



Republic of Serbia
Fiscal Council

**ANALYSIS OF FISCAL EFFECTS OF THE MODEL OF DECENTRALIZATION
PROPOSED TO THE NATIONAL ASSEMBLY BY THE GROUP OF MPs
OF “UNITED REGIONS OF SERBIA”**

Belgrade, 8 June 2011

Introduction

The Fiscal Council is an independent Government agency accountable to the National Assembly of the Republic of Serbia. According to Article 1 of the Budget System Law, the task of the Fiscal Council is to assess credibility of the fiscal policy in terms of respect for the established fiscal rules and to ensure openness and responsibility in the pursuit of fiscal policy.

Pursuant to Article 92e of the Budget System Law, the Fiscal Council has, *inter alia*, the following tasks: to give independent and credible assessment of the economic policy measures proposed by the Government for accomplishment of quantitative fiscal goals it has set, to assess the basic fiscal risks and probability for the Government to attain its fiscal goals in the future.

The Budget System Law, Article 92ž, stipulates the obligation for the Fiscal Council of the Republic of Serbia to prepare and submit to the National Assembly the assessment of fiscal effects of the draft laws under the parliamentary procedure.

In accordance with the legal obligation, the Fiscal Council made an analysis of the three proposed amendments of the laws which involve significant fiscal effects, and which were submitted by 24 deputies belonging to MP group "United Regions of Serbia": Draft Law Amending the Law on Local Government Financing; Draft Law Amending the Law on Agricultural Land; and Draft Law Amending the Law on Property Tax.¹

¹ The draft Laws were posted on 30 May 2011 on Internet website of the National Assembly of the Republic of Serbia: List of Laws under Procedure, <http://www.parlament.rs/content/cir/akta/predzakoni.asp>.

Basic Results and Conclusions of the Analysis

Draft Law Amending the Law on Local Government Financing

- In our view, the proposed model of fiscal decentralization would result in an increase of the deficit by 1.1% of GDP at annual level, or by almost 40 billion dinars in 2012. Therefore, the proposed model is not fiscally sustainable. Accordingly, its adoption would require a sizeable fiscal adjustment of 1.1% of GDP at central government level. To the contrary, fiscal rules would be grossly breached and the 2012 deficit target would be overshoot by one-third, which would undermine the fiscal sustainability and macroeconomic stability.
- The proposal that 80% of personal income tax belong to local governments is not founded in modern fiscal practice which recommends that personal income tax pertains dominantly to central government level. Also, additional revenues from personal income tax make larger the differences between budget revenues of developed and undeveloped municipalities.
- Proposed changes in the transfers to local governments make the said differences narrower between developed and undeveloped municipalities based on additional revenues from personal income tax. However, the proposed changes in the transfer to local governments are mostly arbitrary and inferior in relation to the system solutions in the existing Law on Local Government Financing.

Draft Law Amending the Law on Agricultural Land

- Application of the proposal that income from leased agricultural land belong in the future exclusively to local governments would entail as a consequence a loss of revenues in the Republic of Serbia budget of about 1.5 billion dinars, and a loss of revenues in the AP Vojvodina budget of about 1.4 billion dinars in 2012. Application of this proposal requires savings in identical amount in other budget items so as to avoid increase of the deficit in the budgets of the Republic and the AP Vojvodina.

Draft Law Amending the Law on Personal Income Tax

- Application of the Draft Law Amending the Law on Personal Income Tax would result in a loss of revenues of local governments of about 2 billion dinars. Also, the proposed increase of the rate of depreciation derogates the property tax system and contributes to creation of additional differences between real market values of real property and appraised property values for tax purposes.

Analysis of Fiscal Effects of the Model of Decentralization Proposed by the group of MPs of “United Regions of Serbia”

1. Analysis of the Draft Law Amending the Law on Local Government Financing

1.1. Effects on Central Government

The Draft Law envisages an increase in local government share in personal income tax from 40% to 80%, as well as changes in the system of non-specific transfers allocated to local communities from the Republic budget.

The proposed model of fiscal decentralization would lower by 40 percentage points the Republic budget revenues from personal income tax. According to 2010 data, this drop would equal 42 billion dinars or 1.4% of GDP. Also, the proposal involves partial decrease of transfer assets for more developed municipalities, in which way the Republic budget expenditures would go down by over 8 billion dinars in 2010, i.e. by 0.3% of GDP. Taking into account that the proposal does not involve the transfer of obligations and functions from central to local level, additional decreases of expenditures at central government level could not be expected based on the proposed decentralization. Our conclusion is, therefore, that in the case of absence of additional fiscal adjustment measures, the overall effect at central government level would be a rise of the deficit by about 1.1% of GDP per annum, or by almost 40 billion dinars in 2012.²

