Western Balkans (GAWB)	European Digital Agenda / Digital Agenda for the Western Balkans	IPA III projects supporting this reform ¹⁴⁵
SR 18. Improvements of the agriculture competitiveness			<p>- Submit IPARD III Programme for the period from 2021 to 2027 in the appropriate time and quality</p> <p>- Progress made in implementing the Action Plan for Alignment with the EU Acquis in the Field of Agriculture and Rural Development</p>	<p>SDG 2.3. By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment</p> <p>SDG 2.4. By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality</p> <p>SDG 11.3. - By 2030 enhance inclusive and sustainable urbanization and capacities for participatory, integrated and sustainable human settlement planning and management in all countries.</p> <p>SDG 12.5. - By 2030, significantly reduce waste production through prevention, reduction, recycling and reuse).</p>	<p>Direct impact on the following goals:</p> <p>goal 42 of the GAWB - Integrating land protection into other policy areas and establishing a regional partnership for land protection, in order to facilitate the exchange of knowledge and identify examples of good practice in protecting land from pollution and degradation</p> <p>goal 44 of the GAWB - Align the agri-food and primary production sectors with EU standards on food safety, plant and animal health and well-being and the environment, and address the issues of wastewater, fertilizer and waste management</p> <p>goal 46 of the GAWB - Promoting environmentally friendly (zero pollution) and organic agriculture and reducing the use of synthetic chemicals in food production</p> <p>goal 47 of the GAWB - Cooperation with scientific, educational, business and agricultural institutions in order to facilitate the transfer of innovative and ecological technologies and agricultural methods</p> <p>goal 49 of the GAWB - Increasing efforts aimed at sustainable development of rural areas with the implementation of the LEADER programme</p>	<p>Chapter III Importance of Investment Package</p> <ul style="list-style-type: none"> - Support investments in rural areas through IPARD funding, <p>Chapter VIII Boosting the private sector</p> <ul style="list-style-type: none"> - Enable investments in sustainable agricultural production to support balanced rural development and strengthen the competitiveness and sustainability of the agri-food sector, <p>Key Initiative 9 - Investing in private sector competitiveness</p> <ul style="list-style-type: none"> - Mobilize assistance for sustainable transformation of agri-food systems and rural development 	IPARD 3

Structural reform (SR) ERP 2022-2024	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)	ERP Joint Conclusions 2021	2021 Enlargement package	2030 Sustainable development goals	Green Deal/ Green Agenda for the Western Balkans (GAWB)	European Digital Agenda / Digital Agenda for the Western Balkans	IPA III projects supporting this reform ¹⁴⁵
<p>goal 50 of the GAWB - Support for investments in production and renewable energy technologies, as well as reduction of greenhouse gas emissions and implementation of adaptation measures to climate change in agriculture</p> <p>goal 17 of the European Green Deal - Proposing reforms of waste legislation</p> <p>goal 26 of the European Green Deal - Strategy “from the field to the table”</p> <p>goal 27 of the European Green Deal - Measures, including legislation, to significantly reduce the use and risk of chemical pesticides as well as the use of fertilizers and antibiotics</p> <p><i>The development of rural infrastructure and market value chains based on the principles of sustainability, environmental friendliness and low emissions affect the preservation of the environment. Establishing product quality schemes contributes to the improvement of food (especially organic) production. The process of land consolidation contributes to the integrated management of natural resources and the connection of ecosystems, in accordance with the requirements of the environment. Overall, improving the competitiveness of agriculture contributes to greening, improving rural agrobiodiversity and mitigating climate change.</i></p>							

