

Republic of Serbia
COMMISSION FOR STATE AID CONTROL

R E P O R T

ON STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2014

October 2015

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 2014 Report	8
1.4.	Summary of 2014 Report	9
2.	STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2014	10
2.1.	State aid in the Republic of Serbia in relation to basic macroeconomic indicators	10
2.2.	Total state aid granted in the Republic of Serbia in 2012, 2013 and 2014 per state aid types	12
3.	INDUSTRY AND SERVICES	15
3.1.	State aid types	15
3.1.1.	Horizontal state aid	17
3.1.2.	Sectoral state aid	21
3.1.3.	Regional state aid	22
4.	STATE AID INSTRUMENTS	23
4.1.	Total state aid granted in the Republic of Serbia in 2014 per state aid instruments	25
4.2.	Direct grants	26
4.3.	Tax incentives	26
4.4.	Soft loans	27
4.5.	Guarantees	27
5.	STATE AID OF SMALL VALUE (<i>de minimis</i> aid)	28
6.	CONCLUSION	29

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 (hereinafter referred to as “the Commission”) govern the procedures and other issues relevant to the work of the Commission.

The Commission with its new composition was established by the Government Decision (“*Official Gazette of the Republic of Serbia*”, no. 6/15) of January 20th, 2015.

The report on the Commission’s activities in the previous composition:

In 2014, the Commission held 28 sessions in which it adopted 119 acts that come within its competence, out of which:

- 26 decisions – the Commission decided whether State aid was allowed in 23 cases (out of which 9 notifications were considered in *ex ante* control, while in the procedure of *ex post* control it considered 14 notifications of granted state aid) and in 3 cases it made a decision that there are no state aid elements;

- 17 conclusions, out of which *ex post* control was initiated in 14 cases in order to establish whether state aid was allowed (the Commission initiated 2 cases of *ex post* control based on its own information or information obtained from other sources);

- 1 conclusion in which state aid grantors were ordered to adjust to the rules for state aid granting and

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

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

If the Commission, pursuant to Article 18 paragraph 3 of the Law, within *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 timely 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 (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 Granted State Aid (“*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 2014 (hereinafter referred to as “the 2014 Report”) is the eleventh consecutive annual report that the Republic of Serbia has made until now (the first was drafted for **2003/2004 period**). However, it is the fifth comprehensive, 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 undertakings or to a group of undertakings, 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

State aid is any actual or potential public expenditure or realised decrease in public revenue that confers a more favourable market position to state aid beneficiary 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 unit, 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 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 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), a realised decrease in public revenue (reduction of or exemption from paying taxes and compulsory social insurance taxes) is also considered state aid.

Selectivity

Selectivity is what differentiates state aid from general measures of economic policy, which are applied to all undertakings 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 undertakings, 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 undertaking, 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 undertaking buys or rents publicly owned land at less than the market price, an undertaking sells land to the state at a price which is higher than the market price, an undertaking enjoys privileged access to infrastructure without paying a fee or an undertaking 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 the market, while the “nature” of a beneficiary is not relevant, due to the fact that 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 legal grounds for granting state aid to beneficiaries which are not previously designated (known), and drafts and/or proposals of regulations which will constitute 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 a state aid grantor is 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 the data on total amounts of state aid.

The Table of granted state aid contains the following data: state aid grantors and beneficiaries, beneficiary sector (business activity), registration number of the Commission's decision, state aid measure, legal grounds for state aid granting, type, amount, state aid instrument, financial source, duration, and 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:

- 1.1. State aid for small and medium enterprises,
- 1.2. State aid for rescue and restructuring enterprises in difficulty,
- 1.3. State aid for employment,
- 1.4. State aid for environmental protection,
- 1.5. State aid for research, development and innovation,
- 1.6. State aid for training,
- 1.7. State aid in the form of risk capital,
- 1.8. State aid to the cultural sector.

3) Sectoral state aid:

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

4) State aid of small value (*de minimis* state 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 state aid instruments.

1.3. Structure of 2014 Report

The 2014 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 way:

- 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 2012, 2013 and 2014 is presented by state aid types.

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

Chapter 4 presents state aid granted 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 effect competition and trade in the market.

1.4. Summary of 2014 Report

The 2014 Report is drafted in accordance with the Law, the Regulation and the Rulebook.

It presents the analytical summary of state aid granted in 2014. Comparative data from 2012 and 2013 is given in order to have a comprehensive summary and trends monitoring.

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

In the Republic of Serbia in 2014 the total amount of granted state aid amounted to RSD 106,074 million, i.e. EUR 904.0 million¹, which is by 21% more in comparison to total state aid granted in 2012 (RSD 88,009 million or EUR 778.0 million), that is, by 30% more in comparison with the same parameter for 2013 (RSD 81,451 million, i.e. EUR 720.0 million). In comparison with the amounts stated in euros, granted state aid in 2014 is 16% higher than in 2012 and 26% higher than in 2013.

The share of state aid in the gross domestic product (hereinafter referred to as “the GDP”) is 2.74% in 2014, while in 2013 it was 2.25% and 2.60% in 2012.

The 2014 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 2014, state aid was granted to **the agriculture sector** in the amount of **RSD 32,912 million or EUR 291 million**, which in comparison to 2013 presents an increase of 25%, and compared to 2012, it is a rise of 31%. The share of this state aid in the total state aid granted in 2014 was 31%, while in 2013 and 2012 it was 32.2% and 28.6% respectively. State aid granted by the ministry in charge of agriculture, fishery and forestry is presented in total amount of granted state aid, 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 2014 was **RSD 73,162 million or EUR 623.7 million**, and when compared to 2013 and 2012, it presents an increase of 28% and 12% respectively. The share of this state aid in the total state aid granted in 2014 was 69%, while in 2013 and 2012 it was 67.8% and 71.4% respectively.

