



A CITIZEN'S GUIDE TO THE BUDGET OF THE REPUBLIC OF SERBIA



● ● ○ for the year 2023



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РЕПУБЛИКА СРБИЈА
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PREFACE

Dear readers,

Having in mind the importance of public dialogue on public financial management, it is our pleasure to present to you this Citizen's Guide to the Budget of the Republic of Serbia.

Given that a significant portion of budget funds is being raised through tax collection, it is our obligation to provide the citizens, in a simple and understandable manner, with all available information regarding the collection and spending of this money.

We are convinced that the Citizen's Guide to the Budget of the Republic of Serbia will contribute to an improved understanding of the budgeting process, same as of the decisions underlying the budget formulation and that, on the other side, it will bring about improved public financial management and its harmonisation with international best practice.

Public finance stability is the priority of the Ministry of Finance, which is to be achieved by implementing a clear plan for harmonising budget revenues and proceeds and expenditures and outlays. Successful public financial management requires a high level of budget discipline and accountability. Accordingly, we are assured that a more extensive public debate on the direction our country is taking and public spending priorities may considerably contribute to economic growth and development in the long run.

Ministry of Finance of the Republic of Serbia





INTRODUCTORY REMARKS OF THE MINISTER OF FINANCE, SINIŠA MALI

The 2023 Budget Law of the Republic of Serbia is based on three pillars: preserving the living standard of the citizens, considerable allocations for capital investments and the energy sector.

When it comes to preserving the living standard of the citizens, the funds have been secured for increasing pensions by 12.1%; salaries of employees of budget beneficiaries, i.e. organisations for compulsory social insurance by 12.5%; and salaries of professional military personnel in the Serbian Armed Forces, and civilians in the Serbian Army Forces engaged at the Serbian Armed Forces General Staff and subordinate commands, units and institutions of the Serbian Armed Forces by 25%.

The second budget pillar refers to the increase in public investments amounting to RSD 427.20 billion, i.e. 20.27% of total expenditures, while at the general government level, these investments in total amount to RSD 545.5 billion or 6.8% of GDP. Despite the global economic crisis, not a single investment has been abandoned. The construction of highways, railways, bridges, wastewater treatment plants and sewerage network has been continued in the scope of the Clean Serbia project, same as of hospitals, primary health care centres, schools, etc., which will contribute to further GDP growth and quality improvement making Serbia even more attractive to investors.

Inter alia, the funds have been allocated for infrastructure projects: fast road of Ib category Novi

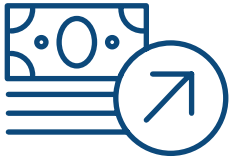
Sad-Ruma, Serbian-Hungarian railway project, construction of the highway E-70/E-75 bypass Belgrade section, the bridge across the Sava river at Ostružnica - Bubanj Potok; construction of E-763 highway, section: Preljina – Požega, construction of E-761 highway, section: Pojate – Preljina, construction of the road Ruma - Šabac – Loznica, the project of construction of municipal (wastewater) infrastructure and solid waste disposal infrastructure in the Republic of Serbia, fast road E-75, interchange Požarevac – Golubac, construction of the Belgrade metro.

The third pillar the budget is based on is energy. The budget includes a provisioning for the purchase of gas and electricity, same as for investments in the energy sector reflected in the construction and reconstruction of energy infrastructure, including a commitment assumed by the state under the agreement with the IMF pertaining to the active restructuring of enterprises in the energy sector so as for the energy sector to be stabilised as soon as possible and become the generator of growth.

The fiscal policy objective in the coming period will be to maintain macroeconomic and fiscal stability, keep public investments under control and reduce the deficit and public debt, accompanied by economic recovery and economic growth.

The fiscal rules assuming the role of a keeper of the sustainable fiscal position in the mid-term have been redefined to support preserving fiscal stability.

WHAT DOES THE BUDGET ENVISAGE FOR YOU?



INCREASE IN SALARIES AND PENSIONS

In 2023, the salaries of employees of budget beneficiaries, i.e. organisations for compulsory social insurance, are planned to be increased by 12.5%, the same as the salaries of professional military personnel in the Serbian Armed Forces and civilians in the Serbian Army Forces engaged at the Serbian Armed Forces General Staff and subordinate commands, units and institutions of the Serbian Armed Forces by 25%.

Moreover, the pensions will be increased by 12.1% starting from January 2023.



EDUCATION AND SCIENCE

The funds have been ensured for the financing of primary, secondary, college and university education, but also for modernisation of infrastructure, namely for implementation of the construction, reconstruction, rehabilitation, retrofitting, equipping projects, energy efficiency improvement projects in existing buildings, investment maintenance projects in primary, secondary, higher education buildings, same as students and pupils dorms. In addition, the funds have also been ensured for the procurement of free-of-charge textbooks and other teaching material for the pupils, trainees and institutions; for the teacher training for the introduction of new technologies and equipping classrooms with broadband Internet and modern equipment; for digital classrooms; funds for the preparatory pre-school programme, for individual support to pupils and students and construction of educational and scientific centres and funding of science.



HEALTH CARE

The funds were secured for preventive health care protection; support to the public health centres and institutes; development of health care centres' infrastructure; development of information technologies in health care; procurement of medical equipment; for the response of the Republic of Serbia to COVID-19 aimed at prevention and mitigation of the infection-caused consequences; salary reimbursement in the case of temporary work inability due to illness or pregnancy-related complications; health care of persons suffering from rare diseases; for providing support to the activities of the Reproductive Cells Bank, and for prevention and control of the leading chronic non-communicable diseases.



SUPPORT TO AGRICULTURE

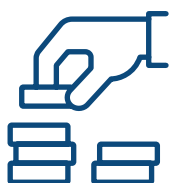
Budget funds will be focused on direct payments awarded to agricultural producers via specific support measures, through premiums for milk, incentives for plant and livestock production, and incentives for rural development measures encompassing support for enhancing competitiveness (investments in physical assets of agricultural holdings, stimulating perennial crops, enhancing primary agricultural production, support to investments for procurement of new machinery and equipment), for special incentives, credit support in agriculture and the market-oriented agriculture project.



SOCIAL BENEFITS

The funds have also been allocated for the operation of social welfare institutions for exercising rights and delivering services to individuals/ families, the rights of beneficiaries of veteran and disability welfare, and to support foster carers. Moreover, the funds have been secured for the provision of financial support to families with children through improved conditions aimed at meeting the fundamental needs of the children, harmonising work and parenthood, stimulating parents to have the desired number of children and

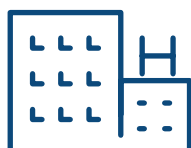
improving the financial standing of families. The support is also provided for additional training of employees in line with the situation and needs in the labour market; as well as for professional rehabilitation and employment of persons with disabilities.



SUPPORT TO THE ECONOMY

This year as well, the budget is focused on supporting the economy via incentives for investments in the business sector in line with the law regulating investments and support for the development of entrepreneurship and improvement of business infrastructure.

The funds were planned for contracted incentives but also new incentives for investments; for support to the development of entrepreneurship via support programmes targeted at the purchase of equipment; business start-ups and development projects implemented in cooperation with the Development Agency of Serbia and Development Fund; and for incentives to businesses in meeting various technical requirements for products and implementation of standards. The funds have been planned for the continuation and completion of infrastructure projects improving the economic climate in towns and municipalities and for regional development measures via the Regional and Local Development Incentive Programme.



INFRASTRUCTURE

Inter alia, the funds have been secured for the financing of the following projects: the fast road of Ib category Novi Sad-Ruma, the Serbian-Hungarian railway project, construction of the highway E-70/E-75 bypass Belgrade section, the bridge across the Sava river at Ostružnica - Bujanj Potok; construction of E-763 highway, section: Preljina – Požega, construction of E-761 highway, section: Pojate – Preljina, construction of the road Ruma - Šabac – Loznica, the project of construction of municipal (wastewater) infrastructure and solid waste disposal infrastructure in the Republic of Serbia, fast road E-75, interchange Požarevac – Golubac, construction of the Belgrade metro.



ENERGY SECTOR

The largest portion of outlays in the energy sector in 2023 is planned for implementing measures aimed at mitigating the effects of the energy crisis; for construction of the gas inter-connector Serbia- Bulgaria; for subsidies (funding investments in the mining sector for PE Resavica, for energy vulnerable customers); for improving energy efficiency, and for the purchase and storage of fuel.



