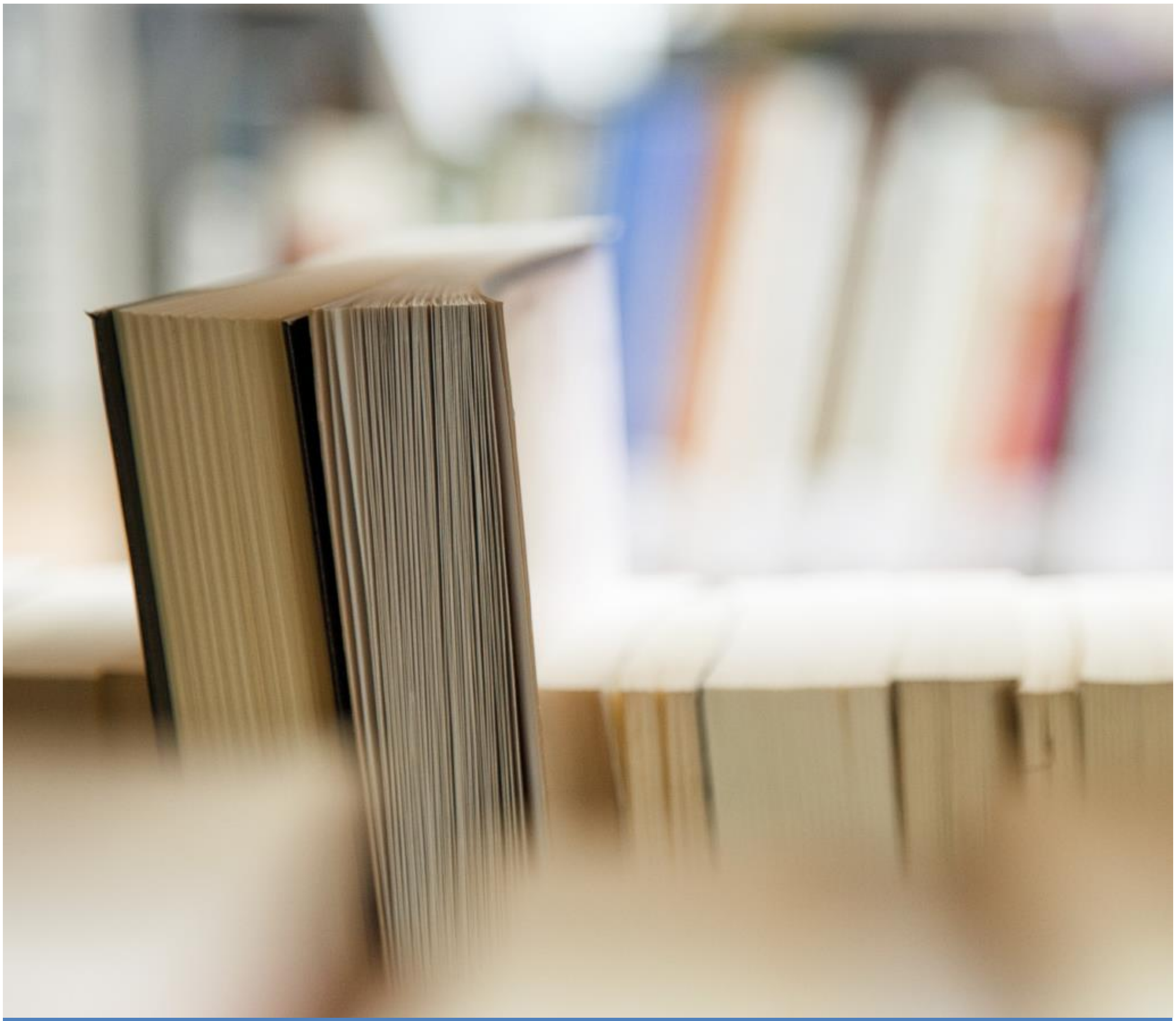

Country briefing

Serbia

CSOs as equal partners in monitoring public finances

April 2016

BALKAN MONITORING PUBLIC FINANCES

www.wings-of-hope.ba

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This document has been produced as a part of the project "CSOs as equal partners in the monitoring of public finance", which started beginning of 2016 and is implemented by a consortium of 10 organizations from 7 countries and will last for four years.

The aim of the project is to improve the transparency and accountability of policy and decision making in the area of public finances through strengthening the role and voice of NGOs in monitoring the institutions that operate in the area of public finances. In this way, the project will strengthen CSO knowledge of public finance and IFIs and improve CSO capacities for monitoring. Additionally, it will help advocate for transparency, accountability and effectiveness from public institutions in public finance. Moreover, this project will build know-how in advocating for sustainability, transparency and accountability of public finance and IFIs. This project will also increase networking and cooperation of CSOs on monitoring of public finance at regional and EU level. Lastly, it will increase the understanding of the media and wider public of the challenges in public finance and the impacts of IFIs.

