

Republic of Serbia
COMMISSION FOR STATE AID CONTROL

R E P O R T

ON STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2012

July 2013

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1. INTRODUCTION

State aid control in the Republic of Serbia was introduced by passing State aid Control Law (*Official Gazette of RS, No 51/09*) (hereinafter: the Law), Regulation on Rules for State aid Granting (*Official Gazette of RS, Nos 13/10, 100/11, 91/12 and 37/13*) (hereinafter: the Regulation) and Regulation on Rules and Procedure for State aid Notification (*Official Gazette of RS, No13/10*).

Pursuant to Article 6 of the Law and Article 43, paragraph 1 of Government Law (*Official Gazette of RS, Nos 55/05, 71/05 – correction, 101/07 and 65/08*), the Government adopted the Decision on Forming the Commission for State aid Control on December 29, 2009 (*Official Gazette of RS, No 112/09*), stipulating that the Commission is mandated to control State aid in the Republic of Serbia.

The Rules of Procedure of the work of the Commission for State Aid Control govern the operation and other issues relevant to the work of the Commission for State Aid Control.

In 2012, the Commission for State Aid Control (hereinafter: the Commission) held 20 sessions in which it adopted 226 acts that come within its competence, out of which:

- 106 decisions, in which the Commission decided whether the State aid was allowed in 87 cases (out of which 39 notifications were considered in ex ante control, while in the procedure of ex post control it considered 48 cases of granted State aid) and in 17 cases the Commission brought decisions that there is no State aid;

- 68 conclusions, out of which ex post control was initiated in 49 conclusions in order to establish whether State aid was allowed (out of which the Commission initiated 3 cases of ex post control based on its own information or information obtained from other sources);

- 9 conclusions in which the State aid grantors were ordered to adjust to the rules of State aid granting and

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

There is still a great number of State aid notifications that the Commission decides upon in the procedure of ex post control.

If the Commission, pursuant to Article 18, paragraph 3 of the Law, within the ex post control, determines that the State aid was granted contrary to the rules for State aid granting, the Commission is authorised to order the recovery of granted State aid increased by default interest prescribed by law, from the day of using such aid until the date of recovering the used amount.

It is necessary to raise awareness of State aid grantors and promote the obligation of notifying State aid in the procedure of ex ante control in order to decrease number of cases when the Commission, within the ex post control, has to decide whether granted State aid is allowed.

In addition, the Commission has received a large number of requests for giving opinions, as it was expected, given the fact that the full implementation of the Law began in March 2010 and that the grantors still need certain explanations concerning the concepts of State aid control.

Within the meaning of Article 23, paragraph 1 of the Law, the ministry in charge of finance is prescribed to prepare a draft annual report on granted State aid in the Republic of Serbia according to data provided by State aid grantors, which is submitted to the Government by the Commission for State Aid Control. Moreover, in accordance with Article 38, paragraph 5 of the Interim Agreement on trade and trade-related matters between the European Community, of the one part, and the Republic of Serbia, of the other part (*Official Gazette of RS – International Agreements, No 83/08*) (hereinafter: the Interim Agreement) (SAA Article 73, paragraph 5), the Republic of Serbia assumed the responsibility for submitting regular annual reports on State aid to competent institutions of the EU, following the methodology and data presentation which is contained in the review of State aid granted in the EU, in order to ensure transparency of State aid granting.

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

The Annual Report on State Aid Granted in the Republic of Serbia in 2012 (hereinafter: 2012 Report) is the ninth consecutive annual report that the Republic of Serbia has made until now (the first was drafted for 2003/2004 period). However, it is the third comprehensive, because it contains data on State aid granted by the local self-government units and it is completely drafted in accordance with EU methodology.

The State aid granted by the ministry in charge of agriculture, fishery and forestry is presented only in the section for total granted aid, since the provisions of this Law do not apply to agricultural and fishery products (Article 1, paragraph 2 of the Law).

1.1. Basic concepts of State aid control

State aid control, which is granted to individual enterprises or to a group of enterprises, protects free market competition, i.e. it prevents other market participants, which are not State aid beneficiaries, to be in a less favourable position in the market. In this way, fair microeconomic environment is created and it fosters economic growth, new investments, employment growth and overall social welfare.

1.1.1. Defining State aid concept

State aid is any actual or potential public expenditure or realised decrease in public revenue that confers to State aid beneficiary a more favourable market position in respect to the competitors and as a result causes or threatens to cause distortion of the market competition (Article 2, point 1 of the Law).

State aid grantor is the Republic of Serbia, the autonomous province and local self-government unit, through their competent bodies, and any legal person managing and/or having disposal over public funds and allocating the State aid in any form whatsoever (Article 2, point 2 of the Law).

State aid beneficiary is any legal or natural person that, in their business operations concerning production and/or trade of goods and/or providing of services in the market , use the State aid in any form whatsoever (Article 2, paoint 3 of the Law).

1.1.2. State aid criteria

In order to consider a certain measure State aid, the following four criteria must be cumulatively fulfilled:

- 1) State aid is granted from public resources (transfer of public (state) resources),
- 2) State aid is granted on a selective basis (selectivity),
- 3) a State aid beneficiary or beneficiaries gain a more favourable position compared to other competitors in the market (economic advantage) and
- 4) State aid distorts or threatens to distort competition in the market .

Transfer of state resources

When granting State aid, resources are transferred from state, provincial and local government budgets. However, state resources also include government funds administered by the state through private or public institutions. Furthermore, there are those controlled by the state, if their funds come from the government budget, or if those funds have discretionary right to decide how to use collected resources. Therefore, the rules on the allocation of State aid do not only apply to the state, i.e. to the Republic, autonomous province and local self-government units, but also to all bodies that have public authority and all institutions under state control, that is, those bodies assigned by the state to allocate State aid.

Besides public expenditures (direct grants) and potential public expenditures (guarantees), State aid is also considered to be a realised decrease in public revenue (reduction of or exemption from paying taxes and compulsory social insurance taxes).

Selectivity

Selectivity is what differentiates State aid from general measures of economic policy, which are applied to all enterprises and sectors in one state, such as general fiscal measures, general decrease of tax or interest rates, national currency depreciation and similar.

Thus, in order to consider a measure State aid it has to be selective, that is, it has to put certain enterprises, production of certain goods or providing certain services in a more favourable position in respect to competitors.

With regard to State aid schemes, the selectivity criterion is fulfilled if a State aid scheme is only applied to some production activities and/or goods turnover and/or services in the market , that is, only by applying State aid scheme to one part of state territory (and this is the case with all regional and sectoral State aid schemes).

Economic advantage

State aid enables its beneficiary, i.e. an enterprise, to gain a more favourable position in the market with regard to its competitors, which it would not gain from its current business operations if it had not used the State aid.

Besides granting State aid in the form of direct grants, soft loans, tax incentives, issuing guarantees and similar, State aid also exists in cases when: an enterprise buys or rents publicly owned land at less then the market price, an enterprise sells land to the state at a price

which is higher than the market price, an enterprise enjoys privileged access to infrastructure without paying a fee or an enterprise obtains risk capital from the state on terms that are more favourable than it would obtain from a private investor.

Effect on competition in the market

State aid must have a real or potential effect on competition and trade, because State aid granting distorts or threatens to distort market competition. It is enough to prove that a State aid beneficiary is involved in an economic activity and that it operates in a market, while the “nature” of beneficiary is not relevant, so even a non-profit organisation can engage in economic activities, i.e. it can be a State aid beneficiary.

