



SERBIA
INVESTMENT CLIMATE STATEMENT
2015

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Executive Summary

Following the country's recent political progress, Serbia's investment climate is improving slowly. In April 2013, the country signed an agreement to normalize relations with neighboring Kosovo, which paved the way for the January 2014 opening of accession negotiations with the European Union (EU). These developments present a real opportunity for the country to attract new foreign direct investment (FDI), especially as the government aligns domestic legislation with EU standards and implements measures to improve the business environment.

The Serbian government continues to make investment a priority, especially foreign investment. U.S. investors report positively on doing business in Serbia; they highlight the country's strategic geographic location, well-educated and affordable labor force, and free trade agreements with key markets (including Russia, Turkey, and the EU) as particular appeals. Although there are challenges with bureaucratic delays and corruption, for the most part U.S. investors enjoy a level playing field with their Serbian and foreign competitors. The U.S. Embassy in Belgrade assists investors when issues arise, and Serbian leaders are responsive to our concerns.

Prime Minister Aleksandar Vučić has identified economic growth as his top concern. Prime Minister Vučić has promised his government will resolve a number of long-standing issues related to the country's slow transition to market-driven capitalism. On the legislative front, the government has passed new labor, construction permitting, bankruptcy, and privatization laws that will help develop a better business environment. The public sector is bloated, and more than 500 state-owned enterprises (SOEs) are in urgent need of restructuring. Thousands of government employees may face layoffs as the government implements these reforms. While this will be painful for the Serbian economy, the government recognizes the need to cut spending while also improving the investment climate to attract new private sector companies and offset the public sector job losses.

The government signed a three-year, EUR 1.2 billion Precautionary Stand-By Arrangement with the International Monetary Fund (IMF). To reach the IMF deal, the government implemented fiscal tightening measures, such as public sector wage and pension cuts. Although these cuts were difficult, the biggest challenge for the government will be public sector reform.

If the government delivers on promised reforms, investors could find significant business opportunities over the next few years. The main sectors poised for growth include agriculture, information and communications technology (ICT), and mining. Although the government has passed major reforms, investors should monitor the government's implementation of the reforms, which will signal the state's seriousness about opening the economy to private investment. Similarly, investors should follow the development of the new investment incentive program, which the Prime Minister has said will feature smarter, individually tailored offerings. With an already adequate climate for foreign investors, there is room for substantial progress in the near term as the Serbian government places economic reform at the top of its agenda.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Serbia is open to FDI, and attracting FDI is a priority for the government. Even during its communist past, Serbia prioritized international commerce and has attracted a sizeable international business community. This trend looks to continue, as the government approved a package of incentives for foreign investors in June 2014 and adopted a new decree on subsidies for direct investments in March 2015.

Serbia's Law on Foreign Investments extends national treatment to foreign investors, allows the transfer or repatriation of profits and dividends, provides guarantees against expropriation, and allows customs-duty waivers for equipment imported as capital-in-kind. The law prohibits foreign companies from establishing or obtaining majority ownership of a company that produces or trades arms, for example, in the defense industry, or in specific, prohibited areas of the country. The Law on Foreign Exchange Operations regulates payments between residents and non-residents, while the Law on Protection of Competition regulates fair market competition.

Other Investment Policy Reviews

Serbia has not conducted an investment policy review through the Organization for Economic Cooperation and Development (OECD), World Trade Organization (WTO), or United Nations Conference on Trade and Development (UNCTAD).

Laws/Regulations of Foreign Direct Investment

Serbia obtained EU candidate status in 2012 and opened its formal accession negotiations on January 21, 2014. The government is implementing a National Program for Integration into the EU to harmonize domestic legislation with EU norms. This modernization of Serbian legislation will improve the investment climate in areas including foreign trade, corporate governance, and environmental regulation.

Serbia has struggled with a rising fiscal deficit and has looked to plug the budget gap with new revenue measures. In 2012, the National Assembly adopted Amendments to the Law on Corporate Profit Tax that increased the corporate-profit tax rate from 10 to 15 percent, and in 2013, the government canceled a tax holiday for investments in new equipment. Still, the government continues to offer incentives designed to attract foreign investors, including a 10-year corporate-profit tax holiday for companies that invest more than USD 9.1 million and hire at least 100 new employees. The government maintains the Serbian Investment and Export Promotion Agency (SIEPA) (www.siepa.gov.rs/sr/) to administer the investment incentive program. In 2010, Serbia established economic advisor positions at select foreign missions, including the Serbian Consulate General in Chicago, to promote investment in Serbia (<http://www.scgchicago.org/>). However, the economic advisor at the Consulate General in Chicago withdrew in May 2014, and the position remains vacant as of April 2015.

In addition to SIEPA, the Serbian Privatization Agency works with potential investors on investment opportunities in the state-owned enterprises (SOEs). Details about privatization policies are located in the “Competition from State-Owned Enterprises” section below.

The major laws that refer to foreign direct investments include: The Law on Foreign Investments, The Law on Foreign Exchange Operations, The Law on Foreign Trade Operations, The Law on Capital Market, Company Law, Customs Law, Law on Value Added Tax, Law on Income Tax, Law on Corporate Profit Tax, Law on Real Estate Tax, Law on Mandatory Social Contributions, Law on Construction and Planning, Law on Privatization, and The Law on Protection of Competition.

To operate in Serbia, businesses must register with the Agency for Business Registers. Details about the registration process can be found on the Agency’s website: www.apr.gov.rs. The Agency provides information about the laws and regulations related to establishing and running a business in Serbia: <http://www.apr.gov.rs/Прописи.aspx>.

Laws and regulations related to taxes can be found on the Finance Ministry’s website: <http://www.mfin.gov.rs/pages/issue.php?id=1578>.

Laws and regulations related to business operations can be found on the Economy Ministry’s website: <http://www.privreda.gov.rs/pages/issue.php?id=1578>.

Laws and regulations on portfolio investments are on the Securities Commission’s website: <http://www.sec.gov.rs/>.

Laws and regulations related to market competition can be found on the Commission for Protection of Competition’s website: <http://www.kzk.gov.rs/en/zakon-2>.

Laws and regulations related to privatization can be found on the Privatization Agency’s website: <http://www.priv.rs/Agencija+za+privatizaciju/107/Pravni+okvir.shtml>.

Laws and regulations related to payment operations can be found on the National Bank of Serbia’s website: <http://www.nbs.rs/internet/english/20/zakoni.html>.

Industrial Promotion

The government actively promotes the growth of specific economic sectors. The country’s National Development Strategy designates automobiles, ICT, telecommunications, and electronics as priority sectors, for which the government offers investor’s special incentive packages (www.gs.gov.rs/lat/strategije-vs.html). The strategy states that the country’s industrial policies aim to attract FDI in high value areas, such as renewable energy, new technologies, logistic centers, customer centers, automobiles, and chemicals. The Decree on the Terms and Conditions for Attracting Direct Investments states that financial incentives can be approved for investments in manufacturing and for internationally tradable services, but not for projects in the sectors of agriculture, fishing, gambling, production of synthetic fibers, shipbuilding, airports, transportation, coal and iron, tobacco, energy, or weapons and ammunition production. Also, certain companies are ineligible to receive incentives, including: companies in financial trouble,

companies with unpaid obligations toward the state, companies with tax arrears, or companies in which the government has a share in ownership, unless the company receives the government's consent.

Information about the incentives is disseminated to the public through promotional brochures and via public calls published in newspapers and on the websites of the Ministry of Economy and SIEPA. SIEPA's core activities include disseminating this information to local and foreign investors, as well as providing necessary assistance and support to potential investors.

Limits on Foreign Control

The Law on Foreign Investments prohibits foreign companies from establishing a company in the production and trade of arms (for example, the defense industry) and in specific areas of the country marked as prohibited areas. Although a foreign company can establish a joint venture with a domestic company in these areas, the foreign company cannot obtain majority ownership.

