

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

**R E P O R T**

**ON STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2010**

**JUNE 2011**

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## INTRODUCTION

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

Pursuant to the Article 23, paragraph 2 of the Law, the Minister of Finance has passed the Rulebook on Methodology for drafting Annual Report on State Aid Granted (RS Official Gazette, No. 3/11) (hereinafter: the Rulebook) which regulates the following: methodology for drafting annual report on state aid granted, deadline within which state aid grantors shall submit to the ministry responsible for finance data on state aid granted and deadline within which the Commission for State Aid Control shall submit the annual report to the Government.

The Annual Report on State Aid Granted in the Republic of Serbia in 2010 (hereinafter: the 2010 Report) is the seventh consecutive annual report made by the Republic of Serbia, and the first which was made in accordance with the rules of the European Union, and which also contains data on allocated state aid on the local self-government units level. The state aid allocated by the ministry in charge of for the following tasks: agriculture, fishery and forestry is presented only as the total allocated aid, since the provisions of this Law do not apply to the agricultural products and to the fisheries products.

## **1. REPORT ON THE STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2010**

### **1.1. Summary**

The 2010 Report is an analytical summary of state aid granted in 2010. For the purpose of having a comprehensive summary and trends' monitoring, comparative data are given for 2008 and 2009.

The Report is based on data collected from the state aid grantors and it was made in accordance with the present legislation, which sums the reporting classifications and regulations in the European Union (EU).

The legal basis for the preparation of the report is contained in the following: State Aid Control Law (RS Official Gazette, No. 51/09) (hereinafter: the Law), Regulation on rules for State Aid Granting (RS Official Gazette, No. 13/10) (hereinafter: the Regulation) and in the Rulebook on Methodology for drafting Annual Report on State Aid Granted (RS Official Gazette, No. 3/11) (hereinafter: the Rulebook).

**In 2010 in the Republic of Serbia a total amount of state aid granted amounted to RSD 77,619 million, i.e. EUR 754.29 millions<sup>1</sup>, which is by 9% less in comparison to the total state aid granted in 2009 (RSD 84,729 millions, or EUR 901,98 millions), i.e. by 2% less in comparison with the same parameter in 2008 (RSD 79,111 millions, i.e. EUR 971.08 millions).**

**The share of State aid in the gross domestic product (hereinafter: the GDP) was reduced from 2.86 in 2009 to 2.64% in 2010.**

The state aid for the industry and services sector was divided into the following:

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

**The agriculture sector** in 2010 was granted an absolute state aid amount of **RSD 23,176 millions or EUR 225.22 millions**, which, in comparison with 2009 is an increase by 36 %, and in relation to 2008 is a reduction by 10%. The share of state aid in the agriculture sector in the total state aid granted in 2010 was 29%, while in 2009 it was 20 %, i.e. 32.3 % in 2008 in the total state aid granted in the Republic of Serbia.

**The state aid in the industry and services sector** in 2010 was granted in the total amount of **RSD 54,443 millions or EUR 529.07 millions**, which, in comparison with 2009 was a reduction by 20%, and in comparison with 2008 it was an increase by 1 %. The share of this kind of state aid in the total state aid granted in 2010 amounted to 71.1%, in 2009 amounted to 80%, i.e. 67.7% in 2008 in the total state aid granted in the Republic of Serbia.

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

The 2010 Report was drafted pursuant to the Rulebook, which was substantially harmonized with the statutory rules in the European Union for reporting on state aid granted.

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

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<sup>1</sup> Average Euro exchange rate in 2010 was RSD 102.9022; Source: the National Bank of Serbia.

The starting points for preparing the 2010 Report are:

- Data for 2008 and 2009 taken from the Report on State Aid Granted in the Republic of Serbia in 2009, revised by the amount of state aid granted in the agriculture sector;

- data on state aid granted in 2010, which was, by means of a relevant questionnaire collected from the state aid grantors (ministry<sup>2</sup>, Ministry of Finance – Tax Authorities, Development Fund of the Republic of Serbia, Export Assurance and Financing Agency of the Republic of Serbia (AOFI), Serbia Investment and Export Promotion Agency (SIEPA), Government of the Autonomous Province of Vojvodina, local self-government units (LSGU)).<sup>3</sup>

- determining of state aid per different categories was made pursuant to the criteria from the Regulation, i.e. based on the passed decisions of the Commission and determining of state aid that will, in accordance with the Program for Adjustment, be harmonized with the Law and Regulation within deadlines defined in this Program.

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<sup>2</sup> For the first time, data of the Ministry of Agriculture, Trade, Forestry and Water Management was included.

<sup>3</sup> For this Report, data on state aid granted from LSGUs was, for the first time collected; the answers were provided by 73 units, out of which 20 LSGUs provided data with state aid amounts out of which seven LSGUs granted aid pursuant to the State Aid Control Law.

## 2. STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2010

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

Table 1

Indicator	Unit of measure	2008	2009	2010	Indexes	
					10/ 08	10/09
State aid	RSD million	79.111	84.729	77.619	98	91
State aid	EUR million <sup>4</sup>	971.08	901.98	754.29	77	83
GDP <sup>5</sup>	RSD million	2.790.000	2.953.500	2.933.300	105	99
GDP	EUR million	34.259	31.511	28.464	83	90
State aid in GDP	in %	<b>2,83</b>	<b>2,86</b>	<b>2,64</b>	-	-
Public expenditures <sup>6</sup>	RSD million	1.214.800	1.267.900	1.359.900	111	107
Public expenditures	EUR million	14.912	13.497	13.215	86	97
State aid in public expenditures	in %	6,51	6,68	5,70	-	-
Employed <sup>7</sup>	No.	1.999.000	1.823.000	1.813.000		
State aid per employee	RSD	48.578	46.477	42.812	88	92
State aid per employee	EUR	596	494	416	69	84
Population <sup>8</sup>	No.	7.366.000	7.321.000	7.306.000	-	-
State aid per capita	RSD	10.740	11.573	10.624	98	91
State aid per capita	EUR	131	123	103	78	83

**In 2010 in the Republic of Serbia, the total of state aid granted amounted to RSD 77.619 millions, which is by 9% less than the total state aid granted in 2009, i.e. by 2% less if compared to 2008.**

<sup>4</sup> Average exchange rate for EUR in 2010 was RSD 102.9022; source: the National Bank of Serbia.

