



THE INFLUENCE OF THE LOCAL GOVERNMENT ON SERBIA'S ECONOMIC DEVELOPMENT AND ITS DEBT REDUCTION

UTICAJ LOKALNE SAMOUPRAVE NA EKONOMSKI RAZVOJ SRBIJE I SMANJENJE NJENOG DUGA

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Abstract

Transitional processes since the year 2000 have additionally potentiated and multiplied the negative effects of the economic policy. The models of the economic growth and development have been based upon sector priorities and policies, mainly short-term and medium-term objectives, without a clear long-term development strategy. It resulted in a low gross domestic product, high rate of unemployment, and high public debt. Most of the local governments have had a negligible role in the conduct of the economic policy, but the negative effects of the macroeconomic policy remained a burden for them. The local governments mainly conducted the economic policy development on their own because the development policy has not been conducted at the regional level, as in many developed countries. Modern times ask for a proactive approach on behalf of the local governments concerning the economic development, more influence on the republic authorities and entrepreneurial spirit development in business, with the aim of unemployment and public debt reduction.

Sažetak

Tranzicioni procesi od 2000. godine su dodatno potencirali i multiplikovali negativne efekte ekonomske politike. Modeli privrednog rasta i razvoja bazirali su se na sektorskim prioritetima i politikama, uglavnom na kratkoročnim i srednjoročnim ciljevima, bez jasne dugoročne razvojne strategije. Rezultat toga je nizak društveni bruto proizvod, visoka stopa nezaposlenosti i visok javni dug. Većina lokalnih samouprava je imala zanemarljivu ulogu u vođenju ekonomske politike, ali su negativne posledice makroekonomske politike ostale na njihovom teretu. Lokalna samouprava je uglavnom vodila politiku privrednog razvoja sama za sebe, jer se razvojna politika nije vodila na nivou regiona ili oblasti, kao u mnogim razvijenim zemljama. Savremeno vreme traži proaktivan pristup lokalne samouprave po pitanjima privrednog razvoja, veći uticaj na republičke organe vlasti i razvijanje preduzetničkog duha u poslovanju sa ciljem smanjenja nezaposlenosti i javnog duga.

Key words: local government, local economic development, republic authorities, regional disparities, public debt

Ključne reči: lokalna samouprava, lokalni ekonomski razvoj, republička vlast, regionalni dispariteti, javni dug

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Introduction

The role that the local government should have in economic development encouragement, as well as the instruments and techniques they have at their disposal, has gained importance in the recent years. The basic dilemma is to what extent we should rely on the market mechanisms in creating the conditions for local development, and where there is a space for state intervention. According to Cvijovic [1], a state is not considered strong if it has a lot of jurisdictions, but if it implements it. The role of the local government is especially complex in this process because it represents the scene of the intersection of politics and economy, private and public, competition and monopoly. Local authorities also appear in multiple roles, which often contradict each other.

The transitional processes since the year 2000 have additionally potentiated and multiplied the negative effects of the regional economic policies. All former models of economic growth and development have been based on the sector priorities and sector policies, as well as mainly short-term and medium-term objectives. Regional development and long-term regional planning have been marginalised, and the measures in this area unsynchronised, mainly directed towards the encouragement of development in certain undeveloped areas and of a short-term character [2].

One of the causes of imbalance is certainly the urban and rural ratio, or, in a wider sense, developed and undeveloped parts of Serbia. Thus, for example, Boskovic (2012) points out that despite the possibilities offered by the rich and diverse resource base, there are numerous problems and limitations in rural area development, which is also confirmed by their economic characteristics. A great problem in these areas is a high unemployment rate that indicates the lack of new workplaces and the problem of employment. In favour of that fact, Milanovic and associates (2013)[3] point out that the factors of production, which are abundant (land and work) are not used enough, and the minimal factor usage is forced, such as capital. This is opposite of the comparative advantage theory, and the leading place of grain in exports illustrates it in the best way.