If the proposed model of fiscal decentralization is adopted, it will be necessary to implement a significant fiscal adjustment equal to 1.1% of GDP at central government level, in order to ensure sustainability of the public finances and observance of the fiscal rules – by assigning the functions and obligations from central to local level of government, reducing expenditures, increasing revenues or by a combination of the mentioned approaches.³

Assigning functions and obligations from central to local government level would imply identification of the government functions currently performed at the central government level, while it is possible to perform them more efficiently (or at least equally efficiently) at local government level. The assignment of functions requires an adequate plan, both fundamental and credible, which is not contained in the currently proposed decentralization.⁴ In view of the sizeable amount of the necessary adjustment (1.1% of GDP), we assess that it is not possible to achieve the full amount of fiscal adjustment, which will necessitate additional measures for decrease of expenditures and/or increase of revenues at central government level.

Options for decrease of expenditures are considerably limited by the existing plans for decrease of expenditure by about 30 billion dinars (0.9% of GDP) in 2012 so as to enable achievement, in

² Since 2009, local governments in Serbia have not been allocated full amount, due to the economic crisis, of assets for non-specific purpose transfers as envisaged by the Law on Local Government Financing (1.7% of the latest officially published GDP). If in parallel with the proposal of fiscal decentralization is also planned the return to the full amount of transfers to local governments, it will be necessary to ensure additional adequate assets in the budget for 2012.

³ Taking into account that the Republic budget is by its transfers financially linked with other parts of the central government level, fiscal effects of decentralization can be to a larger or smaller extent also absorbed by increased savings in the framework of obligatory social insurance funds and/or JP Putevi Srbije (with its subsidiaries).

⁴ In the Republic budget may be singled out certain expenditures that are clearly intended for the local government level, such as local NIPs comprising investments (around 7 billion dinars) or the financing of obligatory pre-school education (about 2 billion dinars). Our assessment is, however, that this approach allows maximum achievement of up to one-half of the necessary fiscal adjustment of 1.1 of GDP.

accordance with the fiscal rules and the Budget System Law, of the target deficit of 3.2 of GDP. Current plan for expenditure decrease in 2012 implies a drop in subsidies from 2.5% to 2.1% of GDP, a drop in expenditures for goods and services from 1.7% to 6.8% of GDP, and a decrease of net budgetary credits from 0.8% to 0.3% of GDP. Accordingly, it is not realistic to expect significant additional decreases in these items. At the same time, there is no room for a decrease of interest expenses, either. A measure that remains for expenditure decrease is the freeze of salaries and pensions in 2012 instead of their rise determined by the fiscal rules.⁵ However, potential implementation of this measure would require majority vote in the Assembly on the amendments of the Budget System Law and the Pension Insurance Law. Naturally, there is also a possibility of reducing capital expenditures for public investments (instead of the planned increase by 0.3% of GDP). In our opinion, however, this measure would be least desirable from the point of view of current functioning of the economy and from the point of view of creation of more friendly conditions for an economic growth sustainable in the long run.

Options for increase of revenues that would enable fiscal sustainability in this case include raising the VAT rate (for example, of the general rate from 18 to 20%, and of lowered VAT rates from 8 to 9%) or raising the rate of contributions for PIO from 22 to 26% (to result in decreased budget transfers to the PIO Fund and thus make room for a larger financing of local governments). Although the higher tax could, in principle, prevent increase of the fiscal deficit at the central Government level, this approach is not desirable from the macroeconomic point of view as in this way would considerably increase the fiscal burden of the economy and public consumption in Serbia – whose share in GDP is already among the highest in the countries in transition. Such a policy would be contrary to Serbia's ambitions to build a competitive economy that would be developing fast in the coming years.

Summing up the above, our assessment of the proposed model of decentralization is that it is not fiscally sustainable and that the assertion of the proposers that implementation of this law will not require provision of additional assets from the Republic of Serbia budget – is not valid, because for implementing this law it will only in 2012 be necessary to provide almost 40 billion dinars in the Republic of Serbia budget.

⁵ Significant additional decrease of expenditures on purchase of goods and services is not possible taking into account that this category of expenditures has been stagnating for two years in a row and that defaults on the part of budget beneficiaries are already occurring on this basis.

1.2. Effect on Local Government Budgets

Table 1 presents aggregate effects on the budgets of local governments categorized into four groups of development, where the most developed municipalities are in group one, and the least developed in group four. Detailed projections for each municipality in the Republic of Serbia (excluding Kosovo and Metohija) based on 2010 data are presented in Enclosures 1 and 2.