ENVIRONMENTAL PROTECTION

The funds have also been secured for the financing of renewable energy sources, energy efficiency, pollution control and prevention, environmentally-friendly sustainable housing and land use; biodiversity conservation; clean transport; sustainable water and wastewater management; climate change adaptation; eco-efficient circular economy products; green buildings, etc.



SECURITY

In the security domain, a significant amount of funds was planned for the continued equipping with the state-of-the-art weapons needed to preserve the security of the Republic of Serbia against all forms of external and internal threats in peace, emergencies and war, for the overhaul and maintenance of the existing technical machinery, purchase of clothing and footwear for the military and police personnel.

Budget framework

- ▶ Revenues planned at RSD 1,843.4 billion
- ▶ Expenditures estimated at RSD 2,107.4 billion
- ▶ Planned budget deficit amounts to RSD 264 billion



Medium-Term Budgetary Framework

The total level of expenditures and outlays from the budget of the Republic of Serbia in 2024 is limited to the amount of RSD 2,125.4 billion or to the amount of RSD 2,181.6 billion in 2025. This limitation does not include expenditures and outlays of indirect budget beneficiaries of the Republic of Serbia, financed from source 04- Own revenues of budget beneficiaries, source 07- Transfers from other government levels and source 13- Undistributed revenue surplus from previous years.



In 2023 the Government will spend:

- ▶ RSD 147.4 billion for social protection
- ▶ RSD 68,7 billion for subsidies in agriculture
- ▶ RSD 427.2 billion for capital expenditures
- ▶ RSD 33.3 billion for transfers to towns and municipalities
- ▶ RSD 185.7 billion for the Pension and Disability Insurance Fund of the Republic of Serbia
- ▶ RSD 83.3 billion for the Health Insurance Fund of the Republic of Serbia
- ▶ RSD 143.5 billion for expenditures for repayment of interests



Table 1. Budget expenditures and outlays (in bln RSD)

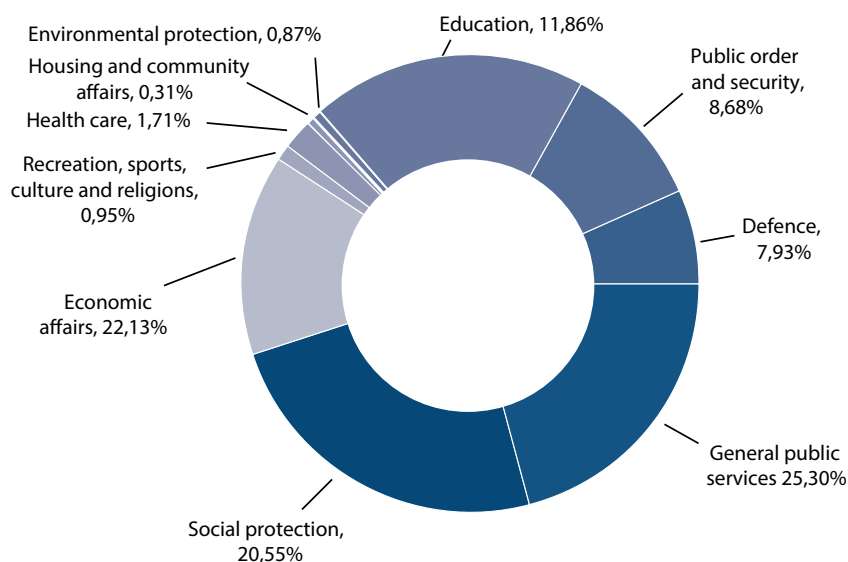
SECTOR TITLE	2023	Share in GDP
Agriculture and rural development	76.89	3.65%
Science, technological development and innovation	31.32	1.49%
Foreign affairs	8.61	0.41%
Environmental protection	24.71	1.17%
Energy, mineral resources and mining	41.02	1.95%
General public administration services	88.93	4.22%
Transport and transport infrastructure	317.54	15.07%
Labour market	8.52	0.40%
Social protection	429.84	20.40%
Human rights and civil society	11.15	0.53%
Urban and spatial planning	6.57	0.31%
Culture, communication and media	15.52	0.74%
Youth and sports	5.53	0.26%
Public safety	117.31	5.57%
Economic and development policy	55.02	2.61%
Courts and legal system	64.49	3.06%
Defence	160.87	7.63%
Health care	31.68	1.50%
Religion and diaspora	1.40	0.07%
Education	249.34	11.83%
Political system	8.00	0.38%
Public debt servicing	169.33	8.04%
Financial and fiscal system	51.55	2.45%
Emergency programmes and provisioning	132.23	6.27%

WHERE THE MONEY COMES FROM**Table 2.** Structure of the Republic of Serbia budget revenues

REVENUES (IN BILLION)	2023	Share in total revenues
Value added tax (VAT)	865.0	46.93%
Excise taxes	332.1	18.02%
Non-tax revenues	200.1	10.85%
Corporate Profit Tax	188.4	10.22%
Income tax	107.8	5.85%
Customs duties	86.0	4.67%
Donations	50.5	2.74%
Other	13.5	0.73%
total	1,843.4	100.00%

HOW MUCH DO WE BORROW AND REPAY?

The Government will have to borrow in domestic and international markets the amount of 264 billion to cover the deficit, same as to repay the principal to domestic and foreign creditors. The debt servicing costs comprise the expenditures for repayment of interests amounting to 143.5 billion and outlays for principal repayment to domestic and foreign creditors, and repayment of principal upon guarantees amounting to RSD 675 billion.

Chart 1. How it will be spent (%)



1. WHAT IS THE BUDGET?

The budget of the Republic of Serbia represents a document passed in the form of a law planning the revenues and proceeds and expenditures and outlays of the state in a single calendar year. In an ideal case, the revenues and proceeds and expenditures and outlays are balanced, meaning that the state is spending as much as it earns. If the expenditures and outlays exceed the revenues and proceeds, the budget is in deficit. When the budget includes higher revenues and proceeds than expenditures and outlays, it is in surplus.

Similarly to the household budget when the costs exceed the earnings, the state needs to borrow to cover all of its planned costs. The citizens may borrow from friends and banks, whereas the state borrows in the capital market by borrowing funds from international financing institutions like: the World Bank and European Investment Bank or from commercial banks or other states. Likewise, the state may issue securities that can be purchased by natural persons and legal entities, nationals and foreign nationals. Therefore, the state may borrow from its own citizens.

The budget is primarily a political instrument used by the Government of the Republic of Serbia to implement its plans. In reality, there is a large gap between the wishes and possibilities, so the state can not finance all of its wishes with limited funds, and this is why the Government sets priorities and makes compromises. Same as the household needs to choose whether to go on a summer and winter holiday or take only a summer holiday and instead replace the broken laundry machine, the state may decide to, instead of the bridge construction, invest funds in the construction of the health care centre given that the set priority implies improvement of health care. Households have overhead costs: bills for electricity, phone, Internet, cable TV or costs of food, so very little money is left for some other needs like travelling or going to the theatre. The situation is the same with the budget of the Republic, where there are manda-

tory costs for debt repayment, salaries, pensions, social benefits, therefore not much funds are left for the so-called development budget where priorities can be set, namely where the state can choose whether to build a bridge or a health care centre.

Each year, the Government submits a Fiscal Strategy to the National Assembly aimed at setting short-term and mid-term objectives of the Government fiscal policy for the period of three consecutive years and also provides a detailed explanation of the compliance of the said mid-term objectives with fiscal principles and rules.

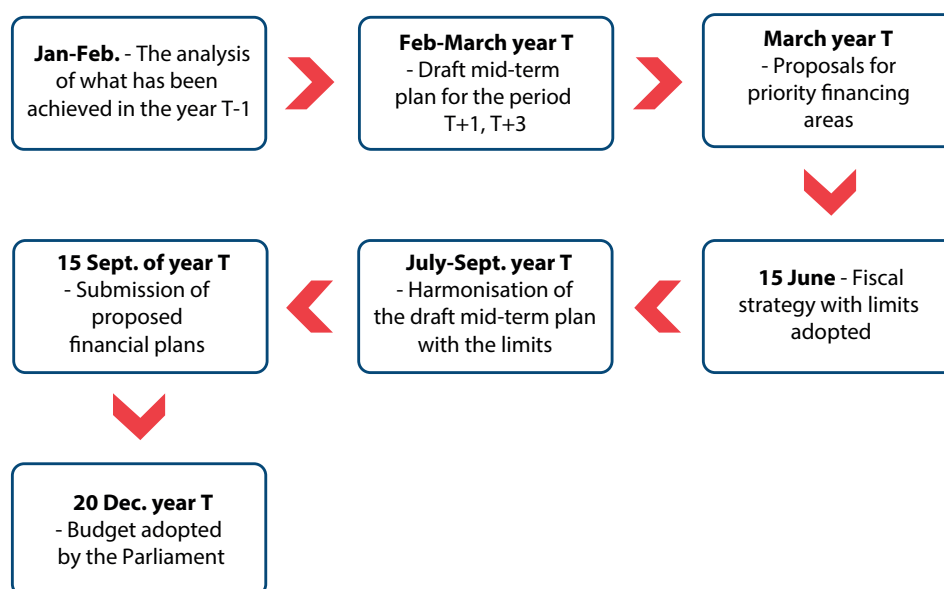
The funds planned in the budget represent the right to spending that can be exercised by the budget beneficiary if a sufficient level of revenues is generated. Each budget beneficiary is responsible for spending allocated budget funds in terms of legality and performance. After the budget year had ended, the annual financial statement on the budget is adopted in the form of a law, whereas the State Audit Institution, as the highest independent authority for audit of public funds engaged in oversight of public funds spending, includes the audit of the budget of the Republic of Serbia in their audit programme.