1.1.3. Allowed State aid (Article 4 of the Law)

State aid can be allowed when:

- 1) it has a social character and when it is granted to individual consumers, provided that such aid is granted without discrimination related to the origin of goods, namely products concerned which make such State aid;
- 2) it is granted to eliminate the damage caused by natural disasters or other exceptional occurrences.

1.1.4. State aid that may be considered to be allowed (Article 5 of the Law)

State aid may be considered to be allowed when granted:

- 1) to promote the economic development of areas of the Republic of Serbia where the standard of living is extremely low or where there is serious unemployment,
- 2) to remedy a serious disturbance in the economy of the Republic of Serbia or to promote the execution of an important project of the Republic of Serbia,
- 3) to facilitate the development of certain economic activities or certain economic areas in the Republic of Serbia, where such aid does not adversely affect or threaten to affect market competition,
- 4) to promote protection and preservation of cultural heritage.

1.1.5. State aid scheme and individual State aid (Article 12 of the Law)

State aid scheme is a set of all acts constituting the grounds for State aid granting to beneficiaries which are not previously designated (known), and drafts and/or proposals of regulations which will constitute the grounds for State aid granting after their adoption to beneficiaries which are not previously designated (known).

Individual State aid is the State aid granted:

- 1) based on the State aid grantor’s act, to the previously designated beneficiary, and which is not based on a State aid scheme, or
- 2) based on the State aid scheme.

1.2. Methodology for drafting report on granted State aid

Annual report on granted State aid is the overall presentation of total State aid granted in the Republic of Serbia during one year, drafted based on data collected from State aid grantors.

1.2.1. Data collection on State aid

Article 3 of the Rulebook stipulates that State aid grantors are obliged to submit all data prescribed for drafting the annual report, i.e. data on granted State aid, to the ministry in charge of finance in the form of the prescribed Table of State Aid Granted.

Concerning the fact that provisions of the Law do not apply to agricultural and fishery products (Article 1, paragraph 2 of the Law), the ministry in charge of agriculture, fishery and forestry only submits data on total amounts of State aid.

The Table of State Aid Granted contains data on State aid grantors and beneficiaries, beneficiary sector (business activity), registration number of Commission's decisions, legal grounds for State aid granting, type, amount, State aid instrument, financial source, duration, as well as purpose of State aid.

1.2.2. Methodology for presentation of granted State aid

Article 4 of the Rulebook states that State aid is recorded, depending on the objectives and amounts of granted State aid, according to the following categories/types:

- 1) Regional State aid:
 - 1.1. regional investment State aid,
 - 1.2. regional State aid for newly founded small enterprises,
 - 1.3. regional operating State aid.

- 2) Horizontal State aid:
 - 1.1. State aid for small and medium enterprises,
 - 1.2. State aid for rescuing and restructuring enterprise in difficulties,
 - 1.3. State aid for employment,
 - 1.4. State aid for environmental protection,
 - 1.5. State aid for research, development and innovation,
 - 1.6. State aid for training,
 - 1.7. State aid in the form of risk capital,
 - 1.8. State aid to the cultural sector.

- 3) Sectoral State aid:
 - 1.1. State aid in the steel production sector,
 - 1.2. State aid in the coal extraction sector,
 - 1.3. State aid in the transport sector.

- 4) *De minimis* State aid.

1.2.3. Instruments for State aid granting

Pursuant to Article 5 of the Rulebook, the following State aid instruments are prescribed:

- 1) direct grants,
- 2) interest subsidies,
- 3) soft loans,
- 4) tax incentives,
 - 4.1. tax allowances,
 - 4.2. tax credit,
 - 4.3. tax write-off,
 - 4.4. tax exemption,
 - 4.5. other tax incentives,
- 5) reduction of compulsory social insurance tax,
- 6) capital investments / risk capital investments,
- 7) debt write-off,
- 8) guarantees (including loan information and other financial transactions covered by the guarantees, insurance and premium payments information),
- 9) short-term insurance of export loans,
- 10) sale of publicly owned immovable property,
- 11) other instruments.

1.3. Structure of 2012 Report

The 2012 Report consists of six chapters.

Basic concepts of State aid are explained in the first, introductory part, as well as the methodology for drafting report on granted State aid.

In Chapter 2, granted State aid is presented in the following way:

- within Section 2.1. State aid in the Republic of Serbia is presented in relation to basic macroeconomic indicators, such as State aid share in gross domestic product, State aid share in public expenditures, State aid per employee, as well as State aid per capita;

- within Section 2.2. total State aid granted in the Republic of Serbia in 2010, 2011 and 2012 is presented by categories, that is, according to types of State aid.

In Chapter 3, granted State aid in industry and service sector is presented by individual State aid categories.

Chapter 4 presents granted State aid according to State aid instruments, which include direct grants, tax incentives, soft loans and guarantees.

Chapter 5 discusses *de minimis* State aid that is monitored independently of other State aid types and it is not presented in total amount of granted State aid, because it does not effect competition and trade in the market.

Chapter 6 deals with a comparative review of State aid granted in the Republic of Serbia and State aid granted in the European Union.

1.4. Summary of 2012 Report

The 2012 Report is drafted in accordance with the Law, Regulation and Rulebook.

It presents the analytical summary of State aid granted in 2012. Comparative data are given in order to have a comprehensive summary and trends' monitoring for both 2010 and 2011.

The Report is based on data collected from the State aid grantors (ministries, Tax Administration, National Employment Service, Development Fund of the Republic of Serbia, Serbia Investment and Export Promotion Agency (SIEPA), Government of Autonomous Province of Vojvodina and local self-government units) and it was drafted in accordance with the Rulebook, which sums the reporting classifications and regulations.

In the Republic of Serbia in 2012 the total amount of State aid granted amounted to RSD 88,009 million, i.e. EUR 777.96 million¹, which is by 7% more in comparison to the total State aid granted in 2011 (RSD 82,447 million or EUR 808.70 million), i.e. by 13% more in comparison with the same parameter for 2010 (RSD 77,619 million, i.e. EUR 754.29 million).

The share of State aid in the gross domestic product (hereinafter: the GDP) is 2.60% in 2012 (the same as in 2011), while in 2010 it was 2.64%.

The 2012 report contains the data about State aid in certain sectors, that is, in the sector of agriculture, hunting, forestry and fishery (hereinafter: the agriculture sector) and aid to the sector of industry and services. The State aid granted to the agriculture sector was not separately analyzed, but it was presented in the total amount, while the aid to the industry and services sector was divided into the following categories:

- horizontal State aid,
- sectoral State aid,
- regional State aid.

The agriculture sector in 2012 was granted absolute State aid amount of **RSD 25,158 million or EUR 222.39 million**, which in comparison with 2011 presents an increase of 48.9%, and compared to 2010, it is a rise of 8.5%. The share of this State aid in the total State aid granted in 2012 was 28.6%, while in 2011 and 2010 it was 20.5% and 29.9% respectively.

Absolute State aid amount granted to the industry and services sector in 2012 was **RSD 62,851 million or EUR 555.57 million**, which in comparison to 2011 presents a decrease of 4%, and when compared to 2010 it presents an increase of 15%. The share of this State aid in the total State aid granted in 2012 was 71.4%, while in 2011 and 2010 it was 79.5% and 70.1% respectively.

