

**Ministry of Finance**  
**COMMISSION FOR STATE AID CONTROL**

**REPORT**

**ON STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2009**

**JUNE, 2010**

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## 1. REPORT ON STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2009

### 1.1. Summary

Report on state aid granted in the Republic of Serbia in 2009 (hereinafter referred to as: 2009 Report) is an analytical summary of state aid granted in 2009. For the purpose of having a comprehensive summary and trends' monitoring, comparative data are given for 2007 and 2008, while some data are presented for 2003, 2004, 2005 and 2006 as well.

The 2009 Report contains data that was collected directly from state aid grantors by means of special questionnaires (forms). As of the 2005 Report, the methodology for drafting annual report on state aid granted prescribed by the European Commission is applied to the largest extent possible. In preparing the 2009 Report however, full application of this methodology was still not possible, although Law on State Aid Control (hereinafter referred to as: the Law) was adopted by National Parliament of the Republic of Serbia on 8 July 2009. Full application of the EU methodology in the area of reporting will be possible in preparing the 2010 Report on State Aid Granted in the Republic of Serbia, as the above Law came into force as of 1 January 2010, accompanied with enforcement of the by-laws in the first quarter of this year, including an active engagement of the Commission for State Aid Control.

**In 2009 in the Republic of Serbia a total amount of state aid granted was RSD 67,758 million, i.e. EUR 721,32 million<sup>1</sup>, which is by 26.5% more compared to the total state aid granted in 2008 (RSD 53,545 million or EUR 657,26 million) and by 41.4% more compared to the same parameter in 2007 (RSD 47,892 million or EUR 598,75).**

**The share of state aid in GDP was increased from 1.91 % in 2008 to 2.29% in 2009.**

According to the EU methodology, which was applied in drafting the 2009 Report, state aid is divided according to the primary objective of the state aid granting into the following three categories:

- Horizontal state aid,
- Sectoral state aid,
- Regional state aid.

In 2009 an absolute amount of **RSD 53,021 million or EUR 564,43 million in horizontal state aid** were granted, which is an increase of 45.1% compared to 2008 and 45.4% compared to 2007. The share of this category in the total state aid granted in 2009 was 78.3%. For comparison, in 2008 the share of horizontal state aid was 68.3%, and in 2007 it was 76.1% of total state aid granted.

The major portion of horizontal state aid was allocated to small and medium enterprises' development and social program for dealing with the employees' surplus in companies undergoing rescuing and restructuring process.

**Regional state aid**, as a special form of horizontal state aid, participated with 4.4% in the total state aid granted in 2009, while in 2008 this share was 6.0%, and in 2007 4.4%.

Investments into the regional development in 2009 totaled RSD 3,020 million or EUR 32,15 million, and were made from:

- Level of the State, totaling RSD 1,179 million, made by means of favorable loans via the Development Fund of the Republic of Serbia, and
- Level of the Autonomous Province of Vojvodina, totaling RSD 1,841 million, by means of subsidies.

**Sectoral state aid** participated with 17.3% in the total state aid granted in 2009, while in 2008 this share was 25.7%, and in 2007 19.5%. State aid granted to the mining sector as a share of total state aid granted was 2.5%; the share of state aid granted to the transportation sector was

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<sup>1</sup> Average exchange rate for EUR in 2009 was RSD 93.936 – source: National Bank of Serbia

14.2%; the amounts of state aid granted to other sectors are insignificant in terms of percentage amounts.

## **1.2. Methodology for Drafting Annual Report on State Aid Granted**

In preparation of the 2009 Report, the methodology applied was generally that used in the European Union for state aid reporting and which is applied by member states in preparing their annual reports. The said methodology was used, as applicable, in preparing the previous four annual reports (for: 2005, 2006, 2007 and 2008), as well as in preparing the 2009 Report.

The starting points for preparing the 2009 Report are:

- Methodology and data for 2007 and 2008, taken from the Report on state aid granted in the Republic of Serbia in 2008 (hereinafter referred to as: 2008 Report);

- Information on state aid granted in 2009 was acquired by means of a questionnaire prepared by state aid grantors (ministries, Ministry of Finance – Tax Authorities, Development Fund of the Republic of Serbia, Export Assurance and Financing Agency (AOFI), Serbia Investment and Export Promotion Agency (SIEPA) and Executive Council of the Autonomous Province of Vojvodina);

- EC Regulation No. 659/1999 and EC Regulation No. 794/2004;

The 2009 Report does not include data on state aid granted in the sector of agriculture, hunting, forestry and fishery.

## 2. STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2009

### 2.1. State Aid in the Republic of Serbia in Relation to the Basic Macroeconomic Indicators

Table 1.

