

1. REPORT ON STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2006

1.1. Summary

Report on allocated state aid in the Republic of Serbia in 2006 (hereinafter: 2006 Report) is an analytical (comparative) survey of allocated state aid in 2004, 2005 and 2006.

2006 Report contains data collected from authorities granting the state aid, and in its preparation in the greatest possible extension has been applied the methodology prescribed by the European Commission in the field of state aid reporting. The absolute application of this methodology was not possible, bearing in mind that there still isn't a legal framework in the field of state aid control, or by-laws that would regulate in detail the rules, methodology and deadlines for the preparation of report on allocated state aid. The quoted shall be established with the enactment of the Law on State Aid Control (hereinafter: The Law) and of adequate by-laws.

In 2006 in the Republic of Serbia allocated state aid was in total amount of 37,005 RSD mln, which is for 39.5 % more in relation to the total allocated state aid in 2005 (26,512 RSD mln), that is, for 6.8% less in relation to the same parameter in 2004 (39,686 RSD mln).

Share of state aid in GDP has been increased from 1.5% in 2005 to 1.7% in 2006.

According to EU methodology, which has been applied in preparation of 2006 Report, the state aid was allocated according to the primary allocation goals, into the following categories:

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

State aid structure in 2006 has a positive trend, which is reflected primarily in increase of participation of horizontal state aid in totally allocated state aid, bearing in mind that this category of state aid is having the least impact on market competition disturbance.

In 2006 horizontal **state aid** has been allocated in absolute amount of 25,157 **million dinars**, which is in relation to 2005 an increase of 102.5%, and in relation to 2004 increase of

71.7%. Share of this category in the totally allocated state aid in 2006 has risen to 68 %. For comparison, in 2005 share of horizontal state aid was 46.8%, and in 2004 was 36.9 % in totally allocated state aid.

In horizontal state aid structure, the biggest part is directed towards development of small and medium sized companies and social program for solving the excess of employees in the enterprises undergoing restructuring and rescue procedures.

Sectorial state aid is, in absolute amount, 8.6 % smaller in relation to 2005 and 46.3 % **smaller** in relation to 2004. For those objectives, in **2006, 10,799 RSD mln have been allocated**, the majority to the traffic sector (railway traffic). The absolute amount of this category state aid, in relation to the previous year is insignificantly smaller and almost double smaller in relation to 2004. The share of sectorial state aid in the totally allocated state aid in 2006 has been significantly decreased from 50,6% in 2004. and 44,6% in 2005 to **29.2 % in 2006**. The main characteristics of these state aid categorie is selectivity which is in greater measure distortive or threatens to distort market competition.

Regional state aid participates in the total state aid with **2.8 %**, while in 2005 this share was 8.6%, and in 2004 12.5%.

Investment into regional development in 2006 was **1,049 million dinars, as follows:**

-from the Republic level total of 341 RSD mln have been allocated, and implemented by: beneficial credits from Fund for Development of the Republic of Serbia (totally approved credits amount to 1,160 million dinars, and net effects of more beneficial interest rate, that is state aid amount was 317 million dinars) and by tax incentives amounting to 24 million dinars, and

- from the Autonomous Province of Vojvodina level 708 million dinars of state aid have been allocated, by subsidies amounting to 387 million dinars and by beneficial credits from the Fund for Development of AP Vojvodina, in the total amount of 2,433 million dinars, with net effect, that is amount of state aid of 321 million dinars.

1.2. Methodology for Preparation of State Aid Inventory

In preparation of the 2006 Report we started from methodology prescribed in the European Union in the field of allocated state aid reporting, which the member countries apply in preparation of their annual reports. The quoted methodology has been in the biggest possible measure, applied in preparation of the 2006 Report, bearing in mind that the obligation for preparation of report, deadlines and methodology, still haven't been prescribed by the Law and by-laws. One should also take care that due to the quoted reasons, still hasn't been established the inventory of state aid that would represent a comprehensive data base for preparation of the annual report, and which would be based on mandatory notification of planned state aid, before its allocation.

Starting basis for preparation of 2006 Report represent:

- Report on Allocated State Aid in the Republic of Serbia in 2005, from which data were taken for 2004 and 2005;
- data of allocated state aid in 2006, procured by corresponding questionnaire from state aid grantors (Ministries, Ministry of finance – Tax Administration, Fund for development of the Republic of Serbia, Guarantee Fund, The Export-Import Credit and Insurance Agency the Republic of Serbia (AOFI), Serbia Investment and Export Promotion Agency (SIEPA), Executive Council of AP Vojvodina).
- European Union *acquis communautaire* in the field of state aid control,
- European Commission regulations in the field of reporting on allocated state aid, which prescribes reporting methodology, (Council Regulation (EC) 659/99, Article 21.).

State aid has been regulated in the European Union by Articles 87- 89 of the Treaty on Establishing the European Community (hereinafter: The EC Treaty). As the EC Treaty does not contain formal definition of state aid, the same can be derived from the elements contained in the provision of Article 87, paragraph 1, and it covers each aid that has been:

- allocated from public funds in any form whatsoever,
- selective, because it offers economic advantage to a certain business subject, sector or region, that is to production of certain products, or rendering certain services and therefore distorts or threatens to distort market competition.

