# 6. Fiscal Flows and Policy

**Fiscal deficit in Q4 2014 was very high due to a steep single rise in net budget borrowing (due to assume of previous debts of Air Serbia, for financial rehabilitation of banks etc.). However, without this effect included, increase in fiscal deficit in Q4 relative to the preceding quarters was below the season-specific due to a notable rise in revenues and low dynamics in capital expenditures. Intensified activities against shadow economy and dinar depreciation pushed up the revenues. Yet, to maintain the positive trends in public revenues, these intensified activities against shadow economy need to be accompanied by a systemic reform in inspection services. It will be possible to give judgments about whether the recovery in budget revenues is sustainable only when the data for the first half of 2015 is available. Consolidated fiscal deficit in 2014 (including "below-the-line" expenditures) is estimated at about 6.6% of GDP, which is much below the projections made in October (by 1.3% of GDP), but still much above the sustainable level. This discrepancy between the actual deficit and the targeted level came from a notable rise in revenues in Q4 and inadequate expenditure planning and inefficient spending (for example capital expenditures). Although the arrangement with the IMF increases the chances of a more considerable reduction in fiscal deficit in the following three years, it does not guarantee the success, because implementation of some adopted measures (such as public sector rightsizing, deciding the status of public and state-owned companies) is both technically and politically demanding. Public debt totaled EUR 22.8 billion (70.7% of GDP) at the end of 2014, and along with the debt of local governments it reached 72.8% of GDP. Public debt rose by EUR 2.7 billion in 2014 due to large fiscal deficit and dinar to euro and dinar to dollar depreciation. If fiscal deficit and other macroeconomic indicators meet the projections in 2015, public debt, along with the debt of local governments, will reach 79% of GDP at the end of the year.**

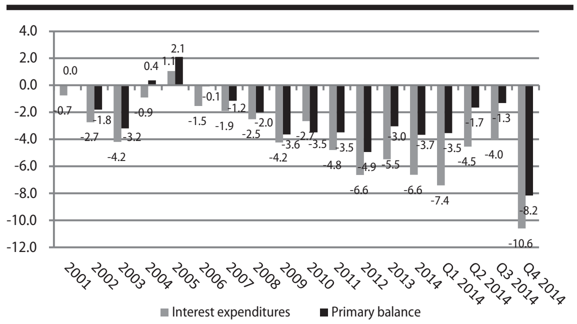
## General trends and macroeconomic implications

***Fiscal deficit in Q4 totals RSD 105.2 billion (about 10.6% of the quarterly GDP)***

Consolidated fiscal deficit in Q4 2014 totaled RSD 105.2 billion, which is approximately 10.6% of the quarterly GDP.[1] This large fiscal deficit in Q4 primarily came from a steep rise in net budget borrowing (to clear liabilities of Air Serbia taken up in the agreement on strategic partnership, and for financial rehabilitation of banks). Without this effect included, increase in fiscal deficit in Q4 relative to the preceding quarters was below the season-specific due to a rise in public revenues and low dynamics in capital expenditures.

***Consolidated fiscal deficit in 2014 stands at 6.6% of GDP***

**Graph T6-1. Serbia: Consolidated fiscal balance and primary fiscal balance (% GDP)**




Source: *QM* calculation

Consolidated fiscal deficit (including "below-the-line" expenditures) in 2014 totaled RSD 258.1 billion, or about 6.6% of GDP. It is by more than RSD 50 billion smaller than the amount projected in the budget revision adopted in October 2014. This discrepancy between the actual deficit and the targeted level is officially attributed to a rise in revenues at the end of the year and slower dynamics in expenditures on goods and services and capital expenditures (due to complex procurement procedures set out in the

1 As of January 2015 the Ministry of Finance have started publishing monthly reports on consolidated public expenditures which include expenditures on activated guarantees, expenditures on financial rehabilitation of banks etc. (which were previously treated as off-balance expenditures, or so called "below-the-line" expenditures). Accordingly, from this issue on, QM analysis of fiscal trends will be based exclusively on data about the total consolidated fiscal deficit, inclusive of the foregoing expenditures. Term fiscal deficit will therefore refer to deficit inclusive of so called "below-the-line" expenditures. The Ministry of Finance has also published a series of revised monthly data on fiscal deficit now including so called "below-the-line" expenditures, which allows y-o-y comparison of data on consolidated public expenditures and fiscal deficit. Inclusion of all expenditures in consolidated balance of the public sector and systematic monthly reports on these expenditures considerably increase budget transparency.

Public Procurement Law). However, given that the budget revision was adopted in October, this discrepancy of almost 20% (in only two months) is unacceptably large and indicates that the methodology used for macro fiscal projections, budget planning, execution and monitoring was inadequate.

***Primary fiscal deficit in 2014 stands at 3.7% of GDP***

Primary fiscal deficit (deficit without expenditures on interest payments) totaled about 3.7% of GDP, meaning that expenditures on interest payments make more than 55% of consolidated fiscal deficit. This indicates that expenditures on interest payments are an important driver of fiscal deficit. Consequently, fiscal deficit could become self-generating in the future.

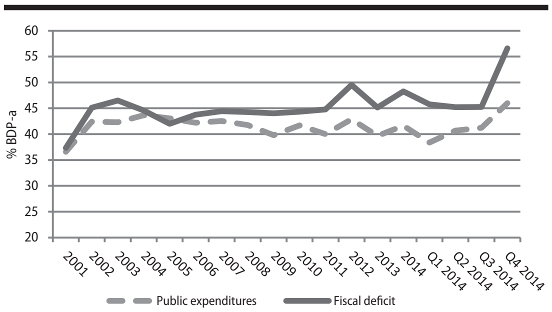
***Fiscal deficit is by 1.3% of GDP below the projected level due to a poor expenditure planning, intensified activities against shadow economy and the influence of some other factors***

Consolidated fiscal deficit in 2014 was by 1.3% of GDP (or by RSD 50 billion) below the targeted level due to the influence of multiple factors, the most significant being the following: *i)* inadequate expenditure budgeting, and lack of systemic government control over the dynamics in procurement of goods and services and public investments, *ii)* tax revenues in Q4 were above the projected level thanks to intensified activities against shadow economy[2] (see: Highlight 2: Ranđelović), *iii)* dinar to euro depreciation, and especially dinar to dollar depreciation, which on one hand pushed up revenues from VAT and excise on imports, as well as custom duties, and on the other hand caused an increase in expenditures on interest payments for public debt denominated in foreign currency, *iv)* drop in world oil price, *v)* highly inefficient execution of public investments, *vi)* and possibly, postponement of some procurements (goods and services and/or capital expenditures), slowdown in VAT refund etc.

