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Serbia Economic Performance Assessment



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Serbia Economic Performance Assessment

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- a synthesis of data drawn from numerous sources, including World Bank publications and other international data sets used by USAID for economic growth analysis, as well as accessible host-country data sources;
- international benchmarking to assess country performance in comparison to similar countries and groups of countries;
- an easy-to-read analytic narrative that highlights areas in which a country's performance is particularly strong or weak, thereby assisting in the identification of future programming priorities.

Under the CAS Project, Nathan Associates will also respond to mission requests for in-depth sector studies to examine more thoroughly particular issues identified by the data analysis in these country reports.

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A Note on the Serbia Study

Though most international sources treat Serbia and Montenegro as a unit, it is important in designing policies to support economic growth and poverty reduction to recognize the heterogeneity of these two states within a state. The data presented here do not include Kosovo. Because this study focuses on Serbia alone, we have attempted, where possible, to disaggregate data for Serbia and Montenegro and present data for Serbia alone. We use data for Serbia and Montenegro only when data for Serbia alone are not available. The figures for Serbia alone are not derived from the standard sources for each indicator listed in the technical notes. We have relied heavily on data from: the International Monetary Fund (IMF); the Serbian Republic's Statistical Office; the National Bank of Serbia; and Serbia's Poverty Reduction Strategy Paper (PRSP) of May 2004. The authors of this report would like to acknowledge the substantial contribution to the compilation of data for Serbia made by the Belgrade based think tank, Centar Za Visoke Ekonomske Studije (CEVES).

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HIGHLIGHTS OF SERBIA'S PERFORMANCE

Economic Growth	The Serbian economy has been expanding relatively rapidly after a sharp contraction resulting from the conflicts in the former Yugoslavia. GDP growth averaged 5 percent during the period 2000–2004. A major concern is the low share of investment in GDP.
Poverty	Most indicators of poverty are unavailable for Serbia. The one series available, head count data based on the national poverty line, suggests that Serbia's performance is outstanding. However, rates in rural areas are nearly double those found in urban areas and need to be addressed.
Gender	Serbia's performance on gender indicators is good and in line with regional averages.
Fiscal and Monetary Policy	Fiscal and monetary policies appear reasonable. Inflation has declined substantially in the past several years but remains at double-digit levels. Planned fiscal tightening measures may help restrain inflation further and consolidate gains. The central bank will need to keep careful watch on the rate of growth of the money supply, which increased in 2004.
Business Environment	The regulatory environment has improved substantially in the past few years; Serbia and Montenegro were ranked as most improved by the World Bank's Doing Business in 2006. However, some indicators still remain below average, and corruption and low adherence to the rule of law continue to be impediments to doing business in Serbia and Montenegro.
Financial Sector	Serbia's financial sector performance is generally poor and helps explain Serbia's inadequate aggregate investment performance. Greater efficiency in the banking sector and an expansion of the stock market are needed.
External sector	Serbia has integrated rapidly into the world economy since the beginning of a series of economic reforms in 2001 and the lifting of international sanctions in the same year. Although generally greater integration is beneficial, in Serbia integration has been accompanied by surging current account deficits and debt service, which are unsustainable and threaten the country's economic growth and stability.
Economic infrastructure	Lack of data for most infrastructure indicators prevents any comprehensive analysis. Indicators for telecommunications and IT infrastructure reveal good performance in those areas.
Health	Serbia and Montenegro have good performance for indicators pertaining to public health, in line with most Central and Eastern European countries.
Education	Serbia does very well on basic education measures—the youth literacy rate is 99.3 percent. Like many Central and Eastern European countries, there is some question as to whether Serbia has adequately updated the quality of its secondary and tertiary education to maintain a competitive labor force in a globalized world.
Employment and Workforce	Unemployment in Serbia is 31.7 percent, nearly double the regional average and a serious problem. Supporting job creation is a major policy challenge and merits immediate attention.
Agriculture	Serbia has a strong agricultural sector.

Note: The standards used for the benchmarking analysis are explained in the Appendix.

SERBIA: NOTABLE STRENGTHS AND WEAKNESSES— SELECTED INDICATORS^a

Indicator, by Topic	Notable Strengths	Notable Weaknesses
Growth Performance		
Per capita GDP (purchasing power parity dollars)		✓
Share of gross fixed investment in GDP, (Serbia and Montenegro) (%)		✓
Poverty and Inequality		
Poverty headcount (%) by national poverty line	✓	
Fiscal and Monetary Policy		
Inflation rate (%)		✓
Business Environment		
Corruption perception index, Serbia and Montenegro		✓
Time to enforce a contract (days), Serbia and Montenegro		✓
Time to register property (days), Serbia and Montenegro		✓
Time to start a business (days), Serbia and Montenegro	✓	
Financial Sector		
Interest rate spread (%)		✓
Real interest rate (%)	✓	
Stock market capitalization rate, Serbia and Montenegro (% GDP)		✓
External Sector		
Current account balance (% GDP)		✓
Export growth, goods and services (%)	✓	
Gross international reserves (months of imports)		✓
Present value of debt, Serbia and Montenegro (% GNI)		✓
Economic Infrastructure		
Internet users (per 1,000 people)	✓	
Science and Technology		
Patent applications filed by residents	✓	
Health		
Child immunization rate (%)		✓
Maternal mortality rate (deaths per 100,000 births)	✓	
Education		
Net primary enrollment rate (%)	✓	
Employment and Workforce		
Rigidity of employment index	✓	
Unemployment rate (%)		✓

^a The table identifies indicators for which Serbia's performance is particularly strong or weak relative to benchmarks; details are discussed in the text. The Data Supplement presents a full tabulation of the data examined for this report, including the international benchmark data, along with technical notes on data sources and definitions.

1. Introduction

This paper is one of a series of economic performance assessments prepared for the EGAT Bureau to provide USAID missions and regional bureaus with a concise evaluation of a broad range of indicators relating to economic growth performance in designated countries. The report draws on a variety of international data sources¹ and uses international benchmarking against reference group averages and comparator countries (in this case, Bulgaria and Romania) to identify major trends, constraints, and opportunities for strengthening growth and reducing poverty.

The methodology used here is analogous to examining an automobile dashboard to see which gauges are signaling problems. Sometimes a blinking light has obvious implications—such as the need to fill the fuel tank. In other cases, it may be necessary to have a mechanic probe more deeply to assess the source of the trouble and discern the best course of action.² Similarly, the Economic Performance Assessment is based on an examination of key economic and social indicators, to see which ones are signaling problems. In some cases a “blinking” indicator has clear implications, while in other instances a detailed study may be needed to investigate the problems more fully and identify an appropriate course for programmatic action. The aim, then, is to spot signs of serious problems, based on a review of selected indicators, subject to limits of data availability and quality. The results should provide insight about potential paths for USAID intervention, to complement on-the-ground knowledge and further in-depth studies.

The analysis is organized around two mutually supportive goals: transformational growth and poverty reduction.³ Rapid and broad-based growth is the most powerful instrument for poverty reduction. At the same time, measures aimed at reducing poverty and lessening inequality can help to underpin rapid and sustainable growth. These interactions create the potential for stimulating a virtuous cycle of economic transformation and human development.

Transformational growth requires a high level of investment and rising productivity. This is achieved by establishing a strong *enabling environment for private sector development*,

¹ Sources include the latest data from USAID’s internal Economic and Social Database (ESDB) and readily accessible public information sources. The ESDB is compiled and maintained by the Development Information Service (DIS), under PPC/CDIE. It is accessible to USAID staff through the Agency intranet.

² Sometimes, too, the problem is faulty wiring to the indicator—analogous here to faulty data.

³ In USAID’s white paper *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century* (January 2004), transformational growth is a central strategic objective, both for its innate importance as a development goal, and because growth is the most powerful engine for poverty reduction.

involving multiple elements: macroeconomic stability; a sound legal and regulatory system, including secure contract and property rights; effective control of corruption; a sound and efficient financial system; openness to trade and investment; sustainable debt management; investment in education, health, and workforce skills; infrastructure development; and sustainable use of natural resources.

In turn, the impact of growth on poverty depends on policies and programs that create opportunities and build capabilities for the poor.⁴ We call this the *pro-poor growth environment*. Here, too, many elements are involved, including effective education and health systems; policies facilitating job creation; agricultural development (in countries where the poor depend predominantly on farming); dismantling barriers to micro and small enterprise development; and progress toward gender equity.

The present evaluation of these conditions must be interpreted with caution, because a concise analysis of this sort does not provide a thorough diagnosis of the problems, or simple answers to questions about programmatic priorities. For Serbia, the standard analytical limitations are compounded by data problems and discontinuities due to the changing political situation in the former Yugoslavia and now the relationship with Montenegro.

The remainder of the report discusses the most important results of the diagnostic analysis, in three sections: Overview of the Economy; Private Sector–Enabling Environment; and Pro-Poor Growth Environment. Table 1-1 summarizes the topic coverage. The appendix provides a brief explanation of the criteria used for selecting indicators, the benchmarking methodology, and a table showing the full set of indicators examined for this report.

Table 1-1
Topic Coverage

Overview of the Economy	Private Sector–Enabling Environment	Pro-Poor Growth Environment
<ul style="list-style-type: none"> • Growth performance • Poverty and inequality • Economic structure • Demographic and environmental conditions • Gender 	<ul style="list-style-type: none"> • Fiscal and monetary policy • Business environment • Financial sector • External sector • Economic infrastructure • Science and technology 	<ul style="list-style-type: none"> • Health • Education • Employment and workforce • Agriculture

⁴ A comprehensive poverty reduction strategy also requires programs to reduce the *vulnerability* of the poor to natural and economic shocks. This aspect is not covered in the template because the focus is on economic growth programs. Furthermore, finding meaningful and readily available indicators of vulnerability to use in the template is difficult.

2. Overview of the Economy

This section reviews basic information on Serbia's macroeconomic performance, poverty and inequality, economic structure, demographic and environmental conditions, and gender equity.⁵ Some of the indicators cited here are descriptive rather than analytical and are included to provide context for the performance analysis.

GROWTH PERFORMANCE

Serbia's recent economic performance has been impressive. The Serbian economy has grown relatively quickly since a sharp contraction in 1999 brought on by the war. On average, Serbian GDP increased 5 percent per year between 2000 and 2004. (Figure 2-1, Real GDP Growth) Growth reached 7 percent in 2004, compared with an average rate of 5.8 percent for lower-middle-income Central and Eastern European countries (LMI CEECs). Because of the local currency's appreciation, the rise in per capita GDP measured in U.S. dollars was even more striking—from \$1,051 in 2000 to \$2,938 in 2004, approaching the per capita GDP of Bulgaria and Romania. Inflation has cooled dramatically. The annual rate of retail price inflation declined from 91.8 percent in 2001 to 10.1 percent in 2004 (Figure 2-2, Inflation).

