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Strategic Change
“Franco Fontana”

GEOPOLITICAL RISK OBSERVATORY

Serbia

An overview

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GRO Country Profile: Serbia

GRO Country Profiles are neither extensive analyses nor news updates. Rather, they provide a general perspective on selected areas and issues, identifying a set of factors and variables that organizations should monitor in order to anticipate risks.

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Summary

- Serbia is a unitary parliamentary republic where the National Assembly holds legislative authority and grants confidence to the government. Executive power is led by the Prime Minister and the Council of Ministers, while the directly elected President appoints the Prime Minister and promulgates laws. Courts, prosecutors, and the Constitutional Court are intended to uphold legality and institutional checks.
- Serbia pursues a multi-vector foreign policy. While they continue to depict EU accession as a primary objective, it resists full foreign and security alignment with the bloc, declining sanctions on Moscow, cultivating an extensive strategic partnership with Beijing, and proclaiming military neutrality while cooperating with NATO.
- Serbia's business climate is under strain due to slowing growth and halved FDI, as well as enduring regulatory unpredictability, labor shortages, and sanctions exposure tied to Russian-linked energy assets. Agricultural unrest, political volatility, and stultified path towards EU regulatory harmonization create additional problems for the fiscal and investment realms.

Basic Parameters

Indicator	2020	Latest value

GDP (PPP, USD bn)	144.972	214.005 (2025)
Population (mn)	6.9	6.6 (2025)
Population under 25 (%)	24.62	24.48 (2025)
Population over 65 (%)	21.57	23.05 (2025)
Urban population (%)	61.22	62.64 (2025)
Unemployment rate (%)	9	7.3 (2025)
Youth unemployment 15–24 (%)	26.608	20.926 (2025)
CPI inflation (% annual average)	1.576	3.890 (2025)
General government debt (% of GDP)	54.3	42.4 (2025)
FDI inward flows (USD mn)	3.360	2.605 (2025)

Sources: IMF - World Economic Outlook (GDP PPP, General government debt); World Bank World Development Indicators (Total population, Urban population, Population under 25, Population over 65, Unemployment rate, Youth unemployment rate); National Bank of Serbia (FDI inward flows)

Historical context

In the post-WW2 period, Serbia was embedded in socialist Yugoslavia. The first decisive geopolitical break came with the Tito-Stalin split in 1948, when Yugoslavia was expelled from the Comintern. Consequently, Belgrade began to chart a more autonomous socialist course, culminating in the first Non-Aligned summit in 1961, which anchored the country's Cold War inheritance in strategic hedging rather than bloc subordination.

That late socialist order unraveled as Slobodan Milošević became Serbian president in 1989, fusing republican power with assertive nationalism. After Yugoslavia's breakup, Serbia became the core of the Federal Republic of Yugoslavia in 1992 and was drawn into various bloody succession wars. Both the Bosnian and the Kosovar crises internationalized Serbia's trajectory, as NATO bombed Yugoslavia in the late '90s and entrenched a lasting Serbian suspicion of the West, as well as elevated Kosovo into one of the central axes of national strategy.

A major political rupture followed in October 2000, when mass protests overthrew Milošević and reopened Serbia to Europe. Statehood was recast after Montenegro's independence in 2006, while parliament declared military neutrality in December 2007. Kosovo's declaration of independence in February 2008 then hardened Serbia's alignment dilemma, as it sought EU integration but rejected NATO membership and treated non-recognition of Kosovo as a core diplomatic priority.

Since then, Serbia has continued to pursue a dualistic strategy, applying for EU membership in 2009, gaining candidate status in 2012, signing the Brussels normalization agreement with Kosovo in 2013, and opening accession talks with the bloc in 2014. However, their alignment remains a balancing act rather than full alignment, with Serbia remaining outside NATO and accession talks with the EU stultifying. Additionally, it continues to preserve significantly close ties with Russia, relying heavily on its gas despite nominal engagement with the EU and asserted intentions to diversify its energy routes.