¹ Average Euro exchange rate in 2014 was RSD 117.3060; Source: National Bank of Serbia

2. STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2014

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

Table 1

Indicator	Unit of measure	2012	2013	2014	Indexes	
					14/12	14/13
State aid	In RSD million	88,009	81,451	106,074	121	130
State aid	In EUR million	778.0	720.0	904.0	116	126
GDP ¹	In RSD million	3,386,200	3,618,220	3,878,000	-	-
GDP	In EUR million	29,933	31,981	33,059	-	-
State aid in GDP	in %	2.60	2.25	2.74	105	122
Public expenditures	In RSD million	1,717,306	1,750,150	1,878,878	-	-
Public expenditures	In EUR million	15,180	15,469	16,017	-	-
State aid in public expenditures	in %	5.12	4.65	5.65	110	121
Employees	number	1,727,000	1,715,000	1,698,000	-	-
State aid per employee	RSD	50,961	47,493	62,470	123	132
State aid per employee	EUR	450.0	420.0	533.0	118	127
Population ²	number	7,121,000	7,146,759	7,146,759	-	-
State aid per capita	RSD	12,359	11,397	14,849	120	130
State aid per capita	EUR	109.0	101.0	127.0	116	126

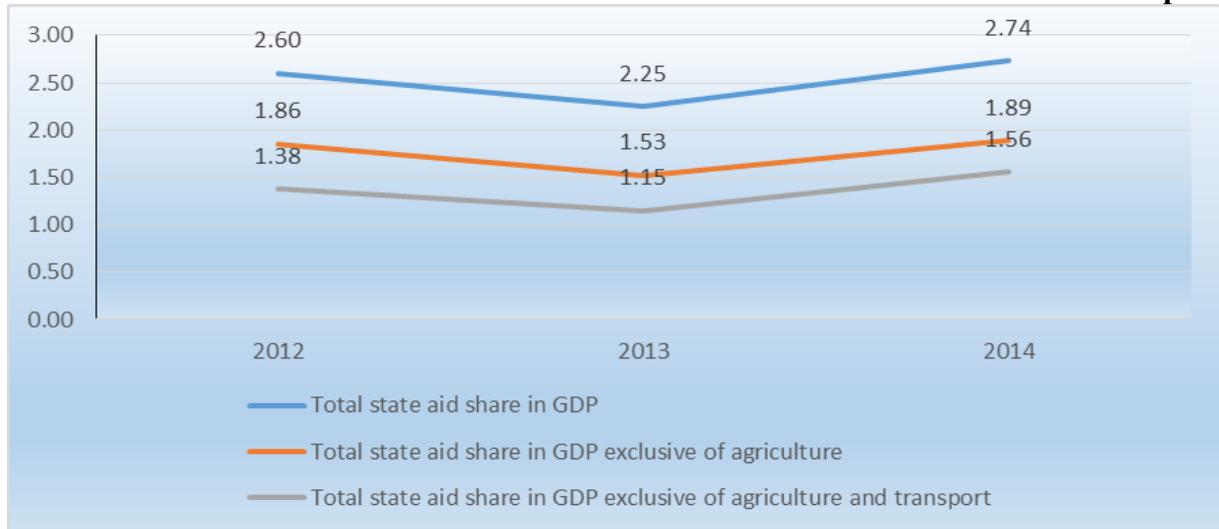
The share of state aid in the GDP in 2014 amounted to 2.74%. In 2012 and 2013 it amounted to 2.60% and 2.25% respectively. In 2014, share of state aid in public expenditures amounts to 5.65%, while in 2013 and 2012 the shares were 4.65% and 5.12%.

¹ Data for basic macroeconomic indicators for 2014 are taken from website of the Ministry of Finance <http://www.mfin.gov.rs/pages/article.php?id=7161>

² Statistical Office of the Republic of Serbia

The trends of total state aid share in GDP in 2012 - 2014 period

Graph 1



The trends of the total state aid share in the GDP in the Republic of Serbia in 2014 show slight increase in comparison to 2013 and 2012.

2.2. Total state aid granted in the Republic of Serbia in 2012, 2013, and 2014 per state aid types

Table 2

No.	Type	2012			2013			2014		
		In RSD Mil.	In EUR Mil.	%	In RSD Mil.	In EUR Mil.	%	In RSD Mil.	In EUR Mil.	%
	Agriculture	25,158	222.4	28.6	26,251	232.1	32.2	32,912	291.0	31.0
	Industry and services	62,851	555.6	71.4	55,200	487.9	67.8	73,162	623.7	69.0
I	Horizontal state aid	12,021	106.3	13.6	4,767	42.1	5.9	29,787	253.9	28.0
1	Research and development	9.0	0.1	0.0	7.0	0.1	0.0	0.0	0.0	0.0
2	Training	4.1	0.0	0.0	8.0	0.1	0.0	0.0	0.0	0.0
3	Employment	2,511	22.2	2.9	2,351	20.7	2.9	2,089	17.8	2.0
4	SME ¹	107.8	0.9	0.1	101.0	0.9	0.1	0.0	0.0	0.0
5	Environmental protection	15.3	0.1	0.0	0.0	0.0	0.0	1,522	12.9	1.4
6	Culture and information	28.1	0.3	0.0	771.0	6.8	0.9	12,133	103.4	11.4
7	Rescue and restructuring	8,696	77.0	9.9	1,529	13.5	1.9	10,505	89.6	9.9
8	Other types ²	650.0	5.7	0.7	0.0	0.0	0.0	3,538	30.2	3.3
II	Sectoral state aid	19,317	170.7	22.0	17,943	158.6	22.0	25,137	214.3	23.7
1	Mining	3,236	28.6	3.7	4,300	38.0	5.3	4,576	39.0	4.3
2	Transport	16,081	142.1	18.3	13,643	120.6	16.7	12,716	108.4	12.0
3	Steel	-	-	-	-	-	-	7,845	66.9	7.4
III	Regional state aid	31,513	278.6	35.8	32,490	287.2	39.9	18,237	155.5	17.2
	TOTAL	88,009	778.0	100.0	81,451	720.0	100.0	106,074	915.1	100.0

