INVESTMENT AND BUSINESS CLIMATE

THE PERFORMANCE OF PROSPERITY

The purpose of economic activity is to achieve the highest possible prosperity embodied in the standard of living. This is achieved by improving competitiveness, i.e. productivity with which we use all available resources. The indicator of the level of prosperity is GDPpc expressed through purchasing power parity (ppp) – GDPpc ppp.

We start this analysis of the investment and business climate with Figure 1, which shows the achieved levels of prosperity (through GDPpc ppp in 2023) on the vertical axis and the pace of prosperity improvement (expressed through GDPpc ppp growth rates in the 9-year period 2015-23 based on IMF data) on the horizontal axis.

As expected, the more developed economies of the EU (blue squares) achieve a relatively lower growth rate than the countries of Central Europe and the Baltics (green triangles) and the countries of the Western Balkans (red circles).

The countries of the Western Balkans achieve a lower level of GDPpc ppp than the world average, with Montenegro at the level of the average and Serbia slightly below it.

Between 2014 and 2023, Serbia narrowed its relative gap with the EU and Germany. Today, Serbia's prosperity is 56% in the EU and about 40% in Germany (the levels in 2014 were 40% and 30%, respectively).

GLOBAL ECONOMIC DEVELOPMENTS AND PROJECTIONS

After the end of the pandemic (2020-21) and during the war in Ukraine (which began in February 2022), the world economy showed greater resilience than expected to the strong negative shocks to which it was exposed.

The rise in global inflation began in mid-2021 during the recovery from the pandemic and especially gained intensity in early 2022 after the outbreak of the war in Ukraine with a sharp rise in energy prices and drought (rising food prices). These developments have led to a change in the nature of economic policies, with restrictive measures being introduced to curb and then bring down inflation. The desired outcome was the so-called Soft-lending, i.e. bringing down inflation without a recession (as opposed to unwanted hard-lending, i.e. bringing down inflation with a recession - a fall in GDP and an increase in unemployment).

The outbreak of war in the Middle East has deepened the global crisis, opening up new risks and requiring the utmost caution. In addition, modest productivity growth and increased geopolitical fragmentation, especially protectionism, adversely affect global economic activity.

In 2024, the global economy is recovering faster than expected, but there are still major risks related to possible increases in global commodity prices, geopolitical tensions, economic fragmentation, and protectionism, all

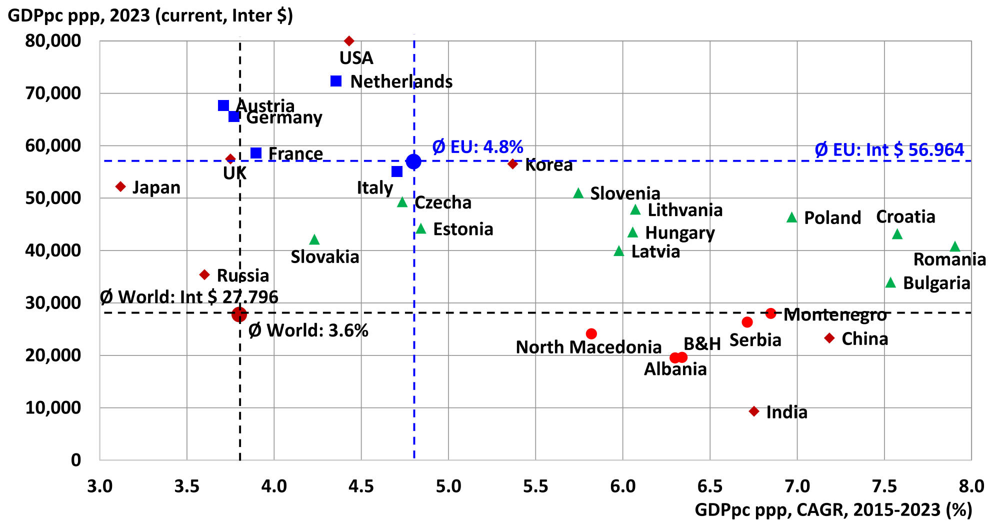

FIGURE 1.

ECONOMIC GROWTH IN THE US AND THE EU

Source: IMF, WEO April 2024

	2018	2019	2020	2021	2022	2023	2024*	2025*
World	**3.6**	**2.8**	**-3.2**	**6.1**	**3.4**	**3.3**	**3.2**	**3.2**
USA	2.9	2.2	-3.5	5.7	2.1	2.9	2.8	2.2
Eurozone	**1.9**	**1.3**	**-6.5**	**5.3**	**3.5**	**0.4**	**0.8**	**1.2**
Germany	1.5	0.6	-4.8	2.8	1.8	-0.3	0.0	0.8
Italy	0.9	0.3	-8.9	6.6	3.7	0.7	0.7	0.8
France	1.7	1.5	-8.0	7.0	2.6	1.1	1.1	1.1
European PUU[1]	**3.1**	**2.1**	**-2.0**	**6.7**	**0.8**	**3.3**	**3.2**	**2.2**
Russia	2.3	1.3	-3.0	4.7	-2.1	3.6	3.6	1.3
China	6.6	6.1	2.3	8.1	3.0	5.2	4.8	4.5
Serbia	**4.5**	**4.3**	**-0.9**	**7.7**	**2.5**	**2.5**	**3.9**	**4.1**

TABLE 1.

GDP RATES OF GROWTH WITH PROJECTIONS

Source: IMF, WEO, October 2024.
* Projection.
[1] PUU – emerging markets.

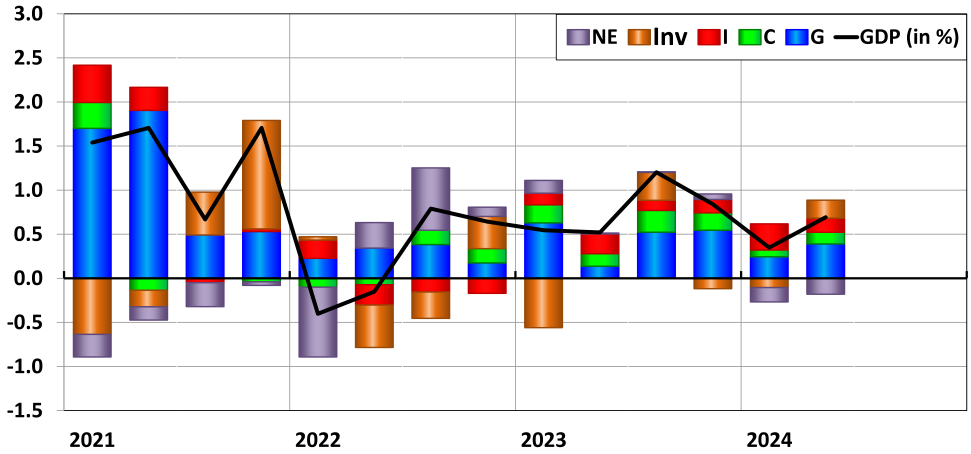

FIGURE 2.

CONTRIBUTION TO THE GDP GROWTH IN THE USA(PP)

Source: NBS, IoI, August 2024, p. 49.

