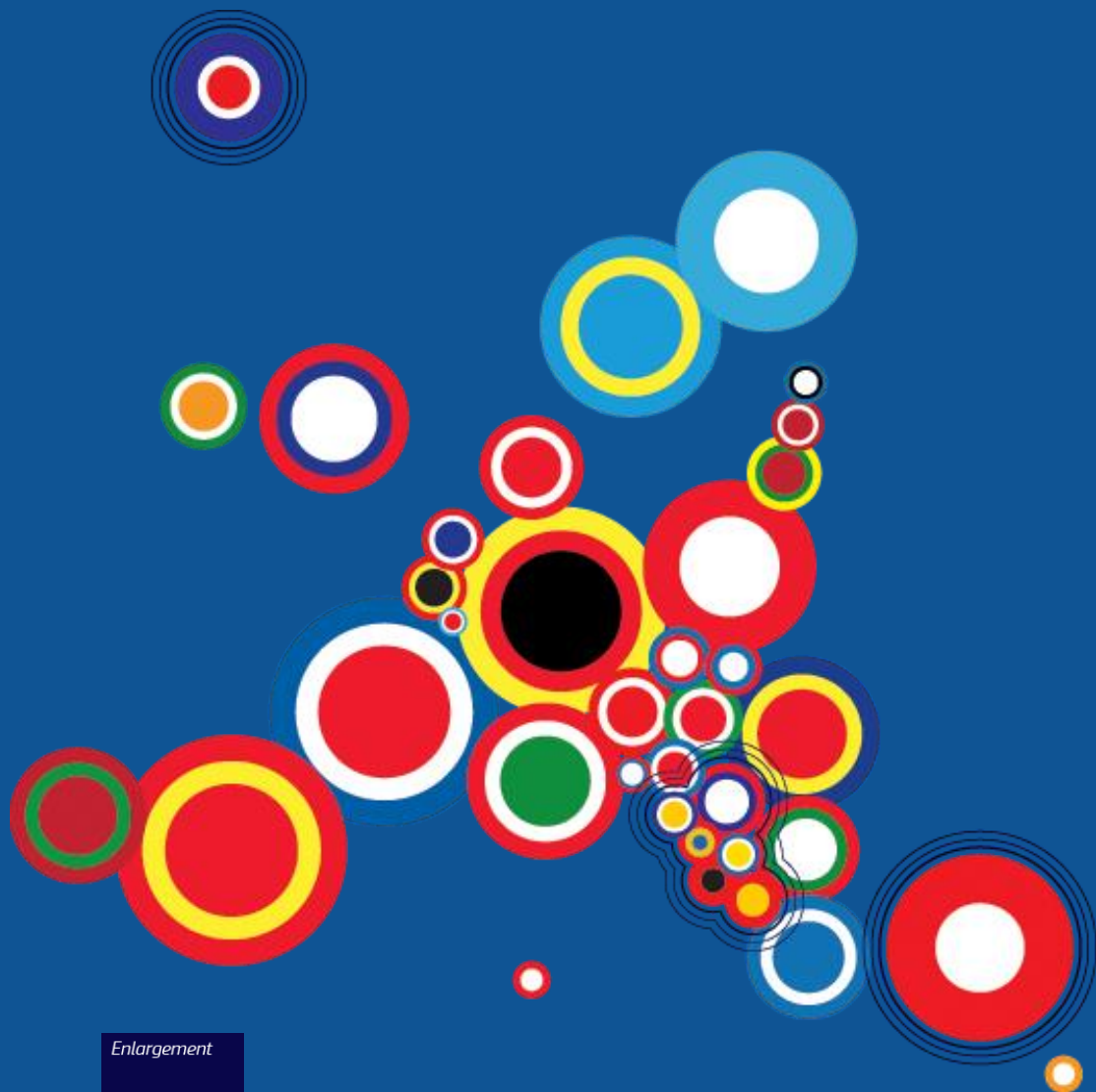




European
Commission

ENLARGEMENT PACKAGE 2018

SERBIA REPORT 2018



Enlargement

Enlargement Package 2018

- *Methodology*
- *Fundamentals first*
- *Overview of key progress and key outstanding issues*
- *State of play of selected political and economic areas*
- *Economic Criteria*
 - The Existence of a Functioning Market Economy
 - The Capacity to Cope with Competitive Pressure and Market Forces
- *Key challenges ahead*