Indicator	Unit	2007.	2008.	2009.	Indexes	
					09/07	09/08
State aid	RSD mil.	47.892	53.545	67.758	141,4	126,5
State aid	EUR mil. <sup>1</sup>	598,75	657,26	721,32	120,4	109,7
GDP <sup>2</sup>	RSD mil.	2.329.400	2.790.000	2.953.526	126,8	105,9
GDP	EUR mil.	29.125	34.259	31.511	108,2	92,0
State aid as a share of GDP, in %	in %	<b>2,0</b>	<b>1,91</b>	<b>2,29</b>	-	-
Public expenditures <sup>3</sup>	RSD mil.	1.046.900	1.214.800	1.267.900	121,1	104,4
Public expenditures	EUR mil.	13.089	14.912	13.497	103,1	90,5
State aid as a share of public expenditures	in %	4,5	4,4	5,3	-	-
Employees <sup>2)</sup>	number	2.002.000	1.999.000	1.823.000	91,1	91,2
State aid by an employee	RSD	23.921	26.786	37.168	155,4	138,8
State aid by an employee	EUR	299	329	395	132,1	120,1
Population <sup>2)</sup>	number	7.366.000	7.366.000	7.321.000	99,4	99,4
State aid per capita	RSD	6.501	7.269	9.255	142,4	127,3
State aid per capita	EUR	81	89	98	120,0	110,1

**In 2009 in the Republic of Serbia a total amount of state aid granted was RSD 67,758 million, which is by 26.5% more than in 2008 and 41.4% more than in 2007.**

**In 2009 the share of state aid in GDP was 2.29%, while in 2008 this share was 1.91%, and in 2007 2.0%.**

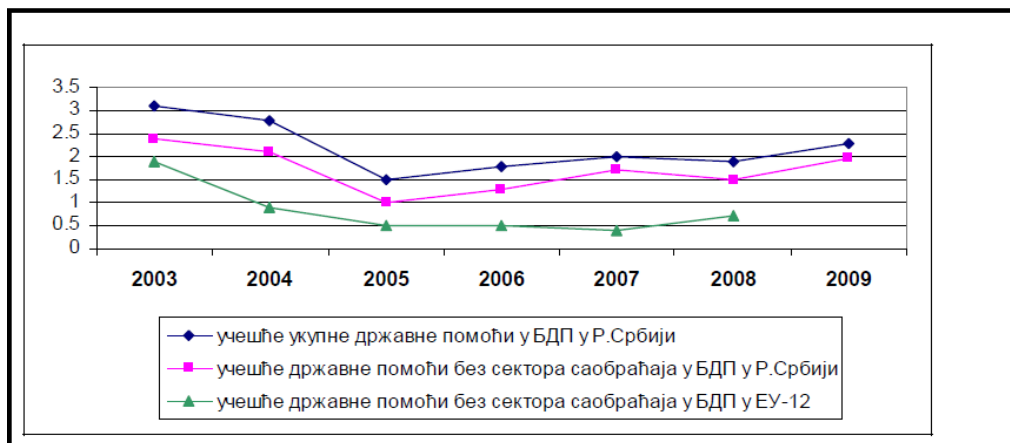
<sup>1</sup> National Bank of Serbia; average exchange rate for EUR in 2009, EUR 1 = RSD 93.936

<sup>2</sup> Data for 2009: Revised Memorandum on the Budget and Economic and Fiscal Policy for 2010, with Forecasts for 2011 and 2012, December 2009, Table 6, and Appendix 1, Table 1 and Table 2

<sup>3</sup> Ministry of Finance, Macroeconomic and Fiscal Data, 10 June 2010, Table 4j.i.

### The trends in state aid share as a % of GDP in the period 2003-2009

Picture 1.



The Picture 1 shows the trend of total state aid share as a % of GDP in the Republic of Serbia in the 2003-2009 period, i.e. for all the years for which report on state aid granted has been prepared to date (for 2003 and 2004 one annual report was prepared). In addition to the data for the Republic of Serbia regarding the share of state aid granted as a percentage of GDP without the transportation sector in the 2003-2009 period, the latest data relating to 2008 were given as well for the countries that accessed the European Union<sup>1</sup> in 2004 and 2007 (EU-12).

<sup>1</sup> EU/Competition – State Aid – Scoreboard, 2008

## 2.2. State Aid Granted in the Republic of Serbia Compared to the EU Member States

**Table 2.**

State Aid Grantor	State aid excluding the transportation sector, the agriculture sector and the fishery sector	
	In EUR mil.	GDP share, in %
R. Serbia 2003	428,4	2,4
R. Serbia 2004	423,2	2,1
R. Serbia 2005	223,3	1,0
R. Serbia 2006	334,3	1,4
R. Serbia 2007	508,2	1,7
R. Serbia 2008	520,91	1,5
R. Serbia 2009	618,64	1,96
EU – 27 member states	52.900	0,42
EU – 15 original member states	45.800	0,40
EU – 12 new member states	7.100	0,72
Hungary	1.900	1,81
Slovenia	200	0,66
Czech Republic	1.200	0,78
Slovakia	300	0,42
Bulgaria	40	0,12
Romania	300	0,47
Poland	2.900	0,80

According to the EU reporting methodology the annual reports of the member countries include a summary of state aid granted excluding the transportation sector, the agriculture sector and the fishery sector. The transportation sector is specific and as such is regulated by articles 70 to 80 of the European Community Agreement, which bring the process of services' liberalization in transportation in direct connection with state aid.

Table 2 shows the data of state aid granted in 2008, excluding the transportation sector, the agriculture sector and the fishery sector, for individual EU member states according to the data on the level of the European Union<sup>1</sup>, while the data for Serbia were shown for the 2003-2009 period.

Observed in the absolute amount, compared to the member states of the European Union, the Republic of Serbia did not grant a high amount of state aid in 2009, but the share of that aid in GDP is still high at 1.96%, while in the European Union (all 27 member states) it is 0.42%, and in the new member states (members as of 2004, i.e. 2007) the share of state aid in GDP (excluding the transportation sector) was 0.72% in 2008.

