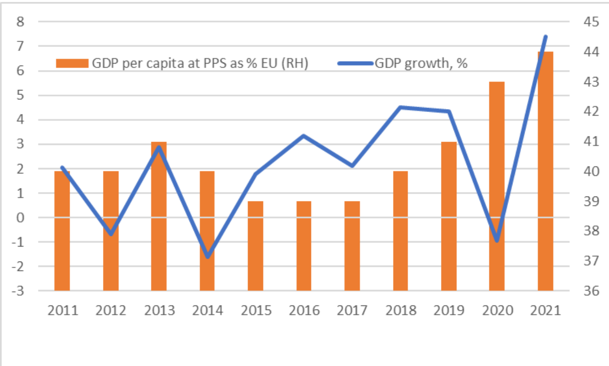
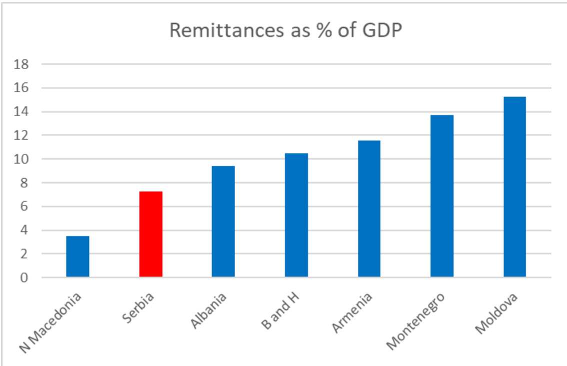
**SERBIA**
**Country brief**

## Economic overview

***Despite good recent economic performance, EU convergence has been slow***

Economic expansion accelerated in the second half of the last decade, which resulted in an annual average GDP growth of 2.3%. The aftershocks of the war in Ukraine have disrupted the strong recovery from the COVID-19, dampening expansion and creating pressures on the energy sector. Progress in narrowing the gap with the EU has been slow:  GDP per capita at PPS in 2021 was 44% of the EU average in 2021, just 4 percentage points higher than a decade earlier, reflecting recent good performance.  Overall economic activity is constrained by the shortcomings of the labour market, with low rates of participation employment.  Migratory outflows have led to substantial remittances.

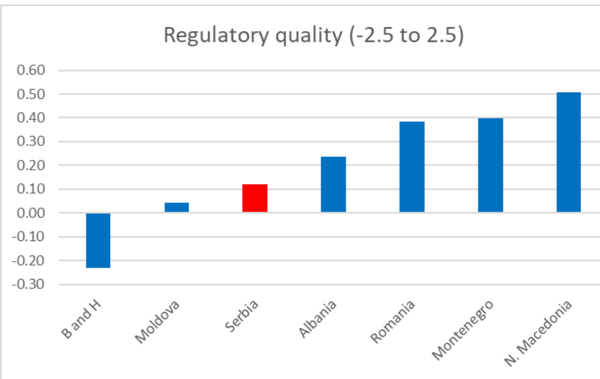


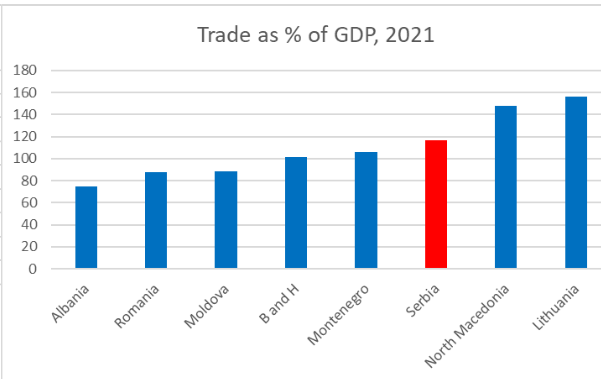




Source: Eurostat, IMF, World Bank

***Regulatory changes and improved infrastructure will facilitate integration***

Serbia is an open country, whose main commercial partner is the EU.  Ongoing initiatives seek to tap into the potential for subregional cooperation, which would contribute to increase the attractiveness of West Balkan countries as investment destination.  Improved transport infrastructure would facilitate further economic integration but also reduce rather high mortality due to road accidents. There is room for improving regulatory quality, which appears low in comparison with other countries in the region.  Regulatory alignment with the EU will drive changes in multiple areas in the future. In December 2021, the cluster on green agenda and sustainable connectivity were opened for negotiation.

