Paper proposal for the Working group on Public Sector Finance and Accounting

Local Public Borrowing in Serbia: How May Local Authorities Raise Finances for their Priority Investments?

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Local authorities of Serbia have suffered during the past ten years an important lack of investment, maintenance and operating resources that has brought about a heavy deterioration in the quality of services that municipalities are able to provide to the citizens. Magnitude of the investment challenge implies that financing cannot come only, or even primarily, from the government. Improvement of municipal infrastructure financing is crucial, and this is directly linked with the setting of local public borrowing.

New laws enacted in 2002 tend to change the municipal finance system, modifying some taxes transferred to local authorities, planning centralization of municipal cash deposits and the establishment of local treasuries, setting new rules for local public borrowing. Nonetheless, further reforms must be monitored in order to develop the municipal credit market in Serbia, which remains weak. Strategy for a fiscal decentralization and design of a comprehensive borrowing legal framework are without doubt high priorities for Serbia.

I- INTRODUCTION: A QUICK OVERVIEW OF MUNICIPAL FINANCE IN SERBIA

1.1. Current Territorial Organization:

The Republic of Serbia is a unitary country of about 10 millions inhabitants.
Without Kosovo and Metochia, Serbia is composed of the Autonomous Province of Vojvodina, 160 municipalities, three cities (Novi Sad –250 000 inhabitants; Nis –200 000, Kragujevac – 140 000), and the City of Belgrade (2 M inhabitants), which consists of 16 municipalities.[2]

The Serbian local government system relies on a single tier of administration, the municipality. According to the Constitution of the Republic of Serbia of 1990 and the Law on Self-Local Government of 2002, the main municipal competences are urban and town planning, housing, communal services such as water, transport, and heating, local roads, kindergartens and preschools, facilities in the field of sport and culture.
Some duties are shared with the Republic level: primary and secondary school; where teacher's wages are paid by the Republic and school facilities operating and investment costs by the municipality; and social care, for which social welfare centers are paid by municipalities, while staff and benefits are financed by Republic.
Cities have globally the same functions as municipalities. Financing is the only difference between municipalities and cities, which are entitled with the City of Belgrade to an additional percentage of the sales tax (*Porez za Promet*) shared by the Republic.
A municipality has in average about 45 000 inhabitants, which is the highest rate of Europe. In order to provide better information to the citizens and allow them to discuss specific issues, a municipality has a possibility to establish and organize communities (*mesne zajednice*) within its territory.

The unique supra municipal local authority is the Autonomous Province of Vojvodina, which has no hierarchical power over the municipalities located in its territory. The Province is responsible for enacting 'program of economic, scientific, technological, demographic, regional and social development' (Art. 109) and also for regulations in matters where the Republic and municipalities are directly involved (education, social care, health, etc.). In a context of high centralization, the real role of the Province has been strictly limited.
The Autonomous Province of Kosovo and Metojiha (Kosmet) is currently run by a special UN mission in Kosmet (UNMIK).

The 25 Districts (Okruzi) that have been established by Governmental decision in 1992 are local state bodies and not elected local authorities. A district is a territorial unit where departmental bodies of certain ministries and

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[2] For a more detailed presentation, see Sevic, Z. (2001) " Local government in Yugoslavia" In Emilia Kandeva (Eds), *Stabilization of Local Governments*, Budapest, Hungary: Local Government and Public Service Reform Initiative.

republican agencies are brought together in a single administrative center for the particular area. They are mainly responsible for administrative control and some inspection duties. The City of Belgrade has also the competencies of a district.

1.2. Percentage of the Public Sector and Sub-National Government in GDP.

The following chart gives an overview of municipal finance in Serbia. Assuming the fact that data on sub-national government expenditures were not reliable, these figures deal only with public incomes.

