# PILLARS OF DEVELOPMENT

### **ENERGY**

This sector includes generating and transmitting electricity, the market for renewable energy sources and energy efficiency. Last year, the situation in the field of electricity production was dramatic. In addition, due to the energy crisis in the world and economic sanctions, which interrupted the regular supply channels, our country faced significant challenges in ensuring a steady supply of other types of energy. The price shock due to the reduced supply of energy products and supply uncertainty was extreme, significantly increasing inflation and the instability of the domestic market. The initial market liberalisation hit the hurdle of increased costs for households and the economy, so the government introduced price controls. At the same time, the management structure of EPS was replaced, its business policy was changed, and the main causes of its bad business were eliminated. Electricity supply has improved, but the problem of pricing remains.

In 2023, Serbia supplemented the regulatory framework in accordance with the EU's Third Energy Package and de jure liberalised the electricity market. In this regard, 2023 continues the policy of fully implementing the relevant EU regulations. The Republic Commission for Energy Networks was established as an independent body for controlling the electricity transmission system operator - Elektromreža Srbije and the natural gas transport system operator Transportgas Srbija. The newly formed body will take over state responsibilities from the Ministry of Energy over these two state operators of the electricity and natural gas transmission system. That will enable them to obtain appropriate certificates from the Energy Agency of the Republic of Serbia and European regulatory bodies. Also, the transformation of EPS from a public company to a joint-stock company was announced, and a new supervisory board was appointed, which took necessary steps towards professionalising the management of this company.

Households and small customers, for now, have the right to be supplied at regulated prices (unlike other customers, who do not have the right to regulated prices). There is an intention to supplant the regulated electricity supply, but the Energy Agency has taken the position that there is still a need to control electricity prices. On the other hand, the

Despite the liberalisation, EPS remains the most dominant supplier, with about 97% share in the open market. The

South East European Power Exchange (SEEPEX) manages the day-ahead market.

Coal remains the dominant source of electricity production – more than 70% of the annual output comes from coal-fired power plants. Coal mines are in relatively poor condition and need serious modernisation to meet demand. Some of the largest thermal power plants must be phased out or overhauled. There is an increased import of coal to maintain production in thermal power plants. The transition to a "green" economy has been postponed for some time.

In the case of renewable energy sources, a system of incentive measures for producing electricity from these sources is crucial. Incentive measures are provided through a market premium system and feed-in tariffs. Both methods will be implemented through an auction and relate to the price of electricity, the assumption of balancing responsibility and the right to priority access to the network. By abandoning the incentive system in order and introducing auctions, the opportunity for a new cycle of investments and achieving a competitive price for purchasing electricity opens up.

In the field of energy efficiency, the Directorate for Financing and Encouraging Energy Efficiency began its work. New regulations were adopted that regulate the financing of measures to improve energy efficiency and the use of funds for their implementation. In the energy efficiency market, many local governments have begun implementing projects on energy performance contracting (EnPC) in the public lighting field. Energy Supply Contracting (ESC) has also started to function, primarily in the public sector, where schools and hospitals are priorities.

The Foreign Investors Council made eight recommendations for improving this area's situation. Among other things, in the case of electricity production, it is proposed to abandon price regulation despite the energy crisis; in the case of energy efficiency, the application of a more functional contract model that will regulate the supply of energy, while in the case of renewable energy sources, an adjustment of the methodology for determining the maximum price at auctions is requested to reflect the influence of market conditions. By the way, the Foreign Investors Council highly rated the progress in 2023 with an index of 2.30, although it is somewhat lower than the previous year (2.50).

# **TELECOMMUNICATIONS**

In 2023, the trend of global negative influences is still present, also reflected in the domestic market. However, despite this, electronic communications operators continued with activities aimed at further development and investment to improve the quality of their networks and the services they provide to users. The growth trend regarding broadband Internet access and media content distribution services is continuously present. In contrast, mobile telephony services continue to represent the service with the largest share of total revenues generated in the electronic communications market.

The first half of 2023 was marked by significant progress in improving the regulatory framework in the field of telecommunications to harmonise it with the regulatory practice of the European Union. A new Law on Electronic Communications was adopted, mainly in line with the European Parliament's Directive (EU) 2018/1972 and the Council of December 11, 2018, on establishing the European Code of Electronic Communications. Of course, its full implementation will require the adoption of additional by-laws in the following period of 6 to 18 months.

