

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

**R E P O R T**

**ON STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2011**

**September 2012**

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## INTRODUCTION

The State Aid Control Law (RS Official Gazette, No. 51/09) (hereinafter: the Law) and its Article 23, paragraph 1 define the obligation of the Ministry of Finance to, based on the data provided by the state aid grantors, prepare draft annual report on state aid granted in the Republic of Serbia, which is to be submitted to the Government by the Commission for State Aid Control (hereinafter: the Commission).

The Rulebook on Methodology for drafting Annual Report on State Aid Granted (RS Official Gazette, No. 3/11) (hereinafter: the Rulebook) regulates the following: methodology for drafting annual report on state aid granted, deadline within which state aid grantors shall submit to the ministry responsible for finance data on state aid granted and deadline within which the Commission for State Aid Control shall submit the annual report to the Government.

The Annual Report on State Aid Granted in the Republic of Serbia in 2011 (hereinafter: Annual Report) is the eighth consecutive annual report made by the Republic of Serbia, it is the second comprehensive and it also contains data on granted state aid at the local self-government units level.

The state aid granted by the ministry in charge of the following activities : agriculture, fishery and forestry is presented only as the total granted aid, since the provisions of this Law do not apply to the agricultural products and to the fisheries product. (Article 1, paragraph 2 of the Law).

In 2011, the Commission held 13 sessions in which it adopted 188 acts that come within its competence, out of which:

- 82 decisions in which the Commission decided whether the state aid was allowed or not, out of which 49 notifications were considered in ex ante control, while in the procedure of ex post control it considered 33 cases of granted state aid.

- 72 conclusions, out of which in 57 conclusions ex post control was initiated in order to establish whether state aid was allowed or not, out of which the Commission, based on its own information or on the information obtained from other sources, initiated 7 cases of ex post control,

- 14 conclusions in which the grantors were ordered to adjust with the rules on state aid granting and

- 34 official letters were answered to upon the request for giving the opinion on issues that come within the competence of the Commission.

Exceptional cooperation has been achieved with the Ministry of Economy and Regional Development, which has submitted the greatest number of state aid notifications, as well as with the Autonomous Province of Vojvodina and the City of Belgrade.

## 1. REPORT ON THE STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2011

### 1.1. Summary

The 2011 Report is an analytical summary of state aid granted in 2011. Comparative data are given for 2009 and 2010 for the purpose of having a comprehensive summary and trends' monitoring.

The Report is based on data collected from the state aid grantors and it was made in accordance with the Rulebook, which sums the reporting classifications and regulations.

The legal basis for the preparation of the report is contained in the following: State Aid Control Law (hereinafter: the Law), Regulation on rules for State Aid Granting (RS Official Gazette, No. 13/10 and 100/11) (hereinafter: the Regulation) and in the Rulebook.

**In 2011 in the Republic of Serbia the total amount of state aid granted amounted to RSD 82,447 million, i.e. EUR 808.70 million<sup>1</sup>, which is by 6.2 % more in comparison to the total state aid granted in 2010 (RSD 77,619 million or EUR 754.29 million), i.e. by 2.7% less in comparison with the same parameter in 2009 (RSD 84,729 million, i.e. EUR 901.98 million).**

**The share of State aid in the gross domestic product (hereinafter: the GDP) is 2.60%, while in 2010 it was 2.64%, and in 2009 it was 2.86%.**

**The state aid to the sector of industry and services in 2011 was granted in the absolute amount of RSD 65,559 million or EUR 643.05 million, which in comparison to 2010 presents an increase by 20.4 %, and compared to 2009 a decrease by 3.2%. The share of this aid in the total state aid granted in 2011 was 79.5 %, in 2010 it was 70.1% and in 2009 it was 80 %.**

The report for 2011 contains the data about state aid granted in certain sectors, that is, in the sector of agriculture, hunting and forestry and the fishery sector (hereinafter: agriculture sector) and the aid to the sector of industry and services. The state aid granted to the agriculture sector has not been separately analyzed, but it was expressed in the total amount, while the aid to the industry and services sector has been divided into following:

- horizontal state aid,
- sectoral state aid,
- regional state aid.

**The agriculture sector in 2011 was granted an absolute state aid amount of RSD 16,888 million or EUR 165.65 million, which in comparison with 2010 is a decrease by 27 %, and compared to 2009 is a reduction by 0.5 %. The share of state aid in the agriculture sector in the total state aid granted in 2011 was 20.48 %, while in 2010 it was 29.9 %, i.e. 20% in 2009 in the total state aid granted in the Republic of Serbia. The decrease of the state aid granted in the agriculture sector in 2011 is due to the fact that the resources which financed the projects for preservation, improvement and building of infrastructure in the areas of Veterinary Administration, Administration for the Protection of Plants and Administration for Agriculture Land. In 2009 the amount of resources for these purposes was RSD 2,265 million, and in 2010 it was RSD 2,950 million.**

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<sup>1</sup> Average Euro exchange rate in 2010 was RSD 102.9502; Source: the National Bank of Serbia.

## **1.2. Methodology for Drafting Annual Report on state aid Granted**

The 2011 Report was drafted pursuant to the Rulebook, which was substantially harmonized with the rules prescribed in the European Union in the area of reporting on state aid granted.

The Report contains the amounts of state aid granted per categories/types and instruments for state aid granting.

The starting points for the preparation of the 2011 Report are:

- data on state aid granted in 2011, which was, by means of a relevant questionnaire collected from the state aid grantors (ministries, The Ministry of Finance – Tax Administration, The Development Fund of the Republic of Serbia, Serbian Export Credit and Insurance Agency (AOFI), Serbia Investment and Export Promotion Agency (SIEPA), Government of the Autonomous Province of Vojvodina, local self-government units (LSGU)).<sup>2</sup>

- dividing state aid into different categories was made pursuant to the criteria from the Regulation, i.e. based on the decisions made by the Commission and according to the Program of Adjustment of existing state aid schemes and individual state aid in the Republic of Serbia with the Law and Regulation.

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<sup>2</sup> The answers were provided by 50 LSG units, out of which 9 LSGU granted state aid pursuant to the Law

## 2. STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2011

### 2.1. State Aid in the Republic of Serbia in Relation to the Basic Macroeconomic Indicators (inclusive of agriculture)

Table 1

Indicator	Unit of measure	2009	2010	2011	Indexes	
					11/ 09	11/10
State aid	RSD million	84,729	77,619	82,447	97.3	106.2
State aid	EUR million <sup>3</sup>	901.98	754.29	808.70	89.7	107.2
GDP <sup>4</sup>	RSD million	2,953,500	2,933,300	3,175,000	-	-
GDP	EUR million	31,511	28,464	31,143	-	-
State aid in GDP	in %	<b>2.86</b>	<b>2.64</b>	<b>2.60</b>	-	-
Public expenditures <sup>5</sup>	RSD million	1,267,900	1,359,900	1,460,900	-	-
Public expenditures	EUR million	13,497	13,215	14,330	-	-
State aid in public expenditures	in %	6.68	5.70	5.75	-	-
Employed <sup>6</sup>	No.	1,823,000	1,813,000	1,746,000	-	-
State aid per employee	RSD	46,477	42,812	47,220	101.6	110.3
State aid per employee	EUR	494	416	463	93.7	111.3
Population <sup>7</sup>	No.	7,321,000	7,306,000	7,121,000	-	-
State aid per capita	RSD	11,573	10,624	11,578	100.0	110.0
State aid per capita	EUR	123	103	114	91.9	109.7

<sup>3</sup> Average exchange rate for EUR in 2011 was RSD 101.9502; Source of information: the National Bank of Serbia.

