

**Republic of Serbia
COMMISSION FOR STATE AID CONTROL**

R E P O R T

ON STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2017

March 2019

TABLE OF CONTENTS

1.	INTRODUCTION	3
1.1.	State aid control	4
1.1.1.	Defining state aid concepts (Article 2 of the Law)	4
1.1.2.	State aid criteria	5
1.1.3.	Allowed state aid (Article 4 of the Law)	6
1.1.4.	State aid that may be considered to be allowed (Article 5 of the Law)	6
1.1.5.	State aid scheme and individual state aid (Article 12 of the Law)	6
1.2.	Methodology for drafting the report on granted state aid	6
1.2.1.	Collection of the data on granted state aid	7
1.2.2.	Methodology for presenting granted state aid	7
1.2.3.	State aid instruments	7
1.3.	Structure of 2017 Report	8
1.4.	Summary of 2017 Report	8
2.	STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2017	10
2.1.	State aid in the Republic of Serbia in relation to basic macroeconomic	10
2.2.	Total state aid granted in the Republic of Serbia in 2015, 2016 and 2017 per state aid types	12
3.	INDUSTRY AND SERVICES	15
3.1.	State aid types	15
3.1.1.	Horizontal state aid	18
3.1.2.	Sectoral state aid	22
3.1.3.	Regional state aid	23
4.	STATE AID INSTRUMENTS	24
4.1.	Total state aid granted in the Republic of Serbia in 2017 per state aid instruments	26
4.2.	Direct grants	27
4.3.	Tax incentives	27
4.4.	Soft loans	27
4.5.	Guarantees	28
5.	STATE AID OF SMALL VALUE (de minimis aid)	29
6.	CONCLUSION	30

1. INTRODUCTION

State aid control in the Republic of Serbia was introduced by the adoption of the Law on State aid Control (“Official Gazette of the RS”, no. 51/09 – hereinafter referred to as “the Law”), the Regulation on Rules for State Aid Granting (“Official Gazette of the RS”, nos. 13/10, 100/11, 91/12, 37/13, 97/13 and 119/14 – hereinafter referred to as “the Regulation”) and the Regulation on Rules and Procedure for State aid Notification (“Official Gazette of the RS”, no. 13/10).

Pursuant to Article 6 of the Law and Article 43 paragraph 1 of the Law on Government (“Official Gazette of the RS”, nos. 55/05, 71/05 – corrigendum, 101/07, 65/08, 16/11, 68/12 – decision of the Constitutional Court, 72/12, 7/14 – decision of the Constitutional Court and 44/14), the Government adopted the Decision on the Establishment of the Commission for State Aid Control on December 29th, 2009 (“Official Gazette of the 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 Commission for State Aid Control govern the procedures and other issues relevant to the work of the Commission for State Aid Control (hereinafter referred to as “the Commission”).

The Commission with its new composition was established by the Government Decision (“Official Gazette of the Republic of Serbia”, no. 6/15 and 104/17) of January 20th, 2015, i.e. of September 20th, 2018.

In 2017, the Commission held 26 sessions in which it adopted 196 acts that come within its competence, out of which:

- 41 decisions – the Commission decided whether State aid was allowed in 40 cases (out of which 20 notifications were considered in *ex ante* control, while in the procedure of *ex post* control it considered 20 notifications of granted state aid) and it adopted 1 decision by which it decided to repeat the procedure for a specific state aid granting;

- 20 conclusions, out of which *ex post* control was initiated in 20 cases in order to establish whether State aid was allowed (the Commission initiated cases of *ex post* control based on its own information or information obtained from other sources);

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

There is a noticeable trend regarding the reduction of state aid notifications that the Commission decided upon in the procedure of *ex post* control.

If the Commission, pursuant to Article 18 paragraph 3 of the Law, within *ex post* control, determines that 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 to notify 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.

Within the meaning of Article 23 paragraph 1 of the Law, the ministry in charge of finance is in charge of preparing a draft annual report on state aid granted in the Republic of Serbia, according to data provided by state aid grantors. The report is submitted to the Government by the Commission for State Aid Control. Moreover, in accordance with Article 73 paragraph 5 of the Stabilisation and Association Agreement (the Law confirming the Stabilisation and Association Agreement between the European Communities and their Member States, of the one part, and the Republic of Serbia, of the other part (“Official Gazette

of the RS – International Agreements“, no. 83/08 – hereinafter referred to as “the SAA”) and Article 38 paragraph 5 of the Interim Agreement (the Law confirming 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 the RS – International Agreements“, no. 83/08 – hereinafter referred to as “the Interim Agreement”)), the Republic of Serbia assumed the responsibility for regularly submitting annual reports on granted state aid to competent institutions of the European Union, following the methodology and data presentation which is contained in the State Aid Scoreboard of the European Commission, in order to ensure transparency of state aid granting.

The Rulebook on Methodology for Drafting Annual Report on State aid Granted (“*Official Gazette of the RS*”, no. 3/11 – hereinafter referred to as “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 submits the annual report to the Government.

The Annual Report on State Aid Granted in the Republic of Serbia in 2017 (hereinafter referred to as “the 2017 Report”) is the fourteenth consecutive annual report that the Republic of Serbia has made until now (the first was drafted for **2003/2004 period**). However, it is the eighth comprehensive report, because it contains data on state aid granted by local self-governmental units and it is completely drafted in accordance with EU methodology.

State aid granted by the ministry in charge of agriculture, fishery and forestry is presented only in the section of 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. State aid control

State aid control, which is granted to individual enterprises or to a group of enterprises, protects free market competition and 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 macroeconomic environment is created and it fosters economic growth, new investments, employment growth and overall social welfare.

1.1.1. Defining state aid concepts (Article 2 of the Law)

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-governmental units, through their competent bodies, and any legal person managing and/or having disposal over public funds and allocating 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 state aid in any form whatsoever (Article 2 point 3 of the Law).

1.1.2. State aid criteria

In order to consider a certain measure state aid, the following four criteria have to 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) 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, province or 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 state aid granting do not only apply to the state, i.e. to the Republic, autonomous province and local self-governmental 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 grant 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 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, or if a state aid scheme is only applied to one part of state territory (and this is the case with all regional 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 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 than 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 a 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 and products concerned;
- 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 for 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 legal grounds for granting state aid to beneficiaries which are not previously designated (known), and drafts and/or proposals of regulations which will constitute the legal 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 state aid grantor’s act, which is not based on a state aid scheme, to the previously designated beneficiary, or
- 2) based on state aid scheme.