Also, the Amendments to the Law on Planning and Construction prevent local self-government units from introducing additional conditions and restrictions for installing radio base stations in their planning and urban planning acts. We expect that in this way, the requirements for the functioning and expansion of the mobile network will be improved to a significant extent and thus enable a better signal quality for the end users.

The Foreign Investors Council expects the continuation of activities on drafting the Law on Broadband Communication Infrastructure for further digital transformation of the Republic of Serbia. In this way, they would come closer to the regulation of the European Union, i.e. Directive (2014/61/EU) on measures to reduce the costs of setting up high-speed electronic communication networks, as well as Directive 2018/1972 on the European Code of Electronic Communications.

The Foreign Investors Council also expects a transparent approach to be applied in defining the minimum conditions for issuing individual licenses and models in public bidding for frequencies. It is proposed to choose a simple model of public bidding of radio-frequency spectrum

than a combined auction that would include spectrum blocks of different bands), which will open up space for the necessary investments in network construction and the introduction of innovative business models. In this regard, it is essential to consider the price of the radio frequency spectrum to be in proportion to the 5G auctions realised in the region, additionally taking into account the necessary investments required for the construction of the network after the implementation of the auction.

Like last year, the Foreign Investors Council expected to quickly hold an auction to allocate the right to use radio frequency from the radio frequency bands 700 MHz, 900 MHz, 2100 MHz, 2600 MHz and 3500 MHz. That would create optimal conditions for building and investing in 5G infrastructure throughout Serbia.

Following the EU-WB Declaration on Roaming, 38 operators operating in the territory of the European Union and the Western Balkans will begin a phased reduction of retail prices for roaming data services from October 2023. Mobile operators from Serbia have provided their users with lower prices for roaming data supplements, considering that such a price reduction has for end users and the region's economy.

Furthermore, the Foreign Investors Council states that work is being done to define the rules for entering and leaving the "Do Not Call Register" following the Law on Consumer Protection. It is expected that the registration and registration process will be carried out through simple electronic communication. Please note that the registration of the end users of the prepaid service has been introduced, the issuance of electronic invoices for the services provided by the operators and the more significant role of RATEL in the out-of-court settlement of disputes. The obligation to obtain individual licenses for the use of the radio-frequency spectrum for each base station within the radio-frequency range, for which the permit is issued based on a public tender, has been abolished so that there is only the obligation to record them electronically.

Not all changes have improved the position of mobile operators. A significant problem is represented by the disproportionately high fees of collective copyright protection organisations towards the telecommunications industry. There is a risk of further unlimited growth of flat rates from existing and new organisations for the joint exercise of copyright.

The Foreign Investors Council made 14 specific recommendations for improving the situation in this area. When all changes are considered, he gave a good assessment of the telecommunications sector's progress in 2023 with an index of 1.79, which is slightly higher than the previous year (1.57).

## DIGITALISATION AND ELECTRONIC BUSINESS

This sector includes electronic commerce, electronic identification, issuance of electronic documents, as well as electronic business of administrative authorities, including the connection of public databases. That area has made much progress in 2023, from the point of view of adapting the business climate to the proposals of the Foreign Investors Council, but slightly less than the previous year. The FIC score in 2023 is 1.83 (2.57 last year).

At the global level, the technology sector went through major changes in the previous year: at the end of 2022, the bankruptcy of crypto-exchanges led to the culmination of the crisis in the form of the so-called crypto-winters; layoffs in IT giants marked the beginning of 2023, and the considerable success and popularity of Chat GPT indicated that artificial intelligence is the most important topic in the field of digitisation. These trends were also reflected in the dynamics and priorities of the IT sector in Serbia while the state continued to develop new electronic government services.

After adopting the Law on Electronic Communications, which is harmonised with the regulations of the European Union, a public discussion was announced on the conditions for organising an auction of radio frequencies intended for 5G technology. The start of its operation is expected in 2024. RATEL's data analysis established that more than 1,200,000 mobile users in Serbia already own devices that support 5G.

