

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

R E P O R T

ON STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2016

December 2017

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1. INTRODUCTION

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

Pursuant to Article 6 of the Law and Article 43 paragraph 1 of the Law on Government (“Official Gazette of the RS”, nos. 55/05, 71/05 – corrigendum, 101/07, 65/08, 16/11, 68/12 – decision of the Constitutional Court, 72/12, 7/14 – decision of the Constitutional Court and 44/14), the Government adopted the Decision on the Establishment of the Commission for State Aid Control on December 29th, 2009 (“Official Gazette of the RS”, no. 112/09), stipulating that the Commission is mandated to control state aid in the Republic of Serbia.

The Rules of Procedure of the Commission for State Aid Control govern the procedures and other issues relevant to the work of the Commission for State Aid Control (hereinafter referred to as “the Commission”).

The Commission with its new composition was established by the Government Decision (“Official Gazette of the Republic of Serbia”, no. 6/15 and 104/17) of January 20th, 2015, i.e. of November 20 th, 2017.

The report on the Commission’s activities:

In 2016, the Commission held 37 sessions in which it adopted 231 acts that come within its competence, out of which:

- 51 decisions – the Commission decided whether State aid was allowed in 49 cases (out of which 30 notifications were considered in *ex ante* control, while in the procedure of *ex post* control it considered 19 notifications of granted state aid), in 1 case it made a decision that there are no state aid elements and it adopted 1 decision by which one decision was put out of power;

- 20 conclusions, out of which *ex post* control was initiated in 19 cases in order to establish whether State aid was allowed (the Commission initiated cases of *ex post* control based on its own information or information obtained from other sources), as well as 1 conclusion on rectification of a previously adopted decision;

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

State aid notifications that the Commission decides upon in the procedure of *ex post* control is decreasing.

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

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

Within the meaning of Article 23 paragraph 1 of the Law, the ministry in charge of finance is in charge of preparing a draft annual report on state aid granted in the Republic of

Serbia, according to data provided by state aid grantors. The report is submitted to the Government by the Commission for State Aid Control. Moreover, in accordance with Article 73 paragraph 5 of the Stabilisation and Association Agreement (the Law confirming the Stabilisation and Association Agreement between the European Communities and their Member States, of the one part, and the Republic of Serbia, of the other part (“Official Gazette of the RS – International Agreements“, no. 83/08 – hereinafter referred to as “the SAA”)) and Article 38 paragraph 5 of the Interim Agreement (the Law confirming the Interim Agreement on trade and trade-related matters between the European Community, of the one part, and the Republic of Serbia, of the other part (“Official Gazette of the RS – International Agreements“, no. 83/08 – hereinafter referred to as “the Interim Agreement”)), the Republic of Serbia assumed the responsibility for regularly submitting annual reports on granted state aid to competent institutions of the European Union, following the methodology and data presentation which is contained in the State Aid Scoreboard of the European Commission, in order to ensure transparency of state aid granting.

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

The Annual Report on State Aid Granted in the Republic of Serbia in 2016 (hereinafter referred to as “the 2016 Report”) is the thirteenth 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 enterprises or to a group of enterprises, protects free market competition and it prevents other market participants, which are not state aid beneficiaries, to be in a less favourable position in the market. In this way, fair macroeconomic environment is created and it fosters economic growth, new investments, employment growth and overall social welfare.

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

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

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

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

1.1.2. State aid criteria

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

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

Transfer of state resources

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

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

Selectivity

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

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

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

Economic advantage

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

Besides granting state aid in the form of direct grants, soft loans, tax incentives, issuing guarantees and similar, state aid also exists in cases when: an enterprise buys or rents publicly owned land at less than the market price, an enterprise sells land to the state at a price which is higher than the market price, an enterprise enjoys privileged access to infrastructure without paying a fee or an enterprise obtains risk capital from the state on terms that are more favourable than it would obtain from a private investor.

Effect on competition in the market

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

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

State aid can be allowed when:

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

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

State aid may be considered to be allowed when granted:

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

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

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

Individual state aid is the state aid granted:

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

1.2. Methodology for drafting the report on granted state aid

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

1.2.1. Collection of the data on granted state aid

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

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

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

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

1.2.2. Methodology for presenting granted state aid

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

1) Regional state aid:

- 1.1. regional investment state aid,
- 1.2. regional state aid for newly founded small enterprises,
- 1.3. regional operating state aid.

2) Horizontal state aid:

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

3) Sectoral state aid:

- 3.1. State aid in the steel production sector,

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

3) *De minimis* aid.

1.2.3. State aid instruments

According to Article 5 of the Rulebook, the following state aid instruments are prescribed:

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

1.3. Structure of 2016 Report

The 2016 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 2014, 2015 and 2016 is presented by types of state aid.

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

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

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

1.4. Summary of 2015 Report

The 2016 Report is drafted in accordance with the Law, the Regulation and the Rulebook.

It presents the analytical summary of state aid granted in 2016. Comparative data is given in order to have a comprehensive summary and trends monitoring for both 2014 and 2015.