The post-war recovery was fueled largely by growing domestic demand stemming from economic reforms that began in 2001 and the stabilization of inflation. At the same time, exports rose considerably as a result of economic stabilization and the lifting of trade sanctions against Yugoslavia.

Although the general improvement in the economic situation in Serbia is undeniable, serious problems persist. Serbia continues to lag behind its peer countries in terms of income. Although the difference in per capita GDP between Serbia and Bulgaria and Romania is small when measured in current U.S. dollars, the disparity increases when GDP is measured in purchasing power parity (PPP) terms. In PPP terms, Serbian per capita GDP in 2004 was \$4,993, which is 58 percent and 65 percent of the Bulgarian and Romanian levels, respectively. It is also substantially less (by 11 percent and 33 percent, respectively) than average per capita PPP GDP in lower-middle-income countries (\$5,573) and LMI CEECs (\$7,370), the two benchmark country groups for Serbia.

⁵ The Data Supplement provides a full tabulation of the data for Serbia and the international benchmarks, including indicators not discussed in the text, as well as technical notes for each indicator.

Figure 2-1
Real GDP Growth (Percent Change)

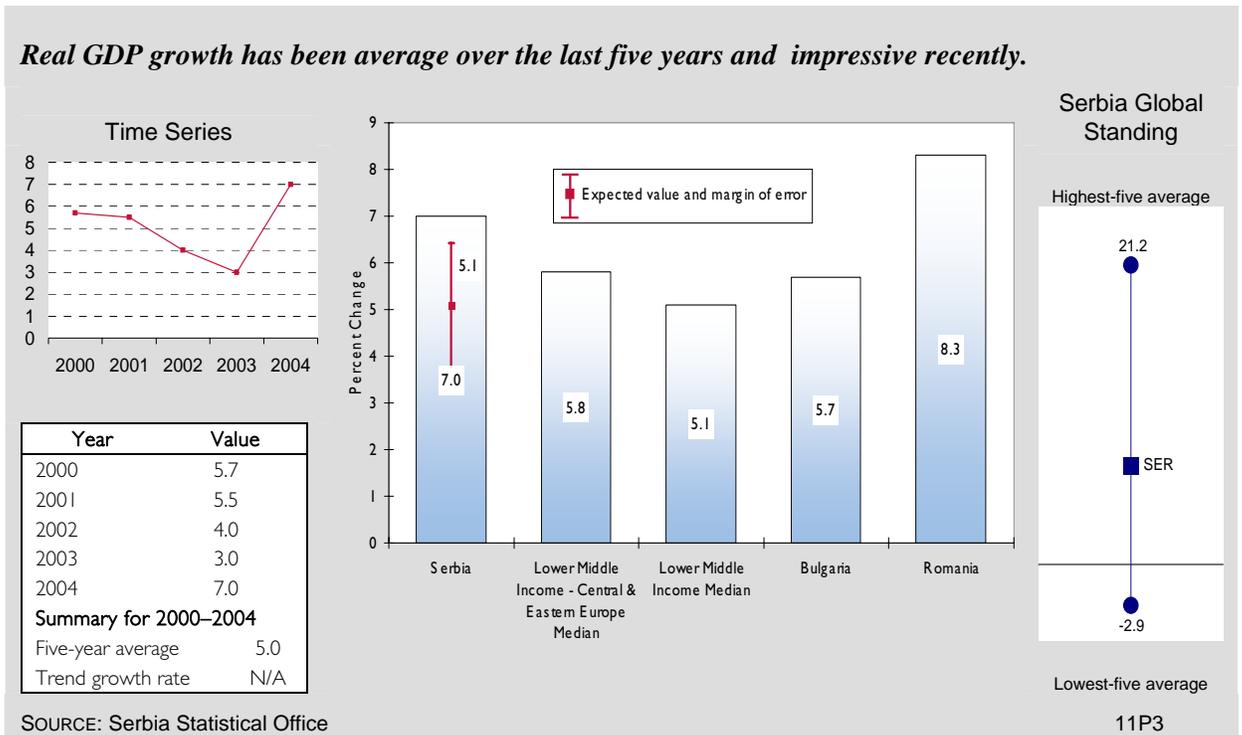
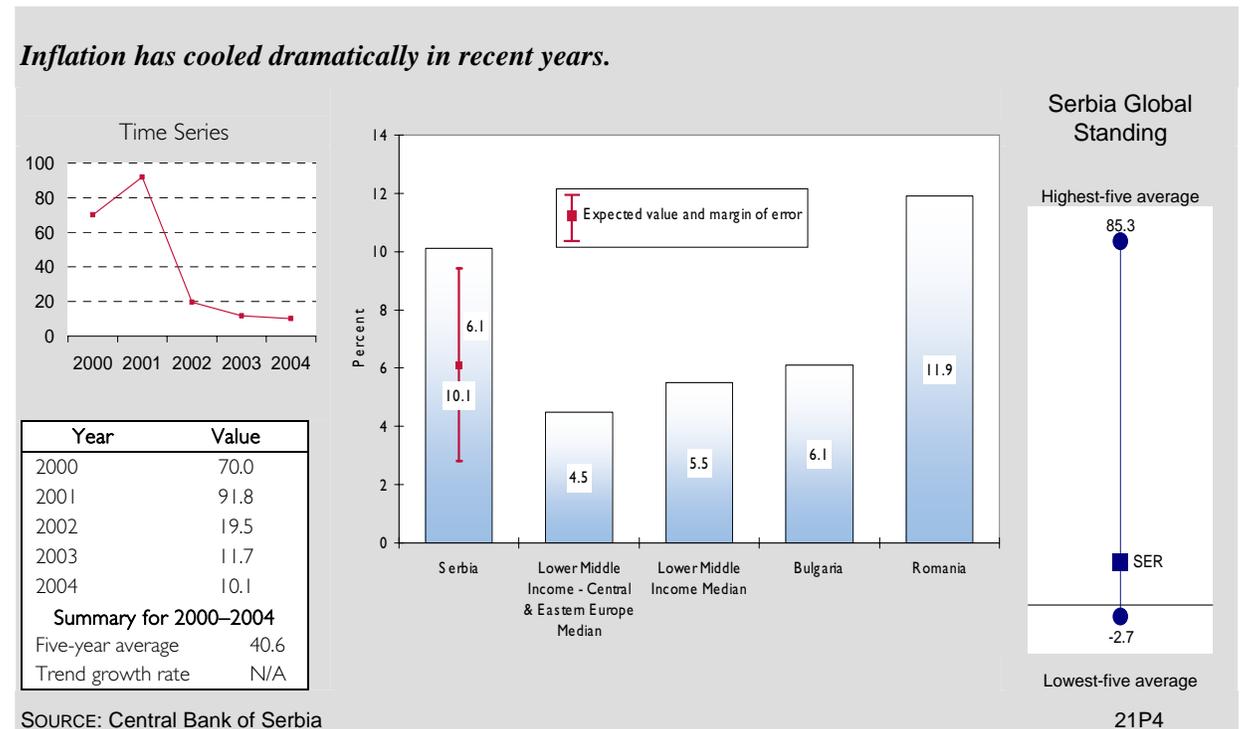


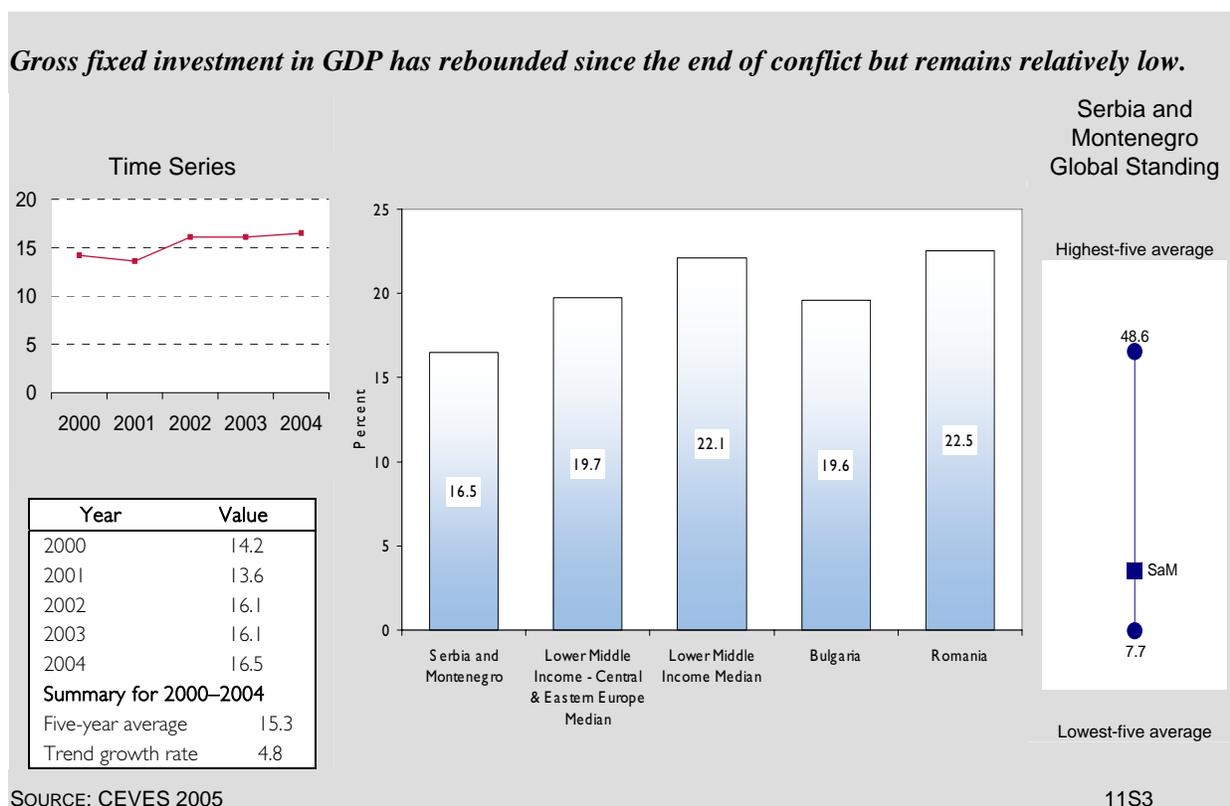
Figure 2-2
Inflation Rate (Percent)



Economic expansion in Serbia has been a result of a rise in labor productivity, but the reasons for this rise are unclear. It is unlikely that labor productivity has gained appreciably from capital investment or technological change. Although the share of gross fixed investment in Serbia and Montenegro's GDP⁶ recovered after the war, at 16.5 percent in 2004 it remained low compared to the 19.7% average of LMI CEECs. It was also well below Bulgaria's and Romanias' investment rates of approximately 20 percent and 23 percent, respectively (Figure 2-3, Gross Fixed Investment in GDP).