According to the European Commission methodology, as the state aid shall not be considered aid allocated to users that are not business entities, that is, who do not perform production activity and/or trade of goods and/or rendering services in the market. Accordingly, the 2006 Report does not contain data about aid:

- allocated to households, disabled persons, educational institutions, hospitals, for needs of public accommodation, for needs of constructing infrastructure within the public sector (if access to infrastructure has been provided for all potential users under equal conditions);

- has a feature of general measures and is available to all entities under equal conditions (quotas, public procurement, technical standards, general measures of tax policy):

- granted for the purpose of defense and public works.

2006 Report does not cover data on allocated state aid in the sector of agriculture, hunting and forestry and in the fishing sector.

2. STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2006

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

Table 1

Indicator	Measuring unit	2004	2005	2006	Indices	
					06/04	06/05
State aid	RSD mln	39,686	26,516	37,005	93.2	139.5
State aid	EUR ¹⁾ mln	546.88	319.82	439.53	82.4	140.1
GDP ²⁾	RSD mln	1,431,300	1,750,000	2,125,800	148.5	121.5
GDP	EUR mln	19,723	21,108	25,250		
State aid in GDP	in %	2.8	1.5	1.7		
Public expenditures ³⁾	RSD mln	576,493	669,241	811,790.3	140.8	121.3
Public expenditures	EUR mln	7,944	8,072	9,642	121.3	119.4
State aid in public expenditures	%	6.9	4.0	4.6		
Employees ³⁾	number	2,051,000	2,069,000	2,026,000		
State aid per employee	RSD	19,350	12,816	18,265	94.4	142.5
State aid per employee	EUR	266	154	217	81.5	85.4
Population ⁴⁾	number	7,463,000	7,450,000	7,450,000		
State aid per inhabitant	RSD	5,317	3,560	4,967	83.4	139.5
State aid per inhabitant	EUR	73	43	60.47	83.6	137.2

Table 1 shows data on totally allocated state aid in the Republic of Serbia in 2004, 2005 and 2006 in relation to the basic macroeconomic indicators.

Data sources: ¹⁾ National Bank of Serbia; average exchange rate for EUR for 2006 1€ = 84.1916

^{2), 3)} data for 2006: MF Bulletin, June /2007; ⁴⁾ Republic Statistics Bureau.

In 2006 in the Republic of Serbia state aid has been allocated in the total amount of 37,005 million dinars, which is 39.5% more in relation to the totally allocated state aid in 2005 and for 6.8% less in relation to the same parameter in 2004.

Share of state aid in GDP in 2006 was 1.7%, in 2005 it was 1.5%, and in 2004 2.8%.

2. 2. State aid in the Republic of Serbia as Compared to EU Member States

Table 2

State Aid grantor	Total State Aid Excluding Transport Sector and Agriculture and Fishery Sector	
	EURmln	Share of GDP in %
R. of Serbia 2004	423.2	2.1
R. of Serbia 2005	223.3	1.0
R. of Serbia 2006	334.32	1.3
EU 25 members	47,900	0.42
EU-15 old members	44,700	0.41
EU-10 new members	3,200	0.52
Hungary	800	0.3
Slovenia	100	0.48
Czech Republic	600	0.51
Slovakia	200	0.45
Poland	1,200	0.45

According to the European Union methodology in the field of reporting, the annual reports also give a survey of allocated state aids without sectors of traffic, agriculture and fishery. Traffic sector is specific and as such it has been regulated by Articles 70 to 80 of the EC Treaty, which relate the process of traffic services liberalization in direct connection with the state aid.

Table 2 shows data on state aid granted in 2006 without sectors of **traffic, agriculture and fishery**, according to the data on the European Union level¹⁾, and per individual countries that have joined the European Union on May the 1st 2004, while for the Republic of Serbia data have been presented for 2004, 2005 and 2006.

Looking in absolute amounts, compared with the member countries of the European Union, the Republic of Serbia did not allocate a high absolute amount of state aid, but its share in GDP is still high, amounting to 1.3% while in the European Union (25 member countries) it is 0.4 %.

2.3. Categories of state aid

According to the European Union methodology, the state aid is, according to primary allocation objectives, divided into the following categories:

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

Horizontal state aid has been intended for a bigger number of previously undetermined users and is significantly less disturbing the market competition than the sectoral state aid. Positive effects of that state aid category are multiple, and from that reason it is considered less selective than the sectoral state aid.

Sectoral state aid has been intended for previously determined (well-known) subjects in certain business activities, that is sectors. This category is much more selective in relation to the horizontal state aid and by that it much more distorts, or threatens to distort market competition. From the quoted reasons, the European Union prescribes special rules for allocation of state aid to sensitive sectors, like sectors for: steel, coal, synthetic fibers, ship construction, which is during negotiations on the Stability and Association Agreement as a rule, regulated by a special protocols.

1) Source of data: EU/Competition-State Aid-Scoreboard, 2006.

Regional state aid *is* a form of horizontal state aid, allocated in order to support economic development of undeveloped or underdeveloped regions, primarily those where the living standard is extremely low or where there is a huge unemployment. This category of state aid shall be allocated to business entities in the regions where investments are considered justified due to existence of a series of economic, natural, social, demographic and/or other shortcomings.