Structural reform (SR) ERP 2022-2024	SR 19, Safe and quality product - industry development factor	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)		ERP Joint Conclusions 2021		2021 Enlargement package		2030 Sustainable development goals	SDG 9.2. Promote inclusive and sustainable industrialisation and by 2030 significantly increase the share of industry in the employment rate and gross domestic product, in line with national circumstances. SDG 12.8. By 2030, ensure that people everywhere have relevant information and awareness of sustainable development and lifestyle in harmony with nature.	Green Deal/ Green Agenda for the Western Balkans (GAWB)	Indirect impact on the following goals: goal 30 of the GAWB - Apply an industrial ecosystem approach to achieve an environmentally sustainable, balanced economic recovery goal 31 of the GAWB - Development of circular economy strategies taking into account the entire product life cycle goal 13 of the European Green Deal - Circular Economy Action Plan, including the Sustainable Products Initiative and special emphasis on resource-intensive sectors such as the textile sector, construction, electronics and plastics <i>Increased use of standards and product certification, along with improving the information and availability of digital services related to the application of technical regulations can indirectly contribute to harmonization (alignment) with European environmental procedures, standards, regulations and requirements.</i>	European Digital Agenda / Digital Agenda for the Western Balkans	Chapter VI Greening of the Western Balkans - Investment in the Environment and Climate - Promotion of sustainable production patterns and food systems	IPA III projects supporting this reform ¹⁴⁵	/
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<p>Structural reform (SR) ERP 2022-2024</p>	<p>SR 20. Digitalisation of the education system and introduction of a uniform education information system</p>	<p>Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)</p>	<p>Recommendation 6. Facilitate transition from school to workplace by strengthening and ensuring an infrastructure that enables the acquisition of practical skills</p>	<p>ERP Joint Conclusions 2021</p>	<p>- Further adapt education and training to labour market needs, especially in the field of vocational education and training (VET)</p>	<p>2021 Enlargement package</p>	<p>SDG 4.4. By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.</p>	<p>2030 Sustainable development goals</p>	<p>Indirect impact on the goal 62 of the GAWB - Develop a plan for specific economic and regional awareness-raising activities in all five pillars, including the reflection of the Green Agenda for the Western Balkans in education system reforms <i>Digitisation should impact on the reduction of the use of papers and other printing material, thus reducing waste. In addition, the development of information systems and databases can facilitate access to environmental information and contribute to its integration into curricula.</i></p>	<p>Green Deal/ Green Agenda for the Western Balkans (GAWB)</p>	<p>Chapter VII Investing in a digital future - Develop and implement digital education strategies, supporting teaching staff training, as well as online learning initiatives and online content Chapter IX Investing in human capital - Strengthen innovative digital transformation by developing and using platforms and policies such as digital skills in education - Adaptation of educational systems to digital transformation and knowledge-based economy Key Initiative 8 - Digital Infrastructure - Promote cooperation in digital education at the global level</p>	<p>European Digital Agenda / Digital Agenda for the Western Balkans</p>	<p>IPA III projects supporting this reform¹⁴⁵</p>
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Structural reform (SR) ERP 2022-2024	Key Structural Challenges (KSC) (EC ERP 2021-2023 Assessment)	ERP Joint Conclusions 2021	2021 Enlargement package	2030 Sustainable development goals	Green Deal/ Green Agenda for the Western Balkans (GAWB)	European Digital Agenda / Digital Agenda for the Western Balkans	IPA III projects supporting this reform ¹⁴⁵
SR 21. Improving the efficiency of the healthcare system through digitisation of the processes			- Strengthen the overall management capacity, human resources and financial sustainability of the public health insurance fund;	SDG 3.8. Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all	Indirect impact on the goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation <i>Digitisation should impact on the reduction of the use of papers and other printing material, thus reducing waste.</i>	Chapter VII Investing in a digital future, - Support for the development of digital skills, such as e-health services - Set priorities and introduce digitisation in the mainstream of national policy	/

ANNEX 3: EXTERNAL CONTRIBUTION TO THE ERP 2022-2024

Area / type of comment	Comment provided by (institution and contact details), date of the comment	Comment (main suggestions and remarks in brief)	State of the comment (accepted/taken into consideration / question/comment)	Explanation for comment accepting or rejecting
Proposals submitted electronically				
5.2.12. Area of social protection and inclusion, proposed SR	UNICEF, Ana Prodanović, expert, submitted electronically on 8 November 2021, aprodanovic@unicef.org	SR in the field of social protection and inclusion in the field of financial social assistance reform and child allowance is proposed	Taken into consideration	The proposal will be considered in the next ERP cycle. The effects of the SR from the previous cycle, which refer to the introduction of the social card, are expected.
5.2.10. Area of education and skills, proposed SR		The SR is proposed in the field of inclusive education in the form of further development of the support system for children from vulnerable categories with a focus on early learning and key transition periods, with the provision of adequate funding and monitoring the implementation at the local level.	Taken into consideration	The proposal will be considered in the next ERP cycle.
5.2.12. Area of social protection and inclusion, general comment		In the 2022-2024 ERP, 5.2.12. The area of social protection and inclusion lacks the corresponding structural reform. It is necessary to establish and expand the reform with measures that will directly affect the improvement of the situation of the poorest and most vulnerable categories in the country, especially having in mind the recommendations of the ECOFIN Council where recommendation states that poverty needs to be reduced through "increasing the adequacy of the benefits of financial social assistance programmes for individuals and families with children".	Taken into consideration	The proposal will be considered in the next ERP cycle. The effects of the SR from the previous cycle, which refers to the introduction of the social card, are expected.
5.2.12. In the field of social protection and inclusion, it is necessary to introduce measures related to:	Network of organisations for children of Serbia (MODS), Saša Stefanović, director, submitted on 11 August and 21 December 2021 electronically, office@zadecu.org	Guarantees for each child which include: 1. Decent and adequate housing conditions; 2. Quality education; 3. Protection against any form of violence and abuse; 4. Quality and accessible healthcare protection and environment; 5. Full support for living and staying in a family that is a safe and supportive place, with the goal of providing equal conditions for every child.	Taken into consideration	The proposal will be considered in the next ERP cycle. The effects of the SR from the previous cycle, which refers to the introduction of the social card, are expected.
		Increase in social protection expenditures and social assistance expenditures	Taken into consideration	The proposal will be considered in the next ERP cycle. The effects of the SR from the previous cycle, which refers to the introduction of the social card, are expected.
		Increase total allocations for child allowance	Taken into consideration	The proposal will be considered in the next ERP cycle.

