

## Fiscal decentralization in the Republic of Serbia from 2000 to 2024

### Fiskalna decentralizacija u Republici Srbiji od 2000. do 2024. godine

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#### Abstract

*This paper analyses the evolution of fiscal decentralization in Serbia from 2000 to 2024, identifying key legislative changes, institutional mechanisms, and practical challenges in transferring fiscal responsibilities from central to local levels of government. Using descriptive and comparative analysis, the research examines fiscal decentralization in the context of broader democratic and economic transition, focusing on the degree of fiscal autonomy of local governments, regional disparities, and sustainability of reforms. The results show a significant gap between the legislative framework and practical implementation, pronounced impact of economic crises on recentralization tendencies, and persistent differences in administrative capacities of local governments. Comparative analysis with relevant experiences of other transition economies enables the formulation of recommendations for improving the system of intergovernmental fiscal relations and achieving a more efficient balance between national fiscal coherence and local autonomy.*

**Keywords:** fiscal decentralization, local government, transition, intergovernmental fiscal relations, regional disparities

#### Sažetak

*Ovaj rad analizira evoluciju fiskalne decentralizacije u Srbiji od 2000. do 2024. godine, identifikujući ključne zakonodavne promene, institucionalne mehanizme i praktične izazove u prenosu fiskalnih odgovornosti sa centralnog na lokalne nivoe vlasti. Primenom deskriptivne i komparativne analize, istraživanje sagledava fiskalnu decentralizaciju u kontekstu šire demokratske i ekonomske tranzicije, fokusirajući se na stepen fiskalne autonomije lokalnih samouprava, regionalne disparitete i održivost reformi. Rezultati pokazuju značajan jaz između zakonodavnog okvira i praktične implementacije, izražen uticaj ekonomskih kriza na recentralizacijske tendencije, i perzistentne razlike u administrativnim kapacitetima lokalnih samouprava. Komparativna analiza sa relevantnim iskustvima drugih tranzicionih ekonomija omogućava formulisanje preporuka za unapređenje sistema međuvladinih fiskalnih odnosa i postizanje efikasnijeg balansa između nacionalne fiskalne koherentnosti i lokalne autonomije.*

**Ključne reči:** fiskalna decentralizacija, lokalna samouprava, tranzicija, međuvladini fiskalni odnosi, regionalni dispariteti

### 1. Introduction


The transition of the Republic of Serbia from a centralized socialist system to a modern democratic state has involved significant reforms in all governance sectors. After the democratic changes in 2000, fiscal decentralization became a key component of the country's broader political and economic transformation (Đorđević, 2011). This process has been characterized by legislative changes, implementation challenges, and ongoing debates about the balance between central control and local autonomy.

The significance of fiscal decentralization extends beyond administrative restructuring. As Tiebout (1956) theorized, decentralization allows citizens to "vote with their feet" by choosing jurisdictions that best match their preferences. For transitional economies like Serbia, this process represents a fundamental restructuring of the relationship between the state and society.

The theoretical foundations of fiscal decentralization encompass several disciplines. Classical economic theory of fiscal federalism suggests that decentralized provision

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of public goods is more efficient when preferences differ among jurisdictions. More recent "second generation" theories emphasize the importance of incentive structures, accountability, and information asymmetries (Oates, 2005). The experience of post-socialist countries provides a relevant comparative context. Bird, Ebel, and Wallich (1995) highlight how inherited structures of intergovernmental relations often hinder the effective implementation of reforms, while Dabla-Norris (2006) finds that the success of decentralization critically depends on institutional quality. Bartlett et al. (2013) observe that reforms in the Western Balkans have often been driven by political imperatives rather than economic efficiency.

This paper applies a methodological approach based on descriptive and comparative analysis. The descriptive analysis aims to understand the evolution of the legal and institutional framework of fiscal decentralization in Serbia through four distinct phases: the initial reform phase (2000-2006), the period of consolidation and response to the global crisis (2007-2014), the phase of reform stagnation (2015-2020), and the most recent phase of system recalibration (2021-2024). Comparative analysis provides insight into Serbia's experiences, particularly in relation to Western Balkan countries and more successful examples from Central Europe.

