PILLARS OF DEVELOPMENT

This year, we decided to make a change in this part of the White Book. Namely, in the previous editions, in the section on the pillars of development, the same sectors were practically analyzed from year to year, and as a rule, they included: energy, telecommunications, digitalization and e-commerce, real estate and construction, labour and human capital.

In this year's edition of the White Book, we made a change in the sense that in the part of the sectoral analyses in the Pillars of Development, we presented the results of those sectors that made the most progress in the previous year. This year's topics are: energy, digitalization, protection of financial services users, public procurement and capital markets.

ENERGY

The energy sector, which includes the production and transmission of electricity, the market for renewables and energy efficiency, has been exposed to numerous challenges in recent years. Two years ago, this was related to possible risks in the part of the electricity supply, but in the end it was successfully overcome. With the global energy crisis, problems have opened up in the supply of other energy sources.

Insufficient supply of energy products and uncertainty in their supply led to a strong shock on the supply side, causing shortages. This supply shock, along with jeopardizing and in some places tearing up supply chains, translated into cost inflation and price growth.

The government introduced price controls because the liberalization of the electricity market could have led to a significant increase in costs for households and businesses. At the same time, the management structure of EPS has been changed, its business policy has been changed and the main causes of its poor performance have been eliminated. The electricity supply has been improved and stabilized. The transformation of EPS from a public company into a joint-stock company has begun. A new Supervisory Board has been appointed, which has taken important steps towards the professionalization of EPS management.

In 2023, Serbia supplemented the regulatory framework in line with the EU's Third Energy Package and de jure liberalized the electricity market. In this regard, the policy of full implementation of the relevant EU regulations has been continued. Despite liberalization, EPS remains the most dominant supplier with about 97% share in the open market.

Coal remains the dominant source for electricity generation – more than 70% of annual production comes from coal-fired power plants. The coal mines are in relatively poor condition. Some of the world's largest coal-fired power plants will have to be overhauled or they will face a gradual shutdown. Currently, there is an increased import of coal in order to maintain production in thermal power plants. The transition to a "green" economy has been postponed for some time in the future.

In the case of renewable energy sources, a system of incentive measures for the production of electricity from these sources is crucial. Incentives are provided in the form of a market premium system and feed-in tariffs. Both systems 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 the purchase of electricity opens up.

In the field of energy efficiency, the Directorate for Financing and Promotion of Energy Efficiency has begun its work. In the energy efficiency market, the implementation of energy performance contracting (EnPC) projects for public lighting has begun in a significant number of local self-governments. Energy Supply Contracting (ESC) has also begun to function, primarily in the public sector, where schools and hospitals are priorities.

In this area, the Foreign Investors Council has made eight recommendations for improving the business climate. Five have made significant progress and three have made some progress. That is why energy is at the top of the list of sectors in which the most progress has been made. The Foreign Investors Council gave the 2024 index a high rating of 2.63, above the 2023 level of 2.30.

DIGITALIZATION AND E-BUSINESS

The digitalization and e-business sector, which includes e-commerce, electronic identification, issuance of electronic documents, as well as e-business of governing bodes, including the interconnection of public databases, achieved the second most dynamic improvement in the business climate. Globally, the technology sector has undergone major changes in recent years. After the bankruptcy of cryptocurrency exchanges, layoffs in IT giants, there was a huge popularization of Chat GPT, introducing artificial intelligence as the most important topic in the field of digitalization. These trends have also had a direct impact on the dynamics and priorities of the IT sector in Serbia. The government continues to develop new e-commerce services.

After the adoption of the Law on Electronic Communications harmonized with the EU regulatory framework, a public hearing on the conditions for organizing an auction of radio frequencies intended for 5G technology was announced. More than 1,200,000 mobile phone users in Serbia already have 5G-enabled devices.

The whole world has adapted to the new situation after the coronavirus pandemic and has begun to turn to e-commerce due to a completely changed way of life and business. In Serbia, a large number of companies have organized work "from home", citizens have started to use the services of the e-Government portal, and numerous new services have been developed and unified data registers have been formed. Accelerating the development of 5G networks is a priority.

