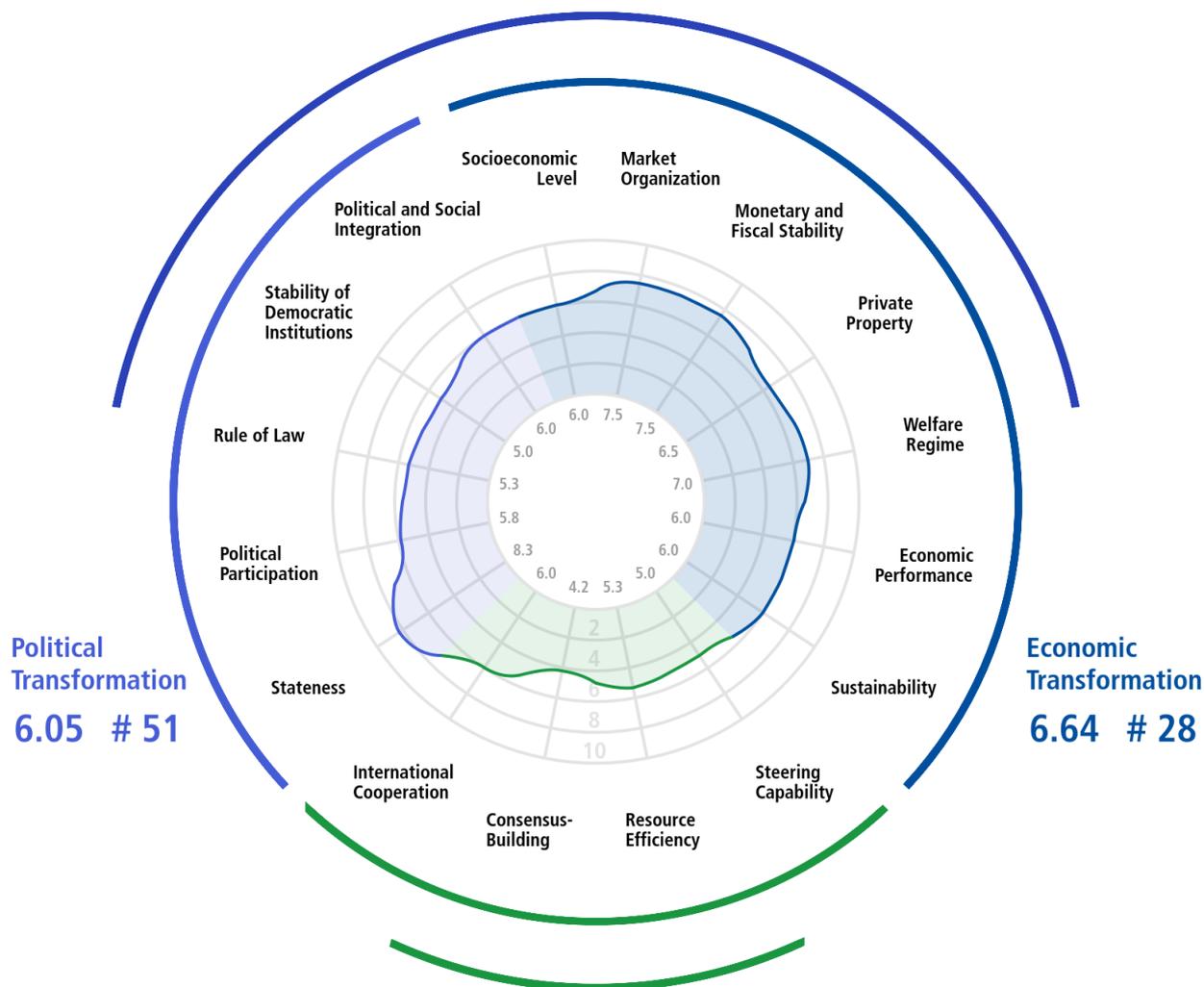


Serbia

Status Index

6.35 # 38

on 1-10 scale out of 137



Political Transformation
6.05 # 51

Economic Transformation
6.64 # 28

Governance Index

4.43 # 81

on 1-10 scale out of 137

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2024 Country Report – Serbia. Gütersloh: Bertelsmann Stiftung, 2024.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	6.8	HDI	0.802	GDP p.c., PPP \$	23911
Pop. growth ¹	% p.a.	-1.1	HDI rank of 189	63	Gini Index	35.0
Life expectancy	years	72.7	UN Education Index	0.779	Poverty ³	2.8
Urban population	%	56.9	Gender inequality ²	0.131	Aid per capita \$	78.0

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Serbia's political system continues to be characterized by the overbearing position of President Vučić and the dominance of his Serbian Progressive Party (SNS). However, following the 2022 elections, authentic opposition parties entered parliament.

Parliamentary oversight of the executive remains limited, which weakens the democratic accountability of the executive. The status of independent bodies such as the ombudsman and the commissioner for public information and personal data continues to deteriorate, limiting their public impact. Minority rights are generally respected in accordance with the constitution, which defines Serbia as a multicultural country. However, the independence and pluralism of the media continue to face increasingly serious challenges. The judiciary is subject to political influence and continues to suffer from inefficiency, nepotism and corruption. Corrupt practices provide room for extensive patronage networks that are used to gain or retain power through elections. Furthermore, the judiciary and prosecutors are under the influence of the executive branch. Additionally, many corruption scandals escape investigation and prosecution.

Unemployment remains high, with a significant number of individuals working in the shadow economy and in precarious jobs. Income inequality is high, with nearly a quarter of the population at risk of poverty and social exclusion and 7% of the population living in absolute poverty. Slow economic growth poses a serious problem, as incomes fail to converge with the EU average. The public sector remains bloated, unaccountable and inefficient. Although the overall business environment is favorable, state-owned enterprises continue to be tightly controlled by political authorities, and the government maintains a significant presence in the economy.

Privatization has continued on a small scale, with the only significant change in ownership recently being the purchase of Petrohemija, a state-owned chemical company, by the Russian state-owned enterprise Gazprom Neft. After almost a decade of low inflation at 2% since 2014, inflation rose to 7.9% in 2021 and 16% in 2022 due to global increases in energy and commodity prices, spillovers from inflation in the United States and Western Europe and European Central Bank monetary policy, according to which the National Bank of Serbia emulated keeping the exchange rate at the same level.

In 2022, the government deficit dropped to 3% of GDP, while the level of public debt reached 54% of GDP in November 2022. The government implemented new fiscal rules at the end of 2022 to guarantee the future sustainability of public finances. These rules include a “high debt–low deficit” policy, which activates the debt brake at 60% of GDP. This threshold requires a balanced state budget once the level of debt surpasses it.

The status of Kosovo is still unresolved, with a Franco-German proposal launched in the summer of 2022 serving as a foundation for ongoing negotiations. Relations with neighboring Western Balkan countries have not seen substantial improvement, primarily due to the political statements and actions of Serbian state officials. President Vučić and the ruling party face significant challenges in reconciling their public support for Ukraine’s integrity with the strong support that the regime media has shown for Russia in the ongoing conflict. The country’s main strategic goal remains EU accession; however, the process has significantly slowed, with only four negotiating chapters opened in 2021 and none in 2022.

History and Characteristics of Transformation

Serbia’s transition to democracy and a market economy has been beset by statehood conflicts. The communist successor party, led by Slobodan Milošević, won the first democratic election in 1990, when Serbia was the largest constituent republic of Yugoslavia. Whereas Milošević and his allies sought to preserve a federal state, the Slovenian and Croatian leaders wanted their republics to secede. Irreconcilable aims and nationalist mobilization led to the collapse of the federation, wars and the creation of several independent states.

Milošević established a semi-authoritarian regime in the remaining portion of Yugoslavia. Clientelism in the state apparatus and state-dominated economy allowed him to control electronic media, manipulate election results, and effectively divide and isolate the political opposition. The regime escalated political repression in Serbia and employed extensive security force actions against ethnic Albanians in Kosovo. Albanian leaders intensified their ongoing efforts to break away from Serbia. In the spring of 1999, NATO initiated a full-scale military intervention against Serbia with the stated goal of preventing further bloodshed in Kosovo. Serbia’s defeat, the deepening socioeconomic crisis, a student protest movement and a broad alliance of opposition parties all contributed to Milošević’s removal from power in October 2000.

The opposition won the federal parliamentary and presidential elections, as well as the Serbian local parliamentary elections, in 2000. Vojislav Kostunica and Zoran Đinđić, both opposition leaders, were elected as the federal president and Serbian prime minister, respectively. However, due to the heterogeneity of the coalition and the assassination of Đinđić in 2003, the government faced limitations in implementing policies for economic and political reforms. Nonetheless, the subsequent elections up until 2008 resulted in majorities for parties and candidates dedicated to liberal democracy and European integration. In 2006, Serbia adopted a new constitution, and in 2008, the Stabilization and Association Agreement was signed with the European Union.

However, in 2008, a group of politicians led by Tomislav Nikolić and Aleksandar Vučić left the anti-EU Serbian Radical Party (SRS) and created the Serbian Progressive Party (SNS), which also chose EU integration. Together with the Serbian Socialist Party (SPS), the SNS won the elections, and Nikolić was elected president in 2012. Since then, Aleksandar Vučić, at the helm of SNS, has dominated the Serbian political scene. Between 2012 and 2021, four parliamentary elections, two presidential elections, three provincial elections and numerous local elections have taken place. According to reports from the European Union and other international organizations, there has been a consistent decline in the rule of law, media freedoms, participatory democracy and inclusive political dialogue between the state and non-state actors.

Serbia's state framework has changed several times since the dissolution of Yugoslavia. After 1992, Serbia and Montenegro constituted the Federal Republic of Yugoslavia (FRY) until it was replaced by an EU-facilitated union with limited powers in 2003. This union was dissolved in 2006 following Montenegro's independence referendum.

Following its defeat in the Kosovo war, Serbia had to accept the Kosovo Force (KFOR), a NATO-led international peacekeeping force, taking control of the province in June 1999. The U.N. Mission in Kosovo (UNMIK) was established to stabilize the territory. Since then, the U.N. has had nominal authority over the territory, following U.N. Security Council Resolution No. 1244/1999. Serbia's government and major political actors interpret the resolution as the legal basis for Kosovo's status as part of Serbia. Following mass unrest and attacks on Serbs and other minority communities in 2004, the United States and EU member states initiated negotiations between Serbia's government and Kosovo Albanian representatives on Kosovo's future status. After the talks failed, the United States and other major Western states backed an internationally supervised process of independence for Kosovo. In 2008, the Albanian-dominated government in Priština declared Kosovo's independence, which was subsequently recognized by major Western states but opposed by Serbia, U.N. Security Council members Russia, China and five EU member states. In 2013, Belgrade and Priština, in talks under the auspices of the EU, agreed to integrate ethnic Serb-dominated northern Kosovo into Kosovo's legal framework in exchange for guaranteed representation and veto rights. This Brussels Agreement, along with the arrest and extradition of several indicted war criminals by Serbia's government, paved the way for opening EU accession negotiations.