METHODOLOGY

- Reporting period: 1 October 2016 – 1 February 2018
- Assessment made on a thorough consultation process, involving national authorities, civil society, international organisations, embassies, business associations.
- Clear assessment scales – on (a) state of play and (b) yearly process). Emphasis on implementation and track records of concrete results

METHODOLOGY

The 5 terms used in the Serbia report for assessing the **state of play** are:



The 5 terms used in the Serbia report for assessing the **yearly progress** are:





FUNDAMENTALS FIRST

*Similar to previous years, the 2018 Enlargement Package expresses continued commitment to the **principle of fundamentals first**:*

- *Political Criteria & Rule of Law*
 - ***Democratic Institutions & Public Administration Reform (PAR)***
 - ***Rule of Law & Fundamental Rights***
- *Economic development and competitiveness*

Accession negotiations: part of a wider process of modernisation and reforms. Reforms are not needed because of the EU, but to increase efficiency, transparency and societal progress.



Serbia firmly on EU Path

2018 Serbia Report

PROGRESS: 2018 OVERVIEW

State of play	Yearly progress
Early stage of preparation: 1	Backsliding: 0
Some level of preparation: 5 (*) <small>*Competition Policy: some level of preparation/moderately</small>	No progress: 8 (5 in 2016)
Moderately prepared: 21 (**) <small>**Transport Policy: Moderately/good level of preparation</small>	Some progress: 23
Good level of preparation: 6 (3 in 2016)	Good progress: 2 (6 in 2016)
Well advanced: 0	Very good progress: 0

KEY PROGRESS MADE

- *Some progress on **judicial system, fight against corruption and organised crime***
- *Some progress on **PAR***
- *Continued constructive and leading **role in the region***
- *Engagement in the dialogue on the **normalisation of relations with Kosovo***
- *Good progress in **economic criteria** – fiscal stability deficit, growth, labour market*
- *Some progress on increasing competitiveness*

KEY OUTSTANDING ISSUES - Political

- *Further efforts on **rule of law**, e.g. (ongoing) judiciary constitutional reform; effective law enforcement; convictions for organised crime*
- ***Public administration** needs to be further professionalised and depoliticised, and equipped with qualified staff dealing with EU issues*
- *A stronger role for **civil society and stakeholders** more broadly remains crucial*

