Network of Associations
of Local Authorities
of South-East Europe
(NALAS)

# Fiscal Decentralization Indicators for South-East Europe

# REPORT

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# Fiscal Decentralization Indicators: South-East Europe

## ACKNOWLEDGEMENTS:

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# THE REPORT IN BRIEF:

- **Decentralization in South East Europe is still a work in progress**: In no country in the region do local government revenues expressed as a percentage of either GDP or total public revenues approach the average for the EU.

- **Over the last five years there have been few major structural changes in the finances or service responsibilities of local governments across South East Europe. This suggests that the effort to decentralize power and money to local governments that began in the late 1990s slowed down in the latter part of the last decade.**

- **Structurally, the low population densities of local governments in most of South East Europe, and the high percentages of populations living in capital cities, may be impeding the progress of decentralization in the region**. The low population densities make delivering public services to dispersed settlements difficult and costly; The concentration of wealth (and power) in capital cities makes it harder to give most local governments robust own-source revenues and complicates the development of effective equalization mechanisms.

- **Throughout the region, unconditional grants play a relatively small role in the financing of local governments.** This is significant because it is through unconditional grants that most countries provide poorer local governments with additional revenues. The underutilization of unconditional grants in most of South East Europe raises serious questions about the equity of the intergovernmental finance systems in the region. Answering these questions, however, requires further data collection and analysis.

- **In much of the region, local governments derive significant shares of their own-revenue from quasi-fiscal instruments imposed on real-estate transactions, new investment, and business operations.** In a number of places, central governments are moving to constrain these practices as part of larger efforts to improve the business enabling environment. As legitimate as these efforts may be, they will decrease the already limited financial autonomy of local governments unless ways are found to replace the lost revenues.

- **In no area of South East Europe does the Property Tax produce revenue equal to 1% of GDP, the EU average.** Property tax collection therefore needs to be improved. At the same time, it is difficult to expect the

Property Tax to yield anything like the revenue it does in North America or (parts of) Scandinavia (2 -3% of GDP). Moreover, achieving EU norms will not radically improve the fiscal autonomy of local governments in most of the region. To improve the fiscal autonomy of local governments it may be more useful to focus attention on supplementing Pers onal Income Tax sharing, as is widely practiced in the region, with giving local governments the right to impose local surcharges on Personal Income Tax, as is done in Montenegro and Croatia.

- **In most of South East Europe, local government investment spending as a percentage of GDP is at, or below, the EU average of 1.5% of GDP. This is troubling given the amount of sorely neglected, and costly (network) infrastructure that local governments in the region are now responsible for building.** Local government investment spending as a percentage of GDP is at or below 1% of GDP in Albania, Bulgaria, Macedonia. It is also under 0.5% in Croatia, one of the richer countries in the region.

- The financial position of local governments in some parts of South East Europe has improved over the past five years. In other parts of the region it has deteriorated. **The different financial trajectories of local governments in South East Europe over the last five years however cannot easily be explained by differences in the way the global recession of 2008/09 impacted the economies of the region.** Instead, differences in the financial performance of local governments across the region are clearly related to differences in central government policies.

- In most of South East Europe, local governments have not been assigned significant social sector functions. **In Romania, Bulgaria, Moldova, Macedonia and Kosovo, however, local governments are fully responsible for financing pre-tertiary education, including paying teachers' wages. In all of these places - but particularly in Bulgaria and Macedonia - there is evidence that local governments and/or schools are underfunded.** The "block" grants that local governments receive for pre-tertiary education also do not function as block grants, and in most cases remain highly earmarked.

- **Local government borrowing is still a new phenomenon in most of South East Europe and nowhere does the total outstanding debt of local governments exceed 3% of GDP or 8.5% of total public debt.** There is some evidence that local governments in Montenegro, Romania, and Serbia turned to the debt market to make up for revenues lost during the global recession.

# INTRODUCTION

This report has been prepared by the Fiscal Decentralization Task Force of the Network of Associations of Local Authorities of South East Europe (NALAS). Its purpose is to provide national and local policy makers, researchers, and interested outside observers with reliable comparative data on municipal finances and intergovernmental fiscal relations in South East Europe.

Like its object of analysis, the report is a work in progress. It represents a first attempt by NALAS to assemble from its member associations basic data on fiscal decentralization. Over time, NALAS hopes to expand and deepen the analysis in response to requests and suggestions from both member associations and interested observers. For the moment, however, the report provides a snap shot of the structure, functions, and financing of local governments in South East Europe, as well as an overview of how intergovernmental financial relations have evolved over the economically turbulent period 2006-2010.

The report is divided into four sections. It begins with a brief discussion of the data and some of the methodological issues surrounding its use and interpretation. It then presents basic information about the size and structure of municipal governments in South East Europe, as well a few key macro-economic indicators. The report continues by examining the composition of local government revenues and expenditures and concludes with a few observations about trends over the last five years.

# I. DATA, TERMS, AND METHODOLOGICAL ISSUES

The data used in this report has been provided by the NALAS member associations in response to a questionnaire prepared by the Secretariat. Member associations assembled the data from their respective Ministries of Finance, Central Banks and Statistical Agencies. The data was then checked for consistency by NALAS and, where possible, compared with similar data from other sources including Eurostat, the statistical agency of the European Union; the IMF's data base on Government Finance Statistics, and the OECD's data base on tax revenues by level of government. Comparative data on local governments in EU member states has by and large been drawn Eurostat and from a series of publications put out by DEXIA bank.[1]

Comparing intergovernmental finance systems is never easy. The most important reason for this is that countries assign different public sector responsibilities and revenue streams to different levels of government. As a result, both what sub-sovereign governments do, and how they pay for it, varies substantially from country to country. Unfortunately, these differences cannot be established simply by reading the necessary legislation. In part, this is because the legal systems are complicated and very different. And in part, it is because actual practice often differs substantially from what is specified in law. At the same, there is still considerable variation in the accounting systems that national governments use to define and report public sector revenues and expenditures.

**What sub-sovereign governments do, and how they pay for it, varies substantially from country to country.**

Taken together these problems mean that it is often difficult to be sure that apples are being compared to apples or that the rulers that are being used to measure performance are based on the same metrics. Finally, in many places the data itself is problematic. Below, we briefly outline some of these issues, while leaving others for greater discussion in what follows.

**Levels of Government:** In this report, we are primarily concerned with the lowest level of sub-sovereign governance, meaning democratically-elected municipal or communal governments. In virtually all of South East Europe, democratically-elected municipal governments constitute the most important level of sub-sovereign governance, particularly when measured in fiscal terms[2]. For reasons of convenience we refer to both communal and municipal government as municipal governments or local governments, though this term masks the fact that many "municipal governments" are in fact villages of a few thousand souls. Unless otherwise indicated, all data used in the report refers to this lowest level (1st Tier) of democratically-elected governance.

1 *Local Government Finance in the fifteen countries of the European Union*, Dexia (Brussels-Paris, 1997), "L'Europe locale et regional: les Chiffres Cles 2009", Dexia/CEMR (Brussels-Paris, edition 2010-2011) pp. 1-19. "Subnational public finance in the European Union", Dexia, July 2011 pp. 1-15

2 The exception is Bosnia-Herzegovina.

**What Municipal Governments Do:** Throughout South East Europe municipal or communal governments bear primary responsibility for maintaining and improving local public infrastructure, including local streets, roads, bridges, and parks. Many are also responsible for school buildings. The vast majority of them finance and manage water supply, sewage, garbage collection, public lighting local public transport and district heating. Most importantly, from a financial point of view, local governments must pay for the costs of building new (network) infrastructure, infrastructure that almost everywhere has been neglected or underfunded for decades.

In some places, however services like water supply and sewage treatment are provided through commercialized entities that are "off-budget" and at least in theory support themselves through user fees and charges. In others, some or all of these services are provided by in-house municipal departments that also collect user fees and charges, but whose revenues and expenditures are considered part of municipal budgets. In most of the region, the sub-contracting of public services to private providers remains in its infancy though there are exceptions in the areas of solid waste and local public transport.

**From a financial point of view, local governments must pay for the costs of building new (network) infrastructure, infrastructure that almost everywhere has been neglected or underfunded for decades.**

With some important exceptions, most municipal governments are not responsible for financing or managing social sector services. The important exceptions concern places where local governments are responsible for some or all of pre-tertiary education and/or for the provision of primary health care services. Where this is the case, it is indicated in the discussion that follows.

**Population:** The population numbers used in this report are based on the last official census, or lacking an official census, the numbers used by the relevant statistical agencies. In a number of places, new censuses have recently been conducted but their results have yet to be finalized.

**GDP:** The GDP numbers used in this report are those calculated by their respective Ministries of Finance according to the production method. They have been converted, where necessary, into Euro by using the average annual exchange rate for the year concerned. Tables and charts that compare trends over time across members of the group have been calculated on the basis of euro values using average exchange rates provided by the relevant Central Banks.

**Consolidated Public Revenue of the General Government:** To compare the role of local governments in the public sectors of their respective national settings we have used their revenues as a share of the total revenues of the General Government. We have used revenues instead of expenditures because the data for these tend to be more available and more reliable. By General Government we mean the total revenues of the national government and its agencies, including the revenues of off-budget (social security) funds, as well as the revenues of subnational governments. In calculating total local government revenue we have excluded proceeds from borrowing.

**General Grants:** In most of the South East Europe local governments receive freely disposable general grants from national governments. In some countries, the size of these grant pools are defined as percentages of particular national government tax revenues, leading to some confusion about whether they should be considered shared taxes or general grants. To the degree that these funds are allocated to subnational governments by formula – as opposed to being shared on the basis of their origin – we treat them as general grants.

**Conditional and Block Grants:** Throughout South East Europe, local governments receive grants from higher level governments that can only be spent on specific purposes. In a few cases, these grants should be considered block grants, meaning grants that can only be spent on a specific function (e.g. education)—but which --at least in theory-- local governments are free to spend as they see fit within that function. In practice, however, the "block" function of block grants remains extremely limited: In those places where local governments receive grants for social sector functions, their ability to freely spend these funds within those functions remains severely constrained by higher level governments.

**The "block" function of block grants remains very limited**

**Shared Taxes:** In most of the region, local governments are legally entitled to a share of particular taxes generated in their jurisdictions but whose base, rates, and collection are controlled by higher-level governments. The most important tax shared with local governments in South East Europe is the Personal Income Tax (PIT). The Property Transfer Tax, a tax imposed on the sale price of real-estate, is also often shared (in whole or in part) with local governments. In a few places, the recurrent Property Tax is also a shared with local governments, though in most it is a local government own-revenue.

**The most important tax shared with local governments in South East Europe is the Personal Income Tax (PIT).**

**Own-Source Revenues:** Throughout the world, data on the own-source revenues of local governments is often weak. Countries also classify these revenues in different and inconsistent ways. This is particularly true South East Europe. In theory, local own-source revenues consist of revenues from the sale or rental of municipal assets; income from fines, penalties, and interest; user fees and charges; permits and licenses; and local taxes.

In practice, however, the lines between user fees and charges; licenses and permits, and local taxes are often blurry. In many places, local user fees and taxes, though collected by local governments are often fully specified by higher level governments and really should be considered shared revenues. In others, *de facto*, if not necessarily *de jure* regulation of local fees and charges is weak, allowing local governments to use local fees, charges, permits and licenses as (poorly regulated) quasi-taxes. In a number of places, these practices are being challenged by higher level governments as part of larger efforts to improve the business enabling environment. These efforts could lead to significant declines in municipal own-source revenues over the coming years.

In many places, higher level governments set and collect the Property Transfer Tax, but this tax is (incorrectly) considered own-source revenue because a 100% of its yield is returned to local governments on an origin basis. Finally, local governments in a number of places are allowed to impose local surcharges on the Personal Income Tax. The revenue from these surcharges should be considered as an own-revenue. Unfortunately, however, it is often reported together with the revenue that local governments receive from the larger PIT sharing system.

# II. GENERAL OVERVIEW OF LOCAL GOVERNMENTS IN SOUTH EAST EUROPE

## Number and type of sub-sovereign levels of governance

Table 1 below presents the number and type of sub-sovereign levels of governance in the places where NALAS members operate. Bosnia-Hercegovina (BiH) is the only country in the group that has three levels of sub-sovereign government: 1) two entities Republika Srpska (RS of BIH), the Federation of Bosnia-Herzegovina (FBiH of BiH) and the District of Brcko; 2) cantons in the FBiH (of BiH); and 3) municipalities in both FBiH and the RS. In FBiH (of BiH), cantons are responsible for many public services, and the entity government is relatively small. In this report, the revenues and expenditures of canton level governments are not included in the figures for either BiH as a whole, or for the Federation. As NALAS has member associations from both entities, the data for Bosnia and Herzegovina is analyzed separately for each entity. This approach provides both NALAS members with valuable information for their analytical and lobbying purposes. The data for BiH, however, does not include the revenues or expenditures of the Brcko District.

TABLE 1

| | NALAS MEMBER | LEVELS OF SUB-SOVEREIGN GOVERNMENT | TYPES OF SUB-SOVEREIGN GOVERNMENT | # OF 1ST TIER | # OF 2ND TIER |
|---|---|---|---|---|---|
| ALBANIA | AAM | 2 | Counties; Municipalities/Communes | 373 | 12 |
| BOSNIA HERCEGOVINA | | 3 | Entities; Cantons; Municipalities | 143 | 10 |
| FBIH | SOGFBIH | 2 | Cantons; Municipalities, (Neighborhood Units) | 80 | 10 |
| RS | ALVRS | 1 | Municipalities(Neighborhood Units) | 63 | 0 |
| BULGARIA | NAMRB | 1 | Municipalities/ Communes | 264 | 0 |
| CROATIA | AoM, AoC | 2 | Counties; Municipalities/Communes | 556 | 21 |
| KOSOVO[3] | AKM | 1 | Municipalities | 38 | 0 |
| MACEDONIA | ZELS | 1 | Municipalities (Neighborhood Units) | 85 | 0 |
| MOLDOVA | CALM | 2 | Raions/regions; Municipalities/ communes | 898 | 32 |
| MONTENEGRO | UMMo | 1 | Municipalities | 21 | 0 |
| ROMANIA | FALR | 4 | Provinces; Counties; municipalities/ Communes | 3282 | 42 |
| SERBIA | STCM | 1 | Municipalities (Neighborhood Units) | 145 | 0 |
| SLOVENIA | SOG | 1 | Municipalities | 211 | 0 |
| TURKEY | UMMa | 4 | Special Provincial Administrations; Metropolitan municipalities; District municipalities; Communes | 2854 | 82 |

[3] "This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo declaration of independence."

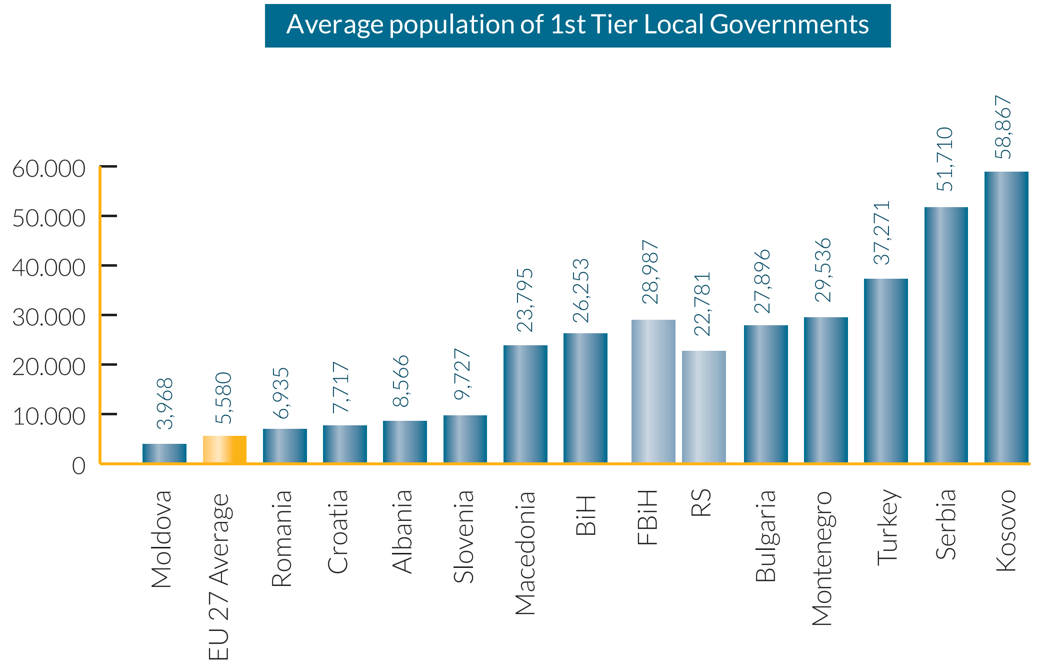
Albania and Croatia both have county levels of government (Qarks; Zupanije). In Albania, the role of Qarks is extremely limited. In Croatia, Zupanije are somewhat more important, but still play a very limited role in the delivery of public services. Moldova has two levels of sub-sovereign government: raions/regions and communes/ municipalities. The heads of raions are appointed by the national government, and exercise significant control over the budgets of (democratically-elected) municipalities and communes. The power of the raion heads blurs the distinction of between first and second-tier governments in Moldova, as well as the distinction between local self-governments and territorial arms of the national government[3]. In the report, the financial data for local governments in Albania, Croatia and Moldova includes the revenues and expenditures of second-tier of local governments.