Privatization Program

From 2001-2015, the Serbian government privatized 3,047 State Owned Enterprises (SOEs), generating revenues of USD 4 billion for the state budget. The government later cancelled 646 of these privatizations, alleging that investors did not meet contract obligations related to employment and investment. Meanwhile, the number of employees at privatized companies fell from 680,000 to 270,000.

The new Privatization Law adopted in August 2014, sets December 31, 2015 as the deadline for ending the privatization process and finalizing the sale or bankruptcy of the 504 companies in the Privatization Agency's portfolio. The Agency has published official invitations for submitting letters of interest for these companies. The information about privatizations and the bidding process is easy to understand and available on the Agency's website: www.priv.rs. The Serbian government continues to engage foreign investors in the privatization process, inviting them to submit tenders, participate in auctions, and purchase company shares.

Companies still awaiting privatization (or re-privatization) include metal, machinery, and food and beverage producers. Poor financial situations, outdated technology, and a lack of relevance in the modern global economy render some of these companies unappealing. However, with an estimated market value of USD 2.6 billion in 2013, state telecommunications company Telekom Srbija has garnered significant investor interest. The French consulting company Lazard SAS will be the government's privatization advisor for the sale of Telekom Srbija later this year.

Screening of FDI

The government does not screen FDI in general. However, if an investor receives incentives such as subsidies for creating new jobs, the law requires the investor to invest a certain amount in fixed assets and employ the agreed number of workers for which the investor received subsidies. The government monitors whether the investor met these obligations and will cancel the contract and demand reimbursement for the subsidies if the investor fails to fulfill them.

The Decree on the Terms and Conditions for Attracting Direct Investments outlines the procedure for supervising and controlling investments. Under the law, the investor must submit an annual report, prepared by an independent auditor, about the investment amount and employment figures. The government may declare that an investment is of special interest, in which case the Privatization Agency and National Employment Service perform the investment controls and audits.

Competition Law

The National Assembly enacted the Law on Protection of Competition in 2009 and amended it in 2013. As an independent organization responsible to the National Assembly, the Commission for the Protection of Competition implements the law. The commission also applies rules that regulate competition in the EU market in accordance with Article 73 of Serbia's Stabilization and Association Agreement (SAA) with the European Union.

The commission is active and, in 2013, it completed 141 proceedings for competition violation and initiated an additional 34 proceedings. However, the commission cited difficulties with "the judicial review of its decisions, particularly the Supreme Court of Cassation's extremely slow action." The commission's actions are published online at: www.kzk.org.rs/en/izvestaji.

Investment Trends

The National Bank of Serbia (NBS) and SIEPA track FDI inflows. According to SIEPA, since 2000, Serbia has attracted USD 29.1 billion in gross FDI. The peak year for investments was 2006 when Serbia attracted USD 5.6 billion, followed by a gradual slowdown in FDI inflow to USD 1.4 billion in 2013. Sectors that attracted the largest amount of FDI included finance, manufacturing, wholesale and retail, real estate, and transport (<http://siepa.gov.rs/en/index-en/invest-in-serbia/strong-fdi-figures.html>).

A number of well-known multinational companies completed major investments in Serbia between 2011 and 2014: Fiat and Benetton (Italy), Siemens and Grundfos (Germany), Delhaize (Belgium), Yura (South Korea), and Actavis, Cooper Tire, Cooper Standards, Johnson Controls, KKR, and NCR (United States). Foreign investors cite Serbia's strategic location, relatively inexpensive and skilled labor force, free trade agreements with key markets (the EU, Russia, Turkey, Central European Free Trade Agreement countries, and others), and government support mechanisms for investors as the prime incentives for opening businesses in the country.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	78 of 175	transparency.org/cpi2014/results
World Bank’s Doing Business Report “Ease of Doing Business”	2015	91 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	67 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 6,050	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

Serbia’s Foreign Investment Law guarantees the right to transfer and repatriate profits from Serbia, and foreign exchange is available. Serbia permits a relatively free flow of capital, including for investment, such as the acquisition of real estate and equipment. Non-residents may maintain both foreign currency and dinar denominated bank accounts without restrictions. Investors may use these accounts to make or receive payments in foreign currency. Non-residents may not transfer capital to purchase domestic short-term securities. The government amended the Foreign Exchange Law in December 2014 to authorize Serbian citizens to conclude transactions abroad through Internet payment systems such as PayPal.

NBS targets inflation in its monetary policy and regularly intervenes in the foreign exchange market to that end. From March 18, 2014, to March 18, 2015, the dinar depreciated 3.5 percent against the Euro and 26.5 percent against the dollar.

Remittance Policies

Personal remittances denote a significant additional income source for Serbian households. In 2013, Serbian citizens received total remittances of USD 4 billion, equivalent to more than nine percent of GDP. However, recipients more often used these remittances for consumption than investment.

The Law on Hard Currency Operations regulates investment remittances, which can be done freely and without any limits. The Foreign Investment Law allows foreign investors to freely and with no delay and in hard currency transfer to a foreign country all financial and other assets related to the investment including profit, assets, earnings from sale of shares, proceeds from sale of capital, other receivables. The Foreign Investors Council, a business association of foreign investors, confirmed that there are no limitations on investment remittances in Serbia.

Serbia does not engage in currency manipulation tactics. Serbia committed in its Letter of Intent to the International Monetary Fund (IMF) to maintain the existing managed float exchange rate regime in line with the inflation targeting regime. The government limits foreign exchange interventions to smoothing excessive rate volatility without targeting a specific level or path for the exchange rate.

Serbia is a member of MONEYVAL, which regularly assesses the implementation of anti-money laundering and counter-terrorist financing (AML/CFT) measures in Serbia (<http://www.fatf-gafi.org/countries/s-t/serbia/>). Serbia is an observer of the Eurasian Group (EAG). In 2010, the government amended the Anti-Money Laundering and Counter-Terrorism Law to require banks and other financial institutions to gather data about legal and natural persons that electronically transfer money and to monitor unusual transactions. The amendments expand the role of the Anti-Money Laundering Unit of the Ministry of Finance by vesting it with supervisory authority over a number of institutions and business, including money transmitters and factoring and forfeiting entities.

3. Expropriation and Compensation

Serbia's Law on Expropriation authorizes expropriation for the following reasons: education; public health; social welfare; culture; water management; sports; transport; power and public utility infrastructure; national defense; local/national government needs; environmental protection; protection from weather-related damage; exploration for, or exploitation of, minerals; land needed for re-settlement of people holding mineral-rich lands; property required for certain joint ventures; and housing construction for the socially disadvantaged.

In the event of an expropriation, Serbian law requires compensation in the form of similar property or cash approximating the current market value of the expropriated property. The law sets forth various criteria for arriving at the amount of compensation applicable to different types of land (agricultural, vineyards, or forests) or easements that affect land value. The local municipal court is authorized to intervene and decide the level of compensation if there is no mutually-agreed resolution within two months of the expropriation order.

The current Law on Foreign Investment provides safeguards against arbitrary government expropriation of foreign investments. There have been no cases of expropriation of foreign investments in Serbia since the dissolution of the former Republic of Yugoslavia.

There are, however, outstanding claims against Serbia related to property nationalized under the Socialist Federal Republic of Yugoslavia. The 2011 Law on Restitution of Property and Compensation applies to property seized by the government since the end of World War II (May 1945), and includes special coverage for victims of the Holocaust, who are authorized to reclaim property confiscated by Nazi occupation forces. The restitution law provides for restitution of property in-kind, when possible, and financial compensation in state bonds in cases where in-kind restitution is not possible. Many properties are exempt from in-kind restitution. Also, there are no legal provisions to address "heirless properties" left by victims of the Holocaust.

Serbia committed itself under the Law on Restitution of Property and Compensation to allocate EUR two billion, plus interest, for financial compensation in bonds. In 2014, the government

amended the law to postpone the issuance of bonds from January 1, 2015, to December 15, 2017. Bonds will be denominated in euros, carry a two-percent annual interest rate, have a maturity period of 12 years, and be tradable on securities markets. For citizens 70 years of age and older, the bond maturity period is five years, while for citizens 65 through 69 years of age, the bond maturity is ten years. The deadline for filing restitution applications was March 1, 2014. The Agency for Restitution received over 74,000 property claims and expects it will take two to three years to adjudicate restitution claims that requested restitution of property in-kind, while financial compensation in bonds will start in December 2017. Information about the Agency for Restitution is available on its website: www.restitucija.gov.rs/eng/index.php.