The analysis is based on several key assumptions: first, that there is a significant gap between the legislative framework and practical implementation of fiscal decentralization; second, that economic crises and instability significantly affect the course of decentralization, often leading to recentralization tendencies; third, that administrative capacities represent a critical factor in the success of decentralization at the local level; fourth, that the existing system of intergovernmental fiscal relations fails to adequately address regional disparities and structural inequalities between local self-government units; and fifth, that the low level of local public investments represents a key structural weakness of the fiscal decentralization system in Serbia, which has direct implications for local economic development and the quality of public services. Data sources include legislative acts, reports from relevant institutions such as the Ministry of Finance, the Fiscal Council, as well as secondary literature in the field of fiscal decentralization and local development. The timeframe of the research covers the period from 2000 to 2024, providing a comprehensive insight into long-term trends and dynamics of the process.

## 2. Results

### 2.1. evolution of the legal framework

Analysis of legislative developments reveals four phases in Serbia's fiscal decentralization process:

- The initial reform phase (2000-2006) was characterized by fundamental legislative changes. The Law on Local Self-Government (2002) redefined municipal competencies and established their right to own property and independent sources of revenue. A

milestone came with the Law on Local Self-Government Financing (2006), which established a more comprehensive framework by defining own revenue sources, formulas for shared taxes, and a more transparent transfer system.

- Consolidation and response to the crisis (2007-2014) began promisingly but was interrupted by the global financial crisis, with a policy reversal leading to recentralisation (Kmezić & Đulić, 2018). The 2006 Constitution formalized the commitment to decentralization, but economic pressures led to recentralization tendencies. Empirical data show a 20% decline in local revenues in real terms between 2009-2010 (World Bank, 2013), with central transfers reduced by 40%. Significant progress came with the Law on Public Property (2011), which finally recognized the property rights of local self-governments.
- Reform stagnation (2015-2020) was characterized by reduced reform dynamics and incremental adjustments. Legislative changes focused primarily on technical improvements to existing mechanisms, and political priorities shifted towards fiscal consolidation at the national level.
- System recalibration (2021-2024) brought certain changes to the legal framework that partially increased the fiscal autonomy of local self-governments. A significant change was the reform of the property tax system and the adoption of the Law on Fees for the Use of Public Goods, which systematized various fees and clarified key aspects such as taxpayer identification and payment processes. Recent amendments to the Property Tax Law provided new legal possibilities for local self-government units, allowing them more complete control over inheritance and gift taxes and taxes on the transfer of absolute rights.

**Table 1.** Key Legislative Acts of Fiscal Decentralization in Serbia

Year	Legislative Act	Key Provisions
2002	Law on Local Self-Government	Redefinition of municipal competencies; right to property and independent revenue sources
2006	Law on Local Self-Government Financing	Comprehensive framework for local finances; defining original revenues and transfers
2006	Constitution of the Republic of Serbia	Formal recognition of the right to local self-government and decentralization
2011	Law on Public Property	Recognition of property rights of local self-governments
2018	Law on Fees for the Use of Public Goods	Systematization of communal fees and charges
2022	Amendments to the Property Tax Law	Expansion of local competencies for certain tax forms
2024	Amendments to the Law on Local Self-Government Financing	Redefinition of the transfer and equalization system

*Source:* Author's compilation based on official legislative documents of the Republic of Serbia