Romania also has four levels of sub-sovereign government. Three of these, however,—are all first-tier levels of local government – commune, orase, and municipii - and have similar rights and responsibilities. The second tier of sub-sovereign government, judets, is at the provincial level, and plays a more important role in the delivery of public services than its counterparts in Albania or Croatia. Nonetheless, the more important level of sub-national government in both fiscal terms and public service terms remains the communal or municipal level. Finally, Turkey also has four levels of sub-sovereign government. In Romania, three of these levels of government – communes, district municipalities, and metropolitan municipalities can be considered first tier local governments. Here, however, there are more significant differences in their rights and responsibilities. Turkey also has 82 democratically-elected Special Provincial Administrations, that exist alongside the territorial arms of the national government at regional level and which play a significant role in the delivery of public services, particularly in rural areas. As with Albania, Croatia, and Moldova, the data contained in the report for Romania and Turkey includes the revenues and expenditures of these second tier local governments.

[3] Moldova also has an autonomous province –Gaugazia.

As can be seen from Chart 1 there is considerable variation in the average size of 1st Tier local governments across South East Europe.

**Chart 1**



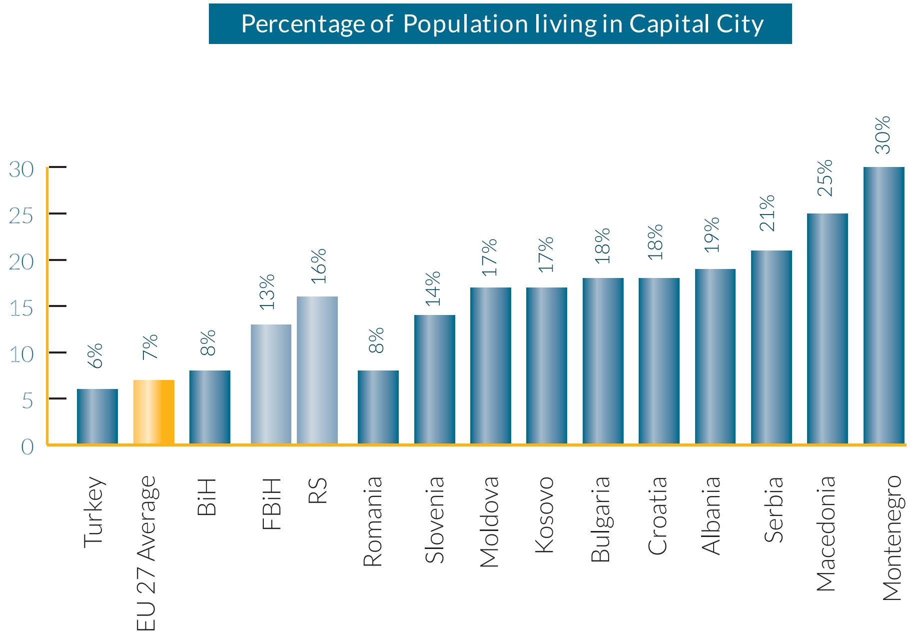

Moldova has the most fragmented system of 1st tier local governments with an average population of less than 3,400 inhabitants. Municipal governments in Romania, Croatia, Albania and Slovenia also average below 10,000 inhabitants. The small size of first tier local governments in South East Europe presents obstacles to decentralization because small jurisdictions often have weak tax bases and lack the human capital necessary to reasonably support major public services. Nonetheless, what is unusual about the Chart is the relatively large size of local governments in the region when compared to the EU average. Indeed, Macedonia, BiH, Bulgaria, Montenegro, Turkey, Serbia and Kosovo all have municipal governments with average populations of greater than 20,000 inhabitants whereas within the EU only 9 (of 27) countries (including Bulgaria) have municipal governments of similar size (Denmark 56,345; Greece –since 2010—34,650; Ireland, 39,190; Lithuania, 55,655; Netherlands, 38,435; Portugal, 34,520; Sweden, 32,210; UK, 152,200)[4].

One reason for the relatively large size of municipal governments in South East Europe is the high percentage of populations living in capital cities. As can be seen from Chart 2 below, most members of the group have significantly higher shares of their populations living in their capital cities than is the average for the EU. Indeed, within the EU only 7 countries have capital cities whose population represent more than 15% of their total populations (Vienna, 21%; Sophia, 17%; Nicosia, 22%; Tallinn, 34%; Budapest, 17%; Riga, 32%; and Vilnius, 17%).

[4] Dexia 2009

# Population Distribution and Density

Chart 2




The relatively large size of capital cities In South East Europe means that tax bases tend to be skewed toward one major urban area. This can create technical and political impediments to decentralization. Technically, it can be difficult to assign local governments robust own-revenues or to create good equalization mechanisms when so much of the economy is concentrated around one major metropolitan center. Politically, it can make the implementation of equalization measures difficult because they almost inevitably play themselves out as conflicts between the capital city and everybody else.

**The relatively large size of capital cities In South East Europe means that tax bases tend to be skewed toward one major urban area. This can create technical and political impediments to decentralization.**

Chart 3 shows the average population densities of first-tier local governments in South East Europe, while Chart 4 shows their average area in square kilometers. With the exception of Kosovo (whose population density is on par with Italy's), all the members of the group have population densities below the EU average. At the same time, the average area of local governments is significantly higher than the EU average. Thus, municipal governments in South East Europe have, on average, higher populations (Chart 1) and larger areas than their European counterparts, but lower population densities. Low population densities mean that municipal governments have to provide public services to populations that are dispersed over wider areas[5]. This can

[5] It is possible to have highly concentrated settlements within jurisdictions that have large territories and thus low population densities. This, however, is not generally the case.

also complicate decentralization efforts because delivering public services to dispersed populations is harder and more costly than delivering them to populations living in highly concentrated settlements.

**Chart 3**

Population Density per Km

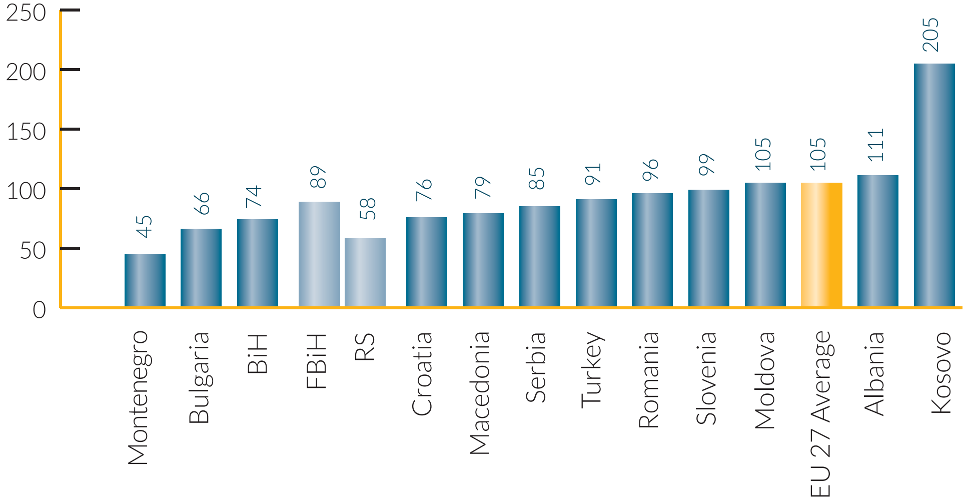
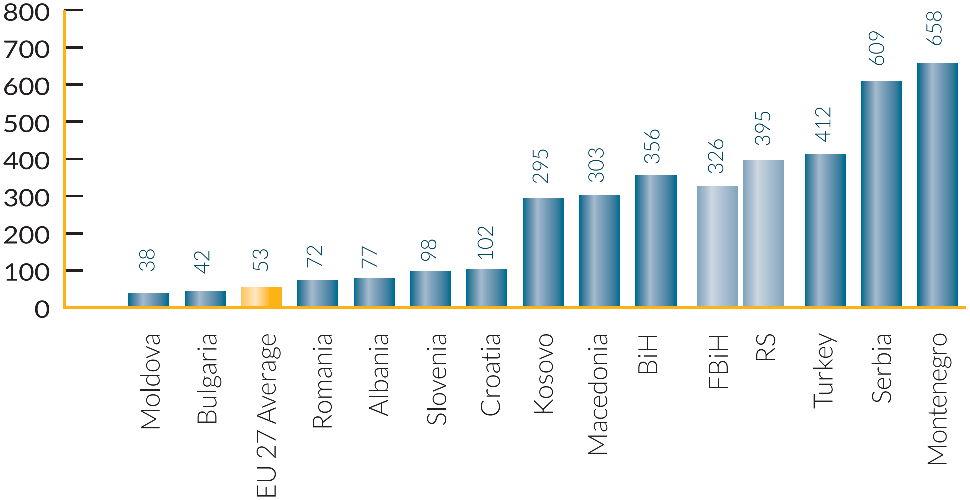



**Chart 4**

Average Size of 1st Tier Local Government in Km²

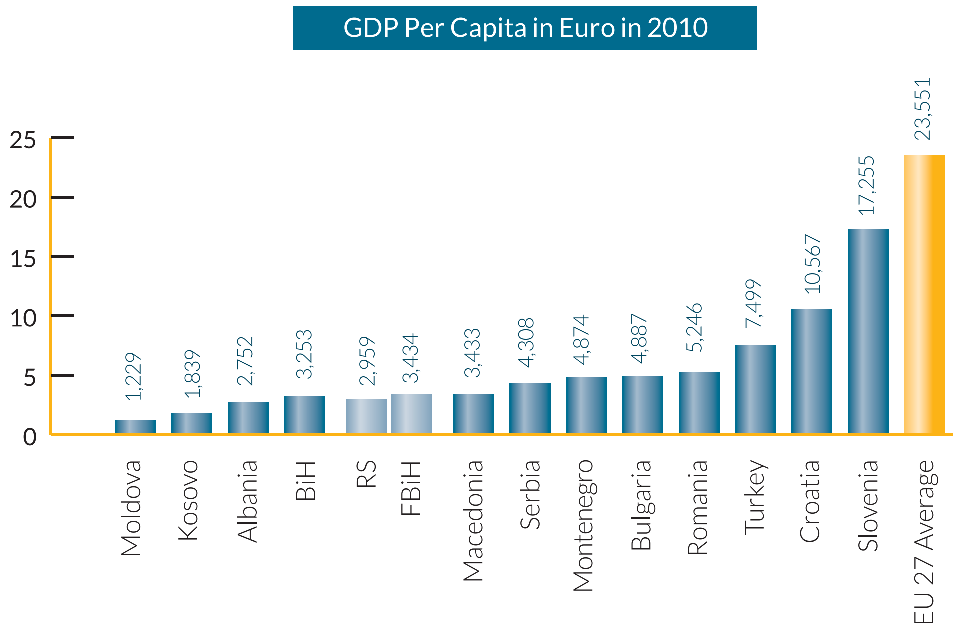


## The Dynamics of the Gross Domestic Product

Chart 5 presents the GDP per capita for all members of the group in 2010. As can be seen from the Chart, there are very significant variations in the relative wealth of the members of the group. Slovenia is by far the richest, with GDP per capita of 17,255 euro. It is followed by Croatia (10,567), Turkey (7,499) and then Romania (5,246). Both Moldova and Kosovo have per capita GDPs of less than 2000 euro. All other members of the group have per capita GDPs between 2,500 and 5,000.

**There are very significant variations in the relative wealth of the members of the group ranging from 17,255 to 1,229 EUR GDP per capita. Most of the countries have the GDP in the range 2,500 to 5,000 EUR per capita. The EU average GDP per capita for 2009 was 23,551 EUR**

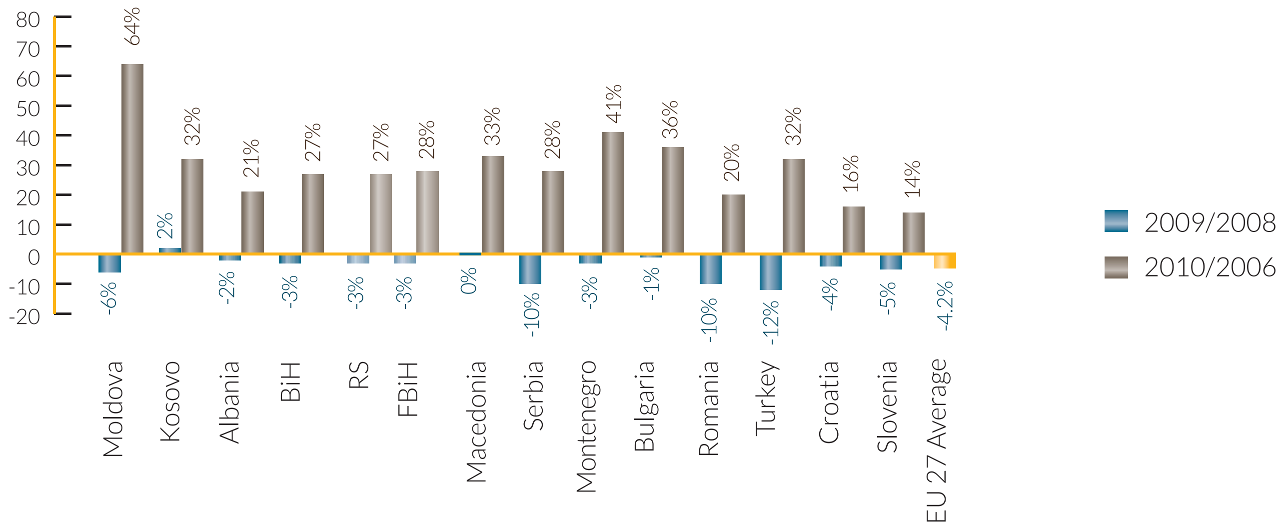
**Chart 5**




EU Average is for 2009

Chart 6, shows the growth of GDP per capita (in euro terms) between 2006 and 2010, as well as the effects of the 2009 global recession. GDP growth has been fastest in Moldova. But this growth has come off a very low base. Kosovo, Macedonia, Montenegro, Bulgaria and Turkey have all grown more than 30% over the last five years despite the sharp down turn of 2009.

**Chart 6** Growth of Per Capita GDP between 2006-2010 and Effects of 2009 Global Crisis




The 2009 recession had very different effects on the economies of different members of the group. Kosovo, Macedonia and Bulgaria felt the crisis least. Indeed, Kosovo actually grew in 2009. With the exception of Serbia, the effects of the recession, expressed in terms of per capita euro, were relatively mild elsewhere in the Balkans, perhaps because these economies are only weakly connected to the world economy. Here, the contraction was less than in the EU as a whole (-4.2%). Turkey, Romania, and Serbia, however, all experienced sharp declines. But the Turkish economy rebounded vigorously in 2010, growing 25% in euro terms. Serbia's economy also grew by 8% in 2010, while Moldova's expanded by 13%, again in euro terms. Slovenia and Croatia however, did not grow at all in 2010, while growth in other members of the group was -with the exception of Kosovo - less than 4%.

# III. BASIC INDICATORS OF FISCAL DECENTRALIZATION

**The share of local public revenues (or expenditures) in a country's GDP is the single most telling indicator of fiscal decentralization because it expresses the size of the local government sector in relation to a country's total economic activity. The second most important indicator of fiscal decentralization is the share of local public revenues (or expenditures) in the consolidated public revenues (or expenditures) of the General Government.** This indicator tells us how large a role local governments play in the total public sector.