Institutional Set-Up and Structural Challenges

Serbia is best described as a competitive authoritarian or hybrid regime rather than a consolidated liberal democracy. Formally, it is a unitary parliamentary republic: the unicameral National Assembly dominates lawmaking, the government is responsible to parliament, and the president (though constitutionally distinct from the cabinet) has become the system's real political center under Aleksandar Vučić. Freedom House currently classifies Serbia as 'Partly Free' and a 'Transitional or Hybrid Regime,' underscoring the gap between democratic form and increasingly illiberal practice.

Government stability is superficially strong but increasingly contentious. The Serbian Progressive Party has maintained durable control since 2012, limiting coalition volatility, but that stability rests on media dominance, patronage, and weak electoral conditions rather than broad institutional trust. The political climate has become more polarized since the November 2024 Novi Sad canopy collapse, which triggered sustained anti-corruption protests through 2025 and 2026. Reuters and the EU have also reported clashes, violence, and irregularities around protests and local voting. Near-term regime rupture remains unlikely, but renewed protest escalation or a snap-election crisis is more plausible, especially before the next regular presidential and parliamentary cycle due by 2027.

Governance, however, is Serbia's clearest structural weakness. The European Commission's 2025 reports say democratic institutions face serious strain, public-administration accountability remains weak, and the judiciary has made "no progress" overall. The World Justice Project ranked Serbia 94th of 142 in its 2024 Rule of Law Index, while Transparency International gave Serbia scored it 116th out of 182, values that are consistent with the entrenched corruption, politicized enforcement, and state capture risks concentrated around procurement, infrastructure, energy, and state-linked businesses. Governance shocks are therefore at a medium to high probability level, likely to manifest as scandals, selective prosecutions, and reform paralysis.

Economically, Serbia is not a classic one-commodity state, but it is very much externally dependent and state-tilted. Growth has been resilient, but the IMF continues to stress governance reform, commercial and judicial improvement, and SOE restructuring, as energy SOEs remain financially and politically salient, and industrial policy often relies on subsidies and discretionary state aid. Socially, the picture is more mixed, as overall unemployment is moderate, but youth labor market strain, emigration, aging, and regional inequality remain real drags. Socioeconomic shock risks are at around a medium probability level, driven less by mass deprivation than by demographic decline, skills shortages, and uneven development.

Internationally, Serbia follows a multialignment policy that both contributes to its resilience and its long-term risk levels. It is an EU candidate and heavily integrated with the European market, with the EU remaining its main trade partner, but Belgrade remains outside of NATO, proclaims military neutrality, and has yet to align with EU sanctions on Russia over Ukraine. Energy is its sharpest dependency, as verifiable international outlets continue to report that up to 90% of Serbia's gas comes from Russia despite certain diversification efforts. The main regional fragility remains the Kosovo question, as periodic crises in northern Kosovo keep the country close to a regional security flashpoint, making ethnic and security shocks medium probability despite no high likelihood of full-scale conflict.

Business implications

Opportunities

Serbia's investor case still rests on a mix of cost competitiveness, market access, and active state support. The government, through the Development Agency of Serbia, offers cash grants for eligible greenfield and brownfield projects in manufacturing and tradeable services, below-market construction land for projects of national or local importance, and a 10-year corporate profit tax holiday for investors that invest more than €8.5 million and employ over 100 workers. The US State Department's 2025 investment climate review says Serbia's investment environment has modestly improved on the back of macroeconomic stability, fiscal discipline, and EU-supported reforms, despite governance frictions persisting.