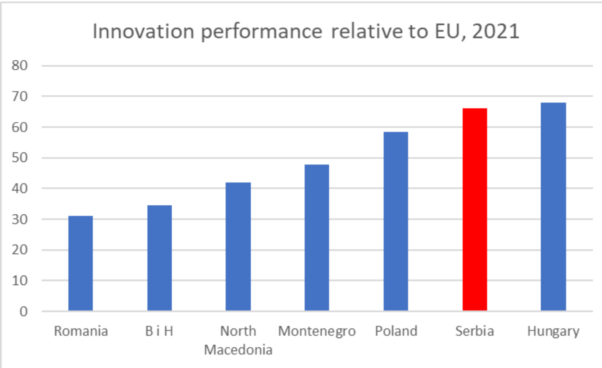


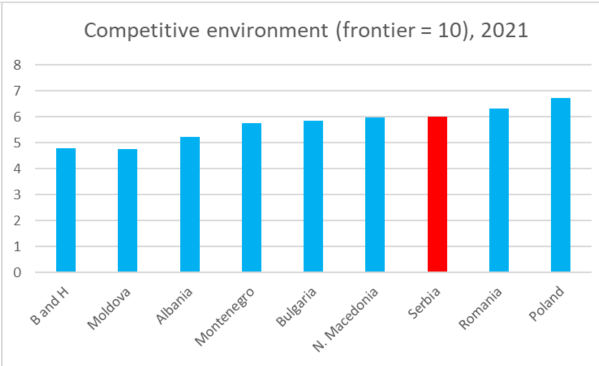




Source: World Bank Governance Indicators, World Bank Development Indicators

***Innovation performance has improved but skills and governance constraints remain***

Serbia scores well in comparison with other West Balkan countries regarding its competitive environment. Relative innovation performance vis-à-vis the EU has improved in recent years. However, gaps in governance and barriers to SMEs development prevent faster growth in productivity. Skills mismatches contribute to worsen labour market problems.

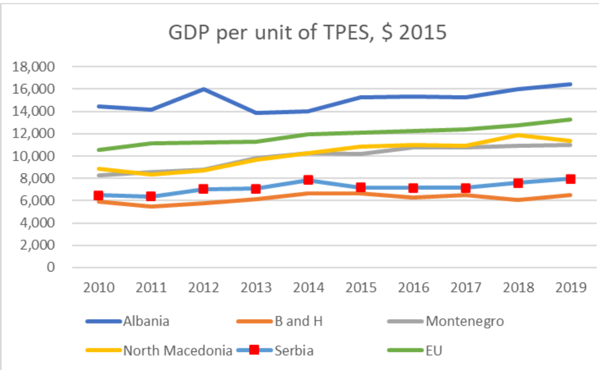


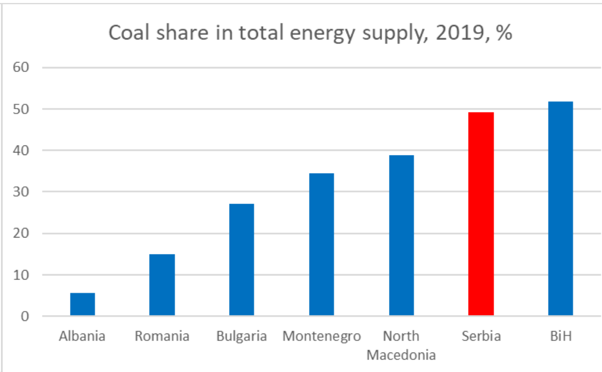




Source: EU Innovation Scoreboard, EBRD

***Green and circular transition is necessary to address environmental problems***

Energy intensity is rather high, in comparison with both other countries in the region and the EU, driven by low energy prices. The coal share in total energy supply is the second largest in the region, leading to high greenhouse gas emissions. Renewable energy accounts for around one fifth of total final energy consumption but most of it is hydropower. Air pollution, including from residential heating, is a significant problem, leading to negative health impacts. The waste treatment and disposal infrastructure is inadequate, which results in environmental problems. Multiple legal initiatives in recent years are putting in place a framework to address these problems.

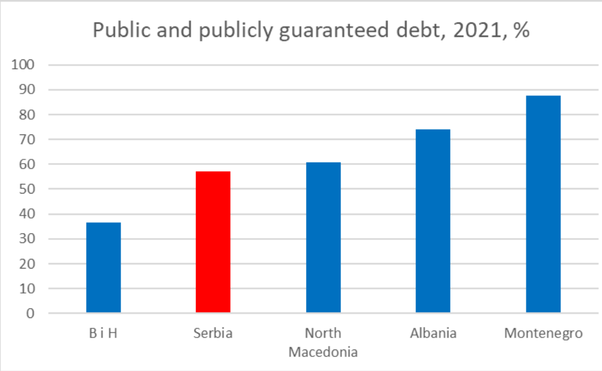


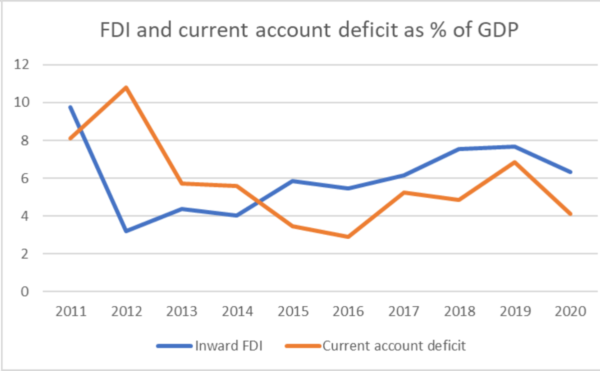




Source: IEA; SDG UNECE database

**Multiple financial options are available**

The government provided very large fiscal support during the pandemic, with a programme worth almost 12% of GDP in 2020. Despite this, public finances are in good shape, following years of fiscal consolidation prior to the pandemic. The country benefits from EU funding and retains good access to international capital markets, despite some deterioration in spreads in a changed international context. FDI has comfortably exceeded current account deficits in recent years.




Source: World Bank Development Indicators, UNCTAD