

Summary

Serbia is paying a high price for years of ineffective agricultural policy. Agriculture is more than just an economic sector in Serbia: it is an important part of the country's identity and has historically been one of its most reliable pillars of support. Today, however, that picture has changed. Rather than being an asset, agriculture has become a source of mounting economic, fiscal and social problems. Agricultural production has stagnated over the long term, holding back overall economic growth and contributing to increasingly frequent crises and farmers' protests. In response, the government has substantially increased budgetary support for agriculture, but with limited success. Agricultural subsidies now amount to approximately 1% of GDP. When fuel excise duty refunds, support provided at local and provincial levels, and other related expenditure are included, total public spending on agriculture reaches around 1.5% of GDP annually (approximately €1.4 billion). Even by European standards, this represents substantial expenditure, yet it has failed to deliver commensurate results. Moreover, the consequences of ineffective agricultural policy are increasingly being felt not only by farmers but also by the wider population. Food prices have almost reached EU levels, despite living standards in Serbia remaining considerably lower. This is difficult to explain in a country where agriculture still accounts for a relatively large share of economic activity. Although agriculture is not solely responsible for high food prices, its low productivity and prolonged stagnation are important reasons why food in Serbia is more expensive than it needs to be.

The current situation does not, however, have to define the long-term future of Serbian agriculture, as the sector still has considerable development potential. Despite its poor performance, Serbia retains the essential foundations for a successful transformation of its agricultural sector. First and foremost, natural conditions are generally favourable: Serbia has a higher proportion of good-quality arable land than most EU countries, together with agroclimatic conditions suitable for growing a wide range of crops. Although the rural population is declining rapidly, it remains relatively large by European standards (approximately 38% of the population in Serbia, compared with 25% in the EU), representing an important resource that could be put to much better use. Finally, Serbia has inherited a substantial scientific and technical infrastructure supporting agricultural development, ranging from universities and research institutes to networks of livestock breeding, selection and agricultural advisory services. In other words, the fundamental problem facing Serbian agriculture is not a lack of natural resources, human capital or scientific and technical expertise, but its persistent inability to translate these assets into higher productivity, greater competitiveness and increased value added. The central question addressed in this study is therefore why Serbia's agricultural development potential has remained untapped for decades.

Paradoxically, the greatest opportunity for agricultural development lies in the scale and nature of Serbia's gap with EU countries. Labour productivity in Serbian agriculture currently stands at only around one-third of the EU average. This gap is too large to be explained solely by Serbia's lower overall level of economic development and points to problems specific to the agricultural sector itself. Significant disparities are also evident across other key indicators of agricultural performance: milk yield per cow is approximately half the EU average; crop yields per hectare are around 25% lower, with considerably greater year-to-year volatility; production is more heavily concentrated in lower-value products; and agricultural machinery is substantially older. These are undoubtedly poor indicators, but from an economic perspective they also represent a relatively low-cost development opportunity. Serbia does not need to push the global technological frontier in agriculture to achieve rapid progress. It simply needs to apply effectively the knowledge and solutions that have already proved successful in other European countries. This is the most rational and quickest route

towards improving the performance of Serbian agriculture. Nevertheless, even this path presents numerous challenges.

Serbia needs a fundamentally different agricultural policy, not a larger agricultural budget. One favourable circumstance is that the necessary reforms do not require additional budgetary resources. Serbia already spends enough on agriculture, with support levels comparable to those in Central and Eastern European countries before their accession to the EU. The problem is that the available funding is allocated according to a model that the EU abandoned long ago. Approximately 60% of direct payments are linked to current production (compared with around 12% in the EU); eco-schemes, to which the EU allocates a quarter of its direct payments, are virtually non-existent in Serbia; redistributive support for small and medium-sized farms is absent; and investment measures remain marginal and unpredictable. A further problem is that regulations governing agricultural support have been amended more than thirty times in just three years, sometimes even while application and allocation procedures were under way. Such uncertainty would undermine even the best-designed support measures, as no serious investment decision can be based on assistance that cannot be relied upon.

