

## CONTENT OF BROCHURE



Investment potentials



Statistical data



Legal frame

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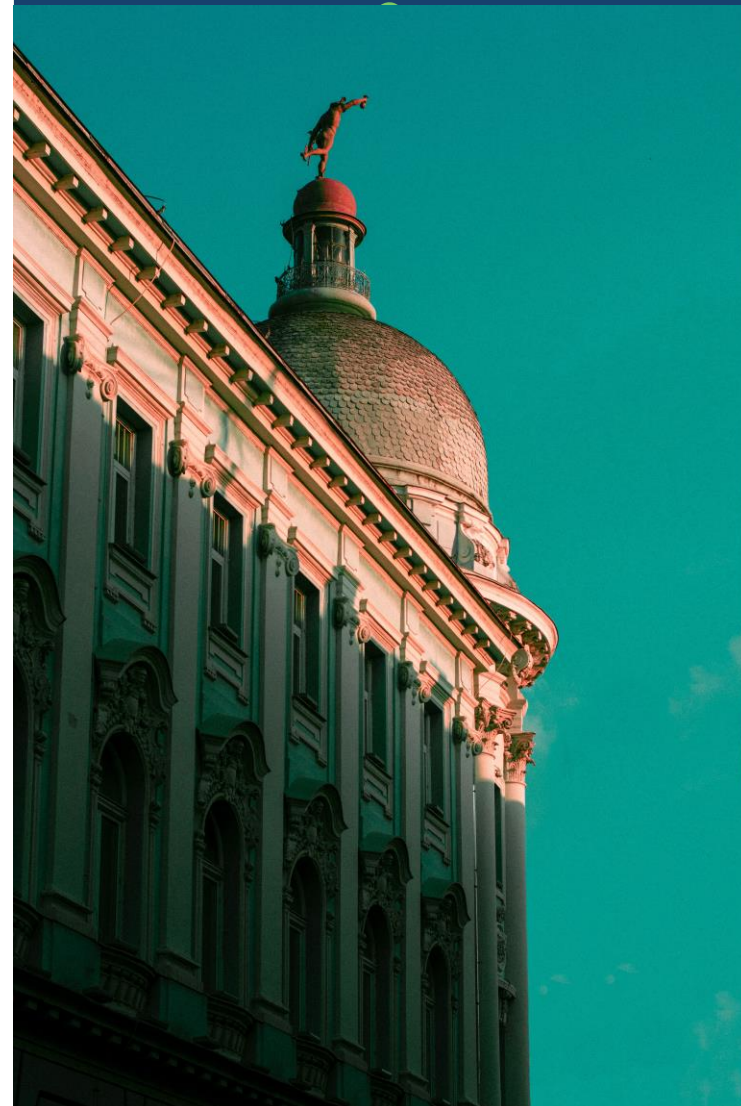
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# REPUBLIC OF SERBIA

investment guide





## Content

- ❖ **Geographic characteristics and climate conditions**
- ❖ **Basic information and industrial potential**
- ❖ **International economy**
- ❖ **Market priorities and opportunities**
- ❖ **Tax system**
- ❖ **Incentives for investing in Serbia**
- ❖ **Competitive labor costs compared to the rest of the EU**
- ❖ **Average wages and most competitive economic sectors**
- ❖ **Free zones**

## GEOGRAPHICAL CHARACTERISTICS AND CLIMATE CONDITIONS

The Republic of Serbia is located in Southeast Europe, in the central part of the Balkan Peninsula, and spans across 77,474 square kilometers. Serbia has maintained its position as the world's number one country in terms of creating the highest number of FDI (Foreign Direct Investment) jobs per million inhabitants, according to "IBM Global Trends 2020." This favorable position is attributed to two main factors: its geopolitical location and a strong focus on public policies towards foreign investments, which make Serbia an attractive investment opportunity for investors from the EU and Asia.

The orientation of public policy towards supporting foreign investors is at its highest level, as Serbia's commitment to investments can be seen both through favorable legislation aimed at encouraging investments and the infrastructure provided for investors.



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Many navigable, road, railway, and telecommunication networks of the Republic of Serbia serve to connect Europe, Asia, and even Africa at a strategic crossroads in Southeast Europe. Endowed with natural beauty, the Republic of Serbia is rich in diverse topography and climate.