<sup>5</sup> Data for 2010: Revised Memorandum on Budget and Economic and Fiscal Policy for 2011, with projections for 2012 and 2013; *Ministry of Finance, December 2010, - Tables 1 and 2 of the Annex I.*

<sup>6</sup> Ministry of Finance, *Analysis of Macroeconomic and Fiscal Trends in 2010, Table 6.*

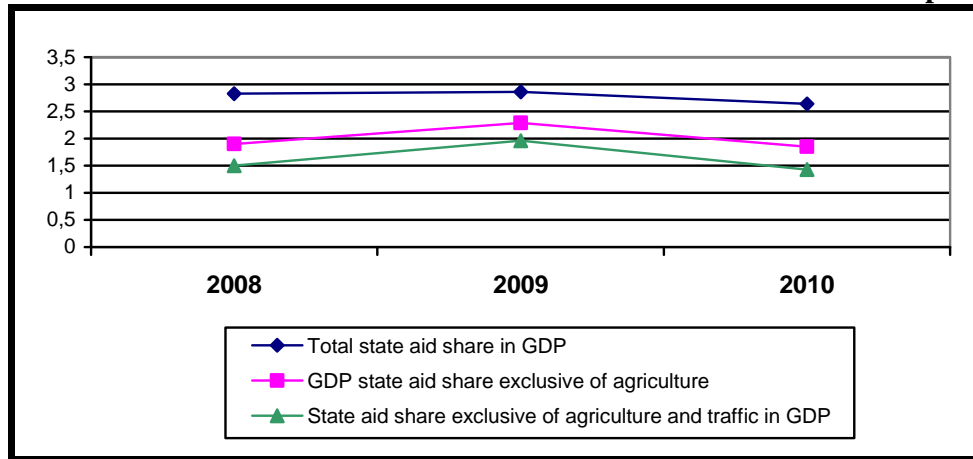
<sup>7</sup> Data for 2010: Revised Memorandum on Budget and Economic and Fiscal Policy for 2011, with projections for 2012 and 2013; *Ministry of Finance, December 2010, - Table 2, Annex I.*

<sup>8</sup> Ibid, Table 2.

The share of state aid in GDP in 2010 amounted to 2,64%, while in 2009 it amounted to 2,86% and in 2008 to 2,83%.

The trends in total state aid share in GDP in the period 2008 - 2010

Graph 1



The trends of the total state aid share in the GDP in the Republic of Serbia in 2008 – 2010 saw a slight downturn. The other two indicators (state aid exclusive of the agriculture sector and the state aid exclusive of the agriculture and transport sectors) have seen the same slightly downward trends.

## 2.2. Total state aid granted in the Republic of Serbia in 2008, 2009 and 2010 per different categories

Table 2

No.	Category	2008			2009			2010		
		RSD mil.	EUR mil.	In %	RSD mil.	EUR mil.	In %	RSD mil.	EUR mil.	In %
	<b>Agriculture</b>	<b>25.566</b>	<b>313.82</b>	<b>32,3</b>	<b>16.971</b>	<b>180.66</b>	<b>20,0</b>	<b>23.176</b>	<b>225.22</b>	<b>29,9</b>
	<b>Industry and services</b>	<b>53.545</b>	<b>657.26</b>	<b>67,7</b>	<b>67.758</b>	<b>721.32</b>	<b>80,0</b>	<b>54.443</b>	<b>529.07</b>	<b>70,1</b>
<b>I</b>	<b>Horizontal state aid</b>	<b>36.535</b>	<b>448.46</b>	<b>46,2</b>	<b>53.021</b>	<b>564.42</b>	<b>62,6</b>	<b>16.118</b>	<b>156.63</b>	<b>20,7</b>
1	Research and development	2	0.02	0.0	0	0.00	0,0	17	0.16	0,02
2	Training	0	0.00	0.0	0	0.00	0,0	2	0.02	0,00
3	Employment	5.614	68.91	7.1	12.344	131.40	14,6	4.375	42.51	5,6
4	SMEs <sup>9</sup>	19.228	236.02	24.3	28.277	301.02	33,4	458	4.45	0,6
5	Environmental protection	-	-	-	5	0.05	0,0	63	0.61	0,08
6	Culture	-	-	-	-	-	-	22	0.21	0,04
7	Rescuing and restructuring	10.882	133.58	13,8	6.241	66.44	7,4	6.035	58.64	7,8
8	Incentives to export	809	9.93	1,0	300	3.19	0,2	-	-	-
9	Other <sup>10</sup>	-	-	-	5.854	62.32	7,0	5.146	50.0	6,6
<b>II</b>	<b>Sectoral state aid</b>	<b>13.777</b>	<b>169.1</b>	<b>17,4</b>	<b>11.717</b>	<b>124.73</b>	<b>13,8</b>	<b>14.526</b>	<b>141.16</b>	<b>18,7</b>
1	Mining	1.850	22.71	2,3	1.715	18.26	2,0	2.126	20.66	2,7
2	Steel	0	0.00	0,0	0	0.00	0,0	-	-	-
3	Transport	11.108	136.35	14,0	9.646	102.68	11,4	12.400	120.50	16,0
4	Tourism	301	3.69	0,4	76	0.81	0,1	-	-	-
5	Other sectors	518	6.35	0,7	280	2.98	0,3	-	-	-
<b>III</b>	<b>Regional state aid</b>	<b>3.233</b>	<b>39.68</b>	<b>4,1</b>	<b>3.020</b>	<b>32.15</b>	<b>3,6</b>	<b>23.768</b>	<b>230.98</b>	<b>30,7</b>
<b>IV</b>	<b>Local self-governments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>0.3</b>	<b>0,03</b>
<b>TOTAL</b>		<b>79.111</b>	<b>971.08</b>	<b>100,0</b>	<b>84.729</b>	<b>901.98</b>	<b>100,0</b>	<b>77.619</b>	<b>754.29</b>	<b>100,0</b>

In 2010, state aid to the agriculture sector was granted in the total amount of RSD 23.176 millions, which makes it a share of 29,9% in the total state aid granted. The state aid granted to the industry and services sector amounted to RSD 54.443 millions and it makes a share of 71,1% of the total state aid granted.

<sup>9</sup> SMEs – small and medium sized enterprises.

