

# 1. REPORT ON GRANTED STATE AID IN THE REPUBLIC OF SERBIA IN 2008

## 1.1. Summary

The Report on Granted State Aid in the Republic of Serbia in 2008 (hereinafter referred to as 2008 Report) is an analytical overview of granted state aid in 2008. Data regarding years 2006 and 2007 have been set out for the purposes of comprehensiveness and the monitoring of trends, including the data for 2003, 2004 and 2005 referring to certain elements.

The 2008 Report contains information provided directly from state aid grantors, collected by means of separate questionnaires (forms). Starting from the 2005 Annual Report, the methodology specified by the European Commission in the area of state aid reporting has been applied to the greatest possible extent. A complete application of this methodology was not possible in developing of the 2008 report, although the Law on State Aid Control was adopted by the National Assembly of the Republic of Serbia on 8 July 2009 (hereinafter referred to as the Law). However, since the Law prescribes the by-laws to be adopted by the date of its entering into force – 1 January 2010, hence, until then, the ministry responsible for finances shall establish the detailed annual plan developing methodology, time limits for submission of data to this Ministry as well as the time limit for submission of the report to the Government (Art. 23 of the Law). Until the date of Law implementation, the Government shall establish the State Aid Control Commission (hereinafter referred to as Commission), in charge of assessment of the notified, i.e. granted state aid, and adopt the by-laws closely prescribing the way and procedure for notifying schemes of state aid and individual state aid, as well as the rules for granting and assessment of allowance of the notifying and granted state aid.

**In 2008 state aid granted in the Republic of Serbia amounts to a total of RSD 53.545 million, i.e. € 657,26 million <sup>1)</sup> being by 11,8% higher in relation to a total granted state aid in 2007 (RSD 47.892 million or €598,75 million), i.e. by 44,7% higher in relation to the same parameter in 2006 (RSD 37.005 million, i.e. € 439,53 million).**

**The share of state aid in GDP has decreased from 2. 00% in 2007 to 1. 91% in 2008.**

In accordance with the European Union methodology, having been applied in the development of the 2007 Report, state aid is categorized according to the primary aid targets as follows:

- horizontal state aid,
- sectoral state aid,
- regional state aid

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1) Average exchange rate for EUR in 2007 – RSD 81.4672 – data source: National Bank of Serbia

In 2008 the **horizontal state aid** was granted in the absolute levels, amounting to **RSD 36,535 million, or € 448,46 million**, resulting in an increase by 0,2%, in relation to 2007 and in an increase by 45,2% in relation to 2006. The share of this category in the total state aid granted in 2008 has grown to 68.3 %. To make a comparison: in 2007 the share of the horizontal state aid amounted to 76.1%, whereas in 2006 it was 68.0 % in the total granted state aid.

Within the horizontal state aid structure, the largest portion is directed towards the development of small-and medium-sized enterprises, and to the social programme for addressing issues of staff redundancy in companies undergoing the restructuring and rescue process.

In 2008 **the sectoral state aid** is higher by 47, 3% in absolute levels than it was in 2007, and higher by 27, 5 % in relation to 2006. For these purposes **in 2008 the amount of RSD 13,777 million was granted, i.e. € 169, 12 million** largely to the transport sector (railway transport). The share of the sectoral state aid in the total granted state aid in 2008 amounts to 25, 7 %, whereas it was 19, 4% in 2007 and 29.2% in 2006.

**The regional state aid**, as a separate form of horizontal state aid, in the total granted state aid participates with 6 %, whereas in 2007 this share amounted to 4, 4%, and 2, 8% in 2006.

Investments in the regional development in 2008 amounts in total of **RSD 3,233 million or € 39, 68 million**, with the following funds granted:

- from the Republican level, a total of RSD 922 million was granted, and implemented by means of favourable loans through the Republic of Serbia Development Fund (RSD 911 million) and tax incentives amounting to RSD 12 million, and
- from the level of the Autonomous Province of Vojvodina amounting to a total of RSD 2,310 million by means of: subsidies amounting to RSD 864 million and favourable loans through the Development Fund of the AP Vojvodina, totaling RSD 1,446 million.

## **1.2. Methodology for the Development of State Aid Report**

In developing the 2008 Report, the starting point was the methodology specified in the European Union in the area of reporting on granted state aid, being applied by the Member States in designing their annual reports. The quoted methodology has been implemented to the largest possible extent in developing the previous three reports (for 2005, 2006 and 2007) as well as for developing the 2008 report. Until the beginning of the Law implementation (1 January 2010) the ministry responsible for finances shall prescribe the methodology for annual report developing, time limits for submission of data to this Ministry as well as the time limit for submission of the report to the Government.

Baselines for the development of the 2008 Report include as follows:

- methodology and data for 2006 and 2007, taken from the Report on State Aid granted in the Republic of Serbia in 2007 (hereinafter referred to as 2007 Report);
- data on state aid granted in 2008, acquired by means of an appropriate questionnaire from state aid grantors (Ministries, Ministry of Finance – Tax Directorate, the Republic of Serbia Development Fund, the Guarantee Fund, Export Credit and Insurance Agency (AOFI), Serbia Investment and Export Promotion Agency (SIEPA); the Executive Council of the Autonomous Province of Vojvodina;

- The Council Regulation (EC) No. 659/1999 and the Council Regulation (EC) No. 794/2004.

The 2008 Report does not contain data on state aid granted in the Sector of Agriculture, Hunting and Forestry, and the Fishery Sector.

## 2. GRANTED STATE AID IN THE REPUBLIC OF SERBIA IN 2008

### 2.1. State aid in the Republic of Serbia in relation to basic macro-economic indicators

Table 1.

| Indicator                             | Ref.                   | 2006        | 2007        | 2008        | Indices |       |
|---------------------------------------|------------------------|-------------|-------------|-------------|---------|-------|
|                                       |                        |             |             |             | 08/06   | 08/07 |
| State Aid                             | RSD mil.               | 37,005      | 47, 892     | 53.545      | 144,7   | 111,8 |
| State Aid                             | EUR mil. <sup>1)</sup> | 439,53      | 598,75      | 657,26      | 149,5   | 109,7 |
| GDP <sup>2)</sup>                     | RSD mil.               | 1,987,800   | 2,329,400   | 2.790.000   |         |       |
| GDP                                   | EUR mil.               | 23,610      | 29,125      | 34.259      |         |       |
| State Aid share in GDP                | in %                   | <b>1.86</b> | <b>2.00</b> | <b>1,91</b> |         |       |
| Public Expenditure <sup>4)</sup>      | RSD mil.               | 899,300     | 1,046,900   | 1.214.800   |         |       |
| Public Expenditure                    | EUR mil.               | 10,681      | 13,089      | 14.912      |         |       |
| State Aid share in Public Expenditure | in %                   | 4.1         | 4.5         | 4,4         |         |       |
| Employees <sup>2)</sup>               | number                 | 2,026,000   | 2,002,000   | 1.999.000   |         |       |
| State Aid per Employee                | RSD                    | 18,265      | 23,921      | 26.786      | 147     | 112   |
| State Aid per Employee                | EUR                    | 217         | 299         | 329         | 152     | 110   |
| Population <sup>3)</sup>              | number                 | 7,450,000   | 7,366,000   | 7.366.000   |         |       |
| State Aid per Inhabitant              | RSD                    | 4,967       | 6,501       | 7.269       | 146     | 112   |
| State Aid per Inhabitant              | EUR                    | 61          | 81          | 89          | 146     | 110   |

Data source:

<sup>1)</sup> National Bank of Serbia; an average Euro exchange rate in 2008. € 1= RSD 81, 4672

<sup>2)</sup> Data sources for 2008: Memorandum on the budget and economic and fiscal policy for 2010,

with projections for 2011 and 2012, June 2009. - Table 3; table 9 and annex I, table 1.