The fiscal Council is an independent authority, reporting to the National Assembly on the performance of tasks from their scope. The fiscal Council prepares the opinion on the Draft Fiscal Strategy and Draft Budget Law of the Republic of Serbia, verifies macro-economic and fiscal assumptions used for the Fiscal Strategy development and assesses whether and to what extent the Government has complied with its determined fiscal rules.

2. THE BUDGET PREPARATION PROCESS

The efficient execution of the limited public resources greatly depends on the quality of the budgeting process.

The Figure shows the mid-term plans planning process, optimisation of the public policy implementation, setting financing priorities and annual budget development process.



- ▶ The annual cycle begins by evaluating what has been achieved in the past period: by analysing implemented measures, consumption and goals achieved in the past year. New measures are considered to enhance the implementation of policies in case the set goals have not been met.
- ▶ The next step involves analysing the state of affairs in the area the budget beneficiary is responsible for. The starting point are the adopted strategies containing answers to the questions of where we are right now, where we want to be and how to get there. Without the funds for its implementation, the strategy is nothing more than just a piece of paper; on the other hand, the budget without a plan represents only roaming in the dark; therefore, there needs to be a link between the planning and budgeting processes. This is the reason why budget beneficiaries draft their financial (mid-term) plans for the period of three years, presenting the planned activities for the implementation of their strategies and planning funds for their implementation.
- ▶ In accordance with the draft mid-term plan, budget beneficiaries may propose a reallocation of planned funds in the existing programme structure. This step includes the “termination” of inadequate or inefficient programme activities or projects and proposing new programme activities or projects forwarded to the Ministry of Finance under the procedure for setting priority funding areas (PFA). The PFA represents an introduction to the budget planning cycle when budget beneficiaries propose their policies reflected in the programme activities and projects they wish to finance in the next three years.
- ▶ The next step is to establish a link between the wishes and possibilities. The limits are defined based on the proposed priority funding areas of a budget

beneficiary and available budget funds (by passing a Fiscal Strategy), namely the total amount of funds available to each budget beneficiary for each of the coming three years.

- ▶ After that, based on the Instruction on Budget Preparation, budget beneficiaries adjust their financial (mid-term) plan with the set limits and forward the proposed financial plan to the Ministry of Finance.
- ▶ This is followed by negotiations between the budget beneficiaries and the Ministry of Finance to reach an agreement about the final amount of the funds to be made available to budget beneficiaries

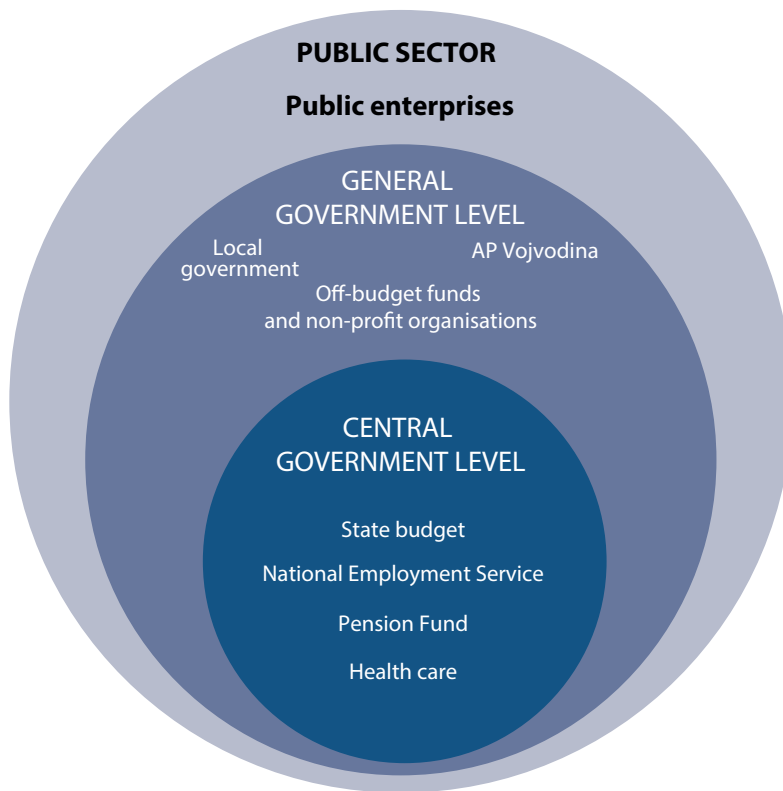
in the coming year. The Ministry of Finance prepares a Draft Budget Law and forwards it to the Government for consideration and adoption.

- ▶ The Government then adopts the Budget Law Bill and forwards it to the National Assembly for consideration and adoption. Members of the Parliament may submit amendments to the budget bill and in that way, influence the allocation of funds in the budget and the purpose of their spending. National Assembly adopts the budget by 20 September of the current year and the budget becomes effective as of 1 January of the coming year.

3. WHO IS FINANCED FROM THE BUDGET?

When talking about Budget Law, we refer to the budget of the Republic of Serbia, which is a part of the central government level. The central government level, local governments, AP Vojvodina and off-budget funds¹ and non-profit organisations at the local level make the general level of the government, whereas public enterprises are not included in the general government level. General government level and public enterprises jointly make the public sector

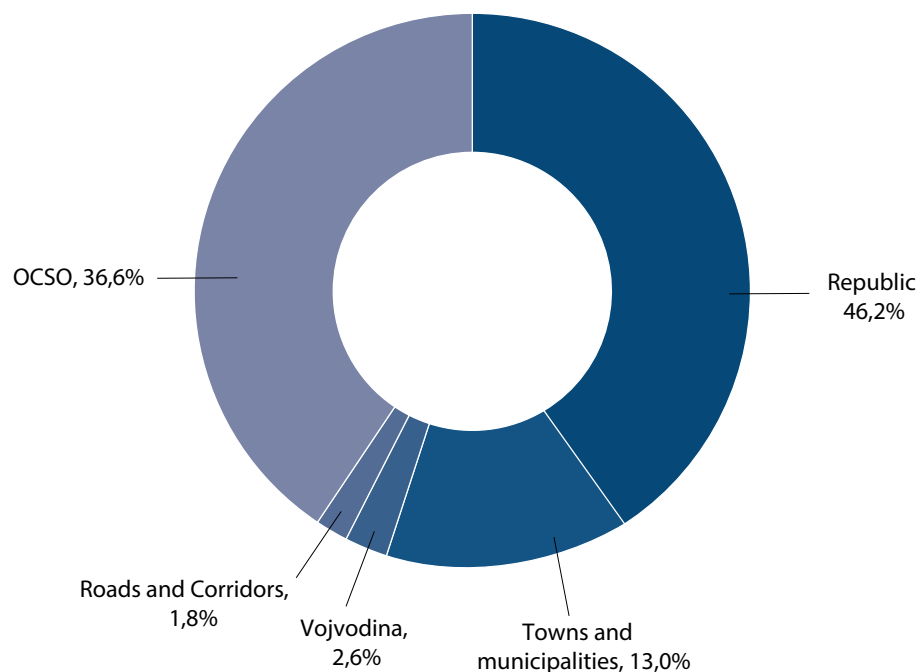
3.1. Public sector structure



¹ Off-budget funds: include Public Enterprise “Putevi Srbije“ and Koridori d.o.o.