The regional disparities are not only present, but also escalate further (at the moment, they are convincingly the highest ones in Europe). Negative demographic trends contribute to that all, representing a problem that must be solved urgently through the active role of the state, and the long-term solutions at the same time [4]. Specific environment should always be kept in mind and therefore adjusted to, not identified with the developed European countries[5].

Business connections of the companies through clusters, business incubators, and technology parks represent the base for conducting the regional policy in all developed countries. The developing countries have a less developed system of these connections, which is one of the causes of the insufficient competition of the companies from these countries and conspicuous regional disproportions; on the other hand, it leads to restraining the complete development, unused resources and unfavourable migration flows[5]. Clusters and other forms of connecting create the conditions for a more stable and faster economic development of the region where they are located through most of the input procurement from the suppliers in their own environment or region, professional workforce employment, close linking with the innovation and research and development centres, financial institutions and investors, new product branding, etc [6].

Further direction of the local government units financial system reforms in Serbia should be focused on the functional connection between local government financial sources and their jurisdictions, which could lead to the increase of responsibilities in local government public service provision to their customers. At the moment, the focus of professional consideration is only on the

amount of the funds left at the disposal of the local governments, while the quality of the services that the local governments realise remain in the background[(Đinđić, Luković, 2016). Besides, the trap of high debts that threatens certain local governments should be avoided.

The objective of this paper is to point out the need of stronger involvement of the local government in the problems of local economic development, possibilities and elements influencing this process and encouraging it, obstacles in the way of successful implementation of this concept in the economic environment in Serbia, which mainly shows the characteristics of the high unemployment rate as well as the low standard of living for the population.

Macroeconomic environment and the economic policy in the transitional period

Negative results of globalisation and transitional changes in Serbia (primarily, unsuccessful privatisation) brought great trouble to the local governments because they faced the problems of high unemployment, poverty, migrations, ecological issues, besides management and public utilities. A lot of municipalities had to start dealing with these problems even before adopting the normative regulations directing the local government jurisdictions in the economic development area. Only in 2007 did the Law on local government define the economic development as a legitimate jurisdiction of the local government units. It enabled municipalities and towns to make programmes, implement local economic development projects, and take care of the general economic frame improvement in the local government units [7].

A series of other laws has been passed besides this one, sector laws with the aim of legal regulation improvement for a more successful economic development. But, there are other numerous legal obstacles remaining that hinder the efforts of the local governments, preventing them from taking their economic future in their own hands. Most of the negative consequences are caused by the lack of order and precision in the property relations between the central and the local levels of authority, as well as dysfunctional relations between authorities and public companies founded by the Republic of Serbia and those funded by the local government.

The aggravating circumstances for successful economic development are non-existent planning papers (development strategy), as well as a low level of organisation, IT and human capacities in local governments. Also, the division of jurisdictions in licensing between local and republic authorities, and complete independence of the republic services important for the economic development (EPS, Telekom, Srbija vode, Srbija sume, cadastre, etc) are obstacles present during the whole transition period. Therefore, successful local initiatives and projects are often the result of the local authority and individual abilities, not the macroeconomic environment which encourages investments, creation of workplaces, and the increase in the standard of living.

Most of the economic policy instruments in Serbia are under the central authority jurisdiction, such as economic regulation, monetary policy, tax and customs policies, borrowing policy abroad, education and health policies, etc. The state significantly influences the position of the complete economy with these measures, and it limits the local government possibilities a great deal. On the other hand, the influence of the state and local authorities on the economic trends are decreasing, due to the strong influence of globalisation and the market economy system. Nevertheless, there is a significant space for local government action in the economic development, mainly in the area of urban planning, building land management, infrastructure quality, local fees, and taxes, etc.

Local government authorities increasingly realise that the economic development is one of the basic tasks, and on the other hand, their citizens expect the improvement of the complete economic situation, especially unemployment decrease. According to Vukelić (2009), and Milosavljević and associates (2006), we could make a difference between the following forms of civic participation: a) information; b) consulting; c) proposing; d) deciding. It includes the assembly of all citizens, referendum, citizens' initiatives and forms of local government. Successful local

governments adapt to new circumstances and achieve positive effects for their companies and citizens, while the others lag and lose previously acquired positions. Therefore, the local authorities as well as the companies in their locations should always question their development strategies in order to deal with the new opportunities and dangers successfully.