<sup>4</sup> Data for 2011: Ministry of Finance, The Main Indicators of Macroeconomic Movements - Table 1-updated on 7 June 2012.

<sup>5</sup> Data for 2011: Ministry of Finance, Table 4. Consolidated Balance Sheet of the State Sector for period 2005 - 2012.

<sup>6</sup> Data for 2011: Ministry of Finance, The Main Indicators of Macroeconomic Movements - Table 1-updated on 7 June 2012.

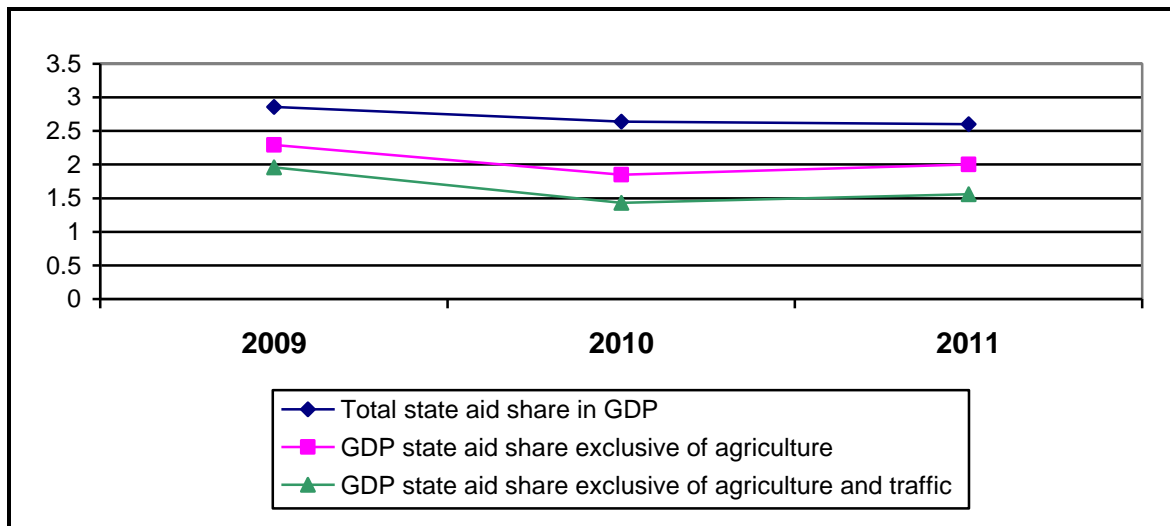
<sup>7</sup> Statistical Office of the Republic of Serbia, The first results of the Census from 2011, published in 2012

In 2011 in the Republic of Serbia, the total of state aid granted amounted to RSD 82,447 million, which is by 6.2% more than the total state aid granted in 2010, i.e. by 2.7% less compared to 2009.

The share of state aid in GDP in 2011 amounted to 2.60%, while in 2010 it amounted to 2.64% and in 2009 to 2.86%.

#### The trends in total state aid share in GDP in the period 2009 - 2011

Graph 1



The trends of the total state aid share in GDP in the Republic of Serbia in 2009 – 2011 saw a slight downturn. The other two indicators (state aid exclusive of the agriculture sector and the state aid exclusive of the agriculture and transport sectors) have seen the same slightly downward trends.

## 2.2. Total state aid granted in the Republic of Serbia in 2009, 2010 and 2011 per different categories

Table 2

	Categories	2009			2010			2011		
		RSD mill.	EUR Mill.	%	RSD mill.	EUR Mill.	%	RSD mill.	EUR Mill.	%
	<b>Agriculture</b>	<b>16,971</b>	<b>180.66</b>	<b>20.0</b>	<b>23,176</b>	<b>225.22</b>	<b>29.9</b>	<b>16,888</b>	<b>165.65</b>	<b>20.5</b>
	<b>Industry and services</b>	<b>67,758</b>	<b>721.32</b>	<b>80.0</b>	<b>54,443</b>	<b>529.07</b>	<b>70.1</b>	<b>65,559</b>	<b>643.05</b>	<b>79.5</b>
<b>I</b>	<b>Horizontal state aid</b>	<b>53,021</b>	<b>564.42</b>	<b>62.6</b>	<b>16,118</b>	<b>156.63</b>	<b>20.7</b>	<b>13,442</b>	<b>131.85</b>	<b>16.3</b>
1	Research and development	0	0.00	0.0	17	0.16	0.02	83	0.81	0.1
2	Training	0	0.00	0.0	2	0.02	0.00	2	0.02	0.0
3	Employment	12,344	131.40	14.6	4,375	42.51	5.6	468	4.59	0.6
4	SME <sup>8</sup>	28,277	301.02	33.4	458	4.45	0.6	1	0.01	0.0
5	Environmental protection	5	0.05	0.0	63	0.61	0.08	2,923	28.67	3.5
6	Culture	-	-	-	22	0.21	0.04	144	1.41	0.2
7	Rescuing and restructuring	6,241	66.44	7.4	6,035	58.64	7.8	5,228	51.28	6.3
8.	Other categories <sup>9</sup>	6,154	65.51	7.2	5,146	50.0	6.6	4,593	0.00	5.6
<b>II</b>	<b>Sectoral state aid</b>	<b>11,717</b>	<b>124.73</b>	<b>13.8</b>	<b>14,526</b>	<b>141.16</b>	<b>18.7</b>	<b>18,260</b>	<b>179.10</b>	<b>22.1</b>
1	Mining	1,715	18.26	2.0	2,126	20.66	2.7	2,219	21.77	2.7
2	Traffic	9,646	102.68	11.4	12,400	120.50	16.0	16,041	157.34	19.4
3.	Tourism	76	0.81	0.1	-	-	-	-	-	-
4.	Other categories	280	2.98	0.3	-	-	-	-	-	-
<b>III</b>	<b>Regional state aid</b>	<b>3,020</b>	<b>32.15</b>	<b>3.6</b>	<b>23,799</b>	<b>231.28</b>	<b>30.7</b>	<b>33,857</b>	<b>332.09</b>	<b>41.1</b>
<b>TOTAL</b>		<b>84,729</b>	<b>901.98</b>	<b>100.0</b>	<b>77,619</b>	<b>754.29</b>	<b>100.0</b>	<b>82,447</b>	<b>808.70</b>	<b>100.0</b>

In 2011, state aid to the agriculture sector was granted in the total amount of RSD 16,888 million, which makes it a share of 20.5 % in the total state aid granted. The state aid granted to the industry and services sector amounted to RSD 65,559 million and it makes a share of 79.5 % of the total state aid granted.