To put these indicators in comparative perspective we also need to know how large the total public sector is in relation to the GDP, as well as something about what public services local governments are responsible for. If the size of the total public sector in a country is small it is unlikely that local government revenues will represent a significant share of the GDP. They may, however, represent a substantial share of total public revenues. This sort of situation would suggest that all levels of government have trouble collecting taxes, but that the national government is treating local governments relatively fairly. Conversely, a situation in which the public sector is large, but local government revenues are low in relation to both the GDP and total public sector revenues would suggest that local governments are not taken very seriously by higher-level governments as partners in the delivery of public services.

It is also important to understand what public services local governments in South East Europe are legally responsible for delivering. As we have already discussed, fully inventorying these functions across South East Europe is difficult. In part, this is because their legal regimes are different and complex. In part it is because actual practice can differ from what is specified in the law. And in part it is because local governments just may not have the revenues to provide the services they have been assigned.

Nonetheless, when looking at local government revenues (or expenditures) in relationship to the GDP or to the size of the total public sector, some service responsibilities are so large that they become "game changers" if they have been assigned to local governments. Here, we have in mind social sector services such as health, education, and social welfare, and in particular whether local governments are responsible for paying teachers wages. The reason for this is because the wages of pre-tertiary school teachers almost always constitute one of the largest public expenditures and in most countries typically amount to between 3 and 5% of GDP.

Table 2 presents an overview of which social sector functions have been assigned to local governments in South East Europe. As can be seen from the Table, Romania, Kosovo, Macedonia, Bulgaria and Moldova are fully responsible for all the costs of pre-tertiary education, including the cost of teacher's wages. In Kosovo local governments also maintain primary health care clinics and pay the wages of the doctors and nurses who work in them, while in Romania local governments are responsible for the non-wage costs of primary and secondary health care. By all rights, local governments that have been assigned these social sector functions should have significantly higher revenues both as a share of GDP and as of total public revenues, than other members of the group.

TABLE 2 **Social Sector Functions of Local Governments**

| | **Preschools** | | **Primary** Schools | | **Secondary** Schools | | **Primary** Health | | **Secondary** Health | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Buildings | Wages | Buildings | Wages | Buildings | Wages | Buildings | Wages | Buildings | Wages |
| KOSOVO | O | O | O | O | O | O | O | O | | |
| ROMANIA | O | O | O | O | O | O | O | | O | |
| MACEDONIA | O | O | O | O | O | O | | | | |
| BULGARIA | O | O | O | O | O | O | | | | |
| MOLDOVA | O | O | O | O | O | O | | | | |
| SERBIA | O | O | O | | O | | O | | | |
| SLOVENIA | O | O | O | | | | O | | | |
| CROATIA | O | O | | | | | | | | |
| ALBANIA | O | | O | | O | | O | | | |
| FBIH (BIH) | O | | O | | | | | | | |
| RS (BIH) | | | | | | | O | | | |
| MONTENEGRO | | | | | | | | | | |
| TURKEY | | | | | | | | | | |

At the other end of the spectrum, local governments in Albania, FBiH (of BiH), RS (of BIH), Montenegro and Turkey do not pay the wage costs of any social sector employees. Indeed, in Montenegro and Turkey they have no responsibilities in either health or education. So by all rights, local government revenues as both a share of GDP and of total public revenues should be lower here than elsewhere.

## Local Governments Revenues in South East Europe

With these circumstances in mind we can now turn to Chart 7, which shows local government revenues as a share of both total public revenues and as GDP for all members of the group, as well as the average for the EU. Here, it should be noted that the figures for the EU are only for first-tier local governments while the figures for Romania, Turkey, Moldova, and Croatia, include second-tier governments. The most important thing that can be seen from the Chart is that on average local governments in the EU play a much more substantial role in their respective public sectors than do local governments within the NALAS group. Indeed, it is fair to say that in most of South East Europe decentralization is still very much a work in progress.

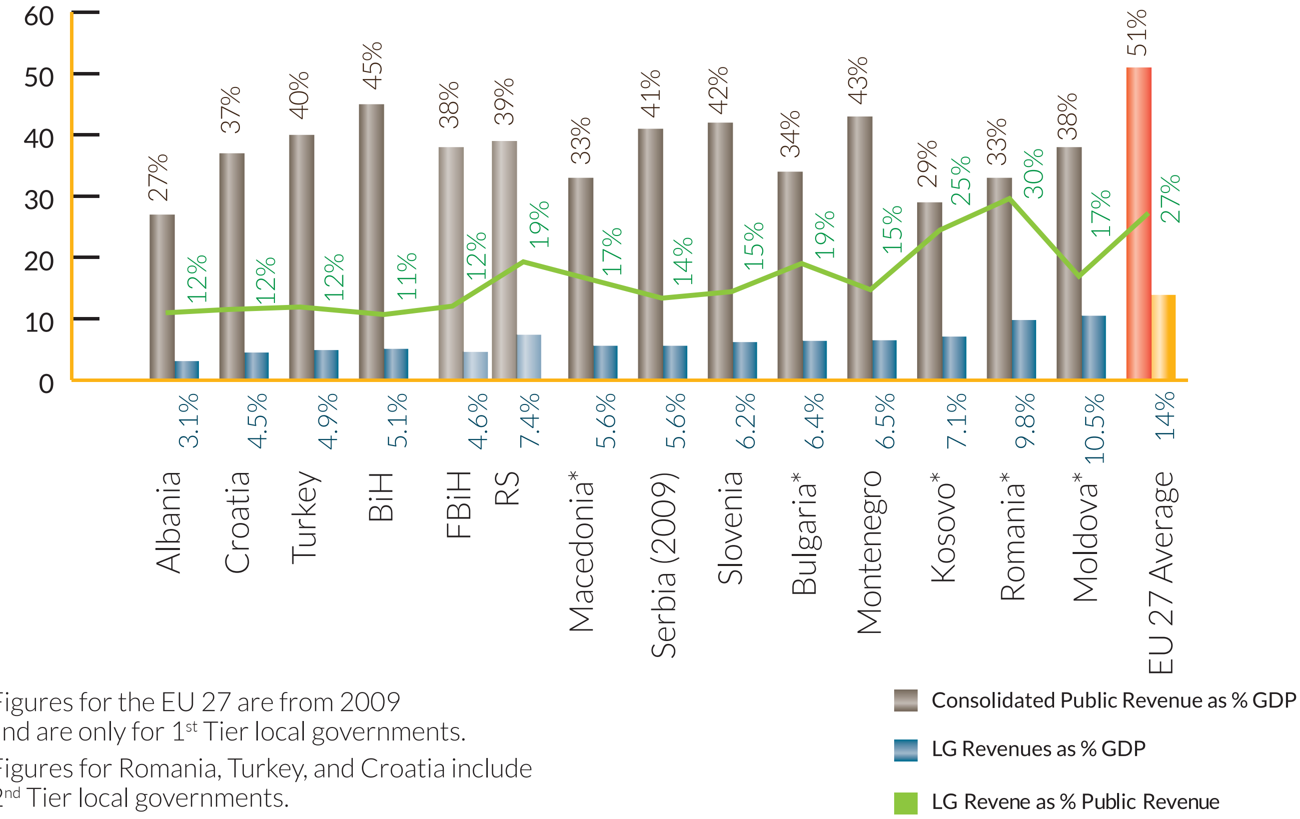
It should also be clear that the size of the public sector as a percentage of GDP in virtually all members of the group is substantially below the average for the EU. Indeed, in a number of places total public revenues represent less than 35% of GDP, suggesting both weak economies and poor tax collection. Here, local government revenues as a percentage of GDP are likely to be lower than one might expect simply because the entire public sector has difficulties in collecting the taxes needed to pay for public services.

**In most of South East Europe decentralization is still a work in progress**

Even more surprising is that Macedonia, Bulgaria, Kosovo, Romania and Moldova do not look radically different from other members of the group despite the fact that their local governments pay for the full costs of pre-tertiary education, and in Kosovo and Romania for much of the costs of the health care system as well. Macedonia and Bulgaria are particularly surprising in this respect: total local government revenues here are respectively 5.6% and 6.4% of GDP, levels similar to many of the members of the group despite the fact that about half of these shares go to teacher wages. As a result, it appears that in both Macedonia and Bulgaria local governments and/or pre-tertiary education is seriously underfunded. Conversely, local governments in Montenegro and the RS (of BiH) seem to be getting relatively high shares of the GDP (respectively 6.5% and 6.7%) when one considers the fact that they are responsible for virtually no social sector functions.

It is also worth noting that while Macedonia, Bulgaria, Kosovo, Romania and Moldova all have trouble collecting taxes, and have public sectors that represent similarly low shares of the GDP, local governments in Romania and Kosovo are getting a significantly higher share of total public revenues than their counterparts in Macedonia, Bulgaria, and Moldova. Indeed, in both Romania and Kosovo these shares are close to EU norms. What this suggests, is that the governments of Kosovo and Romania are trying harder to provide local governments with the revenues they need to support the functions they have been assigned than the governments of Bulgaria, Macedonia and Moldova.

**Chart 7.** Local Government Revenue as Share of GDP and Total Public Revenue in 2010




Figures for the EU 27 are from 2009 and are only for 1st Tier local governments.

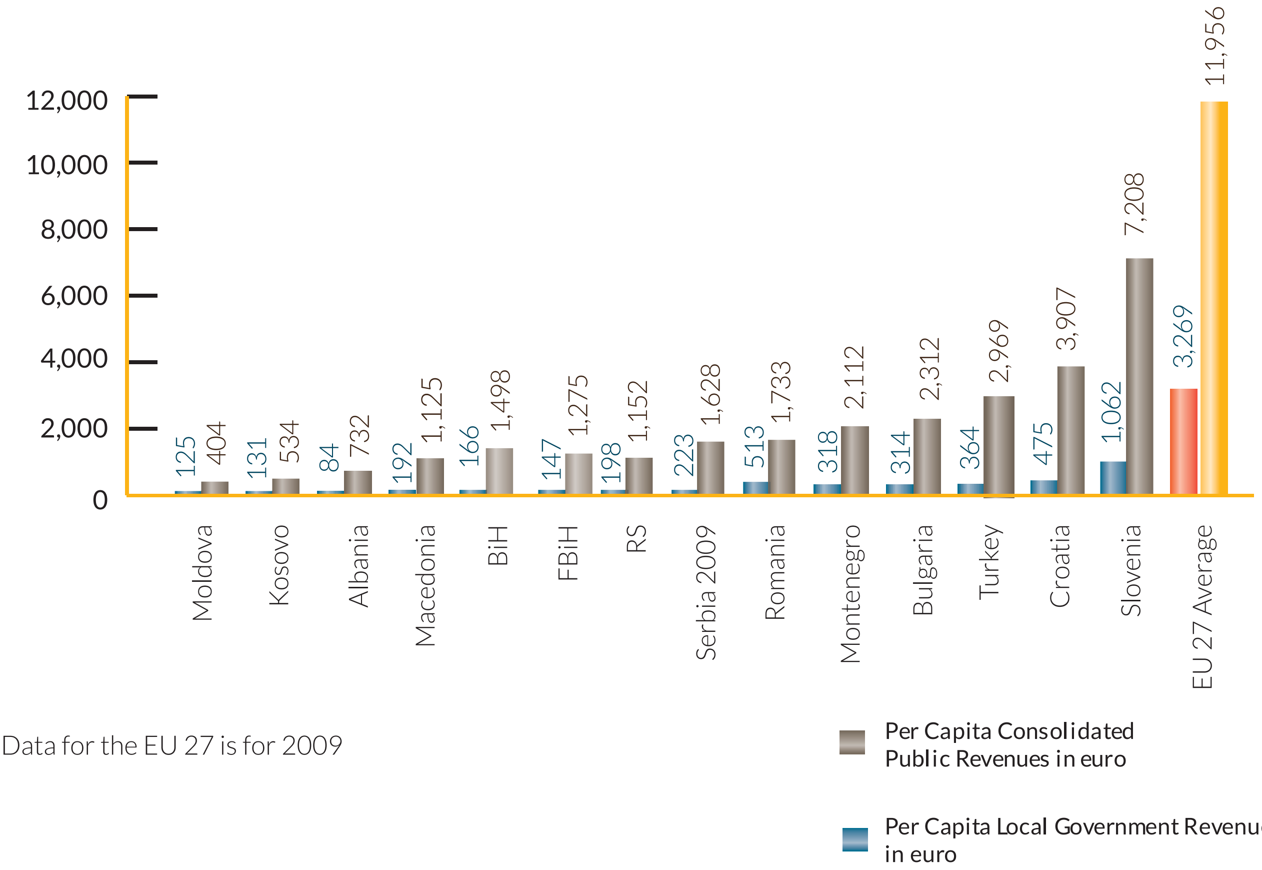
Figures for Romania, Turkey, and Croatia include 2nd Tier local governments.

* indicate that local governments pay teachers wages.

Another surprising result is the relatively small share of both GDP and total public revenues that local governments in the three wealthiest countries of the group -Slovenia, Croatia, and Turkey - are receiving. Here, in short, decentralization has not progressed very far despite the fact that these countries are relatively wealthy and more urbanized than their counterparts.

Chart 8 shows the per capita revenues of the consolidated public sector and of local governments in euro in 2010. The Chart is a useful reminder of how profoundly the resources available to the public sector differ both within the group and when compared with the countries of the European Union. Indeed, it is striking that in Moldova and Kosovo, the two poorest in the group, local governments are not only supporting all their basic services with per capita income of c. 125 euros but also paying teacher wages.

**Chart 8** Consolidated Public Revenue and Local Government Revenue Per capita in Euro



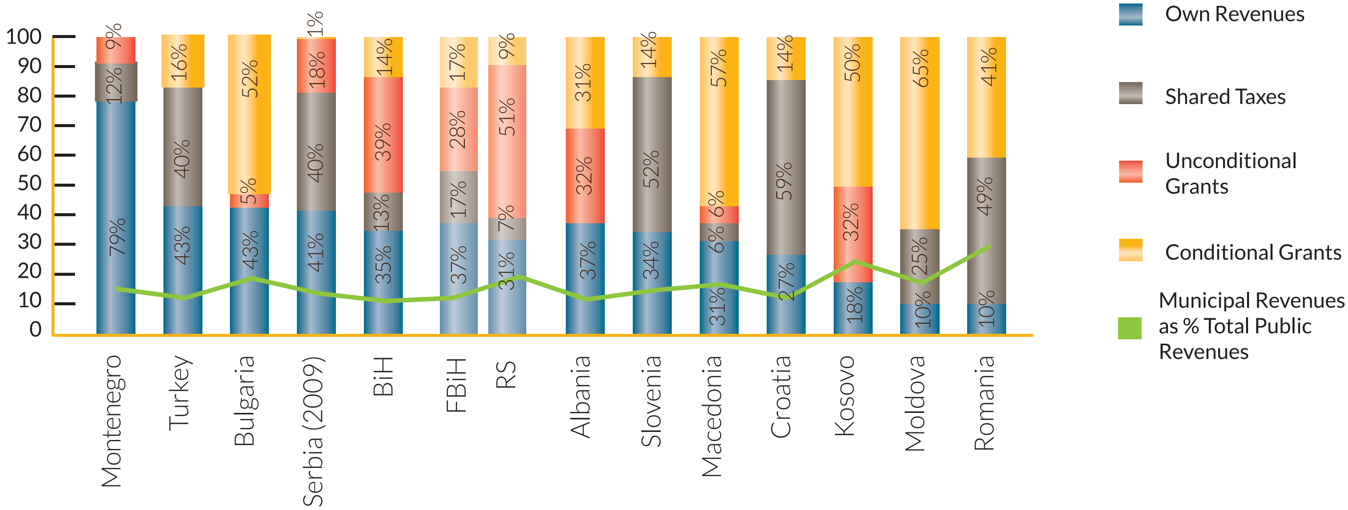

Data for the EU 27 is for 2009

The Chart is also useful when read in conjunction with Chart 7. Again, it shows that Bulgarian local governments have less per capita revenue than their Montenegrin counterparts despite similar GDP's, and despite the fact that in Montenegro local governments do not pay teachers' wages. Meanwhile, Romanian local governments get considerably more in per capita revenue than their counterparts in Bulgaria, despite the fact that the public sector in Bulgaria is substantially larger than in Romania and that in both local governments pay teachers wages. Also worth noting, is that municipalities in the RS (BIH) have significantly higher per capita revenues than their counterparts in FBiH (BiH) despite the fact that both groups of local governments are responsible for the same functions and total public revenues per capita in the RS (BIH) are lower than in FBiH (BiH).

# Basic Composition of Local Government Revenues

Chart 9 shows the basic composition of local government revenues for members of the group in 2010. Unfortunately, it is difficult to get comparable information for EU countries as a whole. One of the reasons for this is that the available data often does not clearly distinguish shared taxes from own-revenues or grants. In fact, this problem is also a factor in interpreting the data contained in the Chart for South East Europe.