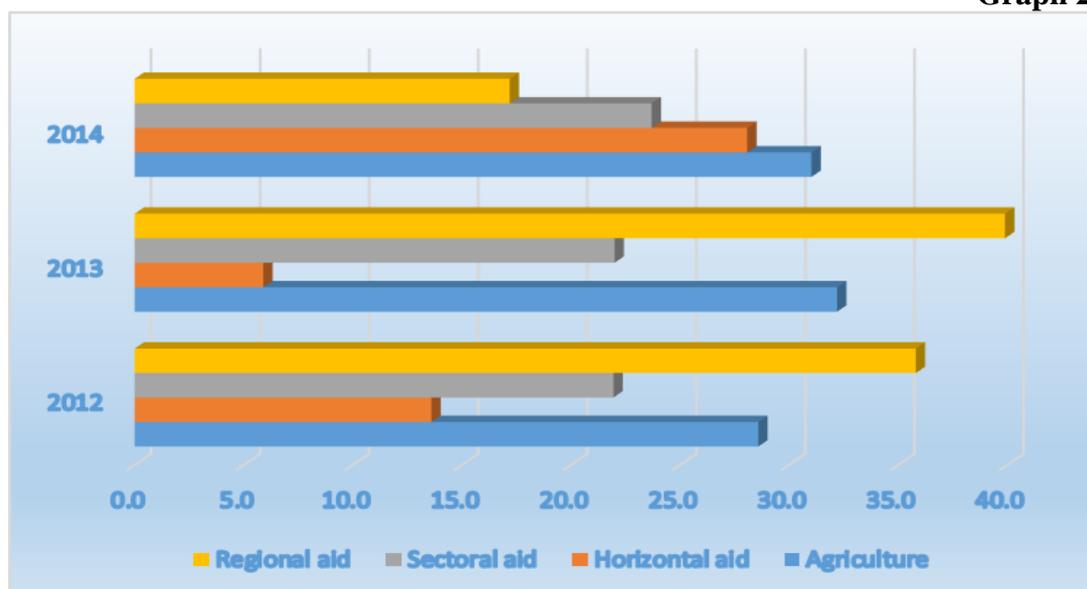
State aid granted to the agriculture sector in 2014 amounted to RSD 32,912 million, which makes a share of 31% in total state aid granted. State aid granted to the industry and services sector amounted to RSD 73,162 million and it makes a share of 69% of total state aid granted.

¹ SME – small and medium enterprises

² Other types – undertakings in the privatisation process

Structure of total state aid in the Republic of Serbia including agriculture in 2012, 2013 and 2014

Graph 2



Horizontal state aid had a share of 28.0% in the total state aid granted in 2014 and it amounted to RSD 29,787 million. However, it had a share of 5.9% in 2013 and it amounted to RSD 4,767 million and in 2012 that share was 13.6%, and it amounted to RSD 12,021 million.

Sectoral state aid amounted to RSD 25,137 million in 2014 and made up a share of 23.7% in total state aid. In previous reporting periods (2013 and 2012) smaller amounts were granted – RSD 17,943 million and RSD 19,317 million respectively. The share of sectoral state aid in total state aid increased by 1.7% when compared to 2013 and 2012 when it amounted to 22%.

Regional state aid amounted to RSD 18,237 million in 2014, with the share of 17.2%. Regional state aid granted in 2014 is lower when compared to 2013, when it amounted to RSD 32,490 million, and it had a share of 39.9% in total state aid. Regional state aid in 2014 is also lower when compared to 2012, when it amounted to RSD 31,513 million and had a share of 35.8% in total state aid.

In 2014, state aid was granted to **the agricultural sector** in the amount of RSD 32,912 million, which represents the share of 31% in total state aid. That share amounted to 32.2% or RSD 26,251 million in 2013 and 28.6% or RSD 25,158 million in 2012.

**State aid in 2012 – 2014 period
(agriculture and transport excluded)**

Table 3

Indicator	Unit of measure	2012	2013	2014
State aid	In RSD mil.	46,770	41,557	60,446
State aid	In EUR mil.	413.4	367.3	515.0
GDP	In RSD mil.	3,386,200	3,618,220	3,878,000
GDP	In EUR mil.	29,933	31,981	33,059
State aid in GDP	in %	1.4	1.1	1.6

The state aid granted to the economy sector in 2014 (agriculture and transport sector excluded) was RSD 60,446 million in absolute amount and it had a share of 1.6% in the 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 fibres 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 2012 – 2014 period
(agriculture excluded)**

