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PRO-GROWTH PUBLIC INVESTMENT POLICY IN SERBIA: SUFFICIENCY AND EFFICIENCY

Politika javnih investicija u Srbiji usmerena na podsticanje
rasta – više i efikasnije

Abstract

In the last few years Serbia has restored its macroeconomic stability, primarily due to successful fiscal consolidation, but economic growth remained insufficient for faster convergence with other European countries. One of the reasons for sluggish growth is related to low domestic private and public investment. From 2001 to 2018 public investment in Serbia amounted to 2.6% of GDP on average, which was the lowest in Central and Eastern Europe (CEE) and the Western Balkans (WB). Although its public investment has risen in the last few years, Serbia is still lagging behind the CEE and WB countries in that respect, especially in terms of the local self-government investment. In that period, cumulative public investment in Serbia was lower than the CEE average and WB average by 33% of GDP and by more than 40% of GDP, respectively, although total government expenditures in Serbia were rather large. Due to many years of severe underinvestment, the total public capital stock (per capita) in Serbia is the lowest in CEE and the WB region, which is why Serbia is among the three lowest ranked countries in terms of the overall quality of infrastructure in CEE and the WB. The public investment policy may yield significant positive impact on future growth in Serbia, provided that the following two conditions are met: i) public investment increases to 4-5% of GDP and remains at that level in a fiscally sustainable manner for at least a decade, ii) the efficiency of investment projects, in terms of selection, contracting, implementation and supervision, is significantly improved.

Keywords: *economic growth, fiscal policy, public investment, public capital.*

Sažetak

U poslednjih nekoliko godina u Srbiji je uspostavljena makroekonomska stabilnost, pre svega usled uspešno sprovedene fiskalne konsolidacije, ali je privredni rast ostao nedovoljan za bržu konvergenciju sa evropskim državama. Jedan od uzroka tromog rasta nalazi se u niskim domaćim privatnim i javnim investicijama. Od 2001. do 2018. godine, javne investicije u Srbiji su u proseku iznosile 2,6% BDP-a, što je bilo najniže u grupi zemalja Centralne i Istočne Evrope (CIE) i Zapadnog Balkana (ZB). Iako su poslednjih godina javne investicije zabeležile rast, Srbija i dalje zaostaje za zemljama CIE i ZB u ovom domenu, a posebno u domenu javnih investicija lokalnih samouprava. Kumulativni iznos javnih investicija u navedenom periodu u Srbiji je bio za 33% BDP-a manji od proseka CIE, a za preko 40% BDP-a manji od proseka ZB. Usled nedovoljnih investicija u dužem periodu, ukupan iznos javnog kapitala po glavi stanovnika u Srbiji je najniži u grupi zemalja CIE i ZB, usled čega je Srbija među tri najniže rangirane zemlje prema ukupnom kvalitetu infrastrukture u tom regionu. Javne investicije mogu da imaju značajan pozitivan uticaj na budući rast privrede Srbije, pod dva uslova: i) da se javne investicije povećaju, na fiskalno održiv način, na 4-5% BDP-a u periodu od najmanje jedne decenije i ii) da se značajno unapredi efikasnost investicionih projekata, u smislu selekcije, ugovaranja, implementacije i nadzora.

Ključne reči: *privredni rast, fiskalna politika, javne investicije, javni kapital.*

Introduction

Serbia has successfully been implementing fiscal consolidation since 2014. In 2012-2014, the average fiscal deficit was as large as 6% of GDP, while in 2017-2019 the recorded average fiscal surplus was 0.7% of GDP. Almost two-thirds of fiscal adjustment was achieved on the expenditure side, while a third was realized through increase in revenues. As the consequence of GDP growth and elimination of fiscal deficit, public debt dropped from 70% of GDP in 2015 to around 53% of GDP at the end of 2019. Restoring sustainability of public finance had a positive impact on the overall macroeconomic stabilization. Over the last five years inflation has been low and stable, external balance improved (until 2018), country risk has declined, which further stimulated the inflow of capital from abroad. Even though macroeconomic stabilization has been achieved in the last few years, economic growth has remained relatively sluggish. Thus, the average GDP growth rate in Serbia from 2013 to 2018 lingered at 2.1%, which was by 0.8 pp and 1 pp lower than the average GDP growth rate in the CEE¹ and WB countries, respectively (Table 1). Although in 2019 Serbia posted GDP growth of around 4%, which was slightly higher than the CEE average, it was still not sufficient for stronger and faster economic convergence with the CEE countries and the “old” EU member states. In order to achieve faster economic convergence, Serbia needs to outperform the GDP growth rate of the CEE and EU countries by 2-3 pp over a longer period of time.

