

SERBIA

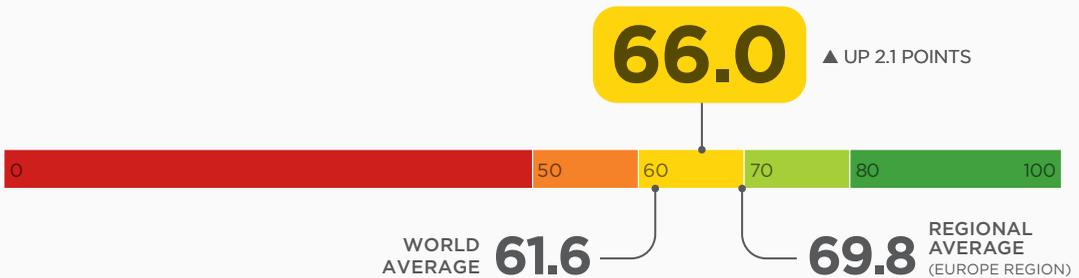
Serbia's economic freedom score is 66.0, making its economy the 65th freest in the 2020 *Index*. Its overall score has increased by 2.1 points, with improvements in seven of the 12 measured categories. Serbia is ranked 35th among 45 countries in the Europe region, and its overall score is well below the regional average and well above the world average.

The Serbian economy is moderately free for the third year in a row, solidifying an upward trend. GDP growth edged higher in 2018 amid robust private consumption and fixed investment.

Improved economic and financing conditions in recent years have attracted higher capital spending from foreign and domestic sources. To maintain that positive momentum, the government has continued incremental reform of the business environment, improvements in the governance and efficiency of public administration, and progress for loss-making state-run firms. Unfortunately, the pace of those reforms appears to have slowed, and the country is at risk of falling behind its neighbors.

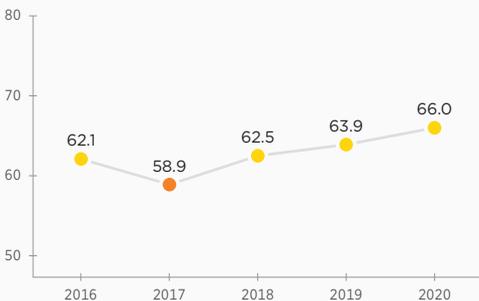


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 2002): +19.4

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
7.0 million

GDP (PPP):
\$122.8 billion
4.4% growth in 2018
5-year compound annual growth 2.0%
\$17,555 per capita

UNEMPLOYMENT:
13.5%

INFLATION (CPI):
2.0%

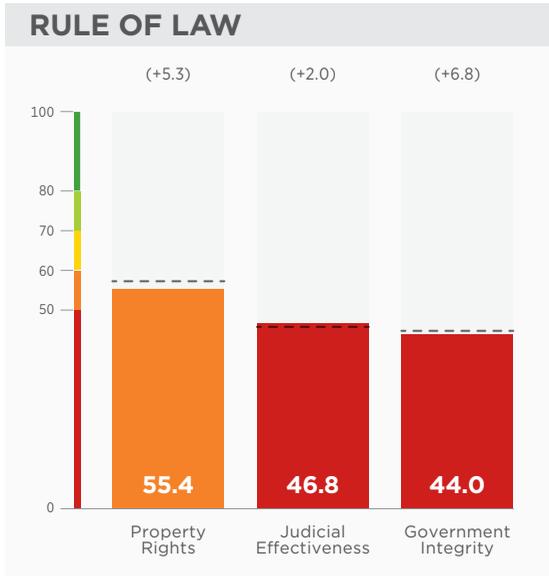
FDI INFLOW:
\$4.1 billion

PUBLIC DEBT:
54.3% of GDP

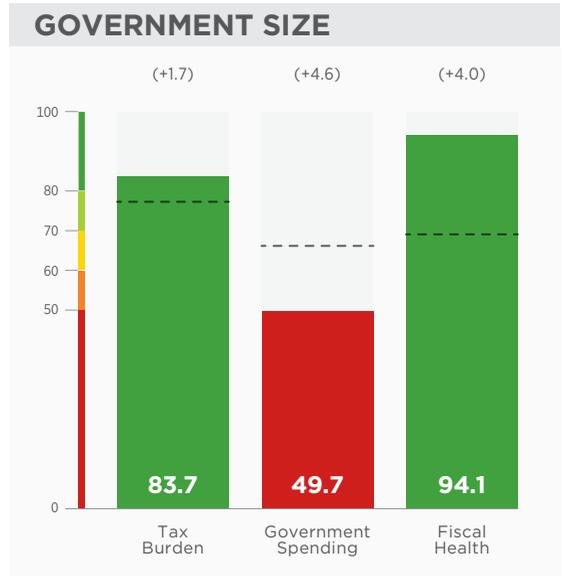
2018 data unless otherwise noted. Data compiled as of September 2019

