

6. Fiscal flows and policy

Fiscal deficit, excluding “below-the-line” expenditures, ran at 29.7 billion dinars in the period July–October (about 2.3% of quarterly GDP), and totaled 137.2 billion dinars in the first ten months of 2014 (about 4.2% of GDP), while inclusive of “below-the-line” expenditures it ran at 5.5–6% of GDP. Relatively small fiscal deficit in the period July–October came as a consequence of multiple factors, the most important being a slowdown in expenditures on goods and services and capital expenditures, the impact of seasonal factors on revenues, and depreciation of dinar exchange rate, and, to a certain extent, intensified activities against shadow economy. Moderate fiscal deficit in November suggests that consolidated fiscal deficit in 2014, including “below-the-line” expenditures, will be by RSD 25–30 billion smaller than projected in the Budget Revision Bill adopted in October, and will reach about 7% of GDP. This deviation is extremely large, given the fact that it will occur in only two months. It is attributed to much lower spending on goods and services and public investments than planned. However, these expenditures are absolutely controllable, which suggests that the government lacks the capacities to make macro fiscal projections and carry out the adopted projects. Public debt totaled EUR 22.1 billion (67.7% of GDP) at the end of October, and inclusive of the debt of local governments it reached 69.7% of GDP. Estimations show that if other circumstances remain unchanged, public debt (including the debt of local governments) will reach 72% of GDP at the end of the year.

General tendencies and macroeconomic implications

Fiscal deficit for the period July–October, excluding “below-the-line” expenditures, totals RSD 29.7 billion (about 2.3% of the quarterly GDP)

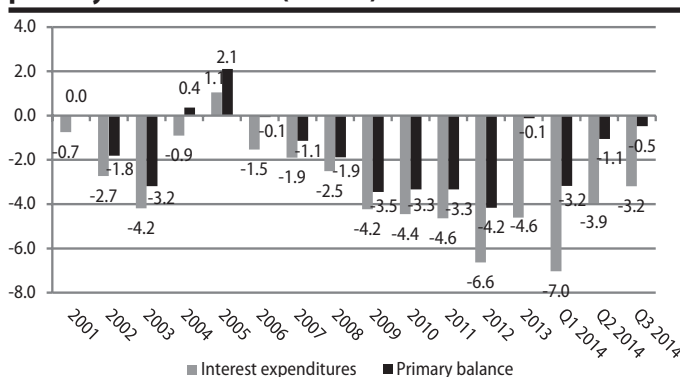
Relatively small deficit in the period July–October is not, however, a sign of a continuing and notable recovery in public finance

Consolidated fiscal deficit in the period July–October 2014 totaled RSD 29.7 billion (about 2.3% of GDP¹) due to a slight rise in public revenues and a moderate decrease in expenditures. This rise in public revenues was mainly based on revenues from VAT and personal income tax. On the other hand, expenditures went down moderately due to a slowdown in capital expenditures and expenditures on goods and services, and decrease in expenditures on interest payments driven by a specific payment schedule.

Relatively small deficit in the period is mainly attributed to seasonal factors (VAT payments by small VAT payers in July and October etc.), dinar depreciation, temporary reduction in expenditures on goods and services and public investments (which are often postponed or canceled

due to complicated procurement procedures), and to a certain extent, intensified activities against shadow economy. Accordingly, it cannot be observed as a sign of continuing and significant recovery in public finance because it is based on temporary postponement of some procurements rather than systematic rationalization. Furthermore, considerable reduction in public investments produces negative impact on economic growth and social development in the long term, so, in spite of being technically accomplishable, it is extremely economically unjustified.

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



Source: QM calculation

¹ Primary fiscal deficit (deficit without interests) is the difference between the total public revenues and the overall public expenditures subtracted by expenditures on interest payments.

¹ SORS' upwards revision of the data on nominal GDP also pushed down fiscal variables (revenues, expenditures, deficit and public debt) as a GDP %. More detail on GDP revision can be found in the section on economic activity.