An increase in total investment is a precondition for strong and sustainable growth. From 2013 to 2018, total investment in Serbian economy on average amounted to 17.3% of GDP, which was by 4.3 pp and 5 pp lower than in the CEE and WB countries, respectively. Although this gap is narrowing and total investment in Serbia reached 20% of GDP in 2018, it was still lower than in the other

countries in the region. Total investment in Serbia is low due to insufficient public investment and domestic private investment, while foreign private investment is rather large in comparison with other countries [4]. Low domestic private investment is the reflection of weak institutions and lack of the rule of law, inefficient administration and pronounced corruption to which domestic entrepreneurs are exposed more than foreign investors which are often provided with bureaucratic assistance from the government. On the other hand, low public investment is the reflection of policy decisions, which for almost two decades, for political reasons, favour current expenditures (salaries, pensions, subsidies) rather than productive spending on infrastructure, education and research and innovation.

Public investment results in the formation of public capital with many positive effects on social welfare [13]. Public investment can promote economic growth, both from the demand and supply side. During implementation of an investment project, aggregate demand is expected to rise, to the extent that local resources are employed. After the project is completed, if investment is evaluated and selected well, the creation of public capital/infrastructure reduces risks and costs of doing business, thus enabling private investments and economic activity. Many empirical papers provide evidence that public investment yields strong positive impact on economic growth, the size of fiscal multipliers associated with public investment outperforming the multipliers for current expenditures [2], [11]. Thus, certain authors [1] find that public investment raises output both in the short and long run, its effects being more pronounced during the period of slack and monetary accommodation, with positive impact on employment. Empirical studies indicate that fiscal multipliers of public investment exceed one, which means that a 1% increase in public investment tends to promote output growth by more than 1%, these multipliers being stronger in less developed European countries [6]. One of the main channels of transmission of public investment to output relates to private investment. Although some empirical studies show that the crowding-out effect may prevail in some cases [12], the majority of studies indicate that public investment tends to crowd in private investment [8]. This is especially the case in developing countries where

1 In this paper, the group of CEE countries includes Bulgaria, Czechia, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia, while the WB group includes Albania, Bosnia and Herzegovina, Montenegro and North Macedonia.

the size of positive effects is linked to the degree of pro-business reforms and market liberalization [6].

This paper evaluates the potential for improvement of pro-growth features of the public investment policy in Serbia. In that respect, it assesses the dynamics and provides benchmark analysis of the public investment policy in Serbia relative to other countries in CEE and the WB region, identifies its outcomes and proposes systemic improvements in the fiscal and public investment policy aimed at providing conditions for vibrant and sustainable growth. The results show that, over the entire period from 2001 to 2018, Serbia had the lowest public investment (relative to GDP) of all the CEE and WB countries, although total government expenditures in Serbia were rather large. While central government investment started rising in 2014, after 2012 local self-government investments declined substantially and remained considerably lower than in other countries. In the said 18-year period, the cumulative public investment gap of Serbia relative to CEE and the WB amounted to 33% and 40% of GDP, respectively. Consequently, the total public capital stock per capita in Serbia is lower by 57% and 33% than the CEE and WB averages, respectively. Due to severe underinvestment in public capital, the overall quality of infrastructure in Serbia (according to the World Economic Forum data) is among the lowest in CEE and the WB, being ranked lower only in Romania and Bosnia and Herzegovina. The public investment policy may create a significant positive impetus for economic growth in Serbia, provided that the following two conditions are met: the amount of public investment increases to 4-5% of GDP and remains at that level for at least a decade and the efficiency of the public investment policy, in terms of project selection, contracting, implementation and supervision, is significantly improved.

Public investment in Serbia – dynamics and benchmark analysis

The impact of fiscal policy on economic growth depends on the overall fiscal stance (fiscal balance and public debt), but also on the structural features of fiscal policy, such as the level and composition of tax burden, the level and structure of government expenditures – primarily

the share of productive government spending (on infrastructure, education and research and development) in total government expenditures.

After the initial consolidation of the Government in 2000-2001, government expenditures in Serbia soared. After the 2008 global economic crisis, due to the unsustainable public pension policy and cyclical volatility of some spending items (interests, benefits, etc.), government expenditures rose further, reaching a peak of 45.8% of GDP in 2012. Successful implementation of fiscal consolidation resulted in a considerable decline in government expenditures to 40.8% of GDP in 2018. Comparative analysis indicates that from 2001 to 2018 government expenditures in Serbia, which on average amounted to 41.8% of GDP, were higher than either the WB average or the CEE average. The same goes for all three sub-periods – before the 2008 crisis, during the crisis and during the period of fiscal consolidation (Table 1).