Table 1. Simulation of the effects of the proposed fiscal decentralization model, 2010 data

	Group 1	Group 2	Group 3	Group 4	Total
Number of municipalities and towns	40	23	36	46	145
Number of inhabitants	4,541,918	858,966	1,107,055	813,704	7,321,643
Additional personal income tax, mil. din.	33,315	3,265	3,409	1,811	41,800
Decrease of non-specific purpose transfer, mil. din.	-9,458	-916	-444	0	-10,817
Solidarity transfer, mil. din.	262	262	786	1,310	2,621
Total increase of revenues, mil. din.	24,119	2,611	3,752	3,121	33,603
Increase of revenues, per capita, din.	5,310	3,040	3,389	3,836	4,590

Source: for the needs of the simulation were used the data of the Treasury concerning the revenues collected from personal income tax, data of the Ministry of Finance referring to the amounts of non-specific purpose transfers, and data of the Republic Statistics Office of assessed number of inhabitants in each municipality.

We can note that additional revenues from personal income tax actually make larger the differences between budget revenues of the developed and undeveloped municipalities. This fact is in conformance with expectations and empirical researches which confirm that decentralization of revenues *de facto* widens the regional differences. It is noteworthy in this context that practically in all European countries personal income tax dominantly represents the revenues of central government, and not of local governments.⁶ We conclude, therefore, that the proposal that 80% of revenues from personal income tax belong to local governments – is not founded in modern fiscal practice.

The measures proposed for decrease of non-specific purpose transfers to more developed municipalities and for introduction of a transfer of solidarity are intended to “iron out” the regressive distributive effects based on additional revenues from personal income tax. We can see from Table 1 that the decrease in non-specific purpose transfers is particularly pronounced in the case of the most developed municipalities in Group 1, while increase of revenues based on introduction of the solidarity transfer is particularly significant for the most undeveloped municipalities in Group 4.

However, although the regressive effects of additional revenues from personal income tax at the level of four defined groups of development will be significantly reduced by the proposed changes in the amounts of transfer assets, the problem is the distribution of transfer assets across individual municipalities belonging to the same group of development level. Namely, a linear identical distribution of the solidarity transfer is proposed across municipalities in the same group

⁶ Only in Scandinavian countries more than 50% of revenues from personal income tax belongs to local governments. However, the state and social structure in the Republic of Serbia differ drastically from those in Scandinavian countries. In East Europe countries that have social characteristics similar to those in the Republic of Serbia, the share of local governments in personal income tax does not exceed 50%.

of development without having been taken into account a single criterion concerning the economic-demographic structure of a concrete municipality. Thus, for example, identical amount of assets for the solidarity transfer is proposed for the municipality of Crna Trava with 1,700 inhabitants, the municipality of Zitoradja with 17,000 inhabitants, and for the municipality of Presevo with 40,000 inhabitants. This problem is not limited only to the municipalities in group four of development. It also appears in all groups. Thus, for example, in group 1 of development the same amount of solidarity transfer assets is proposed for the municipality of Sremski Karlovci having 9,000 inhabitants and for the City of Novi Sad with almost 300,000 inhabitants. Moreover, artificial categorization of municipalities into four generic groups of development may create significant problems and inequities in practice – two municipalities of similar level of development, formally categorized into different groups of development, would have markedly different amounts of transfer assets.

The question arises whether such a system of transfers is sustainable, taking into account that it largely undermines the systemic structure of non-specific purpose transfers in the existing Law on Local Government Financing – which supposes that transfer assets depend on a large number of economic-demographic indicators, such as the number of inhabitants, surface area of a territory, number of pupils, development level, etc.

2. Analysis of the Draft Law Amending the Law on Agricultural Land

The draft law implies that revenues from leasing the agricultural land, which are currently divided among the Republic budget, the AP Vojvodina budget and local governments belong in future exclusively to local governments. Application of this proposal would mean a loss of revenues in the budget of the Republic of Serbia of about 1.5 billion dinars in 2012, and a loss in the budget of the AP of Vojvodina of about 1.4 billion dinars. As at stake are relatively small amounts in relation to total budget revenues of the Republic of Serbia and the AP of Vojvodina, the proposed solution would be feasible in our view. However, in parallel with possible adoption of this proposal it will be necessary to identify the budget items in which savings of identical amount of assets would be achieved so as to be avoided an increase in the deficit at central government level.

3. Analysis of the Draft Law Amending the Property Tax Law

The Draft Law Amending the Property Tax Law includes the provisions which would maximally annul the last amendments of the Law adopted in December 2010. First of all, it is proposed to increase the annual rate of depreciation from 0.8 to 1.5%, or the maximum amount of depreciation from 40 to 70%. Also, it is proposed to partly lower the current (maximal) tax rates and to partly amend the system of tax credits. Adoption of the proposed amendments would result in a loss of revenues of local governments of about 2 billion dinars. The proposed amendments would also derogate the property tax system in Serbia because the unrealistically high rates of depreciation represent one of the main sources of systemic undervaluation of (older) real properties for tax purposes. In our view, frequent amendments of tax laws, particularly the frequent amendments that annul previous amendments of the laws – are not desirable, undermine the predictability of the tax system and increase uncertainty among economic actors.