The restitution law caps the amount of compensation that any single claimant may receive at EUR 500,000 (approximately USD 550,000). The law establishes a reciprocity principle for foreign citizens, which permits them to file claims in Serbia if their home nation allows similar claims by Serbian citizens. Serbia has signed 22 such bilateral agreements, including one with the United States. Many U.S. citizens filed claims under the law. Serbia's 2006 Law on Restitution to Churches and Religious Communities authorizes in-kind property restitution, financial reimbursement, and substitution of alternative property as means of compensation. However, the government has not reconciled this law with the Law on Restitution of Property and Compensation described above.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Serbia's judicial system is based on civil law. Lower courts may, however, use higher court decisions as guidance. Serbia's judiciary lacked independence and was subject to political manipulation during the communist and Milosevic eras. The Serbian government is working to create a more independent, efficient, responsible, and transparent judiciary. The U.S. government, through USAID and the Department of Justice, is assisting with judicial reform efforts.

In July 2013, the government formally adopted the national Judicial Reform Strategy and Action Plan to tackle judicial-reform issues in a more systemic manner. Aligned with the requirements of the EU accession process, the Strategy emphasized the five pillars of "independence, impartiality and quality of justice, competence, accountability, and efficiency."

In November 2013, the government enacted a number of amendments to the following laws in four key justice-sector areas: (i) the Public Prosecution Service, (ii) Judges, (iii) Court Organization, and (iv) the Court and Prosecutorial Network. The Law on the Public Prosecution provides only modest improvement in the autonomy of individual prosecutors. Changes to the Laws on Organization of Courts and the Court and Prosecutorial Network were more substantial. Many of these amendments were intended to reverse decisions made by the prior government administration, such as a significant reduction in the number of judges/prosecutors and in the number of courts and prosecutors' offices.

In 2013, the new Criminal Procedure Code (CPC) took effect nationally. It enables more efficient and effective criminal proceedings and provides protection for human rights consistent

with European and international standards. Innovations include prosecutor-led investigations, expanded availability of special investigative techniques and cooperating witnesses, a reduced role for the trial judge through more adversarial procedures, and implementation of stricter and more efficient appellate procedures to streamline the appeals process and reduce the number of extraordinary legal remedies.

Bankruptcy

The Bankruptcy Law, amended in 2014, brings Serbian bankruptcy procedures more in line with international standards. According to the law, bankruptcy is a procedure aimed at providing compensation to creditors via sale of total assets of a company-debtor. The law stipulates “automatic bankruptcy” for legal entities whose accounts have been blocked for more than three years and allows debtors and creditors to initiate bankruptcy proceedings. The law ensured a faster and more equitable settlement of creditors’ claims, lowered costs, and clarified rules regarding the role of bankruptcy trustees and creditors’ councils.

Foreign creditors have the same rights as Serbian creditors with respect to the commencement of, and participation in, a bankruptcy proceeding. Claims in foreign currency are included in the bankruptcy estate in that currency, but they are calculated in dinars at the dinar exchange rate on the date the bankruptcy proceeding commenced. In 2012, Serbia amended its Criminal Code so that causing a bankruptcy and faking a bankruptcy are criminal acts.

The 2015 World Bank's, Doing Business Report ranked Serbia 48 out of 189 economies according to the resolving insolvency criteria, with an average of two years needed for resolving insolvency and a cost of 20 percent of the estate. The recovery rate was estimated at 29.2 cents per dollar. (<http://www.doingbusiness.org/data/exploreeconomies/serbia/#resolving-insolvency>)

Investment Disputes

Although Serbia is a signatory to many international treaties, Serbia’s Privatization Agency refused for five years (2007-2012) to recognize an International Chamber of Commerce (ICC)/International Court of Arbitration award in favor of a U.S. investor. The dispute caused the U.S. Overseas Private Investment Corporation (OPIC), which had insured a portion of the investment, to restrict severely its activities in Serbia. The U.S. Embassy facilitated a settlement agreement between the Serbian government and the investor that took effect in January 2012. OPIC reinstated its programs for Serbia in February 2012. Over the past 10 years, two investment disputes have involved U.S. citizens.

International Arbitration

In 2006, Serbia enacted its first Law on Arbitration, which authorizes the use of institutional and ad hoc arbitration in all manner of disputes (for example, commercial and labor). The law is modeled after the United Nations Commission on International Trade Law (UNCITRAL Model Law). International arbitration is an accepted means for settling disputes between foreign investors and the state. The Foreign Trade Court of Arbitration, the leading domestic arbitration body, operates within the Serbian Chamber of Commerce. Arbitration is voluntary.

ICSID Convention and New York Convention

Serbia is a signatory to the following international conventions regulating the mutual acceptance and enforcement of foreign arbitration:

- 1923 Geneva Protocol on Arbitration Clauses;
- 1927 Geneva Convention on the Execution of Foreign Arbitration Decisions;
- 1958 Recognition and Enforcement of Foreign Arbitral Awards (New York Convention);
- 1961 European Convention on International Business Arbitration; and
- 1965 International Centre for the Settlement of Investment Disputes (ICSID)

Duration of Dispute Resolution

Commercial dispute resolutions in Serbia may take years to complete. Court proceedings in Serbia are slow, in general, and commercial disputes are no exception. The 2015 World Bank's, Doing Business Report found that it takes an average of 635 days to enforce a contract in Serbia, of which the trial and judgment spans 495 days. Given the length of resolving commercial disputes, the cost of litigation in Serbia averages 34 percent of the claim, which is higher than the OECD average of 21.4 percent.

Enforcing court decisions, on average, takes 110 days in Serbia and costs 12.4 percent of the claim. Serbia is a signatory to the New York convention and, for the most part, does recognize the enforcement of an international arbitration award. However, as mentioned, Serbia's Privatization Agency refused for five years (2007-2012) to recognize an ICC/International Court of Arbitration award in favor of a U.S. investor.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Despite opening accession negotiations in 2005, Serbia remains an observer at the World Trade Organization (WTO). The country must amend domestic legislation and conclude bilateral negotiations with current members before it can accede. Still, Serbia complies with the provisions outlined by in Trade Related Investment Measures (TRIMs) agreement.

Investment Incentives

From 2006 to 2013, Serbia employed a system of cash grants and other incentives for greenfield and brownfield investment projects. These incentives included funding for research and development. The Serbian National Employment Service (NES) provided job-creation incentives, but budgetary constraints resulted in suspension of the program. According to SIEPA, NES plans to reintroduce the program in 2015.

The government adopted a new Decree on the Terms and Conditions for Attracting Direct Investments. Under the decree, investors can receive financial incentives in amounts up to 50 percent of eligible costs for large investors, up to 60 percent of costs for medium-size investors, and up to 70 percent of costs for small-size investors (investment value in fixed assets or total

amount of two-year's gross salaries). For investment projects valued between EUR 50-100 million, subsidies are limited to 25 percent, and to 17 percent for projects over EUR 100 million. Manufacturing projects worth less than EUR 250,000 and projects in the services sector worth less than EUR 150,000 do not qualify for government incentives. Subsidies for new workplaces range from EUR 3,000 in the developed areas of Serbia and up to EUR 7,000 in underdeveloped areas of Serbia. For projects that create more than 200 new jobs, the government can approve additional incentives.

At the provincial level, the Vojvodina government offers some investment incentives. Managed by the Vojvodina Investment Promotion Agency, these incentives include the reimbursement of costs for project design or temporary facility leasing (up to one year) while a greenfield facility is constructed. The maximum reimbursement level is approximately USD 110,000 per business entity. In addition, the Vojvodina Provincial Secretary for Work and Employment may award incentives for new employment. In 2014, financial incentives were approved to just one investor, likely because of budget constraints. The government expects to support more projects in 2015. Details are available at: www.vip.org.rs/Business_Incentives.