In 2008 the Republic of Serbia was granted state aid totaling RSD 53,545 million, which is by 11, 8 % higher than the overall granted state aid in 2007, and by 44, 7 % higher in relation to the same parameter in 2006.

The state aid share in GDP in 2008 amounts to 1, 91%, whereas in 2007 it was 2.00% and 1.86% in 2006.

**Trend of state aid share in GDP in the period between 2003 and 2008**

**Figure 1**

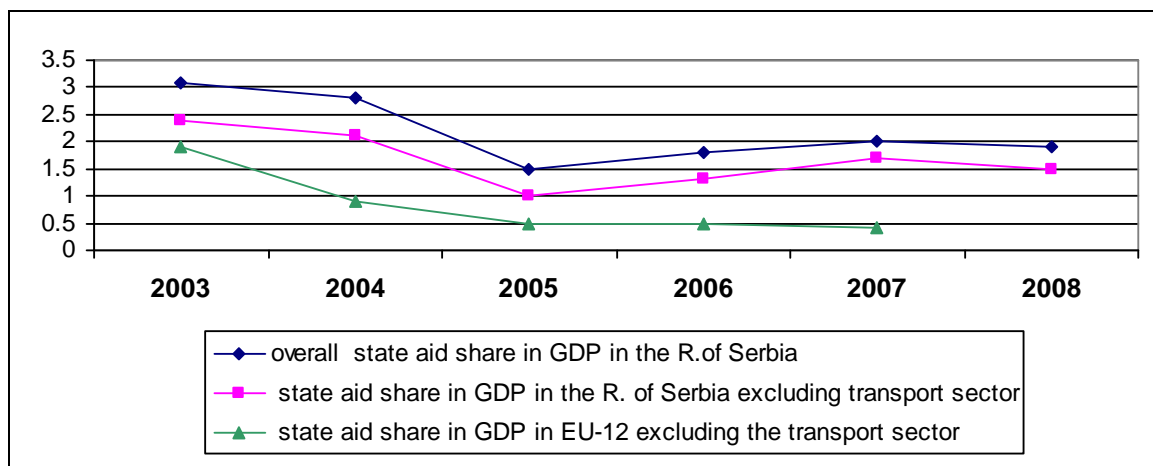


Figure 1 sets out the trend of the total state aid share in GDP in the Republic of Serbia in the period between 2003 and 2008, that is, for all years for which the report on the overall granted state aid has been developed (a single annual report was developed for years 2003 and 2004). In addition to data for the Republic of Serbia on the share in GDP granted state aid in the period between 2003 and 2008, excluding the transport sector, data is provided also the latest data published for 2007 for the countries which acceded to the European Union<sup>1</sup> in 2004 and 2007 (EU-12). One may conclude that the said aid, in the stated countries, retained the share of 0.4% of GDP following a relatively high share in the year before and directly after the accession to the European Union.

<sup>1</sup> Data Source: EU/Competition-State Aid-Scoreboard, 2007

## 2. 2. Granted State Aid in the Republic of Serbia compared with the European Union Member States

Table 2

| State Grantor           | Aid | Total State Aid excluding the transport sector, agriculture sector and fishery sector |                   |
|-------------------------|-----|---|-------------------|
|                         |     | in mil. EUR   | share in GDP in % |
| R. Serbia 2003          |     | 428,4   | 2,4               |
| R. Serbia 2004.         |     | 423,2   | 2,1               |
| R. Serbia 2005.         |     | 223,3   | 1,0               |
| R. Serbia 2006.         |     | 334,3   | 1,4               |
| R. Serbia 2007.         |     | 508,2   | 1,7               |
| R. Serbia 2008.         |     | 520,91  | 1,5               |
| EU - 27 Member states   |     | 49.214  | 0,40              |
| EU-15 old Member States |     | 45.406  | 0,40              |
| EU-12 new Member States |     | 3.808   | 0,43              |
| Hungary                 |     | 879   | 0,87              |
| Slovenia                |     | 115   | 0,34              |
| Czech Republic          |     | 767   | 0,60              |
| Slovakia                |     | 223   | 0,41              |
| Bulgaria                |     | 27  | 0,09              |
| Romania                 |     | 296   | 0,24              |
| Poland                  |     | 1.261   | 0,41              |

In accordance with the European Union methodology in the sphere of reporting, member states' annual reports also set out an overview of granted state aid excluding the transport sector, the agriculture sector and the fishery sector. The transport sector is specific and as such it is regulated as provided in Articles 70 through 80 of the EC Treaty which directly link the process of liberalization of transport services to state aid.

Table 2 sets out data on granted state aid in 2007, excluding the transport sector, the agriculture sector and the fishery sector, for certain EU Member States in accordance with data at the level of the European Union,<sup>1)</sup> whereas data set out for the Republic of Serbia covers the period between 2003 and 2008.

1) Data source: EU/Competition-State Aid-Scoreboard, 2007

As regards the absolute amounts, in comparison with the European Union Member States, the Republic of Serbia has not granted a high absolute amount of state aid, but its share in GDP continues to be high, amounting to 1.5%, whereas in the European Union (all 27 Members States) it is 0.40%, and in 12 countries which became European Union Member States in 2004 i.e. in 2007 the share of state aid in GDP, excluding the transport sector, amounts to 0.43%.

### 2.3. State Aid Categories

In accordance with the European Union methodology, state aid is categorized according to the primary aid targets as follows:

- horizontal state aid,
- sectoral state aid, and
- regional state aid.

**Horizontal state aid** is intended for the largest number of beneficiaries which are not previously designated, distorting the market competition to a significantly lesser extent unlike the sectoral state aid. Positive effects of this category of state aid are multiple, hence being considered as less selective than the sectoral state aid.

**Sectoral state aid** is intended for previously designated companies in certain activities and/or sectors. This category is much more selective than that of the horizontal state aid, hence distorting or threatening to distort the market competition to a greater extent. For the quoted reasons, the European Commission applies special rules for granting state aid in sensitive sectors, such as sectors of steel, coal, synthetic fibers, shipbuilding, which is regulated by separate protocols as a rule during negotiations on the Stabilization and Association Agreement. Also, separate and very strict a rule applies in the area of the restructuring and rescue of companies.

**Regional state aid** is a form of the horizontal state aid granted to promote economic development of underdeveloped and/or less developed regions and/or areas, in particular those where the living standard is especially low or where unemployment is high. This category of state aid is granted to companies in the regions where investments are considered as justified due to the existence of a number of economic, natural, social, demographic and/or other deficiencies.