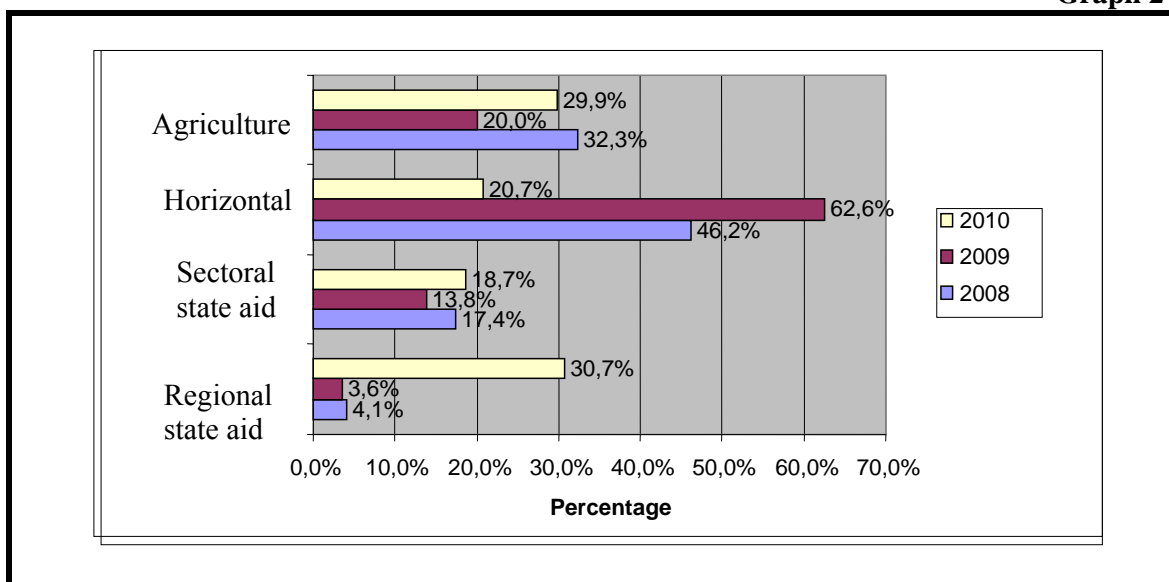
<sup>10</sup> Other – state aid granted to alleviate the difficulties caused by the global economic crisis.



State aid to the industry and services sector contains the following categories of state aid: horizontal, sectoral and regional state aid and it presents the amount corresponding to the amount of total state aid as it was represented in the previous annual reports.<sup>11</sup>

**Structure of Total State Aid in the Republic of Serbia  
in 2008, 2009 and 2010**

**Graph 2**



**Horizontal state aid** in the total state aid granted in 2010 had a share of 20,7% and amounted to RSD 16.118 millions, in 2009 had a share of 62,6 %, and amounted to RSD 53.021 millions and in 2008 had a share of 46,2% and amounted to RSD 36.535 millions.

**Sectoral state aid** in the absolute amount in 2010 amounted to RSD 14.526 millions and made up a share of 18,7% in the total state aid. In 2009, the total of RSD 11.715 millions was granted, which was a share of 13,8% in total state aid granted, i.e. in 2008 the total of RSD 13.777 millions was granted, which made a share of 17,4% in the total state aid granted.

**Regional state aid** in the absolute amount in 2010 amounted to RSD 23.768 millions and with the share of 30,7% it was significantly larger than the same category of state aid in 2009, when it amounted to RSD 3.020 millions, and had a share of 3,6% and in 2008 when it amounted to RSD 3.233 millions and had a share of 4,1%. The local self-government units granted the total of RSD 31 millions of state aid, and in the following part of the data processing process, this aid was processed as an integral part of the regional state aid.

<sup>11</sup> The structure of the state aid for the sector of industry and services has been significantly modified if compared to the state aid in 2009 and 2008, owing to the changes in the criteria for classification of different state aid categories, i.e. due to the application of rules from the Regulation.

**State Aid in the period 2008 – 2010  
(Agriculture and Transport Excluded)**

**Table 3**

<b>Indicator</b>	<b>Measure Unit</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
State aid	RSD mil.	42.437	58.112	42.043
State aid	EUR mil.	520.9	618.6	408.6
GDP	RSD mil.	2.790.000	2.953.526	2.933.3
GDP	EUR mil.	34.259	31.511	28.464
State aid in GDP	in %	<b>1,5</b>	<b>1,9</b>	<b>1,4</b>

The state aid amount that was granted to the agriculture sector<sup>12</sup> (sector of agriculture and transport excluded) in 2010 amounted to RSD 42.043 millions, which was by 27,3% less than the aid granted in 2009 and by 1% less than in 2008.

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<sup>12</sup> The law does not include the aid provided to the sector of agriculture and it includes the sector of transport that provides services of general interest.

### 3. INDUSTRY AND SERVICES

#### 3.1. State Aid Categories

The Regulation stipulated that the state aid categories are as follows: regional state aid, horizontal state aid, sectoral state aid and state aid of small value (de minimis state aid).

The categories of state aid are classified in different types of state aid, which are to be established in accordance with the primary objectives of state aid granting:

1. regional state aid – investment state aid, state aid for founding new small enterprises and operating state aid;
2. horizontal state aid – for small and medium enterprises, for rescuing and restructuring enterprises in difficulties, for employment, for environmental protection, for research, development and innovations, for training, state aid in the form of risk capital and state aid to the cultural sector;
3. Specific types of sectoral state aid are as follows: in the steel sector, in the coal sector and in the sector of transport.

**State Aid in the period 2008 – 2010  
(Agriculture excluded)**

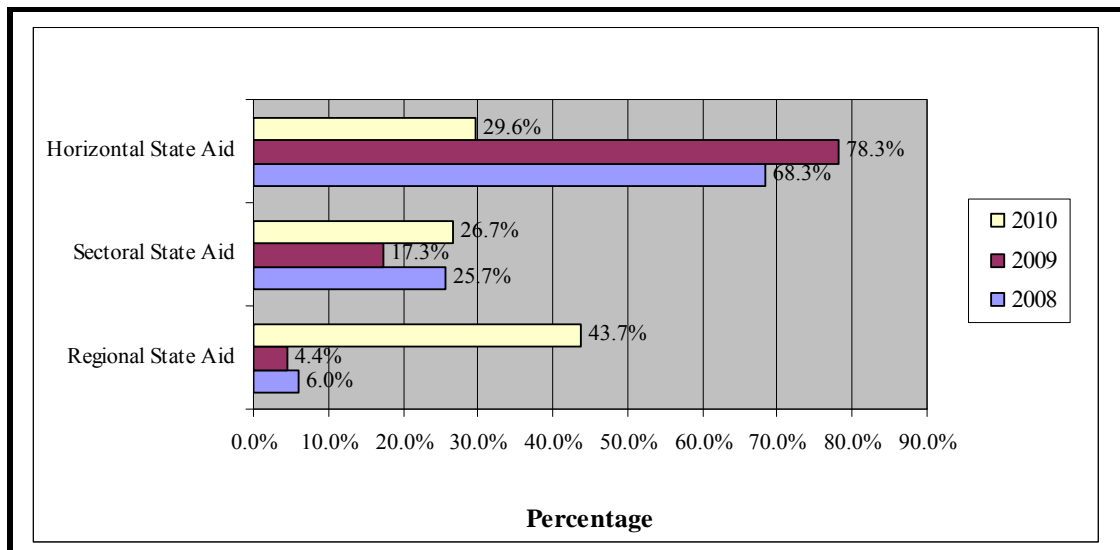
**Table 4**

<b>Indicator</b>	<b>Measure Unit</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
State Aid	RSD mil.	53.545	67.758	54.443
State Aid	EUR mil.	657.26	721.32	529.07
GDP	RSD mil.	2.790.000	2.953.526	2.933.3
GDP	EUR mil	34.259	31.511	28.464
State Aid in GDP	in %	<b>1,91</b>	<b>2,29</b>	<b>1,85</b>

Table 4 contains data on state aid granted exclusive of the agriculture sector, and the presented data correspond to the amounts presented as the total state aid from the previous annual reports. The state aid amount granted to the sector of industry and services in 2010 is by 19,7% less than in 2009, i.e. by 1% bigger than the amount granted in 2008. State aid granted to the sector of industry and services makes up 1,85% of GDP in 2010, which is less than in 2009, when this share amounted to 2,29% of GDP.