There is also the question of what should be the optimal role of the local government in the area of the economic development, and how much influence can the local government exercise bearing in mind the limitations in front of it? The economic development is impossible without considering the other elements of the social development, and some of them are: political stability, infrastructure quality and accessibility, workforce quality, simplicity of administrative procedures, etc. Due to the oversized administration and the overstaffed public sector, it is necessary to consider entrepreneurial initiatives, self-employment and other types of development based on the personal initiatives of the unemployed, especially the young population. The current year, 2016, has been declared the year of entrepreneurship in Serbia, which means that the entrepreneurship development is the priority development objective.

The legislation of the republic should enable more flexible forms of cooperation between municipalities, as well as cross-border cooperation, bearing in mind various common characteristics between the economy in Serbia, former SFRY countries and the region. A clear long-term strategy of the regional development will enable the municipalities to coordinate their development priorities with the development plans at higher levels. A considerably larger influence of the local government on the authorities and companies at the level of the republic should be provided. These demands could be met if the institutions dealing with these issues are organised in a new, more flexible way similar to the companies, based on the market principles of doing business, wherever possible.

The above mentioned macroeconomic circumstances caused Serbia to take 47th place in the world (Table 1) according to the ease of doing business, although it has a much better ranking according to certain indicators, such as contract execution and foreign trade. The ease of doing business is especially important in investment attraction, foreign as well as domestic, because during the whole period there has been less investment than the state development needs, and the effort to catch up with the developed countries as much as possible.

Table 1: Comparative overview of the rank of Serbia and countries in the region, according to the basic indicators of ease of doing business among 190 countries included in the World Bank analysis, June 2016

Economy	Ease of Doing Business Rank	Starting a Business	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts
Macedonia, FYR	10	4	48	16	13	9	27	36
Romania	36	62	57	7	53	50	1	26
Bulgaria	39	82	60	32	13	83	21	49
Croatia	43	95	62	75	27	49	1	7
Montenegro	51	58	78	7	42	57	43	41
Serbia	47	47	56	44	70	78	23	61
Bosnia and Herzegovina	81	174	99	44	81	133	36	64
Albania	58	46	106	44	19	97	24	116

The source: Doing Business, 2016.

Assumptions and limitations of the local government in the economic development

There is only one level of local government in Serbia. It means that between local governments – municipalities and towns – and the central (republic) level, there are no medium level – regions, areas, etc. The exceptions are two autonomous regions. This fact points to a high level of state system centralisation. This results in a series of jurisdictions in the field of the economic development that are performed by the regions or areas in other countries (economic development promotion, unemployment reduction, etc.); in Serbia, each unit of local government performs these on their own. It led to the fact that the capacities of most of the local government units in Serbia are larger than in other countries on the same level of development where local government is fragmented, but also to the fact that small and undeveloped municipalities are often unable to exercise their responsibilities due to the lack of resources.

Local government units in Serbia are among the largest ones in Europe. When the population of about 7.5 million is divided by 145 units of local government (24 towns and 121 municipalities), the municipalities in the autonomous region of Kosovo and Metohija excluded, their average size is more than 50 000 inhabitants and 610 square kilometres. It caused almost every municipality to have their own utility systems that they manage, and their (un)development also determines the assumptions of successful economic development. The management of any process, economic development included, is more complicated in a larger community, and it carries a higher level of risk and failure compared to the result of such a process in a smaller local community [7].

- The limitations in the achievements of local development could be divided into three groups [8]:
- The rules determined at the levels of authority higher than the local ones,
- The opposition of the values and objectives they try to promote,
- The limitations of the resources available at the local level.

