

SERBIA

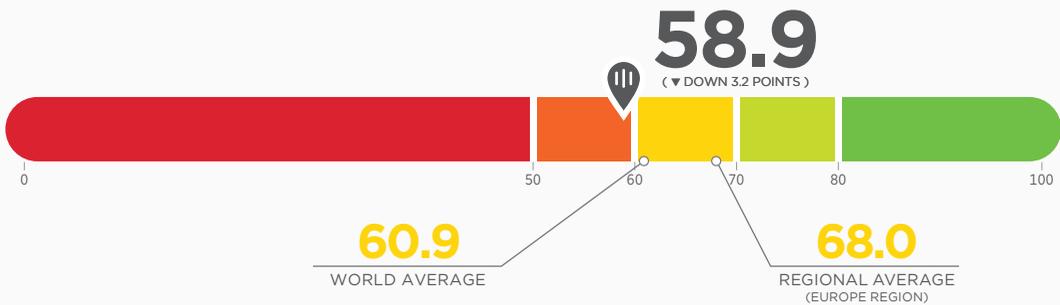


WORLD RANK: **99** | REGIONAL RANK: **39**
 ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

Serbia has implemented significant structural reforms in some parts of its economy. Facilitated by a process involving privatization and consolidation, the once-defunct banking sector has revived and continues to evolve. The economy's competitiveness is supported by low flat tax rates, relative openness to global trade, and ongoing regulatory reforms.

Despite progress, however, overall economic freedom in Serbia continues to be constrained by the lack of political will to undertake the bold reforms that are required. Inefficient government spending remains high and poorly managed. Deeper institutional reforms are needed to tackle bureaucracy, reduce corruption, and strengthen a judicial system that is vulnerable to political interference.

ECONOMIC FREEDOM SCORE

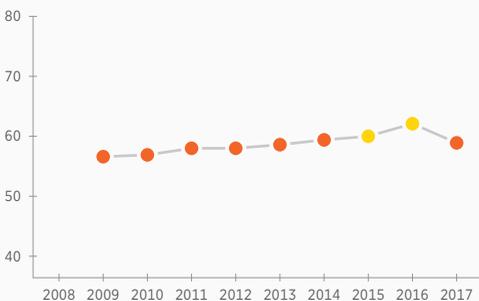


NOTABLE SUCCESSES:
 Tax Policy, Monetary Stability, and Trade Freedom

CONCERNS:
 Rule of Law, Government Spending, and Fiscal Health

OVERALL SCORE CHANGE SINCE 2013:
 +0.3

FREEDOM TREND



QUICK FACTS

POPULATION:
 7.2 million

GDP (PPP):
 \$97.5 billion
 0.7% growth in 2015
 5-year compound annual growth 0.4%
 \$13,671 per capita