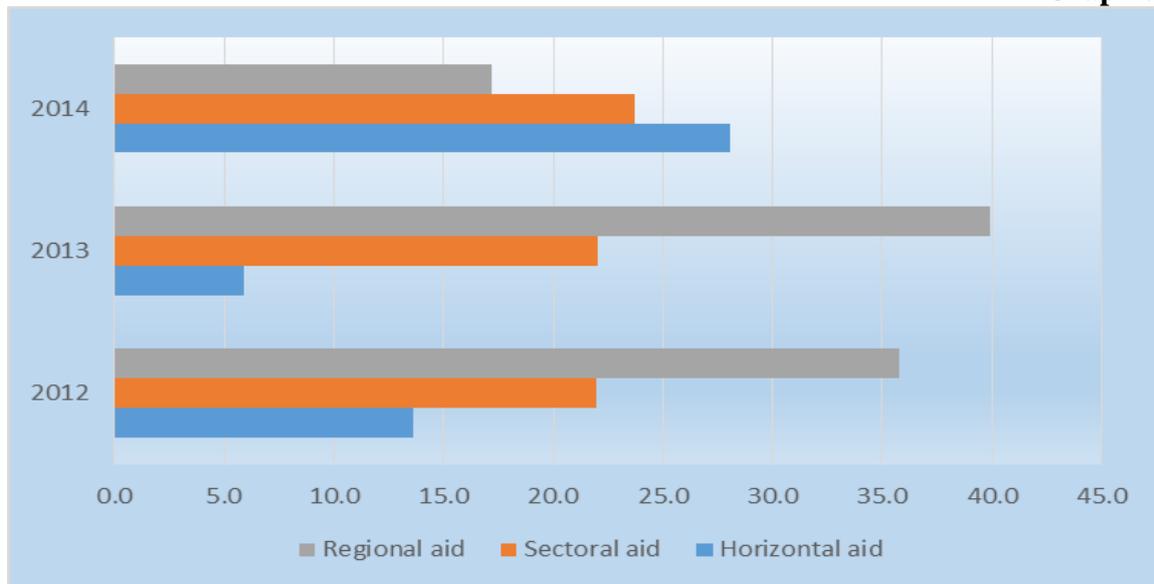
Table 4

Indicator	Unit of measure	2012	2013	2014
State aid	In RSD mil.	62,851	55,200	73,162
State aid	In EUR mil.	555.6	487.9	623.7
GDP	In RSD mil.	3,386,200	3,618,220	3,878,000
GDP	In EUR mil.	29,933	31,981	33,059
State aid in GDP	in %	1.9	1.5	1.9

The state aid amount granted to the sector of industry and services in 2014 was 33% higher in comparison to 2013, when state aid amounted to RSD 55,200 million. In 2012 it amounted to RSD 62,851 million and it is 16% higher in 2014 than in 2012. In 2014, state aid granted to the industry and services sector had a share of 1.9% in the GDP, which is more when compared to 2013, when the share of state aid in the GDP was 1.5% and it is at the same level as in 2012 when the share in the GDP was also 1.9%.

Summary of share of certain state aid types in state aid granted in the Republic of Serbia in 2012, 2013 and 2014 (agriculture excluded)

Graph 3



In comparison with 2013 and 2012, the regional state aid in 2014 decreased slightly and there is a mild increase in sectoral state aid when compared to two previous reporting years.

3.1.1. Horizontal state aid

Structure of horizontal state aid in the Republic of Serbia in 2012, 2013 and 2014

Table 5
in RSD million

Horizontal state aid type	2012	2013	2014	Index 14/12	Index 14/13
Research and development	9.0	7.0	0.0	-	-
Training	4.1	8.0	0.0	-	-
Employment	2,511	2,351	2,089	83	89
SME	107.8	101.0	0.0	-	-
Environmental protection	15.3	0.0	1,522	-	-
Culture and information	28.1	771.0	12,133	-	-
Rescue and restructuring ¹	8,696	1,529	10,505	-	-
Other ²	650.0	0.0	3,538	-	-
Total	12,021	4,767	29,787	248	626

According to the data presented in Table 5, horizontal state aid in 2014 is in the absolute amount higher than in 2013 and 2012. The differences, both in the total amount of horizontal state aid and its structure primarily stem from the increase in state aid for rescue and restructuring as well as culture and information. The greatest part of the funds allocated for rescue and restructuring relate to the liabilities of the a.d. Air Serbia in accordance with the Law on assuming liabilities of an undertaking to legal and natural entities pursuant to provided services and delivered goods and conversion of these liabilities into public debt of the Republic of Serbia ("Official Gazette of the Republic of Serbia", no. 142/14), which amounted to RSD 9,897 million in 2014.

The increase of the funds earmarked for culture and information followed the adoption of the Regulation on Temporary Financing Public Services ("Official Gazette of the Republic of Serbia", no. 6/14), which was the basis for a decision that the public services are financed from the budget in the second half of 2014 (total amount of RSD 8.4 billion), due to a small inflow of funds from viewer/listener license fees and problems with financing national services.

² Other – undertakings in the privatization process

**Share of some types of horizontal state aid
in total amount of horizontal state aid granted in the Republic of Serbia
in 2012, 2013 and 2014**

**Table 6
in RSD million**

Horizontal state aid type	2012		2013		2014	
	Amount	In %	Amount	In %	Amount	In %
Research and development	9.0	0.1	7.0	0.1	0.0	0.0
Training	4.1	0.0	8.0	0.2	0.0	0.0
Employment	2,511	20.9	2,351	49.3	2,089	7.0
SME	107.8	0.9	101.0	2.1	0.0	0.0
Environmental protection	15.3	0.1	0.0	0.0	1,522	5.1
Culture and informaiton	28.1	0.2	771.0	16.2	12,133	40.7
Rescue and restructuring	8,696	72.3	1,529	32.1	10,505	35.3
Other ¹	650.0	5.4	0.0	0.0	3,538	11.9
Total	12,021	100%	4,767	100%	29,787	100%