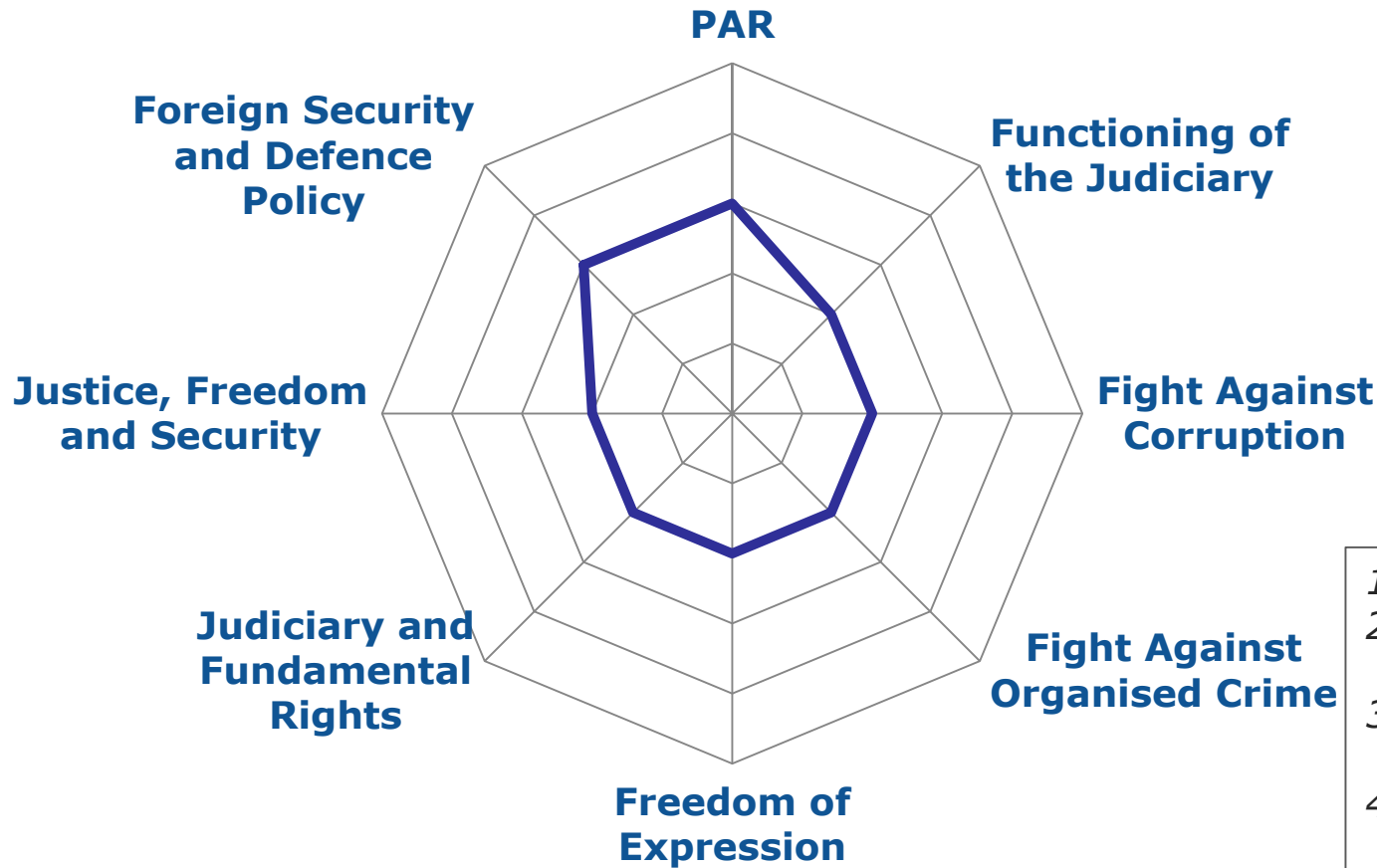
KEY OUTSTANDING ISSUES - Political

- ***Freedom of expression*** - the consistent implementation of the existing legal and institutional framework of ***fundamental rights*** across the country
- The establishment of circumstances conducive to the full ***normalisation of relations with Kosovo***
- Adoption of a strategy and action plan for 2017-2020 to counter ***irregular migration***