Reforming agricultural policy, however, cannot simply mean changing individual support measures. What Serbia needs is a fundamental shift in the underlying logic of its agricultural policy. First, the emphasis must move away from short-term payments that are quickly spent without generating significant benefits for the sector, towards investment that delivers lasting improvements. Second, agricultural policy must focus on preventing problems before they arise, rather than firefighting once crises have escalated and it is already too late. Third, the allocation of public funds must move away from politically driven priorities, under which support largely goes to the largest and most vocal groups, and instead be directed towards areas where it can generate the greatest impact. Such a shift cannot be achieved overnight. Reform must be gradual and predictable, implemented in stages over the course of a decade, allowing both producers and the government sufficient time to adapt to the new rules.

The greatest challenge will be building the government's operational capacity to implement the reforms successfully. Modern agricultural policy is far more demanding than simply paying subsidies per hectare or per head of livestock. It requires reliable digital registers and a functioning Integrated Administration and Control System and Land Parcel Identification System (IACS/LPIS), effective inspection and control mechanisms, operational laboratories, and a strong analytical unit within the Ministry of Agriculture. All of this depends on having sufficient numbers of qualified and well-trained staff. These are currently the weakest links in Serbia's agricultural policy framework. Key administrative bodies operate with approximately 25% fewer employees than their staffing plans require; audits have identified weaknesses in the food safety system; and the establishment of essential instruments for implementing the EU Common Agricultural Policy is progressing considerably more slowly than planned. A clear illustration of these limitations is IPARD, the only instrument in Serbia already implemented under EU rules. Serbia utilised only slightly more than half of the funds available under the previous programming period, while implementation in the new cycle has reached only around 10%. This confirms that the greatest obstacle is no longer a shortage of funding, or even a lack of sound policy solutions, but limited and long-neglected institutional capacity to put those solutions into practice. Strengthening institutions must therefore be the first and most fundamental step in the reform process. Investment in personnel, digital systems and control mechanisms must precede the expansion of new policy measures. Without institutions capable of implementing reform, even the most carefully designed agricultural policy will fail to bring about meaningful change on the ground.

The scale and causes of Serbian agriculture's underperformance

Agriculture is no longer contributing to economic growth in Serbia. Agriculture is traditionally a lower-value-added sector, where output generally grows more slowly than in more modern industries, such as information technology, electronics manufacturing and pharmaceuticals. Consequently, its relative importance in the economy naturally declines over time as countries develop. For example, over the past 10-15 years, agricultural output in the EU has grown by 6% in real terms, compared with 20% growth in the rest of the economy.¹ In the eleven Central and Eastern European countries (CEE-11), whose levels of development are closer to Serbia's, agriculture grew by 11%, while the rest of the economy expanded by 41%. In both cases, therefore, agriculture and the wider economy grew, albeit at different rates. Serbia, however, stands out as a clear exception to this pattern: real gross value added (GVA) in domestic agriculture has effectively stagnated, declining by 0.4%, while the rest of the economy has grown by almost 40%. Serbian agriculture is therefore losing economic significance not merely because other sectors are expanding more rapidly, but because agriculture itself is failing to grow – a fundamentally more adverse trend.

The long-term stagnation of agriculture has negative social consequences that extend well beyond the sector itself. Agriculture continues to play a relatively important role in Serbia's economy, accounting for approximately 4.5% of total GVA, more than twice the EU average. It provides formal and informal employment for around 345,000 people, while more than 1.1 million people participate in agricultural work on farms over the course of a year. Agriculture is also an important source of income and economic activity in rural areas, which are home to almost 2.5 million people. Beyond its economic and social functions, agriculture plays a vital role in ensuring access to safe, high-quality food. This is particularly important in a period marked by increasingly frequent extreme weather events, global crises and disruptions to supply chains.

