



Executive Summary

Following the country's recent political progress, Serbia's investment climate is slowly improving. In April 2013, the country signed an agreement to normalize relations with neighboring Kosovo, which paved the way for the January 2014 opening of accession negotiations with the European Union (EU). These developments present a real opportunity for the country to attract new foreign direct investment (FDI), especially as the government moves to align domestic legislation with EU standards and implement other measures to improve the business environment.

The Serbian government continues to prioritize investment, especially investment originating from abroad. U.S. investors report positively on doing business in Serbia; they highlight the country's strategic geographic location, the well-educated and affordable labor force, and the free trade agreements with key markets (including Russia, Turkey, and the EU) as particular appeals. Although there are occasional challenges with bureaucratic delays and corruption, for the most part U.S. investors enjoy a level playing field with their Serbian and foreign competitors. The U.S. Embassy in Belgrade assists investors when issues arise, and Serbian leaders are responsive to our concerns.

The March 2014 national elections resulted in Aleksandar Vučić becoming the new Prime Minister, and he has identified economic growth as his top concern. Prime Minister Vučić has promised swift action by his government to resolve a number of long-standing issues related to the country's slow transition to market-driven capitalism. On the legislative front, the country's outdated labor, construction permitting, bankruptcy, and privatization laws hinder development of a stronger business environment. The public sector is bloated, and more than 150 struggling state-owned enterprises (SOEs) are in urgent need of restructuring. Tens of thousands of government employees may face layoffs as the government implements these reforms. While this will be painful for the Serbian economy, the government recognizes the need to cut spending while also improving the investment climate to draw in new private sector companies to offset the public sector job losses.

If the government delivers on promised reforms, investors could find significant, meaningful business opportunities over the next few years. Key sectors poised for growth include agriculture, information and communications technology (ICT), and mining. Investors should monitor economic reform steps that the new Serbian government takes during 2014. Comprehensive reform in the areas listed above will signal that the state is serious about opening the economy to private investment. Similarly, investors should follow the development of the new investment incentive program, which the Prime Minister has said will feature smarter, individually tailored offerings. With an already adequate climate for foreign investors, there is room for substantial progress in the near term as the new Serbian government places economic reform at the top of its agenda.

1. Openness To, and Restrictions Upon, Foreign Investment

Serbia is open to foreign direct investment (FDI), and attracting FDI is a priority for the Serbian government. Even during its communist past, Serbia prioritized international commerce and has attracted a sizeable international business community. This trend looks to continue, as recently installed Prime Minister Aleksandar Vučić develops a new package of government incentives for foreign investors.

Serbia's Law on Foreign Investments extends national treatment to foreign investors, allows the transfer or repatriation of profits and dividends, provides guarantees against expropriation, and allows customs-duty waivers for equipment imported as capital-in-kind. The Law on Foreign Exchange Operations regulates payments between residents and non-residents, while the Law on Protection of Competition regulates fair competition in the market.

Serbia obtained European Union (EU) candidate status on March 1, 2012, and January 21, 2014, marked the opening of the country's formal accession negotiations. The government is implementing a National Program for Integration into the EU to harmonize domestic legislation with EU norms. This modernization of Serbian legislation would contribute significantly to improvements in the investment climate in areas including foreign trade, corporate governance, and environmental regulation.

Serbia has struggled with a rising fiscal deficit and has looked to plug the budget gap with new revenue measures. In December 2012 the Serbian National Assembly adopted Amendments to the Law on Corporate Profit Tax that increased the corporate-profit tax rate from 10 to 15 percent, and in 2013, the government amended the same law to cancel a tax holiday for investments in new equipment. Still, the government continues to offer some incentives designed to attract foreign investors, including a 10-year corporate-profit tax holiday introduced for companies that invest more than USD 11.9 million and hire at least 100 new employees. The government maintains the Serbian Investment and Export Promotion Agency (SIEPA) (<http://www.siepa.gov.rs/sr/>) to administer the investment incentive program. In 2010, Serbia established economic advisor positions at select foreign missions, including the Serbian Consulate General in Chicago, to promote foreign investment in Serbia (<http://www.scgchicago.org/>).

In addition to SIEPA, the Serbian Privatization Agency works with potential investors on investment opportunities in state-owned enterprises. Details about privatization policies are located in the "Competition from State-Owned Enterprises" section below.

The government of Serbia actively promotes the growth of specific economic sectors. The country's National Development Strategy designates **automobiles, information and communications technologies (ICT)**, and electronics as priority sectors, for which the government offers investors special incentive packages (<http://www.gs.gov.rs/lat/strategije-vs.html>). The strategy also states that the country's industrial policies aim to attract FDIs in "high value" areas such as renewable **energy**, new technologies, logistic centers, customer centers, **automobiles**, and **chemicals**.

The Law on Foreign Investments prohibits foreign companies from establishing a company in the production and trade of arms (for example, the **defense** industry) and in specific areas of the country marked as prohibited areas. Although a foreign company can establish a joint venture with a domestic company in these areas, the foreign company cannot obtain majority ownership.

From 2001-2011, the Serbian government privatized 2,380 state-owned enterprises (SOEs), generating revenues of USD 3.4 billion for the Serbian budget. The government later cancelled 646 of these privatizations, alleging that investors did not meet contract obligations related to employment and investment. Meanwhile the number of workers employed at privatized companies decreased from 680,000 to 270,000 (<http://www.ecinst.org.rs/sites/default/files/page-files/prezentacija-privatizacija-u-srbiji-ivan-nikolic.pdf>).

The Serbian government continues to engage foreign investors in the privatization process, inviting them to submit tenders, participate in auctions, and purchase company shares. Prime Minister Vučić announced that during the summer of 2014, the National Assembly will adopt key reform laws, including a new Privatization Law that would facilitate the conclusion of other planned privatizations by the end of 2014. At present, the Ministry of Economy lists more than 150 SOEs in need of restructuring. The Ministry is working to provide a detailed assessment of each company's assets and liabilities to potential investors. Companies still awaiting privatization (or re-privatization) include **metal**, **machinery**, and **food and beverage** producers. Poor financial situations, outdated technology, and a lack of relevance in the modern global economy render some of these companies unappealing. However, with an estimated market value of USD 2.6 billion in 2013, state telecommunications company Telekom Srbija has garnered significant investor interest. Still, a 2011 attempt at privatization failed when the sole bidder, Telekom Austria, failed to offer the minimum bid set by the Serbian government. The state steel company in Smederevo may also attract foreign investor interest.

The National Assembly enacted the new Law on Protection of Competition in July 2009 and subsequently amended it in 2013. As an independent organization responsible to the National Assembly, the Commission for the Protection of Competition implements the law. The Commission also applies rules that regulate competition in the EU market, in accordance with Article 73 of Serbia's Stabilization and Association Agreement (SAA) with the European Union. The commission is active in the market and in 2012, according to its annual report, initiated 92 proceedings for competition violation. However, the commission cited difficulties with "judicial review of decisions of the commission, particularly the extreme slow action of the Supreme Court of Cassation." Actions of the commission are published online at: <http://www.kzk.org.rs/en/izvestaji>.