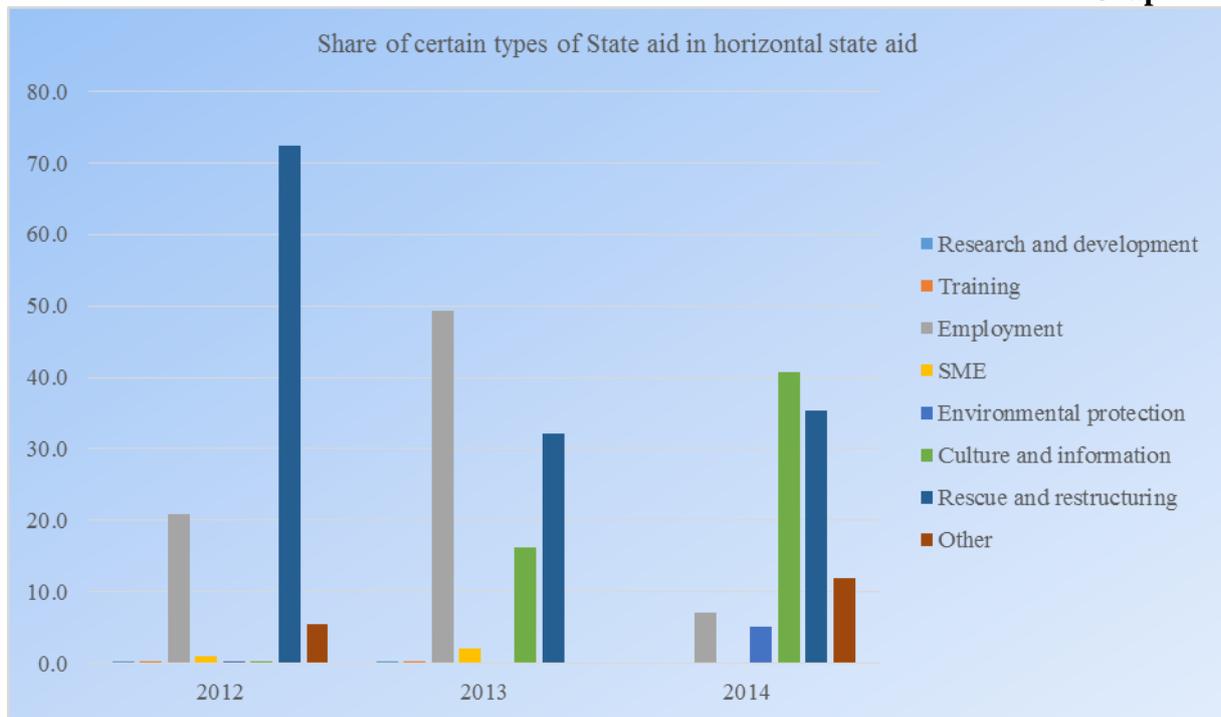
The European Commission has recommended that Member States should intensify their efforts to reduce the general levels of state aid, and additionally focus on the transition from support to certain enterprises or sectors to incentivizing horizontal objectives, such as employment, regional development,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

State aid granted for rescue and restructuring of enterprises is RSD 10,505 million and accounts to 35.3% of total horizontal state aid granted in 2014. In percentages, this increase is marginal when compared to 2013, but if we take into consideration the absolute amounts (RSD 1,529 million in 2013 and RSD 10,505 in 2014) this increase is notable. In order to adequately assess if the recommended EU directives have been followed, it is necessary to encompass regional state aid together with horizontal state aid, particularly due to the fact that, according to Article 73(7)(a) of the SAA (Article 38(7)(a) of the Interim Agreement), the Republic of Serbia is considered to be an underdeveloped region. The total amount of the above mentioned state aid types in 2014 was RSD 48,024 million, whereas state aid for rescue and restructuring had a share of 22% and aid for incentivizing the objectives marked as significant for the development and recommended by the European Commission, had a share of 78%.

¹ Other – undertakings in the privatisation process

Structure of horizontal state aid in 2012, 2013 and 2014

Graph 4



Horizontal State aid per state aid instrument in 2014

Table 7
in RSD million

Horizontal state aid type	Grants	In %	Tax incentives	In %	Soft loans	In %	Total
Research and development	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
Employment	70.0	0.3	2,019	45.0	0.0	0.0	2,089
SME	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Environmental protection	1,522	6.4	0.0	0.0	0.0	0.0	1,522
Rescue and restructuring	9,897	42.0	0.0	0.0	608.0	36.0	10,505
Culture and information	12,133	51.3	0.0	0.0	0.0	0.0	12,133
Other	0.0	0.0	2,458	55.0	1,080	64.0	3,538
Total	23,622	100	4,477	100	1,688	100	29,787

In 2014, horizontal state aid was granted in the form of grants – 79%, tax incentives – 15% and soft loans – 6%.