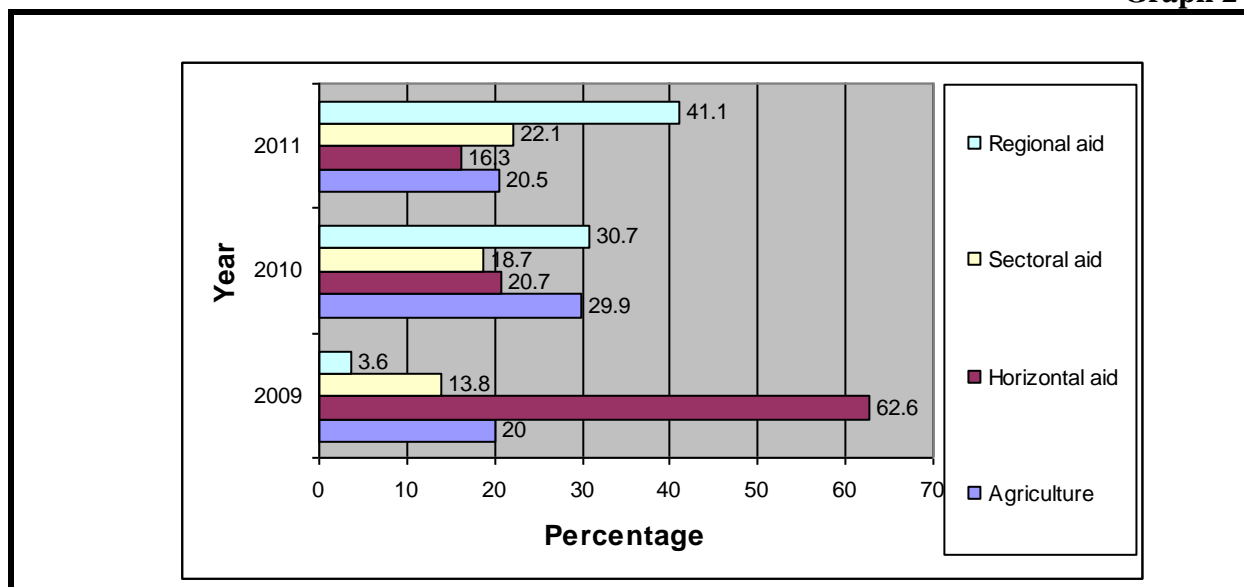
<sup>8</sup>SME – small and medium enterprises

<sup>9</sup> Other categories for overcoming negative consequences of the world economic crises



## Structure of Total State Aid in the Republic of Serbia in 2009, 2010 and 2011

**Graph 2**



**Horizontal state aid** in the total state aid granted in 2011 had a share of 16.3 % and amounted to RSD 13,442 million, in 2010 had a share of 20.7 %, and amounted to RSD 16,118 millions and in 2009 had a share of 62.6 % and amounted to RSD 53,021 million.

**Sectoral state aid** in the absolute amount in 2011 amounted to RSD 18,260 million and made up a share of 22.1 % in the total state aid. In 2010 and 2009 smaller amounts were granted, 14,526 that is RSD 11,717 million and the share in state aid was 13.8 % smaller and 18.7 % in the total state aid.

**Regional state aid** in the absolute amount in 2011 amounted to RSD 33,857 million and with the share of 41.1 % it was significantly larger than the same category of state aid in 2010, when it amounted to RSD 23,768 million, and had a share of 30.7 % and in 2009 when it amounted to RSD 3,020 million and had a share of 3.6 %. The local self-government units granted the total of RSD 135 million.

**State Aid in the period 2009 – 2011  
(Agriculture and Transport Excluded)**

**Table 3**

<b>Indicator</b>	<b>Measure Unit</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
State aid	RSD mil.	58,112	42,043	49,518
State aid	EUR mil.	618.6	408.6	485.70
GDP	RSD mil.	2,953,500	2,933,300	3,175,000
GDP	EUR mil.	31,511	28,464	31,143
State aid in GDP	in %	<b>1.9</b>	<b>1.4</b>	<b>1.6</b>

The state aid amount that was granted to the economy sector<sup>10</sup> (sector of agriculture and transport excluded) in 2011 amounted to RSD 49,518 million, which was by 14.8 % less than the aid granted in 2010 and by 17.8 % more than in 2009.

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<sup>10</sup> The law does not include the aid provided to the sector of agriculture and it includes the sector of transport that provides services of general interest.

### 3. INDUSTRY AND SERVICES

#### 3.1. State Aid Categories

Pursuant to the methodology of EU state aid to the industry and services sector, according to the primary aims of granting, is divided into the following categories as follows:

- horizontal state aid,
- sectoral state,
- regional state aid horizontal state aid.

1. **Horizontal state aid** is earmarked for the largest number of beneficiaries who are not known in advance and distorts market competition less than sectoral state aid. Positive effects of this category of state aid are manifold, therefore it is considered to be less selective than the sectoral state aid.
2. **Sectoral state aid** is earmarked for undertakings in certain business activities that are defined (known) in advance, that is sectors. This category is more selective in comparison with horizontal state aid and accordingly, it distorts or threatens to distort competition in the market more. Due to the given reasons, European Commission applies special rules for state aid granted in vulnerable sectors, such as steel, coal, synthetic fibres and shipbuilding.
3. **Regional state aid** is a type of a horizontal state aid which is granted with an aim of stimulating the economic development of undeveloped, that is less developed regions, that is areas, primarily those in which the standard of living is extremely low, or in areas with high unemployment rate.

Pursuant to Articles 73, point 7 (a) of Stabilisation and Association Agreement between European communities and its member states, on one hand, and the Republic of Serbia, on other hand, ( "The Official Gazette of the Republic of Serbia-International Agreements" No: 83/08) ( hereinafter: SAA) in the first five years after the day of coming into the force of this agreement, Serbia will assess each state aid it grants, taking into the consideration the fact that Serbia will be deemed as the same area identical to areas described in Article 87(3) ( a) of the Treaty ( that is, as undeveloped area).

