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ECONOMICS OF THE RAKIJA MARKET IN SERBIA: MACROECONOMIC AND MICROECONOMIC ANALYSIS

Ekonomija tržišta rakije u Srbiji - makroekonomska i
mikroekonomska analiza

Abstract

The originality of this study, which represents a pioneering investigation in its field, stems from its thorough integration of both macroeconomic and microeconomic factors related to the rakija market in Serbia. This research combines macroeconomic indicators with all available academic literature that has analyzed the economic aspects of rakija, although this body of work is relatively small, consisting of fewer than ten studies. This paper aims to explore the factors contributing to the commercial underachievement of the traditional Serbian spirit. The author adopts a critical realist approach, employing a variety of research methods, such as interviews, analysis of secondary macroeconomic data, and a review of current microeconomic literature. Research shows that Serbian distillers struggle with marketing, hindering the development of a quality brand that can achieve growth through economies of scale. The rakija sector has yet to embrace the concept of terroir, but trends as craft spirits and premiumization are gaining traction, with new distilleries boosting export potential. Despite growth in exports and prices, Serbian rakija still accounts for a small share of the market compared to older European nations. The Serbian diaspora remains a loyal consumer base, with rakija now available in renovated airport duty-free shops. Domestic consumers express concerns over high prices and inconsistent quality. Rather than for personal consumption, rakija in Serbia is primarily purchased as a gift or for special occasions. In summary, while there is potential for Serbian distilleries to position rakija as a premium export, they currently lack a strong domestic market presence.

Keywords: *rakija, premiumization, economics, Serbia*

Sažetak

Originalnost ovog istraživanja, koje predstavlja pionirski poduhvat u svojoj oblasti, ogleda se u sveobuhvatnoj integraciji makroekonomskih i mikroekonomskih faktora koji oblikuju tržište rakije u Srbiji. Rad kombinuje makroekonomske pokazatelje sa postojećom akademskom literaturom koja analizira ekonomske aspekte rakije — iako je taj korpus radova još uvek ograničen, sa manje od deset relevantnih studija. Cilj istraživanja je da identifikuje razloge komercijalnog nedostatka uspeha tradicionalnog srpskog pića rakije. Autor primenjuje pristup kritičkog realizma i koristi kombinaciju istraživačkih metoda, uključujući intervjue, analizu sekundarnih makroekonomskih podataka i pregled aktuelne mikroekonomske literature. Rezultati pokazuju da se srpski proizvođači suočavaju sa ozbiljnim izazovima u oblasti marketinga, što otežava izgradnju snažnog brenda i ostvarivanje rasta zasnovanog na ekonomiji obima. Iako sektor rakije još uvek nije u potpunosti prihvatio koncept terroir-a, trendovi kao što su razvoj zanatskih destilerija i premijumizacija tržišta dobijaju na značaju i doprinose rastu izvoznog potencijala. Uprkos rastu izvoza i cena, srpska rakija i dalje zauzima skroman udeo na tržištu u poređenju sa starijim evropskim proizvođačkim tradicijama. Dijaspore ostaje lojalna potrošačka baza, a rakija je sve prisutnija i u obnovljenim „duty-free“ prodavnicama na aerodromima. Domaći potrošači, međutim, izražavaju nezadovoljstvo visokim cenama i neujednačenim kvalitetom. Umesto za ličnu potrošnju, rakija u Srbiji se prvenstveno kupuje kao poklon ili za posebne prilike. Zaključno, iako srpske destilerije poseduju značajan potencijal da rakiju pozicioniraju kao premijum izvozni proizvod, domaće tržište i dalje ostaje nedovoljno razvijeno i bez stabilne potrošačke baze.

Ključne reči: *rakija, premijumizacija, ekonomija, Serbia*

Introduction

Spirits account for approximately 50% of global alcohol consumption, yet this sector has received significantly less scholarly attention compared to other alcoholic beverages such as wine and beer. Recent trends within this industry include a focus on premiumization, the rise of craft spirits, and the incorporation of terroir concepts [14]. The profitable spirits market primarily generates revenue from a limited number of countries and product categories [36]. This paper will explore the reasons why Serbia and its esteemed national spirit, rakija, are not represented among these leading nations. Rakija is highly valued emotionally in Serbia but neglected commercially.

