This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at [http://www.bti-project.org](http://www.bti-project.org).


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Executive Summary

Between 2013 and 2015, Serbia made some progress in achieving its main policy goals. These goals included EU membership, developing a fully functioning market economy and strengthening the rule of law. During this period, Serbia’s government adopted a more pragmatic approach toward the issue of Kosovo’s secession. This was due to pressure from the European Union, which insisted that the normalization of ties between an independent Kosovo and Serbia was a precondition for Serbia’s further integration into the EU. Talks on practical policy issues have since begun between Belgrade and Pristina. An agreement, known as the Brussels Agreement, on the normalization of relations between Kosovo and Serbia was signed on 19 April 2013.

According to the Brussels Agreement, Serbia will gradually dismantle its institutions in the four majority-Serb municipalities in the north, particularly its judicial, healthcare and security institutions. Following the agreement, the EU formally opened accession negotiations with Serbia on 21 January 2014. By the end of 2014, these negotiations were still in the “screening” stage of the process.

During the period under review, early parliamentary elections were held on 16 March 2014, simultaneous to municipal elections in Belgrade. International observers assessed the elections as inclusive and transparent, but noted concerns that media coverage tended to favor the incumbent, incumbent political parties misused public resources and voters were intimidated. The elections led to a power shift, with the electoral alliance of the Serbian Progressive Party (SNS), the previous junior partner of the Socialist Party of Serbia (SPS), winning an absolute majority. The new coalition government, led by Prime Minister Aleksandar Vučić (SNS), combined the SNS, SPS and the Alliance of Vojvodina Hungarians. This coalition ensures that the government has a majority of more than three-quarters of the seats in parliament.
The Vučić government continued to prepare Serbia for accession to the EU and introduced a package of far-reaching economic and fiscal reforms in October 2014. These reforms aimed at further market liberalization through, for example, the privatization of state- and socially-owned companies as well as the consolidation of public finances. Meanwhile, austerity measures were introduced, which included a reform of the pension system and a reduction in public sector wages. These measures aimed to achieve a fiscal adjustment of 3.5% of GDP. Having grown by 2.6% in 2013, real GDP declined by an estimated 2% in 2014. This was mainly due to costs associated with flooding in May 2014. The overall fiscal deficit increased from 5.6% in 2013 to 7.5% in 2014. This caused gross public debt to increase from 58.3% of GDP in 2012 to 72.3% of GDP by 31 January 2015.

The judiciary operates relatively independently. However, its functions are still restricted by political influence, inefficiency, nepotism, cronyism and corruption.

From September to December 2014, lawyers went on strike to protest against new legislation, which prohibited them from drafting real estate, matrimonial and inheritance contracts. Representatives of the lawyers and the Ministry of Justice finally agreed on amending, among other things, the Law on Public Notaries.

Although freedom of expression was generally respected, the independence and pluralism of the media is constrained by political interference, economic dependencies and self-censorship.

Although the government embarked on an anti-corruption campaign leading to the arrests of several influential businessmen and politicians, public opinion surveys indicate that citizens continue to believe that high-level corruption is common within politics, healthcare system and judicial system. A number of groups continue to face discrimination, including the Romani, poor and disabled individuals, the elderly, women, and members of the lesbian, gay, bisexual and transgender community.

History and Characteristics of Transformation

Serbia’s transition to democracy and a market economy has been fraught with the statehood conflicts that marked the period that followed the break-up of the Soviet Union. The collapse of communism in Eastern Europe led to the disintegration of the former Yugoslavia and to a series of wars in the Balkans in the 1990s. Tensions had been building between the ruling elites of the republics of the Socialist Federal Republic of Yugoslavia since the 1980s. They split into Bosnia and Herzegovina, Croatia, Macedonia and Slovenia. In 1990, Serbia’s socialist party, led by Slobodan Milosevic, won the first democratic elections and sought to establish a centralized federation and Serbia’s dominance in it. In contrast, the political leaders of Slovenia and Croatia wanted to establish of separate states. Facilitated by the wars and nationalist mobilization, Serbia’s President Milosevic established a semi-authoritarian system in the remaining parts of Yugoslavia and remained in power until 2000. Responding to its deepening crisis, Milosevic’s government
increased political repression in Serbia proper and its violent military repression of ethnic Albanians in Kosovo. NATO air strikes forced the regime to abandon its control over Kosovo and contributed to the demise of Milosevic after massive opposition-led demonstrations in Belgrade. The Democratic Opposition of Serbia (DOS), a coalition of 18 liberal, social democratic and moderate nationalist parties, 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 prime minister, respectively. The heterogeneity of the coalition and the assassination of Prime Minister Zoran Djindjic in March 2003 limited the government’s capacity to sustain its initially dynamic economic and political reforms.

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 a more loosely integrated state union mediated by the European Union. Following a referendum in May 2006, Montenegro became an independent state and the state union was dissolved. As a consequence of its military defeat in Kosovo, Serbia had to accept a U.N.-led interim administration in Kosovo. This administration ruled the territory since 1999, based upon Resolution No. 1244/1999 of the U.N. Security Council. On 17 February 2008, the government in Prishtina declared Kosovo’s independence, subsequently recognized by major Western states but fervently opposed by Serbia, Russia, China and, among others, five EU member states. In 2011, Serbia decided to heed the EU’s unambiguous message that the arrest of remaining war crime fugitives Ratko Mladic and Goran Hadzic as well as the normalizing ties with Kosovo were the key preconditions for further European integration. Mladic and Hadzic were arrested and transferred to the International Criminal Tribunal for the former Yugoslavia (ICTY) in The Hague in 2011. In March of the same year, Serbia commenced dialogue on practical issues with Prishtina, and a year later, it obtained EU candidate status. A radical change of government happened in 2012 because of voters’ disillusionment with the then-ruling Democratic Party (DS) and its leader, President Boris Tadic. They were no longer considered sufficiently capable of ensuring economic progress, and combating widespread corruption and organized crime. The new Serbian government elected in May 2012, led by the Social Democratic Party (SPS) and the Serbian Progressive Party (SNP), the former pillars of Milosevic’s authoritarian regime, performed a political somersault and declared EU membership as their chief goal.
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 government has a monopoly on the use of force in its territory, with the exemption of Kosovo. Kosovo is a disputed territory whose largest city, Prishtina, lies to the south of Serbia’s capital city, Belgrade. Almost 90% of Kosovo’s population is ethnic Albanian. It is defined by the Serbian constitution as an autonomous province in southern Serbia. The Albanian-dominated government in Prishtina declared Kosovo’s independence from Serbia on 17 February 2008. By the end of January 2015, 108 countries had recognized Kosovo as a sovereign state, including all major Western powers and 23 out of 28 EU member states. However, Russia and China have refused to recognize Kosovo’s independent status. As a result, Kosovo has been unable to join the United Nations.

Due to a history of violence and prevalence of firearms, Serbia’s police are always on high alert when operating close to Kosovo, especially near largely Albanian populated cities like Preševo and Bujanovac. In most cases, the police are required to investigate instances of illegal deforestation or illegal movement between Serbia and Kosovo.

Organized crime continues to be a problem in Serbia. In a 2014 report on Serbia, the European Commission noted that no strategic assessment of the overall level of threat from organized crime in Serbia is undertaken. The Commission also noted that convictions for organized crime are rare. The Commission criticized the institutional dependence of the police on specialized security and intelligence agencies to pursue complex criminal investigations.