3.1.2. Sectoral state aid

Sectoral state aid in the Republic of Serbia in 2012, 2013 and 2014

Table 8
in RSD million

Sector	2012	2013	2014	Index 14/12	Index 14/13
Mining	3,236	4,300	4,576	141	106
Transport	16,081	13,643	12,716	79	93
Steel	-	-	7,845	-	-
Total	19,317	17,943	25,137	130	140

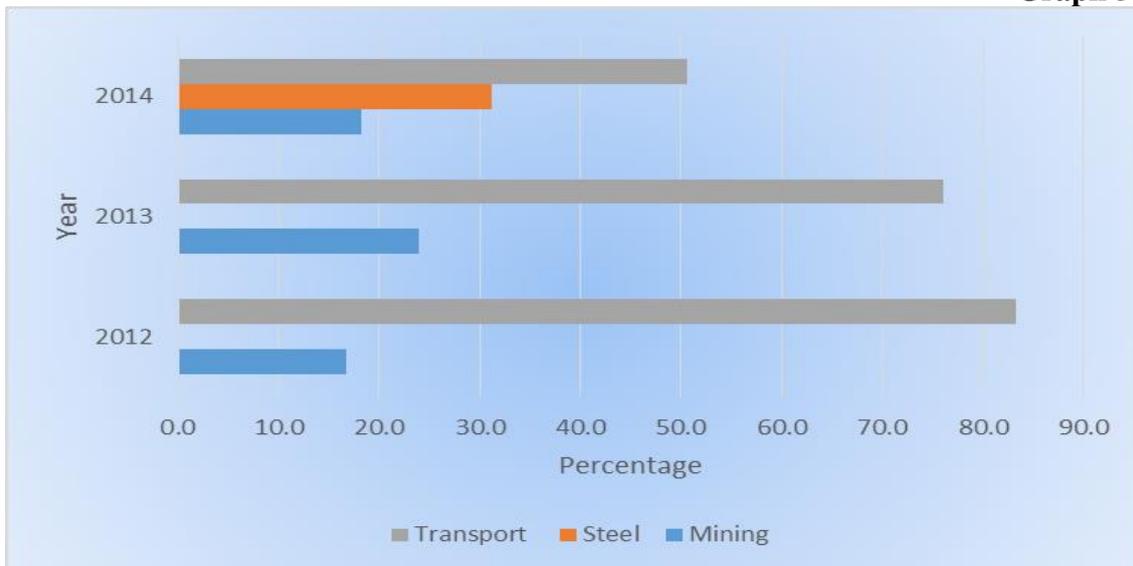
The absolute amount of sectoral state aid granted in 2014 was 30% and 40% higher than in 2012 and 2013, respectively.

The 2014 Report includes only those sectors that are marked as specific (mining, transport and steel) in EU regulations.

In the steel sector, the funds were authorized for the restructuring of Steel Mill Smederevo by issuing guarantees.

Structure of sectoral state aid in the Republic of Serbia in 2012, 2013 and 2014

Graph 5



The biggest share in sectoral state aid had state aid granted to the transport sector (the same situation as in the two previous reporting years, only to the railway transport, that is, the beneficiary joint-stock company “Serbian Railways”). State aid for the mentioned sector in 2014 amounted to 50.6% of the total sectoral state aid.

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 2012, 2013 and 2014

Table 9
in RSD million

Indicator	2012	2013	2014	Index 14/12	Index 14/13
State aid (agriculture excluded)	62,851	55,200	73,162	116	133
Regional state aid	31,513	32,490	18,237	58	56
% of share of regional state aid	50.1	58.9	24.9	-	-

Regional state aid in 2014 amounted to RSD 18,237 million and it was realised through the following state aid instruments: direct grants – RSD 11,939 million; tax incentives – RSD 6,188 million and soft loans granted through the Development Fund of the Republic of Serbia – RSD 103 million; incentives through leasing construction land with a reduced consideration or without consideration – RSD 7 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 2014 was granted by the following instruments:

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

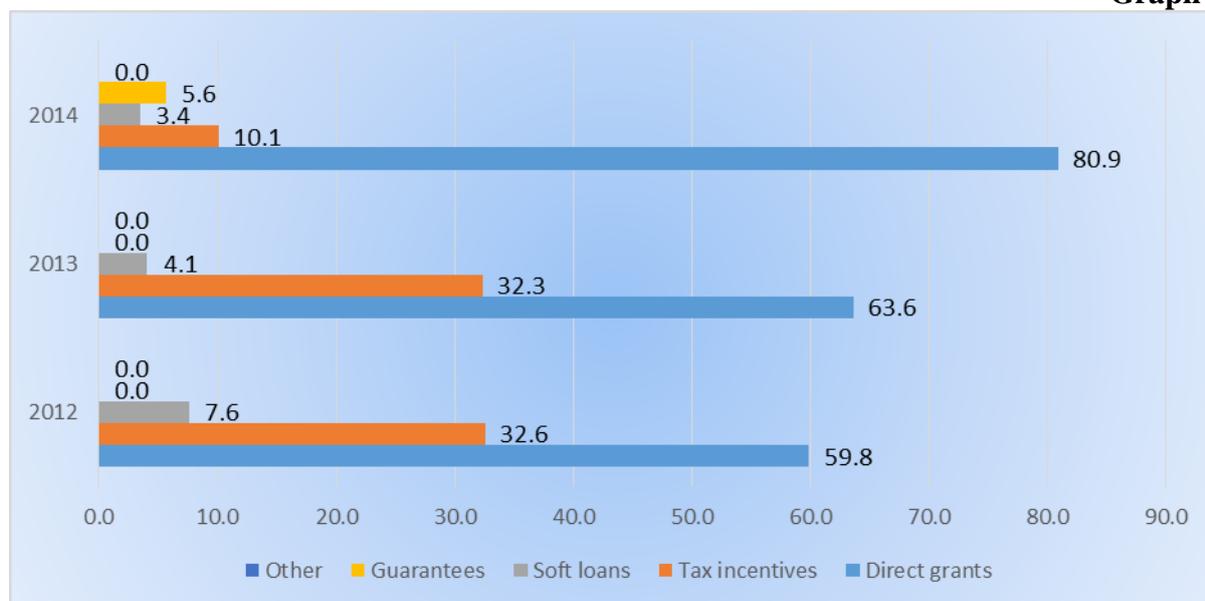
Total state aid granted in the Republic of Serbia in 2012, 2013 and 2014 per state aid instrument (agriculture included)