The major incentives at the local (municipal) government level include: exemptions or deductions for the payment of urban construction land lease and/or development fees, including the option of paying in installments with prior consent from the government; and other local fees exemptions or deductions, such as the fee for displaying a company's name. For more details visit: <http://siepa.gov.rs/en/index-en/invest-in-serbia/investment-incentives>.

Serbia's tax laws offer several incentives to new investors. The corporate profit tax rate is a flat 15 percent, one of the lowest in the region. Non-resident investors are taxed only on income earned in Serbia. Companies that invest more than RSD one billion (approximately USD 9.1 million) in fixed assets and hire at least 100 new employees are exempt from the corporate profit tax for up to 10 years. In 2014, the government cancelled the previously applicable 10-year tax holiday for import duties.

Research and Development

The government welcomes and invites foreign companies to participate in government-sponsored research and development programs. The government often co-sponsors research projects together with the EU, which encourages foreign companies' participation.

Performance Requirements

The Serbian government does not mandate local employment or have onerous visa, residence, or work permitting requirements, and it does not impose conditions for foreign investors to receive permission to invest. The government provides investment incentives and applies them on a case-by-case basis, in direct negotiations with the company, according to the Foreign Investors Council and U.S. investors.

Data Storage

The Serbian government does not maintain a policy of “forced localization” designed to oblige foreign investors to use domestic content in goods or technology. Similarly, the government does not force foreign investors to establish and maintain a certain amount of data storage within the country. There are no requirements for foreign IT providers to turn over source code and/or provide access to surveillance.

6. Right to Private Ownership and Establishment

Serbian citizens and foreign investors enjoy full private property ownership rights. Private entities can freely establish, acquire, and dispose of interests in business enterprises. By law, private companies compete equally with public enterprises in the market and for access to credit, supplies, licenses, and other aspects of doing business.

A foreign investor cannot own a majority of shares in a company producing or trading arms. Also, a foreign investor cannot establish and be majority owner of a company in an area marked as a prohibited zone. When a foreign company wishes to invest as a minority shareholder into these kinds of companies, it must obtain approval from the Ministry of Defense.

In addition, foreign citizens and companies are prohibited from owning agricultural land in Serbia. According to Serbia’s EU SAA, the government must lift the agricultural land ownership prohibition by 2017, unless Serbia requests and receives an extension on the ban.

7. Protection of Property Rights

Real Property

Serbia has an adequate body of laws for the protection of property rights, but enforcement of property rights through the judicial system can be extremely slow. The 2015 World Bank Doing Business report ranks Serbia 96 of 189 countries with respect to the time required to enforce a contract through the courts (635 days on average).

Serbia continues to grapple with the consequences of the nationalizations and confiscations of private property during the Holocaust and under the communist government of the former Yugoslavia. A multitude of factors can complicate and cloud property titles – restitution claims, unlicensed and illegal construction, limitation of property rights to “rights of use,” outright title fraud, and other issues. Investors are cautioned to investigate thoroughly all property title issues on land intended for investment projects.

During the country’s socialist years, owners of nationalized land became “users” of the land and acquired “rights of use” that, until 2003, could not be freely sold or transferred. A 2009 Law on Planning and Construction authorized the transformation of land-use rights into rights of freehold private ownership for construction land. The law intended to allow companies that had gained land pursuant to privatization, bankruptcy, or other means to transform usage rights into ownership rights. They could do so by paying a fee representing the difference between the current market value of construction land and the cost of acquiring the land rights. Because the

law did not define adequately the procedures for property right conversions, the National Assembly has amended it eleven times. The National Assembly again amended the law in 2014, but the latest amendment does not address the conversion issue.

Investors continue to complain that land-rights conversions are stalled. Local authorities often lack expertise in valuing land and other technical aspects of conversion; land registries avoid positive resolution of conversion requests; and public attorneys' offices commonly challenge land-registry actions that do recognize conversion applications. Construction permitting is a particularly serious problem; non-transparency and burdensome red tape put Serbia at 186 of 189 countries in the Doing Business Report, with 264 days needed to obtain a permit. The recent amendments to the Construction Law cut the administrative deadline for issuing construction permits to a potential investor to 30 days and introduced a one-stop shop for issuing permits.

Serbia's real property registration system is based on a municipal cadastre and land books. The National Assembly adopted a modern Law on Cadastre and State Survey in 2009, and with World Bank assistance, the government completed a seven-year cadastre modernization project in 2012. Serbia has the basis for an organized real estate cadastre and property title system. However, the problem of legalizing tens of thousands of structures built over the past twenty years without proper licenses remains, as 1.5 million buildings in Serbia are not registered in the cadastre. Of this total, only 800,000 building owners have applied for legalization.

Serbia maintains a register of movable property under the authority of the Agency for Business Registers. The 2015 Doing Business Report ranks Serbia 44 of 189 countries for time required to register real property, a significant improvement from Serbia's 2011 ranking of 100. Serbia's Law on Mortgages authorizes banks to issue mortgages on buildings under construction, but the law needs to be amended and harmonized with the Law on Planning and Construction.

Intellectual Property Rights

Serbia is a World Intellectual Property Organization (WIPO) member and a signatory to all key agreements administered by WIPO. The government has taken steps to implement and enforce the WTO TRIPS Agreement. Serbia's intellectual property rights (IPR) laws include TRIPS-compliant provisions and are enforced by courts and administrative authorities.

For the most part, Serbia's domestic legislation related to IPR is modern and complies with international standards, including the EU *acquis communautaire*. From 2005 to 2013, the National Assembly enacted nine new IPR laws: the Law on Trademarks, the Law on Indications of Geographical Origin, the Law on Copyrights and Related Rights, the Law on Protection of Topography of Semiconducting Products, the Law on Protection of Industrial Designs, the Law on Optical Discs, the Law on Patents, the Law on Special Competence for Efficient Protection of Intellectual Property Rights, and the Law on Organization and Competence of State Authorities in Fighting Against High Technology Crime. These laws extended legal protections to all major forms of IPR (including patents, trademarks, copyrights, industrial designs, and integrated circuits).

IP protection in Serbia is improving overall. Enforcement remains haphazard, but consistent with levels in the region. According to the latest International Data Corporation (IDC) study,

software piracy in Serbia is around 69 percent, which is higher than in Bosnia and Slovenia, but lower than in Montenegro. This indicator shows significant improvement, though, as the 2011 IDC study found that Serbia's piracy rate was 72 percent. The estimated value of Serbia's illegal software market is USD 116 million.

There were no new IP related laws adopted in 2014. The most significant remaining legal steps for the full modernization of Serbia's IPR regime are:

- Amendments to the Criminal Procedure Code and related procedural laws, particularly in the area of cyber-crime;
- Adoption of implementing regulations for various IPR laws that specify enforcement procedures and steps, which are subject to different interpretation and/or inaction by relevant authorities and enhance their coordination;
- Reversal of the Copyright Law reform from December 2012, when Serbia's IPR regime backslid because the National Assembly passed amendments exempting small business from paying royalties for copyrighted music; capped remuneration fees paid to collective societies; and allowed businesses to pay one collective bill for all music rights; and
- Amendments to the Copyright Law that include provisions regarding collective rights over works recorded on a video format.

In 2011, the government adopted a Strategy on Intellectual Property Development to strengthen IPR protections. Pursuant to the strategy, the government established a Permanent Coordination Body for IPR enforcement activities of the Tax Administration, Police, Customs, and state inspections services. The Public Procurement Law dictates that bidders must sign a statement affirming that they have ownership rights to the IPR utilized in fulfilling a public procurement contract. In addition, the tax administration continues to check software legality during its regular tax controls of businesses.

Despite the relatively solid IPR legal framework, implementation of IPR laws is weak and enforcement is insufficient, allowing piracy and counterfeiting to persist. The European Commission assessed in its 2014 Progress Report that Serbia lacks formal coordination between all entities charged with IPR enforcement. Pirated optical media (DVDs, CDs, software) and counterfeit trademarked goods, particularly athletic footwear and clothing, are easily available, though the government has stepped up its actions to combat illegal street sales and seize pirated goods at the border. Film and music industry representatives estimate that more than 95 percent of the films and music downloaded in Serbia is done through unauthorized channels.