One of the most prominent examples of the close connections between organized crime and the political class concerns the surrender of Darko Šarić. Šarić was a Montenegrin who was given Serbian citizenship in the mid-2000s. In March 2014,
Šarić mysteriously surrendered to the Montenegrin police. He was then promptly extradited to Serbia on charges of drug trafficking, including the smuggling of several tons of cocaine from South America to Europe. According to public reports, Šarić had links to high-ranking politicians and business people in Serbia, including Ivica Dačić. Dačić was previously the Minister of Interior and is currently the Foreign Minister of Serbia. Dačić is also the leader of the Socialist Party of Serbia. In addition to charges of drug trafficking, Šarić is accused of money laundering through the illegal privatization of Serbian state-owned companies.

The constitution defines Serbia as the state of the Serbian people and all citizens who live in Serbia. In the 2011 population census, excluding Kosovo, Serbia had a population of 7,186,862, a decrease of 4.15% people from the 2002 population census. According to the 2011 census, the population is composed largely of ethnic Serbs (83.3%). In addition to Serbs, there are also Hungarians (3.5%), Roma (2.1%), Muslims (0.3%), Bosniaks (2%), Croats (0.8%), Slovaks (0.7%), Albanians (0.1%), Montenegrins (0.5%), Vlachs (0.5%), Romanians (0.4%), Yugoslavs (0.3%), Macedonians (0.3%), Bulgarians (0.3%), with 5.1% unspecified. The constitution guarantees national minorities a number of individual and collective rights. National minorities are represented by political parties in the parliament. Following the 2009 Law on National Councils of National Minorities clarifying the competencies of the National Minority Councils (NMCs) in education, culture, official usage of language and public information for each of national minority. In total, 19 NMCs were formed. The elections for the NMCs were held in October 2014.

Serbia is defined by its constitution as a secular state. It is also, for the most part, socially secular. Serbia is one of the most religiously diverse European countries. Its population is composed of 84.5% Serbian Orthodox, 5% Roman Catholic, 3% Islamic, 1% Protestant, 1.1% atheistic or agnostic, 0.1% other and 4.4% unspecified. Religious dogmas have little influence on politics or the law. However, the Serbian Orthodox Church often tries to exert political and moral influence. For example, the Serbian Orthodox Church strongly objected to Kosovar independence, opposed same-sex marriage and idealized the royalist Chetnik resistance movement of WWII. Many citizens attribute moral authority to the Serbian Orthodox Church and its statements.
Serbia has a differentiated administration that extracts and allocate state resources throughout the country, albeit with limited efficiency and effectiveness.

There is a functioning administration and basic physical infrastructure. However, the economic crises since 2009 has undermined economic and political modernization through restricting investment. In particular, environmentally responsible modernization has stalled.

2 | Political Participation

Following a row between the governing coalition parties, early parliamentary elections were held on 16 March 2014. In Belgrade, the national election coincided with a municipal election, after the mayor lost a vote of confidence. The turnout in the national election was 53%, four percentage points less than in the 2012 national elections.

According to international observation bodies, the elections were inclusive and transparent. The legal framework is generally in line with international standards. OSCE’s Office for Democratic Institutions and Human Rights noted that some of its earlier recommendations remained unresolved, particularly those relating to candidate registration, election administration, complaints in the previous and the role of international observers. According to the OSCE report, media coverage has been insufficiently analytical and influenced by the ruling political parties. This has led to self-censorship among journalists and media outlets. The report also noted concerns about the misuse of administrative resources by the incumbent political parties and cases of voter intimidation.

The electoral system in Serbia is a proportional system, with a single nationwide constituency, totaling 250 seats, a 5% electoral threshold and closed party lists. A separate system, which does not apply a 5% threshold, regulates political parties representing ethnic minorities. Reforms in 2011 prohibited the controversial practice of “blank resignation” (i.e. commitments by MPs to their respective parties).

Serbia’s democratically elected government has the effective power to govern. Parliament has democratic and civil oversight of the army and the secret service through its parliamentary defense and security committee. However, these committees have rarely exerted genuine control over the government. In particular, these committees have little influence over the Ministry of Defense or the armed forces. The executive clearly dominates the legislature. Although the government claimed to have banned business tycoons from interfering in the policy-making process, they continue to influence political decision-making through informal channels.
The freedoms of association and assembly are constitutionally guaranteed and the government generally respects these rights in practice. The right of the activists of lesbian, gay, bisexual and transgender (LGBT) groups to openly exercise their freedom of assembly, expression and association is not prohibited by law. However, public opinion is often highly prejudiced, and the government and media have done little to address this. In 2014, LGBT groups were able to hold Pride Parade in Belgrade. The event passed without incident. In previous years, the Pride Parade and counter-demonstrations had been banned, after police stated that they could not guarantee public order. Although Pride Parade was allowed in 2014, Prime Minister Vučić, among other politicians, publicly stated that the authorities were acting under international pressure from the EU and the U.S.

The constitution guarantees freedom of expression and freedom of press. However, the independence and political pluralism of the media system has declined in recent years. This has been due to a dramatic reduction in purchasing power, 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.

Despite the prevalence of foreign ownership, largely from EU member states like Germany, the quality of media coverage is deteriorating in parallel with the worsening economic situation. However, there is an increasing tendency, largely among younger generations, to seek out news online. The internet offers more sources of information than traditional media, but often provides little context or analysis of the story.

A report published by the Anti-Corruption Counsel of the Serbian Government in early 2015 noted that political actors exert influence on the editorial policies of print and electronic media. Political pressure and economic dependency limit editorial independence and promote self-censorship among editors and journalists. According to the report, 1,319 media were registered in June 2014, including 711 print media, 237 radio stations, 208 internet media, 130 TV stations and 20 news service agencies.

In August 2014, after much delay, a Law on Public Information and Media was adopted. According to the law, almost all publicly owned media will be privatized by 1 July 2015. The aim is to create a level playing field for all media. The only exceptions from the mandatory privatization will be the main public service broadcasters, which target the population of Kosovo, and minority media publishers established by National Minority Councils. The law, for the first time in Serbia, defines the public interest in the media sphere and allows for the state to co-finance public interest media projects. Transparent and non-discriminatory procedures for awarding grants is also prescribed in detail. The law introduces a media register to provide access to the relevant data on publishers and media outlets. Mergers between media outlets are encouraged in order to facilitate a consolidation of Serbia’s highly fragmented media market and increase investment in the media sector.
3 | Rule of Law

The separation of powers is in place and functioning. Checks and balances are rarely subject to interference. However, the capacity of the parliament and judiciary to hold the executive accountable is weak. Opposition MPs chair four of 19 standing committees, including the Committee for European integration. However, opposition MPs no longer chair the committees for finance, security or internal affairs. In 2014, the re-elected government used special arrangements for enacting urgent legislation to bypass parliamentary scrutiny.

In January 2015, MPs belonging to the governing SNS party criticized the ombudsman for investigating a case in which agents of the Military Security Agency were alleged to have attacked police officers. SNS MPs claimed that the agents had been protecting the Mayor of Belgrade, also the prime minister’s brother, during the September 2014 Pride Parade. Government ministers denounced the public ombudsman for interfering in politics, undermining his watchdog function.

According to the constitution, the courts are independent and autonomous. However, in practice, the judiciary is restricted by political influence, inefficiency, nepotism, cronyism and corruption.

The government has made some to address these problems in the context of its accession negotiations with the EU. A large number of judges and prosecutors were reappointed after they had previously been dismissed in a legally flawed attempt to tackle corruption in the legal system. A new court system, in which courts have general jurisdiction, became operational in January 2014. In May and July 2014, the judicial and prosecutorial self-governing bodies approved rules for the appraisal of judges and prosecutors.

However, the government failed to implement all its planned judicial reforms. According to a report published by the ombudsman in 2015, some members of the High Judicial Council and the State Chamber of Prosecutors had violated principles of the rule of law when reappointing previously dismissed judges. The ombudsman also noted that the Minister of Justice publicly attacked a justice of the Supreme Cassation Court when the justice criticized the government’s willingness to reform the judiciary.