¹ Average Euro exchange rate in 2012 was RSD 113.1277; Source: National Bank of Serbia

2. STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2012

2.1. State aid in the Republic of Serbia in relation to the basic macroeconomic indicators

Table 1

| Indicator | Unit of measure | 2010 | 2011 | 2012 | Indexes | |
|----------------------------------|-----------------|-------------|-------------|-------------|---------|-------|
| | | | | | 12/10 | 12/11 |
| State aid | In RSD million | 77,619 | 82,447 | 88,009 | 113 | 107 |
| State aid | In EUR million | 754.29 | 808.70 | 777.96 | 103 | 96 |
| GDP ¹ | In RSD million | 2,933,300 | 3,175,000 | 3,386,200 | - | - |
| GDP | In EUR million | 28.504 | 31.143 | 29.933 | - | - |
| State aid in GDP | in % | 2.64 | 2.60 | 2.60 | 98 | 100 |
| Public expenditures | In RSD million | 1,359,900 | 1,460,870 | 1,622,821 | - | - |
| Public expenditures | In EUR million | 13,215 | 14,330 | 14,345 | - | - |
| State aid in public expenditures | in % | 5.71 | 5.64 | 5.42 | 95 | 96 |
| Employees | number | 1,796,000 | 1,746,000 | 1,727,000 | - | - |
| State aid per employee | RSD | 43,218 | 47,221 | 50,961 | 118 | 108 |
| State aid per employee | EUR | 420 | 463 | 450 | 107 | 97 |
| Population ² | number | 7,306,000 | 7,121,000 | 7,241,295 | - | - |
| State aid per capita | RSD | 10,624 | 11,578 | 12,154 | 114 | 102 |
| State aid per capita | EUR | 103 | 114 | 107 | 104 | 95 |

The total State aid granted in the Republic of Serbia in 2012 amounted to RSD 88,009 million, which is by 7% more than the total State aid granted in 2011 and it is by 13% more when compared to 2010.

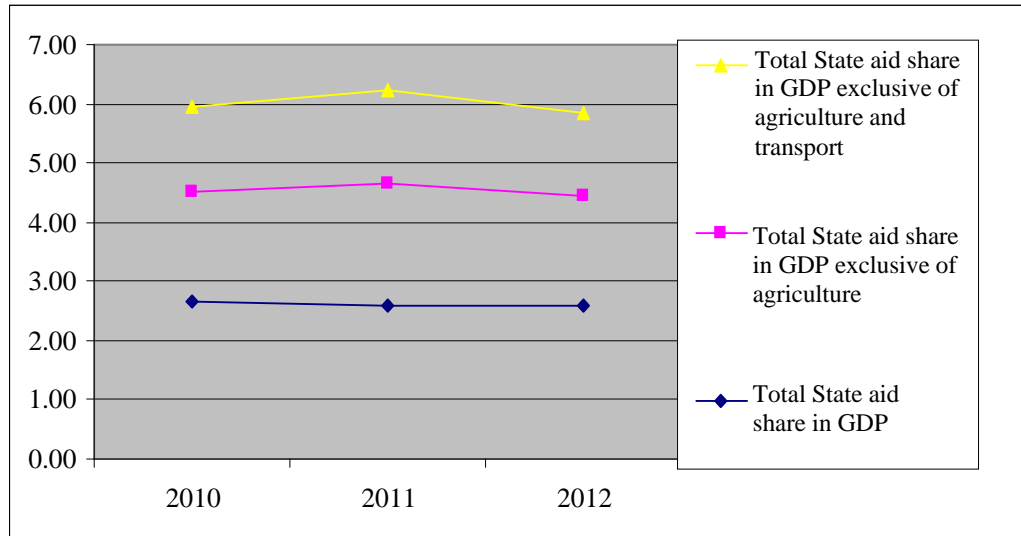
The share of State aid in GDP in 2012 amounted to 2.60% and it was the same in 2011, while in 2010 it amounted to 2.64%.

¹ Data for basic macroeconomic indicators for 2012 are taken from Table 1 of the Bulletin Public Finances No 103 of the Ministry of Finance and Economy

² Statistical Office of the Republic of Serbia

The trends of total State aid share in GDP in the 2010 - 2012 period

Graph 1



The trends of the total State aid share in GDP in the Republic of Serbia in 2012 remained the same when compared to 2011. However, there is a slight fall in comparison to 2010.

2.2. Total State aid granted in the Republic of Serbia in 2010, 2011 and 2012 per different categories

Table 2

| No. | Category | 2010 | | | 2011 | | | 2012 | | |
|--------------|-------------------------------|---------------|---------------|--------------|---------------|---------------|--------------|---------------|---------------|--------------|
| | | In RSD Mil. | In EUR Mil. | % | In RSD Mil. | In EUR Mil. | % | In RSD Mil. | In EUR Mil. | % |
| | Agriculture | 23,176 | 225.22 | 29.9 | 16,888 | 165.65 | 20.5 | 25,158 | 222.39 | 28.6 |
| | Industry and services | 54,443 | 529.07 | 70.1 | 65,559 | 643.05 | 79.5 | 62,851 | 555.57 | 71.4 |
| I | Horizontal State aid | 16,118 | 156.63 | 20.8 | 13,442 | 131.85 | 16.3 | 12,021 | 106.26 | 13.6 |
| 1 | Research and development | 17 | 0.16 | 0.0 | 83 | 0.81 | 0.1 | 9 | 0.08 | 0.0 |
| 2 | Training | 2 | 0.02 | 0.0 | 2 | 0.02 | 0.0 | 4 | 0.03 | 0.0 |
| 3 | Employment | 4,375 | 42.51 | 5.6 | 468 | 4.59 | 0.6 | 2,511 | 22.20 | 2.9 |
| 4 | SME ¹ | 458 | 4.45 | 0.6 | 1 | 0.01 | 0.0 | 108 | 0.96 | 0.1 |
| 5 | Environmental protection | 63 | 0.61 | 0.0 | 2,923 | 28.67 | 3.5 | 15 | 0.13 | 0.0 |
| 6 | Culture | 22 | 0.21 | 0.0 | 144 | 1.41 | 0.2 | 28 | 0.25 | 0.0 |
| 7 | Rescuing and restructuring | 6,035 | 58.64 | 7.8 | 5,228 | 51.28 | 6.3 | 8,696 | 76.87 | 9.9 |
| 8. | Other categories ² | 5,146 | 50.0 | 6.6 | 4,593 | 45.05 | 5.6 | 650 | 5.74 | 0.7 |
| II | Sectoral State aid | 14,526 | 141.16 | 18.7 | 18,260 | 179.10 | 22.1 | 19,317 | 170.75 | 22.0 |
| 1 | Mining | 2,126 | 20.66 | 2.7 | 2,219 | 21.77 | 2.7 | 3,236 | 28.60 | 3.7 |
| 2 | Transport | 12,400 | 120.50 | 16.0 | 16,041 | 157.34 | 19.4 | 16,081 | 142.15 | 18.3 |
| III | Regional State aid | 23,799 | 231.28 | 30.7 | 33,857 | 332.09 | 41.1 | 31,513 | 278.56 | 35.8 |
| TOTAL | | 77,619 | 754.29 | 100.0 | 82,447 | 808.70 | 100.0 | 88,009 | 777.96 | 100.0 |