Table 10
in RSD million

Grant instrument	2012	in	2013	in	2014	in	Indexes	
		%		%		%	13/11	13/12
Direct grants	52,571	59.8	51,820	63.6	85,766	80.9	100	103
Tax incentives	28,660	32.6	26,316	32.3	10,666	10.1	37	41
Soft loans	6,678	7.6	3,315	4.1	3,654	3.4	55	110
Guarantees	0.0	0.0	0.0	0.0	5,981	5.6	-	-
Other	0.0	0.0	0.0	0.0	7.0	0.0	-	-
Total	88,009	100	81,451	100	106,074	100	83	90

Structure of state aid instruments in the Republic of Serbia in 2012, 2013 and 2014

Graph 6



Direct grants and tax incentives are the instruments through which 91% of state aid was granted in 2014, 96% and 92% in 2013 and 2012 respectively.

The amount of net state aid on the grounds of allowed soft loans was RSD 3,654 million in 2014 and RSD 3,315 million in 2013.

4.1 Total state aid granted in the Republic of Serbia in 2014 per state aid instrument

Table 11
in RSD million

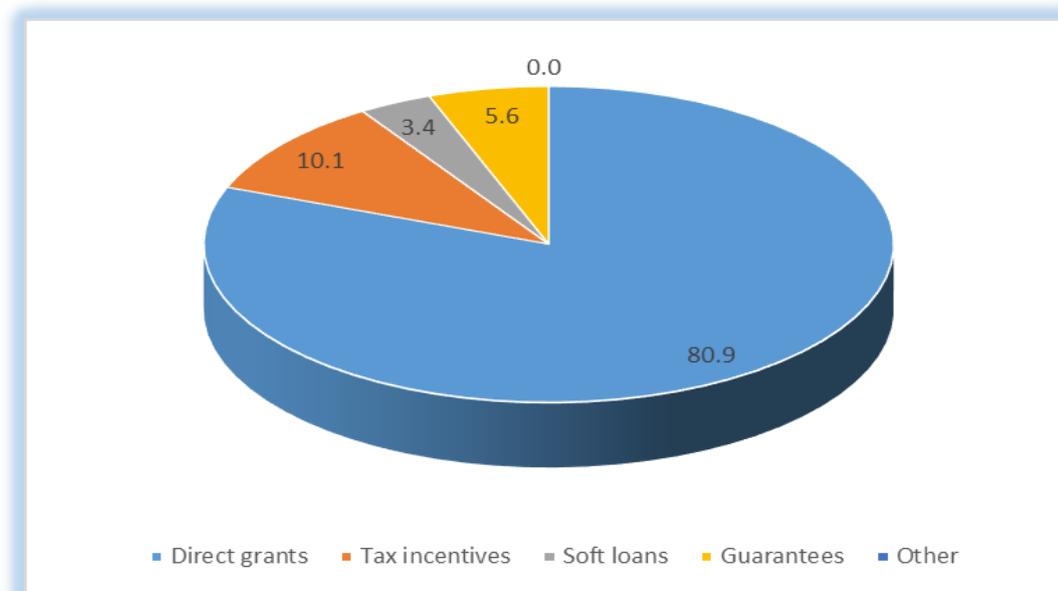
State aid type	STATE AID INSTRUMENTS					
	Direct grants	Tax incentives	Soft loans	Other	Guarantees	Total
A. Agriculture	32,912	0.0	0.0	0.0	0.0	32,912
B. Industry and services	52,854	10,666	3,654	7.0	5,981	73,162
1. Horizontal state aid	23,622	4,477	1,688	0.0	0.0	29,787
Research and development	0.0	0.0	0.0	0.0	0.0	0.0
Training	0.0	0.0	0.0	0.0	0.0	0.0
Employment	69.56	2,019	0.0	0.0	0.0	2,089
SMEs	0.0	0.0	0.0	0.0	0.0	0.0
Environmental protection	1,522	0.0	0.0	0.0	0.0	1,522
Rescue and restructuring	9,897	0.0	608.0	0.0	0.0	10,505
Culture and information	12,133	0.0	0.0	0.0	0.0	12,133
Other	0.0	2,458	1,080	0.0	0.0	3,538
2. Sectoral state aid	17,293	0.0	1,864	0.0	5,981	25,137
Mining	4,576	0.0	0.0	0.0	0.0	4,576
Transport	12,716	0.0	0.0	0.0	0.0	12,716
Steel	0.0	0.0	1,864	0.0	5,981	7,845
3. Regional state aid	11,939	6,189	103.0	7.0	0.0	18,237
Total (A+B)	85,766	10,666	3,654	7.0	5,981	106,074

State aid was mostly granted through direct grants in 2014.

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 2014 (agriculture included)

Graph 7



4.2. Direct grants

The most common state aid instrument in 2014 were direct grants with the share of 80.9% in total state aid granted and the majority of this aid was aimed at 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 2014 in the Republic of Serbia had a share of 10.1%.

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

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

On the above grounds, tax incentives in 2014 amounted to the total of RSD 10,666 million (as of date June 16th, 2015, which is the reason why tax incentives decreased when compared to 2013 and 2012).