Key project activities are research and monitoring, advocacy, capacity building and transfer of knowledge/practices and networking in the field of the 4 specific topics: public debt, public-private partnerships, tax justice and public infrastructure.

More information about the project can be found on http://wings-of-hope.ba/balkan-monitoring-public-finance/ and on the Facebook Page Balkan Monitoring Public Finances

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CONTENT

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INTRODUCTION

Key structural problems of the economy of the Republic of Serbia include: insufficient economic growth, high fiscal deficit with rapidly growing public debt and high unemployment rates.[1] Even though in 2015 these indicators recorded some improvement, they remain dominant macroeconomic characteristics of Serbia, and continue to be in the focus of the state programs and economic strategies. At the beginning of 2016, the Serbian Government adopted *The Program of the Economic Reforms* for the period from 2016 to 2018, which was prepared by the Ministry of Finance through wide consultations at all levels, and with the support of the Republic Secretariat for Public Policy. The Program of the Economic Reforms defines a framework of medium-term macroeconomic and fiscal policy, as well as specific priority structural reforms aimed at supporting the macro-fiscal framework and removing obstacles to the economic growth and increased competitiveness of the national economy.[2]

Serbia's fiscal consolidation and structural reforms, which are mainly related to the regulation of the public companies and the public administration, started with the support of the International Monetary Fund, by signing a three-year precautionary arrangement (which includes the availability of funds, but their non-withdrawal) in February 2015. This program, in terms of budgetary savings and the method of limiting the public debt, has been progressing relatively well. Higher economic growth is expected for Serbia than originally projected. In mid-2016, the IMF raised the GDP growth forecast for Serbia from initial 1.5% to 2.5%, while domestic experts expect the GDP growth to be 3%.[3] Gross domestic product of Serbia for 2015, was 4,043 billion RSD.[4] In 2014 the GDP recorded the value of 3,908 billion RSD, or 33.3 billion EUR (4.672 EUR per capita).[5]

[1]Fiskalni savet, Radni dokument 16/01, "Ekonomski oporavak, zaposlenost i fiskalna konsolidacija: pouke iz 2015. godine i izgledi za 2016. i 2017. godinu" objavljeno u Ekonomika preduzeća br.64
[2] Program ekonomskih reformi za period od 2016. do 2018. godine
http://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/ERP-2016_sr.pdf
[3] http://beta.rs/ekonomija/ekonomija-srbija/41552-kvartalni-monitor-povecanje-plata-i-penzija-mora-da-bude-manje-od-rasta-bdp-srbije
[4]Republički zavod za statistiku
http://webrzs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indId%3d09020101IND10%2c09020101IND20%266%3d1%2c2%2c3%26102%3dRS%262%3d%23last%233%26sAreaId%3d09020101%26dType%3dName%26lType%3dSerbianCyrillic
[5]Republičkizavodzastatistiku
http://webrzs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indId%3d09020101IND10%2c09020101IND20%266%3d1%2c2%2c3%26102%3dRS%262%3d%23last%233%26sAreaId%3d09020101%26dType%3dName%26lType%3dSerbianCyrillic

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Developments in the first half of the current year in the area of fiscal policy suggest that the fiscal deficit will be further reduced - to 2.5% of GDP – according to the assessment of the National Bank of Serbia. This is significantly lower than the target which was originally established by the program with the IMF (4%).[6] Public debt in Serbia is around 24 billion EUR, reaching almost 72% of GDP, which indicates high indebtedness. Current regulation permits maximum public debt of 45% of GDP. However, Serbia is making some progress on the way to limit further growth of public debt, which according to recent statements by state officials fell by 610 million EUR compared to the beginning of the year.

According to the official statistics, the unemployment rate is currently 15.9%.[7] The same source indicates that the average annual unemployment rate in 2015 was 17.7%, and 19.2% in 2014.[8]

One of the main indicators of the living standard of the population is *at-risk of poverty* index. This relates to a percentage of total population whose income per capita is lower than 60% of median national income per capita. Over the last three years, the value of *at-risk-of poverty* index has not changed substantially, by 2015 it was 25.4% of the population, in 2014 25.6%; and in 2013 24.5%.

