The World Bank in Serbia
Country Snapshot

An overview of the World Bank’s work in Serbia

October 2016

<table>
<thead>
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<th>SERBIA</th>
<th>2015</th>
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<tr>
<td>Population, million</td>
<td>7.1</td>
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<tr>
<td>GDP, current US$ billion</td>
<td>36.1</td>
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<td>GDP per capita, current US$</td>
<td>5,080</td>
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<tr>
<td>Poverty rate ($5/day 2005PPP terms) (2013)</td>
<td>14.5</td>
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<td>Life Expectancy at birth, years (2014)</td>
<td>74.8</td>
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At a Glance

• Serbia’s economic potential remains unrealized due to a delayed economic transition. The global economic crisis, combined with climate-induced disasters, created an environment that led to zero growth between 2008 and 2015. Fiscal consolidation efforts, policies to address deep-seated legacy issues, and an improved business environment have started to show positive results, with a return to growth in 2015–16. However, significant internal and external challenges remain.

• After three years of focus on difficult legacy reforms, the Government is implementing policies to stimulate entrepreneurship and attract more investment. Given the regional and global context, producing results in these areas will be a challenge.

• The World Bank program has supported the Government in designing and implementing sensitive and difficult structural reforms, in particular, changing the role and size of the state. Reforms in the social sectors and the business environment and investment in strategic infrastructure complete an overall program that is heavily weighted toward support for the country’s economic transformation.

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. The rapid growth experienced by Serbia during 2001–08 was driven mainly by domestic consumption and led to significant internal and external imbalances that proved to be unsustainable.

Following the elections of March 2014 and early elections of April 2016, a strong majority government was formed, giving Serbia a new opportunity to overcome the past fragmentation and build momentum for reform. The new Government is committed to focusing on transforming the state administration, public finances, and the economy, along with pursuing the European Union (EU) accession process.

The economic program for 2015–18 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.
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 achieving the goals of 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 diagnostic analysis that examined the key challenges constraining growth and impeding greater shared prosperity.

The active portfolio reflects these priorities through eight projects in the areas of transport, real estate management/business environment, competitiveness and jobs, health, flood recovery and flood protection, financial sector reform, and public sector modernization.

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, and the Program for Results in support of Public Administration Modernization and Optimization.

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.
Recent Economic Developments

The Serbian economy benefited from increases in domestic investment and continued strong foreign demand in 2016. As a result, real economic growth is estimated at 2.9% in the first half of the year (y-o-y). Growth for 2016 as a whole now is projected at 2.5%. Unlike in previous periods, private investment provided particular support to growth in both 2015 and 2016, and in 2016, consumption also started to recover.

Looking across the various sectors of the economy, growth in the first half of 2016 was broad based. Agricultural output (accounting for 8% of GDP) increased by 5.7% y-o-y in real terms, and value added in industry increased by 4.1% and in services by 2.4% compared to the same period of 2015.

As growth returned, unemployment fell steadily from 17.7% on average in 2015 to 15.2 in the second quarter of 2016. Still, two-thirds of newly created jobs are in the informal sector. Overall wages continued to recover in 2016, rising faster in the private sector (a 6.2% y-o-y increase through May).

Poverty reduction has slowly resumed since poverty peaked in 2010. As a result of some improvements in economic and employment conditions, the poverty rate—using the poverty line of US$5/day in 2005 PPP—dropped from 15.1% in 2010 to 14.5% in 2013. Poverty is estimated to have remained at 14.5% in 2015.

Fiscal consolidation continues, and over the first seven months of 2016, the consolidated general government budget was balanced. The improved budget position came primarily as a result of significantly higher revenues. Public debt declined to 74.9% of GDP in July.

Inflation averaged 1% over the first seven months of 2016, well below the central bank target band, due to lower food prices and weak domestic demand.

The current account deficit (CAD) shrank by 20% in euro terms in the first half of 2016 compared to the same period of 2015. This resulted from an improved trade balance and occurred despite lower remittances (a drop of 8% y-o-y). Foreign direct investment (FDI) recovered to reach a level higher than this year’s CAD (projected at 4.2% of GDP).

Economic Outlook

Growth is projected to accelerate from 2.5% in 2016 to about 3.5% over the medium term. An increase in investment is expected to be the main driver of growth in 2016 and 2017, while recovery of consumption is expected to lead growth in the outer years of the projection period.

The ongoing fiscal consolidation program targets a fiscal deficit decrease to below 2% of GDP over the medium term. This should bring public debt as a share of GDP to around 72% by 2018. The CAD is projected to remain below 4% of GDP over the medium term.

With economic growth and improvements in the labor market (though with remaining structural challenges), poverty is expected to decline gradually. Poverty measured at the US$5/day poverty line is projected to decline slowly to 13.9% in 2016 and 13.4% in 2017.
The introduction of construction e-permitting and a reduction in transaction time and cost have led to increased activity in Serbia's construction sector.

The World Bank has been engaged in Serbia's real property sector for over a decade. Following an initial project that helped establish a single system for real property registration and played a pivotal role in the development of land and real estate markets in the country, the new Real Estate Management Project is addressing the remaining challenges in the real property sector that were identified as deficiencies that negatively impact the business climate and investments in Serbia, investments that are much needed for the country's economic recovery in the wake of the recession. Key among these challenges are obtaining construction permits and registering property.

In Doing Business 2015, Serbia ranked 186 out of 189 countries in the construction permits indicator, among the lowest in the world. Entrepreneurs had to go through 16 procedures, waited 264 days, and spent 1.2% of Serbia's per capita income to obtain a construction permit, presenting a significant burden to investments. Improvements in the geodetic infrastructure under the Bank-financed project include: a one-stop-shop system for the electronic issuance of construction permits and a central analogue and digital archive for keeping important paper records and storing digitized cadastral maps.

Results have been encouraging. The number of issued construction permits over the first seven months of 2016 was 13% higher than in the same period in 2015, while the value of construction works over the same period was 34.7% higher than in 2015. The average number of days needed to complete a record of purchase/sale of property in the land administration system has also been reduced from 48 days at the end of 2014 to 13 days in the first two quarters of 2016. Serbia's overall Doing Business ranking improved from 68th place in 2015 to 59th in 2016.

These and other enhancements will advance Serbia's real property registration services for businesses and citizens. In addition, the development of a National Spatial Data Infrastructure (NSDI) will advance Serbia's EU integration process.