The Customs Administration and Trade Inspection issue periodical reports on seizures, however, they are not segregated in a way to show just IP infringements, but according to the type of goods (e.g. seized amount of cigarettes, apparel goods, etc., which usually encompasses IP infringements but also other irregularities such as excise tax stamp absence). Furthermore, the collected data is not available publicly on their websites.

Upon seizure, authorities cannot destroy goods prior to receiving formal instructions from the right holders. Customs officers must inform the right holders of the seizure of counterfeited goods after which interested right holders shall draft a declaration whereby they formally inform

customs on further steps. Storage and destruction of counterfeit goods is billed to the right holders if right holders declare that the seized goods are counterfeit.

Procedures for registration of industrial property rights and deposition of works of authorship before the Serbian Intellectual Property Office are straightforward and in compliance with the procedures of most European countries. All relevant information can be found on Serbia's IPO website: <http://www.zis.gov.rs/home.59.html>.

The enforcement of rights on the level of state authorities, such as inspection or customs, can be relatively fast. However, should the enforcement of rights be sought out before the court, proceedings are expected to last up to two years. With the creation of semi-specialized IP courts, the proceedings should be faster in the future.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at www.wipo.int/directory/en/details.jsp?country_code=RS.

Resources for Rights Holders

Contact at U.S. Embassy Serbia for IP Issues:

Tatjana Vecerka
Economic Specialist
+381 11 706 4395
VecerkaT@state.gov

American Chamber of Commerce in Serbia:

www.amcham.rs
Phone: +381 11 3088 132

For a list of local attorneys, please contact the U.S. Foreign Commercial Service in Serbia at: www.export.gov/serbia.

8. Transparency of the Regulatory System

To establish transparent rules and regulations, foster competition, and attract investments, the Serbian government has established independent agencies and bodies such as the State Auditing Institution, Public Procurement Office, Anti-Monopoly Commission, Energy Regulatory Agency, and Regulatory Agency for Telecommunications.

Serbia's record on transparency of the regulatory system is mixed. Some government institutions have a very good record of transparency. The Ministry of Finance, for example, maintains a comprehensive website with extensive information about existing regulations, legal and regulatory proposals, data on the government budget, public debt, etc. But many government procedures that affect investors are opaque, with limited opportunities for investors to consult with government regulators on measures affecting their businesses. For example, the Ministry of Mining and Energy developed a new regulatory regime for investments in renewable energy in 2013 without adequate consultations with major renewable energy investors. Regulations sometimes are applied unevenly, or in a discriminatory manner.

The process for public participation in drafting new laws remains inconsistent. There is no legal requirement for public comment on proposed laws and regulations; the decision to invite public comment is left to the ministry responsible for the legislation. The European Commission's (EC) 2014 Progress Report for Serbia mentions the lack of public participation in the legislative process as a problem.

Serbia's budget documents, in general, follow cash-flow accounting standards prescribed in the IMF Government Finance Statistics (GFS) from 1986. According to the 2014 Progress Report, Serbia applies International Financial Reporting Standards. There are no informal regulatory processes managed by NGOs or private sector associations.

In 2012, the government eliminated 138 so-called "para-fiscal" charges imposed by various local governments that add to the financial and regulatory burden on businesses in Serbia. Various institutions and employers' associations, as well as AmCham, considered eliminating the 138 charges a significant step in improving business conditions. USAID has identified an additional 132 charges that should be eliminated.

Several Serbian organizations publish recommendations for government action to improve the transparency and efficiency of business regulations. The Foreign Investors Council publishes an annual "White Book" (www.fic.org.rs/admin/download/files/cms/attach?id=514), the National Alliance for Local Economic Development publishes a "Grey Book" (www.naled-serbia.org/upload/Document/File/2014_12/Siva_knjiga_7.pdf), and AmCham publishes similar materials on its website (<http://www.amcham.rs/home.1.html>).

9. Efficient Capital Markets and Portfolio Investment

The government welcomes portfolio investments and regulates them efficiently. In 2014, Serbia attracted USD 530 million in portfolio investment from abroad, which is substantially lower than in 2013, when it attracted USD 2.5 billion. The government welcomes both domestic- and foreign-sourced portfolio investments since they offer a financing source for the country's significant fiscal deficit, projected at 4.9 percent of GDP for 2015. The Serbian government regularly issues bonds to finance the budget deficit, including short-term, dinar-denominated T-bills (up to a two-year maturity period), and dinar-denominated, euro-indexed government bonds (up to a 15-year maturity period). The total value of bonds issued on the domestic market reached USD 7.7 billion at the end of February 2015.

Since 2011, when the Serbian government issued its first Eurobond on the international market, it has sold a total of USD 5.25 billion in four issuances bearing coupon rates between 4.875 and 7.25 percent. U.S. financial companies reportedly purchased more than half of these issuances. With both dinar-denominated T-bills and Eurobonds included, the total stock of Serbian government-issued debt instruments stood at USD 13 billion in February 2015. To meet its 2015 financing requirements, the government has announced plans to issue domestic securities of EUR 3.8 billion, issue additional Eurobonds of EUR 1.5 billion, and borrow EUR 0.5 billion from the International Bank for Reconstruction and Development.

Unfavorable public-debt dynamics resulted in sovereign debt rating downgrades for Serbia in 2012 when Standard and Poor's (S&P) downgraded Serbia's sovereign debt rating from BB to

BB- with a negative outlook. In January 2014, Fitch Ratings downgraded Serbia's long-term foreign and local currency Issuer Default Ratings (IDRs) to B+ from BB- with a stable outlook.

Serbia's equity and bond markets are underdeveloped. Corporate securities and government bonds are traded on the Belgrade Stock Exchange (BSE). Of 990 companies listed on the exchange, shares of fewer than 100 companies are traded regularly (more than once a week). The total annual turnover on the BSE in 2014 was USD 190 million and has been shrinking steadily since 2007 when the total turnover reached USD 2.7 billion. The BSE's low turnover in the past four years is linked to the crisis in the eurozone and the struggling global economy.

Established in 1995, the Securities Commission regulates the Serbian securities market. The Commission supervises investment funds in accordance with the Investment Funds Law (passed in January 2006 and amended in July 2009 and May 2011). As of March 2015, 15 registered investment funds operate in Serbia.

Market terms determine credit allocation. The total volume of issued loans stood at USD 15 billion at the end of June 2014. Average interest rates are high, and the business community in Serbia cites tight credit policies and expensive commercial borrowing as impediments to business expansion. Around 70 percent of all lending – including most mortgage lending and much of the commercial lending – is done in foreign currency, namely euros, to provide lower rates to borrowers and minimize exchange-rate risks to lenders. Foreign investors are able to obtain credit on the domestic market. The government and central bank respect IMF Article VIII and do not place restrictions on payments and transfers for current international transactions.

Money and Banking System, Hostile Takeovers

Serbia's financial sector successfully weathered the 2008 global financial crisis, largely because of conservative banking policies and regulations that require high capital-adequacy ratios and high liquidity for banks operating in the country. The IMF assessed in their February 2015 Article IV Review: "The mostly foreign-owned banking sector has remained resilient in the face of increasingly difficult economic conditions." Serbia experienced no bank failures or bailouts during the crisis, but four state-owned banks went bankrupt very soon after the crisis and the state had to pay a bail out of nearly USD one billion to the banks' depositors. A number of state-controlled banks have had financial difficulties since the crisis because of mismanagement and, in one instance, alleged corruption. The banks honored all withdrawal requests during the financial crisis and appear to have regained consumer trust, as evidenced by the gradual return of the withdrawn deposits to the banking system. By June 2014, savings deposits in the banking sector reached USD 7.6 billion, exceeding the pre-crisis level.