When it comes to the *Gini* coefficient, as a measure of inequality of income distribution in the population, its value showed little variation over the last three years. In 2013 it was 38%, in 2014 38.2%, in 2015 38.2%. The value of this coefficient varies between 0 and 1, or between 0 and 100%, where zero represents a perfect equality with everyone in a society having comparable income. As the value of the coefficient increases, so does the income inequality also increases.[9]

In order to analyse the degree of human development, the *HDI (Human Development Index)* includes more indicators than GDP; in addition to income, it takes into account also health condition of the population as well as education. HDI is not an indicator of absolute levels of human development, but it allows countries to compare their performance in achieving a certain level of development.[10] In 2014 Serbia had HDI value of 0.771 and occupied 66th position out of 188 countries and territories. Between 1990 and 2014, the value of the Serbian HDI increased by 8%, from 0.714 to 0.771, or 0.32% on average annually. With HDI value of 0.771, Serbia is in the group of countries with relatively high human

[6]Narodna banka Srbije https://www.nbs.rs/internet/latinica/90/90_5/prezentacije_ioi/prezentacija_ioi_08_2016.pdf
[7]http://webrzs.stat.gov.rs/WebSite/Public/ReportResultView.aspx?rptKey=indId%3d24000200IND01%26102%3dRS%266%3d1%2c2%2c3%2c4%2623%3d0%2c1%2c2%262%3d%23Last%231%2640%3d15%2cL15-24%2cL15-64%26sAreaId%3d2400021200%26dType%3dName%26lType%3dSerbianCyrillic
[8] webrzs.stat.gov.rs/WebSite/userFiles/file/Zaposlenost%20i%20zarade/ARS_revizija_2014_2015srp.doc
[9] http://webrzs.stat.gov.rs/WebSite/repository/documents/00/02/06/78/PD10_084_srb_2015.pdf
[10] http://ebooks.ien.bg.ac.rs/535/1/16jwe12_5.pdf

development.[11] This is the latest publicly available data in terms of HDI. Among the South East Europe (SEE) countries with similar HDI Croatia stands out.

However, real progress indicator, *Genuine Progress Indicator - GPI*, an alternative to GDP, measures different outcomes of progress. GPI includes environmental and social factors. The values of the GPI indicators are not known for Serbia likely because they are not included in the national statistics.
For the assessment of the macroeconomic situation in Serbia, rate of inflation is an important factor. During 2015, year-on-year inflation continued to move below the target (level of the allowed deviation, 4 ± 1.5%). In December 2015 it was 1.5%, while the average inflation rate in 2015 was 1.9%. According to the National Bank of Serbia, annual inflation in July 2016 was 1.2%, which is still below the target. Inflationary pressures remain low, due to domestic factors, but also because of the falling prices of oil and primary agricultural products and low inflation in the international environment. Inflation rates expectations have been further reduced, and the financial sector expects the inflation in the year 2017 to range between 2% and 2.8%.[12]

The exchange rate of the RSD is stable. The National Bank of Serbia conducts a regime of controlled exchange rate floatation, which implies the right of intervention in case of excessive daily fluctuations in the foreign exchange market, the threat to financial and price stability and the protection of an adequate level of foreign exchange reserves. Average middle exchange rate in August 2016 was 123.305 RSD for one EUR.

[11] http://www.rs.undp.org/content/dam/serbia/Publications%20and%20reports/Englise.h/UNDP_SRB_Serbia%20HDR%20Explanatory%20Note.pdf
[12] Narodna banka Srbije https://www.nbs.rs/internet/latinica/90/90_5/prezentacije_ioi/prezentacija_ioi_08_2016.pdf

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PUBLIC DEBT

State or public debt represents all direct obligations of the Republic of Serbia in respect to the loans and credit borrowing, in the domestic and international market or for the sale of government securities. Every time the Republic of Serbia issues a guarantee for a public company or local government for their credit borrowing, public debt increases by the same amount.

Serbia is one of the highly indebted countries, where the public debt as of 19th September 2016 reached 2,989,368,152,863 RSD, or around 24 billion EUR. Latest officially available data, published by the Ministry of Finance on 31st August 2016, show that the public debt is on the level of 72,1% of GDP. However, in an interview given to the national (public service) television on 18th September, the Serbian Prime Minister stated that the public debt has decreased by 610 million EUR from the beginning of the year and that the share of public debt in GDP is now 71.9 %.[13] In any case, this share is still very high compared to the legally allowed maximum of 45% of GDP.[14]

Serbia's public debt is legally regulated by the *Law on Public Debt*, the *Law on Budgetary System*, *Law* on *Budget* and the *Law on the Conclusion and Implementation of International Agreements*.[15] There is also secondary legislation in the form of regulation and decisions governing mainly the issuing and sales of government securities.

