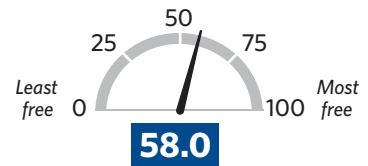


# SERBIA

## Economic Freedom Score



World Rank: **98** Regional Rank: **37**

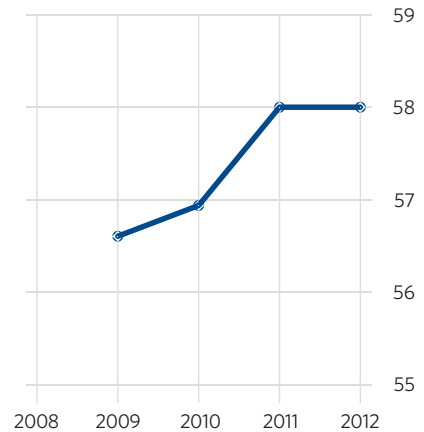
**S**erbia's economic freedom score is 58.0, making its economy the 98th freest in the 2012 *Index*. Its score remains unchanged from last year, reflecting modest improvements in trade and monetary freedom offset by losses in business freedom and the management of government spending. Serbia is ranked 37th out of 43 countries in the Europe region, and its overall score is below the world and regional averages.

Despite some progress, Serbia's overall economic freedom continues to be constrained by the lack of political will to undertake the bold reforms that are required. Government spending remains inefficient, 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.

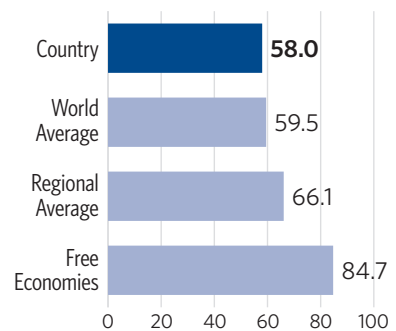
Over the past decade, Serbia has implemented significant structural reforms in some parts of its economy. Facilitated by a reform process involving privatization and consolidation, the once-defunct banking sector has revived and continues to evolve. The economy's competitiveness is supported by low flat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

**BACKGROUND:** Serbia signed a Stability and Association Agreement with the European Union in May 2008 and submitted its formal application for membership in December 2009. Accession talks were made contingent on the arrest of wartime leader Ratko Mladic, who was finally apprehended in May 2011. President Boris Tadic's government seeks Euro-Atlantic integration and membership in the World Trade Organization. In July 2010, the International Court of Justice ruled that the former province of Kosovo's declaration of independence in 2008 was in accordance with international law, and Serbia agreed to engage in an EU-facilitated dialogue with Kosovo on practical issues in March 2011. Serbia's economy has attracted significant foreign investment in manufacturing and services over the past decade and has become far more integrated into the international economic system.

## Freedom Trend



## Country Comparisons



## Quick Facts

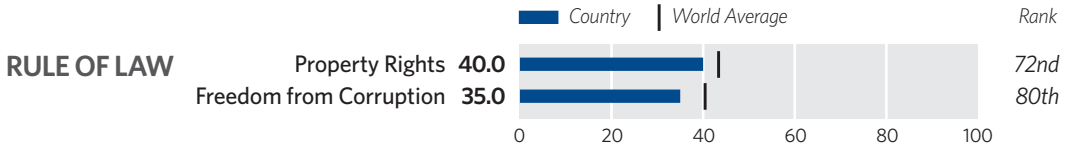
**Population:** 7.4 million  
**GDP (PPP):** \$80.1 billion  
 1.8% growth in 2010  
 5-year compound annual growth 3.2%  
 \$10,830 per capita  
**Unemployment:** 19.2%  
**Inflation (CPI):** 6.2%  
**FDI Inflow:** \$1.3 billion  
**Public Debt:** 44.9% of GDP

### How Do We Measure Economic Freedom?

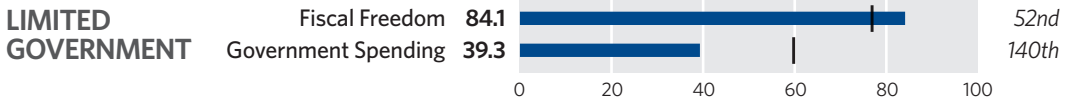
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
 Data compiled as of September 2011.

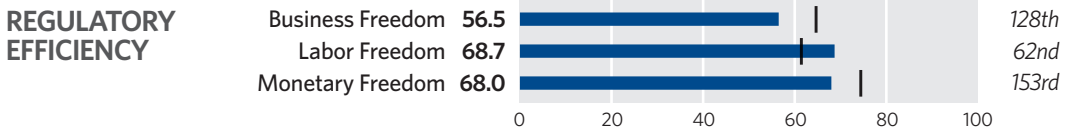
**THE TEN ECONOMIC FREEDOMS**



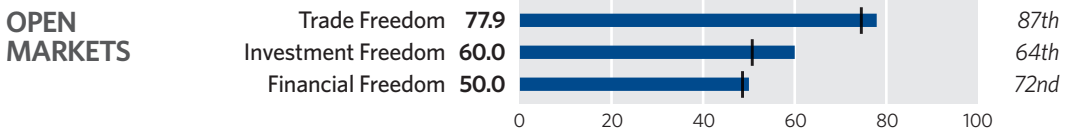
Serbia’s constitution supports an independent judiciary, but the system is inefficient and vulnerable to political interference. Protection of property rights is not enforced effectively. The legal regime for protection of intellectual property rights has improved, but enforcement is still insufficient. Organized criminal groups engage in money laundering, and corruption remains widespread in the economy.



The top income tax rate is 15 percent, and the corporate tax rate is a flat 10 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 35.5 percent of total domestic income. Government spending has risen to a level equivalent to 45 percent of GDP, and the budget deficit has widened to over 3 percent of GDP. Public debt has climbed to around 45 percent of total domestic output.



Bureaucratic bottlenecks increase the cost of doing business. Despite some progress in streamlining the process for launching a business, other requirements remain time-consuming. Completing licensing requirements costs over 16 times the average level of annual income. A fully functioning modern labor market has not developed, and the informal sector remains significant. Inflation has been high.



The trade weighted average tariff rate is 6 percent, and layers of non-tariff barriers add to the cost of trade. Most sectors are open to foreign investment, and recent reforms have improved the investment environment, but regulatory uncertainty and lack of transparency deter vibrant investment growth. A wider range of credit instruments has become available to the private sector, but the level of financial intermediation remains relatively low.

**Score Changes**

RULE OF LAW	LIMITED GOVERNMENT	REGULATORY EFFICIENCY	OPEN MARKETS
Property Rights	Fiscal Freedom	Business Freedom	Trade Freedom
Freedom from Corruption	Government Spending	Labor Freedom	Investment Freedom
0	+0.5	-2.5	+2.7
0	-2.6	-0.2	0
		Monetary Freedom	Financial Freedom
		+2.0	0