Although total government expenditures in Serbia have been large relative to other countries in CEE and the WB, public investment has been low. Government sector gross fixed capital formation, i.e. public investment in Serbia from 2001 to 2018, posted strong volatility. From 2001 to 2008, there was a significant rise in public investment, from 0.4% of GDP (in 2001) to 3.7% of GDP in 2007, followed by a period of considerable decline, reaching 2.1% of GDP in 2013. From 2014 public investment in Serbia was on the rise, reaching 3.9% of GDP in 2018. In the 2001-2018 period, public investment in Serbia amounted to 2.6% of GDP on average, which was significantly lower than the

Table 1: Government expenditures and public investment

	Average GDP growth rate			
	2001-2018	2001-2008	2009-2012	2013-2018
SRB	3.6	6.6	-0.2	2.1
WB	3.3	5.0	0.7	2.9
CEE	3.3	5.5	-0.6	3.1
	Total government expenditures (% GDP)			
	2001-2018	2001-2008	2009-2012	2013-2018
SRB	41.8	40.8	43.1	42.1
WB	39.4	39.5	40.3	38.3
CEE	41.5	40.7	43.3	41.0
	Public investment (% GDP)			
	2001-2018	2001-2008	2009-2012	2013-2018
SRB	2.6	2.3	2.7	3.0
WB	4.8	4.7	5.3	4.7
CEE	4.3	4.3	4.6	4.1

WB and CEE averages (on average by 2.2% and 1.7% of GDP per year, respectively). Public investment in Serbia in that period averagely accounted for only 6% of total government expenditures, while in the WB and CEE countries the share of public investment in total government expenditures amounted to 11.4% and 10.5%, respectively.

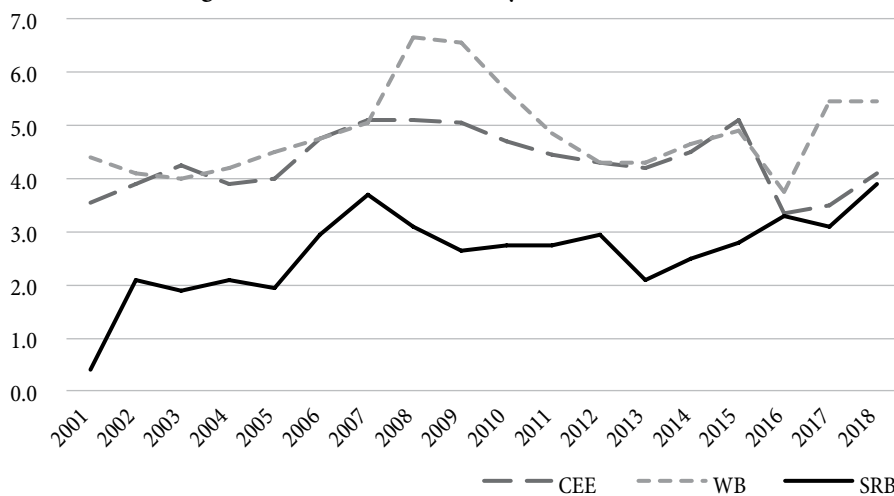
Due to these trends, Serbia is significantly lagging behind other CEE and WB countries in terms of total investment in public capital over the last two decades. Thus, cumulative public investment in Serbia from 2001 to 2018 stood at 46.7% of GDP, which is by far the lowest in CEE and the WB region (Figure 2). In that period, in comparison with the WB average, Serbia underinvested more than 40% of GDP in public capital, while in comparison with the CEE average public investment in Serbia was lower by more than 33% of GDP. In other words, if public investment in Serbia had been at the level of the CEE or WB average in

the last two decades, total public investment would have been higher by EUR 10-12 bn, with a significant impact on formation of private capital, economic growth and the living conditions. Considering the level and dynamics of total government expenditures and public investment, it can be concluded that public investment in Serbia has been low, not due to low government expenditures, but rather due to sub-optimal structure of government spending, mostly driven by political factors.

Public investment by the level of government

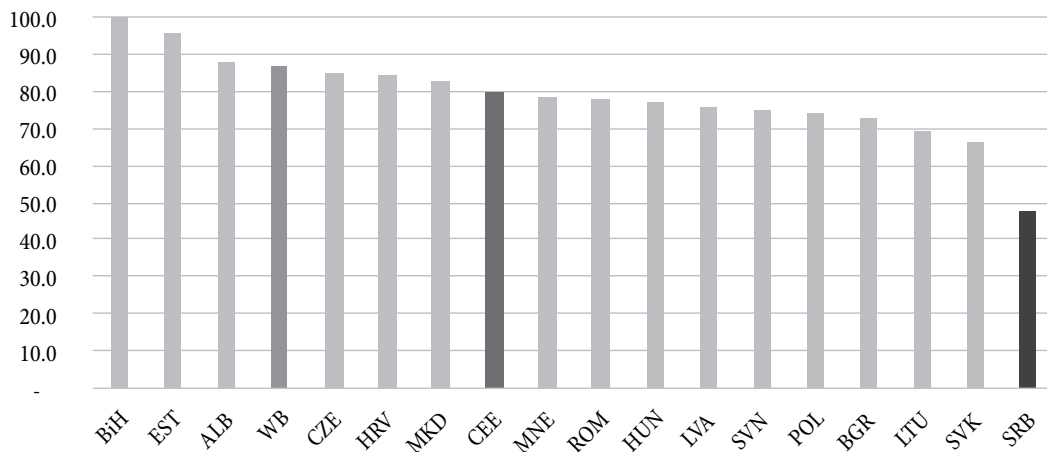
According to the Law on Local Self-Governments, cities and municipalities are in charge of performing important government duties, including the development and maintenance of local road infrastructure, establishment of preschools, primary and secondary schools, primary and