6. Fiscal Flows and Policy

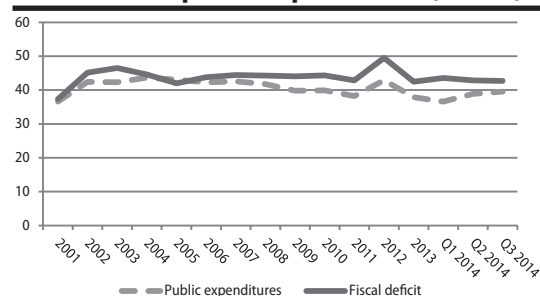
Fiscal deficit, excluding „below-the-line“ expenditures, amounts to RSD 137.2 billion (about 4.2% of GDP) in the first ten months of 2014... and inclusive of these expenditures it stands at 5.5-6% of GDP

To October inclusive, consolidated fiscal deficit excluding “below-the-line” expenditures (activated guarantees on loans to public enterprises etc.) amounted to RSD 137.2 billion, which equals 4.2% of the GDP achieved in this period. With these expenditures added, this percentage goes up to 5.5-6% of GDP.

Fiscal deficit excluding expenditures on interest payments stands at 1.2% of GDP in the first ten months of 2014

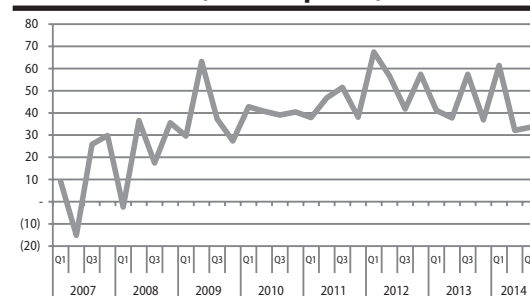
Primary fiscal deficit (deficit without expenditures on interest payments) amounted to 1.2% of GDP in the period January-October 2014, meaning that expenditures on interest payments make almost three quarters of consolidated fiscal deficit. Primary fiscal deficit is narrowing and the overall fiscal deficit is growing, which indicates that expenditures on interest payments are becoming one of the main drivers of fiscal deficit. Consequently, fiscal deficit could become self-generating in the future.

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



Source: QM calculation

Graph T 6-3. Serbia: Real seasonally adjusted fiscal deficit (in 2013 prices)



Source: QM calculation

Consolidated fiscal deficit in 2014 will be by 25-30 billion dinars smaller than projected in the Budget Revision Bill adopted in October...

In the Budget Revision Bill adopted in October central government budget deficit is projected at RSD 225 billion, and consolidated fiscal deficit excluding “below-the-line” expenditures is targeted at RSD 240 billion (about 6% of GDP), while inclusive of these expenditures it goes up to about RSD 300 billion (about 8.5% of GDP). However, trends in fiscal deficit detected in the first three quarters and in October and November suggest that consolidated fiscal deficit could be much below the projections. In the period January-October consolidated fiscal deficit amounted to RSD 137 billion and preliminary data show that the central government budget deficit in November was below RSD 10 billion (consolidated deficit could be somewhat larger). Under the influence of seasonal factors, fiscal deficit and public expenditures usually go up steeply in December relative to other months. However, December fiscal deficits recorded in the last five years have never exceeded the amount of RSD 45 billion.

...and will total 7% of GDP

Accordingly, and taking into account the dynamics in public revenues and public expenditures in the preceding months, consolidated fiscal deficit in 2014 is expected to be by 25-30 billion dinars smaller than projected in the budget revision, and inclusive of “below-the-line” expenditures it is expected to total 7% of GDP.

Deviation from the projected amount of fiscal deficit is attributed to much lower spending on goods and services and capital investments than planned...

Deviation from the projected amount of fiscal deficit came from a much lower spending on goods and services and capital investments than planned, rather than a notable recovery on the revenue side. This deviation is extremely large, given the fact that it will occur in only two months, because public expenditures will be more than 7% below the projections made at the end of October. Complicated public procurement procedure and demanding requirements stipulated by the new Public Procurement Law (obligation to provide the amount that equals total value of procurement in advance) are often cited as reasons for this deviation. These are not permanent rationalization-driven savings, but temporary reductions in expenditures on goods and services which are based on postponed procurements.

...which shows that the government is lacking capacity...

