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FINANCIAL SUSTAINABILITY OF THE DEFENSE SYSTEM OF THE REPUBLIC OF SERBIA: BUDGETARY AND ACCOUNTING ASPECTS

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Abstract: *The financial sustainability of the defense system is one of the key conditions for the stable functioning of the state and the achievement of its security goals. In conditions of limited budgetary resources and increased demands for the modernization of the armed forces, efficient financial management and a reliable accounting system become necessary for the rational use of public funds. The subject of this paper is the analysis of the financial sustainability of the defense system of the Republic of Serbia with special emphasis on the budgetary and accounting aspects of financing. The aim of the paper is to examine the basic determinants of the financial sustainability of the defense system, as well as the role of budgetary planning, accounting recording and financial reporting in ensuring transparent and efficient management of financial resources. The methodological approach is based on the application of descriptive, analytical and comparative methods, using relevant scientific and professional literature, as well as available statistical and budgetary data. The analysis includes the role of financial management and accounting procedures within the Ministry of Defense of the Republic of Serbia and the financial functioning of the Serbian Armed Forces. The research results indicate the importance of establishing a stable and efficient system of budgetary planning, transparent accounting reporting and strong financial control mechanisms as key factors in the long-term financial sustainability of the defense system.*

Keywords: *defense system, financial sustainability, budget financing, accounting records.*

1. INTRODUCTION

The financial sustainability of the defense system is one of the central issues of modern public finance management, especially in the context of pronounced security challenges and limited fiscal capabilities of the state. The defense system, as a specific and complex component of the public sector, requires the existence of stable, predictable and long-term sustainable sources of financing, while ensuring efficient, rational and responsible management of available financial resources. In this regard, the processes of budget planning, accounting recording and financial reporting are of particular importance, which enable transparent monitoring and control of the spending of public funds. Of particular importance is the analysis of the manner in which these processes are implemented within the Ministry of Defense of the Republic of Serbia, as well as their impact on the overall functioning of the Serbian Armed Forces.

The subject of research in this paper relates to the financial sustainability of the defense system of the Republic of Serbia, with special emphasis on the budgetary and accounting dimensions of financial management. Within this framework, the research includes a detailed consideration of the process of planning, allocation, recording and control of budgetary funds intended for the defense system, while simultaneously analyzing their compliance with the basic principles of efficiency, economy and transparency in the use of public resources.

The research problem arises from the need to determine to what extent the existing system of financial and accounting management contributes to the preservation and improvement of the long-term financial sustainability of the defense system. In this context, the issue of the adequacy and development of the budget planning and accounting system, i.e. their ability to respond to contemporary challenges that include the needs of modernization, continuous growth of costs, as well as limitations arising from the overall state of public finances, is particularly considered.

The main objective of the paper is a comprehensive analysis of the financial sustainability of the defense system of the Republic of Serbia from the perspective of budgetary and accounting management. In addition, specific research objectives have been defined, which include the identification of key determinants of the financial sustainability of the defense system, analysis of the budget planning and execution process, examination of the role of the accounting system in recording and

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controlling budgetary funds, assessment of the efficiency of financial resource management, recognition of the main challenges and limitations in financing the defense system, as well as the formulation of proposals for measures to improve financial sustainability and the accounting system.

Starting from the above objectives, the paper defines a general hypothesis according to which the financial sustainability of the defense system of the Republic of Serbia is directly conditioned by efficient budgetary and accounting management of financial resources. Based on the general hypothesis thus set, specific hypotheses were formulated:
H1: Efficient budget planning and adequate expenditure control significantly contribute to preserving the financial sustainability of the defense system.
H2: A developed, reliable and transparent accounting system has a positive impact on improving financial management in the defense system.
H3: Existing models of financing the defense system face significant limitations arising from the fiscal capacities of the state.
H4: Improving the financial control and audit system contributes to a more rational and responsible use of budget funds.

In order to gain a more complete understanding of the subject matter, the paper applies a combined methodological approach that includes several complementary scientific methods. The descriptive method is used to define the basic concepts and theoretical starting points of financial sustainability and financing of the defense system. The analytical method is applied in considering the budgetary and accounting aspects of financial management, as well as in analyzing the structure of expenditures and financial flows. The comparative method allows for a comparison of different approaches to financing the defense system, as well as the identification of relevant good practices. The content analysis method is used in the study of current legal and by-laws, strategic documents and financial reports. In addition, the statistical method is applied to process and interpret available data on the budget and expenditures of the defense system. The integrated application of the above methods allows for a comprehensive understanding of the financial sustainability of the defense system of the Republic of Serbia, as well as the identification of key factors that influence its improvement.

