The World Bank in Serbia

Country Snapshot

An overview of the World Bank's work in Serbia

April 2019

SERBIA	2018
Population, million	7.0
GDP, current US$ billion	49.9
GDP per capita, current US$	7,134
School Enrollment, primary (% gross) (2016)	100
Life Expectancy at birth, years (2016)	75.2

At a Glance

- Serbia ended 2018 with a budget surplus of roughly 0.5 percent of GDP (1.2 percent in 2017), reflecting successful fiscal consolidation since the budget deficit of 6.6 percent of GDP in 2014. Economic growth was 4.2 percent in 2018, and is projected to be 3.5 percent in 2019.

- Labor market outcomes also improved. The average activity rate continued to increase from 54.0 percent in 2017 to 54.5 percent in 2018. Employment grew by 0.9 percentage points to reach a record 47.6 percent in 2018.

- The World Bank program supports the Government's implementation of complex structural reforms, with a focus on changing the role and size of the state and on stimulating the private sector and attracting more investment. Some of the most difficult companies (e.g., RTB Bor and PKB) were resolved in 2018.

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

The ruling party's comfortable win in Belgrade's local elections in March 2018 has maintained a continuity in the strategic and policy framework. In the past five months, however, demonstrations against the Government in over 100 cities and towns have shaken the unquestioned political dominance of the ruling coalition.

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. However, recent indications suggest that the Government is currently wavering on reforms.

The World Bank and Serbia

The overarching goal of the World Bank Group's (WBG) Country Partnership Framework for 2016–20 is to support the creation of a competitive and inclusive economy in Serbia and through this, achieve the country's 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, the efficiency of public utilities, and early childhood education.

Key Engagement

The WBG has engaged in a multi-faceted effort to address Serbia's complex legacy reforms, including reform of commercial state-owned enterprises (SOEs), financial consolidation in public utilities and public transport companies, and more efficient and competent core public administration.

WORLD BANK PORTFOLIO

No. of Projects: 12
IBRD Lending: $1.58 Billion
EU Trust Funds: 3 (€7.9 Million)

More than four years of intensive dialogue and technical advice, combined with policy-based and results-based lending, have started to yield important and increasingly impressive results.

Key operations have included the Public Enterprise and Public Utilities Development Policy Lending (DPL) series, the Competitiveness and Jobs Project, the Program for Results in support of Public Administration Modernization and Optimization, the State-Owned Financial Institutions Reform Project, and the Program for Results in support of Enhancing Infrastructure Efficiency and Sustainability.

The Tax Administration Modernization Project and the Enabling Digital Governance Project are forthcoming. As a result of these efforts, 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 are focusing on improving the performance of public service delivery, including through digitalizing selected services, corporatizing public utilities, and resolving the remaining large commercial SOEs, while attention is gradually shifting to promoting economic initiative, entrepreneurship, innovation, and the digital economy.

Recent Economic Developments

A strong 4.8 percent year-on-year (y-o-y) growth in the first half of 2018 was mainly related to a rebound from the low base in the same period of 2017. In the second half of the year, growth moderated to 3.7 percent y-o-y, thus leading to a new estimate for annual growth of 4.2 percent.

Growth in 2018 was primarily driven by investment, which increased by 16.4 percent in real terms.

As public sector wages and pensions were increased, consumption was up 3.3 percent y-o-y. Higher consumption to some extent influenced an increase in imports (up 12.6 percent, in euro terms), which led to a negative contribution of net exports to growth of 2 percentage points.

Growth in 2018 was broad-based, with all sectors increasing value added compared to the same period last year. Recent economic growth contributed to a steady labor market performance in 2018.

The activity rate (within the working-age cohort) increased to 67.8 percent in 2018, while the employment rate stood at 58.8 percent. Unemployment also declined from 14.1 percent in 2017 to 13.2 percent in 2018.

Female employment remained significantly lower at 41.7 percent in the third quarter of 2018 compared to 57.3 percent for men. Average salaries increased by 6 percent in nominal terms (or 3.9 percent in real terms) in 2018.