The NBS regulates the banking sector. Foreigners can freely establish both local currency and hard currency non-residential accounts. The banking sector comprises 91 percent of the total assets of the financial sector in Serbia. As of June 2014, consolidation had reduced the sector to 29 banks with total assets of USD 26 billion (about 72 percent of GDP), with 74.8 percent of the market held by foreign-owned banks. The top ten banks, with country of ownership and estimated assets in USD are: Banca Intesa (Italy, four billion); Komercijalna Banka (Serbian government, 40 percent, 3.5 billion); UniCredit Bank (Italy, 2.3 billion); Société Générale Banka (France, 2.3 billion); Raiffeisen Bank (Austria, 2.3 billion); Eurobank EFG (Greece, 1.4 billion);

AIK Banka Nis (Serbia, 1.4 billion); Hypo Alpe-Adria-Bank (Austria, one billion); Vojvodjanska Banka (Greece, one billion); and Postanska Stedionica (Serbian government, one billion). (www.nbs.rs/internet/latinica/55/55_4/kvartalni_izvestaj_II_14.pdf)

The high rate of non-performing loans (NPLs) in the banking sector is problematic. The NPL rate increased from 16.9 percent of total loans issued at the end of 2010 to 23 percent as of June 2014. However, banking industry representatives claim that the real figure is higher - closer to 40 percent - as banks use creative loan classifications to conceal the true extent of the problem. In addition, there are significant foreign exchange risks, as 70 percent of all outstanding loans are indexed to foreign currencies (primarily the euro).

With a high NPL rate, and banks who hesitate to lend money, liquidity is an issue in Serbia and companies are hungry for working capital. In an attempt to improve liquidity, the National Assembly adopted the Law on Payment Deadlines in Commercial Transactions, which set maximum payment terms of 60 days for business-to-business transactions and 45 days for public sector-to-business sector payments. The Assembly adopted the Law on Conditional Write-off of Interest and Tax Debt, which allows companies that pay their taxes on time but have unpaid tax debts to write off interest on the outstanding tax debt. These changes have not improved liquidity significantly. According to the Serbian Association of Employers, the average collection time improved by five days after the implementation of the payment deadlines. AmCham members noted that the law complicated business-to-business invoicing.

Hostile takeovers have been extremely rare in Serbia in recent years. Share takeovers usually occur in cases of “rounding-up” ownership shares acquired in the privatization process, when a company that already is the majority owner makes an offer to assume remaining minority shares. The Law on Takeover of Shareholding Companies regulates defense mechanisms of companies.

10. Competition from State-Owned Enterprises

The 2012 Law on Public Enterprises defines a public enterprise as “an enterprise pursuing an activity of common interest, founded by the State or Autonomous Province or a local self-government unit.” Activities of common interest included in the law are electricity generation (transmission and distribution); coal extraction and processing; exploration, extraction, processing, transport and distribution of oil and natural and liquefied gas; sale of oil and oil products; railway, postal, and air traffic; telecommunications; publication of the official journal of Serbia; publication of school books; management of nuclear facilities; utilization, management, protection, and enhancement of common resources (waters, roads, mineral raw materials, forests, inland waterways, lakes, river banks and lake shores, spas, and game animal areas and protected areas); production, sale, and transportation of arms and military equipment; waste management; and utility services. Activities may include any activities of “strategic importance” for the country, as well as any activities necessary for the operation of public authorities and local self-government bodies under the law or decision of the government.

SOEs dominate many leading sectors of the economy, including energy, transportation, utilities, telecommunications, infrastructure, mining, and natural resources. Serbia has about 1,300 SOEs, which employ more than 280,000 people, or approximately 16 percent of the formal workforce. These enterprises can be divided into three groups: 1) 504 enterprises that the Privatization

Agency manages and is preparing for divestiture; 2) another 50 utilities and commercial enterprises not yet slated for restructuring; and 3) 700 municipal enterprises. The NBS used to maintain an accurate list of public companies, but the website no longer works.

In February 2015, the government proposed bankruptcy for 188 of the 504 companies the Privatization Agency is preparing for divestiture, as these companies had no interested investors. Under the 2014 Privatization Law, the Privatization Agency must either sell or force into bankruptcy the remaining companies by December 31, 2015. For the 50 utilities, such as gas, railways, electric power production, the government has agreed, as part of its IMF agreement, to develop corporate and financial restructuring plans in 2015 and implement the plans in the following years.

SOEs are treated the same way as private sector competitors. SOEs can purchase goods from the private sector and foreign firms under the Public Procurement Law. Under the law, a buyer must select a domestic supplier if the domestic supplier's price is no more than five percent higher than the foreign supplier's price. Private enterprises have the same access to financing, including terms, as SOEs. SOEs do not have preferential access to land and raw materials, and have the same tax burden and rebate policies as their private sector competitors. SOEs were under soft budget constraints and received large subsidies from the government, including direct subsidies and guarantees for banks' loans, which reached two percent of GDP in 2014, according to IMF estimates. However, as part of its IMF deal, the government committed to stop providing subsidies to SOEs.

OECD Guidelines on Corporate Governance of SOEs

Recent governments have treated SOEs as political prizes to be divvied up among political parties in the ruling coalition. SOE managers often are politicians or party activists appointed because of their political connections rather than their management skills or substantive expertise. In an effort to reverse the politicization of public enterprises and put them under more professional management, the National Assembly adopted a Law on Public Enterprises in 2012 that requires all SOE directors to be selected through a public tender process. The law permits an SOE director to maintain political-party membership but bars him or her from exercising political-party functions while serving as director. The law abolishes SOE managing boards, relics of the socialist period that served primarily as a means of rewarding party members.

The 2012 law introduced greater transparency into the work of public companies by requiring them to publish financial reports, plans, and tenders on their websites. The law makes explicit that private entities, including companies and entrepreneurs, are entitled to equal treatment with public companies in the marketplace, unless otherwise provided by law. The Law on Public Companies represents a positive step toward removing political parties from public enterprises. Implementation remains a challenge, as SOE directors still maintain party ties openly, not all are chosen through public tenders, and some managing boards continue to exist.

The government committed to better monitoring and introduction of corporate governance in SOEs in its IMF agreement, which will bring them more in line with the OECD guidelines. The Ministry of Economy agreed to strengthen its SOE monitoring unit to improve corporate governance and operational efficiency. The Ministry of Finance's fiscal risks management unit

agreed to review and compile the financial reports and statements of SOEs and evaluate the fiscal implications of the reports and statements.

Sovereign Wealth Funds

Serbia does not have a sovereign wealth fund.

11. Corporate Social Responsibility

Corporate social responsibility (CSR) is a relatively new concept in Serbia. Businesses gradually are becoming more familiar with the concept of CSR, though many Serbian companies view it mainly as a public relations tool to help improve their reputation. Multinational companies that possess wide experience in the CSR realm are its primary and most effective practitioners. The corporate sector has become more active over the last few years in partnering with NGOs and other organizations to organize events and conferences to raise awareness of CSR principles.

Several local organizations promote the concept of CSR among the wider Serbian business community and the public, such as AmCham or the Chamber of Commerce of Serbia. The Chamber of Commerce in Serbia presents a national award to Socially Responsible Businesses. The Trag Foundation supports the Serbian Philanthropy Forum, a networking body for donors (including numerous corporate actors) to advance philanthropic concepts in Serbia.

Since its 2007 inception, the UN Development Program's (UNDP) Global Compact initiative has organized a number of educational events intended to strengthen capacity in areas relating to CSR in Serbia. In September 2014, the Global Compact in Serbia, UNDP, and Serbian Chamber of Commerce organized the conference "Truly Responsible – Social Responsibility of Companies During and After Floods." In December 2014, the UN Global Compact held its annual assembly of Serbian members in Belgrade to highlight its local activities.

OECD Guidelines for Multinational Enterprises

The Serbian government does not have a national contact point for the OECD Guidelines for Multinational Enterprises. However, the government adopted a "National Strategy of Socially Responsible Business Operations for 2010-2015." The Strategy has three main goals: to promote the concept of CSR; to develop the practice of CSR activities; and to create an environment that facilitates CSR. The government's strategy is part of its effort to harmonize its legislation with EU rules and regulations.