In its 2014 report on Serbia, the European Commission noted that the rules for appointing court presidents were unclear and not meritocratic, and that the courts were constrained by a substantial backlog of cases. The Commission also noted that the High Judicial Council routinely failed to properly defend the independence of higher and appellate court justices from political influence. Although the High Judicial Council investigated four cases against judges charged with malfeasance and dismissed one judge for disciplinary reasons, a comprehensive evaluation of judges and prosecutors does not exist.
Serbia has continued to implement its existing and amended legal framework to fight corruption, abuse of power and other corrupt practices. However, cases of public officials in senior positions being found guilty of corruption are rare.

A number of former government ministers and public officials as well as the billionaire tycoons Miroslav Mišković (2012) and Miroslav Bogićević (2014) have been arrested following an anti-graft investigation. However, the court cases against Mišković and Bogićević were still pending in January 2015. According to a 2014 report on Serbia by the European Commission, “final convictions remained rare and high-profile cases remained at risk of political interference.”

Serbia’s parliament adopted a law to tackle corruption in public procurement processes. In July 2013, the parliament adopted a National Anti-Corruption Strategy for the period 2013-2018. The strategy proposes giving control of political party financing to the State Audit Institution. The main goals of this strategy are to address weaknesses in the legal framework governing the political party financing, remove conflicts of interest, and oversee the assets and revenues of public officials. The strategy also proposes establishing clear criteria for the evaluation of public company directors, reducing the discretionary powers of the Privatization Agency director and strengthening financial control mechanisms within the public sector. In November 2014, the parliament adopted a law to protect whistleblowers in cases of corruption. At present, the financing of political parties and election campaigns is highly opaque and provides opportunities for bribery.

Serbia has established a strong system for guaranteeing and protecting civil rights, and for protecting citizens from discrimination. However, persons belonging to the Roma and LGBT communities continue to face prejudices and discrimination in society. Prison conditions remain difficult, though the government has adopted a strategy to reform the penal system. According to a 2014 report by the European Commission, public officials rarely publicly condemn threats, physical assaults, incite violence or hate speech by extremist groups against civil society organizations and activists.

Serbia hosts one of the largest populations of displaced people in Europe. According to the U.N. High Commissioner for Refugees, in July 2014, there were almost 44,000 refugees and about 220,000 internally displaced persons (IDPs) in Serbia. Most of these individuals were victims of the Yugoslav wars during the 1990s.

Institutions protecting witnesses have not been adequately implemented. These institutions are limited by a lack of staff, equipment and facilities, while witnesses’ and victims’ confidence in their capacities is also low. In addition, Serbia lacks the resources and institutional framework to properly investigate and prosecute instances of human trafficking.
The National Assembly of the Republic of Serbia has 84 female MPs, more than one-third of the total 250 MPs. Serbia ranks 23 in the world for its number of female MPs. A new law on gender equality and the national strategy was prepared in early 2015.

4 | Stability of Democratic Institutions

Democratic institutions continue to perform their functions. However, they are often inefficient due to frequent friction between departments, lack of adequate financial and human resources, and the prevailing influence of political parties represented in the executive branch.

The role of Serbian parliament has been significantly strengthened, mostly through the introduction and implementation of a number of new and amended laws and regulations that are enhancing its position and efficiency. In December 2013, the parliament adopted a resolution on the EU accession negotiation process. The resolution proposed including civil society organizations in the process and introducing more consultation procedures for developing draft positions. In May 2014, the parliament adopted several important laws regulating, among other things, labor, bankruptcy, privatization and media. These laws were introduced under special arrangements for urgent legislation with limited possibility for parliamentary debate.

MPs regularly scrutinize government ministers. However, the stability of governing majority restricts possible repercussions. Governments often resort to special arrangements for fast-tracking legislation through the parliamentary process. However, the fast tracking of legislation restricts parliamentary oversight.

In January 2015, the parliamentary committee, which oversees the security and intelligence services, supported the Ministry of Defense and Military Security Agency in their dispute with the Ombudsman. The dispute concerned the refusal of the two ministries to provide the Ombudsman with information pertaining to allegations that Military Security Agency agents violently assaulted police officers during the 2014 Pride Parade in Belgrade. MPs of the governing Serbian Progressive Party also launched a campaign to replace the Ombudsman. They argued that the Ombudsman had demonstrated an unwillingness to protect Serbian citizens. In response, government critics argued that this campaign was really an attack on the checks and balances on executive authority, and the separation of powers.

In May 2014, the parliament approved, almost unanimously, the Statute for the Autonomous Province of Vojvodina. The statute introduced a series of amendments, because two-thirds of the previous stipulations had been deemed unconstitutional by the Constitutional Court. The Constitutional Court’s ruling concurred with government critics who argued that the statute should not endow Vojvodina’s institutions with quasi-state rights and symbols. However, by January 2015, a law regulating the competences and financing of the province remains to be adopted.
All relevant political and social actors accept Serbia’s democratic institutions as legitimate. However, the incumbent prime minister has concentrated power in his own hands, marginalized parliamentary oversight, and fiercely attacked the public Ombudsman for challenging the government. President Nikolić publicly criticized the state attorney in charge of persecuting war criminals. The behavior of Serbia’s two most powerful politicians, the president and the prime minister, has not been conducive to strengthening democratic institutions.

In the new National Parliament (2014), there is no anti-EU party, as the anti-establishment and anti-European Serbian Radical Party obtained only 2% of the votes.

5 | Political and Social Integration

The Serbian party system is highly fragmented, moderately polarized and mostly dominated by individual personalities, many of whom have been active on Serbia’s political scene for more than two decades.

In the March 2014 general election, the Serbian Progressive Party (SNS) led by Aleksandar Vučić won 158 seats out of 250 with 48.4% of the vote. The SNS’s main coalition partner, the Socialist Party of Serbia (SPS), led by the current Minister of Foreign Affairs, Ivica Dačić, won 44 seats with 13.5% of the vote. Among the opposition parties, the Democratic Party (DS) won 19 seats with 6% of the vote and the New Democratic Party (NDS), recently founded by the former president, Boris Tadić, won 18 seats with 5.7% of the votes. Three parties representing national minorities each won 11 seats. Meanwhile, no anti-EU party surpassed the 5% vote threshold to win any seats in the parliament. After this failure, Vojislav Koštunica resigned as president of the Democratic Party of Serbia (DSS). Koštunica was replaced as president of DSS by Sandra Rašković Ivić. Koštunica and a group of close associates have since left the party. Meanwhile, the Serbian Radical Party (SRS), an extreme nationalist party, also failed to surpass the 5% vote threshold.

In spring 2015, according to data provided by political parties, almost 1.5 million people, out of a total population of 7 million, were members of one or more of the almost 100 registered parties. Of these 1.5 million, approximately 500,000 were registered members of the ruling SNS, which is more than Germany’s two leading parties, the CDU and SPD. For several months after the 2014 election, the SNS registered up to several thousand new members daily. This fits previous elections patterns in which the DS registered large membership increases after an election victory. However, the number of registered members declined dramatically after an election loss. Sociological research indicates that membership of the ruling party increases employment opportunities, particularly in political offices, among other benefits.
Civil society organizations have participated in public consultations on national policies. For example, the parliament agreed to cooperate with the civil society coalition, Open Parliament, in 2013. Although Serbia does not have a law regulating lobbying, civil society organizations have successfully advocated social agendas. Business interests are organized in a network of local, regional and national economic chambers that function as interest associations. Business tycoons still have considerable political influence, with opaque informal links with political parties and media.