**Enclosure 1. Effects of the Proposed Fiscal Decentralization Model on Budgets of
Local Governments, 2010 data (in dinars)***

Municipality	Development level	Effects on Local Government Revenues			Total	Change in budget revenues
		Personal income tax	Transfer reduction	Solidarity transfer		
BELGRADE	1	6,760,270,124	-241,750,002	0	11,518,520,122	16.1%
NOVI SAD	1	3,026,249,557	-459,905,969	6,720,192	2,573,063,781	21.5%
NIS	1	1,634,769,161	-412,262,769	6,720,192	1,229,226,584	23.8%
PANCEVO	1	832,357,301	-148,823,237	6,720,192	690,254,257	23.5%
KRAGUJEVAC	1	947,177,649	-303,285,255	6,720,192	650,612,586	19.3%
SUBOTICA	1	806,208,594	-195,061,744	6,720,192	617,867,042	20.0%
ZRENJANIN	1	751,709,489	-146,347,041	6,720,192	612,082,641	24.3%
POZAREVAC	1	563,327,853	-96,248,163	6,720,192	473,799,882	23.1%
KRALJEVO	2	579,347,604	-126,590,538	11,395,109	464,152,175	20.0%
LESKOVAC	3	480,886,113	-53,400,805	21,840,625	449,325,933	21.9%
SMEDEREVO	1	568,654,984	-156,505,875	6,720,192	418,869,301	23.1%
UZICE	1	510,216,182	-121,606,438	6,720,192	395,329,936	26.0%
SABAC	1	539,738,092	-151,614,823	6,720,192	394,843,462	20.5%
CACAK	1	550,086,677	-175,145,729	6,720,192	381,661,140	19.9%
KRUSEVAC	1	507,918,397	-185,948,751	6,720,192	328,689,839	19.1%
VALJEVO	1	457,077,674	-149,430,739	6,720,192	314,367,127	22.5%
VRANJE	2	379,808,432	-86,487,412	11,395,109	304,716,129	23.7%
VRSAC	1	349,683,461	-70,430,308	6,720,192	285,973,345	21.5%
S. MITROVICA	1	376,278,071	-100,609,524	6,720,192	282,388,740	21.4%
SOMBOR	1	411,792,661	-137,628,518	6,720,192	280,884,335	19.6%
KIKINDA	1	327,992,442	-80,649,201	6,720,192	254,063,433	18.7%
STARA PAZOVA	1	318,320,406	-72,576,527	6,720,192	252,464,071	23.2%
NOVI PAZAR	3	243,122,744	-30,148,735	21,840,625	234,814,634	20.6%
ARANDJELOVAC	3	206,580,354	-15,035,548	21,840,625	213,385,431	31.4%
ZAJECAR	2	261,955,036	-60,792,520	11,395,109	212,557,625	20.9%
PIROT	1	317,397,019	-114,017,328	6,720,192	210,099,883	24.5%
BACKA PALANKA	1	279,350,185	-81,889,958	6,720,192	204,180,420	20.5%
SMED. PALANKA	3	188,843,229	-15,754,781	21,840,625	194,929,073	33.7%
RUMA	2	230,731,180	-49,775,171	11,395,109	192,351,118	23.6%
LOZNICA	2	263,532,737	-94,800,148	11,395,109	180,127,698	17.1%
PROKUPLJE	3	174,990,528	-17,907,359	21,840,625	178,923,794	30.4%
VRBAS	1	221,959,966	-65,402,675	6,720,192	163,277,484	18.2%
INDJIJA	1	198,603,624	-49,827,475	6,720,192	155,496,341	14.0%
GORNJI MILANOVAC	1	220,142,586	-74,374,866	6,720,192	152,487,912	18.3%
ALEKSINAC	3	148,352,125	-23,764,065	21,840,625	146,428,685	24.5%
VELIKA LANA	3	140,523,611	-17,094,055	21,840,625	145,270,181	27.8%
KOVIN	3	133,439,960	-10,917,996	21,840,625	144,362,589	26.2%
PARACIN	2	178,185,523	-47,385,161	11,395,109	142,195,471	16.3%
BOR	2	196,399,062	-67,250,387	11,395,109	140,543,783	17.1%
PRIJEPOLJE	4	111,906,740	0	28,487,772	140,394,512	25.9%
NEGOTIN	3	133,894,018	-18,137,660	21,840,625	137,596,983	19.4%
JAGODINA	1	263,516,641	-135,683,672	6,720,192	134,553,161	7.2%
BUJANOVAC	4	100,701,109	0	28,487,772	129,188,881	23.0%
TEMERIN	1	145,586,558	-35,126,376	6,720,192	117,180,375	26.5%
KULA	1	176,800,145	-68,309,174	6,720,192	115,211,163	16.5%
KNJAZEVCAC	4	86,438,188	0	28,487,772	114,925,960	24.8%
BAJIINA BASTA	3	98,915,927	-7,213,655	21,840,625	113,542,897	21.6%
RASKA	3	98,227,513	-10,311,757	21,840,625	109,756,381	19.6%
LAJKOVAC	1	120,648,932	-17,630,662	6,720,192	109,738,462	17.1%