## 2.2. Current state of fiscal decentralization

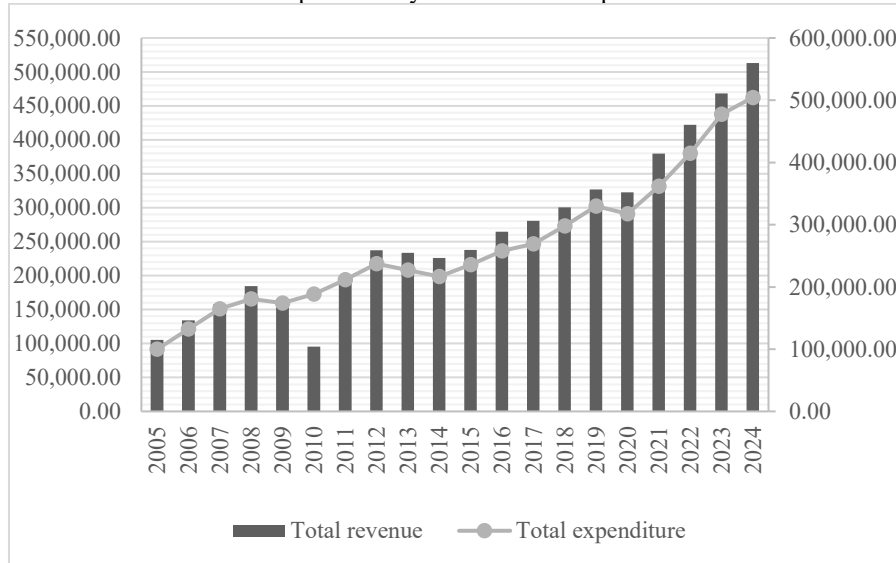
Analysis of fiscal data for local self-government units for the period 2005-2024 provides an empirical basis for evaluating the dynamics and effects of fiscal decentralization in the Republic of Serbia, which is illustrated by the representative trend in revenues and expenditures in Chart 1.

Longitudinal analysis of fiscal aggregates of local self-governments in the Republic of Serbia shows a pronounced progression in the volume of financial flows, with an increase in revenues of approximately 385% during the observed period (2005-2024). Empirical data indicate distinctive phases of fiscal evolution corresponding to the previously defined phases of legal development: the period of initial reforms (2005-2008) characterized by stable growth, the contraction phase induced by the global financial crisis (2009-2010), the

prolonged consolidation phase (2011-2020), and the expansion period (2021-2024). economies would have gone deeper into recession if most countries had not provided fiscal and monetary incentives in 2008. and 2009 (Jemović, et al. 2024).

Significant asymmetry has been detected in the adjustment of expenditures during periods of fiscal shocks, resulting in cyclical budget deficits at the local level. This observation confirms the thesis of structural rigidity of expenditures and limited adaptability of financial mechanisms of local self-governments to externally generated economic fluctuations. The identified patterns suggest the need to develop more sophisticated institutional arrangements that would enable sustainable fiscal decentralization through the improvement of stabilization mechanisms, diversification of funding sources, and strengthening the capacity of local self-governments for anticipatory fiscal management.

**Chart 1.** Trends in municipal and city revenues and expenditures in million dinars



Note: Revenues are defined as total monetary receipts, reduced by borrowed funds. Expenditures are defined as total outlays reduced by principal repayments.

Source: Public Finance Bulletin, Ministry of Finance of the Republic of Serbia

**Table 2.** Share of local revenues and expenditures in consolidated public finances of the Republic of Serbia (2018-2024)

Year	Share of local revenues in consolidated public revenues (%)	Share of local expenditures in consolidated public expenditures (%)	Chain index - revenues	Chain index - expenditures
2018	12.8	17.1	100.0	100.0
2019	12.9	16.8	100.8	98.2
2020	12.9	13.7	100.0	81.5
2021	12.4	14.1	96.1	102.9
2022	12.9	14.7	104.0	104.3
2023	12.9	15.2	100.0	103.4
2024	12.2	13.6	94.6	89.5

Note: Public revenues are observed originally by place of origin; in this case, a transfer received from another level of government is not included in the calculation of the observed level's revenue. The chain index shows the percentage change in value compared to the previous year.