The author will conduct research from the ontological perspective of objectivism and the epistemological standpoint of critical realism. Ontology addresses the basic assumptions we make about the nature of reality. From an objectivist standpoint, social reality exists independently of individuals, much like phenomena in the natural sciences. Because objectivism views both social and physical structures as external, stable, and universal, it aligns with realism and typically supports the use of quantitative research methods. Epistemology focuses on how we understand and acquire knowledge [31]. Critical realism argues that our observations must be interpreted in relation to the deeper structures that shape what we experience. While critical realists maintain that there is a single underlying reality, they also emphasize that many social phenomena cannot be easily measured or predicted. As a result, critical realism often favors qualitative approaches over quantitative ones [7]. In contemporary research practice, however, scholars increasingly combine both qualitative and quantitative methods. This mixed-methods approach seeks to draw on the strengths of each tradition in order to produce richer, more comprehensive insights into complex social phenomena [11]. Therefore, the author will employ both qualitative and quantitative research methods, such as interviews, secondary macroeconomic data, and published microeconomic studies, with the aim of determining the actual economic condition of rakija in the Serbian market.

Rakija is a brandy made from various kinds of fruit that is popular throughout the Balkan region, in both its commercially produced and homemade forms [38]. Šljivovica, often known as slivovitz, is the alcoholic beverage most commonly recognized as Serbia's traditional national drink. This spirit, crafted from plums, is a form of plum brandy, although a variety of other fruit spirits are also commonly produced through the distillation process [27]. Additionally, other Eastern European nations also engage in the production of rakija, integrating it into their national cultural identity [36]. In late 2022, the Serbian plum rakija šljivovica was inscribed on UNESCO's list of intangible cultural heritage [35], recognized under the designation "Social practices and knowledge related to the production and use of traditional plum brandy – šljivovica." Despite the existence of approximately a thousand officially recognized distilleries and numerous pot stills operated by small-scale producers, the rakija industry in Serbia faces financial challenges, resulting in a limited selection of brands available in the marketplace [4]. While some draw parallels between oak-aged plum rakija, produced through modern oenological techniques and high-quality fruits, and French cognac or Scottish single malt [28], economic indicators reveal a noticeably different reality.

Macroeconomic conditions of rakija in the Serbian market

Determining the contribution of rakija to Serbia's macroeconomic balances is challenging due to the lack of precise statistics. According to the Statistical Office of the Republic of Serbia [33], in 2023, the production of all beverages, including alcoholic, non-alcoholic, and mineral waters, accounts for 0.8% of the national budget, amounting to 598 million euros. The revenue from alcoholic and non-alcoholic beverages in hospitality establishments across Serbia totals 662 million euros, while the sales of all alcoholic beverages—including rakija, other spirits, liqueurs, wine, and beer—amount to 693 million euros in retail outlets. The latest estimates from the Ministry of Agriculture of the Republic of Serbia [25] indicate that

approximately 50 million liters of rakija are produced in Serbia, with half of this quantity originating from registered distilleries. Research conducted among rakija producers [5], with a statistical error margin of 10%, allows for projections regarding the market value of rakija in Serbia. Specifically, with 40% of the produced quantity sold and an average price of 8 euros, the estimated market value of rakija, based on the production estimate of 50 million liters, is approximately 160 million euros. Furthermore, data from the Ministry of Agriculture reveals that Serbia imports more strong alcoholic beverages than it exports. In 2022, imports amounted to 38 million euros, while exports were recorded at 22 million euros [25].

The Scotch Whisky Association [17] reports that Scotch Whisky exports reached a value of £5.6 billion (€6.7 billion) in 2023. In 2022, the industry contributed €7.1 billion (€8.5 billion) in gross value added to the UK economy. Additionally, Scotch Whisky distilleries welcomed 2 million tourists that same year. According to the Bureau National Interprofessionnel du Cognac [15], 97% of Cognac production, valued at €3.1 billion, was dedicated for export in 2023. Data from the Chamber of Commerce and Industry of Serbia [13] shows that rakija exports were valued at €16 million in 2023, which accounts for 0.24% of Scotch Whisky exports and 0.52% of French Cognac exports.