For the purposes of this Report, the term "region" is aligned with the European Union terminology and standards (economic, that is, statistical parameters). With the Stabilization and Association Agreement, ratified by the National Parliament of the Republic of Serbia in October 2008, but not confirmed by the European Union, i.e. by the Interim Trade Agreement, which the Republic of Serbia started to apply one-sidedly in early 2009, the Republic of Serbia has assumed an obligation to develop, within an agreed timeframe, the so-called regional maps under the NUTS standards ("Nomenclature des Units Territoriales Statistiques" - Nomenclature of Territorial Units for Statistics eligible for state aid disbursement). The Law on Regional Development, adopted by the National Assembly of the Republic of Serbia on 8 July 2009, aimed at regional development promotion, establishes seven regions (NUTS level 2), with further classification, according to the development level, into two groups, while the self-government units, according to the development level, are classified into four groups (NUTS level 3). The aforementioned will allow a complete implementation of the European Union criteria for a proper directing of funds intended for the regional development. The term "regional state aid" is compulsory in setting out data on state aid within the annual report, where the basic criterion for selecting this term and the term "region" and/or "regional development" is in line with the European Union standards, and not

the existing territorial organization of the Republic, established by the Constitution, the Law on Territorial Organization and the Law on Local Self-Government.

### Overall Granted State Aid in the Republic of Serbia in 2006, 2007 and 2008 by Categories

Table 3

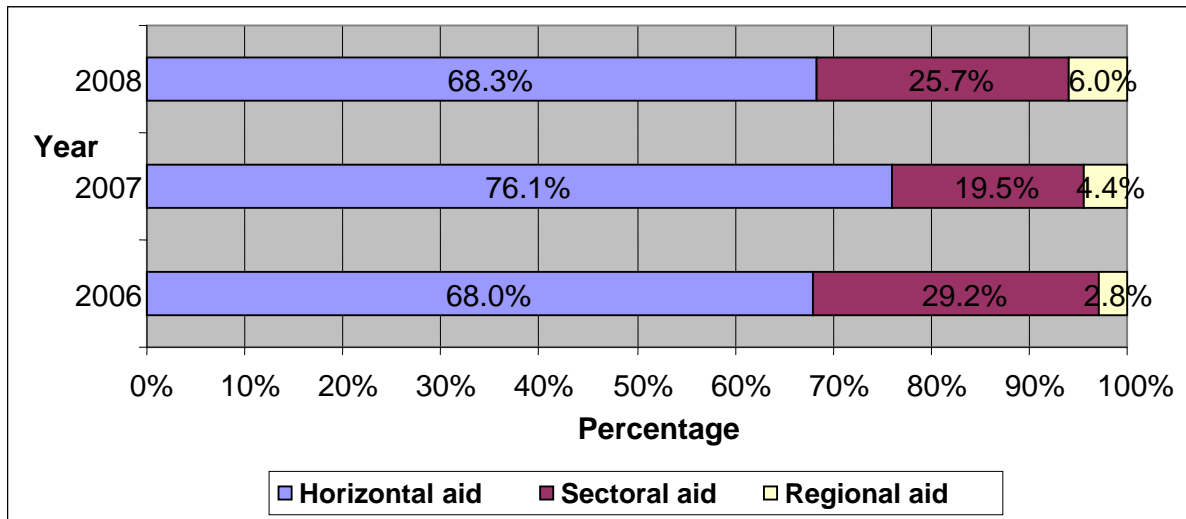
| Category                       | 2006          |               |              | 2007          |               |              | 2008          |               |              |
|--------------------------------|---------------|---------------|--------------|---------------|---------------|--------------|---------------|---------------|--------------|
|                                | RSD mil.      | EUR mil.      | share in %   | RSD mil.      | EUR mil.      | share in %   | RSD mil.      | EUR mil.      | share in %   |
| <b>1. Horizontal State Aid</b> | <b>25,157</b> | <b>298,80</b> | <b>68.0</b>  | <b>36,453</b> | <b>455,73</b> | <b>76.1</b>  | <b>36.535</b> | <b>448,46</b> | <b>68,3</b>  |
| Research and Development       | -             | -             | -            | 22            | 0,28          | 0.0          | 2             | 0,02          | 0,0          |
| Training                       | 6             | 0,07          | 0.1          | 2,985         | 37,32         | 6.2          | -             | -             | -            |
| Employment                     | 4,646         | 55,18         | 12.5         | 3,077         | 38,47         | 6.4          | 5.614         | 68,91         | 10,5         |
| SMEs <sup>1)</sup>             | 10,767        | 127,89        | 29.1         | 17,268        | 215,90        | 36.1         | 19.228        | 236,02        | 36,0         |
| Environment protection         | -             | -             | -            | -             | -             | -            | -             | -             | -            |
| Rescue and restructuring       | 9.430         | 112,00        | 25.5         | 12.771        | 159,64        | 26,7         | 10.882        | 133,58        | 20,3         |
| Export promotion <sup>2)</sup> | 308           | 3,66          | 0,8          | 330           | 4,12          | 0,7          | 809           | 9,93          | 1,5          |
| <b>2. Sectoral State Aid</b>   | <b>10,799</b> | <b>128,27</b> | <b>29.2</b>  | <b>9,350</b>  | <b>116,90</b> | <b>19.5</b>  | <b>13.777</b> | <b>169,12</b> | <b>25,7</b>  |
| Mining                         | 1,000         | 11,87         | 2.7          | 1,440         | 18,00         | 3.0          | 1.850         | 22,71         | 3,5          |
| Steel                          | 0,0           | 0,0           | 0.0          | 0.0           | 0.0           | 0.0          | -             | -             | -            |
| Transport                      | 8,858         | 105,21        | 24.0         | 7,239         | 90,50         | 15.1         | 11.108        | 136,35        | 20,7         |
| Culture and Information        | -             | -             | -            | -             | -             | -            | -             | -             | -            |
| Tourism                        | 561           | 6,66          | 1.5          | 379           | 4,74          | 0.8          | 301           | 3,69          | 0,6          |
| Other Sectors                  | 380           | 4,51          | 1.0          | 293           | 3,66          | 0.6          | 518           | 6,35          | 0,9          |
| <b>3. Regional State Aid</b>   | <b>1,049</b>  | <b>12,46</b>  | <b>2.8</b>   | <b>2,089</b>  | <b>26,12</b>  | <b>4.4</b>   | <b>3.233</b>  | <b>39,68</b>  | <b>6,0</b>   |
| <b>Overall</b>                 | <b>37,005</b> | <b>439,54</b> | <b>100.0</b> | <b>47,892</b> | <b>598,75</b> | <b>100.0</b> | <b>53.545</b> | <b>657,26</b> | <b>100,0</b> |

1) SMEs - small-and medium-sized enterprises

2) short term loans approved by AOFI

## State Aid Structure in the Republic of Serbia in 2006, 2007 and 2008

Figure 2



The data set out in Table 3 and in Figure 2 on the share of respective state aid categories in the total amount of granted state aid in the Republic of Serbia show that in 2008 the horizontal and sectoral state aid had the largest share (94%), whereas the regional aid showed the smallest share (6%).

The horizontal state aid in absolute amount in 2008 is higher by 0,2% than the amount granted in 2007 and its share in overall granted state aid amounts to 68,3%, whereas in 2007 this share was 76, 1%, and 68, 0% in 2006.