There are no theoretical postulates or empirical evidence to point to the fact that the methods and instruments used within the concept of the local economic development have the potential to replace the limitations of the economic development imposed at the macro level. Political instability, macroeconomic uncertainty, lack of economic freedom and other, are the circumstances that can be mitigated with difficulty, almost impossible to remove, not even with the optimal usage of the local economic development methods.

The units of local government try to act proactively towards their future, and that is achieved by planning the perspective of their development. However, development cannot be planned in too many tracks: agriculture development, tourism development, small and medium-sized company development, the establishment of the industrial areas, environment protection, social protection improvement, etc. The action plans that follow these strategies cannot be realised because of the restricted resources available to the local governments. The amount of funds available to small and undeveloped municipalities in Serbia is often insufficient for the realisation of their basic responsibilities, and the investment in the development projects is practically impossible from their own budget. Therefore, the local budgets are often of a social type, not developing ones (Stipanovic, 2008).

The economic development is a process that seeks for active management, and that is one of the challenges the local governments in Serbia find difficult to deal with. First of all, small and poor local governments cannot attract and keep trained personnel with high qualifications capable of dealing with the local economic development. Thus, the probability of good quality development projects and ideas at the local level is also reduced. According to the World Bank (2001), good practice in the local economic development demands access in coordination with the local conditions. Among other things, a complete approach is necessary, including economic, social and environmental protection issues, whereby political, financial and technical support of the highest levels of authority is invaluable.

The key prerequisite in the choice of the best local economic development strategy and programme is the knowledge of the local economy characteristics and the local community as a whole. A great deal of law and subordinate legislation in Serbia is passed at the state level where the appropriate activities of the local government have no influence. The local governments should have common initiatives and suggestions for the change of solutions that prove to be the limiting factors in the local economic development. Relevant information gathered from the entrepreneurs as the main actors of the local economic development is invaluable in these issues.

The strategy of the local economic development should be based on the resources that can be available for its implementation, and it should consider the role of the local government in the regional and national context. Furthermore, the strategy of the local economic development must be consistent with the other plans of the local government, but also easy to understand for the population [9]. Various local and republic institutions and companies deal with the business of local development in Serbia: the ministries, directorates for construction, development agencies, the Chamber of Business and Commerce of Serbia, regional business chambers, SCTM (Standing Conference of Towns and Municipalities), etc. The research shows that there are often double activities among these institutions because they are not determined accurately, and there is no clear system of responsibilities. The cooperation is often based on individual principles because there are no systematic channels of communication and division of labour.

There is a characteristic of extremely large regional disproportions with development in Serbia, although the institutional frame of regional development has been established (in the form of law), as well as the statistic regionalisation for development data monitoring. The problem of regionalisation came into focus mainly by the introduction of the Nomenclature of Units for Territorial Statistics – NUTS, which classifies geographical areas and provides the frame for collecting and publishing of the standard statistic information that could be used for analysis, as well as for the European political initiative frame [10].

The concentration of the economic activities takes place in Belgrade and Juzno-banatski region, while the rest of the areas have a characteristic of unfavourable demographic trends, inadequate infrastructure, further devastation of industry, high unemployment rate, etc. The process of regionalisation should have served as an efficient instrument in the economy and state management, in order to reduce the regional disparities (Marjanovic, Mihajlovic, 2009). A continuing decline of the natural increase and refugee migration influenced the population picture to be significantly disturbed. If we add the process of population aging, there is a logic in rising pressure for the social and the health protection system [11]. One-sixth of the population is over 65 years old, which puts the Republic of Serbia among the oldest countries in the world [12]. Of course, the emigration of the young should be classified among these demographic trends. Insufficiently developed countries, Serbia included, invest a lot of funds into education, and the fruit of "the human capital" is enjoyed by the developed countries [13].

The politics of the regional development has been partially implemented, and the problems of the uneven development have been solved by passing individual legal solutions and incentive policy implementation, at the expense of the least developed local governments. The effect of this policy is that about thirty municipalities have not been able to break out from the circle of the undeveloped even after a few decades. Therefore, according to the Ministry of Economy [12] South and East Serbia regions are the least developed ones in Europe, with the development of only 21% in relation to the EU average. At the same time, Belgrade region, as the most developed region in Serbia, is only at 60% of the EU average. Almost 2/3 of all the economic activities are concentrated in the capital and Juzno-backi region.