Serbia's agricultural trade balance remains positive, but its competitiveness is gradually weakening. Serbia has traditionally been a net exporter of agricultural and food products, recording a trade surplus of approximately €550 million in 2025. In recent years, however, imports have grown considerably faster than exports, reducing the export-to-import coverage ratio from almost 183% in 2010-2013 to just 127% in 2022–2025. Moreover, these figures include food and agricultural products such as bottled water and cigarettes, which are not directly linked to domestic agricultural production. Excluding these products, the export-to-import coverage ratio falls to 117% over the period under review. Particularly concerning is the decline in self-sufficiency in livestock production, as domestic output of certain categories of meat and milk is no longer sufficient to meet domestic consumption.

The shrinking agricultural workforce is probably the greatest constraint on the sector's future development – and the solution lies in accelerating productivity growth. Between the agricultural censuses of 2012 and 2023, total agricultural labour input, measured in annual work units, declined by more than 20%, while the rural population fell by approximately 14%. The decline in labour availability has been particularly pronounced among smaller family farms, which form the backbone of Serbian agriculture. At the same time, the average age of people engaged in farming continues to rise: between the two censuses, the proportion of farm holders aged over 65 increased from 35% to almost 45%. These trends are not unique to Serbia and largely reflect the natural consequences of economic development, urbanisation and demographic change. As they are expected to continue, the only sustainable

¹ To reduce the influence of individual drought years and exceptionally good harvests, the analysis compares average agricultural GVA in 2022–2025 with the average for 2010–2013.

response is to accelerate labour productivity growth, enabling fewer workers to generate greater economic value. Yet this is precisely where Serbia lags significantly behind, as reflected in the sector's slow technological renewal. As many as 90% of tractors and three-quarters of combine harvesters are more than ten years old. Newer, higher-capacity machinery accounts for a negligible share of the total fleet, while advanced precision agriculture technologies – including GPS-guided machinery, drones and sensors – remain uncommon. Without substantially greater investment in modernising production, the continuing decline in the agricultural workforce will inevitably constrain the sector's development.

Another serious structural weakness of Serbian agriculture is the pronounced year-to-year volatility of production. Droughts and other adverse weather conditions cause agricultural output in Serbia to fluctuate much more sharply from one year to the next than in most European countries. For example, weather-related fluctuations in maize yields over the past five years have ranged from 4.4 tonnes per hectare in 2025 to 7.2 tonnes per hectare in 2023. Substantial seasonal variations are also evident in other crops, including wheat, fruit and vegetables. Such instability in supply typically feeds through into food prices, which often rise sharply in drought years. These pronounced annual fluctuations cannot be attributed solely to increasingly extreme climate conditions, to which other European countries are also exposed. They also reflect the insufficient adaptation of Serbian agriculture to these conditions. Greater investment in irrigation, hail protection, drainage and other climate adaptation measures is therefore essential to achieving more stable and productive agricultural development and strengthening the sector's resilience.

Serbia is falling furthest behind in precisely those areas of agriculture that require the longest investment horizons – a particularly revealing pattern. The largest gaps relative to comparable countries are found in activities with long investment payback periods, such as cattle farming, dairy production and perennial crops. By contrast, Serbia performs considerably better in relatively straightforward annual production activities, such as arable farming. This pattern is no coincidence. Agricultural activities that require planning over several years are particularly vulnerable to frequent changes in regulations, unpredictable support measures and other forms of agricultural policy instability. This provides strong indirect evidence that instability in the support system is one of the key problems facing Serbian agriculture. Moreover, activities with long investment cycles generally generate the highest value added. Unstable agricultural policy therefore not only slows the sector's growth but also pushes production towards lower-value products.

The problem is not how much the Government spends, but what it achieves with the funds

Because of the particular characteristics of agriculture, the quality of government intervention has a greater bearing on the sector's development than is the case in most other industries. Even in the most developed economies, agriculture is not left entirely to market forces. Its exposure to weather conditions, price fluctuations, biological risks and long investment cycles creates a need for sustained public support. Serbian agriculture also faces a number of additional challenges, including a large number of small and fragmented farms, insufficient participation by younger generations, rural depopulation and relatively low labour productivity. None of these constraints is insurmountable in isolation, but together they make well-designed public policies considerably more important in addressing the sector's development needs.