Serbia's process of integration into the European Union began in 2000, when the Framework Agreement was signed between the European Union and the Federal Republic of Yugoslavia. This agreement enabled the provision of EU assistance for political and economic reforms. In 2009, Serbia officially applied for EU membership, and three years later, in 2012, the European Council granted Serbia the status of a candidate. Accession negotiations commenced in 2013, and as of 2021, Serbia has opened 18 out of the 35 negotiation chapters. However, no chapters were opened in 2022.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Serbian state has a monopoly on the use of force over its territory, except for Kosovo, which Serbia does not recognize as an independent state. Serbia has political control over the northern part of Kosovo, which is dominated by ethnic Serbs. Serbia is engaged in dialogue with Kosovo over its status but avoids discussing independence.

Although police, security and intelligence agencies attempt to address the challenges to public safety and order posed by organized crime, only a fraction of many violent crimes are solved. This is particularly true in cases in which there appears to be a connection with state officials. A striking example is the overdue trial of Veljko Belivuk, the leader of a criminal group accused, along with 17 members of the same group, of murder, drug trafficking and kidnapping. The entire case has been marked by accusations of links between the criminal group and certain public officials. Investigative media have also reported on the close ties between these criminal groups and regime politicians and the police.

According to its constitution, Serbia is the state of the Serbian people and all citizens living in Serbia. While the constitution emphasizes the ethnic Serbian majority, it also provides rights for ethnic minorities. There are no problems with citizenship policy or practice. According to the 2022 census, the population (excluding Kosovo) is dominated by ethnic Serbs (83%), with Hungarians (3.5%), Roma (2%) and Bosnians (2%) as the largest ethnic minorities. National minority councils have been established for 23 minorities. The state promotes the use of minority languages in education, the judiciary and municipal and other representative bodies.

Apart from the question of Kosovo, there are no entrenched disputes over the current concept of the nation-state. There are no urgent appeals for regional territorial autonomy for specific ethnic groups, as there have been in the past. Support for greater territorial autonomy in Vojvodina and the Sandžak region (where about half the population is Muslim and Bosnian) remains low. Political parties campaigning on this issue won less than 3% of the vote in the 2022 parliamentary elections.

Question
Score

Monopoly on the
use of force

9



1

State identity

9



1

Serbia is constitutionally a secular state, but the current government clearly favors the Serbian Orthodox Church (SOC). The population is 84.5% Serbian Orthodox, 5% Roman Catholic and 3% Muslim. The SOC exerts political and cultural influence and enjoys dominant support in society. It strongly opposes Kosovo's independence, same-sex marriage and abortion. The SOC opposed the law on same-sex unions, which led to its suspension. It also played a major role in opposing Europride (2022), supporting protests and leading an aggressive media campaign against it.

In some non-Orthodox communities, the dogmas of the clergy prevail. This was particularly the case in conflicts between leaders of the Muslim communities, who remain in a protracted conflict for influence over the Sandžak region. Local officials are often more loyal to their religious leaders than to political parties. The authorities in Belgrade offer political participation at the central-government level to prominent representatives of both Muslim communities, without considering the current balance of power and political support in these local communities, thus creating very fragile local political institutions. For example, a prominent member of the Islamic community in Serbia, Husein Memić of the Sandžak Democratic Party, became Minister of Tourism and Youth after the 2022 parliamentary elections.

Serbia has a public administration that collects and distributes resources throughout the country for the judiciary, tax authorities and law enforcement. However, backlogs are widespread (e.g., pending court cases, obtaining specific permits for businesses), and citizens encounter administrative inefficiency on a daily basis.

The trend of appointing officials as “acting officials” (currently there are about 290) has continued. They are appointed for a limited period of time (in practice, usually three months), after which they must be appointed permanently. However, many acting officials have illegally remained in their positions for several years without being appointed to permanent positions and remain under the strict control of the government (i.e., the ruling party).

In 2022, 100% of the population had access to electricity, 99% to improved drinking water and 97.9% to basic sanitation. According to the latest (2020) WHO report, Serbia ranks last among European countries in terms of the urban population's access to drinking water, old sanitation facilities, wastewater treatment and unregulated management of surface water resources. 98% of the population is covered by health insurance. However, many patients are forced to pay high prices for treatment in private clinics in order to avoid lengthy examinations in public medical institutions with poor services. The Serbian government's goal of providing 100% broadband internet coverage has been postponed until 2025.

No interference of religious dogmas

7



1

Basic administration

8



1

2 | Political Participation

Since Aleksandar Vučić came to power in 2012, elections have become more frequent as he uses them to capitalize on the weakness of opposition parties. Between 2012 and 2022, there have been five parliamentary elections, three presidential elections and numerous provincial and local elections. The most recent presidential and parliamentary elections were held in April 2022. The parliamentary elections use a proportional electoral system with party lists in a single nationwide constituency, with a 3% electoral threshold for entering parliament. Universal suffrage by secret ballot is applied and largely guaranteed and political posts are filled according to election results. The election administration body is ineffective (e.g., in processing the results of the Belgrade elections, which took longer than was reasonable). The polling stations are largely accessible and ensure effective participation.

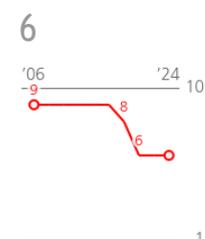
Opposition parties, NGOs and international observers raised serious complaints about the lack of transparent campaign financing and biased media coverage in favor of the ruling party. Independent monitoring reports showed a lack of fair and equal media access for all candidates and parties, especially in the case of the presidential elections, in which Aleksandar Vučić dominated central, regional and local media (at one point, 85% of total air time was devoted to campaigning). Election procedures, including vote counting, verification of results and resolution of complaints, have been strongly criticized by opposition parties.

The OSCE Office for Democratic Institutions and Rights made the following recommendations for improving the election process: the need for further legal review to address challenges related to the misuse of administrative resources and access to the media; a clear separation between official functions and campaign activities; mechanisms to prevent intimidation and pressuring voters; strengthening the independence of the media regulatory body; and improving the effectiveness of dispute resolution related to the election-day process. Voter turnout in the parliamentary elections (58.6%) increased by almost 10% in comparison with the 2020 elections. This shows an increased interest among Serbia's citizens in participating in political life.

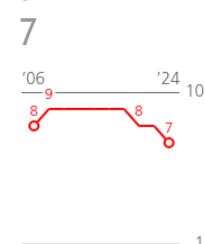
President Vučić exercises almost unlimited political control in Serbia. Pro-democracy NGOs and media independent of the government regularly report on Vučić's abuses of power, including numerous violations of the constitution. One of the most frequently cited abuses is that he leads the negotiations between Belgrade and Priština, although this is the responsibility of the government.

Without his approval, neither the government nor the parliament, which is dominated by parties loyal to him, take any significant action. Parliament remains subservient to the government and continues to approve executive proposals rather than scrutinize and correct them. The clergy has some influence over elected officials in the

Free and fair elections



Effective power to govern



government and parliament (e.g., the Serbian Orthodox Church enjoys tax immunity and significantly influenced the withdrawal of the draft law on same-sex communities).

Although the government claims to have banned domestic and foreign business tycoons from interfering in the policymaking process, they continue to influence decision-making through informal channels, particularly in cases of significant capital investment from China and the United Arab Emirates.

The freedoms of association and assembly are guaranteed by the constitution, and the government generally respects them. Serbia has yet to align further with ODIHR Guidelines on the Freedom of Peaceful Assembly. The cases of the government using arbitrary criteria in evaluating requests for permits to associate and/or assemble have been noted (e.g., banning the Youth Initiative for Human Rights protesting against a sentenced war criminal Ratko Mladić). Cases of arbitrarily arrests, detainments and imprisonment of peaceful demonstrators or using excessive force occurred during some protests (e.g., during environmental protests in Belgrade and Loznica against lithium mining and protests in Sodrös against building a bridge across the Danube).

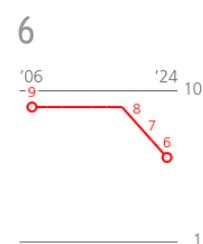
LGBTQ+ activists organized a Europride week in September 2022 in Belgrade. Although officially supported by the government of Serbia during the EU candidateship procedure, the central event, the Europride march, did not happen. The march in Belgrade was banned for security reasons, following reported threats of violence by the far-right.

The constitution and existing laws guarantee freedom of expression and freedom of the press. However, the independence and pluralism of the media have continued to decline in recent years. Cases of threats and violence against journalists have been noted. Their ability to exercise freedom of expression needs to be further strengthened. Legal proceedings against attacks and intimidation of journalists are sporadic and lengthy.

Implementation of the media strategy has been delayed. The Law on Public Information and Media and the Law on Electronic Media have yet to be amended. There have been cases of smear campaigns against certain media outlets (e.g., the cable operator SBB); some even use public funds. Local and regional media are heavily dependent on public funding. This allows political actors to influence editorial policy.

The government uses investments from state-influenced companies, such as Telekom, and funding from public sources to invest and thus control the media sector, including private media such as TV Pink, TV Adria Media etc., shrinking space for independent media. Through such financial maneuvers, some media outlets (e.g., Euractiv and Euronews Serbia) are now, through the system of connected companies, in practice government-controlled media.

Association /
assembly rights



Freedom of
expression



In 2022, the Regulatory Body for Electronic Media (REM) awarded four national frequencies to television channels, all of which had previously received warnings from the REM for violating existing media legislation. A tender for a fifth license was suspended by the REM. At one point, the REM suspended its own work, allegedly due to pressure from opposition parties and some independent media. Experts, members of civil society, journalists and media associations claim that this was a calculated maneuver to wait for public attention on this issue to decrease and complete the process without full accountability.

Serbia has made progress on the World Press Freedom Index in 2022 but is still considered problematic, ranking 79th out of 180 countries (according to Reporters Without Borders). However, Serbia ranks lowest among the countries in the western Balkans. The country moved up 14 places, but its average score was lower – 61.51 compared to 67.97 in 2021.

3 | Rule of Law

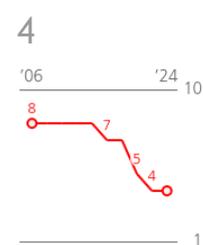
The constitution and legal framework provide for the separation of powers. In reality, the executive dominates the legislative branch and exerts pressure on the judiciary. There is almost no parliamentary oversight of the executive, undermining its democratic accountability. Genuine opposition parties returned to parliament after the 2022 elections, which is a positive step toward the restoration of pluralism.

President Vučić has continued to overstep his constitutional prerogatives, leading the Belgrade-Priština dialogue without formal government approval, influencing the process of adopting or withdrawing legislative acts and actively supporting the Serbian Progressive Party in the 2022 elections while acting in the capacity of president.

Political pressure on the judiciary and prosecution is present. Various government officials (e.g., members of parliament and ministers) publicly comment on ongoing investigations and court cases. Some prosecutors and judges are the focus of coordinated smear campaigns by the ruling party and its controlled media.

A number of independent media outlets and reports by other authors suggest that the Prosecutor's Office needs to improve its monitoring of the reasons for dismissing indictments and for the prolonged investigations of corruption cases. Independent bodies remain subject to strong political pressure.

