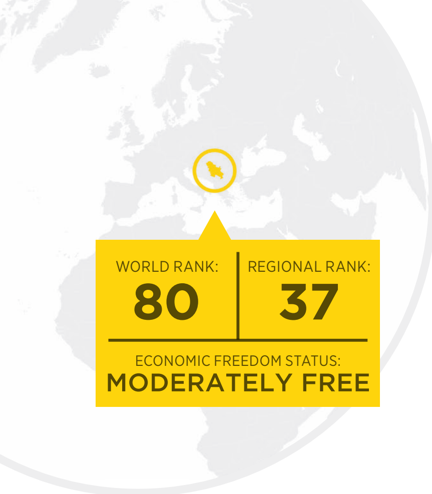
SERBIA



WORLD RANK: **80**

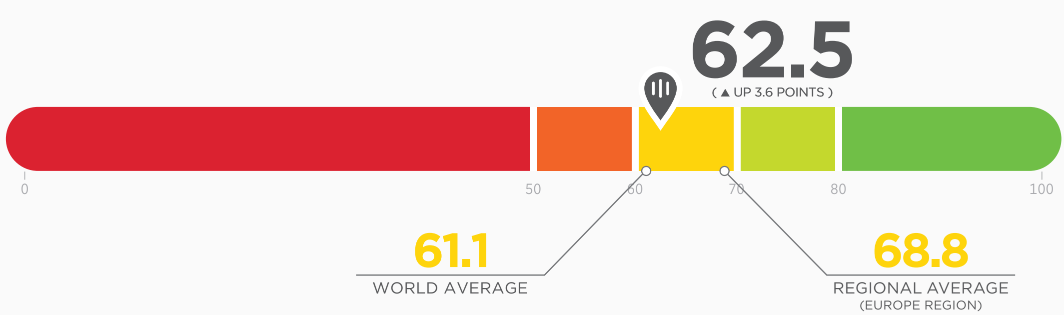
REGIONAL RANK: **37**

ECONOMIC FREEDOM STATUS: **MODERATELY FREE**

Serbia's economic freedom score is 62.5, making its economy the 80th freest in the 2018 *Index*. Its overall score has increased by 3.6 points, with a dramatic increase in **fiscal health** and higher scores for **trade freedom** and **judicial effectiveness** outweighing declines in **property rights** and **government integrity**. Serbia is ranked 37th among 44 countries in the Europe region, and its overall score is below the regional average but above the world average.

Serbia is still recovering from years of international economic sanctions and damage from civil war and still making the transition from statism to a market economy. Inflation is under control, and the budget has stabilized. The many large state-owned enterprises in the electricity, communications, and natural gas sectors should be reformed and eventually privatized. Deeper institutional reforms are also needed to tackle bureaucracy, reduce corruption, and strengthen a judicial system that is vulnerable to political interference.

ECONOMIC FREEDOM SCORE

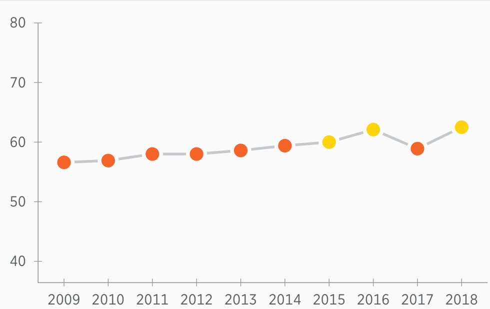


NOTABLE SUCCESSES: Trade Freedom, Tax Policy, and Monetary Stability

CONCERNS: Rule of Law, Government Spending, and Financial Freedom

OVERALL SCORE CHANGE SINCE 2014: +3.1

FREEDOM TREND



QUICK FACTS

POPULATION:
7.0 million

GDP (PPP):
$101.8 billion
2.8% growth in 2016
5-year compound annual growth 0.7%
$14,493 per capita

UNEMPLOYMENT:
16.5%

INFLATION (CPI):
1.1%

FDI INFLOW:
$2.3 billion

PUBLIC DEBT:
74.1% of GDP

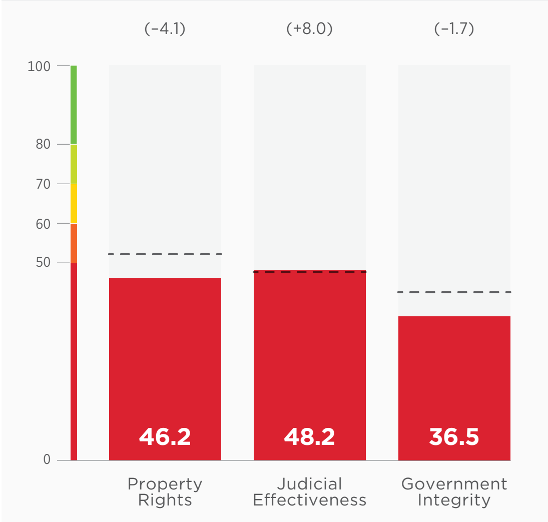
2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: Independent since the collapse of Yugoslavia in 1991, Serbia applied for membership in the European Union in 2009. A 2013 agreement normalized relations between Serbia and Kosovo. Former Prime Minister Aleksandar Vučić of the center-right Progressive Party, which had won snap parliamentary elections held in 2016, was elected president in April 2017. Although the presidency has limited powers, Vučić controls nearly every lever of power. Serbia is pursuing EU membership, but it also seeks to avoid displeasing Russia, with which it has historical ties and upon which it remains dependent for energy. Serbia's economy relies on manufacturing and exports. It is largely responsive to market forces, but the state sector remains significant in certain areas.