The political influence of trade unions is comparatively marginal. In a survey conducted by the European Bank for Reconstruction and Development in 2010, 9% of respondents declared that they were active or non-active members of trade unions. In 2013, according to the Confederation of Autonomous Trade Unions of Serbia, there were 10 protests and 55 strikes, which involved more than 55,000 employees. Most of the strikes were related to company restructuring and failed privatizations. Government amended the Labor Code, in July 2014, without consulting employers’ associations or trade unions by using special powers to fast-track policy-making. There are few sectoral agreements, with labor rights and trade unions powers limited in practice despite constitutional guarantees. There is no regular tripartite social dialogue process.

Citizens generally approve democratic norms and procedures, and accept the constitutional framework. However, in surveys conducted by the Center for the Study of Democracy and Elections and the National Democratic Institute, the share of respondents who believe that democracy is better than all other forms of government declined from 39% in 2007 to 30% in 2014. In 2014, 24% of respondents thought that a non-democratically elected government could be better than a democratically elected government, an increase from 18% in 2007. Meanwhile, 25% of respondents in 2014 stated that there is not much difference between democratic and non-democratic systems of government, an increase from 22% in 2007. The survey also suggested that the protests, which toppled President Slobodan Milosevic in October 2000, are perceived less favorably now. In 2014, 47% of respondents believed that the revolution had not brought real change, an increase from 39% in 2007. Additionally, 25% of respondents stated the revolution marks Serbia’s decline, and increase from 19% in 2007.

The level of public trust in the parliament, judiciary and other democratic institutions is lower than the level of public trust in the church, armed forces, police and some individual politicians. Presently, all public opinion polls suggest that Prime Minister Vučić enjoys more public confidence than any democratic institution.
There are approximately 18,000 civil society organizations in Serbia, with 492 foundations registered in 2013. This was 23% higher than the number registered in 2012. New grassroots initiatives have emerged since 2013. A typical example is the campaign led by a civil society association in Lazarevac against drug dealing.

Many civil society organizations continue to depend on foreign funding. According to a survey conducted by the European Bank for Reconstruction and Development in 2010, about 37% of Serbian respondents think that people in general can be trusted. This survey also showed that 42% of the respondents were active or inactive members of civil society organizations (including churches and religious organizations).

However, there is still an ethnic distance (i.e. the feeling of alienation among the various ethnic groups) between, for instance, Serbs and Albanians or between most of the population and the Roma.

II. Economic Transformation

6 | Level of Socioeconomic Development

With a per capita gross national income of $12,480 (PPP), calculated by the World Bank for 2013, Serbia belongs to the group of upper-middle income economies. Serbia ranked 77 out of 187 countries in the 2013 Human Development Index, with a score of 0.745. This was one rank higher than Brazil, but lower than Bulgaria and Romania. According to Eurostat, in 2013, 42% of the population was at risk of poverty. In other words, 42% of the population had a disposable income of less than 60% of the national median (after social transfers, adjusted for household size). According to Eurostat, in 2013, the Gini coefficient for Serbia was 38. This indicates that income inequality in Serbia is among the highest in Europe. Poverty rates are inflated by the large size of families, high number of single-parent families, high unemployment rates and a large Roma population. In contrast, the proportion of pensioners classified as at-risk-of-poverty was comparatively low. Vulnerable households tend to be in rural areas and in the south or east.

The informal economy is estimated to employ 1 million people and account for nearly 40% of GDP. According to a 2014 labor force survey, the proportion of informal to total employment grew from 17.9% in October 2012 to 21% in June 2014.

Economic inequality increased during the recent wars and periods of transition. Since the global economic and financial crises began in 2008, poverty and economic inequality have increased across southeastern Europe, including in Serbia.
### Economic Indicators

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<td>Government consumption % of GDP</td>
<td>19.5</td>
<td>18.5</td>
<td>17.8</td>
<td>18.2</td>
</tr>
<tr>
<td>Public expnd. on education % of GDP</td>
<td>-</td>
<td>4.6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Public expnd. on health % of GDP</td>
<td>6.0</td>
<td>6.6</td>
<td>6.4</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure % of GDP</td>
<td>0.43</td>
<td>0.79</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure % of GDP</td>
<td>2.4</td>
<td>2.2</td>
<td>2.0</td>
<td>2.2</td>
</tr>
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</table>

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

### Organization of the Market and Competition

Serbia has established an institutional framework for market competition, but the state sector remains large and mostly inefficient. By the end of 2014, the public sector employed 250,000 people (i.e. 15% to 20% of total formal employment) and comprised more than 1,400 public enterprises. Informal unemployment is widespread, with the informal sector accounting for 40% of GDP. The functioning market mechanisms continue to be distorted by, among other things, legal uncertainties. The World Bank’s 2015 Doing Business report ranked Serbia 91 out of 189 economies, 14 places lower than in 2014. This drop was due to the increasing difficulty of transferring property. Serbia is ranked behind Slovenia, Croatia,
Macedonia and Montenegro, but ahead of Bosnia and Herzegovina. On average, registering a firm in Serbia takes 12 days, six procedures, and costs nearly 7% of Serbia’s per capita income.

In 2014, the parliament amended the labor code and bankruptcy legislation, and introduced a new privatization law to strengthen market-based competition. The government also reduced subsidies to and eliminated liquidity support for the largest state-owned enterprises. The amendments to bankruptcy legislation were introduced to facilitate the liquidation of insolvent companies. Electricity and gas markets have not yet been fully liberalized, though private electricity companies have obtained access to the transmission network since 2013.

The main element of Serbia’s legislation concerning antitrust and competition is the 2009 Competition Law, modeled after the EU competition law. This act includes standard regulations that pertain to preventing restrictive agreements and practices, merger control and prevention of abuse of dominant position. The Competition Law also laid the foundation for the establishment of the Commission for Protection of Competition (CPC), which is charged with implementing the competition law, and independently imposing its own sanctions for violations of competition. In October 2013, to align Serbian and EU law, the parliament amended the Competition Law and reinforced the CPC’s investigative capacity. In 2013, the CPC completed four procedures on restrictive agreements, six procedures on the abuse of dominant market positions and 97 merger procedures (annual report data). A new consumer protection law was adopted in June 2014. Information on consumer rights is available through the Agency for Consumer Protection as well as online. However, the enforcement of consumer rights is inconsistent.

Serbia signed the Stabilization and Association Agreement with the EU in May 2008. Serbia had also fully implemented the Interim Trade Agreement with the EU by February 2010. As a result, Serbia qualified for candidate status to join the EU in March 2012. In January 2014, negotiations over Serbia’s accession to the EU officially began. The European Union is Serbia’s main trading partner. In 2013, the EU accounted for more than 62% of total exports and more than 61% of total imports. On 1 January 2013, Serbia entirely abolished import customs duty for a large number of EU products. As of 2014, it has also abolished import customs duty for about 96% of agricultural products. Serbia has preferential trade agreements with Russia, Belarus, Kazakhstan and Turkey as well as with European Free Trade Agreement and Central European Free Trade Agreement member states. Negotiations over Serbia’s accession to the WTO were nearing completion in early 2015. The primary obstacle to accession to the WTO is Serbia’s complete ban on the trade and cultivation of agricultural biotechnology products.
Serbia’s banking system has remained stable despite the economic recession, fiscal imbalances and increasing share of nonperforming loans. Banks appear to be well capitalized, with the ratio of regulatory bank capital to risk-weighted assets nearly 20% at the end of 2014. The share of nonperforming loans has increased by more than 10 percentage points since 2008, totaling 23% of total loans in 2014. Banking sector assets stood at 92.4% of GDP at the end of 2013, while foreign-owned banks control about 75% of total assets. Banks generally dominate the financial system, accounting for most of the assets and liabilities. Banks have constrained their credit to companies and applied stricter standards of lending. Serbia’s central bank adopted a strategy for implementing the Basel III standards in December 2013. In 2014, the government established a framework to support a timely resolution of banks. To assist this reform, in 2014, international financial institutions provided funding to enable Serbia’s Deposit Insurance Agency to function as a safety net for depositors and banks.