For the needs of this report, term „region“ has been harmonized with the EU terminology and standards (economic parameters). By signing and ratification the Stabilization and Accession Agreement, and by enforcement of the Temporary agreement, the Republic of Serbia takes over obligation to compile in the agreed term so-called regional maps according to NUTS standards (statistical nomenclature of spatial units suitable for allocation of state aid), what would enable full implementation of EU criteria for correct guiding of funds earmarked for regional development. The term „regional state aid“ is also inevitable in presenting data about the state aid in annual report, while the basic criterion for choosing this term and the term „region“ and „regional development“ is in line with the EU standards, not with the existing territorial organization of the Republic, determined by the Constitution, Territorial Organization Act and by the Local Self-Governance Act.

Broken Down by Categories

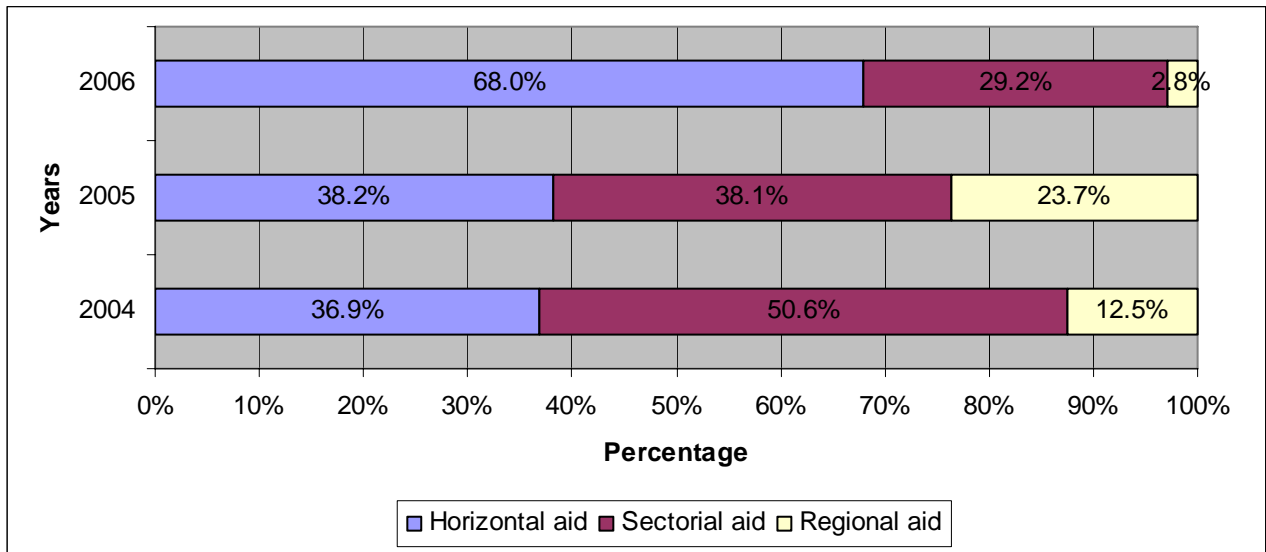
Table 3

Category	2004			2005			2006		
	RSD mln	EUR ¹⁾ mln	Share in %	RSD mln	EUR mln	Share in %	RSD mln	EUR mln	Share in %
1. Horizontal state aid	14,655	201.95	36.9	12,425	149.86	46.8	25,157	298.80	68
R&D	-	-	-	-	-	-	-	-	-
Training	344	4.74	0.9	1,283	15.48	4.8	6	0.07	0.1
Employment	942	12.98	2.4	661	7.96	2.4	4,646	55.18	12.5
SMEs ²⁾	2,512	34.62	6.3	2,749	33.16	10.3	10,767	127.89	29.1
Environmental protection	-	-	-	-	-	-	-	-	-
Restructuring	9,889	136.27	24.9	6,732	81.20	25.3	9,430	112.0	25.5
Exports stimulation	-	-	-	-	-	-	162	1,93	0.4
Export incentives.	968	13.34	2.4	1,000	12.6	3.8	-	-	-
2. Sectoral state aid	20,093	276.8	50.6	11,816	142.52	44.6	10,799	128.27	29.2
Mining	1,250	17.23	3.1	1,150	13.87	4.3	1,000	11.87	2.7
Steel	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-
Traffic	8,978	123.72	22.6	8,006	96.56	30.2	8,858	105.21	24.0
Culture and information	3,238	44.62	8.2	2,135	25.75	8.1	-	-	-
Tourism	152	2.09	0.4	95	1.15	0.4	561	6.66	1.5
Ship construction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-
Other sectors	6,475	89.23	16.23	430	5.19	1.6	380	4.51	1.0
3. Regional state aid	4,938	68.05	12.5	2,275	27.44	8.6	1,049	12.46	2.8
Total	39,686	546.88	100.0	26,516	319.82	100.0	37,005	439.54	100.0

1) Average exchange rate for EUR in 2006: 84.1916, source of data NBS

2) SMEs - small and medium sized companies.

Picture 1



Data expressed in Table 3 and shown in Picture 1 about participation of individual categories of state aid in the total amount of allocated state aid in the Republic of Serbia, show that in 2006 the biggest share had horizontal and sectorial state aid (97.2%), and that the regional aid is the least represented (2.8 %).