UNEMPLOYMENT:
 19.0%

INFLATION (CPI):
 1.4%

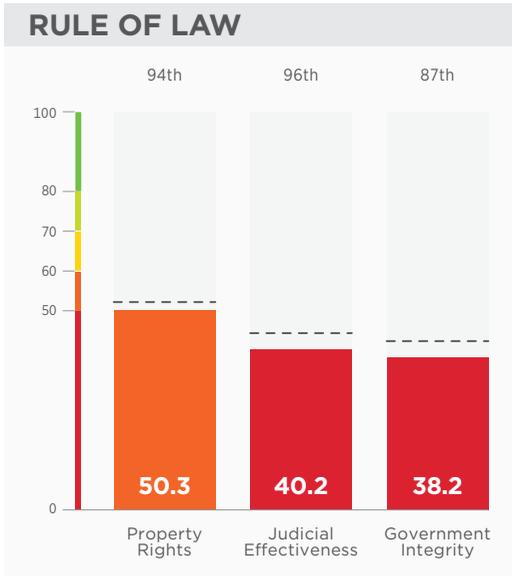
FDI INFLOW:
 \$2.3 billion

PUBLIC DEBT:
 77.4% of GDP

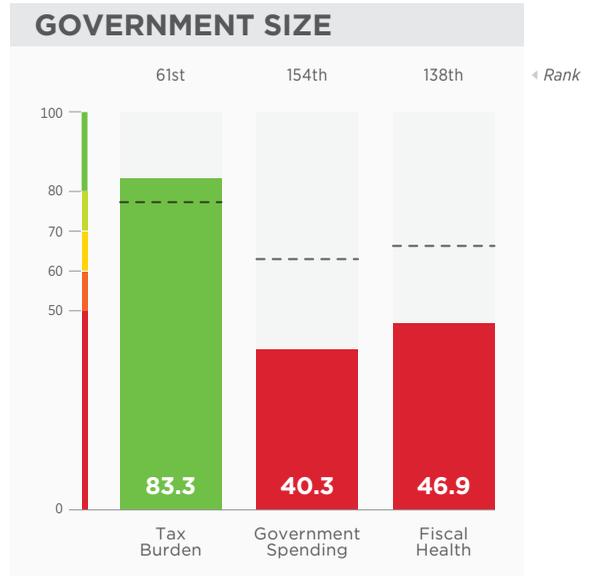
2015 data unless otherwise noted. Data compiled as of September 2016

BACKGROUND: Serbia signed a Stability and Association Agreement with the European Union in 2008 and applied for membership in 2009. An agreement between Serbia and Kosovo normalized relations in April 2013. Prime Minister Aleksandar Vucic's center-right Progressive Party won snap elections in April 2016. Parliamentary elections have been held frequently in Serbia; April's vote was the third election since 2012. Vucic has been in office since April 2014 and has been accused of silencing critical media outlets and opponents. The government supports seeking membership in the EU, but the country has had difficulty balancing its EU aspirations with its historical ties to Russia.

12 ECONOMIC FREEDOMS | SERBIA



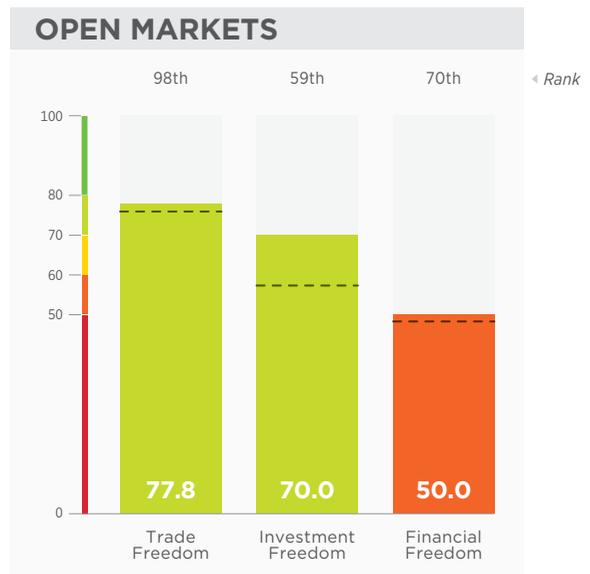
Serbian citizens and foreign investors enjoy full rights to ownership of private property, but enforcement of those rights can be extremely slow. The judiciary in Serbia operates independently, but endemic problems continue to plague the judicial system. Corruption remains a problem in many sectors, including the security, education, housing, and labor sectors, as well as in privatization processes and the judiciary.



The top personal income tax rate is 15 percent, and the corporate tax rate is a flat 15 percent. Other taxes include a value-added tax and a property tax. The overall tax burden equals 35.0 percent of total domestic income. Government spending has amounted to 44.6 percent of total output (GDP) over the past three years, and budget deficits have averaged 5.1 percent of GDP. Public debt is equivalent to 77.4 percent of GDP.



Despite some progress in streamlining the process for launching a business, other time-consuming requirements reduce the regulatory system's efficiency. In an effort to make the labor market more flexible, the government recently introduced amendments to the rigid labor law that was implemented in 2005. The IMF program for Serbia emphasizes rationalization of state-owned enterprises to cut subsidies, but reforms are lagging.



Trade is extremely important to Serbia's economy; the value of exports and imports taken together equals 105 percent of GDP. The average applied tariff rate is 6.1 percent. Legislation in 2015 liberalized Serbia's foreign investment climate, but state-owned enterprises distort the economy. Financial intermediation is relatively low, and the percentage of nonperforming loans in banks is one of the highest in the region.