**State Aid in the period 2009 – 2011  
(Agriculture excluded)**

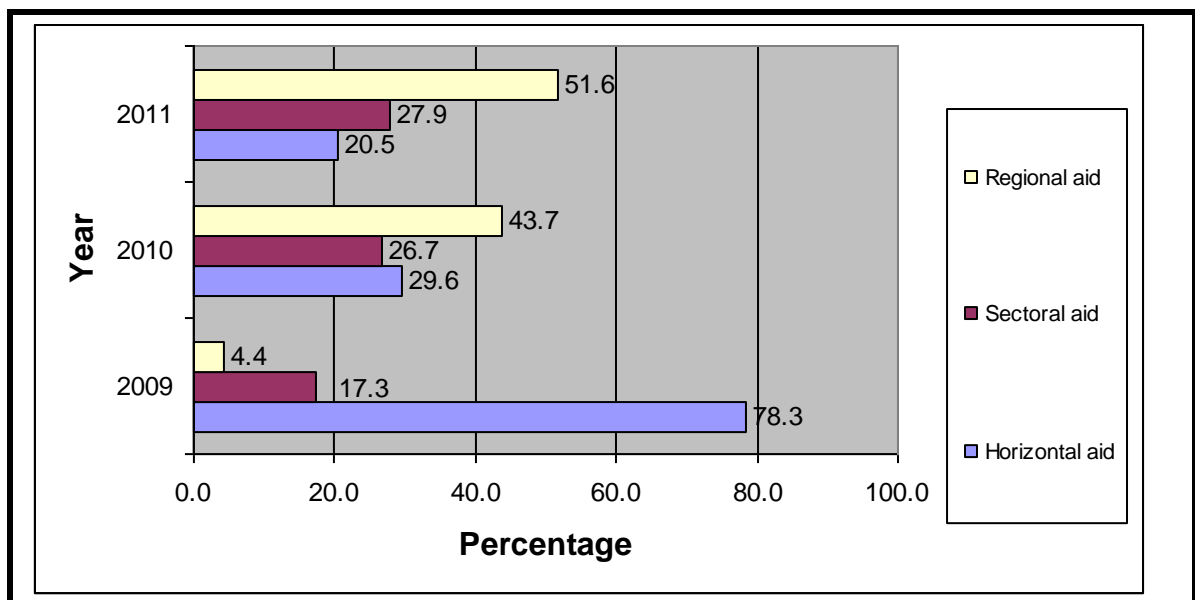
**Table 4**

<b>Indicator</b>	<b>Measure Unit</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
State Aid	RSD mil.	67,758	54,443	65,559
State Aid	EUR mil.	721.32	529.07	643.04
GDP	RSD mil.	2,953,526	2,933,300	3,175,000
GDP	EUR mil.	31,511	28,464	31,143
State Aid in GDP	in %	<b>2.29</b>	<b>1.85</b>	<b>2.06</b>

Table 4 contains data on state aid granted exclusive of the agriculture sector, and the presented data correspond to the amounts presented as the total state aid from the previous annual reports. The state aid amount granted to the sector of industry and services in 2011 is by 3.3 % less than in 2010, and by 20.4 % bigger than the amount granted in 2009. The state aid share in the industry and services sector in GDP is 2.06 %, which is more than 2010, when the share was 1.85 % in GDP.

**Summary of the Share of Certain State Aid Categories in State Aid granted in the Republic of Serbia in 2009, 2010 and 2011 (Agriculture excluded)**

**Graph 3**



In comparison with 2010 and 2009, the regional state aid, which was mostly granted through tax incentives, increased the most.

### 3.1.1. Horizontal State Aid

#### Structure of Horizontal State Aid in the Republic of Serbia in 2009, 2010 and 2011

**Table 5**  
**In millions of RSD**

<b>Horizontal State Aid Type</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Index 11/9</b>	<b>Index 11/10</b>
Research and Development	-	17	83	-	488.0
Training	-	2	2	-	-
Employment	12,344	4,375	468	3.8	10.7
SME	28,277	458	1	-	-
Environmental protection	5	63	2,923	58460.0	4639.6
Culture	-	22	144	-	654.5
Rescuing and restructuring	6,241	6,035	5,228	83.8	86.6
Other <sup>11</sup>	6,154	5,146	4,593	78.5	89.3
<b>Total</b>	<b>53,021</b>	<b>16,118</b>	<b>13,442</b>	<b>25</b>	<b>83</b>

According to data presented in Table 5, the horizontal state aid, in the absolute amount in 2011, decreased by 17% compared to 2010, and in comparison with 2009, it decreased by 75 %. Great differences, both in the total amount of horizontal state aid and its structure stem primarily from the changed categories of state aid, which are adjusted with the Regulation.

The reduction of resources that were earmarked for solving the unemployment problems in 2011 is the consequence of the application of de minimis state aid (the state aid of small value), which is granted pursuant to the Rulebook on terms and criteria for the implementation of measures of active employment policy („The Official Gazette of the Republic of Serbia“, No 12/12), whose application started in 2011. Analysing the Report for 2011, one can make a conclusion that much bigger resources were granted for environmental protection, which are in the absolute amount 46 times bigger than in 2010 and by 584 times than in 2009.

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<sup>11</sup> Other – state aid granted to alleviate the consequences of the global economic crisis.

**The share of Certain Types of State Aid in Horizontal State Aid in the Republic of Serbia in 2009, 2010 and 2011**

**Table 6**  
**In RSD millions**

Horizontal state aid type	2009		2010		2011	
	Amount	In %	Amount	In %	Amount	In %
Research and development	-	-	17	0.1	83	0.6
Training	-	-	2	0	2	0
Employment	12,344	23.3	4,375	27.2	468	3.5
SME	28,277	53.3	458	2.8	1	0
Environmental protection	5	0,01	63	0.4	2,923	21.7
Culture	-	-	22	0.1	144	1.1
Rescuing and restructuring	6,241	11.8	6,035	37.5	5,228	38.90
Other <sup>12</sup>	6,154	11.6	5,146	31.9	4,593	34.2
<b>Total</b>	<b>53,021</b>	<b>100%</b>	<b>16,118</b>	<b>100%</b>	<b>13,442</b>	<b>100%</b>