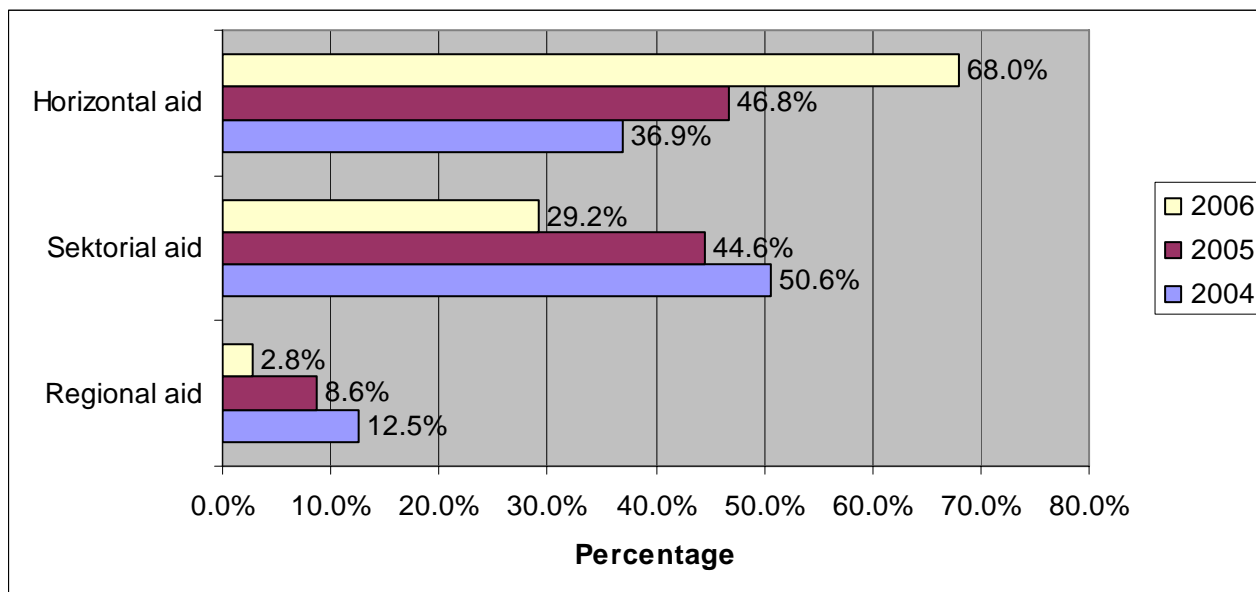
In the structure of total allocated state aid in 2006, horizontal **state aid** participates with 68%, while in 2005 it participated with 46.8 %, and in 2004 with 36 %.

Although the **sectorial state aid** in absolute amount is a little bit smaller than the amount allocated in 2005, its share is significantly smaller, amounting to 29.2 % of total allocated state aid in 2006.

State aid earmarked for **regional development** participates in 2006 in the total allocated state aid with 2.8 %, in 2005 it was 8.6 %, and in 2004 12.5 %.

Overview of the share of state aid categories in the Republic of Serbia in 2004, 2005 and 2006

Picture 2



Data presented in the picture 2 about participation of category of state aid, show positive trend in allocation of state aid in the past three year period, reflected in growth of participation of horizontal state aid and in decreased participation of sektorial state aid, which is in line with European Commission recommendations.

2.3.1. Horizontal state aid

Horizontal state aid in the Republic of Serbia in 2004, 2005 and 2006

Table 4

Amounts in RSD mln

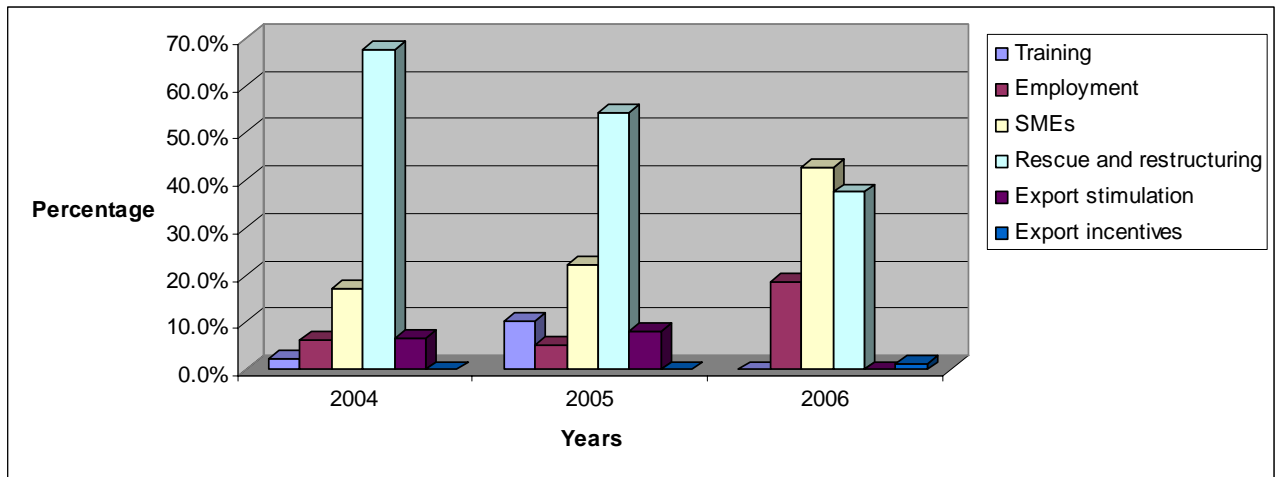
Type of horizontal state aid	2004	2005	2006	Index 06/04	Index 06/05
R&D	-	-	-	-	-
Training	344	1,283	6	1.7	0.4
Employment	942	661	4,646	493	702
SMEs	2,512	2,749	10,767	428	392
Environm.protect.	-	-	-	-	-
Restructuring	9,889	6,732	9,430	95.3	140.0
Export stim.	-	-	308	-	-
Export incentives	968	1,000	-	-	-
Total	14,655	12,425	25,157	171.7	202.5