Source: Ministry of Finance of the Republic of Serbia, Public Finance Bulletin

Analysis of data from the Ministry of Finance of the Republic of Serbia on the participation of local self-governments in consolidated public finances for the period 2018-2024 reveals significant structural characteristics of the fiscal decentralization process. There is a persistent discrepancy between the share of local

revenues and expenditures, indicating a vertical fiscal imbalance that is systematically compensated by transfers from the central level. Diachronic analysis shows that the share of local revenues in consolidated public revenues is relatively stable at the level of 12.4-12.9% throughout most of the period, with a slight decrease to 12.2% in

2024. In contrast, the share of local expenditures shows much more pronounced volatility: from an initial 17.1% in 2018, there is a drastic decrease to 13.7% in 2020 (coinciding with the COVID-19 pandemic), followed by a period of gradual recovery to 15.2% in 2023, and then another decrease to 13.6% in 2024.

Particularly significant is the convergence of the shares of revenues and expenditures during 2020, implying that during the crisis period, transfers from the central level were reduced, forcing local self-governments to adjust their expenditures to limited original revenues. This dynamic empirically confirms the vulnerability of the fiscal decentralization system in conditions of macroeconomic perturbations and the tendency towards recentralization of public finances during crisis periods.

A review of budget data shows that local self-governments remain highly dependent on shared taxes and transfers, with own revenues constituting only 30-35% of total local revenues, which is significantly below the EU average of approximately 45%. There are significant variations between local self-government units: urban centers generate up to 50% of revenue from their own sources, while some rural municipalities rely on their own sources for less than 15% of their budget. A key part of assigned revenues is the personal income tax (PIT), especially the wage tax, which represents approximately 80% of PIT allocated to local self-government units. According to the current distribution formula, cities receive 77%, municipalities 74%, and Belgrade 66% of the wage tax.

Analysis of consolidated public expenditures shows that local self-governments are responsible for approximately 14% of total public expenditures in Serbia in 2024, which is significantly below the EU average of 23.5%. The structure of local expenditures indicates their concentration in the areas of communal services (22%), education (19%), general public services (17%), and economic affairs (16%) (Statistical Office of the Republic of Serbia, 2024). Unfunded mandates - delegated

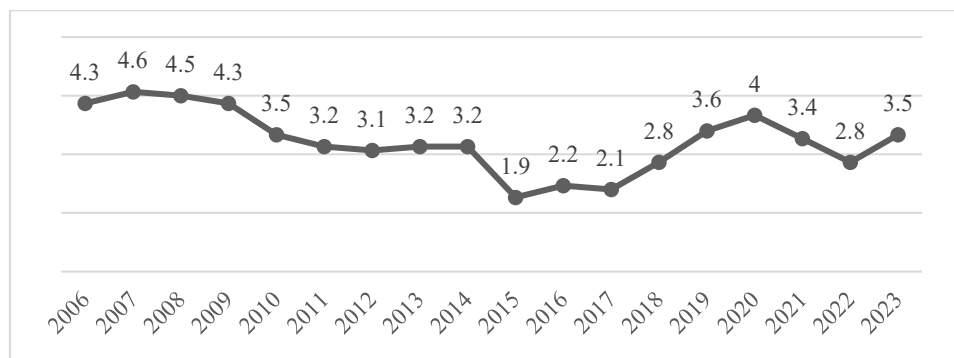
responsibilities without adequate resources - represent a constant problem.

Comparison of the fiscal capacities of local self-governments indicates extreme disparities. The own revenues per capita of the wealthiest municipality exceed those of the poorest municipality by fifteen times. Evaluation of the existing equalization system shows that current transfers cover only about 30% of this gap, which is insufficient for significantly reducing disparities.