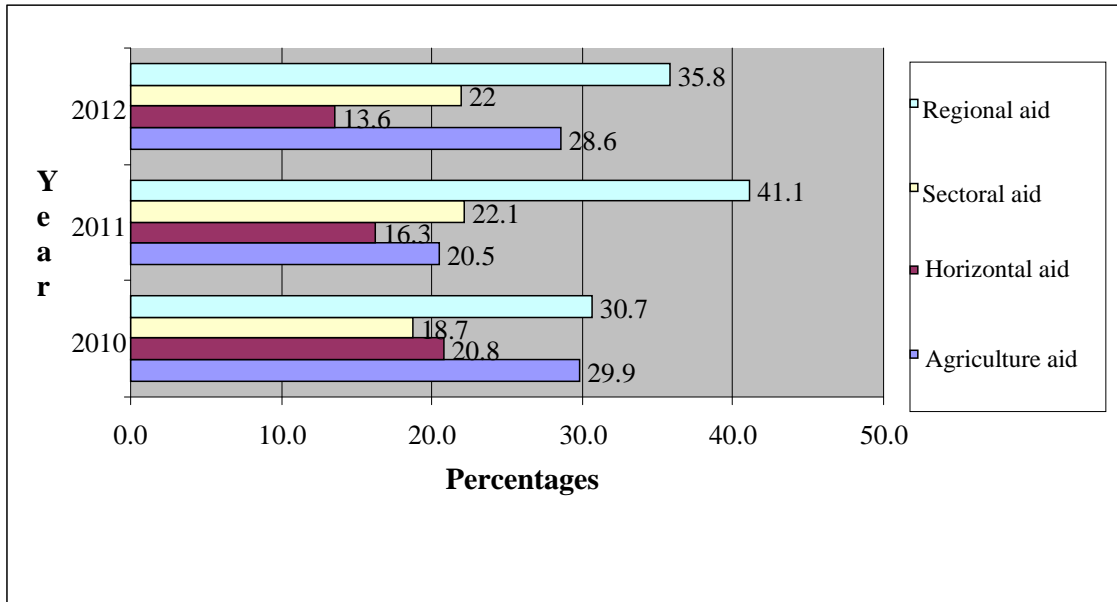
State aid granted to the agriculture sector in 2012 amounted to RSD 25,158 million, which makes it a share of 28.6% in the total State aid granted. The State aid granted to the industry and services sector amounted to RSD 62,851 million and it makes a share of 71.4% of the total State aid granted.

¹ SME – small and medium enterprises

² Other categories – State aid granted to alleviate negative consequences of the global economic crisis

**Structure of total State aid in the Republic of Serbia
in 2010, 2011 and 2012**

Graph 2



Horizontal State aid had a share of 13.6% in the total State aid granted in 2012 and it amounted to RSD 12,021 million. However, it had a share of 16.3% in 2011 and it amounted to RSD 13,442 million and in 2010 that share was 20.8 %, and it amounted to RSD 16,118 million.

Sectoral State aid amounted to RSD 19,317 million in 2012 and made up a share of 22% in the total State aid. In previous reporting periods (2011 and 2010) smaller amounts were granted – RSD 18,260 million and RSD 14,526 million respectively. The share of sectoral State aid in total State aid was slightly smaller when compared to 2011 when it amounted to 22.1% and it was slightly larger when compared to 2010, when it amounted to 18.7%.

Regional State aid amounted to RSD 31,513 million in 2012, with the share of 35.8%. Granted regional State aid is smaller in 2012 when compared to 2011, when it amounted to RSD 33,857 million, and it had a share of 41.1%. Regional State aid in 2012 is larger when compared to 2010, when it amounted to RSD 23,799 million and had a share of 30.7 % in the total State aid.

**State aid in the 2010 – 2012 period
(agriculture and transport excluded)**

Table 3

| Indicator | Unit of measure | 2010 | 2011 | 2012 |
|------------------|------------------------|-------------|-------------|-------------|
| State aid | In RSD mil. | 42,043 | 49,518 | 46,770 |
| State aid | In EUR mil. | 408.5 | 485.7 | 413.4 |
| GDP | In RSD mil. | 2,933,300 | 3,175,000 | 3,386,200 |
| GDP | In EUR mil. | 28,464 | 31,143 | 29,933 |
| State aid in GDP | in % | 1.4 | 1.6 | 1.4 |

The State aid granted to the economy sector in 2012 (agriculture and transport sector excluded) was RSD 46,770 million in absolute amount and it had a share of 1.4% in GDP.

3. INDUSTRY AND SERVICES

3.1. State aid categories

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

- horizontal State aid,
- sectoral State aid and
- regional State aid.

Horizontal State aid is earmarked for a greater number of beneficiaries who are not known in advance and it far less distorts market competition than sectoral State aid. Positive effects of this State aid category are manifold, therefore it is considered to be less selective than the sectoral State aid.

Sectoral State aid is assigned to undertakings in certain business activities, i.e. sectors. This category is far 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, the European Commission applies special rules for granting State aid to vulnerable sectors, such as steel, coal, synthetic fibres and shipbuilding.

Regional State aid is a type of horizontal State aid granted with an aim of stimulating the economic development of undeveloped, that is, less developed regions/areas, primarily those where the standard of living is extremely low, or in areas with high unemployment rate.

Pursuant to Article 38 of the Interim Agreement (Article 73, point 7(a) of the SAA), the Republic of Serbia will assess each State aid it grants in the first five years after the day of coming into force of this agreement, but taking into consideration the fact that the Republic of Serbia will be regarded as an area identical to those areas described in Article 87(3)(a) of the EC Treaty (that is, as undeveloped area).