According to the data expressed in Table 4, horizontal state aid is in absolute amount, in 2006 in relation to 2005, bigger for 102.5% and in relation to 2004 it is greater for 71.7%. Increase of the absolute amount of horizontal state aid is an, is primarily result of significant increase of amount of

tax relieves, that have been directed for stimulating growth of small and medium sized companies and employment.

Structure of horizontal state aid in 2004, 2005 and 2006

Picture 3



In the structure of horizontal state aid in 2006, as in 2004 and 2005, the biggest amount of allocated state aid has been directed to development of small and medium sized companies and for social program, that is, for the needs of resolving the excess of employees in the companies under restructuring and rescue process. In 2006 such allocated state aid makes 80.3 % of total allocated horizontal state aid, in 2005, 76.3 %, and in 2004, 84.6 %. Investments, which for their primary goal have stimulation of employment, training of employees and export stimulation, make 19.7 % of total horizontal aid in 2006, that is 23.7% in 2005 and 15.4% in 2004. The state aid for stimulation of development and research and for environmental protection hasn't been allocated.

Differently from the previous two years, when the bigger part of horizontal state aid has been directed towards resolving the excess of employees in the companies under restructuring and rescue process (54.2% in 2005 and 67.5% in 2004 of total horizontal aid), investments in development of small and medium sized companies in 2006 have been increased for four times in relation to 2005 and 2004, making 43,0% of total allocated horizontal aid and for the first time exceed the funds earmarked for resolving the excess of employees in companies under restructuring and rescue process, which participation in horizontal state aid makes 37.5%.

2.3.2. Sectorial state aid

Sectorial state aid in the Republic of Serbia in 2004, 2005 and 2006

Table 5

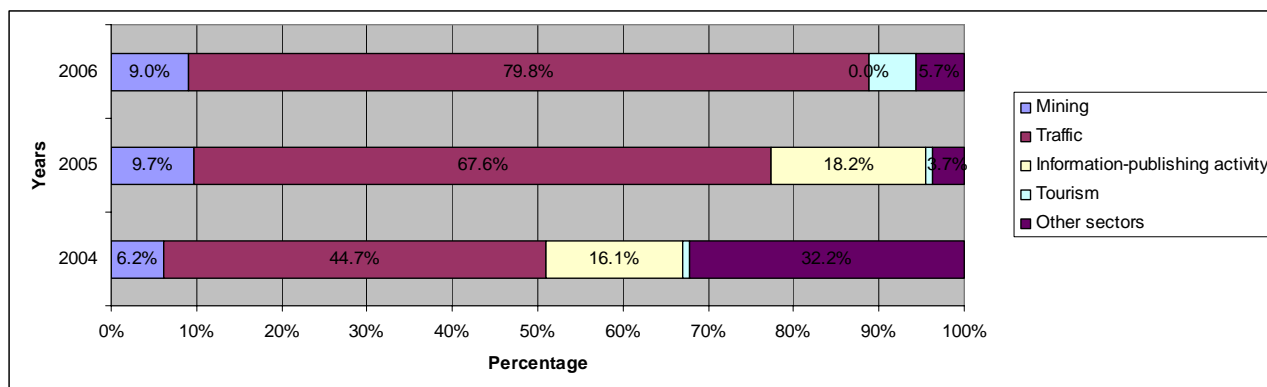
Amounts in RSD mln

Sector	2004	2005	2006	Index 06/04	Index 06/05
Mining	1,250	1,150	1,000	80	87
Steel	0	0	0		
Traffic	8,978	8,006	8,858	98.7	110.6
Shipbuilding	0	0	0		
Culture and information	3,238	2,135	0	-	-
Tourism	152	95	561	369	590
Other sectors	6,475	430	380	5,9	88
Total	20,093	11,816	10,799	53.7	91.4

Absolute amount of the allocated sectoral state aid was in 2006 for 8.6 % smaller in relation to 2005 and for 46.3 % smaller in relation to 2004.

Structure of the sectorial state aid in the Republic of Serbia in 2004, 2005 and 2006

Picture 4



The biggest share in the sectorial state aid has aid allocated to traffic sector (only railway traffic). In 2006, state aid to the quoted sector was 79.8 % of total sectorial state aid, that is 67.6 % in 2005 and 44.7 % in 2004.

