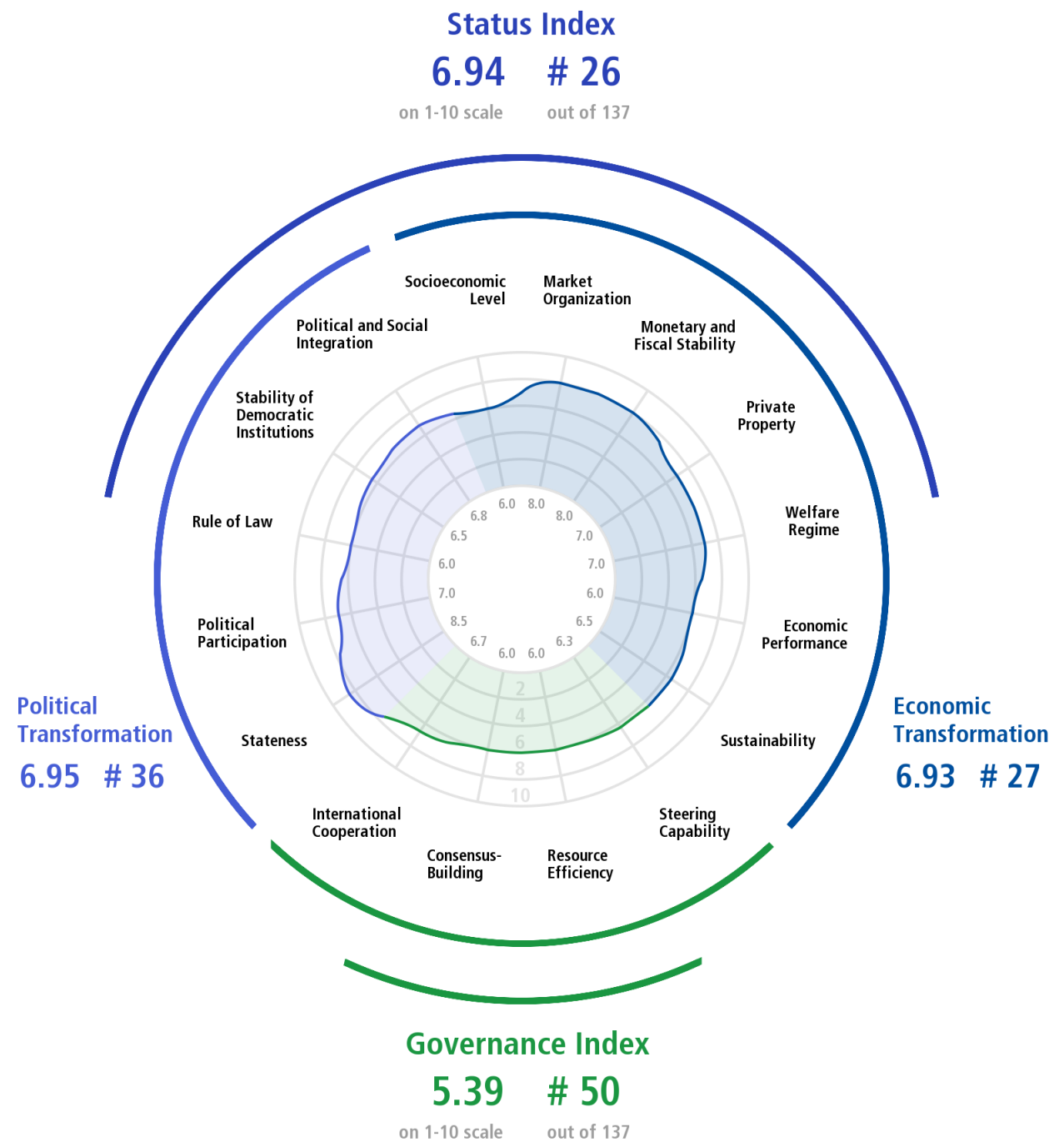


Serbia



This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	7.0	HDI	0.799	GDP p.c., PPP \$	17404
Pop. growth ¹	% p.a.	-0.6	HDI rank of 189	63	Gini Index	39.6
Life expectancy	years	76.1	UN Education Index	0.783	Poverty ³	11.0
Urban population	%	56.1	Gender inequality ²	0.162	Aid per capita \$	240.4

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Serbia's political system is characterized by the dominance of one political party ruling on the national and provincial levels, as well as in most local government units. Parliamentary elections held in April 2016, presidential elections in 2017, and partial local elections in 2017 and 2018 were fairly free and competitive, but each election was characterized by biased media coverage and the incumbent governing elites enjoying undue advantages.

Civil society exerts only a weak impact on public policies, as governmental bodies do not regularly hold public discussions and consultations on draft legislation and policy proposals. The existing system of "checks and balances" is seriously challenged.

The strategic priorities set by the government are undermined due to the fact that several parliamentary elections have been held since 2012. Although state power is subject to the law, it has recently been undermined, particularly since several laws have been passed in recent years through the use of procedures originally conceived to be used in urgent cases only. In addition, the independence of bodies such as the Ombudsman and the Commissioner for Information of Public Importance and Personal Data have been compromised as they are often limited to making recommendations on issues regarding public impact.

For the most part, minority rights are respected in ways compatible with the constitution, which defines Serbia as a multi-cultural country. Media independence and pluralism has seriously declined. The judiciary is not free of political influence and is further plagued by inefficiency, nepotism and corruption. Recent constitutional amendments threaten to further erode the judiciary system by making it more dependent on the executive branch and less resilient to political pressures. Anti-corruption policy is not consistent, since there are few judicial verdicts regarding high state officials, and activities and measures envisaged in anti-corruption strategy and action plan are not fully implemented.

The unemployment rate is still rather high and informal employment is widespread. Income inequality is especially pronounced in Serbia, and a large percentage of people are at risk of poverty and social exclusion.

The government has introduced several important economic and fiscal reforms since 2014. The most important ones include streamlining the processes of obtaining building permits, industrial relations and developing e-government services. The program of fiscal consolidation finally helped bring public debt under control. The public sector is still over-employed, demonstrating little accountability and efficiency, and the current system of streamlining without a functional analysis can prove a significant burden on the future provision of public services. Fiscal rules (regarding public expenditures and public debt) are still disregarded. Reforms in the management of public companies have yet to yield any results, and the privatization of state-owned companies has been conducted only partially. Serbia recorded a small budget surplus in 2018, but public expenses on interest payments remain high at approximately 2.5% of GDP, and in 2019, the state has to receive further €5.2 billion in new loans in order to repay the maturing public debt.

One of the most difficult issues Serbia faces is related to its border and the definition of territory, as the status of the autonomous province Kosovo and Metohija (referred to as Kosovo in this report) has not been resolved yet. Relations with the neighboring Western Balkans countries worsened in 2017 and 2018, primarily due to the political statements and actions of certain state officials. The main strategic goal of accessing the European Union has not changed and the accession process continues.

History and Characteristics of Transformation

Serbia's transition to democracy and a market economy has been fraught with statehood conflicts. The first democratic election took place in 1990, when Serbia was the largest constituent republic of the Socialist Federative Republic of Yugoslavia. The successor party of the former Communist party, led by Slobodan Milosevic, won the elections. Whereas Milosevic and his allies sought to preserve the common federal state in a centralized form, the newly elected political leaders of the Slovenian and Croatian republics wanted to decentralize and/or exit the federation. Irreconcilable aims and nationalist mobilization led to the collapse of the federation, several wars and the emergence of Bosnia and Herzegovina, Croatia, Macedonia and Slovenia as independent states.

Serbia's President Milosevic established a semi-authoritarian regime in the remaining parts of Yugoslavia and remained in power until 2000. Clientelist networks in the state apparatus and the state-dominated economy enabled him to control the electronic media, forge election results, and effectively divide and isolate the political opposition. The regime increased political repression in Serbia proper and its violent military repression of ethnic Albanians in Kosovo. The country then slid into a full-scale war. NATO air strikes forced the regime to abandon its control over Kosovo.

Military defeat, the deepening socioeconomic crisis, a student protest movement and a broad alliance of opposition parties contributed to Milosevic's ouster in October 2000.

The opposition coalition won the federal parliamentary and presidential elections as well as the Serbian local and parliamentary elections in 2000. The opposition leaders Vojislav Kostunica and Zoran Djindjic became federal president and Serbian prime minister. The heterogeneity of the coalition and the assassination of Djindjic in 2003 limited the government's capacity to sustain its initially dynamic policy of economic and political reform. Successive parliamentary and presidential elections in 2003, 2004, 2007 and 2008 generated majorities for political parties and candidates who were committed to liberal democracy and European integration. In 2006, Serbia adopted a new constitution, and in 2008, a Stabilization and Association Agreement was signed with the EU.

In 2008, a group of politicians led by Tomislav Nikolic and Aleksandar Vučić left the anti-EU Serbian Radical Party and created the pro-EU Serbian Progressive Party (SNS). Together with the Socialist Party of Serbia, the SNS won the 2012 elections, and Nikolic also became state president in 2012. The 2014 parliamentary election confirmed this governing coalition of political actors who once had supported the Milosevic regime.

Serbia's state framework has changed several times since the dissolution of communist Yugoslavia. Between 1992 and 2003, Serbia and Montenegro, the two still-united republics of the former Yugoslavia, constituted the Federal Republic of Yugoslavia. In 2003, Serbia and Montenegro replaced this state with an EU-facilitated state union possessing only limited powers. The main aims of this union were EU accession and the creation of an internal market in accordance with EU principles and standards. Following a referendum in 2006, Montenegro became an independent state and the state union was dissolved.

As a consequence of its military defeat in the Kosovo war, Serbia had to accept that in June 1999 the Kosovo Force (KFOR), a NATO-led international peacekeeping force, took over control over the province. The U.N. Mission in Kosovo (UNMIK) was established with the task to help ensure conditions normalization in Kosovo and advance regional stability in the Western Balkans. UNMIK has exercised nominal political authority over the territory since 1999, based upon Resolution No. 1244/1999 of the U.N. Security Council. Serbia's government and major political actors interpret this resolution as the legal basis according to which Kosovo continues to belong to Serbia. Following mass unrest and attacks on minority communities in 2004, the international community initiated negotiations between Serbia's government and Kosovo Albanian representatives on the future status of Kosovo. The failure of these talks led the U.S. and major Western states to back an internationally supervised independence for Kosovo. In 2008, the government in Pristina declared Kosovo's independence, subsequently recognized by major Western states but opposed by Serbia, U.N. Security Council members Russia and China and also five EU member states.

In 2013, Belgrade and Pristina agreed to integrate the municipalities of Northern Kosovo, where the majority of residents are ethnic Serbs, into Kosovo's legal framework in exchange for guaranteed representation and veto rights. This so-called Brussels Agreement, as well as the arrest and extradition of several indicted war criminals by Serbia's government, paved the way for the opening of EU accession negotiations in 2014.