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

In the Republic of Serbia in 2016 the total amount of granted State aid amounted to RSD 92,399 million, i.e. EUR 750. million¹, which is by 11.9% less in comparison to total state aid granted in 2015 (104,202 million or EUR 863 million), that is, by 12.9% less in comparison with the same parameter for 2014 (RSD 106,074 million, i.e. EUR 904 million). In comparison with the amounts stated in euros, granted state aid in 2016 is 13% lower than in 2015 and 17% lower than in 2014.

The share of state aid in the gross domestic product (hereinafter referred to as “the GDP”) is 2.20% in 2016, while in 2015 it was 2.58% and 2.74% in 2014.

The 2016 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 2016 **the agriculture sector** was granted state aid in the amount of **RSD 22,920 million or EUR 202.6 million**, which in comparison to 2015 presents an increase of 2.7%, and a decrease by 31% when compared to 2014. The share of this state aid in the total state aid granted in 2016 was 25%, while in 2015 and 2014 it was 21.4% and 31%, respectively. State aid granted by the ministry in charge of agriculture, fishery and forestry is presented in total amount of state aid granted, considering a fact that the provisions of the Law do not refer to agricultural and fishery products (Article 1 paragraph 2 of the Law).

Absolute state aid amount granted to the industry and services sector in 2016 was **RSD 69,479 million or EUR 564.4 million**, which presents an increase of 11.9% and 48.4% respectively, when compared to 2014 and 2013. The share of this state aid in the total state aid granted in 2016 was 75%, while in 2015 and 2014 it was 78.6% and 69%, respectively.

¹ Average Euro exchange rate in 2016 was RSD 123.1179; Source: National Bank of Serbia

2. STATE AID GRANTED IN THE REPUBLIC OF SERBIA IN 2016

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

Table 1

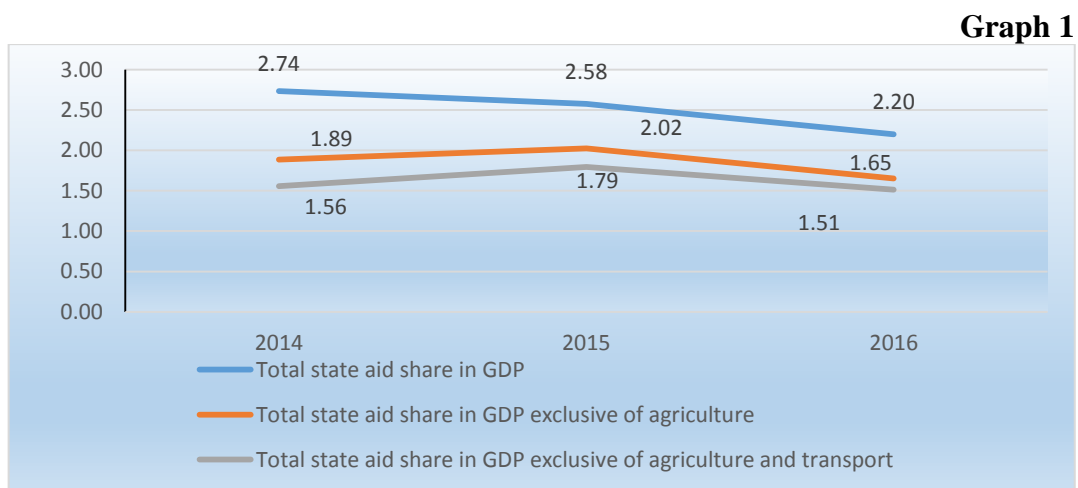
Indicator	Unit of measure	2014	2015	2016	Index	
					16/14	16/15
State aid	In RSD million	106,074	104,202	92,399	87.1	88.7
State aid	In EUR million	904	863	750	83.0	87.0
GDP ¹	In RSD million	3,878,000	4,043,500	4,203,500	-	-
GDP	In EUR million	33,059	33,491	34,142	-	-
State aid in GDP	in %	2.74	2.58	2.20	80.2	85.3
Public expenditures ¹	In RSD million	1,878,878	1,843,966	1,899,720	-	-
Public expenditures	In EUR million	16,017	15,273	15,430	-	-
State aid in public expenditures	in %	5.65	5.65	4.86	86.1	86.1
Employees ²	number	1,845,000	1,896,000	1,914,000	-	-
State aid per employee	RSD	62,470	54,959	48,275	77.3	88.0
State aid per employee	EUR	533	455	392	73.6	45.4
Population ²	number	7,146,759	7,076,372	7,040,272	-	-
State aid per capita	RSD	14,842	14,725	13,124	88.4	89.2
State aid per capita	EUR	127	122	107	84.0	87.4

The share of state aid in the GDP in 2016 amounted to 2.20%, while in 2014 and 2015 it amounted to 2.74% and 2.58% respectively. In 2015 and 2014, share of state aid in public expenditures was 5.65%, while in 2016 the share amounted to 4.86%.

¹ Data for basic macroeconomic indicators for 2016 are taken from website of the Ministry of Finance (<http://mfin.gov.rs/pages/article.php?id=12914>)

² Statistical Office of the Republic of Serbia (<http://webrzs.stat.gov.rs/WebSite/Default.aspx>)

The trends of total state aid share in GDP in 2014 - 2016 period



The trends of the total state aid share in the GDP in the Republic of Serbia in 2016 shows slight decrease in comparison to 2014 and 2015.