3.2. Structure of general government level expenditures by levels of government, excluding transfers by final spending, plan for 2023

Chart 2. Structure of general government expenditures by government levels (%)



*OMSO – Organisations for compulsory social insurance

Same as in the case of a household budget, the budget of the state first needs to know how much funds it has available, i.e. the amount of total revenues and proceeds. The state collects revenues from its citizens and, in return, provides them with certain goods and services, like constructing roads, bridges, schools, and hospitals, providing health care, education and other services. A major portion of state revenues comes from taxes paid by its citizens on their property, profit or purchases in shops when they pay the value added tax (VAT). Moreover, the state raises tax revenues like the excise taxes on oil products or tobacco products and customs duties. In addition, it also collects revenues from the fees and charges and sales of assets. The state may finance its expenditures from grants from international organisations or foreign countries. Currently, the major part of grants comes from the European Union via the so-called IPA projects (Instrument for Pre-Accession Assistance), representing introduction into the structural and cohesion funds the Republic of Serbia will be able to access once it has become a full-fledged member of the European Union.

3.3. National budget structure

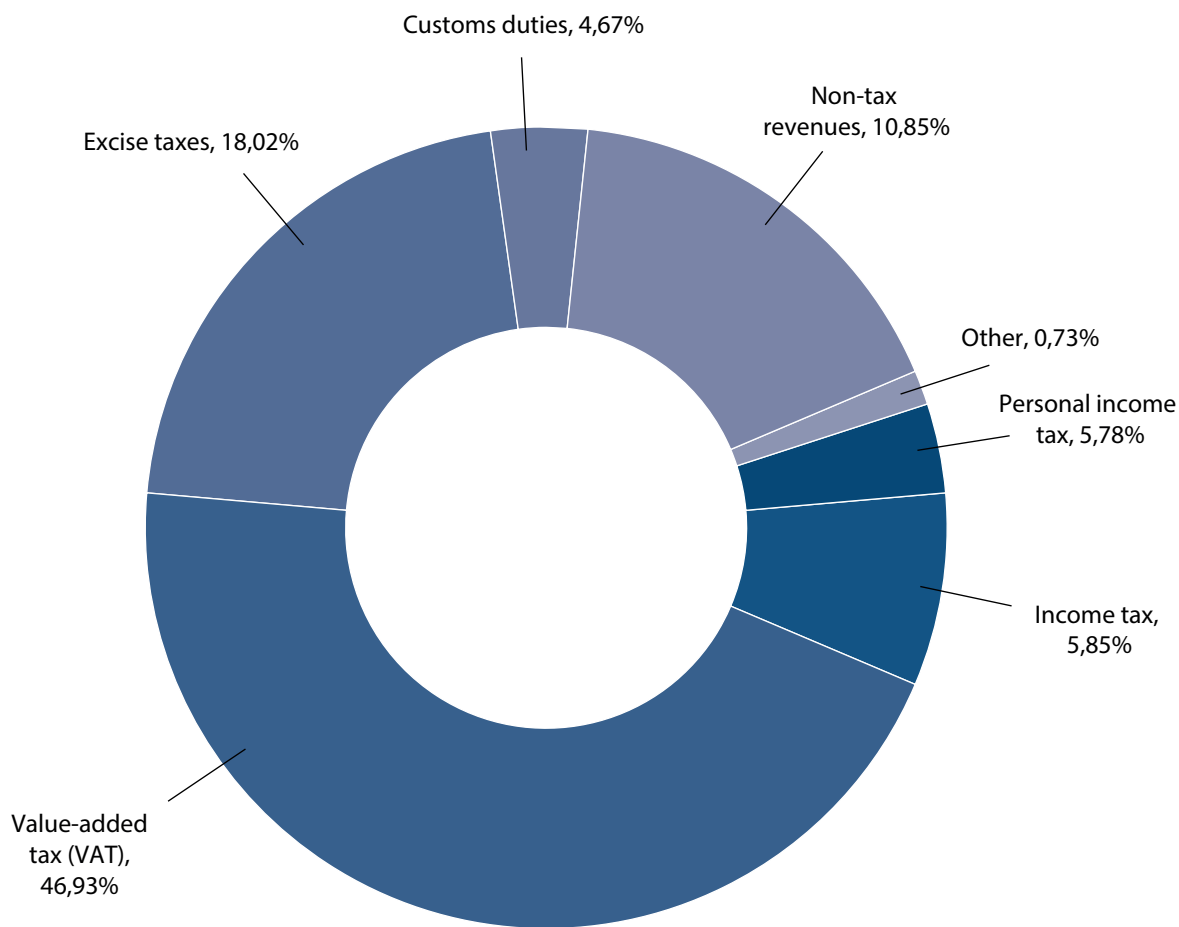
The 2023 budget of the Republic of Serbia envisages total revenues and proceeds amounting to RSD 1,843.4 billion, thus representing an increase of 7.8% compared to the amount envisaged under the 2022 plan.

The revenue forecast for 2023 was developed based on:

- ▶ projected trends of the most important macroeconomic indicators: GDP and its constituent elements, inflation, foreign exchange rate, foreign trade trends, estimated employment and salary trends in 2023;

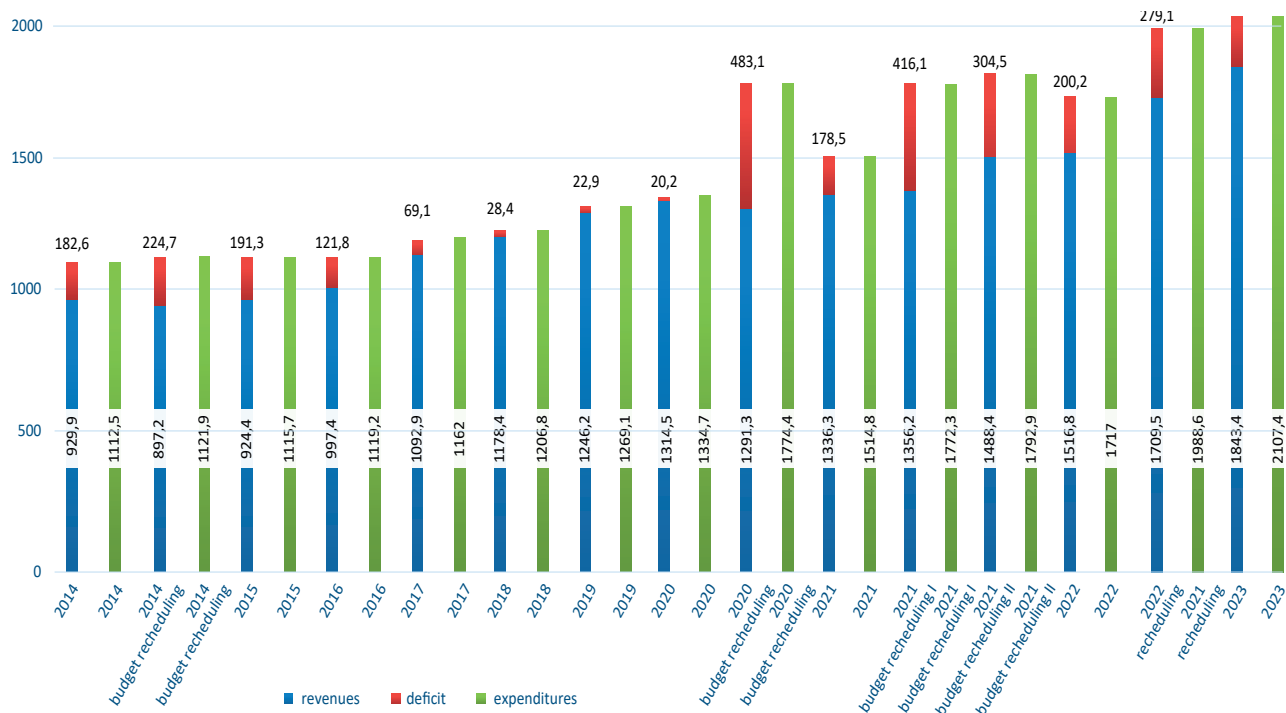


Chart 3. Structure of revenues in 2023



The Budget Law of the Republic of Serbia consists of general and special parts. Articles of the law in the general part summarise the data and background information on the revenues and proceeds and ex-

penditures and outlays of budget beneficiaries. It contains the data on the total revenues and proceeds and expenditures and outlays, their structure, the same as the surplus or deficit levels.

Chart 4. Overview of revenues, expenditures and deficit in the period 2014 - 2023 (in billion RSD)

The general part of the budget provides an explanation of how the deficit is to be financed. It also shows the planned borrowing and debt repayment of the Republic of Serbia in the course of the budget year with the list of creditors, loan amounts and interest rates.