The European integration process of Serbia started in November 2000, when the Framework Agreement between the EU and the Federal Republic of Yugoslavia (FRY) was signed, which made possible provision of EU assistance to political and economic reforms.

The Stabilization and Association Agreement between the EU and Serbia was signed in Luxembourg in April 2008. Serbia applied for EU membership in December 2009 and in March 2012, the European Council decided to grant Serbia the candidate status for EU membership. The Council of the European Union decided on June 2013 to open accession negotiations with Serbia. By the end of 2018, Serbia had opened 14 out of 35 negotiation chapters (2 opened chapters are negotiated and provisionally closed).

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Republic of Serbia has the monopoly on the use of force over its territory with the exception of its formerly autonomous province of Kosovo and Metohija (in Kosovo), the status of which is disputed. Serbia opposed the Kosovar parliament's declaration of independence in 2008 and continues to consider Kosovo as part of its state territory, although it lacks any control over the territory.

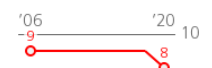
By 2018, Kosovo's independence was recognized by more than 100 countries, including 23 EU member states. In 2018, several smaller overseas states withdrew their recognition. Kosovo is not a member of the U.N. because Russia and China, two permanent members of the U.N. Security Council, refuse to accept Pristina's unilateral secession with, as they see it, the help from the West. The multinational peace force KFOR, led by NATO, the U.N. mission and EULEX, the EU Rule of Law Mission, continue their presence in Kosovo. All three missions have recently been downsized.

In 2016, the Serbian government adopted its first thorough assessment of the threats posed by serious and organized crime. The authorities failed to arrest and convict major criminal groups in the period under review. According to data gathered by Belgrade Crime and Corruption Reporting Network, since 2012, there were 95 murders (27 alone in 2018) in Serbia that can be identified as killings between members of criminal gangs. The perpetrators were identified in only 8% of all cases. In 2018, Dragoslav Kosmajac, publicly named by then prime minister, Aleksandar Vučić, as the most notorious crime boss, was found by a court in Belgrade not guilty of the charges brought against him. The most severe incident occurred in January of 2018 in North Kosovska Mitrovica when the local independent and popular Serbian political leader, Oliver Ivanović, was shot dead in front of his office. One year later, Ivanović's assassins were still at large.

Question
Score

Monopoly on the
use of force

8



1

Serbia, according to its constitution, is the state of the Serbian people and all citizens who live in Serbia. According to the 2011 census, the population (excluding territory of Kosovo) is composed largely of ethnic Serbs (83.30%). There are also Hungarians (3.50%), Roma (2.10%), Muslims (0.30%), Bosniaks (2%), Croats (0.80%), Slovaks (0.70%), Albanians (0.10%), Montenegrins (0.50%) etc.

National minority rights are constitutionally guaranteed and national minority councils exist for 19 minorities. The official use of minority languages and education in these languages is legally defined. In the Autonomous Province of Vojvodina, six languages are official: Serbian, Hungarian, Croatian, Romanian, Slovakian and Ruthenian. Serbian citizens residing in neighboring countries are entitled to hold dual citizenship.

Aside from Kosovo, there are no intensified disputes over the issue of the current nation-state concept. The groups organized into various movements and political parties bring the issue on the status of specific ethnic minorities or regions. These groups are not gathering a significant number of supporters, but they are still present in public life. In the Autonomous Province of Vojvodina, the creation of the Vojvodinian Front was recently initiated. This front is currently led by the League of Social Democrats of Vojvodina, a parliamentary political party demanding more autonomy for the province. In the historical region of Sandžak, the Party of Democratic Action, supported by the ethnic Bosniaks, is advocating for more autonomy in its region. In southeastern Serbia, the parties supported by the local Albanians also have tendencies towards seeking more autonomy or even the annexation of this part of the country to Kosovo. According to the most recent elections (2016 parliamentary and provincial elections), these political parties gained the support of around 108,333 votes in total out of the 3,778,923 voters.

Serbia is defined by its constitution as a secular state. Its population (excluding Kosovo) is composed of 84.50% Serbian Orthodox, 5.00% Roman Catholic, 3.00% Islamic, 1% Protestant, 1.10% atheistic or agnostic, 0.10% other and 4.40% unspecified. The Serbian Orthodox Church often tries to exert political influence and even to act as a moral and political arbiter. The Serbian Orthodox Church strongly objects to Kosovo independence, same-sex marriage, abortion and the protests of opposition political parties against the government. It tacitly supports the revision of the historic role of the royalist Chetnik movement in World War II, which collaborated with the German occupiers.

Muslim religious authorities also engage in political schemes, particularly in the region of Sandžak and its biggest city Novi Pazar with a substantial Muslim community. The former mufti, Muamer Zukorlić, formerly a radical critic of the Serbian state, has entered the parliament and become president of the parliamentary committee for culture and education. As a member of parliament, he was exempted from prosecution in a case where he was involved in illegal construction taking place in Novi Pazar.

State identity

9



1

No interference of religious dogmas

8



1

Serbia has established structures across the country that enable provision of jurisdiction. Tax authorities and law enforcement system are also differentiated and provide most of the services. The basic administrative infrastructure in other areas is in place. The country is struggling with a serious brain drain in certain sectors, such as health care, as many qualified people chose to look for better pay abroad. There is no precise data on this, but the latest 2019 unofficial estimation of the labor unions in the health sector urges that there Serbia lacks some 4,000 doctors and 8,000 nurses and medical technicians.

The education sector lacks infrastructure and finances for quality work and for employing professionals. Most recent research done by the labor unions in the education sector in 2017 shows that only teachers with 20 years of work experience may reach the national monthly average salary in Serbia.

When it comes to the basic resources and needs, the situation is rather satisfactory. As an illustrative example, today 99% of the population have access to an improved drinking water source, and 96% of the population has access to improved sanitation facilities. In many cases concerning local self-government units, there are no basic environmental protection conditions that would enable clean water supply. The illustrative case of cities, such Zrenjanin (without clean tap water since 2003) and Užice (left without tap water in 2013 and in 2014) indicates bad conditions in supplying water to the population.

2 | Political Participation

In the period from 2012 to 2018, three parliamentary elections, two presidential, two provincial and numerous local self-government units' elections took place. The 2014 and 2016 parliamentary elections were snap votes, called for by the governing coalition to capitalize on the weakness of the major opposition parties, and launched with the intention to benefit from the relatively high popular support for then Prime Minister Vučić.

The most recent nationwide elections were presidential elections held on April 2, 2017, according to a majority voting system and a single nationwide constituency. The turnout was 56.49%, and elections were won by the prime minister and leader of the ruling party, SNS, Aleksandar Vučić. The chief candidate of the opposition, former National Ombudsperson, Saša Janković, took second place. International observers pointed out that the pressure on voters and employees of state-affiliated structures was highly present, oversight mechanisms were not effective and media coverage was unbalanced. Besides the candidate of the ruling coalition, there was little access to the public broadcast service for candidates from other political parties. Opposition candidates were severely denigrated in a number of tabloids and other

Basic administration

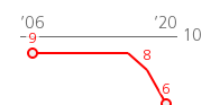
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Free and fair elections

6



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media outlets close to the ruling party. One of the problems is that voter registration is imprecise and outdated.

Parliamentary elections in 2016, won by the SNS, were marred by similar irregularities. As in 2016, the opposition parties were under firepower of media and tabloids supporting ruling coalition.

Similar irregularities were observed in 2018 during elections for the Assembly of the City of Belgrade and most recently in the Municipality of Lučani. As a result, the opposition coalition named “Alliance for Serbia” declared that they will not take part in future elections if fair conditions are not established.

The president of the republic, Aleksandar Vučić, acts at the same time as a president of the ruling SNS. During 2017 and 2018, he has been a central figure in deciding many issues, such as undertaking the policy on negotiating with the Kosovo government and changing the criminal code. The role of the president is rather ceremonial, comparing to the executive power of the government. In practice, prevalent power of president has put this institution in front, as the main policy and decision-maker. This dominance is also present over judicial power, as well. This was particularly indicative with the proposed constitutional amendments tackling judicial power and raising political impact on the procedure for electing judges.

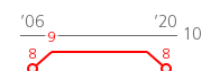
Under the legal framework, Parliament has democratic and civil oversight of the army and the secret service through its parliamentary defense and security committee. Nevertheless, these committees have rarely exerted genuine control over the government. The executive clearly dominates the legislature and the executive power is clearly dominated by the president of the republic and his decisions. The parliament serves as an instrument of the ruling coalition, led by the SNS, to confirm the legislative initiatives of the president and the government.

Although the government claimed to have banned domestic and foreign business tycoons from interfering in the policy-making process, they continue to influence political decision-making through informal channels. The cases of recent ventures made by the United Arab Emirates investors regarding capital projects, such as “Belgrade Waterfront” or the acquisition of the PKB Corporation reflects such influence.

The foreign impact made by the international organization on the policy and decision-making is largely present. Serbia is in the process of harmonizing its legal system with EU regulations. To do this, a large part of its legal and strategic documents should be changed and updated in years to follow. The other impact made by international organizations is related to the role of the International Monetary Fund (IMF) and its measures for stabilizing and reforming financial and economic policies.

Effective power to govern

8



1

The freedoms of association and assembly are constitutionally guaranteed, and the government generally respects these rights in practice. In February 2016, parliament adopted a new law on public gathering, introducing some improvements (legal remedies) and aiming to align with the Serbian Constitution. Civil society organizations (CSOs) criticized that the new restrictions would prevent medical workers and teachers from protesting in front of their workplaces. Activists of the LGBTQ community were able to hold a Pride Parade in Belgrade in 2017 and in 2018, which were even attended by members of government.

The police and public prosecutors tried to intimidate activists of the opposition that organized post-elections protests in 2017 named “Against the Dictatorship.” Starting from December 2018, opposition protests named “Stop the Bloody Shirts” and “One of Five Million” are taking place almost every day all around the country. These protests have been under pressure from the government-leaning media outlets and also left with small or no window of opportunity for presenting themselves in media. As a consequence, many of the people, particularly those employed in public enterprises or public administration are reluctant to join the protests, as they have a strong fear of losing their jobs.

The constitution guarantees freedom of expression and freedom of the press. The independence and political pluralism of the media system has declined in recent years. This has been due to a predominance of certain political groups, falling living standards, opaque media ownership and funding, weak financial base of many private media outlets, and a corresponding dependence on business and political interest groups.