Area / type of comment	Comment provided by (institution and contact details), date of the comment	Comment (main suggestions and remarks in brief)	State of the comment (accepted/ taken into consideration / question/comment)	Explanation for comment accepting or rejecting
		<p>Increasing the coverage of the poor with financial social assistance with increasing the amount of assistance</p> <p>Adoption of the strategic framework for development of social protection in Serbia (Strategy for Development of the Social Protection)</p> <p>Amend the Law on Social Welfare in the direction of providing financial and material assistance, defining new bylaws; simplify the procedure for exercising rights; implement a general ban on the admission of children to institutions, including children with developmental disorders and/or disabilities, with the provision of emergency support to children and families at risk; suspend further investments in infrastructural strengthening of institutions and redirect funds to the improvement of professional and financial support to the family, development of specialised foster care and accessibility of general services; adoption of a term plan for the closure of all institutions for children in the next 5 years; provide adequate professional and financial support to families in order to prevent the separation of institutionalizations of children based on the disability of the child or parent and to improve the mechanism of earmarked transfers.</p>	<p>Taken into consideration</p> <p>Taken into consideration</p> <p>Taken into consideration</p>	<p>The proposal will be considered in the next ERP cycle. The effects of the SR from the previous cycle, which refers to the introduction of the social card, are expected.</p> <p>A working version of the Draft of Social Protection Strategy has been made, so as ex-post analysis of previous Strategy. Preparing of ex-ante analysis of the new Social Protection Strategy is in progress. After that, a Working Group for drafting will be formed, in which civil society organizations and other interested actors will certainly find their place. The starting point for the development will be the existing, working version of the draft.</p> <p>The Draft Law on Amendments to the Law of Social Welfare is in preparation. There are analysing of the financial effects, increasing the amount of money social assistance and increasing the coverage of beneficiaries of money social assistance by prescribing more favourable conditions for exercising this right in relation to budgetary possibilities. By establishing and maintaining a single register for Social Card (The Law on Social Card comes into force on March 1, 2022), which will reduce inclusion errors and exclusion errors. The purpose of the register for Social Card is not only limited for the use of data in administrative proceedings, but it is much broader and allows a qualitative leap into digitalization of social protection procedures, poverty prevention, social policy and other activities that improve the social protection system. It is prescribed by the Draft of the Law that children up to 7 years cannot be situated in the institution and in only exceptionally justified cases, with the consent of the minister in charge of social protection, they can be situated. On the previous period, deinstitutionalization was carried out from large institutions for children and youth, primarily foster families, and the concept of small home communities for children with the most complex disabilities was developed, for which it is not possible to create conditions for returning to one's own family.</p>

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SR 1. Establishment of a framework for the introduction of Youth Guarantees in the Republic of Serbia (item 5 Assessed costs and sources of financing), comment for the SR	Serbian Chamber of Commerce (SCC), proposal submitted electronically on 21 December 2021, jovana.stanojevic@pks.rs	Consider providing adequate support to the economy in SR 1 (such as the My First Salary programme), especially if young people do not have the knowledge and skills to do the jobs and tasks for which they are applying.	Already realized	<p>The number of children in foster care is significantly higher than the number of children in foster care, but the number of children with disabilities in foster families is still lower. Therefore, in the following period, special emphasis was placed on the development of specialized foster care. Certainly, one of the strategic goals in this area is complete deinstitutionalization, but it is still not possible to determine the exact deadline for the completion of this process. Also efforts have been intensified to develop occasional foster care services, which are applied to children with developmental or health difficulties who live in a biological or foster family and who are placed in another foster family for a shorter period in order to resume and maintain foster or biological family capacity for further care of the child and prevention of crisis situations that may jeopardize the functionality of the family. The implementation of the service of a family associate is also underway, the goal of which is to provide support to a family that is dealing with various and intense difficulties in order to prevent the relocation of children from the family. An analysis of the application of the Decree on Earmarked Transfers is in progress, in order of its improvement through amendments.</p> <p>As an additional support to the economy in employment of young people, as of March 2022, a tax relief will be available through which the employer, who enters into an employment relationship with a new employee, is exempt from paying 70% tax and 100% contribution to the salary of the newly employed person paid as of 31 December 2024.</p> <p>A newly employed person is considered to be a person who was not employed in the period from 1 January 2019 to 28 February 2022, and who earns a monthly salary of more than 76,500 dinars.</p> <p>More information can be found in the Law on Personal Income Tax (Article 21z) and the Law on Contributions for Compulsory Social Insurance (Article 45ž).</p>

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Area 5.2.2. Green transition, general comment		It refers to the data from 2020 in accordance with the data of the TA and SORS and the need to innovate/supplement them.	Not accepted	A footnote with a data source has been included in the text of the analysis of the main obstacles for this area: SORS, Press Release ZS93, dated 17 September 2021, https://publikacije.stat.gov.rs/G2021/Pdf/G20211256.pdf . The environmental compensation account is methodologically harmonized with Regulation (EU) No. 691/2011 and Eurostat's Guidelines for the Preparation of Environmental Tax Accounts (Environmental taxes, a statistical guide). The presentation of this data is harmonized with the system of national accounts and the methodology "European System of Accounts" (ESA).
SR 11. Introduction of the circular economy concept, general comment		The terminology in the ERP text needs to be harmonized. Perhaps it is more appropriate to say that the circular economy is a "concept". It is also necessary to harmonize whether the term "circular" or "rotating" ¹⁴⁶ economy is used.	Accepted	Terminology harmonised.
SR 19 Safe and quality product - industry development factor, general comment		It is suggested that a "product conformity assessment" be included in the support section.	Accepted	The Ministry of Economy has developed a Financial Support Programme - Using standards to more competitive products. Support within this programme is intended to co-finance the implementation of conformity assessment procedures (testing, control, certification ...) of products with the requirements of Serbian and foreign (primarily European) technical regulations and/or meet the requirements for labelling with prescribed marks (CE, 3A, eco-sign...).
5.2.10. Area of education and skills, general comment		It would be important to integrate both the EMIS and the register of companies in which dual education is organised, and which have passed the process of verifying the fulfilment of conditions (the register is maintained by the SCC). This would enable having accurate data on whether participants are in dual education or not and if so, where they learned by working.	Taken into consideration	The integration of EMIS with the register of companies maintained by SCC will be considered. The implementation of the concept of dual education is equally available to interested domestic and foreign companies, along with tax incentives for the development of innovative solutions and the implementation of research and development activities.