The northernmost part of Serbia has a continental climate, characterized by cold winters and warm, humid summers with well-distributed rainfall. The southern region experiences a moderate oceanic climate with warm, dry summers and relatively cold winters, accompanied by abundant snowfall in the interior.

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***Three major rivers that flow through Serbia, the Danube, Sava, and Tisa, are navigable. The longest river in the country is the Danube, which spans 588 kilometers of its total 2,857-kilometer course through Serbia, meandering around the capital city of Belgrade on its way to Romania and the Black Sea.***

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Serbia is characterized by a fertile plain in the north, known as the Pannonian Plain, while limestone ranges and basins are found in the east. Three mountain ranges, the Rhodope, Carpatho-Balkan, and Dinaric, converge in southern Serbia, where Mount Đeravica (2,656 meters above sea level) stands as the highest point in the country. Belgrade, the capital city with a population of 1,685,563, is hilly and situated at an average elevation of 116.75 meters above sea level.

Republika Srbija poznata je po svom zelenilu. Naime, samo u Beogradu 182 stabla su uvrštena kao spomenici prirode i zakonom zaštićeni. Šume na periferiji Beograda su dom za desetine retkih vrsta

**The terrain in Serbia** is highly diverse. In the north, there are rich fertile plains. In the east, there are limestone ranges and basins. In the southeast, there are ancient mountains and hills.

**Serbia is endowed with various natural resources**, including oil, gas, coal, iron ore, bauxite, copper, lead, zinc, antimony, chromite, nickel, gold, silver, magnesium, pyrite, limestone, marble, salt, hydroelectric power, and arable land.

The average intensity of solar radiation in the territory of the Republic of Serbia ranges from 1.1 kWh/m<sup>2</sup>/day in the north to 1.7 kWh/m<sup>2</sup>/day in the south during January, and from 5.9 to 6.6 kWh/m<sup>2</sup>/day during July.

The annual average value of total solar radiation for the territory of the Republic of Serbia ranges from 1,200 kWh/m<sup>2</sup>/year in northwestern Serbia to 1,550 kWh/m<sup>2</sup>/year in southeastern Serbia, while in the central part, it is around 1,400 kWh/m<sup>2</sup>/year.



## BASIC INFO AND INDUSTRIAL POTENTIAL

*According to data from 2022, the population of Serbia (excluding Kosovo and Metohija) is 6,690,887.*

*The population structure is predominantly composed of Serbs, accounting for 62.6% of the population. The most significant ethnic minorities in Serbia are Albanians, making up 16.5% of the population, followed by Montenegrins at 5%, Hungarians at 3.3%, and other ethnic groups comprising 12.6% of the population.*

*Language: Serbian 95%, Albanian 5%.*

*GDP = 63,08 billion USD (2021.)*

*GDP per capita = 9.230,18 USD (2021.)*

- The inflation rate in Serbia averaged **5.51%** from 2007 to 2022, reaching its highest level of 15.10% in November 2022 and a record low of 0.10% in January 2015
- According to the results of the Labor Force Survey, in the third quarter of 2022, the employment rate stands at **50.8%**, while the unemployment rate is **8.9%**.

## INTERNATIONAL ECONOMY

Serbia is the largest and most prosperous economy in the Western Balkans, serving as a regional hub and stepping stone for the company to access the larger regional market. **The most developed sectors in Serbia** are energy, automotive industry, mechanical engineering, mining and agriculture. **Primary industrial exports** are automobiles, base metals, furniture, food processing, machinery, chemicals, sugar, tires, clothing, pharmaceuticals. **Trade** plays a major role in Serbia's economic production.

Serbia is in the gradual process of accession to the European Union (EU) and receives significant development funds from the EU. Its main trading partners are Germany, Italy, Bosnia and Herzegovina, China, and Russia.



Russia, China, and neighboring Balkan countries are highly active in Serbia, focusing on procurement, investments, further trade liberalization, and infrastructure development.



Serbia is the fourth largest recipient of Chinese investments in Europe, particularly in greenfield projects, and is an active participant in the Chinese *Belt and Road Initiative*.