The privatization of media in Serbia has been highly disputed and affected the quality of the information. On the local level, this was the case in Belgrade, Kragujevac, Kruševac, news agency “Tanjug,” dailies “Politika” and “Večernje Novosti.” In 2018, a controversial takeover was made by the state-owned company “Telekom Serbia” of the cable operator “Kopernikus.” Later, two private television stations with the national frequency broadcasting rights “Prva” and “O2” were bought. Serious doubt has risen that these televisions came under the control of the official government and the ruling political party.

Political actors exert an impact on the editorial policies of print and electronic media. Those that are most critical of the government are attacked publicly. The investigative media group Balkan Investigative Reporting Network, cable television “N1” and certain on-line portals are often targeted as “hostile” and owned by the tycoons in close relations to the past regime.

State, provincial and local structures under control of the ruling party also serve as funding sources for the government-leaning media and tabloids. At the public calls for funding, these media outlets were granted money needed for continuing their work, even though it is not proven that their work matches the public interest and the

Association / assembly rights

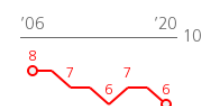
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Freedom of expression

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criteria contained within the Regulation on Co-financing of Projects of Public Interest in the Public Information Area.

There are threats, violence and intimidation against journalists. In 2017, 75 such incidents occurred against journalists. In 2018, according to the Reporters without Borders “World Press Freedom Index,” Serbia’s ranking has declined 10 positions. Upon the latest report of the Independent Journalists’ Association of Serbia, a large number of attacks and threats to journalists and the entire media outlets is still present.

3 | Rule of Law

The system of separation of powers has recently been subjected to interference and the restoration of balance is needed. State power is subjected to the law but the recent practices are showing some negative tendencies.

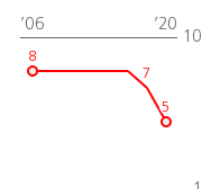
Freedom House reports showed downgrading of the capability of national legislative representatives to carry government policies through the legislation process. The executive branch largely controls the legislative process, sidelining opposition lawmakers through the disproportionate use of disciplinary measures, frequent use of accelerated legislative procedures and late changes to the legislative agenda. According to the research from Open Parliament in 2016, 88 laws were passed, from which 51 (59%) followed the urgent procedure that constrains parliament’s influence on legislation. According to the same research, 98% of passed law were proposed by the government. Although the use of urgent legislative procedures decreased from 65% in 2016 to 44% in 2017, it is still high. No draft legislative proposals tabled by the opposition were discussed.

Since late 2017, the national parliament has been blocked due to the negative practice of inflation of meaningless amendments to draft laws issued by members of parliament from ruling parties, with the goal of undermining any meaningful debate.

The current constitutional and legislative framework still leaves room for undue political influence over the judiciary. Little progress has been made in establishing a fully objective, transparent and merit-based system for the appointment of judges and prosecutors. The Group of States against Corruption (GRECO) report for 2018 suggested 13 crucial recommendations to Serbia to follow up on corruption in parliament and in the judiciary branch.

Separation of powers

5



Executive power and strong stakeholders with good political connections have a significant influence over judiciary independence in Serbia.

The biggest problem regarding political influence concerns the process of judicial appointments, in which the National Assembly appoints new holders of judicial offices, who are then re-elected after a three-year period by the Judicial Council, a professional body in which judges hold the majority. This process leaves too much room for political influence over the appointment process, since the prevailing political culture and the election system concentrate power in the party oligarchy, making the legislative body subservient to the government.

The process of constitutional change has been delayed though it was meant to be completed in 2017. The main impediment is the government's unwillingness to give up influence over the judiciary by making the appointment process more independent. The Venice Commission provided negative comments on the draft constitutional changes according to which the judges would be appointed by the Judicial Council in both instances. This council would include representatives from the Ministry of Justice and prominent lawyers and legal scholars, which would enable political parties to elect their members to these post in which they would have a majority.

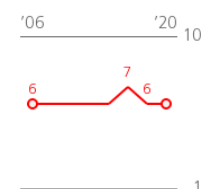
International sources describe the judiciary as very prone to political influence (World Economic Forum ranks Serbia as 107 out of 140 countries in its Global Competitiveness Report 2018; World Justice Project depicts Serbia in its Rule of Law Index as a country with a very weak rule of law). Courts are slow and inefficient with an average court case length of 635 days and litigation incurs very high costs, over 40% of the claim at hand (World Bank, Doing Business 2018). Corruption is also a weak point of the judiciary.

Political control is even more pronounced over the prosecutor's office – this influence is seen in the fact that the investigation process for many politically sensitive cases involving high state officials or party members never advance to litigation. The best example is the “Savamala” incident from May 2016, during which a group of masked men with heavy equipment razed a block in Belgrade city center, with the tacit help of the police and community services that did not respond to the citizen calls.

Serbia has largely created a legal framework to fight corruption and abuse of power. The implementation of these regulations is weak and does not lead to a successful fight against corruption. Cases of public officials in senior positions who were found guilty of corruption or similar felonies are rare. Allegations of corruption among politicians are often used as a political weapon against opposition parties by the government and media. These allegations seldom lead to court proceedings. The high-profile stories uncovered by investigative journalists that implicate government members in corruption cases rarely receive any attention from the prosecutor's office.

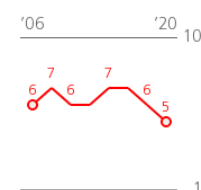
Independent
judiciary

6



Prosecution of
office abuse

5



Several illustrative examples of highly suspicious corruption cases of high officials have been in the public spotlight. Current Defense Minister Aleksandar Vulin has been under public pressure to explain how he acquired specific real estate property, the cost of which would exceed his registered income and property ownership value. The other high official suspected is Health Minister Zlatibor Lončar, suspected of having his apartment acquired from the notorious criminals of “Zemun Clan,” accused of murdering former Prime Minister Zoran Đinđić. Lastly, Nenad Popović, Minister without Portfolio responsible for Innovation and Technological Development, was mentioned in the offshore finance affair, known as the Paradise Papers. None of these cases have led to prosecution.

The public procurement process is considered one of the focal points of corruption, which did not change even with the new law adopted in 2013.

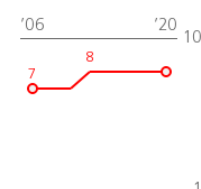
The implementation of the National Anti-Corruption Strategy 2013 to 2018 has been slow and inefficient, and completely lacking in some areas. Only 26% of activities and measures envisaged in the action plan for implementing the strategy were implemented at the end of 2017, according to the report of the Anti-Corruption Agency. The Anti-Corruption Agency and State Audit Institution have proved to have a weak performance, as their recommendations were not adopted. Annual reports submitted by the State Audit Institution have not been discussed and approved by the parliament since 2013.

Serbia has established a system for guaranteeing and protecting civil rights and for protecting citizens from discrimination. Roma and LGBTQ communities continue to face prejudices and discrimination. An organization dealing with the legal and health support to the LGBT+ community, “Da se zna,” started to compile a database on the number of crimes motivated by homophobia and transphobia. According to this database, 14 attacks motivated by homophobia and transphobia took place in 2017 and 2018. According to the annual report of the Commissioner for Information of Public Importance and Personal Data Protection, 42 complaints regarding the position of the LGBTQ community were submitted in 2018. There are serious concerns that the real number should be higher, as many do not submit complaints due to fear of public reactions.

Equal rights of men and women are guaranteed by the legal system and official state policies. A new national strategy for gender equality 2016 to 2020 and an action plan for its adoption were adopted in January 2016. Gender inequality is still an issue, both regarding labor issues and legislative representation. There have been more reports on family violence and torture, according to the report of the Commissioner for the Protection of Equality. In 2015, the gender pay gap was high – men have 38.2% higher wages than their female counterparts. Discrimination is present when it comes to transgender persons employed in the public sector. Disabled persons face discrimination with regard to access to public services.

Civil rights

8



Report on the implementation of the Law on Free Access to Information of Public Importance and the Law on Personal Data Protection for 2017 showed that the number of cases in this regard continued to increase. The Ombudsman office is less active in the mandate of newly elected Ombudsman, but the report also shows that infringement of certain civil rights continues. Individual property rights and freedom of movement are not always properly protected, as demonstrated by the Savamala case.

4 | Stability of Democratic Institutions

Executive power dominates the legislative and judicial branches both at the national and local level. This is mainly because of the practices of the ruling party SNS that weakens the constitutional system of check and balances. Public participation is rather scarce, as public discussions and consultations are not properly practiced. Public administration is undergoing thorough restructuring, but the number of complaints over its transparency and functioning remains high.

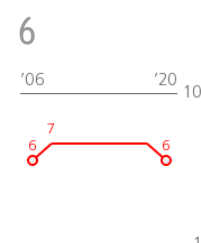
The role of parliament has degraded. The number of MPs breaking away from the parties on whose lists they entered the parliament in 2016 has increased. This indicates weak cohesion of some political parties, but also informal influences. The work of parliament seriously deteriorated in 2017 and 2018 due to the new obstructionist practice of the governing parties' MPs who submit excessive meaningless amendments (in hundreds) on proposed laws to steal debate time from opposition parties.

The work of the Commissioner for Information of Public Importance and Personal Data was undermined in 2017 to 2018 by clear obstruction from the line ministries and heavy attacks from the ruling coalition on his work and professional and personal integrity. The office continued its activities, but the position of the commissioner became vacant in December 2018.

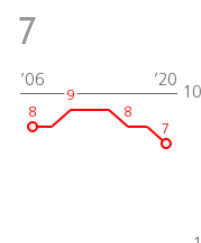
After the appointment of new National Ombudsperson, government-aligned attacks have become less frequent. This is due to his less visible presence and the absence of critical stance from this independent institution.

Democratic institutions are accepted to some extent as legitimate by most relevant actors. This state of play has been constantly endangered by the intentions of President Aleksandar Vučić who in practice yields more power than the constitution prescribes. The president is affecting all other branches of government and putting itself in front as a central focal point in decision and policy-making. This threatens the system of checks and balances, institutions and the rule of law. It also opens up a space for a slow rise of an authoritarian regime in Serbia.

Performance of democratic institutions



Commitment to democratic institutions



The governing coalition has weakened the resources of the National Ombudsperson and the Commissioner for Information of Public Importance and Personal Data, and it has ignored reports coming from their side. Currently, Serbia is operating without the commissioner, as the mandate of the previous commissioner expired and the procedure for electing a successor has not been started. While governing parties generally accept the principle of free and fair elections, government officials have also misused administrative resources and their control over the state media to ensure electoral support for the governing parties.

5 | Political and Social Integration

The Serbian party system is highly fragmented, moderately polarized and mostly dominated by individual personalities, many of whom active on Serbia's political scene for a long time. For the last seven years, the party system has been dominated by the SNS party. Other political parties can neither separately nor jointly make a significant impact. Most parties have some kind of institutional organization, but the extent to which these parties are socially rooted is questionable.