2.3.3. Regional state aid

The regional state aid is allocated in order to stimulate less developed, that is undeveloped areas, that is regions and is directed towards mitigating structural problems and regional inequality regarding development. This category of state aid envisages measures stimulating economic

Subsidies	23,776	59.9	17,538	66.1	19,745	53.4	83.1	112.6	
Tax incentives	10,004	25.2	2,728	10.3	13,369	36.1	133.1	488.4	
Favorable credits	4,938	12.5	5,250	19.8	3,891	10.5			
Export stimul.	968	2.4	1000	3.8	-	-	-	-	
Total	39,686	100.0	26,516	100.0	37,005	100.0	140.8	121.3	

Picture 5

Structure of State Aid Granting Instruments in the Republic of Serbia in 2006

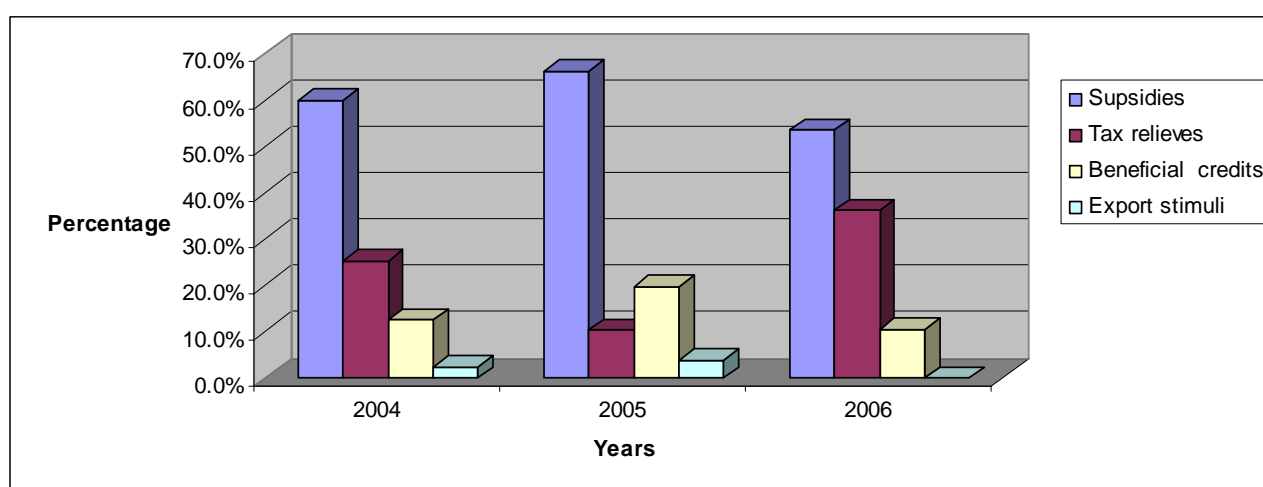


Table 7 and picture 5 show an overview of total granted state aid in the Republic of Serbia in 2006, 2005 and 2004, according to instruments of granting.

The quoted table and picture do not contain data on state aid per issued guarantees, because there wasn't any activation of issued guarantees, that is payments burdening the Guarantee Fund, and because in the approval procedure other criteria haven't been determined that qualify the issued guarantee as a state aid, there is no possibility to express amounts which represent the state aid in the sum of totally issued guarantees.

In 2006 the Guarantee Fund has issued 13 guarantees amounting to 1,716,682 EUR, or in RSD countervalue¹⁾ of 144,530,204 RSD mln.

¹⁾ Source of data NBS: average exchange rate of EUR for 2006 was 1€=84.1916

**Total state aid granted in the Republic of Serbia in 2006
broken down by instruments of granting**

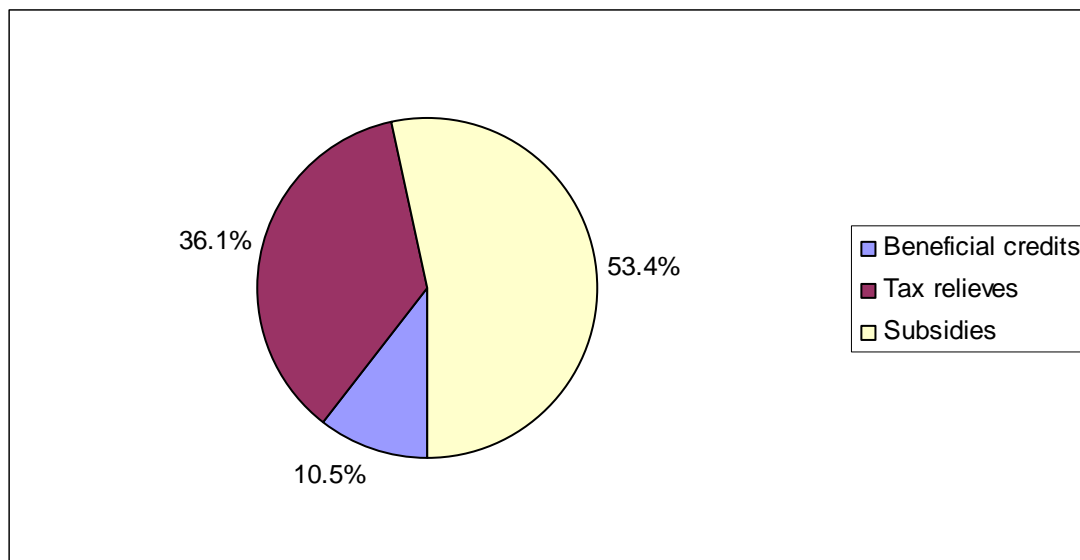
Table 8

Amounts in RSD mln

Category of state aid	Subsidies	Tax incentives	Favorable credits	Total
1.Horizontal state aid	9,034	13,345	2,778	25,157
Training	-	6	-	6
Employment	702	3,598	346	4,646
SMEs	-	9,550	1,217	10,767
Restructuring	8,256		1,129	9,430
Export stimulations	76	146	86	308
2.Sectoral state aid	10,324	-	475	10,799
Mining	1,000	-	-	1,000
Traffic	8,858	-	-	8,858
Culture and information	-	-	-	-
Tourism	466	-	95	561
Other sectors	-	-	380	380
3.Regional state aid	387	24	638	1,049
Total	19,745	13,369	3,891	37,005