BACKA TOPOLA	1	148,504,284	48,358,569	6,720,192	106,865,907	15.4%
SID	2	127,769,254	32,526,580	11,395,109	106,637,783	17.4%
UB	3	90,762,356	-6,557,861	21,840,625	106,045,120	15.1%
IVANJICA	3	98,641,695	15,231,660	21,840,625	105,250,660	24.8%
CUPRIJA	2	120,460,569	28,174,833	11,395,109	103,680,845	23.7%
POZEGA	2	122,679,461	30,896,685	11,395,109	103,177,885	26.2%
ZABALJ	3	90,095,084	-9,019,492	21,840,625	102,916,217	29.9%
SURDULICA	4	70,535,263	0	28,487,772	99,023,035	27.4%
BECEJ	1	152,709,981	60,453,222	6,720,192	98,976,951	17.5%
KURSUMLIJA	4	68,754,106	0	28,487,772	97,241,878	35.8%
TRSTENIK	3	100,491,623	25,166,373	21,840,625	97,165,875	16.7%
VLASOTINCE	4	67,177,029	0	28,487,772	95,664,801	27.7%
PETROVAC	4	64,326,808	0	28,487,772	92,814,580	21.4%
ALIBUNAR	4	64,110,174	0	28,487,772	92,597,946	25.3%
KLADOVO	2	101,794,198	21,339,327	11,395,109	91,849,980	20.9%
SENTA	1	123,486,333	39,065,076	6,720,192	91,141,449	19.1%
ZITISTE	4	54,574,375	0	28,487,772	83,062,147	22.0%
SJENICA	4	51,854,967	0	28,487,772	80,342,739	25.3%
SVILAJNAC	3	67,828,963	-9,337,615	21,840,625	80,331,973	17.7%
PRESEVO	4	51,313,020	0	28,487,772	79,800,792	16.8%
PRIBOJ	3	71,566,093	14,105,048	21,840,625	79,301,670	24.5%
KOVACICA	3	67,853,333	10,963,696	21,840,625	78,730,262	24.2%
KANJIZA	1	103,617,027	31,619,718	6,720,192	78,717,502	12.7%
TUTIN	4	49,913,872	0	28,487,772	78,401,644	21.3%
VLADICIN HAN	4	49,606,028	0	28,487,772	78,093,800	25.8%
ODZACI	2	103,071,732	38,074,216	11,395,109	76,392,625	15.5%
BRUS	4	47,593,461	0	28,487,772	76,081,233	24.7%
VRNACKA BANJA	1	96,171,400	28,726,301	6,720,192	74,165,291	14.3%
MAJDANPEK	3	64,724,567	13,296,880	21,840,625	73,268,312	17.7%
DOLJEVAC	4	44,745,921	0	28,487,772	73,233,693	35.7%
APATIN	1	126,496,344	60,085,265	6,720,192	73,131,271	12.5%
DESPOTOVAC	3	63,414,421	12,745,298	21,840,625	72,509,748	20.2%
BELA CRKVA	4	43,926,836	0	28,487,772	72,414,608	29.0%
LJUBOVIJA	4	42,647,540	0	28,487,772	71,135,312	32.4%
NOVA VAROS	3	56,641,463	-7,425,637	21,840,625	71,056,451	22.9%
PLANDISTE	4	40,888,614	0	28,487,772	69,376,386	27.1%
NOVI BECEJ	2	84,381,995	26,660,513	11,395,109	69,116,591	17.5%
SRBOBRAN	3	50,138,341	-3,863,757	21,840,625	68,115,209	22.5%
LEBANE	4	38,721,109	0	28,487,772	67,208,881	25.9%
LJIG	3	49,795,317	-4,702,633	21,840,625	66,933,309	39.1%
SECANJ	3	50,539,379	-7,388,050	21,840,625	64,991,954	23.2%
PECINCI	1	87,120,076	30,160,952	6,720,192	63,679,317	14.0%
KUCEVO	4	34,731,294	0	28,487,772	63,219,066	27.5%
KRUPANJ	4	34,717,884	0	28,487,772	63,205,656	30.6%
ZITORADJA	4	34,483,217	0	28,487,772	62,970,989	34.6%
MALI ZVORNIK	4	34,128,375	0	28,487,772	62,616,147	25.4%
MIONICA	4	33,946,572	0	28,487,772	62,434,344	35.5%
ADA	2	65,526,084	15,672,311	11,395,109	61,248,882	19.8%
BELA PALANKA	4	32,745,851	0	28,487,772	61,233,623	32.2%
BOECIN	1	71,351,524	16,839,593	6,720,192	61,232,123	17.7%
SVRLJIG	4	32,664,963	0	28,487,772	61,152,735	27.5%
MEROSINA	4	30,158,871	0	28,487,772	58,646,643	33.6%
BABUSNICA	4	30,154,902	0	28,487,772	58,642,674	29.9%
BACKI PETROVAC	2	61,176,119	14,647,165	11,395,109	57,924,063	17.2%