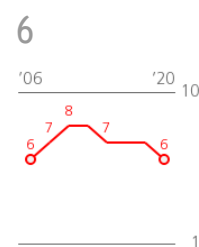
The party system is fragmented and highly polarized. In January 2019, parliament's majority consisted of SNS, Socialist Party of Serbia and their associates. The opposition consists of pro-EU parties, such as Democratic Party, Social Democratic Party, Liberal Democratic Party, League of Social Democrats of Vojvodina, "Together for Serbia," "New Party" anti-EU parties, Serbian Radical Party, "Dveri" and Democratic Party of Serbia, and undeclared political parties of "Enough is Enough," "People's Party" and other groups. The political parties of ethnic minorities are divided over their support for the ruling regime.

The degree of voter volatility is rather stable in 2017 and 2018, particularly when it comes to SNS voters. This political party tends to gather a large number of members, which tend to organize their activity in a strict and very effective manner. It is expected that in a certain moment such membership support will start to decrease rapidly with the first signs of electoral loss. A constant portion of potential voters are passive and absent from voting.

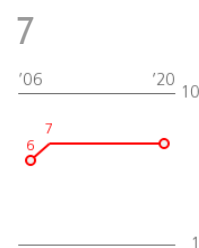
Professional associations are not active in the policy-making process and only become active when the interests of their members are threatened. The illustrative case is the 2018 protests and strikes held by the associations of lawyers in a couple of critical cases, such as over their status in relation to the position of notaries and lack of progress in investigating murders of their fellow colleagues.

Cooperation between labor unions exists to some extent, although there is no present regular tripartite social dialog process. The social aid in Serbia is rather decreased, due to the high and in some cases unjustified scrutiny measures. There are 26,000 labor unions, which should represent and protect the interests of their members, but

Party system



Interest groups



the number does not guarantee the protection of interests. Business interests are organized in a network of local, regional and national economic chambers that function as interest associations. In 2016, the system of chambers was restructured to centralize more activities of the Serbian Chamber of Commerce and overtake regional chambers.

Civil society organizations participate in public discussions at the national and local level, but this practice is rather scarce. The official government's bodies do not hold public discussions regularly as legal provisions for them are open to various interpretations.

Citizens generally approve democratic norms and procedures and accept the constitutional framework. In research conducted by "Eurobarometer," citizens in Serbia tend not to trust both the National Assembly (33% of trust) and to the government (44%), which stands close to the average values in EU member states.

According to recent research by the Center for Research, Transparency and Accountability on citizens' participation in democratic processes, the support for the "ruling strongmen" has decreased (from 61% in 2007 to 43% in 2018), while the support for democracy as best possible system of governance in Serbia has grown (from 44% to 51%). Although citizens' trust of the existing democratic institutions in Serbia is low, the trends point to a potential for improving the overall state of play of democracy in the future.

35% of Serbians believe that most people can be trusted (ERBD, 2016). The level of interpersonal trust has been slightly higher than in other Southeast

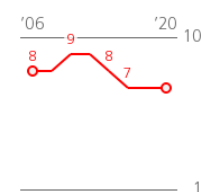
European countries. What may negatively influence the levels of trust is corruption and nepotism, as visible from the perception of the most important factors for success in life. 42% of the survey respondents chose "political connections," assigning Serbia the fourth highest result among the included countries in transition. 32% chose "Effort and hard work," while 17% chose "intelligence and skills."

Significant levels of ethnic distances – opposition to entering familiar or social relationships – to minorities and ethnic groups in neighboring countries persist (CeSID, 2016). More than half of the respondents had reservations about Roma, Bosniaks, Croats and Hungarians (amounting to, respectively: 65%, 57%, 56% and 50%). 42% of respondents expressed an unfavorable opinion on Albanians from Kosovo and 31% on Albanians from Albania.

According to a study by the European Bank of Reconstruction and Development (EBRD), 28% of respondents would like to see extra government funding for assisting the poor and 59% were willing to pay higher taxes for that. The survey also showed that 16% of respondents were active members of civil society organizations (including churches and religious organizations).

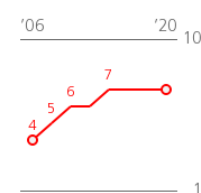
Approval of democracy

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Social capital

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II. Economic Transformation

6 | Level of Socioeconomic Development

The per capita gross domestic product puts Serbia among upper middle-income countries according to the World Bank classification. In terms of Human Development Index (HDI) Serbia ranked 67th in the world in 2017 – lower than all other European countries except for Albania, Northern Macedonia, Bosnia and Herzegovina, Ukraine and Moldova. The overall loss in HDI due to inequality was 15.2%.

In 2017, 36.7% of the population was at risk of poverty or social exclusion, considerably higher than the average for EU-28 (22.4%, Eurostat). 7.2% of the population lives in absolute poverty and the rate is significantly higher in rural areas. Relative poverty (below 60% of median income) was 25.7% (National Statistical Office). Risk of poverty and social exclusion are higher among the less educated – 54.7% of those with less than lower secondary education, compared to 17.3% of those with tertiary education (2017, Eurostat), children and young people under the age of 24, the unemployed, households with three or more children, single-parent households and single person households. Subjective poverty stood at 61.6% in 2017.

Income inequality is among the highest in Europe as indicated by the Gini coefficient and the S80/S20 income quintile share ratio. The S80/S20 income quintile share ratio was 9.4 in 2017, decreasing from 11.0 in 2016. This is highest among all European countries, with EU average being 5.1, and the scores for Croatia and Slovenia (also formerly part of Yugoslavia) were 5.0 and 3.4, respectively. The Gini coefficient for Serbia was 37.8 in 2017 and had remained almost unchanged since 2013. In 2017, the Gender Inequality Index was 0.181, 40th in the world (UNDP).

Question
Score

Socioeconomic
barriers

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'06 '20 10



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Economic indicators		2015	2016	2017	2018
GDP	\$ M	39628.5	40630.4	44120.4	50508.4
GDP growth	%	1.8	3.3	2.0	4.3
Inflation (CPI)	%	1.4	1.1	3.1	2.0
Unemployment	%	17.9	15.3	13.5	13.5

Economic indicators		2015	2016	2017	2018
Foreign direct investment	% of GDP	5.9	5.8	6.6	8.1
Export growth	%	9.4	11.9	8.2	8.9
Import growth	%	4.0	6.7	11.1	11.1
Current account balance	\$ M	-1370.2	-1190.0	-2322.7	-2630.4
Public debt	% of GDP	71.3	68.9	58.7	54.6
External debt	\$ M	31301.1	29537.1	34332.6	34339.0
Total debt service	\$ M	4261.0	5951.7	4966.6	5730.3
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	16.4	16.0	16.2	16.7
Public education spending	% of GDP	4.0	3.9	4.0	-
Public health spending	% of GDP	5.4	5.3	-	-
R&D expenditure	% of GDP	0.9	0.9	0.9	-
Military expenditure	% of GDP	1.9	1.9	2.0	1.9

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

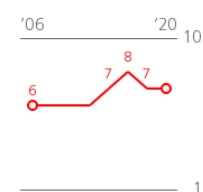
7 | Organization of the Market and Competition

The institutional framework for market competition has been established and is mostly upheld in Serbia. The private sector is the major factor in the economy, with 70% share in the GDP generation and employment (EBRD). However, the state still has a pronounced role in many economic fields, controlling many strategic sectors and is also a very significant employer. The state sector is usually inefficient, with elevated wage bills (both through the increased number of employees and higher wages) and many companies relying on some kind of state support, via direct or indirect subsidies (toleration for arrears, not paying taxes, etc.). An important feature to worry about is the partiality in implementing business regulations, since companies with good political connections do not have to follow the rules, while politically well-connected groups can influence regulation to gain economic rents.

Setting up a new company is an easy and inexpensive task, lasting 5.5 days with only five procedures consuming 2.2% of per capita income, placing Serbia at rank 40 out of 190 in the sub-index “Starting a Business” (World Bank, Doing Business 2019). However, business regulation once the company starts working is not considered

Market organization

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business friendly. Administrative procedures are numerous and burdensome, often with overlapping authorities. Another problem is the partial treatment by state officials, since this kind of regulatory requirement enables nepotism and corruption. The legal framework is not consistent, and is prone to unexpected and significant changes, which is detrimental to entrepreneurial calculation.

Legally, there is no discrimination based on the type of ownership (private or public). The only remaining restrictions that foreign companies face is in public procurements, where domestic companies enjoy a 5% price premium; on the other hand, natural persons, apart from the EU nationals, cannot own agricultural land.

The shadow economy in the country is very widespread and was estimated to reach 30% of GDP in 2013, which is the second highest in Europe after Bulgaria. The shadow economy measured as tax gap is almost equal in the field of product consumption and production, with VAT gap and income tax (and social contributions) gap above 20%. Shadow employment according to the Labor Force Survey in Q3 2018 stood at 20% of the total labor force. Main drivers for this level of shadow economy are high taxes (especially the minimum social contributions that are regressive for low wages and part-time employment), the dual nature of the labor market and burdensome business regulations, which are costly to implement.

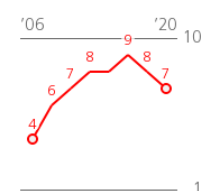
The legal framework in the field of competition is mostly in line with existing EU regulations. The law on competition that was adopted in 2009 and last amended in 2013. It established the Commission for protection of competition as the public institution, which is to uphold anti-monopoly rules, but the actual implementation is dubious.

The Commission is an independent state body, and its dealing is mostly consistent with the legal framework. It is charged with preventing restrictive practices, such as collusion agreements, and authorizing concentration. However, it does not function to its full capacity, with only 45 people employed instead of the envisaged 54. The lack of relevant knowledge and expertise is another important factor that can undermine its work, but the biggest obstacle probably lies in the field of political control over its work. The commission is mostly passive, with a low number of cases investigated (only six cases in 2017: three for collusive agreements and three for the misuse of a dominant position), and most of its investigation result in acquittals. For example, the commission has never given a negative opinion on concentration since its inception. Therefore, the most relevant problems of Serbia's competition policy are the low capacities of the commission and the court, the inconsistency of practices and the insufficient institutional independency of the commission.

Bigger problems in competition policy lie in the field of state aid – the existing legal framework is also mostly consistent with EU regulation, but rarely implemented due to strong political pressure for financial assistance, which is channeled to state-owned enterprises (SOEs) and foreign direct investments (FDIs). These resources are often

Competition policy

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big and can have a significant impact on the local competition; state aid is not transparent (legal contracts are not publicly disclosed) which leads to allegations of corruption.

Although there are no commercial monopolies per se, and liberalization of several markets has been introduced – such as railroad freight transportation, electricity and gas distribution – competition to state-owned enterprises in these sectors is restricted by price regulation policy (with prices that do not account for full cost coverage) or by less formal means of protection.