According to SIEPA, since 2000, Serbia has attracted USD 29.1 billion in gross FDI. The peak year for investments was 2006 when Serbia attracted USD 5.6 billion, followed by a gradual slowdown in FDI inflow to USD 1.4 billion in 2013. Sectors that attracted the largest amount of FDI included finance, manufacturing, wholesale and retail, real estate, and transport (<http://siepa.gov.rs/en/index-en/invest-in-serbia/strong-fdi-figures.html>). The National Bank of Serbia (NBS) and SIEPA track FDI inflows.

A number of well-known multinational companies completed major investments in Serbia between 2011 and 2014: Fiat and Benetton (Italy), Siemens and Grundfoss (Germany), Delhaize (Belgium), Yura (South Korea), and Actavis, Cooper Tire, Johnson Controls, KKR, and NCR (United States) are represented in the Serbian market. Both Ball Corporation and PepsiCo have expanded their investments in recent years. Foreign investors cite Serbia's strategic location in the Balkans, relatively inexpensive and skilled labor force, free trade agreements with key markets (the European Union, Russia, Turkey, Central European Free Trade Agreement countries, and others), and Serbian government support mechanisms for investors as the prime incentives for opening new businesses in the country.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	72 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	95 of 177	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	93 of 189	http://doingbusiness.org/rankings
Global Innovation Index	2013	54 of 142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	5,280 USD	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Serbia's Foreign Investment Law guarantees the right to transfer and repatriate profits from Serbia, and foreign exchange is readily available (http://www.nbs.rs/export/sites/default/internet/english/20/laws/law_foreign_exchange_operations.pdf). Serbia permits a relatively free flow of capital, including for investment in Serbia such as the acquisition of real estate and equipment. Non-residents may maintain both foreign currency and dinar denominated bank accounts without restrictions. Investors may use these accounts to make or receive payments in foreign currency. Non-residents may not transfer capital to purchase domestic short-term securities. The government amended the Foreign Exchange Law in December 2012 to authorize Serbian citizens to conclude transactions abroad through Internet payment systems such as PayPal. The National Bank of Serbia targets inflation in its monetary policy and regularly intervenes in the foreign exchange market to that end. The dinar has been relatively stable, depreciating by 1.5 percent between January 1, 2013, and April 9, 2014.

Remittances denote a significant additional income source for Serbian households. In 2013, Serbian citizens received total remittances of USD 4.0 billion, equivalent to more than nine

percent of GDP (http://www.nbs.rs/internet/cirilica/80/platni_bilans.html). However, recipients most often used these remittances for consumption rather than investment (<http://issuu.com/world.bank.publications/docs/9780821382189?e=1107022/2728353>).

Serbia is a member of MONEYVAL, which regularly assesses the implementation of anti-money laundering and counter-terrorist financing (AML/CFT) measures in Serbia (<http://www.fatf-gafi.org/countries/s-t/serbia/>). Serbia is also an observer of the Eurasian Group (EAG). In November 2010, the National Assembly amended the Anti-Money Laundering and Counter-Terrorism Law to require banks and other financial institutions to gather data about legal and natural persons that electronically transfer money and to monitor unusual transactions. The amendments also expand the role of the Anti-Money Laundering Unit of the Ministry of Finance by vesting it with supervisory authority over a number of institutions and business, including money transmitters and factoring and forfeiting entities.

The 2013 International Narcotics Control Strategy Report (INCSR) listed Serbia as a “country of concern,” explaining that, “Serbia is situated on a major trade corridor known as the Balkan route and commonly confronts narcotics trafficking; smuggling of persons, weapons, cigarettes, vehicles, and pirated goods; tax evasion; and other criminal activities . . . Serbia has long been and continues to be a black market for smuggled goods. Corruption and organized crime also continue to be significant problems in Serbia. Proceeds from illegal activities are invested in real estate and, increasingly, into sports, particularly football (soccer) club operations. Cyprus, Macedonia, Hungary, Switzerland, Austria, Netherlands, and China are destinations for laundered funds. Trade and service based transactions, particularly through the use of over- or under-invoicing, are a commonly used method for laundering money and transferring value. Purchases of some private and state-owned companies have been linked to money laundering activities.” (<http://www.state.gov/j/inl/rls/nrcrpt/2013/database/211183.htm#Serbia>)

3. Expropriation and Compensation

Serbia’s Law on Expropriation, approved by the National Assembly in 2001 with amendments in 2009, authorizes expropriation for the following reasons: education; public health; social welfare; culture; water management; sports; transport; power and public utility infrastructure; national defense; local/national government needs; environmental protection; protection from weather-related damage; exploration for, or exploitation of, minerals; land needed for re-settlement of people holding mineral-rich lands; property required for certain joint ventures; and housing construction for the socially disadvantaged.

In the event of an expropriation, Serbian law requires compensation in the form of similar property or cash approximating the current market value of the expropriated property. The law sets forth various criteria for arriving at the amount of compensation applicable to different types of land (agricultural, vineyards, or forests) or easements that affect land value. The local municipal court is authorized to intervene and decide the level of compensation if there is no mutually-agreed resolution within two months of the expropriation order.

The current Law on Foreign Investment provides safeguards against arbitrary government expropriation of foreign investments. There have been no cases of expropriation of foreign investments in Serbia since the dissolution of the former Republic of Yugoslavia.

There are, however, outstanding claims against Serbia related to property nationalized under the Socialist Federal Republic of Yugoslavia. The Law on Private Property and Compensation, which went into effect October 2011, applies to property seized by the government since the end of World War II (May 1945), and also includes special coverage for victims of the Holocaust, who are authorized to reclaim property confiscated by Nazi occupation forces. The restitution laws provides for restitution of property in-kind, when possible, and financial compensation in state bonds as an alternative in cases where in-kind restitution is not possible. However, many properties are exempt from in-kind restitution. In addition, there are no legal provisions to address “heirless properties” left by victims of the Holocaust.

When the government may not return property in-kind, claimants may receive compensation in cash or bonds. Serbia has allocated EUR 2.0 billion for financial compensation in bonds. Bonds issued beginning January 1, 2015, will be denominated in euros, carry a two-percent annual interest rate, have a maturity period of 15 years, and be tradable on securities markets. For citizens 70 years of age and older, the bond maturity period is five years. The deadline for filing restitution applications was March 1, 2014. The Agency for Restitution received over 70,000 property claims and expects it to take two to three year to adjudicate restitution claims that requested restitution of property in-kind, while financial compensation in bonds will start next year. Additional information about the Agency for Restitution is available at its website (<http://www.restitucija.gov.rs/eng/index.php>).

The restitution law caps the amount of compensation that any single claimant may receive at EUR 500,000 (approximately USD 650,000). The law establishes a reciprocity principle for foreign citizens that permits them to file claims in Serbia if their home nation allows similar claims by Serbian citizens. Serbia has signed 22 such bilateral agreements, including with the United States. Many U.S. citizens filed claims under the law. Serbia’s 2006 Law on Restitution to Churches and Religious Communities authorizes in-kind property restitution, financial reimbursement, and substitution of alternative property as means of compensation. However, the government has not reconciled this law with the Law on Private Property and Compensation described above.