** Graph. 1**
Percentage of the Public Sector and Sub-National Government in GDP

The situation has globally improved since 2000 and especially for Serbian municipalities. The municipal revenues stated in dollars increased up to 187% between 2000 and 2003 (300 M$ to 861 M$). This recent raise is mainly due to conjectural reasons (GDP increase) and not to structural causes like the new municipal legal framework.
Despite their large duties, Serbian local authorities still represent less than 15% of the public income and just reached 6% of the GDP.

The State debt amounts to 8, 6 billion dollars in 2002, which represents more than 67% of the 2002 GDP[3].

1.3. Influence of the New Legal Framework on Municipal Finance:

Serbia is highly centralized country in which the process of decentralization and modernization of all tier of administration is at the beginning. New Law on Local Self-Government[4] has just opened a part of these changes. In addition to the clarification of the duties of municipalities, the main aim of the Law was to offer sufficient autonomy to local governments through adequate, sure and permanent financial resources. 1/3 of the 154 Articles regulate indeed financial issues.

The Laws on Local Self-Government, enacted in 2001[5] and 2002 introduced a clarification of municipal incomes, to some extent provided more incomes to local authorities, but did not change the global structure of incomes of local budgets.

Some marginal resources formerly stated as transferred revenues became original revenues (tourist tax, and some other marginal public incomes). Nonetheless, expenditures of local authorities remained in 2002 mostly financed from state transferred revenues (more than 79%). Besides original incomes, where rates and basis are set up by decision of local self-government, the new law entitled municipalities to receive additional transferred incomes from the State.
The Payroll tax, which in 2002 represents 20% in average of municipal income, was introduced in 2001 in replacement of contribution to mutual housing and communal fees. Its yield belongs now to local community in total amount.
Moreover, the full yield of taxes on property (tax on property, inheritance tax, tax on gifts and tax on transfer of absolute rights) go up to now to municipal budgets.
The most important income of municipalities, the sales tax on products and services, which stands for 33% of local authorities' revenues in 2002, has been divided in a fixed and variable part[6]. According to some criteria and also resulting from negotiations with the most powerful cities, the central government is setting this variable part, which is not marginal (up to 40% of the sales tax yield). However, in enabling municipalities to obtain 50%

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[3]This figure reflects the first phase of the Paris Club debt reduction, and comparable treatment from other official bilateral and commercial creditors.
[4] *Official Journal 'Sluzbeni glasnik RS'*, number 9/02, Belgrade, 2002
[5]*Official Journal Sluzbeni glasnik RS*, number 49/99, 27/01, Belgrade 1999, 2001.
See Raicevic, B. and Stojanovic, S. "Lokalne finansije:iskustva i mogucnosti Srbije" In Ekonomika preduzeca, Belgrade, Janv- Feb 2002 : 55-63.
[6] First, Republic gives a local authority a fixed percentage of the sales tax raised on its local territory: 8% for each municipality, 10% to cities, and 15 % to the City of Belgrade. Then, a special annual law sets up an additional percentage of sales tax and also defines the maximum amount of sales tax and income tax a local government may receive from the State. Since the new law on Self- local government of February 2002, a local authority that reaches its ceiling will receive 50% of any additional sales and income tax.

of the sales tax yield surplus, the new Law has made local authorities and especially the wealthiest ones more interested and motivated for as large as possible collection of the incomes left to them.
Thus, crucial transferred taxes for local incomes have been slightly redesigned. Municipalities are still vastly dependent from the Republic regarding their finances since "the largest part of their budget comes from the Republic as a "return of taxes"[7]It seems also that these new laws have a limited impact on municipal finance: Serbian municipalities barely increased their share in public income by 3%, from 11 % in 2001 to 14 % in 2002. Because the Law was partially implemented in 2002, this assumption should be confirmed once the figures of 2003 become known.