KEY OUTSTANDING ISSUES - Economic

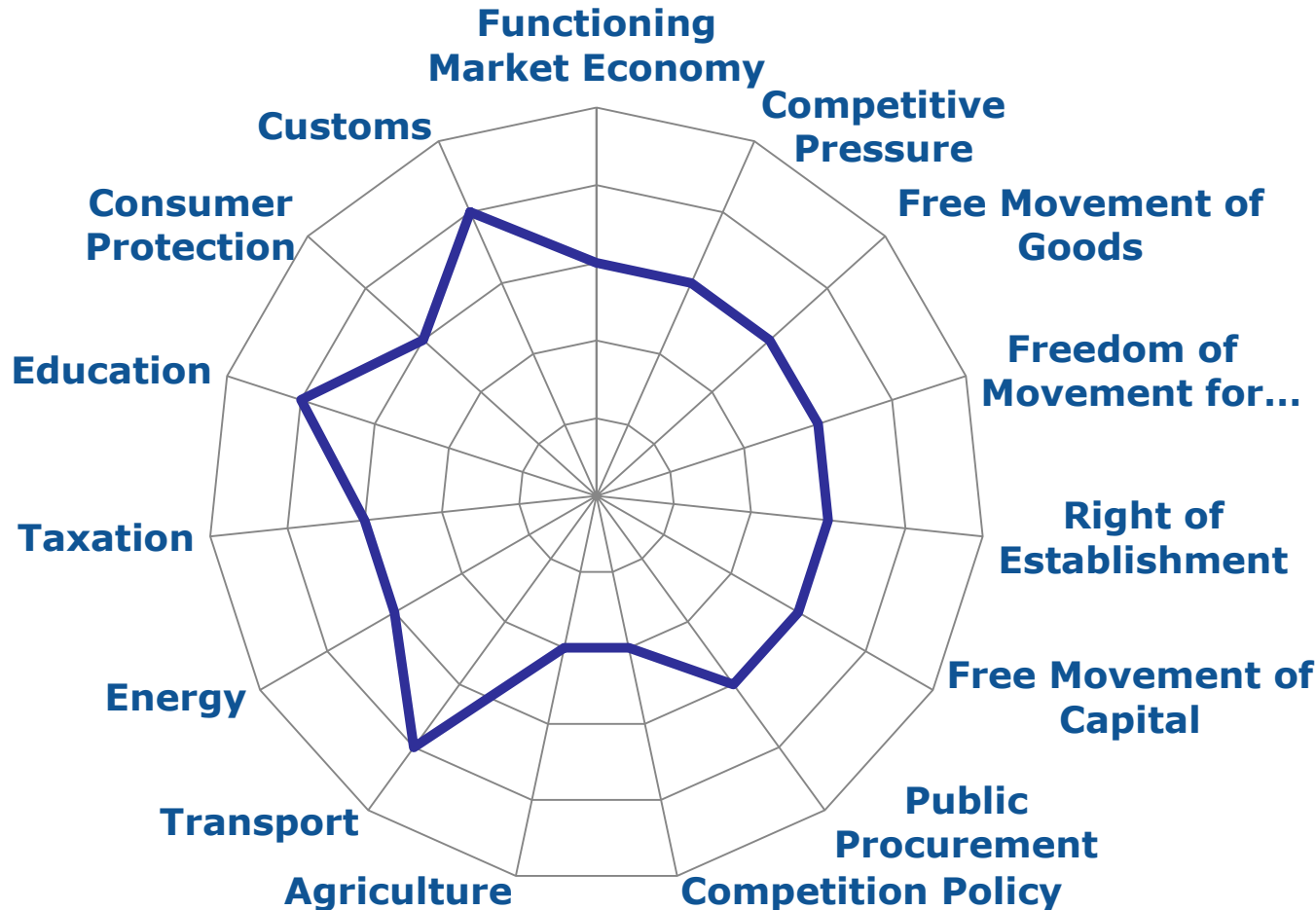
- Continue developing a **functioning market economy** and addressing of the **weak business environment**, including: high government debt, strengthening of budgetary framework and governance, completion of major structural reforms, high unemployment and inactivity rates, low level of investment activity

State of Play of Selected Political Areas



1. Early stage
2. Some level of preparation
3. Moderately prepared
4. Good level of preparation
5. Well advanced

State of Play of Selected Economic Areas



ECONOMIC CRITERIA – Some statistics first

Key economic figures	2015	2016	2017
Gross domestic product per capita (% of EU28 in PPS)	36	37	
GDP growth (%)	0.8	2.8	1.9
Unemployment rate (female; male) (%)	17.7 (18.8; 16.8)	15.3 (16.1; 14.6)	13.5 (14.3; 12.9)
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%)	63.6 (55.6; 71.6)	65.6 (58.1; 73.1)	
Current account balance (% of GDP)	-4.7	-3.1	-5.7
Net Foreign direct investment (FDI) (% of GDP)	5.4	5.5	6.6

POSITIVE ASSESSMENTS

- Authorities remained committed to creating a functioning market economy by pursuing economic reforms
- Growth fundamentals are sound and macroeconomic stability was preserved
- Positive fiscal results (government surplus, strong revenue performance)
- Price pressures were subdued (inflation contained) and monetary policy supported price stability
- The stability and performance of the financial sector strengthened (NPL of 11% in November)
- Labour market conditions improved, unemployment still high

OUTSTANDING ISSUES

- Government debt is still high and budgetary framework and governance need to be strengthened
- External imbalances increased
- Major structural reforms of public administration, the tax authorities, and state-owned enterprises (SOEs), in particular the petrochemical, mining and energy sectors, remain incomplete
- Business environment remains weak: urgent procedures, delays in secondary legislation, parafiscal charges
- Privatisation completion

OUTSTANDING ISSUES

- The private sector is underdeveloped and hampered by weaknesses in the rule of law and the enforcement of fair competition.
- The quality, equity and relevance of education and training do not fully match societal and economic needs. The level of investment activity is also below the economy's needs.
- Despite some improvements, SMEs face a number of challenges, including high and unpredictable para-fiscal charges, and difficult and costly access to finance.