**Chart 9** Composition of Local Government Revenues in 2010




Data for Albania is for 2008

For example, in Turkey a number of shared taxes are pooled and returned to local governments in part on an origin basis, and in part as unconditional grants allocated to local governments by formula. The Turkish data, however does not allow us to determine how much of the shared taxes are really allocated as grants. Similarly, the equalization system in Slovenia allocates additional increments of Personal Income Tax to poorer jurisdictions. The revenue from these additional increments of PIT functions as equalization "grants", but again cannot be distinguished from shared taxes in the data. Conversely, in Croatia, local governments are allowed to impose local surcharges on PIT, and these revenues should be considered own-revenues and not, as shown in the Chart, as (part of) shared taxes. Finally, as we have discussed earlier, many of the revenues that are typically considered own-revenues are in fact fees and charges set by higher-level governments (and sometimes collected by them) but whose yield goes entirely to local governments and are thus considered (incorrectly) as local government own-revenue in the data.

# Financial Independence of Local Governments

Nonetheless, the Chart does provide some basic information about how much financial independence local governments have. For example, in Bulgaria, Kosovo, Macedonia, Moldova and Romania the financial autonomy of local governments is limited because they receive more than 40% of their revenues in the form of conditional grants. This is because these grants are being earmarked by the central government to support social sector functions - most importantly teacher wages.

Conversely, local governments in Montenegro receive statistically insignificant conditional grants from the central government, and have very high levels of own-revenue. Indeed, the share of own-revenue in Montenegro is about double what the average for EU countries would probably look like if we had reliable data. This is possible in Montenegro because local governments have been collecting very significant own-revenues from asset sales and rentals, and from land development fees. As in Croatia they also have the right to impose a local surcharge on PIT. Unlike in Croatia however, revenue from this source is (correctly) accounted for not as a shared tax, but as an own-revenue.

More generally, it is interesting to note that of the group only Albania, Kosovo, and Bulgaria make no use of PIT sharing, while Macedonia makes extremely limited use of it. At the same time, local governments in Turkey, Slovenia, Croatia, Moldova, and Romania, make no use of unconditional grants, while in Macedonia, Montenegro, and Bulgaria unconditional grants constitute less than 10% of local government revenue. The low level of unconditional grants in these systems raises questions about the equity of intergovernmental relations because it is generally through unconditional grants that additional revenues are provided to poorer local governments. At the same time, the simple presence of unconditional grants does not necessarily mean that they are being used to help poorer jurisdictions. Moreover, and as we have already mentioned both Turkey and Slovenia do at least some equalization through the use of other mechanisms.

**The low level of unconditional grants raises questions about the equity of intergovernmental relations because it is generally through unconditional grants that additional revenues are provided to poorer local governments.**

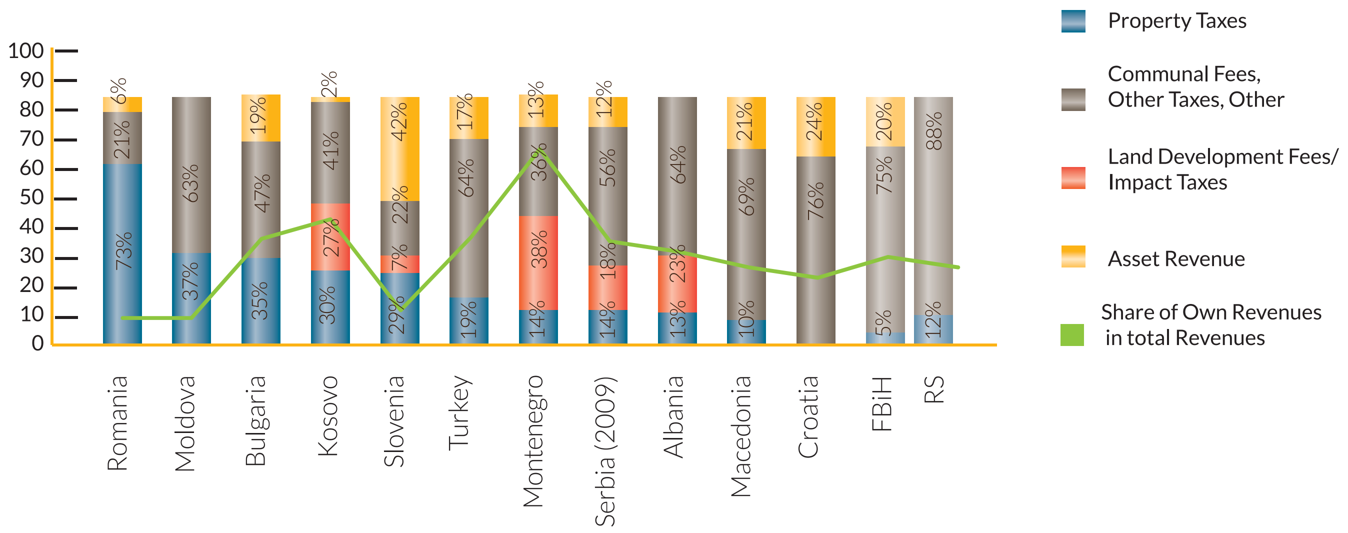
Table 3 simplifies the information presented in Chart 9 by showing the share of own source revenues in total revenues for members of the group who pay teachers wages and those who don't.

## TABLE 3 The Ratio of Own-Source Revenues to Total Revenues

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **PAY** TEACHERS WAGES | Bulgaria | Macedonia | Moldova | Kosovo | Romania | | | | |
| | 0.43 | 0.31 | 0.10 | 0.18 | 0.10 | | | | |
| **DO NOT PAY** TEACHERS WAGES | Montenegro | Turkey | Serbia | BiH | FBiH | RS | Albania | Slovenia | Croatia |
| | 0.79 | 0.43 | 0.41 | 0.35 | 0.37 | 0.31 | 0.37 | 0.34 | 0.27 |

Chart 10 presents the composition of own-revenues in the group, as well as the share of own-revenue in total local government revenues. As we have discussed earlier the way own-source revenues are accounted for differs radically from country to country - including within the EU. In some cases the reporting is quite detailed and contains many more categories than are presented in the Chart. In others, only two or three categories are used, and it is difficult to say what these categories really contain. For example, in Macedonia, FBiH (BiH) and the RS (BIH), local governments derive significant revenues from Land Development Fees, Land Use Fees and Construction permits, but they are recorded as Communal Fees. Similarly, revenues from the sale or rental of municipal assets are frequently presented as a Communal Fees.

**Chart 10** Composition of Own Revenues 2010

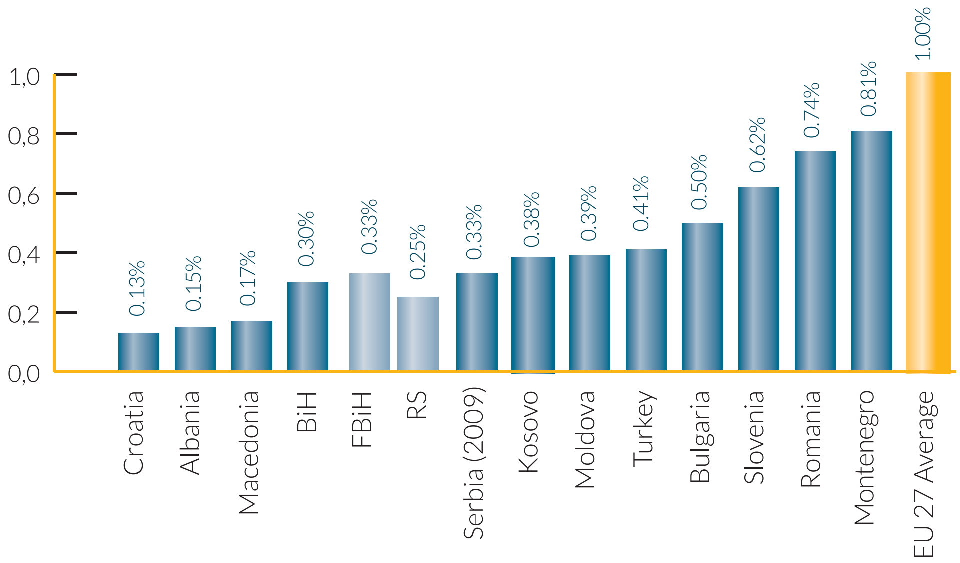


Because of these difficulties it is very hard to come to any general conclusions about the composition of own-revenues in the group or about the relationship between the composition of own-revenues and their share in total local government revenues. What can be said, is that in most countries the data on own-revenues is not very good and that there does not seem to be a strong relationship between the composition of own-revenues and their share in total local government revenues. It is also worth adding, that in many members of the group, own-source revenues are disproportionally concentrated in capital cities and tied very strongly –through land development fees and the Property Transfer Tax—to the real-estate market.

**Own source revenues are disproportionally concentrated in capital cities and tied very strongly –through land development fees and the property transfer tax—to the real-estate market**

Chart 11 shows revenues from the Property Tax as a percentage of GDP in 2010 for all members of the group as well as the average for the EU. As can be seen from the Chart, only Romania and Montenegro approach the EU average of 1% of GDP. This, in turn, is low when compared to North America, Australia, France, and some of the Nordic countries where the property tax typically accounts for between 2 and 3% of GDP.

**Chart 11** Property Taxes as % of GDP



It should also be noted that in many EU countries – as well as in some members of our group — the yield of the recurrent Property Tax is recorded with the yield the Property Transfer Tax. This tax is imposed on the sale price of land and buildings and usually must be paid in order to get an official deed to the purchased asset. In many countries, the Property Transfer Tax yields more than that of the recurrent Property Tax. For example, in Montenegro, where the two taxes are reported separately, the yield of the Transfer Tax has exceeded the yield of the Property Tax in two of the last five years.

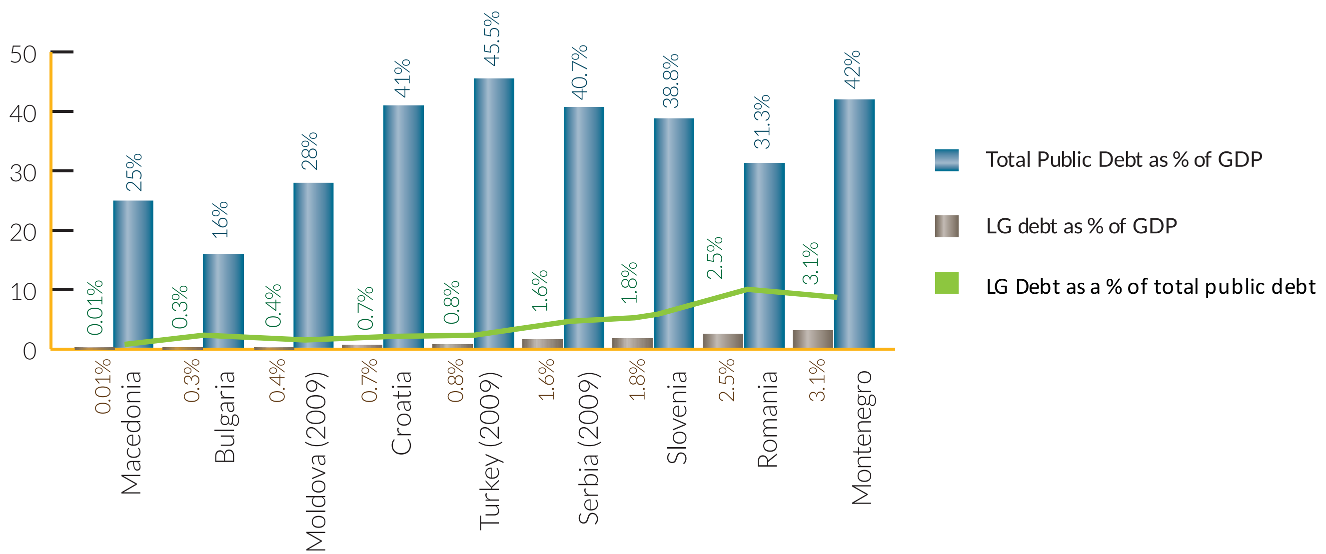
Given the evident difficulties across much of the EU (and indeed the wider globe) of making the ad valorem property tax a robust source of local government revenue, it is probably fair to say that it is unrealistic to expect the tax to assure the financial independence of local governments in most of South East Europe. Nonetheless, there is clearly much room for improving the yield of the tax in all members of the group. It is also worth adding that Croatia, the worst performer of the group is, alongside of FBiH (BiH), the only place where the property tax is not administered by local governments.

## Local Government Borrowing

In most of South East Europe, local government borrowing is still a relatively new phenomenon. Chart 12 presents data on the total outstanding debt of local governments in the eight members of the group where we have reliable data. Local government borrowing in Albania, FBiH (of BiH), and RS (of BiH) remains minimal and it has yet to start in Kosovo.

As can be seen from the Chart, local government borrowing exceeds 1% of GDP in Slovenia, Montenegro, and Romania, and only constitutes a significant share of total public debt in Montenegro and Romania. In euro terms, total municipal debt in Turkey in 2009 was 3.6 bln euro, while in Romania in 2010 it was 3.1 billion; Slovenia, 656 million euro; in Serbia 562 million euro (2011) Croatia 297 million, in Montenegro 95 million, and in Moldova 16 million. Both total public debt and local government debt are low in Macedonia and Bulgaria.

**Chart 12** Local Government Debt as % of GDP and Total Public Debt in 2010

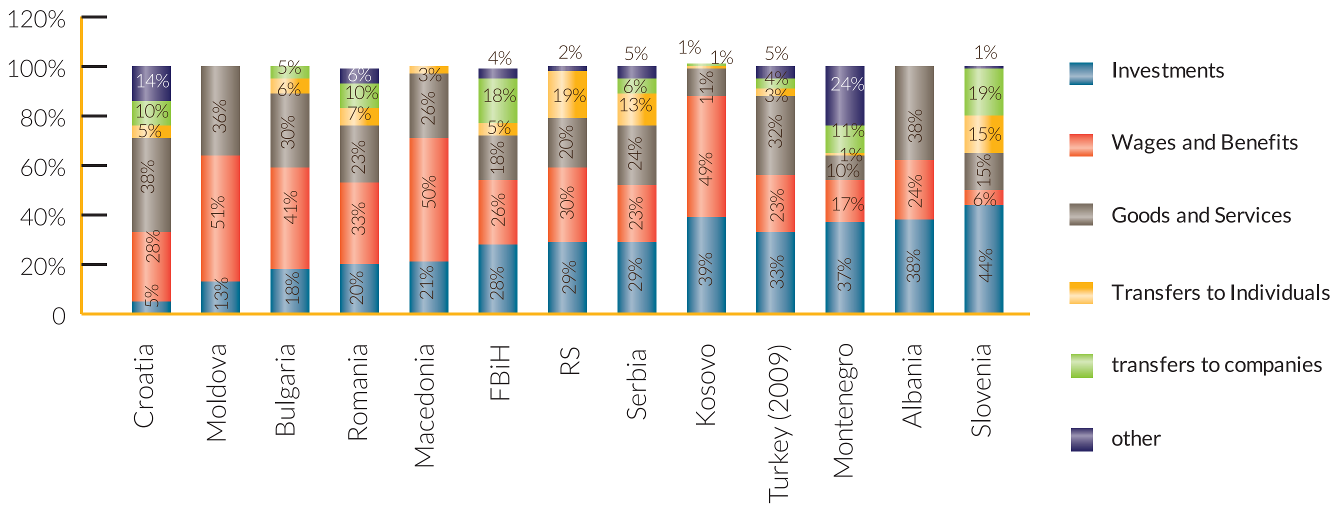



## Local Government Expenditures

Chart 13 shows the composition of local government expenditures by economic type. Unfortunately, we do not yet have reliable data on the composition of expenditures by function. As can be seen from the Chart, there is substantial variation in the composition of expenditures across the group. Some of this variation is undoubtedly due to differences in the way members of the group classify different types of expenditures, even though the classifications are both broad and straight forward. For example, in some places capital transfers to public utilities are treated as direct investment expenditures, while in others they are recorded as subsidies to legal entities. There is also a tendency across the local government sector –stronger in some places than in others —to record at least some wage payments as goods and services.  As a result, the data should be treated cautiously.