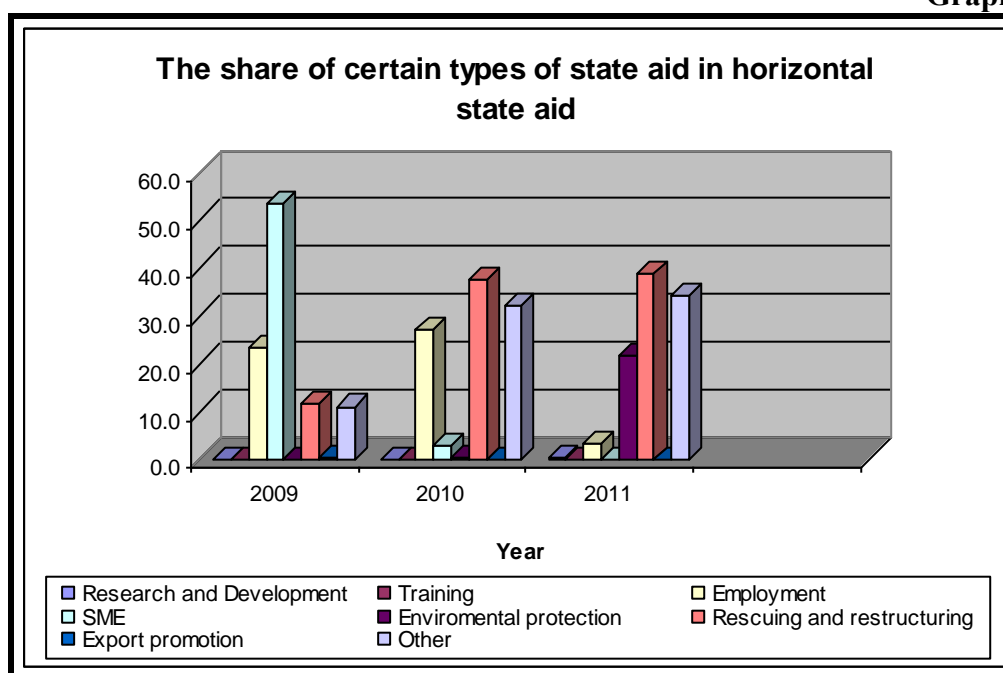
The European Commission has recommended that the EU member states should intensify their efforts to reduce the general levels of state aid, and additionally focus on the transition from support to certain enterprises or sectors to incentivizing of horizontal objectives of the EU interest, such as the employment, regional development, environmental protection, training, research and development.

State aid granted for rescuing and restructuring of enterprises and aid for alleviation of the consequences of the global economic crisis (which, taken together, represents a rescuing and not the development-oriented economic measure) is RSD 9,821 million and accounts for 73.1 % of the total horizontal state aid granted in 2011, which is bigger share than in 2010, when it amounted to RSD 11,181 million and accounted for 69.4 % of the total granted horizontal state aid. For the adequate assessment of how much the recommended EU directives have been followed, it is necessary to encompass the regional state aid together with the horizontal state aid, keeping in mind that, according to the Stabilization and Association Agreement (hereinafter: the SAA), the Republic of Serbia is considered to be the underdeveloped region. The total amount of the above mentioned state aid types in 2011 reached the level of RSD 47.299 million, where the state aid for rescuing and restructuring and that for the alleviation of the consequences of global economic crisis had the share of 20.8 %, while the incentivizing of objectives, marked as significant for the development and recommended by European Commission, had a share of 79.2 %.

<sup>12</sup> Other – state aid allocated to alleviate the consequences of the global economic crisis.

## Structure of Horizontal State Aid in 2009, 2010 and 2011

Graph 4



## Horizontal State Aid According to the granting instruments in 2011

Table 7  
In RSD million

Horizontal state aid type	Subsidies	In %	Tax incentives	In %	Favourable loans	In %	Guarantees	In %	Total
Research and development	83	0.6	-	-	-	-	-	-	83
Training	2	0	-	-	-	-	-	-	2
Employment	257	1.9	211	1.6	-	-	-	-	468
SME	1	0	-	-	-	-	-	-	1
Environmental protection	2,876	21.4	-	-	47	0.3	-	-	2,923
Rescuing and restructuring	5,228	38.9	-	-	-	-	-	-	5,228
Culture	144	1.1	-	-	-	-	-	-	144
Other <sup>13</sup>	1,141	8.5	-	-	2,254	16.8	1,198	8.9	4,593
<b>Total</b>	<b>9,732</b>	<b>72.4</b>	<b>211</b>	<b>1.6</b>	<b>2,301</b>	<b>17.1</b>	<b>1,198</b>	<b>8.9</b>	<b>13,442</b>

<sup>13</sup>Other – state aid allocated to alleviate the consequences of the global economic crisis.

The horizontal state aid was mostly granted in the form of subsidies, which make up 72.4 % of the granted horizontal state aid. Out of the total number of subsidies, 38.9 % are subsidies granted on the basis of The Program of the Allocation and Usage of the Resources of the "Transition Fund" from the budget of the Republic of Serbia, that is a programme for tackling redundancy problems in the process of rationalisation, restructuring and the preparation for privatisation.

### 3.1.2. Sectoral State Aid

#### Sectoral State Aid in the Republic of Serbia in 2009, 2010 and 2011

Sector	2009	2010	2011	Index 11/09	Index 11/10
Mining	1,715	2,126	2,219	129	104
Transport	9,646	12,400	16,041	166	132
Tourism	76	-	-	-	-
Other sectors	280	-	-	-	-
<b>Total</b>	<b>11,717</b>	<b>14,526</b>	<b>18,260</b>	<b>155</b>	<b>125</b>

Table 8 in RSD millions

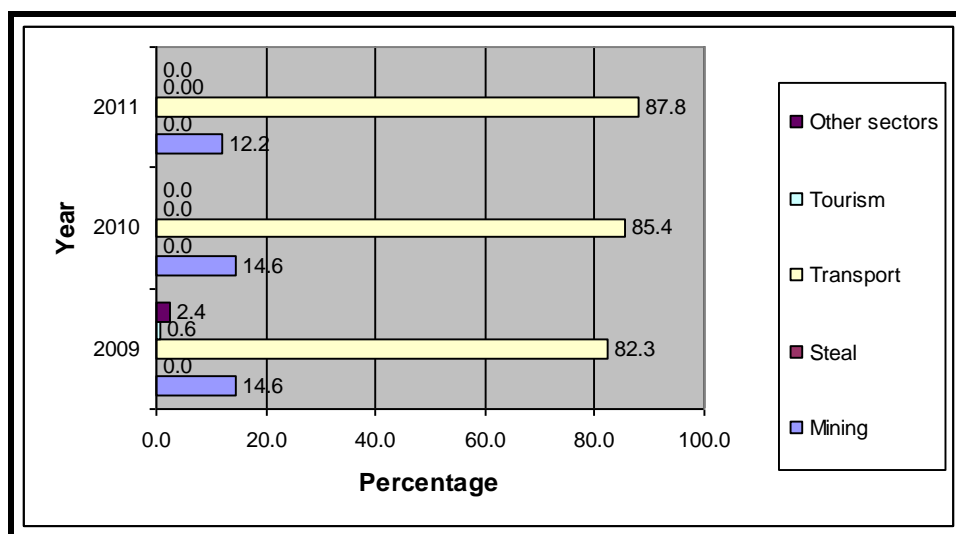
The absolute amount of sectoral state aid granted in 2011 was by 25% bigger than in 2010 and by 55 % bigger than in 2009.

The 2011 Report includes only the sectors which are marked as specific (mining and transport) in the EU regulations.



**Structure of Sectoral State Aid in the Republic of Serbia  
in 2009, 2010 and 2011**

**Graph 5**



The biggest share in the sectoral state aid had the state aid that was granted to the transport sector (like in the two previous reporting years, just to the railway transport, that is the beneficiary joint-stock company “Zeleznice Srbije”). In 2011 state aid for the mentioned sector amounted to 87.8 % of the sectoral state aid.