It is likely that the experience in Serbia is similar to those of other transition countries, which suggests that labor productivity has benefited from a decline in the share of agriculture in output, improved capacity use due to an increase in domestic demand, and possibly labor shedding by large state-owned firms.

Figure 2-3
Share of Gross Fixed Investment in GDP (Current Prices)



Serbia faces important challenges in achieving full employment. Employment has declined since 1999, and unemployment has risen from already high levels.⁷ In 2003 and 2004, the registered

⁶ Investment data is not available for Serbia alone.

⁷ To some extent, unemployment in Serbia has increased because of the influx of Serbian refugees from other areas of former Yugoslavia.

unemployment rate stood at a staggering 31.7 percent.⁸ Because labor productivity is closely related to employment, exploring the nexus of employment, productivity, and job creation is a potential topic for an in-depth sectoral study.

The main issues confronting the Serbian authorities are to maintain strong growth in output while reducing external imbalances and consolidating gains in inflation. Essential to achieving these goals will be to promote investment and stimulate job creation and structural reforms, especially improving economic governance of enterprises. Improved investment performance will depend on improving financial sector efficiency and access to investment funding. Governance needs to be improved through a judicious mix of privatization, hardening of budget constraints, strengthening of financial institutions' capacity, and improving incentives to monitor enterprises' performance. Meanwhile, Serbia needs to diversify the sources of financing for its external deficits by stimulating exports and foreign direct investment (FDI).

POVERTY AND INEQUALITY

According to the limited data available,⁹ poverty does not appear to be a serious problem in Serbia. The only poverty indicator for which data were obtainable is the poverty head count by national poverty line, which is difficult to compare across countries because each country's national poverty line varies. Nonetheless, poverty levels in Serbia, according to these data, were 10.6 percent in 2002, less than half the LMI CEEC average of 22.5 percent. Poverty head count was also well below the 18.3 percent predicted by a benchmark regression for a country with Serbia's characteristics, and below the 12.8 percent found in Romania as well. Headcount poverty levels in Serbia vary greatly between rural and urban communities. Urban poverty rates are relatively low at 7.8 percent, in contrast to rural poverty rates, which are nearly twice as high, at 14.2 percent (PRSP 2004, page iv). This may signal a need for economic growth programs to augment rural livelihoods and connect rural communities to urban markets.

Educational attainment and poverty are clearly linked. Serbia and Montenegro's PRSP reports that the risk of entering the poverty cycle diminishes as educational attainment increases—the risk for individuals who have not completed primary education is twice as high as the rate for the general population. For example, only 2 percent of university graduates in Serbia are poor. Programs that increase educational attainment are needed to combat poverty.¹⁰

⁸ According to the Labor Force Survey, the unemployment rate was 18.5 percent in 2004—lower than the registered unemployment rate, though still very high.

⁹ Because of a lack of data for Serbia and Montenegro, the following poverty indicators were unavailable for this assessment: Human Poverty Index, income share accruing to the poorest 20 percent, percent of population living on less than \$1 PPP per day, percentage of the population below minimum dietary energy consumption, and poverty gap at \$1 PPP a day.

¹⁰ Internal poverty figures provided by the PRSP.

ECONOMIC STRUCTURE

Changes in Serbia's employment and output structures in the past several years have been generally favorable.¹¹ The share of those employed in services increased markedly, which is consistent with trends in countries experiencing market transformation, while the shares of those employed in agriculture and industry declined. The share of the labor force in services reached 54.5 percent in 2004, a 6 percentage point increase from 2001. Data on the distribution of the labor force in Serbia must be treated with caution, however, because the figures substantially underestimate actual employment in agriculture and cannot be compared with employment statistics for the comparator countries.¹²

The share of value added by Serbia and Montenegro's services sector in total value added also increased—from 46.0 percent in 1999 to 49.9 percent in 2002. At the same time, the shares of value added in agriculture and industry shrank, with value added in agriculture declining much more than the share of value added in industry. Nevertheless, agriculture in Serbia and Montenegro still accounted for 17.8 percent of overall value added in 2002, more than the average contribution of agriculture to value added in the benchmark country groups (12.2 percent in the lower-middle-income countries and 12.8 percent in the LMI CEECs), Bulgaria (11.7 percent) and Romania (11.9 percent). Assuming that Serbia follows the classic pattern—declining agricultural share in output as economic development increases—the current economic structure signals that that country is lagging behind some of its neighbors in economic development.

Turning to the industrial sector, of the four major industrial sectors—mining, manufacturing, utilities, and construction—mining contracted most, both in absolute terms and relative to total value added. This has probably been a positive development because in the centrally planned economies of Central and Eastern Europe this sector was usually characterized by overstaffing and low productivity.

Serbia is likely to benefit from assistance aimed at improving the efficiency and productivity of the services sector, such as financial services, discussed below. Serbia's relatively low urbanization rate and what appears to be an excessively large agricultural sector (in terms of its share in the economy) may suggest that special attention be paid to promoting of nonfarm employment in rural areas.

¹¹ In our analysis of output and employment structures, we assume that as economies grow and develop, the share of agriculture in output—and especially in employment—declines as agricultural productivity increases. Productivity also increases as employment shifts to manufacturing, which tends to have higher average productivity. Over time, as incomes rise, services grow in importance, in terms of both output and employment. Despite these assumptions, we recognize that many economies developed successfully with the economic structures' evolving differently.

¹² The Serbian employment breakdown data are based on payroll employment only. The self-employed, such as farmers, are not included in these figures, which explains the low share of employment in agriculture—it refers only to payrolls.

DEMOGRAPHY AND ENVIRONMENT

Serbia's population declined in the late 1990s and early 2000s. Detecting a trend in the data is difficult because of wide annual fluctuations due to the poor quality of the data and large and variable migration. According to the 2002 census, the population stood at 7.5 million, down 3.7 percent from 1998. This decline was on par with the population decline in Bulgaria and more substantial than that found in Romania over the past several years. To some extent the decline is attributable to a low birth rate.

An aging population is a problem in Serbia and Montenegro. Although the age dependency ratio in Serbia and Montenegro is not among the highest in a rapidly aging Europe, at 0.50 dependents per worker it is higher than the ratios of 0.44 for both Bulgaria and Romania and the average ratio of 0.46 for the LMI CEECs. Like other countries in Europe, Serbia will need policies to address the challenges of a declining and aging population and increased spending on pensions and health care for the elderly.

Serbia's adult literacy rate was 96.5 percent in 2002. Although marginally lower than that found in Bulgaria and Romania, it is consistent with an educated work force.

The environmental sustainability index for Serbia or for Serbia and Montenegro is not available.

GENDER

Gender equality contributes to pro-poor growth by using the productive capacities of all citizens and enabling the fulfillment of human potential. Serbia performs well on gender indicators, with the male-to-female life expectancy ratio at birth equal to the benchmark for LMI CEECs at 0.93. Serbia also performs well in gender equity in education. The male-to-female ratio of adult literacy, at 1.05, trails only slightly the LMI CEECs' average of 1.02. Serbia's laudable performance on gender equality indicators is a prerequisite for pro-poor growth.

3. Private Sector–Enabling Environment

This section reviews indicators for key components of the enabling environment for encouraging rapid and efficient growth of the private sector. Sound fiscal and monetary policies are essential for macroeconomic stability, which is a necessary (though not sufficient) condition for sustained growth. A dynamic market economy also depends on basic institutional foundations, including secure property rights, an effective system for enforcing contracts, and an efficient regulatory environment that does not impose undue barriers on business activities. Financial institutions play a major role in mobilizing and allocating saving, facilitating transactions, and creating instruments for risk management. Access to the global economy is another pillar of a good enabling environment, because the external sector is a central source of potential markets, modern inputs, technology, and finance, as well as competitive pressure for efficiency and rising productivity. Equally important is development of the physical infrastructure to support production and trade. Finally, developing countries need to adapt and apply science and technology as a basis for attracting efficient investment, improving competitiveness, and stimulating productivity growth.

FISCAL AND MONETARY POLICY

Serbian fiscal and monetary policies have tightened in the past few years and resulted in a rapid deceleration of inflation. On the fiscal side, the central government's budget deficit declined from 3.5 percent in 2002 to 1.7 percent in 2004, the same as the average budget deficit level in LMI CEECs and well below that of Romania (Figure 3-1, Government Budget Balance).¹³

Serbia intends to tighten its fiscal policy, primarily by restraining expenditures, which should help make further gains in reducing inflation and reduce the current account deficit. The IMF, in general, positively assesses the recent and planned fiscal policy measures related to both fiscal tightening and changes in the composition of taxes (Exhibit 3-1, IMF Program Status for Serbia

¹³ The World Development Indicators 2005 database adopts new categories for government finance statistics. As a result, the database has fiscal data for few developing countries, and group medians for fiscal variables are no longer meaningful because the sample size is so limited. The international benchmarking analysis for fiscal indicators is therefore based on data from World Development Indicators 2004.

and Montenegro¹⁴). For example, the February 2005 Article IV Report welcomed the reduction of the corporate tax rate and the introduction of a VAT.

Figure 3-1

Overall Government Budget Balance, Including Grants (Percent)

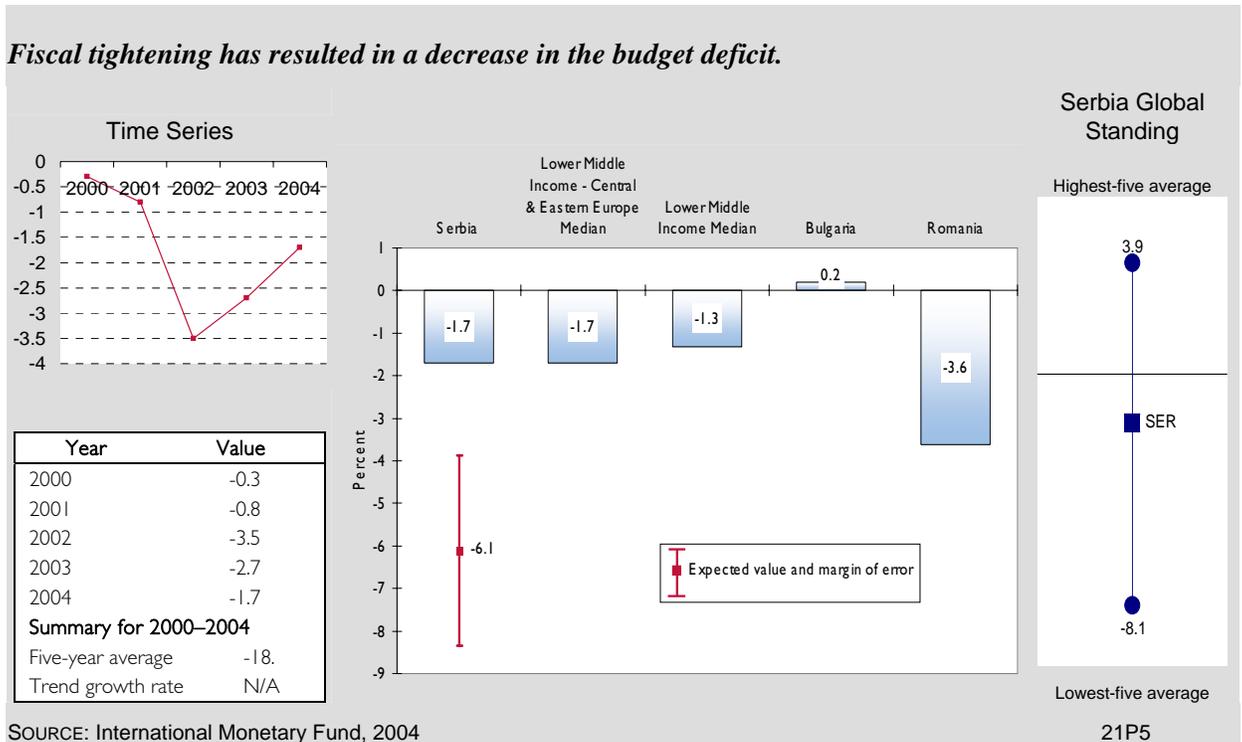


Exhibit 3-1

IMF Program Status for Serbia and Montenegro

An Extended Arrangement for US\$951.1 million was approved in May 2002. The executive board of the IMF completed the fifth review of Serbia and Montenegro's