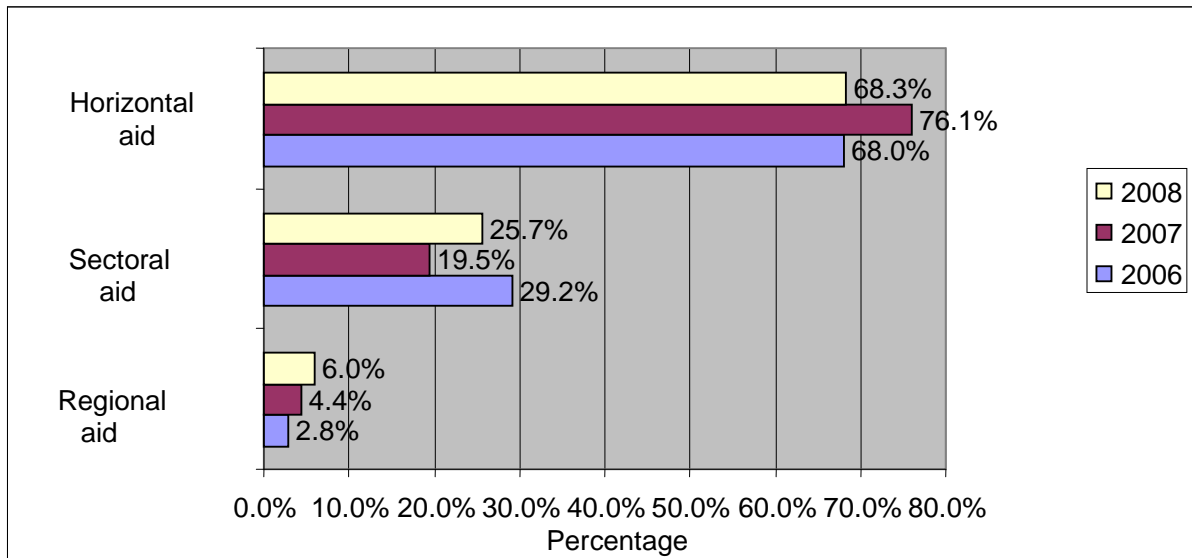
The sectoral state aid in absolute amount in 2008 is higher by 47, 3% than the amount granted in 2007. The share of sectoral state aid in overall granted state aid amounts to 25, 7%, whereas in 2007 this share amounted to 19, 5% and 29, 2 % in 2006.

The state aid intended for the regional development, in absolute amount in 2008, is higher by 54,7%, compared to the previous year and its share in the total granted state aid amounts to 6%, whereas in 2007 it was 4,4% and 2,8% in 2006.



**Overview of the share of certain state aid categories in the total granted state aid in the Republic of Serbia in 2006, 2007 and 2008**

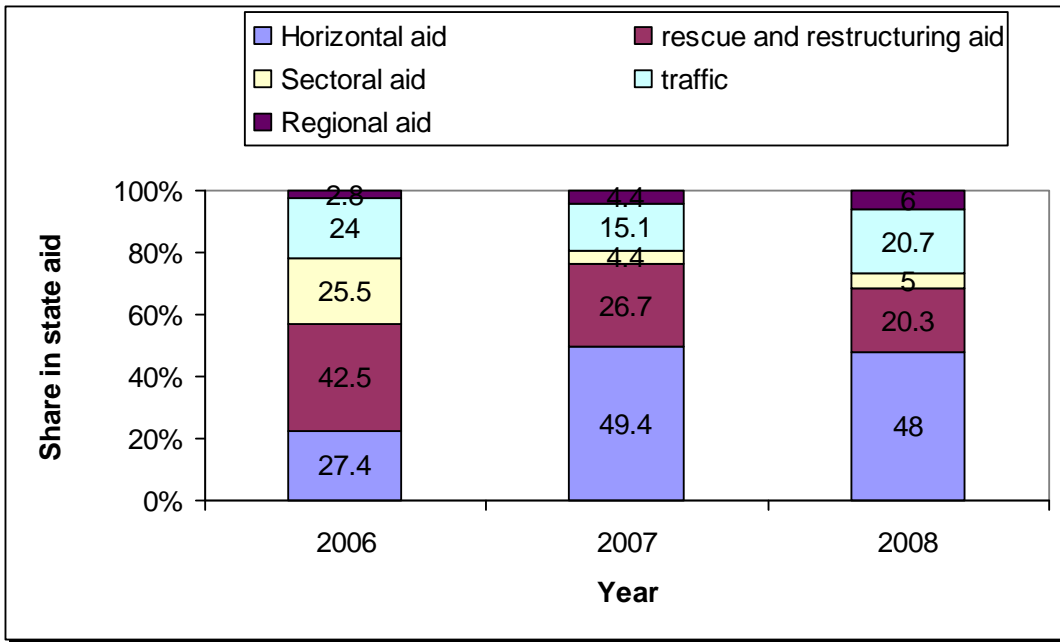
**Figure 3**



The data set out in Figure 3 on the share of certain state aid categories in the total granted state aid in 2006, 2007 and 2008, show a positive trend reflected in significant share of the horizontal state aid in overall granted state aid, although in 2008 this share has decreased by 7,8% compared to 2007.

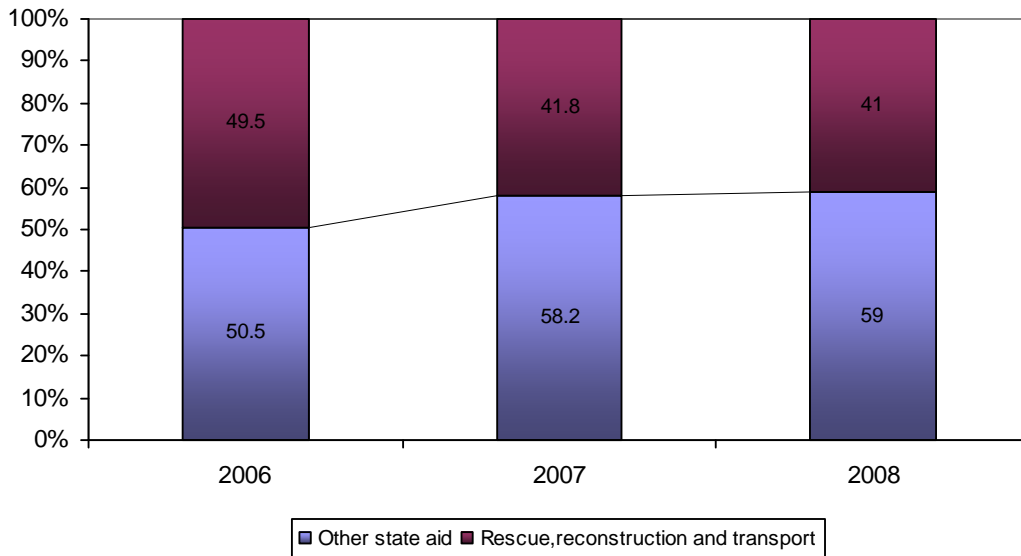
State Aid Structure according to Certain Aid Targets in 2006, 2007 and 2008

Figure 4



Investment in Traffic Sector and for rescue and restructuring in the structure of overall granted state aid in the Republic of Serbia

Figure 5



The data set out in Figure 4 and 5 show a positive trend of share of other categories of the state aid in overall granted state aid, apart from the state aid granted to the transport sector and for rescue and restructuring from 50,5% in 2006, 58,2% in 2007 up to 59% in 2008. The investment in rescue and restructuring dropped in 2008, compared to 2007, by 6,4%, while the investment in the Transport Sector, only in the Public enterprise "Serbian Railways", has increased by 5,6%.