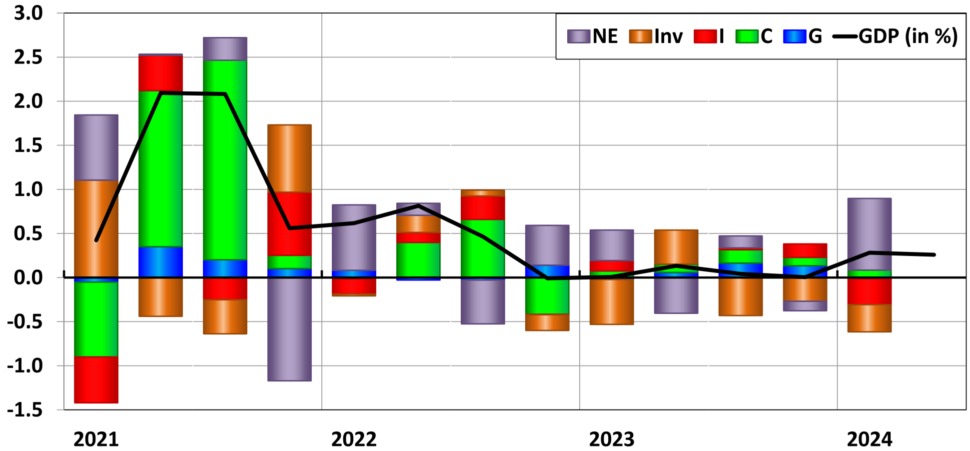

FIGURE 3.

CONTRIBUTIONS TO THE GDP GROWTH EURO AREA(PP)

Source: NBS, IoI, August, 2024, p. 48.

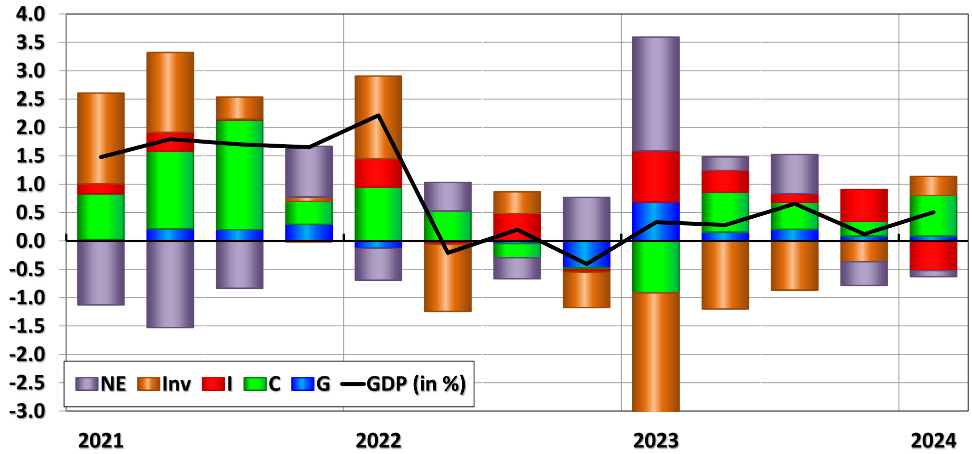

FIGURE 4.

CONTRIBUTIONS TO THE GDP GROWTH CESEE REGION *(PP)

Source: NBS, IoI, August 2024, p. 49.
* CIJIE -Bulgaria, Czech, Croatia, Hungary, Poland, Romania, Slovenia& Slovakia.

of which are reflected in weaker productivity growth. The IMF (2024) has projected that the world economy's growth will continue in the next two years (3.2%) with an increased likelihood of soft lending. This growth is below the long-term annual average (which was 3.8% in 2000-19).

From Table 1. The U.S. grew in 2023 on the basis of an increase in all components of GDP, except inventories. In IQ24, the U.S. also recorded a solid pace of growth, driven by continued growth in household consumption, fixed capital formation and growth in household consumption based on employment and wage growth (Figure 2). In September 2024, the Fed began the process of cutting the federal fund rate by 50bp, to 4.75-5%.

	2023	2024*	2025*
Poland	0.2	3.0	3.5
Czech	-0.1	1.1	2.3
Hungary	-0.9	1.5	2.9
Romania	2.1	1.9	3.3
Slovakia	1.6	2.2	1.9
Slovenia	2.1	1.5	2.6
Croatia	3.1	3.4	2.9
Bulgaria	1.8	2.3	2.5
Albania	3.5	3.3	3.4
BiH	1.7	2.5	3.0
North Maced	1.0	2.2	3.6
Montenegro	6.0	3.7	3.7
Serbia	2.5	3.9	4.1

TABLE 2.

GDP GROWTH PROJECTION

Sorce: IMF, WEO, October 2024. * Projection

The euro area is barely achieving positive growth rates while emerging markets in Europe are performing better (Figures 3 and 4).

The decline in the Eurozone is particularly pronounced in Germany and Italy, which are the most important markets in the EU for Serbia. According to IMF projections from April 2024, growth prospects in the Eurozone remain modest until 2025, while European PUU countries are expected to achieve growth around the global average (Table 2).

Economic growth in the Eurozone slowed at the end of 2023 and was slightly negative (-0.1% in IVQ23) as growth in consumption (both personal and public) and fixed capital formation was not enough to compensate for the decline in inventories and exports.

Given the negative trends in GDP dynamics, the ECB lowered the key policy rate by 25 bps to 3.50% each in June and September 2024. With the fall in interest rates, we can expect an intensification of investment and a restoration of growth in economies that had slowed growth or recession, and in other economies a gradual intensification of growth.

The pace of monetary policy easing varies from country to country. The fact that core inflation is declining more slowly than headline inflation indicates caution. The decline in inflation in the eurozone will be more gradual than previously expected. The ECB has been in a monetary easing cycle since June, while the Fed has been doing so since September.

When it comes to Serbia's most important trading partners in EU German's economy shrank by 0.5% in IVQ23, mainly

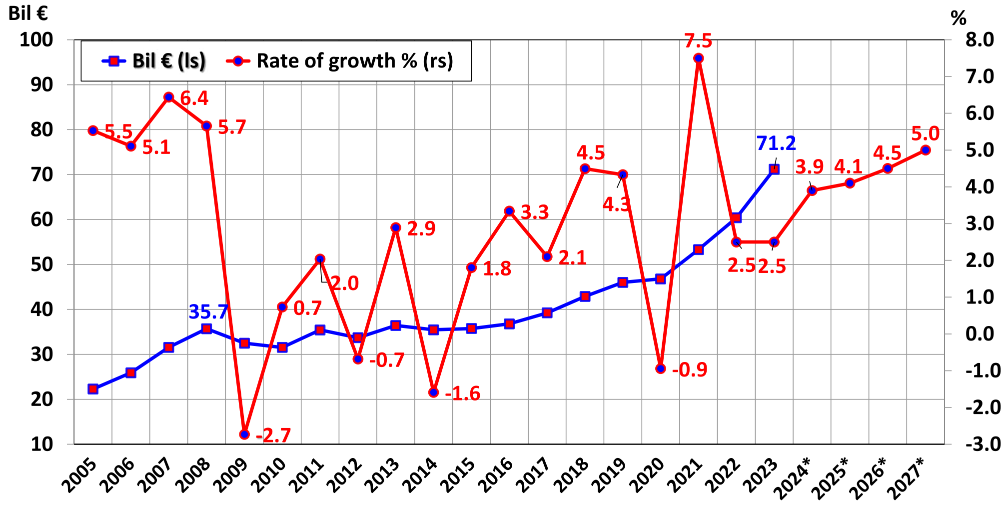

FIGURE 5.