Representatives from the Chamber of Commerce and Industry, who monitor the rakija market, state that the only reliable data on rakija export quantities and values comes from customs records [13]. Although the number of distilleries has tripled since the market was liberalized by the 2015 Law on Strong Alcoholic Beverages [25], the

count of registered and active distilleries may not match. Additionally, data from the Ministry of Agriculture is based on self-reported information from producers, which can result in inconsistencies in actual quantities. Nonetheless, despite potential inaccuracies, the data presented in Table 1 can still be used for statistical analysis.

The analysis of Pearson's linear correlation coefficient revealed only three statistically significant correlations among the presented variables. Despite the fact that plum yield in 2023 was merely 62% of that in 2020, the contribution of plums to the total fruit yield used for rakija production consistently exceeds 80%. This has resulted in an extremely strong positive correlation ($r=0.997$, $n=6$, $p<.001$) between plum production and overall fruit production. Such a finding indicates a robust relationship between fruit production and plum yield. Plums continue to be the primary raw material for rakija production, necessitating strategic management of production and quality maintenance, particularly as the economic significance of plum cultivation in Serbia has diminished compared to previous decades [18]. Furthermore, the požegača variety, renowned for its ideal distillation characteristics, is on the verge of extinction in the country [24]. However, no positive correlation was found between fruit production and rakija production, nor with any other variables listed in Table 1.

The second very strong positive correlation ($r=0.972$, $n=6$, $p=.001$) was identified between the number of distilleries and the export value of rakija. This result indicates that an increase in the number of distilleries is associated with a rise in rakija export volumes. The findings underscore the critical importance of

Table 1: Factors influencing the production and export of rakija in the period from 2018 to 2023

	2018	2019	2020	2021	2022	2023
Fruit* production (000 kg) ^a	521,836	665,793	691,271	510,506	588,316	450,431
Plum production (000 kg) ^a	430,199	558,930	582,547	412,778	473,354	362,713
Number of distilleries ^{a,b}	529	613	734	842	974	1,028
Rakija production (000 kg) ^b	25,500	28,900	29,300	26,800	25,000	27,100
Rakija export (000 kg) ^a	2,178	2,121	2,209	2,700	2,886	2,374
Rakija export (000 €) ^a	8,453	8,842	9,507	12,836	15,468	16,144
Export price (€/l)	3.88	4.17	4.30	4.75	5.36	6.80

Notes

* Includes the main fruit varieties for rakija: plums, pears, apricots, and quinces

^a Source of data: Serbian Chamber of Commerce [13]

^b Source of data: Serbian Ministry of Agriculture [25]

expanding the number of distilleries to enhance rakija exports. The third strong positive correlation ($r=0.911$, $n=6$, $p<.05$) suggests that an increase in export value is accompanied by a rise in the export price per liter. The positive relationship between export volume and price per liter points to potential advantages in scaling up production while maintaining price competitiveness, which aligns with strategies for market positioning and premiumization. Accordingly, these results highlight the central role of distilleries in strengthening export potential and positioning rakija as a higher-priced product. The potential of newly established distilleries to enhance the perception of rakija as a premium quality product is evident.

Finally, the export unit price of rakija, despite nearly doubling during the observed period from €3.88 to €6.80 (Table 1), represents only 85% of the recorded price of €8 in the domestic market [5]. This discrepancy can be attributed to the fact that around 20% of the rakija exports are in the form of distillates [13], which are considered semi-finished products.

Microeconomic conditions of rakija in the Serbian market

The preceding macroeconomic overview illustrates the structural position of rakija within Serbia's broader economic landscape. It highlights its modest yet culturally important contribution to national accounts, the limitations of available statistics, the dynamics of production and exports, and the competitive gap relative to established global spirits. However, these macro-level trends do not explain how the industry functions on the ground, nor why performance remains constrained despite the growth in the number of distilleries and rising export prices. To understand the sources of these discrepancies, it is necessary to examine further the microeconomic foundations of the sector: the behavior of producers, the characteristics of their business models, the quality and marketing practices they employ, and the preferences and expectations of domestic consumers. The following section, therefore, shifts from aggregate economic indicators to firm-level and consumer-level evidence, offering a more comprehensive

explanation of the challenges and opportunities shaping the rakija market in Serbia

In Serbia, research focused on assessing the viability of the rakija sector is relatively scarce. Nevertheless, the results of these investigations yield critical conclusions that can clarify the microeconomic landscape of the rakija market. Additionally, the conclusions drawn from the analysis of Croatia's spirits industry facilitate a comparison with the rakija sector in Serbia. According to [21], key elements contributing to success in the Croatian spirits industry are effective marketing and the ease of product access in the marketplace. However, a notable limitation faced by producers of Croatian spirits is their failure to establish global brands, resulting in an overreliance on the local market.