**Overview of State Aid Share for Transport Sector and Rescue and Restructuring in overall granted state aid in the Republic of Serbia and European Union Countries\* in the Period between 2003 and 2008**

**Figure 6**

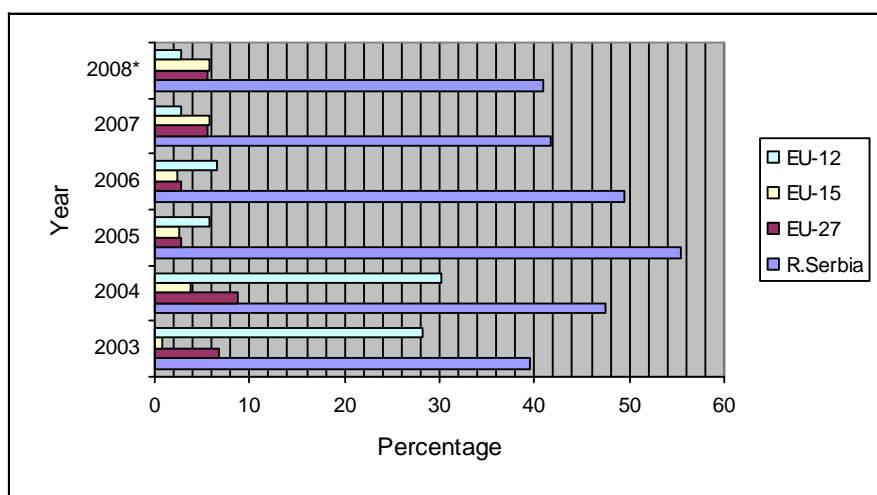


Figure 6 sets out an overview of the state aid share granted to the Transport sector and for rescue and restructuring of enterprises in relation to total granted state aid in the Republic of Serbia in the period between 2003 and 2008 and European Union Member States in the period between 2003 and 2007. At the European Union level the percentage ranged from 8.8% in 2004, to 2.7 % in 2007.

If we observe separately the new Member States (EU-12), which most influenced an increase in share of state aid for rescue and restructuring, we can see that the privatization process in those countries ended by 2004. Consequently, the share of the quoted form of state aid in 2004 in the total state aid granted in those countries was 30.2%, with an apparent and significant decrease of this form of state aid since then.

\*Date for European Union Member States refer to 2007

### 2.3.1. Horizontal State Aid

#### Horizontal State Aid Structure in the Republic of Serbia in 2006, 2007 and 2008

**Table 4**  
Amounts in millions of dinars

| Type of Horizontal State Aid | 2006          | 2007          | 2008          | Index 6      | Index 7      |
|------------------------------|---------------|---------------|---------------|--------------|--------------|
| Research and development     | -             | 22            | 2             | -            | 9,0          |
| Training                     | 6             | 2,985         | -             | 0            |              |
| Employment                   | 4,646         | 3,077         | 5.614         | 121          | 182          |
| SMEs                         | 10,767        | 17,268        | 19.228        | 179          | 111          |
| Environment protection       | -             | -             | -             | -            | -            |
| Rescue and restructuring     | 9,430         | 12,771        | 10.882        | 115          | 85           |
| Export promotion             | 308           | 330           | 809           | 263          | 245          |
| <b>Total</b>                 | <b>25,157</b> | <b>36,453</b> | <b>36.535</b> | <b>145,2</b> | <b>100,2</b> |

According to data set out in Table 4, in relation to 2007 the horizontal state aid in absolute amount in 2008 is by 0,2% higher, and by 45,2% higher than in 2006. According to the type, the funds intended for unemployment solving, have significantly grown by 82% compared to the funds in 2007, while the funds granted for rescue and restructuring in 2008, dropped by 15% compared to 2007.

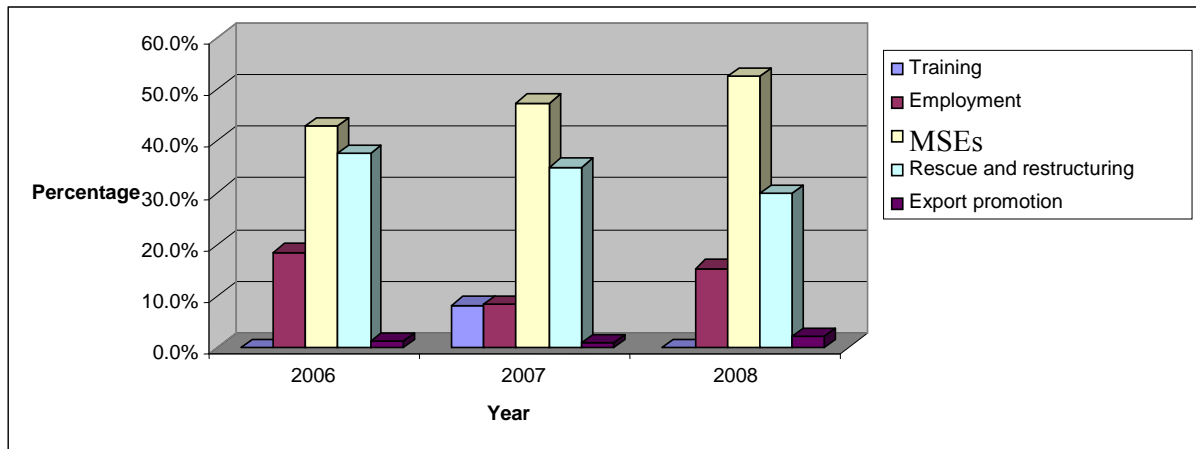
#### Share of Certain Types of State Aid in Horizontal State Aid in the Republic of Serbia in 2006, 2007 and 2008

**Table 5**  
Amounts in millions of dinars

| Type of horizontal state aid | 2006.         |             | 2007.         |             | 2008.         |             |
|------------------------------|---------------|-------------|---------------|-------------|---------------|-------------|
|                              | Amount        | %           | Amount        | %           | Amount        | %           |
| Research and development     | -             | -           | 22            | 0,0         | 2             | 0,0         |
| Training                     | 6             | 0           | 2.985         | 8,2         | -             | -           |
| Employment                   | 4.646         | 18,5        | 3.077         | 8,5         | 5.614         | 15,4        |
| SMEs                         | 10.767        | 42,8        | 17.268        | 47,4        | 19.228        | 52,6        |
| Environment protection       | -             | -           | -             | -           | -             | -           |
| Rescue and restructuring     | 9.430         | 37,5        | 12.771        | 35,0        | 10.882        | 29,8        |
| Export promotion             | 308           | 1,2         | 330           | 0,9         | 809           | 2,2         |
| <b>Total</b>                 | <b>25.157</b> | <b>100%</b> | <b>36.453</b> | <b>100%</b> | <b>36.535</b> | <b>100%</b> |

### Horizontal state aid Structure in 2006, 2007 and 2008

Figure 7



### Horizontal State Aid by Aid instruments in 2008

Table 6

Amount in millions of dinars

| Type of horizontal state aid | Subsidies     | %           | Tax incentive | %           | Favour. loans | %           | Total         |
|------------------------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|
| 1. Horizontal state aid      | 11,278        | 100         | 15,782        | 100         | 9,474         | 100         | 36,535        |
| Training                     | -             | -           | -             | -           | -             | -           | -             |
| Employment                   | 3,894         | 34,5        | 54            | 0,3         | 1,666         | 17,6        | 5,614         |
| SMEs                         | 32            | 0,3         | 15,638        | 99,1        | 3,558         | 37,5        | 19,228        |
| Research and development     | -             | -           | -             | -           | 2             | 0,0         | 2             |
| Rescue and restructuring     | 7,298         | 64,7        | 90            | 0,6         | 3,494         | 36,9        | 10,882        |
| Export promotion             | 54            | 0,5         | -             | -           | 755           | 8,0         | 809           |
| <b>Total</b>                 | <b>11,278</b> | <b>30,9</b> | <b>15,782</b> | <b>43,2</b> | <b>9,475</b>  | <b>25,9</b> | <b>36,535</b> |

Aid instruments for the horizontal state aid, as set out in Table 6, show that this category of state aid, as the least selective one, has been mostly implemented through tax incentives, primarily in promotion of SMEs development with 99, 1%. Tax incentives, in their comprehensiveness, by clearly set long-term objectives as well as the possibility to monitor and oversee authorizing procedures, represent the most effective instrument for state aid granting. The overall horizontal state aid is financed through tax incentives with 43, 2%.