Structure of the allocation instruments for state aid in the Republic of Serbia in 2006

Picture 6



Total state aid granted in the Republic of Serbia in 2005 broken down by instruments of granting

Table 9

Amounts in RSD mln

Category of state aid	Subsidies	Tax incentives	Beneficial credits	Export stimulations	Total
1.Horizontal	6,171	2,728	2,526	1,000	12,425
Training	1,283	-	-	-	1,283
Employment	-	150	511	-	661
SMEs	6	728	2,015	-	2,749
Restructuring	4,882	1,850	-	-	6,732
Export stimuli	-	-	-	1,000	1,000
2.Sectorial	11,367	-	449	-	11,816
Mining	1,150	-	-	-	1,150
Traffic	8,006	-	-	-	8,006
Culture and information	2,135	-	-	-	2,135
Tourism	76	-	19	-	95
Other sectors	-	-	430	-	430
3.Regional	-	-	2,275	-	2,275
Total	17,538	2,728	5,250	1,000	26,516

Total state aid granted in the Republic of Serbia in 2004 broken down by instruments of granting

Table 10

Amount in RSD mln

Category of state aid	Subsidies	Tax incentives	Beneficial credits	Export stimul.	Total
1.Horizontal	3,683	10,004	-	968	14,655
Training	344	-	-	-	344
Employment	942	-	-	-	942
SMEs	242	2,270	-	-	2,512
Restructuring	2,155	7,734	-	-	9,889
Export stimuli	-	-	-	968	968
2.Sectorial	20,093	-	-	-	20,093
Mining	1,250	-	-	-	1,250
Traffic	8,978	-	-	-	8,978
Culture and inf.	3,238	-	-	-	3,238
Tourism	152	-	-	-	152
Other sectors	6,475	-	-	-	6,475
3.Regional	-	-	4,938	-	4,938
Total	23,776	10,004	4,938	968	39,686

2.4.1. Subsidies

Subsidies are in the Republic of Serbia the most represented instrument for state aid granting, which is also the case in the European Union.¹⁾ In the member countries of the European Union, in 2006 the subsidies made 50 % of the total state aid. In 2006 in the Republic of Serbia this instrument has been represented with 53.4 % in totally allocated state aid.

After covering relatively big number of business activities and users, the biggest state aid donor in the form of subsidy in 2006 was the Ministry of Economy and Regional Development. In order to regulate the excess of employees, by implementation of social program during restructuring and rescue program for companies, this Ministry has granted subsidies in the total amount of 8,256 RSD mln, and 702 RSD mln for employment of disabled, which in total amounts to 8,958 RSD mln.

As subsidy donors in 2006 also appear Ministry of Trade and Services, in the amount of 466 RSD mln and Agency for Foreign Investments and Promotion of Exports in the amount of 76 RSD mln. State aid granted by AP Vojvodina in the form of subsidies, amounts in total to 387 RSD mln, and is granted for: objectives of stimulating introduction of new technologies amounting to 159 RSD mln; research and development in the amount of 3 RSD mln and 225 RSD mln for culture and information.

2.4.2. Tax incentives

For the needs of this report, the term „tax incentives“ covers:

- Tax incentives approved based on Articles: 46, 47, 48, 49, 50a, 50b, 50dj and 51 of the Corporate Income Tax Act („Official Gazette of the RS“, numbers 25/01, 80/02 and 84/04);
- tax incentives approved based on Article 39 of Citizens' Income Tax Act („Official Gazette of the RS“ No.s 24/01,80/02, 135/04), implemented by decrease of citizens' income tax based on investments in fixed assets;
- cessation of tax debt based on obsolescence (Article 114 of the Law on Tax Procedure and Tax Administration - „Official Gazette of the RS“, 80/02);
- write-off of tax based on decision of the Government, for companies sold during privatization procedure, that is which are under restructuring, on the basis of Article 115 of the Law on Tax Procedure and Tax Administration.

1) Source of data: EU/Competition-State Aid-Scoreboard, 2006:

According to the quoted basis, tax incentives were in 2006 in total 13,369 million dinars, and they participate in total allocated state aid with 36.1 %.

Structure of tax incentives is as follows:

1) Based on Corporate Income Tax Law and Citizens' Income Tax Law the business entities have been approved in total 13,369 million dinars of tax incentives, as follows:

- 3,598 RSD mln for incentives for employment, **for** total of 4,698 users.
- 9.550 RSD mln for stimulation of investments in the existing small and medium sized companies and for opening of new companies, for the total of 11,715 users;
 - 146 RSD mln for stimulation of exports for 18 users
 - 6 RSD mln for training and qualification of employees, for 13 users
 - 24 RSD mln for reaching regional development objectives, for 41 users
 - 45 RSD mln based on Law on Tax Procedure and Tax Administration, as follows: according to Article 114 - for 3 taxpayers forgiveness of tax debt has been implemented based on obsolescence, and according to Article 115 of the same Law, write-off of tax has been performed based on a special Governmental decision for 13 companies for sales in the privatization process, that is, in the restructuring process.