The existing system of government support largely sustains the current structure of agricultural production rather than encouraging its transformation. In Serbia,

approximately 60% of direct payments are allocated to production-linked and related instruments, including milk premiums, payments per head of livestock and input subsidies. Most of the remaining direct support (around 38%) takes the form of basic income payments. By contrast, coupled payments now account for just 12% of direct agricultural subsidies in the EU. The largest share of EU funding is directed towards basic income support (51%), alongside eco-schemes (24%), redistributive payments for the first hectares of agricultural land (11%) and targeted coupled support (12%). In other words, modern agricultural policy systems are increasingly shifting their focus away from subsidising production volumes and towards supporting the conditions under which agricultural production takes place. In European countries, public support is also conditional on maintaining soil fertility, ensuring production quality and food safety, strengthening agricultural resilience and protecting the environment. Serbia lags behind in this respect as well: environmental and redistributive components are virtually absent from its direct payment system, meaning that most support continues to be allocated without a clear link to production quality or the long-term conservation of productive resources.

The overwhelming dominance of direct payments in Serbia crowds out other equally important agricultural policy instruments. Effective agricultural policy involves much more than distributing subsidies. It also requires the development of public institutions responsible for planning and oversight, the conservation of natural resources, and improvements to the infrastructure essential for agricultural production. In Serbia, however, direct payments currently account for more than 80% of budgetary subsidies for agriculture. This not only limits the effectiveness of subsidy spending but also reduces the resources available for activities that ensure the quality and safety of agricultural and food products. These include veterinary and phytosanitary systems, food quality testing laboratories, traceability systems that make it possible to track the origin and movement of products throughout the supply chain, agricultural advisory services, and other functions that strengthen the competitiveness of domestic agriculture and facilitate access to foreign markets. At the same time, public investment in productivity-enhancing infrastructure is being neglected, including irrigation and drainage systems, flood and flash-flood protection, and local road infrastructure.

Frequent regulatory changes further undermine the developmental impact of the existing system and the credibility of agricultural policy. Between 2023 and 2025 alone, three decrees governing the allocation of agricultural support were adopted, followed by no fewer than 34 amendments. The rulebook governing subsidies for breeding livestock was amended seven times, including changes introduced immediately before or during application periods. More recent changes, such as the requirement to provide retrospective evidence of expenditure on agricultural inputs through invoices in order to justify direct payments, depart from established modern practice. In well-functioning systems, compliance is monitored through digital registers, conditionality requirements and on-the-spot checks, rather than administrative verification of individual expenses. Such uncertainty erodes farmers' confidence, complicates investment planning and slows their ability to respond to market signals.

Piecemeal adjustments are no longer enough – gradual but comprehensive reform is needed

The existing agricultural policy model has reached its limits. In recent years, the government's response to challenges in agriculture has largely consisted of expanding existing programmes and introducing new ad hoc measures, while leaving the underlying structure of the system unchanged. Because the root causes of the problems remain unaddressed, every major drought, price shock or market disruption generates pressure for additional budgetary

expenditure. Simply expanding existing programmes – more of the same – is therefore no longer a viable solution. On the contrary, over time it could further entrench a support structure that has already proved limited in its ability to improve the productivity, competitiveness and resilience of Serbian agriculture, while imposing additional permanent burdens on the government budget.

Serbia has the advantage of being able to implement reform without reducing overall support for agriculture. Following several years of increased expenditure, the agricultural budget has reached a level consistent with the country's stage of economic development. The objective of reform should therefore be neither to increase nor to reduce total support, but to restructure it gradually within the existing overall envelope of public funding. One possible starting principle would be to maintain the nominal value of existing subsidy programmes while progressively introducing new instruments. These would not increase the agricultural budget as a share of GDP. Instead, that share would remain stable, while nominal funding would grow in line with overall GDP, at an estimated annual rate of 6-7% (reflecting real economic growth of 3-4% and inflation of around 3%). This growth would finance the introduction of new instruments. In theory, the budget available for new policies could therefore increase by €70-80 million each successive year, providing more than sufficient resources to transform the support system.