The general part of the budget outlines the estimated financial assistance of the European Union implemented via IPA projects. These projects may be divided into two groups- those not requiring the co-funding by the beneficiary, i.e. Republic of Serbia, and those that do require co-funding, most often amounting to 15% of the total project value.

Moreover, the general part of the budget contains an overview of planned capital expenditures for the current and next two years in a table containing the list of budget beneficiaries with related capital projects.

The special part of the budget contains a detailed overview of planned revenues and expenditures of budget beneficiaries based on organisational, economic, functional and programme classification.

Organisational classification tells us who the beneficiaries of budget funds are. Direct budget beneficiaries are specified in the special part of the budget, including, for example, the Ministry of Defense, Ministry of Economy, Serbian Academy of Science, Republic Hydrometeorological Service, and Anti-Corruption Agency. In addition, there are indirect budget beneficiaries that are not individually but cumulatively presented in the budget, like, for example, primary schools under the Ministry of Education, Science and Technological Development, or museums under the Ministry of Culture.

Table 3. Budget expenditures and outlays (in bln RSD)

Budget expenditures	Rescheduling 2022	Budget 2023	Index	Expenditure structure rescheduling 2022, in %	Expenditure structure Budget 2023, in %
TOTAL EXPENSES AND OUTLAYS	1,988.64	2,107.36	105.97	100,00%	100,00%
Current expenses	1,394.28	1,537.46	110.27	70.11%	72.96%
Personnel expenses	369.92	410.45	110.96	18.60%	19.48%
Expenditures for goods and services	174.30	171.41	98.34	8.76%	8.13%
Interest repayment and associated borrowing costs	113.20	143.50	126.77	5.69%	6.81%
Subsidies	174.76	192.92	110.39	8.79%	9.15%
Grants to foreign governments	0.02	0.01	42.92	0.00%	0.00%
Grants to international organisations	9.91	8.52	85.97	0.50%	0.40%
Transfers to other government levels	104.77	134.20	128.10	5.27%	6.37%
Transfers to organisations for compulsory social insurance	218.43	282.43	129.30	10.98%	13.40%
Other grants and transfers	7.97	4.25	53.34	0.40%	0.20%
Social insurance and social protection	136.61	147.42	107.92	6.87%	7.00%
Other current expenses	84.39	42.34	50.17	4.24%	2.01%
Expenses for non-financial assets	423.00	427.20	100.99	21.27%	20.27%
Expenses for principal repayment (to implement public policies)	18.20	25.50	140.11	0.92%	1.21%
Expenses for purchase of financial assets (to implement public policies)	153.16	117.20	76.52	7.70%	5.56%

The Ministry of Finance is entitled to the largest budget since they manage the funds for debt repayment, financial assistance to the Pension and Disability Insurance Fund of the Republic of Serbia and Republic Fund of Health Insurance, transfers to local governments, same as the funds for expropriation, presented in the diagram above under the item Ministry of Finance- other expenditures and outlays.

The economic classification shows what the money is spent on, like salaries, materials, services,

machinery, equipment, debt repayment, social benefits or overheads like electricity, water and phone bills.

In the Budget Law, the growth of capital expenditures of the Republic of Serbia was planned in 2023 compared to 2022 by ca. RSD 4.2 billion. A major part of this increase is intended for the reconstruction of public buildings, projects in the area of information technology, expropriation and investments via the Property Directorate of the Republic of Serbia.



Chart 5. Allocation of funds by ministries in %

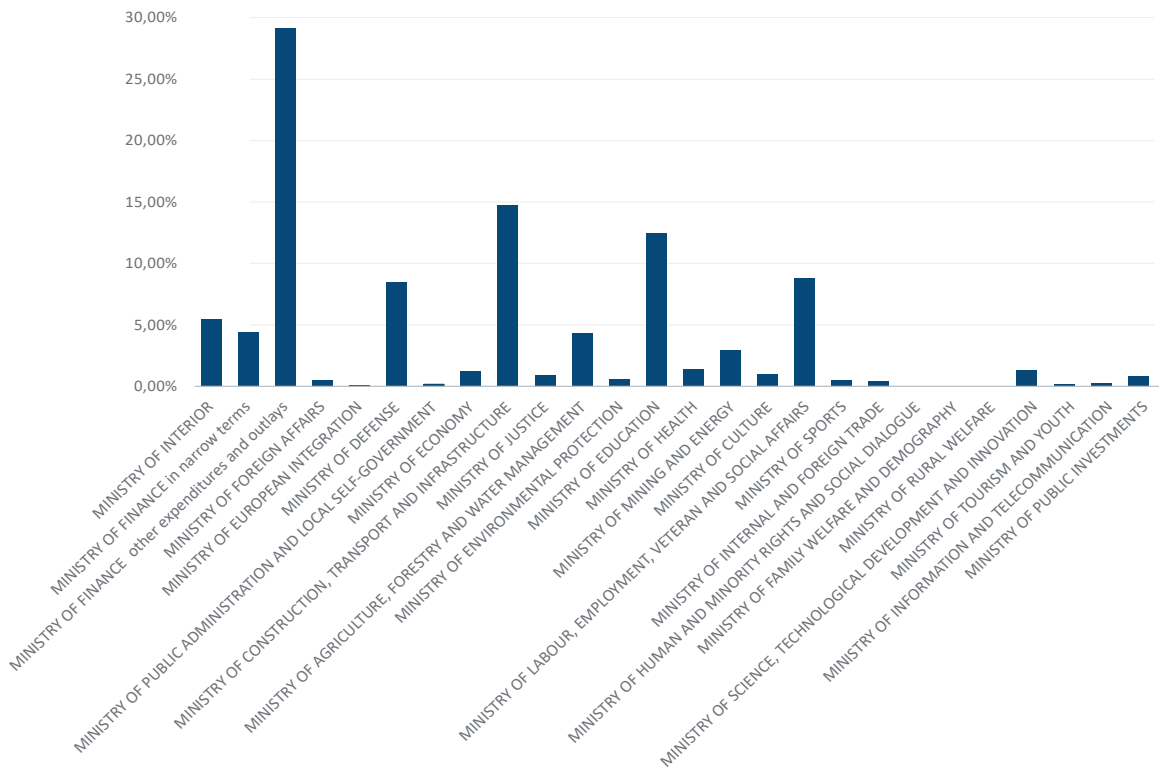


Chart 6. Structure of expenditures based on economic classification (%)