Nonetheless, the Chart does make possible a number of useful comparisons. The first is that the share of investment expenditures is lowest, and the share of wage expenditures is highest in Bulgaria, Macedonia, Moldova and Romania. This is understandable though certainly not desirable, because these four (with Kosovo)  are responsible for paying the wages of all pre-tertiary education teachers. Like them, Kosovo municipal governments spend a very high percentage of their budgets on wages. But unlike them, Kosovo municipalities have a high investment rate. Why this is the case is not quite clear, but the low share of spending on goods and services suggests that for one reason or another, some Kosovo municipalities may be classifying spending on goods and services as investments.

**Chart 13** Composition of Local Government Expenditures 2010




For the RS (BIH) transfers to individuals and to firms are not distinguished. For Serbia, investment includes capital subsidies to public companies and "neighborhood units"

Equally puzzling is the extremely low investment spending of Croatian municipalities. Some of this may be explained by exactly the opposite tendency that we suspect is going on in Kosovo: in other words, Croatian local governments may be recording the purchase of at least some capital goods as expenditures for "Goods and Services" - a category that is unusually large in Croatia. It may also be because some of them are recording (correctly) transfers to public utilities for capital investments as subsidies - and unfortunately we do not have the data that would allow us to distinguish investment from operating subsidies). Still, the particularly low share of investment spending by local governments in Croatia, as well as in Bulgaria, Romania, Moldova and Macedonia should concern policy makers.

It is also worth noting that in Croatia, Romania, FBiH (BiH), the RS (BIH), Serbia, Montenegro and Slovenia, at least 10 percent of all municipal expenditure are in transfers to legal entities. Some of these transfers go to institutions and organizations like sports clubs and cultural institutions. But the bulk of them probably go to subsidize public utilities. So here the interesting question is how much of these subsidies are for operating costs and how much for investments. The particularly high levels of subsidies in Slovenia, FBIH (of BIH) and the RS (of BIH) suggest that local public utilities are not doing a particularly good job at cost recovery. Also puzzling is the extremely low share of wages in the budgets of Slovenian local governments.

**Local governments in Romania, the RS (of BIH), Montenegro, Kosovo and Slovenia account for considerably higher shares of investment as a percentage of GDP than their counterparts in the EU.**

Chart 14 and 15 show local government investments as percentage of GDP and in per capita Euro. As can be seen from Chart 14, local governments in Romania, the RS (of BIH), Montenegro, Kosovo and Slovenia account for considerably higher shares of investment as a percentage of GDP than their counterparts in the EU. This is not surprising given the high cost of the long-neglected (network) infrastructure that local governments throughout South East Europe are now expected to build.  Indeed, given these investment needs, what is more surprising is the low share of municipal investment spending as a percentage of GDP in Croatia, Albania, Bulgaria, Macedonia, Moldova, FBiH (of BiH) and Turkey.

**Chart 14** Local Government Investment as share of GDP

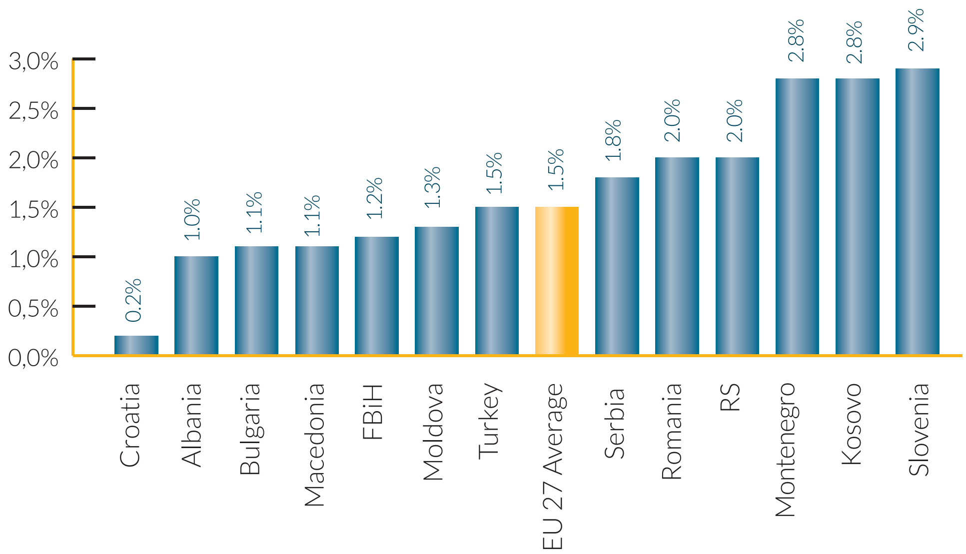
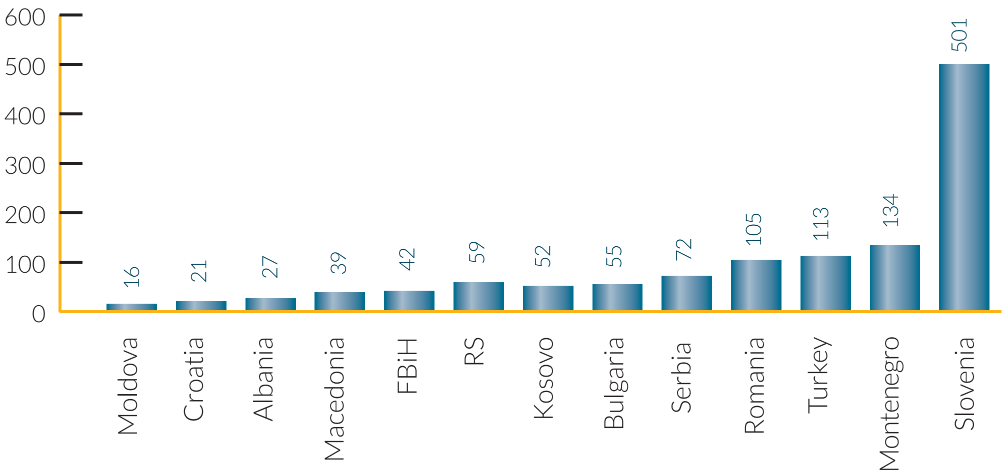


**Chart 15** Local Government Investments Per Capita in Euro 2010



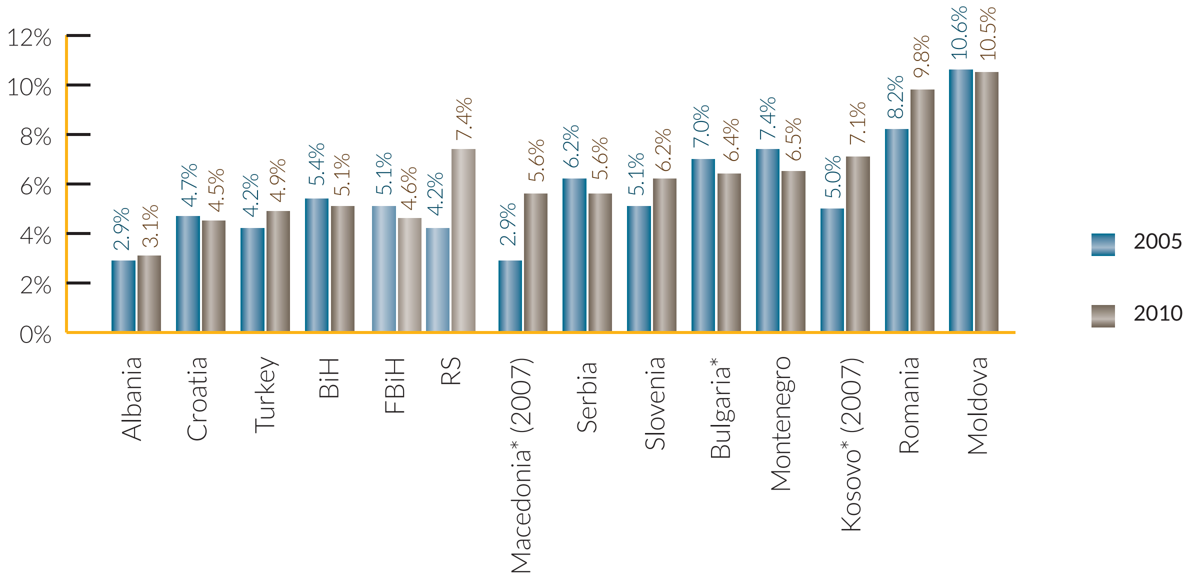

Unfortunately, we do not have complete data on the share of local government investment in total public investment. In Slovenia local governments account for 67% of all public investment, while in Kosovo they account for 54%. Meanwhile in Romania, Moldova, Bulgaria and Kosovo they account for 34%, 27%, 24% and 18%, meaning that the lion's share of public investment is being conducted centrally.

# IV. FISCAL DECENTRALIZATION 2006-2010

In this section we present select indicators for South East Europe for the period of 2006-2010. Chart 16 shows local government revenues as a percentage of GDP in 2005 and in 2010. As can be seen from the chart, the financial position of local governments in Croatia, FBiH (BiH), Serbia, Bulgaria, and Montenegro have all weakened over the last half of the decade. The most significant declines have come in Montenegro and in Bulgaria. In Montenegro, where local governments rely extremely heavily on own revenues in general, and from revenues associated with the real-estate market in particular, the decline is probably attributable to a cooling–off of new property development. The situation in Bulgaria is less clear given that local governments are responsible for paying teachers' wages.

The share of local government revenues as a percentage of GDP has increased modestly in Albania, Turkey and Slovenia with no major changes in expenditure responsibilities. It has risen much more dramatically in RS (of BiH), Macedonia, Kosovo, and Romania. In Romania and Kosovo, much of the growth has been driven by an increase in the conditional grant that local governments receive for teachers' wages. In RS (of BiH) the growth has been driven by changes in the transfer system introduced in 2007. Here, there has been no significant increase in local government expenditure responsibilities. This is in contrast to Macedonia where local governments began to enter the so-called second phase of decentralization in 2006. Upon entering this phase they assumed responsibility for pre-tertiary education and started receiving a block grant for this function from the national government.

**Chart 16** Change in the Share of Local Government Revenues as a Percentage of GDP (2005-2010)



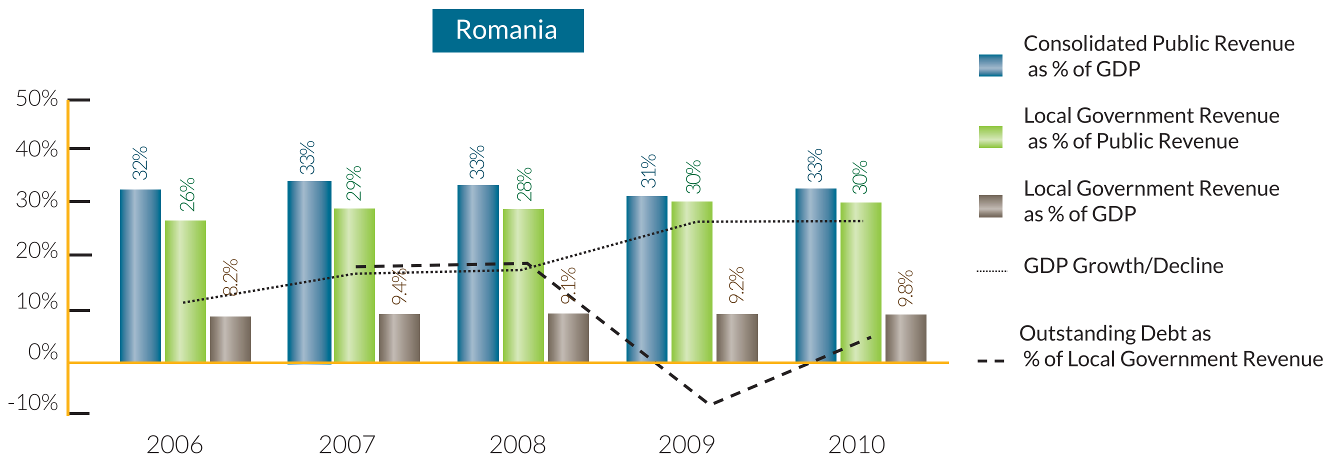

For Macedonia and Kosovo 2007 and not 2005 is used as the base year

## Trends for local governments that pay teachers' wages

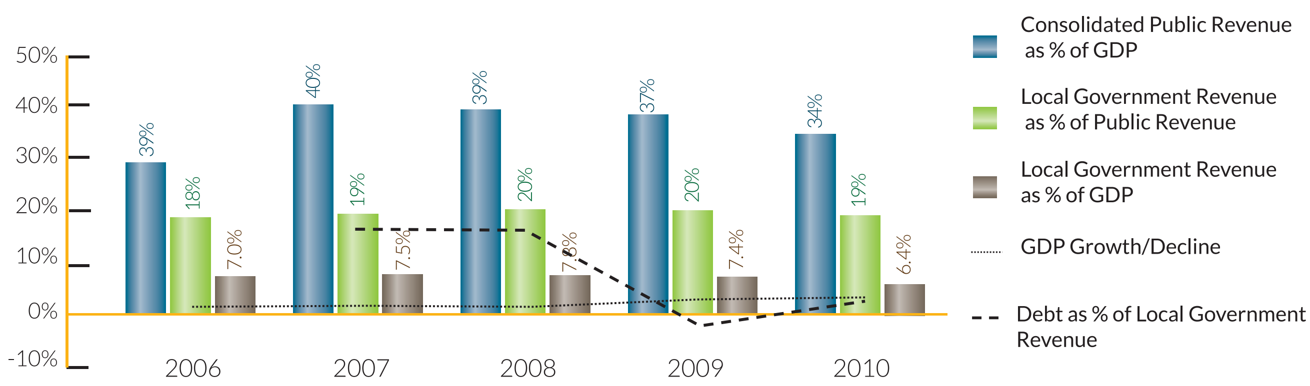
The next set of charts looks at trends over time in the five members of the group in which local governments pay teachers wages (Bulgaria, Romania, Macedonia, Kosovo and Moldova). Here, we present the revenues of the consolidated general government as a percentage of GDP; the revenues of local governments as a percentage of GDP and of consolidated government revenues; the growth/decline of the GDP in euro; and where possible, outstanding local government debt as a percentage (of annual) local government revenues. For them, the following trends are worth noting:

- Between 2006 and 2010, Macedonia underwent the most structural change. Here, local government revenues increased from 2.2% to 5.6% of GDP as local governments progressively assumed responsibility for financing pre-tertiary education and other functions.

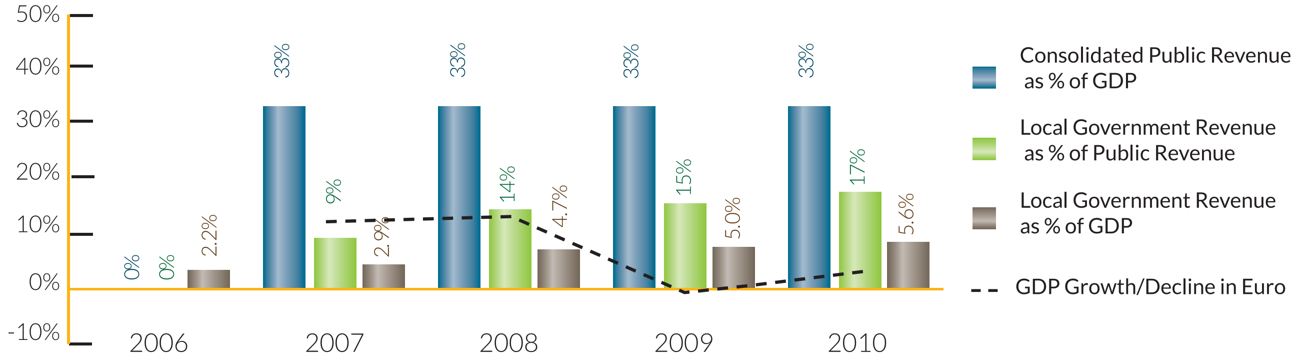
- All members of the group have public sectors that represent broadly similar shares of the GDP (30-40% of GDP), and in all local governments perform similar functions. The share of public revenues going to local governments however differs significantly: In Bulgaria and Macedonia local governments receive less than 20% of all public revenues while in Kosovo, Romania and Moldova it is between 25 and 30%.
- Given the fact that local governments in Macedonia and Bulgaria pay teachers wages and at the same time have revenues equal to less than 7% of the GDP and 20% of total public expenditures, it seems that local governments and/or pretertiary education is being underfunded.
- Of the group, the 2009 global economic downturn hit Romania the hardest. The national government, however, appears to have tried to protect local governments from the downturn because neither local government revenue as a share of GDP or as a share of public revenues declined.
- In Kosovo and Macedonia the global economic downturn did not lead to a decline in the GDP, though it did stop growing. Despite this, local government revenues as a share of both GDP and of total public revenues increased in 2009 and 2010.
- In Bulgaria, the GDP did decline, but significantly less than in Romania. Unlike in Romania however Local Government Revenues as a share of GDP declined significantly in 2009 and 2010.
- Local government borrowing has yet to begin in Kosovo, and is just starting in Macedonia. In Bulgaria it remains modest. In Romania, total outstanding debt is now equal to about 25% of annual local government revenues.