SERBIAN GDP LEVEL AND RATE OF GROWTH

Source: IMF, WEO & NBS, IoI, August 2024, p. 80-81.

due to adecline in industrial production, Italy's economo grew by just 0.1% in the same quarter, driven by solid performance in services and construction.

In the region of Central and South-Eastern Europe in IVQ23, there was a slight increase in economic activity, based on the growth of fixed capital formation and household consumption, which was accompanied by a decrease in inventories and net exports.

ECONOMIC TRENDS IN SERBIA

Macroeconomic developments in Serbia in 2024 are characterized by two basic tendencies – first, accelerated GDP growth, and second, the return of the inflation rate to the target corridor.

In the post-pandemic period, the Serbia maintained positive growth rates and avoided a recession (Figure 5). In 2022 and 2023, annual growth of 2.5% was achieved and a GDP of over €71 billion was reached. According to IMF and NBS forecasts, Serbia will achieve GDP growth of around 3.9% in 2024, 4.1% in 2025 and 4.5% in 2026.

With GDP growth in the first two quarters of 2024 of 4.7% and 4.2%, respectively (with earlier growth of 3.6% and 3.8% in the last two quarters of 2023), Serbia ranks among the countries with the highest growth rates in Europe this year, exceeding the IMF forecast of average growth of the world economy in 2024 (3.2%).

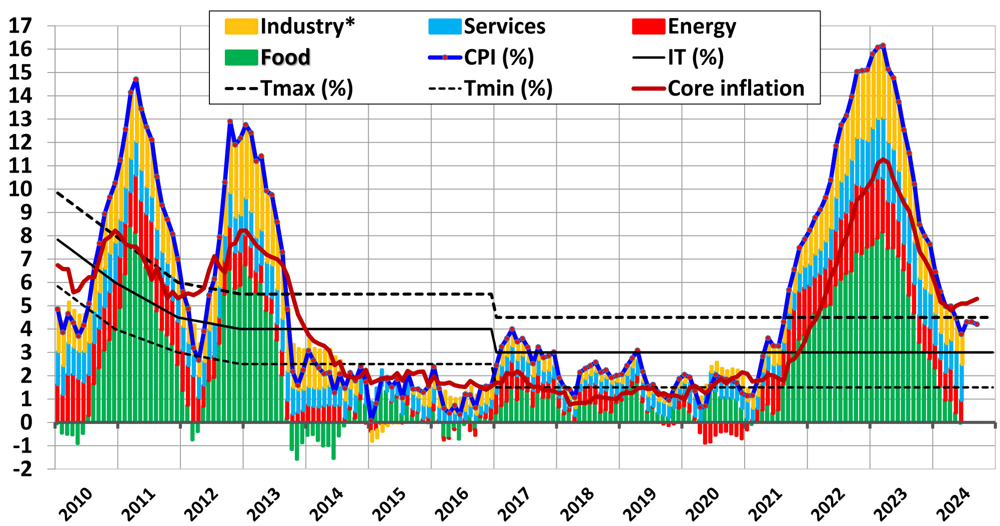

FIGURE 6.

CONTRIBUTION TO Y-O-Y CPI GROWTH – SERBIA(IN PP)

Source: NBS, IoI, August 2024, p. 13
* Industrial products without food and energy.

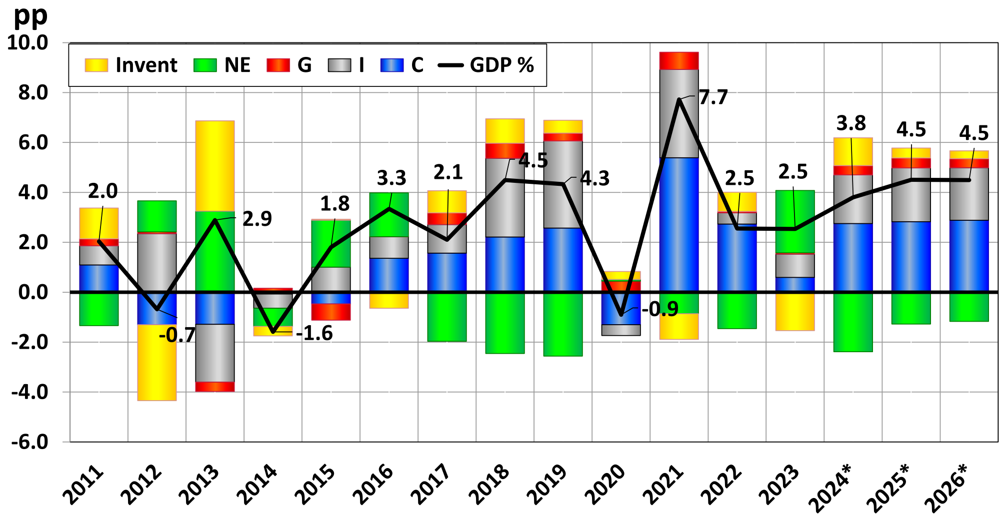

FIGURE 7.
CONTRIBUTION TO Y-O-Y SERBIAN GDP – EXPENDITURE (PP)

Source: IMF, WEO i NBS, IoI, August 2024, p. 61.
*NBS estimation

In the conditions of global fragmentation and recessionary tendencies in Serbia's main trading partners, this year's growth on the expenditure side is primarily driven by the growth of domestic demand, especially household consumption and investments in basic funds. The drivers of growth on the manufacturing side were services, especially ICT and trade, followed by construction and manufacturing. Of course, it remains to be seen what results will be achieved in the last quarter of 2024.

After peaking in March 2023 (16.2%), year-on-year inflation was sharply brought down by restrictive monetary policy measures and returned to 4.5% in May 2024, which meant a return to the target tolerance band (3±1.5%), with a tendency to hover around 4% by the end of the year, and gradually approaching the inflation target midpoint of 3% in 2025. Structurally (Figure 6), the key role in the process of bringing down inflation was played by the decline in food prices (green space) and energy (red surface), and part of the service (light blue surface).

In 2024. NBS will be in the process of easing monetary policy. First, it started with lowering the average repo rate, and than in June, July and September by lowering the key policy interest rate by 25bp each, so that was brought down from 6.5% to 5.75%. This has also translated into a moderate decline in interest rates on the dinar loans as well as euro-indexed loans.