2. BUDGETARY AND ACCOUNTING FRAMEWORK FOR FINANCING THE DEFENSE SYSTEM

Financial sustainability in the public sector can be defined as the ability of a state to ensure the financing of its functions and the execution of its obligations in the long term, without jeopardizing fiscal stability and overall macroeconomic balance. It implies the existence of a balance between public revenues and expenditures, adequate control of the level of public debt, as well as efficient and rational management of budgetary funds (Schick, 2005). In modern conditions, this concept goes beyond a narrowly understood fiscal discipline and encompasses a broader framework that includes the quality of public spending, the level of transparency and the degree of accountability in the management of public finances (IMF, 2018). Within the defense sector, financial sustainability gains an additional dimension, as it refers to the state's ability to ensure continuous and stable financing of key security functions. This includes financing operational activities, the modernization process, and the development of military capabilities. Sustainable defense financing requires long-term planning, the existence of stable and predictable sources of financing, but also preserving the overall fiscal balance of the state (Hartley, 2011).

The financing of the defense system differs from the financing of other areas of the public sector primarily due to its strategic importance, high level of confidentiality and significant share of capital investments (Knežević et al., 2021). Defense expenditures include a wide range of costs, including current expenditures such as employee salaries, system maintenance and logistical support, as well as capital investments such as the acquisition of weapons and military equipment. These investments are usually long-term and require significant financial resources (Dunne & Perlo-Freeman, 2003). One of the key characteristics of defense financing is the fact that investments in this area do not generate a direct market return. Therefore, the efficiency of these expenditures is not measured through profitability, but through the level of achieved security and the ability to deter potential threats. In addition, defense financing is often strongly influenced by geopolitical circumstances and changes in the security environment, which can lead to significant and sometimes sudden changes in the amount of budget allocations (SIPRI, 2023a).

Budget planning in the defense sector is based on the principles of program budgeting, which provides a clear link between available financial resources, defined objectives and expected results. This approach contributes to improving transparency and increasing efficiency in the allocation of budgetary resources (Robinson, 2013). Within the Ministry of Defense of the Republic of Serbia, the budget process includes the phases of planning, execution and budget control, in accordance with the applicable normative framework, primarily the Law on the Budget System (Milunović et al., 2022). Financial management in this context implies the rational use of funds, continuous control of expenditures and monitoring the implementation of planned activities and goals. A particularly important element is medium-term planning, which enables more stable financing of capital projects and the modernization process of the Serbian Armed Forces (Stevanović et al., 2023). In this way, the risk of inefficient spending of budget funds is reduced and the long-term sustainability of the defense system is ensured.

The institutional framework for financing the defense system in the Republic of Serbia is based on a clearly divided competence between relevant state bodies. The central role is played by the Ministry of Defense of the Republic of Serbia, which is responsible for planning, managing and controlling financial resources allocated to

defense. In addition to this ministry, other actors, such as the Ministry of Finance, the State Audit Institution and various control bodies, play an important role, contributing to ensuring legality, transparency and accountability in the spending of budget funds (Savić et al., 2024a). The normative framework consists of laws and by-laws that regulate the budget system, public procurement and financial operations in the public sector. This institutional setting enables the alignment of strategic defense goals with the general fiscal policy of the state, thus creating conditions for sustainable and stable financing of the defense system. Control and audit play a key role in ensuring the legal, proper and efficient use of public funds. Within the defense system, internal control, internal audit and external audit are distinguished as interconnected oversight mechanisms. Internal control includes a set of procedures, rules and activities that ensure proper financial management and minimize the risk of irregularities, while internal audit is tasked with assessing the efficiency of operations and their compliance with applicable regulations (INTOSAI, 2019a). External audit in the Republic of Serbia is carried out by the State Audit Institution, which provides an independent and objective assessment of the financial operations of budget users. An effectively established control and audit system contributes to reducing the risk of abuse, increases transparency and strengthens public confidence in the functioning of the defense system.

The accounting system in the public sector is based on the principles of budget accounting, which includes recording, classifying and reporting on all financial transactions. In the defense system, accounting plays an extremely important role in monitoring budget execution and providing reliable and relevant information necessary for making management decisions. Financial reporting involves the preparation of periodic and annual reports on budget execution, which contain detailed data on revenues, expenditures and achieved financial results. These reports represent the basis for control, analysis and evaluation of financial operations (IPSASB, 2021). Within the Ministry of Defense of the Republic of Serbia and the Serbian Armed Forces, improving the accounting system, as well as the application of international public sector financial reporting standards (IPSAS), contributes to greater transparency, comparability and reliability of financial information. In this way, the financial sustainability of the defense system is further strengthened and the overall management of public resources is improved.