146 The terminology in the ERP text needs to be harmonized. Perhaps it is more appropriate to say that the circular economy is a "concept". It is also necessary to harmonize whether the term "circular" or "rotating

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General comment	Slobodan Milovanović, Association of Citizens "Levica" /Left-Wing/ proposal submitted electronically on 17 December 2021, pokretlevica@gmail.com	ERP transparency needs to be improved. The draft ERP has not been posted on the e-Government website for public consultation, and the position of the document on the official website of the MoF is not adequate.	Not accepted	According to the Law on Planning System (LoPS), planning documents that are developed and adopted in the process of accession to the European Union are to be prepared according to the methodological recommendations of the European Commission (Article 49). Also, for these documents, according to Article 35 of the LoPS, a state administration body, conducts consultations in accordance with the legal framework for conducting negotiations on the accession of the Republic of Serbia to the European Union. ERP is the first document to be posted on the e-Consultation platform within the e-Government portal.
Consultations with the representatives of the ERP Working Group of the National Convention on the EU (NCEU) held online on 23 December 2021				
Macro-fiscal framework, general comments	Marijana Radovanović CEVES, online NCEU meeting on 23 December 2021	Commended macroeconomic and fiscal results of Serbia. It is necessary to maintain these trends and pay special attention to long-term productivity growth, which can be provided by a well-designed and coordinated investment policy and targeted industrial policies that are recognized in the ERP only in the field of agriculture. Prepare a Development Plan, Investment Plan and Spatial Plan in accordance with the Law on Planning System, and include these documents and their preparation in the ERP. It is necessary to strengthen the institutions and ensure a transparent process of preparation of these documents.	Not accepted	The RS Development Plan, RS Investment Plan and the RS Spatial Plan are long-term planning documents of the widest scope and importance. A by-law is being drafted which will regulate the procedure of preparation of the RS Development Plan, in accordance with the Law on the Planning System of the RS. The content of the RS Development Plan is regulated in more detail by the National Assembly at the proposal of the RS Government. With the adoption of the RS Development Plan, all other planning documents, as well as the Economic Reform Programme (ERP), must be harmonized with the RS Development Plan.
		Define and include the obligation to adopt the 2030 Agenda SDGs in the ERP and to select key SDGs and ensure their gradual introduction into business and real life.	Not accepted	The ERP contains a link between the SDGs and the structural reforms/measures set out in Annex 2 of the document in line with the EC Guidelines, and this area is further improved every year. The Republic of Serbia has undertaken the obligation to implement the 2030 Agenda and it prepared the Voluntary National Review for 2019, which shows the implementation of the Agenda in the Republic of Serbia.

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		Define clear criteria for establishing a unified system for planning and managing capital investments and involve the public in the prioritization process.	Already realized	The Ministry of Finance is taking further steps to improve the process of selecting and prioritizing capital investment systems together with all relevant actors. In the coming period, public investments will be strengthened through the improvement of the existing legal framework for capital project management and the introduction of an appropriate IT system.
5.1. Area of key challenges, SR proposal		Introduce a new SR in the field of Improving the development of SMEs, which would be reflected in the adoption of a strategy for the development of SMEs, increasing resources and institutional capacity dealing with SMEs.	Taken into consideration	The measure related to SMEs was SR in the previous cycles and has become a regular activity. A draft strategy for SMEs development is currently being prepared. In the next cycle of ERP preparation, the SR proposal in this area will be considered. It has also pointed out that despite the fact that there are no SRs in this ERP that directly target SMEs, a large number of SRs, especially new ones in the field of research and development, have a great impact on them.
SR 5 Sustainable and Efficient Management of Business Entities Owned by the Republic of Serbia		It is necessary to expand the SR analysis of the situation for the establishment of corporate management, as well as topics such as: intensification of public-private partnership projects, management of LSG-owned enterprises and asset management.	Taken into consideration	The topic of corporate governance is covered by the Strategy of State Ownership and Management of Business Entities Owned by the Republic of Serbia 2021-2027. First, activities focusing on standardising the legal framework for the management of RS-owned businesses would be performed. An AP for the period 2021-2023 has been drafted, the corresponding activities of which are covered by SR 5, while the next AP for the period after 2023 will contain measures and activities related to corporate management (first an analysis of the current situation will be made).

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SR 4 Improvement of the quality of public services through optimization and digitisation of administrative e-Paper processes	Ranka Miljenović, CEP, NCEU online meeting on 23 December 2021	Progress in establishing a register of administrative procedures is highlighted. Last year, CEP also commented that it was against the merger of this SR with Single Electronic Contact Point (SECP) (which Serbia is obliged to establish when transposing the Services Directive, through the Law on Services, the adoption of which is delayed), which was omitted in this ERP.	Already realized	The Register of Administrative Procedures on which the DPS is working has been established and is the starting point for the formation of the SECP. ERP envisages the improvement of a register that will be more user-oriented and bilingual (Serbian and English).
SR 19 Safe and quality product - industry development factor		It is proposed that the info portal envisaged by this reform be adapted to users, primarily to the needs of SMEs, who have a lack of capacity in this area.	Accepted	Info-portal Product-info will be adjusted to its users, primarily to the needs of SMEs, after the realization of the project of analysis of the state of existing IT capacities and software solutions and the need for their improvement and preparation of project documentation in IC institutions (Ministry of Economy, ISS, ATS and SMEs).
Area 5.2.2. Green transition, general comment	Nataša Đereg, SEKOP, online NCEU meeting on 23 December 2021	It is necessary to consider the term "ecologically acceptable projects".	Accepted	Modification made.
		Question was posed regarding the project not funded from the green bond.	Question/clarification	Detailed information can be found on the web page of the Public Debt Administration of the MoF.