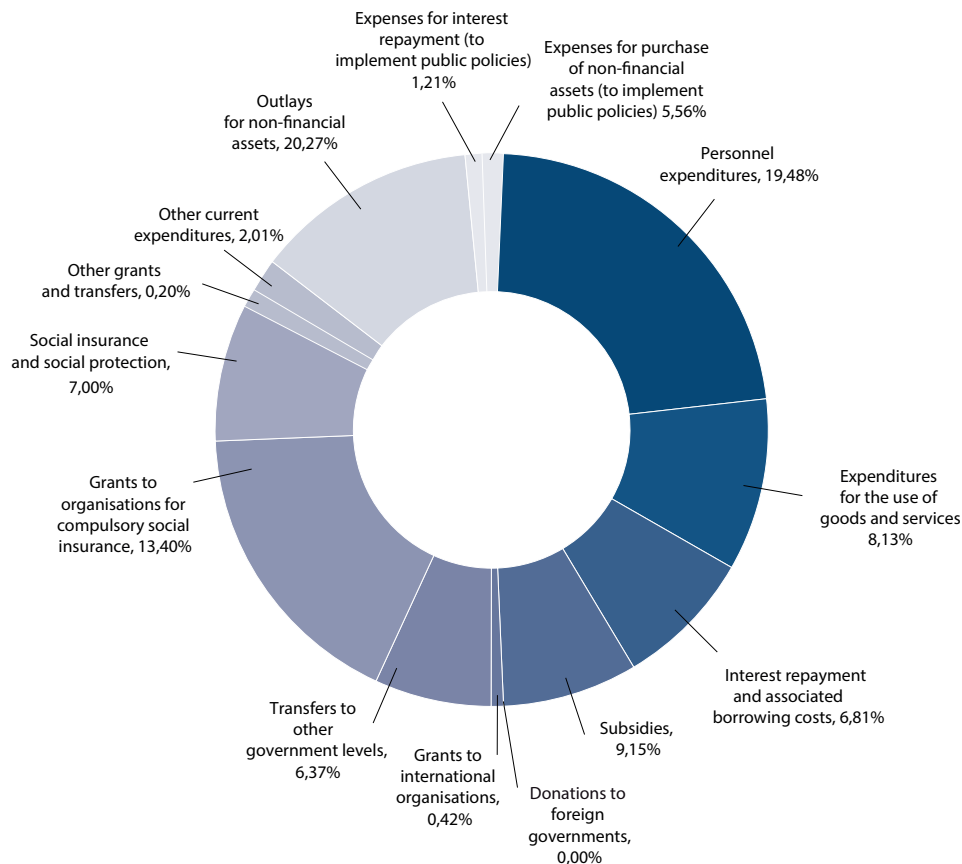
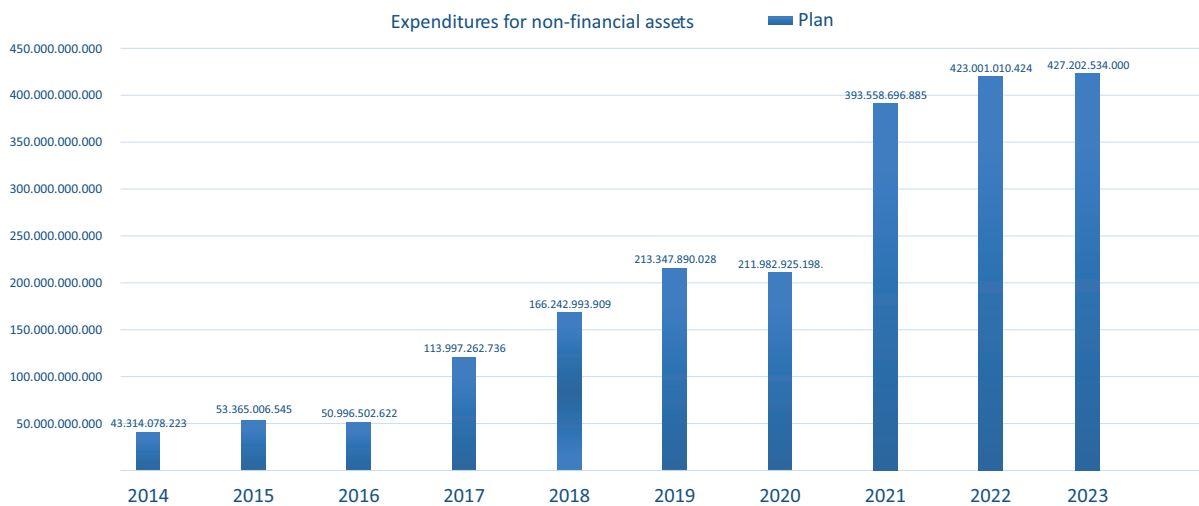


Chart 7. Percentage share of capital outlays in the budget (%)

Table 4. Share of ministries in capital expenditures (%)

MINISTRY	SHARE IN CAPITAL EXPENDITURE
MINISTRY OF INTERIOR	5.50%
MINISTRY OF FINANCE in more narrow terms	4.39%
MINISTRY OF FINANCE other expenditures and outlays	29.88%
MINISTRY OF FOREIGN AFFAIRS	0.43%
MINISTRY OF EUROPEAN INTEGRATION	0.06%
MINISTRY OF DEFENSE	8.10%
MINISTRY OF PUBLIC ADMINISTRATION AND LOCAL SELF-GOVERNMENT	0.11%
MINISTRY OF ECONOMY	1.55%
MINISTRY OF CONSTRUCTION, TRANSPORT AND INFRASTRUCTURE	14.54%
MINISTRY OF JUSTICE	1.07%
MINISTRY OF AGRICULTURE, FORESTRY AND WATER MANAGEMENT	4.01%
MINISTRY OF ENVIRONMENTAL PROTECTION	0.92%
MINISTRY OF EDUCATION	12.55%
MINISTRY OF HEALTH	1.59%
MINISTRY OF MINING AND ENERGY	2.50%
MINISTRY OF CULTURE	0.71%
MINISTRY OF LABOUR, EMPLOYMENT, VETERAN AND SOCIAL AFFAIRS	8.66%
MINISTRY OF SPORTS	0.25%
MINISTRY OF INTERNAL AND FOREIGN TRADE	0.08%
MINISTRY OF HUMAN AND MINORITY RIGHTS AND SOCIAL DIALOGUE	0.03%
MINISTRY OF FAMILY WELFARE AND DEMOGRAPHY	0.05%
MINISTRY OF RURAL WELFARE	0.07%
MINISTRY OF SCIENCE, TECHNOLOGICAL DEVELOPMENT AND INNOVATION	1.53%
MINISTRY OF TOURISM AND YOUTH	0.16%
MINISTRY OF INFORMATION AND TELECOMMUNICATION	0.24%
MINISTRY OF PUBLIC INVESTMENTS	1.01%



Chart 8. Structure of capital expenditures (%)

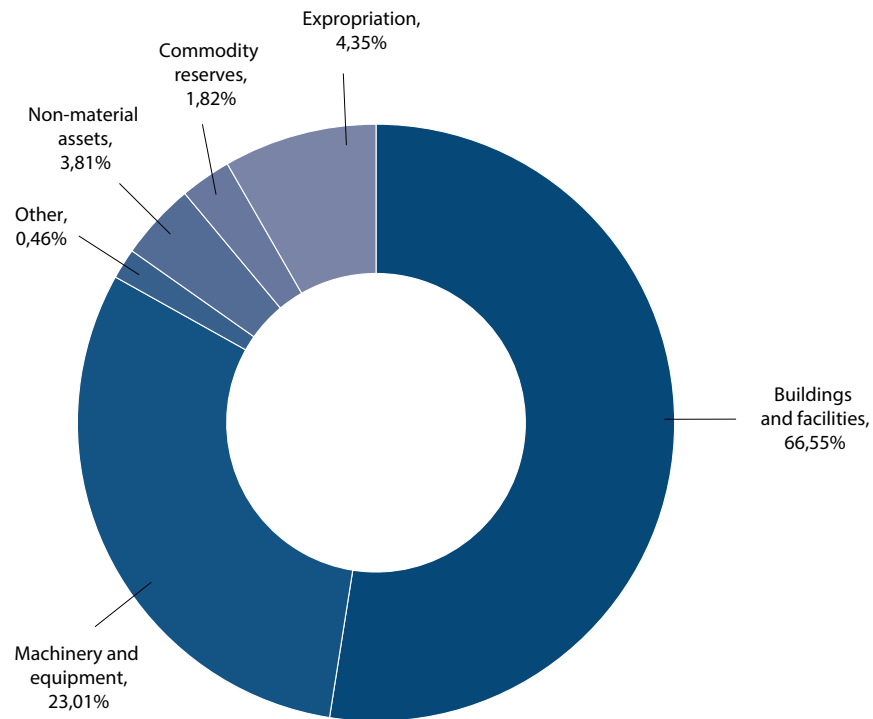


Chart 9. Structure of expenditures for social protection (%)