***Consolidated fiscal surplus of RSD 16.5 billion posted in January***

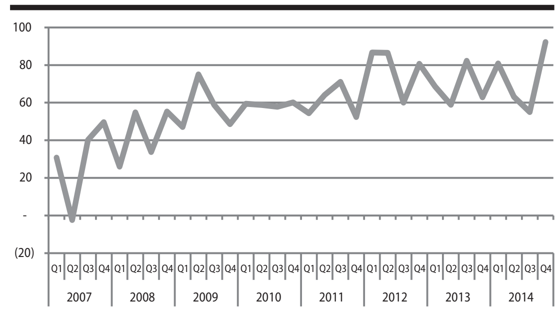
Data show that a consolidated fiscal surplus of RSD 16.5 billion was achieved in January, which usually occurs in this month because of the influence of seasonal factors. To be more specific, in five out of seven preceding years consolidated budget was in surplus in January. However, the surplus recorded in January 2015 is somewhat larger than the season specific, primarily due to dividend payment of RSD 7.6 billion made by Telekom. Although revenues from VAT were quite large in January (VAT payments made by small taxpayers), by eliminating the influence of inflation and seasonal factors, we will see that there was no significant rise in these revenues relative to the preceding months. This suggests that these more welcome fiscal trends detected during the preceding months leave no room for giving up on some of the announced measures for fiscal consolidation.

**Graph T6-2. Serbia: Consolidated public revenues and public expenditures (GDP%)**




Source: *QM*

**Graph T6-3. Serbia: Real seasonally adjusted fiscal deficit (in 2013 prices)**




Source: *QM*

***Through fiscal consolidation, rise in debt-to-GDP ratio will slow down by 2017...***

A range of fiscal consolidation measures which are a part of the three-year program with the IMF adopted in February 2014 and which are intended to reduce the deficit by about EUR 1.4 billion by 2017 is included in 2015 Budget. Measures designed to reduce fiscal deficit by 4.75% of GDP altogether are envisaged in the arrangement with the IMF, which is a step closer to sustainable public finance. Since the arrangement does not define the precise amount of the targeted deficit for 2017 but only sets the cumulative amount of the necessary reduction, medium term dynamics in public debt will depend on which amount of 2014 deficit is subject to reduction – actual or targeted. If the actual 2014 deficit (6.6% of GDP) is used as the base, and if the arrangement is fully implemented, fiscal deficit may narrow to about 2% of GDP in 2017,

2 In the IMF's Article IV they conclude that the rise in revenues from VAT was caused by the rise in electricity imports in the second half of 2014. This explanation is not plausible because revenues from VAT are affected by the overall consumption of electricity in Serbia and not by its origin.

and debt-to-GDP ratio may be stabilized. If, however, the targeted 2014 fiscal deficit (7.9% of GDP) is used as the base, fiscal deficit may narrow to about 3% of GDP by 2017. In that case, rise in debt-to-GDP ratio would be slowed down rather than stopped, and fiscal consolidation would have to continue in 2018 to stop it.

***…but it will probably have to continue in 2018 to stop the rise in public debt***

Given that 2014 deficit is partly a result of much lower spending on goods and services and capital projects than planned, which is unsustainable in the long run, and taking into account the risk that some of the measures envisaged in the arrangement might not be fully implemented, the second scenario (2017 fiscal deficit at 3-3.5% of GDP) appears to be more likely. In that case, fiscal consolidation would have to continue in 2018 to reduce fiscal deficit to about 2% of GDP, which would first stabilize public debt (as GDP percentage) and then push it downwards. This is also necessary for successful conclusion of EU accession negotiations at the end of the current or at the beginning of the following decade. Fiscal consolidation program incorporates so called "hard" (controllable) measures, some of which have already been introduced (wage and pension reduction), while some are to be implemented (public sector rightsizing, making large public enterprises self-sustaining etc.), and so called "soft" (not fully controllable) measures (battle against shadow economy etc.). Wage and pension reduction is one of the measures that are easy to introduce from the aspect of administrative procedures, but whose implementation is a tough political decision. On the other hand, public sector downsizing by 10%, comprehensive reforms in public companies and resolution of state-owned and public enterprises in a timely manner, are both politically and technically demanding measures. Therefore, credibility and success of the program of fiscal consolidation will depend on government's persistence in implementing these measures. Although the arrangement with the IMF increases the chances of success, it does not guarantee success.

***Persistent implementation of fiscal consolidation may have positive effects on economic growth in the following years***

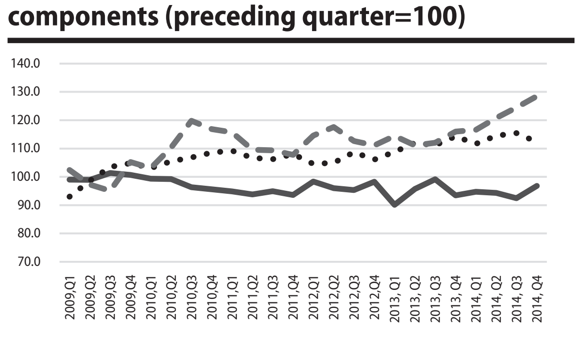
Full implementation of fiscal consolidation might, after making negative impact on economic activity in 2015 (due to drop in consumption), should produce positive effects on growth in the succeeding years by restoring investors' trust in Serbia (which would lead to rise in investments and net exports, but which requires improvement of business environment). However, through partial implementation of fiscal consolidation, its negative effects on GDP would remain, and it would fail to boost investments and exports in the succeeding years.

## Analysis of the dynamics and structure of public revenues and public expenditures

***Q4 saw a notable rise in public revenues – primarily in revenues from VAT***

Q4 2014 saw a moderate real rise in seasonally adjusted consolidated public revenues (by 2.1%) relative to the preceding quarter. There was a notable real y-o-y rise in these revenues (by 5.4%), as well. Sharp increase in revenues from VAT, and rise in non-tax revenues were the main causes of this growth. There was a moderate real rise in total public revenues in 2014 (3.2%). It was driven by rise in revenues from VAT (caused by reduction in shadow economy and VAT rate increase), revenues from corporate income tax (caused by tax rate increase in 2013) and revenues from social security contributions (caused by increase in social security contribution rate and reduction in shadow economy).

**Graph T6-4. Serbia: Dynamics in real seasonally adjusted revenues from VAT by components (preceding quarter=100)**




Source: *QM* calculations

***Revenues from VAT grow steeply...***

Real seasonally adjusted revenues from VAT grew steeply (by 8.2%) in Q4 relative to the preceding quarter. Real y-o-y rise in these revenues (Q4 2014 – Q4 2013) was even larger (15.1%). This is a good result, given the drop in consumption and GDP. Total revenues from VAT in 2014 were much higher (by 5.4%) than in the preceding year because these revenues grew in Q3 and Q4. Analysis by components shows that the rise in revenues from VAT in Q4 relative to Q3 came from a considerable increase (real seasonally adjusted) in revenues from gross domestic VAT (by 4.8%), moderate decrease in VAT refund (by 2.7%) and moderate rise in VAT on imports (by 3.2%).

***…due to reduction in shadow economy, dinar depreciation and more restrictive VAT refund policy***

Accordingly, this rise in revenues from VAT in time of decreasing economic activity was caused by the following: *i)* intensified activities against shadow economy (mainly through tighter controls on retail trade of goods and services – in shops and hospitality establishments) which pushed up gross domestic VAT and VAT on imports *ii)* moderate real dinar to euro depreciation and strong real dinar to dollar depreciation, which boosted revenues from VAT on imports, and *iii)* more restrictive VAT refund policy (right to VAT refund is restricted by clearance of any other tax debt) and slowdown in exports, which slightly slowed down VAT refund. It is economically justifiable to restrict the right to VAT refund by clearance of any other tax debt. At the same time, VAT refund to taxpayers who qualify for the refund must be done smoothly and efficiently, within the legal term, in order not to impair their liquidity. This especially applies to export oriented businesses.

