The World Bank in Serbia

Country Snapshot

An overview of the World Bank's work in Serbia

April 2018

SERBIA	2016
Population, million	7.1
GDP, current US$ billion	37.7
GDP per capita, current US$	5,340
School Enrollment, primary (% gross)	101.1
Life Expectancy at birth, years	75.3

At a Glance

- In 2017, Serbia's growth reached an estimated 1.9%. Growth in industry and services contributed to a steady labor market performance, with the activity rate reaching 54% in 2017. The employment rate was 46.7 compared to 5.2% in 2016.

- The Government's fiscal consolidation program, introduced in 2014, continues to lead to a significant improvement in fiscal performance. The Government had a surplus of 1.1% in 2017 compared to a deficit of 1.4% of GDP in 2016, stemming from increased revenues and expenditure control, with major savings from wage and pension reforms.

- The World Bank program continues to support 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. These reforms are critical to Serbia's path to European Union accession and to more inclusive growth and jobs.

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 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 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.

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, 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 more efficient and competent core public administration.

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.

WORLD BANK PORTFOLIO

No. of Projects: 12
IBRD Lending: $1.8 Billion
EU Trust Funds: 3 (€7.9 Million)

This has included the Public Enterprise and Public Utilities Development Policy Lending (DPL) series, the Jobs and Competitiveness Project, the Program for Results in support of Public Administration Modernization and Optimization, and most recently, the State Owned Financial Institutions Reform Project as well as the Program for Results in support of Enhancing Infrastructure Efficiency and Sustainability DPLs.

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, 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.

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

Recent Economic Developments

External, one-off factors, such as the disruption of energy production in early 2017 and a drought affecting agriculture, coupled with slow implementation of the Government's investment program, led to weaker growth in 2017. Based on preliminary assessments from the national authorities, the economy grew by 1.9% year-on-year (y-o-y) compared to the projected 2.3%.

Looking at sectors of the economy, both services and industry performed well in 2017, growing by 2.2 and 3.9%, respectively. The construction sector also started to recover (growing by 1.8% y-o-y) on the back of recent improvements in issuing construction permits and lower financing costs as interest rates fell in 2017. On the other hand, agricultural output is estimated to have fallen by 9.5% compared to 2016 due to drought.

Growth in industry and services contributed to a steadily improved labor market performance in 2017, compared to 2016. The activity rate increased to 54% in 2017, while the employment rate stood at 46.7% compared to 45.2% in 2016, even with unemployment edging up only slightly in the fourth quarter of 2017 to reach 14.7%. Average salaries increased by 3.9% in nominal terms in 2017 compared to 2016, mainly driven by a 4.5% growth in wages in the private sector. The average pension was 2.4% higher than in 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 23.8% in 2014 to 23.1% in 2016 and to 22.4% in 2017. The increase in wages and public sector pensions helped household budgets to recover some of the losses from the fiscal consolidation measures. The energy bill discount program for the vulnerable population was expanded in 2017 to mitigate the impact of increases in electricity tariffs as part of fiscal reforms. However, a decline in agricultural output in 2017 is likely to have an adverse impact on rural poverty and slow the pace of poverty reduction overall.

The good budget performance continued in 2017, and Serbia ended up with a surplus of 1.1% of GDP. Public debt declined to 62.5% of GDP at year-end compared to 74% at end-2016, in part due to the under-execution of the capital budget.

The current account deficit (CAD) almost doubled in 2017. This resulted in a widening trade deficit, as imports increased by 14.2% y-o-y, driven by higher imports of energy and consumer goods. The growing external deficit continued to be financed by foreign direct investment.

Economic Outlook

In 2018 and 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 and private sector wages continue to grow). Growth is projected 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 to around 21% by 2019 (using the US$5.5/day 2011 PPP line). As part of the Government's fiscal consolidation program, another nominal electricity tariff increase will be considered in 2018, though it will be 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

Disaster Risk Management (DRM)

Flood-affected area in Obrenovac. Photo: Republic Geodetic Authority, 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 DRM 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.

With secured access to recovery funds, Serbia will be 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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