Separation of powers



The judiciary system and judges' qualifications are defined in the Law on Courts, the Law on Seats and Territories of Courts and Public Prosecutors Offices and the Law on Judges, but most of these laws are in the process of amendment. These laws also regulate the jurisdiction of courts of different types, along with the establishment, organization, arrangement and composition of the courts. The Judicial Academy is the key educational institution providing continuous training for judges and prosecutors, along with gathering and processing jurisprudence.

The average duration of a first-instance criminal trial is 155 days, slightly longer than the European average. The situation is much worse in civil cases where a first-instance verdict took 472 days on average, significantly longer than the average of the Council of Europe countries (237 days) (European Commission for the Efficiency of Justice Report 2022). There is a significant backlog of old unresolved cases, which causes further delays.

The independence of the judiciary is undermined by political influence over judicial appointments. According to the Freedom House 2022 Report, many judges reported being put under outside pressure regarding their decisions. The Rule of Law Index suggests that the rule of law in Serbia is weak, particularly in the area of undue government influence, with Serbia ranked 81st out of 139 countries (World Justice Project, 2021). Experts and CSOs have pointed out that a series of laws governing the judiciary (laws on judges, organization of courts and High Judicial and Prosecutorial Councils) were drafted without proper public debate and against the recommendations of the Venice Commission.

Political control over the Prosecutor's Office is even more pronounced. In many politically sensitive cases involving high-ranking state officials or party members, investigations have never gone to trial.

The existing legal framework stipulates for the prosecution of cases of corrupt practices by public officials and politicians, but judicial practice in this area is rather modest. Serbia has neither an anti-corruption strategy with an action plan nor an effective coordination mechanism for combating corruption. There has been a slight increase in the number of indictments and first-instance convictions in high-level corruption cases, but the number is still insufficient, given the quantity of reports of potential high-level corruption cases by independent media and civil society organizations.

There is a need for the prosecution (particularly the Public Prosecutor's Office) and courts to increase the transparency and efficiency of their work. This particularly relates to the dismissal of criminal charges related to corruption and the lengthy investigation of corruption offenses. High-profile revelations by investigative journalists that implicate members of the government in corruption fail to receive the Prosecutor's Office's attention, even when there is solid evidence. The legislation related to protecting whistleblowers is not implemented in practice. One hundred seven local self-governments have adopted anti-corruption plans; however, only 24 have established a body to monitor their implementation.

Independent judiciary

6



1

Prosecution of office abuse

4



1

Amendments to the Law on Free Access to Information of Public Importance entered into force in 2022. Serbia has adopted a specific operational plan to fight corruption in the field of education under the Action Plan for Chapter 23. The country has also adopted an operational plan for preventing corruption in areas of special risk (e.g., customs).

Serbia has established a strong system to guarantee and protect civil rights and to protect citizens against discrimination. However, some minorities, such as the Roma and LGBT communities, continue to face prejudice and discrimination. “Da se zna,” an LGBT+ NGO, runs a database of crimes motivated by homophobia and transphobia, according to which the number of such attacks increased in 2021 (81 attacks were recorded in total).

Equal rights for men and women are guaranteed by the legal system and official state policies. However, gender inequality still exists in the labor market and economy. According to the Global Gender Gap Report 2022, Serbia ranks 23rd out of 146 countries in terms of women’s participation in politics, government and education. The country is also one of the lowest-ranked when it comes to women in business. A 2022 study conducted by the Coordination Body for Gender Equality showed that 56% of women have lower incomes than their male counterparts and 78% of women who participated in the survey stated that women and men are not treated equally in the workplace. According to the latest independent reports, 20 femicides were recorded in the first half of 2022.

The 2021 Ombudsman report recorded 151 cases of complaints on the grounds of the rights of people with disabilities and elderly people, 82 cases on the basis of gender rights and LGBTQ+ rights and 44 on the basis of minority rights. The right to privacy is becoming an important issue, particularly after the new drafting of the Laws on Police.

Serbia continued to host one of the largest populations of displaced people in Europe. It is still one of the countries on the Balkan Migration Route, from the Middle East to Europe. Migrants are occasionally subjected to harassment by far-right groups.

Civil rights

7



1

4 | Stability of Democratic Institutions

Political parties opposed to the Vučić regime participated in the 2022 elections after boycotting the previous vote. Parliamentary sessions consist mainly of mudslinging, with the governing majority setting the tone. The parliamentary majority and the government carry out the president's will. Laws continue to be passed with only symbolic changes as a result of parliamentary debates. The ruling SNS party has a majority at all levels of government: national, regional and local.

The performance of regional and local levels of government is limited due to the strong vertical subordination and dependence on the center, which affects all the strategic decisions that local communities make (e.g., capital investments). According to the Report on the Implementation of the National Program for the Adoption of the EU Acquis (a key document for strategic planning of the alignment of Serbian legislation with the EU), 35 out of 137 planned legal acts were adopted by the second half of 2022 (only 26%). According to this report, out of 31 planned draft laws, the government prepared only one, and out of 25 planned bylaws, the government enacted 12 (48%).

The constitutional amendments of 2022 related to the judiciary have yet to be operationalized and implemented. The performance of the judicial system continues to be hampered by delays in the adoption and full implementation of legislation aimed at ensuring its impartiality, accountability and efficiency. The system for recruiting, transferring and promoting judges and prosecutors needs to be reviewed.

President Vučić and his political entourage pay lip service to democratic institutions. In reality, only his will counts. The government's stated goal is EU integration, which means adopting EU-compatible institutions, regulations and practices. In practice, however, all aspects of the political system are flawed because of the president's excessive power.

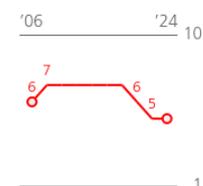
The legitimacy of parliament was restored after the 2022 elections by the presence of real opposition parties in parliament. A higher voter turnout in 2022 (58.6% in the parliamentary elections and 58.3% in the presidential elections) than in 2020 revealed increased interest among citizens in providing legitimacy to democratic institutions.

The ruling coalition still has a majority in all local assemblies, which means it can enact laws and policies independently. However, local authorities are mostly dependent on decisions made at the national level and have limited autonomy.

Civil society organizations are involved in working groups and participate in consultative processes related to the adoption of laws and public policies. However, representatives of civil society consider the legislative and public policy processes obstructive and nontransparent. The military and clergy have close ties to the ruling party. Therefore, they recognize and accept existing democratic institutions.

Performance of democratic institutions

5



Commitment to democratic institutions

5



5 | Political and Social Integration

The Serbian party system is highly fragmented, increasingly polarized, and largely dominated by individuals who have been active in Serbian politics for more than two decades. The Serbian Progressive Party (SNS), led by President Aleksandar Vučić, has dominated the state and its institutions since 2012, with the SNS being the only fairly stable political force. In a Factor Plus poll (October 2022), 46.3% supported the SNS, followed by the Socialist Party of Serbia (10.8%), the Party of Freedom and Justice (6.8%), the Coalition NADA (5.7%) and other smaller parties.

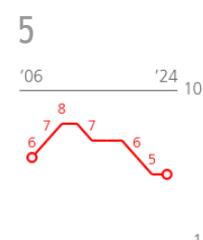
After the 2022 parliamentary elections, the parliamentary majority consisted of the SNS, the Socialist Party, United Serbia and the Solidarity and Justice parliamentary group. The coalition controlled 143 seats and was supported by some ethnic minority parties. The parliamentary opposition was clearly divided into pro-EU and anti-EU camps. Women were 38% of members of parliament, while 10 government ministers were women (including the prime minister). Few political parties ran under the same name as in the previous election. These changes confuse voters and reflect the confusion among anti-regime parties. Patronage remains an important issue. Membership in the ruling parties is seen as an opportunity for employment and advancement, as well as the fulfillment of personal interests. This is reflected in the fact that the SNS claims to have about 750,000 members.

Civil society organizations (CSOs) aspire to participate in policy and decision-making, but their success in practice is rather limited. There are approximately 35,000 CSOs in Serbia, with a growing trend and a significant increase in NGOs organized by the government and political parties (GONGOs). GONGOs are particularly visible at the local level, but some line ministries have also provided grants to GONGOs at the national level through opaque procedures – for example, the Ministry of Family Care put out a call for project proposals in 2021/2022.

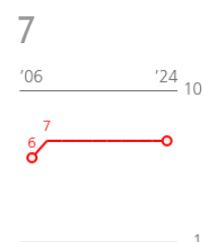
Trade unions are organized into several traditional associations. Although active in intersectoral bodies (e.g., the Socioeconomic Council, which is in charge of influencing government policies related to workers' rights), the actual impact of trade unions and the ability of trade unions to mobilize their constituencies are limited.

There are several business sector associations (e.g., the Chamber of Commerce of Serbia, AmCham, Nordic Business Alliance), with little mutual coordination of activities to improve the business environment. The degree of polarization between these associations is linked to their degree of affiliation with the ruling party. There are some sporadic initiatives of cooperation between interest groups from different sectors (e.g., CSOs and the business sector), but there are no strategic or structural cross-sector partnerships.

Party system



Interest groups



Citizens generally approve of democratic norms and procedures and accept the constitutional framework. According to the CRTA 2022 survey, 54% of citizens believe that democracy is the best political system for Serbia, while 45% believe that it is good for Serbia to have a leader to whom all citizens listen. According to the same survey, Serbian citizens tend not to trust the national parliament (only 25.9% said they trust it), the government (31.2% trust it) or the president (39.2% trust him). According to research by the Belgrade Center for Security Policy, citizens distrust the motives of members of parliament – 72% believe they care more about the interests of their parties than of citizens, and only 33% believe that the parliament can exercise control over the executive. Traditionally, the army is one of the most trusted institutions (64.4% trust it). By contrast, only 29.4% trust the police, 34.8% trust courts and prosecutors and 24.2% trust their local government.

The level of both interpersonal trust and trust in institutions is low in Serbia (European Social Survey, 2018 and 2020). Studies have shown social distance between ethnic Serbs and national minorities (e.g., discomfort in familial and social relations), although its intensity varies, with distrust of ethnic Albanians high and distrust of Roma the highest (Institute of Social Sciences, 2020).

Approximately 44% of Serbians believe that someone in their local area is concerned by the challenges facing other citizens (Center for Research, Transparency and Accountability, 2021). Only 26% of citizens reported having initiated or actively participated in solving problems or decision-making in their communities. There are more than 30,000 registered associations of citizens, but an overwhelming majority of citizens (95%) do not participate in their work (IPSOS, 2019); 79% of citizens state that they are not informed about the activities of civil society organizations, and around 22% of citizens express a negative view of them.

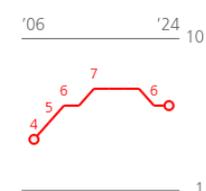
Approval of democracy

6



Social capital

6



II. Economic Transformation

6 | Level of Socioeconomic Development

The per capita gross domestic product places Serbia among upper-middle-income countries, according to the World Bank classification. In terms of the Human Development Index (HDI), Serbia ranked 63rd in the world out of 191 countries and territories in 2021, with a value of 0.802. This placed it lower than all other European countries, except for Albania, Bulgaria, Bosnia and Herzegovina, Ukraine, Northern Macedonia and Moldova. The overall loss in HDI due to inequality was 10.2%.