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5.1. Area of key challenges, general comment	Nataša Vučković, Centre for Democracy, NCEU online meeting on 23 December 2021	<p>Compliments to the SR related to youth. Although the ERP notes the lack of highly educated staff and contains a SR dealing with dual education, the objection is that there is no proposed SR that would consider the quality and improvement of higher education. This is important given that the quality of education is key to increasing employment quality investment and standards.</p> <p>Who exactly does SR 3 on circular migration refer to? Which profile of foreigners is exactly refer to in SR 3?</p> <p>Social protection does not have any measures, the social protection strategy is late and increases in the adequacy of social benefits are needed.</p>	<p>Already realized</p> <p>Question/clarification</p> <p>Taken into consideration</p>	<p>Dual education increases the real quality of education because in cooperation with the economy and SCC such education provides quality practice, which increases the competencies of students and pupils (in this year's ERP focus is on the on higher education). In the learning process, in addition to theoretical knowledge, pupils and students also acquire practical knowledge and thus increase their employability (one of the criteria for employment is work experience, which they have immediately after graduation). Training centres and appropriate resources have been provided, as well as alignment with the needs of Industry 4.0. The number of students and companies participating in dual education is continuously increasing. The importance of the "My First Salary" programme for youth employment was pointed out. Good results in the field of investments are an indicator of the quality of the education sector in RS and the business environment.</p> <p>The system of tax relief and the system of incentives for the development of scientific research activities have been improved so that the highest quality staff with the most modern knowledge comes to Serbia. Tax relief refers to attracting highly educated staff from abroad and the diaspora, and that does not dispute the work of experts in the country and their quality, which we deal with in some other activities. There are criteria for salaries and tax benefits of these staff from abroad. Circular migrations refer to foreigners and our citizens who migrate to and from Serbia repeatedly.</p> <p>The proposal will be considered in the next ERP cycle. The effects of the SR from the previous cycle, which refers to the introduction of the social card, are expected.</p>

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5.2.10. Area of education and skills	Aleksandar Vukalović, online NCEU meeting on 23 December 2021	The intensity of attention to dual education implies that the commitment to the arrival of high technologies is focused on foreign companies, and not on the development of the domestic economy, which should mean encouraging private initiative.	Question/clarification	The implementation of the concept of dual education is equally available to interested domestic and foreign companies, as well as tax incentives for the development of innovative solutions and the implementation of research and development activities.
SR 7 Energy market development coupled with energy infrastructure construction	Lidija Radulović, BFPE, online NCEU meeting on 23 December 2021	SR 7 does not include the project for the construction of the main gas pipeline Niš-Dimitrovgrad, as last year, when the same comment has been answered that the signing of an agreement with the EIB was expected. Since the contract has been signed this year why is the project left out again?	Question/clarification	The mentioned project is being implemented. In this ERP, SR 7 focuses on the electricity infrastructure and the gas infrastructure is not covered thematically here.
5.2.1. Public Finance Management area, general comment	Marijana Radovanović CEVES, online NCEU meeting on 23 December 2021	It is necessary to improve the transparency of the budget, implementation of public procurement and further strengthen the capacity of the MoF to manage capital investments. It is proposed that the area of financial management and control be included in the ERP.	Taken into consideration Not accepted	All these areas are included in the 2021-2025 Public Financial Management Reform Programme and the 2021-2030 Public Administration Reform Strategy. Progress monitoring is presented in the annual implementation reports on the MoF website. In the MoF, a special Department deals with capital investment management and its capacities are constantly being strengthened, and the PIMIS IT system for capital project management has been started and the first phase of the project is now being completed. In the discussion on measures in the field of public financial management, we decided on those that directly affect the essence of the ERP, namely increasing competitiveness, employment and economic growth, or affecting the economy, namely the transformation of the Tax Administration, fiscalisation and e-invoices.

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SR 11 Introduction of the circular economy concept	Sanja Filipović Economics Institute, online NCEU meeting on 23 December 2021	A question about the planned funds for activities pertaining to SR 11 was asked. It was pointed out that the connection between the Ministry of Economy and the Ministry of Environmental Protection was important, as well as that the economy was interested in certain activities from this measure.	Question/ clarification	An explanation about planned funds was given. The proposal of the programme for the development of the circular economy is subject to public consultation from 23 December to 14 January 2022, and the representatives of NCEU are invited to give their proposals. By completing the Programme, all financial sources will be known. Support to economic entities is very important, and is intended to be not only in the form of workshops but to provide them with a complete analysis of their business operations, resource management, energy, raw materials and waste, as well as with recommendations for prioritizing their activities of transition to the concept of circular economy and the connection with the ways of financing. Ministry of Economy for promotion and education in the field of circular economy (a special support program has been adopted). This partnership and analysis will be conducted in partnership with the SCC, as an initial step for the development of future activities.
5.2.3. Area of Digital Transformation, general comment	Nikola Marković, The Informatics Association of Serbia, online NCEU meeting on 23 December 2021	There is a lack of highly qualified staff, especially in the field of IT, it is proposed to conduct the analysis of the situation vis-a-vis staff in the field of IT, double the quotas for enrolment in IT studies, as well as to include a measure to cover this issue in ERP.	Taken into consideration	In order to provide the missing staff to a certain extent, a retraining program for the ICT sector has been implemented since 2017, and so far, the program has been attended by over 2,200 participants. An impact study from the end of 2019 has shown that the percentage of employment in the ICT positions after the retraining program is 34,7%. During 2019-2020, the first IT retraining program for people with disabilities was held, which resulted in 30% employment in the ICT sector 3 months after the end of the program. Another IT retraining program for people with disabilities is underway, as well as a new IT retraining program that includes programs focused on positions other than programming (QA testers, system administrators), which is based on market needs analysis based on 35,000 job ads in this sector. Also, previously, intensive investments were made in the expansion of the technical capacities of the faculties that educate the mentioned staff and significant new investments are planned.