1.2. Methodology for drafting the 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. Collection of the data on granted 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 granted state aid.

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 granted state aid contains data on state aid grantors and beneficiaries, beneficiary sector (business activity), registration number of the Commission's decision, legal grounds for state aid granting, type, amount, state aid instrument, financial source, duration, as well as purpose of state aid.

Data on granted *de minimis* aid is submitted within the Table of total *de minimis* aid granted.

1.2.2. Methodology for presenting 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:

- 2.1. State aid for small and medium enterprises,
- 2.2. State aid for rescue and restructuring enterprises in difficulty,
- 2.3. State aid for employment,
- 2.4. State aid for environmental protection,
- 2.5. State aid for research, development and innovation,
- 2.6. State aid for training,
- 2.7. State aid in the form of risk capital,
- 2.8. State aid to the cultural sector.

3) Sectoral state aid:

- 3.1. State aid in the steel production sector,
- 3.2. State aid in the coal extraction sector,
- 3.3. State aid in the transport sector.

3) *De minimis* aid.

1.2.3. State aid instruments

According 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 information on loan 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 2017 Report

The 2017 Report consists of five chapters.

Basic state aid concepts are explained in **Chapter 1** (introductory part), as well as the methodology for drafting the report on granted state aid.

In **Chapter 2**, granted state aid is presented in the following manner:

- within Section 2.1. state aid in the Republic of Serbia is presented in relation to basic macroeconomic indicators, such as the share of state aid in gross domestic product, the share of state aid 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 2015, 2016 and 2017 is presented by categories, i.e. by types of state aid.

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

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

Chapter 5 discusses state aid of small value (*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 affect competition and trade in the market.

1.4. Summary of 2017 Report

The 2017 Report is drafted in accordance with the Law, the Regulation and the Rulebook.

The report presents the analytical summary of state aid granted in 2017. Comparative data is given in order to have a comprehensive summary and trends monitoring for both 2015 and 2016.

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, Development Agency of Serbia (DAS), Government of Autonomous Province of Vojvodina and local self-governmental units) and it was drafted in accordance with the Rulebook, which sums the reporting classifications and regulations.

In the Republic of Serbia in 2017 the total amount of granted State aid amounted to RSD 96,045 million, i.e. EUR 807.0. million¹, which is by 4% more in comparison to total state aid granted in 2016 (91,399 million or EUR 767 million), that is, by 8% less in

¹ Average Euro exchange rate in 2017 was RSD 121.3367; Source: National Bank of Serbia

comparison with the same parameter for 2015 (RSD 104,202 million, i.e. EUR 863.1 million). In comparison with the amounts stated in euros, granted state aid in 2017 is 5% higher than in 2016 and 6% lower than in 2015.

The share of state aid in the gross domestic product (hereinafter referred to as “the GDP”) is 2.15% in 2017, while in 2016 it was 2.20% and 2.58% in 2015.

The 2017 report contains the data on state aid in certain sectors, that is, in the sector of agriculture, hunting, forestry and fishery (hereinafter referred to as “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.

In 2017 **the agriculture sector** was granted state aid in the amount of **RSD 26,335 million or EUR 232.8 million**, which in comparison to 2016 and 2015 presents an increase of 15% and 18%, respectively. The share of this state aid in the total state aid granted in 2017 was 27.4%, while in 2016 and 2015 it was at 25% and 21.4%, respectively. State aid granted by the ministry in charge of agriculture, fishery and forestry is presented in total amount of state aid granted, considering a fact that the provisions of the Law do not refer to agricultural and fishery products (Article 1 paragraph 2 of the Law).

Absolute state aid amount granted to the industry and services sector in 2017 was **RSD 69,710 million or EUR 574.5 million**, which remains at the same level as in 2016. However, when compared to 2015 the amount granted in this sector in 2017 decreased by 15%. The share of this state aid in the total state aid granted in 2017 was 72.6%, while in 2016 and 2015 it was 75.1% and 78.6%, respectively.

2. STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2017

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

Table 1

Indicator	Unit of measure	2015	2016	2017	Index	
					17/15	17/16
State aid	In RSD million	104,202	92,399	96,045	92.17	103.95
State aid	In EUR million	863	750	792	91.71	105.47
GDP ²	In RSD million	4,043,500	4,203,500	4,469,800	110.54	106.34
GDP	In EUR million	33,491	34,142	36,838	109.99	107.90
State aid in GDP	in %	2.58	2.20	2.15	-	-
Public expenditures ²	In RSD million	1,843,966	1,899,720	1,921,100	-	-
Public expenditures	In EUR million	15,273	15,430	15,833	-	-
State aid in public expenditures	in %	5.65	4.86	5.0	-	-
Employees ³	number	1,896,000	1,914,000	1,977,000	-	-
State aid per employee	RSD	54,959	48,275	48,581	88.40	100.63
State aid per employee	EUR	455	392	400	87.96	102.11
Population ³	number	7,076,372	7,040,272	7,020,858	-	-
State aid per capita	RSD	14,725	13,124	13,680	92.90	104.23
State aid per capita	EUR	122	107	113	92.44	105.76

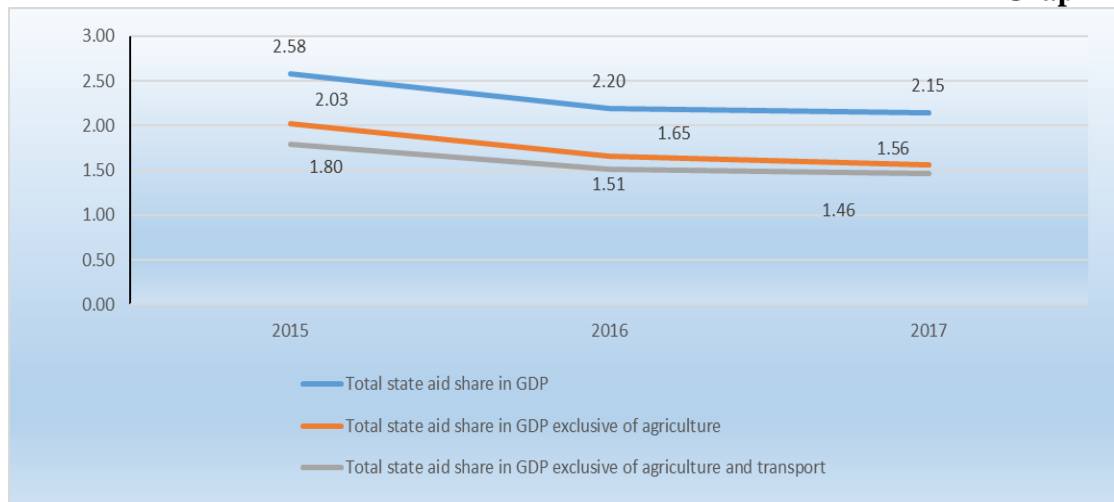
² Data for basic macroeconomic indicators for 2017 are taken from website of the Ministry of Finance (<http://mfin.gov.rs/pages/article.php?id=12914>)

³ Statistical Office of the Republic of Serbia (<http://webrzs.stat.gov.rs/WebSite/Default.aspx>)

The share of state aid in the GDP in 2017 amounted to 2.15%, while in 2016 and 2015 it amounted to 2.20% and 2.58% respectively. In 2016 and 2015, share of state aid in public expenditures was 4.86% and 5.65% respectively, while in 2017 the share amounted to 5.0%.

