

## SERBIA

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: SERBIAN DINAR (RSD)

## POPULATION AND GEOGRAPHY

**Area:** 77 474 km<sup>2</sup>  
**Population:** 7.022 million inhabitants (2017), a decrease of 0.4% per year (2010-2015)  
**Density:** 91 inhabitants / km<sup>2</sup>  
**Urban population:** 55.9% of national population  
**Urban population growth:** -0.3% (2017 vs 2016)  
**Capital city:** Belgrade (19.8% of national population)

## ECONOMIC DATA

**GDP:** 108.3 billion (current PPP international dollars), i.e. 15 429 dollars per inhabitant (2017)  
**Real GDP growth:** 1.9% (2017 vs 2016)  
**Unemployment rate:** 14.1% (2017)  
**Foreign direct investment, net inflows (FDI):** 2 879 (BoP, current USD millions, 2017)  
**Gross Fixed Capital Formation (GFCF):** 18.5% of GDP (2017)  
**HDI:** 0.787 (High), rank 67

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Following the collapse of the former Yugoslavia, Serbia and Montenegro formed the Federal Republic of Yugoslavia from 1992 to 2003. In 2003, the new Republic was reconstituted as the State Union of Serbia and Montenegro until 2006 when the referendum for the independence of Montenegro put an end to the confederation and created two separate countries. The Constitution of 2006 defines Serbia (*Republika Srbija*) as a unitary and an independent republic (Article 4). The President of the Republic is the Head of State and the Government is led by a Prime Minister proposed to the Parliament (National Assembly) by the President of the Republic.

Local self-government autonomy is enshrined in the country's 2006 Constitution. According to Article 12, the "State power is restricted by the right of citizens to provincial autonomy and local self-government". Part VII of the Constitution is entirely devoted to territorial organisation (Articles 176-193). In addition to the Constitution, Serbia adopted other legal texts with the aim or re-organising the intergovernmental system in the aftermath of the dissolution of the Federation of Serbia and Montenegro. The territorial (re-)organisation took shape with law no. 129/2007 on Territorial Organisation. The Law on Local Self-Government was also adopted in 2007, defining the responsibilities as well as rights of local authorities. The 2007 Law on Local Government Finance (amended in 2012 and 2016) includes regulatory provisions on the financing of local self-government units.

On 14 December 2009, the statute of the Autonomous Province of Vojvodina was adopted in accordance with article 182 of the Constitution. Also in 2009, the law on establishing competencies of the Autonomous Province of Vojvodina transferred competences from the State to the Province. A revision took place in 2014. According to Article 185 of the Constitution, the Autonomous province of Kosovo and Metohija is also part of the Republic of Serbia. Serbia does not formally recognise the independence of that region, which was proclaimed on 17 February 2008, and considers it an Autonomous Province.

In 2014, Serbia adopted a Public Administration Reform (PAR) Strategy which builds on previous public sector reform strategies and aimed at improving the state of public administration. The strategy includes measures to clarify the division of responsibilities between different levels of government and identifies weaknesses to be addressed such as the financing needs of local authorities. The Decentralisation Strategy within the PAR is yet to be adopted. The Law on Employees in the Autonomous Provinces and Local Self-Government Units was adopted in 2016; it aims at ensuring the professionalisation of the local and provincial civil service by regulating the rights and duties of civil servants at the lower-tier governments.

## TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	23 cities ( <i>grad</i> ) and 150 municipalities ( <i>opština</i> ) + the City of Belgrade		2 autonomous provinces (Pokrajine Vojvodina and Kosovo and Metohija)	
	Average municipal size: 40 358 inhabitants			
	174		2	176

**OVERALL DESCRIPTION.** Serbia has a one-tier government structure at subnational level. Current territorial organisation (division of the territory in cities and municipalities) was mostly set during the 1960s. According to the 2014 amended Law on Territorial Organisation of the Republic of Serbia, the territory is subdivided into municipalities, towns, the city of Belgrade as a territorial unit (special status), and two autonomous provinces of Vojvodina and Kosovo-Metohija. As of 2017, the Autonomous region of Vojvodina and the Capital city of Belgrade are the most populous regions of Serbia, with respectively 1.7 and 1.9 million inhabitants.