Enacted in April 2002, the Budget System Law initiates procedures for budget preparation and budget execution of every public entity. For instance, the establishment of modernized treasuries is planned at the republic and local level. Municipalities have to implement this positive reform in 2004. Local authorities will already in 2003 try to respect the new legal calendar for budget preparation.
Some amendments to the Budget System Law adopted in December 2002 plan to centralize municipal deposits, currently placed in commercial banks, in the National Bank of Yugoslavia trough the Public Expenditures Agency and under the authority of the Republic treasury.
However, because these changes aim at improving the control over public expenditures, which is today especially weak and sensitive in municipalities, it is likely that some resistance and difficulties will occur. Heavy training and strong commitment from the finance municipal officers will be needed in order to perform well. Financial management capacities of municipalities will greatly improve if this law is correctly implemented.

1.4. Relations between the Local and Central Governments.

Until 1990, Yugoslavia had a highly decentralized system of government, where the municipality was the most important territorial and political unit. During the 90s, central government has constantly limited the autonomy of self-local government[8]. Despite the new Law on Self Local Government, enacted on 26 February 2002, the Serbian local government system remains highly centralized, for the following reasons:

First, the legal and constitutional framework that enabled the heavy centralization trend of the 90s is still in place.
The untouched Constitution of the Republic of Serbia of 1990 does not legitimize and protect the municipalities as it does for the Autonomous Provinces. In listing strictly their competences, the Constitution avoids any general competence or presumption of competence in favor of municipalities[9]. As a consequence, the Law may change what constitutes the core of a local authority: status, competences, territory, and property. A large number of laws, enacted during the former regime, still endanger municipalities.
For instance, since the nationalization of all municipal properties trough the Law on Assets Owned by the Republic of Serbia (1995), local authorities do not have any property rights, which impediments their economic development and allows control from the central government.
The current Law on Self-Local Government also did not remove the ability of the central government to dismiss a municipal assembly, which has effectively occurred more than 30 times during the former regime for political reasons.

Secondly, despite some positive changes in the last two years, local authorities are financially in dependent position regarding central government. Expenditures of local authorities are still mostly financed from transferred revenues. Besides, the current municipal finance system raises questions regarding its functioning. The annual allocation of state transfer to every local authority results from a non transparent process between the Ministry of Finance and the biggest cities. In addition to that, municipalities still have little possibilities to earn money or to develop public private partnerships all the more as their public utility companies are not operating in a sound legal framework.

Thirdly, it remains extremely difficult for a municipality to appeal on a central governmental decision. These review mechanisms are not effective because of their length and the weaknesses of the relevant institutions (districts, municipal and regional courts, Supreme Court, Constitutional court).

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[7] Djordjevic, S. (2002). 'System of Local Self-Government in Serbia and Yugoslavia (1804-2000). In: *Compared experiences of local self-government*, Belgrade, Magna agenda: 241-278

[9] Milkov, D. (2000). "The Structure of Public Administration in Yugoslavia". In UNPAN website.

Even if the central government political control over municipalities ended with the new democratic regime, the tools of this heavy centralization have not been yet reformed. The districts, for instance, considered as the main item of this former control, have to see their competencies clarified. In order to rebuild the confidence between central and local government, a clear and shared decentralization strategy must be implemented in the coming years.

II- A NASCENT MARKET FOR MUNICIPAL CREDIT IN SERBIA?

From 1990 to 2000, frequent hyperinflation, international sanctions and theft of individual foreign currency savings by the State disturbed overall relations and trust between borrowers and financial institutions. Such an insecure environment prohibits any lending operations, except for those related to the regime.

Two years after the political events that have led to the present democratic government, to which extent has municipal credit market developed in Serbia? This question raises the issue of financing local capital investment in support of essential municipal services. In fact, the potential borrowers, that is to say municipalities, local public utility companies, but also joint public-private ventures and other entities that implement local capital investments, meet today with extreme difficulty the credit suppliers, which are mainly domestic and development banks.

The current legal framework for local public borrowing regulated by the Article 58 of the Budget System Law (see annex 1) enables local authorities to borrow in domestic and foreign currency, provided that the annual amount of borrowing does not exceed 20% of the last year revenues. Obviously enough, this regulation must be improved since it does not provide any coherent limitations in regards to debt service and debt stock that could limit risks for both parties.