The trends of total state aid share in GDP in 2015 - 2017 period

Graph 1



The trends of the total state aid share in the GDP in the Republic of Serbia in 2016 and 2017 shows slight decrease in comparison to 2015.

2.2 Total state aid granted in the Republic of Serbia in 2015, 2016 and 2017 per state aid types

Table 2

No.	Type	2015			2016			2017		
		In RSD Mil.	In EUR Mil.	%	In RSD Mil.	In EUR Mil.	%	In RSD Mil.	In EUR Mil.	%
	Agriculture	22,307	185.0	21.4	22,920	202.6	25.0	26,335	232.8	27.4
	Industry and services	81,895	678.0	78.6	69,479	564.4	75.1	69,710	574.5	72.6
I	Horizontal state aid	36,941	305.9	35.5	30,717	249.4	33.2	30,821	254.0	32.1
1	Research and development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	Training	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Employment	2,633.5	21.8	2.5	3,677.5	29.9	4.0	4,512	37.19	4.7
4	SME ⁴	56.8	0.5	0.1	0.0	0.0	0.0	2.0	0.02	0.0
5	Environmental protection	0.0	0.0	0.0	2,073	16.8	2.2	7,939	65.43	8.3
6	Culture and information	10,123	83.9	9.7	11,909	96.7	12.0	1,658	13.66	1.7
7	Rescue and restructuring	23,566	195.2	22.6	12,213	99.0	13.2	2,378	19.60	2.5
8	Other types ⁵	561.6	4.7	0.5	844.6	7.0	0.9	14,332	118.11	14.9
II	Sectoral state aid	13,744	113.8	13.2	11,914	97.0	12.8	9,058	74.7	9.4
1	Mining	4,470	37.0	4.3	5,970	48.5	6.4	4,595	37.9	4.7
2	Transport	9,274	76.8	8.9	5,944	48.3	6.4	4,463	36.8	4.7
3	Steel	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
III	Regional state aid	31,210	258.5	29.9	26,848	218.0	29.0	29,831	245.8	31.1
	TOTAL	104,202	863.1	100.0	92,399	767.0	100.0	96,045	807.3	100.0

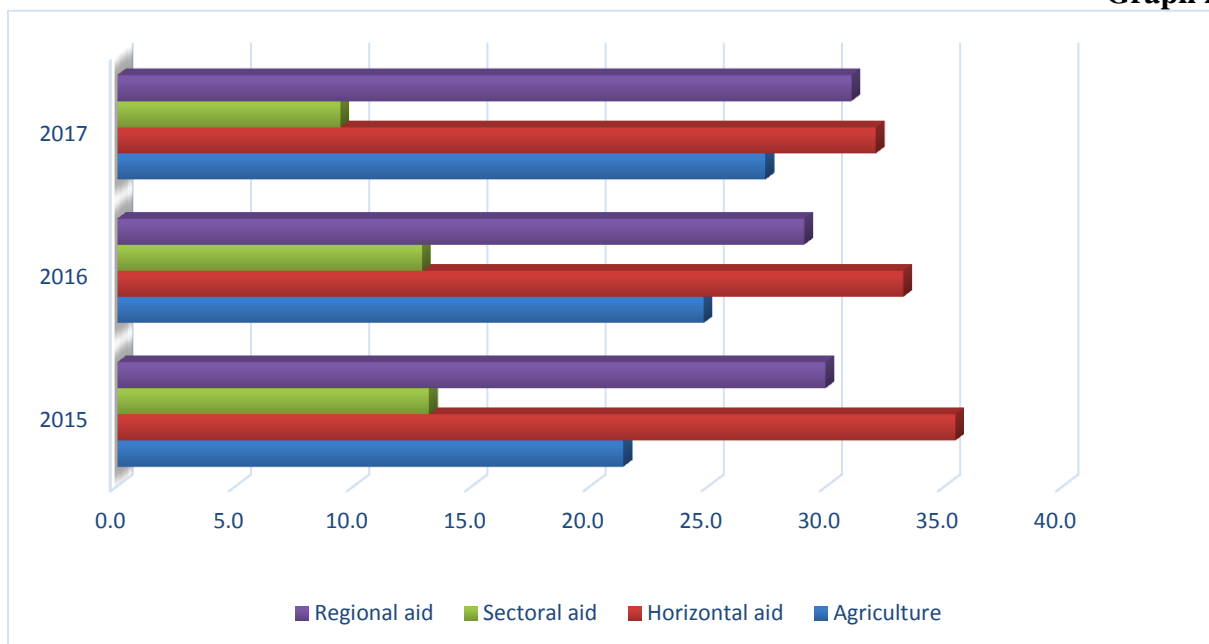
State aid granted to the agriculture sector in 2017 amounted to RSD 26,335 million, which makes a share of 27.4% in total state aid granted. State aid granted to the industry and services sector amounted to RSD 69,710 million and it makes a share of 72.6% of total state aid granted.

⁴ SME – small and medium enterprises

⁵ Other types – undertakings in the privatisation process, public information and incentives for the film industry

Structure of total State aid in the Republic of Serbia including agriculture in 2015, 2016 and 2017

Graph 2



Horizontal state aid in total granted state aid in 2017 participates with 32.1% and amounts to RSD 30,821 million, while the share in 2016 amounted to 33.2%, i.e. RSD 30,717 million, and 35.5% in 2015, or RSD 36,941 million.

Sectoral state aid in the total granted state aid in 2017 participates with 9.4% and amounts to RSD 9,058 million. In the previous reporting periods for 2016 and 2015, slightly higher amounts were granted - RSD 11,914 million and RSD 13,744 million respectively. A share of Sectoral state aid in total state aid in 2016 and 2015 was 12.8% and 13.2% respectively.