Studies of rakija producers

In the initial scholarly article [4] addressing the market challenges faced by rakija in the Serbian context, the author poses several critical questions regarding Serbian šljivovica, such as its definition, plum varieties, production standards, yeast types, distillation methods, storage mediums, and aging duration. It is evident that the industry lacks established standards and, importantly, there is an absence of relevant legislation. The author further observes that a significant issue in the marketing of rakija is the setting of unrealistically high prices that exceed the financial capabilities of consumers. This situation stems from the unfounded belief held by the first serious private rakija producers, who emerged following the collapse of the socialist regime, that their product could rival Scotch single malt whisky and French cognac in quality. The validity of this belief has never been critically examined, leading to a pricing strategy that not only surpasses that of single malt whisky—a premium product [32] justifying a higher price—but also exceeds the purchasing power of most domestic consumers. Producers who claimed superiority were largely unconcerned, as they were convinced that their rakija would dominate the global market for strong alcoholic beverages. Consequently, numerous distilleries ceased operations, reinforcing an argument [30] that the relationship between price and quality in the alcoholic beverage sector is nonlinear.

While traditional slow double-distillation can yield a high quality, complex beverage, this complexity does not necessarily translate into a consumer willingness to pay a premium [37].

Certain rakija brands have the potential to yield significant profits, as evidenced by a recent study [16]. The study highlighted the economic viability of producing apricot rakija on a family farm. However, it is worth noting that despite its profitability, the sales quantities of this particular distillery remain remarkably small, amounting to approximately 700 liters, which can be considered extremely small, almost negligible. Other scholars [20] propose creating “The Rakija Šljivovica Route,” highlighting the importance of plum rakija production in the destination’s branding, similar to whisky trail [23] and wine routes [12]. This route would guide tourists to distilleries, allowing them to witness the rakija-making process, participate in activities, and learn about local history and culture. Visitors would also experience rural life and enjoy tastings of rakija and regional delicacies, leveraging the area’s rural charm as a unique retreat from urban life.

In October 2021, a survey examined rakija distillation practices among 104 distillers in Serbia, resulting in two academic papers [5, 6]. The distillers produce a total of 106,940 liters of rakija annually, averaging 44.25% alcohol content. Of this, 43,450 liters (two-fifths) are sold at an average price of 950.78 dinars (€8.06). Among the respondents, 45 engage in sales, but only 40 sell their products. Only eight are professional distillers with registered distilleries, yet they account for 59% of production. Typically, these small distilleries have a 100-liter copper pot still. They are run by individuals in their forties without university degrees, often using their own fruit, primarily plums. Many view distillation as a hobby, producing rakija for personal use and guests while expressing interest in selling their product.

The first study [5] examined how Serbian distillers evaluate their product quality and market positioning, focusing on rakija, the traditional Serbian spirit. All 104 participants rated their rakija with an average score of 7.88 out of 10, with no distiller scoring below 5, indicating confidence in their product quality. However, when assessing current market prospects, 85 respondents gave

a low score of 2.67 out of 7, while their outlook for future opportunities was more optimistic at 4.19 out of 7. This duality in perception reveals that while distillers are confident in the quality of their products, they struggle with market sales. Their optimistic expectations for future market conditions may be overly ambitious, particularly given the challenges posed by current business practices and outdated production techniques. The study revealed that the Serbian rakija market consists of three price segments. The first segment, sensitive to price, targets consumers seeking rakija priced at or below 500 dinars (€4.24), comprising about 20% of distillers and accounting for 35% of total sales. The second segment focuses on higher-quality rakija priced between 501 and 1,000 dinars (€8.47), with three-fifths of distillers catering to it, representing 34% of market volume. The luxury segment, served by one-fifth of distillers, has the smallest market share at 31% and shows minimal price sensitivity. Overall, there are no significant differences in sales volumes across segments, but most distillers focusing on mid-range quality rakija sell the fewest units, indicating a market imbalance favoring budget and luxury products.