BLACE	4	29,044,003	0	28,487,772	57,531,775	31.2%
COKA	3	40,976,226	-5,525,926	21,840,625	57,290,925	25.1%
MALI IDJOS	3	38,660,019	-3,315,079	21,840,625	57,185,565	23.7%
BATOCINA	3	39,954,403	-4,618,475	21,840,625	57,176,553	31.8%
VARVARIN	4	28,247,994	0	28,487,772	56,735,766	25.5%
NOVA CRNJA	4	27,744,379	0	28,487,772	56,232,151	29.4%
BOGATIC	3	51,857,421	-17,708,260	21,840,625	55,989,786	17.5%
OSECINA	4	26,446,385	0	28,487,772	54,934,157	30.6%
KNIC	4	25,226,495	0	28,487,772	53,714,267	30.5%
RACA	4	24,685,847	0	28,487,772	53,173,619	29.1%
DIMITROVGRAD	3	35,264,574	-4,257,692	21,840,625	52,847,507	18.0%
OPOVO	3	34,106,664	-3,327,725	21,840,625	52,619,564	39.4%
VELIKO GRADISTE						
MEDVEDJA	3	41,145,501	-10,377,082	21,840,625	52,609,044	18.6%
IRIG	4	21,972,850	0	28,487,772	50,460,622	20.1%
GOLUBAC	3	32,087,687	-3,804,489	21,840,625	50,123,823	25.2%
VLADIMIRCI	4	20,893,794	0	28,487,772	49,381,566	38.4%
ZAGUBICA	3	36,953,727	-9,776,125	21,840,625	49,018,227	24.5%
BOSILEGRAD	4	19,903,051	0	28,487,772	48,390,823	27.4%
GADZIN HAN	4	19,709,909	0	28,487,772	48,197,681	34.3%
REKOVAC	4	18,931,890	0	28,487,772	47,419,662	37.0%
CICEVAC	4	18,344,917	0	28,487,772	46,832,689	31.0%
LUCANI	3	29,239,452	-4,375,322	21,840,625	46,704,755	32.0%
RAZANJ	2	66,655,057	-32,414,247	11,395,109	45,635,919	13.7%
S. KARLOVCI	4	16,782,499	0	28,487,772	45,270,271	35.5%
BOJNIK	1	48,925,270	-10,472,578	6,720,192	45,172,884	29.0%
KOCELJEVA	4	16,641,736	0	28,487,772	45,129,508	25.3%
TITEL	3	30,158,030	-6,960,652	21,840,625	45,038,003	26.7%
ZABARI	2	50,141,628	-16,906,780	11,395,109	44,629,957	23.2%
MALO CRNICE	4	15,739,040	0	28,487,772	44,226,812	28.6%
NOVI KNEZEVAC	4	15,254,773	0	28,487,772	43,742,545	26.4%
TRGOVISTE	2	43,369,251	-12,211,050	11,395,109	42,553,310	21.6%
BOLJEVAC	4	12,651,877	0	28,487,772	41,139,649	37.3%
ALEKSANDROVAC	3	28,503,501	-10,229,596	21,840,625	40,114,530	20.0%
KOSJERIC	2	65,486,289	-37,967,444	11,395,109	38,913,954	12.8%
ARILJE	1	51,249,865	-20,739,360	6,720,192	37,230,697	16.2%
SOKOBANJA	1	68,404,591	-38,001,004	6,720,192	37,123,779	12.7%
LAPOVO	2	46,662,921	-21,532,889	11,395,109	36,525,141	14.3%
CAJETINA	2	28,557,334	-5,043,784	11,395,109	34,908,659	25.4%
BAC	1	53,099,449	-25,369,865	6,720,192	34,449,776	6.1%
CRNA TRAVA	2	37,365,887	-14,696,015	11,395,109	34,064,980	12.3%
TOPOLA	4	5,345,981	0	28,487,772	33,833,753	58.6%