2.2 Total state aid granted in the Republic of Serbia in 2014, 2015 and 2016 per state aid types

Table 2

No.	Type	2014			2015			2016		
		In RSD Mil.	In EUR Mil.	%	In RSD Mil.	In EUR Mil.	%	In RSD Mil.	In EUR Mil.	%
	Agriculture	32,912	281.0	31.0	22,307	185.0	21.4	22,920	202.6	25.0
	Industry and services	73,162	623.7	69.0	81,895	678.0	78.6	69,479	564.4	75.1
I	Horizontal state aid	29,787	253.9	28.0	36,941	305.9	35.4	30,717	249.4	33.2
1	Research and development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	Training	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Employment	2,089	17.8	2.0	2,633.5	21.8	2.5	3,677.5	29.9	4.0
4	SME ¹	0.0	0.0	0.0	56.8	0.5	0.1	0.0	0.0	0.0
5	Environmental protection	1,522	12.9	1.4	0.0	0.0	0.0	2,073	16.8	2.2
6	Culture and information	12,133	103.4	11.4	10,123	83.9	9.7	11,909	96.7	12.0
7	Rescue and restructuring	10,505	89.6	9.9	23,566	195.2	22.6	12,213	99.0	13.2
8	Other types ²	3,538	30.2	3.3	561.6	4.7	0.5	844.6	7.0	0.9
II	Sectoral state aid	25,137	214.3	23.7	13,744	113.8	13.2	11,914	97.0	12.8
1	Mining	4,576	39.0	4.3	4,470	37.0	4.3	5,970	48.5	6.4
2	Transport	12,716	108.4	12.0	9,274	76.8	8.9	5,944	48.3	6.4
3	Steel	7,845	66.9	7.4	0.0	0.0	0.0	0.0	0.0	0.0
III	Regional state aid	18,237	155.5	17.2	31,210	258.5	29.9	26,848	218.0	29.1
TOTAL		106,074	904.0	100.0	104,202	863.1	100.0	92,399	767.0	100.0

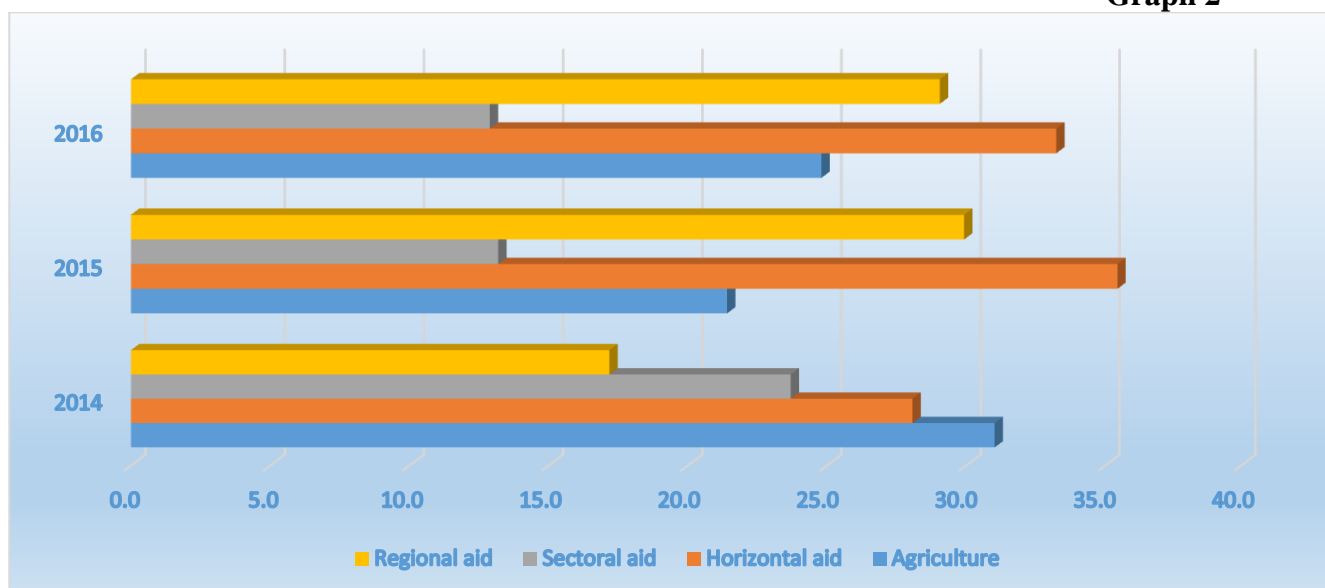
State aid granted to the agriculture sector in 2016 amounted to RSD 22,290 million, which makes a share of 25% in total state aid granted. State aid granted to the industry and services sector amounted to RSD 69,479 million and it makes a share of 75% of total state aid granted.

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 2014, 2015 and 2016

Graph 2



Horizontal state aid had a share of 33.2% in the total state aid granted in 2016 and it amounted to RSD 30,717 million. In comparison, in 2014 the share was 28% and it amounted to RSD 29,787 million, and in 2015 that share was 35.4%, and it amounted to RSD 36,941 million.

