Country Context

The global financial crisis exposed the structural weaknesses in Serbia’s economic growth model and prompted the need for fiscal consolidation and an acceleration of the unfinished transition to a market economy. Serbia’s rapid growth in 2001–08 was driven mainly by domestic consumption and led to significant internal and external imbalances that proved to be unsustainable.

The Government formed after the April 2016 elections stepped up the implementation of structural reforms, broadening the focus to include social sector transformation. Although the result of the spring 2017 presidential elections necessitated a change in prime minister (as the incumbent became Serbia’s new president), the Government experienced only minor changes, enabling it to maintain the emphasis on reforming the state administration, public finances, and the economy, along with pursuing the EU accession process.

The Government’s economic reform program focuses on ensuring economic and financial stability, halting further debt accumulation, and creating an environment for economic recovery and growth to foster employment and raise living standards.

These goals will be achieved primarily through fiscal consolidation measures and an acceleration of structural reforms to remove existing bottlenecks to economic growth, including reform of state-owned enterprises (SOEs), creating the foundation for faster growth and private sector–led job creation over the medium term.

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The World Bank and Serbia

The overarching goal of the World Bank Group’s (WBG) Country Partnership Framework for 2016–20 is to support Serbia in creating a competitive and inclusive economy and through this, to achieve integration into the EU. The strategy is based on available evidence and expertise and focused on reducing poverty and increasing prosperity across Serbian society in a sustainable manner. Key areas of WBG support in Serbia include:

- restoring fiscal and macroeconomic stability
- creating conditions for accelerated private sector growth and job creation
- improving infrastructure
- strengthening public sector management and improving public service delivery to citizens

These focus areas emerged from six fundamental priorities identified by a comprehensive Systematic Country Diagnostic that examined the key challenges constraining growth and greater shared prosperity.

The active portfolio reflects these priorities through 12 projects in the areas of transport, real estate management/business environment, competitiveness and jobs, health, flood recovery and flood protection, disaster risk management, financial sector reform, public sector modernization, public utilities efficiency, and early childhood education.

Key Engagement

The WBG has engaged in a multi-faceted effort to address Serbia’s complex legacy reforms, including commercial SOE reform, financial consolidation in public utilities and public transport companies, and the need for more efficient and competent core public administration.

More than four years of intensive dialogue and technical advice, combined with the use of policy-based and results-based lending, have started to yield important and increasingly impressive results. This has included the SOE Reform Development Policy Lending (DPL) series, the Deposit Insurance Strengthening Project, the Jobs and Competitiveness Project, the Program for Results in support of Public Administration Modernization and Optimization, and a series of Public Enterprise and Public Utilities DPLs.

As a result of these efforts, the number of commercial SOEs, which posed both high fiscal costs and distortions in the economic arena, has been lowered to a still difficult but nevertheless manageable portfolio; public utilities are returning to financial health with gradually improving services; and the size and cost of public administration have been reduced.

Next generation reforms will focus on improving the performance of public service delivery, corporatizing public utilities, and resolving the remaining large commercial SOEs, while attention will gradually shift to promoting economic initiative, entrepreneurship, and innovation.

Vrla Bridge on E-75 axe of Corridor X highway, the biggest international road through Serbia
Recent Economic Developments

Although the Serbian economy grew by 2.8% in 2016, growth slowed substantially in the first half of 2017. A long and severe winter impacted the energy and construction sectors, while the recent drought led to a major decline in agriculture output (which could be as much as 15% lower than in 2016).

The harsh winter and delays in public capital budget implementation led to a major decrease in investment (both private and public) and their contribution to growth in the first half of 2017. In addition, imports started to increase rapidly, dragging down GDP growth.

Labor market performance reflected real sector developments, with unemployment edging up only slightly in the first half of 2017 compared to the end of 2016 to reach 13.2%. Average salaries in the first half of 2017 increased by 4.4% in nominal terms compared to the same period last year, mainly driven by a growth of wages in the private sector. The average pension is 1.5% higher than in the same period of 2016.

Since employment and labor income play a strong role in influencing the welfare of the poor and vulnerable, poverty (measured as income below the standardized middle-income-country poverty line of US$5.5/day in 2011 purchasing power parity [PPP] terms) is estimated to have declined from 24.1% in 2014 to 23.4% in 2016 and to 22.8% in 2017.

The partial increase of salaries and public sector pensions helped household budgets to recover some of the losses from previous fiscal consolidation measures. The energy bill discount program for vulnerable populations was expanded in 2017 to mitigate the impact of increases in electricity tariffs as part of fiscal reforms.

However, a decline in agriculture output in 2017 is likely to have adverse impacts on rural poverty and slow the pace of poverty reduction overall.

Fiscal consolidation efforts resulted in a surplus of about 1% of GDP in the first half of 2017. Public debt declined to around 68% of GDP by June compared to 74% at end-2016, in part due to the under-execution of the capital budget.

Economic Outlook

Over the medium term, growth is expected to pick up, thus helping with labor market recovery and poverty reduction. Growth is expected to be driven by increased investment, stimulated by reforms to improve the business climate, and by the recovery of consumption (as the fiscal consolidation program gradually expires). Growth is expected to be around 3–4% over the medium term.

With economic growth and improvements in the labor market, poverty is expected to continue its gradual decline. Poverty, measured as income below the standardized US$5.5/day 2011 PPP line, is estimated to continue to decline to around 21% by 2019.

As part of the Government’s fiscal consolidation program, another nominal electricity tariff increase in 2017 is expected in the autumn, though smaller than previous increases. The recently expanded energy bill discount program can help protect vulnerable customers, but implementation challenges related to claims processing remain.
Project Spotlight

Innovation & Technology Transfer Support

Innovation and entrepreneurship are at the very core of economic growth. Serbia is producing high-quality engineers and researchers, but they are often engaged in work with limited impact on the economy.

Closer collaboration between Serbia’s public research and development (R&D) sector and industry is needed in order to unleash its potential to the overall economic benefit of the country.

To foster closer links between R&D and industry in Serbia, the World Bank is working with the Innovation Fund under a project financed by the EU: the Serbia Research, Innovation and Technology Transfer Project. The project facilitates the commercialization of scientific research results in Serbia through two types of support.

The subprojects financed through the Collaborative Grant Scheme (CGS) epitomize the market-driven model of collaboration between public R&D entities and the private sector—a key factor in EU-funded programs. So far, 14 such projects have received financial support in the total amount of €3 million within the CGS program.

For example, the Institute of Physics in Belgrade and Quadra Graphic, a Serbian small and medium enterprise (SME), have joined forces to print innovative and secure identification cards. “We harvest the biological material and attach it to ID cards. Nanostructures make the cards immune to counterfeit. Nature creates nanostructures that are impossible to fabricate by any existing means,” says Saša Lazović, director of the Innovation Center of the Institute of Physics.

The Technology Transfer Facility (TTF) stimulates the transfer of public research to industry. It provides opportunities for innovative researchers by identifying research with commercial potential, connecting such opportunities with markets and prospective commercialization partners. So far, nine projects have been backed with over €125,000.

These programs help the reorientation of the public R&D sector in the country toward the needs of the private sector and enhance Serbia’s competitive positioning in the European research community.

The “Country Snapshot” is a bi-annual update, highlighting the country’s recent developments, economic outlook and major overview of the World Bank’s partnership with the country. You can find the latest updates at http://www.worldbank.org/serbia