ECONOMIC CRITERIA: The Existence of a Functioning Market Economy

State of play: Moderately prepared

Yearly progress: Good progress

Good progress made in addressing some of the policy weaknesses, particularly with regards to the budget deficit.

Priorities for the next year

1. Sustain good fiscal results in order to lower government debt and improving revenue collection in a systematic and business-friendly way;
2. Continue the restructuring and privatisation of state-owned enterprises and public administration reform;
3. Enhance labour market participation and employment especially for women and youth.

ECONOMIC CRITERIA: The Capacity to Cope with Competitive Pressure and Market Forces

State of play: Moderately prepared

Yearly progress: Some progress

Some progress made in improving the structure of the economy and economic integration with the EU increased further.

Priorities for the next year

1. Continue to improve the quality, equity and relevance of the education system;
2. Stimulate private investment and improving prioritisation and management of public infrastructure projects;
3. Better regulate and reduce para-fiscal charges.

CHAPTER 1: Free Movement of Goods

State of play: Moderately prepared

Yearly progress: Some progress

Some progress was made in adopting and implementing harmonised and sectoral area legislation.

Priorities for the next year

1. Adopt an action plan for compliance with Articles 34-36 of the TFEU
2. Adopt a strategy and an action plan for the implementation of the EU acquis in this chapter, covering both the sectoral (New Approach and Old Approach) and horizontal legislation and organisations.
3. Provide adequate administrative capacities to ensure the implementation of the European Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), as well as at the Directorate for Measures and Precious Metals (DMDM).

CHAPTER 2: Freedom of Movement for Workers

State of play: Moderately prepared

Yearly progress: Some progress

Priorities for the next year

1. Continue enhancing cooperation with EU Member States on co-ordination of social security systems.

CHAPTER 3: Right of Establishment and Freedom to Provide Services

State of play: Moderately prepared

Yearly progress: Some progress

Some progress was made on legislative alignment in the fields of postal services and mutual recognition of professional qualifications.

Priorities for the next year

1. Adopt the umbrella law on services, continue to harmonise sectoral regulation with the umbrella law and the acquis and establish a point of single contact as a one-stop-shops for service providers to obtain information and complete administrative formalities online;
2. Adopt a new law on mutual recognition of professional qualifications and implement the adopted strategy and action plan;
3. Adopt the law on postal services and relevant implementing legislation to further open up the postal market; increase the capacity for postal services inspection.

CHAPTER 4: Free Movement of Capital

State of play: Moderately prepared

Yearly progress: No progress

No progress was made on meeting the Commission's recommendations set out in 2016.

Priorities for the next year

1. Further liberalise capital movements in line with its obligations under the SAA;
2. Further legislation alignment with the latest acquis on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, increase the capacity of the Administration for the Prevention of Money Laundering and enhance cooperation between all stakeholders to improve investigation and reporting.

CHAPTER 5: Public Procurement

State of play: Moderately prepared

Yearly progress: No progress

No progress was made during the reporting period.

Significant efforts are needed to further improve competition, efficiency and transparency in public tenders.

Priorities for the next year

1. Ensure further alignment with the EU Directives on public procurement, including concessions;
2. Ensure that intergovernmental agreements concluded with third countries and their implementation do not unduly restrict competition and are in line with the national legislation and the EU acquis;
3. Continue to strengthen the capacity of the Public Procurement Office, the Republic Commission for the Protection of Rights in Public Procedures and the administrative courts.

CHAPTER 6: Company Law

State of play: Good level of preparation

Yearly progress: No progress

No progress was made within the reporting period.

Priorities for the next year

1. Adopt the company law under preparation, and continue to improve alignment with the company law acquis, notably on takeovers and the transparency requirements for listed companies;
2. Align its accounting and statutory audit legislation with the acquis and ensuring adequate funding and resources for the public audit oversight system.

CHAPTER 7: Intellectual Property Law

State of play: Good level of preparation

Yearly progress: No progress

There was **no progress** in this area.

The recommendations set out in 2016 have not been followed, and remain valid.

Priorities for the next year

1. Further align the law on copyright and related rights, the law on topographies of semiconductor products and the laws on patents and trademarks with the acquis;
2. Further strengthen enforcement capacity and coordination of different stakeholders.