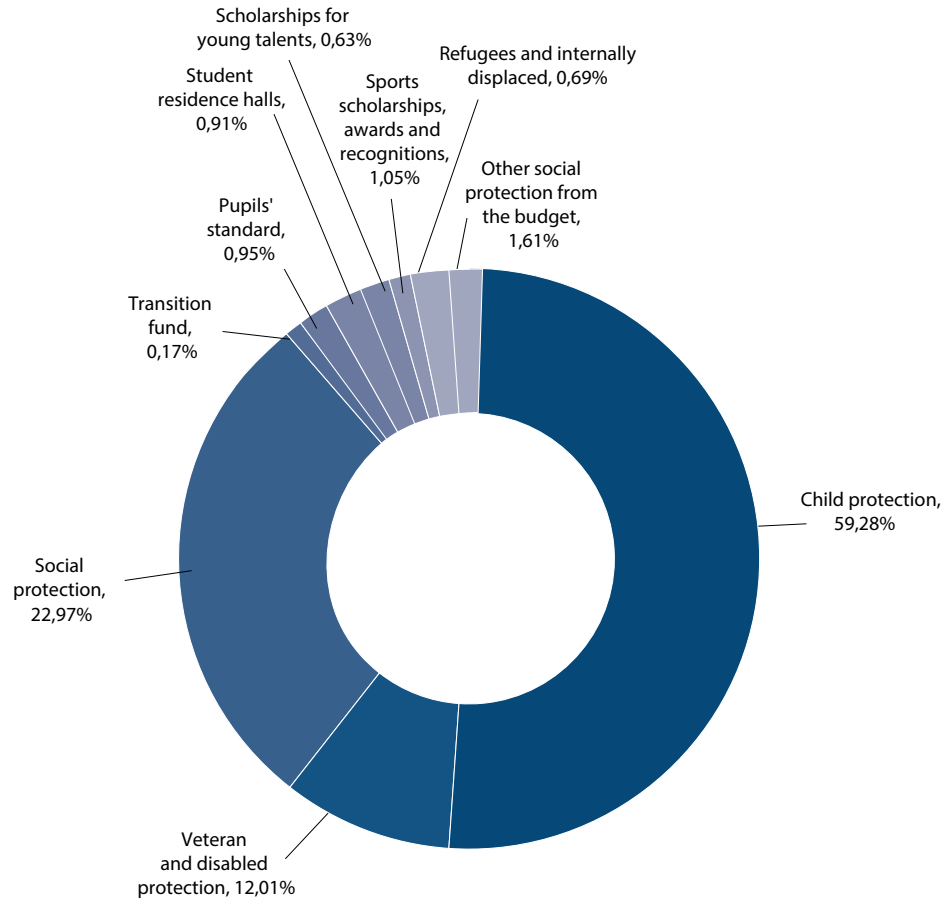
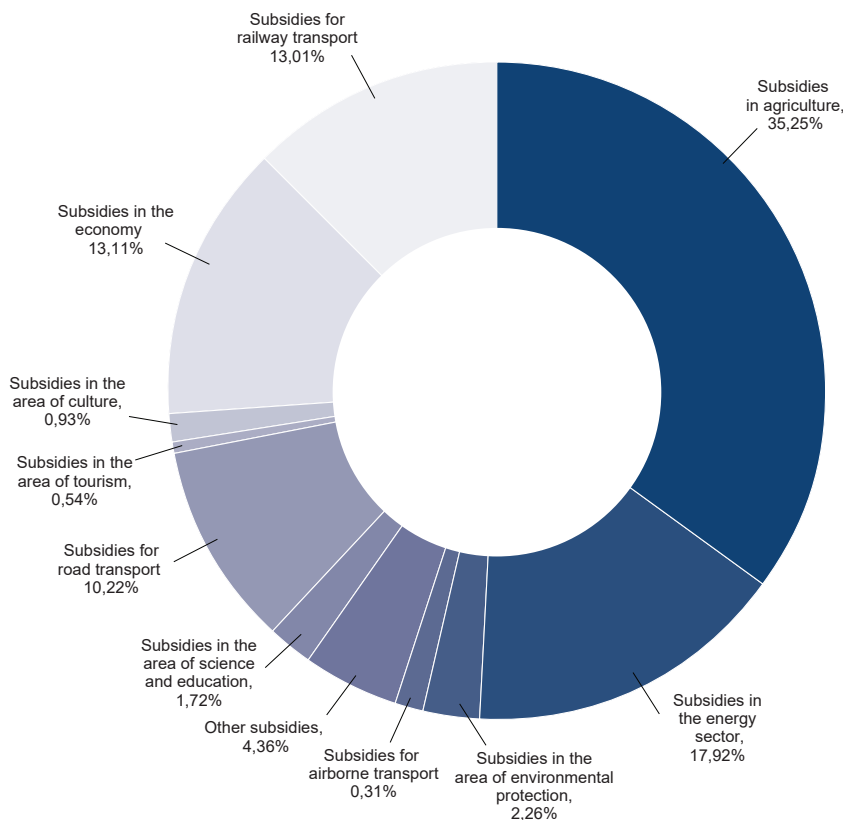


Chart 10. Subsidy expenditures in %



Total planned funds for social protection from the budget amount to RSD 147.4 billion. The highest portion of funds was planned under the heading of the Ministry of Labour, Employment, Veteran and Social Affairs for the child, veteran, disability, and social protection and transitional fund (the rights of employees in the case of bankruptcy of an employer). The funds for upgrading the pupils' and students' standards are

planned under the heading of the Ministry of Education. The heading of the Ministry of Sports includes sports scholarships, awards and recognitions.

The total planned expenditures for subsidies amount to RSD 192.9 billion. Subsidies have mainly been planned for agriculture, railway, economy, roads, subsidies in the area of tourism, etc.

3.3.1. Programme budget

Programme classification shows the classification of programmes, programme activities and projects of budget beneficiaries, and it became mandatory for all budget beneficiaries as of the 2015 budget when the Republic of Serbia introduced programme budget.

Example of the Ministry of Environmental Protection programme and programme activity

Programme: Environmental protection management				
<i>Objective:</i> Protecting and improving the quality of air and ozone layer				
<i>Indicator:</i>	<i>Baseline value</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
Annual consumption of substances damaging the ozone layer	8,37	7,53	7,53	7,53

Programme activity: Inspection for environmental protection, fisheries and protection from ionising radiation				
<i>Objective:</i> Improved implementation of regulations in the area of environmental protection, fisheries and ionising radiation				
<i>Indicator:</i> Percentage of conducted inspection oversights envisaged under the Annual Inspection Work Plan and operational work plans	<i>Baseline value</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
	85%	90%	90%	90%

The Budget System Law envisaged that the introduction of the programme budget was to be performed gradually for specific beneficiaries of public funds in the Republic of Serbia, which was used in 2014 by a dozen budget beneficiaries, whereas in 2015, this obligation became mandatory for all budget beneficiaries and local governments. By implementing this reform, Serbia has joined a large group of countries which have recognised this model as a basis for a more transparent and efficient allocation of budget funds.

The programme budget represents an efficient mechanism for the implementation of public administration reform. Such a budget enables improved management of the public administration performance, increased accountability of budget beneficiaries, establishing stronger links between annual budgets, prioritisation of expenditures and outlays, and implementation of public policies, but primarily increased transparency of spending.

Advantages of the programme budget model

The previous line budget model has shown only purposes (e.g. salaries, maintenance, travel costs, etc.) organisational unit within the state is entitled to spend the allocated budget funds for. The line budget did not provide information on the public policies' targets to be achieved by the allocation of funds- therefore, we were unable to determine whether a particular policy was effective. Now the programme budget provides answers to the questions:

- 1) what purposes are the funds spent for (expenditures and outlays are allocated for programmes, programme activities and projects of budget funds beneficiaries);

- 2) how is such spending linked with the beneficiary's objectives (i.e. public policies' objectives);
- 3) which results are being achieved (by measuring performance).

In this way, the programme model:

- ▶ fosters fact-based discussion on the required financial resources and improved prioritisation of expenditures;
- ▶ improves fiscal coordination at the government level, which is crucial for the implementation of national, social and economic targets;
- ▶ enables identifying inefficient spending, areas where adequate results are not being achieved, same as areas requiring more resources;
- ▶ contributes to improving services delivered by the state;
- ▶ enables the development of a more transparent and understandable budget for the citizens.

Budget beneficiary programme structure

- ▶ The programme structure of a budget beneficiary includes programmes, programme activities and projects expenditures and outlays are allocated for;
- ▶ The programme structure is linked to the targets budget beneficiary is planning to meet in line with its mid-term plan and strategies applicable in its purview;
- ▶ In parallel with the development of the programme budget structure, the methodology for monitoring the attainment of targets is defined, namely, performance indicators.
- ▶ The budget beneficiary is responsible for reporting to the Ministry of Finance, Government and National Assembly on the achieved results of programmes, programme activities and projects.

4. STATE OF AFFAIRS IN THE AREA OF PUBLIC DEBT

In accordance with the applicable provisions of the Budget System Law, if the general government debt exceeds 45% of GDP, the Government is responsible for proposing measures to bring the debt closer to the targeted level and within sustainable limits. By the end of the year, this law is to be amended and supplemented in its part pertaining to fiscal rules and fiscal accountability and sustainability principles¹³. In line with the amended general fiscal rules on the deficit and debt, the procedure for exceeding the upper debt level is modified. Hence, should the debt exceed 55%, in line with the Fiscal Strategy and following the procedure for the Fiscal Strategy adoption, the Government proposes the Debt Reduction Programme with specific measures for bringing the debt level below the set limit. The Programme is submitted for each year in which the debt remains above 55% of GDP. In case the debt should reach a level above 60%, which is at the same time the upper permissible public sector debt limit, the Debt Reduction Programme is adopted by the National Assembly minimum once a year in the procedure of adoption and preparation of the budget for the next fiscal year.

