

2018 Commission report on Serbia

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PURPOSE: to present a Commission staff working document on the Serbia 2018 report in the context of EU enlargement.

BACKGROUND: since the opening of Serbia's accession negotiations in January 2014, 12 out of 35 chapters have been opened, two of which provisionally closed. The overall pace of negotiations will continue to depend on Serbia's progress in reforms and in particular on a more intense pace of reforms on rule of law and in the normalisation of its relations with Kosovo. The European Council granted Serbia the status of candidate country in 2012. The Stabilisation and Association Agreement (SAA) between Serbia and the EU entered into force in September 2013. Compliance issues remain in the area of state aid and fiscal discrimination on alcohol. As of 1 September 2017, capital flows between the EU and Serbia should have been fully liberalised. In addition, since May 2017, Serbia has introduced a number of restrictions concerning exports of non-hazardous waste leading to a temporary halt in the issuance of export licences. Serbia should address all these compliance issues as a matter of priority.

CONTENT: as regards its ability to **assume the obligations of membership**, Serbia has continued to align its legislation with the EU *acquis* across the board. Adequate financial and human resources and sound strategic frameworks will be crucial to maintaining the pace of reforms. Serbia has a good level of preparation in areas such as company law, intellectual property, science and research, education and culture, and customs. In areas such as public procurement, statistics, monetary policy and financial control, Serbia is moderately prepared. Serbia needs to progressively align its foreign and security policy with the European Union's common foreign and security policy in the period up to accession. Serbia needs to address, as a matter of priority, issues of **non-compliance with the SAA**, regarding in particular restrictions on capital movements, state aid regulation, fiscal discrimination on imported spirits and restrictions on waste exports.

As regards the normalisation of relations with **Kosovo**, Serbia needs to make further substantial efforts on the implementation of existing agreements and contribute to the establishment of circumstances conducive to the full normalisation of relations with Kosovo, to be defined in a legally binding agreement.

IPA II: under the Instrument for Pre-accession Assistance II, Serbia continues to benefit from pre-accession assistance with a total indicative allocation of **EUR 1.5 billion** for the period 2014-2020.

A summary of the main chapters of the report is as follows:

Political and economic dialogue: regular political and economic dialogue between the EU and Serbia has continued. Serbia continues to participate in the multilateral economic dialogue with the Commission and EU Member States to prepare for participation in multilateral surveillance and EU economic policy coordination. As part of the new approach to economic governance, Serbia adopted its fourth economic reform programme and is implementing reforms recommended by the Economic and Financial Affairs Council. Further efforts are needed to improve the capacity for economic planning, inter-ministerial coordination and implementation.

As regards the **economic criteria**, Serbia has made good progress and is moderately prepared in developing a functioning market economy. Some of the policy weaknesses, in particular with regard to the budget deficit, were addressed. Labour market conditions improved further. However, government debt is still high and the budgetary framework and its governance need to be strengthened. Major structural reforms of the public administration, the tax authority, and state-owned enterprises remain incomplete.

Informal employment, unemployment and economic inactivity remain still very high, particularly among women and youth. The private sector is underdeveloped and hampered by weaknesses in the rule of law and the enforcement of fair competition. Serbia is **moderately prepared** to cope with competitive pressure and market forces within the Union. Some progress was made to increase competitiveness. However, the level of investment activity is still below the economy's needs.

Judicial system: Serbia's judicial system has some level of preparation in this area. Some progress was made, notably by reducing the backlog of old enforcement cases and putting in place measures to harmonise court practice. Improved rules for evaluating professional performance of judges and prosecutors were adopted. The scope for political influence over the judiciary remains a concern.

Corruption and organised crime: Serbia has some level of preparation in the fight against corruption. Some progress has been achieved, especially in adopting amendments to the Criminal Code in the economic crimes section; to the law on the organisation of state authorities in the field of fight against corruption, organised crime and terrorism; and to the law on seizure and confiscation of proceeds of crime. However, there is a serious delay in adopting the new law on the Anti-Corruption Agency. Corruption remains prevalent in many areas and continues to be a serious problem. Law enforcement and judicial authorities still need to prove that they can investigate, prosecute and try all high level corruption cases in an unbiased and operationally independent manner.

Serbia has some level of preparation in the fight against **organised crime**. A new strategy and action plan to prevent and fight trafficking in human beings were adopted. The number of convictions for organised crime remains low.

Fundamental rights and freedom of expression: the legal and institutional framework for the respect of fundamental rights is in place. Its consistent implementation across the country needs to be ensured, including as regards protection of minorities. While Serbia has some level of preparation, **no progress** was made on freedom of expression, a matter of increasing concern. Further sustained efforts are needed to improve the situation of persons belonging to the most discriminated groups (Roma, LGBTI persons, persons with disabilities, persons with HIV/AIDS and other socially vulnerable groups).