2.1. Trends in Borrowing

As Bulgaria some three years ago[10], Serbia cannot be said to have a functioning market for municipal credits in the sense of either a primary market, where local governments can raise finances for their investment needs, or a secondary market, where primary lenders can negotiate and liquidate municipal credits instruments.

The current situation of the municipal credit market in Serbia may be assessed through the level of municipal lending activity by primary lenders, in foreign and domestic currency.
In the recent years, only four local authorities have signed a loan in foreign currency for a global amount of 76 M Euro. At this point in time, the unique lender is the European Bank for Reconstruction and Development (EBRD). Belgrade city hall signed a loan agreement of 60 M Euro, at Euribor + 3, 99%, without any sovereign guarantee, in order to restore and improve transport, water system and heating. Focused on rebuilding their water system, Cities of Nis (6 M Euro), Novi Sad (5 M E) and Kragujevac (5 M E) asked and obtained a guarantee from the State[11] . These three loans, of a 12 years maturity with a two years grace period, present the following interest rate: Euribor + 1%.
Concerning bank loans in domestic currency, it has been particularly difficult to identify any municipal credits contracts, even if an average annual amount of 170 M Din (2,8 M E) municipal credit was stated in the ZOP[12] in 2002 for the whole Serbian local system, including local public utility companies. We could therefore assume the fact that, if such a domestic loan exists, it is rather small and has a very short maturity. In fact, it is likely that these loans are essentially short-term facilities offered temporarily to cities by the banks that hold their deposits. Another alternative is also possible. A domestic commercial bank keeping the deposits of a municipality may on-lend to a municipal public utility company under a sort of gentleman agreement. Relations between local commercial banks, municipalities and local public utility companies (PUC) need clarification. The lack of data

[10] Municipal Credit Market Development in Bulgaria: Policy and Legal Framework, *East European Regional Housing Sector Assistance Project,* USAID, Urban Institute, Peter Epstein, Juliana Pigey, George Peterson, Ritu Nayaar-Stone, Bulgaria, March 2000
[11] *Law on providing contra-guarantees of the Republic of Serbia and Montenegro as a guarantee for EBRD upon the loan for City of Kragujevac, City of Nis, and City of Novi Sad, March 2003*
[12] Zavod za obracun i placanje (ZOP) is the former payments and settlements bureau. Since 2003, the Office of Public Payments (UJP) replaces it for the public expenditures.

regarding the indebtedness of the municipal public utility companies does not allow an exhaustive assessment of the situation

However, if we consider local government deposits in domestic banks as a short-term borrowing for the benefit of these financial institutions, we may reach a conclusion that Serbian municipalities are currently lenders of the domestic commercial banking sector!
The global amount of municipal deposits in domestic banks is significantly higher than the credits on lend to municipalities: 8, 6 billion Dinars of deposits in November 2002, which is about 143 ME, versus 2, 8 ME credits. Current domestic banking loans to local authorities seem to represent only 2% of the local public deposits in commercial banks[13]. The deposits are not negatively remunerated. For instance, Belgrade obtained in the four domestic banks where it holds its deposits about 1% interest per month, which roughly represents 12, 4 % annual interest. If we take into account the inflation rate in 2002 (about 16%), deposits are no more interest bearer (- 3, 5% real interest rate).

For the time being, local borrowing concerns essentially foreign development banks on lending to the biggest municipalities (Belgrade, Nis, Novi-Sad, Kragulevac) almost always with a sovereign guarantee from the Republic of Serbia. The volume of lending activity in domestic currency is feeble or inexistent, if we take into account deposits of municipalities.

