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**SERBIA
2014 PROGRESS REPORT**

Accompanying the document

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

Enlargement Strategy and Main Challenges 2014-2015

{COM(2014) 700 final}

*In its Communication 'Enlargement Strategy and Main Challenges 2014-15'¹,
the Commission put forward the following
conclusions and recommendations on Serbia:*

EU accession negotiations with Serbia are now underway. The decision of the European Council to open negotiations was reached due to Serbia's progress in the reforms and its continued commitment to the normalisation of its relations with Kosovo. The first inter-governmental conference on the negotiations took place in January 2014. The analytical examination of the EU acquis (screening) is proceeding according to plan. The severe floods which hit the country in May have had a considerable socio-economic impact. The EU provided immediate and substantial rescue and relief efforts and organised a donors' conference in July. Significant pledges were made from the international community for the recovery and reconstruction phase.

Serbia has made some progress in public administration reform. It adopted a comprehensive strategy and strengthened coordination and planning. As regards the judiciary, important legislation as well appraisal rules for judges and prosecutors were adopted. An important number of Court Presidents have been appointed on a permanent basis. There is strong political impetus to fight corruption. Several investigations into high-level cases have been conducted and efforts made to improve coordination. Serbia actively participated in regional law enforcement cooperation.

However, continued efforts are needed to ensure an effective, independent judiciary. Key pieces of legislation remain to be adopted, such as the law on free legal aid, the law on whistle-blowers, and the law on conflicts of interest. Corruption remains prevalent in many areas. Serbia needs to build up a track record of concrete results in the fight against corruption and organised crime. Fundamental rights need to be fully respected in practice, including protection of the most vulnerable groups. There are concerns about deteriorating conditions for the full exercise of freedom of expression. Weaknesses in public administration need to be addressed. Findings of independent regulatory bodies need to be better followed up. Economic reforms are also essential to generate growth and tackle high unemployment.

With its strong mandate, the new government should seize the opportunity to pursue reforms with vigour. Serbia faces many challenges ahead. Serbia needs to foster proactively the inclusiveness and transparency of the accession process. To support the reform process, Serbia should improve planning, coordination and monitoring of implementation of new legislation and policies. In line with the new approach to rule of law issues, opening benchmarks have been set under chapters 23 and 24. These require Serbia to present comprehensive action plans. In order to ensure an overall balance in negotiations, progress under these chapters will need to be made in parallel with progress in negotiations overall.

Serbia needs to maintain its commitment to regional cooperation and an active and constructive engagement in the normalisation process with Kosovo, which has seen significant progress. Serbia should continue to ensure the implementation of the agreements reached in the dialogue. The Commission recalls that, as is the case for rule of law chapters, the negotiating framework requires progress in the process of normalising relations with Kosovo under chapter 35 to be made in parallel with progress in negotiations overall. Chapter 35 should be opened early in the negotiations. This will provide a solid framework for monitoring implementation of agreements reached.

¹ COM(2014)700 final of 8.10.2014

*Summary of findings of the
2014 Progress Report on Serbia²*

Serbia continues to sufficiently meet the **political criteria**. Early parliamentary elections in March confirmed the European integration aspirations of the country. EU accession remains the main goal of the new government. It can count on an unprecedented two thirds majority in parliament to conduct the key priority reforms needed to drive the country on its European path. The Serbian government set itself ambitious economic goals in this respect. Constitutional reforms early on in the new legislature would represent a decisive progress in the accession negotiations. Attention should be paid to continuing improving inclusiveness and transparency of the reform process. Urgent parliamentary procedure should be limited to cases where it is strictly necessary. The role of independent regulatory bodies should be continuously acknowledged and their recommendations followed up. A National Convention on the European Union was set up as a platform for cooperation with civil society in the accession negotiation process in June, which should materialise in increased consultation of civil society throughout, especially at times of particular economic and social challenges for Serbian citizens.

Serbia is progressing in reforming its public administration. It adopted a comprehensive strategy and strengthened coordination and planning of public policies with the setting up of a new Secretariat for Public policies. A sound and comprehensive reform, underpinned by proper analysis and performance management tools, is however still needed.

First steps were taken in the implementation of the national strategies on judicial reform and the fight against corruption adopted last year. Serbia has taken stock of the significant challenges its judiciary is facing. Intensive legislative activities took place. Appraisal rules for judges and prosecutors were adopted. An important number of Court Presidents have been appointed on a permanent basis. The first generation of public notaries took office. Key pieces of legislation remain however to be adopted, such as the law on free legal aid. The assessment of the implementation of the laws recently adopted is pending. Progress is needed to ensure an effective independent judiciary. The recruitment and appointment of magistrates remain governed by unclear criteria. The generalisation of the adversarial system and modification of the court networks have not yet had a noticeable impact on the efficiency and quality of the judiciary.

There is a strong political impetus to fight corruption. Several investigations into high-level cases have been conducted and efforts have been made to improve coordination and institutional leadership in this area. However, corruption remains prevalent in many areas and remains a serious problem. The ratio of convictions to indictments is low. Whistle-blowing protection mechanisms have yet to be established. Effective prevention and repression mechanisms remain to be built. The Anti-Corruption Agency and Council's role need to be supported at the highest level and their recommendations and proposals properly followed up. Effective alternatives to the excessive recourse to incriminations under the offence of abuse of position in the private sector need to be found.

Serbia actively participated in regional law enforcement cooperation, which yielded concrete results in the fight against organised crime, leading in particular to a high-profile arrest in connection with organised crime groups. A strategic threat assessment on organised crime is needed, with a view to develop strategic planning and analysis and subsequently appropriate law enforcement responses, including through the concept of intelligence-led policing. Credible track records of investigations, prosecutions and final convictions need to be developed in corruption and organised crime cases, including high-level ones. Fighting

² Annex to COM(2014)700 final of 8.10.2014

organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

Looking ahead, the adoption of credible and comprehensive action plans for chapters 23 and 24, in line with the new approach, will be a crucial milestone for Serbia.