### 3.1.3. Regional State Aid

The regional state aid is allocated with an aim of incentivizing less developed, that is undeveloped regions and it is directed to the alleviation of structural problems and unevenness in the development. This category of state aid implicates measures that stimulate economic activity, with an aim of decreasing economic, natural, social demographic and other differences in these regions.

#### Regional State Aid in the Republic of Serbia in 2009, 2010 and 2011

**Table 9**  
**In RSD millions**

<b>Indicator</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Index 11/09</b>	<b>Index 11/10</b>
<b>Total state aid</b>	<b>67,758</b>	<b>54,443</b>	<b>65,559</b>	96.7	120.4
Regional state aid	3,020	23,799	33,857	1121.1	142.3
% of share of the regional state aid	4.4	43.7	51.4	-	-

The regional state aid in 2011 of RSD 33,857 million was granted and realised through the following instruments for state aid granting: subsidies- RSD 3,332 million, tax incentives - RSD 25,084 million and favourable loans granted through the Development Fund of the Republic of Serbia - RSD 5,441 million.

The state aid that was granted by local self-governments is presented as regional state aid and it is RSD 135 million in total.

#### 4. INSTRUMENTS FOR GRANTING STATE AID

State aid is granted from public resources and depending on the instruments for granting, it can be any actual or potential public expenditure or realised decrease in public revenue, which confers to the beneficiary of state aid a more favourable position in the market in respect to the competitors ( Article 2, point 1 of the Law).

In 2011, the state aid in the Republic of Serbia was granted by using the following instruments:

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

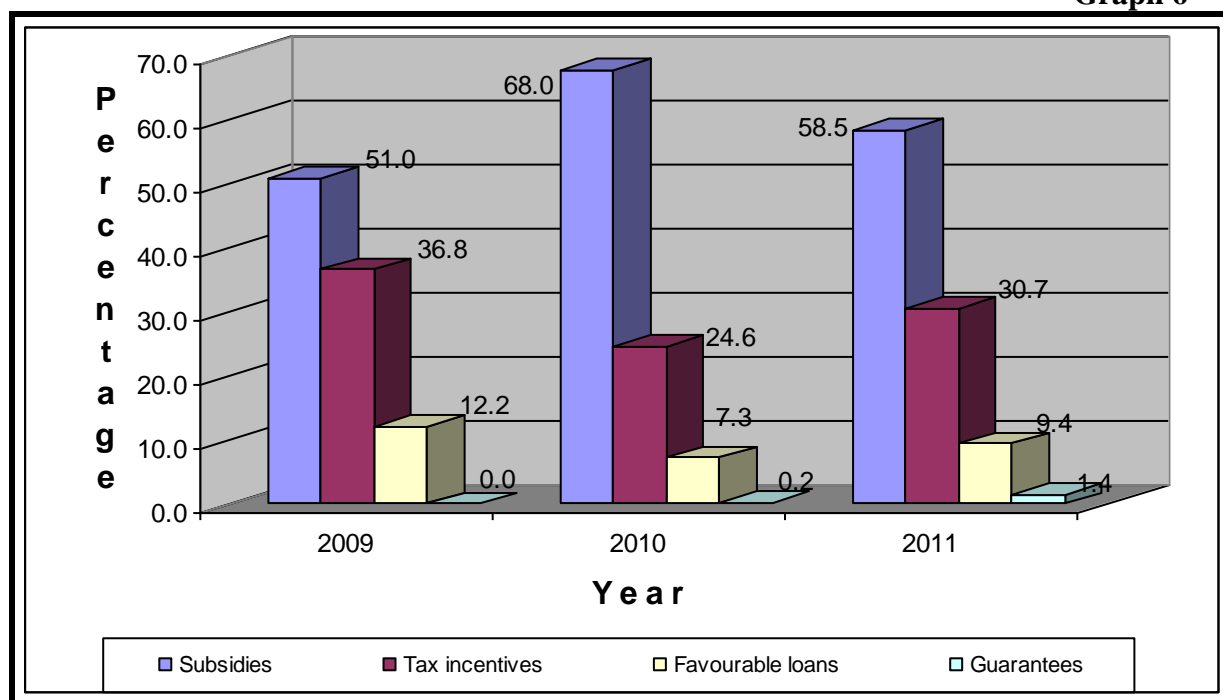
#### Total State Aid Granted in the Republic of Serbia in 2009, 2010 and 2011 by Granting Instruments (Agriculture included)

**Table 10**  
**In RSD millions**

Grant instrument	2009	In	2010	In	2011	In	Indices	
		%		%		%	11/09	11/10
Subsidies	43,235	51.0	52,732	68.0	48,212	58.5	112	91
Tax incentives	31,171	36.8	19,083	24.6	25,295	30.7	81	132
Favourable loans	10,323	12.2	5,639	7.2	7,742	9.4	75	137
Guarantees	-	-	165	0.2	1,198	1.4	-	726
<b>Total</b>	<b>84,729</b>	<b>100.0</b>	<b>77,619</b>	<b>100.0</b>	<b>82,447</b>	<b>100.0</b>	<b>97.3</b>	<b>106.2</b>

## Structure of Instruments for Granting State Aid in the Republic of Serbia in 2009, 2010 and 2011

**Graph 6**



Subsidies and tax incentives are the instruments through which 89.2 % of the state aid was granted in 2011, i.e. 92.6 % in 2010 and 87.8 % in 2009.

The amount of allowed loans in 2011 was RSD 29,646 million, that is RSD 30,181 million in 2010. The increase of the amount of state aid which is granted through loans compared to 2010 is a consequence of a greater difference which appeared between the referential interest rate and the interest rate at which the loans were allowed.