¹ "Official Gazette of the Republic of Serbia", nos. 25/01, 80/02 – other law, 80/02, 43/03, 84/04, 18/10, 101/11, 119/12, 47/13, 108/13, 68/14- other law and 142/14)

² "Official Gazette of the Republic of Serbia", nos. 24/01, 80/02 – other law, 80/02, 135/04, 62/06, 65/06 – corrigendum, 31/09, 44/09, 18/10, 50/11, 91/11 – decision of the Constitutional Court, 93/12, 114/12 – decision of the Constitutional Court, 47/13, 48/13 – corrigendum, 108/13, 57/14 and 68/14 – other law)

4.4. Soft loans

Soft loans accounted for 3.4% in total state aid granted in 2014. 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 were approved, compared to reference (average)¹ interest rate in the banking capital market, calculated by conform method for the credit period.

The amount of approved state aid through loans in 2014 was RSD 3,654 million and there is an increase of 10% in comparison to 2013, when the amount of RSD 3,315 million was granted.

4.5. Guarantees

Guarantees, as a state aid instrument, make 5.6% of total granted state aid. The amount of granted guarantees, in total of RSD 5,981 million, represents the amount of granted state aid, since they are authorized for Steel Mill Smederevo according to the restructuring programme.

In 2013, the Fond for the Development of the Republic of Serbia issued a guarantee that is not covered in the 2013 Report in the amount of RSD 1,799,211,000.00, for the Steel Mill obligations towards AIK a.d. bank from Niš. The guarantee was executed at the expense of the Fund for the Development of the Republic of Serbia in 2014 and it is no longer active.

The Export Credit and Insurance Agency (AOFI), in accordance with the Government's Conclusion, issued two guarantees: in 2013, in favor of UniCredit Bank a.d. – Belgrade, which was fully collected in 2014 in the amount of RSD 2,298,523,967.95, and the guarantee in favor of Sberbank a.d. Belgrade, which was issued and fully charged in 2014 in the amount of RSD 1,883,582,442.00.

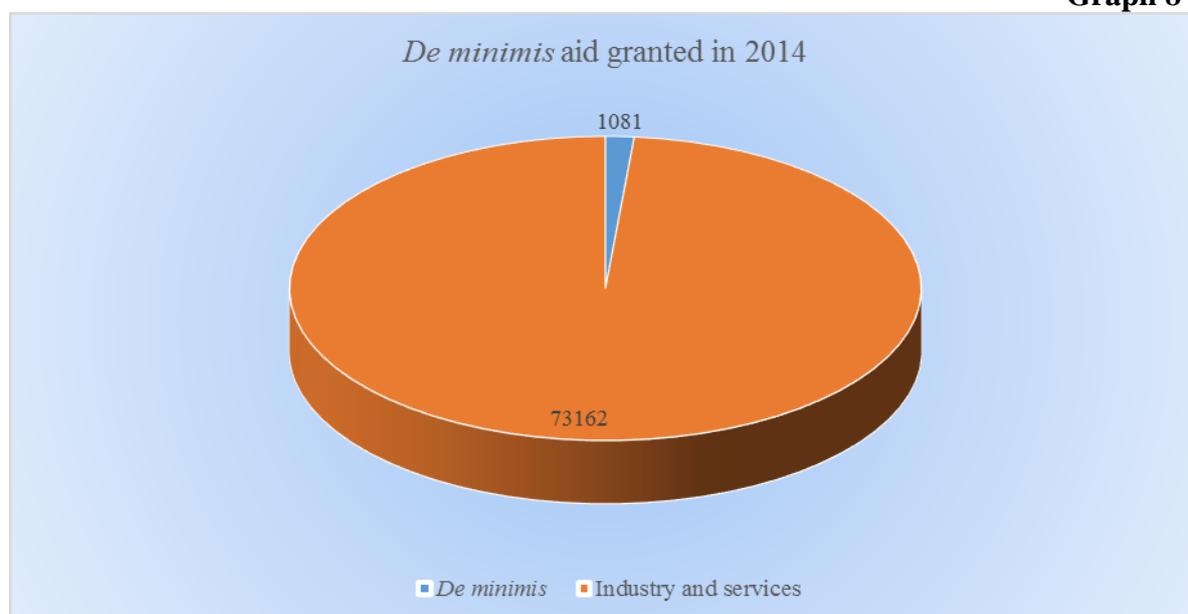
¹ Reference interest rate for 2014 amounted to 19.78% – the rate was determined in accordance with the Rulebook on the method for setting the reference and discount rates (*“Official Gazette of the Republic of Serbia”*, no. 76/15)

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

De minimis state aid (state aid of small value) is monitored independently of other state aids and it is not presented 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 distribution network or for other current expenditures in connection with exporting activities; giving preference to domestic products over imported ones. Furthermore, *de minimis* aid can be granted to an individual undertaking at the amount of up to RSD 23,000,000.00 and in the sector of road transport 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 2014

Graph 8



State aid of small value granted in 2014 amounted to RSD 1,081 million, out of which RSD 323 million was granted from the republic level, and RSD 547 million from the level of the province and RSD 211 million from the level of self-governmental units. When compared to 2013, when *de minimis* state aid amounted to RSD 1,463 million, *de minimis* state aid granted in 2014 decreased for 26%. The decreasing trend of granting *de minimis* aid should be continued, given the fact that this state aid type brings the least positive effects, because there are minimal rules for its granting and beneficiary's liabilities are also minimal.

6. CONCLUSION

The Republic of Serbia has prepared 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 the 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 made decisions on authorizing state aid in ex ante procedure.

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

The existence of long-term schemes is a prerequisite for monitoring as well as analyzing the effects of granted state aid.

It is necessary to complete the process of harmonizing the laws listed in the Inventory of existing state aid schemes, which are not aligned with the Law, especially tax laws.