**Summary of the Share of Certain State Aid Categories in State Aid granted in the Republic of Serbia in 2008, 2009 and 2010 (Agriculture excluded)**

**Graph 3**



The biggest modifications in the state aid granted in 2010 in comparison to 2009 and 2008 pertain to the amount (intensity) and structure of state aid categories, and these came as a result of the changes in criteria for state aid granting and from the application of the rules from the Regulation. Total absolute and relative indicators of aid to the sector of industry and services have shown smaller deviations from the previous two years.

### 3.1.1. Horizontal State Aid

#### Structure of Horizontal State Aid in the Republic of Serbia in 2008, 2009 and 2010

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

<b>Horizontal State Aid Type</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Index 10/08</b>	<b>Index 10/09</b>
Research and Development	2	0	17	850	-
Training	-	-	2	-	-
Employment	5.614	12.344	4.375	77	35
SME	19.228	28.277	458	0.023	0.016
Environmental protection	-	5	63	-	1260
Culture	-	-	22	-	-
Rescuing and restructuring	10.882	6.241	6.035	55	96
Incentives to export	809	300	-	-	-
Other <sup>13</sup>	-	5.854	5.146	-	87
<b>Total</b>	<b>36.535</b>	<b>53.021</b>	<b>16.118</b>	<b>44</b>	<b>30</b>

According to data presented in Table 5, the horizontal state aid in 2010 decreased by 70% in the absolute amount if compared to 2009, and if compared to 2008, it decreased by 56%. The biggest differences both in the total amount of the horizontal state aid and in its structure, came first of all from the state aid categorization pursuant to the Regulation and Rulebook.

Funding granted for employment purposes decreased significantly - by 65% - if compared to 2009, while funding for rescuing and restructuring in 2010 was reduced by 4% if compared to 2009. State aid granted for development of small- and medium-sized enterprises, was 62 times less than in 2009 and 42 times less than in 2008. In addition to this, the classification of tax incentives was changed, too, and in 2010 these were, as opposed to the situation in 2009 and 2008, categorized as the state aid granted for employment purposes and as an incentive for regional development.

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

## The share of Certain Types of State Aid in Horizontal State Aid in the Republic of Serbia in 2008, 2009 and 2010

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

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

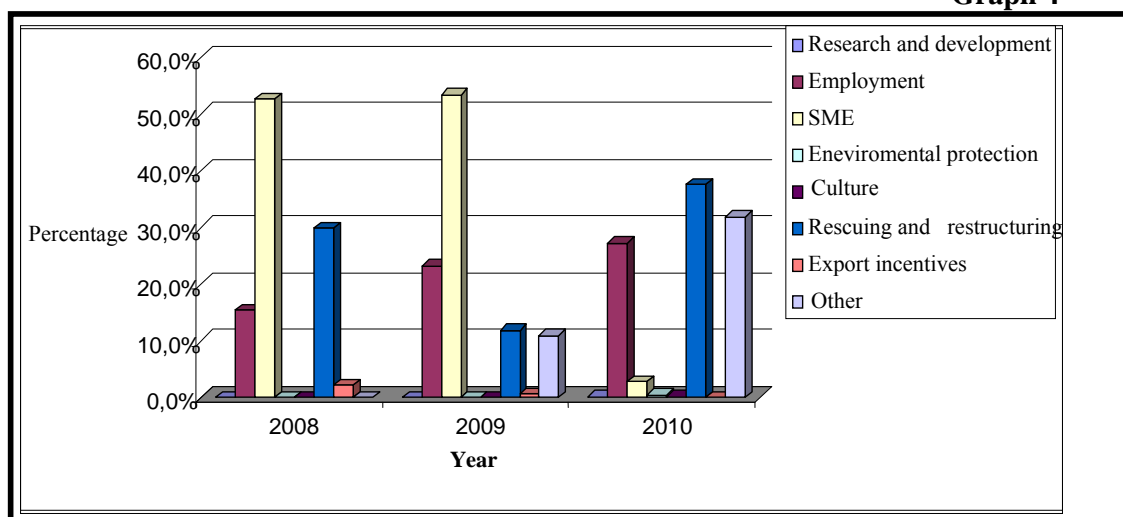
Horizontal state aid type	2008		2009		2010	
	Amount	In %	Amount	In %	Amount	In %
Research and development	2	0,0	-	-	17	0,1
Training	-	-	-	-	2	0,0
Employment	5.614	15,4	12.344	23,3	4.375	27,2
SME	19.228	52,6	28.277	53,3	458	2,8
Environmental protection	-	-	5	-	63	0,4
Culture	-	-	-	-	22	0,1
Rescuing and restructuring	10.882	29,8	6.241	11,8	6.035	37,5
Export Incentives	809	2,2	300	0,6	-	-
Other <sup>14</sup>	-	-	5.854	11,0	5.146	31,9
<b>Total</b>	<b>36.535</b>	<b>100%</b>	<b>53.021</b>	<b>100%</b>	<b>16.118</b>	<b>100%</b>

State aid granted for rescuing and restructuring of enterprises and aid to alleviate the consequences of global economic crisis (which, taken together, represents a rescuing and not the development-oriented economic measure) make up 69,4% of the total horizontal state aid that was granted in 2010 in the Republic of Serbia. In order to adequately assess how much the recommended EU directives were followed, it is necessary to include the regional state aid together with the horizontal state aid, if we keep in mind that the Republic of Serbia is considered to be the underdeveloped region, according to the Stabilization and Association Agreement (hereinafter: the SAA). The total amount of the above mentioned state aid types in 2010 reached the level of RSD 39.917 millions, where the state aid for rescuing and restructuring and that for alleviation the consequences of global economic crisis had the share of 28%, while the incentives to other objectives had a share of 72%.

<sup>14</sup> Other – state aid allocated to alleviate the consequences of the global economic crisis.