4. Dispute Settlement

Serbia’s judicial system is based on European civil law. Lower courts may, however, use higher court decisions as guidance. Serbia’s judiciary lacked independence and was subject to political manipulation during the communist and Milosevic eras. The Government of Serbia is working to reform the court system to create a more independent, efficient, responsible, and transparent judiciary. The U.S. government, through USAID and the Department of Justice, is providing assistance for improving criminal justice procedures and for court reform.

In July 2013, the government formally adopted the national Judicial Reform Strategy and Action Plan in order to tackle judicial-reform issues in more systemic manner. Aligned with the

requirements of the EU accession process, the Strategy emphasized the five pillars of “independence, impartiality and quality of justice, competence, accountability, and efficiency.”

In November 2013, the government enacted a package of amendments to the four key justice-sector laws – on the Public Prosecution Service, Judges, Court Organization, and the Court and Prosecutorial Network. The Law on the Public Prosecution provides only modest improvement in the autonomy of individual prosecutors. Changes to the Laws on Organization of Courts and the Court and Prosecutorial Network were more substantial; many of these amendments were intended to reverse decisions made by the prior government administration, such as a significant reduction in the number of judges/prosecutors and in the number of courts and prosecutors’ offices.

In 2013, the new Criminal Procedure Code (CPC) took effect nationally. It enables more efficient and effective criminal proceedings and provides protection for human rights consistent with European and international standards. Innovations include prosecutor-led investigations, expanded availability of special investigative techniques and cooperating witnesses, a reduced role for the trial judge through more adversarial procedures, and implementation of stricter and more efficient appellate procedures to streamline the appeals process and reduce the number of extraordinary legal remedies.

Bankruptcy:

The 2009 Bankruptcy Law brings Serbian bankruptcy procedures more in line with international standards. The law stipulates “automatic bankruptcy” for legal entities whose accounts have been blocked for more than three years and allows debtors and creditors to initiate bankruptcy proceedings. The law ensured a faster and more equitable settlement of creditors’ claims, lowered costs, and clarified rules regarding the role of bankruptcy trustees and creditors’ councils.

According to the Bankruptcy Law, foreign creditors have the same rights as Serbian creditors with respect to the commencement of, and participation in, a bankruptcy proceeding. Claims in foreign currency are included in the bankruptcy estate in that currency, but they are calculated in dinars at the dinar exchange rate on the date the bankruptcy proceeding commenced.

In May 2006, Serbia enacted its first Law on Arbitration, which authorizes the use of institutional and ad hoc arbitration in all manner of disputes (for example, commercial and labor). The law is based on the UN Commission on International Trade Law (UNCITRAL) model law. International arbitration is accepted as a means for settling investment disputes between foreign investors and the state. The Foreign Trade Court of Arbitration (founded in 1947), the leading domestic arbitration body, operates within the Serbian Chamber of Commerce. Arbitration is voluntary and conforms to the UNCITRAL model law.

Serbia is a signatory to the following international conventions regulating the mutual acceptance and enforcement of foreign arbitration:

- 1923 Geneva Protocol on Arbitration Clauses;
- 1927 Geneva Convention on the Execution of Foreign Arbitration Decisions;

- 1958 New York Convention on the Acceptance and Execution of Foreign Arbitration Decisions;
- 1961 European Convention on International Business Arbitration; and
- 1965 Washington Convention on the International Center for the Settlement of Investment Disputes (ICSID).

Although Serbia is a signatory to many international treaties, Serbia's Privatization Agency refused for five years (2007-2012) to recognize an International Chamber of Commerce (ICC)/International Court of Arbitration award in favor of a U.S. investor. The dispute caused the U.S. Overseas Private Investment Corporation (OPIC), which had insured a portion of the investment, to severely restrict its activities in Serbia. The U.S. Embassy facilitated a settlement agreement between the Serbian government and the investor that took effect in January 2012. OPIC reinstated its programs for Serbia in February 2012.

5. Performance Requirements and Investment Incentives

Despite opening accession negotiations in 2005, Serbia remains an "observer" at the World Trade Organization (WTO). The country must amend domestic legislation and conclude bilateral negotiations with current members before it can accede. Still, Serbia complies with the provisions outlined by in Trade Related Investment Measures (TRIMs) agreement.

From 2006 to the end of 2013, Serbia employed a system of cash grants and other incentives for greenfield and brownfield investment projects. These incentives included funding for research and development. The Serbian National Employment Service (NES) also provided job-creation incentives, but budgetary constraints resulted in suspension of the program. The incoming government, led by Prime Minister Vučić, announced that it will offer new incentives to encourage investment, but the program details have not been finalized.

At the provincial level, the Vojvodina Government offers some investment incentives. Managed by the Vojvodina Investment Promotion Agency (VIP), these incentives include the reimbursement of costs for project design or temporary facility leasing (up to one year) while a greenfield facility is being constructed. The maximum reimbursement level is approximately USD 139,000 per business entity. In addition, the Vojvodina Provincial Secretary for Work and Employment may award incentives for new employment. Thus far in 2014, however, no public calls for incentive applications have been issued, likely as a result of budget constraints. Details are available at http://www.vip.org.rs/Business_Incentives.

A wide array of incentives are also available at the local level. For more details please visit <http://siepa.gov.rs/en/index-en/invest-in-serbia/investment-incentives>.

Serbia's tax laws offer several tax incentives to new investors. The corporate profit tax rate is a flat 15 percent, one of the lowest in the region. Non-resident investors are taxed only on income earned in Serbia. Companies that invest more than one billion RSD (approximately USD 12 million) in fixed assets and hire at least 100 new employees are exempt from the corporate profit tax for up to ten years.

The Serbian government does not maintain a policy of “forced localization” designed to oblige foreign investors to use domestic content in goods or technology. Similarly, the government does not force foreign investors to establish and maintain a certain amount of data storage within the country.

6. Right to Private Ownership and Establishment

Serbian citizens and foreign investors enjoy full private property ownership rights. Private entities can freely establish, acquire, and dispose of interests in business enterprises. By law, private companies, compete equally with public enterprises in the market and for access to credit, supplies, licenses, and other aspects of doing business.

However, as prescribed by the Law on Foreign Investments, a foreign investor cannot own a majority of shares in a company producing or trading arms. Also, a foreign investor cannot establish and be majority owner of a company in an area marked as a prohibited zone. When a foreign company wishes to invest as a minority shareholder into these kinds of companies, it must obtain approval from the Ministry of Defense.

In addition, foreign citizens and companies are prohibited from owning agricultural land in Serbia, in accordance with the 2006 Agricultural Land Law. According to Serbia’s EU SAA, the government must lift the agricultural land ownership prohibition by 2017, unless Serbia requests and receives an extension on the ban.

7. Protection of Property Rights

Serbia has an adequate body of laws for the protection of property rights, but enforcement of property rights through the judicial system can be extremely slow. The World Bank Doing Business 2014 report, for example, ranks Serbia 116 of 189 countries with respect to the time required to enforce a contract through the courts (635 days on average).