Regional state aid in the total granted state aid in 2017 participates with 31.1% and amounts to RSD 29,831 million. Regional state aid increased in 2017 compared to 2016, when it amounted to RSD 26,848 million, with a share in total state aid of 29%. Regional state aid in 2017 is lower compared to 2015, when it amounted to RSD 31,210 million and participated with 29.9% in total state aid.

In the **agriculture sector** in 2017, funds were granted in the total amount of RSD 26,335 million, participating in total state aid with 27.4%, while the share in 2016 amounted to 25% or RSD 22,920 million, and 21.4% or RSD 22,307 million in 2015.

**State aid in 2015 – 2017 period
(agriculture and transport excluded)**

Table 3

Indicator	Unit of measure	2015	2016	2017
State aid	In RSD mil.	72,621	63,536	65,247
State aid	In EUR mil.	601.5	516.1	538
GDP	In RSD mil.	4,043,500	4,203,500	4,469,800
GDP	In EUR mil.	33,491	34,142	36,838
State aid in GDP	in %	1.8	1.5	1.5

State aid granted to the economy sector (excluding the agriculture and transport sectors) in 2017 was in the absolute amount of RSD 65,247 million and amounted to 1.5% of GDP.

3. INDUSTRY AND SERVICES

3.1. State aid types

Pursuant to the methodology of the European Union, state aid granted to the industry and services sector, according to the primary aims of granting, is divided into the following types:

- 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 type are manifold, therefore it is considered to be less selective than 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 to a greater extent. Due to the given reasons, the European Commission applies special rules for granting state aid to more sensitive sectors, such as steel, coal, synthetic fibers and transport.

Regional state aid is granted with an aim of promoting the economic development of undeveloped and less developed regions/areas, primarily those where the standard of living is extremely low, or in areas with high unemployment rate.

According to Article 73(7)(a) of the SAA (Article 38(7)(a) of the Interim Agreement) the Republic of Serbia will assess each state aid it grants, 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 (now Article 107(3)(a) of the Treaty on the Functioning of the European Union), that is, as undeveloped area.

State aid in the 2015– 2017 period (agriculture excluded)

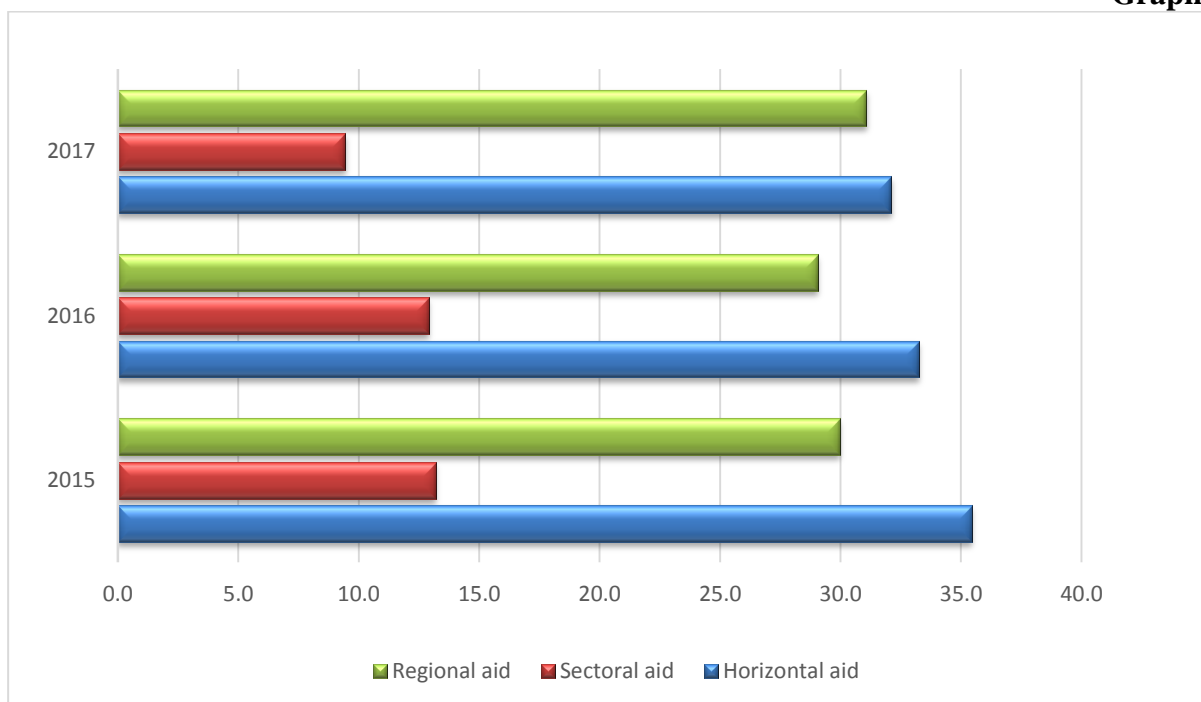
Table 4

Indicator	Unit of measure	2015	2016	2017
State aid	In RSD mil.	81,895	69,479	69,710
State aid	In EUR mil.	678.3	564.3	537.7
GDP	In RSD mil.	4,043,500	4,203,500	4,469,800
GDP	In EUR mil.	33,491	34,142	36,838
State aid in GDP	in %	2.0	1.7	1.6

The state aid amount granted to the sector of industry and services in 2017 was 15% lower when compared to 2015, when state aid amounted to RSD 81,895 million. The amount of state aid granted in the sectors of industry and services in 2016 and 2017 remained the same. The share of state aid in GDP allocated in the industry and services sectors, in 2017, is 1.6%, which is less compared to 2015 and 2016, when the share of GDP was 2.0% and 1.7%, respectively.

Summary of share of certain state aid types in state aid granted in the Republic of Serbia in 2015, 2016 and 2017 (agriculture excluded)

Graph 3



Regional state aid in 2017 registered slight growth in the total amount of state aid granted (excluding agriculture) compared to 2016. Compared to 2015, there is a slight increase in the percentage of participation in total state aid granted, even though the absolute amount of granted regional state aid was still lower compared to 2015. Sectoral state aid has declined compared to both previous reporting years, particularly when compared to 2015.