Reform must be implemented gradually and predictably, rather than through a one-off change in regulations. Agricultural production often involves long investment cycles, from establishing orchards and vineyards to constructing farm facilities, purchasing machinery and improving genetic potential. Producers therefore need both time and predictability to adapt their operations to new rules. At the same time, the government itself must progressively develop the institutional capacity required to administer more sophisticated agricultural policy instruments and assess their impact. A useful example is the EU's existing Common Agricultural Policy, which is the product of more than six decades of reform, during which its objectives and instruments have continually evolved in response to changing economic, technological, social and environmental challenges. Reform in Serbia must therefore be gradual enough to ensure stability and credibility, but sufficiently decisive to shift agricultural policy towards long-term improvements in productivity, competitiveness and resilience within a reasonable timeframe. We consequently propose a three-phase reform process:

- **Phase One (years 1-2): Stabilising the system.** The priority would be to establish predictable rules and restore the credibility of agricultural policy, while introducing a limited number of new instruments, including redistributive payments, pilot eco-schemes and initial animal welfare programmes. Work would also begin on strengthening the institutional capacity needed to administer more sophisticated measures.
- **Phase Two (years 3-5): Gradually restructuring support.** As institutional capacity improves, agricultural policy would progressively shift away from coupled subsidies towards investment, redistributive payments, eco-schemes and measures designed to improve productivity, production quality and sectoral resilience.
- **Phase Three (years 6-10): Establishing a new model.** The new instruments would become the dominant components of the support system, progressively bringing it into line with the modern framework of the EU Common Agricultural Policy, while adapting it to the particular characteristics of Serbian agriculture.

The sequencing of reform is not merely a technical matter but one of political economy – and redistributive support has an important role to play. Agriculture involves

a large number of beneficiaries and is highly politically sensitive, meaning that an abrupt transition to a new model would inevitably provoke resistance. The sequence we propose is designed to ensure that the largest group of beneficiaries – small and medium-sized farms – begins to benefit from the outset through redistributive payments on their first hectares of land. This would help build credibility and political support for the more difficult steps that follow: gradually phasing out milk premiums, abolishing input subsidies and removing abrupt administrative thresholds. Experience in the EU, including neighbouring countries such as Croatia, shows that reforms succeed when changes are phased in and compensation is carefully structured, whereas attempts to impose sweeping changes overnight tend to fail.

The budget should provide farmers with income stability independently of current production, while rewarding outcomes that markets cannot deliver on their own. Basic payments per hectare should therefore be retained as a predictable form of income support, but clearly separated from the existing seed subsidy. At the same time, coupled payments and related instruments should be progressively and carefully restricted to sectors where there is a clear structural justification for their use, rather than serving as permanent compensation for low productivity or unfavourable market conditions. This would preserve the necessary degree of security for producers while gradually reducing the influence of subsidies that disconnect production decisions from market signals. The budgetary resources freed up through this process should be progressively redirected towards measures that strengthen farms' long-term ability to operate without continually increasing current support. Above all, this means larger and more stable investment in modernisation, processing, risk management, product quality and safety, animal welfare and natural resource conservation. Support for small and medium-sized farms should help offset their more limited access to capital and inability to achieve economies of scale. However, eligibility thresholds must be designed so that they do not encourage the artificial subdivision of farms or impede land consolidation. Investment support should be targeted at economically viable projects with measurable effects on productivity, resilience or value added – in other words, projects that address genuine bottlenecks. Simply purchasing new machinery or equipment does not guarantee that a farm will become more successful.

The proposed structure of agricultural support is designed to strengthen the productivity, competitiveness and resilience of Serbian agriculture. Each of the main instruments within this system would have a clearly defined role. Retaining basic payments per hectare would provide farms with more stable income support, while gradually reducing coupled payments and targeting them towards the most vulnerable sectors would help limit producers' exposure to price and market shocks. Making an increasing share of support conditional on soil conservation, animal welfare, and production quality and safety would create the conditions for Serbian products to become more competitive in demanding markets. It could also help strengthen the sector's resilience to climate-related risks. At the same time, redistributive payments for the first hectares of agricultural land would help address the structural disadvantages faced by small and medium-sized family farms, particularly their inability to achieve economies of scale and their more limited access to capital. A support system designed along these lines could, among other benefits, help slow the economic and demographic decline of rural areas. Nevertheless, expectations of the proposed reform must remain realistic: its objective is not to turn agriculture into the main driver of economic growth, but to enable the sector once again to fulfil its economic, social and strategic functions.