The country continues to grapple with the consequences of the nationalizations and confiscations of private property during the Holocaust and under the communist government of the former Yugoslavia following World War II. A multitude of factors can complicate and cloud property titles – restitution claims, unlicensed and illegal construction, limitation of property rights to “rights of use,” outright title fraud, and other issues. Investors are cautioned to investigate thoroughly all property title issues on land intended for investment projects.

During the country’s socialist years, owners of nationalized land became “users” of the land and acquired “rights of use” that, until 2003, could not be freely sold or transferred. A September 2009 Law on Planning and Construction authorized the transformation of land-use rights into rights of freehold private ownership for construction land. The law intended to allow companies that had gained land pursuant to privatization, bankruptcy, or other means to transform usage rights into ownership rights. They could do so by paying a fee representing the difference between the current market value of construction land and the cost of acquiring the land rights. Because the law did not adequately define the procedures for property right conversions, the National Assembly has amended it five times since.

Investors continue to complain that land-rights conversions are stalled. Local authorities often lack expertise in valuing land and other technical aspects of conversion, land registries avoid positive resolution of conversion requests, and public attorneys' offices commonly challenge land-registry actions that do recognize conversion applications. Construction permitting represents a particularly serious problem, as non-transparency and burdensome red tape put Serbia at 182 of 189 countries in World Bank's Doing Business Report. In the absence of the new construction law, these combined issues continue to impede construction activity in Serbia.

Serbia's real property registration system is based on a municipal cadastre and land books. The National Assembly adopted a modern Law on Cadastre and State Survey in August 2009, and with World Bank assistance, the government completed a seven-year cadastre modernization project in May 2012. For the first time in its history, Serbia now has the basis for an organized real estate cadastre and property title system. The new system is expected to mitigate the problem of unlicensed building construction and to spur development of the mortgage market.

However, the problem of legalizing tens of thousands of structures built over the past twenty years without proper licenses remains, as 1.3 million buildings in Serbia are not registered in the cadastre. Of this total, only 800,000 building owners have applied for legalization. In an effort to register (a precursor to legalization) all illegally built properties, the outgoing Minister of Construction and Urban Planning recently announced a new program for free registration in the cadastre, financed with a USD 60 million loan from the World Bank.

Serbia also maintains a register of movable property under the authority of the Agency for Business Registers. The World Bank Doing Business 2014 report ranks Serbia 44 of 189 countries for time required to register real property. This ranking represents a significant improvement from Serbia's 2011 ranking of 100 out of 189. Serbia's 2005 Law on Mortgages authorizes banks to issue mortgages on buildings under construction, but the law needs to be amended and harmonized with the 2009 Law on Planning and Construction.

Intellectual Property

Serbia is a World Intellectual Property Organization (WIPO) member and a signatory to all key agreements administered by WIPO. Steps have been taken to implement and enforce the WTO TRIPS Agreement. TRIPS-compliant provisions are included in Serbia's intellectual property rights (IPR) laws and enforced by courts and administrative authorities.

For the most part, Serbia's domestic legislation related to IPR is modern and complies with international standards. From 2005 to 2011, the National Assembly enacted nine new IPR laws: the Law on Trademarks, the Law on Indications of Geographical Origin, the Law on Copyrights and Related Rights, the Law on Protection of Topography of Semiconducting Products, the Law on Protection of Industrial Designs, the Law on Optical Discs the Law on Patents, the Law on Special Competence for Efficient Protection of Intellectual Property Rights, and the Law on Organization and Competence of State Authorities in Fighting Against High Technology Crime. These laws extended legal protections to all major forms of IPR (including patents, trademarks, copyrights, industrial designs, and integrated circuits).

The most significant remaining legal steps for the full modernization of Serbia's IPR regime are

- Amendments to the Criminal Procedure Code and related procedural laws, particularly in the area of cyber-crime;
- Adoption of implementing regulations for various IPR laws; and
- Reform of the Copyright Law to comply with international standards.

In December 2012, Serbia's IPR regime backslid when the National Assembly passed amendments to the Copyright Law that exempted small businesses from paying royalties for copyrighted music; capped remuneration fees paid to collection organizations; and, allowed businesses to pay one collective bill for all music rights.

In June 2011, the government adopted a Strategy on Intellectual Property Development for 2011 to 2015 in an effort to strengthen IPR protections. Pursuant to the strategy, the government established a Permanent Coordination Body for IPR enforcement activities of the Tax Administration, Police, Customs, and state inspections services. The Public Procurement Law adopted by the National Assembly in December 2012 dictates that bidders must sign a statement affirming that they have ownership rights to the IPR utilized in fulfilling a public procurement contract. In addition, the tax administration continues to check software legality during its regular tax controls of businesses in Serbia.

Despite the relatively solid IPR legal framework, implementation of IPR laws is weak and IPR enforcement is insufficient, allowing piracy and counterfeiting to persist. Pirated optical media (DVDs, CDs, software) and counterfeit trademarked goods, particularly athletic footwear and clothing, are easily available, though the government has stepped up its actions to combat illegal street sales and to seize pirated goods at the border. Film and music industry representatives estimate that more than 95 percent of the films and music downloaded in Serbia is downloaded through unauthorized channels. Government efforts to combat software piracy have been somewhat effective – the estimated rate of software piracy has fallen from about 99 percent in 2000 to approximately 72 percent in 2011, according to the Business Software Alliance. The estimated value of the illegal software market in Serbia is USD 116 million.

Formal coordination between all entities charged with IPR enforcement is lacking, as noted in the assessment by the European Commission of Serbia's IPR activities in its 2013 Progress Report for Serbia, which can be found at:

http://ec.europa.eu/enlargement/pdf/key_documents/2013/package/sr_rapport_2013.pdf.

Contact at U.S. Embassy Serbia for IP Issues:

Tatjana Vecerka
Economic Specialist
+381 11 706 4395
VecerkaT@state.gov

American Chamber of Commerce in Serbia:

www.amcham.rs
Phone: +381 11 3088 132

For a list of local attorneys, please contact the U.S. Foreign Commercial Service in Serbia at: www.export.gov/serbia.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

8. Transparency of the Regulatory System

To establish transparent rules and regulations, foster competition, and attract investments, the Serbian government has established independent agencies and bodies such as the State Auditing Institution, Public Procurement Office, Anti-Monopoly Commission, Energy Regulatory Agency, and Regulatory Agency for Telecommunications.

Serbia's record on transparency of the regulatory system is mixed. Some government institutions have a very good record of transparency. The Ministry of Finance, for example, maintains a comprehensive website with extensive information about existing regulations, legal and regulatory proposals, data on the government budget, public debt, and so on. But many government procedures that affect investors are opaque, with limited opportunities for investors to consult with government regulators on measures affecting their businesses. For example, the Ministry of Energy, Development, and Environmental Protection developed a new regulatory regime for investments in renewable energy in late 2012-early 2013 without adequate consultations with major renewable energy investors. Regulations are sometimes applied unevenly, or in a discriminatory manner.