Sectoral state aid amounted to RSD 11,914 million in 2016 and made up a share of 12.8% in total state aid granted. In previous reporting periods (2015 and 2014) higher amounts were granted – RSD 13,744 million and RSD 25,173 million respectively. The share of sectoral state aid in total state aid in 2015 and 2014 was 13.2% and 23.7%, respectively.

Regional state aid amounted to RSD 26,848 million in 2016, with the share of 29.1% in total state aid granted. Granted regional state aid is lower in 2016 when compared to 2015, when it amounted to RSD 31,210 million, and it had a share of 29.9% in total state aid. Regional state aid in 2016 is higher when compared to 2014, when it amounted to RSD 18,237 million and had a share of 17.2% in total state aid.

In 2016, state aid was granted to **the agricultural sector** in the amount of RSD 22,920 million, which represents the share of 25% in total state aid. That share in 2015 amounted to 21.4% or RSD 22,307 million while in 2014 it amounted to 31% or RSD 32,912 million.

**State aid in 2014 – 2016 period
(agriculture and transport excluded)**

Table 3

Indicator	Unit of measure	2014	2015	2016
State aid	In RSD mil.	60,446	72,621	63,536
State aid	In EUR mil.	515.0	601.5	516.1
GDP	In RSD mil.	3,878,000	4,043,500	4,203,500
GDP	In EUR mil.	33,059	33,491	34,142
State aid in GDP	in %	1.6	1.8	1.5

The state aid granted to the economy sector in 2016 (agriculture and transport sector excluded) was RSD 63,536 million in absolute amount and it had a share of 1.5% 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 2014 – 2016 period (agriculture excluded)

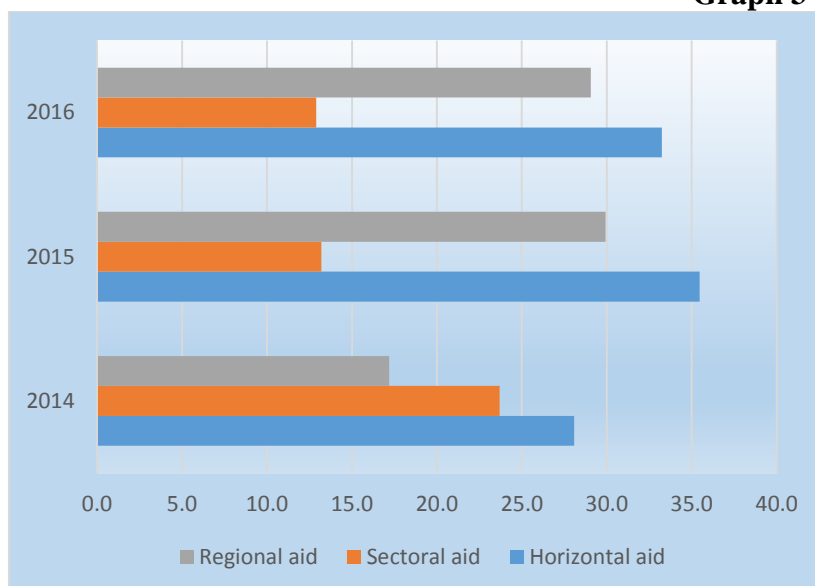
Table 4

Indicator	Unit of measure	2014	2015	2016
State aid	In RSD mil.	73,162	81,895	69,479
State aid	In EUR mil.	623.7	678.3	516.1
GDP	In RSD mil.	3,878,000	4,043,500	4,203,500
GDP	In EUR mil.	33,059	33,491	34,142
State aid in GDP	in %	1.9	2.0	1.7

The state aid amount granted to the sector of industry and services in 2016 was 15% lower when compared to 2015, when state aid amounted to RSD 81,895 million. In 2014 it amounted to RSD 73,162 million and it was 5% higher than in 2016. In 2016, state aid granted to the industry and services sector had a share of 1.7% in the GDP, which is less when compared to 2015 and 2014, when the share of state aid in the GDP was 2% and 1.9%, respectively.

Summary of share of certain state aid types in state aid granted in the Republic of Serbia in 2014, 2015 and 2016 (agriculture excluded)

Graph 3



In comparison to 2015 both regional state aid and horizontal state aid granted in 2016 decreased, while in comparison to 2014 both types of state aid increased. There is a decrease in sectoral state aid when compared to two previous reporting years, but this decrease is more noticeable when compared to 2014.

3.1.1. Horizontal state aid

Structure of horizontal state aid in the Republic of Serbia in 2014, 2015 and 2016

Table 5
in RSD million

Horizontal state aid type	2014	2015	2016	Index 16/14	Index 16/15
Research and development	0.0	0.0	0.0	-	-
Training	0.0	0.0	0.0	-	-
Employment	2,089	2,633.5	3,678	176	140
SME	0.0	56.8	0.0	-	-
Environmental protection	1,522	0.0	2,073	136	-
Culture and information	12,133	10,123	11,909	98	118
Rescue and restructuring ¹	10,505	23,566	12,213	116	52
Other ²	3,538	561.6	844.6	24	150
Total	29,787	36,941	30,717	103	83

According to data presented in Table 5, horizontal state in 2016 is in the absolute amount higher than in 2014, while it is lower when compared to 2015. The differences, both in the total amount of horizontal state aid and its structure primarily stem from the decrease in state aid granting for rescue and restructuring. The greatest part of the funds allocated for rescue and restructuring relate to the realization of restructuring plans of AD Air Serbia and to Steel Mill Zelezara Smederevo, as well as to a guarantee given for the return of the advance that is in relation with the contracted amendment.