### 3.2. Sectoral State Aid

#### Sectoral State Aid in the Republic of Serbia in 2006, 2007 and 2008

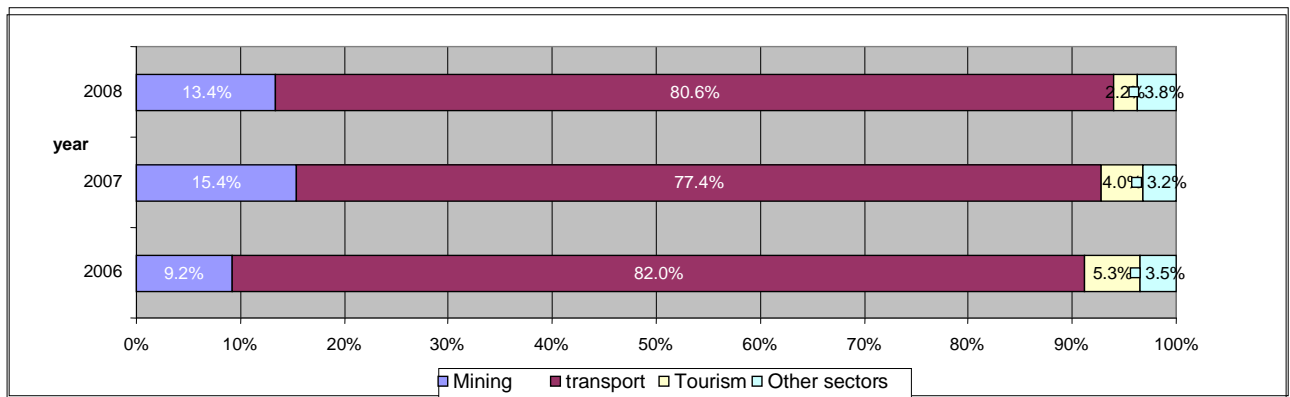
Table 7  
Amounts in millions of dinars

| Sector                  | 2006          | 2007         | 2008          | Index 08/06 | Index 08/07 |
|-------------------------|---------------|--------------|---------------|-------------|-------------|
| Mining                  | 1.000         | 1.440        | 1.850         | 185         | 128         |
| Steel                   | 0             | 0            | 0             | -           | -           |
| Transport               | 8.858         | 7.239        | 11.108        | 125         | 153         |
| Culture and Information | -             | -            | -             | -           | -           |
| Tourism                 | 561           | 379          | 301           | 54          | 79          |
| Other sectors           | 380           | 293          | 518           | 136         | 176         |
| <b>Total</b>            | <b>10.799</b> | <b>9.350</b> | <b>13.777</b> | <b>127</b>  | <b>147</b>  |

The absolute amount of granted sectoral state aid in 2008 is by 47, 3% higher compared to 2007, and by 27, 5% higher in relation to 2006.

#### Sectoral State Aid Structure in the Republic of Serbia in 2006, 2007 and 2008

Figure 8



The aid granted to the transport sector (still only to the railway transport, that is to Public enterprise "Serbian Railways", as it was the case in the two preceding reporting years) has the largest share in the sectoral state aid. In 2008, state aid to this sector amounts to 80,6 % of the total sectoral state aid, whereas it was 77, 4 % in 2007 and 82,0 % in 2006.

### 2.3.3. Regional State Aid

Regional state aid is granted to promote the development of less developed areas, that is, underdeveloped areas and/or regions, directed towards the mitigation of structural problems and regional uneven development. This category of state aid includes measures promoting economic activity with a view to reducing economic, natural, social, demographic and other differences in those areas and/or regions.

### Regional State Aid in the Republic of Serbia in 2006, 2007 and 2008

Table 8

| Indicator   | 2006          | 2007          | 2008          | Index<br>08/06 | Index<br>08/07 |
|---|---------------|---------------|---------------|----------------|----------------|
| <b>Total State Aid</b>                              | <b>37.005</b> | <b>47.892</b> | <b>53.545</b> | 145            | 112            |
| Regional state aid                                  | 1.049         | 2.089         | 3.233         | 308            | 155            |
| % of share of regional state aid in total state aid | 2,8           | 4,4           | 6,0           |                |                |

Investments in the regional development, a **total of RSD 3,233 million**, were undertaken through the following aid instruments: subsidies (RSD 864 million), tax incentives (RSD 12 million), favourable loans through the Republic of Serbia Development Fund (RSD 910 million) and through the Development Fund of the AP of Vojvodina (RSD 1.446 million).

State aid granted from the level of the Autonomous Province of Vojvodina has been set out wholly as the regional state aid.

According to data from annual balance sheets of local self-government units (municipalities, cities and the City of Belgrade), it has been established that in 2008 no aid was granted that would be characterized as state aid. From this level of authority, only subsidies were granted in 2008 to private companies providing public transportation services and under equal conditions applicable to public companies providing the same type of services.

#### 2.4. State Aid Disbursement Instruments

State aid is granted from public funds, and it is set out, depending on the aid instrument, as actual or potential public expenditure or it effects a diluted generation of public revenue.

In 2008 state aid in the Republic was granted through the following instruments:

- subsidies,
- tax incentives (tax reduction, cessation of tax liabilities, tax write-off),
- favourable loans - credits.

#### Total State Aid Granted in the Republic of Serbia in 2006, 2007 and 2008 by Aid Instruments

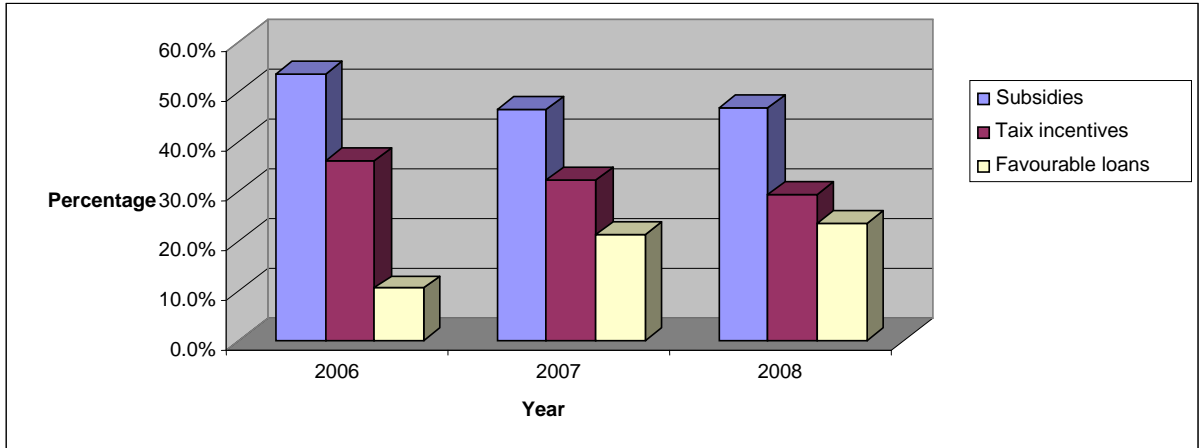
Table 9

| Instrument       | 2006          | in           | 2007          | in           | 2008          | in           | Indices      |              |
|------------------|---------------|--------------|---------------|--------------|---------------|--------------|--------------|--------------|
|                  |               | %            |               | %            |               | %            | 08/06        | 08/07        |
| Subsidies        | 19.745        | 53,4         | 22.208        | 46,4         | 25.100        | 46,9         | 127,1        | 112,4        |
| Tax incentives   | 13.369        | 36,1         | 15.517        | 32,4         | 15.794        | 29,5         | 118,1        | 101,7        |
| Favourable loans | 3.891         | 10,5         | 10.167        | 21,2         | 12.651        | 23,6         | 325,1        | 124,4        |
| <b>Total</b>     | <b>37.005</b> | <b>100,0</b> | <b>47.892</b> | <b>100,0</b> | <b>53.545</b> | <b>100,0</b> | <b>144,7</b> | <b>111,8</b> |