Foreign trade is mostly liberalized. The bulk of Serbian foreign trade relies on bilateral free trade agreements. The most important trade partners are EU countries, accounting for 65% of total trade. The Stabilization and Accession Agreement (SAA), signed in 2008, eliminated most barriers in trade between Serbia and the EU. The second most important trade partners are the countries of Central European Free Trade Agreement (CEFTA, 20%). Other important trade partners are Russia, China and Turkey.

WTO accession has not progressed for several years, complicated by the treatment of genetically modified organism (GMO) products, since Serbia has not only banned the production of GMO products but also their trade, which is against WTO rules. Total tariffs are low, with average applied rate of 7.4% in 2017 (WTO trade profile). Tariffs for agricultural products are more pronounced than those for industrial ones, but the bigger obstacle to trade comes from non-tariff trade barriers, mostly product standardization and certification.

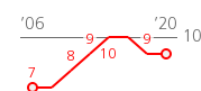
Although international trade procedures are well evaluated by the World Bank (Serbia ranks 23 in Doing Business 2019 Trading Across Borders indicator), its customs office is not well organized and is badly equipped, using electronic systems from 1996. Introduction of the New Computerized Transit System (NCTS) has made transit of goods in international trade across Serbia more expeditious, but low quality of transport infrastructure (most notably the rail and ports) still pose barriers.

The Serbian banking system is solid and efficient, and it historically dominates the financial system, since the stock market has very low capitalization. Due to political influence over state bank loan policy, several state banks and one private bank went bankrupt and were bailed out by the government in 2013. Since then, the rest of the banking sector have been functioning increasingly well.

27 banks are currently operating in the country and foreign banks – mostly from EU countries – dominate the market (75% of total assets). Six banks remain state owned but their status is under consideration. Four smaller banks are likely to be privatized but the future of two others remains to be determined. Postanska stedionica specialized in pecuniary transactions and is being oriented toward retail banking,

Liberalization of foreign trade

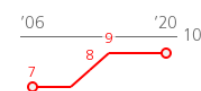
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Banking system

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while the fate of Komercijalna bank is still debated. Although it has been destined for sale since the IMF program of 2015, it remains mostly state-owned.

Supervisory activities of the central bank substantially increased in quality after the bailouts. Serbia has been fully implementing Basel III standards since 2015. Capital requirements are in line with international practice, and the average bank capital adequacy ratio is above 20%, much higher than nationally stipulated 12%, or Basel III standard of 8%. Bank net balance assets stood at 39.3 billion euros in 2018 (or 70% of GDP), a 10% increase since the previous year. The high share of non-performing loans has decreased from its 2012 peak (21.5%) to 8.9% in private banks and 13.9% in state banks (2018 Q1). This decrease is mostly attributed to write-offs of bad debt or its sale to financial institutions specialized in resolving these issues. Bank capital inflows to the country have been increasing since late 2017.

8 | Monetary and fiscal stability

The National Bank of Serbia (NBS) is using the monetary policy of inflation targeting. NBS was prudent, with slowly lowering the effective bank interest rate from 8% in January 2015, to 4.5% in January 2016, to its current level of 3%. The policy is not effective since most bank loans and savings are denominated in foreign currency (mostly the euro).

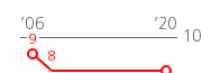
Inflation has stabilized after the peak of 12.2% in 2012. Since then, the consumer price index (CPI) stood at around 2% or even below that, increasing to 3% in 2017 (expected to be close to 2% in 2018). Inflation targeting has been inefficient: CPI has been outside the envisaged band 70% of the time. The band was lowered in 2017, from the level of 4% +/- 1.5%, to 3% +/- 1.5%. The current low inflation rate is attributed to low and stable capital inflows, so its long-term sustainability is questioned.

Foreign exchange is in a managed or dirty float regime, with a big influence on domestic prices due to significant pass-through effects. National currency, the dinar, has been relatively stable in recent years, with a small nominal appreciation (€1 = RSD 123 in 2016, 121 in 2017, 118 in 2018). The real effective exchange rate also slowly depreciated, from 122 in 2017 to 124 in 2018 (2005=100), but recent research suggests the dinar is overvalued by 20-30%.

Foreign reserves are significantly higher than the IMF minimum standards, standing at €12.9 billion in 2018, enough to cover more than six months of imports.

Monetary stability

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Public expenditures are in line with most European countries, with general government expenses reaching 42% of GDP in 2018, down from 44% in 2016. Serbia has a significantly higher public consumption compared to neighboring countries with similar level of development (approximately 35%).

Public finance has been a growing concern since the 2008 recession due to high public deficits that accumulated public debt. Several early attempts to curb the deficit since 2015 proved unsuccessful. The fiscal austerity package implemented in November 2015, backed by the IMF with its program, lowered the budget deficits from 4.4% in 2015 to under 2% in 2016, which later became low surpluses in 2017 and 2018. The most important features of this fiscal program were a 10% and 5% cut, respectively, to the wage and pension bill, decrease in public sector employees, reduced subsidies to state-owned enterprises and curtailing of the shadow economy.

Economic recovery, although with growth rates below the regional average in 2017, led to the reduction in the relative size of the public debt, although its nominal level of 23.3 billion euros at the end of 2018 is close to the peak of 23.9 billion in 2015. The ratio of public debt-to-GDP stood at 57.9% in 2018 (down from 70% in 2015). This is well above the one stipulated by the fiscal rule of 45%, and it does not provide fiscal space in the case of another recession.

Exports have grown strongly – 11% in 2017 (similar rate is expected in 2018, National Statistical Office). The trade deficit deepened from 5.2% of GDP in 2017 to projected 6% in 2018.

Serbia recorded a small budget surplus in 2018, but public expenses on interest payments remain high at approximately 2.5% of GDP and in 2019 the state has to receive a further 5.2 billion euros in new loans to repay the maturing public debt. At the end of 2018, credit ratings of Serbia were slightly improved, to BB by Standard and Poor's and Fitch.

9 | Private Property

Legal framework defining and protecting property rights in Serbia is mostly well defined. Its actual implementation remains dubious. There are strong out-of-court influences on the judiciary and the Prosecutor's Office, mostly by the political elite from the executive branch and businesspeople with good political connections. The infamous Savamala case has yet to be resolved, representing the most prominent case of property rights violation in this regard.

Registering property is streamlined and Serbia ranks 55 out of 108 countries by this parameter in the Ease of Doing Business Index 2019. The country's cadaster does not cover significant parts of the territory outside major cities, and undeclared real estate is estimated to include 700,000 homes. Corrupt practices in courts and cadaster offices also pose a significant problem.

Fiscal stability

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Property rights

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Property rights of agricultural land formerly in the collective possession of cooperatives are not clear. The new law on investments lifted all the remaining restrictions on the possession of property by foreigners. With the 2017 amendments to the Law on Agricultural Land, natural persons from the EU can now own agricultural land, subject to restrictions regarding their education and size of land plots.

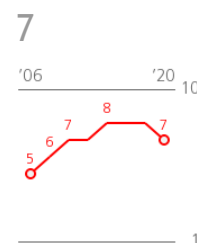
The process of restitution of private property that was seized after the World War II is not yet finished, although it has continued – in total, further 50,000 square meters of buildings of various purposes were given back to their rightful owners in 2018 (Serbian Restitution Agency). Land restitution is also slow – only 25,000 ha were returned to its rightful owners, approximately one-quarter of the total land in question.

After the series of privatization, private enterprises represent the backbone of the Serbian economy. State-owned enterprises (SOE) are still present in many industries. Network industries (such as rail, gas and electricity transmission) and utilities are fully controlled by the state. SOEs are inefficient and their poor economic performance often leads to state aid through subsidies or other kinds of budget support.

Serbia is the second highest subsidy provider in Europe, with 2.7% of GDP annually; many SOEs continue to enjoy a privileged market status and sometimes even outright monopoly. In 2017, 580 Serbian public enterprises employed 118,000 people (Serbian Business Registers Agency). In restructuring in line with the IMF agreement, companies have been under the process of either privatization or liquidation but this process has been very slow – although the majority of the 502 companies has been resolved since 2014, the remaining companies still employ almost 40,000 people.

Privatization is not regarded as transparent, with many contracts hidden from the public, even in cases where the public commissioner on information of public importance stipulated them presented to the public. In many cases, the potential buyer was announced in advance of the tender procedure, or there was only one company interested in the process. There have been many corruption allegations but few litigation processes – almost no one was held responsible for 24 dubious privatizations raised by the European Parliament in its 2012 resolution on Serbia.

Private enterprise



10 | Welfare Regime

Demographic changes, especially low fertility rate (1.46 children per woman in 2014) and high emigration lead to an annual decrease in population, which reached an annual decrease of 38,000 inhabitants in 2017. This trend puts more pressure on the welfare state due to increasing expenditures on health care and pensions that fall on the shoulders of a shrinking working age population.

The health care system is financed through obligatory contributions by employers and employees (5.15% of the gross wage each) and is considered inefficient and expensive. Total health care expenditures were 9.4% of GDP in 2015 (World Development Indicators), significantly above the regional peers (about 6%). Still, the ranking of the Serbian health care system significantly improved in the European Health care Consumer Index 2017 reaching 20th place.

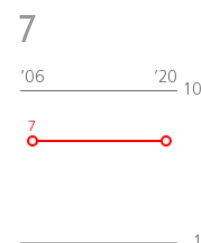
The state pay-as-you-go pension system funded through social contributions (14% of the gross wage paid by the employee and 12% by the employer) is unsustainable due to the low number of workers (2.3 million) compared to retirees (1.7 million). The pension system protects income in old age; as the minimum pension is slightly above the poverty threshold, the poverty rate is significantly lower among the elderly compared to the total population.

Social programs often lack internal coherency. There are many special programs, aimed at certain segments of the population (students, disabled, army veterans), with different social goals apart from poverty alleviation. Social assistance network is not well designed – there are many bureaucratic procedures and most programs are not means tested. Therefore, many citizens entitled to different social assistance programs cannot exercise their rights, while a significant proportion of resources are allocated to programs that are not means tested. Since 2017, social allowance for households with infant children significantly increased in order to offset the measure of lifting VAT waivers on baby products.

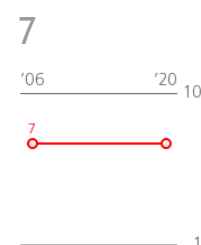
The protection against discrimination is ensured by the legal and institutional framework. The government adopted the Strategy for the Prevention and Protection from Discrimination (2013-2018), The National Strategy for Gender Equality (2016-2020) and Strategy for the Social Inclusion of Roma in the Republic of Serbia (2016-2025) with the accompanying action plans. The implementation of strategic documents and legislation has been somewhat dubious.