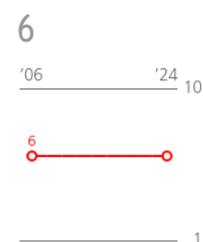
In 2021, the population faced significant risk of poverty or social exclusion, with 28.5% affected, notably surpassing the EU-27 average of 21.7%, reported by Eurostat. Among various demographic groups, young people aged 18 to 24, the unemployed, households with three or more children and single-parent households experienced the highest levels of risk. Absolute poverty afflicted 6.9% of the population. Poverty was notably more prevalent in non-urban areas, according to the National Statistical Office's data from 2020. Relative poverty, defined as incomes below 60% of the median income, was 21.7% in 2020.

Income inequality is among the highest in Europe, as indicated by the Gini coefficient and the S80/S20 income quintile share ratio. The S80/S20 income quintile share ratio was 5.9 in 2021, a decrease from 11.0 in 2016, though still higher than the majority of European countries. The EU average is 5.16, with Croatia and Slovenia (also both formerly part of Yugoslavia) scoring 4.62 and 3.20, respectively. The Gini coefficient for Serbia in 2021 was 33.3, which is similar to previous years. Additionally, the Gender Inequality Index for 2021 was 0.131, ranking it 36th in the world, according to the UNDP.

The economy is concentrated in big cities, with 40% of the national GDP being generated in the capital Belgrade alone. This leaves small communities with few economic opportunities, Resulting in a dual labor market. Seasoned workers, whose skills were acquired prior to the transition to a different economic system, now find their skills obsolete and have limited job prospects. Women have lower participation and employment rates than men. Additionally, Roma continue to experience widespread discrimination.

Question
Score

Socioeconomic
barriers



Economic indicators		2019	2020	2021	2022
GDP	\$ M	51514.2	53356.5	63082.0	63501.7
GDP growth	%	4.3	-0.9	7.5	2.3
Inflation (CPI)	%	1.8	1.6	4.1	12.0
Unemployment	%	10.4	9.0	10.1	9.5
Foreign direct investment	% of GDP	8.3	6.5	7.3	7.2
Export growth	%	7.7	-4.2	19.5	17.6
Import growth	%	10.7	-3.6	17.7	17.8
Current account balance	\$ M	-3535.3	-2176.8	-2654.4	-4434.0
Public debt	% of GDP	51.7	56.9	56.3	53.5
External debt	\$ M	32108.6	38016.1	41143.5	-
Total debt service	\$ M	6876.6	5010.7	5653.9	-
Net lending/borrowing	% of GDP	0.2	-7.4	-8.4	-
Tax revenue	% of GDP	24.0	23.5	20.6	-
Government consumption	% of GDP	16.6	17.5	16.9	16.3
Public education spending	% of GDP	3.6	3.6	3.3	-
Public health spending	% of GDP	5.1	5.3	-	-
R&D expenditure	% of GDP	0.9	0.9	1.0	-
Military expenditure	% of GDP	2.2	2.1	2.0	2.3

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The institutional framework for market competition is established and generally respected. The private sector is the most important economic actor, accounting for the dominant share of GDP generation and employment. The state still plays a significant role in the economy, with numerous state-owned enterprises (SOEs) in strategic sectors. It tends, however, to be inefficient, with high wage costs. Many SOEs rely on state support, including budget transfers or state guarantees for loans. In practice, the playing field is uneven, as politically well-connected firms do not have to adhere to the rules, and well-connected groups can influence government regulation to extract economic rents. There is no legal discrimination between types of ownership, but SOEs can benefit from regulatory advantages, for example, in barriers to entry in network industries. Foreigners cannot legally own land, but this can be circumvented by owning a local business entity.

Setting up a new company is easy and inexpensive, taking only a few days and incurring low fees. Business regulation once the company is up and running is not business-friendly. Administrative procedures are numerous and burdensome, often involving overlapping agencies and regulations, although electronic services have become more widespread in recent years. Corruption and other forms of favoritism by government officials are widespread.

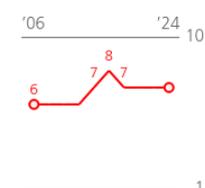
The country has a significant informal economy, divided almost equally between consumption and production, with a value-added tax (VAT) and income tax gap both exceeding 20%. Based on the Labor Force Survey, shadow employment accounted for 14% of the total labor force in the third quarter of 2022. The primary factors contributing to the informal economy's size are the dual nature of the labor market, the substantial tax burden (particularly driven by regressive minimum social security contributions for low wages and part-time employment) and the relatively high minimum wage, in comparison to the median wage.

Most prices are set by market forces, but independent regulators fix prices in several regulated markets with natural monopoly characteristics, such as energy (electricity and natural gas), postal services and utilities. The government has frozen the prices of basic foodstuffs, including milk, sugar, sunflower oil, flour and bread, and introduced a formula for determining the price of gasoline.

According to the IMF, Serbia is fairly advanced in liberalizing the movement of capital. Only short-term capital flows may be subject to some restrictions. The National Bank complies with Article IV of the IMF Statute, which makes the national currency (the dinar) convertible. Some of the remaining restrictions make it nearly impossible for Serbian citizens to open a bank account abroad, and resident natural and legal persons have to disclose any inflow of funds from abroad, regardless of the amount.

Market
organization

7



The legal framework for competition is mostly in line with existing EU regulations. The law on competition, adopted in 2009 and last amended in 2013, established the Commission for Protection of Competition as the public institution responsible for upholding anti-monopoly rules, but it is unclear whether actual regulatory implementation exists.

The commission is an independent state body charged with preventing restrictive practices, such as collusion agreements, and authorizing market concentration. It is a member of the International Competition Network. However, it does not function to its full capacity since, in 2022, it employed 53 people instead of the envisaged 70. A lack of expertise may undermine its work, but the biggest problem remains the exercise of undue political influence by the executive. The commission is mostly passive, investigating not many cases; in 2020, there were officially just four confirmed instances of collusion, with two acquittals and one dominant position confirmed. Furthermore, the commission has yet to issue a single negative opinion regarding concentration.

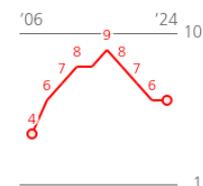
A significant problem in competition policy lies in the field of state aid – the existing legal framework is generally consistent with EU regulations, but rarely implemented due to intense political pressures for the financial assistance provided to state-owned enterprises (SOEs) and foreign direct investments (FDIs) through subsidies and tax referrals. State aid lacks transparency, as contracts with foreign investors are not publicly disclosed, leading to allegations of corruption. Additionally, the State Aid Commission is not an independent regulatory body but rather a part of the Ministry of Finance.

Although there are no commercial monopolies per se, the liberalization of network industries in which SOEs operate is progressing slowly. However, there has been some progress in railroad freight transportation, electricity and gas distribution.

Foreign trade is mostly liberalized, with the simple most-favored nation (MFN) tariff rate of 6.3% (WTO tariff profile). The bulk of Serbian foreign trade is conducted via bilateral free trade agreements, which include those with the European Union (EU), the Eurasian Economic Union (EAUE), the Central European Free Trade Agreement (CEFTA) and Türkiye. The most important trade partners are EU countries, especially Germany and Italy, which account for 65% of total trade, followed by countries from the region organized into the CEFTA at another 15%. Serbia takes part in the Balkan process initiative to create a common regional market in the Western Balkans but also advocates the Open Balkan, which envisages a faster and deeper regional integration with Albania and North Macedonia. Other important, but smaller, trade partners are China, Russia and Türkiye. In 2022, Serbia announced that a free trade agreement with China would soon be signed.

Competition policy

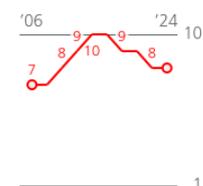
6



1

Liberalization of foreign trade

8



1

Serbia is one of the few European countries that is still not a member of the World Trade Organization (WTO). It has banned not only the production of GMO products but also their trade, actions that are incompatible with WTO rules. Similar to other countries, tariffs on agricultural products are higher than those on industrial ones, but the main obstacles to trade stem from non-tariff trade barriers, particularly in the area of product standardization and certification.

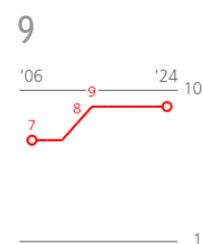
The customs office is not well organized and is poorly equipped, using obsolete electronic systems from 1996. The transit of goods has been made more efficient through the New Computerized Transit System (NCTS). However, the low quality of the transport infrastructure, particularly the railway and ports, still poses barriers, along with long customs procedures at border crossings. The “green corridors” for transit goods from the region sent to the European Union have significantly reduced time spent at border crossings.

The banking system in Serbia is considered stable and well-capitalized. Historically, it has dominated the financial system since the stock market has a very low capitalization. The banking sector is under the supervision of the central bank, which has the obligation of ensuring compliance with international Basel standards.

After a recent wave of mergers, there are currently 21 banks operating in the country. The market is dominated by foreign banks, mostly from EU countries such as Austria, Hungary, Italy and Slovenia, with a share of 85% of total assets. Following the series of bankruptcies of state-owned banks in 2013 and the privatization of the largest remaining state-owned bank, Komercijalna banka, only two small, specialized state banks remain: Srpska banka and Poštanska štedionica. These two banks hold less than 10% of the total bank capital in the country.

Serbia has fully implemented Basel III standards since 2015. Capital requirements align with international practice, and the average bank capital adequacy ratio in 2021 was 19.6% – significantly higher than the national or Basel III standard of 8%. In 2021, total bank net-balance assets accounted for 81% of GDP. Despite the crisis resulting from the COVID-19 pandemic and its impact on the economy, there has not been an increase in non-performing loans (NPL), which continue to remain well below 4%. The banking sector has also maintained profitability.

Banking system



8 | Monetary and fiscal stability

Nominally, the National Bank of Serbia (NBS) employs a monetary policy of inflation targeting. However, due to the extensive use of the euro in the Serbian economy and financial system, this framework is ineffective. The majority of bank loans and savings are denominated in euros, resulting in effective interest rates being more influenced by the European Central Bank (ECB) than the NBS. In response, the NBS has chosen to prioritize the exchange rate as its target in order to mitigate the significant impact of exchange rate fluctuations on local prices. This includes not only imported goods but also rents, salaries and the cost of capital.

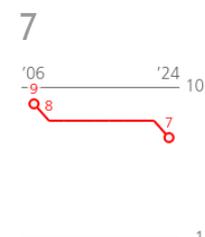
After almost a decade of low inflation at 2% since 2014, inflation rose to 7.9% in 2021 and 16% in 2022. The National Bureau of Statistics (NBS) emulated the European Central Bank's (ECB) monetary policy of maintaining the same exchange rate level. In line with the more restrictive ECB monetary policy, the NBS increased its key policy rate (5.25% in December 2022) and reduced liquidity in the financial market.

Foreign exchange is officially in a managed or dirty float regime, where the central bank suppresses high exchange rate volatility but allows the rate to move upwards or downwards in line with market pressures. However, in practice, it functions as a fixed regime since the NBS does not permit even small changes in the exchange rate. The national currency, the dinar, has remained stable since 2019 at RSD117.5 to €1. The real effective exchange rate continues to appreciate, resulting in the dinar being overvalued by 20% to 30% against the euro. Foreign reserves are relatively high, amounting to €19.4 billion or 36% of GDP in 2022. This is sufficient to cover more than six months of imports and doubles the IMF minimum requirements.