National Public Debt Administration, based on the Law on Public Debt, prepared the *Public Debt Management Strategy for 2016-2018*.[16] It stipulates that Serbia can borrow in local and/or foreign currency in order to finance the budget deficit, liquidity deficit, to refinance outstanding debt, to finance investments projects, as well as meet obligations under the issued guarantees

[13] http://www.rtv.rs/sr_lat/politika/vucic-zeleo-sam-jos-dve-promene-u-vladi-ali-nisam-imao-snage_756824.html
[14] Zakon o budžetskom sistemu (Law on the Budgetary System)
[15] http://www.javnidug.gov.rs/default.asp?P=42&MenuItem=3
[16] Strategija upravljanja javnim dugom 2016-2018,www.javnidug.gov.rs/upload/Strategija/Strategija%20cir/2016-2018/Strategija%20upravljanja%20javnim%20dugom%202016-2018.pdf

PUBLIC DEBT ANALYSIS

General Government Debt and Public Debt Stock and Structure as of July 31, 2016

	EUR	USD	RSD	GDP%
Direct Liabilities (A)				
Internal Debt	8,846,134,616	9,804,172,372	1,090,416,129,600	26.3%
External Debt	13,361,465,406	14,808,514,190	1,646,997,024,831	39.7%
Direct Liabilities in Total	22,207,600,022	24,612,686,563	2,737,413,154,430	66.0%
Indirect Liabilities (B)				
Internal Debt	484,687,214	537,178,915	59,744,824,005	1.4%
External Debt	1,690,080,474	1,873,116,452	208,327,262,550	5.0%
Indirect Liabilities in Total	2,174,767,687	2,410,295,367	268,072,086,555	6.5%
Non-Guaranteed Local Government Debt (C)				
Internal Debt	268,400,281	297,468,073	33,084,280,141	0.8%
External Debt	116,078,211	128,649,500	14,308,345,883	0.3%
Non-Guaranteed Local Government Debt in Total	384,478,492	426,117,573	47,392,626,024	1.1%
Central Government Public Debt (A+B)	24,382,367,709	27,022,981,929	3,005,485,240,985	72.5%
General Government Public Debt (A+B+C)	24,766,846,202	27,449,099,502	3,052,877,867,010	73.6%

Table 1. – Ministry of Finance –Analysis of public debt (www.javnidug.gov.rs/upload/Bilteni/Bilten%20engleski/2016/Mesecni%20izvestaj%20Uprave%20za%20javni%20dug-%20ENG%20Jul.pdf)

Public debt comprises internal and external debt. Within each of the two, there is a direct and indirect debt (mainly created for guarantees given for public companies). In addition to the debt of the national, central government, there is also a public debt of the *general government*, which involves responsibilities of local governments for which the Republic of Serbia did not issue guarantees. In terms of currency structure of public debt, most of the debt of the Republic of Serbia is in EUR 40.5%, followed by 33.1% in USD (US Dollars), and RSD 21.5%. The rest relates to CHF (Swiss Franc), special drawing rights (SDRs) and other currencies. Due to the large share of foreign currency, the amount of public debt significantly affects the EUR / USD movements.

Despite the current, temporary decrease of public debt, its further growth is expected in the coming short-term period, given the state budget deficit which causes that the repayment of due public debt is financed by new borrowing. Only the interest payments of Serbia in 2016 shall account for more than one billion EUR or more precisely 139,930,000,000 RSD by the Law on Budget for 2016. The plan of the government is to stop growth of public debt, measured against the GDP, only by the end of 2017. This is all planned by the *Fiscal Strategy* of the Ministry of Finance[17], which, among other things, served as a basis for the conclusion of the precautionary arrangement with the IMF. This strategy expects the development of public debt in the coming period, up to 2018, below the level of 80% of GDP, with a declining trend after 2016 to a level of 75.9% of GDP by the end of 2018.

[17] Fiskalna strategija Ministarstva finansija http://mfin.gov.rs/pages/article.php?id=11753

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In order to cope with the increased public debt and growing budget deficit, Serbia has undertaken unpopular austerity measures, which include the reduction on the expenditure side of the state budget. One of the main measures was the reduction of expenditures for pensions and salaries of employees in the public sector, which made a significant financial impact on the population. Salaries of employees in public administration have been reduced by 10% (applied on income above 25,000 RSD or about 200 EUR per month). Pensions have been reduced as well but to a much higher percentage. All pensions above 25,000 RSD, or 200 EUR, were reduced by 22%, while the amount exceeding 40,000 RSD, or over 325 EUR, reduced by 25%.

Although this reduction in public sector wages, including public companies, is termed to last for three years, ending December 2017, the professional community, such as the Fiscal Council, suggests that it is necessary for pensions to remain frozen also during 2018.[18] These cuts in salaries and pensions caused a lot of resentment in public and the Serbian government tried to partially mitigate negative effects by the symbolic increase in early 2016.

The Serbian government, as has been announced, plans a further slight increase of pensions and salaries in the public sector next year, through the allocation of funds in the budget for 2017. In addition to the austerity measures, among which the most important has been the reduction of wages and pensions, an increase of the revenue side of the budget has been envisaged through better collection of tax revenues and the measures for converting the grey economy into legal channels, which would reduce fiscal deficits and stop the further growth of public debt.