2.2. The Demand Side: Municipal Credit Demand and Capacity to Borrow.

Serbian municipalities have massive investment needs because of years of under-investment and under-maintenance in basic infrastructure. Water systems require major repairs to reduce leakage, wastewater systems require complete restoration and upgrading, public transport system must be renewed, municipal facilities repaired and made more energy efficient….According to the Serbian Republic Bureau for Development, this investment need in 2002 amounts to M€ 1.765, which is almost four times the total amount of 2001 local authorities revenues.

In addition to that, borrowing capacity of local governments seems anemic.
There is firstly a lack of clear information on the real indebtedness of municipalities, including local PUC. The financial information provided by local PUC even to their municipalities is often incomplete.
The ability to present creditworthy projects and municipal creditworthiness is also questionable. Once operating expenditures taken into account, the fraction of the revenue available to fund local investment or to repay the debt is for almost every Serbian municipality near nil.
Moreover, the ability and readiness to take on and repay debt is crucial. Measuring effective demand for municipal credit will depend on financial discipline and quality of management[14].

This raises a global fiscal decentralization issue: does the present municipal finance system allow most local governments to borrow? The new legal framework gives some more stable and consequent revenues to municipalities, especially for the wealthiest cities. But it is doubtful theses limited changes will be sufficient enough for most of the Serbian municipalities.
Under the present financing system, a few municipalities with a stronger economic base (already spotted by the development banks) may constitute the base of an initially small municipal credit market.

2.3. The Supply Side: Willingness of Financial Sector institutions to Hold Municipal Debt and Security Offered by the Present System.

Despite the progress in cleaning up the banking system, domestic commercial banks remain weak. Local banks are reluctant to lend regardless of purpose or type of borrower.
Banks appear not to be interested to on-lend to municipalities partially because they lack knowledge of municipalities and capacity to identify bankable municipal projects. Above all, the forms of debt security offered by the current system are not sufficient for a potential lender. That is the reason why foreign development banks usually demand a sovereign guarantee.
The development of a sound municipal credit market is linked with the quality of the pledges offered to the creditors. Local government deposits are today in Serbia the main used pledge for loans to municipalities.

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[14] On these issues, see Peterson, G. (1997). *Building Local Credits Systems*. The World Bank, Background Series.

However, the last amendments to the Budget System Law will limit this possibility. As for 2004, local government deposits should be centralized.
An alternative form of collateral in order to secure a municipal loan is presently not available.
Pledging of physical assets is prohibited by the Law on Assets of 1995, which nationalized municipal property. Even if such collateral was possible, it would not be necessarily the most effective. "Experience in many countries suggests that in practice it is difficult for private creditors to foreclose on pledges of sub national government real or immovable property in the event of defaults. Most developing and transitional countries tend to rely most heavily on general obligation financing – i.e. debt secured by a pledge of local government's budget resources"[15].
Pledging of selected revenues has proved to be successful in many countries. Promoting such a collateral in the Serbian framework requests further developments of the municipal finance reform. The Budget System Law does actually not regulate this issue, which may be tackled by a coming local public debt law.
Nevertheless, the municipal budget model will need to clearly separate the current from the capital budget. It would be then possible to evaluate whether a Serbian municipality can or cannot generate a net operating surplus[16] and therefore able to take a loan and repay it.

Because of uncertainty about loan repayments and municipal creditworthiness, the fragile domestic banking sector is not yet interested in lending to municipalities. Obviously there is no information flows and interest between municipalities and investors. The municipal credit market in Serbia is today not yet established. Comparative international experience suggests that such a market is unlikely to start off without some incentives or assistance from the State.

III Recommendations: Enabling Serbian Municipalities to Raise Finances for Their Priority Investments.

Besides the necessary improvement of the legal framework, immediate steps must be taken in order to enable municipalities to finance their urgent investments projects and launch a credit market for local authorities.