**State aid in the 2010 – 2012 period
(agriculture excluded)**

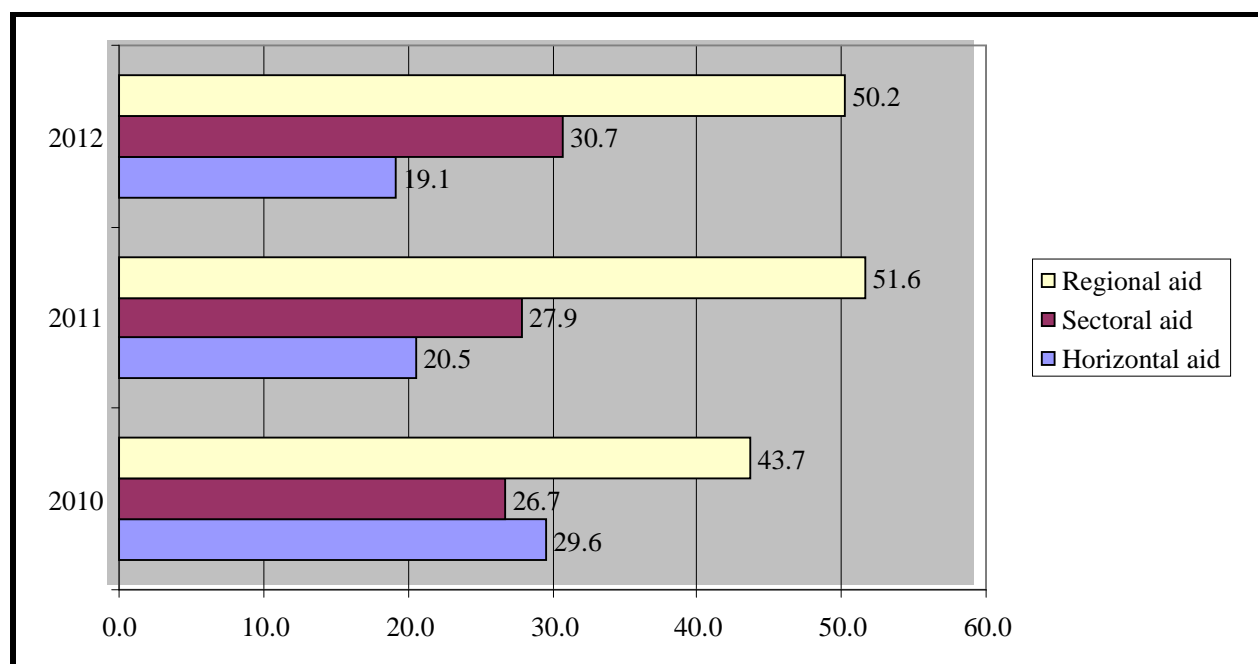
Table 4

| Indicator | Unit of measure | 2010 | 2011 | 2012 |
|------------------|------------------------|-------------|-------------|-------------|
| State aid | In RSD mil. | 54,443 | 65,559 | 62,851 |
| State aid | In EUR mil. | 529.0 | 643.0 | 555.6 |
| GDP | In RSD mil. | 2,933,300 | 3,175,000 | 3,386,200 |
| GDP | In EUR mil. | 28,464 | 31,143 | 29,933 |
| State aid in GDP | in % | 1.85 | 2.06 | 1.86 |

The State aid amount granted to the sector of industry and services in 2012 was 4% lower than in 2011, and 15% higher than the amount granted in 2010. The granted State aid for the industry and services sector in 2012 had a share of 1.86% in GDP, which is less when compared to 2011, when the share was 2.06 % in GDP.

Summary of share of certain State aid categories in State aid granted in the Republic of Serbia in 2010, 2011 and 2012 (agriculture excluded)

Graph 3



In comparison with 2011, the regional State aid decreased slightly and there is a mild increase in sectoral State aid when compared to 2010 and 2011.

3.1.1. Horizontal State aid

Structure of horizontal State aid in the Republic of Serbia in 2010, 2011 and 2012

Table 5
in RSD million

| Horizontal State aid type | 2010 | 2011 | 2012 | Index 12/10 | Index 12/10 |
|----------------------------------|---------------|---------------|---------------|--------------------|--------------------|
| Research and development | 17 | 83 | 9 | 53 | 11 |
| Training | 2 | 2 | 4 | 200 | 200 |
| Employment | 4,375 | 468 | 2,511 | 57 | 537 |
| SME | 458 | 1 | 108 | 24 | - |
| Environmental protection | 63 | 2,923 | 15 | 24 | - |
| Culture | 22 | 144 | 28 | 128 | 20 |
| Rescuing and restructuring | 6,035 | 5,228 | 8,696 | 144 | 166 |
| Other ¹ | 5,146 | 4,593 | 650 | 13 | 14 |
| Total | 16,118 | 13,442 | 12,021 | 75 | 89 |

According to data presented in Table 5, the horizontal State aid decreased by 11% in the absolute amount in 2012 when compared to 2011, and in comparison with 2010, it decreased by 25%. Great differences, both in the total amount of horizontal State aid and its structure stem primarily from the decrease in State aid aimed at alleviating the consequences of the global economic crisis – the decrease amounts to 87% and 86% in comparison to 2010 and 2011 respectively. In addition, there is an increase in State aid aimed at rescuing and restructuring, which amounted to 44% and 66% when compared to 2010 and 2011 respectively.

¹ Other – State aid granted to alleviate negative consequences of the global economic crisis

Share of certain types of horizontal State aid in total amount of horizontal State aid granted in the Republic of Serbia in 2010, 2011 and 2012

**Table 6
in RSD million**

| Horizontal State aid type | 2010 | | 2011 | | 2012 | |
|----------------------------|---------------|-------------|---------------|-------------|---------------|-------------|
| | Amount | In % | Amount | In % | Amount | In % |
| Research and development | 17 | 0.1 | 83 | 0.6 | 9 | 0.1 |
| Training | 2 | 0.0 | 2 | 0.0 | 4 | 0.0 |
| Employment | 4,375 | 27.2 | 468 | 3.5 | 2,511 | 20.9 |
| SME | 458 | 2.8 | 1 | 0.0 | 108 | 0.9 |
| Environmental protection | 63 | 0.4 | 2,923 | 21.7 | 15 | 0.1 |
| Culture | 22 | 0.1 | 144 | 1.1 | 28 | 0.2 |
| Rescuing and restructuring | 6,035 | 37.5 | 5,228 | 38.9 | 8,696 | 72.4 |
| Other ¹ | 5,146 | 31.9 | 4,593 | 34.2 | 650 | 5.4 |
| Total | 16,118 | 100% | 13,442 | 100% | 12,021 | 100% |

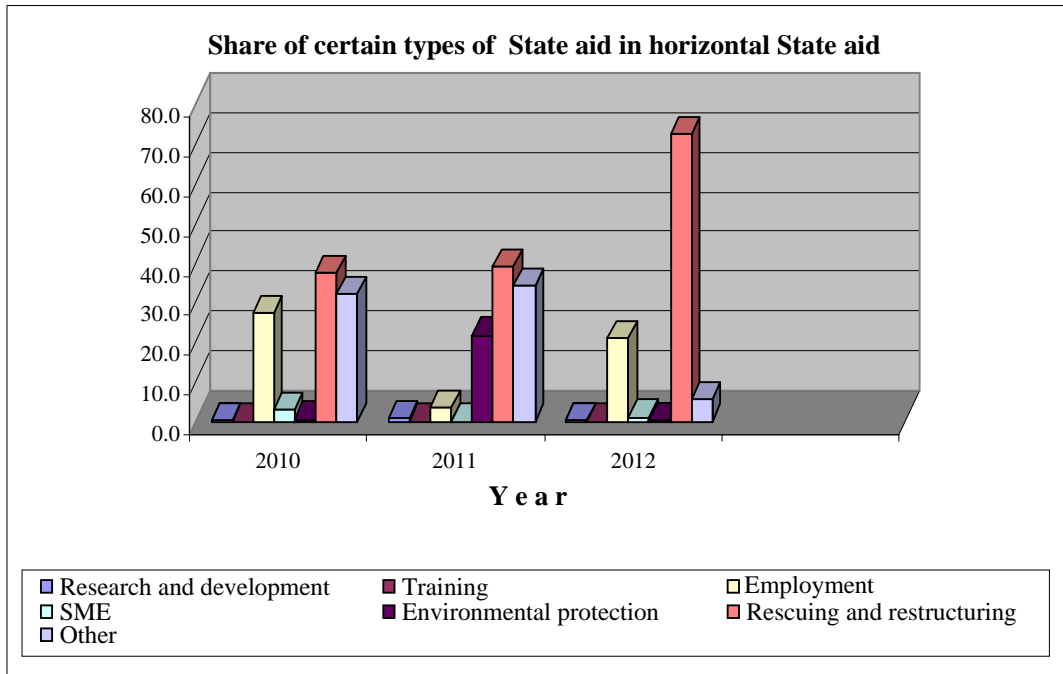
The European Commission has recommended that EU member states should intensify their efforts to reduce the general levels of State aid, and additionally focus on the transition from support to certain enterprises or sectors to incentivizing horizontal objectives, such as employment, regional development, 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, represent rescuing and not development-oriented economic measure) is RSD 9,346 million and accounts to 78% of the total horizontal State aid granted in 2012. This represents higher share than in 2011, when it amounted to RSD 9,821 million and accounted for 73% of the total granted horizontal State aid. In order to adequately assess if the recommended EU directives have been followed, it is necessary to encompass the regional State aid together with the horizontal State aid. In addition, according to Article 38, point 7(a) of the Interim Agreement (the SAA Article 73, paragraph 7, point (a)), the Republic of Serbia is considered to be an underdeveloped region. The total amount of the above mentioned State aid types in 2012 reached the level of RSD 43,534 million, whereas the State aid for rescuing and restructuring and that for the alleviation of the consequences of global economic crisis had the share of 21%, while the incentivizing of objectives, marked as significant for the development and recommended by European Commission, had a share of 79%.