The whole world has started to adapt to the new situation caused by the emergence of the corona virus and to turn to electronic business due to a completely changed way of life and business. Many positive changes have also taken place in Serbia. A large number of companies organised work "from home", many citizens began to use the services of the e-government portal, numerous new services were developed, and unified data registers were formed. In this sense, the development of the 5G network becomes an urgent matter.

The volume of trade via the Internet has increased significantly. A similar trend existed in the previous year - data from the National Bank of Serbia show that in 2022, the number of dinar payment transactions realised by payment card via the Internet recorded a growth of 33.9%, while the value of these transactions increased by 46.3% compared to the previous year. Data for the first two quarters of 2023 show a similar volume of year-on-year growth in the number and value of transactions.

Administrative procedures within the "ePaper" program have been simplified. In August 2023, the number of 2 million citizens who have an account on the eGovernment portal was reached. That is contributed by the number of services supported by eGovernment, which is continuously increasing, making it easier for citizens to use numerous services in the state and the private sector.

The Foreign Investors Council states that from January 2023, the "elnvoice" system is in full use in the economy, replacing paper invoices by implementing the Ministry of Finance's SEF system. That has achieved great administrative relief. In addition to this advantage, the digitisation of invoice transactions has led to an increase in the transparency of transactions in the retail and wholesale market, that is, to decrease the space for the grey economy. In addition, it is expected that the process of VAT refund will be improved in this way, as well as that there will be a reduction in the costs of keeping invoices, which will now be retained in electronic form instead of paper ones. The positive result of elnvoices is reflected in the fact that, since introducing this system, the number of users of qualified electronic certificates in our country has increased significantly.

Changes in the issuance of electronic documents led to the introduction of the service of issuing a qualified signature in the "Cloud". On the other hand, qualified trusted services from providers from the European Union and registered electronic identification schemes from the EU are recognised. In this way, legal representatives of foreign companies in Serbia can use personal certificates issued in their home countries based on electronic identification schemes from the EU without restrictions.

The electronic form has become the primary form of billing for telecommunications services. After adequate notification, the operator will, in the future, deliver the monthly bill to the user electronically. Exceptions exist if the user does not have the technical capabilities to receive invoices electors.

tronically or requires a paper invoice. Let's consider that the number of postpaid users in mobile telephony alone is 5.2 million and that many still receive 12 bills yearly on paper This change will have a significant impact on green business and environmental protection.

The Foreign Investors Council points out that a great effort was made and significant progress was made to enable further digitisation of the economy and the public sector in the past period and that the readiness of all state institutions to continue in this spirit in the coming period can be seen. For its part, the Foreign Investors Council made seven specific recommendations to improve the situation in this area further.

# **REAL ESTATE AND CONSTRUCTION**

The focus of the Foreign Investors Council remains or implementing the Law on Planning and Construction especially the procedures for obtaining permits, the status of construction land and the legalisation of buildings.

The issue of property relations on land and mixed forms of state and private ownership is recognised as one of the leading problems in real estate construction. In the previous period, one of the main areas of activity of the Foreign Investors Council was active participation in the process of amending the Law on Planning and Construction to reform the issue of mixed forms of state and private ownership on construction land, as well as to give an incentive to green construction in Serbia and further improved the procedures for issuing building permits.

The most significant improvement is the abolition of the conversion of the right of use into the right of ownership on construction land for a fee (conversion of construction land for a price) for specific categories of persons - primarily for legal entities privatised based on laws governing privatisation, bankruptcy and enforcement proceedings, as well as their legal followers in terms of status, as well as persons who acquired the right of use on the land after September 11, 2009, by purchasing the building with the associated right of use from privatised legal entities.

The Law on Planning and Construction has been amended several times in recent years. Recently, substantial changes have been adopted that bring several novelties in the construction field. Introducing these novelties is expected to facilitate the issuing of construction permits, improve the

energy efficiency of buildings, reduce the negative impact on the environment and encourage the development of sustainable construction practices.

However, recently, there has been a noticeable slowdown in construction and a decrease in the number of building permits issued, which we can attribute to current market trends. On the other hand, there is also a noticeable tendency to facilitate issuing permits.