Figure 1: Public investment dynamics (% of GDP)



Source: Author's calculations based on the Eurostat and World Bank data.

Figure 2: Cumulative public investment from 2001 to 2018 (% of GDP)



Source: Author's calculations based on the Eurostat and World Bank data.

secondary healthcare institutions, public utilities (including sewerage, water and waste management, heating, public transportation, etc.). To be able to fund those activities, the Law on Financing Local Self-Governments provides local self-governments with own-source revenues (e.g. property tax, user fees, etc.), assigned revenues (e.g. payroll tax, tax on transfer of absolute rights, etc.) and grants provided by the central government.

The centralization coefficient of 84% puts Serbia in the group of European countries with a modest degree of decentralization.² More precisely, almost 13% of consolidated government spending in Serbia, which is equivalent to 5% of GDP, is being disbursed through the budgets of cities

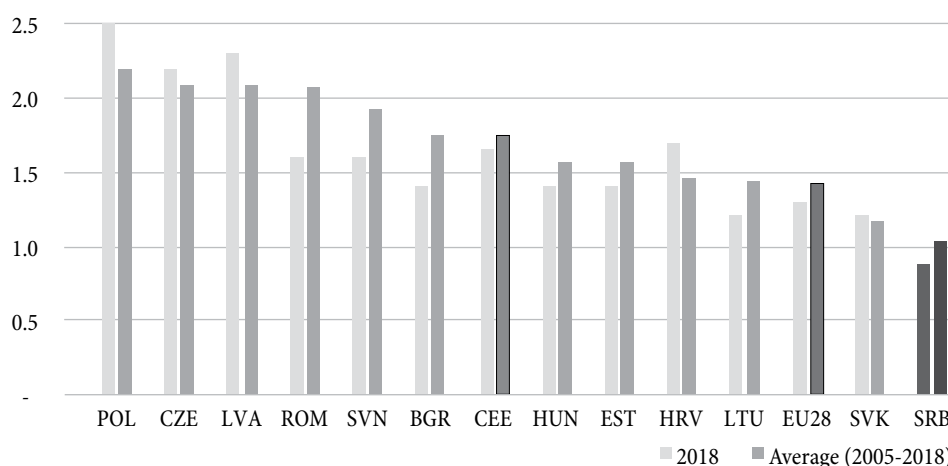
and municipalities. However, in 2019 only around 8% of the total local self-government spending was used for funding investment projects, while more than 90% was used for current, non-productive spending on salaries, goods and services, subsidies, etc., in accordance with the trends in the last few years.

Thus, the average annual public investment by local self-governments in Serbia from 2005 to 2018 amounted to 1.1% of GDP, which is the lowest among the CEE countries (Figure 3).³ This means that on average, in the last 14 years, local self-governments' public investments in Serbia were by 37% lower than the CEE average, indicating severe underinvestment in local infrastructure. Opposite to the

² Centralization coefficient measures the share of central government expenditures in consolidated government expenditures.