<sup>1</sup> EU/Competition – State Aid – Scoreboard, 2008

### 2.3. State Aid Categories

According to the EU methodology, state aid is divided according to the primary grant objectives in the following categories:

- Horizontal state aid,
- Sectoral state aid, and
- Regional state aid.

**Horizontal state aid** is intended for a number of beneficiaries who are not known in advance and it distorts competition significantly less than sectoral state aid. Positive effects of this state aid category are manifold and it is therefore considered less selective than sectoral state aid.

**Sectoral state aid** is intended for pre-determined (known) companies in individual industries, i.e. sectors. This category is much more selective than the horizontal state aid and, consequently, it distorts or threatens to distort market competition to a wider extent. Due to the listed reasons, the European Commission applies special rules for state aid grant in sensitive sectors, such as: steel, coal, synthetic fibers, shipbuilding sectors. For this reason, the negotiation process of Stabilization and Accession Agreement includes special protocols governing this area. Additionally, special and very strict state aid grant rules apply in the area of company improvement and restructuring.

**Regional state aid** is a form of horizontal state aid granted for stimulating economic development of undeveloped and less developed regions, i.e. areas, especially those where the living standard is extremely low or where the unemployment is huge. This category of state aid is granted to companies in the regions where investments are deemed justified due to a number of economic, natural, social, demographic or other deficiencies.

For the purposes of this report, the term “region” complies with the EU terminology and standards (economic and statistical parameters). By Interim Trade Agreement which came into force on 1 February 2010, but which, in terms of obligations and timeline for their realization is in application as of 1 January 2009, the Republic of Serbia also undertook to prepare within established timeline the so called maps by the NUTS (Statistical Nomenclature of Territorial Units for state aid grant) standards. The term “regional state aid” is unavoidable in expressing state aid data in the annual report, where the main criterion for determining this term is the term “region” and “regional development” in line with the EU standards, and not the existing territorial organization of the State, established by Constitution, Law on Territorial Organization and Local Government Act.



**Total State Aid Granted in the Republic of Serbia in 2007, 2008 and 2009 by categories**

**Table 3.**

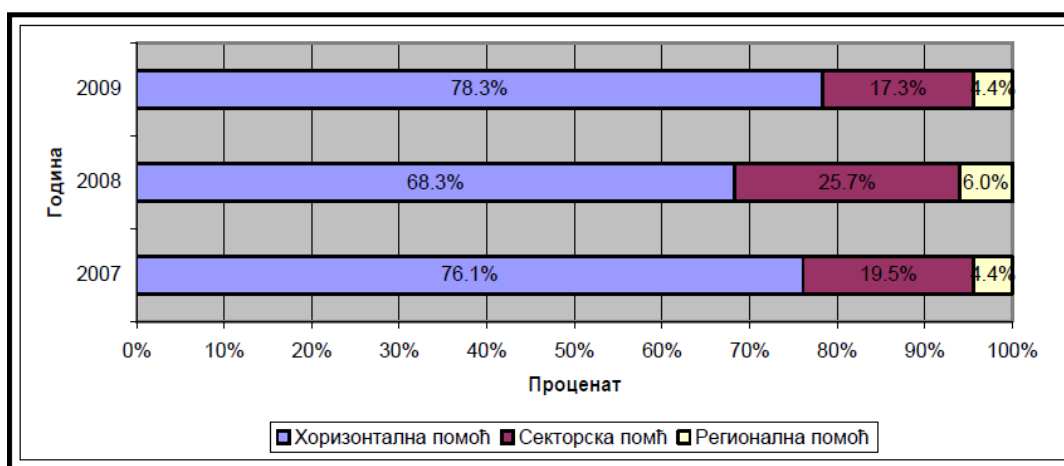
No.										
		RSD mil.	EUR mil.	share in %	RSD mil.	EUR mil.	share in %	RSD mil.	EUR mil.	share in %
I	Horizontal state aid	36.453	455,73	76,1	36.535	448,46	68,3	53.021	564,42	78,3
1	Research and development	22	0,28	0,0	2	0,02	0,0	0	0,00	0,0
2	Training	2.985	37,32	6,2	0	0,00	0,0	0	0,00	0,0
3	Employment	3.077	38,47	6,4	5.614	68,91	10,5	12.344	131,40	18,2
4	SME <sup>1</sup>	17.268	215,9	36,0	19.228	236,02	35,9	28.277	301,02	41,7
5	Environmental protection							5	0,05	0,0
6	Improvement and restructuring	12.771	159,64	26,7	10.882	133,58	20,3	6.241	66,44	9,2
7	Export promotion	330	4,12	0,7	809	9,93	1,5	300	3,19	0,4
8	Other <sup>2</sup>	-	-	-	-	-	-	5.854	62,32	8,6
II	Sector state aid	9.351	116,9	19,5	13.777	169,1	25,7	11.717	124,73	17,3
1	Mining	1.440	18,00	3,0	1.850	22,71	3,5	1.715	18,26	2,5
2	Steel	0	0,00	0,0	0	0,00	0,0	0	0,00	0,0
3	Transportation	7.239	90,5	15,1	11.108	136,35	20,7	9.646	102,68	14,2
4	Tourism	379	4,74	0,8	301	3,69	0,6	76	0,81	0,1
5	Other sectors	293	3,66	0,6	518	6,35	0,9	280	2,98	0,4
III	Regional state aid	2.089	26,12	4,4	3.233	39,68	6,0	3.020	32,15	4,4
	<b>TOTAL</b>	<b>47.893</b>	<b>598,75</b>	<b>100,0</b>	<b>53.545</b>	<b>657,26</b>	<b>100,0</b>	<b>67.758</b>	<b>721,32</b>	<b>100,0</b>

<sup>1</sup> SME – Small and Medium Enterprises

<sup>2</sup> Other – State aid granted for surmounting financial problems created by the global economic crisis

## Structure of State Aid in the Republic of Serbia in 2007, 2008 and 2009

Picture 2.