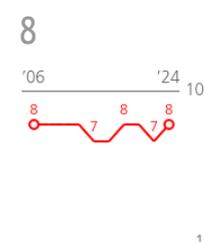
Public expenditure in Serbia is in line with that of most European countries, with general government expenditure reaching 42% of GDP in 2019 but rising to 49% in 2020 due to fiscal packages implemented during the COVID-19 pandemic. The share of public expenditure declined to 44% in 2022, following the end of those programs. Serbia exhibits a notably higher level of public consumption compared to other economies at a similar stage of development, with public consumption accounting for approximately 35% of GDP in Albania, Macedonia and Romania.

Public debt declined from a peak of 70% of GDP in 2015 to 52% in 2019, revealing prudent fiscal policy that allowed for fiscal measures to address the COVID-19 pandemic. The pandemic led to increased public spending, resulting in significant deficits in 2020 and 2021 due to rising health care costs and multiple support programs for businesses and households. Following the pandemic's deficit of -7.5% of GDP, small fiscal programs and strong economic performance helped reduce fiscal imbalances, narrowing the deficit to -3.3% of GDP in 2021. However, public debt reached 54% of GDP in November 2022, due to the high government support

Monetary stability



Fiscal stability



required for state-owned energy companies during the energy crisis that year and costly energy imports. Consequently, the government deficit in 2022 rose to 4% of GDP. Public spending on interest payments increased as interest rates rose and refinancing needs grew, reaching 2.5% of GDP in 2021, which remains relatively low and sustainable. Moving forward to 2022, Serbian government bonds are anticipated to maintain their non-investment and speculative (“junk bonds”) rating by Standard and Poor’s (BB+) and Fitch (Ba2), with the current level one notch below the investment rating.

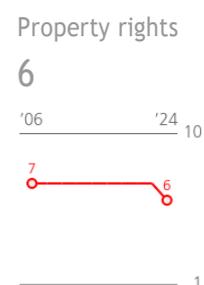
To ensure the future sustainability of public finances, the government introduced new fiscal rules at the end of 2022. These rules include the “high debt–low deficit” rule, which activates the debt brake at 60% of GDP. Under this rule, if public debt exceeds 60% of GDP, the budget must be balanced. If the debt falls within the range of 55 to 60% of GDP, the deficit cannot exceed 0.5% of GDP. For debt levels between 45 to 55% of GDP, the deficit cannot exceed 1.5%. Lastly, if the debt is below 45% of GDP, the deficit cannot exceed 3%.

Unfortunately, there are no effective instruments available to compel the government to adhere to these rules. The only recourse is for the minister of finance to present to the national parliament the reasons for noncompliance.

9 | Private Property

The legal framework that defines and protects property rights in Serbia is generally well-defined. However, its actual implementation faces numerous challenges. The judiciary and the prosecution experience substantial extrajudicial influence, primarily from the ruling parties and businessmen associated with them. This influence can significantly impact judicial proceedings and the protection of private property rights. A notable example is the infamous Savamala case in 2016. During this incident, national and municipal police did not intervene when a group of masked men demolished private property adjacent to a government real estate project. Subsequently, this land was included in the government’s development project. The real culprits were never identified.

Courts are slow and inefficient, resulting in lengthy legal proceedings with high associated costs. There is a significant backlog of cases. Bankruptcy resolution is likewise inefficient, involving lengthy procedures and low recovery rates. First-level commercial courts often lack expertise and knowledge, particularly in specialized areas like intellectual property rights or tax rules, due to the absence of specialized departments. In addition, there is little uniformity among similar court cases nationwide, typically leading to the referral of the majority of cases to appellate courts.



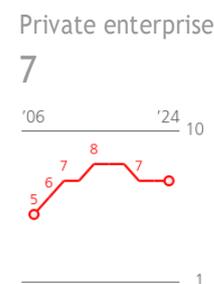
Property registration has been streamlined and made more secure with the introduction of public notaries. The cadaster does not cover significant parts of the country outside the major cities. There is also the problem of undeclared property: approximately 700,000 houses and buildings have been constructed without building permits, although the government encourages making them legal. Corrupt practices in the courts and land registry offices, as well as in legalization processes, continue to be significant problems.

The process of restitution of private property confiscated after World War II is still ongoing. In total, more than 700,000 square meters of objects and 118,000 hectares of land had been returned to their previous owners as of August 2022. Many problems remain in this area: in cases of state real estate development projects, the land on which development occurred was excluded from the restitution process, and monetary compensation was offered instead. This led to legal disputes as the appraised values of the land parcels were several times lower than their market value. The Agency for Restitution estimated the value of the property that could not be returned to its owners at €13.7 billion, while the government had decided to pay up to €120 million in compensation.

Private enterprises – including foreign and multinational companies – form the backbone of the Serbian economy. The high inflow of foreign capital has significantly increased the presence of multinational companies in the Serbian economy, with more than 20% of private sector employees being employed by foreign-owned companies in 2022.

State-owned enterprises (SOEs) are still present in many industries, including some sectors where state intervention is uncommon in other European countries – such as energy, mining, agriculture, transport and telecommunications. Network industries and utilities are under full state control, but the recent move to change the legal status of the power-generation company EPS would open the door to possible privatization. SOEs are characterized by inefficiency and poor economic performance, often marked by a low level of investment, high wage costs and significant losses. As a result, the state frequently provides support through subsidies or other forms of budget assistance. Many SOEs continue to enjoy a privileged market position, sometimes even as monopolies. The total number of SOEs with public duties – organizations that cannot go bankrupt since the government is legally obligated to ensure the provision of their services – reached 533 in 2021, employing approximately 10% of all employees outside the public sector.

The privatization process is not transparent, with many contracts hidden from public view. In many cases, potential buyers are announced prior to the bidding process or only one company is involved. There have been numerous allegations of corruption in privatization processes, but little litigation. The only significant recent privatization is the Petrohemija Chemical Plant (December 2021), now owned by the Russian state enterprise Gazprom Neft, through a strategic partnership program.



10 | Welfare Regime

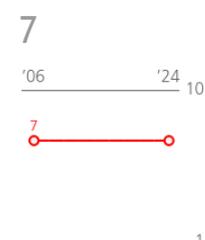
The social safety net in Serbia is based on mandatory social contributions to health care and retirement insurance, deducted from wage income. The state budget finances additional sums via transfers to cover these expenses, since contributions do not fully cover them. The average pension is currently slightly below 50% of the average net wage in the country. Retirement benefits are not universal, with a minimum threshold of 15 years of work, leaving approximately 150,000 elderly people without benefits. However, the system provides relatively good coverage, resulting in a lower poverty level among the elderly than the average population. Pension indexation follows the Swiss formula: half of the sum is increased in line with inflation and the other half in line with economic growth. Unemployment benefits are very low and can only be enjoyed for up to 12 months.

Low fertility rates (with a total fertility rate of 1.48 children per woman in 2020) and high emigration have resulted in a significant decline in population. The census conducted in October 2022 revealed that the country now has only 6.7 million residents, which is nearly 450,000 less than the previous census in 2011. This ongoing trend has placed an additional strain on the already overburdened welfare state, since there are increased expenses for health care and retirement benefits, borne by a diminishing working-age population. To ensure the long-term sustainability of the pension system, fiscal rules were implemented in late 2022, linking future increases in retirement benefits to their proportion of GDP.

The health care system is inefficient and expensive, with total health care expenditures reaching 8.7% of GDP in 2019 (World Development Indicators), significantly above that of regional peers at 6%. A significant share of total health expenses is paid out of pocket by patients themselves (up to 40%), covering private health care services. Health care outcomes in Serbia trail behind the country's European peers. Preventative practices are not widespread.

Even though the Financial Social Assistance program is well targeted, reaching most households from the lowest quintile, its coverage is still limited due to bureaucratic procedures. Moreover, many prospective recipients do not qualify for benefits. After several generous targeted social assistance programs during the COVID-19 pandemic, the government decided to continue providing social support through these targeting programs.

Social safety nets



The government has adopted the Strategy for Gender Equality (2021 – 2030), the Strategy for the Social Inclusion of Roma (2022 – 2030), and the Strategy for Prevention and Protection from Discrimination (2022 – 2030), along with accompanying action plans. The new Law on Gender Equality and amendments to the Law on the Prohibition of Discrimination were adopted in 2021. It is unclear when the draft law on same-sex partnerships, initiated by the Ministry of Human and Minority Rights and Social Dialogue, will be adopted.

In 2021, the majority of complaints received by the commissioner for the protection of equality pertained to discrimination in employment procedures or at work (24.6%), as well as procedures conducted by public authorities (23%). These complaints frequently cited discrimination on the basis of health status, gender, age and national affiliation or ethnic origin.

The Gender Equality Index for Serbia improved in 2021 (58) compared to 2016 (52.4). The largest improvement was observed in the area of power – including political power – which encompasses indicators measuring the proportion of women among those holding ministerial positions in the government, members of the National Assembly and members of local assemblies. The latest report reveals an increase in women’s representation in these political roles. In 2020, quotas were introduced to ensure the representation of under-represented genders in candidate lists for both national and local elections.

The labor participation rate is significantly lower for women than for men – 65.1% compared to 78.2% – and unemployment is slightly higher for women – 9.0% compared to 8.7% (Labor Force Survey III quarter 2022). The adjusted wage gap is 12.5%, after controlling for differences in education and job characteristics (Anić and Krstić, Economic Annals 2019). There is a negligible gender gap in education, with women completing an average of 11 years of schooling compared to 11.8 years for men (UNDP Human Development Report, 2022). Literacy rates among women and men are similar (99.1% and 99.9%, respectively) (2019). However, more women are enrolled in tertiary education than men, as indicated by a ratio of female to male enrollment of 1.3 (World Bank, 2022).

The Roma community continues to face high levels of discrimination, particularly in education and employment. Recent data (UNICEF, 2019) shows that only 7% of children from Roma settlements aged 3 to 4 attend an organized early childhood education program. While 92% of children of primary school age from Roma settlements attend school, only 28% attend secondary school. The action plan for implementation of the Employment Strategy (2021 – 2025), covering the period from 2021 to 2023, defines Roma as a hard-to-employ category, meaning that they should receive priority in the active labor market.

Equal opportunity

7

'06 '24 10

7

1

11 | Economic Performance

Serbia's GDP grew by 2.5% in 2022, a significant change after relatively positive results in 2020 (a mild recession of just -0.9% under COVID-19) and 2021 (high growth of 7.5%). The new investment cycle, which started in 2016, led to an increase in growth rates, driven by low interest rates and growth in the eurozone. These factors supported a substantial inflow of foreign capital and growth in exports. Furthermore, high public investments in infrastructure also played a role in supporting growth. However, when one-off events are excluded, the baseline economic growth rate is more moderate, at 3% to 4% of GDP. Given the country's relatively low level of economic development and the rates of growth achieved by Serbia's regional peers, this does not facilitate convergence with EU incomes. Growth is predominantly concentrated in construction, mining, agriculture, manufacturing and ICT services.