8 | Currency and Price Stability

The central bank followed a restrictive monetary policy. To contain the destabilizing effects of fiscal deficits and uncertain capital flows, the central bank targeted inflation. In 2013, the average inflation rate was 7.8%. It declined in 2014 under the influence of weak demand, leading the central bank to reduce its key interest rate and relax reserve requirements on banks’ foreign-exchange liabilities.

The dinar remained stable against the euro until late July 2014, supported by central bank interventions mainly in the first months of 2014. However, since July 2014, the dinar has lost value. In January 2015, €1 was worth RSD 121.15, a depreciation of 6.5%. The central bank spent €1.75 billion in 2014 in the foreign-exchange market in order to support the national currency. Critics accused the central bank of supporting the national currency for political reasons, with a rapid currency depreciation reflecting poorly on the government. The governor of the central bank is publicly perceived as close to the government.

The fiscal situation is unstable. In 2013, the general government deficit was equal to 5% of GDP, exceeding the initial target. In 2014, the deficit increased to an estimated 7.5% of GDP. In November 2014, the government cut nominal public sector wages (including in state-owned enterprises) by 10% and reduced nominal public pensions by 22% to 25%. A wide-ranging pension reform in 2014 increased the minimum retirement age and the statutory retirement age for women, and introduced benefit reductions in cases of early retirement. In addition, the government committed to reduce general government employment by 5%. The nominal indexation of public sector wages was suspended.
Public debt totaled €20.09 billion by the end of 2013 and equaled 61.2% of GDP. By March 2015, public debt had increased to 72.3% of GDP due to the increase in the value of the dollar. This level exceeded the public debt ceiling, introduced in 2011, which was capped at 45% of GDP. By the end of January 2015, the total direct obligations of the state were €20.66 billion, while indirect obligations were €2.56 billion.

Negotiations with the IMF were frozen when the government’s 2012 budget deviated from the IMF’s criteria. In November 2014, the Vučić government agreed on a new three-year, €1.122 million Stand-By-Arrangement (SBA) with the IMF.

9 | Private Property

Serbia has an adequate legal framework for the protection of property rights, though the enforcement of these rights through the judicial system can be extremely slow. In its 2014 Doing Business report, the World Bank ranked Serbia 72 out of 189 countries concerning registering property. The same report ranked Serbia 96 out of 189 countries with respect to the time required to enforce a contract through the courts. The regulation of the acquisition of property is well defined and the legal framework that protects property is in place. But municipal courts and cadastral offices dealing with property registration are highly susceptible to corruption, which undermines the protection of property rights in practice.

The Criminal Code contains a broad and vague provision penalizing “responsible” people who abuse their offices, positions or powers to obtain unlawful material gain or cause material damage. The parliament narrowed the scope of Article 359, but introduced Article 234. Article 234 provides the authorities with similarly broad discretion to seize assets and to initiate criminal procedures against rival entrepreneurs. Moreover, the public prosecution reclassified numerous Article 359 cases under Article 234. According to critics, this violates a key principle of the rule of law (i.e. no retroactive effect).

Under the Law on Restitution, which relates to private property nationalized after the Second World War, the deadline claims to be submitted expired in March 2014. There are 75,000 claims. The Agency for Restitution had adopted 13,500 first-instance decisions by the August 2014. Most of the requests have been approved by the Ministry of Finance as an appellate body. Certain requirements, which related to agricultural land and real estate belonging to private enterprises, were overruled. Approximately 3,500 hectares of agricultural land and forest, 2,600 apartments and office space, and 580 hectares of brownfield land have been returned to their original owners.

An agreement between the EU and Serbia stipulates that EU citizens have the right to buy agricultural land in Serbia starting from 2017.
Progress has been made in company restructuring and privatization, but large enterprises – including the power utilities (Elektroprivreda Srbije), telecommunications company (Telekom), nature energy resources (Srbijagas) continue to be state owned. In July 2014, the parliament adopted a law to privatize 502 state- or socially-owned companies. Previous privatizations have been only partly successful. Often, companies could not be sold as there was no interested buyer. Also, allegations of corruption and fraud dogged the process. The law envisages achieving privatization through the creation of a strategic partnership, the transfer of capital without compensation, and the sale of capital and assets. The government plans to complete the privatization process by 2016, and settle the status of state and social enterprises. Serbia’s economic development strategy involves an increased reliance on the private sector by transferring resources and staff from the public sector to the private sector.

10 | Welfare Regime

In June and July 2014, unemployment was at a very high 20%, while three-quarters of all unemployed were classified as being in long-term unemployment. Youth unemployment (15-25 years) is growing and was at 53% in June 2014. The share of young people not in employment, education or training (NEET) was around 27% in June 2014. In 2013, 30% of unemployed people in active labor market programs belonged to Roma or other vulnerable groups.

A national employment action plan for 2015 was adopted in September 2014. It focuses on young people, unemployed with low qualifications, and workers made redundant from the companies in restructuring. The 2014 budget reduced funding for active labor market policies to less than 0.1% of GDP. As a result, there will be insufficient public funding to compensate for the high level of unemployment that will be caused by the restructuring of the remaining state-owned enterprises.

The 2011 census indicates that the population is declining and aging, which will further strain the resources of social services.

According to World Bank data, public and private healthcare expenditure accounted for 10.5% of GDP in 2012. This was the highest ratio of any east-central and southeast European country. Life expectancy at birth, which is an indicator for the quality of a healthcare system, increased to 75.2 years in 2012, close to the regional average of 75.6 years.

The pension fund deficit remains large. More than 40% of the pension fund revenues come from government expenditure. About 14% of GDP was spent on pensions in 2013, which declined to 12.6% in 2014. The Law on Pension and Disability Insurance was adopted in July 2014. The law introduced, among others, disincentives for early retirement, an increase in the minimum retirement age from 58 to 60 years by 2024 and an increase in the statutory retirement for women from 60 to 65 years by 2032.
Equality of opportunity is protected by the legal and institutional framework. According to the 2011 census, women account for 51.3% of the population, but are underrepresented in senior public positions. Detailed data on gender inequalities has been collected since 2005. According to this data, women with a tertiary education earn on average €200 less than their male counterparts. Women are more numerous in poorer remunerated occupations, such as service and administrative activities, or in declining industries, such as textile. Women are also disproportionately affected by wage reductions and threats of dismissal.

In 2014, the government allocated €12.8 million to the Fund for Professional Rehabilitation and Enhancement of Employment of Persons with Disabilities. In 2013, approximately 5,700 people with disabilities benefited from active measures.

Since the outbreak of the economic crisis in 2008, it has been increasingly difficult for Roma and other ethnic minorities to find employment in spite of antidiscriminatory legislation.

11 | Economic Performance

Serbia’s economy declined by an estimated 2% in 2014, largely due to the damage caused by severe floods in May 2014. In addition, foreign demand for exports weakened, industrial output declined and household spending fell.

At the end of 2014, the inflation rate was 1.7%, the unemployment rate was 20.3%, the public deficit had reached RSD 44 billion and the dinar had depreciated.

The economy relies on manufacturing and exports, driven largely by foreign investment. Industrial production in January 2015 decreased by 2.4% from January 2014. A significant 8.5% increase in gross value added was recorded in the construction sector. Between January 2014 and January 2015, production in the mining sector declined by 18%, and the supply of electricity, gas, steam and air conditioning by 13.6%, while the manufacturing sector grew by 5.3%.