[18] Medijski prilog na TV N1 http://rs.n1info.com/a170293/Biznis/Fiskalni-savet-o-platama-i-penzijama.html

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PUBLIC-PRIVATE PARTNERSHIP

Public-private partnership (PPP) represents a long-term cooperation between public and private partners, established to provide funding, construction, reconstruction, management or maintenance of infrastructure and other facilities of public importance, as well as provision of services of public interest, which may be contractual or institutional. This is the definition given by the *Law on Public-Private Partnerships and Concessions*[19], which belongs to the relatively new legislation, implemented since 2011.

The Law defines areas in which PPP projects are possible as well as types/modes of partnerships. According to the current regulation, the duration of a PPP project or a concession is limited to a maximum of 50 years. The same legal act, in addition to PPP, regulates concessions. They represent contractual public-private partnership with the elements of the concession, in which commercial use of natural resources, assets and goods that are publicly owned or performing activities of public interest are regulated by the public contract. Concession fee is paid by private or public partner while the private partner bears the risk associated with the commercial use of the object of the concession.

The legal basis for the implementation of PPP is the *Law on Public Procurement.*[20]Local governments are obliged to apply procedures and principles of the public procurement when selecting a private partner for the conclusion of a public contract without elements of concession, in order to design, construct or use public facilities and/or provide services under the PPP. PPPs are subject to indirect regulation based on the following laws: the *Law on Public Utilities*[21]*s*, the *Law onPublic Property*[22], the *Law on Foreign Investment*[23]and *the Law on Energy*[24].

Whether one project can be implemented as a PPP, and based on what model, is decided by the Commission for Public-Private Partnership, which operates under the Government of the Republic of Serbia. It comprises representatives of the relevant ministries, the City of Belgrade and the province of Vojvodina.[25] This cross-sectoral body, until September 2016, has issued a total of 36 positive opinions related to PPPs, with or without elements of concession. The complete list of approved projects is

[19] “Službeni glasnik RS” br 88/2011 (Official Gazette)
[20] “Službeni glasnik RS” br. 116/08
[21] “Službeni glasnik RS” br. 88/2011
[22] “Službeni glasnik RS” br. 72/2011
[23] “Službeni glasnik RS” br .3/2002 и 5/2003
[24] “Službeni glasnik RS” br.57/2011, 80/2011 – ispr.i 93/2012.
[25] “Uspešna partnerstva na putu ka EU” – Brošura o javno-privatnim partnerstvima u Srbiji, Beograd, (2013, p.5)

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publicly available (http://www.ppp.gov.rs/misljenja -The Commission). Despite the positive opinion of the Commission, majority of projects have not yet entered the implementation stage, mostly because of the model of financing proposed by the state, i.e. the public partner. Most of the approved projects belong to the following areas: waste management, public lighting, urban and suburban passenger transportation in several cities and local governments in Serbia. Also, under the framework of PPP, several infrastructure projects of greater value have been approved, such as building of an international river port and road terminal in the municipality of Apatin.

If the PPP project worth more than 50 million EUR is proposed by the government or other public body of the Republic of Serbia, in addition to standard procedures, it is necessary to further obtain the opinion of the Ministry of Finance.

Despite significant potential and needs, only a few projects have been implemented through PPP. As several studies have showed the obstacles to the establishment of such partnerships in Serbia are numerous. The reasons include: unwillingness to change existing modes of operation, lack of understanding of the procedures and results that can be achieved in this way, insufficient training to implement and achieve such partnerships. Especially challenging aspect for the public sector is finding a private partner.[26]

[26] "Uspešna partnerstva na putu ka EU" – Brošura o javno-privatnim partnerstvima u Srbiji, Beograd, (2013, pp.8,15)

TAX JUSTICE

Serbia has a medium level of tax burden. The regulation stipulates that taxes can be imposed only by law, and to: consumption, income, profits, assets and the transfer of assets of individuals and legal entities.[27]

Tax Administration of Serbia, as a state body which conducts the collection of tax budget revenues, implements a total of 17 laws, among which some of the key include *Law onBudgetary System* and the *Law on Tax Procedure and Tax Administration*. The list further includes the *Law on Fiscal Cash Registers*, *Law on Personal Income Tax*, *Law on Value Added Tax*, *Law on Excise Duties*, *Law on Corporate Profit Tax*, the *Law on Property Tax*, *Law on Compulsory Social Insurance*, *Law on the suspension and the write-off of debt in respect of contributions for compulsory social insurance,Law on Non-life Insurance Premium Tax, Law on Taxes on Use, Possession and Carrying of Goods, Law on the Central Registry of Compulsory Social Insurance, Law on Games, Law on the Foreign Exchange, Law on the Inspection Control*[28].