3.1.1. Horizontal state aid

Structure of horizontal state aid in the Republic of Serbia in 2015, 2016 and 2017

Table 5
in RSD million

Horizontal state aid type	2015	2016	2017	Index 17/15	Index 17/16
Research and development	0.0	0.0	0.0	-	-
Training	0.0	0.0	0.0	-	-
Employment	2,633.5	3,678	4,512	171	123
SME	56.8	0.0	2.0	-	-
Environmental protection	0.0	2,073	7,939	-	-
Culture and information	10,123	11,909	1,658	16.4	14.0
Rescue and restructuring	23,566	12,213	2,378	10.1	19.5
Other ⁶	561.6	844.6	14,332	-	-
TOTAL	36,941	30,717	30,821	83.1	100.3

According to the data presented in Table 5, horizontal state aid in 2017 was in absolute terms slightly higher than in 2016, while in comparison with 2015, it is noticeably lower. Particularly is highlighted the data on environmental protection, which in 2017 is almost four times higher than in 2015. The difference was due to the amount of feed-in tariffs quoted⁷. In addition to the above data, the amount of state aid for employment in the period 2016-2017 showed a constant growth. When looking at indices for the period 2016-2017, the indicators show that state aid for employment in 2017 increased by 71% compared to 2015, while compared to 2016, it increased by 23%. Table 7 shows horizontal state aid in relation to the most common instruments for granting state aid. When analyzing Table 7 it can be observed that state aid for environmental protection was granted mostly through subsidies, while state aid for employment was mostly granted through tax incentives.

⁶ Other – undertakings in the privatization process, public information and incentives for the film industry

⁷ <http://www.kkdp.gov.rs/doc/odluke/Resenje-Uredba%20o%20podsticajnim%20merama%20za%20proizvodnju%20el.%20energije%20iz%20obnovljivih%20izvora.pdf>

Uredba%20o%20podsticajnim%20merama%20za%20proizvodnju%20el.%20energije%20iz%20obnovljivih%20izvora.pdf

**Share of some types of horizontal state aid
in total amount of horizontal state aid granted
in the Republic of Serbia in 2015, 2016 and 2017**

**Table 6
in RSD million**

Horizontal state aid type	2015		2016		2017	
	Amount	In %	Amount	In %	Amount	In %
Research and development	0.0	0.0	0.0	0.0	0.0	0.0
Training	0.0	0.0	0.0	0.0	0.0	0.0
Employment	2,633.5	7.1	3,678	12.0	4,512	15
SME	56.8	0.1	0.0	0.0	2.02	0.0
Environmental protection	0.0	0.0	2,073	6.7	7,939	25.6
Culture and information	10,123	27.4	11,909	38.8	1,658	5.4
Rescue and restructuring	23,566	63.8	12,213	39.8	2,378	7.7
Other ⁸	561.6	1.5	844.6	2.7	14,332	46.5
TOTAL	36,941	100	30,717	100	30,821	100

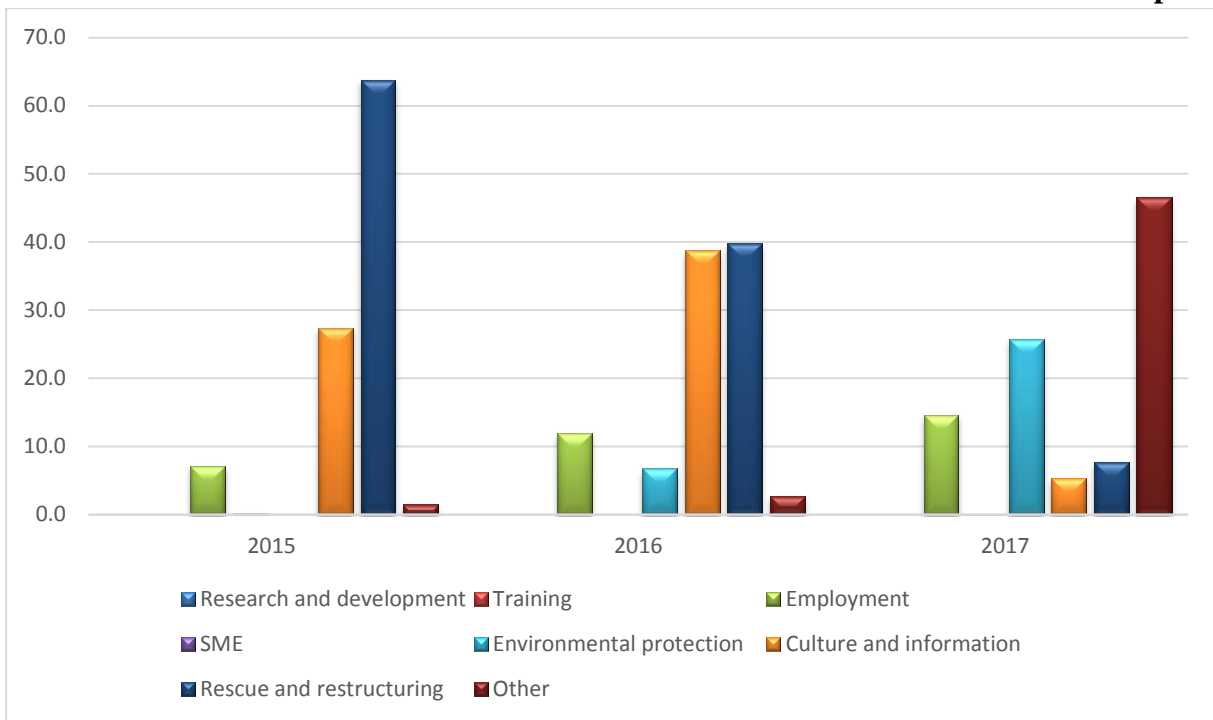
The European Commission has recommended that Member States should intensify their efforts to reduce the general levels of state aid, and additionally focus on the transition from support to certain enterprises or sectors to incentivizing horizontal objectives, such as employment, regional development,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

State aid granted for rescue and restructuring of economic entities amounts to RSD 2,378 million and accounts for 7.7% of total horizontal state aid granted in 2017. In order to properly evaluate compliance with the recommended guidelines of the European Union it is necessary to include regional state aid with horizontal state aid, especially if the Republic of Serbia, according to Article 73, paragraph 7, point (a) of the SAA (Article 38, paragraph 7 (a) of the Interim Agreement) is considered as an underdeveloped area. Taking into account the above explanation of the calculation of the above aid in 2017, it amounts to RSD 60,652 million, in which state aid for rescue and restructuring, participates with 4%, while for the promotion of objectives marked as important for development and recommended by the European Commission, it participates with 96%.