According to the data in Table 3 and the presented data in Picture 2 regarding the share of certain categories of state aid in total amount of state aid granted in the Republic of Serbia in 2009, horizontal and sectoral state aid have a major share (95.6%), while regional state aid has the least share (4.4%).

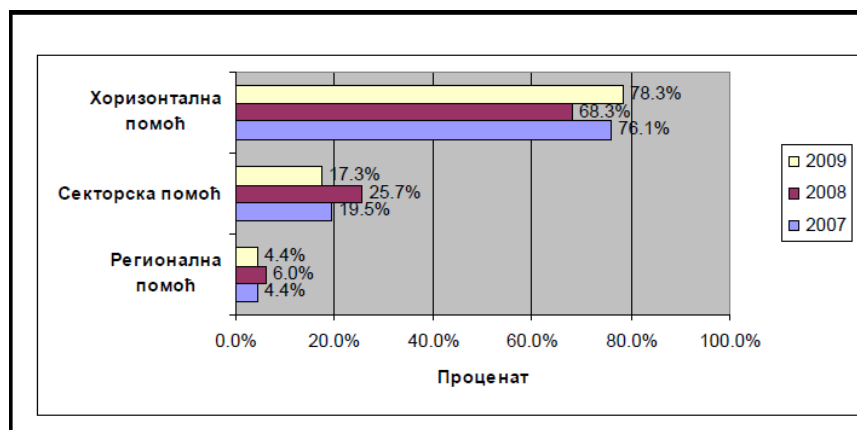
**Horizontal state aid** was by 45.1 % higher than the total amount granted in 2008 (absolute amount), and the share in total state aid granted was 78.3%, while in 2008 the share was 68.3%, and in 2007 76.1%.

**Sectoral state aid** was by 15% lower than the amount granted in 2008 (absolute amount). The share of sectoral state aid in total state aid granted was 17.3 %, while in 2008 this share was 25.7 %, and in 2007 19.5%.

**Regional state aid** in 2009 was by 6.6% lower compared to 2008 (absolute amount), and its share in total state aid granted was 4.4 %, while in 2008 the share was 6%, and in 2007 4.4 %.

**Summary of the Share of Individual Categories of State Aid in Total State Aid Granted in the Republic of Serbia in 2007, 2008 and 2009**

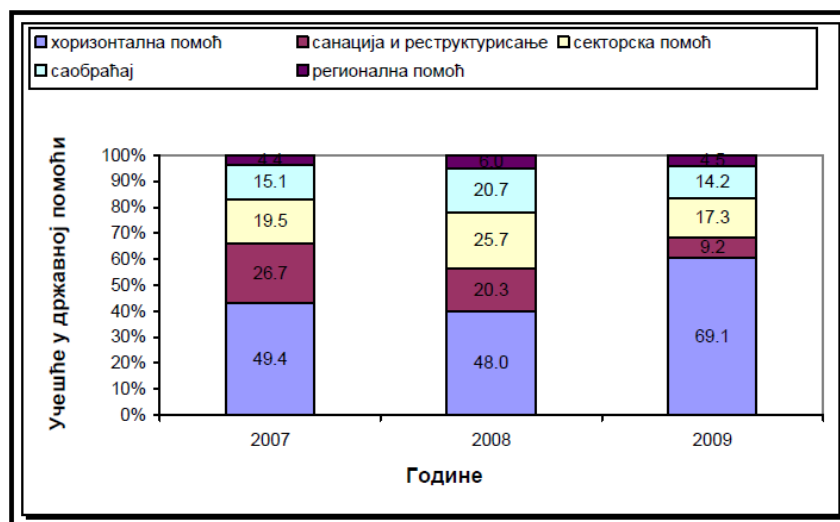
Picture 3.



The data presented in Picture 3 regarding the share of individual categories of state aid in total state aid granted in 2007, 2008 and 2009 show a positive trend, reflected in a significant share of horizontal state aid in total state aid granted.

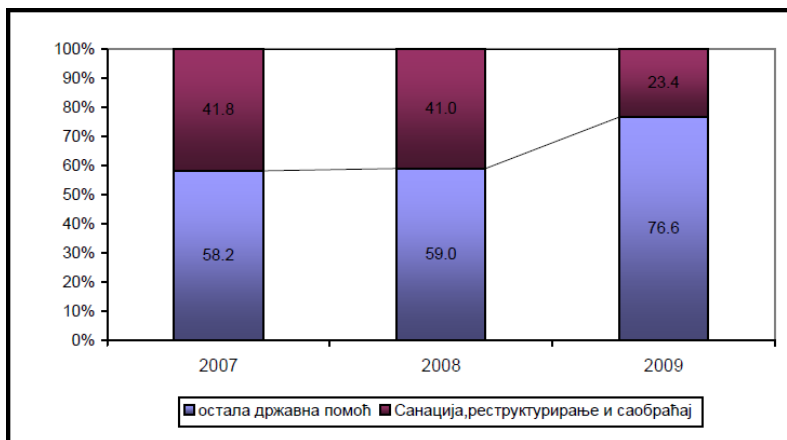
**Structure of State Aid by Individual Grant Objectives in 2007, 2008 and 2009**

Picture 4.