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 2014, 2015 and 2016**

Table 6
in RSD million

Horizontal state aid type	2014		2015		2016	
	Amount	In %	Amount	In %	Amount	In %
Research and development	0.0	0.0	0.0	0.0	0.0	0.0
Training	0.0	0.0	0.0	0.0	0.0	0.0
Employment	2,089	7.0	2,633.5	7.1	3,678	12.0
SME	0.0	0.0	56.8	0.1	0.0	0.0
Environmental protection	1,522	5.1	0.0	0.0	2,073	6.7
Culture and informaiton	12,133	40.7	10,123	27.4	11,909	38.8
Rescue and restructuring	10,505	35.3	23,566	63.8	12,213	39.8
Other ¹	3,538	11.9	561.6	1.5	844.6	2.7
Total	29,787	100%	36,941	100%	30,717	100%

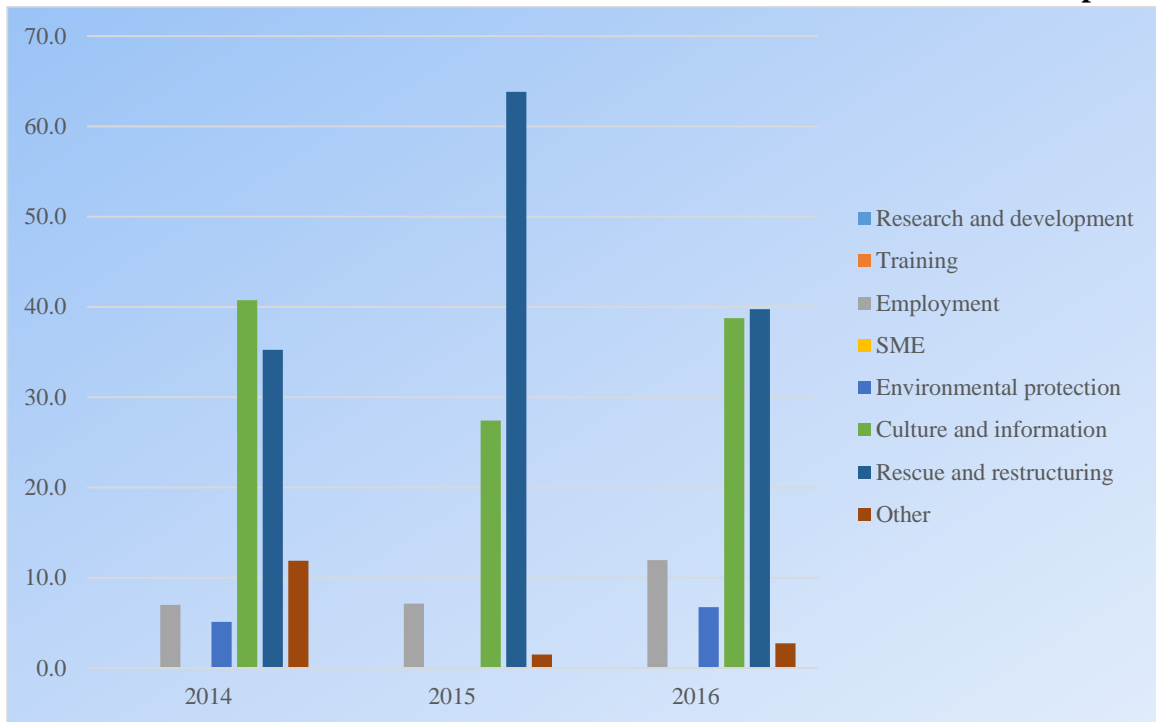
The European Commission has recommended that Member States should intensify their efforts to reduce the general levels of state aid, and additionally focus on the transition from support to certain enterprises or sectors to incentivizing horizontal objectives, such as employment, regional development,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

State aid granted for rescue and restructuring of enterprises is RSD 12,213 million and amounts to 39.8% of total horizontal state aid granted in 2016. In percentages, this decrease is significant when compared to 2015. Absolute amount of state aid for rescue and restructuring is decreased in comparison to previous reported period due to the fact that within this type of state aid, the funds intended for the implementation of the restructuring program of AD Air Serbia and to Steel Mill Zelezara Smederevo were significantly reduced. The amount of funds for Steel Mill Zelezara Smederevo refers to the funds granted until 28 February 2015. 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 2016 was RSD 57,656 million, whereas state aid for rescue and restructuring had a share of 21.2% and aid for incentivizing the objectives marked as significant for the development and recommended by the European Commission, had a share of 78.8%.