However, the Public Procurement Law has been in force for more than a year and a half, and most of the foregoing public expenditures are completely controllable. Therefore, large discrepancy between realized expenditures and the targeted level suggests that the relevant gover-

...to make macro fiscal projections and to carry out the adopted projects

Unreliable statistical data and macro fiscal estimates pose a large obstacle to economic policy makers

ment bodies lack the capacity to plan expenditures and budget, and carry out the planned projects on time.

Large discrepancy between preliminary and final estimates of macroeconomic variables made by the Statistical Office of the Republic of Serbia that are often subject to considerable revisions (GDP revisions), and relatively unreliable projections of fiscal trends (public revenues and expenditures) made by the state institutions pose a large obstacle to economic policy makers. Therefore, the quality and reliability of statistical data and fiscal projections need to be improved considerably in a relatively short term to enhance Serbian economic policy.

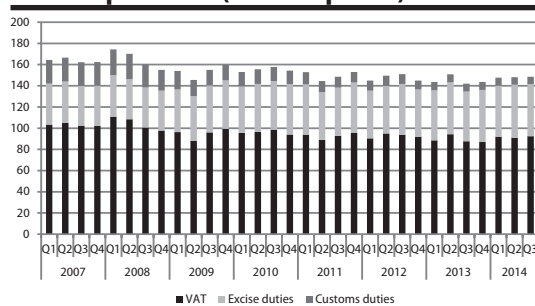
Analysis of the dynamics and structure of public revenues and public expenditures

Public revenues are going up slightly in Q3

Real seasonally adjusted consolidated public revenues went down moderately (by 2.6%) in Q3 2014 relative to the preceding quarter, primarily due to a considerable drop in revenues from corporate income tax, caused by changes in tax calendar in 2014, and a slight decrease in excise revenues. Without revenues from corporate income tax, public revenues (real seasonally adjusted) rose by 1.9% in Q3 relative to Q2. Slight real (seasonally adjusted) rise in these revenues continued in October relative to the preceding month (by 0.8%). Total public revenues in Q3 were by 3.8% higher than in the same quarter last year.²

Revenues from VAT are rising slightly due to dinar depreciation and reduction in shadow economy

Graph T 6-4. Serbia: Trends in real consolidated seasonally adjusted revenues from consumption tax (in 2013 prices)



Source: QM calculations

Real seasonally adjusted revenues from VAT went up slightly (by 1.6%) in Q3 relative to the preceding quarter. There was a real y-o-y rise in these revenues (by 5.4%), as well. Revenues from VAT continued to rise in October and were by 7.4% higher than in September. Taking into account recession and import stagnation, somewhat steeper rise in revenues from VAT in the second half of the year could be attributed to real dinar depreciation (by 2.6%) and intensified activities against illegal sales of goods and services, mainly through tighter controls on retailers and cafes and restaurants³.

...and excise revenues show no sign of recovery

Real seasonally adjusted excise revenues went down in Q3 relative to the preceding quarter (by 1.8%), but were higher (by 9.5%) than in the same period last year (due to tax rate increase). Revenue dynamics in Q3 were affected by dinar depreciation, decrease in world oil price, trends in real domestic demand, and intensified activities against illegal sale of excise goods. Illegal sale of petroleum products has been reduced notably, while in the area of tobacco products only small steps forward have been made.

Drop in custom revenues slows down

Custom revenues (real seasonally adjusted) fell slightly in Q3 relative to Q2 (by 1.6%), while y-o-y decrease was somewhat larger (6.9%). With almost completely liberalized foreign trade (with EU) and stagnant imports, this drop in custom revenues can be attributed to a shift in the structure of imported goods, regarding their type and country of origin, towards goods that are subject to lower custom duties and the goods imported from the signatory countries to free trade agreement with Serbia.

Activities against informal employment have not produced noticeable effects on revenues from personal income tax and social security contributions yet

Seasonally adjusted revenues from personal income tax went up considerably in Q3 relative to the preceding quarter (by 3.7%). These revenues increased slightly relative to the same period last year (by 0.8%), although the tax rate for wages was reduced mid Q3 2013, which increased the base for comparison. On the other hand, revenues from social security contributions (real seasonally adjusted) fell slightly in Q3 relative to Q2 (by 1.6%), while y-o-y decrease was somewhat larger (6.9%).