The growth of the expenditure side of GDP in 2024 is driven

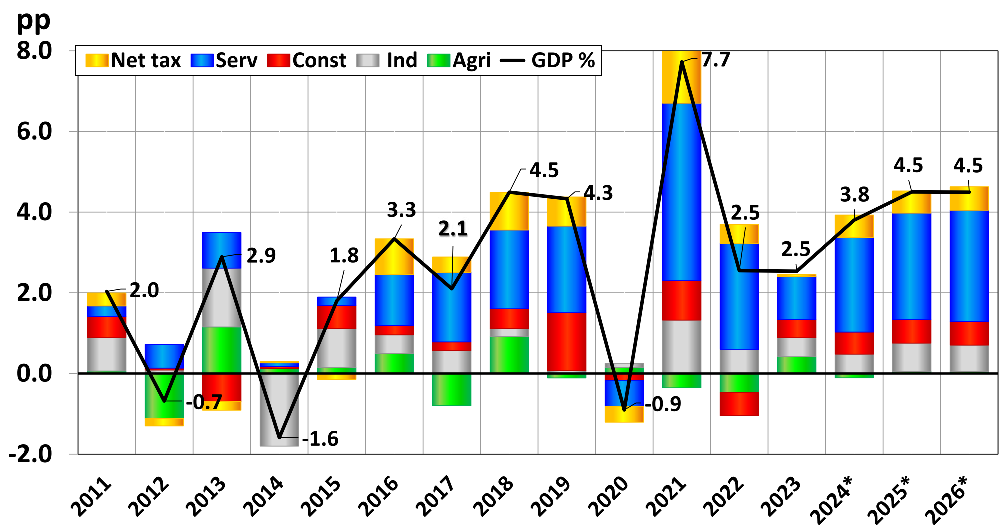

FIGURE 8.
CONTRIBUTION TO Y-O-Y SERBIAN GDP – PRODUCTION SIDE (PP)

Source: IMF, WEO i NBS, IoI, August 2024, p. 65.
*NBS estimation

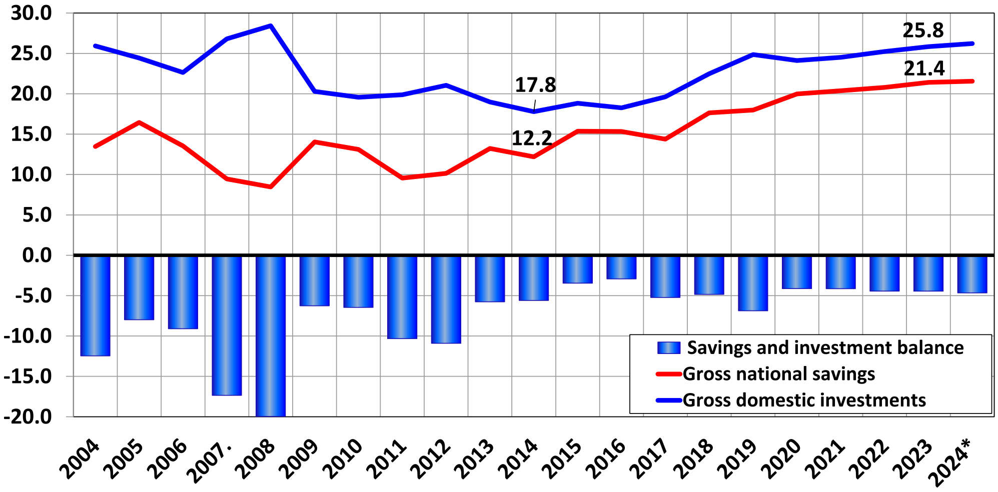

FIGURE 9.
SAVINGS AND INVESTMENT (% GDP)

Source: NBS, IoI, May 2024, p. 50.

by domestic demand (Figure 7), primarily household consumption (blue bars), which makes the largest contribution – its relative share is expected to increase from 2.4 pp to 2.9 pp, but investment growth is also expected (grey bars), while agriculture will decline. Public expenditure is also expected to grow from 0.4 pp to 0.5 pp, and private investment is expected to accelerate with a contribution of 1.1 pp. This growth in private consumption is linked to the growth in employment and wages, especially in the private sector (as a result of productivity growth).

On the production side (Figure 8), growth was driven by the service sector (blue bars), construction (red bars), and manufacturing (grey bars).

In terms of external demand, the year-on-year growth of exports in Serbia in IQ24 accelerated to 5.2% and imports to 4.5%. Investments in export-oriented sectors from previous years, along with the recovery of external demand, enable export growth. The growth of goods exports may be contributed by the manufacturing industry and a good agricultural season (which, unfortunately, was weak in 2024 due to drought), while the growth of ICT and business services, tourism, and air transport may contribute to the growth of exports of services. However, bearing in mind the need for planned investment activities in the coming period, it is realistic to expect a faster growth of imports compared to exports, which will increase the deficit of foreign trade.

In the next two years (2025. and 2026.) growth is expected to accelerate to 4.5%, primarily through the implementation of EXPO 2027. and other infrastructure projects, as well as the expected recovery of the euro area, which should stimulate external demand.

In recent years, there has been a significant increase in both investments (from 16% in 2014 to 23% in 2023) and national savings (from 12% to around 20%, respectively) but both of them are at an inadequate level (see Figure 9).

The contribution of fixed investments in underlying funds is increasing due to the high inflow of FDI and the preservation of investment confidence (Figure 10). Investments will

	2023			2024	
	IIQ	IIIQ	IVQ	IQ	IIQ
Real y-o-y growth rates in %					
Fixed investments	3.9	4.1	5.2	7.3	8.2*
Construction	14.8	13.0	7.4	14.2	10.0
Investment - government	7.2	10.0	12.0	5.0	8.0*
Construction permits - number	2.9	11.2	5.6	-3.8	38.1
Constr. material production	-10.8	3.5	-2.4	3.3	3.1
Value of construction works	17.6	15.9	11.1	17.8	10.3
Import of equipment	-20.5	-15.6	7.6	6.8	25.4
Domestic equipm. production	11.1	-2.4	-10.6	-17.9	-5.9

TABLE 3.
INVESTMENT MOVEMENT INDICATORS

Source: RZS and NBS calculation - *NBS estimation

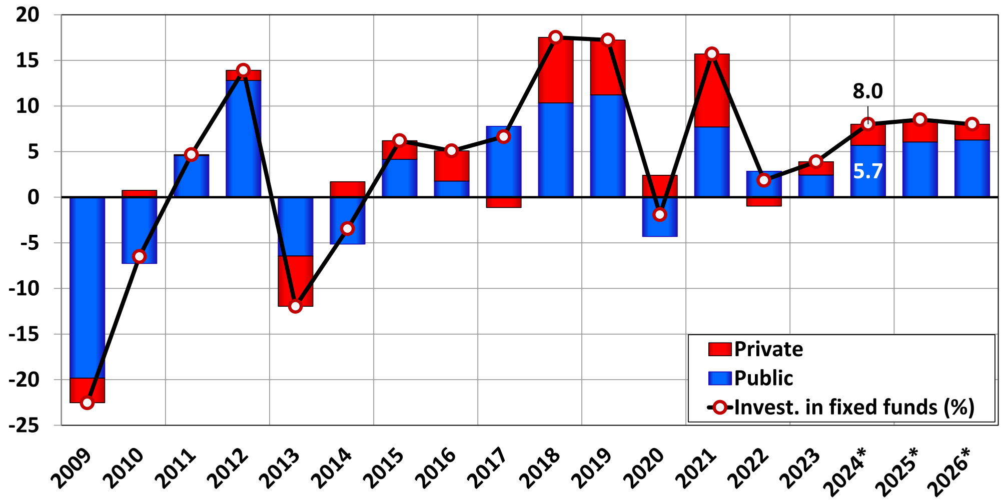

FIGURE 10.
BRUTO FIXED INVESTMENTS (IN PP)

Source: NBS, IoI, August 2024, p. 63
*estimation.