CHAPTER 8: Competition Policy

State of play: some level of preparation/moderately prepared

Yearly progress: No progress

No progress has been made in the field of legislative alignment and enforcement of State aid rules.

Priorities for the next year

1. Make significant progress in the alignment of its legislation on State aid, in particular to repeal the exemption of enterprises in the process of privatisation from State aid control, in line with its obligations under the SAA;
2. Take additional steps to align existing schemes, in particular the fiscal State aid schemes (namely the Law on Corporate Income Tax, the Law on Personal Income Tax and the Law on Free zones) with the *acquis*;
3. Step up its efforts to make the Commission for State Aid Control more independent and effective.

CHAPTER 9: Financial Services

State of play: Moderately prepared

Yearly progress: Some progress

Some progress was made in this field, especially in the field of banks and financial conglomerates, but more work is required to implement the financial services acquis.

Priorities for the next year

1. Take additional steps to align with the Capital Requirements Directive and Regulation (CRR/CRD IV package) and the Solvency II Directive.

CHAPTER 10: Information Society and Media

State of play: Moderately prepared

Yearly progress: No progress

No progress can be reported over the past year, regarding the implementation of the previous recommendations.

Priorities for the next year

1. Finalise the harmonisation of the legislative framework in electronic communications with the 2009 EU regulatory framework;
2. Ensure the financial and operational independence of the two regulators, namely RATEL - for electronic communication and postal services, and REM -for electronic media;
3. Take effective measures to improve market operators' access to telecommunication infrastructure, in particular to ducts, antennas and fibre optic infrastructure;
4. Develop a national strategy on cybersecurity.

CHAPTER 11: Agriculture and Rural Development

State of play: Some level of preparation

Yearly progress: Good progress

Good progress was made by achieving entrustment with budget implementation tasks for all the measures included in the IPARD II Programme and amending the law on agriculture and rural development.

Priorities for the next year

1. Implement the measures entrusted under the IPARD II programme and seek entrustment with budget implementation tasks for other measures of the programme;
2. Finalise and proceed with implementation of the action plan for acquis alignment in agriculture and rural development.

CHAPTER 12: Food Safety, Veterinary and Phytosanitary Policy

State of play: Moderately prepared

Yearly progress: No progress

There has been **no progress** in the reporting period.

Priorities for the next year

1. Develop a comprehensive strategy for transposition, implementation and enforcement of the acquis on food safety, veterinary and phytosanitary policy;
2. Substantially strengthen the administrative capacity of the veterinary, phytosanitary and national reference laboratories directorates;
3. Consistently apply and improve the risk based approach to sanitary control at borders.

CHAPTER 13: Fisheries

State of play: Moderately prepared
Yearly progress: Some progress

Some progress was made by adopting a rulebook on catch certification.

Priorities for the next year

1. Adopt an action plan that will ensure full compliance with the requirements of the acquis by the date of accession, in particular regarding organisation of the markets, aquaculture, data collection and control measures against illegal, unreported and unregulated fishing.

CHAPTER 14: Transport Policy

State of play: Moderately prepared/Good level of preparation

Yearly progress: Good progress

Good progress was made on the 2016 recommendations on road safety and rail reform, which remain a priority. Administrative capacity for all modes of transport needs to be further strengthened.

Priorities for the next year

1. Improve road safety by taking measures to reduce fatalities and advance in Intelligent Transport Systems (define the strategic framework, adopt legislation, and improve capacity for implementation and enforcement);
2. Continue to focus on implementing rail reform including market opening, the network statement, infrastructure management and market monitoring;
3. Comply with the requirements under the first transitional phase under the European Common Aviation Agreement (ECAA).

CHAPTER 15: Energy

State of play: Moderately prepared

Yearly progress: Some progress

Some progress was made on the recommendations set out in 2016, though it was limited to promoting investments in energy efficiency and in renewable energy, in addition to progress on nuclear safety.

Priorities for the next year

1. Fully unbundle Srbijagas and develop competition in the gas market;
2. Fully implement the connectivity reform measures;
3. Strengthen human capacity and promote investment in energy efficiency and renewable energy; and initiate reforms to introduce cost-reflective electricity tariffs fully taking into account investment needs for EU integration and social security implications.

CHAPTER 16: Taxation

State of play: Moderately prepared
Yearly progress: Some progress

Some progress was made in legislative alignment, but the reform of the tax administration has slowed down.