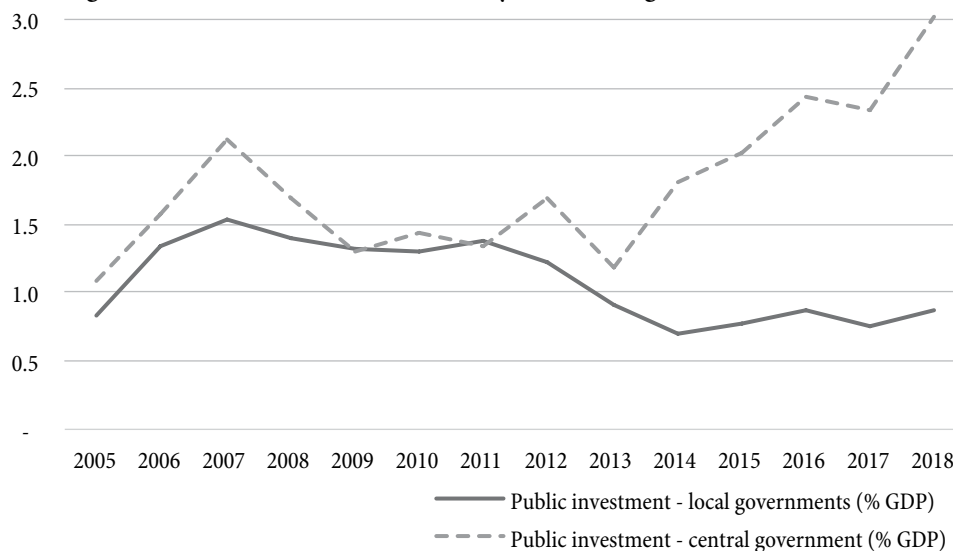
³ Local self-governments' public finance statistics has been available since 2005.

Figure 3: Public investment at the level of local self-governments (% of GDP)



Source: Author's calculations based on the data obtained from Eurostat and the Ministry of Finance.

Figure 4: Public investment in Serbia by the level of government (% of GDP)



Source: Author's calculations based on the data of the Ministry of Finance.

trends in infrastructure, which falls under the responsibility of the central government, the underinvestment gap at the level of local self-governments was widening, so that in 2018 local public investments in Serbia (relative to GDP) amounted to only 0.9% of GDP, which is by 47% lower than the CEE average.

From 2005 to 2011, public investment at the level of local self-governments in Serbia ranged from 1.3% to 1.5% of GDP, while from 2012 to 2014 it posted a strong decline to 0.7% of GDP and has remained low (less than 1% of GDP) until now. In 2010, additional revenues of close to 1% of GDP were allocated to local self-governments, without assigning them additional responsibilities and with the officially stated expectations that the allocation should facilitate the development of local infrastructure. However, after additional funds had been transferred, local self-governments did not raise public investment, but rather the opposite happened. The data presented in Figure 4 indicate that since 2013 the public investment by the central government has significantly been increased, while local-level public investment was on the decline until 2014, after which it remained low, which means that the lack of effective public investment policy at the level of local self-governments in Serbia is one of significant factors behind the overall low public investment.

The fundamental reason behind low local public investment in Serbia is related to political economy and

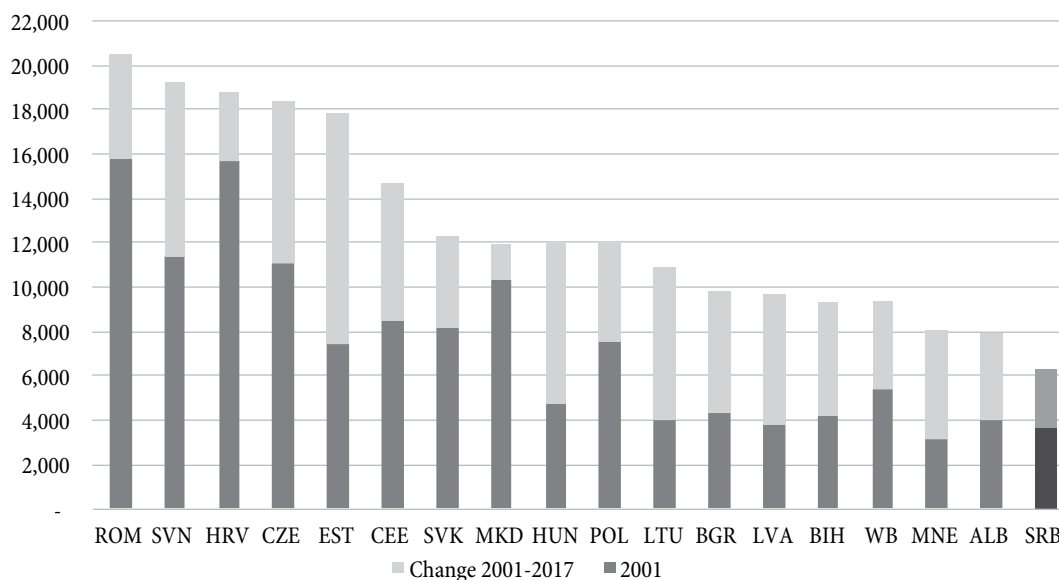
the design of the financial decentralization system which provides no systemic incentives to public investment at the level of local self-governments. While own-source and assigned revenues have been fully defined by law, the grant scheme has only partially been defined, which means that the central government has considerable discretion with regard to its implementation. At the same time, the grant amount is not defined by the local public finance policy, which means that Serbia has failed to introduce matching or similar grants as a reward to local self-governments that use a larger share of their budget for the development of infrastructure. According to the law, the grant amount allocated to a city or municipality depends on its size and capacities, while in practice the disbursement system is to a large extent non-transparent, as there is no publicly disclosed information either on the grants paid to each city or municipality or on the exact criteria based on which grants have been calculated.