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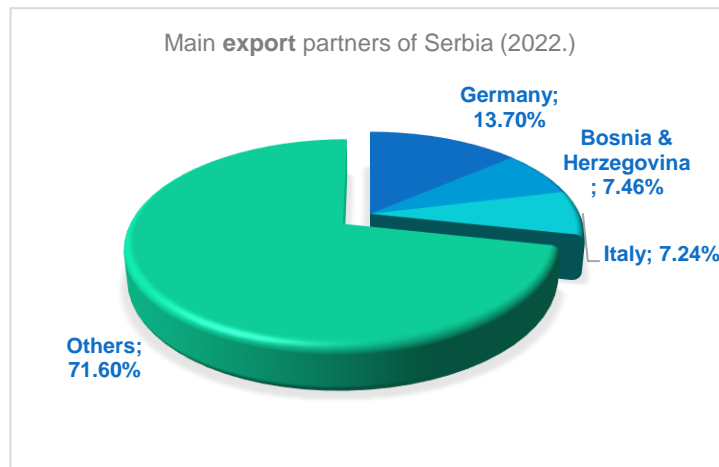


## INTERNATIONAL EXCHANGE OF GOODS

**Main industries** represented in Serbia include machinery manufacturing (aircraft, trucks and automobiles; tanks and weapons; electrical equipment; agricultural machinery), metallurgy (steel, aluminum, copper, lead, zinc, chromium, antimony, bismuth, cadmium), mining (coal, bauxite, non-ferrous ores, iron ore, limestone), consumer goods (textiles, footwear, foodstuffs, appliances), electronics, petroleum products, chemicals, and pharmaceuticals.

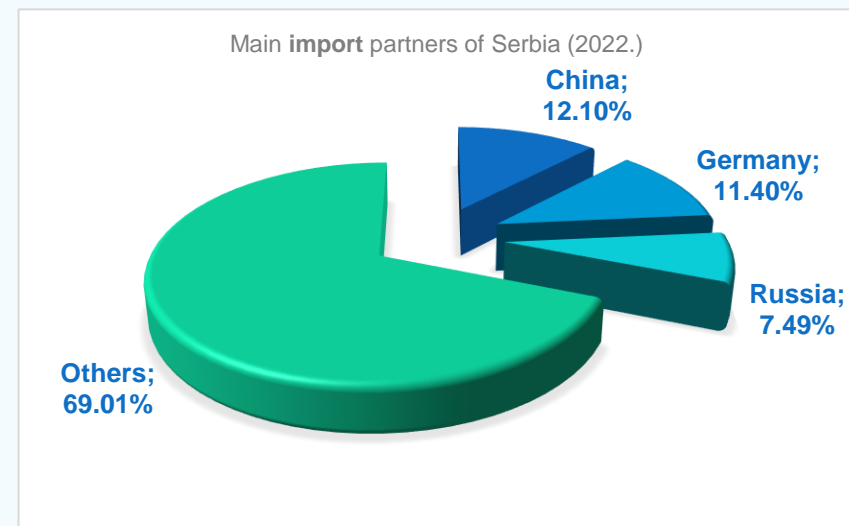
The industrial growth rate is **3.2%**.

**The largest exports** consist of industrial products, food, live animals, and raw materials.



The value of merchandise exports from the Republic of Serbia amounted to **\$29 billion in 2022**, while the value of imported goods into the Republic of Serbia reached **\$41.15 billion**.

**The largest imports** into Serbia include machinery and transport equipment, fuels and lubricants, industrial products, chemicals, food and live animals, and raw materials.



Considering the population of Serbia of 6.7 million people (excluding Kosovo and Metohija), its import of \$41.1 billion in 2022 roughly translates to around \$6,150 annual demand for products per person in the landlocked country of Southeastern Europe. This per capita indicator exceeds the average of \$4,900 for 2021.



## SERBIA - MARKET PRIORITIES AND OPPORTUNITIES

Serbia is located in the heart of Southeast Europe (SEE), specifically in the Western Balkans, at the crossroads of Europe, the Middle East, and Africa.

Despite its relatively small size, Serbia's growing economy presents significant export and investment opportunities across a wide range of sectors, particularly in infrastructure, information and communication technologies, healthcare, agribusiness, energy, and environmental technologies.