Priorities for the next year

1. Removing discrimination in the application of excise duties on imported spirits,
2. Stepping the implementation of the tax administration reform programme to further simplify tax procedures, streamline the tax administration's activities and ensure sufficient human and IT resources, improve tax collection and combat the informal economy.

CHAPTER 17: Economic and Monetary Policy

State of play: Moderately prepared
Yearly progress: Some progress

Serbia has established a good institutional and administrative framework in the area of economic and monetary policy.

Some progress was made as regards alignment with the acquis, especially through progressive improvement of the Economic Reform Programme.

Priorities for the next year

1. Improve economic policy coordination, particularly in designing and implementing structural reforms;
2. Put in place a more relevant system of fiscal rules in order to strengthen the budgetary framework.

CHAPTER 18: Statistics

State of play: Moderately prepared
Yearly progress: Some progress

Some progress was made in further aligning some sectoral statistics with the acquis.

Serbia notified to the European Commission its nomenclature for statistical regions and it was accepted as compatible with the NUTS Regulation.

The transmission of statistical data to Eurostat has also improved.

The Statistical Office needs to retain highly qualified staff to meet the obligations of the acquis.

Priorities for the next year

1. Adopt the new statistical law to increase the independence of the Statistical Office;
2. Improve compilation of macroeconomic statistics in line with the European System of Accounts (ESA) 2010.

CHAPTER 19: Social Policy and Employment

State of play: Moderately prepared
Yearly progress: Some progress

Some progress was made in further aligning the relevant legislation with the acquis, mainly in the area of health and safety at work, and the functioning of social dialogue. Active labour market policies have been consolidated albeit with very limited coverage of the unemployed.

Priorities for the next year

1. Increase financial and institutional resources for employment and social policies to more systematically target the young, women and long-term unemployed;
2. Improve the adequacy of the social benefit system to provide more effective support for parts of the population most in need;
3. Significantly strengthen the bipartite and tripartite social dialogue at all levels.

CHAPTER 20: Enterprise and Industrial Policy

State of play: Moderately prepared

Yearly progress: Some progress

Some progress was made on promoting entrepreneurship and facilitating access to finance for SMEs.

Priorities for the next year

1. Develop a comprehensive industrial policy based on EU principles and using the findings of the smart specialisation exercise;
2. Make efforts to improve the predictability of the business environment, with the emphasis on addressing the issue of unpredictable parafiscal charges.

CHAPTER 21: Trans-European Networks

State of play: Moderately prepared
Yearly progress: Some progress

Some progress was made on the 2016 recommendation on the gas interconnector with Bulgaria and on operational planning and infrastructure development.

Priorities for the next year

1. Increase the number of staff working on transposing, implementing and enforcing the Trans-European networks acquis;
2. Advance the adoption of maintenance plans for the entire core network;
3. Accelerate preparations for the construction of the gas interconnector with Bulgaria; in particular, finalise land acquisition, the geotechnical survey, and the design for building permit.

CHAPTER 22: Regional Policy and Coordination of Structural Instruments

State of play: Moderately prepared

Yearly progress: Some progress

Some progress continued to be made in gaining experience in managing EU funds under indirect management.

Priorities for the next year

1. Adopt and start implementing an action plan setting out clear objectives and timeframes in order to meet the requirements of the EU cohesion policy;
2. Continue to ensure adequate capacity to implement indirect management programmes.

CHAPTER 25: Science and Research

State of play: Good level of preparation

Yearly progress: Some progress

Some progress was made with regard to innovation policy and participation to the EU programmes for research.

Priorities for the next year

1. Implement the national research strategy, and in particular stimulate cooperation between industry and academia.

CHAPTER 26: Education and Culture

State of play: Good level of preparation

Yearly progress: Some progress

Some progress was made in improving the curricula and establishing the Erasmus+ national agency.

Priorities for the next year

1. Increase participation in early childhood education, in particular by children from disadvantaged backgrounds;
2. Finalise the establishment of the national qualifications framework system.

CHAPTER 27: Environment and Climate Change

State of play: Some level of preparation

Yearly progress: Some progress

Some progress has been made in further aligning with the acquis, strategic planning and addressing the 2016 recommendations.