¹ Other – State aid allocated to alleviate negative consequences of the global economic crisis

Structure of horizontal State aid in 2010, 2011 and 2012

Graph 4



Horizontal State aid according to the granting instruments in 2012

Table 7
in RSD million

| Horizontal State aid type | Subsidies | In % | Tax incentives | In % | Soft loans | In % | Guarantees | In % | Total |
|----------------------------------|------------------|-------------|-----------------------|-------------|-------------------|-------------|-------------------|-------------|---------------|
| Research and development | 9 | 0.1 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 9 |
| Training | 4 | 0.0 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 4 |
| Employment | 818 | 6.8 | 1,693 | 14.1 | 0 | 0.0 | 0 | 0.0 | 2,511 |
| SME | 107 | 0.9 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 107 |
| Environmental protection | 0 | 0.0 | 0 | 0.0 | 16 | 0.1 | 0 | 0.0 | 16 |
| Rescuing and restructuring | 2,525 | 21.0 | 4,567 | 38.0 | 1,604 | 13.3 | 0 | 0.0 | 8,696 |
| Culture | 28 | 0.2 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 28 |
| Other ¹ | 650 | 5.4 | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 | 650 |
| Total | 4,141 | 34.4 | 6,260 | 52.1 | 1,620 | 13.5 | 0 | 0 | 12,021 |

The horizontal State aid was mostly granted in the form of tax allowances that make up to 52.1% of the instruments for granting horizontal State aid.

¹Other – State aid allocated to alleviate negative consequences of the global economic crisis

3.1.2. Sectoral State aid

Sectoral State aid in the Republic of Serbia in 2010, 2011 and 2012

Table 8
in RSD million

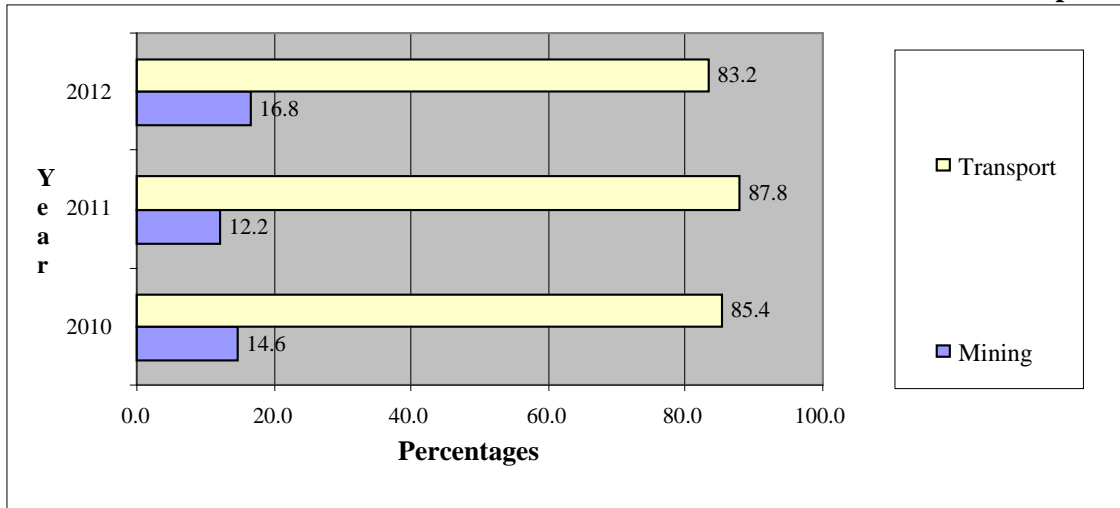
| Sector | 2010 | 2011 | 2012 | Index 12/10 | Index 12/11 |
|--------------|---------------|---------------|---------------|-------------|-------------|
| Mining | 2,126 | 2,219 | 3,236 | 152 | 146 |
| Transport | 12,400 | 16,041 | 16,081 | 130 | 100 |
| Total | 14,526 | 18,260 | 19,317 | 133 | 106 |

The absolute amount of sectoral State aid granted in 2012 was 6% higher than in 2011 and 33% higher than in 2010.

The 2012 Report includes only those sectors that are marked as specific (mining and transport) in EU regulations.

Structure of sectoral State aid in the Republic of Serbia in 2010, 2011 and 2012

Graph 5



The biggest share in the sectoral State aid had State aid granted to the transport sector (the same situation as in the two previous reporting years, only to the railway transport, that is, the beneficiary joint-stock company “Serbian Railways”). State aid for the mentioned sector in 2012 amounted to 83.2% of the total granted sectoral State aid.

3.1.3. Regional State aid

Regional State aid is allocated with the aim of incentivizing less developed, that is, undeveloped regions and it is directed to the alleviation of structural problems and uneven 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 2010, 2011 and 2012

Table 9
in RSD million

| Indicator | 2010 | 2011 | 2012 | Index 12/10 | Index 12/11 |
|---|---------------|---------------|---------------|------------------------|------------------------|
| State aid (agriculture excluded) | 54,443 | 65,559 | 62,851 | 115 | 96 |
| Regional State aid | 23,799 | 33,857 | 31,513 | 132 | 93 |
| % of share of regional State aid | 44.1 | 51.6 | 50.1 | - | - |

The regional State aid in 2012 amounted to RSD 31,513 million and it was realised through the following instruments for State aid granting: direct grants RSD 6,811 million, tax incentives RSD 22,298 million and soft loans granted through the Development Fund of the Republic of Serbia RSD 2,404 million.

4. STATE AID INSTRUMENTS

Granted State aid confers a more favourable market position to a State aid beneficiary in respect to competitors. 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 (Article 2, point 1 of the Law).

State aid in the Republic of Serbia during 2012 was granted by using the following instruments:

- direct grants,
- tax incentives (tax credit, termination of tax debt, tax write-off),
- loans – soft loans.