Greater public investment in infrastructure is essential if Serbia is to realise its agricultural potential. As already noted, public investment in agriculture has been crowded out for years by the dominance of direct payments, leaving numerous infrastructure systems underdeveloped. This is particularly true of irrigation and drainage systems, which are among the most cost-effective investments in the face of increasingly frequent droughts and extreme

weather events. Serbia has substantial areas of land suitable for irrigation, yet publicly owned irrigation systems have been developed across only 6% of this potential. Only around one-third of the capacity envisaged under the 2021-2023 Action Plan was actually completed, while the next planning cycle has been delayed. Regular maintenance of the existing canal network is also essential, as years of neglect have left it non-operational in many areas. A further problem is that some infrastructure facilities, including dams, reservoirs and pumping stations, have remained below full operational capacity for years despite having been completed. Beyond irrigation, greater public investment is also needed in flood, flash-flood and hail protection, storage facilities and local road infrastructure, including agricultural access roads, which affect both production costs and the organisation of farming activities.

Institutions and data are the foundation of proposed reform, not peripheral considerations

Successful reform requires not only different support measures, but also a different kind of government – one capable of designing, implementing and overseeing them. Modern systems of budgetary support require reliable electronic registers, effective control mechanisms and strong specialist services capable of ensuring product safety and quality. Institutions are therefore not a secondary component of reform but a prerequisite for its success. Without them, no sophisticated agricultural policy instrument can be implemented effectively.

Establishing the essential digital and administrative systems must be an absolute priority. This primarily concerns the Integrated Administration and Control System and Land Parcel Identification System (IACS/LPIS), used to identify and monitor agricultural parcels, as well as the further development of the Farm Register and other interconnected information systems. At the same time, land consolidation must be accelerated in the short term. This is one of the most important prerequisites for increasing productivity, making more efficient use of agricultural machinery and modernising production over the long term. Although establishing and maintaining these systems will require additional budgetary resources, their annual cost would represent a negligible share of the total agricultural budget and would be many times smaller than the development benefits they would make possible.

It is equally essential to strengthen staffing and professional capacity across the institutions responsible for reform. Effective agricultural policy cannot be successfully designed or implemented without sufficient numbers of qualified professionals, both within the Ministry of Agriculture itself and in its subordinate bodies, including the Directorate for Agrarian Payments, the Veterinary Directorate, phytosanitary services and other specialised institutions. Beyond administering direct payments, enforcing standards and managing risks, these institutions must have the capacity to develop, analyse and improve agricultural policy measures in response to changes in the sector, while also keeping pace with increasingly complex international regulations. A major obstacle to strengthening professional capacity is the highly compressed public-sector pay structure, which stems from the broader remuneration system across government. Without the ability to offer more competitive employment conditions for critical specialist positions, building stronger institutions will be difficult. Special remuneration arrangements for key professional roles should therefore be considered, drawing on models already used in certain parts of the public administration, such as the Tax Administration.

High food prices as a reflection of agriculture's structural weaknesses

The structural weaknesses of Serbian agriculture contribute to high food prices. Food in Serbia now costs almost as much as in the European Union – approximately 96% of the EU average – even though average living standards are roughly half as high, with Serbia's GDP per capita in purchasing power parity terms reaching just 51.8% of the EU average. High food prices are therefore not merely an economic issue but also a major social concern. Serbian households spend almost one-third of their total expenditure on food, with the proportion even higher among poorer households. Consequently, high food prices disproportionately affect people on the lowest incomes. This means that the structural weaknesses of agriculture are no longer a problem for producers alone, but for society as a whole.