Priorities for the next year

1. Enhance administrative and financial capacity by strengthening the EPA, operationalising and adequately resourcing the Green Fund and improving interinstitutional coordination;
2. Intensify implementation and enforcement work, e.g. closing non-compliant landfills, investing in waste separation and recycling, reinforcing air quality monitoring, advancing RBM and preparing for Natura 2000.
3. Implement the Paris Agreement, including by developing a comprehensive strategy for climate change, consistent with the EU 2030 framework for climate and energy policies and well integrated into all relevant sectors.

CHAPTER 28: Consumer and Health Protection

State of play: Moderately prepared

Yearly progress: Some progress

Some progress was made with the adoption the law on medical devices and the laws on transfusion medicine and biomedically assisted fertilisation.

Priorities for the next year

1. Strengthen the administrative capacity of relevant authorities for consumer protection, market surveillance and sanitary inspection;
2. Strengthen the overall managerial capacities and human resources as well as the financial sustainability of the public health insurance fund.

CHAPTER 29: Customs Union

State of play: Good level of preparation

Yearly progress: Some progress

Some progress was made by streamlining some customs processes.

Priorities for the next year

1. Further upgrade the customs processing system by integrating risk management;
2. Further improve the IT system of the national customs to enable integration with the EU system.

CHAPTER 30: External Relations

State of play: Moderately prepared **Priorities for the next year**

Yearly progress: No progress

No progress was made in the last year and capacity to pursue key challenges in trade policy weakened.

1. Urgently remove the recently imposed export restrictions on non-hazardous waste, which are not justified under the SAA and which point to weaknesses in administrative capacity to implement trade policy;
2. Complete WTO accession by adopting a WTO and EU acquis-compliant law on GMOs and complete remaining bilateral market access negotiations;
3. Strengthen administrative capacity in the MTTT for dealing with trade with the EU, CEFTA and WTO accession, in particular with a view to implement the multiannual action plan for REA.

CHAPTER 32: Financial Control

State of play: Moderately prepared
Yearly progress: Some progress

Some progress was made in all areas. The Commission recommendations from 2016 were partially implemented.

High level political support will remain instrumental for implementation of Public Internal Financial Control (PIFC) reforms at all levels of the administration and in state-owned companies.

Priorities for the next year

1. Start preparing a policy document that defines and explains the national approach to the implementation of managerial accountability;
2. Provide a mandate for the Central Harmonisation Unit (CHU) to implement quality reviews of internal control systems in individual institutions and ensure that the CHU starts to implement such reviews;
3. Take necessary measures to ensure that the system for detection of irregularities works in practice, both for the EU funds and for the national budget.

CHAPTER 33: Financial and budgetary provisions

State of play: Early stage of preparation

Yearly progress: Some progress

Some progress was made in the underlying policy areas affecting the correct functioning of the own resources system.

Priorities for the next year

1. Make further steps to boost the administrative capacity of the coordination group and the various institutions involved in the own resources system, and develop the organisational and procedural links between these institutions.



Forward looking – need for action

- Develop a single mechanism for prioritising investments, aligned with competition and public procurement legislation
- Strengthen the capacity of the Public Procurement Office, the Republic Commission for the Protection of Rights in Public Procedures and the administrative courts.
- Make significant progress in the alignment of Serbia's legislation on State aid;
- Urgently remove the recently imposed export restrictions on non-hazardous waste,
- Improve quality, equity, and relevance of education and training to better match societal needs;
- Srbijagas unbundling
- SAA breaches: state aid, fiscal discrimination, capital movements

OVERALL: KEY CHALLENGES AHEAD

- ❖ Inclusivity, transparency and quality of law-making need further improvement.
- ❖ The role of independent regulatory bodies needs to be fully acknowledged.
- ❖ The scope for political influence over the judiciary remains a concern.
- ❖ Corruption remains prevalent in many areas and continues to be a serious problem.

OVERALL: KEY CHALLENGES AHEAD

- ❖ Serbia need to focus on the implementation of the action plan agreed with the Financial Action Task Force (FATF).
- ❖ Overall environment not conducive to full exercise of freedom of expression.
- ❖ While alignment of legislation with EU standards is high in certain areas, implementation remains a challenge.

Package: https://ec.europa.eu/neighbourhood-enlargement/countries/package_en