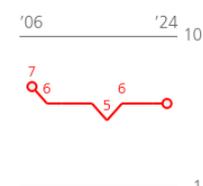
The Serbian economy did not experience a deep recession in 2020 and quickly rebounded due to the structure of the economy – which has a low share of hospitality and tourism and a high share of agriculture and manufacturing of primary products. Additionally, generous non-targeted relief packages (up to 12% of GDP) and lax pandemic restriction measures contributed to a rapid economic recovery. In the medium term, the growth rate is expected to moderate at 3% due to the increasing costs of capital and energy prices, as well as political uncertainties in the region.

Serbia remains one of the poorest countries in Europe in terms of GDP per capita, amounting to \$21,432 in current USD PPP in 2021 (IMF, WEO). Total investments in the country are lower than in other transition countries, but increased to 25% of GDP in 2021, as opposed to 18% in 2016 (IMF, WEO). This increase is mostly attributed to the government's higher expenses for public infrastructure and an increase in FDI inflow. FDI amounted to 7.3% of GDP in 2021, which is high in comparison to other countries in the region. However, the total FDI stock in Serbia remains low compared to other Central and Eastern European countries, reaching €38 billion, according to the National Bank of Serbia, below €5,600 per capita in 2021.

Unemployment reached a historic low of 8.9% in 2021, despite an increase in the size of the labor force to 55% in recent years. Although the unemployment rate is nearly the same for both men and women, the rate of inactivity among women is significantly higher, at 51% compared to 36% for men. This difference can be attributed to factors such as a lower retirement age among women, longer periods spent receiving education and traditional familial responsibilities, which often involve childrearing and caring for elderly or sick relatives. Among individuals aged 15 to 25, the NEET (not in employment, education, or training) rate was 13.5% in Q3 2022. Active labor market programs are limited in scope and receive scant funding, amounting to less than 0.8% of GDP in 2021.

Output strength

6



12 | Sustainability

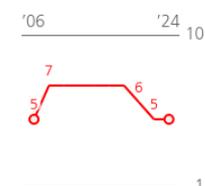
Serbia still faces challenges in meeting internationally accepted standards, in particular as regards administrative capacity for enforcement and monitoring, closing non-compliant landfills, investing in waste reduction, separation and recycling, improving air quality monitoring, advancing river basin management and preparing for the Natura 2000 strategy (EC Serbia Country Report 2022). The system for financing environmental protection and climate change is still far from functional. For the period from 2020 to 2022, the country planned to spend on average 0.5% of GDP on the environment, which does not meet the necessary reform requirements. A 2022 report by the Fiscal Council shows that the government had the fiscal space to increase investment in municipal infrastructure and the environment but chose not to do so. Over the past 11 years, more than RSD100 billion were collected through environmental taxes, of which only RSD40 billion were spent as intended. The rest of the funds (about €550 million) were used for purposes other than environmental protection. In 2020, the Green Fund was abolished at the national level, with no financial resources allocated for the years 2021 and 2022.

The legal framework to ensure protection of the environment from the harmful effects of plans and projects has improved, but implementation needs to be significantly improved. Citizen initiatives related to participating in environmental decision-making processes are growing, with some initiatives reaching the national level (e.g., citizen movements against lithium mining in Jadar, resistance to potential lithium mining by Rio Tinto and the dubious management of environmental hazards by Zijin Copper in Bor). According to the Serbian Environmental Protection Agency, some 2.5 million people remain exposed to excessively polluted air, and this issue is rapidly gaining public attention. The Working Group for the Systematic Solution of Air Protection Issues failed, however, to draft any meaningful measures to address this problem. Serbia has not yet aligned its legislation with the requirements of the EU acquis on national emission ceilings.

The problems of poor control of groundwater use, the use of river sediments and illegal and unregulated construction along rivers remain unaddressed. There are frequent cases of groundwater and soil pollution due to untreated industrial wastewater.

Environmental
policy

5



Public expenditure on education stood at 3.6% of GDP in 2019 (World Bank). The new Strategy for the Development of Education by 2030, adopted in 2021, recognized that there was a decline in public expenditure on education beginning in 2012 but did not set any new measures for improvement.

The latest U.N. Education Index was 0.779 (2021), similar to previous years. Primary and secondary school enrollment rates are high (95% and 92% in 2019, World Bank) as are the overall literacy rate (99% in 2019, World Bank) and the median years of schooling (11.4, U.N. Human Development Report, 2022). However, many 15-year-olds score poorly: 38% fail to achieve the minimum requirement for reading and science, and 40% do not achieve the minimum for mathematics (PISA, 2018).

The tertiary education enrollment rate (gross) was 69% in 2021 (World Bank). However, among people aged 30 to 34 years, only 35.3% had completed at least one level of tertiary education, which is lower than the EU-27 average of 41.6% (Eurostat, 2021). There are nine public universities and 50 public colleges, nine private universities, and 23 private colleges. Most students (85% in 2021) are enrolled in public universities. Only the University of Belgrade is included in international rankings (401–500 in the Shanghai University World University Rankings). Several prominent cases of corruption and plagiarism of Ph.D. theses have surfaced, to which the official response has been slow. One example is the controversy regarding Finance Minister Siniša Mali's doctorate, which was annulled by the Senate of the University in Belgrade because of plagiarism.

Expenditure on R&D (0.99% of GDP in 2021) has increased compared to previous years but lags significantly behind the EU-27 average (2.26%). The government and higher education sectors are the sources of most R&D funding, as the business enterprise sector accounts for only 2.1% of funds (2020). The Strategy for Science and Technology adopted in 2021 sets as one of its aims increased investment in R&D, in particular through intensifying cooperation with the private sector.

The total number of patent applications was 270 in 2021 (World Intellectual Property Organization). Serbia ranked 55th in the Global Innovation Index 2022 among 132 economies, similar to the previous two years.

Education policy /
R&D

7

'06 _____ '24 10



1

Governance

I. Level of Difficulty

Structural constraints on governance in Serbia remain significant. State capture is a threat to the quality of governance, independence and impartiality in the conduct of public affairs. Regionally organized crime syndicates have ties going to very high levels of the government itself.

Income and living conditions remain well below the EU average. In recent years, economic growth has picked up, with rising wages in real terms and unemployment at historic lows. However, in the medium term, economic growth is projected to be moderate due to rising interest rates and energy costs, as well as uncertainty stemming from the situation in Ukraine. Economic issues such as unemployment and low wages (along with corruption) remain among the most important topics in public opinion polls.

Outward migration from the country remains high. Economic reasons are the main causes of emigration, but high corruption and the low quality of government services are also cited as reasons for leaving the country. This phenomenon has already led to a tightening labor market in many industries and, for the first time in history, the import of workers from other emerging markets.

Significant sections of Serbian society are deeply conservative, inhibiting modernization and perpetuating traditional gender and family roles and lifestyles. The dissolution of Yugoslavia, and especially the unresolved status of Kosovo, still constitute a traumatic experience for a significant proportion of the population, which is torn between cooperation with the East and the West.

Infrastructure deficiency remains due to low underinvestment during most of the previous three decades of transition. The overall quality of infrastructure is ranked 51st out of 138 countries (World Economic Forum, Global Competitiveness Report 2019). Recent investments in public transport infrastructure have alleviated some bottlenecks. Public utility infrastructure, education and health care remain underfunded. Public investments were 7% of GDP in 2021 and 2022, but it will take years of high financing for the quality of infrastructure to increase visibly.

Structural
constraints

5

'06 _____ '24 10

5 4 5

_____ 1

The traditions of civil society in Serbia are rooted in dissident movements that began under communist rule and later targeted the regime of Slobodan Milošević: 35,733 civic associations (3.1% increase in total number from 2020) and 996 foundations (4.95% increase in total number from 2020) exist. There is a civic culture of participation and general participation.

The environment for civil society organizations is deteriorating. Violations of freedom of association, expression and assembly have been noted in the Monitoring Matrix on Enabling Environment for Civil Society Development for Serbia Report 2021. The trend toward establishing state-organized NGOs has continued. Although the framework for transparent state funding of these CSOs exists, there are gaps in it, especially with regard to individual and corporate donations, a lack of clarity in the definition of public interest in tax laws and political influence over the allocation of funds to civil society (especially at the local level).

An enabling environment for the development and funding of civil society organizations still needs to be created on the ground, as verbal attacks and smear campaigns against organizations continue (European Commission, Serbia Country Report 2022). Recent reports show a slight increase in citizens' trust in the ability of CSOs to address problems, but these figures are still far from the point where CSOs can rely on citizens for significant social capital. Laws on planning and local self-government, as well as several additional statutes, have introduced new modalities for CSO participation in policy development and decision-making.

The greatest polarization in Serbia remains the one related to the political conflict between the ruling coalition and the opposition parties. Ahead of the 2022 parliamentary elections, a form of dialogue between opposing political parties was initiated. After the vote, unlike in previous years, when there was no genuine opposition in the parliament, dissenting voices can now be heard. However, mudslinging is the prevailing form of current communication in the assembly. Outside it, public communication between political parties is almost nonexistent, with the exception of venomous exchanges in press statements. An example of Serbia's deep social cleavages is the Europride walk in September 2022. The event caused massive protests, both from supporters and those opposing it.

Currently, Serbian society is divided between the majority who support Russia's invasion of Ukraine as a preemptive strike against NATO and a minority that condemns Moscow. Influential media outlets close to the ruling SNS party openly support Russia's invasion. However, the president and the government endorse the territorial integrity of Ukraine. Should they choose to do otherwise, their credibility would be crucially diminished when demanding respect for Serbia's territorial integrity in the context of Kosovo Albanians' desire for secession.

Serbian society and political elite continue to be polarized on ethnic issues. There are also many unresolved issues with neighboring states. Polarization also exists in relation to many international issues (e.g., EU accession, NATO and relations with Russia and neighboring countries).

Civil society traditions

4

'06 _____ '24 10



1

Conflict intensity

5

'06 _____ '24 10



1

Social inequality is rising, particularly in the southeast and southwest of Serbia. Living in cities is far more advantageous than remaining in the province. Over the last 11 years, provincial municipalities have lost around 750,000 inhabitants. In 2021 alone, 135,194 people permanently moved from one place to another in Serbia (the vast majority migrated to Belgrade, Niš and Novi Sad).

In the recent past, environmental issues have provoked strong social disagreements. The regime remains in denial concerning the threatening air pollution in Belgrade and other cities and the huge damage to the environment due to coal, metal ore and other mining.

II. Governance Performance

14 | Steering Capability

Serbia did not adopt the Country Development Plan as a key national strategic document, although the government was obligated to submit the proposal of this plan to the parliament no later than January 1, 2020 (according to the Law on Planning System 2020). This is a simple political decision by the government, although there are some indications that the process of preparing the plan will start in 2023. At the same time, in 2022, the process of developing local development plans (key local strategic documents) by local self-governments significantly increased, which is a challenge because there are no strategic development goals and priorities at the national level to follow due to the absence of a national plan. Local governments lack the technical knowledge and staff to conduct evidence-based policymaking and regulatory impact assessments. Strategic planning units exist to formulate development plans, but they are understaffed and lack the resources to undertake sophisticated strategic planning processes.