**The Share of Investments into the Transportation Sector and into Improvement and Restructuring in the Structure of Total State Aid Granted in the Republic of Serbia**

**Picture 5.**



The data presented in Pictures 4 and 5 indicate a positive trend of other state aid categories in total state aid (excluding the aid granted to the transportation sector and to improvement and restructuring), namely, that of 58.2% in 2007 and 59.0% in 2008 to 76.6% in 2009. Investments into improvement and restructuring were reduced in 2009 compared to 2008 by 42.7%, while investments into the transportation sector and, particularly, *JP ŽTP Srbija* were reduced by 13.2%.

### Structure of Horizontal State Aid in the Republic of Serbia in 2007, 2008 and 2009

Table 4.

Type of horizontal state aid	2007.	2008.	2009.	Index 09/07	Index 09/08
Research and development	22	2	-	-	-
Training	2.985	-	-	-	-
Employment	3.077	5.614	12.344	401,1	219,8
SME's	17.268	19.228	28.277	163,7	147,0
Environmental protection	-	-	5	-	-
Improvement and restructuring	12.771	10.882	6.241	48,8	57,3
Export promotion	330	809	300	90,9	37,0
Other <sup>1</sup>	-	-	5.854	-	-
<b>Total</b>	<b>36.453</b>	<b>36.535</b>	<b>53.021</b>	<b>145,4</b>	<b>145,1</b>

According to the data presented in Table 4, the absolute amount of horizontal state aid granted in 2009 is by 45.1% higher than in 2008 and by 45.4% higher compared to 2007. According to the purpose, the funds directed to dealing with the unemployment issues grew significantly, namely, by 119.8% compared to 2008, while the funds for improvement and restructuring were reduced by 43%. The most significant increase was that of small and medium enterprises' and entrepreneurs' development, four times to be exact, and the aid to economy in surmounting the problems created by the global economic crisis.

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<sup>1</sup> Other – State aid granted for surmounting financial problems created by the global economic crisis

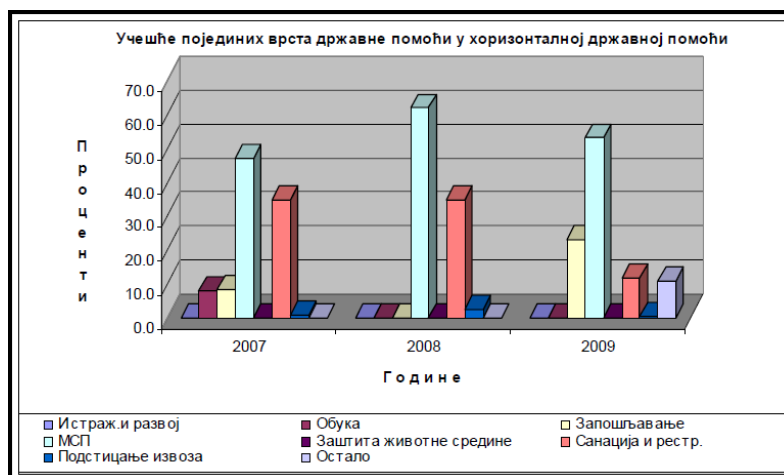
**The Share of Individual Types of State Aid in Horizontal State Aid Granted in the Republic of Serbia in 2007, 2008 and 2009**

**Table 5.**  
Amounts in RSD million

Horizontal State Aid Type	2007		2008		2009	
	Amount	Share in %	Amount	Share in %	Amount	Share in %
Research and development	22	0,0	2	0,0	-	-
Training	2.985	8,2	-	-	-	-
Employment	3.077	8,5	5.614	15,4	12.344	23,3
SME's	17.268	47,4	19.228	52,6	28.277	53,3
Environmental protection	-	-	-	-	5	-
Improvement and restructuring	12.771	35,0	10.882	29,8	6.241	11,8
Export promotion	330	0,9	809	2,2	300	0,6
Other <sup>1</sup>	-	-	-	-	5.854	11,0
<b>Total</b>	<b>36.453</b>	<b>100%</b>	<b>36.535</b>	<b>100%</b>	<b>53.021</b>	<b>100%</b>

**Structure of Horizontal State Aid in 2007, 2008 and 2009**

**Picture 6.**



<sup>1</sup> Other – State aid granted for surmounting financial problems created by the global economic crisis

### 2.3.1. Horizontal State Aid According to the Grant Instruments in 2009

**Table 6.**  
Amounts in RSD million

Horizontal State Aid Type	Subsidies	Share in %	Tax incentives	Share in %	Favorable loans	Share in %	Total
Training							
Employment	4.036	30,1	8.308	26,7			12.344
SME's	171	1,3	21.679	69,5	6.427	76,2	28.277
Environmental protection					5	0,0	5
Improvement and restructuring	5.057	37,7	1.184	3,8			6.241
Export promotion	41	0,3			259	3,1	300
Other <sup>1</sup>	4.104	30,6	-	-	1.750	20,7	5.854
<b>Total</b>	<b>13.409</b>	<b>25,3</b>	<b>31.171</b>	<b>58,8</b>	<b>8.441</b>	<b>15,9</b>	<b>53.021</b>

The instruments for granting horizontal state aid as presented in Table 6, show that this category of state aid, as the least selective, was implemented mostly by means of tax incentives (58.8% of total horizontal state aid granted), primarily for small and medium enterprises' development stimulation by 76.2%. Tax incentives, by their comprehensiveness, clearly set long term goals and possibility of monitoring and controlling the approval, represent the most effective instrument for state aid granting.