The second study [6] evaluated the Serbian rakija industry’s marketing landscape. The analysis revealed that 23% of distillers oppose oenological agents, and 64% do not use anaerobic fermentation. Additionally, 43% add sugar, and 45% add water to their fruit mash. Only 27 out of 104 distillers used modern production methods for rakija. Those employing contemporary techniques are expected to sell rakija at higher prices—40% more compared to those using traditional methods. Consumers prefer oenologically produced rakija for its superior taste, supporting the idea that scientific methods lead to higher prices. The study also finds that effective promotional activities and diverse distribution channels contribute to increased sales prices. Among the 104 respondents, merely four (3.8%) utilized the all elements of the marketing mix, and these individuals attained pricing and business outcomes that were above the average. Conversely, 100 out of the 104 distillers seemed to lack a comprehensive understanding of marketing principles. This observation suggests a strong link between a profound lack of marketing knowledge and the nearly negligible business performance

of fruit products, which are ideally suited for advanced processing through distillation.

A significant shortcoming of rakija producers also lies in their failure to penetrate the wholesale market [1]. The lack of market recognition, attributed to inadequate marketing strategies, coupled with limited production volumes, inconsistent quality, and excessively high pricing, renders wholesale entry a formidable challenge for numerous rakija distillers. To improve their market position, they should adopt the large-scale production and competitive pricing strategies of vinjak producers. Vinjak, a Serbian clone of cognac, is the leading spirit in Serbia, produced by the former state-owned enterprise Rubin, which sells 3 million liters annually at a competitive price of under 1,000 dinars (€8) and has a strong presence in both wholesale and retail markets. In contrast, rakija producers face significant challenges in achieving similar market success.

Consumer studies

A preliminary research on rakija consumers in Serbia was conducted from December 2023 to March 2024 using a survey method, resulting in three academic studies [3, 8, 9]. Out of 620 respondents, 395 were identified as rakija users, with 56 (14.18%) expressing a dislike for the beverage. A significant majority of rakija users (93.7%) preferred homemade rakija, and 43% reported distilling their own. Only 28.6% purchased rakija from stores, and 73.2% had no preferred brand. Among the 395 consumers, 231 were male (58.5%) and 163 female (41.3%). Research examining the consumption patterns of rakija [2], demonstrated that male individuals consume rakija in significantly greater quantities compared to their female counterparts. The average monthly consumption of rakija among the study participants was recorded at 0.58 liters, whereas the mean consumption of other types of brandy was 0.20 liters per month. Additionally, the participants reported an average monthly beer consumption of 2.98 liters and 1.23 liters of wine. The respondents estimated that a fair retail price for a bottle of rakija should be approximately 1,518 RSD (€12.86), with a median value of 1,200 RSD (€10.17). The highest price that participants indicated they would be unwilling to pay for rakija was 3,495 RSD

(€29.62), with a median of 2,500 RSD (€21.19). One of the leading distributors in the Serbian market [34] lists the average price of rakija at 6,180 RSD (€52.37) and a median of 2,832 RSD (€24.00).

The first study [8] examined the impact of cultural traditions and marketing strategies on consumers' decisions to purchase traditional alcoholic beverage rakija, utilizing a series of regression equations for analysis. The analysis revealed that the linear combination of heritage and origin accounted for about 5% of the variance in rakija sales, showing a minimal positive influence. Overall, cultural tradition exhibited a minimal positive influence on rakija purchases. While traditional cultural heritage did impact rakija sales, the UNESCO designation of šljivovica as part of its intangible heritage list did not appear to have a significant effect. Marketing efforts by distillers contributed only 3.5% to rakija purchases, with only two of six variables showing significant effects. Notably, advertising had a negative impact, while on-premises marketing in rakija bars positively influenced sales, albeit with a small effect size. Overall, marketing exerted a slight positive effect on rakija purchases, with on-premises marketing being the sole contributor to this outcome. Given that only 3.8% of distilleries engage in extensive marketing activities [6], it is unsurprising that the marketing effect size in this study was limited to 3.5%. In essence, the absence of marketing efforts results in a lack of visibility.