Outcomes of the public investment policy

Public capital stock

According to the neoclassical growth models, economic growth depends on the amount of physical capital, supply of labour, its quality (human capital) and technological progress. The total stock of physical capital consists of private and public capital, which are created by investing in fixed

Figure 5: Public capital stock per capita (international USD, in 2011 prices)



Source: Author's calculations based on the IMF's capital stock database.

assets. Therefore, public capital stock consists of the fixed assets owned by the government (energy, transportation, structures, utilities and similar infrastructure). Public capital stock depends on the size of investment made by the government in the past and the speed of depreciation, which is to a significant extent dependent on the type of assets.

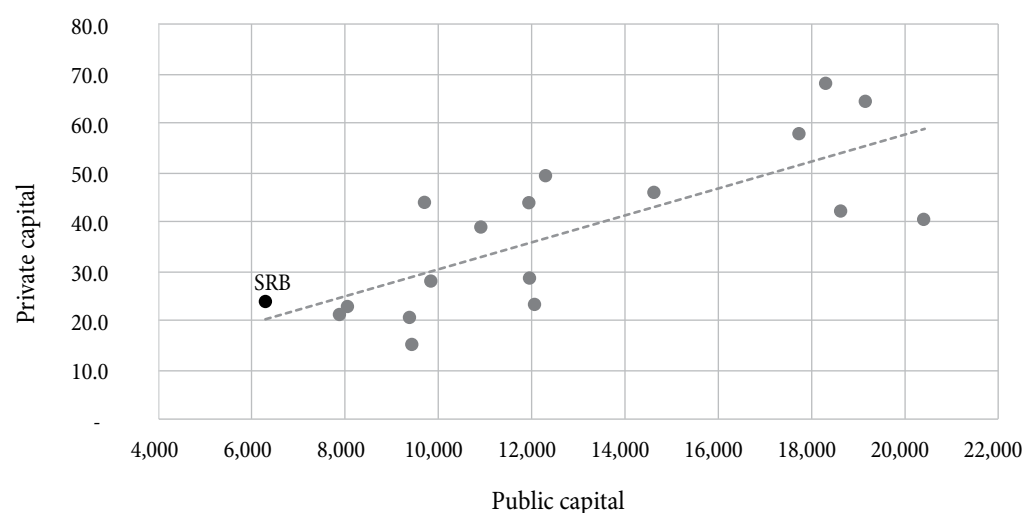
In order to compare the data on capital stock across time and by countries, the value should be controlled for inflation, i.e. specified in fixed prices and adjusted according to the differences in the purchasing power of money across different countries. Therefore, the IMF's capital stock database provides information on capital stock, stated in international (PPP-adjusted) US dollars, using the 2011 prices. According to this dataset, in 2001 Serbia was in the group of six CEE countries whose public capital stock per capita was around USD 4,000 (Figure 5). Two out of six countries had lower public capital stock than Serbia, while in the remaining countries it was almost equal to the one in Serbia. However, due to significantly lower public investment over the last (almost) two decades, in 2017 public capital stock per capita in Serbia amounted to USD 6.3 thousand, which was by far the lowest in CEE and the WB region, i.e. by 32% lower than the WB average and by 57% lower than the CEE average. These data suggest that heavy underinvestment in public capital in Serbia over the last two decades has had a significant impact on public capital stock and the total physical capital stock, with severe consequences for growth dynamics.

The impact of public capital on the total capital stock is twofold. First of all, public capital is part of the total physical capital, which means that a rise in public capital has a one-on-one impact on growth in the total physical capital. In addition, the creation of public capital stock, which leads to improvement of the quality of public infrastructure, reduces risks and costs of doing business, thus enabling and fostering private investment which may contribute to private capital formation. On the other hand, if public investment is financed at the local market and triggers rise in interest rates, it could discourage private investment. To provide a definite conclusion regarding whether the crowding in or crowding out effect of public investment on private investment prevails, it is necessary to observe the impact of other relevant factors on this relationship using sophisticated econometric methods, which is beyond the scope of this paper. However, the scatter plot (Figure 6) shows a positive correlation between private and public capital stock per capita in CEE, which could indicate that the crowding in effect might have prevailed. In such a situation, severe underinvestment in public capital, as in Serbia in the last two decades, had a double negative impact on total physical capital stock and growth dynamics.