***Excise revenues are going down in Q4 – primarily excise revenues from tobacco products and alcoholic beverages***

Real seasonally adjusted excise revenues went down in Q4 relative to the preceding quarter (by 2.7%). There was a real y-o-y drop in these revenues (by 2.4%), as well. Total excise revenues from tobacco products and alcoholic beverages went down. However, there was a real rise in excise revenues (by 1.6%) in the whole of 2014 relative to 2013. A big step forward in reduction of illegal sale of petroleum products was made in Q2 (through fuel marking). On the other hand, it was not until Q4 that the activities against illegal sale of tobacco and tobacco products were intensified, meaning that this measure could not produce any fiscal effects in that period.

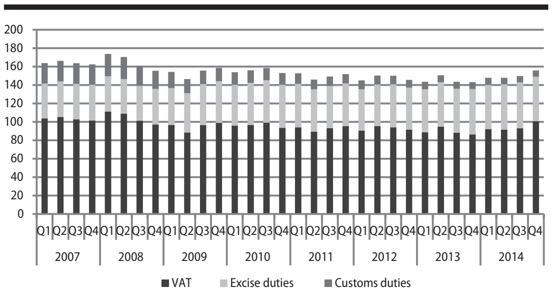
***Drop in custom revenues slows down***

Custom revenues (real seasonally adjusted) fell slightly in Q4 relative to Q3 (by 1.3%), and y-o-y decrease in these revenues was somewhat larger (7.3%). In time of almost completely liberalized foreign trade (with EU) and stagnant imports, this drop in custom revenues can be attributed to a slowdown in imports, and changed structure of imported goods, regarding their type and country of origin. Namely, goods that are subject to lower custom duties and goods imported from the signatory countries to free trade agreement with Serbia dominate. At the same time, if dinar had not depreciated in Q4, drop in custom revenues in this period would have been somewhat larger. On the other hand, real dinar depreciation discourages imports, producing thus unfavorable long-term effects on custom revenues.

***Revenues from personal income tax are going up slightly – probably due to reduction in shadow economy***

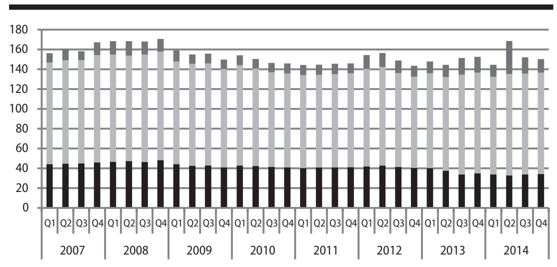
Seasonally adjusted revenues from personal income tax and social security contributions went up moderately in Q4 relative to the preceding quarter (by 1% and 0.5% respectively). There was a notable real drop in revenues from personal income tax (by 8.1) and a sharp real rise in revenues from social security contributions (by 3.1%) in 2014 relative to 2013. This occurred primarily because tax rate for wages was reduced and social security contribution rate was increased. Given that revenues from social security contributions went up regardless of the rate increase, we believe that the measures against shadow economy contributed to this rise, because through reduction in shadow economy the share of wages that are paid legally increases, as well as the number of formally employed (prevention of illegal sale of goods and services prevents employers from making under the table salary payments).

**Graph T6-5. Serbia: Trends in real consolidated seasonally adjusted revenues from consumption taxes on consumption (RSD billion, in 2013 prices)**




Source: *QM* calculation

**Graph T6-6. Serbia: Trends in real consolidated seasonally adjusted revenues from tax on factors of production (RSD billion, in 2013 prices)**




Source: *QM* calculation

***Revenues from corporate income tax are going up in 2014, but the rise is smaller than the relative increase in tax rate***

There was a considerable real rise in revenues from corporate income tax (17.1%) in 2014 relative to 2013, mainly because corporate income tax for 2013, when the tax rate was increased from 10% to 15%, fell due for payment in 2014. However, rise in these revenues was smaller than the relative increase in tax rate, which could be attributed to decreasing profitability and liquidity of businesses. Real seasonally adjusted revenues from corporate income tax in Q4 went down relative to Q3 (by 2.7%), and suffered a considerable y-o-y decrease (by 18.1%), as well. This can be attributed to decreasing profitability of companies, leading to downwards revisions in tax advance payment, or to illiquidity (and consequential rise in tax arrears).

***Other tax revenues are growing slightly, due to property tax rate increase...***

There was a considerable real rise in other tax revenues in Q4 (by 9.3%). These revenues were slightly higher than in the same period 2013 (by 0.5%), as well. Total other tax revenues in 2014 were moderately higher than in 2013 (by 3.1%). This is mainly attributed to increase in property tax rate, after abolition of construction land usage fee.

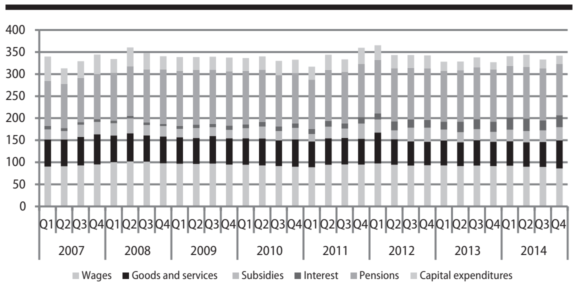
***Non-tax revenues are going up due to dividend payments made by NIS and solidarity tax***

Non-tax revenues (real, seasonally adjusted) went up considerably in Q4 relative to Q3 (by 20%) because additional solidarity tax was collected in accordance with the order granted by the Tax Administration, and NIS paid dividend at the end of November.[3] Solidarity tax slightly pushed up non-tax revenues in 2014 relative to 2013 (by 1.5%). Although the government counts on large inflows of revenues from dividend payments by public enterprises in 2015 and in the succeeding years, this is not sustainable in the long run, because if they use a larger share of their profits for dividend payments, these enterprises may not be able to invest sufficiently in their fixed assets. Consequently, capital base of their business activity might be impaired in the medium term.

***Public expenditures are growing in Q4***

Real seasonally adjusted public expenditures went up considerably in Q4 2014 relative to Q3 (by 2.9%). There was a substantial real y-o-y increase in these expenditures (by 36%), as well. This rise in public expenditures in Q4 was caused by a single sharp increase in borrowing from the budget, to clear liabilities of Air Serbia taken on previously and for rehabilitation of financial sector (banks and insurance companies). Exclusive of these effects, real seasonally adjusted public expenditures in Q4 were moderately higher than in Q3 (by 2.9%). Y-o-y rise in these expenditures was somewhat larger (by 7.6%) and was mainly caused by increase in expenditures on goods and services, interest payments and subsidies. There was a considerable real rise in total annual expenditures (by 5.2%) mainly because expenditures on activated guarantees, interest payments and subsidies went up.