**4.1 Total Granted State Aid in the Republic of Serbia in 2011 According to the Instruments for Granting State Aid**

**Table 11, in RSD millions**

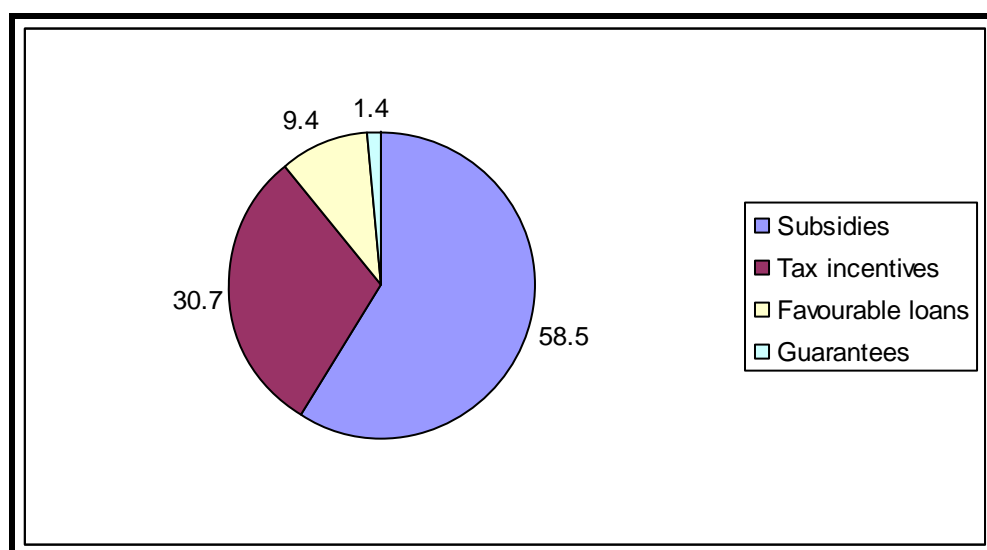
State aid category	INSTRUMENTS FOR GRANTING STATE AID				
	Subsidies	Tax incentives	Favourable loans	Guarantees	Total
<b>Agriculture</b>	<b>16,888</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,888</b>
<b>Industry and services</b>	<b>31,324</b>	<b>25,295</b>	<b>7,742</b>	<b>1,198</b>	<b>65,559</b>
<b>1. Horizontal state aid</b>	<b>9,732</b>	<b>211</b>	<b>2,301</b>	<b>1,198</b>	<b>13,442</b>
Research and development	83	-	-	-	83
Training	2	-	-	-	2
Employment	257	211	-	-	468
SMEs	1	-	-	-	1
Environmental protection	2,876	-	47	-	2,923
Rescuing and restructuring	5,228	-	-	-	5,228
Culture	144	-	-	-	144
Other	1,141	-	2,254	1,198	4,593
<b>2. Sectoral state aid</b>	<b>18,260</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,260</b>
Mining	2,219	-	-	-	2,219
Transport	16,041	-	-	-	16,041
<b>3. Regional state aid</b>	<b>3,332</b>	<b>24,949</b>	<b>5,441</b>	<b>-</b>	<b>33,857</b>
<b>Total</b>	<b>48,212</b>	<b>25,295</b>	<b>7,742</b>	<b>1,198</b>	<b>82,447</b>

Subsidies are the instrument of state aid granting through which in all the reported years only the sectoral state aid was granted (in agriculture, transport and state aid that was intended for rescuing and restructuring).

The horizontal and regional objectives are more often financed through the indirect state aid granting instruments (tax incentives and favourable loans).

### Structure of Instruments for State Aid Granting in the Republic of Serbia in 2011

**Graph 7**



#### **4.2. Subsidies**

In 2011 the most popular state aid granting instrument was the subsidies with the share of 58.5 % in the total granted state aid, where the majority of aid was granted to the following sectors: agriculture, mining and transport.

#### **4.3. Tax Incentives**

Tax incentives as the instrument for granting state aid in 2011 in the Republic of Serbia had a share of 30.7%.

For the purposes of this report, the term "tax incentive" shall include the following:

- tax incentives approved pursuant to the Corporate Income Tax Law<sup>14</sup>
- tax incentives approved pursuant to the Personal Income Tax Law<sup>15</sup> through the reduction of personal income tax on the grounds of investing into fixed assets.

<sup>14</sup> RS Official Gazette, No. 25/01, 80/02, 80/02, 43/03, 84/04,18/10 and 101/11)),

<sup>15</sup> RS Official Gazette, No. 24/01, 80/02,80/02,135/04,62/06,65/06-corrigendum ,31/09,44/09,18/10,50/11 and

- exemption of the fee payment for the use of building land, according to the decisions of local self-government units, pursuant to the Law on local self-government funding<sup>16</sup> and the Law on planning and building<sup>17</sup>.

On the above grounds, tax incentives in 2011 amounted to the total of RSD 25,295 million.

#### **4.4. Soft loans**

Favourable loans accounted for 9.4 % in the total state aid granted. As for the loans under more favourable conditions than the ones in the banking capital market, the amount of state aid presents a positive effect of a more favourable interest rate at which these loans were approved compared to the reference (average)<sup>18</sup> interest rate in the banking capital market, that was calculated by using the conform method for the credit period.

Development Fund of the Republic of Serbia approved the total of RSD 21,869 million as credits, and the state aid amounted to the total of RSD 7,527 million. Serbian Export Credit and Insurance Agency approved the total of RSD 7,777 million in the form of short-term loans and state aid was RSD 215 million.

#### **4.5. Guarantees**

In 2011, The Development Fund of the Republic of Serbia issued guarantees in the amount of RSD 1,198 million. Taking into account that the beneficiaries of guarantees were undertakings in the process of restructuring, or in the process of privatisation, state aid presents the full amount of the issued guarantees.

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<sup>16</sup> RS Official Gazette, No. 62/06 and 47/11

<sup>17</sup> RS Official Gazette, No. 72/09, 81/09 and 24 /11

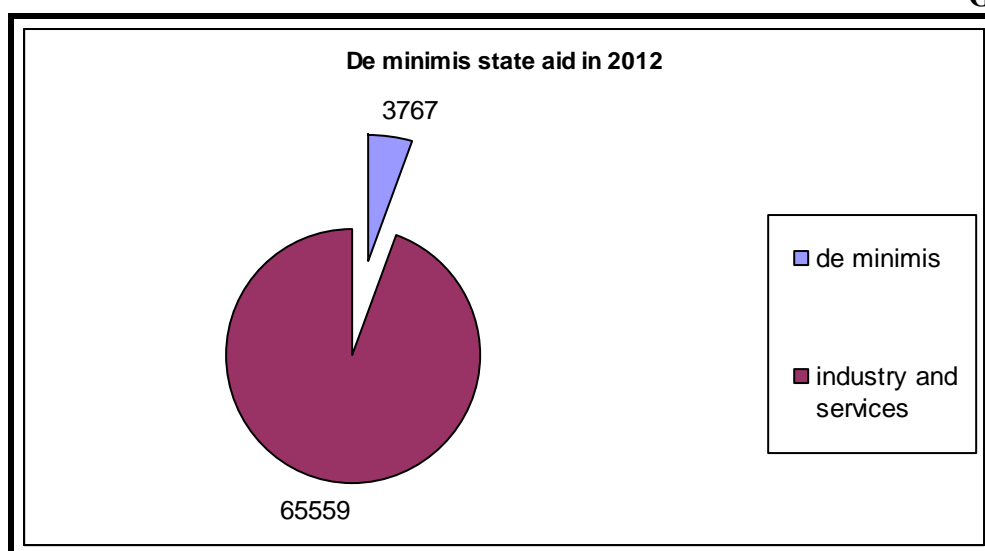
<sup>18</sup> The reference rate is the basic reference rate (average reference rate on the interbank market- BELIBOR for 9<sup>th</sup>, 10<sup>th</sup> and 11<sup>th</sup> month in 2010) increased by 100 basic points for the credit margin ( reference risk margin); for BELIBOR, source of information: The National Bank of Serbia.