The most important tax, in terms of the size of the state budget revenue is tax on consumption, i.e. Value Added Tax or VAT. It has been implemented in Serbia since 2012. The general tax rate of VAT is 20%. Only four EU countries have lower VAT rate than Serbia, while other countries have the same or higher VAT rate. Value Added Tax (VAT), as a general consumption tax, is calculated and paid on the delivery of goods and services, at all stages of production and supply of goods and services, including the import of goods. In addition to the general rate of 20%, there is also a special rate on the specific category of products, such as existential products: milk, bread, medicines and school textbooks, in which case it amounts to 10% (since 2014, increased to 10% from 8%).

A significant share of the revenue side of the state budget comes from the collection of excise duties. This is a special tax rate, for taxation of petroleum products, biofuels, bio-liquids, tobacco products, alcohol beverages, coffee, liquid filling of electronic cigarettes and end-user electricity consumption. VAT and excise duties revenues, together with contribution from compulsory social insurance, represent the key revenues of the Serbian state budget.

[27] “Službeni glasnik RS”, br.54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013 – ispr.,108/2013, 42/2014, 68/2015 – dr. zakoni 103/2015

[28] Entire list available at http://www.poreskauprava.gov.rs/o-nama/pregled-propisa/Strana.html

Serbia: General Government Fiscal Operations, RSD billion

	January - December 2015			January - March 2016			January - June 2016		
	Prog.	Act.	Diff.	Prog.	Act.	Diff.	Prog.	Act.	Diff.
Total revenue	**1,610.3**	**1,631.7**	**21.4**	**362.6**	**399.6**	**37.0**	**775.1**	**844.5**	**69.4**
Tax revenue	1,389.1	1,400.5	11.4	324.5	338.1	13.6	691.6	727.2	35.6
of which: VAT	412.0	416.1	4.1	99.5	103.8	4.3	201.1	218.8	17.6
of which: Social security contributions	442.3	442.6	0.3	104.6	105.4	0.8	218.9	220.3	1.4
of which: Excises	230.3	235.8	5.5	51.9	57.4	5.6	114.2	122.9	8.7
Non-tax revenue	211.3	220.9	9.6	36.3	59.4	23.1	79.5	108.5	29.0
Capital revenue	0.1	3.2	3.1	0.0	0.7	0.7	0.0	5.4	5.4
Grants	9.7	7.2	-2.5	1.8	1.4	-0.4	4.0	3.4	-0.6
Total expenditure	**1,773.1**	**1,780.3**	**7.2**	**416.5**	**415.4**	**-1.0**	**853.4**	**862.7**	**9.3**
Current expenditure	1,639.3	1,632.9	-6.4	392.8	388.6	-4.1	794.6	792.3	-2.2
Capital expenditure	103.3	114.5	11.2	16.4	17.4	1.1	42.5	48.8	6.3
Net lending	2.5	2.7	0.2	0.5	0.6	0.1	1.3	1.7	0.3
Amortization of activated guarantees	28.0	30.1	2.1	6.8	8.7	1.9	15.0	19.9	4.9
Fiscal balance	**-162.8**	**-148.6**	**14.2**	**-53.9**	**-15.9**	**38.0**	**-78.3**	**-18.2**	**60.1**
Memo:									
Wage bill (excluding severance)	361.8	356.0	-5.8	83.2	84.6	1.4	171.7	172.1	0.4
Primary current expenditure of the Republican budget	904.0	902.1	-1.9	206.1	197.6	-8.5	426.6	416.0	-10.6
General government debt (percent of GDP)	75.9	77.4	1.5	75.5	73.8	-1.7	77.1	73.2	-4.0

Tabela 2. – Prihodi i rashodi budžeta – opšti nivo države (https://www.imf.org/external/pubs/ft/scr/2016/cr16287.pdf)

Although the rate of VAT is rather competitive, compared to neighboring countries, precisely in this area, there has been significant tax evasion and avoidance of taxpayers to meet their obligations. Around 30% of the GDP is beyond the tax reach. The informal/gray economy includes illegal activities, ranging from non-payment of benefits for informally employed workers, through purchases and sales of goods without invoices or fiscal receipts, to unreported income from sales of goods and services. The gray economy is practically the market-verified part of the legal economy that takes place in an illegal manner.[29]

As for the tax on corporate profit in Serbia, proportional rate of 15% is applied. This is also pretty competitive rate in comparison to Europe. However, the situation with the tax burden on labor is a bit different and more challenging. High taxes on labor are one of the main complaints from the business community when it comes to the tax burden in Serbia. In a situation where a number of legally employed people is lower than number of pensioners, it represents a significant barrier to new employment. The tax burden on laboris 38.9%. This means that taxes comprise nearly two-fifths of the total cost of the employers for compensation of work. Applied to the amount of average net salary in Serbia of 42,500 RSD, the total cost of the employer amounts to 69,600 RSD; the difference of 27,100 RSD represents the taxes on labor. Along with Romania, Croatia and Slovenia, Serbia is the country with the highest tax