3.1. Immediate answer: Establishment of a Temporary Agency to Strengthen the Link between the Demand and Supply Side.

In Western Europe, central government frequently established national public institutions in charge of lending long-term credits to municipalities[17]. In many countries in transition, state also often designed with the help of international organization a specific financial institution on-lending to local authorities. Considered as transitional in order not to impediment the nascent private municipal market, these initiatives have contrasted results. A few countries report a positive experience with on-lending international donor funds (mainly the World Bank) through some form of "municipal bank" or "development fund". In Europe, the Czech MUFIS is given as a model. This financial intermediary lends medium-term funds to private banks that in turn on-lend to municipalities for infrastructure projects assuming 100% of the risk for the loans they underwrite. However, many municipal development loan funds have failed to achieve their primary goals, presenting high default rates and interfering in private credit markets (for instance in Ukraine).

That is the reason why the Serbian government plans cautiously to establish an administrative agency and not a financial institution that would enable municipalities and local public utility companies to access financial resources for creditworthy infrastructure projects.
The success story of the MUFIS relies partly on a pre-existent commercial bank network already working with municipalities. This precondition is not yet performed in Serbia.
The Municipal Infrastructure Agency (MIA) will be a combined mobiliser of grant funds and a centre for project preparation. It will work as a liaison between the providers of funds, the municipalities and the Government. It will not borrow in its own name and has a life term of 5 to 8 years.
Municipal Infrastructure Agency's specific objectives are:

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[15] Michael A. De Angelis 'Local government Access to Credit Markets in Developing Economies', World bank, 2002
[16] Defined as current revenues minus operating expenditures minus debt payments.
[17] For instance, in France the Credit Local de France, which was recently privatised, or the Caisse des depots et consignations, which remains especially in social housing.

- To improve the efficiency of service delivery in the selected municipalities by assisting municipal authorities and/or public utility companies with the preparation and implementation of priority municipal infrastructure projects.
- To assist municipalities and/or public utility companies raising financial resources for creditworthy projects.
- To improve financial management in selected municipalities and public utility companies.
- To encourage the development of a self-sustainable private-sector municipal credit market.

Supported by the European Agency for Reconstruction, the MIA should be enacted by the Serbian Parliament in the following months and be operational in July.

3.2. Medium Term Answer: Building a Comprehensive and Consolidated Framework for Municipal Credit.

One of the biggest advantages of the present situation is that no explosion of local government borrowing is underway. Many countries in transition "have found themselves confronted with the reality of large-scale borrowing, then have been obliged to try to construct ex post facto a legal framework that will accommodate the healthy borrowing that has occurred while curbing the excesses.(…) From Brazil to Russia, excessive borrowing by sub-national governments, or debt issuance in the absence of an adequate legal framework has exacerbated national economic crisis"[18]. Serbia is in a position to develop at its pace the legal and policy framework first in anticipation of future market development.

The Serbian Ministry of Finance and Economy envisages a comprehensive legal framework for municipal borrowing to be enacted in 2003. Besides the State Debt Law, local public borrowing should be regulated in a specific document in 2003, which will reform the content of the present article 58 of the Budget system law. The debt limitations (debt stock and debt service), the purpose of any municipal borrowing (whether to finance capital investments or provide some liquidity), the authority of borrowing within the municipality will be clarified. In that sense the security of both lenders and municipalities will be increased in limiting the risk of local governments taking on borrowing that defer substantial debt service costs into the future and that may be not repaid. The issue of the PUC debt has also to be addressed in a specific law. Furthermore, the implementation of this new legal framework has to be properly organised. Training of local officers should be one the key aspect of these reforms[19].

Financing of municipal infrastructure and development of a sound municipal credit market depend also, and even primarily, on the strengthening the fiscal decentralization in Serbia. Ensuring local government with stable revenues requests a national strategy for decentralization.
Replacing the current and sales tax on products and services, the reform of the Value Added Tax (VAT) in 2004 implies a complete new design for municipal finance. Because VAT is collected nationally, it will be impossible to return part of the VAT collected and realized in the municipal territory to local authorities like it is today the case for the sales tax. Given the importance of the sales tax in the municipal finance system, the complete system of municipal revenues has to be re-designed (municipal taxes, transferred revenues, etc.).