There has been a significant increase in the volume of online trade. A similar trend existed in previous years. This is especially due to the IPS payment system introduced by the NBS.

Within the framework of the "ePaper" program, administrative procedures have been simplified. A large number of citizens have an account on the eGovernment portal. This is due to the fact that the number of services supported by eGovernment is continuously increasing, making it easier for citizens to use numerous services.

From 2023, the "elnvoice" system is applied in the economy through the SEF system of the Ministry of Finance, which has replaced paper invoices. In this way, a great administrative relief was achieved. In addition to this advantage, the digitization of invoices has led to an increase in transparency, i.e. to a reduction in the space for the shadow economy. It is expected that this will improve the VAT refund process as well as reduce the cost of storing invoices. Since the introduction of this system, the number of users of qualified electronic certificates has increased significantly. Electronic forms have become the basic form of account for telecommunications services.

Significant progress has been made in the digitalization of the economy and the public sector. The Foreign Investors Council has made seven recommendations in this area, three of which have been significantly improved, and three have been certainly improved so that the score is 2.29 (which is significantly above the previous year's score of 1.83).

PROTECTION OF FINANCIAL SERVICES USERS

A new Law on the Protection of Financial Services Users is in the process of being adopted. The NBS has been working continuously to improve this area.

The NBS has invested great efforts in educating users of financial services through a special section on its website that allows asking questions. The NBS responds to these questions very promptly. In addition, representatives of the NBS have participated in various conferences and events dedicated to topics in this area, and the engagement of the NBS in this area can be assessed as very active. The NBS has shown fair treatment in the procedures for the protection of financial services users. In addition to proposing the draft Law on the Protection of Financial Services Users, the NBS emphasized the need for education of financial service users through additional activities.

Due to the uneven court practice in loan processing disputes, there is a need for additional understanding of this area by public office holders, which is why additional education of judicial office holders in the field of banking and insurance within the Judicial Academy would be useful.

It is necessary to reach a final solution for disputes related to the loan processing fee and amendments to Article 368, paragraph 1 of the Loan Processing Act of the Code of Civil Procedure. In the part of loan processing disputes, compared to the previous year, some progress has been observed, so the number of new lawsuits has significantly decreased.

When it comes to promoting mediation as a way of resolving disputes between banks/insurance companies and users of financial services, the NBS has been actively involved.

In the field of protection of financial services users, the Foreign Investors Council has made 10 recommendations, of which three have been significantly improved, four have been certainly improved, while three have not changed. There has been slow progress in this area, with a score of 2.00 (slightly below the previous year's score of 2.11).

PUBLIC PROCUREMENT

The implementation of the new Law on Public Procurement began in 2020 and represented a significant harmonization with the EU acquis, i.e. Directive 2014/24/EU on public procurement and Directive 2014/25/EU on procurement by entities operating in the sectors of water management, energy, transport and postal services.

The public procurement market in the Republic of Serbia in 2023 reached 10.5% of GDP (in 2022 it was 9.3%). The average number of bids per procedure is 2.4 (the EU average is around 3). The share of contracts awarded to foreign bidders is 4% (in 2022 it was only 1%).

The representation of negotiated procedures without the publication of a public call amounted to 2% of the value of awarded contracts, which is a decrease compared to the previous year.

The value of public procurements exempted from the implementation of the Law on Public Procurement amounted to about 831.6 billion dinars (slightly over €7 billion) or about 10% of GDP. The largest share (38%) was related to procurements in accordance with procedures related to international treaties or other international obligations.

Over the previous year, progress has been made in the fight against corruption and the protection of integrity in public procurement procedures. In order to strengthen mutual cooperation and improve the exchange of information and data between the competent public prosecutor's offices for the handling of criminal offenses of organized crime, corruption and money laundering, an Agreement on Cooperation was concluded between the Public Procurement Office and the Republic Public Prosecutor's Office.