**AUTONOMOUS PROVINCES.** The competences of the autonomous provinces are regulated by the Constitution. The province of Vojvodina is further regulated by the Statute of the Autonomous Province adopted in 2014 and the Law on the Competencies of the Autonomous region. Article 4 of the latter law stipulates that the territory of Vojvodina consists of local self-government units. The city of Novi is established as the administrative centre and the seat of the authorities of the autonomous region. The law also stipulates that the provinces shall cooperate with other bodies of the Republic of Serbia and other bodies of local self-government units in the provision of public goods and services. The central government of Serbia may also delegate competences to the province, although their relationship is not hierarchical per se.

**MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION.** The municipal tier is composed of 150 municipalities (*opština*), 23 cities (*grad*) and the City of Belgrade, which are themselves divided into several subordinate administrative units called city municipalities whose number was 30 in 2017-2018 (*mesna zajednica*), which are not considered units of self-government. The Autonomous Province of Vojvodina contains 7 Districts, 6 Cities and 45 Municipalities. In addition, Serbia comprises 6158 rural settlements and 193 urban settlements. Municipalities and cities are quite large by international standards: 41 000 inhabitants on average to be compared to 9 700 inhabitants in the OECD and 5 900 in the EU. Each municipality/city has its own assembly (elected every four years via local elections, the last being held in April 2016), a municipal president (mayor for cities), and a budget. Cities usually have more than 100,000 inhabitants. Despite many differences among them (in terms of size of territory, number of inhabitants, economic strength etc.), all municipalities and cities, except for the city of Belgrade, share similar competences, governing bodies and position within the political system. The additional right of establishing municipal police is granted to the cities. According to the Law on Local Self-Government, local government units can cooperate in order to achieve common goals, plans and development programs.

**CAPITAL CITY OF BEGRADE.** The capital City of Belgrade has a special status and is regulated by the Law on the Capital City and the Statute of the City of Belgrade. The executive body of the Capital city is directly elected by the City Assembly which is composed of 110 councillors. The city of Belgrade carries the competencies assigned to all municipalities; in addition, the capital city is also in charge of water management, state roads, fire prevention and inspection controls in relation to city planning. Belgrade is further divided into 17 city municipalities.

**STATE TERRITORIAL ADMINISTRATION.** Municipalities and cities are gathered into larger entities known as districts which are regional centres of the state authority. As of 2016, there were 29 administrative districts and the city of Belgrade. In addition to the districts, Serbia is subdivided in 5 regions for statistical purposes, including the two aforementioned autonomous regions (Belgrade region, Vojvodina region, Sumadija and western Serbia region, eastern and southern Serbia region and Kosovo-Metohija region).

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Part VII of the 2006 Constitution lists the competences (original powers) of the autonomous provinces and local self-government units and clarifies that additional functions may be delegated.

Autonomous provinces competencies include matters of provincial interest in the areas of economic affairs and transports, environmental protection, education, culture and recreation, health care and social welfare.

The exact competences of the municipalities are listed in the Constitution (Article 190) and in different acts, such as the Law on Local Self-Government and other sectoral laws. They cover a number of areas. Tasks are carried out with wider discretion of the local authorities provided that they fall within the legal boundaries of existing regulations. Some of these competencies, such as primary and secondary education, as well as social care, are shared with the state, although staff wages, facilities and investment costs are taken out of budgets from municipal governments. Other shared competencies also include the management of local airports and the construction and maintenance of social housing centres for the youth. Local authorities have room for manoeuvre in the implementation of delegated tasks although their actions are subject to scrutiny by central authorities.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	AUTONOMOUS PROVINCES	MUNICIPAL LEVEL
<b>1. General public services</b>	Internal administration; Public information at the provincial level	Municipal administration
<b>2. Public order and safety</b>		Protection against natural and other disasters
<b>3. Economic affairs/transport</b>	Agriculture, forestry, hunting and fishery; Tourism and spas; Industry and craftsmanship; Roads, river and railway transport; Trade fairs and other economic events	Construction and maintenance of local roads and other municipal facilities; Local public transport; Local tourism; Craftsmanship; Catering and commerce; Improvement and use of agricultural land
<b>4. Environmental protection</b>	Environmental protection	Environmental protection
<b>5. Housing and community amenities</b>	Urban planning and development; Water economy	Regulation of urban construction sites and business premises; Social housing for the youth (shared)
<b>6. Health</b>	Health resorts; Healthcare	Healthcare
<b>7. Recreation, culture &amp; religion</b>	Sport and culture	Protection of municipal cultural heritage; Sport
<b>8. Education</b>	Primary and secondary education (shared)	Primary and secondary education (shared)
<b>9. Social protection</b>	Social welfare	Social welfare; Child welfare