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 Vucic of the center-right Progressive Party, which had won snap parliamentary elections in 2016, was elected president in 2017 and now controls nearly every lever of power. Serbia cannot become a member of the EU without additional reforms, stronger rule of law, and improved relations with regional neighbors. In addition, EU membership risks displeasing Russia, with which Serbia has historical ties and upon which it remains dependent for energy. Serbia's largely market-based economy relies on manufacturing and exports, and state-owned companies remain a significant presence in certain sectors.

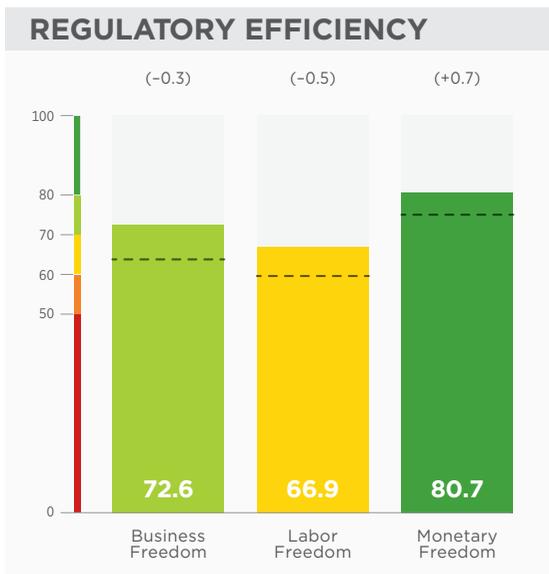
12 ECONOMIC FREEDOMS | SERBIA



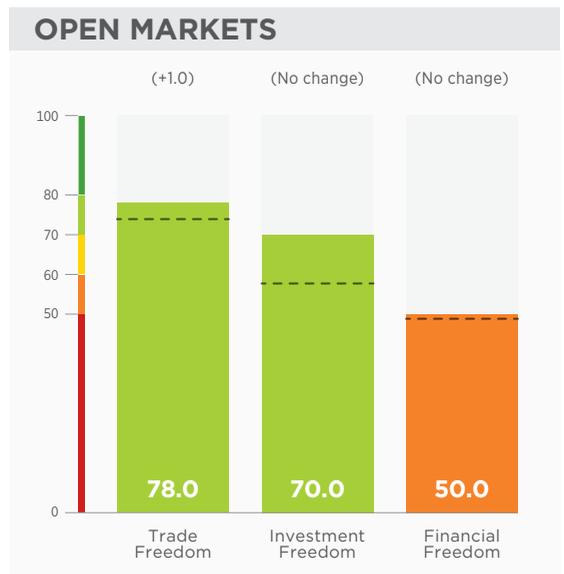
There is an adequate body of laws for the protection of property rights, but enforcement through the judicial system can be very slow, and problems such as illegal construction and fraud persist. The independence of the judiciary is compromised by political influence on judicial appointments and external pressures on judges. Corruption is perceived as pervasive but is difficult to quantify.



The top personal income tax rate is 10 percent, and the corporate tax rate is a flat 15 percent. Other taxes include value-added and property taxes. The overall tax burden equals 36.1 percent of total domestic income. Government spending has amounted to 40.9 percent of the country's output (GDP) over the past three years, and budget surpluses have averaged 0.3 percent of GDP. Public debt is equivalent to 54.3 percent of GDP.



The adoption of business-friendly reforms has outpaced their implementation, and the pace of reform has slowed. A new electronic application system for construction permits went live in 2018. Amendments to the Labor Law of 2014 that made it easier to hire or dismiss a worker and changed collective bargaining and severance pay rules should have a positive impact. The government increased agricultural subsidies in its 2019 budget.



The total value of exports and imports of goods and services equals 110.2 percent of GDP. The average applied tariff rate is 6.0 percent, and nontariff barriers add to the cost of trade. Most sectors are open to foreign investment, but the lack of transparency deters more dynamic investment growth. The banking sector has been expanding, although the level of financial intermediation remains relatively low.