In 2017, the majority of registered complaints to the Commissioner for the Protection of Equality addressed work-related discrimination based on disability (18%), age (11.8%) or gender (11.2%).

Social safety nets



Equal opportunity



The Gender Equality Index in 2016 was below the EU Member States' average (respectively 55.8 and 66.2). The gaps are largest in the domains of power, time and money, and smaller in the domains of health, knowledge and work. Female labor force participation is significantly lower than that of men – 46.3% compared to 62.2% (2017, World Bank) – and unemployment is slightly higher – 12.2% compared to 10.5% (Labor Force Survey 2018 Q3). The adjusted wage gap is 14% after controlling for differences in education and job characteristics (Social Inclusion and Poverty Reduction Unit and World Bank, 2016). In the field of education, the gender gap is nonexistent - primary gross enrollment ratio and literacy rate are very high for both sexes (nearly 100%), apart from elderly generations among whom illiteracy can still be found.

The Roma face a high level of discrimination, particularly in education and employment. Almost one-third of Roma (34.2%) have not completed compulsory primary education, only 11.5% have a secondary school diploma and only 0.7% a college or university degree. Recent data show that only 64% of children from Roma settlements complete primary education and only 22% of adolescents from Roma settlements (and only 15% of girls) attend secondary education (UNICEF, 2014). The education handicap contributes to difficulties among the Roma in obtaining employment. They are defined as a hard-to-employ category by the National Employment Service, for which specific measures for employment are planned.

11 | Economic Performance

Serbian economy recorded significant GDP growth in 2018 (4.3%), but partly due to the low base from the previous year when the growth rate was just 2%. This growth is expected to moderate in 2019 and 2020 to 3.5%. Growth is widespread among the whole economy but is most visible in construction, agriculture and manufacturing. Prices are stable, in line with the central bank target, with the increase in CPI of approximately only 3% in 2017, and even below that in 2018.

Serbia remains one of the poorest countries in Europe in terms of per capita GDP, surpassing only Albania and Bosnia and Herzegovina. The GDP per capita in 2018 was only slightly above \$15,000 in PPP. Investments in the country are low compared to other transition economies, reaching 19.2% of GDP in 2017 (up from 17.7% in 2015, according to IMF). Foreign investments are attracted through lavish state aid programs with subsidies for newly created jobs. FDIs are high in regional comparison with the inflow of 6.9% of GDP in 2017 (World Bank, WDI). The total FDI stock is low compared to CEE countries, reaching €27.3 billion (National Bank of Serbia) or below €4,500 per capita in 2017, which is the legacy of very low FDI during the 1990s.

Unemployment has been high since the beginning of transition. There have been positive trends in the labor market in recent years, and the unemployment level

Output strength

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peaked in 2012 at 25%, steadily declining since then to the current level of 11.8% in Q3 2018. Although the unemployment rate for men and women is almost equal, the female inactivity rate is substantially higher (38% compared to 23% for men), attributed to lower retirement age, longer schooling, but also traditional family roles in child rearing and caring for the elderly. The NEET rate stood at 16% in Q3 2018 for youth aged between 15-25 years old. Active labor market programs are limited, and its funding is rather low, below 0.8% of GDP in 2017.

Export has been recording strong growth rate of 14% in 2017 (National Statistical Office) and continued in 2018 at a somewhat moderated rate. Trade deficit rose in 2017 from one billion euros in 2016 to two billion, or 5.2% of the GDP, in 2017.

12 | Sustainability

The Serbian government is not pursuing environmental policy as its priority. The state is failing to provide a systemic solution implemented in practice for financing environmental activities (Serbia Country Report 2018). On the local level, the financing system has been deteriorating due to amendments to the Law on the Budget System, which enabled allocating local funds gathered from environmental fees to the central budget. This unfavorable practice left the local municipalities without resources to address even basic environmental services.

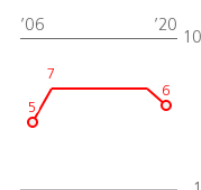
The influence of citizens in environmental decision-making is improving. The willingness of public authorities to conduct public consultations regarding the environmental impact assessment is still limited. Environmental inspection activities in the field of environment represent a serious problem due to the limited capacity for quality inspection and political pressure.

The data on the state of air quality is scarce and far below the legal requirements in relation to both scope and quality. Even if available, it is not in a format that could be used to address the negative impacts of air pollution. In the area of waste management, Serbia is still facing challenges of securing the basic services, particularly in collection, transportation and placement of particular types of waste, such as electronic waste or medicine waste.

The wastewater management system is facing systematic challenges in form of poor control of the use of groundwater, poor control of the use of river sediments, illegal construction along the rivers, and uncontrolled and rapid construction of small hydropower plants. Another crucial problem is untreated industrial wastewater that still represents one of the key causes of pollution of groundwater and soil.

Environmental policy

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Public education expenses stood at 3.86% of GDP in 2016 (UNESCO). This was lower than in previous years, mostly due to the 10% salary cuts introduced in November 2014 for all public sector employees. This fiscal austerity program ended in November 2018 with an increase in wages, which is expected to raise educational expenses and bring them more in line with the 2012 Strategy for Education Development that stipulates a level of 6% of GDP by 2020.

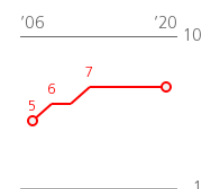
Primary and secondary net enrollment rates are high, at 95% and 92% in 2017 (World Bank). Serbia did not participate in the Program for International Student Assessment (PISA) in 2015, but data from previous PISA cycles indicate that a large number of Serbia's 15-year-olds fail to demonstrate an adequate level of achievement in reading, mathematical and scientific literacy – over one-third of pupils are considered to be functionally illiterate. Primary and secondary schools are still financed through historical expenses formulas, and the per capita financing reform supported by the World Bank was abandoned due to political pressures. Salaries of teachers are close to the average wage in the country, but they are almost completely flat and high at the entry level, without many possibilities for a raise as one's career develops.

Tertiary education gross enrollment rate stood at 66% in 2017 (World Bank), the completion rate was only 4.5% in 2016 among the age group 22 to 30 (National Statistics Office). According to the last available census data (2011), only 10.6% of the general population has a university degree. There are nine universities and 50 colleges in the public sector and nine universities and 17 colleges in the private sector. Most of the students (87% in 2017) were enrolled in public universities and colleges. Only the University of Belgrade is ranked in international university rankings – it ranked 301 out of 400 in the Shanghai University World University Rankings in 2018. Several prominent cases of corruption or plagiarism of PhD theses have surfaced among both private and public universities, for which there has been no institutional response. In September 2018, amendments to the Law on Higher Education were adopted legalizing previously invalid doctorates issued by private universities.

Serbia's UN Education Index rating stood at 0.778 in 2017, maintaining the same value as the previous year. Expenditures on R&D stood at 0.93% of GDP in 2017 (significantly lower than EU-28 average of 2.07%), out of which only 10% came from business enterprise sector. The total number of patent applications was 184 in 2017 (World Intellectual Property Organization) and Serbia is ranked 52 out of 140 countries in this field (World Economic Forum, Global Competitiveness Report 2016-2017). The Strategy on Scientific and Technological Development for 2016 to 2020 was adopted in 2016, followed by the accompanying Action Plan in 2018, which envisages measures for increasing investment in research and development, diversifying sources of science and research funding and intensifying the cooperation with the private sector but the results of these activities remain to be seen. In the next period, there are plans to establish a national science fund.

Education policy / R&D

7



Governance

I. Level of Difficulty

Structural constraints on governance remain significant. The impact of the economic crisis of 2008 can still be felt within the society; although unemployment is near its pre-crisis level, job quality and security have decreased, while wages stagnated in real terms. Serbia experienced sluggish economic growth, and only in 2016, did it reach its pre-crisis GDP level. Emigration from the country is high and has deep consequences for society as a whole, with the most visible impact on health care.

The economic situation still poses significant concerns, since economic growth has not yet been able to provide quality workplaces in a scope sufficient to significantly improve living conditions. The workforce is relatively well educated when compared to the country's level of GDP per capita. Economic issues such as unemployment and low wages remain among the most important topics in public opinion polls.

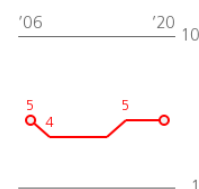
Infrastructure deficiency is high, due to very low investments since the 1990s; with the overall quality of infrastructure ranked as 75 out of 138 countries (World Economic Forum, Global Competitiveness Report 2017 – 2018). Although recent investments in public transport infrastructure have solved some bottlenecks, overall public infrastructure remains underdeveloped in comparison to other countries in the region that entered the EU. Total public investment has slowly risen from its low point in 2012/3 of just 2.5% of GDP to 3.5% in 2018, but part of this rise will be used to finance new military equipment.

Environmental threats are also structural constraints. According to the report published in 2018 by the Regional Cooperation Council, the areas facing the biggest negative impacts in the years to follow are agriculture, forestry, water resources and human health.

Serbia has around 31,000 civil society organizations (CSOs; associations, foundations and endowments). Most prominent CSOs are dealing with issues such as rule of law, human rights, democratization, EU accession process, environment, consumer protection, domestic violence and migration. Since 2017, increasing numbers of non-governmental organizations (NGOs) have been set up by the government or closely related to political parties. Such organizations have been competing at public calls for project proposals or taking part in government working groups.

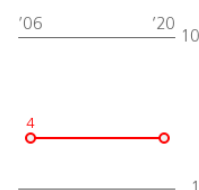
Structural
constraints

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Civil society
traditions

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The government's Office for Cooperation with the Civil Society was established in 2011. Citizens' trust in civil society is rather low. Very few (3%) recognize CSOs as entities dealing with problems existing in their communities (Civil Society Sustainability Index 2017). Other research finds that only 16% of citizens see CSOs as actors through which they can articulate their interests (Center for Research, Transparency and Accountability). This is in part caused by the stigmatization of civil society started in the 1990s and its revival in the last couple of years. CSOs are often described as "foreign agents" by some political parties, far-right extremist groups, certain tabloid media, and, in the last couple of years, by government representatives.

Serbian society and the political elite continue to be polarized along ethnic issues, such as Kosovo and in relations with neighboring countries. Other issues like the status of Vojvodina Province or tensions in the southwest and southeast have largely waned.

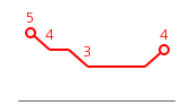
Polarization is rising on issues like economic and social status, particularly in relation to the southwest and southeast, areas abandoned by 700,000 people in the last 20 years. Polarization is present on the political spectrum on several issues, such as accession to the EU, relations with Russia and China, relations with the neighboring countries, domestic capital projects, rule of law, fight against organized crime and accountability measures. This polarization can be seen in the National Assembly and tensions within it.