The process for public participation in the drafting of new laws remains inconsistent. There is no legal requirement for public comment on proposed laws and regulations; the decision to invite public comment is left to the ministry responsible for the legislation or rule. The European Commission's 2012 Progress Report for Serbia highlighted the rushed nature of legislative review: "The drafting process continues to lack transparency, sufficient structure, and time for effective consultation of all interested parties, which would also make the legal environment more predictable."

In September 2012, the Government of Serbia eliminated 138 so-called "para-fiscal" charges imposed by various local governments that add to the financial and regulatory burden on businesses in Serbia. Eliminating the 138 charges was considered a significant step in improving business conditions by various institutions, including the National Alliance for Local Economic Development, various employers' associations, and the American Chamber of Commerce (AmCham) in Serbia. USAID has identified an additional 132 charges that should be eliminated.

According to the World Bank Doing Business 2014 report, which measures the efficiency of business regulation across 183 economies, Serbia ranked 93 on the basis of excessive delays in issuing construction permits, as well as problems with paying taxes, enforcing contracts, and resolving insolvency issues. The newly-elected government has publicly committed to passing immediate reforms in construction permitting, labor, and inspections.

Several Serbian organizations publish recommendations for government action to improve the transparency and efficiency of business regulations. The Foreign Investors Council publishes an annual “White Book” (<http://www.fic.org.rs/cms/item/whitebook/en.html>), the National Alliance for Local Economic Development NALED publishes a “Grey Book” (<http://www.naled-serbia.org/documents/lavirint/Grey%20Book%20III.pdf>), and AmCham publishes similar materials on its website: <http://www.amcham.rs/home.9.html>.

9. Efficient Capital Markets and Portfolio Investment

Serbia’s financial sector successfully weathered the 2008 global financial crisis, largely because of conservative banking policies and regulations that require high capital-adequacy ratios and high liquidity for banks operating in the country. Serbia experienced no bank failures or bailouts during the crisis, though a number of state-controlled banks have since had financial difficulties as a result of mismanagement and, in one instance, alleged corruption. The banks honored all withdrawal requests during the financial crisis and appear to have regained consumer trust, as evidenced by the gradual return of the withdrawn deposits to the banking system during 2009 and 2010. By February 2014, savings deposits in the banking sector reached USD 11.6 billion, exceeding the pre-crisis, October 2008 level.

The banking sector comprises 91 percent of the total assets of the financial sector in Serbia. As of September 2013, consolidation had reduced the sector to 31 banks with total assets of USD 34.6 billion (about 80 percent of GDP), with 74.8 percent of the market held by foreign-owned banks. The top ten banks, with country of ownership and estimated assets in USD are: Banca Intesa (Italy, 5.0 billion); Komercijalna Banka (Government of Serbia 40 percent, 4.2 billion); UniCredit Bank (Italy, 3.0 billion); Société Générale Banka (France, 2.5 billion); Raiffeisen Bank (Austria, 2.4 billion); Eurobank EFG (Greece, 2.0 billion); AIK Banka Nis (Serbia, 1.8 billion); Hypo Alpe-Adria-Bank (Austria, 1.8 billion); Vojvodjanska Banka (Greece, 1.3 billion); and Sberbanka (Russia, 1.2 billion). (<http://www.nbs.rs/internet/english/index.html>)

Market terms determine credit allocation. The total volume of issued loans stood at USD 20.8 billion at the end of September 2013. Average interest rates are high, and the business community in Serbia cites tight credit policies and the high expense of commercial borrowing as impediments to business expansion. Most mortgage lending, and much commercial lending, is done in euros to provide lower rates to borrowers and minimize exchange-rate risks to lenders.

The high rate of non-performing loans (NPLs) in the banking sector is problematic. The NPL rate increased from 16.9 percent of total loans issued at the end of 2010 to 21.1 percent as of September 2013. However, banking industry representatives claim that the real figure is higher - closer to 40 percent - as banks use creative loan classifications to conceal the true extent of the problem. In addition, there are significant foreign exchange risks in the sector, as 71 percent of all outstanding loans are indexed to foreign currencies (primarily the euro).

With a high NPL rate, and banks who hesitate to lend money, liquidity is an issue in Serbia and companies are hungry for working capital. In an attempt to improve liquidity in the economy, the National Assembly adopted the Law on Payment Deadlines in Commercial Transactions,

which set maximum payment terms of 60 days for business-to-business transactions and 45 days for public sector-to-business sector payments. The Assembly also adopted the Law on Conditional Write-off of Interest and Tax Debt, which allows those companies that currently pay their taxes on time but have unpaid tax debts to write off interest on the outstanding tax debt. These changes have not significantly improved liquidity in the system. According to the Serbian Association of Employers, average collection time in Serbia improved by just five days after the implementation of the payment deadlines. AmCham members noted that the law complicated business-to-business invoicing.

Portfolio investments are efficiently regulated. In 2013, Serbia attracted USD 2.5 billion in portfolio investment from abroad. The Serbian government welcomes both domestic- and foreign-sourced portfolio investments since they offer a financing source for the country's significant fiscal deficit, projected at 7.1 percent of GDP for 2014. The Serbian government regularly issues bonds to finance the budget deficit, including short-term, dinar-denominated T-bills (up to a 2-year maturity period), and dinar-denominated, euro-indexed government bonds (up to a 7-year maturity period). The total value of bonds issued on the domestic market reached USD 7.0 billion at the end of February 2014.

Since September 2011, when the Serbian government issued its first Eurobond on the international market, it sold a total of USD 5.25 billion in four issuances bearing coupon rates between 4.875 and 7.25 percent. U.S. financial companies reportedly purchased more than half of these Eurobond issuances. With both dinar-denominated T-bills and Eurobonds included, the total stock of Serbian government-issued debt instruments stood at USD 10.8 billion in February 2014 (<http://www.javnidug.gov.rs/eng/default.asp>). To meet its 2014 financing requirements, the Serbian government has announced plans to issue domestic securities of USD 4 billion, to issue additional Eurobonds of USD 750 million, and to borrow directly from foreign governments, reportedly including Russia, China, and the United Arab Emirates.

Unfavorable public-debt dynamics resulted in sovereign debt rating downgrades for Serbia in August 2012 when Standard and Poor's (S&P) downgraded Serbia's sovereign debt rating from BB to BB- with a negative outlook. Fitch Ratings followed in January 2014 by downgrading Serbia's long-term foreign and local currency Issuer Default Ratings (IDRs) to B+ from BB- with stable outlook. Both agencies cited further deterioration of public finances as the rationale for the drop.

Serbia's equity and bond markets are underdeveloped. Corporate securities and government bonds are traded on the Belgrade Stock Exchange (BSE). Of 1,087 companies listed on the exchange, shares of fewer than 100 companies are traded regularly (more than once a week). The total annual turnover at the BSE in 2013 was USD 347 million and has held at that approximate level for the past four years. Activity on the BSE remains below pre-2008 financial crisis levels, as 2007 total turnover reached USD 2.7 billion. The BSE's low turnover in the past four years is linked to the crisis in the eurozone and the struggling global economy (<http://www.belex.rs/eng/>).