<sup>1</sup> Other – State aid granted for surmounting financial problems created by the global economic crisis

**2.3.2. Sectoral state aid**  
**Sectoral State Aid in the Republic of Serbia in 2007, 2008 and 2009**

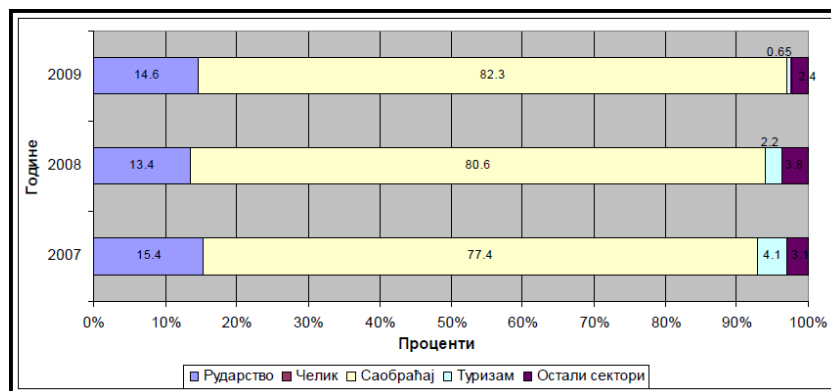
Table 7  
Amounts in RSD million

Sector	2007.	2008.	2009.	Index 09/07	Index 09/08
Mining	1.440	1.850	1.715	119,1	93,7
Steel	0	0	0	-	-
Transportation	7.239	11.108	9.646	133,3	86,8
Tourism	379	301	76	20,1	25,2
Other sectors	293	518	280	95,6	54,1
<b>Total</b>	<b>9.350</b>	<b>13.777</b>	<b>11.717</b>	<b>125,3</b>	<b>85</b>

The absolute amount of state aid granted in 2009 is by 15% lower than in 2008 and by 25% higher compared to 2007.

**Structure of Sectoral State Aid in the Republic of Serbia in 2007, 2008 and 2009**

Picture 7.



The major share in sectoral state aid is that granted to the transportation sector (still, only to the railway transportation, i.e. *JP Železnice Srbije*, as was the case in the previous two reporting years). In 2009 state aid to the above sector amounted to 82.3% of total sectoral state aid, i.e. 80.6% in 2008 and 77.4% in 2007.

Regional state aid is granted for stimulating the development of less developed and/or undeveloped regions and it is focused on alleviating structural problems and regional imbalance in development. This category of state aid implies measures that stimulate economic activity, with a view to reducing economic, natural, social, demographical and other differences in those regions.



### 2.3.3. Regional State Aid in the Republic of Serbia in 2007, 2008 and 2009

Table 8.

Indicator	2007.	2008.	2009.	Index 09/07	Index 09/08
Total state aid	47.892	53.545	67.758	141,4	126,5
Regional state aid	2.089	3.233	3.020	144,5	93,1
% of share of regional state aid in total state aid	4,4	6,0	4,4	-	-

Investments into the regional development totaling RSD 3,020 million were made by means of the following grant instruments: subsidies (RSD 1,841 million) and favorable loans via the Development Fund of the Republic of Serbia (RSD 1,179 million).

State aid granted from the level of the Autonomous Province of Vojvodina is entirely shown as regional state aid amounting to RSD 1,841 million.

### 2.4. Instruments for State Aid Granting

State aid is granted from public resources and, depending on the granting instruments, it is shown as actual or potential public expenditure or influences lower generation of public revenues.

In 2009 state aid in the Republic of Serbia was granted via the following instruments:

- Subsidies,
- Tax incentives (tax credit, termination of tax debt, tax write-off),
- Loans – favorable loans.

### Total State Aid Grant in the Republic of Serbia in 2007, 2008 and 2009 by Granting Instruments

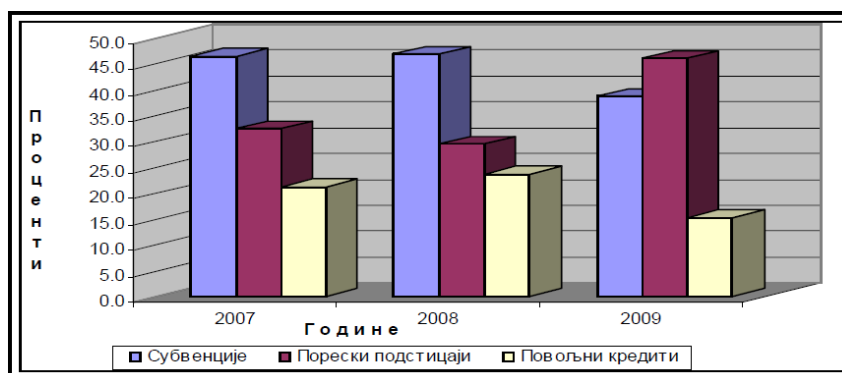
Table 9.