Ongoing improvements in administrative procedures such as customs, company registration, licensing, and e-procurement have enhanced the business climate.

The Serbian government continues to allocate billions of dollars for **infrastructure** improvements in the coming decade, with planned expenditures for road construction and modernization, railways, bridges, and ports.

The Serbian government is committed to investing in **healthcare**, particularly in the medical devices/imaging equipment sector and e-health solutions.

Prospects in **agribusiness** include irrigation, cold chain storage, freezing equipment, and agricultural processing and packaging machinery.

Overall, in every subsector, Serbia needs to invest in the modernization of energy facilities and environmental technologies. Serbia aims to diversify its energy supply and incorporate cleaner sources of energy.

For a company new to the market, it is important to identify a local partner. The selection should be based on knowledge of the potential partner's local market and a thorough check of their reputation. Sales agents, representatives, and distributors play an important role in this market.

## TAX SYSTEM

Corporate entities in Serbia are subject to a profit tax rate of **15%** in accordance with the Corporate Profit Tax Law.

The tax incentives provided by the Corporate Profit Tax Law can be summarized as follows:

- Business losses incurred through business activities can be carried forward for up to five tax years and used to offset taxable income.
- Special tax incentives for large investments (subject to conditions: investment exceeding approximately 8 million euros in fixed assets used for registered business activities, with investments in progress not being considered as fixed assets in use until activation, and employment of 100 new permanent employees during the investment period). This tax incentive begins in the year when the first taxable income is generated and cumulatively fulfills both aforementioned conditions, lasting for 10 years. To qualify for the special incentives, the fixed assets must be put into use and paid for. The special tax incentive for large investments is granted proportionally to the investment value - the tax liability is reduced based on the ratio of the value of new assets to the total assets.
- Tax relief for start-up companies.
- Tax relief for research and development - excluding costs related to the exploration of oil, gas, or mineral resources.
- Tax relief for income generated from compensation derived from intellectual property or related rights.

Payments for market research services, accounting and auditing services, and other legal and business consulting services (primarily management fees) are subject to withholding tax, regardless of where such services are provided or used. In case there is no double taxation avoidance agreement between the respective countries, resident companies are obligated to calculate and pay a withholding tax of 20% on any income derived from dividends, royalties, interest, rent, and services paid to non-resident entities.

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## VALUE ADDED TAX (VAT)

Value Added Tax (VAT) is levied at the general VAT rate of **20%**. However, certain supplies are subject to a reduced VAT rate of **10%** (food, medicine, transfer of property rights on residential property).

The right to deduct input VAT should be granted to foreign and domestic entities registered for VAT in Serbia, provided that the following conditions are met:

- A VAT taxpayer may claim the right to deduct input VAT if the goods and services are procured in Serbia or goods are imported, including the acquisition of equipment and facilities for business operations, and the VAT taxpayer uses or will use them for the supply of goods and services subject to VAT, for supplies that would be exempt from VAT with the right to deduct input VAT, or for supplies made abroad, if there would be a right to deduct input VAT if it was performed in Serbia.
- A VAT taxpayer can claim the right to deduct input VAT, provided that they have: an invoice issued by the supplier containing all the mandatory elements prescribed by the invoicing rules of Serbia; an import document for goods indicating the VAT paid or a document certifying that the specified VAT was paid upon import.

A VAT taxpayer can exercise this right within a period of 5 years from the day they acquired this right.

Instead of claiming input VAT refunds, the taxpayer may choose to use such VAT as a credit for future VAT liabilities.

## AGREEMENTS

Serbia concluded the *Stabilization and Association Agreement* and the *Interim Trade Agreement* with the European Union in April 2008.

In 2012, Serbia obtained candidate status in the process of membership to the European Union.

In addition to the European Union, Serbia has concluded free trade agreements with Russia, Belarus, and Turkey.

Serbia ratified the Central European Free Trade Agreement (CEFTA) in 2007, creating the opportunity for companies to freely market their goods to a market of nearly 30 million people.

Trade with the United States is conducted under the Generalized System of Preferences (GSP). The GSP program allows preferential duty-free entry for over 4,650 products.

Serbia is a member of the Black Sea Economic Cooperation (BSEC).