It is today extremely difficult for Serbian municipalities to face with the challenge of remedying years of under-investment in basic infrastructure because of their poor access to credit market. Municipal credit market is in Serbia at the very starting point. The establishment of the Municipal Infrastructure Agency will be a useful tool for helping demand and supply side to meet. Further adequate regulations are needed in order to develop this credit market.
However, building a coherent framework for municipal borrowing will be senseless without simultaneously building the rest of the policy and legal framework that widens local government's role and incomes. Fiscal decentralization is indeed the key for establishing a legal framework for promoting municipal creditworthiness. Such a project requires a new Constitution of the Republic of Serbia, and therefore strong political commitment and general consensus among the citizens. It is unsure whether these conditions are yet fulfilled or not.
ANNEX 1: Current Art. 58 of the Budget System Law

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[18] Municipal Credit Market Development in Bulgaria: Policy and Legal Framework, *East European Regional Housing Sector Assistance Project,* USAID, Urban Institute, Peter Epstein, Juliana Pigey, George Peterson, Ritu Nayaar-Stone, Bulgaria, March 2000

[19] Damjanovic, M. (2001). "The Legal and Political Framework for Decentralization". In B. Raicevic and G. Illic-Popov (Eds.), *Forum for Fiscal Decentralization in the Federal Republic of Yugoslavia Conference Proceedings* (Washington, D.C.: The Fiscal Decentralization Initiative for Central and Eastern Europe, 2001).

1. Local governments cannot borrow except for the capital investment part of their budgets.
2. Local governments shall not issue guarantees.
3. Local government may borrow from domestic and foreign sources for the purpose of financing capital investment expenditures subject to meeting special criteria as determined by a decision of the Government.
4. The Decision for borrowing, referred to in paragraph 3 of this Article is made by the executive local government body.
5. The amount of such borrowing, referred to in paragraph 3 of this Article, shall be determined in accordance with the ability of the local government to finance the repayment of principal interest from its own revenues.
6. Should short-term liquidity deficit occur during a fiscal year, due to unbalanced movements in revenues and expenditures, financing MAY be obtained through borrowing from the Republic Budget based on criteria set by the Government.
7. The total amount borrowed from the Republic Budget, during the fiscal year, shall be repaid by November 30 of this year.
8. The amount borrowed at any point in time during the fiscal year, either for short-term borrowing or long-term borrowing for capital investments shall not exceed amount equal to 20 percent of the total realized revenues of the previous year's budget for the local government.

Graph 1: Percentage of the Public Sector and Sub-National Government in GDP

		1997	1998	1999	2000	2001	2002
Nominal GDP Serbia	M Din	102,508.80	133,425.60	175,924.80	326,587.20	703,881.60	918,292.80
excluding Kosovo	Ex Rate	5.91	10.53	18.89	44.37	66.70	64.19
	M USD	17,344.97	12,666.77	9,315.17	7,360.75	10,552.95	14,305.85
Public income in Serbia		44,487.50	64,882.70	73,808.90	128,800.00	275,675.00	401,918.00
	M USD	7,527.50	6,161.70	3,907.30	2,902.86	4,133.06	6,261.38
	Struc.GDP%	43.40	48.64	41.95	39	39.2	43.8
Local Budget Revenues in Serbia	M Din	4,946.00	7,052.00	7,577.00	13,341.43	30,443.47	55,319.27
	Struc.PI %	11.1%	10.9%	10.3%	10.4%	11.0%	13.8%
	Struc.GDP%	4.82%	5.29%	4.31%	4.09%	4.33%	6.02%
	M USD	836.89	669.71	401.11	300.69	456.42	861.81
	Evol. %		-20%	-40%	-25%	52%	89%

GDP Serbia = 0.912 GDP FRY

IMF Report, Ministry of Finance and Economy