In the period between 2008 and 2014, the general government debt significantly increased with a simultaneous explosive public debt growth trajectory, whereby the ratio between the debt and GDP was more than doubled. The fiscal consolidation measures passed at the end of 2012 and in 2013 partially mitigated this trend; however, the public debt level was still on a considerable rise. Reduction in primary deficit in the period 2012-2014 was not sufficient to stabilise the public debt share in GDP. The effects of the first fiscal consolidation cycle covering primarily the revenue side were lacking due to the increased volume of the shadow economy, typical in the period following the tax rates increase. On the expenditure side, high interests and specific one-off expenditures additionally worsened the fiscal position.

The fiscal consolidation measures passed at the end of 2014 lowered the primary deficit and slowed down the public debt growth in 2015 already. The public debt share in GDP declined in 2016, a year earlier

than envisaged under the IMF arrangement. In 2016, a primary deficit of 1.7% of GDP was achieved, finally creating conditions for the reduced public debt share in GDP. After that, in 2017, the achieved primary fiscal surplus of 3.6% of GDP led to an even more considerable drop in debt share, by more than 10 p.p. of GDP, to 58.6% of GDP. In 2018, the trend of reduction of declining public debt share in GDP continued to reach 54.4% of GDP. Fiscal consolidation in 2019 did not jeopardise the downward public debt trajectory. The positive primary fiscal output in 2019 of 1.8% of GDP affected the further decline of the public debt share in GDP by an additional 1.6 p.p.

The period as of 2020 was marked by one of the greatest health and, consequently, economic crises in the past several decades caused by the COVID-19 pandemic. The most important factors affecting the debt trends during the above period were the level of total and primary fiscal deficit, additional needs for funding and repayment of the due debt portion. The achieved fiscal deficit of 8% of GDP (primary deficit of 6% of GDP) in 2020. The revised 2023 Fiscal Strategy with projections for 2024 and 2025 and deficit of 4.1% GDP in 2021, have led to a temporary reversal of the declining public debt share trajectory. Even besides this, the general government public debt share in GDP slightly dropped to 57.1% of GDP in 2021. In 2022, the projected level of primary fiscal output (primary deficit of 2.2% of GDP) decreased the public debt share to 59.9%. The Fiscal Strategy for the coming mid-term period envisages a gradual stabilisation of public finance and lower deficit levels which will bring the public debt back to the downward trend zone.

Keeping in mind the projected primary output of the Republic of Serbia budget for the period 2022-2025, including the volume loan funds disbursement for the budget beneficiaries' project funding, the effects of the change in the exchange rate of Dinar against Euro and US Dollar, in the basic macroeconomic scenario, the central government debt ought to be at the level of 53.0% of GDP at the end of 2025.

5. GLOSSARY

Excise taxes: Tax on purchases levied on certain goods like tobacco, fuel, alcoholic beverages and coffee;

GDP: Gross Domestic Product is the best-known and most frequently used macroeconomic aggregate. It represents an indicator of the economic activities of a country and the result of production and service activities of resident institutional units and equals the sum of their values added;

Budget: Comprehensive plan of revenues and expenditures;

Budget deficit: The amount by which government expenditures exceed government revenues in a single fiscal year;

Budget surplus: The amount by which government revenues exceed government expenditures in a single fiscal year; Total fiscal surplus, or total fiscal deficit is budget surplus, or budget deficit, corrected by transactions in assets and liabilities executed for the purpose of implementing public policies.

Financial plan: Document of a direct or indirect budget beneficiary, organisation for compulsory social insurance, developed based on the instruction on budget preparation;

Budget rescheduling: Amendments to the Budget Law of the Republic of Serbia;

Public funds: Funds available and under the control of the Republic of Serbia, local authorities and organisations for compulsory social insurance;

Public policies: Public policies are activities of the Government and public administration authorities aimed at achieving economic and social objectives serving the best interest of society. Some examples of areas covered by public policies are education, health care, unemployment, defence, etc.;

Budget beneficiaries: Direct and indirect beneficiaries of budget funds of the Republic of Serbia or local authorities;

Direct budget beneficiaries: Authorities and organisations of the Republic of Serbia, namely authorities and services of local authorities;

Indirect budget beneficiaries: Judiciary, budget funds, local boroughs (mesne zajednice), public enterprises, funds and organisations established by local authori-

ties, institutions established by the Republic of Serbia or local authorities;

Beneficiaries of funds of organisations for compulsory social insurance: Organisations for compulsory social insurance and beneficiaries of funds of the Republic Health Insurance Fund (medical institutions and pharmacies);

Public sector: Part of the national economy encompassing the general state level and public enterprises under the state control engaged primarily in commercial activities;

Public revenues: All revenues generated by compulsory payments of taxpayers, legal entities and natural persons using a specific public resource or public service, same as all other revenues generated by budget beneficiaries;

Revenue: Money earned on a regular basis through employment or investments;

Tax: State levy charged on the property, spending on goods and services and on income and wealth of natural persons and companies;

Tax revenues: Type of public revenues raised by the state via regular payments made by taxpayers;

Value added tax (VAT): Levied on goods and services in all stages of production and sale, from raw material to final product;

Non-tax revenues: Type of public revenues charged from legal entities and natural persons for the use of public resources (fees), delivery of specific public service (charges), due to violation of contractual or legal provisions (penalties and fines), and revenues generated by the use of public funds;

Public services: All services budget beneficiaries are bound to deliver to legal entities and natural persons in accordance with the law;

State proceeds: Funds raised by the state by the sale of non-financial and financial assets and borrowing;

Public expenditures: Expenditures for goods, services and other commitments ensured by the state without direct compensation;

State outlays: State outlays for procurement of non-financial and financial assets and loan repayment;

Capital projects: Projects for construction and capital maintenance of buildings and infrastructure facili-



ties of interest for the Republic of Serbia, including services of project planning making an integral part of the project ensuring land for construction, same as projects implying investments in equipment and machinery and other non-financial equipment;

Fiscal policy: Represents decisions or actions implemented by authorities in relation to public revenues and expenditures aimed at affecting economic trends and achieving fiscal policy objectives;

Potential GDP growth rate: The highest growth rate to be achieved in the specific period, excluding the inflation rate;

Fiscal principles: Represent the principles of accountable fiscal management;

Fiscal strategy: Document stipulating the objectives of the Government fiscal policy and evaluating fiscal policy sustainability, forwarded by the Government to the National Assembly;

Fiscal rules: Principles assuring mid-term and long-term sustainability and transparency of the public finances of a country;

Fiscal consolidation: A set of measures bringing the level of state revenues and expenditures in balance;

Fiscal Council: Independent state body responsible for advising Parliament in the area of economic policy;

Consolidation: Stating revenues and expenditures of multiple inter-connected budgets and off-budget funds, as it were a single entity;

Consolidated budget of the central state: Budget after excluding transfers among different entities at the central level of government, so as to avoid double accounting;

Off-budget funds: Encompassing legal entities established by the law, financed from specific taxes, non-earmarked contributions and non-tax revenues;

Borrowing: Represents contracting of loans, or issuing of securities, in accordance with the special law;

Sovereign guarantee: Insurance instrument used by the Republic of Serbia to guarantee meeting obligations the guarantee is being issued for;

Transfer funds: The funds transferred from the budget of the Republic of Serbia to other government levels, budget at the same level of government and organisations for compulsory social insurance;

Grant: Non-earmarked revenues generated based on the written contract between the grantor and grantee;

Financial assistance of the European Union: The European Union funds used for particular purposes and implemented according to the rules defined in

agreements between the Republic of Serbia and the European Union;

Programme: A set of measures implemented by budget beneficiaries in line with their key competences and defined mid-term goals; It encompasses independent, however closely linked components- programme activities and/or projects. Determined and implemented by one or more budget beneficiaries, not being time-bound;

Programme activity: Current and ongoing activity of a budget beneficiary, not being time-bound; By implementing programme activity, objectives are being met that contribute to meeting programme objectives;

Project: Time-bound business venture of budget beneficiaries the implementation which helps achieve project/programme objectives;

Audit: Official examination of financial accounts of natural persons, legal entities or the state;

Mid-term plan: Comprehensive budget beneficiary plan containing a detailed analysis of all programmes, projects and programme activities for a budget year with projections for the next forthcoming years, in line with the set mid-term objectives and priorities.

Subsidies: The funds ensured by the state to help enterprises, natural persons or specific economic sectors like agriculture. Subsidies are provided by the state in the form of money (to stimulate employment, development, loan repayment or ensure the survival of state-owned or socially-owned enterprises) or other incentives, such as the price of electricity, gas or fuel that are lower than the market ones.