12. Political Violence

Since October 2000, Serbia has been led by democratically elected governments that have committed publicly to supporting regional stability and security. The run-up to the March 2014 snap parliamentary elections did not include appreciable political tensions or threats of politically motivated violence, including in the southwest Sandzak region or south Serbia. In the Sandzak region, tensions occasionally have led to localized violence between competing political groups. This violence usually is directed at opposing party figures and has not targeted unrelated civilians or businesses. The national government has pledged to continue previous governments'

notable efforts to combat organized crime and corruption, and continues to make high-profile arrests and launch new investigations.

Immediately following Kosovo's February 2008 declaration of independence from Serbia, groups twice broke away from larger demonstrations and attacked embassies of countries that had recognized Kosovo, including the U.S. Embassy in Belgrade. Since these attacks, there have been no major violent incidents in Serbia related to Kosovo. Still, extremists from Serbia regularly have been accused of fomenting and participating in politically motivated violence in ethnic Serb-populated areas of northern Kosovo.

The 2010 LGBT Pride Parade in Belgrade was marred by significant and widespread violence. The Serbian government cancelled the subsequent three Pride Parades at the last minute, ostensibly because of threats of violence by the same nationalist and extremist groups that attempted to disrupt the 2010 parade. In September 2014, the government allowed the Pride Parade to take place in central Belgrade, under heavy police protection and without incident.

Organized crime in Serbia frequently is linked to sports hooliganism. There has been no serious ultra-nationalist, sports-related violence since January 2012, when hooligans attacked visiting Croatian fans in Novi Sad and Ruma, resulting in several injuries, and set fire to visitors' cars in Novi Sad during the Euro 2012 handball championships held in Serbia. A number of ultra-nationalist organizations, such as "Obraz" and "Nasi," are active in Serbia. In 2013, these organizations continued activities targeting certain Serbian political leaders, local NGOs, and media outlets alleged to be "pro-Western." Their calls for action against their targets, however, have not resulted in any violent incidents. Judging by the results of 2014 national elections, popular support for such far-right organizations appears to have ebbed, as no right-wing party crossed the threshold to enter parliament.

13. Corruption

Corruption in Serbia is believed to be pervasive, but it is difficult to quantify. In Transparency International's 2014 Corruption Perception Index, Serbia ranked 78 of 175 compared countries; a drop from the country's ranking of 72 in 2013.

In 2013, the government formally adopted a new Anti-Corruption Strategy that aligns with its EU accession commitments. Serbia is a signatory to the Council of Europe's Civil Law Convention on Corruption and has ratified the Council's Criminal Law Convention on Corruption, the United Nations Convention Against Transnational Organized Crime, and the United Nations Convention Against Corruption. Serbia also is a member of the Group of States against Corruption (GRECO), a peer-monitoring organization that provides peer-based assessments of members' anti-corruption efforts on a continuing basis. Serbia is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and the Financial Action Task Force (FATF).

In an effort to combat corruption, in 2008 the National Assembly approved the creation of an Anti-Corruption Agency ("ACA"). The ACA began functioning in 2010 as an independent governmental body accountable to the National Assembly. The ACA is responsible for current anti-corruption activities including: (i) enforcing the National Strategy to Fight Corruption

(National Strategy); (ii) monitoring and tracking conflicts of interest in the public sector; the property and assets of public officials; political party financing; and (iii) facilitating international anti-corruption cooperation.

The ACA's first director, Zorana Markovic, was dismissed in November 2012 in the wake of allegations of abuse of authority arising from the purported misuse of state-owned apartments. In July 2014, the ACA presented the new model law on ACA as an administrative control institution with expanded set of competences harmonized with the National Strategy requirements. In January 2015, the Ministry of Justice formed a working group with the aim to propose the new law on the ACA. Their work is ongoing.

In December 2014, the first whistleblower protection law in Serbia was adopted and the law will become effective in June 2015. OPDAT and USAID played a significant role in drafting the law. Since January 2015, USAID has trained hundreds of judges in the new law. Both USAID and OPDAT are involved in developing additional training workshop for judges and public employees. The law provides mechanisms and legal protection to employees from retaliation if they report corrupt or illegal activity.

In 2012, the government made the fight against corruption a priority, and the current government has maintained this focus. This anti-corruption campaign has resulted in a series of highly-publicized arrests and indictments of prominent political figures, including former ministers and businessmen associated with a number of political parties. In 2012, authorities arrested one of Serbia's wealthiest and most powerful businessmen and his son for alleged abuses in the privatization of a road construction and maintenance company. The trial began in November 2013 and is ongoing. In February 2015, the presiding judge in the case was replaced and the proceedings were merged with those pertaining to other defendants, who were also involved in the same case. The trial started again from the beginning. This case is one of 24 allegedly fraudulent privatizations cited by the EC Progress Report.

In Serbia, both giving and receiving a bribe are criminal acts punishable by law. Bribes by local companies to foreign officials also are prohibited. Corruption offenses are handled generally by prosecutors at the basic and high court levels. In 2010, the Organized Crime Prosecutor's Office assumed jurisdiction over corruption-related offenses involving high-level public officials and cases involving bribes totaling more than USD 2.7 million in illicit proceeds.

The National Assembly amended the Criminal Code (Code) in 2012 to introduce a new corruption offense – Abuse of Authority in Relation to Public Procurements – in response to the significant number of corruption cases in this area. The 2012 amendments also established a distinction between the crimes of Abuse of Office and the Abuse of Position by Responsible Officer, making the latter, which involves abuse in a commercial enterprise, a separate offense subject to criminal prosecution if it resulted in an unlawful benefit or significant damage. In 2014, the Ministry of Justice reinstated the 2012 Working Group tasked with amending the Code. The first set of amendments proposed in January 2015 pertain mainly to the sections of the Code that deal with white-collar and corruption related offenses. Major changes in this section include, inter alia, introduction of a separate offense of fraud in business and other

commercial activities, introduction of bribery in private sector, and introduction of a broader definition of tax evasion offenses.

Government contracts remain the most widespread currency in corrupt political spheres, and corrupt officials have commonly abused contracting procedures to drain government funds and gain personal benefit. In an attempt to remedy this situation, a new Public Procurement Law entered into force in April 2013. The law adds significant anti-corruption control mechanisms, greater transparency, and more effective oversight to public procurement procedures, in particular for small-value and non-competitive negotiated procurements. Coupled with the procurement-fraud provisions of the Criminal Code (adopted in December 2012), the new law should help expedite criminal investigation and prosecution of public procurement abuses. Awareness of the importance of public procurements in the wider anti-corruption context continued to rise as the government's anti-corruption campaign gained momentum. In 2014, the Public Procurement Office adopted a set of important regulations and internal documents as well as the national strategy and action plan for upgrading the public procurement system and prevention of corruption.

In early 2015, the Ministry of Justice revealed the first draft of the government's Financial Investigation Strategy, which provides a list of specific investigatory tools and institutional changes that the government hopes to implement within the period 2015-2018 to better address fraud and corruption.

The Regional Anti-Corruption Initiative, originally organized under the auspices of the Stability Pact for South Eastern Europe, maintains a website with updates about anti-corruption efforts in Serbia: <http://www.anticorruption-serbia.org/>.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Serbia has signed and ratified the UN Anticorruption Convention. Serbia is not a party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Resources to Report Corruption

Serbian Anti-Corruption Agency
-Carice Milice 1, 11000 Belgrade, Serbia
-+381 (0) 11 4149 100
-office@acas.rs

Transparency International Serbia
-Transparentnost Serbia
-Palmotićeveva 27, 11000 Belgrade, Serbia
-+381 (0) 11 303 38 27
-ts@transparentnost.org.rs

14. Bilateral Investment Agreements

Serbia does not have a bilateral investment agreement with the United States. Serbia has concluded investment protection treaties/agreements with the following 52 countries: Albania, Algeria, Austria, Azerbaijan, Belarus, Belgium-Luxembourg Union, Bosnia and Herzegovina, Bulgaria, Russia, Canada, China, Cyprus, Croatia, Cuba, the Czech Republic, the Democratic People's Republic of Korea, Denmark, Egypt, Finland, Macedonia, Malta, Morocco, France, Germany, Ghana, Greece, Guinea, Hungary, Holland, India, Indonesia, Iraq, Israel, Italy, Kazakhstan, Kuwait, Libya, Lithuania, Nigeria, Montenegro, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Switzerland, Turkey, the United Kingdom, Ukraine, United Arab Emirates, and Zimbabwe.