¹ Other – undertakings in the privatisation process

Structure of horizontal state aid in 2014, 2015 and 2016

Graph 4



Horizontal State aid per state aid instrument in 2016

Table 7
in RSD million

Type of Horizontal State aid	Grants	%	Tax incentives	%	Soft loans	%	Garantees	%	Other	%	Total
Research and development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Training	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employment	0.0	0.0	3,677.5	12.0	0.0	0.0	0.0	0.0	0.0	0.0	3,677.5
SME	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Environmental protection	2,073	6.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2,073
Rescue and restructuring	1,905	6.2	0.0	0.0	255.5	0.8	0.0	0.0	10,052	32.7	12,213
Culture and information	11,909	39.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11,909
Other	0.0	0.0	269.9	0.9	0.0	0.0	275.3	0.9	299.4	1.0	844.6
TOTAL	15,887	52	3,947.4	12.9	255.5	0.8	275.3	0.9	10,351.4	33.7	30,717

In 2016, horizontal state aid was granted in the form of grants – 52%, tax incentives – 12.9% and soft loans – 0.8%.

3.1.2. Sectoral state aid

Sectoral State aid in the Republic of Serbia in 2014, 2015 and 2016

Table 8
in RSD million

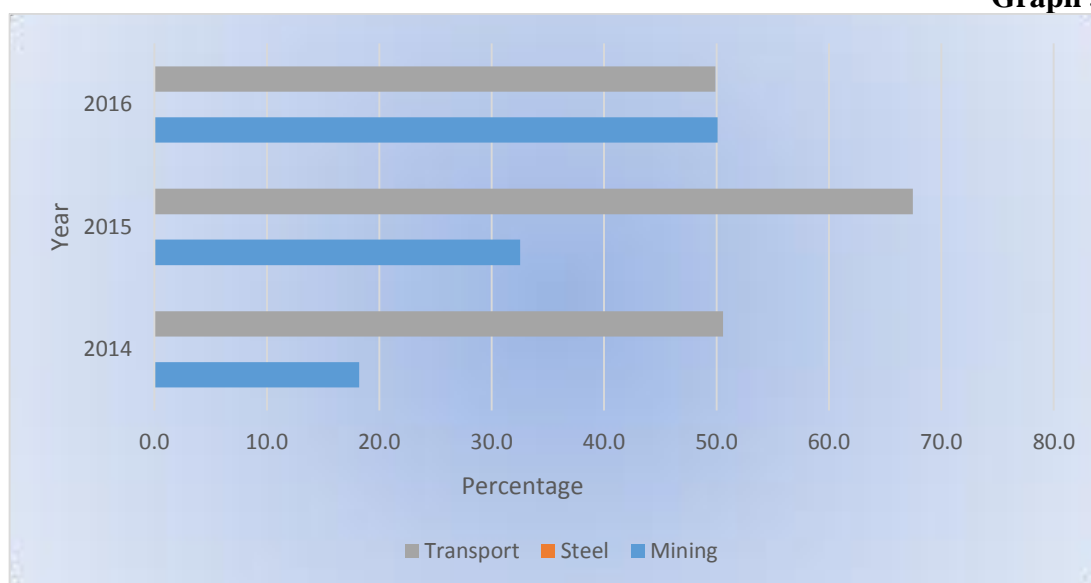
Sector	2014	2015	2016	Index 16/14	Index 16/15
Mining	4,576	4,470	5,970	131	134
Transport	12,716	9,274	5,944	47	64
Steel	7,845	0.0	0.0	-	-
Total	25,137	13,744	11,914	47	87

The absolute amount of sectoral state aid granted in 2016 was 13% lower than in 2015 and 53% lower than in 2014.

The 2016 Report includes only those sectors that are marked as specific (mining, transport and steel) in EU regulations.

Sectoral state aid presented in percentages in the Republic of Serbia in 2014, 2015 and 2016

Graph 5



State aid granted in the transport sector in the absolute amount in 2016 is lower than in the previous reporting period. In the previous reporting period, funds granted to the transport sector were granted to A.D. "Serbian Railways". However, after the division of A.D. "Railways of Serbia" into three different economic entities ("Serbian Railway Infrastructure", "Serbia Cargo" and "Serbia Train"), state aid to the mentioned sector in 2016 amounts to 50%

of the total sectoral state aid and applies only to "Serbia train" which is entrusted with the performance of a service of general economic interest - the transport of passengers.

3.1.3. Regional state aid

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

Regional state aid in the Republic of Serbia in 2014, 2015 and 2016

Table 9
in RSD million

Indicator	2014	2015	2016	Index 16/14	Index 16/15
State aid (agriculture excluded)	73,162	81,895	69,479	95	85
Regional state aid	18,237	31,210	26,848	86	147
% of share of regional state aid	24.9	38.1	38.6	-	-

Regional state aid in 2016 amounted to RSD 26,848 million and it was granted through the following state aid instruments: direct grants – RSD 5,337 million; tax incentives – RSD 20,932 million, soft loans granted through the Development Fund of the Republic of Serbia – RSD 206.7 million and in the form of renunciations from the original revenues of the local self-government (assigned building land free of charge or with reduced compensation) – RSD 373 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 2016 was granted by the following instruments:

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

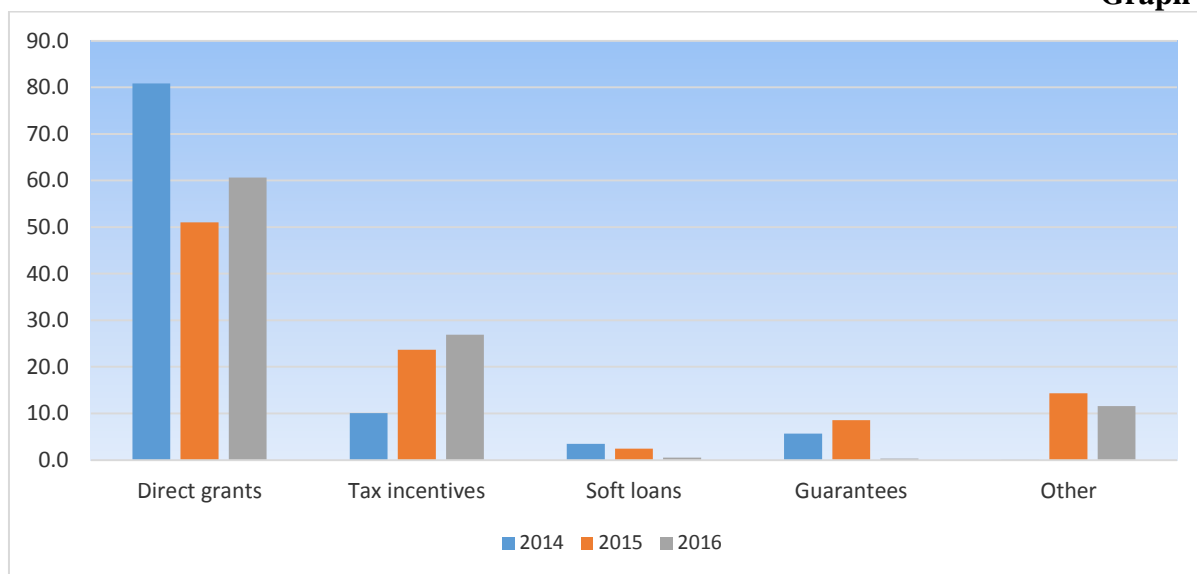
Total state aid granted in the Republic of Serbia in 2014, 2015 and 2016 per state aid instrument (agriculture included)

Table 10
in RSD million

Grant instrument	2014	in %	2015	in %	2016	in %	Index	
							16/14	16/15
Direct grants	85,766	80.9	53,133	51.0	56,058	60.6	65.4	106
Tax incentives	10,666	10.1	24,690	23.7	24,879	26.9	233	101
Soft loans	3,654	3.4	2,543	2.4	462	0.5	12	18
Guarantees	5,981	5.6	8,924	8.6	275	0.3	5	3
Other	7.0	0.0	14,912	14.3	10,725	11.7	-	72
Total	106,074	100.0	104,202	100.0	92,399	100	87	87

Structure of state aid instruments in the Republic of Serbia in 2014, 2015 and 2016

Graph 6



Through direct grants in 2016, 60.6% of total state aid was granted, while 26.9% of state aid was granted through tax incentives. The amount of net state aid on the basis of approved soft loans in 2016 was RSD 462 million, and in 2015 net state aid based on approved favorable loans amounted to RSD 2,543 million.