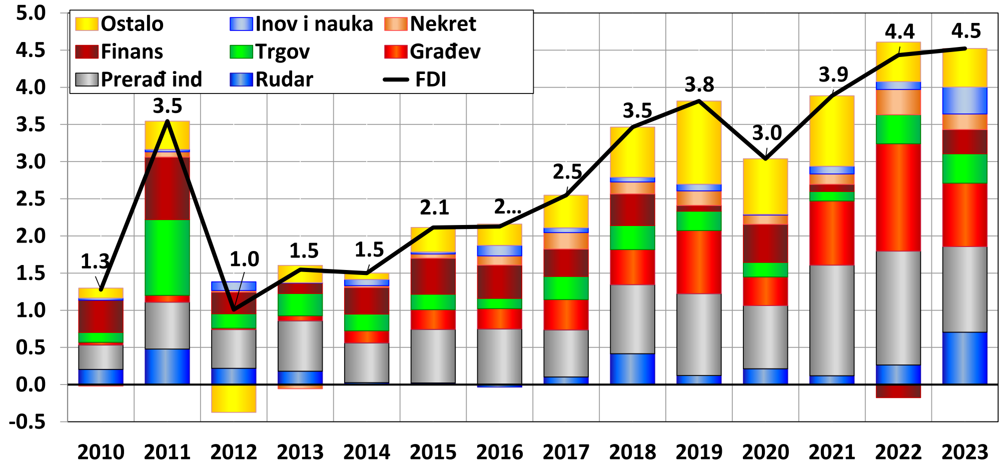

FIGURE 11.
FDI INFLOW IN SRBIA (BIL €)

Source: NBS

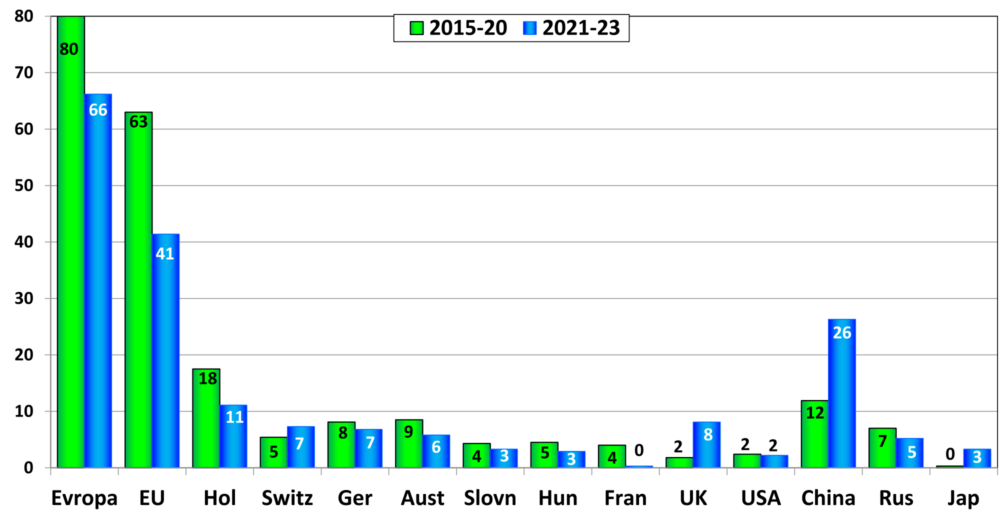

FIGURE 12.
FDI INFLOW IN SERBIA BY COUNTRIES (%)

Source: NBS

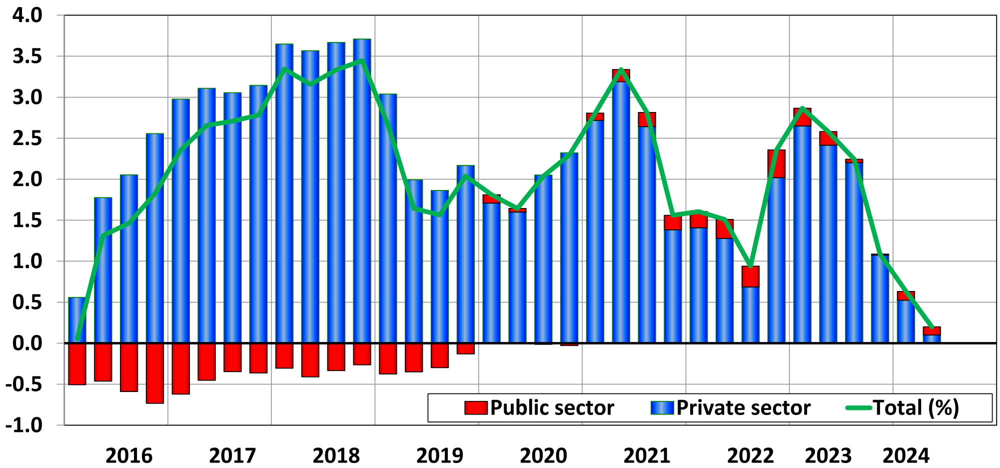

FIGURE 13.
Y-O-Y RATE OF GROWTH IN TOTAL FORMAL EMPLOYMENT (PP)

Source: RZS & NBS recalcutation, IoI, August 2024, p. 45

also grow due to more favorable financing conditions, the reduction of global inflationary pressures, and the implementation of projects in the fields of transport, energy, and communal infrastructure (Table 3). For successful development in the future, it is very important that in addition to FDI, the growth of domestic private investments is encouraged, which could significantly improve the flexibility of the Serbian economy but also expand supply chains within domestic clusters.

Despite global geopolitical tensions and fragmentation, the dynamics of private investment in IQ24 has been maintained. Investments are primarily financed from the company's previously realized profits, followed by the inflow of FDI and investment loans (1.8% y-o-y).

Net FDI inflows are expected to be around 5% of GDP while maintaining its high geographical and project spread. Most of this inflow will be directed to export-oriented sectors (Figure 11). The largest share of FDI still comes from the EU, but this share is declining – from 63% in 2015-20 to 41% in 2021-23 (Figure 12).

According to RZS data, the total number of formal employees slowed down from 1.1% in IVQ23 to 0.6% in IQ24 and reached a new record high of 2.37 million employees in March (Figures 13 and 14).

Formal employment in the private sector reached a new record level of 1.76 million people at the end of IQ24 – an increase of about 15,000 people compared to a year earlier.

In the private sector, registered employment is held by professionals in professional, scientific, innovation, and technical services, ICT services, and construction, while it is reduced in administrative and support services.

