From the Editor

Economic growth in the long run depends on a large number of factors, alongside those related to country characteristics and global economic trends, the quality of public policies is crucial. Since the start of the transition a quarter of a century ago, Serbia has achieved solid results in terms of growth dynamics, which is linked not only to the policies pursued but also to the low starting base. The results achieved over the last five years have also been solid, placing Serbia alongside a handful of European economies (Poland, Albania, Croatia, Ireland and Malta) that have recorded relatively high growth compared with other European countries. However, Serbia's negative development gap relative to the European average remains pronounced, and meaningful convergence with European countries will require the Serbian economy to achieve growth rates well above the European average for a prolonged period. To achieve this, in addition to improving the quality of the institutional environment, the rule of law, the quality of education and macroeconomic stability, further steps need to be taken to improve the structural characteristics of economic, primarily fiscal, policy. A policy of moderate fiscal deficit and a moderate level of public debt represents a precondition for macroeconomic stability and growth, but accelerating growth and achieving a breakthrough in general social welfare requires further improvement in the efficiency of public expenditure policy as well as tax policy.

The acceleration of economic growth in Serbia in recent years has been the result, among other things, of strong investment growth – primarily public and foreign private. Nevertheless, a period of rapid wage growth, which outpaced productivity, together with the dinar's continuous real appreciation against the euro, has left negative consequences for the investment and export competitiveness of Serbia's economy. The trends observed in 2025, which point to a sharp slowdown in foreign investment inflows, may be early signals of these effects. On the other hand, solid economic growth and negative demographic and migration trends have resulted in a marked decline in unemployment and labour availability in Serbia, which could also constrain dynamic economic growth in the future. Still, the employment rate in Serbia remains lower than the European average, while labour market activity is lower. Finally, climate change and the growing importance attached in Europe to the green agenda mean that environmental protection issues are gaining increasing significance in the creation of economic, and hence fiscal, policy. For example, the obligation for EU member states and those aspiring to membership to introduce excise duties on a wide range of fossil fuels into their tax systems, as well as the EU's new rules on environmental tariffs (CBAM), are also relevant facts that will have to be taken into account in future fiscal policy. Addressing these issues to encourage dynamic and sustainable growth requires the design and implementation of a coordinated set of measures from various segments of economic policy, including tax policy measures.

Serbia's current tax system was established in 2001 by adopting tax laws regulating the basic forms of taxation, which—with numerous amendments and supplements—are still applied today. A major step forward was made in 2005 with the introduction of the European model of valueadded tax (VAT), which replaced the turnover tax. Apart from numerous parametric reforms, there have been no substantial breakthroughs in reforming Serbia's tax system since then. On the basis of the circumstances described, it can be concluded that a fundamental reform of Serbia's tax system could positively contribute to economic growth and the sustainable development of the economy and society by focusing on several objectives: i) improving export and investment competitiveness; ii) reducing economic inequality; and iii) encouraging the green transition with a view to improving environmental quality. To achieve these goals, it will be necessary to implement a coherent, revenueneutral taxreform programme that would reduce the fiscal burden on labour (through a significant reduction in compulsory social security contribution rates, which could reduce the grey economy, activate labour supply and strengthen the price competitiveness of the economy, thereby stimulating investment in the medium term), modestly increase the progressivity of the tax system (through reform of the personal income tax and the system of taxing property, inheritance and gifts) and develop a system of environmental taxes (primarily by widening the scope and adjusting the excise system to align with European directives—introducing excise duties on coal and coke, and elaborating other environmental taxes to remove the risk of negative consequences from the future application of EU environmental tariffs). The specific parameters of such a reform would crucially depend on the ambition of the goals set. If, for example, the aim was a marked reduction of the fiscal burden on labour, then in order to be fiscally sustainable the reform would probably also have to include adjustments of general consumption taxes, in addition to increasing the progressivity of personal income tax and excise duties or environmental taxes. To the extent that it is assessed that the development of environmental taxes and adjustments to consumption taxes would disproportionately affect poorer segments of the population, such a reform should be accompanied by an appropriate reform of the social protection system to strengthen the position of the most vulnerable groups.

A fundamental tax reform could provide a strong impetus to dynamic growth and sustainable development in Serbia by enhancing competitiveness, reducing inequality and supporting the green transition. However, although such a reform has the potential to contribute to longterm societal wellbeing, its importance does not diminish the need for the parallel implementation of other reforms—from strengthening institutions and the rule of law, through improving education and the labour market, reforms of public expenditure policy aimed at promoting efficiency and transparency, to the development of a functional and open market economy. Only a coordinated approach that takes account of all dimensions of economic development can deliver a lasting leap towards a higher degree of economic convergence between Serbia and European countries.

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