Established in 1995, the Securities Commission regulates the Serbian securities market. The Commission supervises investment funds in accordance with the Investment Funds Law (passed

in January 2006 and amended in July 2009 and May 2011). As of April 2014, 14 registered investment funds operate in Serbia

(http://www.sec.gov.rs/index.php?option=com_content&task=category§ionid=7&id=95&Itemid=151)

Hostile takeovers have been extremely rare in Serbia in recent years. Share takeovers usually occur in cases of “rounding-up” ownership shares acquired in the privatization process, when a company that is already the majority owner makes an offer to assume remaining minority shares. Articles 38 and 39 of the Law on Takeover of Shareholding Companies regulate defense mechanisms of companies.

10. Competition from State-Owned Enterprises

Passed in December 2012, the Law on Public Enterprises defines a public enterprise as “an enterprise pursuing an activity of common interest, founded by the State or Autonomous Province or a local self-government unit.” Activities of common interest included in the law are electricity generation (transmission and distribution); coal extraction and processing; exploration, extraction, processing, transport and distribution of oil and natural and liquefied gas; sale of oil and oil products; railway, postal and air traffic; telecommunications; publication of the official journal of Serbia; publication of school books; management of nuclear facilities; utilization, management, protection, and enhancement of common resources (waters, roads, mineral raw materials, forests, inland waterways, lakes, river banks and lake shores, spas, and game animal areas and protected areas); production, sale and transportation of arms and military equipment; waste management; and utility services. Activities may also include any activities of “strategic importance” for the country, as well as any activities necessary for the operation of public authorities and local self-government bodies under the law or decision of the government.

SOEs dominate many leading sectors of the economy, including **energy**, transportation, utilities, telecommunications, infrastructure, mining, and natural resources. Serbia has about 1,300 SOEs, which employ more than 280,000 people, or approximately 16 percent of the formal workforce. These enterprises can be divided into three groups: 1) about 550 enterprises that the Privatization Agency manages and is preparing for divestiture; 2) another 50 utilities and commercial enterprises not yet slated for restructuring; and 3) 700 municipal enterprises.

The Ministry of Economy has slated for restructuring 154 SOEs, most of which are highly indebted, overstaffed, lack markets for their products, and depend on government subsidies, rendering them uninviting to potential buyers. Under the December 2012 Privatization Law, Serbia set a June 30, 2014 deadline for resolving the status (via sale or bankruptcy) of companies in restructuring. After extraordinary national elections in March 2014, this deadline is unlikely to be met. An additional approximately 500 SOEs have entered bankruptcy proceedings (www.privreda.gov.rs).

Serbia encourages foreign participation in the privatization of SOEs and in public-private partnerships. Foreign investors and entities may not establish enterprises in the **defense** sector or areas legally designated as restricted zones, although they may acquire minority rights in such investments, subject to Ministry of Defense approval.

Recent Serbian governments have treated SOEs as political prizes to be divvied up among political parties in the ruling government coalition. SOE managers often are politicians or party activists appointed because of their political connections rather than their management skills or substantive expertise. In an effort to reverse the politicization of public enterprises and put them under more professional management, the National Assembly adopted a new Law on Public Enterprises in December 2012 that requires all SOE directors to be selected through a public tender process. The law permits an SOE director to maintain political-party membership but bars him or her from exercising political-party functions while serving as director. The new law also abolishes SOE managing boards, relics of the socialist period that served primarily as a means of rewarding political party members.

The 2012 law also introduced greater transparency into the work of public companies by requiring them to publish financial reports, plans, and tenders on their websites. The law makes explicit that private entities, including companies and entrepreneurs, are entitled to equal treatment with public companies in the marketplace, unless otherwise provided by law. The Law on Public Companies represents a positive step toward removing political parties from public enterprises. Implementation remains a challenge, as SOE directors still openly maintain party ties, not all are chosen through public tenders, and some managing boards continue to exist.

11. Corporate Social Responsibility

Corporate social responsibility (CSR) is a relatively new concept in Serbia. Businesses are gradually becoming more familiar with the concept of CSR, though many Serbian companies view it mainly as a public relations tool to help improve their image or reputation. Multinational companies that possess wide experience in the CSR realm are its primary and most effective practitioners. The corporate sector has become more active over the last few years in partnering with NGOs and other relevant organizations to organize events and conferences to raise awareness of CSR principles.

Several local organizations actively promote the concept of CSR among the wider Serbian business community and the public. AmCham, for example, maintains a CSR webpage with member success stories and a CSR-themed e-newsletter, available at http://www.amcham.rs/education_csr.135.html. The Trag Foundation also supports the Serbian Philanthropy Forum, a networking body for donors (including numerous corporate actors) to advance philanthropic concepts in Serbia.

Since its 2007 inception, the UN Development Program's (UNDP) Global Compact initiative has organized a number of educational events intended to strengthen capacity in areas relating to CSR in Serbia. In December 2013, the UN Global Compact held its annual assembly of Serbian members in Belgrade to highlight its local activities. The most notable 2013 achievements were organization of *Global Knowledge-Local Impact* conference, as well as inclusion of the Declaration on the Fight against Corruption of the Global Compact into the Serbian government's National Strategy of Combating Corruption in August 2013 (<http://www.ungc.rs/>).

12. Political Violence

Since October 2000, Serbia has been led by democratically elected governments that have publicly committed to supporting regional stability and security. The run-up to the March 2014 snap parliamentary elections did not include appreciable political tensions or threats of politically motivated violence in either the Sandzak region or south Serbia. In the Sandzak region, these tensions have occasionally incited localized violence between competing political groups. This violence is usually directed at opposing party figures and has not targeted unrelated civilians or businesses. The newly elected government has pledged to continue successive Serbian governments' notable efforts to combat organized crime and corruption and continues to register high-profile arrests and launch new investigations.

Immediately following Kosovo's February 2008 declaration of independence from Serbia, groups twice broke away from larger demonstrations and attacked embassies of countries that had recognized Kosovo, including the U.S. Embassy in Belgrade. Since these attacks, there have been no major violent incidents in Serbia related to Kosovo. Still, extremists from Serbia regularly have been accused of fomenting and participating in politically motivated violence in northern Kosovo.

The October 2010 LGBT Pride Parade in Belgrade was marred by significant and widespread violence. The Serbian government cancelled the subsequent three Pride Parades at the last minute, ostensibly because of threats of violence by the same nationalist and extremist groups that attempted to disrupt the 2010 parade. The government has cancelled parades since then.

Organized crime in Serbia is frequently linked to sports hooliganism. There has been no serious ultra-nationalist, sports-related violence since January 2012, when hooligans attacked visiting Croatian fans in Novi Sad and Ruma, resulting in several injuries, and set fire to visitors' cars in Novi Sad during the Euro 2012 handball championships held in Serbia. A number of ultra-nationalist organizations, such as "Obraz" and "Nasi," are active in Serbia. Judging by the results of 2014 national elections, popular support for such organizations appears to have ebbed, as no right-wing party crossed the threshold to enter parliament. In 2013, these organizations continued activities targeting certain Serbian political leaders, local NGOs, and media outlets alleged to be "pro-Western." But their calls for action against their targets have not resulted in any violent incidents.