The absolute amounts of the subsidies and favourable loans were significantly increased in state aid disbursement in 2008 while the tax incentives remained on the last year level.

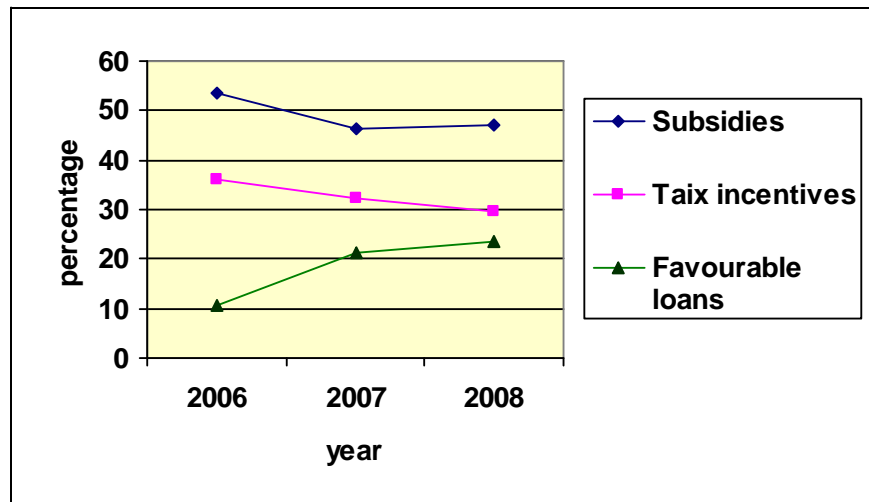
**Instrument Structure of State Aid in the Republic of Serbia in 2006, 2007 and 2008**

**Figure 9**



**Trend of Share of State Aid Disbursement Instruments in 2006, 2007 and 2008**

**Figure 10**





## Subsidies, Tax incentives, Favourable loans

Data in figures 9 and 10 set out that the shares of subsidies and tax incentives in overall granted state aid during the observed years have dropped whereas the share of favourable loans, that is the amount of granted aid as discrepancy between of a more favourable interest rate under which loans were approved in relation to the average interest rate in the banking capital market, has increased.

Growth of the absolute amount and the share of favourable loans in total state aid resulted from the increase in the amount of granted loans, from RSD 19.628 million in 2006, RSD 26.348 million in 2007 up to RSD 36.636 million in 2008.

In 2008 the Guarantee Fund has issued guarantees to five beneficiaries totaled RSD 58.532.472, 00 i.e. € 718.479,00, and the guarantees amounting to RSD 5.152.148, 00 were activated. By comparing the activated and issued guarantee, one can obtain the risk rate for issuance of guarantees (actually 8,8%) which may constitute one of the elements for calculation of the granted state aid. As the issued guarantees have not been authorized for the companies in financial difficulties and do not cover more than 80% of certain financial liability, and as no other criteria that would characterize an issued guarantee as state aid were established in the authorizing procedure, there is no possibility to calculate the amounts of granted state aid.

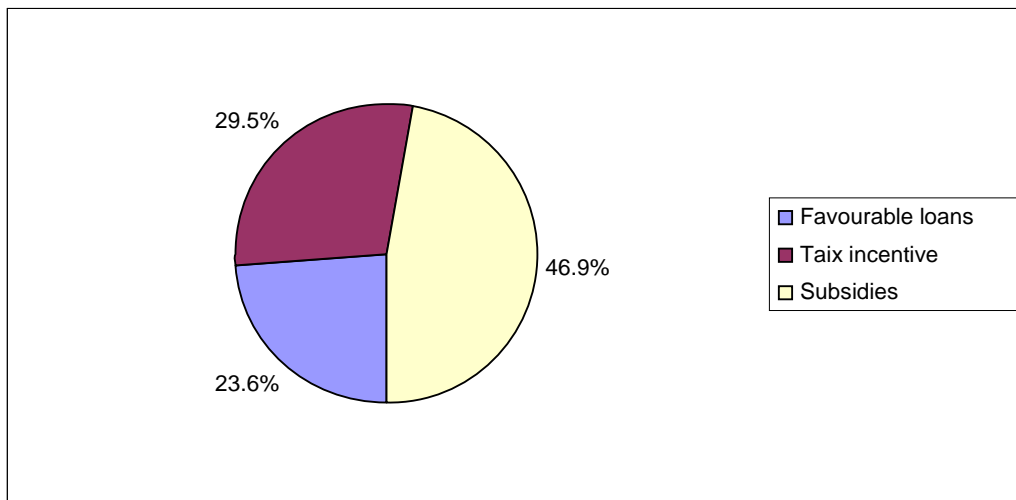
### Total State Aid Granted in the Republic of Serbia in 2008 by Aid instruments

**Table 10**  
Amount in millions of dinars

| State aid category            | Subsidies     | Tax incentives | Favourable loans | Total         |
|-------------------------------|---------------|----------------|------------------|---------------|
| <b>1.Horizontal state aid</b> | <b>12.278</b> | <b>15.782</b>  | <b>9.475</b>     | <b>36.535</b> |
| Training                      | -             | -              | -                |               |
| Employment                    | 3.894         | 54             | 1.666            | 5.614         |
| SMEs                          | 32            | 15.638         | 3.558            | 19.228        |
| Research and development      | -             | -              | 2                | 2             |
| Rescue and restructuring      | 7.298         | 90             | 3.494            | 10.882        |
| Import improvement            | 54            | -              | 755              | 809           |
| <b>2.Sectoral state aid</b>   | <b>12.958</b> | <b>-</b>       | <b>819</b>       | <b>13.777</b> |
| Mining                        | 1.850         | -              | -                | 1.850         |
| Transport                     | 11.108        | -              | -                | 11.108        |
| Culture and information       |               | -              | -                | -             |
| Tourism                       |               | -              | 301              | 301           |
| Other sectors                 | -             | -              | 518              | 518           |
| <b>3. Regional aid</b>        | <b>864</b>    | <b>12</b>      | <b>2.357</b>     | <b>3.233</b>  |
| Republic level                | -             | 12             | 911              | 923           |
| Province level                | 864           | -              | 1.446            | 2.310         |
| <b>Total</b>                  | <b>25.100</b> | <b>15.794</b>  | <b>12.651</b>    | <b>53.545</b> |

## Structure of state aid disbursement instruments in the Republic of Serbia in 2008

Figure 11



### 2.4.1. Subsidies

Even in 2008, in the Republic of Serbia as well as in the European Union <sup>1)</sup> subsidies are the most represented instrument granting state aid. In 2007 in European Union Member States subsidies made for 50% of total state aid. In 2008 in the Republic of Serbia the share of this instrument in total granted state aid was 46.9%.