## SUBNATIONAL GOVERNMENT FINANCE

<b>Scope of fiscal data:</b> municipalities, cities and the Autonomous Province Vojvodina.	Other	Availability of fiscal data: <b>Medium</b>	Quality/reliability of fiscal data : <b>Medium</b>
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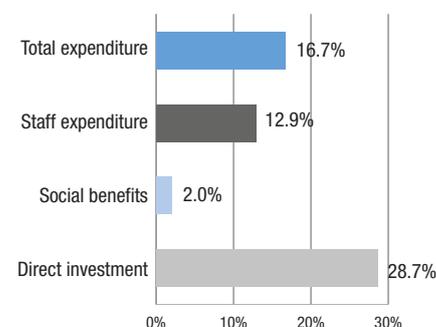
**GENERAL INTRODUCTION.** Part VII of the 2006 Constitution includes several provisions relating to the funding of autonomous provinces and municipalities. Public finance of SNGs in Serbia is further regulated by the law on local self-government finance of 2006, which was revised in 2012 and 2016. The new law aims at rationalising transfers and the revenue-sharing mechanism and providing incentives to SNGs to raise their own revenues. Consultation mechanisms on fiscal matters, in particular related to central government funding, are well developed, taking place in particular through the Intergovernmental Finance Commission.

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## SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
<b>Total expenditure</b>	<b>1 057</b>	<b>7.3%</b>	<b>100%</b>	
<b>Incl. current expenditure</b>	<b>921</b>	<b>6.3%</b>	<b>87.1%</b>	
Staff expenditure	184	1.3%	17.4%	
Intermediate consumption	276	1.9%	26.1%	
Social expenditure	50	0.3%	4.7%	
Subsidies and current transfers	342	2.4%	32.3%	
Financial charges	12	0.1%	1.1%	
Others	0	0.4%	5.5%	
<b>Incl. capital expenditure</b>	<b>136</b>	<b>0.9%</b>	<b>12.9%</b>	
Capital transfers				
Direct investment (or GFCF)	136	0.9%	12.9%	

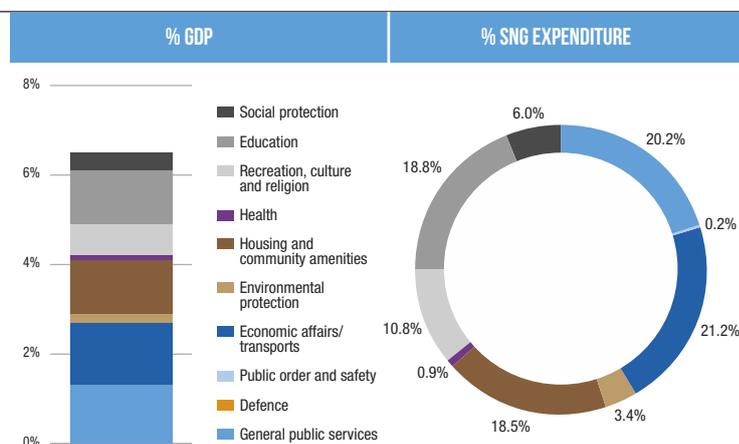


**EXPENDITURE.** In 2016, SNG expenditure accounted for 7.2% of GDP and 16.7% of public expenditure, below the average of OECD unitary countries (9.2% of GDP and 28.7% of public expenditure in 2016). In comparison to previous years, local government recorded a 0.9% nominal fall in the staff budget in 2016. The nominal fall in payroll expenditure was primarily due to regular indexation of individual earnings as well as the freezing of new hiring in the public sector throughout that particular year. The Law on Employees in the Autonomous Provinces and Local Self-Government Units was adopted in 2016; it aims at ensuring the professionalisation of the local and provincial civil service by regulating the rights and duties of civil servants at the lower-tier governments. The share of spending undertaken by municipalities has increased over the years, reflecting the devolution of public competencies to them. Yet, it remains that the city of Belgrade in itself accounts for close to 32% of total SNG expenditure.

**DIRECT INVESTMENT.** With the bulk of SNG expenditure allocated to current expenditure, there is little room for investment (13%); however, SNG investment reached 28.7% of total public investment in 2016. That ratio is very much below the average for OECD unitary countries (50.7%) and EU28 (50.9%) in 2016. Local investment spending has decreased in recent years, from 1.5% of GDP in 2011 to 0.9% in 2016.