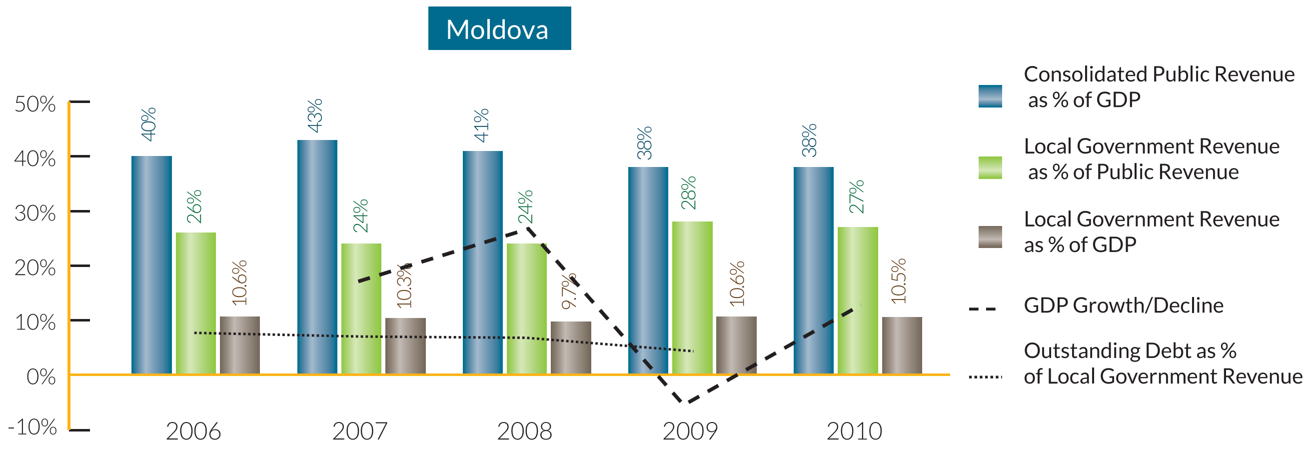


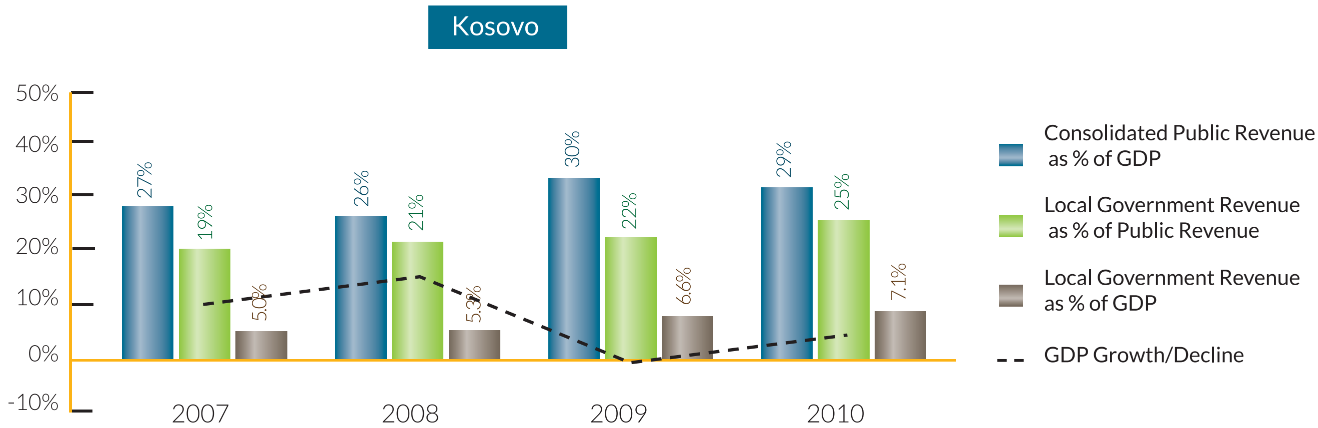
Bulgaria




Macedonia




Moldova
50%
40%
30%
20%
10%
0%
-10%
40%
26%
10.6%
43%
24%
10.3%
41%
24%
9.7%
38%
28%
10.6%
38%
27%
10.5%
2006
2007
2008
2009
2010
Consolidated Public Revenue as % of GDP
Local Government Revenue as % of Public Revenue
Local Government Revenue as % of GDP
GDP Growth/Decline
Outstanding Debt as % of Local Government Revenue


Kosovo
50%
40%
30%
20%
10%
0%
-10%
27%
19%
5.0%
26%
21%
5.3%
30%
22%
6.6%
29%
25%
7.1%
2007
2008
2009
2010
Consolidated Public Revenue as % of GDP
Local Government Revenue as % of Public Revenue
Local Government Revenue as % of GDP
GDP Growth/Decline

# Trends for local governments that do not pay teacher's wages or the costs of primary health care

The next set of charts looks at local governments in Montenegro, Slovenia, RS (of BIH), FBiH (of BiH), Turkey, Serbia and Croatia, where municipalities do not pay the wages of primary or secondary school teachers, nor do they provide primary health care service. Slovenian, Croatian and Serbian local governments, however, do pay the wages of preschool teachers.

In Montenegro, Slovenia, and the RS (of BIH) local governments revenues represent more than 6% of the GDP, while in Croatia, Turkey, and FBiH (of BiH), they are less than 5% of the GDP, and in Albania less than 4%. In Serbia, they have fallen from a high of 6.7% in 2007, to 5.6% in 2009. The following trends are worth noting:

- In Montenegro, local government revenues peaked at over 10% of the GDP in 2007 and 2008, and have since fallen to just over 7%. The peak was driven by a real-estate boom, and the decline has been driven by a contraction of the both the real-estate market, and of total public revenue. Local governments seem to have responded to the contraction by expanding borrowing.

- In Slovenia, local government revenue as a share of GDP and of total public revenue increased significantly in 2009 and 2010 despite a sharp decline in the GDP. This suggests that the national government has been trying to protect local governments from the impact of the crisis and/or an influx of EU funds has helped buffer local governments from the more general downturn. Local government borrowing has remained remarkably stable over the period, and outstanding debt amounts to about 50% of annual revenues.

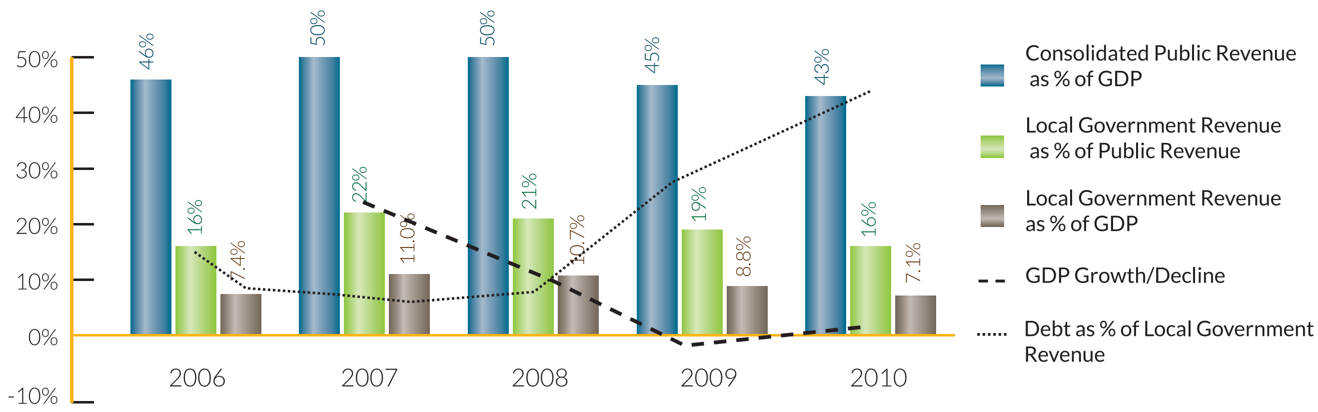
- In Republika Srpska (of BiH), local government revenue as a share of public revenue and of GDP peaked in 2007-2008 but has declined since. In FBiH (of BiH), local government revenue also peaked in 2007-2008, but at a lower level. It also declined faster in 2009, but recovered a bit in 2010. In neither entity has local government borrowing become significant.

- In Turkey, local government revenue as a share of GDP and of total public revenues has increased steadily over the entire period, including during the sharp economic downturn of 2009. Nonetheless, local government revenue remains low for a large country that has more than a dozen municipalities with over a million people, and which is rapidly urbanizing. Municipal borrowing in Turkey is relatively high for the group, perhaps suggesting some desperation borrowing.

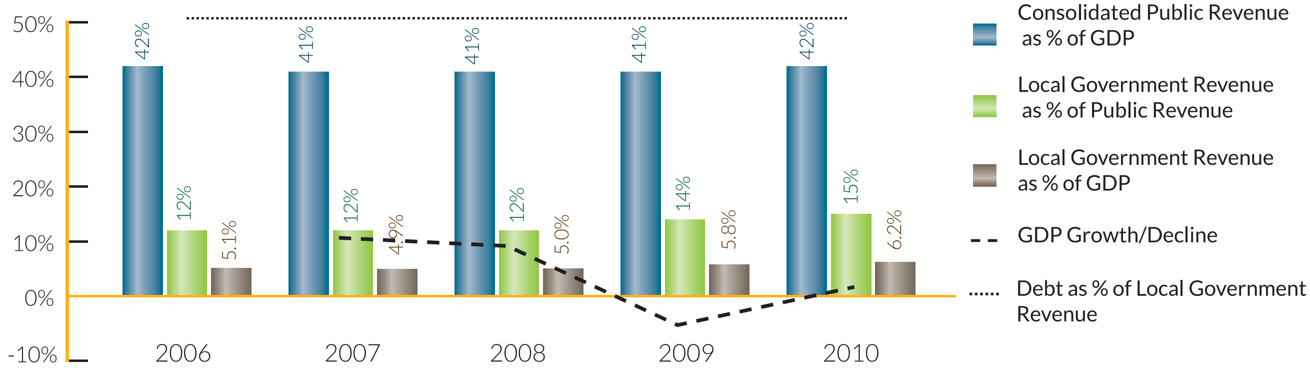
- In Croatia, local government revenue as a share of GDP and of total public revenue has remained low and stable over the entire period. Local government revenue has not contracted as much as the total public sector since 2006.

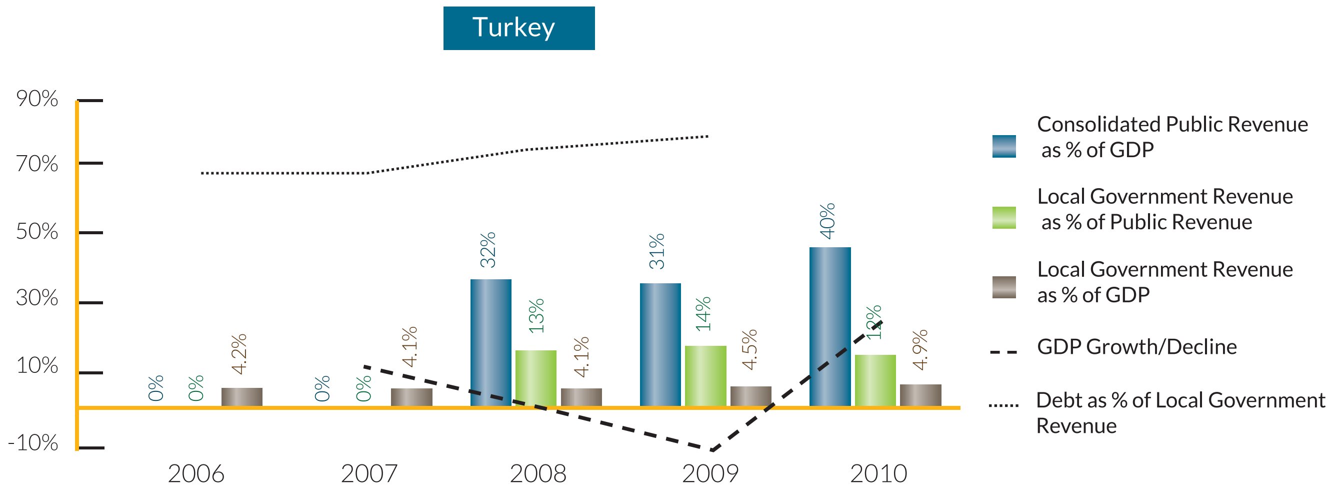
- In Albania, local government revenue is very low both as a share of GDP and of total public revenues. In part, this is due to the size of the public sector in relation to the GDP, and to the difficulties all levels of government have in collecting direct taxes. This problem is shared by large part of South East Europe, but seems to be particularly strong in Albania.

## Montenegro

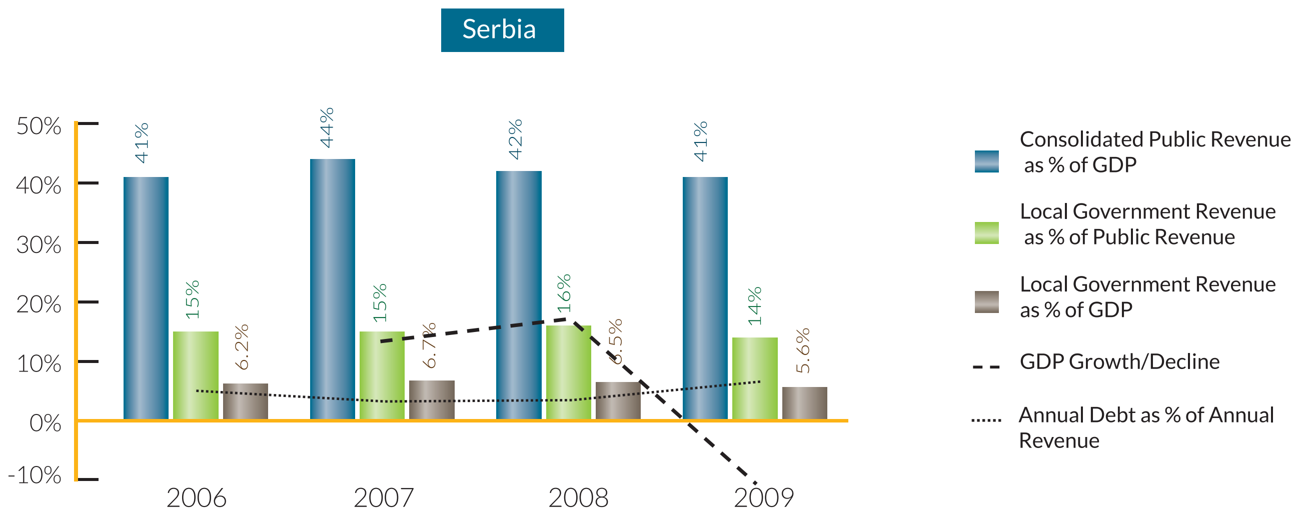



## Slovenia

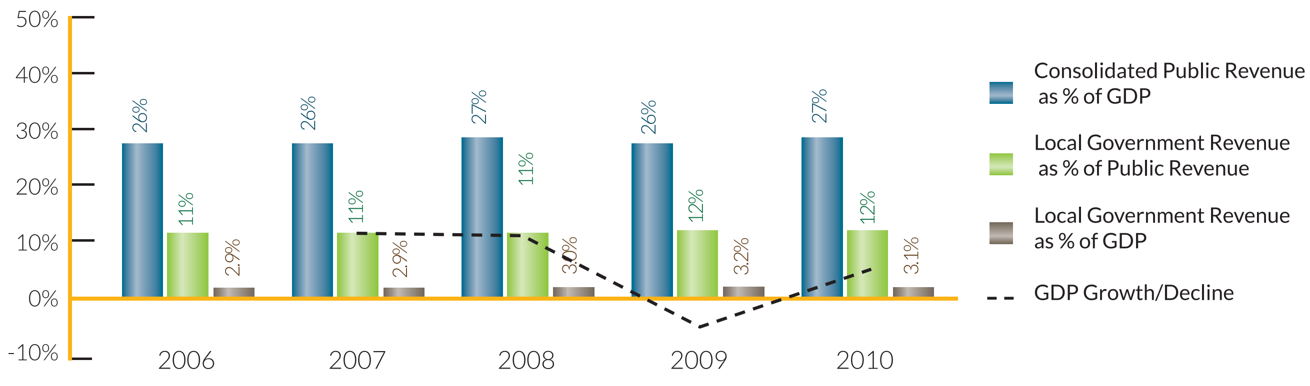




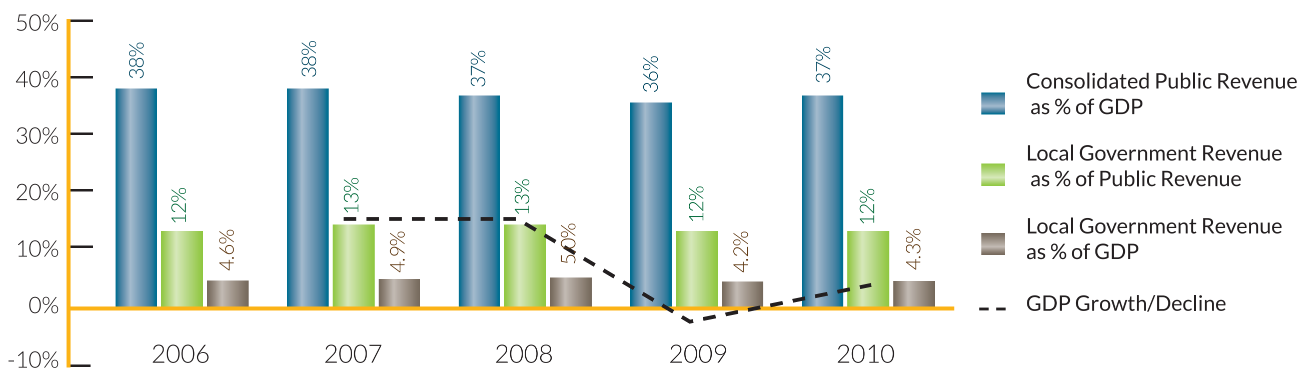

Note the visual scale of the Chart for Turkey is different from others because of the high level of debt in relation to annual income.