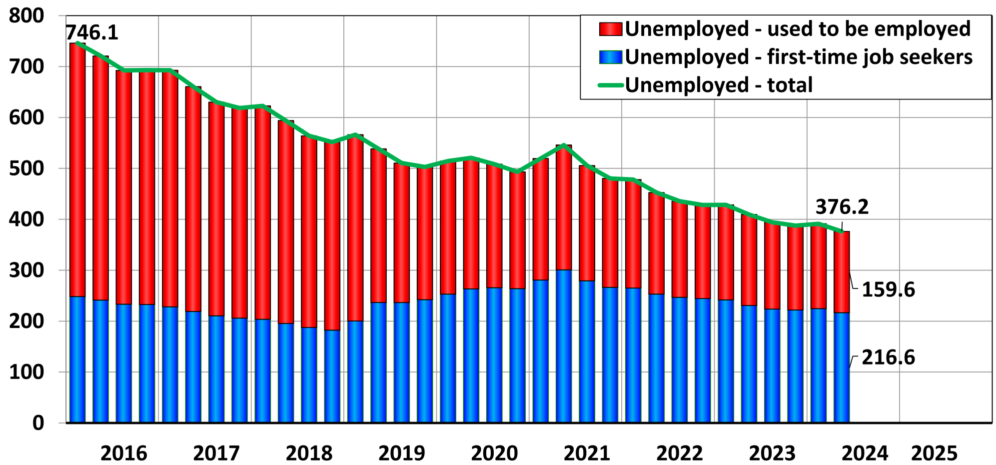

FIGURE 14.
MOVEMENT OF REGISTERED UNEMPLOYMENT (IN 000)

Source: NSZ

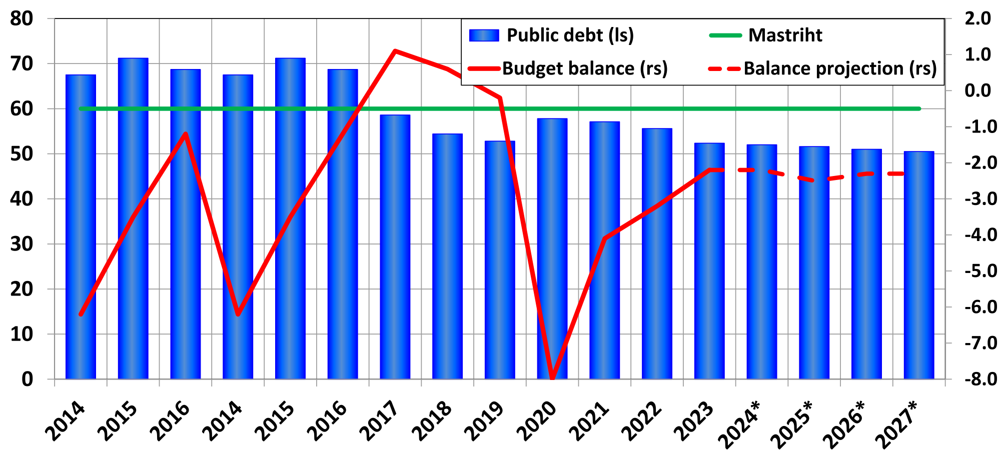

FIGURE 15.
BUDGET BALANCE AND GENERAL GOVERNMENT PUBLIC DEBT (% GDP)

Source: RZS & NBS recalculation, IoI, August 2024, p. 60

A significant proportion of new employment takes place in companies that come from the EU.

Registered unemployment fell to 376,000 at the end of IIQ24, which is about 35,000 fewer than in the same period last year and below 9%.

According to the NBS's preliminary estimate, productivity growth continued to accelerate to 4.2% in 2024 (from 2.5% in 2023) due to faster economic activity growth than employment growth.

In 2023, the consolidated state balance deficit of 181.1 billion dinars, or 2.2% of GDP, was achieved, which is a better result than the deficit planned by the state budget rebalance of 2.8% of GDP.

According to the revised fiscal strategy for 2024-2026, the medium-term fiscal framework envisages reducing the public debt-to-GDP ratio to 50% by the end of 2026. The government deficit is planned to be limited to 2.2% in 2024 and then to 1.5% in 2025 and 2026, which is in line with the general fiscal rules (Figure 15).

With the revision of the budget for 2024, the government deficit will be increased from the previously planned 2.2% to 2.9% of GDP. This increase in the deficit is not permanent in nature and allows the deficit to return to equilibrium in the future. The key positions of the rebalance in 2024 are investments related to EXPO 2027 related to the construction of the national stadium, expenditures on armaments (procurement of bursts), and additional subsidies to agriculture.

When it comes to government expenditures in the coming period, the share of salaries and pensions is expected to be stable and within the limits defined by fiscal rules (10% and 11%, respectively), and priority will be given to the econo-

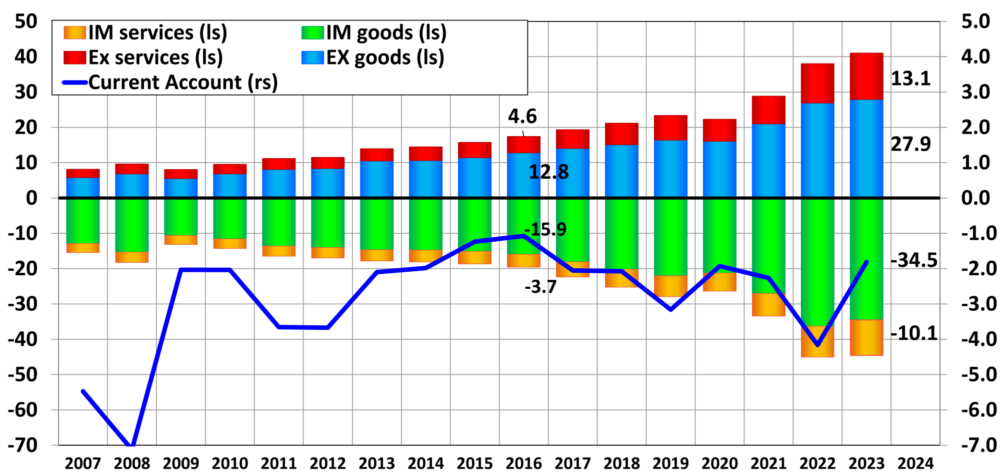

FIGURE 16.
SERBIAN EXPORT AND IMPORT (BIL €)

Source: RZS & NBS

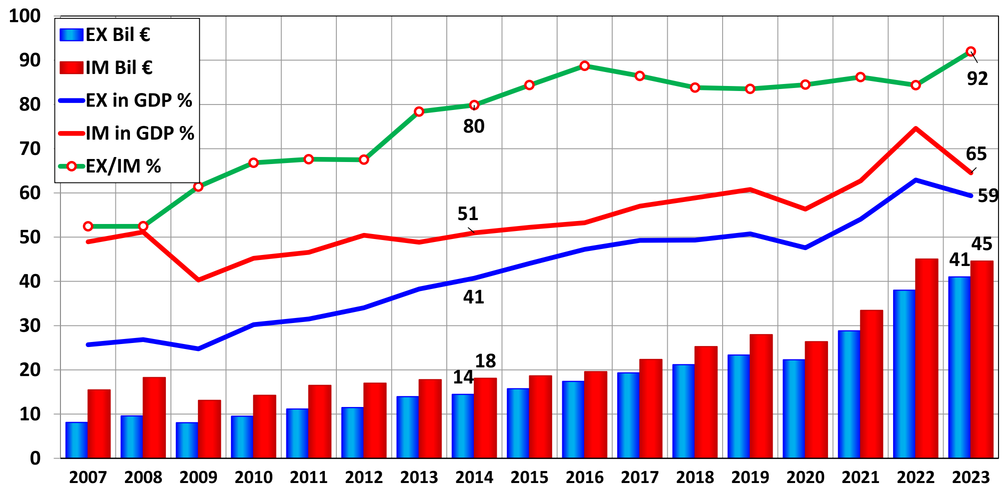

FIGURE 17.
EXPORT AND IMPORT

Source: RZS & NBS

my's infrastructure and capital projects.