⁸ Other – undertakings in the privatisation process, public information and incentives for the film industry

Structure of horizontal state aid in 2015, 2016 and 2017

Graph 4



Horizontal State aid per state aid instrument in 2017

Table 7
in RSD million

Type of Horizontal State aid	Grants	%	Tax incentives	%	Soft loans	%	Garantees	%	Other	%	Total
Research and development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Training	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employment	32.9	0.1	4,479	14.5	0.0	0.0	0.0	0.0	0.0	0.0	4,512
SME	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0
Environmental protection	7,933	25.7	0.0	0.0	0.0	0.0	5.6	0.0	0.0	0.0	7,939
Rescue and restructuring	0.0	0.0	0.0	0.0	684.0	2.2	0.0	0.0	1,694	5.5	2,378
Culture and information	1,658	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,658
Other	11,499	37.3	120.8	0.4	0.0	0.0	129.2	0.4	2,583	8.4	14,332
TOTAL	21,125	68.5	4,600	14.9	684.0	2.2	135.0	0.4	4,277	13.9	30,821

In 2017, horizontal state aid was granted through subsidies in a percentage of 68.5%, while through tax incentives and soft loans it was granted in a percentage of 14.9% and 2.2% respectively.

3.1.2. Sectoral state aid

Sectoral State aid in the Republic of Serbia in 2015, 2016 and 2017

Table 8
in RSD million

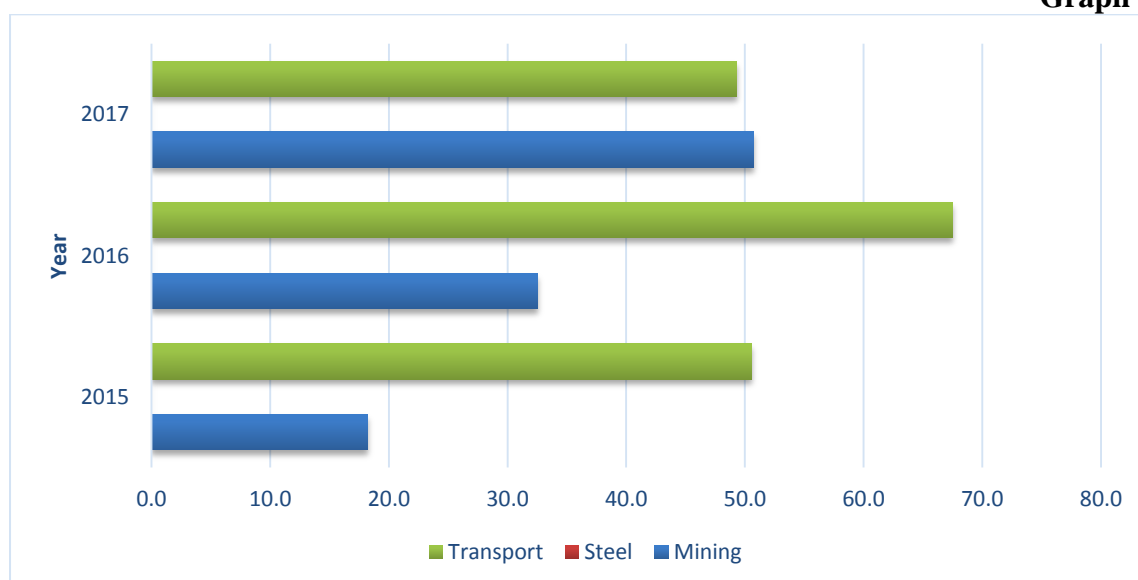
Sector	2015	2016	2017	Index 17/15	Index 17/16
Mining	4,470	5,970	4,595	103.0	77.0
Transport	9,274	5,944	4,463	48.13	75.10
Steel	0.0	0.0	0.0	-	-
Total	13,744	11,914	9,058	66.0	76.0

The absolute amount of sectoral state aid granted in 2017 was 24% lower than in 2016 and 34% lower than in 2015.

The 2017 Report includes only those sectors that are marked as specific (mining, transport and steel) in EU regulations.

Sectoral state aid presented in percentages in the Republic of Serbia in 2015, 2016 and 2017

Graph 5



State aid granted in the transport sector in the absolute amount in 2017 is lower than in the previous reporting period. In the previous reporting period, funds granted to the transport sector were granted to A.D. "Serbian Railways". However, after the division of A.D. "Railways of Serbia" into three different economic entities ("Serbian Railway Infrastructure", "Serbia Cargo" and "Serbia Train"), state aid to the mentioned sector in 2017 amounts to 49.3% of the total sectoral state aid and applies only to "Serbia train" which is entrusted with the performance of a service of general economic interest - the transport of passengers.

3.1.3. Regional state aid

Regional state aid is granted with the aim of supporting less developed and undeveloped regions and it is directed to the alleviation of structural problems and uneven development. This state aid type includes the measures that promote economic activity in order to decrease economic, natural, social, demographic and other differences in these regions.

Regional state aid in the Republic of Serbia in 2015, 2016 and 2017

Table 9
in RSD million

Indicator	2015	2016	2017	Index 17/15	Index 17/16
State aid (agriculture excluded)	81,895	69,479	69,710	85.1	100.3
Regional state aid	31,210	26,848	29,831	95.5	111.1
% of share of regional state aid	38.1	38.6	42.8	-	-

Regional state aid in 2017 amounted to RSD 29,831 million and it was granted through the following state aid instruments: direct grants – RSD 7,640 million; tax incentives – RSD 21,355 million, and in a form of soft loans granted through the Development Fund of the Republic of Serbia – RSD 836 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 state aid instruments, 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 in 2017 was granted by the following instruments:

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

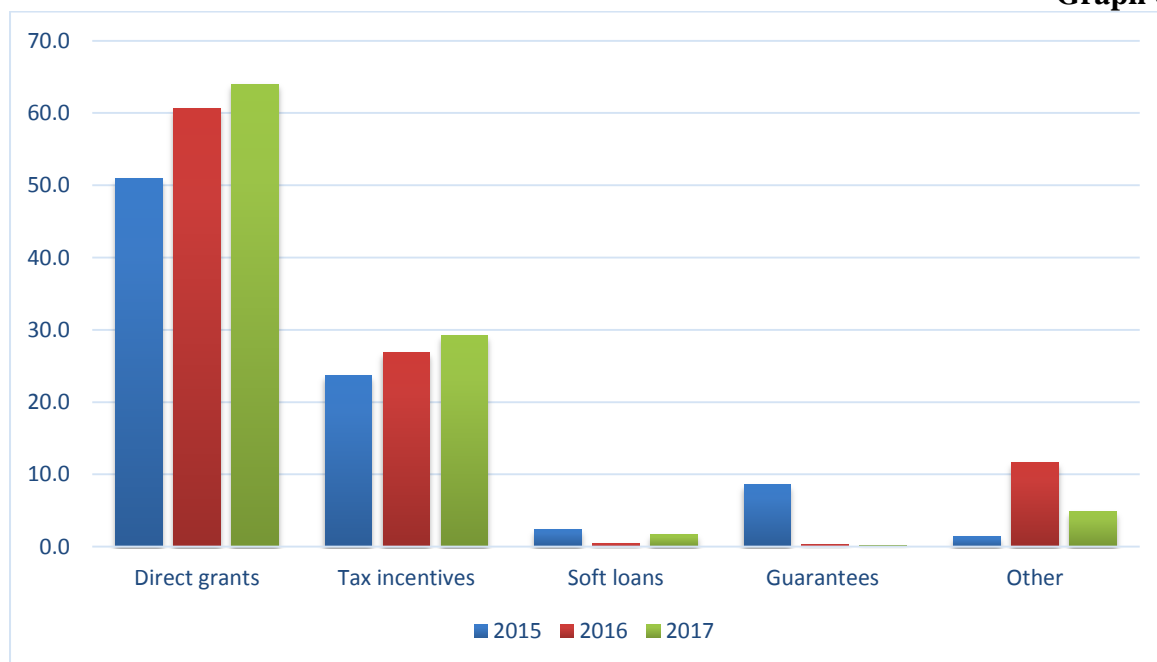
Total state aid granted in the Republic of Serbia in 2015, 2016 and 2017 per state aid instrument (agriculture included)

Table 10
in RSD million

Grant instrument	2015	in %	2016	in %	2017	in %	Index	
							17/15	17/16
Direct grants	53,133	51.0	56,058	60.6	64,158	66.8	121	114
Tax incentives	24,690	23.7	24,879	26.9	25,955	27.0	105	104
Soft loans	2,543	2.4	462	0.5	1,520	1.6	60	-
Guarantees	8,924	8.6	275	0.3	135	0.1	1.5	49
Other	14,912	14.3	10,725	11.7	4,277	4.5	29	40
TOTAL	104,202	100.0	92,399	100	96,045	100	92	104

Structure of state aid instruments in the Republic of Serbia in 2015, 2016 and 2017

Graph 6



Through direct grants in 2017, 66.8% of total state aid was granted, while 27% of state aid was granted through tax incentives. The amount of net state aid on the basis of approved soft loans in 2017 was RSD 1.520 million, while in 2016 this amount was at RSD 462 million.

4.1. Total state aid granted in the Republic of Serbia in 2017 per state aid instrument

Table 11
in RSD million

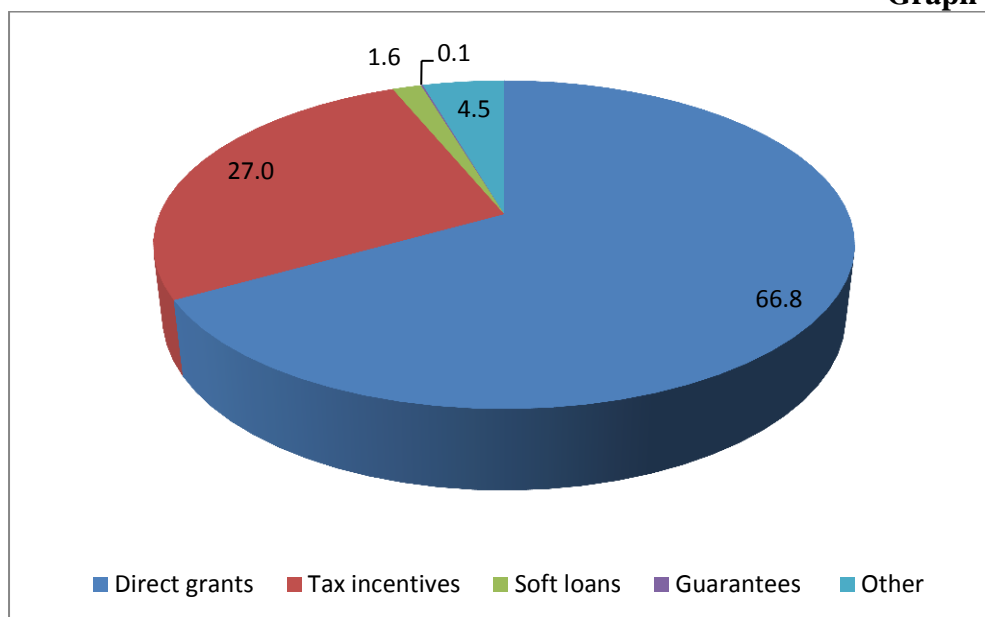
State aid type	STATE AID INSTRUMENTS					
	Direct grants	Tax incentives	Soft loans	Other	Guarantees	Total
A. Agriculture	26,335	0.0	0.0	0.0	0.0	26,335
B. Industry and services	37,823	25,955	1,520	4,277	135	69,710
1. Horizontal state aid	21,125	4,600	684	4,277	135	30,821
Research and development	0.0	0.0	0.0	0.0	0.0	0.0
Training	0.0	0.0	0.0	0.0	0.0	0.0
Employment	32.9	4,479	0.0	0.0	0.0	4,512
SME	2.0	0.0	0.0	0.0	0.0	2.0
Environmental protection	7,933	0.0	0.0	0.0	5.6	7,939
Rescue and restructuring	0.0	0.0	684.0	1,694	0.0	2,378
Culture and information	1,658	0.0	0.0	0.0	0.0	1,658
Other	11,499	120.8	0.0	2,583	129.2	14,332
2. Sectoral state aid	9,058	0.0	0.0	0.0	0.0	9,058
Mining	4,595	0.0	0.0	0.0	0.0	4,595
Transport	4,463	0.0	0.0	0.0	0.0	4,463
Steel	0.0	0.0	0.0	0.0	0.0	0.0
3. Regional state aid	7,640	21,355	836	0.0	0.0	29,831
TOTAL (A+B)	64,158	25,955	1,520	4,277	135	96,045

State aid was mostly granted through direct grants in 2017.

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

Structure of state aid instruments in the Republic of Serbia in 2017 (agriculture included)

Graph 7



4.2. Direct grants

The most common state aid instrument in 2017 were direct grants with the share of 66.8% in total state aid granted and the majority of this aid was intended for promoting the aims in agricultural sector as well as the aims related to industry and services.