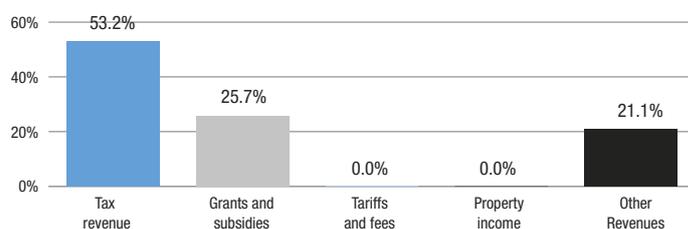
## SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In 2012, subnational government spending primarily focused on economic affairs and transports, general public administration, education and housing and community services. These four sectors totalled approximately 80% of the subnational budget. The remaining 20% was split across recreation, culture and religion (10.8%), social protection (6%) and environmental protection (3.4%).



## SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
<b>Total revenue</b>	<b>1090</b>	<b>7.5%</b>	<b>17.4%</b>	
Tax revenue	580	4.0%	16.1%	
Grants and subsidies	280	1.9%		
Tariffs and fees				
Property income				
Other revenues	231	1.6%		



**OVERALL DESCRIPTION.** According to article 188 of the constitution, local self-government units must be financed through direct revenues, the budget of the Republic of Serbia, and the budget of the Autonomous Province of Vojvodina (when the latter delegates the performance of its competencies to other local government units within the Republic and in accord with the Assembly of Vojvodina). Revenues of local self-government units (including those of the autonomous region of Vojvodina) include taxes (own-source and shared), user charges and fees, and block grants from the central government.

In 2016, SNGs received revenues equal to 7.5% of GDP and 17.4% of public revenues, ratios which are relatively low if compared to the EU average for unitary countries (12.3% of GDP and 27.2% of public revenues). Yet, in 2016, revenue from taxation accounted for 53.2% of their total revenue – a ratio that is highly significant, especially when it is compared to other countries in the region (38.7% for the OECD unitary countries in 2016, and 36.8% of the EU unitary countries in 2017). Grants came as the second most important revenue sources and stood at 25.7% of total revenues in 2016.

**TAX REVENUE.** Part of the financial resources of local authorities are derived from local and shared taxes. The personal income tax (PIT) is by far the most important source of tax revenue for SNGs. Its sharing is regulated by the 2007 Law on Local Government Finance (amended in 2016). The PIT is levied by the central government on, among others things, gross wages, payroll tax and on income coming from the self-employed and farmers. An agreement between Serbia and the International Monetary Fund aimed at stabilising public finances has led to changes in the law and has reduced the shares allocated to local government. As of 2016, towns receive 77% (previously 80%), municipalities 74% (also previously 80%) and the city of Belgrade 66% (previously 70%) of PIT revenue. The PIT accounted for 63% of SNG tax revenue and 33.5% of SNG revenue in 2016. The Corporate income tax (shared corporate profit) amounted 28.5% of total SNG tax revenues and 15.2% of total SNG revenues.

In addition to the share of PIT and CIT, local taxation relies on property tax, a property transfer tax and tax on inheritance and donations. Local governments can set the property tax rate, within the limits provided by the law on local self-government. These other taxes represent 8.4% of total SNG tax revenues, and 4.5% of SNG total revenues in 2016.

In 2018, the Government amended the Law on Tax Procedures and Tax Administrations to enable the networking of more state databases to improve the efficiency of property tax collection, through the development of a Central Information System of data for Local Tax Administrations (LTAs). Another important change to the legal framework relates to the introduction of electronic applications on tax for both categories of taxpayers.