² Although flood relief donations amounted to RSD 4.7 billion in Q3, which exceeds the total annual donation received in 2013 by more than 50%, these are one-off revenues and therefore were excluded from the economic analysis of public revenue dynamics.

³ It is possible that the rise in revenues was partly driven by a slowdown in VAT refund, but there are no official data that would confirm this.

Revenues from corporate income tax are going down, due to changes in tax calendar, and possibly to decreasing profitability and illiquidity of companies

Other tax revenues are going up slightly due to increase in property tax rate...

...and solidarity tax pushes up non-tax revenues

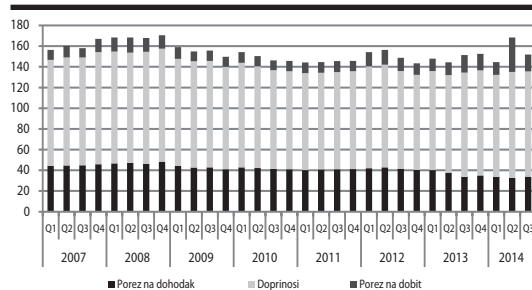
Public expenditures are going down moderately

Expenditures on wages are stagnant... and hiring freeze fails to produce desired effects

Expenditures on pensions are growing slightly... due to increase in the numbers of pensioners

nally adjusted) went down in Q3 relative to Q2 (by 0.8%). However, these revenues were higher than in the same period last year (by 28.1%), because contribution rate for pension and disability insurance was increased by 2 percentage points. Divergent trends in revenues from personal income tax and revenues from social security contributions could be caused by increase in registered income from capital, which is subject to taxation but not to social security deductions. This also suggests that the activities against informal employment failed to produce notable results.

Graph T 6-5. Serbia: Trends in real consolidated seasonally adjusted revenues from tax on factors of production (in 2013 prices)

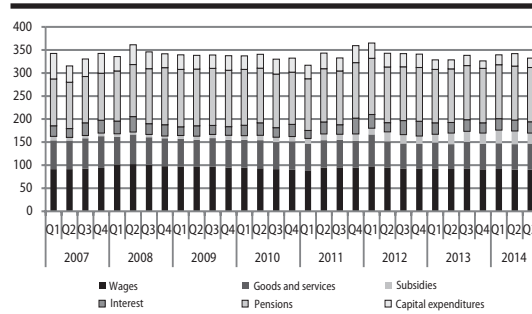


Source: QM calculation

abolition of compensation for building land use.

Non-tax revenues (real seasonally adjusted) rose in Q3 relative to the preceding quarter (by 4.8%) thanks to effective solidarity tax collection as of Q2. However, Q3 saw a real y-o-y drop in these revenues (by 5%). This is attributed to abolition of compensation for building land use, and high base for comparison, because dividend payments made by NIS in Q3 2013 considerably increased these revenues.

Graph T 6-6. Serbia: Trends in consolidated seasonally adjusted public expenditures (in 2013 prices)



Source: QM calculations

Real seasonally adjusted public expenditures went down moderately in Q3 2014 relative to the preceding quarter by 2%, which equaled its y-o-y drop. This reduction in public expenditures was primarily driven by reduction in capital expenditures and decrease in expenditures on interest payments (due to payment schedule for coupons on euro-denominated bonds).

Expenditures on public sector employees (real seasonally adjusted) remained almost unchanged in Q3 relative to the preceding quarter. This quarter saw a moderate real y-o-y drop in these expenditures (by 3%). Such dynamics in expenditures on employees came from nominal wage freeze, and to a certain extent, from public sector hiring freeze as of January 2014. Stabilized expenditures on employees suggest that the government have brought them under control. However, hiring freeze failed to produce notable results, which suggests inconsistent implementation of this measure. Therefore, without additional institutional and organizational guarantees that the rule will be obeyed, it would be risky to include savings from hiring freeze in future fiscal projections.

Expenditures on pensions (real seasonally adjusted) grew slightly in Q3 relative to Q2 (by 0.7%), and were somewhat higher than in the same period last year (by 0.2%). Expenditures on pensions increased in Q3 relative to the preceding quarter due to increase in the numbers of pensioners, which will probably continue to grow by the end of 2014 because future pensioners will have to meet more stringent retirement requirements as of January 2015.