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		<p>Include in the ERP diagnostics that Serbia is lagging behind in the introduction of the 5 G mobile phone network, which has a negative impact on creating conditions for faster development and will soon be one of the main obstacles to the arrival of investors.</p>	<p>Taken into consideration</p>	<p>The basic radio frequency bands of interest for the introduction and development of 5G in Serbia have been released and are available; and upon setting the Radio Frequency Band Allocation Plan in June 2020, these bands are intended for the development of new generation mobile networks. Also, during the past and this year, relevant distribution plans were adopted. By adopting the necessary enactments of the Government and the Ministry, a legal framework has been created which is the basis to conduct public tender for the allocation of licenses for the use of 5G radio frequencies.</p> <p>As for the procedure of issuing individual licenses for the use of radio frequencies upon the public procurement procedure conducted, it is determined by the Law on Electronic Communications. Development of the so-called rulebook on minimum conditions and public bidding is expected in the first half of 2022.</p> <p>As for non-commercial 5G networks, in Serbia it is possible to use part of the spectrum (100 MHz) in the band 3400-3800 MHz on the basis of an individual temporary license issued upon request for an initial network for testing innovative projects. The temporary license can be issued with a validity period by the end of 2023 at the latest, i.e. until the establishment of a public electronic communications network in this range. Based on the above and on the auctions conducted in the EU Member States, it cannot be concluded that Serbia is lagging behind in the introduction of 5G networks, so we are of the opinion that such a statement should not be included in ERP diagnostics.</p>

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		<p>SCC has a Centre for Digital Transformation but includes a small number of companies. It is necessary to widespread the process of digital transformation, raise awareness of the importance of digitisation in modern conditions and popularize it. In addition to the existing ones, it is necessary to train new staff-instructors who can work on preparations for digitisation in companies. It is necessary to capacitate the Centre for Digital Transformation for mass digitisation, and to create other institutions that would deal with digital business transformation.</p>	<p>Taken into consideration</p>	<p>A large number of companies are not included. It is necessary to increase the number of consultants who provide support in order to make this process widespread. Under specific objective 1. Improved digitisation of industrial production business models - Industrial Policy Strategy of the Republic of Serbia for the period from 2021 to 2030 and the accompanying Action Plan for its implementation for the period from 2021 to 2023 defined a special measure relating to the Programme of digital transformation of economic entities, through which between 120 and 250 small and medium-sized enterprises should pass each year. In order to significantly increase the number of digitally transformed companies in the coming years, the mentioned Action Plan envisages the expansion of human resources, and above all the number of consultants for digital transformation, as a special activity.</p>
5.2.8. Area of transport, general comment	Nataša Đereg, SEKOR, online NCEU meeting on 23 December 2021	<p>There is a lack of a national strategy in the field of transport; there is insufficient regional development of road infrastructure, smaller towns need to be connected, and there are roads with environmental consequences.</p>	<p>Taken into consideration</p>	<p>Preparatory activities for drafting Transport Strategy are underway (selection of consultants is underway).</p>
SR 18 Improvements of the agriculture competitiveness	Nataša Đereg, NCEU coordinator, online NCEU meeting, on 23 December 2021	<p>NCEU has the opportunity to follow the connection of topics in different negotiation chapters. The development of rural infrastructure is important for balanced regional development, as well as for the Negotiation Chapter 22 and the chapters dealing with agriculture in accordance with the Rural Development Strategy. NCEU has good cooperation with the Ministry of Agriculture, Forestry and Water Management, where the NCEU will be involved in the promotion of IPARD programmes in rural areas, because potential beneficiaries can hardly get information about IPARD in local self-government.</p>	<p>Taken into consideration</p>	<p>This is a statement.</p>

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SR 18 Improvements of the agriculture competitiveness	Dragan Roganović, Network for Rural Development of Serbia, online NCEU meeting, 23 December 2021	How will rural infrastructure be financed and will it be fully funded by IPARD? Proposal to increase the use of IPARD funds.	Question/clarification	<p>SR 18 measure is a complex and involve rural infrastructure. The implementation of the measure was initiated in 2021. According to the first public call, 200,000,000 dinars were allocated from the budget. The subject of the first public call were investments in the construction and equipping of facilities:</p> <p>1) for water supply; 2) road infrastructure. The measure is already being implemented from the national budget (road infrastructure and water supply systems). It will be financed from the budget in 2022 and 2023. The plan is for the measure to be accredited in the upcoming period and to be implemented through the IPARD 3 programme from 2024. The National Agriculture Programme and the National Rural Development Programme are being drafted. All planning documents in the field of agriculture are prepared in accordance with the Law on Planning System and will be posted on the e-consultation portal, so that all stakeholder are able to give their comments and suggestions for the improvement thereof.</p>

Addendum to the Annex 3

Slobodan Milovanović from the Association of Citizens “Levica” submitted his comments regarding the ERP on 17 December 2021, pokretlevica@gmail.com. He agreed with the analysis of the main obstacles by areas, but did not comment on structural reforms in Chapter 5, however, he proposed new measures/activities in several areas. These measures, which are presented below, will be considered in the next ERP cycle.