3. ANALYSIS OF THE FINANCIAL SUSTAINABILITY OF THE DEFENSE SYSTEM OF THE REPUBLIC OF SERBIA

The financial sustainability of the defense system of the Republic of Serbia is conditioned by a number of interrelated factors, among which the stability of budget financing, adequately structured expenditures, optimal level of investment investments, as well as efficient and responsible management of available financial resources stand out. In this part of the paper, attention is focused on the analysis of key elements of defense system financing, with special emphasis on the role of the Ministry of Defense of the Republic of Serbia, as the central institution in the process of planning and managing funds, as well as on the functioning of the Serbian Armed Forces as the main user of budget resources.

Budgetary allocations for defense of the Republic of Serbia in the previous period are characterized by a relatively stable upward trend, which is primarily a result of more complex security circumstances, but also the need for continuous improvement and modernization of the armed forces. The share of defense expenditures in gross domestic product (GDP) ranges from about 1.8% to 2.2%, which is comparable to the practice of most European countries (SIPRI, 2024). A particularly pronounced budget growth was recorded after 2018, when there were more intensive investments in the procurement of weapons and modern military equipment. Such budgetary stability enables more reliable and long-term expenditure planning, which at the same time reduces the risk of disrupting the fiscal balance and ensures the sustainability of the defense financing system (Ministry of Defense of the Republic of Serbia, 2024).

The structure of expenditures is one of the most important indicators of financial sustainability, since it indicates the way in which funds are distributed between current needs and development priorities. Within the defense system of the Republic of Serbia, three basic categories of expenditures are dominant: expenditures for employees, operating costs and capital expenditures, i.e. investments in equipment and infrastructure. The following paper presents the framework structure of defense system expenditures.

Table 1. Structure of defense system expenditures of the Republic of Serbia in the average amount for the period 2018-2025.

Expenditure category	Share (%)
Employee expenses	45–50%
Operating costs	25–30%
Investments and equipment	20–25%

Source: Prepared by the author based on data from the Ministry of Defense and the Stockholm International Peace Research Institute (SIPRI, 2024)

The relatively high share of personnel expenditures indicates a pronounced personnel component of the defense system, while the growth of capital expenditures in recent years clearly indicates an increased orientation towards modernization and technological improvement (SIPRI, 2024).

Investments represent a key pillar of the long-term financial sustainability of the defense system. These investments cover a wide range of activities, including the procurement of modern weapons and military equipment, the digitalization of management systems, as well as the improvement of infrastructure and logistics capacities (Mihajlović et al., 2023). In the previous period, the

Republic of Serbia has significantly intensified investments in the modernization of combat systems, the development of the domestic military industry and the strengthening of logistical support. Such investments have a double effect: on the one hand, they contribute to increasing the operational capabilities of the defense system, while on the other hand, they create additional pressure on the state budget. For this reason, it is of particular importance to establish a balance between investment needs and preserving fiscal stability (Petrović, 2021).

The efficiency of financial resource management is reflected in the ability of the defense system to achieve maximum results in terms of functionality and operational readiness with limited resources (Savić et al., 2025a). Key factors that influence the level of efficiency include the quality of budget planning, the application of the principles of program budgeting, the development of the accounting system, as well as the efficiency of internal and external control. The introduction of modern accounting standards and the improvement of the financial reporting system significantly contribute to greater transparency and accountability in the management of public funds (Đorđević, 2023). Also, the development of internal audit and financial control systems enables timely detection of irregularities and improvement of the resource management process. However, despite the progress made, certain challenges remain, especially in the areas of expenditure optimization, long-term investment planning and harmonization of the strategic goals of the defense system with the realistic fiscal constraints of the state. Efficient and responsible financial management remains a key prerequisite for ensuring stability and long-term financial sustainability of the defense system of the Republic of Serbia.

4. CHALLENGES TO THE FINANCIAL SUSTAINABILITY OF THE DEFENSE SYSTEM

The financial sustainability of the defense system is a complex and multi-layered concept that depends on a combination of internal resource management factors and external economic and security circumstances. Within the Ministry of Defense of the Republic of Serbia and the Serbian Armed Forces, these sustainability challenges are particularly evident in situations of limited public funds, continuous growth in modernization costs, and an increasingly dynamic and uncertain security environment (Savić et al., 2023).