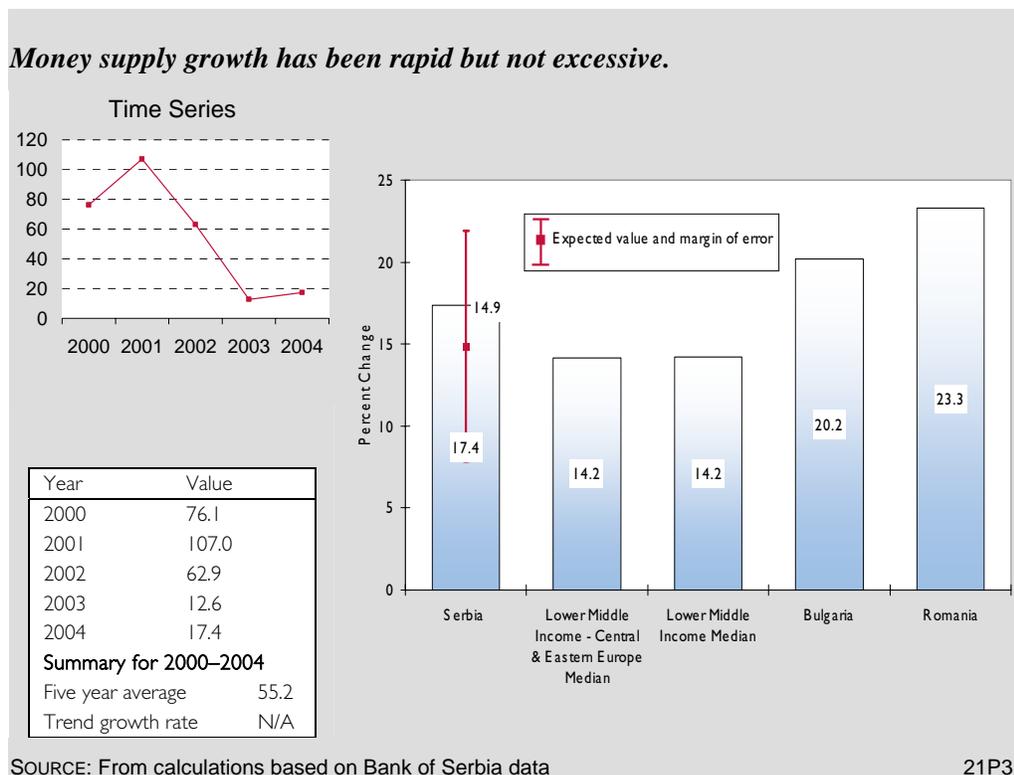
economic performance in June 2005 and enabled the release of US\$182.9 million to bring the total program disbursement to date to US\$859.7 million.

Monetary policy tightened in the period 2001–2003, as evidenced by slower money supply growth. In 2004, however, money supply growth accelerated (Figure 3-2, Growth in the Broad Money Supply). Broad money supply grew at 17.4 percent that year, more rapidly than the average for the two benchmark country groups, but more slowly than in Bulgaria and Romania. From a medium-term perspective, Serbian money supply growth does not appear excessive. However, as the IMF noted, the monetary authorities should be ready to curb the expansion of credit if it does not decelerate or inflation rebounds, especially given Serbia's growing external

¹⁴ The status is for both entities combined because they do not have separate agreements with the IMF.

imbalances (discussed below). Controlling money supply growth is especially important to avoid inflationary pressures just when inflation appears to be subsiding.

Figure 3-2
Growth in the Broad Money Supply (Percent)



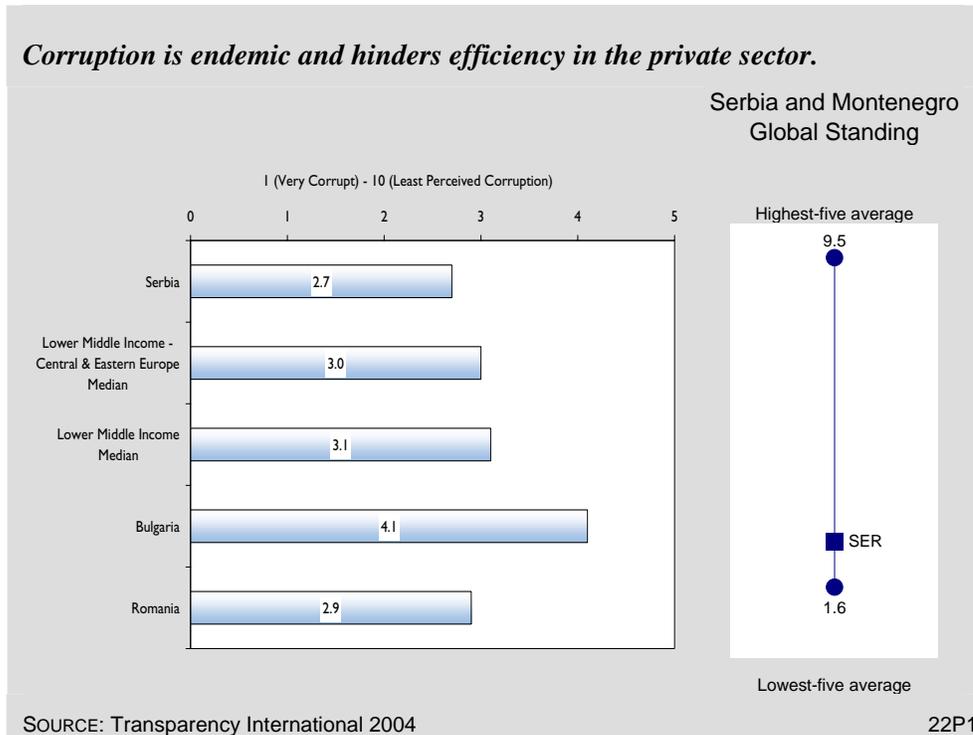
Serbia's ratios of government expenditure and revenue to GDP rose steadily in the past five years. Government expenditures (excluding social security) rose from 13.2 percent in 2000 to 27.0 percent in 2004. Government revenues rose from 12.9 percent in 1999 to 25.4 percent in 2004. Both indicators suggest that the Serbian government is a smaller share of the economy than the governments of Bulgaria, Romania, and the LMI CEECs, but this is misleading. The Serbian central government budget does not include the social security system, so the magnitude of Serbian government operations is probably equal to or greater than that of peer countries.

According to the IMF, the private sector accounts for only 45 percent of GDP. As economic experience in OECD countries shows, good economic performance is compatible with substantial variance in the share of the government sector in the economy; it is the impact of the government sector on savings and investment, incentives, and economic governance that is key. Serbia appears to have problems in these areas. In its February 2005 Article IV Consultation Report, the IMF noted that the economic imbalances in Serbia and Montenegro are largely a consequence of inefficiencies in state- and socially owned enterprises, whose financial discipline is often weak, resulting in excessive wage growth. The Serbian authorities need to improve the economic governance of state- and socially owned enterprises. This should be done through a well-thought-out combination of privatization, tighter budget constraints, and financial discipline.

BUSINESS ENVIRONMENT

Institutionalized corruption poisons private sector development by creating impediments to otherwise simple business transactions and subsequently handicapping businesses' ability to respond to the market. Although corruption in Serbia and Montenegro has improved a little, it remains an endemic problem. In 2004, the country's Corruption Perception Index score was 2.7,¹⁵ and it had a Rule of Law Index score of -0.7¹⁶ (Figure 3-3, Corruption Perception Index). Although Serbia and Montenegro (with average scores of 3.0 and -0.3 for Corruption Perception Index and Rule of Law Index, respectively) ranks slightly behind the LMI CEEC average, performance at or near the regional averages does not elucidate Serbia and Montenegro's shortcomings in these areas. It is absolute performance that is relevant; low levels of corruption and adherence to the rule of law are prerequisites for a burgeoning private sector.

Figure 3-3
Corruption Perception Index



The most recent World Bank Doing Business figures show that Serbia and Montenegro was the most improved of any country. Among its many achievements in this area, the government has made substantial progress in reducing the time and the number of procedures required to conduct

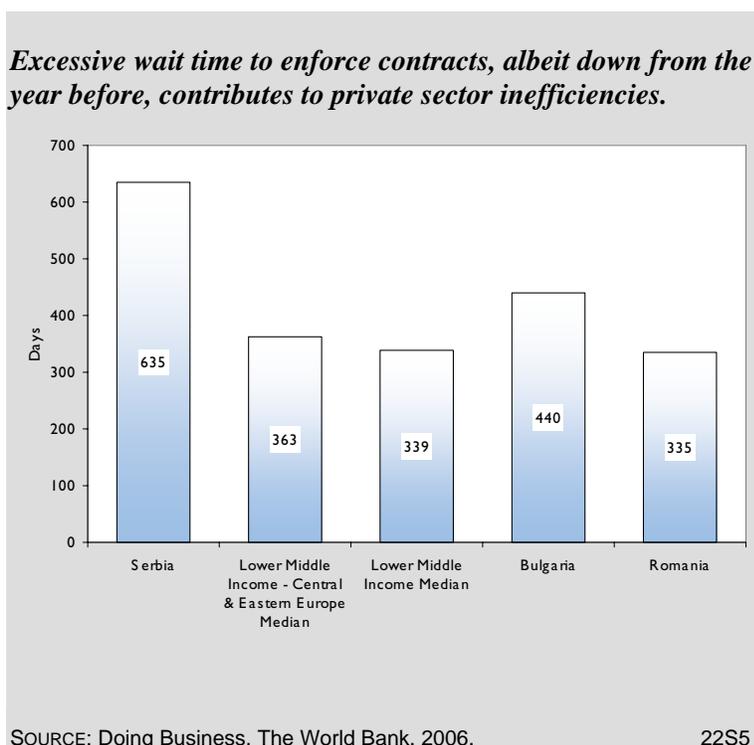
¹⁵ The Corruption Perception Index scores corruption on a scale of 1 (worst) to 10 (best), with any score of 3 or below indicating "rampant corruption."