Area	Measures/activities
Area: Public Financial Management	Adopt a Decree on Disposal of Old Fiscal Cash Registers and their recycling
Area: Green Transition, general comments	<p>Declare a climate state of emergency and launch a four-year investment cycle in ecologically relevant areas.</p> <p>Establish a commission on environmental issues composed of analysts and experts, representatives of NGOs and representatives of communities vulnerable to the effects of climate change.</p> <p>With the reform of the Environmental Protection Agency, introduce a new institution of environmental protector - the Ombudsman for Natural Resources, Environment and Pets, organized according to the local principle.</p> <p>Develop and adopt an Air Protection Strategy that is six years late and through it more precisely define the goals and procedures for neutralizing the consequences of climate change.</p> <p>Adopt a 25-year plan for the transition to energy supply from sustainable sources.</p> <p>Fully strive for the harmonization of industry development with the 2030 Agenda, i.e. according to the United Nations sustainable development goals, as well as with other relevant international documents.</p> <p>Stop all incentives in the fossil fuel industry, but also incentives intended for projects that generally harm our environment. Strengthen inspection of industries at higher risk of pollution. Set new legal limits for emissions produced by declining industries, as well as more severely sanctioning policies for any violation thereof.</p> <p>Resolve the status of collectors of secondary raw materials by forming recycling cooperatives and improving the legislative framework.</p> <p>Employ sufficient number of people in public companies for the maintenance of public areas, quality control of drinking water and waste disposal. Improve communal services by collecting garbage in households by developing primary waste selection and raising citizens' awareness of environmental issues through the media outlets, which would establish responsible waste management according to high international standards. Provide modernization of containers and sufficient number of waste bins. Rehabilitate places that are illegally used as landfills, and by stronger legal provisions and the formation of a register of pollutants, prevent further disposal of waste in places not foreseen for that purpose, i.e. prevent further recurrence of environmental violations. Implement the practice of charging for disposable plastic, following the example of the existing practices of charging for plastic bags. Finally, finish mapping and drafting regulations on the correct and safe way of removing asbestos and files, i.e. inventory of facilities, assessment of the presence of asbestos and its impact on human health and the environment.</p> <p>Ensure that each place has the right to access the sewerage network and clean drinking water in the shortest possible time. Constantly expand the network of parks, children's playgrounds and other green areas.</p>

Area	Measures/activities
Area: Digital Transformation, general comment	Establish and then strengthen e-democracy through greater citizen participation in decision-making processes, with special reference to local political issues.
	Organize publicly funded digital literacy programmes.
	Expand the network of publicly available internet access in the central municipal and city zones.
	Prepare clear and professionally supported project management regulations to implement best practices from the IT industry.
	Announce annual public competitions for financing start-up ideas with an emphasis on sustainable development.
	Lower taxes in the IT industry.
	Adopt a special Law on support for creative industries.
Area: Research, Development and Innovations	Develop incentive programmes intended for economic entities that invest in research and development projects.
	Significantly improve working conditions in scientific research institutions through modernisation of equipment, staff training and development of partnerships with the local community and economy.
	Support the constant modernisation of the work of existing scientific research institutes and centres, as well as the establishment of new ones in accordance with the development needs of Serbia.
	In cooperation with the Faculty of Forestry, develop the scientific research area of sustainable forestry.
	Invest in young scientists in order to, among other things, reduce the trend of "brain drain" and at the same time provide a staff base as a replacement for older scientists.
Area: Transport Market Reforms, general comments	Start with a gradual transition to sustainable public transport, with a number of vehicles that will at least roughly meet the daily transport needs of citizens.
	Build public garages according to infrastructure and other possibilities, in order to reduce parking the vehicles in unmarked parking spaces.
	Intensify the electrification of the existing railway network and its further expansion and modernization, because such an approach would increase the capacity of passenger transport, but also act in accordance with the intention to make railway traffic the main intercity means of transport.
	Develop a strategy and start with projects for the construction of cycling inter-municipal corridors, which would encourage the use of healthier modes of transport, i.e. in this way we get less use of buses and cars as the basic means of transport today for intercity transport. The development of the local network of cycling paths must be one of the priorities, starting from the fact that the bicycle is the healthiest mode of transport, especially in larger areas, where the competent local institutions should develop a "local community" in accordance with the intention to make a bicycle the main mean of transport.
	Establish fast lanes tailored to the needs of public transport users, ambulances and taxis, noting that this project must be prioritized by the line ministry.
	Introduce tax relieves for the purchase of electric vehicles, such as reducing VAT to 5% over a four-year period.