WORLD AVERAGE | ONE-YEAR SCORE CHANGE IN PARENTHESES

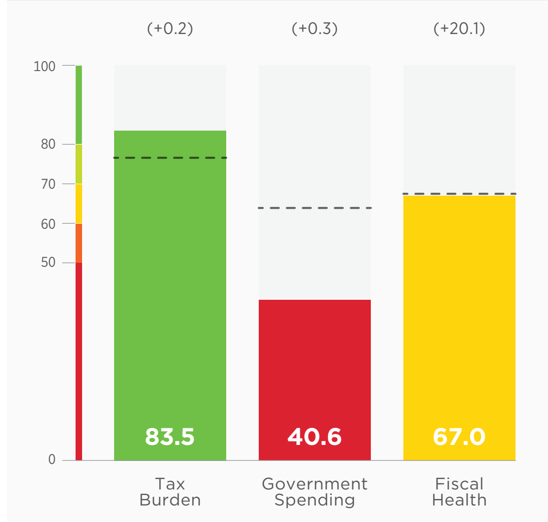
12 ECONOMIC FREEDOMS | SERBIA

RULE OF LAW



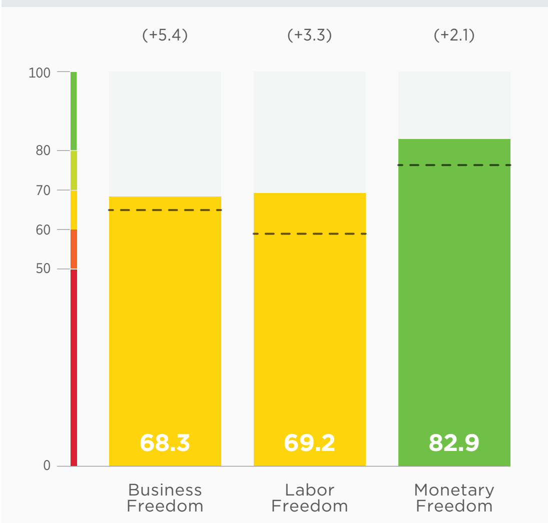
Serbia has an adequate body of laws for the protection of property rights, but enforcement of property rights through the judicial system can be very slow. The judiciary in Serbia operates independently but continues to be plagued by endemic problems. Pervasive corruption affects the security, education, housing, and labor sectors as well as privatization processes and the judiciary.

GOVERNMENT SIZE



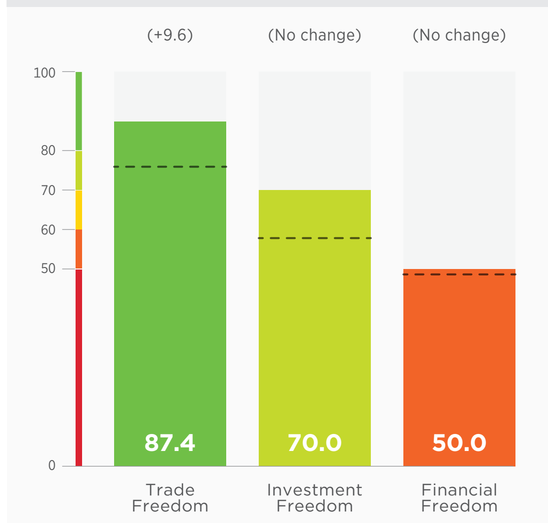
The top personal income tax rate is 15 percent, and the corporate tax rate is a flat 15 percent. Other taxes include value-added and property taxes. The overall tax burden equals 34.6 percent of total domestic income. Over the past three years, government spending has amounted to 44.5 percent of total output (GDP), and budget deficits have averaged 3.7 percent of GDP. Public debt is equivalent to 74.1 percent of GDP.

REGULATORY EFFICIENCY



Despite some progress, time-consuming regulatory requirements continue to impede business efficiency. High unemployment rates and the need for private-sector job creation remain challenges to labor freedom. Some reforms in large state-owned enterprises have been made, but the government still subsidizes loss-making public companies such as RTB Bor, Resavica, Petrohemija, Azotara, and MSK Enterprises.

OPEN MARKETS



Trade is extremely important to Serbia's economy; the combined value of exports and imports equals 109 percent of GDP. The average applied tariff rate is 1.3 percent. Nontariff barriers impede some trade. Government openness to foreign investment is above average. Reforms involving privatization and consolidation have revived the formerly defunct banking sector. Nonperforming loans continue to account for over 20 percent of total loans.