[29] Lidija Madžar "Siva ekonomija u Srbiji u svetlu tendencija u Evropskim zemljama" http://www.vps.ns.ac.rs/SB/2013/3.3.pdf

wedge on wages in the South-East Europe.[30]

International, bilateral agreements on exemption of double taxation constitute another important aspect of tax policy of the Republic of Serbia, especially at the time of increased foreign direct investment. These agreements apply to persons who are residents of one or both Contracting States. It mostly applies to taxes on income and assets, and practically it means that if a person is paying taxes in one country, he or she does not need to do so in other country. Serbia has state agreements on exemption of double taxation with a total of 55 countries, including almost all EU member states as well as Russia, China, Canada, United Arab Emirates...[31]

Latest information provided by the Ministry of Finance is that, under the emergency procedure, several changes in tax regulation are being prepared and should take effect by January 2017. Together with new laws that should be adopted in the first half of the next year, a total of eight new and amended regulation will regulate the area of tax policy. The plan is to adopt amendments to the Law on VAT, the Law on Excise Duties, the Law on Tax Procedure and Tax Administration, the Law on Property Tax and the Law on Taxes on Use, Possession and Carrying of Goods by the beginning of next year. In the first half of 2017, amendments to the Law on Fiscal Cash Registers, a new*Law on Fees* as well as changes or more precisely harmonization of two regulation: the Law on Budgetary System and the Law on Administrative Fees, are expected.

When it comes to tax relief/exemption, a set of amended tax legislation has been applied since January 2016 in Serbia, which, among other things, provides various exemptions, significant mainly for large investors, such as exemption from income tax for a period of 10 years for the investment value of over 8.8 million EUR and 100 new jobs.[32]

Significant are also relief/exemptions that employers receive for paying incometaxes for new employees. This benefit is realized by employers who create new additional jobs, compared to the number of employees by 31 March 2014 as baseline. Employers are entitled to refund a part of the tax paid in the following cases: 65% for hiring 1 to 9 employees; 70% for 10 to 99 new jobs; 75% for more than one hundred new jobs. When it comes to tax relief/exemption on income, non-taxable portion of the salary is 11,000 RSD per month, for a full-time employee.

[30] Libertarijanski klub https://libek.org.rs/sr/istrazivanja/2015/10/07/smanjenje-nameta-na-rad-moguce
[31] Entire list available at the Ministry of Finance page http://www.mfin.gov.rs/pages/issue.php?id=7063
[32] Fond za podršku investicija u Vojvodini, http://www.sr.vip.org.rs/Poreske_olaksice

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Income tax in Serbia of 10% is not calculated for the following categories: compensation cost for public transport, for the travel to and from work up to the price of monthly tickets; per diem for work related travel in the country and/or abroad to the extent prescribed by the competent public authority; accommodation allowance for work related travel according to the reported invoice; transport related costs during the work related travel according to the invoice of the public transport carrier, or to the extent of 30% of the price per liter of super gasoline in case of travel by personally owned car. This tax is not paid for the solidarity assistance in case of illness, medical rehabilitation or disability of an employee or member of his/her family; gifts to children of employees, age 15 or younger, on the occasion of New Year and Christmas; as well as the jubilee awards to employees, in accordance with the law governing the work.[33]

[33] Fond za podršku investicija u Vojvodini, http://www.sr.vip.org.rs/Poreske_olaksice

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PUBLIC INFRASTRUCTURE

Facilities in public use or those made available for use or welfare of the public in any sector of public services and the economy, are, by definition, public infrastructure.[34] Development of public infrastructure, through public investment, represents the best form of public expenditure, especially under the conditions of low economic growth and controlled private spending. As a result, improved infrastructure can in the long term contribute to the regional integration and increased economic growth.

When it comes to the quality of infrastructure and competitiveness of the economy, Serbia's performance is at the bottom of the list in the region. This is confirmed by the international research in the field of competitiveness. Serbia, according to the latest Report on the competitiveness by the World Economic Forum for 2015-2016, is one of the lowest ranked countries when it comes to the state of infrastructure, particularly the quality of roads (114th out of a total of 140 ranked countries).[35] Problems created by extremely low investment in infrastructure have been analyzed by the Fiscal Council - an independent state body, accountable to the National Assembly of the Republic of Serbia, whose task is to ensure transparency and accountability in the implementation of fiscal policy.