Real seasonally adjusted revenues from corporate income tax were halved in Q3 relative to Q2. This was caused by changes in tax calendar as of this year and cannot be offset by standard methods for seasonal adjustment. Q3 saw a considerable y-o-y drop in these revenues (by 9.5%). This can be attributed to decreasing profitability of companies, leading to downwards revisions in tax advances, or to illiquidity (and consequently, increase in tax arrears).

There was a slight real rise in other tax revenues in Q3 relative to the same period last year (by 0.8%) due to increase in property tax rate, after

Expenditures on goods and services are going up slightly relative to the preceding quarter

Real seasonally adjusted expenditures on goods and services went up slightly in Q3 relative to the preceding quarter (by 1.5%), but were lower than in the same period last year (by 1.6%). Spending on goods and services, mainly from the local government budgets and Health Insurance Fund of the Republic of Serbia, rose slightly probably because of additional expenditures on flood relief, and partly because some previously postponed procurements had to be done and procurement arrears had to be cleared. Data show that these expenditures slowed down again in October and December because some procurements were postponed, delayed or canceled.

Implementation of new subsidy programs slightly pushes up expenditures on subsidies

Real seasonally adjusted expenditures on subsidies increased moderately in Q3 relative to the preceding quarter (by 2.3%) due to a specific agricultural subsidy payment schedule, and approval of direct budget support to Srbijagas (instead of former state guarantees on loans to this company). Q3 saw a real y-o-y drop in these expenditures (by 3.8%), caused by abolition of some subsidy programs (on housing loans, investment and employment subsidies – although these subsidies have been reintroduced *ad hoc*).

Expenditures on interest payments are falling slightly thanks to payment schedule for coupons on euro-denominated bonds, but the long-term upwards trend in these expenditures will continue

Expenditures on interest payments fell considerably in Q3 relative to Q2 (by 18.5%), because large amount of euro-denominated bonds fell due in April. Q3 saw a real y-o-y drop in these expenditures (by 3.4%). However, such dynamics cannot be observed as a beginning of a continuing downwards trend in expenditures on interest payments. Actually, it is quite the opposite – growing public debt, tougher borrowing conditions (due to growing debt, and possibly because the Fed and ECB will tighten their monetary policy in the following period) and dinar depreciation are expected to push these expenditures upwards again.

Capital expenditures are falling steeply, because they are the easiest to cut

Capital expenditures (real seasonally adjusted) fell sharply in Q3 2014 relative to the preceding quarter (by 25.4%), and were much lower than in the same period last year (by 12.8%), as well. This decrease would be even sharper if RSD 3 billion were not spent on goods for Commodity reserves in September. Such dynamics of capital expenditures are attributed to high base for comparison (large interim payments in Q2), demanding procurement requirements (amount that equals total value of procurement has to be provided in advance), and the fact that the easiest way to reduce public expenditures is to cancel or postpone public investments. Overall capital expenditures in the first three quarters of 2014 accounted for only 2.2% of GDP. This indicates that more than a half of fiscal deficit in that period (4.7% of GDP) came from current consumption. Since fiscal deficit is funded through borrowing, future generations will have to shoulder part of this burden. At the same time, such a low level of capital expenditures is unacceptable from the aspect of economic efficiency, as well, because they have affect economic growth more than any other public expenditure. Additionally, insufficient investments in public infrastructure hinder possible future economic.

Central government, the Autonomous Province of Vojvodina, local self-governments and the Health Insurance Fund of the Republic of Serbia are overspending their budget in Q3

Fiscal trends by government levels

In Q3 2014 central government overspent its budget by RSD 159.4 billion, and after a long period of budget surplus, both the Autonomous Province of Vojvodina and local municipalities slipped into deficit (RSD 0.4 billion each).

However, in the first three quarters of 2014 Vojvodina and local self-governments were in budget surplus of RSD 3.5 billion and RSD 7.6 billion respectively. Even with usual seasonal rise in expenditures in Q4 (assuming there will be no extraordinary spending) these two government levels will probably be in surplus.

In the first three quarters of 2014 sub-central government levels were in budget surplus of about RSD 11 billion, which indicates existence of vertical fiscal imbalance

After a long period, the Health Insurance Fund of the Republic of Serbia moved into deficit of RSD 2.1 billion because the rate for health insurance contributions was reduced in July.