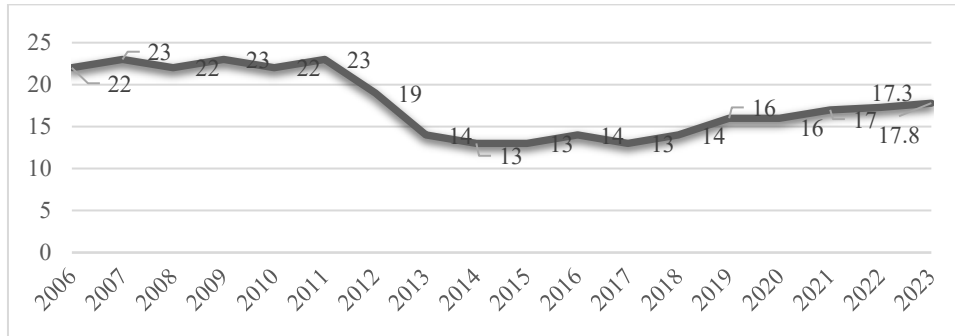
According to the report on the assessment of training needs for local self-government employees (Del Bianco & Trutkowski 2017), over 53% of municipalities report training needs for their employees. Analysis of the relationship between administrative capacity and successful implementation of fiscal decentralization shows that larger cities develop more sophisticated financial management systems, while smaller municipalities struggle with basic functions.

Based on Chart 2, it can be observed that local investments in Serbia before the global economic crisis were at a relatively high level, ranging between 4.3% and 4.5% of GDP in the period 2005-2008, which enabled the implementation of significant infrastructure projects. Despite the beginning of the crisis at the end of 2008, local self-governments managed to maintain a high level of investments until 2011, partly thanks to large projects in Belgrade. This was followed by the most dramatic decline, when the value of local investments fell from approximately 3.5% of GDP in 2010 to only 1.5% of GDP in 2014. The period from 2014 to 2017 was characterized by oscillations without a clear recovery trend, indicating instability in investment capacities. Since 2017, a gradual and slight upward trend has been noticeable, but with significant fluctuations, suggesting that the recovery was not stable. By the end of the observed period (2023), local investments reached a level of about 2.5% of GDP. However, the level of investments remains significantly below the pre-crisis period, mostly ranging between 1.8% and 2.5% of GDP.

**Chart 2.** Total local investments in % of GDP



Source: NALAS. (2024). Fiscal Decentralization Indicators for South-East Europe, Statistical Brief (9th ed.). <https://nalas-observatory.eu/publications/23>

**Chart 3.** Share of investments in total LSG expenditures (%)

Source: NALAS. (2024). Fiscal Decentralization Indicators for South-East Europe, Statistical Brief (9th ed.). <https://nalas-observatory.eu/publications/23>

Based on Chart 3, clear trends in investments in total local self-government (LSG) expenditures can be observed. In the initial period from 2006 to 2011, investments represented a significant part of local self-government budgets, remaining stable at around 22-23% of total expenditures. However, after 2011, there was a sharp decline in investments, from 23% in 2011 to only 13% in 2015, representing a decrease of almost 50%. In the period from 2016 to 2018, investments stagnated at a low level of about 13-14% of total expenditures. Only in the last three years (2019-2021) is a slight recovery to 16-17% of total expenditures visible, but this is still significantly below the level from the period before 2012.

According to the Fiscal Council report, a particularly concerning aspect is the low level of local public investments, which in Serbia amount to only about 1% of GDP, which is significantly below the average for Central and Eastern European countries (2% of GDP) (Fiscal Council, 2017). The situation is worsening, with the share of local public investments in Serbia declining to about 0.8% of GDP, while in CEE countries it is growing to about 2.5% of GDP. At the same time, inefficient operations of local public enterprises (LPEs) represent a significant budgetary burden for local self-government, which allocates about 0.6% of GDP (200 million euros) annually just for subsidies to local public enterprises, while total local subsidies reach about 250 million euros (0.8% of GDP). These subsidy expenditures in Serbia are three times higher than in CEE countries. There are also additional problems such as higher allocations for employees and weaker collection of property tax, and the share of expenditures for goods and services has also increased, rising from 21% in 2006 to as much as 35% in 2021.

Research shows that there are three key motivations that attract foreign investors to the Republic of Serbia (Beslać et al.2023):

- *Export opportunities* - Serbia has free trade agreements with Russia, Turkey, the EU, the United Kingdom, and countries of the CEFTA and EFTA agreements, which enables access to various markets.
- *Political relations* - Quality political relations between the investor's country and Serbia influence investment decisions.

