

Quick Response Request

Submitted by: Union of Municipalities of Montenegro

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Subject: Structure of the local finances in the NALAS countries.

Background: The Union of Municipalities of Montenegro used the service to gather information about the Structure of Local Government Finances in South Eastern Europe, especially about the own revenues of the local governments. This information was necessary to the Union to prepare policy arguments for the negotiation with the Ministry of Finance. Due to the short time for gathering the information, apart from using its internal capacities, NALAS hired also a regional expert which gathered and provided relevant information about the structure of the local finance in 5 NALAS countries.

1. Summary of Results

SLOVENIA

- The total revenues of Slovenian local governments have increased by almost 70% over the last 7 years, rising from about 1,207 billion EUR to close to 2,037 billion EUR in 2009.
- In 2003, current revenues constituted about 76 percent of total local government revenues, with the biggest share –61.7%-- coming from the tax revenues and more specifically from the tax on income and profit with the share of 42.7%.
- Since 2003 and as we can see, local governments have significantly improved. Thus the collection of the most important tax revenues, the tax on income and profit is almost doubled; rising from 515 million EUR to 1,023 million EUR in 2009 as well as the property tax collection is increased by 45% in average.
- Central Government transfers are stable and predictable over the last decade and are in the range of EUR 240 million in 2009 or about 18% of the total local government revenues. At the same time, with the accession of Slovenia to EU the transfers from the State budget from the EU budget funds significantly increase and accounted EUR 141 million or 37% of the overall transfers in 2009.
- This financial standing results in the creation of the relatively independence revenue base of the central government transfers.

MACEDONIA

- As of the beginning of the fiscal decentralization process in Macedonia the total local government revenues increased from 7.1 to 20.5 million denars in 2009.
- The current revenues as a percentage of the total revenues significantly decline from 59.12% in 2006 to 29.75% in 2009 despite the fact that in absolute figures they have increased by more than 70% over the last four years, rising from 4.2 to 7.1 billion denars in 2008 and then drop to 6.1 billion denars in 2009 due to economic downturn at national level. Most of this growth has come from the
- Communal Fee (Land Development Fee) and the Real Estate Transfer Tax. This indicates that at least in certain places the real estate market has been active and that new, private sector investment is being made.
- The tax revenues share in total revenues went down in relative terms, from 43.90% in 2006 to 23.18% in 2009. It is also worth noting, that tax revenues have increased from 3.1 billion denars to 5.8 billion denars in 2008 and then substantial decline to 4.8 billion in 2009. This equals approximately a 55% increase since local governments have assumed responsibility

for the property tax, although there is an overall decline in percentage because transfers are almost nine times bigger. At the same time, tax revenue share in the total current revenues is very stable and it shows slight increase from 74% in 2006 to 78% in 2009.

- It is also worth adding that in 2008, the Government amended the Law on Property Taxes and significantly expanded the base for the taxation of property owned by legal persons.
- Total local government revenues in relation to GDP are more than doubled but still remain very low – 5.07% in 2009 comparing with the countries in which local governments pay teacher salaries.

CROATIA

- The total revenues of Croatian local governments have increased by almost 60% over the last 7 years, rising from about 15,2 billion kuna to close to 24,1 billion kuna in 2009.
- The current revenues amounted about 90 percent of total local government revenues, with the biggest share –55%-- coming from the tax revenues out of which the tax and surtax on income has the biggest portion of 73% with permanent increase during the analyzed period of time amounting to 90% in 2009 as a percentage of the total tax revenues.
- The overall trend of slight increase of the current revenues and the tax revenues as a share of the total revenues is extremely stable and very dependent on the increase of the tax and surtax on income. Since 2003 the share of the current revenues and the tax revenues in the total local government revenues varies in the range of 90-93% and 55-59% respectively, while the increase of the collection of the tax and surtax on income is doubled from 6,119 to 12,856 million kuna in 2009.
- The level of the total local government revenues as a share of the GDP is higher than in the countries in this region. In 2008 the share is equal to 7.56% of GDP.

SERBIA

- The overall local governments revenues in Serbia increased by 2,35 times comparing 2003 to 2009.
- Tax revenues share in total revenues of local governments in 2003 and 2004 accounted for 75%, and in the following years it decreased to about 50%. This is due to the increase of the share of donations and grants as well as other revenues at the same time.
- Within the tax revenues the Income tax is the most important tax with the largest share amounted to 67% and 34% of tax revenues and total revenues respectively in 2009. On the other hand the property tax accounts only for 10% in the total local government revenues.
- The share of donations and grants increased from 0 to 18% over the last 7 years.

2. Analytical/Detailed Information

Detailed information indicators on specific countries from SEE can be found in the attached documents.