**Graph T 6-7. Serbia: Trends in consolidated seasonally adjusted public expenditures (RSD billion, in 2013 prices)**




Source: *QM* calculations

***Expenditures on goods and services are going up***

Real seasonally adjusted expenditures on goods and services increased sharply in Q4 relative to Q3 (by 12.9%). There was a strong real y-o-y rise in these expenditures, as well (by 19.1%). Total annual expenditures on goods and services were much higher than in 2013 (by 6.2%). Expenditures on goods and services rose mainly at the central government level because at the end of the year the government realized that the actual deficit would be smaller than projected in the budget revision, which made room for some previously postponed procurements and clearance of procurement arrears. Since the drop in these expenditures in the preceding quarters was officially attributed to problems with implementation of the Public Procurement Law, rise in these expenditures in Q4 could indicate that these procedural problems have been overcome.

***Expenditures on subsidies are going up, in spite of being several times higher than in EU***

Real seasonally adjusted expenditures on subsidies went up considerably in Q4 relative to the preceding quarter (by 13.9%). Y-o-y rise in these expenditures was even steeper (by 41.9%). Such trends in expenditures on subsidies are explained by specific dynamics in agricultural subsidy

3 Although solidarity tax was abolished in November, at the end of the year the Tax Administration started granting the orders for clearance of solidarity tax for those public sector employees from whose income solidarity tax had not been deducted and paid.

payments and implementation of new subsidy programs approved in the revision of 2014 budget. Total annual expenditures on subsidies were much higher in 2014 than in the preceding year (by 13.2%), primarily because budget subsidies became the main source of finance for the RTS and radio and TV subscription fee was abolished, and direct budget support to Srbijagas was approved (instead of guarantees on loans to this company). Given that expenditures on direct and indirect subsidies in Serbia exceed 3% of GDP, which is two to three times higher than in other European countries, increase in these expenditures (even if it is caused by temporary factors) is not economically justifiable.

***Expenditures on interest payments went up in Q4 because coupons on euro-denominated bonds fell due, indebtedness increased and dinar depreciated***

Expenditures on interest payments (real seasonally adjusted) considerably increased in Q4 relative to Q3 (by 19.3%) because large amount of euro-denominated bonds fell due. Additional causes of this increase are growing public debt and moderate dinar to euro depreciation, and strong dinar to dollar depreciation. Total annual expenditures on interest payments were by 19.3% higher than in 2013 due to growing public debt (and consequential increase in principal, but also in interest rates) and dinar depreciation. Even if fiscal consolidation program is implemented fully and persistently, rise in debt-to-GDP ratio will probably continue after 2017. Therefore, upwards trend in expenditures on interest payments is expected to continue, though the ECB's quantitative easing program makes room for cheaper borrowing in euros in the following period.

***There is a moderate decrease in expenditures on wages...due to public sector wage cut and increased natural outflow of employees***

Real seasonally adjusted expenditures on public sector wages fell considerably in Q4 relative to Q3 (by 4%), and y-o-y decrease in these expenditures was even steeper (by 6.5%). Total annual expenditures on wages went down (by 3.1%), which is economically justifiable. These expenditures decreased in Q4 because all public sector wages over the minimum wage have been reduced by 10% as of November. Additionally, increased number of employees took retirement at the end of 2013, to escape being subjected to new retirement regime, which includes more stringent retirement requirements and penalties for early retirement. The foregoing wage cut, increased natural outflow of employees, and public sector downsizing by 10% in the following three years, should reduce expenditures on employees to economically justifiable and long-term sustainable level. Although this process might provoke a backlash from many sides, the government needs to be persistent and must not give up on any of the measures. Otherwise, credibility of the fiscal consolidation program would be seriously impaired.

***Expenditures on pensions are going down slightly...due to pension cut***

Expenditures on pensions (real seasonally adjusted) went down slightly in Q4 relative to Q3 (by 1.4%). There was a slight real y-o-y drop in these expenditures (by 2%), as well. These expenditures decreased because all pensions above the average have been reduced by 22% as of November. Expenditures on pensions are expected to keep falling in Q1 2015, as well, though at a slower pace, due to increased inflow of new pensioners at the end of 2014. Total annual expenditures on pensions were almost stagnant (real y-o-y drop of 0.1%) due to rise in the numbers of pensioners, negative real pension indexation and reduction in above-average pensions at the end of 2014. After successful implementation of parametric reform in the middle of 2014, and pension reduction in November same year, expenditures on pensions as a % of GDP are expected to decrease gradually in the following years. However, it will take much longer to reach the sustainable level of these expenditures, equaling about 10% of GDP, because a considerable number of pensioners have been exempted from the pension cut.

***Although capital expenditures are going up, they are still relatively low – only 2.5% of GDP***

There was a strong drop in capital expenditures (real seasonally adjusted) in Q4 2014 relative to the preceding quarter (by 8.5%). On the other hand, more money was spent on capital projects in this quarter than in the same quarter last year (by 25.2%) – mainly from the central government budget. Total annual capital expenditures were by 12.7% higher than in 2013. Although they grew considerably, capital expenditures accounted for only 2.5% of GDP in 2014. However, this ratio needs to be almost two times higher to make some notable improvements in public infrastructure. This also indicates that current expenditures accounted for almost 60% of the consolidated fiscal deficit. Given that fiscal deficit is financed through borrowing, future generations will have to pay off a large portion of this debt. Low dynamics in capital expenditures in the preceding quarters was attributed to complicated public procurement procedures. This is unjustifiable, because the valid procurement regulations have been in force for almost two years, which is sufficient time to overcome the difficulties and get used to new procedures or to eliminate possible shortcomings by amending the regulations.

## Fiscal trends by government levels

***Central government, the Autonomous AP Vojvodina, and the Health Insurance Fund of the Republic of Serbia were running deficit in Q4, while other government levels were in surplus***

Central government, the AP of Vojvodina and local self-governments overspent their budgets in Q4 2014 (by RSD 45.9 billion, RSD 0.4 billion and RSD 2.5 billion respectively). Health Insurance Fund of the Republic of Serbia has been running deficit since Q2, which widened to RSD 6.7 billion in Q4, because the rate for health insurance contributions was reduced. However, since the public sector wages have been reduced, this deficit is expected to narrow in the following period.

***While central government was running deficit in 2014, sub-central government levels were in surplus***

Central government budget deficit in 2014 totaled RSD 204.1 billion, which is by RSD 20 billion below the amount targeted in the budget revision adopted in October. At the same time, sub-central government levels (local self-governments and AP Vojvodina) were running budget surplus of RSD 9.5 billion. This surplus is even larger than in 2013 (RSD 7.6 billion), which leads to conclusion that there is a systemic disequilibrium in distribution of competences and revenues among different government levels, namely sub-central government levels are given more revenue than competences. Accordingly, this disequilibrium needs to be eliminated and distribution of revenues needs to be organized systemically so that sub-central government levels receive a predictable amount of revenues which would encourage them to behave economically efficient.