Violence occurs to a certain extent in some cases, for example the "Savamala" case. Violence is also present among quasi-political far-right groups and groups of sports hooligans, although to a lower degree than in previous years. Violence is present in the relations of the governing structures toward opposition political parties. This has resulted in huge tensions created by the ruling coalition in relation to the opposition groups, most notably the coalition "Alliance for Serbia." As a product of these tensions, since December 2018, numerous "One of Five Million" protests have been taking place on regular bases in around 50 localities. Ruling coalition tends to suppress the protests rather than open a dialog with the opposition parties on urgent matters.

Conflict intensity

4

'06 '20 10



II. Governance Performance

14 | Steering Capability

The government set strategic priorities after the April 2016 election. Serbia had four rounds of elections (three parliamentary and one presidential) since 2012, with a high probability of new parliamentary elections in 2019. The frequency of elections undermines medium-term or long-term prioritization. There is no productive debate or democratic discussion that includes all stakeholders on the key priorities to be addressed in the medium term.

The annual working plans of government for 2017 and 2018 show a great deal of inconsistency. Irregular reports on the progress of the National Program for the Adoption of the EU Acquis (NPAA) prevent effective monitoring of the fulfillment of priorities of this key strategic document. It also makes it impossible to follow whether the government has harmonized the implementation of its annual working plans with the multi-annual NPAA.

The Law on Planning System was adopted in April 2018 with the goal to establish a sustainable system of planning encompassing all key aspects of social and economic development policy. The relevant bylaws have not yet been enacted, and some ministries showed serious reluctance toward the implementation of the law from the beginning.

Serbia has been under strict control by Aleksandar Vučić and his entourage since 2012. It is hard to say whether there is effective governance and continuity in public policies. Clear strategic prioritization is not formulated in official documents issued by parliament.

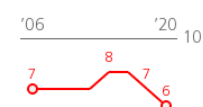
Annual government work plans represent a mere compendium of strategies, laws and bylaws to be implemented, without any statement on the key goals, not even on the level of the line ministries.

Fiscal consolidation has been achieved predominantly by cutting expenditure while the achievements of public administration reform remained modest (Balkan Investigative Research Network Report on the work of Government). The government remained committed to creating a functioning market economy, addressing the issues such as budget deficit, growth perspectives domestic and external imbalances. Price stability has been preserved. Government debt is still high. Unemployment is high, particularly among youth. The private sector is underdeveloped and hampered by weaknesses in the rule of law. Corruption remains prevalent in many areas and continues to be a serious problem.

Question
Score

Prioritization

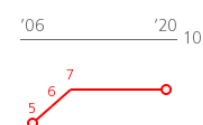
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Implementation

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Serbia has still not adopted the new law on the Anti-Corruption Agency nor amendments to the criminal code in the economic crime sections. The former director of the agency resigned in September 2017 and a new director was appointed in January 2018. The agency continued to perform in some areas of its remit, despite limited resources and both legal and institutional obstacles, in particular the lack of human resources. The government still does not take the recommendations of its own advisory body – the Anti-Corruption Council – into account. Serbia so far did not implement in a satisfactory manner any of the thirteen recommendations provided by the Council of Europe Group of States against Corruption (GRECO) in its last evaluation round on preventing corruption among parliamentarians, judges and prosecutors

President Vučić has made himself a dominant political figure, overcoming constitutional and legal restrictions on his power. Serbia has increasingly shown significant signs of being a captured state, where the ruling political elite control all aspects of society.

The current governing coalition led by SNS has announced deep reforms in many areas of the society but few of them have materialized, apart from labor legislation and obtaining construction permits, and to some extent the digital transformation of the civil administration.

Key reform procedures that are backed by international financial institutions, such as the IMF and the World Bank, have higher chances of being successfully implemented, due to political backing.

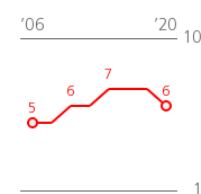
Advice from independent state bodies, such as the Fiscal Council, the State Audit Institution or the Anti-Corruption Council, is seldom taken into account and usually disregarded due to possible restrictions on the government. Civil society, academic experts and practitioners are rarely embraced as partners in policy planning and implementation, and the policy process suffers from the strong influence of unconstitutional veto players.

Without the permission of the president's cabinet, very little policy work can be done at all. Public consultations are mostly avoided or remain superficial, laws are generally passed under an urgent procedure.

A more coherent policy coordination framework was put to place in 2013 to 2016. The Law on Planning System entered force in late 2018. Although it provides a solid framework for policy coordination, partial implementation of the strategic document and visible reluctance of key political figures toward evidence-based policy-making remain biggest problems.

Policy learning

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15 | Resource Efficiency

The public wage bill has been cut from 11% of GDP in 2015, through a 10% wage cut and employment freeze, to a more sustainable 9% in 2018, bringing it in line with other countries in transition. However, the wage bill continues to be plagued with problems. It provides grounds for a significant wage premium for public sector employees with lower qualifications in comparison to those with tertiary education. Although a new system of public sector wage determination has been announced on several occasions, it is yet to be finalized due to internal pressures from the administration itself and lack of political will.

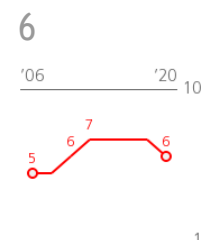
Restrictions on new employment (one new employee per five of those who retire) are envisaged to remain in 2019, which has put increased pressure on some public administration segments. The public sector is still plagued with widespread nepotism and political clientelism; recruitment and promotion are neither fair nor professional, providing room for corruption, trading in influence and buying political support.

State-owned enterprises (SOE) are mostly inefficient and rely on public subsidies that are higher than the EU average (2.7% of the GDP). Their situation has improved compared to previous years, not due to improvements in management practices but due to favorable external factors, such as the low cost of capital resulting from European Central Bank (ECB) policies, low fossil fuel prices and exchange rate fluctuations.

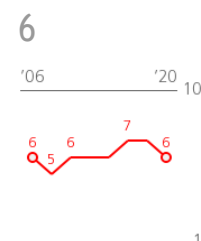
Public debt has been steadily decreasing since 2016 relative to the GDP, from 68% in 2016 to 55% in 2018 but remains high for a country at this level of development. The reduction was achieved through small budget surpluses, but mostly due to the expansion of the economy and new methodology for valuation of GDP that increased its level. General government revenues have been recording small surpluses since 2017, due to higher growth than envisaged and significant one-off non-tax revenues.

In 2018, Serbia adopted the Law on Planning System and related bylaw to ensure its implementation, introducing the normative tools to coordinate and mediate the work of different sections of administration. Yet, balance between policy goals is poor and policy coordination is inhibited by the dominance of the executive branch and the interference of President Vučić in policy prioritization. The quality of the strategic planning and related documents is weak – strategies are often not meaningfully linked to fiscal planning. The third revision of the National Plan for the Adoption of the Acquis (NPAA) for 2018 to 2021 has been finished. Its implementation is pending since the previous NPAA faced serious obstacles in its alignment with government annual work programs, support in necessary funds and regular monitoring. Public administration still lacks the capacity to facilitate inclusive and evidence-based policy and legislation, particularly at the local level.

Efficient use of assets



Policy coordination



The government has failed to allocate responsibilities transparently and negligence of tasks and friction between different government branches are common. This is best seen in legislative procedure where discrepancies are often found between financial impact assessments, coordinated by the Ministry of Finance, and financial information in the regulatory impact assessments, coordinated by Public Policy Secretariat. Government agendas and some key reports (e.g., reports on annual government work and NPAA) are often not systematically available to the public, negatively affecting public scrutiny of government work. Public demand exists for government monitoring reports and ministries' strategy monitoring reports to start measuring achievements instead of reporting on implemented activities.

The institutional and legal framework to address corruption in Serbia is formally established; some of this legislation is of high quality even by international standards. The actual implementation of this regulatory framework in practice is the weak point. The biggest problem is the lack of political will to do so, since corrupt practices provide space for wide clientelistic networks to obtain or remain in power through elections. The judiciary and the prosecutor's office are under firm control of the executive; therefore, many corruption scandals remain uninvestigated or not litigated.

Even when there is some political will to implement some changes, they may reverse the already achieved level of anti-corruption practices. The draft of the new law on free access to information of public importance envisages that state-owned enterprises (SOEs) would not be obliged under the law to provide the public with information regarding their operations. Independent public bodies in the field of anti-corruption are mostly committed to their work, but their efforts are limited by being understaffed and underfinanced.

The National Strategy for Fight Against Corruption for 2013 to 2018 is under implementation, but the progress is slow, uneven and seldom successful. According to the anti-corruption agency report for the implementation of the strategy from March 2018, out of 177 activities and measures that were scrutinized, only 26% were actually implemented, while 62% of the activities were not (the remaining 12% could not be evaluated due to data limitations).

State Audit Institution provides oversight over public expenditures, but it faces serious resources restrictions to enable it to increase the scope of its audits. Even when cases of embezzlement or unlawful public spending are found, seldom does it end in criminal charges against public officials. Financial audits of political parties remain ineffective.

Prolonged legal proceeding in many corruption cases often lead to their termination without an adequate penalty. 40.2% of companies in Serbia think that their counterparts make informal payments in order to secure public contracts (World Bank, Enterprise Survey, 2013). Public procurement remains one of the areas with high risks of corruption. In 2017, the independent body in the field of public

Anti-corruption
policy

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procurement was included in 1,217 procurement cases (Agency for protection of rights in public procurement, Information booklet), which is a significant reduction compared to the previous two years.

16 | Consensus-Building

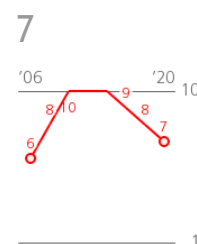
Key political actors, starting with the president, often jeopardize basic democratic norms and values in their actions. The legislative process is characterized by weak, incoherent procedures with frequent conflicts between laws and strategic documents and inconsistencies with constitutional provisions. The inclusiveness, transparency and quality of law-making and effective oversight of the executive need to be further enhanced, and the use of urgent procedures limited. Understanding and acknowledgment of the remit of independent bodies, including the Ombudsman's Office, needs to be strengthened.

Market economy, freedom of entrepreneurship, independence of business stakeholders and equality of private property and other forms of property are constitutional categories. The government has produced the Economic Reform Program (ERP) as a mid-term strategic framework for moving forward the process of restructuring the Serbian economy, particularly the public sector, aimed at curbing unreasonable public consumption and increasing efficiency coupled with a better quality of services. However, Serbia lacks a strategic framework for sustainable development and regional policy. Market economy has been publicly endorsed by political leaders, but this is not fully followed through in practice. Government debt is still very high and public enterprises are heavily subsidized. The private sector is underdeveloped and hampered by weak rule of law.