* Order of municipalities according to total effects on the revenues of local governments

Enclosure 1. Effects of the Proposed Fiscal Decentralization Model on Local Governments, 2010 data (in dinars)*

Municipality	Development Level 1-4	Inhabitants in 2009	Change of income, per capita, at annual level		
			Personal income tax	Transfers	Total
CRNA TRAVA	4	1,664	3,213	17,120	20,333
NOVI SAD	1	327,175	9,250	-1,385	7,864
TRGOVISTE	4	5,413	2,337	5,263	7,600
BELGRADE	1	1,630,582	10,279	-3,215	7,064
LAJKOVAC	1	15,637	7,716	-698	7,018
POZAREVAC	1	74,463	7,565	-1,202	6,363
PLANDISTE	4	11,685	3,499	2,438	5,937
BOSILEGRAD	4	8,381	2,352	3,399	5,751
PANCEVO	1	124,362	6,693	-1,143	5,550
GOLUBAC	4	8,931	2,339	3,190	5,529
VRSAC	1	52,606	6,647	-1,211	5,436
GADZIN HAN	4	8,726	2,170	3,265	5,434
NOVA CRNJA	4	10,790	2,571	2,640	5,212
LJIG	3	13,067	3,811	1,312	5,122
SREM. KARLOVCI	1	8,845	5,531	-424	5,107
KURSUMLIJA	4	19,056	3,608	1,495	5,103
DIMITROVGRAD	3	10,407	3,389	1,690	5,078
OPOVO	3	10,565	3,228	1,752	4,981
UZICE	1	79,601	6,410	-1,443	4,966
BATOCINA	3	11,546	3,460	1,492	4,952
MEDVEDJA	4	10,321	2,129	2,760	4,889
ZRENJANIN	1	125,391	5,995	-1,114	4,881
BELA PALANKA	4	12,593	2,600	2,262	4,863
SURDULICA	4	20,425	3,453	1,395	4,848
MALI ZVORNIK	4	12,940	2,637	2,202	4,839
CICEVAC	3	9,675	3,022	1,805	4,827
NIS	1	255,479	6,399	-1,587	4,811
RAZANJ	4	9,454	1,775	3,013	4,788
LJUBOVIJA	4	14,906	2,861	1,911	4,772
COKA	3	12,175	3,366	1,340	4,706
BLACE	4	12,386	2,345	2,300	4,645
ZITISTE	4	18,005	3,031	1,582	4,613
ARANDJELOVAC	3	46,473	4,445	146	4,592
MALI IDJOS	3	12,479	3,098	1,485	4,583
SECANJ	3	14,191	3,561	1,018	4,580
RACA	4	11,636	2,122	2,448	4,570
LAPOVO	2	7,677	3,720	827	4,547
BRUS	4	16,832	2,828	1,692	4,520
BABUSNICA	4	13,036	2,313	2,185	4,499
IRIG	3	11,319	2,835	1,593	4,428
ALIBUNAR	4	20,931	3,063	1,361	4,424
RASKA	3	25,215	3,896	457	4,353
SUBOTICA	1	144,540	5,578	-1,303	4,275
MEROSINA	4	13,731	2,196	2,075	4,271
KLADOVO	2	21,575	4,718	-461	4,257
BACKI PETROVAC	2	13,935	4,390	-233	4,157
TEMERIN	1	28,283	5,147	-1,004	4,143
BAJINA BASTA	3	27,590	3,585	530	4,115
KIKINDA	1	61,790	5,308	-1,196	4,112
OSECINA	4	13,382	1,976	2,129	4,105