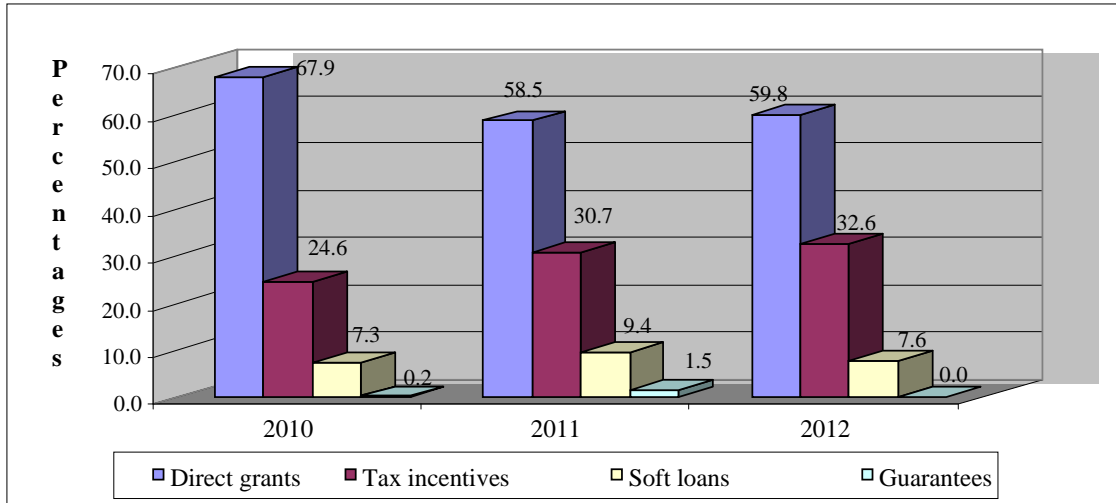
Total State aid granted in the Republic of Serbia in 2010, 2011 and 2012 by granting instruments (agriculture included)

Table 10
in RSD million

| Grant instrument | 2010 | in % | 2011 | in % | 2012 | in % | Indices | |
|------------------|---------------|--------------|---------------|--------------|---------------|--------------|------------|------------|
| | | | | | | | 12/10 | 12/11 |
| Direct grants | 52,732 | 68.0 | 48,212 | 58.5 | 52,571 | 59.8 | 99 | 109 |
| Tax incentives | 19,083 | 24.6 | 25,295 | 30.7 | 28,660 | 32.6 | 150 | 113 |
| Soft loans | 5,639 | 7.2 | 7,742 | 9.4 | 6,678 | 7.6 | 118 | 86 |
| Guarantees | 165 | 0.2 | 1,198 | 1.4 | 0.0 | 0.0 | - | - |
| Total | 77,619 | 100.0 | 82,447 | 100.0 | 88,009 | 100.0 | 113 | 107 |

Structure of instruments for granting State aid in the Republic of Serbia in 2010, 2011 and 2012

Graph 6



Direct grants and tax incentives are the instruments through which 92.4% of State aid was granted in 2012, 89.2% in 2011 and 92.6 % in 2010.

The amount of net State aid on the grounds of allowed soft loans was RSD 6,678 million in 2012 and RSD 7,742 million in 2011.

4.1 Total State aid granted in the Republic of Serbia in 2012 according to the instruments for granting State aid

Table 11
in RSD million

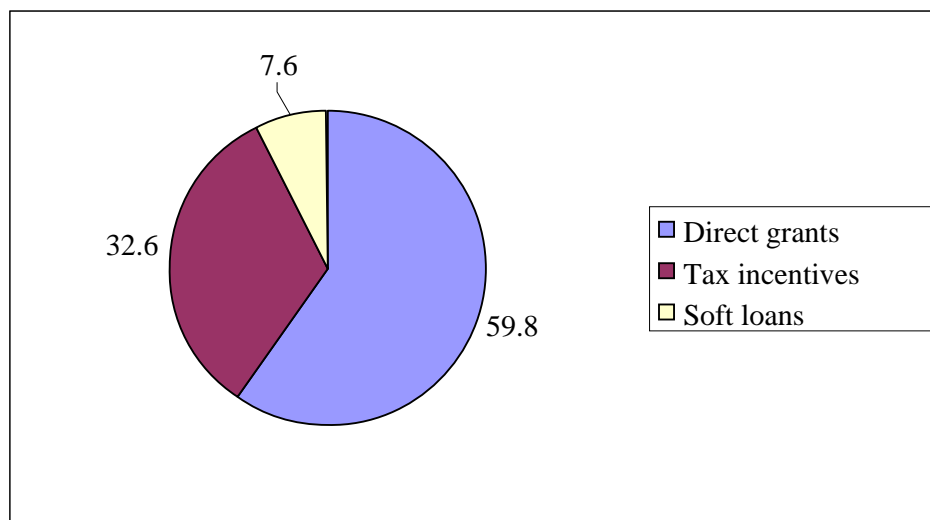
| State aid category | INSTRUMENTS FOR GRANTING STATE AID | | | | |
|--------------------------------|------------------------------------|----------------|--------------|------------|---------------|
| | Direct grants | Tax incentives | Soft loans | Guarantees | Total |
| Agriculture | 24,671 | 102 | 385 | 0.0 | 25,158 |
| Industry and services | 28,000 | 28,558 | 6,293 | 0.0 | 62,851 |
| 1. Horizontal State aid | 4,141 | 6,260 | 1,620 | 0.0 | 12,021 |
| Research and development | 9 | 0.0 | 0.0 | 0.0 | 9 |
| Training | 4 | 0.0 | 0.0 | 0.0 | 4 |
| Employment | 818 | 1,693 | 0.0 | 0.0 | 2,511 |
| SMEs | 107 | 0.0 | 0.0 | 0.0 | 107 |
| Environmental protection | 0.0 | 0.0 | 16 | 0.0 | 16 |
| Rescuing and restructuring | 2,525 | 4,567 | 1,604 | 0.0 | 8,696 |
| Culture | 28 | 0.0 | 0.0 | 0.0 | 28 |
| Other | 650 | 0.0 | 0.0 | 0.0 | 650 |
| 2. Sectoral State aid | 17,048 | 0.0 | 2,269 | 0.0 | 19,317 |
| Mining | 3,236 | 0.0 | 0.0 | 0.0 | 3,236 |
| Transport | 13,812 | 0.0 | 2,269 | 0.0 | 16,081 |
| 3. Regional State aid | 6,811 | 22,298 | 2,404 | 0.0 | 31,513 |
| Total | 52,671 | 28,660 | 6,678 | 0.0 | 88,009 |

The instrument through which sectoral State aid was realised the most in all the reporting years are direct grants (agriculture, transport and State aid intended for rescuing and restructuring).

Horizontal and regional objectives are financed through direct instruments (direct grants) and indirect instruments for State aid granting (tax incentives).

Structure of instruments for State aid granting in the Republic of Serbia in 2012

Graph 7



4.2. Direct grants

The most popular State aid granting instrument in 2012 were direct grants with the share of 59.8% in the total granted State aid and the majority of this aid was granted to the sectoral State aid (agriculture, mining and transport).

4.3. Tax incentives

Tax incentives as the instrument for granting State aid in 2012 in the Republic of Serbia had a share of 32.6%.

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

- tax incentives approved pursuant to the Corporate Income Tax Law¹
- tax incentives approved pursuant to the Individual Income Tax Law² through the reduction of individual income tax on the grounds of investing into fixed assets.

On the above grounds, tax incentives in 2012 amounted to the total of RSD 28,660 million.

4.4. Soft loans

Loans offered at preferential rates (soft loans) accounted for 7.6% in the total granted State aid. Regarding 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

¹ Official Gazette of RS, Nos 25/01, 80/02, 80/02 – other law, 43/03, 84/04, 18/10, 101/1, 119/12 and 47/13

² Official Gazette of RS, Nos 24/01, 80/02, 80/02 – other law, 135/04, 62/06, 65/06 – correction, 31/09, 44/09, 18/10, 50/11, 91/11 – decision of the Constitutional Court, 93/12, 114/12 – decision of the Constitutional Court, 8/13, 7/13 and 48/13 – correction

rate at which these loans were approved, compared to reference (average)¹ interest rate in the banking capital market, calculated by conform method for the credit period.