Table 2: The demographic-economic disbalance in Serbia in 2014 [12]

Total population	Employed	Unemployed	Retired	Supported
7.131.787 (100%)*	34 %	8%	24 %	34 %

*the estimate of the Statistical Office of the Republic of Serbia

The data from table 2 show that only 34% of the total population consists of employed people, with the same percentage of the supported, and 24% of retired people. The increase in the population was only recorded in 7 towns and 3 municipalities in 2013, while 107 municipalities

recorded a decline of more than 10%. The most vulnerable areas are the ones in Eastern and Southern Serbia, the poorest region in Europe.

The causes of the regional disparities are the result of the inherited uneven development, negative effects of privatisation, inadequate development and sector policy, etc. Regional characteristics also have a great influence, especially the economic structure which has not managed to adapt to the current economic and social changes, that is, to resist all the failures of the economic policy in the period of transition. Thus, for example, according to the GDP per capita, Belgrade region is at only 60% of the EU average, while it was at 65% in 2009, and it indicates a negative trend when this indicator is concerned. The other regions are considerably weaker – Vojvodina region is at 35%, Sumadija and Western Serbia at 23%, and the weakest one is South and East Serbia region at only 21% [12]. Among the countries from the region, Bulgaria is at 47% of the EU average, Romania at 49%, while Hungary, the Czech Republic, Croatia and Poland are at 2/3 of the average; the only country that stands out from the average is Slovenia at 80% of the EU average.

The risk of the high public debt for the future economic development

The results of the macroeconomic policy during the period of transition in Serbia are very negative, if we bear in mind a low GDP, the level of public debt, the unemployment rate, the level of the average earnings, living standard of the population and other indicators. Thus, for example, according to the report from the Ministry of Finance – Public debt administration, the state of debt of the Republic of Serbia on 31st of August 2016 is 24,6 billion EUR, which makes 72,1% of the gross domestic product. According to the currency breakdown, 40.60% is related to the debt in EUR, 33.04% in USD, 21.49 % in dinars. Only 21% of the total debt is contracting at a fixed interest rate, while 79% is at a variable interest rate. The variable interest rate can be very risky in the future because it depends on the interest rate movement in the financial markets in the world (Euribor, Libor, etc).

Table 4: the state of the debt in the Republic of Serbia in the period from 2009 to 2015 (in millions of EUR)

Year	2009	2010	2011	2012	2013	2014	2015
The state of debt	9.851	12.157	14.789	17.717	20.141	22.762	24.810

The source: the Ministry of Finance of the Republic of Serbia – Public debt administration, 2017.

If we consider the structure, the largest debt is on the basis of the Eurobonds of the Republic, foreign government credits, the International Bank for Reconstruction and Development, European Investment Bank, towards Paris and London clubs of creditors, etc.

Table 5: The movement of the Republic of Serbia GDP in the period from 2009 to 2015

Year	2009	2010	2011	2012	2013	2014	2015
Real GDP increase (%)	-3,1	0,6	1,4	-1,0	2,6	-1,8	0,7

The source: the National Bank of Serbia, 2017.

If we observe the real GDP increase in the period from 2009 to 2015 (table 5), we can see some significant fluctuations, that is, the decrease in comparison to 2009, 2012 and 2014, but a very modest increase in other years of observation. Considering that the public debt increased for 14 960 billion EUR in the same period, it is obvious that the funds were either used inefficiently or to cover the budget deficit, that is, unproductive spending, import, etc. Such economic policy has long-term negative effects on the development of the country. Also, the unemployment rate in 2009 was 16.1 %, and it increased to 17.7% in 2015, according to the National Bank of Serbia data (2016). It is symptomatic that there is an increase in public debt in GDP from 32.8% in 2009 to 76% in 2015 (table 6).

