

Enlargement Strategy 2015 Report

Serbia

Economic Criteria and Chapters 4, 6, 8, 9, 17, 19, 20, 22,29, 32, 33

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1. Introduction

Serbia got granted candidate country status by the European Council in 2012. Negotiations started in January 2014. Analytical examination of the EU acquit was completed in March 2015. Stabilisation and Association Agreement in force since September 2013. No chapter opened so far.

2. Economic criteria

Key economic figures	2013	2014
Gross domestic product per capita (% of EU28 in PPS)	37	36
GDP growth (%)	2.6	-1.8
Unemployment rate (female; male) (%)	22.1 (23.8; 20.8)	18.9 (19.6; 18.3)
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%)	66.0 (56.8; 75.3)	66.2 (57.5; 75.1)
Current account balance (% of GDP)	-6.1	-6
Foreign direct investment (FDI) (% of GDP)	3.9	3.8

Source: Eurostat

Existence of a functioning market economy

Moderately prepared but has done good progress in regards of policy weaknesses (budget deficit, labor market, business environment). Government has a strong focus on economic reforms. Serbia submitted Economic Reform Programme 2015-2017 in March 2015. Reform plan includes state-owned enterprise restructuring, reduction of budget deficit, and improvement of business environment, financial stability).

- Serbia's GDP remains on pre-crisis level. Exports increased by around 50% since 2009.
- Unemployment still high but below 20%, employment and activity rates have increased.
- Budget deficit fell in the first half of 2015 because of a decrease in public expenditure which is strengthened also by public administration reform, and reforming public enterprises. Measures are aligned with ERP (Economic Reform Programme) but need more work towards this direction.
- State-owned enterprises: Restructuring and privatization efforts for state-owned gas, power utility, railways, telecom companies. (ERP recommends to prioritize the biggest companies)
- Legal system needs changes in order to improve business environment and tackle grey economy (informal market).

- Financial sector development: Sector dominated by foreign-owned commercial banks (90%), weak credit activity, high-level of non-performing loans.

Capacity to cope with competitive pressure and market forces within the Union

Moderately prepared. Some progress made by opening labor market and support of SMEs.

- Education system still needs to align with labor market needs.
- Low level of infrastructure
- Informal sector still major challenge
- SME's 70% of employment but only 53% total gross.
- External competitiveness improved

Chapter 4 - Free movement of capital: Adoption of Law on Payment Services

Chapter 6 - Company Law: Good level of preparation, progress on business incorporation (online electronic incorporation registration in progress)

Chapter 8 - Competition policy: Antitrust and mergers policy some progress made in line with the acqui. State aid regulations further aligned. Fully aligned liberalization with EU rules.

Chapter 9 - Financial services: Adoption of various laws in February 2015 for banks and financial conglomerates, new legal framework for the resolution of banks and insurance companies. Amendments to the Law on Investments.

Chapter 17 - Economic and monetary policy: Some progress on alignment with the acqui and preparation of ERP. Need for more intensive economic policy coordination. Stand-by arrangement with IMF. Fiscal rules introduced in 2010, but public debt increased, stabilization expected in 2017 (almost 80% of GDP)

Chapter 19 - Social policy and employment: Preparation of Serbia's first employment and social reform is an important step. Public finances limited though. Fight of undeclared work. More consultation on the social dialogue needed. Unemployment 18.6%. Active labor market package especially targeting workers, who are affected by restructuring of state-owned enterprises.

Chapter 20 - Enterprise and industrial policy: Strategy adopted in March 2015. Need for strong improvement of business environment (simplification of procedures/laws)

Chapter 22 - Regional policy and coordination of structural instruments: Experience in EU fund management increased. Needs more alignment of legislative framework and improvement of administrative capacity.

Chapter 29 - Customs union: Good progress. Amendment of customs law in March 2015.

Chapter 32 - Financial control: Need of adoption of new public internal financial control strategy and action plan 2015-2020. Internal audit is still developing.

Chapter 33- Financial and budgetary provisions: Early stage, no progress. Administrative capacity needs to be strengthened.