## INVESTMENT INCENTIVES IN SERBIA

During the process of accession to the European Union, Serbia has been working for years to improve investment opportunities and introduced changes to various laws to attract foreign investors. The legislative amendments were made with the aim of aligning with EU legislation and to make Serbia competitive in terms of investments.

1. Free Investments - The treatment of foreign investors for their investments is equal to that of Serbian citizens. They have the same rights and obligations as Serbian investors, unless otherwise specified by the Law on Investments. After paying all taxes and fulfilling other obligations related to public revenue, foreign investors can transfer their income, such as dividends, intellectual property fees, and other funds related to investment in Serbia.
2. Convenient geographical position for networking with other partners from Europe and Asia - Thanks to its geographical position between Eastern and Western Europe, as well as Southwest Asia, and developed transportation infrastructure, companies find it important to connect with their business partners and suppliers from all parts of Europe and the world.
3. Tax incentives - Favorable tax rates for corporate income tax are not the only factor motivating investors worldwide to start their business in Serbia. The corporate income tax rate is 15%. The main reason why the trend of introducing tax incentives continues year after year is the promotion of innovative activities and the development of the IT sector. Specifically, since the beginning of 2020, qualified employers who meet the legally prescribed conditions are eligible for tax incentives for employing foreigners and returnees.

4. Easy Company Formation Process in the Republic of Serbia - Establishing a new legal entity is done at the Serbian Business Registers Agency after opening a business bank account. With the assistance of a lawyer, the company registration process is straightforward and can be completed within 3-5 days. The company's share capital can consist of monetary or non-monetary contributions. The minimum amount of share capital in a limited liability company is 100 RSD, while for founders who wish to apply for a temporary residence permit based on their position in the company, the minimum amount is 250 EUR (in the equivalent value in Serbian dinars). The registration fee at the Business Registers Agency is more competitive compared to most European countries.
5. Possibility of Company Formation in the Republic of Serbia without Physical Presence - Numerous business obligations and a busy lifestyle often prevent individuals from traveling to Serbia to complete the administrative procedures for company formation. The Republic of Serbia is particularly attractive to foreign investors as all actions related to company formation can be performed without the physical presence of the founders.
6. Possibility of a Virtual Company Headquarters - As a significant portion of business operations within a company are conducted remotely (especially for companies engaged in innovative activities in the IT sector), a favorable option for registering a business headquarters in Serbia is to opt for a virtual company headquarters.

7. ***Customs Benefits for Investors in Serbia - Foreign individuals and companies intending to invest in Serbia may be exempt from paying customs duties and other charges if the equipment imported complies with environmental protection regulations in Serbia.***