Part of the explanation for such high prices lies in primary agricultural production. Between 2022 and 2024, agricultural producer prices in Serbia reached approximately 87% of the EU average, considerably higher than in the CEE-11 countries, where they stood at around 82%. Such high prices are difficult to explain by the superior quality of Serbian agricultural products. Rather, they suggest that domestic producers need to charge relatively high prices to cover the costs associated with low productivity. Moreover, it was precisely during the past decade – a period marked by particularly pronounced stagnation in Serbian agriculture and a sharp increase in agricultural subsidies – that food prices in Serbia converged most rapidly towards EU levels. Food prices also increased in Central and Eastern European countries, reflecting a global trend, but there these increases were accompanied by investment and growth in agricultural yields and output. This allowed a substantial proportion of cost pressures to be offset by greater supply. It is particularly revealing that high food prices in Serbia are most pronounced in livestock products, the segment where the structural problems of domestic agriculture are most severe. This suggests that the greatest price pressures arise in precisely those areas where domestic agricultural supply has weakened the most.

Price pressures also arise both upstream and downstream of primary agricultural production. Upstream, expensive agricultural inputs contribute to high food prices. Between 2020 and 2025, mineral fertiliser prices in Serbia rose by approximately 95%, compared with around 60% in the EU and CEE countries. This was largely due to the highly concentrated nature of the market, dominated by only a few producers and major importers, together with the long chain of intermediaries between suppliers and farmers. Similar distortions exist in the markets for seeds and crop protection products, where imports are largely handled by a small number of exclusive distributors. Downstream, food prices are driven up further through processing, distribution and retail. This is reflected in the difference between agricultural producer prices, which stand at 87% of the EU average, and retail food prices, which have reached almost 96%. Analyses also reveal an asymmetry in the transmission of price changes along the supply chain: price increases at any stage are passed on to consumers quickly and almost in full, whereas subsequent price reductions are transmitted slowly and incompletely. It would therefore be wrong to attribute high food prices exclusively to weaknesses in agriculture. Equally, however, it would be wrong to overlook the fact that a significant part of the problem originates in primary production and the markets surrounding it.

A lasting solution requires simultaneous reforms at several points along the food supply chain. On the one hand, the productivity and competitiveness of domestic agriculture must be improved through comprehensive agricultural policy reform, as discussed throughout this study. On the other, markets both upstream and downstream of primary production must function more effectively in order to alleviate price pressures. We propose three specific areas for action. *The first* is systematic price transparency: establishing a domestic system to monitor prices and margins throughout the entire supply chain, from agricultural inputs and farm-gate

purchasing through processing to retail. This could draw on established EU practice. For example, France's public observatory of food prices and margins has been submitting detailed annual reports to parliament for a decade. *The second* is strengthening producers' bargaining power. This requires consistent enforcement, supported by stronger inspection services, of the mandatory contracts between farmers and purchasers introduced in early 2026. Measures to encourage producer cooperation and collective organisation should also be considered. By acting together, smaller producers can strengthen their bargaining position both when purchasing agricultural inputs and when selling their products. *The third* is developing shared logistics infrastructure, including grain silos, cold-storage facilities and other storage capacity. This would give farmers greater flexibility over when to sell their products, reducing the pressure to sell immediately after harvest when farm-gate prices are low.

Agricultural policy reform is therefore not merely a sectoral issue, but an economic and social priority of the highest order. The channels through which Serbia is currently paying the price of ineffective agricultural policy – the government budget, economic growth and household living costs – are the same channels through which the benefits of successful reform would be realised. Redirecting public resources away from maintaining the status quo and towards increasing productivity would allow a sector that currently holds back economic growth to begin contributing to it once again. In addition, a more stable and abundant domestic food supply would make food more affordable. In a country where food represents one of the largest individual items of household expenditure, few economic programmes have the potential to improve living standards as directly as successful agricultural reform – particularly for those who struggle most to make ends meet. This is the ultimate purpose of the reform proposed in this study: it begins with the agricultural budget and in the fields, but its success will ultimately be measured, among other things, by improvements in people's living standards.