4.3. Tax incentives

Tax incentives as the state aid instrument in 2017 in the Republic of Serbia had a share of 27%.

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

- tax incentives approved pursuant to the Corporate Income Tax Law⁹
- tax incentives approved pursuant to the Individual Income Tax Law¹⁰, through the reduction of individual income tax on the grounds of investing into fixed assets.

On the above grounds, tax incentives in 2017 amounted to the total of RSD 25,955 million.

4.4. Soft loans

Soft loans accounted for 1.6% in total state aid granted in 2017. With regard to 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

⁹ "Official Gazette of the RS", nos. 25/01, 80/02, 80/02 – other law, 43/03, 84/04, 18/10, 101/11, 119/12, 47/13, 108/13, 68/14 – other law, 142/14, 91/15 – authentic interpretation, 112/15, 113/17 и 95/18)

¹⁰ "Official Gazette of the RS", nos. 24/01, 80/02, 80/02 – other law, 135/04, 62/06, 65/06 - corrigendum, 31/09, 44/09, 18/10, 50/11, 91/11 – decision of the Constitutional Court, 7/12 – corrigendum, 93/12, 114/12 – decision of the Constitutional Court, 8/13 – corrigendum, 47/13, 48/13 - corrigendum, 108/13, 6/14 - corrigendum, 57/14, 68/14 – other law, 5/15 – corrigendum, 112/15 and 5/16 – corrigendum, 7/17 – corrigendum, 113/17, 7/18 - corrigendum, 95/18 and 4/19 - corrigendum).

were approved, compared to reference (average)¹¹ interest rate in the banking capital market, calculated by conform method for the credit period.

The amount of state aid granted through loans in 2017 was RSD 1,520 million, which represents an increase when compared to 2016, when the amount was RSD 462 million.

4.5. Guarantees

Guarantees, as an instrument of state aid, make up 0.1% of the total granted state aid, while the absolute amount was RSD 275 million.

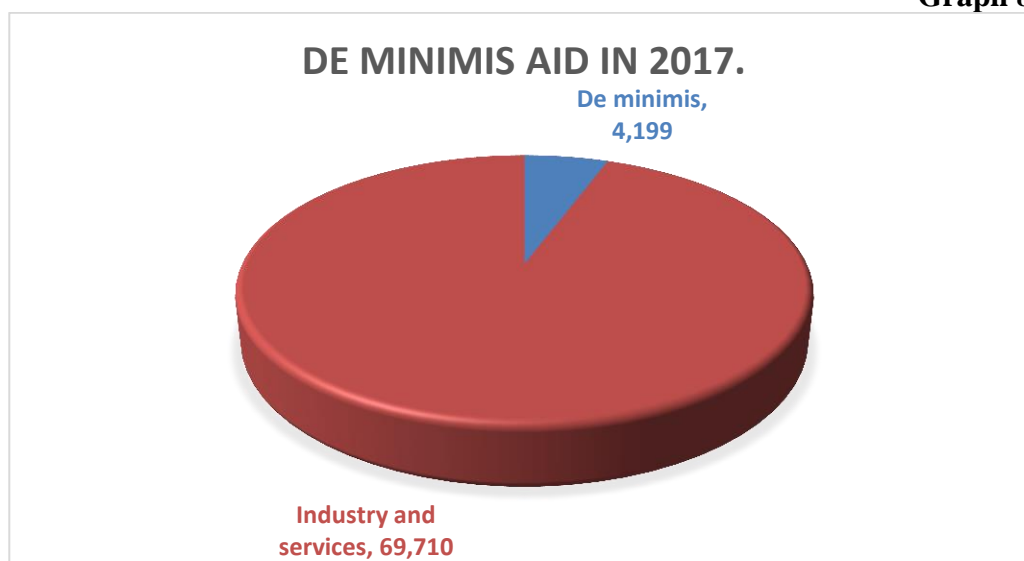
¹¹ Reference interest rate for 2017 amounted to 3.68% - the rate was determined in accordance to the Rulebook on the method for setting the reference and discount rates ("Official Gazette of the Republic of Serbia", no. 76/15)

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

State aid of small value (de minimis aid) is monitored independently of other state aids and it is not shown in the total amount of the granted state aid. De minimis aid can be granted regardless of a purpose, but it cannot be granted for the procurement of road freight vehicles for undertakings which perform services of freight transport; export incentives and for establishing and functioning of distribution network or for other current expenditures in connection with exporting activities; giving preference to domestic products over imported ones, as well as to undertakings in difficulty. Furthermore, de minimis aid can be granted to an individual undertaking at the amount of up to RSD 23,000,000.00, while in the sector of road transport it can be granted at the amount of RSD 11,500,000.00 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 2017

Graph 8



The granted state aid of small value in 2017 amounted to RSD 4,199 million, of which RSD 3.288 million were granted from the republic level, RSD 409 million were granted from the provincial level, and RSD 502 million were granted from the level of local self-government units. Compared to 2016, when de minimis state aid amounted to RSD 1,263 million, the granted de minimis state aid in 2017 increased by approximately three times. This increase in granting of de minimis state aid is caused due to the fact that the amendments of the laws regulating the field of public information brought the novelty in terms of co-financing public information projects. By amending the regulations, project co-financing of public information is outlined as de minimis state aid that can be granted from all levels of government.

6. CONCLUSION

The Republic of Serbia prepares annual reports on granted state aid, starting with the report for 2003 and 2004. The first report made according to the adopted legislation is the Report on State Aid Granted in 2010.

Based on current practice, it can be concluded that the state aid grantors' awareness of their obligation to act in accordance with the rules for reporting state aid has been significantly raised, bearing in mind that in most cases the Commission for State Aid Control made decisions on authorizing state aid in ex ante procedure.

However, it should be noted that state aid, particularly when it is granted in the form of grants, is mostly granted as individual state aid, suggesting the lack of long-term solutions.

The existence of long-standing state aid schemes is a prerequisite for systemic review and control of state aid.

Promotion and training influences the reduction of decisions made by the Commission in the procedure of ex-post control, that is, the culture of state aid application in the pre-control procedure is promoted. All of the above stated aims to respect the principle of cumulation of state aid.

Finally, we note that the Report on State Aid Granted in the Republic of Serbia in 2017 was compiled and made on the basis of submitted contributions by the state aid providers. The applicant, i.e. state aid provider, is responsible for accuracy, credibility, veracity and completeness of the delivered data.