Thanks to improved labor market outcomes and to higher salaries and pensions, poverty (living on income under US$5.5/day in 2011 purchasing power parity terms, the standardized middle-income-country poverty line) is estimated to have declined from 23.8 percent in 201, to an estimated 21.3 percent in 2018.

The budget remained in surplus (of an estimated 0.6 percent of GDP) in 2018, helping lower further the public debt burden. Strong revenue collection helped offset an increase in expenditures in 2018.

Revenues increased by 6.7 percent, while expenditures increased by 7.9 percent compared to 2017.

The fiscal surplus, as well as a favorable dollar/euro and dinar/euro exchange rate dynamic, have helped reduce public debt as a share of GDP from 62.5 percent at the end of 2017 to an estimated 54.3 percent at the end of 2018.

Economic Outlook

The Serbian economy is expected to continue with solid growth of around 3-4 percent over the medium term, although growth in 2019 is expected to slow to 3.5 percent, as the effects of the increase in consumption and investment were to a large extent exhausted in 2018. Investment and exports will be the main drivers of growth.

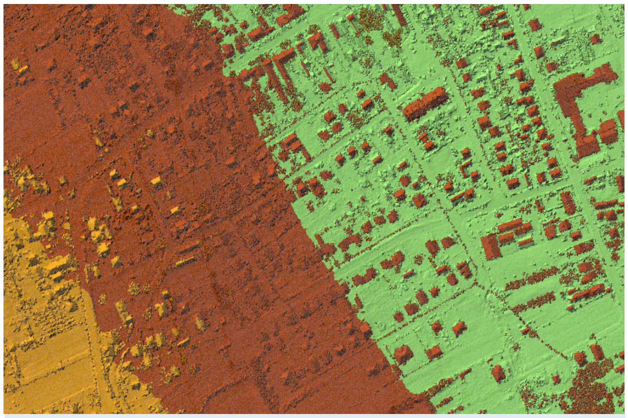
Exports are projected to increase by roughly 9.5 percent annually in real terms and investments by about 6.5 percent over the next three years. Consumption will increase as well, driven by wages and employment growth.

An increase in consumption has already impacted imports and resulted in a 8.4 percent higher current accounts deficit in 2018.

Medium-term growth projections critically depend on the pace of structural reforms and progress on EU accession.

Project Spotlight

Disaster Risk Management


A LiDAR snapshot of terrain in Serbia.

Serbia is vulnerable to a wide variety of natural disasters, including floods, landslides, droughts, and earthquakes.

Recent studies indicate that the country is particularly vulnerable to future changes in climate and precipitation, as weather-related events are expected to become more frequent and intense.

This growing climate risk is already threatening Serbia's socioeconomic progress.

In 2014, the country suffered its worst flooding in over a century, which pushed more than 125,000 people into poverty and caused over €1.7 billion in damages and losses. The challenges associated with growing climate extremes have prompted the Government of Serbia to take a proactive rather than reactive approach to building resilience to climate and disaster risks.

In 2014, Serbia became the first country in the Balkans to move toward a comprehensive disaster risk management framework by establishing the National Disaster Risk Management Program and raising US$70 million to build capacity for the country's disaster risk reduction and crisis management systems.

In order to streamline the recovery after the 2014 flooding, Serbia, with support from the World Bank, EU, and United Nations, performed a detailed recovery needs assessment. This effort helped inform a risk profile for the country to guide decision makers in the priority zones. Building on this momentum, in 2017, Serbia secured a US$70 million loan from the World Bank to ensure accessible recovery funds in the wake of a major disaster.

The Disaster Risk Management Policy Loan with a Catastrophe–Deferred Drawdown Option (CAT–DDO), the first of its kind in Europe, will provide the Government with immediate access to funds to meet recovery needs once an emergency is declared, ensuring that budget resources are not diverted from ongoing programs. The loan's revolving feature will allow money that is repaid prior to the closing date to become available for subsequent use.

In May and June 2018, parts of Serbia were flooded due to heavy rains, and the Government of Serbia declared a natural disaster. In July 2018, officials requested a withdrawal of €30 million under the CAT-DDO to support an emergency response and early recovery. With secured access to recovery funds, Serbia is better equipped to rapidly respond to its citizens in the aftermath of a natural disaster.

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

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