**Table T6-8. Serbia: Fiscal surplus (deficit) at different levels of government (bn. RSD, current prices)**

| *Year* | *Budget of Republic* | *Pension fund* | *National Employment Service* | *Health fund* | *Vojvodina budget* | *Localself-governments* |
|---|---|---|---|---|---|---|
| 2010 | -108.0 | -1.0 | -0.1 | 1.9 | -9.6 | -11.5 |
| 2011 | -144.3 | 0.2 | 1.3 | 2.1 | -0.7 | -15.6 |
| 2012 | -213.0 | -0.4 | 0.8 | 4.0 | 1.1 | -0.3 |
| 2013 | -194.4 | -1.2 | -0.5 | 8.7 | 1.3 | 6.3 |
| 2014 | -204.1 | 3.6 | 2.0 | 0.2 | 1.0 | 8.5 |
| Q1 2014 | -77.5 | 0.3 | 0.0 | 6.1 | 1.8 | 4.5 |
| Q2 2014 | -51.5 | 0.9 | 0.8 | 3.0 | 2.1 | 3.5 |
| Q3 2014 | -30.4 | 0.0 | 0.8 | -2.1 | -0.4 | -0.4 |
| Q4 2014 | -44.7 | 2.4 | 0.4 | -6.7 | -2.5 | 1.0 |

Source: *QM* calculations

### Box 1. Privatization of spas and property rights disputes between the Republic of Serbia and the Pension and Disability Insurance Fund

Privatization of spa hotel and tourism enterprises has been postponed at the end of 2014 because some of them are subject to property rights disputes between the Pension and Disability Insurance Fund and the Republic of Serbia. Namely, the Pension and Disability Insurance Fund has sued the Republic of Serbia for ownership of these enterprises, on the basis of investments made by the Fund in 1970s. Such disputes usually last for almost a decade (and sometimes even longer), and since the assets of these enterprises have been blocked, some spas are falling into decay and some that have great potential have been closed down. The property in dispute is estimated at tens of millions of euros, and the Pension and Disability Insurance Fund receives EUR 2 billion from the budget of the Republic of Serbia every year to service pensions. Accordingly, the question arises as to whether such sues are legitimate, given that the sued party every year gives to the plaintiff non-repayable funds whose value exceeds the value of the property in dispute several tens of times.

These disputes could be settled in a relatively short term. Namely, the Republic of Serbia could use a monthly transfer payment from its budget to the Pension and Disability Insurance Fund to buy the property rights on the property in dispute. This property would thus become economically active through privatization and investments in development of tourist facilities. This solution would be welcome from the aspect of regional inequality, as well, because these spas are mostly located in undeveloped parts of Serbia (Niška Banja, Kuršumlijska Banja, Sokobanja, Vrnjačka Banja etc.).

***Revenues of the central government and revenues of local self-governments are going up***

There was a real y-o-y rise in revenues in the central government budget in Q4 2014 (by 9.2%), mainly due to increase in revenues from VAT, revenues from personal income tax, non-tax revenues and donations (for flood relief). There was a real y-o-y rise in revenues in the budgets of local self-governments (by 7%), as well, mainly due to a strong increase in revenues from property tax (by almost 77%), donations for flood relief and transfer payments from the budget of the republic. Integration of construction land usage fee into property tax did not cause a decrease in total revenues from these items in the budgets of local self-governments, which is good. Steep real y-o-y fall in revenues collected in the budget of the Health Insurance Fund of the Republic of Serbia continued (by 14.1%), because the rate for health insurance contributions was reduced from 12.3% to 10.3%, as of July, and transfer payments from the central government budget rose considerably.

***Expenditures of the central government are growing, and expenditures of local self-governments are going down***

There was a real y-o-y increase in central government expenditures in Q4 2014 (by 11.5%), mainly due to a considerable rise in expenditures on goods and services, subsidies, capital expenditures and other current expenditures. Expenditures on goods and services and capital expenditures probably increased because spending on these items was postponed in the preceding quarters (after the change at the post of the Minister of Finance), and then accelerated at the end of the year, when it was clear that the budget deficit would be below the targeted. Additionally, the government paid off some of the arrears from the previous years, which is economically justifiable. There was a slight real y-o-y increase in expenditures of the Health Insurance Fund, due to a strong rise in other current expenditures and expenditures on goods and services, which went up probably because some procurements could not be postponed any longer and procurement arrears from previous years were paid off. At the same time, sharp real drop in capital expenditures of the Health Insurance Fund continued, because reduction in the rate for health insurance contributions pushed down the inflow of revenues from these contributions. There was a real y-o-y drop in all categories of expenditures of local self-governments in Q4, which is economically justifiable, although it is unfavorable that the largest cut was made in capital expenditures. This could be partly because the Public Procurement Law stipulates that local self-governments must provide the whole amount of funds needed for specific capital project before starting it.

## Trends in public debt

***Serbia's public debt amounted to EUR 22.8 billion (70.7% of GDP) at the end of 2014...***

Serbia's public debt amounted to EUR 22.8 billion (70.7% of GDP) at the end of 2014, and was by EUR 640 million larger than at the end of Q3, and by EUR 2.7 billion larger than at the end of 2013.

***...and along with the debt of local self-governments it totaled 72.8% of GDP***

Including the debt of local self-governments, public debt amounted to 72.8% of GDP at the end of 2014, which is in line with the projections presented in the previous issues of QM. Increase in public debt in 2014 exceeded consolidated annual fiscal deficit by EUR 500 million, because of additional borrowing needed to service fiscal deficit in 2015 (loan from the United Arab Emirates etc.), and dinar depreciation against euro and dollar. In the same period, debt-to-GDP ratio increased by 11.3% of GDP, which exceeded its absolute growth. This is attributed to real decrease in GDP, moderate real dinar to euro depreciation (by 3.4%), and strong real dinar to dollar depreciation (by 17.3%) caused by euro to dollar depreciation. Rise in debt-to-GDP ratio would be even larger if the data on GDP were not revised upwards in the meanwhile.

**Table T6-9. Serbia: Public debt dynamics 2000-2014**

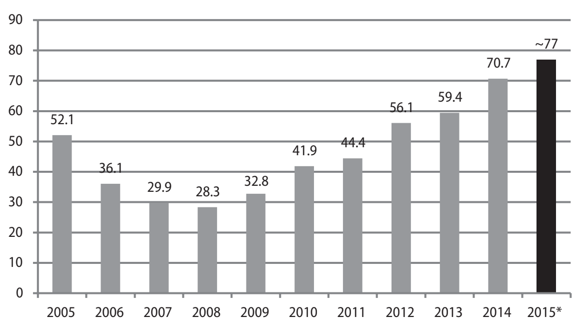
| | Amount at the end of period, in billions EUR | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Q1 2014 | Q2 2014 | Q3 2014 | Q4 2014 |
| I. Total direct debt | 14.17 | 9.62 | 8.58 | 8.03 | 7.85 | 8.46 | 10.46 | 12.36 | 15.07 | 17.3 | 17.7 | 18.0 | 19.5 | 20.2 |
| Domestic debt | 4.11 | 4.26 | 3.84 | 3.41 | 3.16 | 4.05 | 4.57 | 5.12 | 6.5 | 7.0 | 7.5 | 7.7 | 8.0 | 8.2 |
| Foreign debt | 10.06 | 5.36 | 4.75 | 4.62 | 4.69 | 4.41 | 5.89 | 7.24 | 8.6 | 10.2 | 10.3 | 10.3 | 11.5 | 12.0 |
| II. Indirect debt | - | 0.66 | 0.80 | 0.85 | 0.93 | 1.39 | 1.71 | 2.11 | 2.60 | 2.81 | 2.8 | 2.7 | 2.6 | 2.5 |
| **III. Total debt (I+II)** | **14.2** | **10.3** | **9.4** | **8.9** | **8.8** | **9.8** | **12.2** | **14.5** | **17.7** | **20.1** | **20.5** | **20.7** | **22.1** | **22.8** |
| **Public debt / GDP²** | **169.3%** | **50.2%** | **36.2%** | **29.4%** | **25.6%** | **31.3%** | **41.5%** | **45.1%** | **59.3%** | **63.8%** | **62.3%** | **63.0%** | **66.8%** | **70.9%** |
| **Public debt / GDP (QM)³** | **169.3%** | **52.1%** | **36.1%** | **29.9%** | **28.3%** | **32.8%** | **41.9%** | **44.4%** | **56.1%** | **59.4%** | **60.6%** | **61.2%** | **67.6%** | **70.7%** |