Public Procurement Office in 2023. cooperated with the anti-corruption departments of the Higher Public Prosecutor's Offices, based on 21 requests. These requests included a total of 45 public procurement procedures over which the Public Procurement Office conducted a monitoring procedure, after which it informed the competent public prosecutor's office about the observed irregularities.

Also, international agreements with third countries continue to violate the principle of equal treatment of bidders, non-discrimination, transparency and protection of competition. The implementation of these agreements is often not in line with the adopted solutions both in the domestic and in the legislation of the European Union. In 2023, the Law on Line Infrastructure was repealed, which opened up space for discretionary decision-making.

The Foreign Investors Council recommends the improvement of administrative and expert capacity in this area.

In the part of public procurement, by implementing the proposal of the Foreign Investors Council, certain progress has been made in three areas, so the score is 2.00 (previous year 1.33).

CAPITAL MARKET TRENDS

The Capital Market Law, as a legal framework for the capital market, is almost completely harmonized with EU regulations. As the domestic capital market is not sufficiently developed, this legal regulation has not been tested enough in practice.

There is still a trend of decreasing the number of issuers of financial instruments and the number of public joint-stock companies listed on the Belgrade Stock Exchange. On the other hand, the amount of government bond issuance to finance environmental, infrastructure and development projects recorded significant growth in 2023 and especially in the first half of 2024.

In 2023, with a donation from the World Bank, capital market reform began through the implementation of the project "Catalyzing Long Term Finance Trough Capital Markets Project." The project aims to develop the legal, regulatory and economic environment, deepen the corporate bond market, including green bonds and other thematic bond issues.

It is expected that a larger number of legal entities will start raising capital by issuing mbonds, and one part should be listed on the Belgrade Stock Exchange. In anticipation of the implementation of these new initiatives, it is necessary to note once again that the capital market in Serbia is in its infancy, and that there is still insufficient quality and illiquid market material.

Progress has been made in encouraging the issuance of

government bonds and mbonds to finance infrastructure and other projects of public importance, as well as the issuance of corporate bonds in the private sector.

In IQ 2023 and iQ2024, through several primary auctions, the Public Debt Administration issued a total of about 150 billion dinars of bonds with an initial maturity of 8Y and a significant participation of foreign portfolio investors.

In 2024, the state initiative for Serbia's broader involvement in the global agenda of stimulating sustainable development through the issuance of ESG bonds worth \$1.5 billion was also continued. The funds raised by this issue will be used to increase energy efficiency, transition to renewable energy sources, greater inclusion of minority and vulnerable social groups, help citizens to buy their first apartment and settle in rural households, etc.

The Decree on Conducting Operations with Financial Derivatives for the Purpose of Public Debt Management of the Republic of Serbia was also adopted, which regulates the general conditions for conducting operations with financial derivatives by Serbia in order to protect against financial risk. With this, the state continued to provide an example of the best practice of hedging, which would be useful to promote as much as possible among legal entities. The Digital Assets Act has also been passed.

Although government bonds are successfully issued in practice, municipal bonds are still rare, and so far there has

been no trade in these bonds on the secondary market

There is a need to further improve the regulation to create the conditions for transactions with more complex financial instruments, including a legal framework that would entail a more liberal approach and a higher degree of legal certainty regarding the Employee Share Plan, as well as the legal framework related to securitisation.

We also emphasize that it is necessary to establish a clear regulatory framework that would support specific investment methods through crowdfunding platforms, as a potential source of financing for micro and small enterprises.

In the part of the capital market, by implementing the proposals of the Foreign Investors Council, progress has been made in one area with significant progress, and in three areas with certain progress, so a score of 2.00 has been achieved (previous year 1.60).

Serbia's growth this year (around 4%) in the current global environment (3.2% growth of the world economy) can be assessed as dynamic, and the sectors mentioned here have made the most significant progress. The Foreign Investors Council with its recommendations seeks to encourage efforts to improve the business climate and stimulate growth in the future, ensuring sustainable growth with maximum respect for environmental standards on the path to the EU.