One of the key challenges to the financial sustainability of the defense system relates to the limitations of the state budget. The defense budget represents a part of total public expenditures and largely depends on macroeconomic stability, the level of public debt, and the general fiscal policy of the state (Savić & Bonić, 2022). Given that the state must simultaneously provide financing for numerous sectors such as health, education, and social protection, defense allocations are often under pressure to be rationalized (Mowery, 2010). The Republic of Serbia, as a state with limited fiscal capacities, is faced with the need to align the real needs of the defense system with available budgetary opportunities. According to the Stockholm International Peace Research Institute, defense spending in developing countries is not stable but varies depending on economic cycles and political priorities (SIPRI, 2023b), which further indicates the importance of long-term and stable financial planning in the field of defense.

Modern defense systems require constant and significant investments in modernization and technological development. The costs of purchasing modern combat systems, equipment and supporting infrastructure represent a major burden on the defense budget. The modernization process of the Serbian Armed Forces involves the procurement of complex and financially demanding systems, the total costs of which often exceed the capabilities of short-term budget planning (Hartley, 2012). An additional challenge is reflected in the fact that defense investments are long-term in nature, with their effects not immediately visible, while expenditures are realized in a relatively short period of time. Such an asymmetry between investments and effects creates additional pressure on fiscal stability and requires careful and responsible planning of capital expenditures.

The efficiency of financial management in the defense system largely depends on the institutional framework and organizational structure. Within the Ministry of Defense of the Republic of Serbia, challenges relate to the need to improve coordination between different organizational units, as well as to strengthen the internal control and internal audit systems. Insufficiently developed accounting systems and limited transparency of financial reporting can negatively affect the efficiency of public fund management (Allen & Tommasi, 2001). In addition, the implementation of modern international standards in the public sector, including IPSAS, continues to be a challenge for a large number of countries in transition, including for the improvement of the financial accounting system in the field of defense (Young, 2018). The security environment has a direct and strong impact on the volume and structure of defense financing (Stojković & Glišić, 2020). Global geopolitical changes, regional tensions, and modern forms of threats, such as hybrid and cyber threats, require increased investments in defense capacities (Smith, 2020). In such circumstances, states are often forced to increase budget allocations for defense, which further burdens public finances. At the same time, the high degree of uncertainty regarding future security challenges makes long-term planning and optimal allocation of resources difficult.

Table 2. Budget allocation for the needs of the defense system of the Republic of Serbia

Year	Defense Budget (billion RSD)	% GDP
2018	70	1.6%
2019	80	1.7%
2020	95	1.9%

2021	102	2.0%
2022	120	2.1%
2023	138	2.2%
2024	158	2.3%
2025	261	3.5%

Source: Prepared by the author based on data from the Ministry of Defense and the Stockholm International Peace Research Institute (SIPRI, 2024)

The table shown indicates a clear trend of increasing defense spending, which on the one hand reflects the increased needs for financing the defense system, while on the other hand raises the question of long-term fiscal sustainability and the ability of the state budget to continuously support such growth.

5. POSSIBILITIES FOR IMPROVING THE FINANCIAL SUSTAINABILITY OF THE DEFENSE SYSTEM

The financial sustainability of the defense system of the Republic of Serbia requires continuous improvement of public resource management, with consistent application of modern budgetary, accounting and control instruments. Within the Ministry of Defense of the Republic of Serbia and the Serbian Armed Forces, improving financial sustainability implies a comprehensive and systemic approach that includes improving the budget planning process, strengthening the accounting system and financial reporting, developing financial control mechanisms, as well as adopting and implementing internationally recognized good practices in the field of public finance (Radivojević et al., 2022).

Budget planning is the main instrument used to ensure the financial stability of the defense system. The traditional budget planning model, based on an incremental approach, is often not fully adequate for modern challenges, and there is a need to improve it through the introduction of program and medium-term budgeting. Program budgeting allows for direct linking of expenditures with clearly defined objectives and expected results, which significantly improves transparency and efficiency in the use of public funds (Robinson, 2015). On the other hand, the Medium-Term Expenditure Framework (MTEF) contributes to more stable and predictable resource management, as well as better alignment of strategic defense objectives with the fiscal capabilities of the state (OECD, 2019). This approach is of particular importance in the defense sector, given that investments in weapons, equipment, and infrastructure require multi-year and continuous financial planning. Further improvement of budget planning also includes the development of analytical capacities for cost assessment, as well as the wider application of analytical methods such as cost-benefit and cost-effectiveness analysis, which contributes to more rational decision-making on the allocation of limited budgetary resources (Allen, Hemming, & Potter, 2013). An efficient accounting system is one of the key components of financial sustainability, as it enables accurate, timely, and transparent recording of all financial flows (Savić et al., 2024b). In the modern public sector, and therefore in the defense system, the transition from cash to accrual accounting is of increasing importance, in accordance with international public sector standards, such as IPSAS (International Public Sector Accounting Standards) (IFAC, 2021). The application of accrual accounting allows for a more realistic and comprehensive presentation of the financial position, including liabilities, assets and long-term costs, which is especially important for the defense system that manages extensive and valuable tangible assets. Transparent financial reporting contributes to strengthening public trust, as well as improving fiscal discipline and accountability in the management of public funds (Chan, 2010). Within the Ministry of Defense of the Republic of Serbia, improving the accounting system involves further digitalization of financial processes, integration of information systems and standardization of financial reporting, which enables more efficient resource management and better management decision-making (Savić et al., 2025b).