13. Corruption

Corruption in Serbia is believed to be pervasive, but it is difficult to quantify. In Transparency International's 2013 Corruption Perception Index, Serbia ranked 72 of 177 countries; an improvement from the country's ranking of 86 in 2012. In July 2013, the Government of Serbia formally adopted a new Anti-Corruption Strategy that aligns with its EU accession commitments. Serbia is a signatory to the Council of Europe Civil Law Convention on Corruption and has ratified the Council's Criminal Law Convention on Corruption, the United Nations Convention Against Transnational Organized Crime, and the United Nations Convention Against Corruption. Serbia is also a member of the Group of States against Corruption (GRECO), a peer-monitoring organization that provides peer-based assessments of members' anti-corruption efforts on a continuing basis.

In an effort to combat corruption, in 2008 the National Assembly approved the creation of an Anti-Corruption Agency (ACA). The ACA began functioning in January 2010 as an independent governmental body accountable to the National Assembly. The ACA is charged with unifying current anti-corruption activities including: enforcing the National Strategy to Fight Corruption; monitoring conflicts of interest; tracking politicians' property and assets; monitoring political party financing; and facilitating international anti-corruption cooperation. The ACA's first director, Zorana Markovic, was dismissed in November 2012 in the wake of allegations of abuse of authority arising from the purported misuse of state-owned apartments. Amendments to the Law on the ACA are under consideration, and the Ministry of Justice has produced a draft whistleblower-protection law with USAID and DOJ assistance.

The Government of Serbia elected in summer 2012 made the fight against corruption a priority, and the new Government formed after March 2014 parliamentary elections is expected to maintain this focus. The anti-corruption campaign resulted in a series of highly-publicized arrests and indictments of prominent political figures, including former ministers and businessmen associated with a number of political parties. In December 2012, authorities arrested one of Serbia's wealthiest and most powerful businessmen and his son for alleged abuses in the privatization of a road construction and maintenance company. The trial began in November 2013 and is ongoing. This case is one of 24 allegedly fraudulent privatizations cited by the EC in its annual reports on Serbia's progress in the accession process.

Both giving and receiving a bribe is a crime in Serbia. Bribes by local companies to foreign officials are criminal acts punishable by law. Corruption offenses are handled by higher courts and prosecutors' offices. In January 2010, the Organized Crime Prosecutor's Office assumed jurisdiction over corruption-related offenses involving high-level public officials and cases involving more than USD 2.7 million in illicit proceeds.

The National Assembly amended the Criminal Code in 2012 to introduce a new corruption offense – abuse of authority in relation to public procurements – in response to the significant number of corruption cases in this area. The 2012 amendments also establish a distinction between abuse of public authority and abuse of private authority, making the latter a separate offense subject to criminal prosecution if it resulted in an unlawful benefit or significant damage. Serbian government officials indicate that drafting legislation to address corruption-related offenses by the private sector will be a priority in 2013.

Government contracts remain the most widespread currency in corrupt political spheres, and corrupt officials have commonly abused contracting procedures to drain government funds and gain personal benefit. In an attempt to remedy this situation, a new Public Procurement Law entered into force in April 2013. The law adds significant anti-corruption control mechanisms, greater transparency, and more effective oversight to public procurement procedures, in particular for small-value and non-competitive negotiated procurements. Coupled with the procurement-fraud provisions of the Criminal Code (adopted in December 2012), the new law should help expedite criminal investigation and prosecution of public procurement abuse. Awareness of the importance of public procurements in the wider anti-corruption context rose throughout 2013 as the government's anti-corruption campaign gained momentum.

The Regional Anti-Corruption Initiative, originally organized under the auspices of the Stability Pact for South Eastern Europe, maintains a website with updates about anti-corruption efforts in Serbia: <http://www.anticorruption-serbia.org/>.

14. Bilateral Investment Agreements

Serbia has concluded investment protection treaties/agreements with the following 50 entities: Albania, Algeria, Austria, Azerbaijan, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Russia, China, Cyprus, Croatia, the Czech Republic, Denmark, Egypt, Finland, France, Germany, Ghana, Greece, Guinea, Hungary, Holland, India, Indonesia, Iran, Israel, Italy, Kazakhstan, Kuwait, Libya, Lithuania, Macedonia, Malta, Morocco, Montenegro, Nigeria, North Korea, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Switzerland, Turkey, the United Arab Emirates, the United Kingdom, Ukraine, and Zimbabwe. Following their 2013 signings, the agreements with Morocco and the United Arab Emirates are newest to the list.

The United States does not have a bilateral investment treaty or a double taxation treaty with Serbia. The United States extended duty-free privileges to qualified Serbian exports under the Generalized System of Preferences program in July 2005. However, the entire GSP program expired on July 31, 2013, and extension bills remain pending with the U.S. Congress.

In April 2008, the Serbian government and EU signed an SAA. The agreement, which came into force in June 2013, provides for free trade with EU member states, as well as harmonization of Serbia's domestic legislation with EU guidelines.

Serbia has been a Central European Free Trade Agreement (CEFTA) member since December 19, 2006. CEFTA was signed as a multilateral free-trade agreement among southeastern European countries, including: Croatia, Macedonia, Serbia, Montenegro, Bosnia-Herzegovina, Albania, Moldova and UNMIK/Kosovo. Croatia ceased to be a CEFTA member upon entry into the European Union in July 2013. CEFTA's primary objective is to facilitate and expand trade and investment among its members, whose collective population is almost 25 million.

Aside from CEFTA countries, Serbia has concluded bilateral free trade agreements with Russia, Belarus, Kazakhstan, Turkey, and the European Free Trade Association states (Norway, Switzerland, Iceland, and Liechtenstein).

As noted in Section 5 above, Serbia remains in "observer" status with the WTO. To accede, the country must amend domestic legislation, including its current blanket ban on trade and cultivation of agricultural biotechnology products. Serbia must also conclude bilateral negotiations with current WTO members.

Bilateral Taxation Treaties

Serbia has signed and implemented Bilateral Taxation Treaties with the following 54 countries: Albania, Austria, Azerbaijan, Belgium, Belarus, Bosnia and Herzegovina, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Holland, Hungary, India, Iran, Ireland, Italy, Kuwait, Latvia, Lithuania,

Libya, Macedonia, Malaysia, Malta, Moldova, Montenegro, North Korea, Norway, Pakistan, Poland, Qatar, Romania, Russia, Slovakia, Slovenia, Sri Lanka, Switzerland, Sweden, Spain, Tunisia, Turkey, Ukraine, the United Arab Emirates, the United Kingdom, and Vietnam.

(Source: Finance Ministry of the Republic of Serbia

<http://www.mfin.gov.rs/pages/issue.php?id=7063>)

Serbia has signed Bilateral Taxation Treaties with an additional seven countries: Ghana, Guinea, Indonesia, Morocco, Palestine, Philippines, and Zimbabwe. The Serbian National Assembly has ratified these agreements, but the legislature in the foreign state has not yet ratified them.

