Serbia

In BEEPS V, the top three business environment obstacles identified by Serbian firms were political instability; tax administration; and access to finance (Chart 1). Large firms were concerned about electricity issues and practices of informal sector competitors, while services firms complained about corruption. Tax administration was the top obstacle named by young firms. In BEEPS IV, competitors' practices in the informal sector were among the most binding of business environment obstacles instead of tax administration.

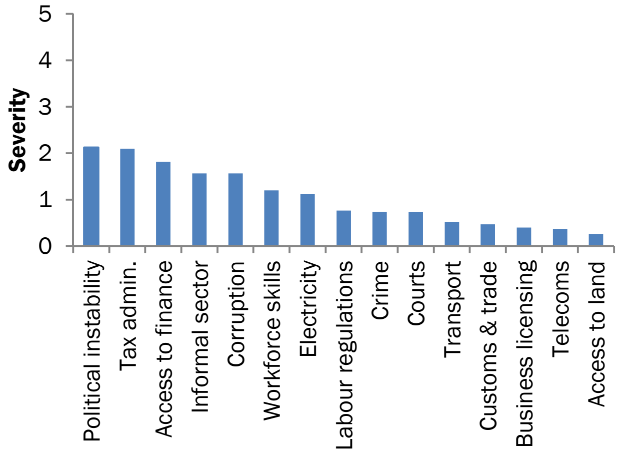
High reliance on euro-denominated loans

Years 2011 and 2012 were characterised by major opposition rallies focused on the economy and widespread corruption, so it is therefore not surprising that **political instability** emerged as the most severe obstacle. Presidential and parliamentary elections, held in May 2012, saw the defeat of the governing Democratic Party and brought to power the largest opposition party: Serbian Progressive Party (SNS), which joined forces in the new government with the centre-left Socialist Party (SPS).

Tax administration moved from the sixth to the second place in terms of severity for Serbian firms. In 2012 the Serbian government passed a fiscal consolidation package, increasing many tax rates and introducing structural reforms in the tax administration. According to *Doing Business*, Serbian firms face a total of 67 payments per year to comply with tax regulations, the most in all of Europe.

Access to finance remained the third most severe obstacle. The share of bank financing of fixed asset purchases decreased from 28.9% in BEEPS IV to 14.6% in BEEPS V; it was compensated by increased reliance on internal funds and credit from suppliers and advances from customers. Unfavourable interest rates were named as the main reason for not applying for a loan in BEEPS V by more than a third of the firms (Chart 2). The share of firms with a loan also decreased, from more than two-thirds to 40%, below the south-eastern Europe (SEE) average of 48.9%. More than half of the outstanding loans were denominated in foreign currency (euros), higher than in all other BEEPS countries, except the Kyrgyz Republic and Tajikistan (Chart 3). The government and the National Bank of Serbia signed the *Memorandum on the Strategy of Dinarisation of the Serbian Financial System* in April 2012, outlining the three groups of measures: monetary and fiscal policy measures geared at strengthening the macroeconomic environment; measures to promote dinar-denominated instruments and markets; and measures to promote the development of foreign exchange hedging instruments.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Reasons for not applying for a loan

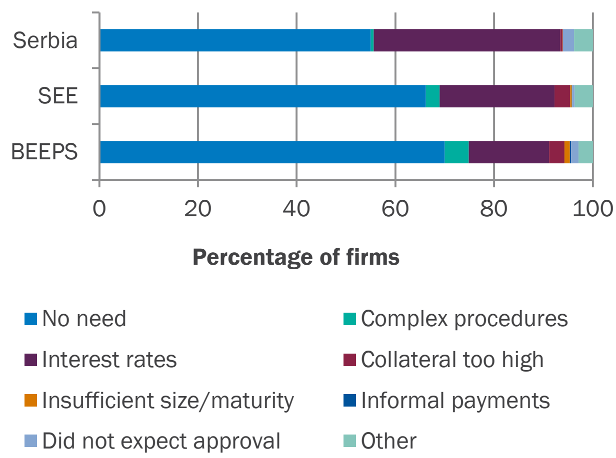
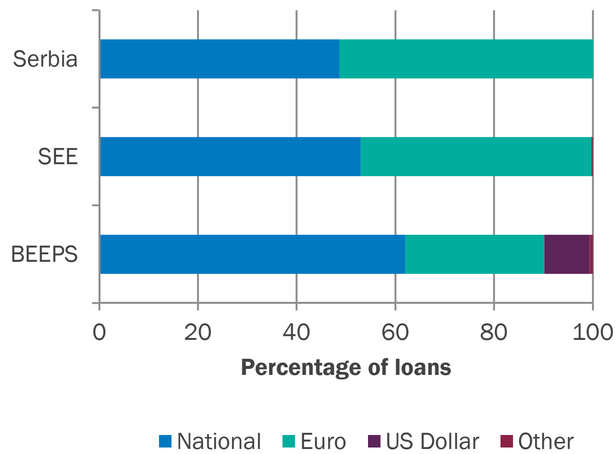


Chart 3. Loans by currency



Survey fieldwork period: January 2013 – August 2013. SEE: Albania, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Kosovo, Montenegro, Romania and Serbia. Small and medium-sized enterprises (SMEs) have 5-99 employees. Young firms are less than 5 years old.