Financial control is an important mechanism that ensures the legal, economical and efficient use of budgetary funds. In the defense system, the importance of financial control is further emphasized due to the complexity and volume of financial flows and operations. The modern concept of financial control involves the development of an internal control and internal audit system, based on the principles of the COSO framework (Committee of Sponsoring Organizations of the Treadway Commission, 2017). The internal control system includes risk management processes, control activities and continuous monitoring, which reduces the risk of irregularities, abuse and inefficient spending of funds. In addition to internal control, external audit also plays an important role, contributing to a greater degree of transparency and accountability in the management of public finances (INTOSAI, 2019b). Strengthening cooperation between internal and external control mechanisms can significantly contribute to improving the overall system of financial supervision and control.

The application of international good practices is one of the key directions for improving the financial sustainability of the defense system. International organizations, such as the OECD and NATO, have developed recommendations and standards related to transparency, accountability and efficiency in defense budget management (OECD, 2019). One of the basic principles is the transparency of the defense budget, which implies the availability and clarity of data on the planning and execution of budget funds. In addition, the concept of "value for money", which refers to the optimal use of available resources while achieving maximum effects and results, is particularly important (Allen et al., 2013).

The experiences of developed countries show that integrated information systems, professionalization of personnel in the field of finance and accounting, as well as continuous education of employees, are key factors in

efficient management of public finances. In this regard, the defense system of the Republic of Serbia can further improve its capacities through the adaptation and implementation of the above practices, while harmonizing them with national institutional and fiscal specificities.

6. CONCLUSION

The financial sustainability of the defense system is a complex and multi-layered concept that involves harmonizing the security needs of the state with its available fiscal capacities. This paper analyzes the financial sustainability of the defense system of the Republic of Serbia, with a special focus on budgetary and accounting aspects. Based on the analysis conducted, it can be concluded that stable, responsible and efficient management of public finances is a basic prerequisite for the long-term and smooth functioning of the defense system.

The results obtained indicate that the level of financial sustainability of the defense system largely depends on the quality of the budget planning process, the reality in the assessment of necessary expenditures, as well as the consistent application of the principles of fiscal discipline. In this sense, the Ministry of Defense of the Republic of Serbia has a key role in establishing and implementing a system of planning, distribution and control of budgetary funds, while the Serbian Armed Forces are the main user of these funds, whose operational capability and efficiency largely depend on the rational and purpose-oriented spending of allocated resources.

An important role in ensuring financial sustainability is played by the accounting system, which enables precise recording of all financial flows, transparent financial reporting, and the creation of a reliable basis for making management decisions. The paper emphasizes that improving accounting procedures and the quality of financial reporting directly contributes to increasing transparency, strengthening accountability, and better control over the use of budget funds, thereby improving the overall efficiency of resource management and reducing the risk of irrational spending.

The analysis also showed that the key challenges in the area of financial sustainability of the defense system relate to the limited budget funds, the increasing costs of modernization and equipment, and the need for continuous improvement of material and technical capabilities. In addition, the dynamic and changing security environment imposes the need for a more flexible, but at the same time long-term sustainable approach to expenditure planning, while preserving the overall fiscal stability of the state.

In order to improve the financial sustainability of the defense system of the Republic of Serbia, it is necessary to further develop the program approach to budgeting, strengthen financial control and internal audit mechanisms, and improve the accounting framework in accordance with modern international public sector standards. Also, special importance should be given to long-term planning of investments and modernization processes, with clear definition of priorities and ensuring optimal allocation of available resources.

Finally, it can be concluded that the financial sustainability of the defense system is not a static category, but a continuous and dynamic process that requires constant adaptation to economic and security changes. Only through the coordinated operation of budget planning, financial management and accounting systems is it possible to ensure a stable, efficient and long-term sustainable defense system of the Republic of Serbia.

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