The study's participants pointed out the critical importance of the quality of rakija, while also expressing their dissatisfaction with what is available in the domestic market. This observation aligns with the outcomes of the chemical and sensory analysis [26], which revealed that rakija originating from traditional production techniques frequently lacks a thorough understanding of production technologies, resulting in insufficient control over the fermentation and distillation stages. Moreover, many local brands have not progressed beyond a basic commodity level, resulting in messages that fail to convince consumers. Additionally, the findings reveal that rakija is rarely bought for personal consumption; instead, it is primarily obtained as a gift or for special occasions. Furthermore, considering that the distillation of rakija is a popular hobby in Serbia, the amount received as

gifts without any monetary transaction exceeds that of rakija purchased.

The primary objective of the second study [3] was to develop a comprehensive structural equation modeling (SEM) framework aimed at exploring the complex ways in which cultural influences shape the purchasing behavior of rakija consumers — a traditional Serbian alcoholic beverage. The key goal of the study was to identify a model that examines not only the direct effects of cultural factors on rakija consumption but also the mediating roles of these factors. The results of the SEM analysis demonstrated that culture plays a crucial role in shaping consumer behavior and purchasing patterns related to rakija. Culture exerts both direct effects on consumers within the SEM framework and indirect effects through mediating variables such as attitudes toward rakija and purchasing factors. The indirect cultural effect is stronger through attitudes toward rakija than through purchasing factors. The combined direct and indirect effects in the model total .61, indicating a large overall effect size. Culture and its mediating variables jointly explain .42 of the variance in consumers' purchasing habits. However, the first consumer [8] study found that, although traditional cultural heritage has a significant impact on rakija sales, only 4.8% of the variance in sales can be attributed to heritage-related factors. This discrepancy suggests a substantial gap between consumers' intentions and their actual purchasing behavior. The structural model analysis further revealed that the items *"Rakija is important to me"* and *"I have a strong interest in rakija"* exhibit the strongest loadings on the latent variable of consumer culture, whereas the items *"I will definitely buy it"* and *"I will probably buy it"* show the highest loadings on the latent variable of purchase intention. Moreover, the items *"pleasant"* and *"appealing"* have the strongest influence on the mediating variable of attitudes toward rakija, while *"recommendations from liquor stores"* and *"attractive promotional price"* exert the most significant effects on the mediating variable of purchasing factors.

The third study [9] aimed to identify segments within the Serbian rakija market by analyzing consumer purchasing behavior and financial capacity. Two research scales were developed to assess consumer attitudes

towards rakija. A two-step hierarchical cluster analysis was conducted to identify segments, followed by a multiple regression analysis to evaluate their purchasing power. The analysis identified three consumer segments. The "traditionalist" segment, comprising 46.33% of the sample, prefers established Serbian fruit rakija, especially aged varieties. Their purchasing decisions are influenced by prior experiences, fruit type, and the distiller's Serbian identity. Their direct influence on purchasing behavior is strong at 0.35. Traditionalists account for two-thirds of all rakija sales. The "modernist" segment, making up 20.76% of respondents, favors innovative products with contemporary packaging and enjoys rakija alongside imported spirits. The influence of this consumer segment on market purchases is statistically insignificant, as the regression coefficient is even slightly negative. This finding reflects the profile of alcohol consumers who do not typically consume rakija but instead demonstrate a preference for imported beverages such as whiskey or cognac. However, this also indicating a need for distillers to modernize their offerings and follow new trends in spirits production [29]. The "price-limited" segment, the smallest at 32.91%, seeks affordable rakija due to financial constraints. According to the analysis, the direct impact of this variable on purchase behavior, measured by the standardized beta coefficient, is 0.18, indicating a weak effect. Hobby distillers in Serbia often take great pride in their products and tend to share them as gifts. Consequently, the segment of price-limited consumers is most likely composed of individuals accustomed to receiving rakija as a gift rather than purchasing it. This behavioral pattern accounts for the relatively low beta coefficient observed. These individuals are considerably heavier consumers than they are actual purchasers of rakija. However, they consume the most rakija out of all segments.