## 5. THE STATE AID OF SMALL VALUE (de minimis state aid)

The state aid of small value (de minimis state aid) is followed independently of other state aids and it is not shown in the total amount of the granted state aid. In accordance with the rules prescribed by the Regulation this category is granted when it is not possible to grant regional, horizontal and sectoral state aid. De minimis state aid can be granted regardless of purposes, but it cannot be granted for: coal mining, the procurement of road freight vehicles in undertakings which perform services of freight transport, export incentives, that is establishing and functioning of distribution network or for other current expenditure in connection with the exporting activities, giving preference to domestic products but not to imported products and undertakings in difficulties. No rules are set for granting this category of state aid, bearing in mind that the amount of this state aid is so small that it cannot distort, nor threaten to distort the competition in the market. Namely, de minimis state aid can be granted to an individual undertaking at the amount of up to EUR 200,000 in dinar equivalent, and in the sector of road transport at the amount of EUR 100,000 in dinar equivalent, in any given period during three consecutive fiscal years.

### Relation of the state aid of small value and State Aid Granted to the Industry and Services Sector in 2011

Graph 8



The state aid of small value granted in 2011 (de minimis state aid) amounted to RSD 3,676 million, out of which RSD 3,287 million was granted from the Republic level, and RSD 399 million from the level of the Autonomy and self-government units. The amount of RSD 3,507 million was granted through subsidies, out of which RSD 3,146 million was granted from the Republic level and RSD 361 million from all other levels of authority as well as RSD 169 million of state aid that is granted approving favourable loans, in the gross amount of RSD 283 million. Compared to 2010, granted de minimis state aid in 2011 increased more than 12 times. This increase was mostly influenced by state aid granted pursuant to the Rulebook on terms and criteria for the implementation of measures of active employment policy ("The Official Gazette of RS" No. 12/12) which is RSD 2,731 million.



## 6. STATE AID IN THE REPUBLIC OF SERBIA AS COMPARED WITH THE STATE AID IN THE EUROPEAN UNION

### State Aid in the Republic of Serbia in comparison with the EU

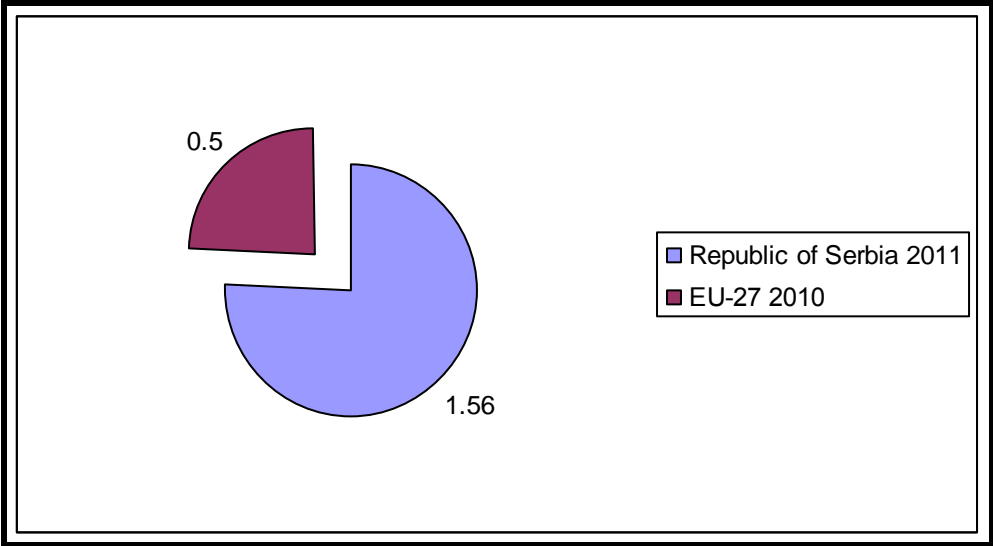
**Table 12**

In:	State aid – exclusive of state aid for transport ( railways)		State aid exclusive of state aid to agriculture and transport sector		
	EUR mil.	Share in GDP (in %)	EUR mil.	Share in GDP (in %)	% of state aid
<b>R. Serbia in 2009</b>	<b>799</b>	<b>2.5</b>	<b>619</b>	<b>1.95</b>	<b>68</b>
<b>R. Serbia in 2010</b>	<b>633</b>	<b>2.2</b>	<b>409</b>	<b>1.4</b>	<b>54</b>
<b>R. Serbia in 2011</b>	<b>651</b>	<b>2.0</b>	<b>486</b>	<b>1.56</b>	<b>60</b>
<b>EU - 27 member states</b>	<b>73,741</b>	<b>0.6</b>	<b>61,038</b>	<b>0.5</b>	<b>83</b>
Belgium	2,154	0.6	1,834	0.5	85
Bulgaria	53	0.1	14	0.0	26
Czech Republic	1,189	0.8	946	0.7	80
Denmark	2,131	0.9	1,951	0.8	92
Germany	15,917	0.6	14,695	0.6	92
Estonia	42	0.3	14	0.1	33
Ireland	1,572	1.0	867	0.6	55
Greece	1,838	0.8	1,800	0.8	98
Spain	5,003	0.5	4,329	0.4	87
France	15,384	0.8	12,594	0.7	82
Italy	4,560	0.3	3,328	0.2	73
Cyprus	118	0.7	89	0.5	75
Latvia	169	0.9	72	0.4	42
Lithuania	159	0.6	81	0.3	51
Luxembourg	96	0.2	75	0.2	78
Hungary	2,243	2.3	1,907	1.9	85
Malta	89	1.4	70	1.1	79
The Netherlands	3,162	0.5	1,911	0.3	60
Austria	2,242	0.8	2,057	0.7	92
Poland	3,221	0.9	2,545	0.7	79
Portugal	1,579	0.9	1,547	0.9	98
Romania	304	0.2	206	0.2	68
Slovenia	395	1.1	319	0.9	81
Slovakia	303	0.5	241	0.4	80
Finland	2,061	1.1	774	0.4	38
Sweden	2,888	0.8	2,644	0.8	92
United Kingdom	4,869	0.3	4,132	0.2	85

Table 12 contains data on state aid granted in 2010 (inclusive of agriculture sector) exclusive of the transport sector and state aid exclusive of agriculture and transport for EU Member States, and at the level of EU<sup>19</sup>, while for the Republic of Serbia the data shown are for 2009, 2010 and 2011.

**Share Ratio for the Granted State Aid (Exclusive of State Aid Granted to Agriculture and Transport Sector) in GDP in the Republic of Serbia and in the EU**

**Graph 9**



Considered in the absolute amount, and in comparison with other European Union countries, the Republic of Serbia did not grant high absolute amount of state aid in 2011 but the share of state aid in GDP is still high.

<sup>19</sup> The source of information: EU/DG Competition –State Aid –Scoreboard, 2010