1) According to the Public Debt Law, public debt includes debt of the Republic related to the contracts concluded by the Republic, debt from issuance of the t-bills and bonds, debt arising from the agreement on reprogramming of liabilities undertaken by the Republic under previously concluded contracts, as well as the debt arising from securities issued under separate laws, debt arising from warranties issued by the Republic or counterwarranties as well as the debt of the local governments, guaranteed by the Republic.
2) Estimate of the Ministry of Finance of the Republic of Serbia
3) QM estimate (Estimated GDP equals the sum of nominal GDP in the current quarter and three previous quarters)
Source: Ministry of Finance and QM calculations

***Downwards trend in indirect debt continues, but it is expected to rebound***

Downwards trend in indirect debt detected in the preceding three quarters continued in Q4, though at a slower pace (EUR 80 million in Q4). In the whole of 2014 indirect debt shrank by EUR 270, which is praiseworthy but unsustainable, because key generators of indirect public debt (government guarantees to Srbijagas and other public/state-owned companies, financial rehabilitation of banks etc.) have not been eliminated. Given that the transition to company financing through guarantees instead of direct budget subsidies was caused. Increased budget transparency and tighter control over budget execution imposed by independent institutions and the National Assembly pushed up the amount of off-budget subsidies, in the form of government guarantees on loans. These expenditures were included in 2014 fiscal deficit and in 2015 Budget, which made them visible. Consequently, a reverse process took place in 2014 – government guarantees were partly replaced by direct subsidies.

**Graph T6-10: Trends in public debt in Serbia (% GDP)**




Source: *QM* calculations

## Box 2. Currency structure of public debt and foreign exchange risk management

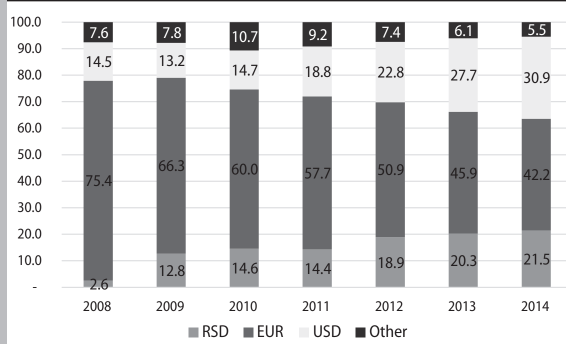
Dinar denominated public debt accounted for about 1/5 (21.5%) of the total public debt in 2014[1], and the remainder of the debt was denominated in foreign currencies, mainly in euros (42.2%) and dollars (30.9%), while the share of public debt denominated in other currencies was much smaller. From 2008 to 2014, share of dinar denominated public debt increased eight times, and the sharpest rise was recorded between 2008 and 2011 because in that period fiscal deficit was mainly financed through issuance of dinar-denominated treasury bills. However, sustainability of public debt is highly exposed to foreign exchange risk because the share of national currency in debt portfolio is still small. There has been a considerable increase in dollar-denominated public debt as of 2011, and the sharpest rise was recorded in 2012 and 2013, when the government launched several issues of Eurobonds denominated in dollars. At the same time, share of euro-denominated public debt has been shrinking as of 2008. Dollar-denominated public debt increased considerably and euro-denominated public debt decreased mainly because borrowing in US dollars was more available and cheaper than euro-denominated loans due to the Fed's loose monetary policy and its quantitative easing program lasting for years, alongside with Eurozone crisis and less available borrowing in euros. Additionally, repayment of a considerable part of old

1 Data for 2014 refer to the end of November because these were the only available data when the analysis was made.

debt denominated in euros (old foreign currency savings etc.) pushed down the share of euro-denominated public debt.

The only way to eliminate foreign exchange risk would be to borrow in national currency exclusively (in which revenues are collected). However, this is impossible because of the lack of capital in domestic market. Trends in exchange rates are impossible to predict with satisfactory degree of certainty. Therefore, full protection from exchange risk is impossible. However, the government must have an effective strategy for foreign exchange risk management, in which currency structure of foreign debt is in line with currency structure of exports (effective reduction in dollar-denominated debt by 10 pp). Additionally, insurance against foreign exchange risk (hedging) should be considered, depending on the price of these operations and estimated level of exchange rates in the following period.

**Graph T6-11: Serbia: Currency structure of public debt (2008-2014)**




Source: *QM* calculations

***Public debt will amount to 79% of GDP at the end of 2015***

Debt-to-GDP ratio will continue to rise in 2015 due to poor health of public finance, and real GDP shrinking in 2014, depreciation of dinar against euro and dollar, and possible issue of government guarantees to public companies, because restructuring of large users of these guarantees has not begun yet. Given the level of public debt at the end of 2014, and expected trends in economic activity and fiscal deficit by the end of 2015, and expected further slight depreciation of dinar against euro, and assuming that borrowing in advance (to obtain funds for the next year) will remain within the expected level, 2015 public debt is estimated at 77% of GDP, and along with the debt of local municipalities, it is targeted at 79% of GDP.