## Structure of Horizontal State Aid in 2008, 2009 and 2010

Graph 4



## Horizontal State Aid According to the Instruments of granting in 2010

Table 7  
In RSD millions

Horizontal state aid type	Subsidies	In %	Tax incentives	In %	Favourable loans	In %	Guarantees	In %	Total
Research and development	17	0,1	-	-	-	-	-	-	17
Training	2	-	-	-	-	-	-	-	2
Employment	3.569	22,2	806	5,0	-	-	-	-	4.375
SME	10	-	-	-	448	2,8	-	-	458
Environmental protection	53	0,3	-	-	10	0,0	-	-	63
Rescuing and restructuring	6.035	37,5	-	-	-	-	-	-	6.035
Culture	22	0,1	-	-	-	-	-	-	22
Other <sup>15</sup>	4.925	30,6	-	-	56	0,4	165	1,0	5.146
<b>Total</b>	<b>14.633</b>	<b>90,8</b>	<b>806</b>	<b>5,0</b>	<b>514</b>	<b>3,2</b>	<b>165</b>	<b>1,0</b>	<b>16.118</b>

The horizontal state aid was mostly granted in the form of subsidies, which make up 90,8% of the granted horizontal state aid. Out of the total amount of subsidies that were granted within the horizontal state aid, RSD 4.221 millions were subsidies for the interest paid on favourable loans.

<sup>15</sup>Other – state aid allocated to alleviate the consequences of the global economic crisis.

### 3.1.2. Sectoral State Aid

#### Sectoral State Aid in the Republic of Serbia in 2008, 2009 and 2010

**Table 8**  
**In RSD millions**

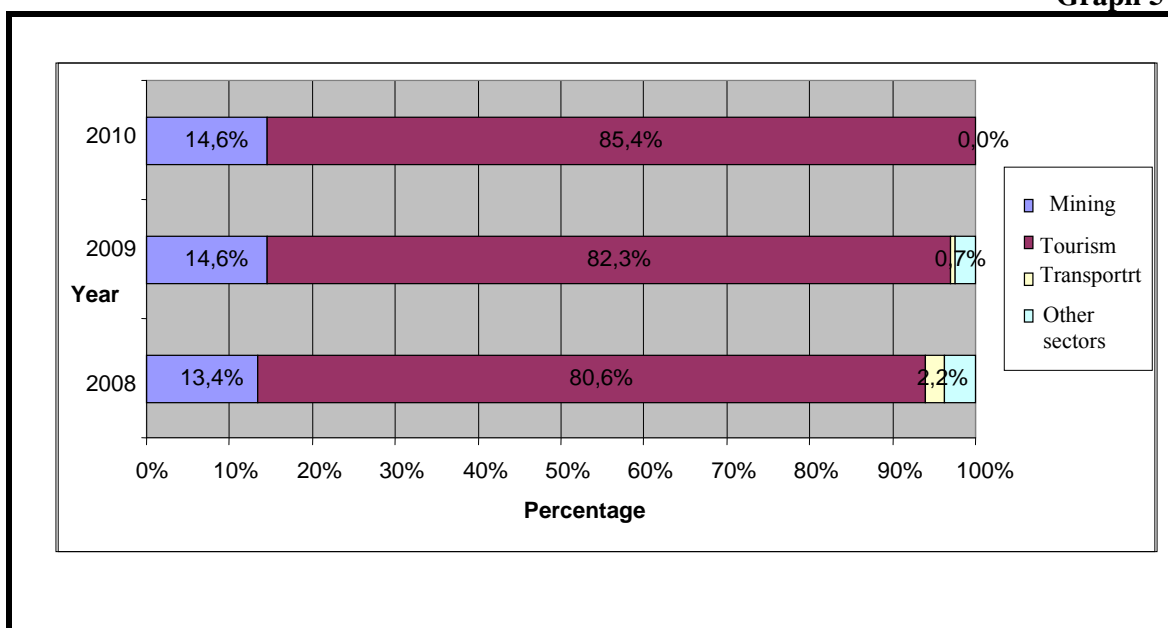
Sector	2008	2009	2010	Index 10/08	Index 10/09
Mining	1.850	1.715	2.126	115	124
Steel	0	0	-	-	-
Transport	11.108	9.646	12.400	112	128
Tourism	301	76	-	-	-
Other sectors	518	280	-	-	-
<b>Total</b>	<b>13.777</b>	<b>11.717</b>	<b>14.526</b>	<b>105</b>	<b>123</b>

The absolute amount of sectoral state aid granted in 2010 was by 23% bigger than in 2009 and by 5 % bigger than in 2008.

As for the sectoral state aid, the 2010 Report included only the sectors that were in the EU regulations marked as specific (mining and transport).

#### Structure of Sectoral State Aid in the Republic of Serbia in 2008, 2009 and 2010

**Graph 5**





The biggest share in the sectoral state aid had the state aid that was granted to the transport sector (and only to the railroad transport). In 2010, the state aid granted to this sector amounted to 85,4% of the total sectoral state aid.

### 3.1.3. Regional State Aid

The regional state aid is allocated according to the primary objectives and it is intended to provide incentives to investments, for founding of new small enterprises and for operational costs. In the case of the regional state aid, it should be noted that this type of state aid is granted with the aim to provide incentives to the economic development of the underdeveloped, i.e. of the less developed regions, primarily those where the standard of living is exceptionally low or those where there the unemployment levels are very high. In relation to that, the Republic of Serbia was granted the status of the A region pursuant to the Article 73, item 7 of the SAA, because it remains below the 75% GDP average level if compared against the EU member states, which means that it was characterized as a region with generally exceptionally low standard of living and/or high unemployment rates, which enables it to maximally use the state aid limits, especially in the case of the regional state aid.

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

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

<b>Indicator</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>Index 10/08</b>	<b>Index 10/09</b>
<b>Total state aid</b>	<b>53.545</b>	<b>67.758</b>	<b>54.443</b>	101	80
Regional state aid	3.233	3.020	23.799	736	788
% of share of the regional state aid	6.0	4.4	43.7	-	-

The regional state aid in 2010 of RSD 23.799 millions was granted through the following instruments: subsidies (RSD 398 millions), tax incentives (RSD 18.277 millions) and favourable loans through Development Fund of the Republic of Serbia (RSD 5.125 millions). The fact that criteria from the Regulations were applied influenced the amount of the regional aid, which was 7.8 times smaller than in 2009 and 7.3 times smaller than in 2008.

The state aid granted on the local self-government units was presented as the regional state aid and it amounted to RSD 31 millions.