In 2024, exports are expected to grow further based on the expected effects of investments from previous years in export-oriented sectors, as well as a gradual recovery in external demand. At the same time, we expect the surplus in trade in services to remain at a similar level as in 2023, which is the result of widespread growth in exports of services, primarily ICT and business services, tourism, and air transport services. Taking into account the needs of the planned investment activities, a strong growth in imports is projected for 2024 (faster than the projected growth in exports), especially equipment and raw materials. The growth of private consumption in the context of rising disposable income will also contribute to the growth of imports of consumer goods. All this will result in a negative contribution to net exports (of -2.7 p.p.).

Given the expected acceleration of the investment cycle, a negative contribution of net exports of around 0.7 percentage points is expected in the coming years as exports will grow at slightly lower rates than imports.

The EU remains Serbia's most important trading partner. In 2023, goods exports to the EU reached €18.1 billion and imports €23 billion, so the coverage of imports by exports is about 80% (Figures 16 and 17).

The current account deficit in IH24 increased from a record low level in IH23 and amounted to €1.2 billion. Exports continued to grow (4% y-o-y), driven by growth in ICT, agriculture, mining, and manufacturing; however, imports recorded a 5% growth, driven by growth in imports of equipment related to the current investment cycle, especially EXPO 2027.

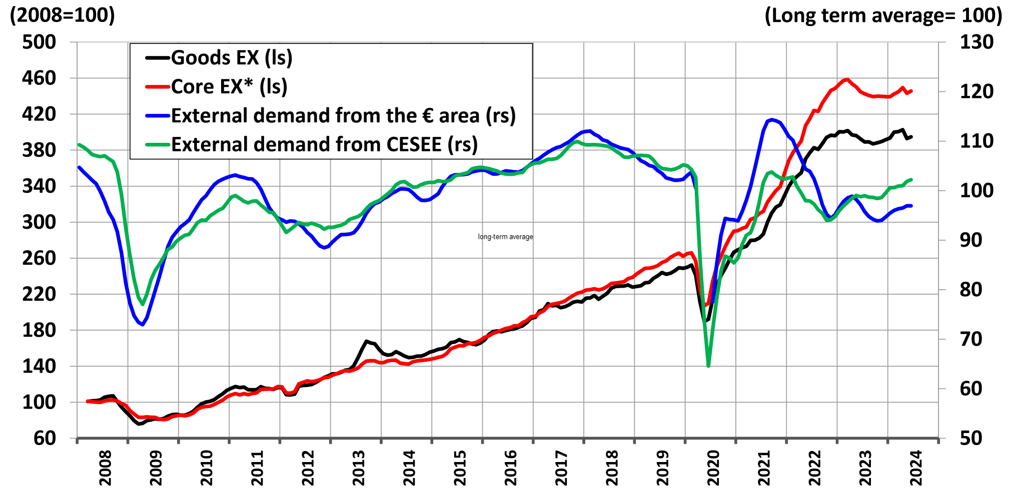

FIGURE 18.
MOVEMENT IN EXTERNAL DEMAND INDICATORS FOR SERBIAN EXPORTS (3M MOVING AVERAGE, S-A)

Source: EC, RZS & NBS
* Core exports are total exports excluding the export of agricultural products, base metals, motor vehicles, petroleum products and electricity.

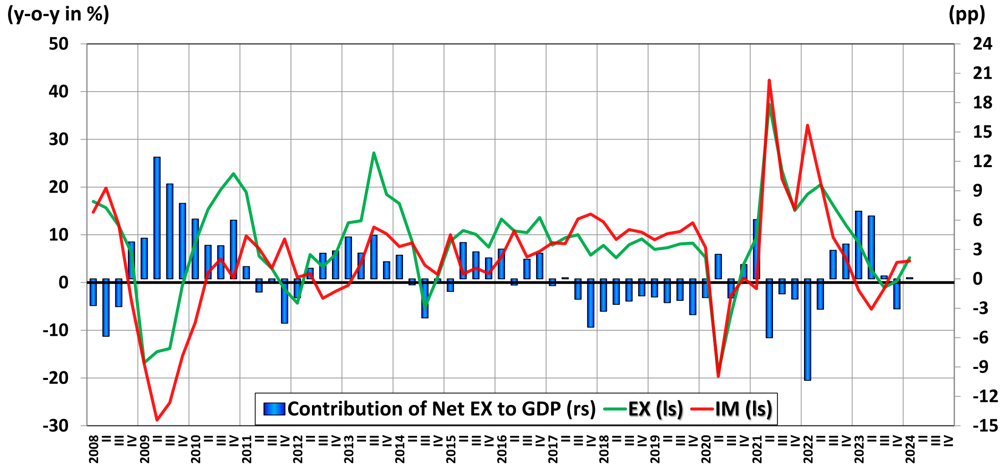

FIGURE 19.

EXPORT AND IMPORT OF GOODS AND SERVICES (constant prices based on prevoius year, ref 2015) – y-o-y rate in %

Source: RZS & NBS, IoI, May 2024, p. 41

The current account deficit is expected to be around 4% this year and in the medium term in the range of 4-5% of GDP. It is important to emphasize that this is a level that ensures external sustainability, and that it will be fully covered by the inflow of FDI, which has been the case in the previous nine years (Figures 18 i 19).

Although Serbia is not a member of the EU, its market practically belongs to the European single market.

What is clearly visible is that EU companies in Serbia have: (1) a stable business environment and (2) the opportunity to invest, which is clearly seen through the high level of reinvestment in Serbia.

On the December 2023 Moneyval Meeting, Serbia received the highest marks for compliance with international standards assigned by relevant international institutions (FATF and Moneyval), both for the regulations governing the operations of financial institutions supervised by the NBS and for the efficiency of their implementation. By increasing the rating for Recommendation n. In accordance with Article 15 of the FATF (Modern Technologies and Virtual Assets), the Republic of Serbia has achieved compliance with all 40 FATF recommendations and has entered the group of ten jurisdictions in the world that have this level of compliance.

	Rating outlook	Date	Action
Standard and Poor's	BBB-/ positive	04 October 2024	Rating upgraded
Fitch Ratings	BB+/ positive	09 August 2024	Rating affirmed
Moody's Investors Service	Ba2/ positive	30 August 2024.	Rating affirmed

Source: Standard and Poor's, Fitch Ratings and Moody's Investors Service

In October 2024, Standard and Poor's raised Serbia's credit rating to investment-grade credit rating BBB-/positive. This would contribute to further attracting foreign capital under more favorable conditions as it would reduce interest rates on borrowing. The following table shows the current credit ratings for long-term borrowing in foreign currency of the Republic of Serbia.