Q3 2014 saw a real y-o-y rise in central government revenues (by 5.4%). It was driven by increase in revenues from VAT (based on VAT rate increase), rise in excise revenues, and increase in non-tax revenues (based on solidarity tax) and donations (for flood relief). Health Insurance Fund revenues suffered a considerable real drop in Q3 relative to the same quarter last year (by 9.3%) because the rate for health insurance contributions was reduced by 2 percentage points in

Health Insurance Fund of the Republic of Serbia slipped into deficit because the rate for health insurance contributions was reduced in July

Central government revenues are growing, and the Health Insurance Fund revenues and local government revenues are falling

Central government expenditures are going down moderately, and local government expenditures are growing

July (from 12.3% to 10.3%), and the rate for pension and disability insurance contributions was increased by 2 percentage points. Additionally, transfers between the central government budget and the Health Insurance Fund have been introduced. This way, savings from wage reduction can be transferred from the Health Insurance Fund to the central government budget, and used to make up consolidated fiscal deficit. Q3 saw a moderate real y-o-y decrease in local government revenues (by 2.5%). It was caused by a decrease in wage tax rate (lag effect of wage tax rate reduction from 12% to 10% in July 2013), a sharp drop in non-tax revenues (by 22.7%), due to abolition of compensation for building land use, and reduction in transfers from the central government budget (by 14.8%). At the same time, revenues from property tax increased considerably (by 57.9%). However, this rise is insufficient to offset the loss of revenues from compensation for building land use (these revenues were almost equal to revenues from property tax). It is therefore necessary to increase revenue impact of this tax in the next year.

Table T 6-7. Serbia: Fiscal surplus (deficit) at different levels of government (bn. RSD, current prices)

Year	National					
	Budget of Republic	Pension fund	Employment Service	Health fund	Vojvodina budget	Local self-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
Q1 2014	-77.5	0.3	0.0	6.1	1.8	4.5
Q2 2014	-51.5	0.9	1.2	3.0	2.1	3.5
Q3 2014	-30.4	0.0	0.8	-2.1	-0.4	-0.4
Q1-Q3 2014	-159.4	1.2	1.9	7.0	3.5	7.6

Source: QM

Q3 saw a real y-o-y drop in central government expenditures (by 7.7%) driven by considerable reduction in expenditures on goods and services, in capital expenditures and in expenditures on welfare. The Health Insurance Fund also spent less in Q3 than in the same period last year (by 1%), primarily due to considerable cuts in capital expenditures. This could be attributed to redistribution of income between the Health Insurance Fund and the central government budget, due to which the Health Insurance Fund suspended payments for some capital projects until the transfer from the central budget was made. Q3 saw a real y-o-y rise in local government expenditures (by 1%) driven by increase in expenditures on welfare and goods and services. On the other hand, capital expenditures fell moderately, which is considered unfavorable. Such revenue dynamics at different government levels (sub-central government levels are in surplus and the central government is running large deficit), and unfavorable trends regarding the level and structure of local government expenditures indicate the need for strategic approach to distribution of revenue among different government levels, that would redress vertical imbalance and encourage rational and productive spending.

Trends in public debt

Serbia's public debt totals EUR 22.1 billion (67.7% of GDP) at the end of October 2014...

...and including the debt of local municipalities it goes up to 69.7% GDP

Serbia's public debt totaled EUR 22.1 billion (about 67.7% of GDP) at the end of October 2014, and was by EUR 1.43 billion larger than at the end of Q2.

Including the debt of local municipalities, public debt amounted to 69.7% of GDP. Growth in public debt in the period July-October considerably exceeded consolidated fiscal deficit in the period (about EUR 0.25 billion). The loan received from the UAE in August, rise in domestic borrowing, needed to fund liabilities in the following period, and depreciation of euro-dollar exchange rate were the key generators of debt. In the same period, public debt-to-GDP ratio increased by 6.5% of GDP, which exceeded its absolute growth. This is attributed to real depreciation of dinar exchange rate in the period (by 2.6%), and GDP shrinking in Q2 and Q3. Relative growth would be even larger if the data on GDP were not revised upwards in the meanwhile.