15. OPIC and Other Investment Insurance Programs

The former Serbia and Montenegro signed a bilateral agreement with the U.S. Overseas Private Investment Corporation (OPIC) in July 2001 and became eligible for OPIC programs in November 2001 upon ratification of the agreement. Following Serbia and Montenegro's dissolution, the agreement remained in effect for Serbia.

In July 2009, OPIC severely restricted its programs for Serbia over an investment dispute involving a U.S. company that held OPIC policies on its Serbian investments. The Serbian government and the investor concluded a settlement agreement in January 2012 that led to the reinstatement of the full range of OPIC programs for Serbia the following month. Currently, OPIC, International Finance Corporation, and the European Bank for Reconstruction and Development are engaged in joint negotiations with the Serbian government related to a U.S. investor-backed, multi-million dollar wind energy project. For full information on OPIC programs, please visit <http://www.opic.gov>.

16. Labor

Serbia has a total labor force of approximately 2.96 million people, of which 2.3 million are employed. The employment rate is low, at just 37.7 percent in 2013. According to government data, 656,120 are unemployed, as reflected in the 2013 unemployment rate of 20.1 percent. The leading sector for employment is the government, which according to government officials employs as many as 800,000 people.

Labor costs are relatively low in Serbia, especially compared to European averages. In February 2014, the average net take-home salary was approximately USD 527 for the month. Minimum wage for the period between January and June 2014 was approximately USD 250 per month. Investors routinely cite favorable labor costs, as well as the highly educated, multi-lingual workforce, as advantages to doing business in Serbia. Forty-nine percent of workers in Serbia have completed secondary education.

Serbia's Labor Law dates to 2005, with minor amendments in 2009 and 2013. The law is a socialist-era relic, unusually favorable to workers and their unions. Business associations, including AmCham and the Foreign Investors Council advocate significant changes in Serbia's labor laws to increase labor market-flexibility to support new employment and economic growth. Provisions under consideration for amendment relate to

- A requirement that in cases of redundancy, the current employer pay severance based on an employee's total years of employment, rather than on the years of service with that specific employer;
- Working hours, annual leave, and other conditions of employment;
- High administrative burdens for employers related to documentation;
- A 12-month limit on temporary, fixed-term employment contracts; and
- The structure of collective bargaining and its extension of agreements to non-negotiating parties.

The official mechanism for the tripartite labor dialogue is the Serbian Social and Economic Council, an independent body with representatives of the Serbian government, the Serbian Association of Employers, and select trade unions. The Council is the leading venue for discussions of significant labor and social issues, including working conditions and terms of employment; the impact of economic policies on employment, wages and prices; competition policies; privatization; workplace health and safety; and education and professional training. The Council is authorized to conclude an umbrella collective bargaining agreement at the national level covering basic employment conditions for all companies in Serbia. Additional information about the Council is available at <http://www.socijalnoekonomskisavet.rs/en/index.html>.

Officially, there are nearly 25,000 labor unions registered in the country. However, only an estimated one-third (or approximately 8,300) is active. Most of the registered unions are dormant but remain on the books because according to the law a union must submit a formal request for removal from the official register, and many fail to do so following a bankruptcy or restructuring of the associated company. Only two unions have full government-granted representativeness, meaning they can sit on the Social and Economic Council. Only one employers' association has representativeness. Business associations, especially those representing foreign companies, contend that they lack a voice in the tripartite dialogue as a result.

Serbia has ratified eight fundamental International Labor Organization conventions including Forced Labor (No. 29), Freedom of Association and Protection of the Right to Organize (No. 87), Right to Organize and Collective Bargaining (No. 98), Equal Remuneration (No. 100), Abolition of Forced Labor (No. 105), Discrimination (No. 111), Minimum Age (No. 138), Worst Forms of Child Labor (No. 182).

17. Foreign-Trade Zones/Free Ports

Serbia maintains thirteen designated free-trade zones (FTZs): Apatin, Kragujevac, Krusevac, the Nis-based Free Zone South, Novi Sad, Pirot, Sabac, Smederevo, Svilajnac, Subotica, Uzice, Vranje, and Zrenjanin. FTZs, established in accordance with the 2006 Law on Free Trade Zones, are intended to attract investment by providing tax-free areas for company operations. Businesses operating in FTZs qualify for benefits that include: unlimited duty-free imports and exports; preferential customs treatment; and tax relief/value-added tax (VAT) exclusions.

Companies operating within an FTZ are subject to the same laws and governmental supervision as other businesses in Serbia (except for the tax-free privileges that the FTZ offers).

Goods moving in or out of the FTZs must be reported to customs' authorities, and payments must be made in accordance with regulations on hard-currency payments. Goods being delivered from FTZs to other areas in Serbia are subject to customs' and tax duties. Earnings and revenues generated within an FTZ may be transferred freely to any country, including Serbia, without prior approvals, and are not subject to any kind of taxes, duties, or fees. The law allows up to 100-percent foreign ownership of the FTZ's managing company.

Additional information about Serbia's free-trade zones is available at

<http://www.usz.gov.rs/en.html>.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (<i>Millions U.S. Dollars</i>)	2012	38,003	2012	37,490	http://www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (<i>Millions U.S. Dollars, stock positions</i>)	2005-2012	228	2005-2012	655	(BEA) click selections to reach. <ul style="list-style-type: none"> • Bureau of Economic Analysis • Balance of Payments and Direct Investment Position Data • U.S. Direct Investment Position Abroad on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Host country's FDI	2005-	119	2005-	-1	(BEA) click selections to reach

in the United States (Millions U.S. Dollars, stock positions)	2012		2012		<ul style="list-style-type: none"> • Balance of Payments and Direct Investment Position Data • Foreign Direct Investment Position in the United States on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % host GDP (<i>calculate</i>)	2012	0.5 %	2012	1.5 %	

GDP data source: <http://webrzs.stat.gov.rs/WebSite/Public/PageView.aspx?pKey=61>

FDI data source: http://www.nbs.rs/internet/cirilica/80/platni_bilans.html

TABLE 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	22,169	100%			
Austria	3,847	17%			
Netherlands	3,772	17%			
Cyprus	3,321	15%			
Greece	1,428	6%			
Slovenia	1,173	5%			
“0” reflects amounts rounded to +/- USD 500,000.					

Note: This data differs from NBS data. According to NBS data, total inward FDI into Serbia in 2001-2012 was USD 20,274 million (compared to USD 22,169 million in the table above). The top five investors were Austria with USD 3,104 million; Norway with USD 1,704 million; Luxemburg with USD 1,611 million; Italy with USD 1,264 million; and Netherlands with USD 1,250 million. IMF data is not available for outward FDI from Serbia.

(http://www.nbs.rs/internet/cirilica/80/platni_bilans.html)

19. Contact Point at Post for Public Inquiries

Anna Boulos
Economic Officer
Bulevar kneza Aleksandra Karadordevica 92
11040 Belgrade, Serbia
+381-11-706-4282
SerbiaInvestment@state.gov