The government elected in 2022 promoted six priority objectives: energy sustainability and efficiency, improving dual education, accelerating reforms toward EU accession, public health, building infrastructure and fighting for national interests. These political goals cannot serve as benchmarks for the above-mentioned strategic planning at the local level.

Most of the goals of the previous administration have been retained. A policy coordination system has been established, although it is not fully operational. In practice, challenges remain in policy development and coordination, as there is no mechanism to guarantee the inclusion of the Public Policy Secretariat's interventions in the final drafts of laws and policy documents presented to the government for approval. Centralized data on the outcomes of policy coordination and development

Question
Score

Prioritization

5



at the local level are not available. The capacity to gather administrative data and utilize them consistently in policymaking varies among ministries. Impact assessments are not consistently conducted before the submission of documents to parliament.

Frequent elections and a lack of political debate in parliament and society undermine any notion of government to define, pursue and achieve policy goals. The goals of the newly elected government in 2022 relate to energy policy, education, EU-related reforms, public health, infrastructure and the defense of national interests. However, the government does not address the challenges that remain from the previous administration. There is a high turnover rate of professionals and experts at all levels of government. The slow pace of environmental reforms is noted, leading to protests and actions against local administrations and the central government. The energy transition is slow. Serbia's energy system remains highly dependent on coal without a clear strategy for addressing this challenge. The sustainability of the public health insurance system is questionable, and there is no systematic approach to human resource management in the health sector, although a national plan exists.

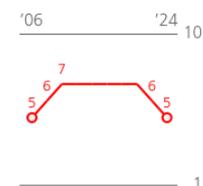
EU accession remains one of the nominal strategic goals of the government. However, Serbia did not open or close any negotiation chapters in 2022, while four chapters were opened in 2021 (transport policy, energy, trans-European networks and the environment). The current state of democracy and the weak rule of law explain the slow pace of reforms. The last report on the progress of the National Program for the Adoption of the EU Acquis (NPAA) was published in December 2022, according to which the government had adopted 26% of the planned regulations by the second half of 2022.

Weaknesses in the policy process stem from the government's unwillingness to create space for other political and social actors to participate or to face possible constraints on its executive power. As a result, civil society organizations and even independent state bodies such as the Fiscal Council or the State Audit Institution are not accepted as partners in policy planning and implementation. Members of these bodies are even attacked by the tabloid media and government officials for expressing expert opinions that differ from the official narrative. Unconstitutional veto players linked to different groups within the ruling coalition have significant influence over the policy process.

Although lobbying has recently been regulated, it is still largely conducted through backdoor channels, and there is little oversight. In violation of the constitution, President Vučić, through his tight control over the SNS party, exercises almost total influence over all segments of the administration, often overriding other policymakers. The influence of his cabinet and advisers (and closest aides and family members) is often greater than that of cabinet ministers.

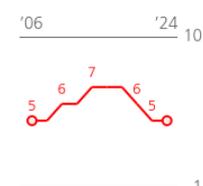
Implementation

5



Policy learning

5



Key reforms supported by international financial institutions such as the IMF and the World Bank, or by other international donors, have the greatest chance of being successfully implemented because of the government's desire to be seen as cooperative in the international arena. However, even in these areas, most proposals have not been fully implemented or have been delayed for years. The New Public Administration Reform Strategy lists de-politicization of the public administration as one of its priorities, but recruitment and promotion in the public sector are primarily linked to client networks.

Regulatory impact assessment has become part of the policy process, but its quality is mostly questionable due to low public administration capacity and a lack of understanding of its importance. Policy evaluation is still in its infancy and is usually only carried out in programs supported by international donors. There is no formal system for monitoring the achievement of government goals, which is performed by non-state actors (CSOs or international organizations) only in certain policy areas.

15 | Resource Efficiency

The public sector in Serbia is very inefficient, with an excessive number of employees and a low quality of services. State institutions often do not even have a record of the assets they are supposed to manage (state-owned enterprises, municipalities and even the State Property Company).

A major problem is the lack of meritocracy in the recruitment and promotion of civil servants – civil service jobs are seen as “prizes” by the political parties in power, which offer their members and close associates lucrative positions with little responsibility, in exchange for loyalty in following the party line. This creates a network of patronage and nepotism, where party membership and personal connections are more important than actual skills for obtaining a good position in the administration, cementing state capture. In state-owned enterprises, people with little or no relevant experience are appointed as managers. To ensure control over them, the government often appoints them on a temporary basis, even though this practice is against the law. This situation has led to a series of incidents in the state electricity company in 2021, which resulted in damages of more than €2 billion (3% of GDP). Those responsible did not face any significant repercussions.

Wages in the public sector are 15% higher than in the private sector. Public-sector jobs also provide a high level of job security. The public sector wage bill accounts for 10% of GDP. The wage system is not synchronized across the public administration, meaning that people with the same skills and responsibilities do not earn the same wage, simply because they are employed by different government institutions. There is a wage premium for low-skilled workers in the public sector, but also a wage penalty for high-skilled workers compared to the private sector, causing many high-skilled people to leave the service. The law on the hiring freeze

Efficient use of assets

5

'06 _____ '24 10



1

(one new person can be hired only after five others have retired) is still in force after almost a decade of implementation, although it has had a negative impact on the quality of public services. There are now visible problems of understaffing in several specialized areas, such as environmental inspection, tax administration and ICT support systems.

The level of public debt has increased slightly in recent years, reaching 54% of GDP in November 2022, after several waves of fiscal support allocated to the population and businesses during the COVID-19 pandemic since 2020. The IMF approved a new arrangement with Serbia in December 2022, the main objective of which is to increase economic growth and maintain the sustainability of public finances, including the level of public debt. Budget execution is largely in line with plans, with deviations stemming from fiscal risks related to state-owned enterprises, such as the payment of their accumulated debts through transfers not previously foreseen. Auditing public finances is carried out by the State Audit Institution, an independent body. However, even though it has found enough instances of inappropriate or wasteful management of public finances, this does not result in visible changes being made to existing practices that are not politically accountable to those in charge. The budget planning process is not fully transparent, although it includes medium-term projections and comments from the Fiscal Council, an independent government body. The government does not provide information on many programs considered politically important (state aid to foreign investors, financing of the secret services, procurement of military equipment and subsidies to state-owned enterprises).

Local self-government is asymmetrical, with one autonomous province (Vojvodina) and 145 other cities and municipalities (including the city of Belgrade, which has a special status). Municipalities have their own revenues but also receive transfers from the central government. In 2022, 11% of total public expenditures were covered by local governments.

The Law on Planning System remains the key legislative document that ensures coordinated implementation of various policy documents that involve both central and local levels of governance. After three years, the law has not been implemented to its full extent, and the goals it sets out are far from being achieved in practice. For example, the law obliged local self-governments to enact local development plans by 2021, but the expansion of these plans started only in 2022. Local self-government units have just started with developing mid-term plans, which are supposed to link local development plans in three-year program budgeting planning cycles.

The Public Policy Secretariat (PPS), the government body in charge of supporting policy coordination, faces the challenge of fully exercising its mandate. Although PPS opinions addressed to line institutions are mandatory (the PPS must be consulted in the drafting of new policy documents and legislative acts), they are not legally binding. Existing practices of policy coordination have shown that it is almost impossible to track the extent to which PPS comments have been integrated into

Policy
coordination

6

'06 '24 10



1

policy documents and draft laws. There is no sustainable coordination between the Ministry of Finance and the PPS in this process. The particular challenge here is the gap between financial impact assessments and financial information in regulatory impact assessments.

The PPS does not monitor the policy development-related activities of local self-governments, so there is a severe lack of data on the successes and effects of established policy-coordinating systems at the regional and local levels of government. There is only a partial balance between policy goals. The entire policy coordination framework is inhibited by the executive's dominance over the legislative branch and interference by President Vučić in policy prioritization. The quality of strategic planning and related documents is weak. Strategies are often not meaningfully linked to fiscal planning.

The institutional and legal framework for preventing corruption in Serbia is formally established but its implementation in practice is weak. The biggest problem is the lack of political will since corrupt practices provide space for wide clientelist networks that are used to obtain or remain in power through elections. The judiciary and the Prosecutor's Office are under the firm control of the executive, and many corruption scandals are not investigated or litigated. Independent public bodies in the field of anti-corruption are mostly committed to their work, but their prerogatives are limited, and they are often understaffed and underfinanced.

The current Freedom of Information Act is liberal and is often used by the media, CSOs and citizens. However, the law is not implemented to its fullest extent since the final authority is the government.

The Anti-Corruption Agency (ACAS) oversees conflicts of interest among state officials, their declared property and the financing of political parties. However, oversight is not effective, few transgressions are found and even fewer are prosecuted. The scope of the ACAS purview was significantly reduced when, in February 2021, the parliament reduced the number of people considered public officials.

The national strategy for fighting corruption expired in 2018 and has not been updated due to a lack of political will. Following pressure from the Group of States Against Corruption, the Law on Corruption Prevention was amended in 2022, but without proper public consultation and without incorporating the opinions of watchdog organizations.

The State Audit Institution (SAI) provides oversight of public spending but faces serious constraints on the resources needed to expand the scope of its audits. Proposals by the SAI to improve the public expenditure system are mostly ignored.

Anti-corruption
policy

5

'06 '24 10



1

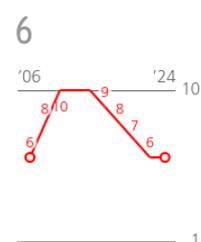
The area most prone to corruption is public procurement. In 2021, according to the Public Procurements Institution (PPI), the total number of bids was very low, only 2.5 on average per procurement, in line with the statistics in previous years. Of the value of all public procurements in 2021, 67% was conducted outside of the procedures outlined in procurement legislation, on the basis of various legal loopholes.

16 | Consensus-Building

A nominal consensus exists between the ruling party and the opposition parties that democracy, the rule of law and the market economy represent strategic goals. Most political parties in parliament support the EU accession process as a strategic objective. However, in practice, democracy continues to deteriorate because decision-making is concentrated in the hands of the president. Beyond this, legislative scrutiny is often hampered by nontransparent, non-inclusive decision-making processes. The executive continues to hold the real power and exercise control over the legislative branch, while the judiciary is mostly inefficient and sometimes corrupt. The rise of anti-EU political parties, which won seats in the parliament elections in 2022, raises concerns regarding the country's commitment to adhering to EU standards and the values of democracy, the rule of law and the market economy. The president, the government and the ruling parliamentary majority still maintain anti-democratic practices. They neglect the constitution, abuse their power and foster a political culture of intolerance and hate not only toward political opponents but also toward anyone who thinks differently (civil society activists, intellectuals, independent journalists, etc.). Two openly extremist, anti-democratic parties (Zavetnici, Movement Dveri) surpassed the 3% electoral threshold and entered parliament in 2022.