## Appendices

### Annex 1. Serbia: Consolidated General Government Fiscal Operations[1)], 2008-2014 (nominal amounts, bn RSD)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | | | | | 2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Q1 | Q2 | Q3 | Q4 | Q1-Q4 | Q1 | Q2 | Q3 | Q4 | Q1-Q4 |
| **I PUBLIC REVENUES** | **1,193.5** | **1,200.8** | **1,278.4** | **1,362.6** | **1,472.1** | **346.4** | **380.1** | **386.7** | **424.9** | **1,538.1** | **352.9** | **403.3** | **407.6** | **457.0** | **1,620.8** |
| 1. Current revenues | 1,143.1 | 1,139.2 | 1,215.7 | 1,297.9 | 1,393.8 | 327.3 | 361.3 | 367.6 | 405.0 | 1,461.3 | 334.9 | 383.7 | 385.4 | 436.8 | 1,540.8 |
| Tax revenue | 1,000.4 | 1,000.3 | 1,056.5 | 1,131.0 | 1,225.9 | 296.4 | 321.8 | 325.8 | 352.5 | 1,296.4 | 301.3 | 348.7 | 344.8 | 375.1 | 1,369.9 |
| Personal income taxes | 136.5 | 133.5 | 139.1 | 150.8 | 35.3 | 38.2 | 39.8 | 35.9 | 42.1 | 156.1 | 32.2 | 35.1 | 36.9 | 42.2 | 146.5 |
| Corporate income taxes | 39.0 | 31.2 | 32.6 | 37.8 | 54.8 | 18.4 | 11.0 | 15.4 | 15.8 | 60.7 | 15.5 | 29.8 | 14.2 | 13.2 | 72.7 |
| VAT and retail sales tax | 301.7 | 296.9 | 319.4 | 342.4 | 367.5 | 87.3 | 98.7 | 94.6 | 99.9 | 380.6 | 93.6 | 97.0 | 101.7 | 117.3 | 409.6 |
| Excises | 110.1 | 134.8 | 152.4 | 170.9 | 181.1 | 42.5 | 53.7 | 52.3 | 56.3 | 204.8 | 42.9 | 55.2 | 58.4 | 56.0 | 212.5 |
| Custom duties | 25.8 | 48.0 | 44.3 | 38.8 | 35.8 | 7.3 | 7.9 | 8.2 | 9.1 | 32.5 | 7.3 | 7.5 | 7.8 | 8.6 | 31.2 |
| Social contributions | 312.7 | 318.8 | 323.0 | 346.6 | 378.9 | 93.4 | 99.7 | 107.7 | 117.6 | 418.3 | 99.3 | 109.8 | 110.7 | 120.6 | 440.3 |
| Other taxes | 35.6 | 37.1 | 46.0 | 43.5 | 42.6 | 9.3 | 10.9 | 11.6 | 11.7 | 43.5 | 10.7 | 14.3 | 15.1 | 17.2 | 57.3 |
| Non-tax revenue | 0.0 | 138.8 | 159.2 | 36.9 | 37.9 | 30.9 | 39.6 | 41.9 | 52.5 | 34.9 | 33.7 | 35.0 | 40.5 | 61.7 | 0.0 |
| 2. Capital revenues | 1.4 | 0.9 | 0.3 | 2.0 | 8.7 | 1.9 | 0.5 | 0.6 | 0.5 | 3.5 | 0.4 | 0.6 | 0.4 | 0.6 | 2.0 |
| | 0.0 | | | | | | | | | | | | | | |
| **II TOTAL EXPENDITURE** | **-1,265.5** | **-1,328** | **-1,419.5** | **-1,526.1** | **-1,717.3** | **-392.6** | **-424.8** | **-452.8** | **-479.9** | **-1,750.2** | **-421.0** | **-448.3** | **-447.4** | **-562.2** | **-1,878.9** |
| 1. Current expenditures | -1,089.6 | -1,155 | -1,224.8 | -1,324.8 | -1,479.9 | -350.9 | -385.0 | -395.4 | -418.6 | -1,549.8 | -381.7 | -393.6 | -398.0 | -454.7 | -1,628.0 |
| Wages and salaries | -293.2 | -302.0 | -308.1 | -342.5 | -374.7 | -93.8 | -98.1 | -97.5 | -103.4 | -392.7 | -95.7 | -97.9 | -96.4 | -98.6 | -388.6 |
| Expenditure on goods and services | -181.4 | -187.4 | -202.5 | -23.3 | -235.7 | -49.7 | -55.3 | -60.0 | -71.9 | -236.9 | -50.9 | -58.3 | -60.2 | -87.4 | -256.8 |
| Interest payment | -17.2 | -187.4 | -34.2 | -44.8 | -68.2 | -18.9 | -27.5 | -27.2 | -20.9 | -94.5 | -35.5 | -28.6 | -26.8 | -24.2 | -115.2 |
| Subsidies | -77.8 | -22.4 | -77.9 | -80.5 | -111.5 | -19.0 | -22.0 | -28.4 | -31.8 | -101.2 | -19.4 | -23.7 | -27.9 | -46.1 | -117.0 |
| Social transfers | -496.8 | -63.1 | -579.2 | -609.0 | -652.5 | -32.4 | -173.0 | -172.6 | -179.5 | -687.6 | -170.7 | -172.4 | -172.8 | -181.0 | -696.8 |
| *o/w: pensions5)* | *-331.0* | -556.4 | *-394.0* | *-422.8* | -473.7 | -120.0 | -124.6 | -125.3 | -128.2 | -498.0 | -125.0 | -126.9 | -128.0 | -128.1 | -508.1 |
| Other current expenditures | -23.5 | -387.3 | -22.9 | -31.7 | -37.4 | -7.1 | -9.1 | -9.6 | -11.1 | -36.9 | -9.6 | -12.6 | -14.0 | -17.5 | -53.7 |
| 2. Capital expenditures | -106.0 | -24.0 | -105.1 | -111.1 | -126.3 | -13.4 | -17.6 | -26.7 | -26.4 | -84.0 | -13.9 | -25.3 | -23.7 | -33.7 | -96.7 |
| 3. Called guarantees | -1.6 | -2.2 | -2.7 | -3.3 | -3.7 | -2.4 | -1.1 | -1.6 | -2.9 | -7.9 | -3.4 | -5.9 | -8.2 | -12.1 | -29.7 |
| 4. Buget lendng | -19.3 | -24.0 | -30.0 | -25.0 | -38.2 | -8.0 | -3.9 | -11.0 | -12.8 | -35.6 | -5.2 | -5.8 | -0.3 | -44.1 | -55.4 |
| **III CONSOLIDATED BALANCE** | **-72.0** | **-127.1** | **-141.0** | **-163.5** | **-245.2** | **-46.2** | **-44.7** | **-66.1** | **-55.0** | **-212.1** | **-68.1** | **-45.0** | **-39.8** | **-105.2** | **-258.1** |