The current account deficit dropped to 6.5% of GDP, but increased again in the second half of 2014. Exports of goods and services kept increasing, while imports remained restrained due to weak domestic demands. External debt fell in relation to GDP to around 80% by the end of June 2014, but has increased again in early 2015. Foreign direct investment rose slightly in 2013 to 38% of GDP. Most foreign direct investment went into trade, real estate, construction and financial services. However, the stock of foreign direct investment per capita is significantly lower than in states like Bulgaria or Poland.

A net FDI inflow of €1.3 billion was recorded in 2014. Serbia performed well in terms of FDI in 2012, attracting 78 projects, up 16.4% year-on-year (Ernst & Young’s
Europe attractiveness Survey 2013). FDI created 10,302 jobs, which ranked Serbia 6 in Europe for FDI job creation. Serbian projects are among the most labor intensive in Europe, with each project creating 132 jobs on average. Nearly 90% of projects in Serbia came from European companies, predominately from Italian companies. German and Austrian companies have also invested in industrial manufacturing, with automotive components a leading sector.

12 | Sustainability

Almost 70% of total electricity generation in Serbia is based on lignite. Three-quarters of lignite production comes from the Kolubara basin, which is located 55 km from Belgrade. In order to achieve a reduction in its dependence on imported technology for the production of energy from fossil fuels, Serbia has to completely remove CO2 emissions generated by the production of electricity, and fully harmonize its coal plants with EU standards by 2050. According to a World Bank report, CO2 emissions was 6.3 metric tons per capita in 2010. Meanwhile, 99% of the rural population had access to an improved water source in 2012. Seven out of eight cities in Serbia exceed the legal limit for several pollutants (air quality III).

The collection rate for household waste is 80%. Serbia has seven regional sanitary landfills, which comply with EU regulations. However, many stretches of land as well as river basins are visibly polluted by waste, such as plastic bags. There is a lack of capacity for differentiated waste disposal (e.g. general, paper, glass). Recycling systems are underdeveloped, but have significant revenue potential. The extreme floods in 2014 highlighted the urgent need for better flood prevention and water management systems, and physical infrastructure. The floods also highlighted the need for better coordination between the republic and local authorities in that field.

The government introduced a national strategy for sustainable development in 2010. It also aligned national and EU environmental protection standards, creating an environmental regulatory framework. Local government responsibilities have increased, with local governments charged with introducing adequate control mechanisms. However, local authorities have been slow and ineffective in implementing environmental policy objectives. This has been due to the lack of financial resources, missing bylaws and diverse local-level organizational structures. The central government budget allocates only 0.3% of GDP to environmental protection. Public awareness of the importance of environmental problems is also limited.

Serbia has been a member of the U.N. Framework Convention on Climate Change since June 2001. Serbia has ratified the Kyoto Protocol, but has not adopted a national strategy for reducing greenhouse gas emissions under the Protocol and has the status of non-Annex I country. Serbia is in the process of implementing EU energy and
environmental policies, especially the group of directives included in the EU’s climate and energy program for 2020. As a signatory to the Energy Community Treaty, Serbia is obliged to implement EU legislation in the field of energy, including renewable energy and energy efficiency policies.

The first national action plan for renewable energy was adopted in 2013.

There is a nationwide system of education and training. In 2011, the government spent the equivalent of 4.8% of GDP on education. This was equivalent to Hungary and more than Bulgaria, Croatia and Romania. According to the World Bank, the primary school enrollment rate was 93% in 2012. Census data indicates that the number of people unable to read or write has halved between 2012 and 2002. In 2012, 165,000 people were unable to read or write, of which more than 80% were women. Whereas the number of pupils in primary schools declined from more than 1 million in 2002 to 677,000 in 2012, the share of young people in tertiary education grew from 6.5% in 2002 to almost 11% in 2012. In September 2014, parliament adopted a law on higher education that, among other things, created a registry of PhD theses to improve transparency in the system. In 2012, approximately 200,000 students in higher education. There were nine universities and 22 colleges in the private sector, and eight universities and 50 colleges in the public sector.

In 2012, Serbia spent 0.91% of GDP on R&D, which was below the EU average of 2.07%. However, this was significantly higher than the share of R&D expenditure in Bulgaria, Croatia or Romania. In the 2012 OSCE Program for International Student Assessment (PISA) testing, Serbia ranked 43 out of 65 countries, lower than Croatia and Hungary, but higher than Bulgaria and Romania.

Serbia remains one of the countries worst hit by the brain drain effect. A survey conducted among 1,500 students from 30 faculties in April 2014 indicated that 39% of the students wanted to leave the country.
Transformation Management

I. Level of Difficulty

The structural constraints on governance in Serbia have increased during the review period. The political leadership faces additional difficulties as a consequence of the global economic crisis, from which Serbia’s economy has not yet recovered. These challenges include: high unemployment, a distorted, uncompetitive and technologically outdated economic system, obsolete infrastructure, rampant corruption and on-going ethnic tension. The effects of the 1991 to 1995 wars for Yugoslavia’s succession and the NATO bombing of Serbia in 1999 are still palpable. In addition to that, Serbia faces an aging population along with the exodus of young, educated, and more reform-oriented professionals. According to the 2011 census, more than 32,000 people leave Serbia for good every year.

In late May 2014, Serbia suffered extensive flood damage, estimated to be €1.5 billion or 5% of GDP. This damage has severely affected vital sectors of the economy, such as energy, mining and agriculture.

Serbia has a moderately strong tradition of civil society, which are rooted in the toleration for dissidents of the communist regime and opposition to the Milosevic regime. Opposition protests to the Milosevic regime were spearheaded by an urban intelligentsia. Established civil society organizations, such as the Helsinki Committee for Human Rights, the Fund for Humanitarian Law or the Women in Black originate from the anti-war protests of the 1990s.

According to a survey conducted by the European Bank for Reconstruction and Development in 2010, about 37% of Serbian respondents think that other people in general can be trusted. This survey also found that 42% of the respondents were active or inactive members of civil society organizations, including churches and religious organizations. The relationship between the incumbent government and civil society is increasingly confrontational, because of the government’s authoritarian and populist tendencies.
Serbian society and the country’s political elite continue to be polarized along ethnic issues, such as Kosovo, the scope of autonomy for the northern province of Vojvodina. There are also tensions in the Sandzak region, which is home to a significant, largely Muslim Bosniak population, as well as in three southern Serbian municipalities, which have large ethnic Albanian populations. During 2013 and 2014, existing tensions were exacerbated by the deepening social issues of unemployment, corruption, crime, low wages, inadequate public services and worsening living standards. The irony was that the political success of once-staunch nationalist parties, like the SNS and the SPS, resulted in a tectonic ideological shift toward a pro-EU, a greater readiness to acknowledge Kosovo’s institutions and a willingness to exert pressure on the Serbs in Kosovo to participate in these institutions. There is, however, a persistent danger that economic hardship, and continued perception of hopelessness among the widening strata of the population, may cause a resurgence of nationalist radicalism.

II. Management Performance

14 | Steering Capability

The government of Prime Minister Vučić consists of the SNS, the SPS, the Alliance of Vojvodina Hungarians and other junior parties. The government has close to 80% of seats in parliament.

In April 2014, the Vučić government defined EU accession and far-reaching economic reforms as key policy objectives. The government is in the process of opening accession negotiations. These negotiations include normalizing ties with Kosovo, tackling corruption, fighting organized crime, further establishing the rule of law and sorting out other regional matters. In September 2014, the government announced an austerity program, which proposed cutting pensions and public sector salaries by 10% as well as making 27,000 public employees redundant. By January 2015, the first policies of the austerity program were being implemented.