As shown by the quoted data, measures of tax policy and the legal framework simplifying and accelerating the registration process and starting of business activity of business entities, have given positive results in development of entrepreneurship and stimulation of founding of small and medium sized companies and private firms (entrepreneurs) that had as their final aim increase of employment.

In the part of Law on Company Income Tax („Official Gazette of the RS“, No.s 25/01, 80/02, 43/03 and 84/04), treating tax incentives, in order to achieve the objectives of economic policy by stimulating business growth, development of small enterprises, concessions, employment of workers and improvement of ecology, the taxpayers are offered tax incentives by accelerated amortization, tax exemptions, tax credits and incentives for start-up investments.

Besides economic policy measures, support to entrepreneurship is implemented also by better administrative framework and that is by application of: The Law on Companies, the Law on Business Societies, the Law on Business Subjects' Registration, the Bankruptcy Law, the Labor Law, as well as the series of other laws in the field of business law, enabling easier and quicker procedures for registration, decrease of investment deposit and decrease of mandatory share paid during submittal of registry application. All quoted measures contribute to achievement of integral employment strategy and to fight against unemployment, as a part of general economic conditions for our countries' integration into European Union.

2.4.3. Favorable credits

Favorable credits are represented with 10.5 % in totally allocated state aid. Amount of the state aid represents a positive effect of beneficial interest rate based on which credits have been approved in relation to the reference interest rate on the banking capital market, calculated by application of simple linear method for the crediting period.

Favorable credits have been approved in the absolute amount of 19,628 RSD mln, and the positive effect of a more favorable interest rate, that is amount of allocated state aid was 3,546 RSD mln.

Claims written-off based on previously approved credits in the amount of 345 RSD mln, represent the entire amount of allocated state aid, and the total state aid based on crediting was 3,891 RSD mln.

Fund for Development of the Republic of Serbia has approved short- and long-term credits¹⁾, and the Fund for Development of AP Vojvodina only long-term credits. Agency for Insurance and Financing of Exports has approved only short-term credits.

According to the data of the Fund for Development of the Republic of Serbia, until 31st December 2006 total of 15,509 RSD mln of credit have been placed, as follows:

- short term credits amounting to 1,668 RSD mln, per interest rate of 1% and 5 %, and net effect of 105 RSD mln, from which the amount of 72 RSD mln, related to development of small and medium size companies, and amount of 33 RSD mln, related to companies in difficulties
- long term credits amounting to 13,496 RSD mln, per interest rates of 1% to 3 %.

Total positive effects of a more favorable interest rate, that is, amount of the state aid implemented by crediting through Fund for Development of the Republic of Serbia amounts to 3,137RSD mln.

Fund for Development of AP Vojvodina has approved in total 2,433 million dinars of long term credits, with the average interest rate of 3.5%, and positive net effect, that is state aid, amounting to 321 RSD mln.

In 2006 Agency for Insurance and Financing of Exports, has approved short-term credits in the total amount of 1,686 RSD mln (without agriculture sector), with average interest rate of 6.33%, and the effect of better interest rate, that is the amount of the state aid is 86 RSD mln.

¹⁾ According to the National Bank of Serbia's data average interest rate for short term credits approved by the business banks in 2006 was 16.56 %, and for long term credits 10.9 %.

2. CONCLUSION

The State aid Control Law and by-laws have been already prepared and its adoption will establish control system in state aid area and legal and institutional bases for forwarding reforms, further continuance of economic policy which ensure macroeconomic stability and fortification of competitive economy, addressing public assets where they are necessary. The aim is to achieve sustainable economic development in a whole, with accentuating regional development.

Drawing up a State aid inventory is the first significant step in restitution of legal-institutional framework for state aid control. Reporting about categories, instruments and amounts of allocated state aid, procure transparent state aid system. But, the full transparent of allocated state aid data will be procured by adoption of State aid control Law and by-laws, that is when all of existing measures of state aid would be harmonized with quoted legal acts and when new measures would be previous notified to the body competent for state aid control, which the Law will constitute.

The Law will prescribe the reporting obligation of allocated state aid at all governmental level in Republic of Serbia, and by-laws will closer systemize the methodology and terms for data transmission with a view to collecting complete and quality data from state aid donors.

In future period, it is necessary to continue with tendency of significant participation of horizontal state aid in total allocated state aid, such as investments in small and medium sized companies, innovation, research and development, employment, training and improvement of employees, environmental protection and so on. These investments significantly exceed possible disturbances of competition at the market and its positive effects are multiple.

3. CONCLUSION

The State aid Control Law and by-laws have been already prepared and its adoption will constitute control system in state aid area and establish legal and institutional bases for forwarding reforms, further continuance of economic policy which ensure macroeconomic stability and fortification of competitive economy, addressing public assets where they are necessary. The aim is to achieve sustainable economic development in a whole, with accentuating regional development.

Registration of state aid is the first significant step in restitution of legal-institutional framework for state aid control. Reporting about categories, instruments and amounts of allocated state aid, procure transparent state aid system. But, the full transparent of allocated state aid data will be procured by adoption of State aid control Law and by-laws, that is when all of existing measures of state aid would be harmonized with quoted legal acts and when new measures would be previous notified to the body competent for state aid control, which the Law will constitute.

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