Conclusion

Serbian distillers demonstrate a notable deficiency in marketing skills, which is not surprising considering that, despite its importance to consumers, marketing does not significantly impact sales volumes. Only 3.8% of distillers have marketing expertise, leading to greater

commercial success for that small group. This observation is consistent with findings from neighboring Croatia, where effective marketing is recognized as a crucial factor for success in the spirits sector. Like Croatia, Serbia lacks a prominent rakija brand that could achieve international recognition. The current market imbalance, which favors budget and luxury products, hinders the development of a standard-quality brand capable of expanding through economies of scale.

In examining the prevailing trends within the spirit industry, it is evident that the Serbian rakija sector has yet to fully embrace the concept of *terroir*. Given the significance of plums in the rakija production process, the revitalization of traditional plum varieties, tailored to the distinct characteristics of various fruit-growing regions in Serbia, emerges as a pressing priority for agricultural policy. Nevertheless, trends such as the rise of craft spirits and an emphasis on premiumization are becoming increasingly apparent in the Serbian rakija sector. The deregulation and liberalization of the industry have proven to be beneficial decisions made by governmental authorities. Newly established distilleries are enhancing the export potential of the sector. The capacity of these distilleries to elevate the perception of rakija as a premium product is clear. Although the growth in exports and export prices has been significant, Serbian rakija exports remain a mere fraction of those achieved by older European nations with their established strong alcoholic beverages. Furthermore, while Serbia lacks a recognized rakija export brand, it does possess a vibrant diaspora.

The Serbian diaspora is estimated to comprise between one million and one million three hundred thousand individuals. Furthermore, emigration from Serbia is on the rise, with the current number of economic emigrants reaching nearly 60,000 annually, which is double the figure recorded at the beginning of this century [19]. The Serbian diaspora remains a loyal consumer of products from their homeland, with rakija being one of the most favored items. In addition, in 2018, the international group VINCI Airports entered into a 25-year concession agreement with the Serbian government, pledging to develop Belgrade Airport into a leading hub in South-Eastern Europe [10]. This agreement has also allowed the international duty-free

chain Dufry to establish a presence at Belgrade Airport, where it has recognized a business opportunity by offering 24 different varieties of rakija from various brands [22]. While there is not enough compelling data to conclusively state that the Serbian diaspora is the main driver behind the export success of the rakija sector, there are certainly indications that support this hypothesis.

Rakija consumers in the domestic market express concerns about the high prices and questionable quality of certain brands; however, they are not strictly bound to tradition. Younger and modern consumers tend to prefer trendy and innovative products, often favoring imported spirits over traditional rakija flavors. This preference is also reflected in the higher importation of whisky into Serbia compared to the export of its traditional alcoholic spirit. To boost the sales of rakija for everyday use in the domestic market, distillers should broaden their focus beyond just traditional barrel-aged varieties. A strategic move for distilleries would be to identify and target a demographic of consumers who are not influenced by the traditional folklore associated with rakija and who constitute the unconquered segment of the rakija market. The modern Serbian consumer tends to prefer products that are visually appealing and offer a taste profile similar to that of imported foreign beverages, rather than seeking aged, complex, and costly options.

To strengthen the Serbian rakija industry, policymakers should focus on improving producers' marketing capabilities through targeted training, incentives for brand development, and a coordinated national branding strategy that supports international recognition. Agricultural policy should prioritize the restoration of traditional plum varieties and encourage region-specific production to align with premiumization trend. Additionally, there is a growing need to improve production standards and to reinforce the integration of tourism with the rakija route concept. Efforts towards innovative packaging, contemporary product design, and the introduction of new flavor profiles would help distillers better meet the preferences of younger consumers who increasingly choose imported spirits. Finally, investing in systematic data collection and market research is essential for identifying structural imbalances and supporting evidence-based policy development.

This study contributes to the existing literature by methodically combining macroeconomic and microeconomic aspects associated with the rakija market in Serbia, a first in this area of study. However, this study and its conclusions are founded on a limited number of research focused on the economics of rakija. An increased volume of research could uncover further market imbalances and offer solutions to correct existing inconsistencies. These identified gaps open avenues for future research initiatives and endeavors.

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