The government’s institutional capacity is limited. In April 2014, a governmental National Secretariat for Public Policies was established to facilitate inter-ministerial coordination, and align policies with medium-term fiscal targets. However, strategic aims are occasionally neglected for short-term political benefit. For example, Prime Minister Vučić demonstrated his commitment to reducing the political influence of oligarchs by arresting the business tycoon, Miroslav Mišković. Yet, the Prime Minister also asked Milan Beko, another Milošević-era oligarch, to head the state-owned railway company. Beko did not take this position, but praised the leadership talent of the prime minister in media interviews.
Between the March 2014 election and the end of 2014, the parliament adopted 146 laws and 98 other acts. These included a supplemental budget for 2014, a 2015 budget law, and major laws on the media, public information, privatization, bankruptcy and labor relations. The government has implemented the fiscal consolidation measures proposed in Prime Minister Aleksandar Vučić’s program for the first 100 days of office.

However, the government has not always been able to realize its policies. While developing a series economic reforms in September 2014, the Minister of Finance, Lazar Krstić, resigned, because Prime Minister Vučić blocked Krstić’s more radical reforms. In January 2014, the Minister of Economy, Saša Radulović, also resigned, because of the divergence between the government’s rhetoric and record of reform.

The parliament has adopted a number of laws aimed at fighting organized crime. These include amendments to the criminal code and the new Criminal Procedure Law. Prime Minister Vučić keeps promising to take decisive action against organized crime and corruption. However, political interference in the work of the police, prosecutors and courts has undermined their ability to fight organized crime. The police have solved only a few of the numerous cases of criminally, economically and politically motivated murders. Such acts of violence have increased in 2014 and 2015.

Newspapers regularly report on imminent changes in government, because the prime minister is not satisfied with the performance of ministers.

The Vučić government demonstrates a general capacity for policy learning. In designing pension and economic reforms, the government has listened to advice given by the IMF. Serbia also implemented recommendations of the Council of Europe Group of States against Corruption. Senior government ministers have realized that the existing frameworks of corporate governance for state-owned companies need to be restructured to make these companies more effective. Public administration and policy coordination reforms incorporate international best practices. The government has also sought to increase its capacity for policy learning by recruiting several non-partisan experts as ministers. However, it is uncertain as to whether these learning effects will be sustained in the face of resistance from vested interests.

Also, the prime minister’s inclination to intervene in political debates, while also having the final word, limits the collective action of the government.
15 | Resource Efficiency

The difficult economic and social environment in Serbia severely limits the government’s efficient use of available human, financial and organizational resources. According to a report published by the European Commission in 2014, “Serbia has an excessive number of national strategies (91 sector and 14 multi-sector strategies) of the writing quality and with frequent overlaps.” Inefficient public enterprises place a huge burden on the state budget, entailing fiscal costs of more than 2% of GDP in 2014. One characteristic of the public administration is the excessive concentration of decision-making powers in the hands of politicians, who do not delegate to the public administration. By adopting a new public administration strategy in January 2014, the government established a more comprehensive framework for public administration. The strategy covers central and local government, and introduces organizational, human resource and public expenditure reforms. It also introduces improvements to the legal system and public services, and strengthens transparency and accountability mechanisms. In December 2013, the Ministry of Finance created a register of all public sector employees in order to control staffing and salaries. According to the Ministry of Finance, public sector wages account for 28% of public expenditure and more than 12% of GDP, which is above the average across euro zone countries for the period of 2004 to 2008.

Governmental coordination is characterized by strong hierarchical and highly bureaucratic procedures on the one hand, and informal coordination mechanisms among senior politicians on the other. Prime Minister Aleksandar Vučić has reduced the number of ministers from 19 to 16. There are four Deputy Prime Ministers, from the different coalition parties, charged with cross-sectoral coordination tasks. The need to coordinate across a large number of stakeholders within the government carries the risk that policies become excessively diluted. A dispute over the scope of economic and fiscal reforms led to the resignation of the finance minister in July 2014.

In April 2014, the incoming Vučić government established a National Secretariat for Public Policies to facilitate inter-ministerial coordination and align policies with medium-term fiscal targets. In its 2014 report on Serbia, the European Commission noted that this body “has the potential to substantially improve policy development and coordination at the center of government.” In 2014, the government also agreed with the IMF to strengthen the Ministry of Finance’s capacity to monitor and control fiscal risks.
Serbia has established an institutional and legal framework for fighting corruption, but there are limitations to this framework. During the period under review, the government centralized public procurement, and revised defense and security procurement procedures, and the Common Procurement Vocabulary. These amendments followed the National Strategy and Action Plan for fighting corruption, which aims to increase transparency and limit conflicts of interest in public procurement processes. The number of requests for protection received by the Republic Commission for the Protection of Rights increased to 1,966 in 2013. In 909 cases, public procurement decisions were partially or completely reversed. Parliament adopted a law on the protection of whistleblowers and tasked the State Audit Institution with oversight of political party financing. The rules and practices concerning political party and campaign financing continues to lack transparency. However, the State Audit Institution has limited human and financial resources.

A survey, conducted by the United Nation’s Office on Drugs and Crime, of 1,725 companies in 2012 noted that 17% of businesses, who had had contact with a public official in 2011, had paid a bribe to a public official.

16 | Consensus-Building

The current Serbian political leadership insists it is committed further democratization, market liberalization, social reform, deeper European integration and EU-facilitated dialogue with Prishtina. These goals have broad support within parliament and throughout society, with the exception of some fringe political groups. However, the political elites have increasingly demonstrated a majoritarian, friend-foe understanding of democracy.

There is consensus among major political actors on need to establish a market economy. Although there is disagreement concerning the extent to which state intervention and social protection are necessary to regulate market-based activities. There is, however, little discussion about how to alleviate the poverty and unemployment, which has increased as the result of establishing a market economy. There are few social safeguards.

The governing political elites have marginalized political actors with anti-democratic interests. Parliament supervises the army and security forces. It also monitors the activities of extremist political groups and violent fans. According to the Ombudsman’s 2014 report on the Security-Information Agency (BIA), the secret surveillance activities of the BIA needs to be regulated and should only be undertaken if approved by a judge or equivalent independent public authority. The Serbian Radical Party obtained only 2% of the vote in the March 2014 election, which meant it failed to secure any parliamentary seats. Vojislav Šešelj, a convicted war criminal, was a member of the Serbian Radical Party, which had also campaigned against EU membership and the Serbian political establishment during the election campaign.
Serbia’s political leadership tried to prevent the emergence and escalation of conflicts based on ethnic, national or religious cleavages. The government of Prime Minister Vučić just like its predecessors, remains opposed to Kosovo’s 2008 unilateral declaration of independence. But, having declared the continuation of EU integration and the quick start of accession negotiations with Brussels as its chief priority, Serbia has been making efforts to normalize relations with Kosovo.

Latent tensions continue to exist between the Serb majority and some ethnic groups, such as the Bosniaks (in south-west Serbia), Albanians (in the south-east) or Hungarians (in the north). A further deterioration of the economic situation or new conflicts in Kosovo, Bosnia-Herzegovina or Macedonia could impact negatively the situation in Serbia.

However, there is a growing confrontation between the governing SNS party and civil society organizations, liberal academics and the few independent media outlets. Although the parliamentary opposition is marginalized, the prime minister and the SNS continue to attack, for example, the opposition, critical media outlets and the Ombudsman for Human Rights. Critics argue that the prime minister is pursuing a populist and anti-liberal agenda, while being disrespectful to democratic institutions and leaning toward authoritarian methods.

The government has established an office for cooperation with civil society, which organizes meetings between ministries and civil society, and consults with civil society organizations (CSOs). In August 2014, the parliament adopted guidelines for the inclusion of CSOs in the consultation of Serbia’s positions for the EU accession negotiations.

In its international assistance assessment for the period 2014 to 2020, the government included two measures focused on capacity building within civil society. According to a 2014 report by USAID, the government identified more than $95 million to support the work of society in 2013.