#### 4. INSTRUMENTS FOR GRANTING STATE AID

In 2010, the state aid in the Republic of Serbia was granted by using the following instruments:

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

#### Total State Aid Granted in the Republic of Serbia in 2008, 2009 and 2010 by Granting Instruments (Agriculture included)

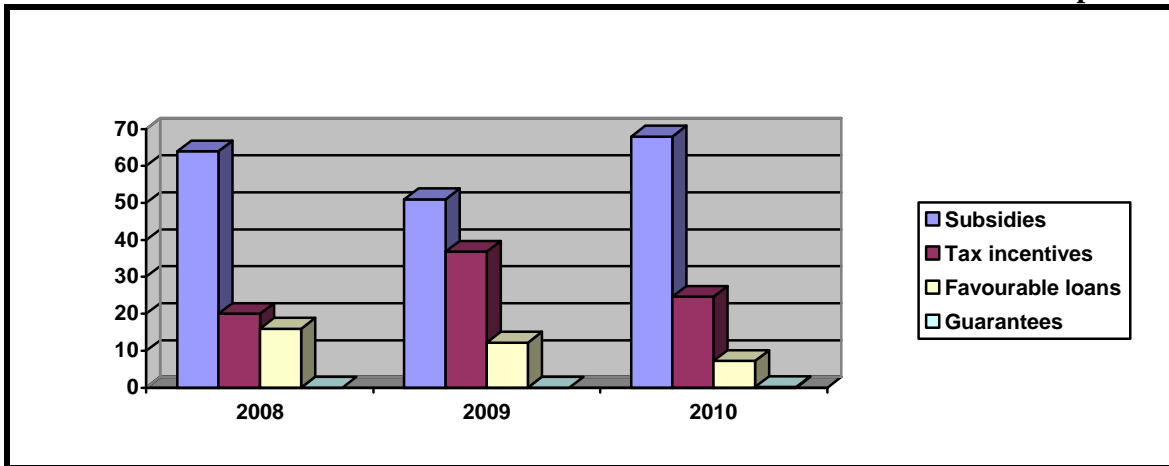
**Table 10**  
**In RSD millions**

Grant instrument	2008	In	2009	In	2010	In	Indices	
		%		%		%	10/08	10/09
Subsidies	50.666	64,0	43.215	51,0	52.732	68,0	104	122
Tax incentives	15.794	20,0	31.171	36,8	19.083	24,6	120	61
Favourable loans	12.651	16,0	10.323	12,2	5.639	7,2	44	54
Guarantees	-	-	-	-	165	0,2	-	-
<b>Total</b>	<b>79.111</b>	<b>100,0</b>	<b>84.729</b>	<b>100,0</b>	<b>77.619</b>	<b>100,0</b>	<b>98</b>	<b>91</b>

The change in the structure of instruments in the total granted state aid came as the consequence of inclusion of subsidies granted to the agriculture sector, as well as of the reduction in the amount of state aid granted through tax relief and favourable loans. The state aid that was granted through tax incentives amounted to 39% of the total granted state aid, while the of state aid granted through favourable loans amounted to 46% of the total granted state aid in comparison to 2009.

## Structure of Instruments for Granting State Aid in the Republic of Serbia in 2008, 2009 and 2010

Graph 6



Subsidies and tax incentives are the instruments through which 92,6% of the state aid was granted in 2010, i.e. 87,8% in 2009 and 84% in 2008.

The reduction of the state aid amount that was granted as favourable loans came as the consequence of the reduced amount of approved credits and those that were written off.

**Total Granted State Aid in the Republic of Serbia in 2010 According to the Instruments for Granting State Aid**

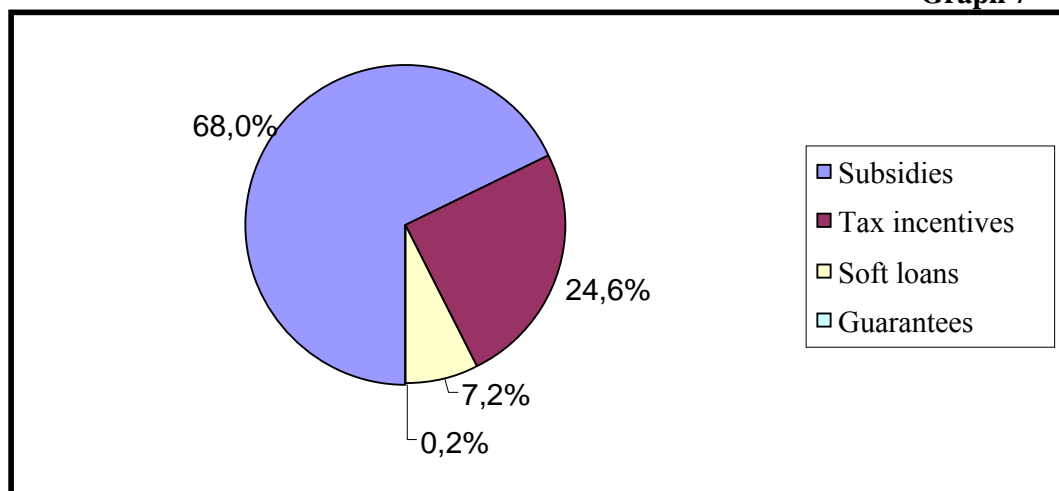
**Table 11**  
**In RSD millions**

State aid category	INSTRUMENTS FOR GRANTING STATE AID				
	Subsidies	Tax incentives	favourable loans	Guarantees	Total
<b>Agriculture</b>	<b>23.176</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23.176</b>
<b>Industry and services</b>	<b>29.557</b>	<b>19.083</b>	<b>5.639</b>	<b>165</b>	<b>54.443</b>
<b>1. Horizontal state aid</b>	<b>14.633</b>	<b>806</b>	<b>514</b>	<b>165</b>	<b>16.118</b>
Research and development	17	-	-	-	17
Training	2	-	-	-	2
Employment	3.569	806	-	-	4.375
SMEs	10	-	448	-	458
Environmental protection	53	-	10	-	63
Rescuing and restructuring	6.035	-	-	-	6.035
Culture	22	-	-	-	22
Other	4.925	-	56	165	5.146
<b>2. Sectoral state aid</b>	<b>14.526</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14.526</b>
Mining	2.126	-	-	-	2.126
Transport	12.400	-	-	-	12.400
Tourism	-	-	-	-	-
Other sectors	-	-	-	-	-
<b>3. Regional state aid</b>	<b>367</b>	<b>18.277</b>	<b>5.125</b>	<b>-</b>	<b>23.768</b>
<b>4. Local self-government</b>	<b>31</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31</b>
<b>Total</b>	<b>52.732</b>	<b>19.083</b>	<b>5.639</b>	<b>165</b>	<b>77.619</b>

Subsidies are the instrument of state aid granting through which in all the reported years only the sectoral state aid was granted (in agriculture, transport and state aid that was intended for rescuing and restructuring). The horizontal and regional objectives are more often financed through the indirect state aid granting instruments (tax incentives and favourable loans).