Table T 6-8. 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	X 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	19.5
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	8.1
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	11.6
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	22.1
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%	67.2%
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%	67.7%

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)

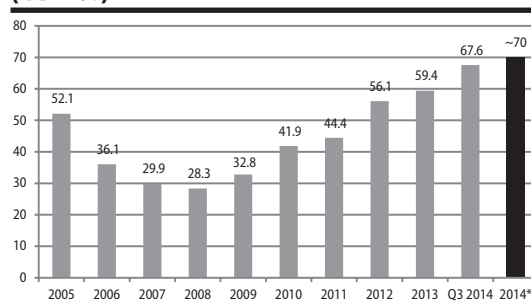
Source: Ministry of Finance and QM calculations

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

The downwards trend in indirect public debt detected in the preceding two quarters continued in Q3, when it decreased by EUR 130 million, because a part of state-guaranteed loans to Srbijagas was repaid (about EUR 100 million), and direct budget support to this company was approved (of about EUR 75 million) instead of issuing new government guarantees. However, key generators of indirect public debt (guarantees on loans to Srbijagas and other public/state companies) have not been eliminated. Therefore, if other circumstances remain unchanged, public debt will probably rebound, and the announced issuance of guarantees to Srbijagas worth EUR 200 million by the end of 2014 confirms this. To reverse the long-term upwards trend in indirect debt, large recipients of state guarantees need to be restructured/privatized/declare bankruptcy as soon as possible.

Public debt will amount to 72% of GDP at the end of 2014

Graph T 6-9: Trends in public debt in Serbia (GDP %)



Source: QM calculations

Public debt as GDP percent will rise both in Q4 and on annual basis. This is due to poor health of public finance, and real GDP shrinking in 2014. Taking into account its level at the end of October, expected dynamics in fiscal deficit by the end of the year, announced issuance of state guarantees to Srbijagas, realization of the flood relief loan worth EUR 300 million granted by the World Bank in October, expected continuation of a slight dinar-to-euro depreciation, and assuming that borrowing in advance (to obtain funds for the next year) will remain within the expected level, 2014 public debt is estimated at

70% of GDP, and with the debt of local municipalities it is targeted at 72% of GDP.

Appendices

Annex 1. Serbia: Consolidated General Government Fiscal Operations¹, 2008-2014 (nominal amounts, bn RSD)

	2008	2009	2010	2011	2012	2013				2014				
						Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q1-Q3
I PUBLIC REVENUES	1,145.9	1,146.5	1,223.4	1,302.5	1,405.4	330.0	362.4	369.1	406.4	1,467.8	336.1	385.6	390.5	1,112.2
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	1,104.0
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	994.8
Personal income taxes	136.5	133.5	139.1	150.8	165.3	38.2	39.8	35.9	42.1	156.1	32.2	35.1	36.9	104.3
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	59.5
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	292.2
Excises	110.1	134.8	152.2	170.9	181.1	42.5	53.7	52.3	56.3	204.8	42.9	55.2	58.4	156.4
Custom duties	64.8	48.0	44.3	38.8	35.8	7.3	7.9	8.2	9.1	32.5	7.2	7.5	7.8	22.4
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	319.7
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	40.1
Non-tax revenue	142.7	138.8	159.2	166.9	167.9	30.9	39.6	41.9	52.5	164.9	33.7	35.0	40.5	109.2
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	1.4
	0.0													
II TOTAL EXPENDITURE	-1,195.7	-1,248	-1,329.9	-1,435.9	-1,606.2	-364.3	-402.6	-422.1	-445.0	-1,633.9	-395.6	-418.9	-421.8	-1,236.3
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	-1,173.3
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	-290.0
Expenditure on goods and services	-181.2	-187.4	-202.5	-216.3	-235.7	-49.7	-55.3	-60.0	-71.9	-236.9	-50.9	-58.3	-60.2	-169.4
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	-91.0
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	-70.9
Social transfers	-496.8	-63.1	-579.2	-609.0	-652.5	-162.4	-173.0	-172.6	-179.5	-687.6	-170.7	-172.4	-172.8	-515.8
<i>o/w: pensions⁵</i>	-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	-379.9
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	-36.1
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	-63.0
	0													
III "OLD" DEBT REPAYMENT, GOVERNMENT NET LENDING AND RECAPITALIZATIONS	-19.1	-20	-29.9	-24.9	-16.6	-3.1	-3.9	-4.1	-1.6	-12.7	-5.2	-5.8	-0.3	-11.3
IV TOTAL EXPENDITURE, GFS (II+III)	-1,214.8	-1,268.3	-1,359.8	-1,460.8	-1,622.8	-367.3	-406.5	-426.1	-446.6	-1,646.5	-400.8	-424.7	-422.0	-1,247.5

