

The World Bank in Serbia Country Snapshot



An overview of the World Bank's work in Serbia

April 2020

SERBIA	2019
Population, million	6.9
GDP, current US\$ billion	51.5
GDP per capita, current US\$	7,409
Life Expectancy at birth, years (2016)	75.7

At a Glance

- After a fiscal surplus in 2018, Serbia ended 2019 with a small deficit of about 0.2 percent of GDP. Growth in 2019 is estimated to have declined slightly compared to 2018 but remained robust at 4.2 percent, driven by an increase in public investment coupled with a strong performance in foreign direct investment.
- Growth has contributed to labor market improvements. The activity rate and employment rate among the population aged 15 and above continued to increase in 2019, and the unemployment rate declined to 9.7 percent in the last quarter of 2019.
- 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. In 2019, a Country Economic Memorandum supported the Government's renewed focus on a growth agenda.

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 Government's economic reform program focuses on ensuring economic and financial stability, reducing debt, and creating an environment for economic recovery and growth to foster employment and raise living standards. However, recent indications suggest that the reform momentum has slowed.

Regular general elections were called for April 26, 2020, but have been postponed to an undefined date due to the COVID-19 pandemic.

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 real estate management/business environment, competitiveness and jobs, innovative entrepreneurship, health, agriculture, transport, disaster risk management, financial sector reform, public sector modernization (including the digitalization of selected public services and the modernization of tax administration), and early childhood education.

There is also one regional project aimed at facilitating trade and transport in the Western Balkans.

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, financial consolidation in public utilities and public transport companies, and more efficient core public administration.

WORLD BANK PORTFOLIO

No. of Projects: 12
IBRD Lending: \$8.03 Million
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**.

In FY20, two new operations were added: the **Accelerating Innovation and Growth Entrepreneurship Project** and the **Competitive Agriculture Project**.

As a result of these efforts, among other outcomes, public utilities are returning to financial health with gradually improving services, and local scientists are linking with enterprises to commercialize their innovations, thus contributing to growth and jobs.

Next generation reforms are focusing on developing a new growth agenda and deepening public sector reforms to promote economic initiative, entrepreneurship, innovation, and the digital economy.

In response to the COVID-19 pandemic, the Bank is also supporting Serbia in preparing an emergency health project, activating a Development Policy Operation (DPO) (Catastrophe Deferred Drawdown Option [CAT-DDO]) to allow a withdrawal from a special catastrophe credit line, and restructuring three projects to accelerate activities and ensure financial flows to critical functions.

Recent Economic Developments

Growth in 2019 is estimated to have declined slightly compared to 2018 but remained robust at 4.2 percent, driven by an increase in public investment along with a strong performance of foreign direct investment (FDI).

Consumption continued to be strong. The contribution of net exports to growth was negative, as exports did not grow as fast as in the past. Looking at sectoral composition, industry increased by 0.3 percent in 2019, while agriculture output remained broadly the same as in 2018.

On the other hand, services contributed significantly to GDP growth along with the construction sector.

Growth has contributed to labor market improvements. The fourth quarter activity rate and employment rate among the population aged 15 and above continued to increase in 2019, while the employment rate remained lower among female workers and youth.

The unemployment rate declined to an estimated 9.7 percent in the last quarter of 2019.

Thanks to these trends, 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 25.8 percent in 2015 to a projected 18.9 percent in 2019. The consolidated general government budget showed a deficit of 0.2 percent of GDP in 2019.

Budgetary spending rose by 10.4 percent in nominal terms, driven by higher capital expenditures and the wage bill. Public debt declined to 52.9 percent of GDP by end-2019.

Inflation was low and stable. With inflationary pressures low, the National Bank of Serbia lowered its policy rate to 1.75 percent in March 2020. External imbalances widened while FDI inflows remained strong in 2019, which was more than sufficient to cover the current account deficit.

Economic Outlook

The COVID-19 pandemic outbreak and the related containment measures are taking a heavy toll on the global economy, affecting the Serbian economy and leading to much lower growth than previously expected.

The economy will enter a recession in 2020, driven by lower tourism and transport activity, lower remittances, decelerating exports, and lower FDI and investment overall.

To mitigate the negative economic impact of the pandemic, the Serbian authorities are providing a substantive and comprehensive response to the crisis in a relief package approved in late March.

Over the medium term (2021–23), growth will return to its previous trajectory. This medium-term outlook crucially depends on international events (including the impact of COVID-19), the pace of structural reforms, and political developments.

Current developments are expected to lead to a small uptick in poverty in 2020. Aside from the direct impact on health outcomes, the anticipated decline in services, lower investments, depressed demand for Serbian exports, and mobility restrictions will hurt jobs and labor income.

Poor and vulnerable households may be disproportionately affected.

Risks are associated primarily with the length and depth of the crisis caused by the COVID-19 pandemic and the implementation of containment measures.

The current outlook assumes that containment measures can be gradually lifted toward the end of the second quarter of 2020.

Project Spotlight

Second Serbia Health Project



New equipment for treating cancer patients installed in Sremska Kamenica in February 2020.

The World Bank is supporting a range of reforms aimed at contributing to the improved efficiency and quality of Serbia's public health system, working closely with the Ministry of Health, Health Insurance Fund, and Institute of Public Health.

In the area of health financing, the project supports provider payment reforms on different

levels of care and also efforts to optimize the network of health care facilities.

Activities include, among others, providing support to the Government in centralizing the procurement of drugs to improve efficiency, introducing an e-prescription system, rationalizing the use of antibiotics, and developing a health technology assessment system.

An e-prescription system has been developed and rolled out at the country level. Multiple activities have promoted the rational use of antibiotics, including the development and delivery of prescription guidelines, training for key stakeholders, and a national campaign, contributing to a 33 percent decrease in the consumption of antibiotics.

This project also contributes to improvements in the quality of health care. This is done through supporting the development of clinical pathways and the improved monitoring of the quality of care to meet international standards.

In addition, eight linear accelerators have been procured for hospitals and health facilities across the country to reduce waiting times for the treatment of cancer patients.

The activities under this project and its additional financing are funded through a loan of a total amount of €54.1 million. The project will close in December 2021.

In response to COVID-19, the Bank is also supporting Serbia to prepare an emergency project to enhance immediate crisis management, purchase equipment, and strengthen prevention and control systems.



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