

# The World Bank in Serbia Country Snapshot



An overview of the World Bank's work in Serbia

October 2018

SERBIA	2017
Population, million	7.1
GDP, current US\$ billion	41.5
GDP per capita, current US\$	5,899
School Enrollment, primary (% gross)	100.9
Life Expectancy at birth, years	75.2

## At a Glance

- Serbia ended 2017 with a surplus of around 1.2% of GDP, reflecting a successful fiscal consolidation since the budget deficit of 6.6% of GDP in 2014. Economic growth is projected to increase by 3.5% in 2018, an upgrade from the 3% forecasted earlier.
- Labor market outcomes also improved. The average activity rate continued to increase from 53% in 2016 to 54% in 2017, and 55% in the first quarter of 2018. Employment grew by 1.9 percentage points from 46.7% in 2017 to 48.6% in the second quarter of 2018.
- 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. Some of the most difficult companies (RTB Bor, PKB, and Azotara) have been resolved in the past few months.

## 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.

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, 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 commercial SOE reform, 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: \$1.8 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.

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 and gradually improving services, and the size and cost of public administration have been reduced.

Next generation reforms continue to focus 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

Economic growth is projected to increase to 3.5% in 2018, an upgrade from the 3% forecasted earlier. The strong growth in the first half of the year (of 4.5% year-on-year [y-o-y]) was broad based, with all sectors increasing value added compared to the same period last year. Growth in the construction sector (of 26.4% y-o-y) was particularly encouraging.

On the expenditure side, an increase in investment was the key driver of growth, contributing 5 percentage points. Both public and private investment grew, with consolidated government spending on capital projects increasing by 44% in nominal terms in the first half of 2018 compared to the same period of 2017.

Net exports subtracted 3.2 percentage points from growth, with an 11% real y-o-y growth of imports overshadowing an otherwise solid 8.2% y-o-y increase in exports.

Labor market outcomes also improved. The average activity rate continued to increase from 53% in 2016 to 54% in 2017 and 55% in the first quarter of 2018. Employment grew by 1.9 percentage points from 46.7% in 2017 to 48.6% in the second quarter of 2018.

As a result, unemployment declined from 13.5% of the active labor force in 2017 to 11.9% in the second quarter of 2018. Average salaries increased by 4.2% in real terms in the first half of 2018 compared to the same period last year.

Since employment and labor income play a strong role in the welfare of the poor and vulnerable, poverty (living on an 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% in 2014 to 22.4% in 2017.

The budget remained in surplus in the first half of 2018 (0.7% of GDP), a trend projected for the full year as well.

Strong revenue collection helped to offset higher expenditures in the first half of the year. The fiscal surplus helped reduce public debt as a share of GDP from 62.5% in 2017 to a projected 58.4% by the end of 2018.

## Economic Outlook

The Serbian economy is expected to expand by roughly 4% a year over the medium term. The economy is expected to grow faster than originally projected for 2018, a momentum that is expected to continue over the medium term.

Investment and exports will be the main drivers of growth. Exports are projected to grow by around 9.5% annually in real terms and investment by about 6.5%.

However, consumption will also grow as a result of the recently announced increases in public wages and in overall employment and wage growth.

## Project Spotlight

### Competitiveness and Jobs Project



In 2018, grants for 22 innovative projects totaling €3 million have been awarded to Serbian firms.

After a prolonged stagnation in growth due to the financial crisis—Serbia's real GDP has only recently returned to its pre-2008 level—and a successful fiscal consolidation over the past three years, Serbia is taking on reforms to reignite growth.

To help with these efforts, the Innovation Fund and the Ministry of Education, Science and Technological Development are implementing the innovation component of the

Competitiveness and Jobs Project, a US\$100 million results-based investment loan.

The project aims to improve the effectiveness of public programs and alleviate constraints to competitiveness and job creation, including by supporting investment and export promotion, innovation, and active labor market programs.

Innovation is key to growth. The Competitiveness and Jobs Project focuses on activities identified as the main drivers of competitiveness and job creation, among which innovation has a prominent place.

The project builds on the successes of an earlier Serbia Innovation Project, which piloted mini and matching grants that resulted in funding totaling €6 million for 52 innovative projects and the creation of over 480 mostly high-end jobs. Since 2017, funding for the mini and matching grants program has been provided from the budget of the Republic of Serbia, supported by the Competitiveness and Jobs Project.

In 2018, grants for 22 innovative projects totaling €3 million have been awarded to Serbian firms, mainly in the areas of information and communications technology (ICT), medical devices, energy, and energy efficiency.

Other types of support include a collaborative grant scheme (CGS) to incentivize collaboration between the private sector and public research and development (R&D) entities, as well as innovation vouchers, which is a new service for the small and medium enterprises that want to use the services of public R&D organizations in order to make their products more competitive in the market.

The Competitiveness and Jobs Project, along with the Serbia Research, Innovation and Technology Transfer Project (SRITTP), is also supporting reforms in Serbia's research financing model, which is currently non-competitive. The time has come for long overdue reforms in this area, as evidenced by the recently adopted Research and Innovation Strategy Action Plan, setting a clear path to the competitive funding of research in Serbia.

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>



#### CONTACTS

Belgrade,  
+381-11-30 23 700  
Bulevar Kralja  
Aleksandra 86, 11000  
Belgrade, Serbia.

#### More about the World Bank in Serbia

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