4.1. Total state aid granted in the Republic of Serbia in 2016 per state aid instrument

Table 11
in RSD million

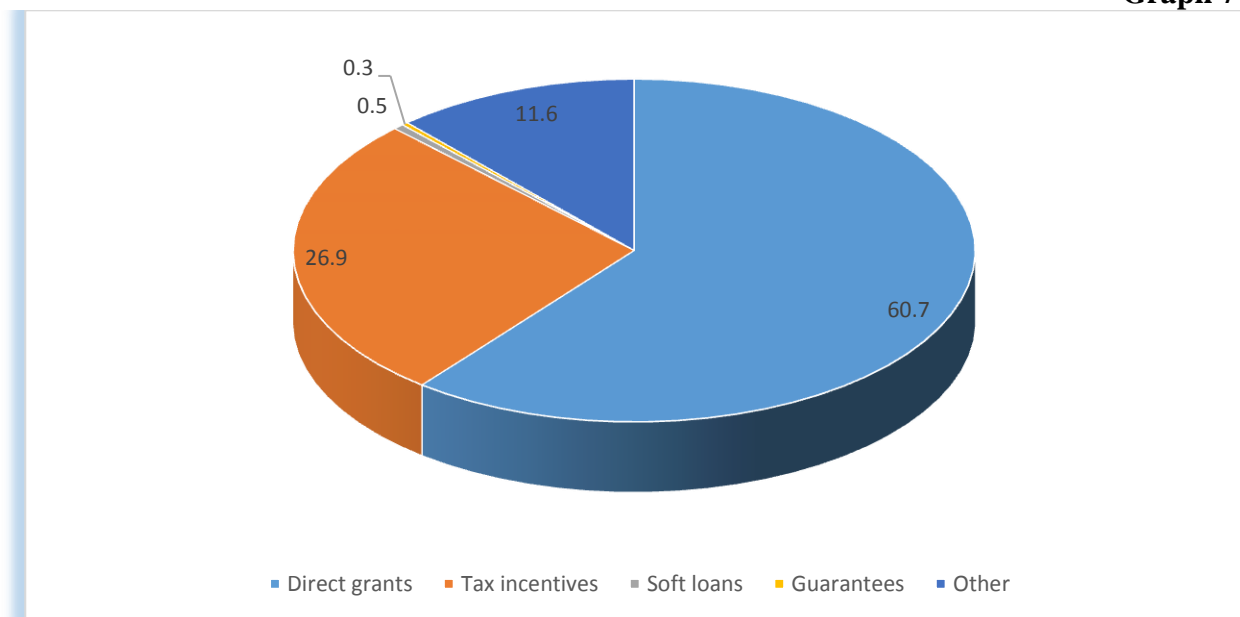
State aid type	STATE AID INSTRUMENTS					
	Direct grants	Tax incentives	Soft loans	Other	Guarantees	Total
A. Agriculture	22,920	0.0	0.0	0.0	0.0	22,920
B. Industry and services	33,138	24,879	462.2	10,724.4	275.3	69,479.7
1. Horizontal state aid	15,887	3,947	255.5	10,352	275.3	30,717
Research and development	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	0.0	3,677.5	0.0	0.0	0.0	3,677.5
SME	0.0	0.0	0.0	0.0	0.0	0.0
Environmental protection	2,073	0.0	0.0	0.0	0.0	2,073
Rescue and restructuring	1,905	0.0	255.5	10,052	0.0	12,213
Culture and information	11,909	0.0	0.0	0.0	0.0	11,909
Other	0.0	269.9	0.0	299.4	275.3	844.6
2. Sectoral state aid	11,914	0.0	0.0	0.0	0.0	11,914
Mining	5,970	0.0	0.0	0.0	0.0	5,970
Transport	5,944	0.0	0.0	0.0	0.0	5,944
Steel	0.0	0.0	0.0	0.0	0.0	0.0
3. Regional state aid	5,337	20,932	206.7	373	0.0	26,848
Total (A+B)	56,058	24,879.4	462.2	10,725	275.3	92,399

State aid was mostly granted through direct grants in 2016.

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 2016 (agriculture included)

Graph 7



4.2. Direct grants

The most common state aid instrument in 2016 were direct grants with the share of 60.7% 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 2016 in the Republic of Serbia had a share of 26.9%.

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 2016 amounted to the total of RSD 24,879 million.

¹ "Official Gazette of the RS", nos. 25/01, 80/02, 80/02 – other law, 43/03, 84/04, 18/10, 101/11, 119/12, 47/13, 108/13, 68/14 – other law, 142/14, 91/15 – authentic interpretation and 112/15)

² "Official Gazette of the RS", nos. 24/01, 80/02, 80/02 – other law, 135/04, 62/06, 65/06 - corrigendum, 31/09, 44/09, 18/10, 50/11, 91/11 – decision of the Constitutional Court, 7/12 – corrigendum, 93/12, 114/12 – decision of the Constitutional Court, 8/13 – corrigendum, 47/13, 48/13 - corrigendum, 108/13, 6/14 - corrigendum, 57/14, 68/14 – other law, 5/15 – corrigendum, 112/15 and 5/16 - corrigendum.)

4.4. Soft loans

Soft loans accounted for 0.5% in total state aid granted in 2016. 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 2016 was RSD 462.2 million and there is an decrease of 82% in comparison to 2015, when the amount of RSD 2,543 million was granted.

4.5. Guarantees

Guarantees, as an instrument of state aid, make up 0.3% of the total granted state aid, while the absolute amount is 275 million dinars.

¹ Reference interest rate for 2016 amounted to 4.5% - the rate was determined in accordance to the Rulebook on the method for setting the reference and discount rates ("Official Gazette of the Republic of Serbia", no. 76/15)

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

State aid of small value (de minimis aid) is monitored independently of other state aids and it is not shown in the total amount of the granted state aid. De minimis aid can be granted regardless of a purpose, but it cannot be granted for the procurement of road freight vehicles for undertakings which perform services of freight transport; export incentives and for establishing and functioning of distribution network or for other current expenditures in connection with exporting activities; giving preference to domestic products over imported ones, as well as to undertakings in difficulty. Furthermore, de minimis aid can be granted to an individual undertaking at the amount of up to RSD 23,000,000.00 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 2016

Graph 8



The granted state aid of small value in 2016 amounted to RSD 1,336 million, of which RSD 644 million were allocated from the republic level, RSD 23 million were allocated from the provincial level, and RSD 669 million were allocated from the level of local self-government units. Compared to 2015, when de minimis state aid amounted to RSD 1,263 million, granted de minimis state aid in 2016 increased by 6%. The increase in the allocation of de minimis state aid should be considered first of all in the fact that the amendments to the laws regulating the field of public information brought the novelty in terms of co-financing public information projects. By amending the regulations, project co-financing of public information is outlined as de minimis state aid that can be allocated from all levels of government.

6. CONCLUSION

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

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

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

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

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