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8. Transparency of Competition - The Serbian Commission for Protection of Competition has been consistently praised for its work and significant improvement in transparency. The Council of Foreign Investors recommends the use of advanced economic analysis in competition violation assessments, as well as the utilization of advanced software to enhance the quality of economic analyses.
9. Non-refundable funds for foreign investors - As a form of financial support, the Republic of Serbia provides special non-refundable funds for Greenfield and Brownfield investments, two types of direct foreign investments in Serbia. For investments of national importance and those that contribute to Serbia's economic development, the Republic of Serbia may sell construction land to the investor at a lower price than its market value. For investors employing more than 100 workers and investing over 8.5 million euros, the Republic of Serbia offers a ten-year corporate income tax credit.
10. Opportunity to operate in free zones - Conducting business activities within one of the 15 free zones in Serbia provides certain preferential tax treatment. Crucially, income generated through business activities is exempt from value-added tax (VAT). Both domestic and foreign legal entities have the right to benefit from free zone advantages, including in the areas of production, storage, trade, banking, and insurance. They can also lease warehouses or office spaces for their operations. Profits earned within a free zone can be transferred to any country worldwide without permits, taxes, or costs.
11. A large number of young skilled workforce with excellent knowledge of the English language - Foreign employers can easily find young graduate professionals who speak English at an exceptionally high level, as Serbia ranks high at the 15th position on the EF EPI English Proficiency Index among countries worldwide.
12. Labor Law – Employment of Foreigners - A work permit is not required in Serbia for foreigners who do not stay in the country for more than 90 days within a period of 6 months from the date of their first entry into Serbia in the following cases: when the foreigner is an owner, founder, representative, or member of the competent body of a Serbian legal entity, provided that they are not employed by this legal entity; when the foreigner establishes business contacts, attends business meetings in Serbia, and performs other activities without generating income in Serbia, with the purpose of preparing the foreign employer for entering the Serbian market; when the foreigner is a lecturer or researcher participating in the organization of professional events or scientific projects, or demonstrating technical advancements, as well as accompanying staff; when the foreigner engages in educational, sports, artistic, cultural, and other activities or stays in Serbia for scientific, artistic, cultural, or sports events organized by competent organizations, state authorities, provincial and local authorities, or for the purpose of accompanying organizational and technical staff; when the foreigner is sent to work in Serbia, performing activities related to the supply, leasing, or provision of machinery or equipment, including their delivery, installation, assembly, repairs, or training of personnel for the use of such machinery and equipment; when the foreigner performs activities related to the installation and display of equipment at trade fairs and exhibitions. If the foreigner does not fall into any of these categories but wishes to reside and work in Serbia for more than 90 days within a period of 6 months, they are required to obtain a work permit to operate in Serbia. Temporary residence permits can be granted to the following categories of foreigners: foreigners who have established a company in Serbia with innovative activities confirmed by the Science and Technology Park (established by the Republic of Serbia, autonomous province, Belgrade, or another domestic government organization) - known as "startups"; foreigners who have invested in an already registered company in Serbia, i.e., who have invested basic tangible and intangible assets into the company - known as "investors"; foreigners whose higher education issued by the competent authorities of the Republic of Serbia has been recognized - known as "talents".