- *Monetary incentives* - Probably the most significant motivation. Serbia provides financial incentives to foreign investors for each new job position created.

However, despite these attractive factors, Serbia faces challenges with investment continuity. This continuous decrease in investments can significantly impact the development of local infrastructure and the quality of public service provision, which clearly indicates the need for alternative funding sources such as municipal bonds (Gavrilović & Gavrilović, 2014).

### 2.3. Comparative analysis with other economies

Comparative analysis shows that Serbia's experience with fiscal decentralization is similar to other countries in the region but lags behind some regional countries and the SEE average, particularly in the domain of local investments.

These findings confirm the central thesis from the paper about insufficient local public investments in Serbia as the greatest structural weakness of the local finance system. Data analysis shows divergent models of financing local self-governments - Serbia relies significantly on shared taxes (48%) with a relatively high share of own revenues (36%), Croatia combines shared taxes (46%) with more significant transfers (30%), while Slovenia maintains a balance between own revenues, shared taxes, and grants.

All three countries show a lower degree of fiscal decentralization than the SEE region average, with Croatia leading with a 16.4% share of local in public revenues, while Serbia (13.5%) and Slovenia (13.2%) are at a similar level despite different phases of EU integration. The most dramatic differences are visible in investment capacities: Slovenia allocates as much as 39.1% of local expenditures for capital investments, which is twice as much as Serbia (17.8%), while investments per capita are even more drastically different: Slovenia (€590), Croatia (€321), Serbia (€111).

In the domain of property tax, Serbia shows stronger reliance on this source of revenue (15.5% of local revenues) compared to Croatia (4.5%) and the SEE

average (8%), while Slovenia leads in the absolute amount per capita (€163.8).

A significant factor that complicates direct comparison is the different model of territorial organization. While Serbia has a relatively small number of large local self-governments (average 45,841 inhabitants), Croatia and

Slovenia have an extremely fragmented structure with many small municipalities (average 6,964 and 9,948 inhabitants, respectively). This fragmentation can partially explain some differences in financial indicators, especially for Croatia, which has as many as 556 local self-governments, which can affect the scope of competencies and financial capacities of these units.

**Table 3.** Overview of key indicators in 2023

Indicator	Serbia	Croatia	Slovenia	SEE average
<b>Structure of Local Revenues</b>				
Own revenues (%)	36%	24%	30%	30%
Shared taxes (%)	48%	46%	45%	25%
Grants and transfers (%)	16%	30%	26%	46%
<b>Fiscal Significance</b>				
Share in public revenues (%)	13.5%	16.4%	13.2%	17.5%
Share in public expenditures (%)	13.3%	14.8%	11.6%	16.0%
Local revenues per capita (€)	601	1,509	1,569	766
<b>Capital Investments</b>				
Share in local expenditures (%)	17.8%	23.1%	39.1%	27.1%
Share in GDP (%)	1.0%	1.6%	1.9%	1.6%
Investments per capita (€)	111	321	590	209
<b>Property Tax</b>				
Amount per capita (€)	92.9	68.2	163.8	60.3
Share in GDP (%)	0.8%	0.3%	0.5%	0.5%
Share in local revenues (%)	15.5%	4.5%	10.4%	8.0%
<b>Territorial Organization</b>				
Number of local self-governments	145	556	212	6,999
Average number of inhabitants	45,841	6,964	9,948	26,421

Source: NALAS. (2025). Local government finance indicators in South-East Europe: Statistical brief (4th ed.)