The main problems that civil society faces include the misuse of public funds for political party financing and the sustainability of civil society initiatives. Some civil society associations argue that the authorities have their own CSOs, which they favor by ascribing so-called political eligibility to them.

Few print media outlets have escaped the prime minister’s ambition to control them. Critical journalists, civil society activists and academics are often publicly criticized by the prime minister.
The political leadership recognizes the need to deal with historical acts of injustice, but its attempts to achieve reconciliation have had limited impact. Domestic processing of war crimes continued with a number of new indictments, first-instance judgments and final convictions. In 2015, the special prosecutor for war crimes was repeatedly attacked by media and government actors. Several high profile assassinations that happened between 1989 and 2000 remain unresolved.

While the prime minister expressed his commitment to promote reconciliation and recognize crimes committed by the Serbian authorities during the Yugoslav wars of 1991 to 1999, his former membership of the nationalist Serbian Radical Party continues to undermine his credibility.

The International Criminal Tribunal for the Former Yugoslavia granted provisional release to former president of the Serbian Radical Party, Vojislav Šešelj. Šešelj has been on trial for 11 years. He is accused of committing war crimes in Bosnia and Herzegovina, Croatia and Serbia during the 1990s. Despite his provisional release, he is still on trial.

In March 2014, the International Court of Justice began hearing arguments in the genocide cases, which Serbia and Croatia had brought against one another. At the beginning of 2015, the International Court of Justice ruled war crimes had been committed by both sides, but stopped short of qualifying them as genocide.

A representative survey conducted by the National Democratic Institute and the Center for the Study of Democracy and Elections in February and March 2014 found that nearly 80% of Serbian respondents believed that living conditions during the Communist Yugoslavia were the best in Serbia’s post-WWII-history.

**17 | International Cooperation**

Serbia continues to be a recipient of financial and technical aid, especially through the Instrument for Pro-Accession Assistance (IPA), which is designed to support the reforms undertaken as part of the European integration process. Germany is the leading external aid donor.

In mid-2014, Serbia’s government and the European Commission prepared a strategy paper for the period 2014 to 2020. The strategy aligns IPA support with the negotiation process and focuses on the rule of law, good governance, and economic competitiveness and growth. According to a report by the European Court of Auditors published in January 2015, Serbia has used IPA support to implement social and economic reforms, and improve governance. However, the government has been unable to reduce corruption, and the economic and political influence of organized crime.

Lacking Western investment, Serbia, among other southeast European countries, is increasingly looking toward Russia, China and Middle Eastern countries for investment.
Serbia has overcome a number of longstanding obstacles to EU accession, demonstrating its commitment to political and economic reforms. The Brussels Agreement normalized relations between Kosovo and Serbia. In November 2014, the government also agreed a precautionary Stand-By Arrangement with the IMF worth €1.2 billion. This arrangement required the government to reduce the fiscal deficit, reform the public sector and prevent a further increase in public debt. The agreement was approved by the IMF at the beginning 2015. The previous arrangement between Serbia and the IMF had been agreed in 2011, but was suspended shortly afterward when the Serbian government failed to fulfill its obligations.

Serbia did not align itself with EU’s economic sanctions imposed on Russia. In addition, Serbia hosted several individuals who had been banned from obtaining EU visas. Serbia also held joint military exercises with the Russian army. To improve its weak fiscal position, Serbia sought investment from Russia, China and the United Arab Emirates. This included a cooperation agreement with Gazprom, the Russian state-owned energy enterprise. Serbia agreed to cooperate in the construction of the South Stream natural gas pipeline. The pipeline was intended to run from Russia, under the Black Sea, through Bulgaria, Serbia and Hungary, to Austria and Italy. However, Russia abandoned the South Stream project in December 2014.

Serbia’s political leadership cooperates with most neighboring states and complies with the rules set by regional and international organizations. In January 2013, the former prime minister, Ivica Dačić, hosted his Croatian counterpart Zoran Milanović in Belgrade. The aim of the meeting was to strengthen the political relationships between the countries to aid Serbia’s accession to the EU. However, despite the meeting, relations the Croatian and Serbian governments remain cold, though Prime Minister Vučić visited Zagreb during the inauguration of the Croatian president in early 2015.

Serbia’s relations with Montenegro have improved significantly. Although the relationship between the Serbian Orthodox Church and the orthodox churches in Montenegro and Macedonia remain strained. Prime Minister Vučić declared his support for the Dayton Peace Agreement, and the sovereignty and territorial integrity of Bosnia and Herzegovina.

Relations with Turkey worsened in 2013 after the former Turkish prime minister stated that “Kosovo is Turkey” during his visit to Kosovo.

Serbia presided over a number of regional initiatives, including the Southeast European Cooperation Process (SEECP) and the Central European Initiative (CEI). Serbia also actively participates in the Central European Free Trade Agreement (CEFTA) and the Regional Cooperation Council. Serbia is a member of NATO’s Partnership for Peace Program (2006). A survey, conducted in January 2015, found that 74.8% of respondents in Serbia oppose NATO membership, while only 9.4% of
respondents have confidence in the military alliance. Serbia has actively participated in several effective regional law enforcement operations.

Regarding Kosovo, Serbia has remained engaged and committed to the Brussels Agreement (signed in April 2013). The Brussels Agreement has not only normalized relations between Serbia and Kosovo, but has also created the space for further dialogue. This led to the first local and parliamentary elections in Kosovo and has begun the process for dismantling the Serbian police and justice structures in Kosovo. No high-level meetings took place between the elections in Serbia and Kosovo and the beginning of 2015. But cooperation has continued at a technical level, concerning, for example, customs collection, energy and telecoms.

Relations with Albania were overshadowed by violent clashes, which followed the appearance of a drone with a Greater Albania flag during a football match between the two national teams in October 2014. The issue of Kosovo’s status colored the Albanian prime minister’s visit to Belgrade in November 2014.
Strategic Outlook

The Brussels Agreement signed between Serbia and Kosovo in 2013 paved the way for negotiations on Serbia’s accession to the EU to begin in January 2014. The most substantial challenges for Serbia in the upcoming years will be the normalization of relations with Kosovo, and the implementation of economic, legal and social reforms. While negotiations on Serbia’s accession to the EU will provide an important external anchor to lock in domestic reforms, the implementation of these reforms will have significant political and social costs.

Given widespread public frustration, evidenced by the increasing rate of emigration among the young, implementing these reforms risks further social and political conflict, and populist political reactions. Serbian liberals are increasingly critical of Prime Minister Vučić for, what they perceive, as his increasingly populist and authoritarian style of leadership. Whether anti-European political forces will be able to mobilize larger segments of society will depend on the EU’s credibility in providing economic and social development, and recognition of Serbia’s progress to date.

While EU membership is still a goal supported by the majority of the population, membership in NATO is not. This is largely due to the military intervention by NATO against Serbia in 1999. Public opinion polls indicate that there is widespread support for balancing Serbia’s political relations with the EU and Russia. Meanwhile, Russia continues to encourage those political groups within Serbia that oppose Serbia’s membership in NATO.

Serbia is on the path toward establishing a functioning market economy. In 2014, the government embarked upon major structural and institutional reforms to improve economic competitiveness. EU membership is dependent on introducing these reforms and increasing economic competitiveness. Serbia’s three-year precautionary arrangement with the IMF should help to stabilize economic performance through 2015 and 2016. However, Serbia still needs to consolidate its public finances and increase its exports, which now account for 35% of GDP.

Resolving historic issues is essential for regional stability and cooperation. In particular, issues such as the disappearance of individuals during wartime and the return of refugees need to be address through regional cooperation. Furthermore, regional cooperation is a necessary precondition for EU membership. Serbia’s declining and aging population is a constraint on future economic growth and prosperity. Policymakers and civil society are overwhelmed by other policy issues. However, more attention must be paid to this and other long-term challenges.