¹⁶ The Rule of Law Index is a composite of various surveys on public confidence in the rule of law, the incidence of crime, the reliability of the judicial system, and the enforceability of contracts. The global mean is defined as zero, with associated individual scores defined as standard deviations above or below. The index ranges from -2.5 (for poor performance) to 2.5 (for excellent performance).

regular business activities. In some areas, Serbia and Montenegro outperforms its competitors. For example, while in Serbia and Montenegro starting a business takes 15 days, in Bulgaria and Romania, starting a business takes 32 days and 28 days, respectively. The regional average is even higher—40 days. Similarly, it takes only 6 procedures to register a property Serbia and Montenegro compared to 8 or 9 in the comparator countries and country groups. At 10, the number of procedures needed to start a business in Serbia and Montenegro is on par with the regional average and the figure for Bulgaria, though twice the number necessary in Romania.

One of the greatest impediments to doing business in Serbia and Montenegro is the length of time required to enforce a contract – 635 days (2005). Although substantially lower than the 1,028 days needed a year before, this figure remains high (Figure 3-4, Time to Enforce a Contract). The time required to register property is also excessive: 111 days,¹⁷ compared to an average of 61 days for LMI CEECs and 19 days for Bulgaria.¹⁸

Figure 3-4
Time to Enforce a Contract (Days)



Legal and regulatory reforms to reduce corruption and improve the ease of doing business are essential if Serbia and Montenegro is to take full advantage of its proximity to Western European markets and competitive wage structure.

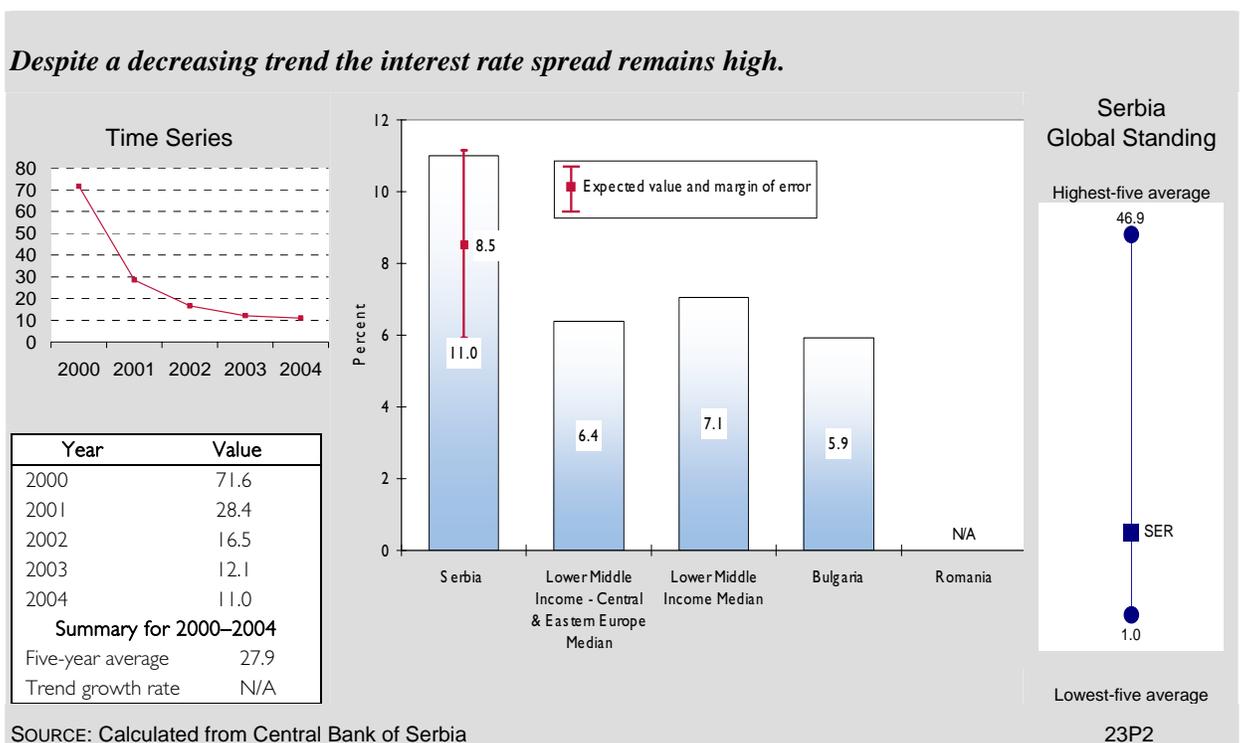
¹⁷ This is a decline from 186 days in 2004.

¹⁸ It takes 170 days to register property in Romania, which has been struggling with this issue since the beginning of its transition.

FINANCIAL SECTOR

Serbia's financial sector performance is generally poor. The interest rate spread in Serbia dropped dramatically in the period 2001–2004 (Figure 3-5, Interest Rate Spread). The interest rate spread was 11.0 percent in 2004,¹⁹ far exceeding the average spread for LMI CEECs (6.4 percent) and for Bulgaria (5.9 percent), and is indicative of financial sector inefficiency both relatively and on an absolute scale.²⁰ Similarly, the money supply-to-GDP ratio was only 11.4 percent in Serbia in 2004 which is not only well below the average for LMI CEECs (42.9 percent) and ratios in Bulgaria (44.6 percent) and Romania (22.1 percent), but also well below any absolute standard for a country of Serbia's level of development. A low level of monetization is a strong indicator of an underdeveloped financial sector, which can help explain low rates of saving, inefficient patterns of investment, and poor growth performance. Several explanations are possible for this: one of the most likely is that the public is reluctant to hold domestic currency and deposits because of the recent experience of high inflation (92 percent in 2000) and currency depreciation. Serbia and Montenegro's stock market capitalization of 0.7 percent of GDP in 2003 shows that this market is virtually nonexistent. This low level is a sharp contrast to Bulgaria's capitalization rate of 8.8 percent, Romania's rate of 9.8 percent, and the LMI CEEC average of 9.3 percent.

Figure 3-5
Interest Rate Spread—Lending Rate Minus Deposit Rate (Percent)



¹⁹ The lending rate was 14.6 percent and the deposit rate was 3.6 percent.

²⁰ Data for Romania are not readily available.

One bright spot is a relatively low real interest rate. It stood at 4.5 percent in 2004, substantially below the real interest rates for LMI CEECs as a whole (9.8 percent) and Bulgaria (6.6 percent).²¹

Taken together, these indicators show that Serbia's financial markets are underdeveloped and inefficient. An inefficient and undersized financial sector leads to both inadequate investment and a misallocation of investment, and is consistent with Serbia's low level of fixed investment relative to GDP (discussed above). International donor organizations might help Serbia identify the causes of the financial market inefficiencies and suggest remedies that would enable further reduction in the interest rate spread. Consolidation of the progress made in reducing inflation will increase confidence in the currency and likely increase the ratio of money supply to GDP. Serbia may be able to expand and deepen its stock market by learning from the experience of neighboring transition countries, although only if progress continues to be made on privatization. Because private transfers, such as workers' remittances, are the main source of Serbia's external financing (see the section below), assistance in channeling these transfers into the formal financial system may help support stronger investment in the country.

EXTERNAL SECTOR

Fundamental changes in international commerce and finance, including reduced transport costs, advances in telecommunications technology, and lower policy barriers, have fueled a rapid increase in global integration over the past 25 years. The international flow of goods and services, capital, technology, ideas, and people offers great opportunities for Serbia to boost growth and reduce poverty by stimulating productivity and efficiency, providing access to new markets and ideas, and expanding the range of consumer choice. Globalization also creates new challenges in the need for institutions, policies, and regulations to take full advantage of international markets, develop cost-effective approaches to cope with adjustment costs, and establish systems for monitoring and mitigating the associated risks.

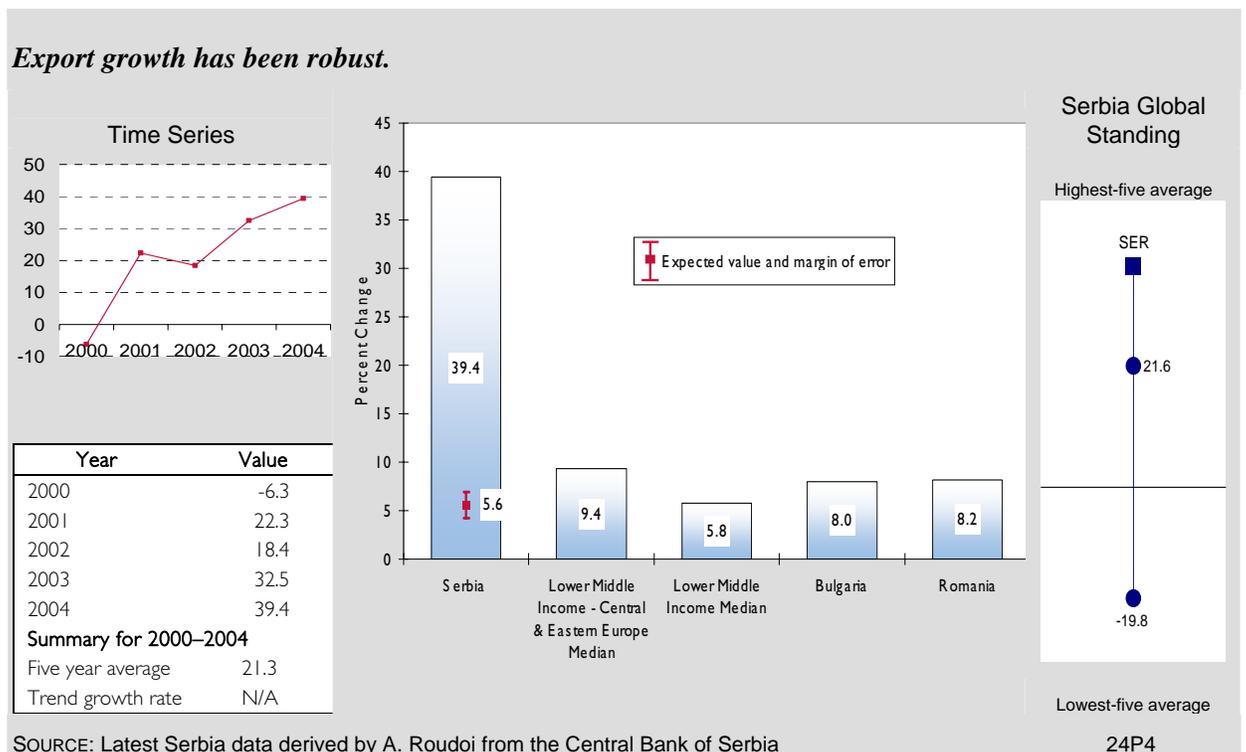
Serbia has integrated rapidly into the world economy since the beginning of reform and the lifting of international sanctions in 2001. Although this process is generally beneficial, in Serbia's case it has been accompanied by growing external imbalances that are unsustainable and risk undermining the country's economic stability and future growth.