### 3. Discussion

The results indicate that the outcomes of fiscal decentralization in Serbia have been shaped by a complex interaction of institutional, economic, and political factors. *Institutional factors:* Frequent changes in the legislative framework, weaknesses in implementation, and insufficient coordination between levels of government have created an unstable environment for decentralization. The mismatch between transferred responsibilities and financial resources represents a constant problem, while the lack of clear accountability mechanisms undermines potential benefits. *Economic factors:* The global financial crisis of 2008 and the COVID-19 pandemic significantly disrupted the reform process, revealing the vulnerability of local self-governments in periods of economic difficulties. Analyses show that, under fiscal pressure, the central government often turns to recentralization as a mechanism of control over public finances, which is a pattern observed in other transitional economies as well. *Political factors:* The commitment to decentralization has often been declarative, with central authorities retaining key control mechanisms. Political dynamics have favored short-term interventions instead of long-term structural reform, while transfers have often been used as political instruments rather than development tools.

Implementation challenges include: *Instability and unpredictability:* Analysis of intergovernmental transfer data shows significant variability during the observed period, with particularly pronounced volatility during economic downturns when annual changes reached over 20% in real values. *Unequal administrative capacities:*

Significant differences in institutional capacities of local self-governments are noticeable, which can be grouped into three basic categories: high-capacity urban centers (about 12% of local self-government units), medium-capacity municipalities (37%), and small municipalities with limited capacity (51%). The last group shows significantly worse results in all aspects of fiscal management. *Incomplete implementation of property rights:* By 2024, approximately 10% of municipal property was still not properly registered, especially in smaller municipalities. Despite legal obligations, the problem of inadequate inventory of local self-government property continues to represent a serious obstacle to their financial management, which is clearly seen from the findings of the State Audit Institution where it was determined that the inventory in the Municipal Administration of Srbobran did not include as much as 98.74% of the value of non-financial assets, including buildings, construction objects, land, forests, and waters (Državna revizorska institucija, 2022, p. 25). This problem continues to limit the possibilities of local self-governments to efficiently manage their property and generate revenue on that basis. *Weak accountability mechanisms:* Only 53% of municipalities publish comprehensive budget information on the internet, with particular deficiencies in reporting on public enterprises (SKGO, 2024). This indicates a lack of transparency and limited ability of citizens to oversee the spending of public funds at the local level.

The implementation gap is particularly pronounced in the area of investments, where there is an obvious discrepancy between the declarative legislative framework and actual practice. The decline in investments from 22-23% of local

expenditures before the crisis to today's 17-18% illustrates not only a lack of resources but also systemic weaknesses in the process of decision-making and implementation of capital projects. Local self-governments often do not have sufficiently developed capacities for adequate preparation of project documentation, management of the investment cycle, and evaluation of implemented projects. The lack of fiscal stabilizers at the local level also represents a serious implementation challenge. Unlike the central level of government, local self-governments do not have instruments available for amortizing cyclical economic fluctuations, which makes them extremely vulnerable in periods of crisis. This was clearly manifested during the COVID-19 pandemic, when the share of local expenditures drastically decreased, indicating systemic weaknesses in the design of intergovernmental fiscal relations.

Based on the results of comparative analysis and analysis of implementation challenges, key directions for future fiscal decentralization reforms in Serbia can be identified:

- *Stabilization of the legal framework*: Greater predictability and transparency in intergovernmental fiscal relations are needed, especially regarding transfers. Following Slovenia's example, a more stable and predictable transfer system should be developed that would enable local self-governments to plan for the longer term. The current system, which is subject to significant annual fluctuations, is not adequate for supporting sustainable development of local communities.
- *Strengthening local revenues*: Further modernization of property tax administration and continuation of the process of transferring competencies for certain taxes to the local level represents an important step towards greater fiscal autonomy. Serbia already shows good results in using property tax (15.5% of local revenues), but work should be done on increasing the absolute amount per capita, where it significantly lags behind Slovenia (€92.9 versus €163.8).
- *Reform of the transfer system*: Formulating a system that better takes into account both fiscal capacity and service provision costs, with greater emphasis on equalization. Croatia, which has a higher share of local in public revenues (16.4% versus 13.5% in Serbia), has achieved this partly through a more efficient transfer system. Special attention should be paid to the development of earmarked transfers for capital investments following Slovenia's example, where investment grants constitute a significant part of local self-government revenues.
- *Encouraging local public investments*: Introduction of systemic incentives and reduction of administrative barriers for local investments, especially in the areas of environmental protection, education, and social infrastructure. Comparative analysis shows that Serbia significantly lags behind Croatia and Slovenia in this domain, which has direct implications for local development. Following Slovenia's example, where local investments constitute 39.1% of local expenditures, Serbia should develop mechanisms for increasing the share of investments from the current 17.8%.
- *Capacity building*: Targeted support to low-capacity municipalities through technical assistance and training. This recommendation stems from the analysis of implementation challenges, which shows that 51% of local self-governments have limited administrative capacities. The experiences of Slovenia and Croatia can be useful in developing training programs and technical assistance for local administrations.
- *Accountability mechanisms*: Development of standardized performance measurement systems and strengthening of auditing. The current situation, where only 53% of municipalities publish comprehensive budget information (SCTM, 2024), indicates the need for a systemic approach to strengthening transparency and accountability. Croatia and Slovenia, as EU members, have more developed budget transparency mechanisms that can serve as a model for reforms in Serbia.
- *Development of municipal bonds*: Given the lack of investment funds, municipal bonds represent a potentially significant instrument for financing local development. Comparative analysis shows that Serbia significantly lags in investments per capita (€111) compared to Croatia (€321) and Slovenia (€590), which indicates the need for diversification of sources of investment financing.

Implementation of these reform directions requires a comprehensive and systemic approach, which would include changes to the legislative framework, strengthening of institutional capacities, and development of new financial instruments. The experiences of Croatia and Slovenia, which have previously gone through similar reform processes in the context of EU integration, can provide valuable lessons for Serbia.

#### 4. Conclusion

Analysis of the fiscal decentralization process in Serbia from 2000 to 2024 shows significant progress in developing the legal and institutional framework, but also persistent structural weaknesses and implementation challenges. The most important findings of this research confirm the initial assumptions and point to several key conclusions.

First, despite an impressive series of legal reforms, there is a significant gap between the legislative framework and practical implementation of fiscal decentralization. This gap is particularly visible in the domain of local public investments, which experienced a dramatic decline after 2011 and have still not reached the pre-crisis level, which represents a serious obstacle to local development.

Second, economic crises have a pronounced negative impact on the decentralization process, often leading to recentralization tendencies. This was clearly manifested during the global financial crisis and the COVID-19 pandemic, when the share of local expenditures significantly decreased. Comparative analysis with Croatia and Slovenia confirms that this pattern is characteristic of the region but also points to the

possibility of developing more robust mechanisms for preserving fiscal autonomy in crisis periods.

Third, administrative capacities represent a critical factor in the success of fiscal decentralization. Significant differences in institutional capacities of local self-governments result in unequal degrees of reform implementation and efficiency in resource mobilization. Experiences from the region point to the importance of a systematic approach to capacity building, especially in smaller and economically weaker municipalities.

Fourth, the existing system of intergovernmental fiscal relations fails to adequately address regional disparities. Extreme differences in the fiscal capacity of local self-governments remain a persistent challenge, indicating the need for developing a more efficient system of equalization.

Fifth, the low level of local public investments represents a key structural weakness of the fiscal decentralization system in Serbia. Comparative analysis shows that Serbia significantly lags behind Croatia and Slovenia in this domain, which has direct implications for local economic development and the quality of public services.

This paper contributes to a better understanding of the dynamics and challenges of fiscal decentralization in Serbia, illustrating the complex interaction of legal, institutional, economic, and political factors in shaping this process. The research findings indicate the need for a comprehensive approach to reforms, which would include strengthening local fiscal autonomy, developing more efficient equalization systems, and creating an incentive environment for local public investments. Future research should focus on developing specific mechanisms for overcoming identified challenges, especially in the domain of encouraging local investments and addressing regional disparities. It would also be useful to explore in more detail the potential for developing municipal bonds as an instrument for financing local development in Serbia.

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