Quality of public infrastructure

The dynamics of public investment, i.e. the stock of public capital, is reflected in the availability and quality of public infrastructure. However, the availability and quality of public

Figure 6: Private and public capital stock in CEE in 2017 (int. USD per capita, in 2011 prices)



Source: Author's calculations based on the IMF's capital stock database.

infrastructure depends not only on the amount of public capital, but also on the efficiency of projects funded by the government. If government investment is focused on projects proven to be financially, economically and socially viable, i.e. the government decides to implement the projects with the highest net present value and internal rate of return, the outcome of public investment, in terms of availability and quality of public investment, will be stronger and vice versa.

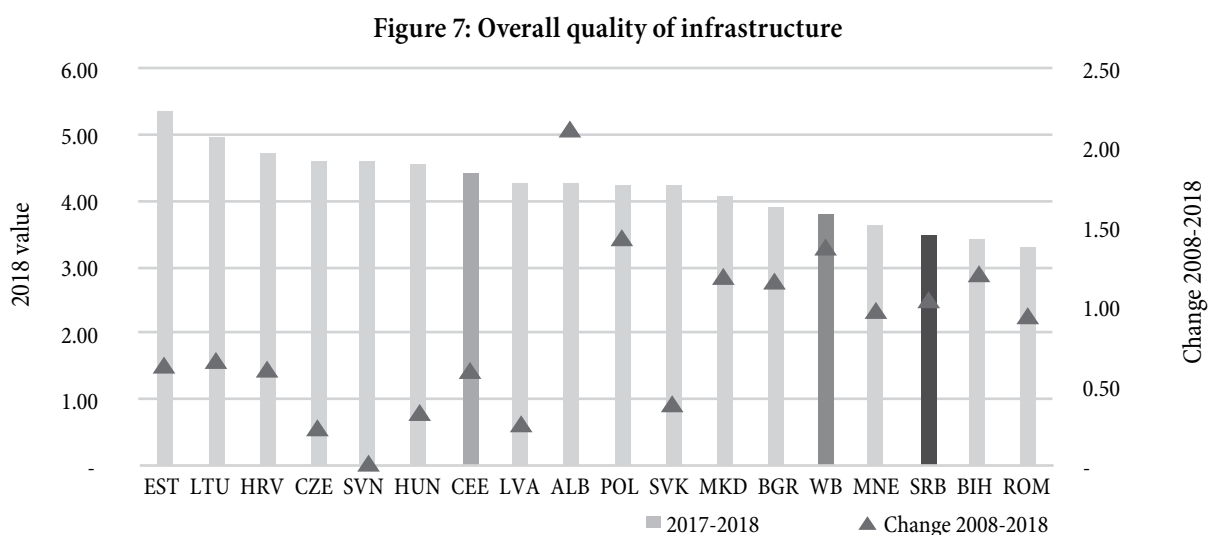
Public infrastructure is rather heterogeneous and complex, consisting of different types of assets, which makes measuring its availability and quality complicated. One of the potential proxies for measuring public infrastructure, commonly used in international benchmark analysis, is the overall quality of infrastructure index, a component of the overall Global Competitiveness Index published annually by the World Economic Forum [14]. The overall quality of infrastructure measures the quality of transportation infrastructure (roads, railroads, ports, airports), energy (electricity supply) and telecommunications infrastructure. As such, it does not take into account public utilities or environmental infrastructure, which may be seen as its drawback. Still, as this indicator does contain main parts of public infrastructure, which to a large extent shape the quality of doing business and living conditions, and taking into account that it has been compiled in a comparable and consistent manner across different countries, it can be used as a rough proxy for the quality of public infrastructure.

The results presented in Figure 7 show that regarding the quality of public infrastructure in 2018 Serbia ranks

considerably lower (by 20%) than the CEE average, only Bosnia and Herzegovina and Romania ranking lower in that respect. This suggests that heavy underinvestment in public capital in Serbia is to a large extent reflected in the poor quality of public infrastructure. However, in the last decade (from 2008 to 2018) Serbia considerably increased the value of this indicator (by more than 40%), the rise in this indicator being slightly stronger than the average rise in CEE and comparable to the progress made in Montenegro, Romania and Bulgaria, although these countries had more buoyant public investment. Solid result in terms of improvement of this indicator, in spite of persistent underinvestment, can be explained by greater marginal productivity of investment at the lower level of public capital stock [5]. Supplementary indicators describing the availability of public infrastructure mostly lead to similar conclusions. Thus, the results presented in [9] and [10] show that Serbia has a lower motorway and railway density and posts larger losses in electric power transmission than most other CEE countries, which is also the consequence of inadequate investment policy.

Conclusion

Over the last 18 years, Serbia posted economic growth slightly larger than the WB and CEE averages, primarily due to stronger growth from 2001 to 2008. However, from 2013 to 2018 Serbian economy grew at a considerably slower rate than the economies of other WB and CEE countries



Source: Author's calculations based on the WEF data.