International Trade and the Current Account

Since 2001, Serbian foreign trade measured in U.S. dollars has grown rapidly. In the four years leading up to 2004, exports of goods and services grew at double-digit levels, increasing by 39.4 percent in 2004 alone; imports more than tripled during the same period (Figure 3-6, Export Growth, Goods and Services). Nevertheless, relative to GDP, trade increased much less substantially since GDP also surged in dollar terms.

²¹ Data for Romania are not readily available.

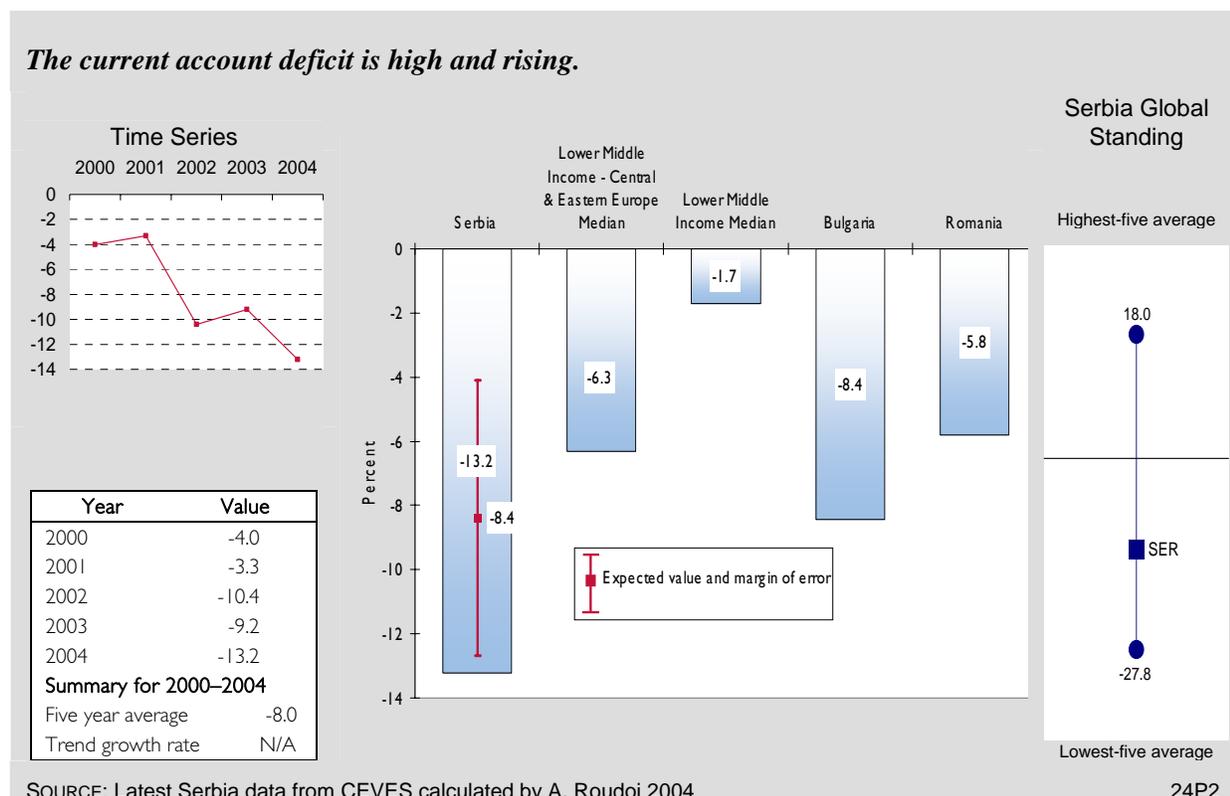
Figure 3-6
Export Growth, Goods and Service (Percent)



Trade levels as a share of GDP were 78.8 percent in 2004, almost the same as in the benchmark country groups and in Romania, but substantially below the 116.2 percent in Bulgaria. A large trade-to-GDP ratio, however, is in large part due to surging imports. In its February 2005 Article IV Consultation Report, the IMF pointed out that relative to GDP, exports in Serbia and Montenegro were among the lowest in the region. The fund noted that this could be caused by problems with cost competitiveness or structural deficiencies in the export sector. This is confirmed by the figure for Serbia and Montenegro's trade policy index, which is poor on an absolute scale (4.0), though identical to that of Bulgaria and Romania and the LMI CEEC average.

With export growth lagging far behind the growth rate of imports, the trade deficit reached an astonishing 30.0 percent of GDP in 2004. More than half of this gap was financed through current transfers, mostly private. Despite the rapid growth of current private transfers, the current account deficit is very high and rising: in 2004, it reached 13.2 percent of GDP. This figure was well above all comparative benchmarks: the regression benchmark was 8.4 percent for a country with Serbia's characteristics, the LMI CEECs' average was 4.1 percent, and the figures for Bulgaria and Romania were 6.3 and 5.8 percent, respectively (Figure 3-7, Current Account Balance). This deficit is not sustainable and represents one of the most acute economic problems confronting Serbian authorities.

Figure 3-7
 Current Account Balance (Percent of GDP)



International Financing

Private transfers are by far the most important source of Serbia's external financing. Official transfers are much less important. At the same time, relative to GNI,²² foreign aid to Serbia and Montenegro is substantial, though declining. Foreign aid averaged 10 percent of GDP from 1999 to 2003 and still stood at 6.4 percent of GDP in 2003, which is well above the regression benchmark for a country with Serbia's characteristics (4.9 percent) and levels in the benchmark country groups (3.6 percent), Bulgaria (2.1 percent), and Romania (1.1 percent).

Serbia has been attracting more private capital inflows in the past several years. In 2004, private capital inflows reached 14.3 percent of GDP. The inflow of FDI accounted for 4.4 percent of GDP in 2004. This is higher than LMI CEECs' average of 3.1 percent, but insufficient given low domestic investment, the ballooning current account gap, and the substantial external debt.

The capital account surplus has exceeded the current account deficit in the past several years. This has resulted in an increase in official foreign exchange reserves, but at 3.7 months of imports in 2004, reserves are barely above the absolute minimum level of 3 months. They are also below the average level of reserves in the LMI CEECs (4.6 months) and Romania (4.3 months) and well below the 6.2 months found in Bulgaria.

²² We use GNI instead of GDP only when the World Bank uses it in its indicators.

Debt

The magnitude of Serbia and Montenegro's external debt is a matter of concern. Relative to GNI, the present value of debt stood at 83.3 percent in 2003, on par with Bulgaria's debt (85.5 percent), but exceeding the regression benchmark of 46.3 percent, levels in Romania (46.0 percent), and the average for LMI CEECs (43.2 percent). On the positive side, the ratio of the present value of debt to GNI in Serbia and Montenegro was lower than in 2001 because of the rise in GNI measured in dollars. The ratio of debt service to exports also increased sharply from 1999 levels and is above that of most of the various benchmarks, though not by as much as debt levels.

Serbia needs to cut its current account deficit; diversify the sources of external financing, primarily by attracting FDI; and reduce its foreign debt. Because the ratio of exports relative to GDP is so low, this is a primary area for international support. An in-depth study that analyzes Serbia's competitiveness could help design policies to improve export performance.

ECONOMIC INFRASTRUCTURE

A country's physical infrastructure—for transportation, communications, power, and information technology—is the backbone for strengthening competitiveness and expanding productive capacity. Although infrastructure data from the Global Competitiveness Report is unavailable for Serbia and Montenegro, the Serbian Poverty Reduction Strategy Paper (PRSP) outlines the need for new infrastructure—roads, electrical, water supply, and telecommunications.

Good telecommunications infrastructure links markets globally and provides access to global markets. Serbia and Montenegro had an average telephone density of 480 fixed-line and mobile subscribers per 1,000 inhabitants. This is below the regional average of 524 lines as well as the figures for Romania (524 lines) and Bulgaria (847 lines), indicating the need to improve telecommunications infrastructure.

SCIENCE AND TECHNOLOGY

Science and technology are central to dynamic growth, because technical knowledge is a driving force for improving productivity and competitiveness. Even for low-income countries such as Serbia, transformational development increasingly depends on acquiring and adapting technology from the global economy, and applying it in ways that are appropriate to their level of development. A lack of capacity to access and utilize technology prevents an economy from leveraging the benefits of globalization. Unfortunately, few international indicators of science and technology are available for judging performance in lower-middle-income developing countries. Hence, one must draw inferences from a very limited data set, proxies for other missing information.

Despite a low level of government expenditure on research and development, new technology is nascent in Serbia and Montenegro. Serbia's expenditure on research and development is low—at 0.4 percent of GDP—but increasing from near zero several years ago. Serbia and Montenegro's research and development spending is equivalent to those for Bulgaria and Romania—0.5 and 0.4 percent respectively—as well as the average of LMI CEECs, also 0.4 percent. Residents filed 507 patent applications in 2002, well above the LMI CEEC average of 174, and between the figures for Bulgaria and Romania. The FDI and Technology Transfer Index score of 3.7 for

Serbia and Montenegro indicates that FDI into Serbia and Montenegro does bring some new technology into the area, but the score is lower than the scores of other LMI CEECs (4.4), Bulgaria (4.4) and especially Romania (5.1).²³ Serbia's limited success in attracting new technology could be augmented through investment promotion highlighting Serbia's educated workforce and proximity to industrial markets.

²³ The FDI and Technology Transfer Index rates on a scale from 1 to 7 whether FDI (1) brings little new technology or (7) is an important source of new technology.

4. Pro-Poor Growth Environment

Although rapid growth is the most powerful and dependable instrument for poverty reduction, the link from growth to poverty reduction is not mechanical. In some cases, income growth for poor households exceeds the overall rise in per capita income, while in other conditions, growth benefits the non-poor far more than the poor. A pro-poor growth environment stems from policies and institutions that improve opportunities and capabilities for the poor, while reducing their vulnerabilities. Pro-poor growth is associated with improvements in primary health and education, the creation of jobs and income opportunities, the development of skills, microfinance, agricultural development, and gender equality.²⁴ This section focuses on four of these issues: health, education, employment and the workforce, and agricultural development.

HEALTH

The provision of basic health service is a major form of human capital investment, and an important determinant of growth and poverty reduction. Although health programs do not fall under the purview of the EGAT bureau, an understanding of health conditions can influence the design of economic growth interventions.

