

Press release/Executive summary

Serbia needs fundamental, carefully considered agricultural policy reform

Agriculture is currently in a very poor state

Over the past 10-15 years, agricultural production in Serbia has failed to grow, while the rest of the economy has expanded by approximately 40%. Labour productivity stands at just one-third of the EU average, milk yield per cow is roughly half the EU level, and crop yields per hectare are around 25% lower. As many as 90% of tractors and three-quarters of combine harvesters are more than ten years old. The sector's international competitiveness is gradually deteriorating, as evidenced by imports growing considerably faster than exports. Agricultural production is also substantially more volatile than in most European countries, primarily because of insufficient adaptation to droughts and other climate-related risks.

Perhaps the greatest constraint on the future development of agriculture is the rapidly shrinking workforce. Between the two agricultural censuses, the total amount of labour employed in the sector fell by more than 20%, while almost half of all farm holders are now over the age of 65.

The problem is not how much the government spends, but how it allocates the money

The government must fundamentally change its approach to agricultural policy if it is to revitalise this important sector, which has considerable social and strategic significance alongside its economic role. One of the few encouraging aspects of the current situation is that agriculture already receives sufficient public funding: approximately €1.4 billion annually when all subsidies, fuel excise duty refunds and other forms of support are taken into account. In principle, therefore, the necessary reforms do not require additional budgetary expenditure.

However, the structure of agricultural support differs substantially from modern policy practice. Unlike in the EU, direct payments in Serbia are much more closely linked to production volumes, livestock numbers and the use of agricultural inputs. Meanwhile, eco- schemes, redistributive payments for small and medium-sized farms, and other mechanisms designed to encourage investment in modernisation and the conservation of soil and water resources remain largely neglected. In other words, rather than using the available funds to transform agriculture into a more productive, competitive and resilient sector, the government is primarily financing the continuation of an existing model that has failed to deliver results.

Policy instability is another major problem. Between 2023 and 2025 alone, the regulations governing the allocation of agricultural support were amended no fewer than 34 times. Such instability makes long-term planning difficult and discourages investment, particularly in areas such as livestock farming and perennial crops, where investments take many years to generate returns.

Ineffective agricultural policy also contributes to high food prices

The consequences of these shortcomings are increasingly being felt by the wider population. Food prices in Serbia have now reached approximately 96% of the EU average, even though GDP per capita, adjusted for purchasing power parity, stands at just 51.8% of the EU level. Admittedly, high food prices in Serbia cannot be attributed solely to agriculture: processing, distribution and retail also account for a significant share of the upward pressure on prices. Nevertheless, low productivity in domestic agricultural production is part of the problem. It is particularly telling that prices are highest in precisely those segments where the structural weaknesses of Serbian agriculture are most pronounced, such as livestock production.

What needs to change?

Almost all the problems facing Serbian agriculture are structural in nature and have accumulated over decades. Continuing to sweep them under the carpet will only increase the economic cost of addressing them. There is no longer any room for piecemeal adjustments or ad hoc regulatory interventions. Such measures may temporarily alleviate the symptoms, but they do not address the underlying causes and often create additional long-term obligations for the government budget.

What is needed, therefore, is a gradual but comprehensive reform of agricultural policy. Although this does not require an increase in the overall agricultural budget, it does require the available funds to be used differently. This means progressively reducing reliance on production-linked subsidies and other short-term measures, while placing greater emphasis on investment, redistributive payments, risk management, food quality and safety, and the conservation of natural resources.

The Fiscal Council proposes a possible reform pathway to be implemented in stages over six to ten years. The first phase would prioritise stabilising the regulatory framework and restoring predictability, alongside the introduction of redistributive payments and pilot eco- schemes. The next phase would involve gradually restructuring agricultural support, with increasing emphasis on animal welfare and the protection of soil and water quality. Production-linked payments would be restricted to sectors where there is a clear economic justification for their use. In the final phase, these new instruments would become the backbone of the support system, bringing it closer to the modern framework of the EU Common Agricultural Policy while taking account of the specific characteristics of Serbian agriculture.

The success of reform will depend not only on which subsidies are introduced, but also on the government's ability to administer and oversee a more sophisticated system. Serbia currently lacks sufficiently developed electronic registers, monitoring and control mechanisms, laboratory facilities and specialist expertise to support such a model. Institutional capacity-building must therefore begin immediately. This should include establishing the Integrated Administration and Control System and Land Parcel Identification System (IACS/LPIS), improving the farm register, strengthening inspection and specialist services, and ensuring adequate staffing by qualified professionals.

Finally, agricultural policy reform cannot be limited to reforming the subsidy system. Public investment in infrastructure must also increase, particularly in irrigation and drainage systems, flood and flash-flood protection, storage facilities, and local and agricultural access roads. At the same time, improvements in the productivity of primary agricultural production must be accompanied by better functioning of the entire food supply chain. This requires greater transparency in prices and profit margins, stronger bargaining power for farmers, and the development of shared logistics infrastructure.