The amount of approved loans in 2012 was RSD 20,284 million and there is a decrease of 32% in comparison to 2011, when the amount of RSD 29,646 million was allowed.

4.5. Guarantees

The Development Fund of the Republic of Serbia issued performance guarantees in the amount of RSD 23.4 million and EUR 5.6 million in 2012.

Financial guarantees were issued to the commercial sector in the total amount of EUR 3.78 million, but taking into account that they do not cover more than 80% of beneficiaries' financial liabilities, financial guarantees do not constitute State aid, within the meaning of Article 99 of the Regulation.

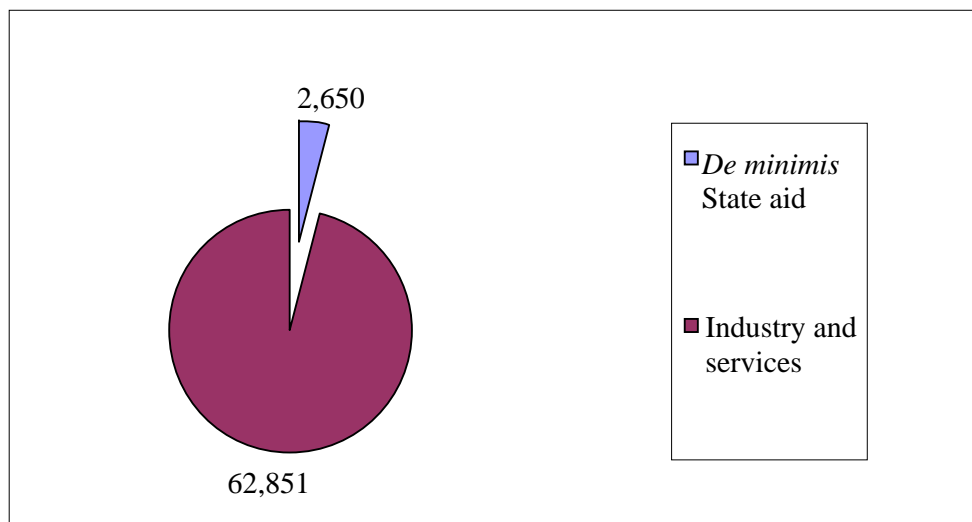
¹ The reference rate is the basic reference rate (average reference rate on the interbank market – BELIBOR for September, October and November in 2010) increased by 100 basic points for the credit margin (reference risk margin) and it amounted to 13.02% in 2012 for BELIBOR; source: the National Bank of Serbia.

5. THE STATE AID OF SMALL VALUE (*de minimis* State aid)

The State aid of small value (*de minimis* State aid) is monitored 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 State aid 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 a purpose, but it cannot be granted for: coal mining; the procurement of road freight vehicles for undertakings which perform services of freight transport; export incentives, that is, for establishing and functioning of distribution network or for other current expenditures in connection with exporting activities; giving preference to domestic products but not to imported products, as well as undertakings in difficulties. Furthermore, *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 between State aid of small value and State aid granted to the industry and services sector in 2012

Graph 8



The State aid of small value granted in 2012 (*de minimis* State aid) amounted to RSD 2,650 million, out of which RSD 2,201 million was granted from the Republic level, and RSD 399 million from the level of the provinces and RSD 50 million from the level of self-government units. The amount of RSD 2,619 million was granted through direct grants, out of which RSD 2,170 million was granted from the Republic level and RSD 449 million from all other levels of authority, as well as RSD 31 million of State aid that was granted by approving soft loans. Compared to 2011, granted *de minimis* State aid in 2012 decreased by 30%. The decreasing trend of granting *de minimis* State aid should be continued, given the fact that this State aid category brings the least positive effects, because there are minimal rules for its granting and beneficiary's liability is also minimal.

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

State aid in the Republic of Serbia in comparison with the EU in 2011

Table 12

| | European Union in 2011 (State aid in millions EUR) | | | | |
|-----------------------|---|------------------|---|------------------|----------------|
| | State aid – (transport/railways) | | State aid exclusive of State aid to agriculture and transport sector | | |
| | In EUR million | As a % of GDP | In EUR million | As a % of GDP | % of State aid |
| Serbia in 2010 | 634 | 2.2 | 409 | 1.4 | 65 |
| Serbia in 2011 | 648 | 2.0 | 486 | 1.6 | 75 |
| Serbia in 2012 | 636 | 1.9 | 413 | 1.4 | 65 |
| EU - 2011 | 64,295 | 0.5 | 52,964 | 0.4 | 82 |
| Belgium | 1,594 | 0.4 | 1,239 | 0.3 | 78 |
| Bulgaria | 37 | 0.1 | 18 | 0.1 | 48 |
| Czech Republic | 1,424 | 0.9 | 1,172 | 0.8 | 82 |
| Denmark | 1,093 | 0.5 | 831 | 0.4 | 76 |
| Germany | 13,621 | 0.5 | 12,456 | 0.8 | 91 |
| Estonia | 51 | 0.3 | 18 | 0.1 | 34 |
| Ireland | 1,062 | 0.7 | 669 | 0.4 | 63 |
| Greece | 2,593 | 1.2 | 2,173 | 1.0 | 84 |
| Spain | 4,532 | 0.4 | 3,712 | 0.4 | 82 |
| France | 12,357 | 0.6 | 10,481 | 0.5 | 85 |
| Italy | 3,807 | 0.2 | 2,920 | 0.2 | 77 |
| Cyprus | 141 | 0.8 | 96 | 0.5 | 68 |
| Latvia | 185 | 0.9 | 58 | 0.3 | 31 |
| Lithuania | 210 | 0.7 | 121 | 0.4 | 58 |
| Luxembourg | 103 | 0.2 | 81 | 0.2 | 78 |
| Hungary | 1,121 | 1.1 | 860 | 0.9 | 77 |
| Malta | 103 | 1.6 | 92 | 1.4 | 90 |
| Netherlands | 2,673 | 0.4 | 1,783 | 0.3 | 67 |
| Austria | 1,707 | 0.6 | 1,512 | 0.5 | 89 |
| Poland | 2,823 | 0.8 | 2,129 | 0.6 | 76 |
| Portugal | 1,766 | 1.0 | 1,750 | 1.0 | 99 |
| Romania | 546 | 0.4 | 283 | 0.2 | 52 |
| Slovenia | 396 | 1.1 | 326 | 0.9 | 82 |
| Slovakia | 171 | 0.3 | 160 | 0.2 | 94 |
| Finland | 2,344 | 1.2 | 1,061 | 0.6 | 45 |
| Sweden | 3,023 | 0.8 | 2,790 | 0.7 | 92 |
| United Kingdom | 4,813 | 0.3 | 4,179 | 0.2 | 87 |

Table 12 contains data on State aid granted in 2011, including agriculture sector and without the transport sector, and State aid exclusive of agriculture and transport for EU Member States and at the level of the EU¹, while the data for the Republic of Serbia are presented for 2010, 2011 and 2012.

¹ Source: EU/DG Competition – State aid – Scoreboard, 2011