**GRANTS AND SUBSIDIES.** Grants and subsidies to local governments are regulated by the law on local government finance. They consist of both non-categorical and categorical (or earmarked/blocked) transfers. Categorical or earmarked grants are funds for specific tasks and expenditure lines from local government budgets. Non-categorical transfers include an equalisation grant to compensate for the disparities between the local governments (1.7% of annual GDP), a compensation transfer, an unconditional grant and a solidarity transfer. The equalisation grant is allocated to local government units in which the population's average income per capita is below the national per capita income as calculated by the relevant authorities. The equalisation grant is equal to a percentage of the difference between local governments' per capita revenue from shared taxes and a percentage of the national average multiplied by their population. The unconditional grant to individual local government is based on a formula including metrics related to the population size, territory, number of elementary and secondary school buildings, number of children attending preschool and number of preschool buildings. Due to these metrics, the unconditional transfer also contributes to horizontal equalisation, in addition to the equalisation grant itself. In addition, the least developed local authorities receive a larger share of the general transfer, thereby enhancing the financial equalisation and correcting for regional disparities. In 2011, the amendments to the local public finance system introduce the so-called solidarity transfer to all municipalities except the city of Belgrade. The solidarity transfer is equal to 10% of the wage taxes of the City of Belgrade given that approximately 32% of total SNG revenues are collected in Belgrade. The allocation is based on a coefficient for development that divides municipalities into four groups. Detractors, however, have deplored the allocation system's lack of transparency. Also in 2011, the share of the wage personal income tax transferred to the municipality increased from 40% to 80% for all municipalities except Belgrade. The Autonomous Province of Vojvodina receives almost two-thirds of its revenue due to the constitutional provision stating that the province should receive at least 7% of the state budget (Article 84). The exact method of calculating is subject to interpretation by the Constitutional Court given the differences in interpretation made by the provincial and state governments. A settlement between the Province and the Government seems to be underway, and is to be codified in a Law on Financing the Autonomous Province of Vojvodina. The Constitution also states that three-sevenths of the budget of the Autonomous Province of Vojvodina shall be used for financing capital expenditure.

**OTHER REVENUES.** Municipalities receive proceeds from charges and fees on urban land use, business licenses and land development fees, especially in the capital City of Belgrade. In 2016, other revenues, which include the tariffs and fees, represented 21.1% of total SNG revenues and 1.6% of GDP.

#### ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
<b>Total outstanding debt</b>	<b>258</b>	<b>1.8%</b>	<b>2.4%</b>	<b>100%</b>
Financial debt*	258	1.8%	2.4%	100%

\* Currency and deposits, loans and bonds

**FISCAL RULES.** According to article 27.h of the amended Budget Law (2009), local government deficits may only occur as a result of public investments and is a constituent part of the consolidated general state deficit. The local government deficit cannot exceed 10% of the local government revenue in a given fiscal year. Local executives may submit a request to the Ministry for the approval of said percentage only if the fiscal deficit is a result of public investment. If the local government exceeds the deficit limit in a given year without the approval of the Ministry, the Minister can legally block the transfer of funds from the public budget to the local government budget, including the transfer of grants, the relative share of personal income and corporate income tax.

**DEBT.** Under the Public Debt Law, local government bodies are allowed to borrow if they obtain the approval of central government authorities. Loans and bonds can be contracted both in the domestic and foreign markets. While local governments can borrow to finance liquidity resulting from a fiscal imbalance, liquidity borrowing should not exceed 5% of actual recurring revenues from the previous year; moreover, the total borrowed amount must be repaid before the end of the budget year and it cannot be refinanced or renewed at the end of the budget year. Local government cannot borrow long term, except for the financing or refinancing of capital investments that are included in an approved local government budget. Outstanding long-term borrowing for capital investment expenditure cannot be higher than 50% of the revenues that were government actually collected in the previous year. The amount of principal and interest on all outstanding long-term debt due in a future fiscal year cannot exceed 15% of revenues actually generated by local governments in the previous year. In 2016, local government debt amounted to 1.8% of GDP and 2.4% of public debt. In addition, close to 58% of total local government debt was issued in foreign markets.



Lead responsible: OECD  
Last update: 02/2019

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**Socio-economic indicators:** OECD statistics // Eurostat // World Bank // UNDP // UN Desa // ILO // The Statistical Office of the Republic of Serbia.

**Fiscal data:** IMF GFS // Republic of Serbia, Ministry of Finance: Public Finance Bulletin (Number 148, December 2016) // OECD (2018) Subnational governments in OECD countries: key data.

**Other sources of information:** NALAS (2018) Fiscal Decentralization Indicators for South-East Europe // Lucia KROON, Sören SCHUMACHER, (2017) Local and regional democracy in Serbia, Congress of Local and Regional Authorities of the Council of Europe // Republic of Serbia, Ministry of Finance – Public Debt Administration (2016): Debt Statistics – December 2016 // Snežana Vujadinović, Dejan Šabić, Mirjana Gajić (2016) Local Government in Serbia: Between Legislation and Practice, // European Committee of the Regions (2016) Division of powers // Bogoljub Milosavljević, Jelena Jerinić, (2015) Territorial organisation of the Republic of Serbia – Possibilities for reform, Serbian Mayors – a survey into the position of the executive within the local government system in Serbia of the Standing Conference of Towns and Municipalities.