Table 6: The share of public debt in the gross domestic product (%)

Year	2009	2010	2011	2012	2013	2014	2015
Public debt/GDP	32,8	41,8	45,4	56,2	59,6	70,4	76,0

The source: the Ministry of Finance of the Republic of Serbia – Public debt administration, 2017.

On the other hand, due to the general economic situation in the country, local governments try to take part in the economic development with the basic problem – a chronic shortage of their own funds for development projects. Local government income is rarely a source strong enough for the local economic development encouragement, especially when it comes to capital infrastructure project financing. The municipalities have a few alternative ways of fund acquisition for important project financing, such as: borrowing from the banking sector, municipal bond issuing, public-private partnerships, donations. Borrowing from the banking sector is not the best solution, and that comes from a review. According to the Serbian National bank's data from 2015, non-performing loans (NPL) in the banking sector amounted to 426 billion dinars, or nearly 3.5 billion euros, which is about 22 percent of total loans. Trends doubtful in non-performing loans demonstrate what could be a very big problem for banks. The methods of hedging should vigorously be more developed and implemented, as illustrated by the data in the tables coming from the Balkans. Although the reserve for estimated losses is still sufficient to NPLs do not threaten the stability of the financial system, the high share of these loans has a negative impact on the propensity of banks to take a risk and credit growth and represents a systemic risk. From the large number of variables that could affect the dynamics of NPLs, three in the case of Serbia demonstrated reliable predictable effect: (1) the exchange rate, (2) the seasonally adjusted real net wages, and (3) the reference rate of interest. Lending and portfolio quality indicators show that the total net loans of the banking sector (in nominal value) at the end of 2015 increased compared to the previous period [14]

If we take financial markets into consideration (interest rates, currency clause, etc), the municipalities generally pursue a cautious policy of borrowing from the banking sector, while the other ways of financing are underrepresented (municipal bonds, public-private partnerships). Plavsic [15] points out that the public debt has consequences for resource transfer between different generations because it is well-known that the governments do not take care of spending reduction or tax increase the future generations will be subjected to.

The total debt of the local governments on the 31st of August 2016, according to the Ministry of Finance – Public Debt Administration data was 77 121 million dinars, NBS average exchange rate. The largest creditors are the European Investment Bank and the European Bank for Reconstruction and Development, followed by the domestic commercial banks and the Development Fund of the Republic of Serbia. The foreign creditor share is 57%, and domestic 43% (table 6, table 7). Out of the total debt, 49.7% is prone to the interest rate change, 83.4% to currency risk, which tells us about the position of the domestic currency compared to the foreign ones. We believe that this is unjustified, and that both the state and the local governments should insist on borrowing in domestic currency, and the private sector should follow this example.

Table 7: Local government debt per capita (in dinars)

Local government unit	Debt per capita
Čajetina	46.688
Beograd	29.109
Pećinci	13.950
Novi Sad	13.487
Kosjerić	13.390

The source: the Ministry of Finance of the Republic of Serbia – Public Debt Administration, 2017.

As much as 59.5% of the total debt of the local government units is related to the city of Belgrade, while Cajetina municipality is the most indebted per capita. After Belgrade, the highest debt is in the large towns in Serbia – Novi Sad, Nis, Kragujevac, Smederevo, Subotica, etc. The data in table 7 show large amounts of liabilities (equity) for payment in 2017 and 2018, which will surely put additional pressure on already modest municipality budgets.

Table 8: The selected indicators of the local government debt in the Republic of Serbia

Indicator	Amount
The share of 5 most indebted local governments in the total debt	79,9 %
The share of Belgrade in the total debt	59,5 %
Maturity value of equity in 2017	10.833.218.714
Maturity value of equity in 2018	9.801.608.921
The percentage of debt prone to the interest rate change	49,7 %
The percentage of debt prone to currency risk	83,4 %
The share of 10 largest creditors in the total debt	84,4 %
The share of the foreign creditors in the total debt	57,0 %

The source: the Ministry of Finance of the Republic of Serbia – Public Debt Administration, 2017.