Bilateral Taxation Treaties

Serbia does not have a bilateral taxation treaty with the United States. Serbia has signed and implemented Bilateral Taxation Treaties with the following 54 countries: Albania, Austria, Azerbaijan, Belgium, Belarus, Bosnia and Herzegovina, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Holland, Hungary, India, Iran, Ireland, Italy, Kuwait, Latvia, Lithuania, Libya, Macedonia, Malaysia, Malta, Moldova, Montenegro, North Korea, Norway, Pakistan, Poland, Qatar, Romania, Russia, Slovakia, Slovenia, Sri Lanka, Switzerland, Sweden, Spain, Tunisia, Turkey, Ukraine, the United Arab Emirates, the United Kingdom, and Vietnam. (Source: Serbian Finance Ministry <http://www.mfin.gov.rs/pages/issue.php?id=7063>)

Serbia has signed Bilateral Taxation Treaties with eight other countries: Armenia, Ghana, Guinea, Indonesia, Morocco, Palestine, Philippines, and Zimbabwe. The Serbian National Assembly ratified these agreements, but the foreign state legislatures have not.

15. OPIC and Other Investment Insurance Programs

The former Serbia and Montenegro signed a bilateral agreement with the U.S. Overseas Private Investment Corporation (OPIC) in July 2001 and became eligible for OPIC programs in November 2001 upon ratification of the agreement. Following Serbia and Montenegro's dissolution, the agreement remained in effect for Serbia.

In 2009, OPIC severely restricted its programs for Serbia over an investment dispute involving a U.S. company that held OPIC policies on its Serbian investments. The Serbian government and the investor concluded a settlement agreement in 2012 that led to the reinstatement of the full range of OPIC programs for Serbia. Currently, OPIC, the International Finance Corporation, and the European Bank for Reconstruction and Development are engaged in joint negotiations with the Serbian government related to a U.S. investor-backed, multi-million dollar wind energy project. For full information on OPIC programs, please visit <http://www.opic.gov>.

16. Labor

According to the Statistics Office of Serbia, Serbia has a total labor force of approximately 2.96 million people, of which 2.5 million are employed. In the fourth quarter of 2014, the formal

employment rate was 40.4 percent and the informal employment rate was 24.2 percent. The unemployment rate fell from 20.8 percent in the first quarter to 16.8 percent in the fourth quarter. The youth unemployment rate remains high at 41.9 percent, but this is an improvement from the first quarter when youth unemployment was 51.8 percent. The leading sector for employment is the government and public administration, followed by agriculture, forestry and fishery, manufacturing, trade, transport, and construction.

Labor costs are relatively low in Serbia, especially compared to European averages. In January 2015, the average net take-home salary was approximately USD 357 per month. Minimum wage in 2014 was approximately USD 191 per month. Investors routinely cite favorable labor costs, as well as the highly educated, multi-lingual workforce, as advantages to doing business in Serbia. Forty-six percent of workers in Serbia have completed secondary education, while 24 percent have completed higher education.

Serbia approved a new Labor Law in the summer of 2014. Business associations, including AmCham and the Foreign Investors Council, advocated for the new Labor Law, which simplified procedures for hiring and dismissing workers. The new law changed the structure of collective bargaining and its extension of agreements to non-negotiating parties to be more in line with EU standards. The law also changed the severance-payment requirement so that in cases of redundancy, the current employer pays severance based on the years of service with that specific employer, rather than on the employee's total years of employment.

The official mechanism for the tripartite labor dialogue is the Serbian Social and Economic Council, an independent body with representatives of the government, the Serbian Association of Employers, and select trade unions. The Council is the leading venue for discussions of significant labor and social issues, including working conditions and terms of employment; the impact of economic policies on employment, wages and prices; competition policies; privatization; workplace health and safety; and education and professional training. The Council is authorized to conclude an umbrella collective bargaining agreement at the national level covering basic employment conditions for all companies in Serbia. Additional information about the Council is available at: www.socijalnoekonomskisavet.rs/en/index.html.

Officially, there are nearly 25,000 labor unions registered in the country. However, only an estimated one-third are active. Most registered unions are dormant but remain on the books because under the law a union must submit a formal request for removal from the official register, and many fail to do so following a bankruptcy or restructuring of the associated company. Two unions have full government-granted representativeness, meaning they can sit on the Social and Economic Council. Only one employers' association has representativeness. Business associations, especially those representing foreign companies, contend that they lack a voice in the tripartite dialogue as a result.

Serbia has all ratified eight International Labor Organization core conventions including Forced Labor (No. 29), Freedom of Association and Protection of the Right to Organize (No. 87), Right to Organize and Collective Bargaining (No. 98), Equal Remuneration (No. 100), Abolition of Forced Labor (No. 105), Discrimination (No. 111), Minimum Age (No. 138), Worst Forms of Child Labor (No. 182).

17. Foreign Trade Zones/Free Ports/Trade Facilitation

Serbia maintains twelve designated free-trade zones (FTZs): Apatin, Kragujevac, Krusevac, Novi Sad, Pirot, Sabac, Smederevo, Svilajnac, Subotica, Uzice, Vranje, and Zrenjanin. FTZs, established in accordance with the 2006 Law on Free Trade Zones, are intended to attract investment by providing tax-free areas for company operations. Businesses operating in FTZs qualify for benefits that include: unlimited duty-free imports and exports; preferential customs treatment; and tax relief/value-added tax (VAT) exclusions. Companies operating within an FTZ are subject to the same laws and governmental supervision as other businesses in Serbia (except for the tax-free privileges that the FTZ offers).

Goods moving in to or out of the FTZs must be reported to customs' authorities, and payments must be made in accordance with regulations on hard-currency payments. Goods being delivered from FTZs to other areas in Serbia are subject to customs' and tax duties. Earnings and revenues generated within an FTZ may be transferred freely to any country, including Serbia, without prior approvals, and are not subject to any kind of taxes, duties, or fees. The law allows up to 100-percent foreign ownership of the FTZ's managing company. Additional information about Serbia's FTZs is available at: www.usz.gov.rs/eng/index.php.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2013	45,512	2013	45,519	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2005- 2013	257	2013	125	http://bea.gov/international/factsheet/factsheet.cfm?Area=362
Host country's FDI in the United States (\$M USD, stock positions)	2005- 2013	119	2013	<1	http://bea.gov/international/factsheet/factsheet.cfm?Area=362
Total inbound stock of FDI as % host GDP	2013	0.5	2013	1.3	

GDP data source: <http://webrzs.stat.gov.rs/WebSite/Public/PageView.aspx?pKey=61>

FDI data source: http://www.nbs.rs/internet/cirilica/80/platni_bilans.html

Table 3: Sources and Destination of FDI

Note: The data below differs from NBS data. According to NBS data, total inward FDI into Serbia in 2001-2013 was USD 21,118 million. The top five investors were Austria with USD 3,150 million; Norway with USD 1,708 million; Luxemburg with USD 1,636 million; Italy with USD 1,312 million; and the Netherlands with USD 1,400 million. (http://www.nbs.rs/internet/cirilica/80/platni_bilans.html)

Direct Investment from/in Counterpart Economy Data

From Top Five Sources/To Top Five Destinations (US Dollars, Millions)

Inward Direct Investment			Outward Direct Investment		
Total Inward	22,169	100%	Total Outward	Not available	100%
Austria	3,487	17%			
Netherlands	3,772	17%			
Cyprus	3,321	15%			
Greece	1,428	6%			
Slovenia	1,173	5%			

"0" reflects amounts rounded to +/- USD 500,000.

Source: IMF Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

IMF Coordinated Portfolio Investment Survey data are not available for Serbia.

19. Contact for More Information

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