(on average). Although the Serbian GDP growth rate of approximately 4% in 2019 was higher than the growth posted in the region, in order to achieve faster convergence Serbian economy needs to grow at a rate which is by 2-3 pp higher than the CEE and the EU averages, for a longer period of time.

Maintaining macroeconomic stability is a *conditio sine qua non* for stronger and sustainable economic growth. In that respect, Serbian economic policy needs to be designed with the aim of keeping the budget deficit low (in the range of 0.5% to 1% of GDP), which would enable further reduction of the public debt. Public finance sustainability, accompanied by low and stable inflation and continuous slight depreciation of dinar (to euro) in real terms, would lead to the creation of a favourable macroeconomic environment. In addition to macroeconomic stability, the structural features of fiscal policy need to be improved in order to attain stronger growth. This includes increasing pensions and wages at the rates lower than the rates of economic growth, further reducing labour taxes and significantly increasing spending on education, research and infrastructure, which would altogether fit into the budget deficit of up to 1% of GDP.

Macroeconomic stability and improvement in the structural properties of fiscal policy, together with a significant improvement in the quality of institutions and the rule of law, would create fertile ground for an increase in domestic private investment, as well for inflow of capital from abroad. An increase in public investment can also yield positive impact on private capital formation and economic growth, provided that the selection and implementation are done in an efficient manner.

The Government has announced a five-year (public investment) plan which envisages investments of EUR 14 bn. Its full implementation would entail an increase in public investment to almost EUR 2.5 bn per year, i.e. around 5.5% of GDP. That plan could be financially sustainable only if in the coming years public wages and pensions would rise at the rates which are significantly lower than the GDP growth, which would be politically challenging. On the other hand, considering that in the last six years actual public investment spending in Serbia was on average by more than 10% lower than the plan [3], the chances are

that actual public investment spending in the coming years would be somewhat lower than the plan envisaged, which would contribute to financial sustainability.

Most of the projects listed in the “Serbia 2025” national investment plan are to be funded by the central government. However, as shown in Figures 3 and 4, local self-governments in Serbia post a significant (negative) investment gap in comparison with the other countries. Bearing in mind that local self-governments are in charge of significant public infrastructure items, it is necessary to introduce systemic incentives for local self-governments to substantially increase local public investment in a financially sustainable manner. In that respect, the system of grants (provided by the central government to local self-governments in Serbia) needs to be redesigned, so as to introduce matching grants, i.e. the funding scheme which would enable the central government to top up local budget funds intended for the development of infrastructure. In addition, the total amount of grants awarded to local self-governments should be defined as a rising function of the share of public investment in local self-government’s spending. In that respect, the draft of the Law on Financing Local Self-Governments, proposed by the Ministry of Finance in 2014/15, could serve as a solid base.

Public investment may have a crowding in effect on private investment and make a significant contribution to future economic growth if the funds are directed towards economically viable projects which are implemented well. In that respect, Serbia needs a significant institutional improvement in order to establish a robust and modern system of selection, planning and implementation of investment projects. First of all, although project prioritization is a matter of political decisions, the portfolio of projects taken into consideration by policymakers should comprise only those projects for which firm evidence on economic viability has been provided. In other words, projects should be selected based on the robust and objective economic evaluation rather than on subjective assessment. The Government should develop an institutional capacity for financial, economic and social evaluation of public projects, which would be based on the internationally comparable and theoretically substantiated methodology. The preparation of the economic feasibility study should

be made mandatory for all medium and large projects by the central government and local self-governments. Such a system would result in selecting projects which would make a positive impact on economic growth. In addition to improvement of the selection scheme, the process of planning, contracting and supervision also needs to be improved. For that to happen, it is necessary to develop competent resources in public administration (law, economy, engineering, etc.). Furthermore, in order to minimize the costs and maximize the value, whenever feasible, the projects should be contracted through open (competitive) tenders, which would provide a level playing field for all potential bidders.

Considering the aforesaid, for public investment to have a positive impact on future economic growth in Serbia, both sufficiency and efficiency need to be achieved. A pro-growth public investment policy, which would fit into a sustainable public finance framework, can considerably contribute to future economic dynamics. However, in order to fully exploit that potential, in addition to creating the public investment policy and stable macroeconomic framework, Serbia needs to make a significant step forward in terms of developing institutions, i.e. defining a set of clear, efficient and inclusive rules, implemented in a non-selective manner, which would create a level playing field and promote productive behaviour, i.e. work, saving, investment, education, innovation and entrepreneurship. Without the development of efficient and inclusive institutions, the effects of public investment and other instruments of economic policy on future growth and development will be limited. Furthermore, the development of such institutions would enhance the chances for improvement of the structural features of fiscal policy, including the improvement of efficiency of public investment.



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