NEW DEVELOPMENT PERSPECTIVES – USA, EU, CHINA AND SERBIA

We live in a very complex world. Many countries are adapting to new circumstances. Below, we will show some of the most important events in the world and Serbia.

The Chips and Scientific Act[1] and the Inflation Reduction Act (IRA) were[2] passed on August 9 and 16, 2022. Both are the basis of the so-called New U.S. industrial policies with the introduction of some form of state interventionism, which has not been typical of the United States for decades.

The Chips and Scientific Act is aimed at encouraging research, competitiveness, and innovation and specifically treats chip manufacturing for safety reasons. The bill directs US$280 bil-

1 https://www.govinfo.gov/content/pkg/PLAW-117publ167/pdf/PLAW-117publ167.pdf

2 https://www.govinfo.gov/content/pkg/PLAW-117publ169/pdf/PLAW-117publ169.pdf

lion to domestic semiconductor production and US$52 billion to semiconductor research with the primary aim of empowering this supply chain to successfully counter China in this area. The $174 billion investment is directed towards developing an ecosystem of public research in science and technology. It is estimated that by March 2024, about $200 billion has been invested on this basis, with 40,000 new employees

The IRA, another key document, is dedicated to bringing down inflation in the U.S. by reducing the fiscal deficit and spending on prescription drugs while increasing investment in domestic clean energy production. It includes $738 billion in programs, of which $391 billion is focused on energy and climate change, with the goal of reducing greenhouse gas emissions to below 40% of 2005 emissions by 2030. The IRA is the most ambitious U.S. public investment plan since the Great Depression of the 1930s. However, in the implementation of fiscal policy, the U.S. continued to borrow, reaching the highest level in history.

Despite the level of debt, the IRA has produced results in bringing inflation down, and has been much more than an act of fighting inflation. In fact, it led to European companies starting to move their production to the United States.

The EU is also adapting its policies to adapt to new conditions. Like the United States, the EU has opted to increase the fiscal deficit instead of reducing it, but with much more modest economic growth than the United States, trying to maintain a high level of public investment in strategic areas. This is in stark contrast to what happened after the 2008 financial crisis, when public investment fell for more than five years.

The European Chips Act (ECA), adopted on 21 September 2023, is the EU's response to global changes, with the aim of shaping Europe's digital future.[3] It included a series of measures to ensure the EU's security of supply, resilience, and technological leadership in chip manufacturing and applications. The ECA is expected to result in public investment of over €43 billion, in addition to existing chip-related R&D programs and announced support from member states themselves. By 2030, more than €100 billion is expected to be channeled into investments supported by ECA.

With this, the EU aims to double its current global market share, which is only around 10%, by establishing a new ecosystem that completes the supply chain in chip manufacturing while increasing the share to 20%. It is important to note that, for example, a mobile phone contains about 160 chips, and a hybrid electric car contains about 3,500 chips

The ECA and other EU activities aimed to increase Europe's technological sovereignty, competitiveness and resilience to global change.

The EU, through the European Commission, has undertaken the development of the most ambitious programme to strengthen competitiveness, which it entrusted to Mario Draghi, the former president of the ECB. The program, which contains two documents, was presented on September 9, 2024.[4] He points out that after the establishment of the monetary system in the EU a quarter of a century ago, an incoherent fiscal system remains, which makes it impossible to link industrial and trade policy in the way that the United States and China achieve. According to the Commission's estimates, to meet Mr. Draghi's plans, an additional €750-800 billion per year would be needed to increase the share of investment in GDP from 22% to 27% after decades of decline. And China, which for decades relied on chip imports from the U.S., Taiwan and Japan (China's chip imports in 2021 amounted to $433 billion, surpassing the value of oil imports) is now seeking to be self-sufficient in chip production. China has provided $180 billion to support funding for the domestic chip industry, aiming to make it as fast as Nvidia's U.S. AI chip.

In June 2024, IMF Managing Director Kristalina Georgieva[5] underlined at the Eurogroup meeting dedicated to the European Competitiveness Region that the emphasis now placed on industrial policies in the EU should be fully aligned with improving competitiveness, stressing in particular that Europe's core strength lies in the single market, i.e. cohesion. The EU faces a range of challenges, from an ageing population and weak productivity growth to energy security, climate change and geoeconomic fragmentation. In 2023, more than 2,600 industrial policy measures were adopted in the US, China and the EU. Industrial policies can be a powerful tool, but there are rare occasions where they have been put to good use. That is why she warned that

3 https://digital-strategy.ec.europa.eu/en/policies/european-chips-act

4 Those two documents are:
1) The future of European competitiveness – A competitiveness strategy for Europe and
2) The future of European competitiveness – A competitiveness strategy for Europe and The future of European competitiveness – In-depth analysis and recommendations.

5 Kristalina Georgieva. (2024). A Strategy for European Competitiveness. Remarks IMF Managing Director on the Eurogroup on a Strategy for European Competitiveness, Luxembourg, June 20, 2024.

history is full of examples of industrial policy interventions that ended ingloriously. She pointed out that the condition for a successful industrial policy is the existence of clearly identified market failures and that there are no political pressures to favor someone. Only when both conditions are met can the use of market intervention through the implementation of industrial policy be appropriate.

Georgieva concludes that EU industrial policies should be: (1) temporary and in the function of protecting competition, (2) limited so as not to cause excessive fiscal costs and market distortions, and, in the case of the EU, coordinated to ensure the single market (avoid national subsidies to national champions, tax breaks and incentives for EU fragmentation) and (3) state aid should not have negative effects and cause fiscal strain for other EU members.

In July 2024, a Memorandum of Understanding was concluded between the EU and Serbia on a strategic partnership on sustainable raw materials, battery supply chains, and electric vehicles.

Both sides recognized that ensuring a sustainable supply of raw materials, in particular critical raw materials (CRMs), is essential to promote the green and digital economic transitions and is a factor enabling the decarbonization of energy production, connectivity and mobility.

In accordance with the SAA, both sides set out their intention to cooperate closely in five areas: industrial value chain development, research and innovation, the implementation of high environmental, social, and governance standards and practices, and the development of skills for jobs in the fields of raw materials, batteries, and electric vehicles.

The EU confirmed that the Serbian economy had shown significant resilience in times of crisis, with favorable prospects for further growth. At the regular annual meeting of the Economic and Financial Dialogue of the EU Member States, the Western Balkans and Turkey, which aims to prepare the Western Balkans and Turkey (WBIF) for EU accession, it was assessed that Serbia has confirmed significant resilience to numerous challenges from the international environment and has preserved macroeconomic stability even in times of crisis. [6]

The European Commission has made progress on the European Innovation Scoreboard, which shows the innovation performance of 39 EU Member States and other countries.[7] The scoreboard looks at the strengths and weaknesses of national innovation systems. Serbia is in 29th place, ahead of Slovenia, with an overall innovation index of 69.1, which is 4.4 points more than last year.

6 Western Balkan Investment Forum: https://www.wbif.eu/beneficiaries/serbia.

7 Published in July 2024: https://research-and-innovation.ec.europa.eu/statistics/performance-indicators/european-innovation-scoreboard_en#european-innovation-scoreboard-2024