An important novelty is the definition of the terms "green construction" and other elements of the green agenda so that energy efficiency, sustainable materials and technologies, waste management, water and air protection, and the like must be considered when planning and building buildings. In this regard, the obligation to obtain energy passports is introduced for all new buildings. In contrast, already-built buildings are not exempt from this obligation but have one adjustment period for obtaining energy passports. The lawmaker is trying to implement the mentioned obligation through an additional legal innovation that during all future certifications of sales contracts and lease contracts, the energy passport should be attached to the concluded contract as an integral

The sector as a whole is not homogeneous, and in 2023, its parts behaved differently. Overall, the sector achieved somewhat higher progress in implementing the recommendations of the Foreign Investors Council (1.48 compared to 1.36). Real estate and construction achieved a better result (1.33 compared to 1.18). The domain of cadastre functioning and application of the new procedure achieved the best result in 2023 (1.82). In the area of mortgage and financial leasing, according to the assessment of the Foreign Investors Council, there was no progress (1.00); the same rating applies to restitution (1.00).

# **WORKFORCE AND HUMAN CAPITAL**

This year, globally, there was an improvement in the application of labour legislation (so the FIC index is 1.29), as well as in dual education (1.23). The combined labour force and human capital progress index was 1.27.

However, the practice has shown that there are still numerous restrictions on the labour market. As in the previous edition of the White Book, the Foreign Investors Council notes that everyday life in the field of labour relations requires changes to labour regulations that would enable

the application of electronic documents and electronic signatures, with the aim of efficient and flexible administration of documents from labour relations; flexible working conditions outside the employer's premises, in order to efficiently organise work and optimise labour costs; flexible requirements for the engagement of pupils and students in practice, with the aim of easy and legally secure engagement of practitioners; more flexible and rational conditions for determining the length of annual leave; specification of the provisions governing changes to employment contracts (annex), in order to ensure legal certainty; rational salary structure, in order to simplify the calculation and protect the employer from the high cost that occurs when calculating the salary compensation; more flexible conditions and procedures for removal from work and termination of employment contracts, in order to relieve the employer's administration.

The procedure for obtaining a temporary residence permit and work permit was simplified when hiring foreigners. The most significant change is the introduction of a single license, which includes a temporary residence permit and a foreigner's work permit. The procedure is simplified so that the foreigner will submit the request electronically to the Directorate for Foreigners, and the competent authority will forward the request to the NES for further processing. If the Directorate for Foreigners and the NES determine the conditions have been met, they will issue a single permit. The legal deadlines for deciding on the request have been shortened to 15 days from the day of submission of the proper request.

The state of the labour market remains challenging as the consequences of the COVID-19 epidemic continue to be felt, as well as political events in the world, including the global inflation increase. The unemployment rate varies in the territory of the Republic of Serbia, which primarily reflects the state of the economy in different parts of the country, and unemployment is still the lowest in the territory of Vojvodina, which is why employers in the region of Vojvodina face a significant challenge in the recruitment

and selection of suitable personnel. The unemployment rate in the entire country in the first quarter of 2023 was around 10%, while employers have increasing challenges to find, attract and retain the workforce and especially quality candidates, especially in the field of IT, where significant inflationary trends have led to employers they are becoming more cautious when investing in new technologies and hiring more people.

Dual education represents a unified educational system that profiles pupils and students according to the needs of the labour market. There is still no formal legal framework which more precisely determines the relationship between the law on dual education and other laws that regulate various aspects of work. Still, last year, there was some progress in specifying the by-laws.

Last year, there was no progress in hiring labour, safety and health at work and sending employees to temporary employment abroad.

The Foreign Investors Council made eleven concrete recommendations for improving the situation in the area of the labour market and labour relations (FIC progress index was 1.00), four recommendations for the work of foreigners (index 2.00), also three recommendations for sending employees to temporary work abroad (index 1.0), three recommendations for hiring labour (index 1.00) and three recommendations for professional rehabilitation and employment of persons with disabilities (index 1.00). In comparison, he gave six recommendations for safety and health at work (index 1.33). In the case of dual education, seven recommendations were given (with a progress index of 1.14).

Serbia's development in these key areas reflects a combination of achievements and ongoing challenges, with continuous efforts to promote growth and improvement in various sectors. The Foreign Investors Council' recommendations guide addressing these challenges and driving further progress.