Serbia is one of the few European countries that, in the second decade of the 21st century, doesn't have some of the key road corridors built to the satisfactory quality. Since 2008, annual average included around 30 km of built highway. Negative record was reached in 2012 when only 10 km of highway was built.[36] Also, Serbia is characterized by the poor state of energy and railway infrastructure. More than 55% of the railway network in Serbia was built in the 19th century, and the average speed of rail transport is 40 km per hour. Additionally, Serbian infrastructure faced severe damage during the floods in May 2014, with greatest losses in the area of transport network and energy facilities.

The share of capital investment in GDP in almost all countries of Central and Eastern Europe is 4%-5% of GDP. In Serbia it is only 3% of GDP. According to the report of the Fiscal Council, infrastructure investments should increase to at least 4% of GDP in the medium term.[37] An important note is that resources for that purpose are available, and that there are concrete infrastructure projects, as well as approved loans by the international financial institutions that still have not been used. For the

[34] Zakon o javno-privatnom partnerstvu i koncesijama (Law)
[35] World economic forum, Global competitiveness report 2015-2016; weforum.org/gcr
[36] Fiskalni savet, "Javne investicije u Srbiji" http://fiskalnisavet.rs/doc/ocene-i-misljenja/2015/javne_investicije_u%20srbiji_feb_2015.pdf
[37] Fiskalni savet, "Javne investicije u Srbiji" http://fiskalnisavet.rs/doc/ocene-i-misljenja/2015/javne_investicije_u%20srbiji_feb_2015.pdf

construction of road infrastructure, local infrastructure, health and other infrastructure purposes, amount of 7% of GDP has been approved, but unused. In addition to these loans, the Republic of Serbia invests 1% to 1.5% of GDP of its resources for a number of smaller investments.

When it comes to current infrastructure projects of the state and public companies 5 billion EUR loans have been approved out of which 3.7 billion EUR remains unused, which is around 11.1% of GDP. Most non-disbursed funds are in the sector of road infrastructure in the amount of 1.6 billion EUR, while the railway and energy account for 1 billion and 539 million EUR. The funds available for other infrastructure projects amount to 526 million EUR and relate to projects of different levels of government - local government, health care...

Major projects in the field of PPP aimed at infrastructure financing in Serbia – do not exist. There are nonetheless significant problems in all phases of infrastructure project management - from planning through resource allocation to the execution and control, which is mainly the consequence of fragmented and inadequate institutional framework. Problems arising already at the planning stage, such as poor project design documentation, cause and multiply problems in other, consequent phrases of project realization, while the total cost exceeds the originally planned amounts. It is necessary to establish an adequate institutional framework, without overlaps in jurisdictions and with clearly defined chain of responsibility, which would - in a systematic way – enable and support public investment projects. It is estimated that the available funds for large capital projects reached the amount of around 2.5 billion EUR, which allows financing of public investment to the desired level in the coming future.[38]

[38] Vladimir Vučković, Fiskalni savet, intervju; magazine “Biznis i finansije”, http://bif.rs/2016/08/na-cemu-se-zasnivaju-prognoze-o-rastu-bdp-srbije-kiseli-limun-srpske-privrede/

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CONCLUSIONS

Higher than forecasted GDP growth, lowered (almost halved) budget deficit than the value initially projected, halted growth of public debt (even before the planned date), they all represent good results of the Serbian finance sector management. Mentioned results of fiscal consolidation are not, however, good enough for Serbia to avoid the danger of slipping into a new crisis of public debt, because it remains an extremely indebted country.

Serbia is expected to restructure public enterprises, reduce the number of employees in public administration, to transform institutions, such as the Tax Administration, and to maintain reduced pensions and salaries in the public sector at the "frozen" level over the three years.

The risk to public finances is visible in the intended increase in spending on pensions and wages, in agreement with the IMF, which would mean raising the existing or introducing new taxes on consumption. This would be "already seen" scenario - when for the sake of symbolic increase in public sector wages and pensions (one year after their significant decrease), excise duties that citizens and businesses pay on fuel for motor vehicles increased. In relation to this, the state has failed to control the manner in which the individual public companies reduced the salaries of their employees. Instead of the planned 10% reduction, some companies, such as Power Company Serbia (Elektroprivreda), applied smaller percentage reductions, while some, such as Gas Company Serbia (Srbijagas), mitigated the deduction of salaries through various rewards and benefits on earnings.

At the same time, in terms of public investments, which represent the only form of government expenditures that may push economic growth - Serbia lags well behind and pays penalties on non-withdrawal of already approved loans. Public-private partnerships are negligible with minimal use of the possibilities for financing infrastructure investments with private capital.

State owned companies – in most cases unprofitable - continue to rely on subsidies from the budget; even though the direct subsidies have been suspended, unpaid loans of state companies taken thanks to the state guarantee significantly increase obligations and burden the state.

The appropriate strategies at the state level exist, as well as guidelines from the analysis of the competent control bodies. The key question however remains the political determination to carry out reforms, even beyond the arrangement with the IMF, which expires in less than one and a half year.

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