The development of a market economy remains one of the key priorities of the new government. The Economic Reform Program (ERP, 2022 – 2024), a strategic framework created by the Ministry of Finance, entered its seventh consecutive cycle and continues to be a key policy document for developing the Serbian economy, which is also part of the ongoing EU accession process. Serbia has made some progress in developing a functioning market economy (EC 2022 Country Progress Report). Important reforms are still needed in public administration and the management of state-owned enterprises. An overall system for strengthening fiscal rules and policy needs to be established. The state still has a dominant influence on the economy. Private sector growth is still undermined by a high level of corruption, the inefficiency of the judiciary and a lack of enforcement of fair competition.

Consensus on goals



President Aleksandar Vučić has amassed all state power, often in violation of the constitution. Other anti-democratic actors, present in nationalist and extremist organized groups, are active only when the regime allows them to surface. Standard examples are political disputes between Kosovo and Serbia, protests against the LGBTQ+ population (e.g., violent protests against Europride in 2022) or support for Russia's military intervention in Ukraine. Organized groups of football fans are linked to the government and the ruling party. Such anti-democratic actors do not have much political influence but come to the fore during political crises when they are ordered to spread hate and create chaos. Other important anti-democratic actors include the ruling majority (which presents itself as nominally democratic) and some euroskeptic opposition groups.

Reformers and advocates of democratization processes are major pro-European opposition political actors represented in local and national parliaments. NGOs, some media outlets critical of the government and some members of the academic community are important supporters of democratic reform and constantly under attack, either from the government, the ruling party or groups associated with it. However, they are not influential enough to persuade anti-democratic actors to adhere permanently to constitutional rules or to develop a basic consensus on democratic principles and values. Reformers still look to international actors to pressure anti-democratic groups to follow and implement democratization processes.

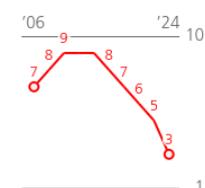
Political leadership, principally the president, either prevents or induces potential conflicts based on ethnic and national cleavages, depending on the political context. Smear campaigns are often directed against opposition parties, civil society actors, minority ethnic groups and other countries (Albanians, Western powers, etc.), labeling them as traitors, foreign mercenaries and opponents of reforms.

Society as a whole is considered deeply polarized due to political divisions between the ruling party and the opposition. Although the political party system is structured to allow for pluralism, the ruling party creates an atmosphere of constant conflict between two opposites. Civic protests are often sites of conflict between the two sides.

The constitution and laws regarding the national parliament, the state administration, the planning system, and rules of procedure provide a framework for stakeholder involvement in the legislative process and policy planning. The Strategy for Enabling Environment for Civil Society was adopted in 2022, with an action plan to be implemented in 2023. The capacity of CSOs to engage in policy dialogue varies across the sector. Mechanisms for dialogue and cooperation between civil society and the state are vaguely defined and depend on the authorities' interests. In practice, civil society participation remains largely ad hoc and depends on whether the government wants to involve CSOs or not.

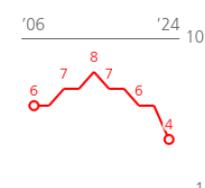
Anti-democratic actors

3



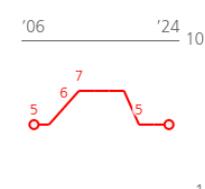
Cleavage / conflict management

4



Public consultation

5



The existing draft Law on Social Entrepreneurship significantly undermines the efforts of CSOs to act as providers of social services. CSOs struggle to secure funding, and the government fails to ensure the transparency of their public funding (especially on the local level). Here, one must note the negative trend of public funding for GONGOs.

Associations of journalists have played a crucial role in drafting Serbia's new media strategy and are constantly pushing for its full implementation, since the SPS, the ruling party, has avoided this systematically over the past three years.

The current regime in Serbia is ideologically and personally rooted in the Milošević system of the 1990s. An often-revisionist narrative about the roots of the armed conflicts in former Yugoslavia still dominates the mainstream discourses of the political parties in power. President Vučić, his entourage and his political allies in academia, the media, and other sectors of society appear unwilling to confront the region's conflict-laden past. Hate speech and distortions in the mass media controlled by the ruling party are constant obstacles to reconciliation.

Serbia has adopted a national strategy for the prosecution of war crimes for the period from 2021 to 2026, but, according to the European Commission 2022 Country Report, it has a backlog of 1,731 pre-trial cases. Civil society representatives have pointed to a lack of real progress in dealing with the past. Government officials have not supported attempts to address all the war crimes committed in the 1990s. Some government officials, including the minister of the interior, use chauvinistic rhetoric when speaking about ethnic Albanians in Kosovo or other "enemies," without any reaction from their superiors.

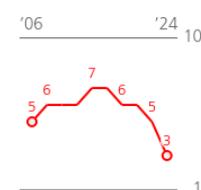
17 | International Cooperation

The country does not have an overarching strategic document, that is, a road map (National Development Plan), that specifies the achievement of development goals with the defined inputs required from international partners. However, there are some strategic policy objectives at the sectoral level that are mostly aligned with the objectives of the EU accession process or with the objectives of specific EU policies that are subject to the accession negotiation process.

Serbia continues to receive financial and technical assistance, in particular through the EU Instrument for Pre-Accession Assistance (IPA) III, which aims to support the reforms necessary for European integration. A new round of pre-accession assistance will cover the period from 2021 to 2027, following the adoption of the EU's multiannual financial framework, with a total amount of €14 billion. However, the administrative capacity of key institutions to manage EU funds remains weak.

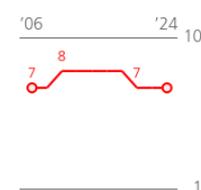
Reconciliation

3



Effective use of support

7



Serbia also receives development grants from Germany, Norway, Sweden and Switzerland. But, by far, the most assistance to Serbia comes from the European Union (€3.7 billion) and the United States (€1.2 billion). However, compared to the assistance Serbia received from China and Russia, EU and U.S. assistance received much less coverage in the national media. In addition to the EU member states, Norway, Switzerland and the United States, foreign aid is provided by Japan (2.50%) and China (0.60%). Serbia is increasingly looking to China and the Gulf region for investments, and the United Arab Emirates has emerged as an important source of loans.

Serbia has been a party to the U.N. Framework Convention on Climate Change since 2001 and to the Paris Agreement since 2017. It adheres to the ILO core labor standards. Serbia has ratified the main U.N. human rights treaties, including the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

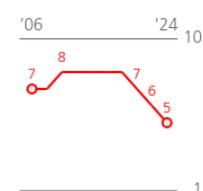
Serbia did not manage to open any chapters in its EU accession negotiations in 2022. In total, 22 out of 35 chapters remain open, while two were temporarily closed. The main shortcomings in Serbia's integration into the European Union are related to the rule of law.

EU accession remained Serbia's main strategic goal. Most of the government's policies are developed in concert with this agenda. However, Serbia has not proven itself a trustworthy partner to the EU, especially in several crucial cases. First, the Brussels Agreement aimed to normalize relations between Kosovo and Serbia but did not manage to do so fully; 2022 was marked by the factual suspension of certain elements of the agreement and mutual accusations of not reinforcing certain provisions of the agreement (e.g., the Association of Serb Majority Municipalities in Kosovo and the use of Kosovo car plates). Second, there is a large gap in harmonization with the EU Common Foreign and Security Policy and compliance with decisions adopted in Brussels. In 2022, Serbia complied with 45% of all decisions adopted by the European Union (the Ministry of European Integration, NPAA report), which is a decrease compared to previous years. Third, Serbia did not harmonize its positions regarding Russia's aggression against Ukraine.

The highest state and political representatives continue to publicly disparage the judgments of the International Criminal Tribunal for former Yugoslavia.

Credibility

5



Disputes remain with most neighbors over ethnic issues, mainly the position of ethnic Serbs (in Croatia, Bosnia and Herzegovina, Montenegro and Kosovo), legal issues (Croatia, Montenegro and Kosovo), and diplomatic issues (Kosovo). As far as relations with Kosovo are concerned, the Brussels Agreement has yet to be implemented. It remains uncertain if the Washington Agreement, which resulted from the Belgrade-Priština dialogue facilitated by the United States, will be implemented (especially after the new Franco-German proposal was tabled in 2022).

Serbia maintains very good relations with the right-wing government in Hungary. Relations with Bulgaria and Albania have fluctuated, depending on Serbia's position on the dispute between North Macedonia and Bulgaria and developments in Serbia's relations with Kosovo. The Serbian Orthodox Church (SOC) played a strong role in the tabling of the Law on Religious Freedom in Montenegro. This led to protests in 2020 and 2021 and ended with the signing of a detailed agreement on the SOC's position between the SOC and the Montenegrin prime minister. The SOC recognized the autocephaly of the Macedonian Orthodox Church in May 2022. This would not have happened without the tacit agreement of the Serbian state.

Serbia participates in several regional initiatives, including the Southeast European Cooperation Process and the Central European Initiative. Serbia, along with other Western Balkan countries, participates in the Berlin Process – a platform for high-level cooperation among high-ranking official representatives of the Western Balkan countries. Along with other southeast European states that are not members of the EU, Serbia is a signatory to the Central European Free Trade Agreement. A Mini-Schengen agreement, which was signed in 2020, became fully operational, ensuring the free flow of goods, persons, services and capital in the medium term.

Regional cooperation

6



1

Strategic Outlook

Serbia is an EU candidate country, but its accession negotiations have stagnated, making it unlikely to join the European Union in the near future. Its lack of progress can be attributed in part to the deterioration of democracy in Serbia, as well as the fact that EU enlargement is not currently a priority. In an effort to revive accession negotiations, the European Union introduced a new enlargement methodology in 2022. However, no new negotiation chapters were opened as a result. The uncertain prospect of Serbia's EU membership, along with the EU's stance on resolving disputes over Kosovo, diminishes the appeal of membership for Serbian citizens. This situation also weakens the authority of advocates for reform and democracy, while enabling President Vučić, an autocratic ruler, to persist in his ambiguous foreign policy approach and suppression of dissent in the country.

Although the opposition returned to the Serbian parliament after the 2022 elections, the ruling parties show no intention of engaging in dialogue with the opposition. The polarization between supporters and opponents of the ruling parties is deepening. The power of the legislature needs to be restored, particularly in terms of its independence from the executive. The government and the president need to respect their constitutional roles, especially in the legislative process and in coordinating key strategic development processes. An environment that enables civil society is required, and civil society members need to be effectively involved in decision-making processes.

Anemic economic growth since 2008 can be attributed to adverse external influences, but also to low institutional quality, including a weak rule of law and widespread corruption. Emigration remains high due to a lack of economic opportunities and weak public services. Demographic changes continue to constrain social progress, with health and pension costs rising.

Serbia's GDP in 2022 was approximately 10% higher than its pre-COVID-19 level. The process of nearshoring and shortening supply chains, as multinational companies move production out of East Asia and closer to their end markets, presents an opportunity for Serbia to attract foreign direct investment (FDI) due to its proximity to the European Union (EU) and due to lower labor costs compared to other countries in the region.

Geopolitically, Serbia is caught between the West, Russia and China. The country remains torn between its ambitions to join the EU, the growing attraction of China for investments and infrastructure loans that go beyond mere business interests and the continued influence of Russia, particularly in the energy sector. Maintaining this balance may prove challenging in the long run, which could lead to the further deterioration of democracy, the rule of law and human rights standards in the country.