Source: QM

Annex 2. Serbia: Consolidated General Government Fiscal Operations¹, 2008-2014 (real growth rates)

	2008	2009	2010	2011	2012	2013				2014				
						Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q1-Q3
I PUBLIC REVENUES	3.3	-8.7	-1.5	-4.6	0.6	-5.8	-3.2	-2.7	0.1	-3.0	-0.8	4.5	3.8	2.6
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	2.3
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	3.2
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	-10.4
Corporate income taxes	18.5	-27.0	-3.6	3.9	2.1	-28.2	-7.9	39.6	44.9	2.9	-18.0	165.3	-9.5	29.9
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	1.9
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	3.1
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	-6.2
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	23.7
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	4.1
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	-13.0	-5.0	-4.8
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	-52.5
II TOTAL EXPENDITURE	4.5	-4.8	-1.7	3.3	4.3	-10.4	-6.6	1.5	-5.8	-5.5	5.8	2.2	-2.0	1.8
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	1.5
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	-1.9
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	0.5
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	20.9
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	0.1
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	-0.6
<i>o/w: pensions⁵</i>	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	0.6
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	37.3
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	7.0
III "OLD" DEBT REPAYMENT, GOVERNMENT NET LENDING AND RECAPITALIZATIONS	12.3	-2.4	35.2	-25.6	-37.9	-41.7	-37.6	63.2	-58.5	-29.0	66.6	45.4	-93.1	0.2
IV TOTAL EXPENDITURE, GFS (II+III)	4.6	-4.8	-1.1	-3.8	3.6	-10.8	-7.0	1.8	-6.2	-5.7	6.3	2.6	-2.8	1.8

Source: QM

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

	Q3 2014/Q3 2013			
	Consolidated budget	Budget of Republic	Health Fund	Local self-governments
A Total public revenues (I)+(II)+(III)+(IV)	3.8	6.5	-9.1	-2.5
I Current revenues (1)+(2)	2.8	4.7	-8.9	1.0
1. Tax revenues	3.8	4.8	-9.3	9.4
1.1. Customs	-6.9	-6.9	-	-
1.2. Personal income tax	0.9	5.7	-	-1.2
1.3. Corporate income tax	-9.5	-10.1	-	-
1.4. VAT	5.4	5.5	-	-
1.5. Excise duties	9.5	9.6	-	-
1.6. Property taxes	57.9	-	-	57.9
1.9. Other taxes	28.1	-7.6	-	-0.1
1.10. Social security contributions	0.87	-	-9.3	-
2. Non-tax revenues	-5.0	4.0	14.9	-22.7
II Capital revenues	(27.65)	-	-100.0	-27.6
III Transfers from the other levels of government	-	-	-9.7	-14.8
IV Donations	424.8	1,554.9	-	-35.4
B Total public expenditures (I)+(II)+(III)+(IV)	-2.0	-7.7	-1.0	1.1
I Current expenditures	-1.2	-6.0	-0.9	3.0
1.1 Wages	-3.0	-2.7	-3.9	-1.3
1.2. Goods and services	-1.6	-16.4	3.6	5.0
1.3 Interest payments	-3.4	-3.1	373.8	-9.1
1.4 Subsidies	-3.8	-8.1	0.0	-1.6
1.5 Social insurance and social assistance	-1.8	-14.7	16.5	12.4
1.6 Transfers to the other levels of government	0.0	-7.6	-	-
1.7 Other current expenditures	43.1	64.3	-0.9	8.3
II Capital expenditures	-12.8	-27.5	-71.7	-7.7
III Strategic reserves	0.0	209.9	-	-40.5
IV Net lending	-93.1	-94.8	-	-63.5

Source: QM