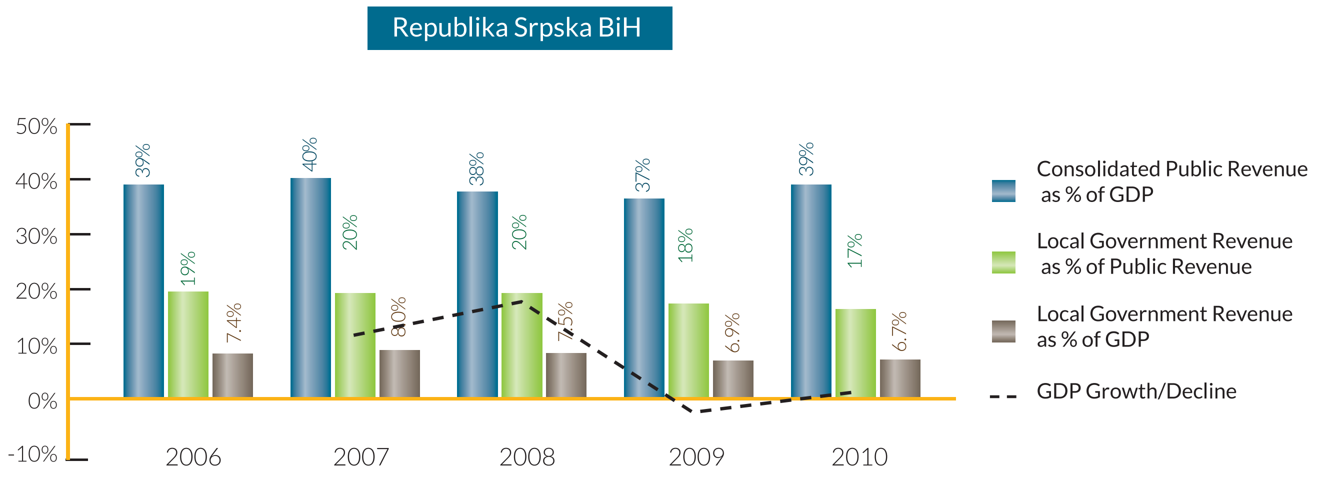


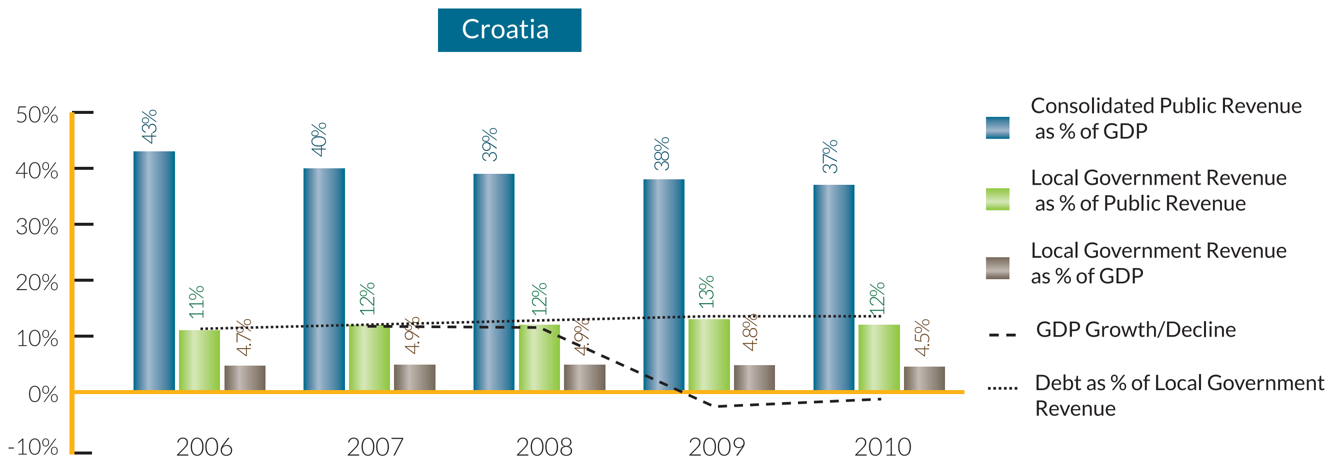
Albania




Federation of Bosnia Herzegovina of BiH




Republika Srpska BiH
50%
40%
30%
20%
10%
0%
-10%
39%
19%
7.4%
40%
20%
8.0%
38%
20%
7.5%
37%
18%
6.9%
39%
17%
6.7%
2006
2007
2008
2009
2010
Consolidated Public Revenue as % of GDP
Local Government Revenue as % of Public Revenue
Local Government Revenue as % of GDP
GDP Growth/Decline


Croatia
50%
40%
30%
20%
10%
0%
-10%
43%
11%
4.7%
40%
12%
4.9%
39%
12%
4.9%
38%
13%
4.8%
37%
12%
4.5%
2006
2007
2008
2009
2010
Consolidated Public Revenue as % of GDP
Local Government Revenue as % of Public Revenue
Local Government Revenue as % of GDP
GDP Growth/Decline
Debt as % of Local Government Revenue

# Trends for local government investment, wages and property taxes as a percentage of GDP

The next set of Charts present local government investment, wages and property taxes as a percentage of GDP. Again, we begin with the five members of the group that are fully responsible for pre-tertiary education. Here, the following trends are worth noting.

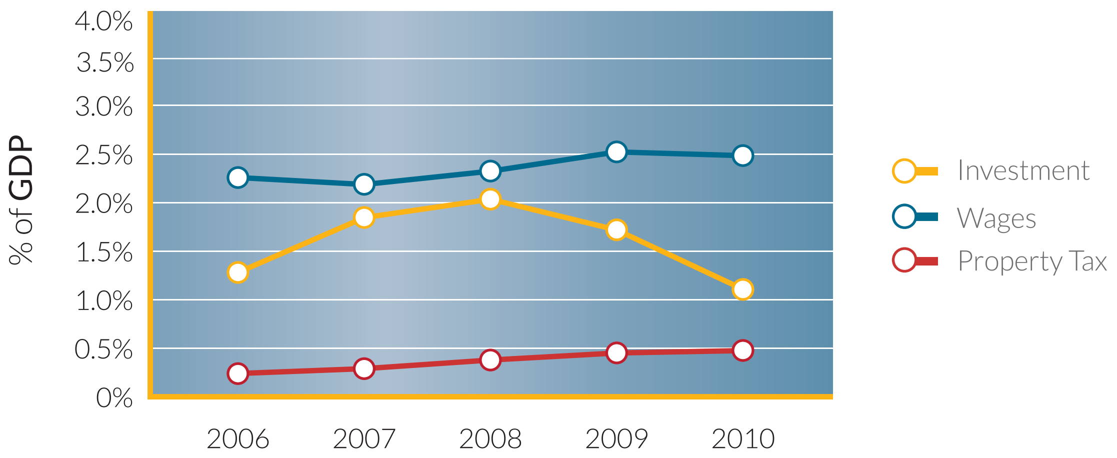
- In Macedonia, the sharp rise in wages as a percentage of GDP reflects the extension of the decentralization process to all local governments between 2006-2010.
- In all members of the group except Moldova, wages are between 2.5 and 3.5% of GDP. Given that teachers' wages for pre-tertiary education typically account for the 2.5 - 3.0% of GDP, there is reason to suspect that education in of all members of the group is being underfunded.
- In Moldova, local government wages have risen to close to 5% of the GDP. The high share of wages in local government budgets may reflect higher wages for teachers (relative to other members of the group). It probably also reflects –at least in part—the large number of very small local governments in Moldova.
- In Bulgaria, local government investment as a percentage of GDP has fallen by half over the last few years and is now at (a low) 1%. Meanwhile, local government investment in Macedonia and Moldova has risen to the same (low) 1% over the same period. Property tax collection in both countries has improved but remains low in Bulgaria and very low in Macedonia.
- Local government investment spending in both Romania and Kosovo are over 2% of GDP, though they have fallen by 25% in Romania over the last few years. Unfortunately, we only have one year of data for Kosovo.

# Other Trends

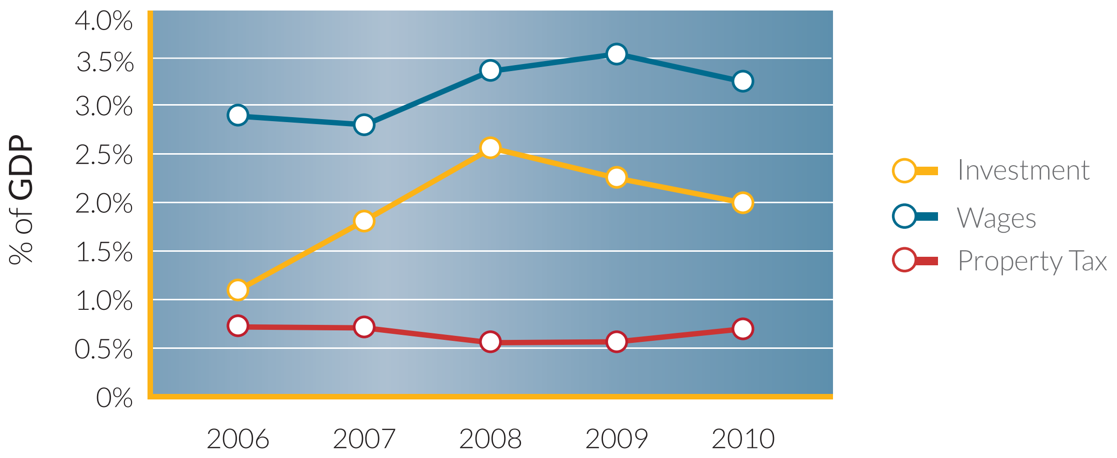
Elsewhere in the region the following trends are worth noting:

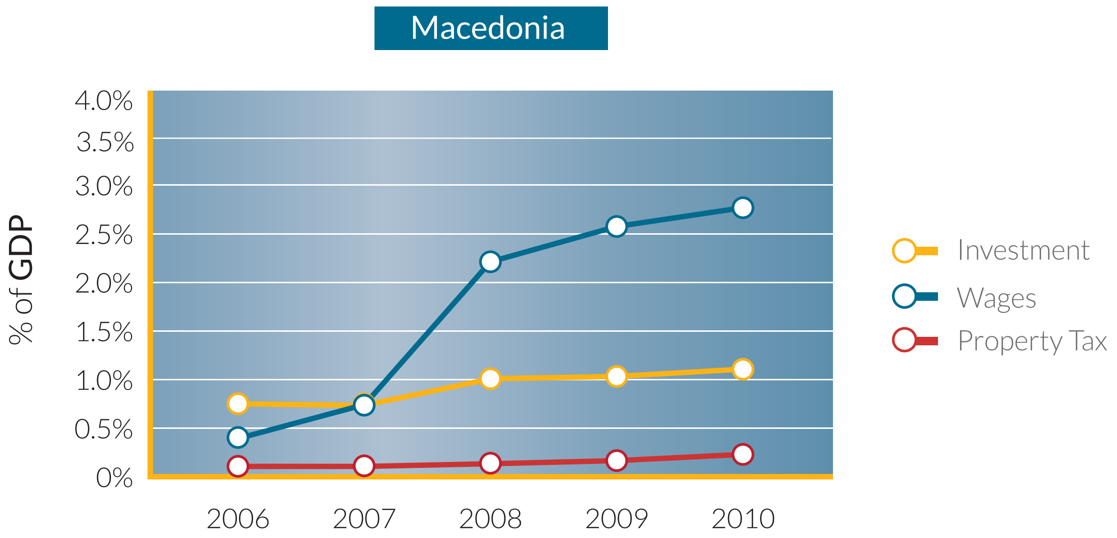
- In Montenegro and Slovenia, local government investment rates are at about 3% of the GDP, the highest in the group. In Slovenia, however they have been rising despite the economic downturn, while in Montenegro they have fallen sharply.
- Local government wages in Slovenia are remarkably low as a percentage of GDP. In Montenegro, they have declined with the economic downturn.
- In both countries, property tax collection is relatively high for the group, particularly in Montenegro (probably predominately from legal entities).
- With the exception of the RS (of BIH) and Serbia, local government wages in all members of this group are about 1% of GDP. In the RS (of BIH) they are equal to 1.5% of the GDP and have risen over the last few years despite the economic downturn. Unfortunately, we do not have data for 2009 and 2010 for Albania to assess whether the upward trend in wages visible through 2008 has continued.
- Property tax collection in all members of this group is low and in many declining. This may be because of a decline in real-estate transactions and thus of the yield of the Property Transfer Tax.
- Investment rates are extremely low in Croatia, and falling in other members of the group.