MIONICA	4	15,212	2,232	1,873	4,104
SRBOBRAN	3	16,658	3,010	1,079	4,089
DOLJEVAC	4	18,061	2,477	1,577	4,055
REKOVAC	4	11,567	1,586	2,463	4,049
KOVIN	3	35,827	3,725	305	4,029
SVRLJIG	4	15,344	2,129	1,857	3,985
NOVA VAROS	3	18,023	3,143	800	3,943
BELA CRKVA	4	18,451	2,381	1,544	3,925
PROKUPLJE	3	45,725	3,827	86	3,913
BEOCIN	1	15,682	4,550	-645	3,905
KRALJEVO	2	118,959	4,870	-968	3,902
ZABALJ	3	26,502	3,400	484	3,883
SMEDEREVO	1	108,046	5,263	-1,386	3,877
BOJNIK	4	11,807	1,409	2,413	3,822
ZABARI	4	11,680	1,348	2,439	3,787
KUCEVO	4	16,738	2,075	1,702	3,777
SENTA	1	24,156	5,112	-1,339	3,773
VRBAS	1	43,516	5,101	-1,349	3,752
KRAGUJEVAC	1	174,318	5,434	-1,701	3,732
SMED. PALANKA	3	52,746	3,580	115	3,696
NOVI KNEZEVAC	2	11,549	3,755	-71	3,685
KNIC	4	14,639	1,723	1,946	3,669
ZITORADJA	4	17,403	1,981	1,637	3,618
BACKA PALANKA	1	57,000	4,901	-1,319	3,582
MAJDANPEK	3	20,458	3,164	418	3,581
PRIJEPOLJE	4	39,277	2,849	725	3,574
ZAGUBICA	4	13,569	1,467	2,099	3,566
STARA PAZOVA	1	70,955	4,486	-928	3,558
UB	3	29,878	3,038	512	3,549
KNJAZEVAC	4	32,447	2,664	878	3,542
VLADICIN HAN	4	22,117	2,243	1,288	3,531
VRANJE	2	86,753	4,378	-866	3,512
PIROT	1	59,825	5,305	-1,794	3,512
KRUPANJ	4	18,071	1,921	1,576	3,498
NEGOTIN	3	39,470	3,392	94	3,486
MALO CRNICE	4	12,639	1,207	2,254	3,461
S. MITROVICA	1	81,613	4,611	-1,150	3,460
ZAJECAR	2	61,446	4,263	-804	3,459
ADA	2	17,835	3,674	-240	3,434
VELIKA PLANA	3	42,326	3,320	112	3,432
POZEGA	2	30,128	4,072	-647	3,425
GORNJI MILANOVAC	1	44,663	4,929	-1,515	3,414
RUMA	2	56,409	4,090	-680	3,410
VALJEVO	1	93,117	4,909	-1,533	3,376
SVILAJNAC	3	23,917	2,836	523	3,359
SABAC	1	118,720	4,546	-1,220	3,326
CACAK	1	115,612	4,758	-1,457	3,301
CUPRIJA	2	31,687	3,802	-530	3,272
INDJICA	1	48,376	4,105	-891	3,214
IVANJICA	3	33,132	2,977	199	3,177
KOCELJEVA	3	14,215	2,122	1,047	3,168
SOMBOR	1	89,314	4,611	-1,466	3,145
DESPOTOVAC	3	23,093	2,746	394	3,140
VLASOTINCE	4	31,050	2,164	917	3,081

VARVARIN	4	18,455	1,531	1,544	3,074
BACKA TOPOLA	1	35,099	4,231	-1,186	3,045
SID	2	35,390	3,610	-597	3,013
LESKOVAC	3	149,279	3,221	-211	3,010
KANJIZA	1	26,203	3,954	-950	3,004
KOVACICA	3	26,447	2,566	411	2,977
KOSJERIC	1	12,524	4,092	-1,119	2,973
PECINCI	1	21,672	4,020	-1,082	2,938
LEBANE	4	22,995	1,684	1,239	2,923
BOLJEVAC	3	13,767	2,070	843	2,914
PETROVAC	4	32,051	2,007	889	2,896
SJENICA	4	27,809	1,865	1,024	2,889
PRIBOJ	3	27,730	2,581	279	2,860
BUJANOVAC	4	45,396	2,218	628	2,846
VRNJACKA BANJA	1	26,451	3,636	-832	2,804
NOVI BECEJ	2	24,690	3,418	-618	2,799
BOR	2	50,779	3,868	-1,100	2,768
ALEKSINAC	3	53,222	2,787	-36	2,751
TITEL	2	16,249	3,086	-339	2,747
VELIKO GRADISTE	3	19,495	2,111	588	2,699
VLADIMIRCI	3	18,599	1,987	649	2,636
KRUSEVAC	1	127,551	3,982	-1,405	2,577
KULA	1	44,852	3,942	-1,373	2,569
BECEJ	1	38,587	3,958	-1,393	2,565
PARACIN	2	55,973	3,183	-643	2,540
TUTIN	4	31,933	1,563	892	2,455
ODZACI	2	31,220	3,301	-855	2,447
NOVI PAZAR	3	96,595	2,517	-86	2,431
APATIN	1	30,187	4,190	-1,768	2,423
BAC	2	14,850	2,516	-222	2,294
CAJETINA	1	15,189	3,496	-1,228	2,268
SOKOBANJA	2	16,763	2,784	-605	2,179
TRSTENIK	3	44,610	2,253	-75	2,178
LOZNICA	2	82,749	3,185	-1,008	2,177
LUCANI	2	22,015	3,028	-955	2,073
PRESEVO	4	39,769	1,290	716	2,007
JAGODINA	1	69,949	3,767	-1,844	1,924
ARILJE	1	19,987	3,422	-1,565	1,857
BOGATIC	3	30,639	1,693	135	1,827
ALEKSANDROVAC	2	27,118	2,415	-980	1,435
TOPOLA	2	23,217	2,135	-966	1,169