Ministry of Finance is responsible for the public debt policy of the Republic of Serbia and local self-governments. Within the Ministry of Finance functions a special body – The Public Debt Administration. Borrowing is done through the issuance of government securities as well as by borrowing on the domestic and foreign markets. The funds collected this way can be used to finance the budget deficit, infrastructure projects, servicing obligations, procurement of property, etc. The institution responsible for public debt policy is obliged to perform its function in the most optimal way in accordance with market conditions (interest rates, exchange rates, projections).

General government debt balance on April 30, 2018 amounts to EUR 23.938.052.514, of which the public debt of the central level of government of the Republic of Serbia amounts to EUR 23.601.214.389 and the unguaranteed debt of local government units amounts to EUR 338.838.125.193. According to the data from Table 9, one can see that the largest public debt per share in GDP was at the end of 2015 in the amount of 74.7%, while in 2008, when the global financial crisis broke out, it amounted to 28.3% of GDP.

Table 9: Share of public debt in the GDP of the Republic of Serbia, for the period 2010-2017.

Public Debt	YEAR							
	2010.	2011.	2012.	2013.	2014.	2015.	2016.	2017.
GDP	41,8	45,4	56,2	59,6	70,4	74,7	71,9	61,5

Source: Ministry of Finance, Public Debt Administration, 2018

The structure of the public debt of the Republic of Serbia (Table 10) shows that most public debt is indexed in EUR (over 41%), followed by USD of 28.09%, while public debt in RSD is only 24.38%. This currency structure is the result of economic policy in a transition period where the foreign banks imposed a monetary policy where the EUR and USD are the main currencies.

Table 10: Currency structure of public debt - central government

Currency	At an average exchange rate	Participation
RSD	679.905.734.031	24,38%
EUR	1.147.860.982.782	41,16%

USD	783.311.427.804	28,09%
CHF	12.354.945.966	0,44%
SDR	90.305.206.846	3,24%
Other	75.330.492.754	2,70%
In total	2.789.068.790.183	100%

Source: Ministry of Finance, Public Debt Administration, 2018.

The largest creditors to local communities are the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), followed by Banca Intesa, Komercijalna Banka and other banking institutions. Total debt balance, according to the Public Debt Administration, on April 30, 2018 was 67,162 million dinars, of which more than half refers to the EIB and EBRD.

Conclusion

Although the role of the local government in the area of the economic development is undoubtedly large, most of the instruments of the economic policy in Serbia represent the competency of the central authorities. This "balance of power" between the central authority and the local government had a very modest economic result in the period of transition. The best indicator of this condition is the share of the public debt in the gross domestic product which was 32.8% in 2009, but it reached 76% at the end of 2015, with the tendency of further growth. Regardless of the enormous increase of the public debt, there was no significant increase of the social product and unemployment decrease, which indicated that the public debt was mainly used for spending instead of investment that would contribute to the future economic development.

The measures of the economic policy under the central government jurisdiction should allow smooth and balanced regional development with the aim of reducing disparities between some local governments and preventing undesirable migrations towards the regional centres in the Republic. On the other hand, local government development should be based on their own resources and the comparative advantages, with a larger influence of the municipalities on the republic public companies doing business in the area (Elektroprivreda, Srbijasume, etc). There are a lot of possibilities for municipality cooperation improvement, public-private partnerships as well as cross-border cooperation held by the local governments. The municipalities should base their own development strategies on the clearly defined development strategy of the Republic, which will achieve the effect of synergy in the economic development.

There is also a characteristic of large differences in certain municipal indebtedness in Serbia, as well as a chronic shortage of their own funds for development project financing. Local government income is too low for financing some serious infrastructure projects, and without them there is neither development nor investor attraction. During recent years certain municipalities have started to base their development on municipal bond sale, which widens the financing opportunities and lowers the financing expenses, opposite to the dominant bank loans so far. Anyway, a complete and proactive approach is expected from the local governments, the one that will help them create their economic future.

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