Grant instrument	2007.	in	2008.	in	2009.	in	Indexes	
		%		%		%	09/07	09/08
Subsidies	22.208	46,4	25.100	46,9	26.264	38,8	118,3	104,6
Tax incentives	15.517	32,4	15.794	29,5	31.171	46,0	200,8	197,4
Favorable loans	10.167	21,2	12.651	23,6	10.323	15,2	101,5	81,5
<b>Total</b>	<b>47.892</b>	<b>100,0</b>	<b>53.545</b>	<b>100,0</b>	<b>67.758</b>	<b>100,0</b>	<b>141,5</b>	<b>126,5</b>

In granting state aid in 2009 there has been a significant increase in absolute amounts of tax incentives and subsidies, while favorable loans decreased.

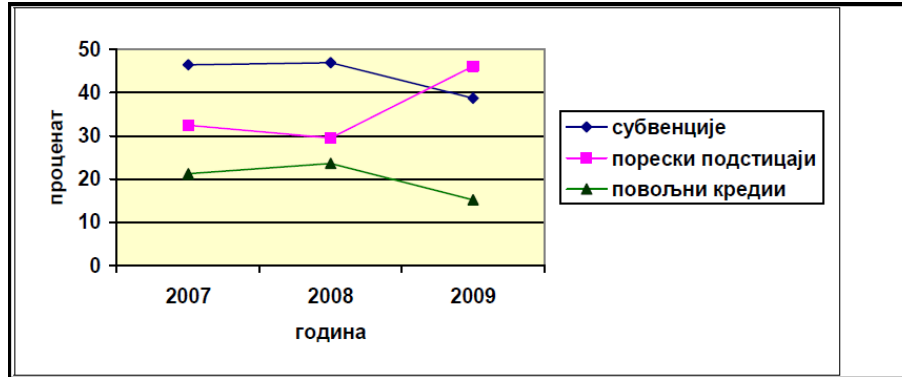
### Structure of State Aid Instruments in the Republic of Serbia in 2007, 2008 and 2009

Слика 8.



### Instruments for State Aid Granting Share Trend in 2007, 2008 and 2009

Picture 9.



The data in Pictures 9 and 10 shows that subsidies and favorable loans in the observed years mark a share decrease, while tax incentives are on the rise in total state aid granted.

In 2009 a total of RSD 37,071 million were approved (36,013 in loans and 1,068 in written-off debt), in 2008 RSD 36,636 million, and in 2007 RSD 26,348 million.

The Guarantee Fund, i.e. the Development Fund of the Republic of Serbia issued guarantees in 2009 amounting to RSD 192,691,203.00, i.e. EUR 2,051,289, while a guarantee amounting to RSD 56,950,003.00 was protested. Since the Law and relevant by-laws were not in application in 2009, the guarantees were not subject to the mandatory reporting to the Commission for State Aid Control before issuing, or to the permissibility assessment under provisions of the Regulation on Rules for State Aid Granting (Official Gazette of RS, No. 13/2010), relating to guarantees as a specific instrument for state aid granting.

**Total State Aid Granted in the Republic of Serbia in 2009 by Granting Instruments**

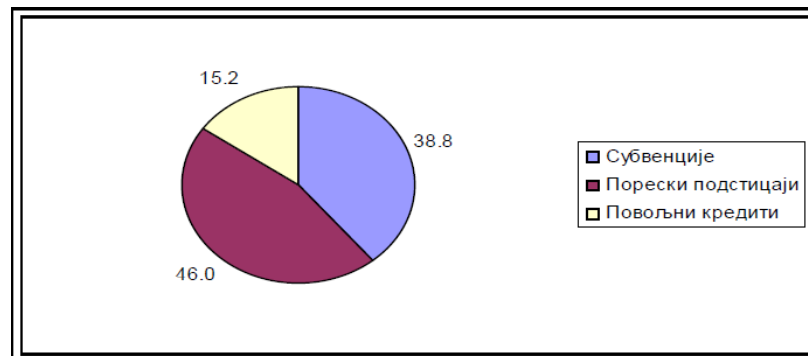
**Table 10**

<b>State Aid Category</b>	<b>Subsidies</b>	<b>Tax incentives</b>	<b>Favorable loans</b>	<b>Total</b>
<b>1. Horizontal state aid</b>	<b>13.409</b>	<b>31.171</b>	<b>8.441</b>	<b>53.021</b>
Training	-	-	-	
Employment	4.036	8.308	-	12.344
SME's	171	21.679	6.427	28.277
Environmental protection	-	-	5	-
Improvement and restructuring	5.057	1.184	-	6.241
Export promotion	41	-	259	300
Other <sup>1</sup>	4.104	-	1.750	5.854
<b>2. Sectoral state aid</b>	<b>11.014</b>	<b>-</b>	<b>703</b>	<b>11.717</b>
Mining	1.368	-	347	1.715
Transportation	9.646	-	-	9.646
Tourism		-	76	76
Other sectors	-	-	280	280
<b>3. Regional state aid</b>	<b>1.841</b>	<b>-</b>	<b>1.179</b>	<b>3.020</b>
State level	1.841	-	1.179	1.179
Province level				1.841
<b>Total</b>	<b>26.264</b>	<b>31.171</b>	<b>10.323</b>	<b>67.758</b>

<sup>1</sup> Other – State aid granted for surmounting financial problems created by the global economic crisis

## Structure of State Aid Granting Instruments in the Republic of Serbia in 2009

Picture 10.