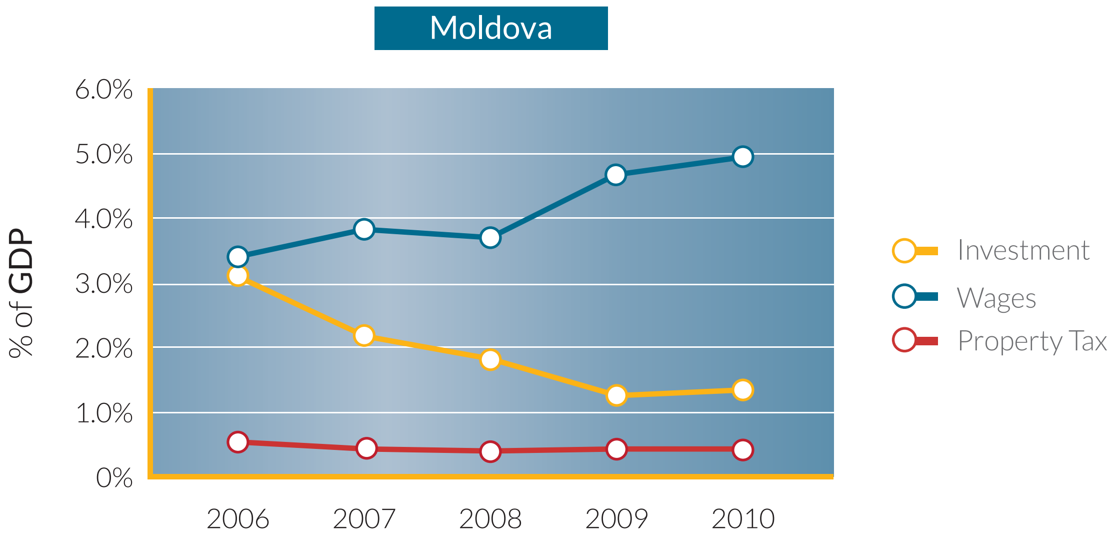
## Bulgaria



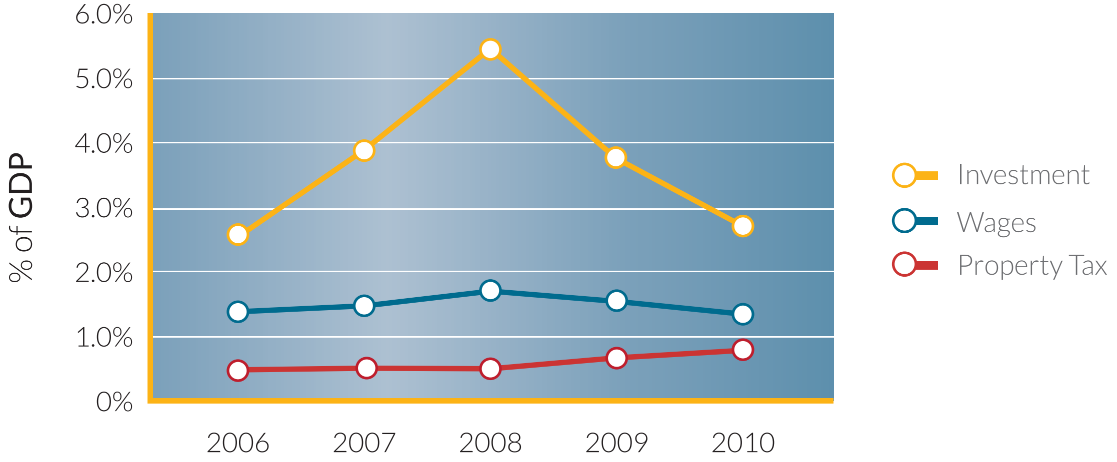

## Romania



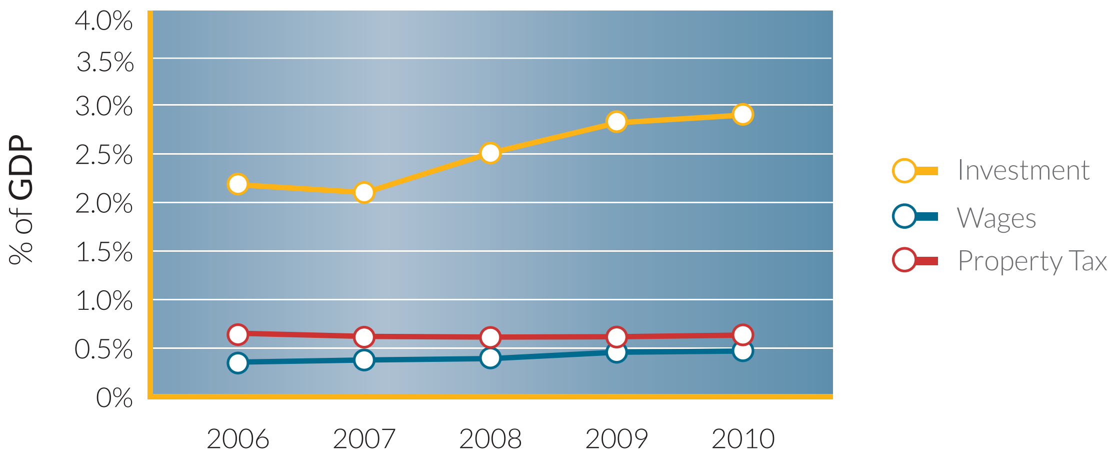

Macedonia
% of GDP
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0%
2006
2007
2008
2009
2010
Investment
Wages
Property Tax

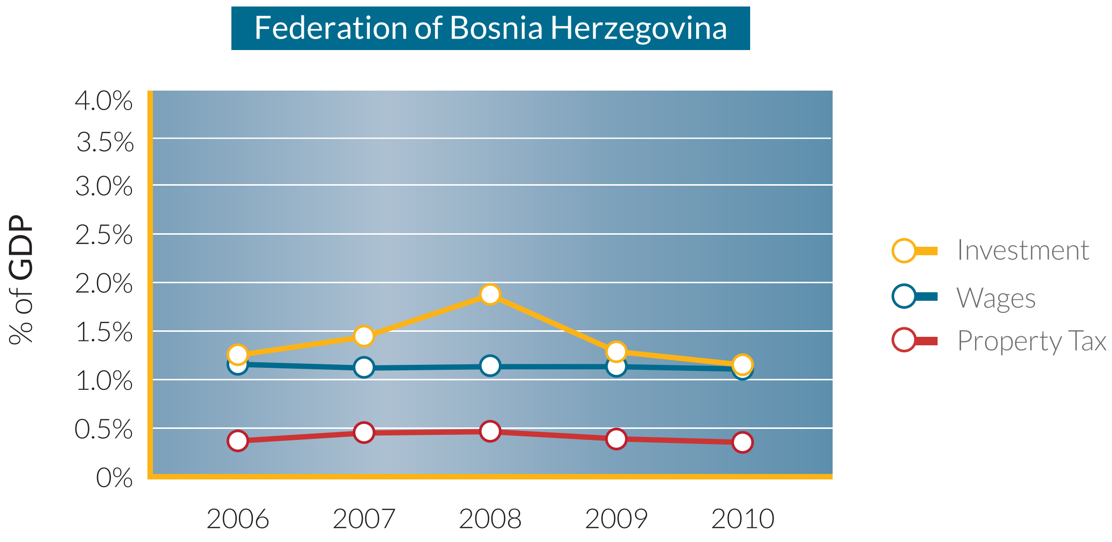

Moldova
% of GDP
6.0%
5.0%
4.0%
3.0%
2.0%
1.0%
0%
2006
2007
2008
2009
2010
Investment
Wages
Property Tax

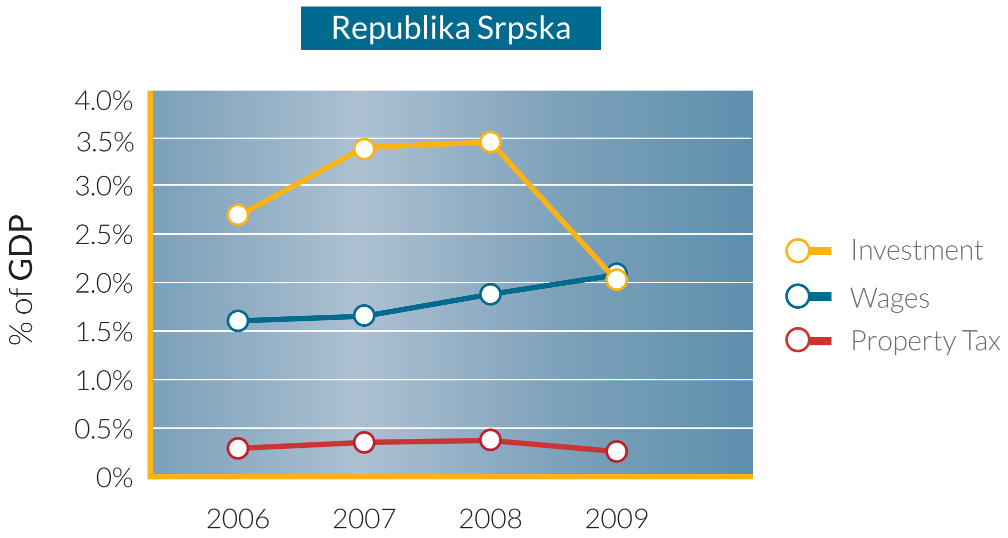
## Montenegro



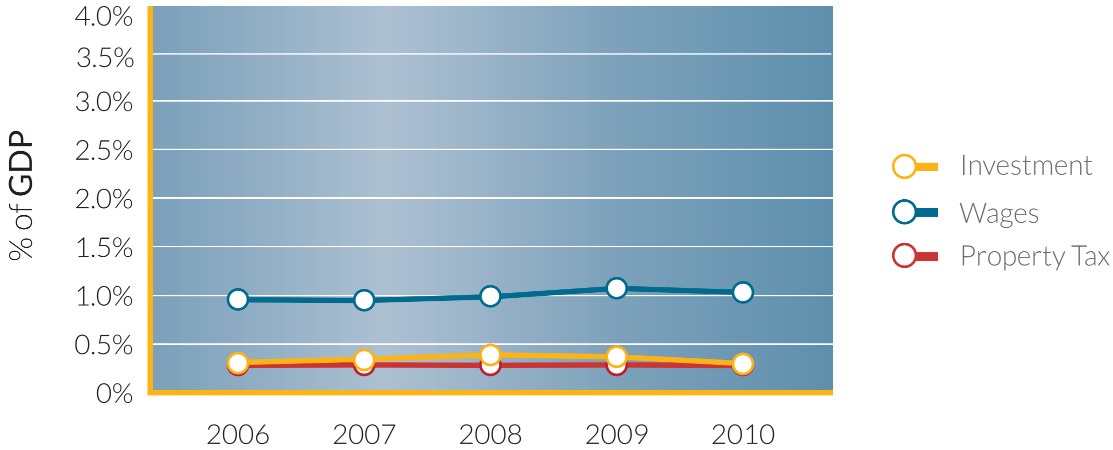

## Slovenia



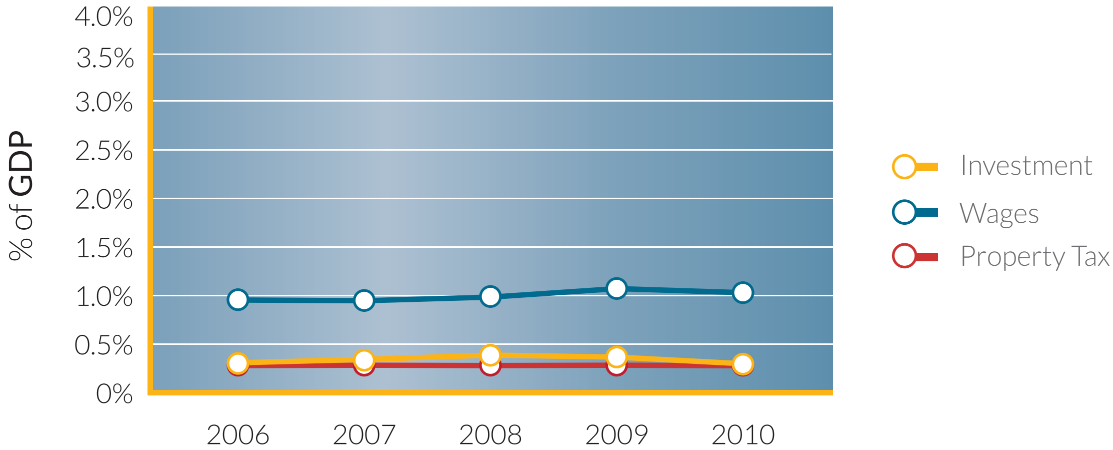

Federation of Bosnia Herzegovina
% of GDP
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0%
2006
2007
2008
2009
2010
Investment
Wages
Property Tax

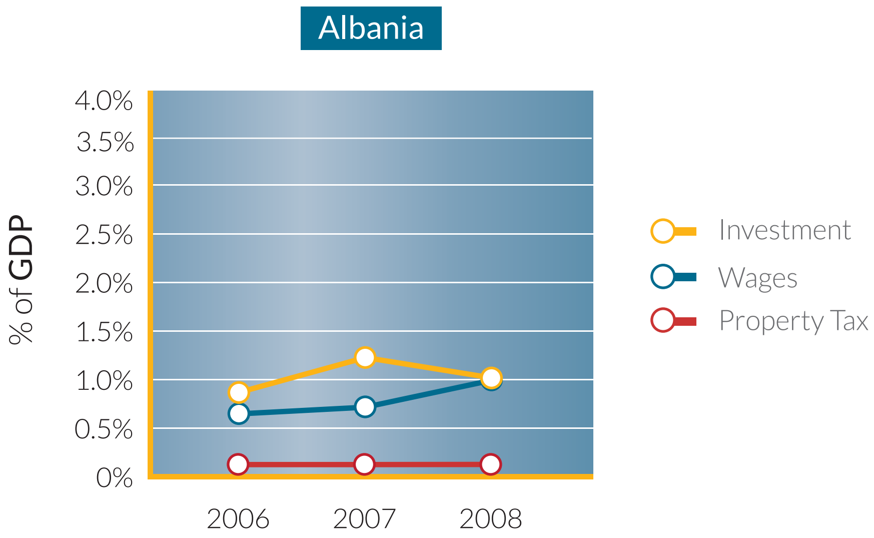

Republika Srpska
% of GDP
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0%
2006
2007
2008
2009
Investment
Wages
Property Tax

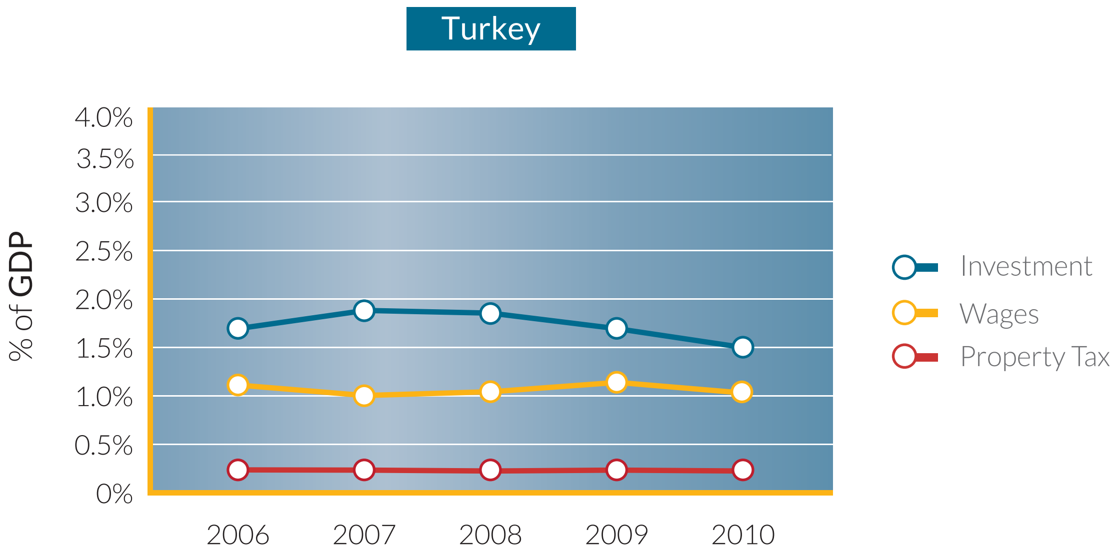
Croatia

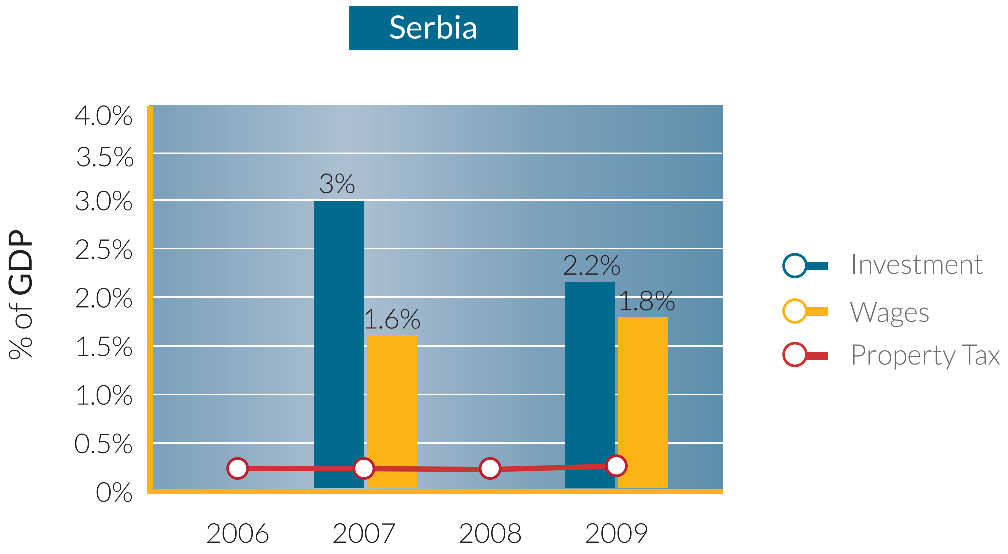



Croatia




Albania
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0%
% of GDP
2006
2007
2008
Investment
Wages
Property Tax


Turkey
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0%
% of GDP
2006
2007
2008
2009
2010
Investment
Wages
Property Tax


Serbia
% of GDP
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0%
3%
1.6%
2.2%
1.8%
2006
2007
2008
2009
Investment
Wages
Property Tax

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