The legal framework for the protection of minorities is broadly in place but its consistent implementation across the country needs to be ensured, notably in the areas of education, use of languages, and access to the media and to religious services in minority languages. The positive measures taken to improve the situation of the Roma need to be stepped up, particularly when it comes to education, housing and employment. Further sustained efforts are needed to improve the situation of refugees and displaced persons.

The Pride Parade, which took place in Belgrade on 28 September without major incident, is an important milestone towards the effective exercise of human rights in general and lesbian, gay, bisexual, transgender and intersex (LGBTI) rights in particular. Serbia took an important step towards implementing the 2011 media strategy by adopting in August a package of media legislation, which is designed to enhance transparency of media ownership and funding and to align legislation and practice with the EU framework. However, there are concerns about deteriorating conditions for the full exercise of freedom of expression. The authorities hold a crucial responsibility in actively contributing to the unimpeded exercise of freedom of expression, including by showing appropriate support to independent bodies, human rights defenders and independent journalists. The promotion of all fundamental rights and the implementation of the anti-discrimination strategy will require an even more dedicated and proactive approach.

Serbia continued to adopt a constructive approach in regional cooperation and made significant improvements when it comes to relations with some of its neighbours.

Regarding the **normalisation of relations with Kosovo**, Serbia has remained engaged in the dialogue and overall committed to the implementation of the April 2013 First agreement of principles governing the normalisation of relations and other agreements reached in the dialogue. This has led to a number of irreversible changes on the ground, with local and parliamentary elections held Kosovo wide for the first time and the dismantling of the Serbian police and justice structures substantially advanced. A permanent solution for Kosovo's inclusion in the South-East European Cooperation Process (SEECP) was endorsed. While there have been no high-level meetings since early elections were called in Kosovo, work has continued at technical level, leading to progress in the areas of customs collection, IBM, energy and telecoms.

However, progress in the dialogue implementation has generally slowed down. Early general elections were held in both Serbia and Kosovo. It is important that the high-level dialogue resumes. It is also essential that both sides continue to engage fully in the implementation in good faith of all existing agreements. Further progress should gradually lead to the comprehensive normalisation of relations between Serbia and Kosovo, in the form of a legally binding agreement by the end of Serbia's accession negotiations, with the prospect of both Serbia and Kosovo being able to fully exercise their rights and fulfil their responsibilities.

As regards the **economic criteria**, Serbia has made limited progress towards establishing a functioning market economy. A wide range of structural reforms needs to be implemented so as to cope in the medium-term with the competitive pressures and market forces within the Union.

The economy contracted in the first half of the year, also impacted by heavy floods. The government has made a serious start on its ambitious programme of economic and structural reforms with the adoption of a first set of important laws on labour, privatisation, and

bankruptcy. Despite a series of new measures, fiscal imbalances remain very high and government debt continued to increase. However, growing exports contributed to narrowing of external imbalances. Inflation hit historically low levels, under the targeted band of the central bank. Unemployment remained very high.

Significant efforts to reduce government expenditure and implement the adopted structural reforms are required, in order to restore fiscal sustainability and ultimately support growth. Reducing the heavy state influence in the economy requires tackling inefficiencies in the large public sector, advancing privatisation in line with the schedule, streamlining state aid, and improving corporate governance of public companies. Tax collection needs to be improved, also by tackling the large informal sector. The business environment suffers from excessive red tape, slow market entry and exit, many obstacles to investment, such as the weak legal system and slow contract enforcement. The high share of non-performing loans needs to be effectively addressed to improve bank lending. Upgrading the physical infrastructure, especially after the damage incurred by the floods, requires persistent efforts and creation of additional fiscal space. The education system needs to be made more efficient in view of falling numbers of pupils and the skills mismatch in the labour market.

As regards its ability to take on the obligations of membership, Serbia has continued aligning its legislation to the requirements of the EU legislation in many fields. It continued to implement its obligations under the Stabilisation and Association Agreement (SAA) smoothly. Good progress can be reported in information society and media with the adoption of the package of three laws implementing the 2011 media strategy thus further aligning Serbia's legal framework with the *acquis*. Legislation on rail, air and road transport was also further aligned. The release of the results of the population and agriculture censuses continued. The new public administration reform strategy from January 2014 includes public internal financial control among the reform priorities.

In the field of foreign and security policy, Serbia's alignment with EU declarations and Council decisions should be improved so that Serbia fulfils the requirement under the negotiating framework to progressively align its policies and decisions in this area with the ones adopted by the European Union and its Member States in the period up to accession. Serbia needs to urgently elaborate and implement reliable and robust monitoring and supervision mechanisms for *acquis* alignment across the board. Significant efforts are also needed not only to enhance and fully enforce the overall legal framework but also, and most importantly, to back these reforms with appropriate financial and human resources. There is also a lack of institutional coordination and leadership in some key *acquis* areas and the need to safeguard the independence of regulatory bodies. The legislation on state aid control must be aligned with the *acquis* and effectively applied to all undertakings, including those in the process of restructuring and privatisation. Further efforts are needed to streamline the asylum procedure in line with EU standards and permanent accommodation facilities need to be urgently upgraded. Serbia needs to step up its efforts towards alignment in the field of energy, including when it comes to the South Stream gas pipeline. It needs to achieve unbundling in the gas sector and the restructuring of the public gas company Srbijagas as a matter of priority. Further alignment in the areas of taxation, environment, climate change, genetically modified organisms is also needed, together with substantial strengthening of the overall health and social protection system.