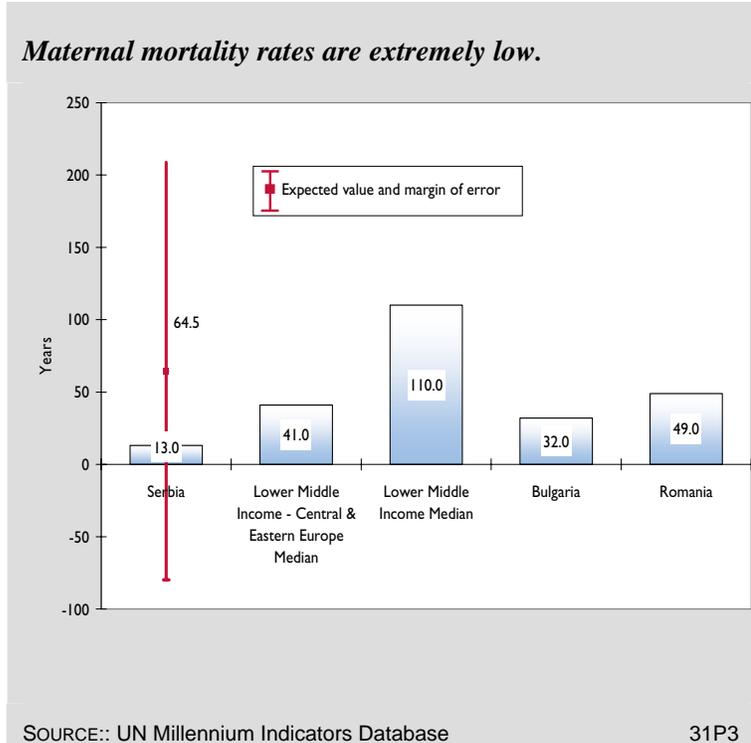
Overall Serbia and Montenegro has had relatively good performance in public health. Life expectancy at birth for Serbia and Montenegro was equal to the average for LMI CEECs and Bulgaria, at 72.8 and 72.1 years, respectively, and slightly higher than for Romania at 70.1 years. Serbia's maternal mortality rate was below the LMI CEEC average of 41 and Bulgaria's and Romania's rates of 32 and 49. In fact, at 13 deaths per 100,000 births, Serbia's rate is comparable to that of the United Kingdom (Figure 4-1, Maternal Mortality Rate). Although HIV rates are low and do not yet pose a serious threat to public health, prevalence rates are rising, especially among young Serbians, signaling the need for prevention among this cohort.

Although Serbia and Montenegro's access to improved sanitation and water sources and child immunization rates are near regional averages, there is a substantial urban-rural split. Health indicators tend to be lower in rural areas. For example, in Serbian towns, 87.5 percent of households are connected to the sewage system, compared to 22.2 percent in Serbian villages (PRSP 2004, xxxiv). Special attention should be paid to delivering basic health services and

²⁴ For purposes of economic growth programming, the template does not cover emergency relief.

social infrastructure to vulnerable groups such as the rural poor and children because they are the most at risk of death as a result of preventable illness or ailment.²⁵

Figure 4-1
Maternal Mortality Rate, Deaths per 100,000 Live Births



EDUCATION

One of Serbia's most abundant resources is its educated labor force. Serbia enjoys a high youth literacy rate, 99.3 percent. This strong performance is similar to that found in most of the region: all the comparator countries and country groups had youth literacy rates above 96.8 percent. Serbia also has a good average distribution of pupils to educators, with a pupil–teacher ratio of 15.3. In comparison, the pupil–teacher ratios in Romania and Bulgaria are 17.4 and 16.8, respectively, and the LMI CEEC average 17.4. Net primary enrollment rates are also up since the war. In 2004, total net primary enrollment was 95.8 percent, substantially higher than the LMI CEECs' average (90.4 percent), or the rate of Bulgaria (90.6 percent) or Romania (88.9 percent). Our standard indicators do not measure secondary or tertiary education, but as in other transition countries, Serbia's historically high quality of education may not provide its labor force with the skills necessary to keep Serbia competitive or facilitate labor force participation (LFP) (see

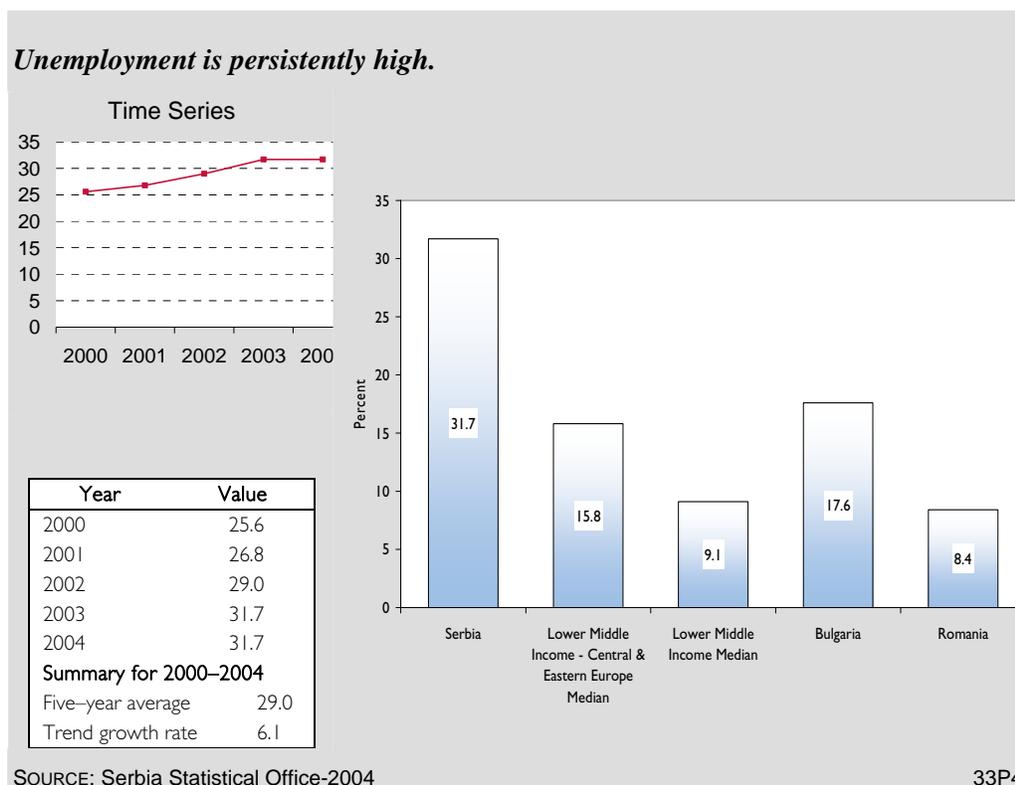
²⁵ Individuals below the poverty line are most at risk and have a higher incidence of chronic medical conditions—30.3 percent of people below the poverty line have been diagnosed with chronic medical conditions, compared to 26.6 percent of those above the poverty line (IMF PRSP 2004, xxv).

below).²⁶ Serbia could benefit from an in-depth study of its educational system and labor force, either as a stand-alone study or as part of a competitiveness study.

EMPLOYMENT AND WORKFORCE

Productive employment serves a society by providing livelihoods and strengthening social cohesion. Lack of employment opportunities for large swaths of Serbia’s nearly 3 million-strong labor force poses a serious problem. The unemployment rate in Serbia for 2004 stood at 31.7 percent, nearly twice the regional average of 15.8 percent²⁷ (Figure 4-2, Unemployment Rate). This high recorded unemployment rate, combined with rapid economic growth, has been common in transition countries after the beginning of economic reform. Serbia’s high unemployment has no doubt been exacerbated by economic displacements caused by the war in the former Yugoslavia in the late 1990s.

Figure 4-2
Unemployment Rate



²⁶ Most transition countries in Central and Eastern Europe report good numbers on a variety of education indicators. Our indicators are geared to basic literacy, however, because they focus on the MDGs rather than on the competitiveness issues that are more relevant to transition countries. Still, it is unclear whether Serbia’s educational achievement is relevant for a competitive economy in today’s globalized world.

²⁷ Such comparisons should be interpreted with caution because definitions of unemployment vary between countries.

Wages for Serbia and Montenegro's skilled labor force are well below Western European averages. This places Serbia and Montenegrin producers in an excellent position to compete in Western European markets and makes it a desirable location for foreign investors interested in export processing.

Evidence of the rigidity of the Serbian labor market is mixed. The Rigidity of Employment Index gauges the liquidity of the labor market by measuring the ease of hiring, firing, and requesting work beyond the standard work week. Serbia and Montenegro's score was 28.0, identical to that of Bulgaria and substantially less than the more rigid LMI CEEC average of 43.5, or Romania's 63.0 score.²⁸ This seems to suggest that the labor market is fairly flexible, yet at the same time, some studies, such as those conducted by the World Bank, suggest that labor markets are relatively rigid.²⁹

The data before 2002 show LFP rates comparable to the benchmark country groups and regions. The data supplied by the Serbian authorities show a very sharp one-time drop in the LFP figures between 2001 and 2002. With the census conducted in 2002, new data became available, and LFP was recalculated. Thus, the sharp decline in the rate may be due in part to adjustments in the data. The post-2002 figures show LFP rates much lower than in other countries in the region; the total LFP rate for 2003 was only 55.5 percent, compared with an average for LMI CEECs of 70.8 percent, 73.6 percent in Bulgaria, 67.9 percent in Romania, and even Serbia's own 1999 level of 72.2 percent. The decline in LFP rates has been essentially gender neutral.

Programs that emphasize job creation will be an important remedy to Serbia's employment woes. Job creation is critical because attempts to improve financial discipline on state and socially owned enterprises will generate layoffs. To make tighter budgets politically feasible, the Serbian authorities will need to address employment creation proactively.

AGRICULTURE

Agricultural performance in Serbia and Montenegro is strong. Agriculture accounts for about 20 percent of exports and output. The cereal yield is robust and consistent with regional averages: an average of 3,485 kilograms per hectare annually, compared to the regional average of 3,143 kilograms per hectare. Furthermore, the crop production index (at 126.6 in 2004, with 1999–2001 as the base) reveals that Serbia and Montenegro has production volumes above the LMI CEEC average (103.4) and near those of upper-middle-income Central and Eastern European averages; the livestock production index (at 94.5 in 2004, with 1999–2001 as the base) is slightly worse than the average for LMI CEECs (105.0) and than Romania (119.1), but on par with Bulgaria (95.9). Based on the agricultural policy index (3.5 on a scale of 1 to 7), agricultural policy in Serbia is less burdensome than in Bulgaria (with an index value of 2.7³⁰), Romania (3.0), and LMI CEECs as a whole (2.9). Because agriculture is a substantial industry in Serbia

²⁸ The rigidity-of-employment index ranges from 1 (minimum rigidity) to 100 (maximum rigidity).