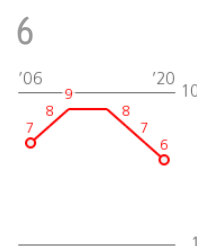
Anti-democratic actors are primarily present within the executive branch, such as government and the president. By breaching the limit of his duties ascribed by the constitution, the president is constantly taking decision-making authorities, and thus endangers the rule of law, the system of checks and balances and democratic processes.

Political actors with anti-democratic stances entered the national parliament in 2016. Serbian Radical Party won 22 seats, becoming the third biggest political group in the parliament. Movement "Dveri" in coalition with Democratic Party of Serbia won 13 seats. These parties have ambiguous political goals regarding the promotion and application of democratic norms and values in practice. Besides these political parties and movement, the ruling coalition has also displayed anti-democratic credentials, primarily by obstructing parliamentary procedures, undermining parliamentary deliberation, and failing to perform its oversight function over the executive and judiciary.

Consensus on goals



Anti-democratic actors



Organized crime and corruption are tolerated by state institutions. The security apparatus, particularly the secret services, are under no public or parliamentary scrutiny and remain under the direct control of the government and president.

The political leadership fails to prevent cleavage-based conflicts from escalating, but rather exacerbates such conflicts. Ruling parties continue their efforts to prevent conflicts based on ethnic, national or religious cleavages but these efforts do nothing to deflate or improve tensions involving political and social conflicts, or relations between Serbia and Kosovo.

Executive leaders, such as ministers, the prime minister and the president, constantly attack opposition leaders. This led to a physical attack on Borko Stefanović, one of the leaders of the “Alliance for Serbia” coalition. This ignited a series of nationwide “One of Five Million” protests. The cleavage was deepened with the nationwide promotional campaign of “Future of Serbia,” contra-gatherings led by President Vučić himself. The president remains a key “firestarter” of the potential conflicts between the ruling coalition and opposition political parties.

The leadership of the governing parties continues to oppose Kosovo independence. In 2018, a dialog between Belgrade and Pristina over the implementation of the Brussels Agreement continued with some progress. Yet, the tensions escalated following the 2018 assassination of Oliver Ivanović (a Serb politician in North Kosovo) but especially after a 100% tax was imposed on Kosovan imports to Serbia in November 2018. The dialog has been halted since, but even earlier, both sides aimed to provoke conflict in many cases. For example, in January 2017, the inaugural train opening the route from Belgrade to (ethnically Serbian) Northern Kosovo was plastered with a provocative slogan “Kosovo is Serbia” in 21 languages.

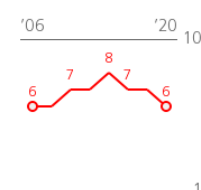
Media and journalists particularly with a critical approach toward the government and governing parties are subject to threats and intimidation. Judicial proceedings over attacks and intimidation of journalists are sporadic. Several high government officials have made public statements against certain media, journalists and CSOs accusing them of subversive activities against the government and the state.

Serbia lacks a strategic framework for the involvement of civil society in policy and decision-making. Civil society participation in policy-making and legislative process still takes place largely on ad hoc basis, and the full potential of the sector is not being utilized.

Some progress has been made to create an enabling environment for CSOs. A new acting director of the Government Office for Cooperation with Civil Society was appointed in 2016. Cooperation between the parliament and civil society in the EU negotiation continued. The National Strategy for an Enabling Environment for Development of Civil Society in Serbia for Period of 2015 to 2019 is not adopted and the Council for Cooperation with Civil Society has not been established. The legal

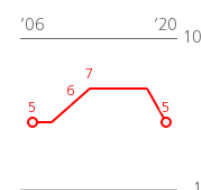
Cleavage / conflict management

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Civil society participation

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framework for volunteering needs to be improved. Tax exemptions that could stimulate cooperate philanthropy need to be adopted. An existing draft law on social entrepreneurship significantly undermines the efforts of CSOs to act as providers of social services. The media coverage of the work of CSOs continues to decrease, partially due to the heavy political influence on media.

Members of the government and the president himself are stirring the atmosphere of mistrust against CSOs via constant accusations and verbal attacks. They particularly target CSOs with a critical stance on the current state of play of policy-making and implementation. There has been a sudden boom of government-organized NGOs that serve to legitimize the dialog between civil society and the ruling coalition. Such organizations take part in public discussions, participate in working groups and are regularly granted public funds. They also serve as a basis for attacking other CSOs.

During 2017 and 2018, President Vučić was very active in visiting the countries of the Western Balkans region. Although he spoke about the necessity of Serbia's contribution to stability, reconciliation and a climate conducive to addressing open bilateral issues and the legacies of the past, the government's actions have run counter to this kind of messaging. Serbian governmental officials often raised some bilateral issues in public in a most inappropriate way, returning to the language and messages echoing the Milosevic rule before 2000.

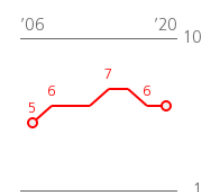
Serbia still needs to demonstrate a firmer commitment at all levels in this area, fostering mutual trust and reconciliation, to establish an atmosphere conducive to meaningful regional cooperation and to effectively address all war crimes-related issues.

Civic activists and liberal media support the Coalition for Reconciliation Commission and Igman Initiative on regional reconciliation. There is also support for the work of RECOM, a regional commission tasked with establishing facts about war crimes and promoting truth-telling about the past. However, public officials remain reluctant to support this initiative.

There has been no significant progress in relationship with Kosovo. The bilateral relationship of Serbia and all other ex-Yugoslav countries are either on hold or declining (in case of Bosnia and Herzegovina, Croatia, Montenegro and Northern Macedonia).

Reconciliation

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17 | International Cooperation

Frequent elections held in Serbia from 2012 (almost on a yearly basis) and a lack of political will and framework for strategic planning undermine the pursuit of clear aims for political and economic development. Serbia has developed National Priorities for International Assistance for 2014 to 2017, with projections until 2020, with the ambition to use this document as an overarching framework for inputs from international partners. However, detailed estimations for the period 2017 to 2020 have not been produced, and the last publicly available report on actual international assistance dates from 2015.

Serbia continues to be a recipient of financial and technical aid, especially through the EU Instrument for Pro-Accession Assistance (IPA) II, which is designed to support reforms undertaken as part of the European integration process. IPA II funds for Serbia amount to roughly €200 million annually. Its priorities are fostering democracy and governance, rule of law and fundamental rights, environment and climate action, transport, energy, competitiveness and innovation, education, employment and social policies, agriculture and rural development. However, the inconsistency in strategic planning dominates the use of international assistance. The country's leading economists frequently warn that there public and private investments are insufficient for a satisfactory pace of development.

The EU has been the leading donor in the past 17 years (51.2% of total funds); the United States has been the leading donor among individual countries (13.1%), followed by Germany (7.2%) and Sweden (4.7%). In the upcoming years, as the country is moving closer and closer to the EU, declining foreign assistance is expected.

Serbia's often reiterated foreign policy priority is to enter the EU. In early 2019, Serbia had opened 16 out of 35 EU accession negotiation chapters. The EU expects Belgrade to align itself with the EU's external actions and resolutions. Belgrade's alignment with the EU in foreign and security policy has decreased. This is particularly visible within the EU accession negotiations on Chapter 31: Foreign, Security and Defense Policy. Serbia has aligned half of its foreign and security policy decision and activities with those of the EU. The illustrative case is EU-imposed sanctions against officials of the Russian Federation. Serbia is strongly opposing these measures and, thus, it is lagging behind other Western Balkans countries in aligning its policy with Brussels.

The Brussels Agreement opened the way toward normalization between Kosovo and Serbia, clearing some of the barriers for continuing the EU accession process. This process had come to a standstill in 2018 to 2019.

Effective use of support

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Credibility

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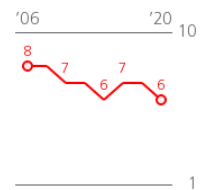
Finally, Serbia has been criticized for insufficient cooperation with the Mechanism for International Criminal Tribunals – a successor to the International Crime Tribunal for the Former Yugoslavia.

Serbia's political leadership cooperates with most neighboring states and complies with the rules set by regional and international organizations. The period after 2015 was marked by constant tensions between the former Yugoslavia neighbors. A number of disputes remain concerning the leftovers of the conflicts in 1990s persisted with Croatia and Bosnia and Herzegovina. These tensions reach a zenith in summer when dates related to the past conflicts are marked. The status of the Serbian minority is an issue with North Macedonia, Montenegro and Croatia, while the position of the Serbian entity in Bosnia and Herzegovina, Republika Srpska, represents a point of tension, primarily due to the high interest of Serbia and its relations with this entity. The issue of determining precise borders remains to be solved between Serbia and other countries of former Yugoslavia.

Serbia presided over a number of regional initiatives, including the Southeast European Cooperation Process and the Central European Initiative. Serbia is actively participating in the so-called "Berlin Process." Serbia is a signatory party of the Central European Free Trade Agreement, along with other Southeastern Europe EU non-member states. In 2017, the trend of trade within the Central European Free Trade Agreement has been decreasing to some extent.

Regional cooperation

6



Strategic Outlook

Serbia is an EU candidate country in the process of accession negotiations with the expectation to use this process to significantly improve its regional relations, border and territorial disputes, as well as rule of law, human and minority rights. It is expected that the EU accession process and country's transformation will serve as a leverage for overcoming current problems. This should ultimately bring more stability within the political and election system, more efficient public administration, undisturbed work of independent bodies, more effective and efficient civil society participation in decision-making process and the removal of authoritarian tendencies. However, the state of democracy in Serbia is deteriorating according to findings by domestic and external human rights and freedom of expression monitors. Frequent elections since 2012 – annual parliamentary elections from 2016, in addition to 2017 presidential elections and several local elections in 2018 – seriously undermine any kind of continuity in mid-term and long-term strategical planning. This poses difficulties for European integration, a key strategic policy objective for Serbia.

Serbia is on the path toward establishing a functioning market economy. The state still accounts for a large share of the economy, through state-owned and public enterprises that are active in many different sectors with little, if any, economic reasons for state intervention. State enterprises are inefficient, are a drain on limited public resources, and serve as a focal point of corruption, political influence trading and a pool of employment opportunities for people with political connections to ruling parties. Privatization of a number of state-owned enterprises is continuing slowly, as well as the process of introduction of independent management of public enterprises. The fiscal austerity program implemented via curbing the public sector wage bill and pension benefits, followed by policies curbing the shadow economy, produced results in reducing the public deficit. Public expenditures are in line with most European countries, with general government expenses reaching 42% of GDP in 2018, down from 44.4% in 2016. However, when compared to other economies in transition, Serbia has a significantly higher public consumption. Action is still necessary to alleviate the burden of accumulated public debt and strong fiscal risks associated with the management of public enterprises. Total level of investment is still below the regional average, but public investment in infrastructure is increasing as well as its actual implementation.