Following inclusion of a relatively large number of activities and beneficiaries, the largest state aid grantor in the form of subsidies is the Ministry of Economy and Regional Development. In order to solve the staff redundancy problem, the said Ministry has granted, through the implementation of the social programme within rescue and restructuring of companies, subsidies in total of RSD 7.298 million, RSD 3.894 million for employment, RSD 32 million for the promotion of small and medium-sized enterprises, clusters and business incubators, amounting to a total of RSD 12,278 million.

The Energy Ministry has granted subsidies for the Resavica mine amounting to RSD 1.850 million, whereas the Infrastructure Ministry has granted funds for Public Company "Serbian Railways" amounting to RSD 11.108 million.

Autonomous Province of Vojvodina has granted subsidies amounting to a total of RSD 864 million for the following purposes: employment promotion, tourism development, small and medium-sized enterprises, introduction of new technologies and export promotion by co-financing participation in international fairs.

The Serbia Investment and Export Promotion Agency (SIEPA) has provided donation in total of RSD 54 million.

<sup>1)</sup>Data source: [europa.eu/competition/state\\_aid/studies\\_reports/2008\\_autumn\\_en.pdf](http://europa.eu/competition/state_aid/studies_reports/2008_autumn_en.pdf)

### 2.4.2. Tax Incentives

For the purposes of this Report, the term "tax incentives" includes as follows:

- tax incentives approved under the Corporate Profit Tax Law,
- tax incentives approved under Personal Income Tax Law, through the reduction of personal income tax on the basis of investments in fixed assets;
- cessation of tax liabilities under the statute of limitation, and tax write-off by the Government decision for the companies that are sold in the privatization process, that is, those which undergo the restructuring procedure.

According to quoted grounds, in 2008 tax incentives totaled RSD 15.794 million, with their share in total granted state aid amounting to 29,5 %.

The tax incentives structure is as follows:

Pursuant to the Corporate Profit Tax Law and the Personal Income Tax Law, companies were granted as follows:

- RSD 15.638 million as tax loan for the promotion of investments in existing companies and for setting up new companies, for a total of 16,443 beneficiaries;
- 54 million for incentives for employment of the disabled persons;
- 12 million for regional development objectives, for 34 beneficiaries;
- 24 million for 68 tax payers on basis of the cancellation of their tax debt under the statute of limitation;
- 66 million has been written off by a separate Government decision for 12 companies undergoing the privatization process that is the restructuring.

### 2.4.3. Favourable Loans

Favourable loans are represented with 23.6 % in total granted state aid.

When it comes to loans under more favourable conditions than those in the banking capital market the amount of state aid represents a positive effect of a more favourable interest rate under which the loans were approved in relation to the reference (average) interest rate <sup>1)</sup> in the banking capital market, calculated by application of the simple linear method for the loan period.

Approved loans in 2008 amount to a total of RSD 33.636 million, which is by 27, 6% more compared to 2007 (RSD 26.348 million) but the positive effect of a more favourable interest rate in 2008 amounts to RSD 9.970 million or 2,12 times higher than in 2007 (RSD 4,699 million), which resulted from the greatest average interest rate in the banking capital market in 2008, i.e. greater positive discrepancy in interest rate, since the loans were approved under same conditions.

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1) According to data of the National Bank of Serbia an average interest rate for short-term loans granted by business banks  
 - in 2008 amounts to 18, 53%, and 15.80 % for long-term loans (Statistical Bulletin of the NBS December 2008 – January 2009, table 12)  
 - in 2007 amounts to 11.26% , and 10.09 % for long-term loans (Statistical Bulletin of NBS 1/2008, table 12)

Written off liabilities under previously approved loans amounting to RSD 2.681 million represent in its entirety the amount of granted state aid, hence total state aid referring to loans under more favourable conditions amounts to RSD 12.651 million.

The Republic of Serbia Development Fund has granted short-term and long-term loans. According to data of this Fund by 31<sup>st</sup> December, 2008 a total of RSD 24.379 million in loans was disbursed with the net effect, that is the amount of state aid amounted to RSD 7.769 million.

The AP of Vojvodina Development Fund has granted an overall of RSD 3.918 million in loans, whereas the positive net effect, that is the state aid amounts to RSD 1.446 million.

In 2008 the Export Credit and Insurance Agency granted short-term loans totaling RSD 5,339 million (excluding the agriculture sector), and the effect of a more favourable interest rate that is, the state aid amounts to RSD 755 million.

### 3. FINAL CONSIDERATIONS

The 2008 report is the fifth annual report on state aid granted in the Republic of Serbia prepared by the Ministry of Finance. Comparative data speaks best about amounts of state aid granted in the Republic of Serbia, but also of its share in GDP. From the aspect of the European Union rules in the field of state aid, the share in GDP is far more important index than the absolute levels of granted state aid are not so significant, since even small amounts of state aid can distort competition. Only the so-called *de minimis* state aid is exempt from this rule in the European Union, since it is evaluated by the European Commission that it does not distort the Common market competence to great extent. The former implies that an amount exceeding € 200 000 per beneficiary is not granted within a three year period.

The adoption of the Law and its implementation from January 1, 2010 shall finally establish the system of state aid control. Since there are no previous experiences in this field in the Republic of Serbia, it is necessary that all stakeholders are constantly cooperating so that the effects of the Law application could give expected results. This primarily refers to cooperation between state aid grantors and the ministry responsible for finances, in accurate preparation of application for state aid, reducing thus the decision making time needed by the Commission and therefore, it can be expected that the Commission makes a decision that notified state aid is allowed. Of course it is the responsibility of the state aid beneficiary to regularly use such a granted state aid.

By establishing the control system in the area of state aid, the Republic of Serbia has fulfilled one of the very important conditions as provided in the Stabilisation and Association Agreement (SAA) i.e. the Interim Trade Agreement. However, adopting of the Law and by-laws is only an initial, although a very important step on its way of stabilization and association. Regular application of regulations is far more significant and shall certainly be under constant supervision of the European Commission.

Although the Law prescribes that any state aid that distorts or threatens to distort competence in the market or that is contrary to international stipulated contracts, is unallowed, at the same time it prescribes the state aid disbursement exceptions to this “general rule”. The aforesaid exceptions offer wide possibilities of state aid granting to the country with the status of region „A,“ which according to the European union criteria, implies the GDP under 75% of the average EU level, i.e. that such a country on the whole, has treatment of the area with exceptionally low living standard or high unemployment rate. The incentives in state aid granted, in this case, are reflected in the possibility of usage of the highest allowed limits and intensity of state aid, primarily in regional state aid disbursement, as well as of other forms of horizontal state aid (for small and medium-size enterprises, staff training, research, development and innovations, environment protection etc).

The obligation of reporting on granted state aid in the Republic of Serbia is specified by Law, whereas the by-laws, under jurisdiction of the line ministry responsible for finances, will regulate in more detail the methodology of development, time limits for the submission of data, time limits for submission of the report to the Government. State aid grantors’ compliance with the prescribed time limits is a necessary prerequisite for timely developing and submission of the Report to the Government for approval, fulfilling thus another SAA i.e. the Interim Trade Agreement condition.