Area	Measures/activities
Area: Agriculture, Industry and Services	Introduce solidarity compensation in the amount of 50 euros per month in dinar equivalent for those who decided to stay living in the countryside and have reached the age of 72.
	Establish the principle of progressive amount of incentives per hectare (the smaller the land holding, the higher the incentives per hectare and vice versa).
	Launch the project "From producer to consumer" and organize it according to the local principle. The project must contain ambitious goals in terms of supporting organic food production, reducing the use of pesticides and fertilizers and food waste, phasing out GMO products from the market by 2030 at the latest and other solutions to support quality, healthy and affordable food on the market.
	Build 25 public regionally distributed cold stores wherein fruits and vegetables will be stored.
	Reaffirm the idea of cooperatives and cooperative ownership on the basis of leases and in the form of small manufacturing companies.
	Develop, support and actively participate in raising awareness and promoting the production and consumption of organic food.
	Invest significant funds in the procurement of irrigation systems as part of a programme aimed at the stability of agricultural production.
	Stimulate agriculture and the return of people to the countryside through guaranteed purchase of agricultural products.
	Specify the policy of agricultural land use and then transfer unused state-owned agricultural land give to farms for use through incentive measures.
	Determine interest-free and non-refundable funds for the purchase of new, modern agricultural tools and machines for work.
	By establishing the Fund for the Protection of Farmers, support communities and households affected by weather and drought.
	Define the role and manner of operation of markets and wholesale markets by a separate law.
	Encourage the rational use of water in the field of tourism through incentive measures.
	Allocate larger funds for the need to protect and promote national parks, but also protected areas of exceptional natural and cultural-historical significance.
	Make preparations and then support the construction of the tourist infrastructure of Serbia in the function of raising the national offer in the field of tourism.
	Tourism represents a development opportunity for Serbia and that is why the importance of investments in international promotion and general development of tourism is emphasized, starting from the belief that the great potentials of religious, ecological, health and cultural tourism, as well as archaeological tourism must be used.
	Activate a new investment fund that will be used for the renewal of accommodation capacities and tourism development.
Decriminalize the use and possession of cannabis, introduce it into legal channels and enable its strictly controlled cultivation. The implementation of this measure is equally important for the development of agriculture and the development of tourism.	

Area	Measures/activities
Area: Social Protection and Inclusion	Open offices to empower both girls and women victims of domestic and/or intimate partner violence. It is necessary to ensure daily work in accordance with local needs and telephone availability at all times.
	Open offices for the empowerment of people with disabilities and developmental disabilities, as well as for the empowerment of their parents with whom it is important to work so as to prepare them for future challenges.
	Open offices to support and empower people from the LGBT + population, people from minority communities and people living with HIV/AIDS with free, voluntary and confidential access to testing.
	Launch a beneficiary housing programme modelled on Finland and thus make a significant step towards eradicating homelessness. Control the movement of prices in the real estate rental market in order to ensure the right to affordable housing as a state.
	Provide 10,000 social housing for the needs of socially endangered categories from housing units where reconstruction is not cost-effective or feasible, through the process of new construction and conversion of existing state-owned premises.
	Support the reform and reorganization process of the National Food Bank network in order to gradually reduce the need for soup kitchens. The Food Bank for Socially Vulnerable Individuals should ensure the right to a healthy and quality daily meal, with special emphasis on caring for the population in rural areas. Regulate regulations for retail chains and thus oblige them to hand over food products at the end of their shelf life to the local branch of the Food Bank or the National Kitchen. As the general poverty rate gradually decreases, the main role of the Food Bank must become to provide sufficient quantities of fruits and vegetables for people of lower social status.
	Establish an Office for Pensioners with the basic goal of monitoring the position of our oldest fellow citizens and exercising their rights guaranteed through the Constitution, legislative framework and international documents. Gradually introduce benefits for our senior citizens after the age of 60, including the right to free use of public transport, lower prices of food and medicine, as well as the right to an annual stay in the spa financed from public funds. Establish a category of social pensions in the amount of 120 euros per month in dinar equivalent for those over 65 who have no income. Create conditions for maintaining intergenerational ties, such as by opening centres for fostering cooperation, coexistence, volunteering and solidarity.
	Provide socially disadvantaged individuals with the right to sustainable types of heating.
	Include in the Law on Social Welfare the obligation of the centres for social work to have to visit a certain number of users daily, weekly and monthly.
	Increase accommodation capacities in safe houses for women, children, victims of domestic violence and persons from the LGBT + population, with the obligatory adaptation of facilities to persons with disabilities.
	Equate sign language with spoken languages in accordance with the UN Convention on the Rights of Persons with Disabilities.
Deaf people who have been diagnosed with severe hearing loss must be entitled to reimbursement of the costs incurred in purchasing hearing aids.	

Area	Measures/activities
	<p>Define more precisely the range of financial incentives for employment; the system of rewarding the employer for exceeding the minimum prescribed quota of employees and rewarding the employer for successful solutions and good practice in the field of employment of persons with disabilities and developmental disorders. Impose to employers who, in accordance with the law, do not meet the quota related to the employment of persons with disabilities and developmental disorders, an obligation to pay 100% of the average salary for the previous month according to the latest published data by the statistical authority, for each person with disability and developmental difficulties who are not employed according to the legally prescribed obligation.</p>
	<p>Guarantee the right to a monthly income in the value of the national minimum for guardians who care for people with severe disabilities and developmental disorders.</p>
	<p>Focus more efforts on the protection and improvement of the rights of persons from the Roma population.</p>
	<p>Adopt amendments to the Law on the Rights of Veterans, War Invalids, Civilian War Invalids and Members of their Families, so as to take into account the participants in the armed conflicts from 1991 to 1999, our fellow citizens living in general misery and poverty, completely neglected by their countries. These people must be guaranteed basic existential security.</p>