Structure of Instruments for State Aid Granting in the Republic of Serbia  
in 2010

Graph 7



#### 4.1. Subsidies

Just like in the previous reported years, in 2010 too the most popular state aid granting instrument was the subsidies with the share of 68% in the total granted state aid, where the majority of aid was granted to the following sectors: agriculture, mining and transport.

#### 4.2. Tax Incentives

Tax incentives as the instrument for granting state aid in 2010 in the Republic of Serbia had a share of 24,6%.

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

- tax incentives approved pursuant to the Corporate Income Tax Law (RS Official Gazette, No. 25/01, 80/02, 43/03 and 84/04)),
- tax incentives approved pursuant to the Personal Income Tax Law (RS Official Gazette, No. 24/01-50/11) through decreasing personal income tax on the grounds of investing into fixed assets.

On the above grounds, tax incentives in 2010 amounted to the total of RSD 19.083 millions.

### **4.3. Soft loans**

Favourable loans were represented with a share of 7,2% in the total state aid granted. As for the loans under more favourable conditions than the ones in the banking capital market, the amount of state aid is a positive effect of a more favourable interest rate under which these loans were approved than those with the reference (average) 16 interest rate in the banking capital market that was calculated by using the conform method for the credit period. Development Fund of the Republic of Serbia approved the total of RSD 30.181 millions as credits, and the state aid amounted to the total of RSD 5.583 millions. Export Assurance and Financing Agency of the Republic of Serbia approved the total of RSD 7.767 millions in the form of short-term loans, and the total amount of aid through these loans was RSD 56 millions.

### **4.4. Guarantees**

In 2010, The Development Fund of the Republic of Serbia issued guarantees in the amount of RSD 2.565 millions, out of which the financial guarantees amounted to RSD 2.130 millions, and the fiduciary guarantees amounted to RSD 461 millions. According to the protests by the banks, from January 1, 2010 till December 31, 2010, The Development Fund of the Republic of Serbia effectuated payments for 99 beneficiaries in the total amount of RSD 91 million. During the same period, the total of RSD 1.403 millions was collected for the paid guarantees.

The risk rate for issued guarantees was 3,51%<sup>17</sup> so that the state aid amount was RSD 165 millions.

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<sup>16</sup> Average interest rate in 2010 for long-term credits was 12,82%, and for the short-term credits is was 10,87%, Source: the National Bank of Serbia.

<sup>17</sup> The risk rate is the percentage calculated as the correlation of the total issued and discharged guarantees (reduced by the collected amount) and it is calculated on the financial guarantees.

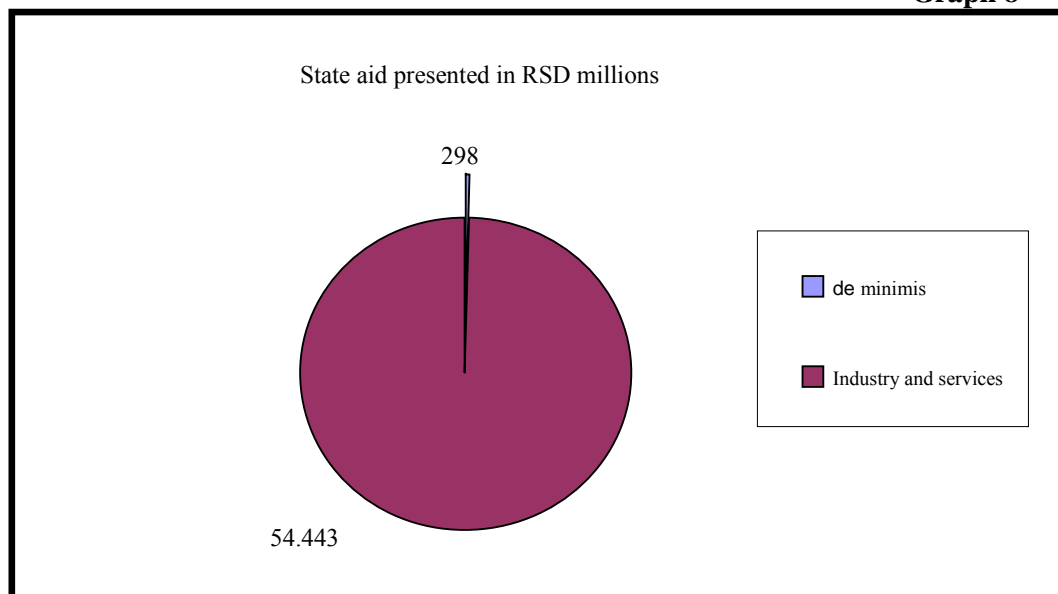
## 5. THE STATE AID OF SMALL VALUE (de minimis state aid)

The state aid of small value (de minimis state aid) can be granted to an enterprise providing that there is no other possibility to grant the state aid pursuant to the rules from the Regulation.

In addition to the above mentioned, another specific characteristic of the state aid of small value (de minimis state aid) is that this kind of state aid is granted to an individual company in the amount of up to EUR 200.000 in RSD counter value, and in the road transport sector in the maximum amount of EUR 100.000 in RSD counter value, at any given period of time within three consecutive fiscal years.

### Relation of the state aid of small value and State Aid Granted to the Industry and Services Sector in 2010

Graph 8



The state aid of small value granted in 2010 (de minimis state aid) amounted to RSD 298 millions, through subsidies amounted to RSD 146 millions, and through favourable loans amounted to RSD 152 millions. The biggest grantors of state aid of small value granted (de minimis state aid) were as follows: the City of Belgrade, SIEPA, AP Vojvodina and the Development Fund of the Republic of Serbia.