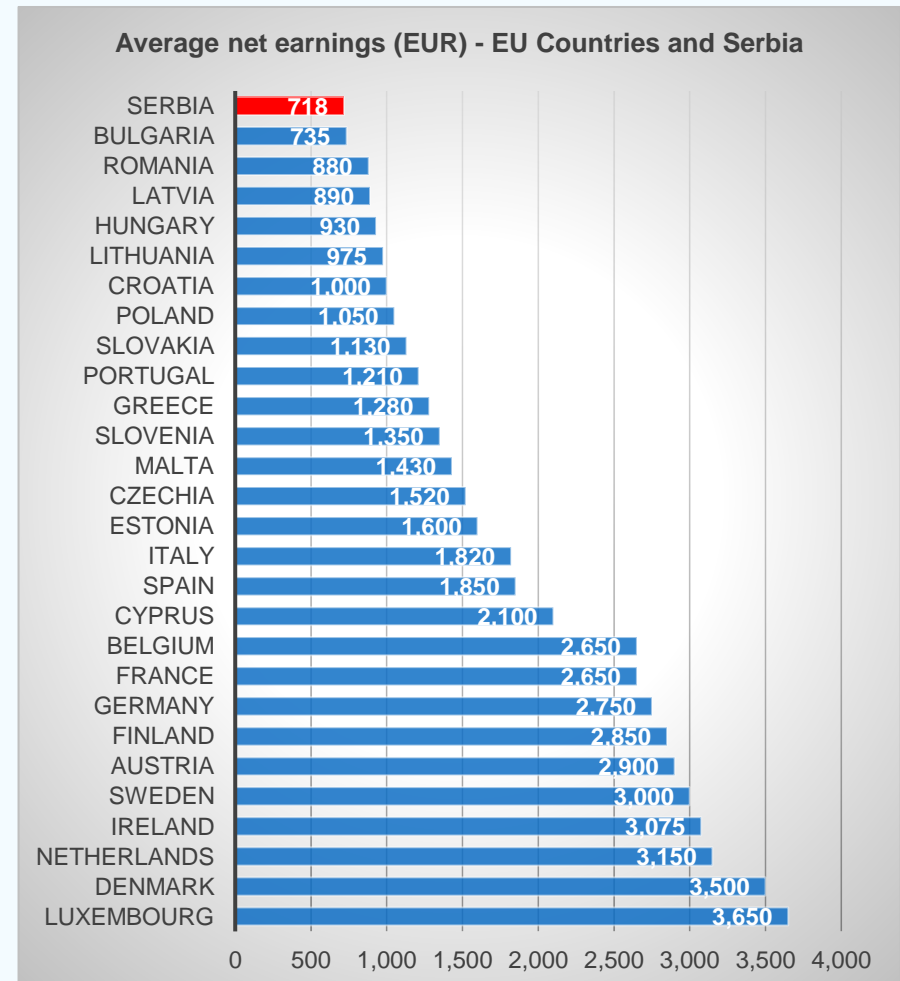


13. Tax incentives for employing young returnees - The Law on Compulsory Social Security Contributions stipulates that employers who hire young returnees are eligible for a 70% reduction in taxes and contributions. Additionally, Serbia has a Double Taxation Avoidance Agreement with 59 countries worldwide, which is one of the main reasons that make Serbia highly favorable for opening a new company or relocating an existing one.

14. Contributions for employees:

Contribution rates	At the expense of the employer	At the expense of the employee
Contributions for pension and disability insurance	12%	14%
Contributions for health insurance	5,15%	5,15%
Unemployment contributions	0,75%	0,75%
Income tax	10%	0%

## MORE COMPETITIVE LABOR COSTS COMPARED TO THE REST OF THE EU





## AVERAGE EARNINGS AND THE MOST COMPETITIVE ECONOMIC SECTORS

- The average gross salary calculated for December 2022 was 115,315 dinars (983 EUR), while the average net salary, without taxes and contributions, was 84,227 dinars (718 EUR). The median net salary for December 2022 was 60,413 dinars (515 EUR), which means that 50% of employees earned less than this amount, and the remaining 50% earned more.
- Increasing productivity is necessary both within and among sectors to support the country's economic transformation. The productivity gap in Serbia compared to other countries is highest in agriculture, with agricultural productivity in Serbia being less than one-third of the average in 7STEE (Small Transition Economies of Europe) and below the Western Balkan average.
- In industry and services, the country's performance is in line with the Western Balkan average.
- Attracting foreign direct investment with higher value-added and promoting digital and technological innovations within companies can be important drivers of productivity growth. The sustained increase in FDI in Serbia in recent years is encouraging, but it has mostly been in sectors with low value-added. This is a result of policies designed to attract FDI in labor-intensive production to address high unemployment.
- One sector of "positive deviation" that has been experiencing significant growth in productivity and production since 2015 is the information and communication technology sector. Serbia ranks among the top five countries in the world in terms of the number of information technology talents on the "Start-up Genome" list.
- In Serbia, there are areas with significant mining potential that should be supported by balanced and efficient regulations for the development of the mining industry.
- The mining sector has the potential to generate necessary public revenues and create opportunities for the development of remote areas if environmental risks and social impacts are effectively addressed.
- Building a prosperous society with European living standards is only possible if Serbia promotes equal opportunities among its population and regions. Improved opportunities for building human capital are key to lifting more people out of poverty and sharing the benefits of economic growth. Citizens need opportunities to earn better income through paid employment, self-employment, or jobs in agriculture.



## FREE ZONES

- Currently, there are 15 free zones in the Republic of Serbia that generate an annual turnover of over 5 billion euros. These free zones are home to over 200 multinational companies with more than 37,000 employees. The share of export of goods from free zones in Serbia's total exports is about 15%.
- The currently operational free zones in Serbia are: **Pirot Free Zone, Subotica Free Zone, Zrenjanin Free Zone, Novi Sad Free Zone, Kragujevac Free Zone, Šumadija Free Zone (Kragujevac), Šabac Free Zone, Užice Free Zone, Smederevo Free Zone, Kruševac Free Zone, Svilajnac Free Zone, Apatin Free Zone, Vranje Free Zone, Priboj Free Zone, and Belgrade Free Zone.**
- The following activities can be carried out in free zones: production, storage, packaging, trade, banking, and insurance. Free zones can be established and managed by both domestic and foreign companies. Earnings and revenues generated within the free zone can be freely transferred to any country, including Serbia, without prior approval and without being subject to taxes, customs duties, or fees.
- By operating in free zones, investors are provided with special benefits and a privileged tax regime (exemption from VAT and customs duties on the import of raw materials and materials intended for the production of goods for export, machinery, equipment, and construction materials).
- Import and export of goods to and from the zone are unlimited.