²⁹ Based on the feedback received from USAID.

³⁰ The Agricultural Policy Costs Index ranges from 1 (excessively burdensome) to 7 (balances all economic agents' interests).

and Montenegro, assistance in bringing processed agricultural goods up to international standards could be an effective way to add value to the sector.

Appendix

CRITERIA FOR SELECTING INDICATORS

The scope of the paper is constrained by the availability of suitable indicators. Indicators were chosen to balance the need for broad coverage and diagnostic value, on the one hand, and the need of brevity and clarity, on the other. The analysis covers 15 economic growth–related topics, and just over 100 variables. For the sake of brevity, the write-up in the text highlights issues for which the “dashboard lights” appear to be signaling problems and suggests priorities for USAID intervention. The accompanying table lists all the indicators examined for this report. The separate Data Supplement contains the complete data set for Serbia, including data for the benchmark comparisons, and technical notes for every indicator.

For each topic, the analysis begins with a screening of primary performance indicators. These “Level I” indicators are selected to answer the question: Is the country performing well or not in this area? Primary indicators also include descriptive variables such as per capita income, poverty head count, and age dependency rate.

In areas of weak performance, a limited set of diagnostic supporting indicators is analyzed. These “Level II” indicators provide more details about the problem or shed light on why the primary indicators may be weak. For example, if economic growth is poor, investment and productivity data can serve as diagnostic indicators. If a country performs poorly on educational achievement as measured by the youth literacy rate, expenditure on primary education and the pupil–teacher ratio can serve as diagnostic indicators.³¹

Indicators have been selected on the basis of several criteria. Each one must be accessible through USAID’s Economic and Social Database or convenient public sources, particularly on the Internet. The indicators must be available for a large number of countries, including most USAID client states. The data must be sufficiently timely to support an assessment of country performance that is suitable for strategic planning purposes. Data quality is another consideration. For example, subjective survey responses are used only when actual measurements are not available. Aside from a few descriptive variables, the indicators must also be useful for diagnostic purposes. Preference is given to measures that are widely used, such as Millennium Development Goal indicators, or evaluation data used by the Millennium Challenge Corporation. Finally, an effort has been made to minimize redundancy. If different indicators provide similar information, preference is given to

³¹ Deeper analysis of the topic using more detailed data (level III) is beyond the scope of papers in this series.

the indicator that is simplest to understand. For example, both the Gini coefficient and the share of income accruing to the poorest 20 percent of households can be used to gauge income inequality. We use the income share because it is simpler and more sensitive to changes.

BENCHMARKING METHODOLOGY

Comparative benchmarking is the main tool used to evaluate each indicator. The analysis draws on several criteria, rather than a single mechanical rule. The starting point is a comparison of performance in Serbia relative to the average for countries in the same income group and region—in this case, lower-middle-income countries in Central and Eastern Europe.³² For added perspective, three other comparisons are examined: (1) the global average for this income group, (2) respective values for two comparator countries selected by the Serbia and Montenegro mission (Bulgaria and Romania), and (3) the average for the five best- and five worst-performing countries globally. Most comparisons are framed in terms of values for the latest year of data from available sources. Five-year trends are also taken into account if they shed light on the performance assessment.³³

For selected variables, a second source of benchmark values uses statistical regression analysis to establish an expected value for the indicator, controlling for income and regional effects.³⁴ This approach has three advantages. First, the benchmark is customized to Serbia's specific level of income. Second, the comparison does not depend on the exact choice of reference group. Third, the methodology allows quantification of the margin of error and establishment of a "normal band" for a country with Serbia's characteristics. A value falling outside this band on the side of poor performance signals a serious problem.³⁵

Finally, when relevant, Serbia's performance is weighed against absolute standards.

³² Income groups as defined by the World Bank for 2004. For this study, the average is defined in terms of the mean; future studies will use the median instead, because the values are not distorted by outliers.

³³ The five-year trends are computed by fitting a log-linear regression line through the data points. The alternative of computing average growth from the end points produces aberrant results when one or both of those points diverge from the underlying trend.

³⁴ This is a cross-sectional OLS regression using data for all developing countries. For any indicator Y, the regression equation takes the form: Y (or $\ln Y$, as relevant) = $a + b * \ln \text{PCI} + c * \text{Region} + \text{error}$ – where PCI is per capita income in PPP\$, and Region is a set of 0-1 dummy variables indicating the region in which each country is located. After estimates are obtained for the parameters a, b, and c, the predicted value for Serbia is computed by plugging in Serbia-specific values for PCI and Region. When applicable, the regression also controls for population size and petroleum exports (as a percentage of GDP).

³⁵ This report uses a margin of error of 0.66 times the standard error of estimate (adjusted for heteroskedasticity, when appropriate). With this value, 25 percent of the observations should fall outside the normal range on the side of poor performance (and 25 percent on the side of good performance). Some regressions produce a very large standard error, giving a "normal band" that is too wide to provide a discerning test of good or bad performance.

INDICATORS

Indicator	Level ^a	MDG, MCA, or EcGov ^b	CAS Indicator Code
Overview of the Economy			
Growth Performance			
Per capita GDP, \$PPP	I		11P1
Per capita GDP, current US\$	I		11P2
Real GDP growth	I		11P3
Growth of labor productivity	II		11S1
Investment Productivity—incremental capital–output ratio	II		11S2
Gross fixed investment, % GDP	II		11S3
Gross fixed private investment, % GDP	II		11S4
Poverty and Inequality			
Human poverty index	I		12P1
Income-share, poorest 20%	I		12P2
Population living on less than \$1 PPP per day	I	MDG	12P3
Poverty headcount, by national poverty line	I	MDG	12P4
PRSP Status	I	EcGov	12P5
Population below minimum dietary energy consumption	II	MDG	12S1
Poverty gap at \$1 PPP a day	II		12S2
Economic Structure			
Labor force structure	I		13P1
Output structure	I		13P2
Demography and Environment			
Adult literacy rate	I		14P1
Age dependency rate	I		14P2
Environmental sustainable index	I		14P3
Population size and growth	I		14P4
Urbanization rate	I		14P5
Gender			
Adult literacy rate, ratio of male to female	I	MDG	15P1
Gross enrollment rate, all levels, ratio of male to female,	I	MDG	15P2
Life expectancy at birth, ratio of male to female	I		15P3
Private Sector Enabling Environment			
Fiscal and Monetary Policy			
Govt. expenditure, % GDP	I	EcGov	21P1
Govt. revenue, % GDP	I	EcGov	21P2
Growth in the money supply	I	EcGov	21P3
Inflation rate	I	MCA	21P4
Overall govt. budget balance, including grants, % GDP	I	EcGov	21P5
Composition of govt. expenditure	II		21S1
Composition of govt. revenue	II		21S2
Composition of money supply growth	II		21S3

Indicator	Level ^a	MDG, MCA, or EcGov ^b	CAS Indicator Code
Business Environment			
Corruption perception index	I	EcGov	22P1
Doing business composite index	I	EcGov	22P2
Rule of law index	I	MCA / EcGov	22P3
Cost of starting a business, % GNI per capita	II	EcGov	22S1
Procedures to enforce contract	II	EcGov	22S2
Procedures to register property	II	EcGov	22S3
Procedures to start a business	II	EcGov	22S4
Time to enforce a contract	II	EcGov	22S5
Time to register property	II	EcGov	22S6
Time to start a business	II	EcGov	22S7
Financial Sector			
Domestic credit to private sector, % GDP	I		23P1
Interest rate spread	I		23P2
Money supply, % GDP	I		23P3
Stock market capitalization rate, % of GDP	I		23P4
Cost to create collateral	II		23S1
Country credit rating	II	MCA	23S2
Legal rights of borrowers and lenders index	II		23S3
Real Interest rate	I		23S4
External Sector			
Aid , % GNI	I		24P1
Current account balance, % GDP	I		24P2
Debt service ratio, % exports	I	MDG	24P3
Export growth of goods and services	I		24P4
Foreign direct investment, % GDP	I		24P5
Gross international reserves, months of imports	I	EcGov	24P6
Gross Private capital inflows, % GDP	I		24P7
Present value of debt, % GNI	I		24P8
Remittance receipts, % exports	I		24P9
Trade, % GDP	I		24P10
Concentration of Exports	II		24S1
Inward FDI Potential Index	II		24S2
Net barter terms of trade	II		24S3
Real effective exchange rate (REER)	II	EcGov	24S4
Structure of merchandise exports	II		24S5
Trade policy index	II	MCA / EcGov	24S6
Economic Infrastructure			
Internet users per 1,000 people	I	MDG	25P1
Overall infrastructure quality	I	EcGov	25P2
Telephone density, fixed line and mobile	I	MDG	25P3
Quality of infrastructure—railroads, ports, air transport, and electricity	II		25S1

Indicator	Level ^a	MDG, MCA, or EcGov ^b	CAS Indicator Code
Telephone cost, average local call	II		25S2
Science and Technology			
Expenditure for R&D, % GNI	I		26P1
FDI and technology transfer index	I		26P2
Patent applications filed by residents	I		26P3
Pro-Poor Growth Environment			
Health			
HIV prevalence	I		31P1
Life expectancy at birth	I		31P2
Maternal mortality rate	I	MDG	31P3
Access to improved sanitation	II	MDG	31S1
Access to improved water source	II	MDG	31S2
Births attended by skilled health personnel	II	MDG	31S3
Child immunization rate	II		31S4
Prevalence of child malnutrition (weight for age)	II		31S5
Public health expenditure, % GDP	II	EcGov	31S6
Education			
Net primary enrollment rate	I	MDG	32P1
Persistence in school to grade 5	I	MDG	32P2
Youth literacy rate	I		32P3
Education expenditure, primary, % GDP	II	MCA/ EcGov	32S1
Expenditure per student, % GDP per capita (primary, secondary, and tertiary)	II	EcGov	32S2
Pupil-teacher ratio, primary school	II		32S3
Employment and Workforce			
Labor force participation rate, females, males, total	I		33P1
Rigidity of employment index	I	EcGov	33P2
Size and growth of the labor force	I		33P3
Unemployment rate	I		33P4
Agriculture			
Agriculture value added per worker	I		34P1
Cereal yield	I		34P2
Growth in agricultural value-added	I		34P3
Agricultural policy costs index	II	EcGov	34S1
Crop production index	II		34S2
Livestock production index	II		34S3

^a Level I—primary performance indicators, Level II—supporting diagnostic indicators

^b MDG—Millennium Development Goal indicator

MCA—Millennium Challenge Account indicator

EcGov—Major indicators of economic governance, which USAID's Strategic Management Interim Guidance defines to include "microeconomic and macroeconomic policy and institutional frameworks and operations for economic stability, efficiency, and growth." The term therefore encompasses indicators of fiscal and monetary management, trade and exchange rate policy, legal and regulatory systems affecting the business environment, infrastructure quality, and budget allocations.