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

**State Aid in the Republic of Serbia in comparison with the EU in 2009**

**Table 12**

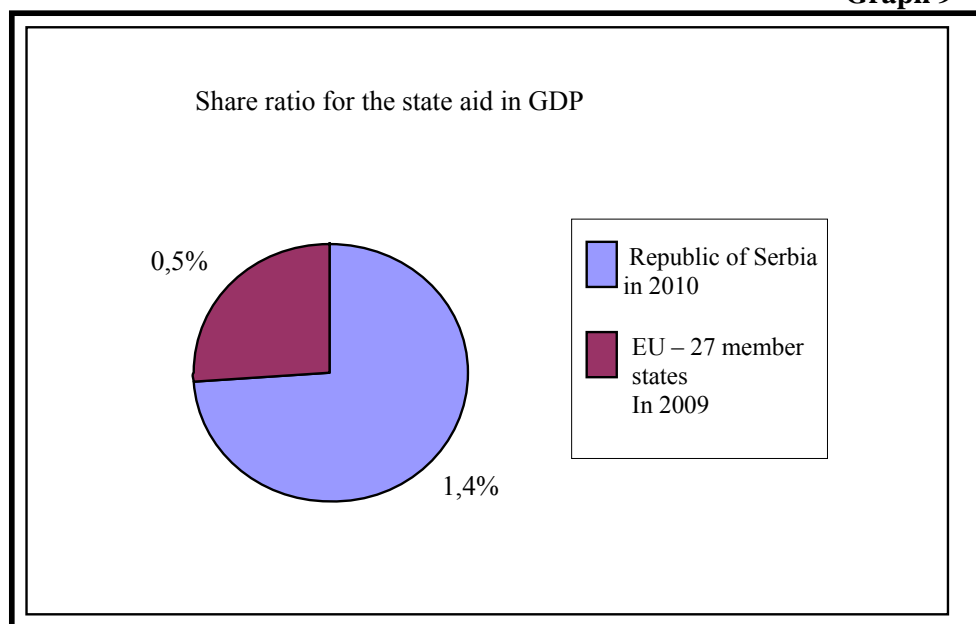
In:	State aid – exclusive of state aid for transport sector		State aid exclusive of state aid to agriculture and transport sector		
	EUR mil.	Share in GDP (in %)	EUR mil.	Share in GDP (in %)	% of state aid
<b>R. Serbia in 2008</b>	<b>835</b>	<b>2,4</b>	<b>521</b>	<b>1,5</b>	<b>53</b>
<b>R. Serbia in 2009</b>	<b>799</b>	<b>2,5</b>	<b>619</b>	<b>1,9</b>	<b>68</b>
<b>R. Serbia in 2010</b>	<b>633</b>	<b>2,2</b>	<b>409</b>	<b>1,4</b>	<b>54</b>
<b>EU - 27 member states</b>	<b>73.200</b>	<b>0,6</b>	<b>58.100</b>	<b>0,5</b>	<b>84</b>
<b>EU – 15 member states</b>	<b>65.100</b>	<b>0,6</b>	<b>53.400</b>	<b>0,5</b>	<b>85</b>
<b>EU – 12 member states</b>	<b>8.100</b>	<b>0,9</b>	<b>4.7</b>	<b>0,5</b>	<b>76</b>
Belgium	2.000	0,6	1.600	0,5	100
Bulgaria	700	2,1	30	0,1	100
Czech Republic	900	0,7	700	0,5	88
Denmark	2.100	1,0	1.900	0,9	97
Germany	16.700	0,7	15.200	0,6	86
Estonia	40	0,3	10	0,1	100
Ireland	1.500	0,9	700	0,5	89
Greece	2.000	0,8	1.800	0,7	87
Spain	5.700	0,5	4.900	0,5	80
France	14.700	0,8	11.700	0,6	79
Italy	5.700	0,4	4.600	0,3	84
Cyprus	200	1,0	100	0,4	95
Latvia	200	1,0	0.0	0,1	100
Lithuania	200	0,8	100	0,3	100
Luxembourg	100	0,3	100	0,2	100
Hungary	1.400	1,5	900	1,0	76
Malta	100	2,0	100	1,7	23
The Netherlands	2.400	0,4	1.700	0,3	99
Austria	1.700	0,6	1.000	0,4	99
Poland	2.900	0,9	2.200	0,7	71
Portugal	1.600	1,6	1.600	1,6	19
Romania	800	0,7	200	0,1	50
Slovenia	300	0,9	200	0,7	91
Slovakia	300	0,5	200	0,4	90
Finland	2.100	1,2	800	0,5	99
Sweden	2.600	0,9	2.400	0,8	100
United Kingdom	4.000	0,3	3.200	0,2	91



Table 12 contains data on state aid granted in 2009 (inclusive of agriculture sector) exclusive of the transport sector, and aid to the industry and services sector (exclusive of the agriculture sector) for the EU member states, and on the EU level,<sup>18</sup> along with data for 2008, 2009 and 2010 representative of the Republic of Serbia.

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

**Graph 9**



As the absolute amounts, when compared against the EU member states, the Republic of Serbia did not granted a high absolute amount of state aid in 2010, but the share of state aid in GDP remained high.

<sup>18</sup> Source: EU/DG Competition-State Aid-Scoreboard, 2009.

## **7. COMMISSION PROGRESS REPORT**

Commission was established pursuant to the Government Decision 05 number: 02-8571/2009-02 dated December 29, 2009 and it has five members. Commission members are nominated upon proposals by the following bodies: Ministry of Finance (chairperson of the Commission), Commission for Protection of Competition. (deputy chairperson), Ministry of Economy and Regional Development, Ministry of Infrastructure and Energy, and Ministry of Environmental Protection, Mining and Spatial Planning. The Commission members are elected for a 5 years' period, and they need not be employed by the body that proposed their nomination. The method and procedure used in the Commission work have been regulated in the Rulebook on Commission Work, which was published in the Internet page of the Commission. If a Commission member is at the same time a representative of state aid grantors, he or she does not take any part in the decision making procedure, but he or she may be present in the meeting and may provide additional information about the application.

In 2010, the Commission had 9 meetings in which it reached 37 Decisions pertaining to its remit. As for the submitted notifications during the ex ante control, the Commission reached 10 decisions to decide that the report in question did not pertain to the state aid and 37 decisions that approved of the state aid granting. In 11 cases the Commission reached decisions on allowance of state aid granted in the procedure of ex post control.

So far, more than 51% of the Commission decisions were reached while the Commission operated with full membership (19 decisions) while 49% of the decisions were reached with only four members' participation (18 decisions).

The Ministry of Economy and Regional Development has submitted the biggest number of notifications with which excellent cooperation has been established, as well as with the City of Belgrade and with the Autonomous Province of Vojvodina.

Almost all the decisions of the Commission were reached unanimously.

## 8. CONCLUSION

Comparative data is the most expressive evidence of the trends in the absolute amounts of the state aid granted in the Republic of Serbia, and of its share in GDP. From the point of view of the European Union rules in the state aid area, the share of the state aid in GDP is by far more important indicator than the absolute amount of the granted state aid, because even the smaller amount of state aid can cause distortion of the market competition. Only the state aid of small value i.e. *de minimis* state aid has been exempt from this rule in the European Union, for which the European Commission has assessed that it does not cause distortion substantial the competition in the Common Market, and which implies that an individual enterprise can be granted state aid in the RSD counter value of up to EUR 200.000 in any period within three consecutive fiscal years.

The absolute amount of state aid granted in 2010 was smaller than those in 2009 (by 9%) and smaller than the state aid in 2008 (by 2%), so that it can safely be assessed as a positive trend of ebbing of the share of the total granted state aid in GDP, since from the standpoint of the European Union criteria, this parameter, and not the total amount of the state aid granted, is considered as relevant for monitoring of state aid influence on the potential disruptions of competition in the Common Market.