### 2.4.1. Subsidies

By comprising a relatively high number of activities and beneficiaries, the major state aid grantor in the form of subsidies is the Ministry of Economy and Regional Development. Aiming to deal with employees surplus by securing a social program in the process of company rescuing and restructuring to stimulate employment and develop SME's, as well as clusters and business incubators, this ministry granted a total of RSD 13,257 million in subsidies, as follows: employment, amounting to RSD 5,057 million, SME's development incentives, amounting to RSD 4,036 million, clusters and business incubators' development, amounting to RSD 60 million, manufacturers for overcoming financial problems created by the global financial crisis, amounting to RSD 595 million, subsidies for interests approved on bank loans, amounting to RSD 3,509 million.

The Ministry of Energy granted subsidies for the *Resavica* mine amounting to RSD 1,368 million, and the Ministry of Infrastructure granted subsidies amounting to RSD 9,646 million to *JP Železnice Srbije*.

The Autonomous Province of Vojvodina granted a total of RSD 1,841 million in subsidies for the following purposes: employment incentives, tourism development, small and medium enterprises, introduction of new technologies and export promotion by co-financing participation in international trade shows.

Serbian Investment and Export Promotion Agency (SIEPA) provided a grant amounting to RSD 41 million, while Small and Medium Enterprises Development Agency provided funds in the amount of RSD 111 million.

#### 2.4.2. Tax incentives

*Tax incentives* in 2009 in the Republic of Serbia were the most common instrument for state aid granting.

For the needs of this Report, the term “tax incentives” is taken to mean:

- tax incentives approved based on Corporate Income Tax Law,
- tax incentives approved based on Personal Income Tax Law, through decreasing personal income tax on the grounds of investing into fixed assets,
- termination of tax debt on the grounds of it being overdue and tax write-off based on Government’s decision for companies being sold in the privatization procedure and/or companies in the restructuring process.

On the above grounds, tax incentives in 2009 totaled RSD 31,171 million, and their share in total state aid granted is 46.0%.

#### 2.4.3. Favorable loans

*Favorable loans* participate with 15.2% in total state aid granted.

Regarding loans under more favorable conditions than the ones in the banking capital market, the amount of state aid is a positive effect of more favorable interest rate at which loans were approved in relation to the reference (average) interest rate in the banking capital market<sup>1</sup>, calculated by simple linear method for the crediting period.

In 2009 a total of RSD 36,013 million in loans was approved and in 2008 RSD 33,636 million. The positive effect of the more favorable interest rate in 2009 amounted to RSD 9,255 million and in 2008 RSD 9,970 million.

The written-off trade receivables arising from previously approved loans amounting to RSD 1,068 million represent in their entirety the amount of state aid granted, resulting in a total state aid by means of crediting under favorable conditions of RSD 10,323 million.

The Development Fund of the Republic of Serbia approved short term and long term loans. According to the information provided by the Fund, by 31 December 2009 a total of RSD 29,250 million in loans were approved and the net effect, i.e. the amount of state aid was RSD 9,003 million.

Export Assurance and Financing Agency approved short term loans totaling RSD 6,763 million, and the effect of more favorable interest rate, i.e. the amount of state aid was RSD 252 million.

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<sup>1</sup> According to the data provided by NBS, average interest rate on short term loans approved by commercial banks: In 2009 was 11.52%, and for long term loans 13.75% (Statistics Bulletin of NBS, April 2009 – Table 12) In 2008 was 18.53%, and for long term loans 15.80% (Statistics Bulletin of NBS, December 2008-January 2009 – Table 12)

### 3. FINAL CONSIDERATIONS

The 2009 Report is the sixth consecutive annual report on state aid granted in the Republic of Serbia prepared by the Ministry of Finance. The comparative data speak the loudest of the trends in absolute amounts of state aid granted in the Republic of Serbia, as well as its share in GDP. From the aspect of the EU rules governing state aid, the share of state aid in GDP is by far more significant indicator than the absolute amount of state aid granted, as even minor amounts of state aid can distort competition. The only exemption to this rule in the European Union is state aid of small value, the so called *de minimis* state aid, deemed by the European Commission as not distorting competition in the Common market to a greater extent and envisaging that a single company can be granted state aid amounting to up to EUR 200,000 in any period during three consecutive fiscal years.

Government's decision on forming the Commission for State Aid Control (05 No: **02-8571/2009-2**, of 29 December 2009) and passing Regulation on Rules for State Aid Granting (Official Gazette of RS, No. 13/2010) and Regulation on Rules and Procedure for State Aid Notification (Official Gazette of RS, No. 13/2010) created preconditions for due application of the Law, especially for notification of state aid to Commission before the granting is approved, and the Commission's deciding on state aid permissibility in the process of ex-ante and ex-post control. Another remaining by-law for which the Minister of Finance is responsible will be passed in the shortest time possible, governing in more detail the annual report preparation methodology, deadline for submitting the data to the Ministry and submitting the annual report proposal to the Government. Thus, it will be possible to apply duly the EU methodology in preparing the next report on state aid granted in 2010, which was not possible in preparing the 2009 Report.

By establishing state aid control system, the Republic of Serbia fulfills one of the very important conditions set out in the Stabilization and Association Agreement (SAA), and the Interim Agreement on Trade and Trade-related matters, which is in force as of 1 February 2010, with the start date of its application as of 1 January 2009. However, passing the Law and by-laws is just an initial, although very important step on the path of stabilization and association. More important still is adequate implementation of the regulations which will certainly be under constant supervision of the European Commission.