Source: *QM*

## Annex 2. Serbia: Consolidated General Government Fiscal Operations[1)], 2008-2014 (real growth rates)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | | | | | 2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Q1 | Q2 | Q3 | Q4 | Q1-Q4 | Q1 | Q2 | Q3 | Q4 | Q1-Q4 |
| **I PUBLIC REVENUES** | **3.3** | **-8.9** | **-1.5** | **-4.6** | **0.6** | **-5.7** | **-3.5** | **-2.6** | **0.1** | **-2.2** | **-0.8** | **4.3** | **3.5** | **5.4** | **3.2** |
| 1. Current revenues | 3.5 | -9.1 | -1.5 | -4.4 | 0.1 | -6.2 | -2.9 | -2.8 | 1.7 | -2.6 | -0.3 | 4.3 | 2.8 | 5.7 | 3.3 |
| Tax revenue | 3.7 | -8.8 | -2.5 | -4.1 | 1.0 | -4.2 | -2.1 | -3.4 | 2.9 | -1.7 | -1.0 | 6.4 | 3.8 | 4.3 | 3.5 |
| Personal income taxes | 6.3 | -10.8 | -3.9 | -2.9 | 2.1 | -4.9 | -12.3 | -18.9 | -11.6 | -12.2 | -17.8 | -13.5 | 0.8 | -1.7 | -8.1 |
| Corporate income taxes | 18.5 | -27.0 | -3.6 | 3.9 | 35.1 | -28.2 | -7.9 | 39.6 | 44.9 | 2.9 | -18.0 | 165.3 | -9.5 | -18.1 | 17.4 |
| VAT and retail sales tax | 2.5 | -10.2 | -0.7 | -4.0 | 0.0 | -2.1 | -0.6 | -6.2 | -5.2 | -3.8 | 4.3 | -3.6 | 5.4 | 15.1 | 5.4 |
| Excises | 0.7 | 11.6 | 4.2 | 0.6 | -1.2 | 9.5 | 20.1 | -10.9 | 8.2 | 5.1 | -1.7 | 0.8 | 9.5 | -2.4 | 1.6 |
| Custom duties | 1.8 | -32.4 | -14.9 | -21.5 | -14.0 | -15.3 | -20.5 | -16.9 | -9.3 | -15.6 | -4.4 | -7.0 | -6.9 | -7.3 | -6.5 |
| Social contributions | 4.3 | -7.0 | -6.5 | -3.9 | 1.9 | -3.0 | -4.4 | 6.7 | 10.9 | 2.6 | 3.6 | 29.1 | 28.1 | 0.5 | 3.1 |
| Other taxes | -2.3 | -4.9 | 14.5 | -15.2 | -8.8 | -14.2 | -15.6 | 0.2 | 10.2 | -5.2 | 12.1 | 8.2 | 0.8 | 44.1 | 29.2 |
| Non-tax revenue | 2.6 | -11.3 | 5.8 | -6.1 | -6.2 | -22.0 | -9.4 | 2.1 | -5.4 | -8.7 | 6.0 | -13.1 | -5.1 | 15.1 | 1.5 |
| 2. Capital revenues | -76.8 | -41.4 | -66.8 | 468.2 | 304.5 | 159.4 | -63.6 | -31.7 | -91.3 | -63.0 | -79.6 | 17.6 | -27.7 | 6.0 | -33.3 |
| **II TOTAL EXPENDITURE** | **5.0** | **-4.8** | **-1.7** | **3.3** | **4.3** | **-9.1** | **-9.8** | **2.3** | **-4.2** | **-0.3** | **4.4** | **3.7** | **-3.0** | **14.8** | **5.2** |
| 1. Current expenditures | 6.9 | -3.3 | -2.2 | 3.1 | 4.1 | -7.2 | -5.2 | 3.0 | -1.0 | -2.7 | 6.0 | 0.4 | -1.2 | 6.5 | 2.9 |
| Wages and salaries | 10.9 | -6.0 | -5.9 | 0.4 | 2.0 | -2.1 | -5.7 | 0.0 | -2.1 | -2.6 | -0.6 | -2.0 | -3.0 | -6.5 | -3.1 |
| Expenditure on goods and services | | -5.7 | -0.3 | 4.3 | 1.5 | -13.4 | -20.3 | 4.5 | 4.0 | -6.6 | -0.1 | 3.4 | -1.6 | 19.1 | 6.2 |
| Interest payment | -2.8 | -5.7 | -0.3 | 17.4 | 41.9 | 9.8 | 86.3 | 9.5 | 26.7 | 28.8 | 82.9 | 2.2 | -3.4 | 13.6 | 19.3 |
| Subsidies | -13.3 | 19.0 | 40.6 | 7.4 | 29.1 | -24.7 | -20.7 | 35.9 | -29.5 | -15.6 | -0.8 | 6.0 | -3.8 | 41.9 | 13.2 |
| Social transfers | 10.1 | -26.0 | 13.9 | 5.8 | -0.1 | -6.4 | -2.5 | -1.2 | 1.7 | -2.1 | 2.4 | -2.2 | -1.8 | -1.2 | -0.7 |
| *o/w: pensions5)* | *9.5* | 2.2 | -3.9 | 3.9 | *4.4* | *-4.8* | *-4.1* | *-1.6* | *1.2* | *-2.3* | *1.5* | *0.0* | *0.2* | *-2.0* | *-0.1* |
| Other current expenditures | 14.9 | 6.7 | -6.1 | 23.9 | 9.9 | -19.6 | -29.5 | 12.4 | 10.6 | -8.4 | 31.1 | 36.2 | 43.1 | 55.0 | 42.6 |
| 2. Capital expenditures | -4.3 | -6.7 | -11.8 | 5.3 | 6.0 | -52.9 | -29.0 | -16.6 | -46.7 | -38.2 | 1.4 | 41.5 | -12.8 | 25.2 | 12.7 |
| 3. Called guarantees | 283.5 | -2.2 | -2.7 | -3.3 | -3.7 | 13.6 | 82.2 | 324.3 | 184.6 | 248.7 | 40.7 | 439.8 | 417.0 | 310.5 | 267.8 |
| 4. Buget lendng | 13.3 | -24.0 | -30.0 | -25.0 | -38.2 | 53.0 | -79.8 | 34.7 | 49.3 | 44.2 | -36.1 | 45.5 | -97.4 | 237.4 | 52.2 |

Source: *QM*

## Annex 3. Serbia: Real annual rates of growth in public revenues and public expenditures, by the levels of government

| | Q4 2014/Q4 2013 | | | |
|---|---|---|---|---|
| | Consolidated budget | Budget of Republic | Health Fund | Local self-governments |
| **A Total public revenues (I)+(II)+(III)+(IV)** | ***6.0*** | **9.2** | **-2.4** | **6.1** |
| I Current revenues (1)+(2) | *5.7* | 8.8 | -14.1 | 3.2 |
| 1. Tax revenues | *4.3* | 6.3 | -16.9 | 7.0 |
| 1.1. Customs | *-7.3* | -7.3 | - | - |
| 1.2. Personal income tax | *-1.7* | 13.7 | - | -8.3 |
| 1.3. Corporate income tax | *-18.1* | -19.5 | - | - |
| 1.4. VAT | *15.1* | 15.1 | - | - |
| 1.5. Excise duties | *-2.4* | -2.4 | - | - |
| 1.6. Property taxes | - | - | - | 76.8 |
| 1.9.Other taxes | *0.5* | 5.3 | - | 5.9 |
| 1.10. Social security contributions | - | - | -16.9 | - |
| 2. Non-tax revenues | *15.1* | 24.3 | 103.6 | -8.0 |
| II Capital revenues | *5.96* | - | -71.0 | 5.6 |
| III Transfers from the other levels of government | - | - | 28.7 | 16.5 |
| IV Donations | *241.4* | 312.9 | - | 50.2 |
| | | 0.0 | | |
| **B Total public expenditures (I)+(II)+(III)+(IV)** | ***7.6*** | **14.5** | **2.4** | **-18.1** |
| I Current expenditures | *6.5* | 11.5 | 2.5 | -13.7 |
| 1.1 Wages | *-6.5* | -5.2 | -8.3 | -9.8 |
| 1.2. Goods and services | *19.1* | 41.8 | 10.8 | -13.0 |
| 1.3 Interest payments | *13.6* | 16.4 | -100.0 | -13.7 |
| 1.4 Subsidies | *41.9* | 64.9 | 0.0 | -13.6 |
| 1.5 Social insurance and social assistance | *-1.2* | -1.3 | 16.0 | -19.4 |
| 1.6 Transfers to the other levels of government | - | 1.3 | - | - |
| 1.7 Other current expenditures | *55.0* | 103.9 | 2411.3 | -18.3 |
| II Capital expenditures | *25.2* | 56.2 | -45.0 | -37.5 |
| III Strategic reserves | | 1852.5 | - | -49.9 |
| IV Net lending | *192.4* | 95.2 | - | -90.9 |

Source: *QM*