The strongest forward-looking opportunities are in sectors already backed by international financing and policy momentum. The EBRD identifies Serbia's main growth tracks as the green energy transition, private-sector competitiveness and digitalization, and sustainable infrastructure and regional connectivity. In practice, that points to renewables (especially wind and solar, district-heating modernization, and energy efficiency), environmental infrastructure such as waste, wastewater and circular-economy projects, and transport/logistics, particularly rail and corridor-linked projects. The EBRD is also supporting SME finance, green and digital upgrading, science and technology parks, and start-up ecosystems, with its Serbia page showing fresh 2026 pipeline activity in energy and SME finance, strengthening the case that these sectors will remain investable in the near term.

From a geopolitical risk perspective, the relatively more insulated segments are those tied to domestic demand or EU-facing value chains rather than to politically sensitive exports or Russia-linked energy inputs. As such, that includes banking, telecoms/IT, business services, retail, healthcare, food processing, and export manufacturing integrated into European supply chains. The broader Western Balkans policy backdrop is also supportive, as the European Commission announced a €171 million support package for infrastructure and private-sector growth earlier this year, with priority areas including digital, clean energy, transport, environment, and human capital.

Challenges

- *Security challenges:* Serbia's security environment is manageable but not negligible for EU-aligned investors. There is no armed conflict and terrorism risk is low, but crime, especially violence linked to organized crime and some high-profile sporting events, is a recurring concern. The main business-relevant risk is therefore not nationwide insecurity but localized criminality and episodic urban unrest: the State Department's 2025 investment review notes organized crime as a regular phenomenon, while recent anti-government protests have produced clashes mainly in Belgrade and other major cities rather than across the whole country. For most firms, the impact is indirect: higher compliance and site-security costs, greater exposure to corruption or criminal infiltration in sectors such as construction and transport, and occasional disruption to commuting, local logistics, and public-facing operations during demonstrations, rather than sustained nationwide damage to supply chains or labor availability.

  Serbia's security risk is assessed as Band 3 (*medium challenges*).

- *Regulatory challenges:* Serbia's regulatory burden for foreign investors is moderate but uneven, as the country remains broadly open to FDI and profit repatriation is legally permitted, yet the U.S. State Department reports vague and conflicting regulations, tax ambiguity, and bureaucratic inefficiencies, while the European Commission says public-procurement exemptions are widely used and judicial enforcement remains weak. The World Bank's 2025 B-READY data suggest the formal framework is reasonably solid overall, but business operations still slow down in areas such as insolvency, permitting, procurement, and dispute resolution. For EU-aligned firms, the main external regulatory complication is not broad sanctions on Serbia itself, but Serbia's partial non-alignment with EU Russia sanctions, which raises compliance, screening, and reputational costs, especially in energy and counterparties with Russian links. This has been made concrete by repeated U.S. sanctions waivers for NIS, Serbia's Russian-linked oil company. In practice, the biggest effects are higher legal and due-diligence costs, slower approvals and contract enforcement, and added caution in supply chains, banking, and partner selection, rather than formal barriers to trading, moving capital, or serving customers.

Serbia's regulatory risk is assessed as Band 2 (*low challenges*).

- *Governance challenges:* Governance risk is one of Serbia's most material business constraints. The European Commission's 2025 Serbia report says the judiciary made "no progress" overall, that high-level corruption cases remain limited in final convictions, and that public procurement remains vulnerable to corruption, while the broader 2025 enlargement package warns of state-capture risks and the disproportionate influence of vested interests. This is consistent with Serbia's weak external scores (33/100 in Transparency International's 2025 CPI and 94th of 142 in the World Justice Project's 2024 Rule of Law Index) and with the U.S. State Department's 2025 finding that corruption, an inefficient judiciary, and bureaucratic opacity remain core investor complaints. For foreign firms, especially EU-aligned ones, the practical effects are slower and less predictable contract enforcement, higher exposure to non-transparent tenders and politically connected competitors, greater compliance friction in rejecting bribery or conflicted intermediaries, and weaker confidence that courts and regulators will impartially protect commercial rights, including intellectual property and fair access to state-linked opportunities.

  Serbia's governance risk is assessed as Band 3 (*medium challenges*).

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