National Convention
on the European Union

DETAILED ANALYSIS OF THE DRAFT BUDGET AND FISCAL STRATEGY OF THE REPUBLIC OF SERBIA 2025–2027

1. Introductory Considerations: Institutional Weaknesses and Structural Aspects of Economic and Macroeconomic Policy

The macroeconomic dimensions of fiscal policy have already been thoroughly analysed by international institutions and by Serbia's Fiscal Council. Here, we emphasize only what emerges as the most serious risk to the competitiveness of Serbia's economy: an overvalued real exchange rate of the dinar. The rise in the average wage to approximately EUR 930 does not correspond to an adequate increase in employee productivity.

The problem is evident from the relationship between nominal and real wage growth: between September 2021 and September 2025, the average wage increased nominally by 68%, while retail prices expressed in euros rose by 35%. This broad-based increase in wages and prices has substantially raised exporters' costs. For the first time in our monitoring, we see that exports of domestic SMEs are either declining or failing to keep pace with exports generated by foreign direct investments.

The real strengthening of the dinar is a consequence of the chosen fiscal–monetary policy mix, in which the very structure of fiscal expenditures favours the attraction of foreign capital over domestic investment, under conditions where deep structural constraints and institutional weaknesses already hinder and discourage domestic investors. Beyond their evident democratic shortcomings, these systemic weaknesses prevent the productivity growth essential for strengthening Serbia's competitiveness.

Without comprehensive reforms, Serbia's social and economic development in the coming years will be confined, at best, to low GDP growth without genuine societal progress and with further widening of economic inequality.

Raising productivity requires reforms that enhance institutional capacity and ensure responsible (including sufficiently autonomous) institutional action. Economic policy must rest on a clearly defined development vision, translated into programs with concrete objectives and tasks that guide coherent developmental action. In the absence of responsible, goal-oriented work by institutions, decision-making becomes politicized, and policies are adopted ad hoc without sufficient grounding in evidence.

A particularly serious problem is the extent of centralized political control, even over expert decisions. This concentration of power suppresses decentralized, autonomous, and accountable institutional action, which is a prerequisite for development policy that responds to the diverse needs of citizens and regions across Serbia.

2. The Budget Procedure

Commentary on the package of laws accompanying the 2026 Draft Budget remains difficult due to the persistent opacity of the planning, adoption, and execution processes. Although transparency of budgetary documents has improved in recent years, and although these documents are now regularly published on the website of the Ministry of Finance, the actual preparation of the budget and related financial laws still takes place behind closed doors, without meaningful public participation.

In 2025, the Ministry of Finance launched a Budget Portal and a mechanism for citizens to submit proposals. However, this model of participation remains severely limited: access was conditioned on completing a test/quiz, participation was narrow, and the published "selected proposals" represent only a minimal gesture toward inclusion, with no transparency regarding how these proposals influence the budget process.

Under the Law on E-Government, data and budget materials should also be available in machine-readable format on the Open Data Portal, and the Ministry should enable the public to submit comments on draft laws, with an obligation to publish reasoned responses.

It is positive that the Portal now allows easier insight into the planned and executed state budget. However, data on in-year budget execution remains unavailable. Execution for the current year is presented only in the most rudimentary form, and detailed information on execution by programs or budget lines is not included in the explanatory memorandum of the new budget. A particular concern is that most major infrastructure projects remain shielded by bilateral agreements through which they are financed. Neither the core contracts nor their annexes are published, despite Serbia's explicit commitment, under the Reform Agenda agreed with the European Union, to begin publishing them starting in December 2024.

The draft budget also omits any discussion of risks associated with the introduction of international sanctions against the oil company NIS. Whether this will be corrected through budget amendments or not, the omission reflects the broader problem that the most important issues are not examined through institutional processes.

As in previous years, the 2026 budget was adopted without public involvement. According to the world's most authoritative international assessment, the Open Budget Index, Serbia ranks 55th out of 125 countries. Among the three dimensions assessed, Serbia performs best in "oversight," due to the breadth of audits conducted by the State Audit Institution, and worst in "public participation," where it scores only 2 out of 100 points. These two points were awarded solely because a public hearing was held, "pro forma," as in previous years and without mechanisms enabling actual engagement.

Two weeks ago, in the context of preparing this budget, the Ministry of Finance invited civil society to a "budget dialogue." Civil society organizations attended expecting at least a summary or analytical presentation of policy priorities. The meeting lasted several hours but remained completely without substance, providing no meaningful information and offering no space for dialogue.

These recent gestures toward transparency and consultation may reflect the efforts of professionals within the administration to move processes in the right direction, or the government's attempt to check off obligations associated with Serbia's declared EU path. They cannot and must not replace genuine opening of fiscal processes. When even a gradual but meaningful opening begins, both civil society and the broader public will recognize and welcome it.

A detailed analysis of the submitted legislative proposals also clearly shows that the programme budget remains, in essence, line-item in nature, meaning that public spending is still not approached programmatically. Performance indicators are either not presented or not explained, both in the budget proposal and in the final accounts of previous years, making any meaningful analysis impossible.

Recommendations:

- Launch consultations with stakeholders well before the Government finalizes the draft budget.
- Substantially increase transparency of key projects and programmes, with careful attention to presenting all substantively related spending in a consolidated manner.
- Present the draft budget for the coming year together with an estimate of current-year execution and discuss execution data in the explanatory notes.
- In light of the tragedy of 1 November 2024, which largely stemmed from institutional deficiencies and corruption, and considering the relatively distant deadlines set in the Reform Agenda for fully correcting the key described anomalies, particularly those related to EXPO 2027 and projects under bilateral agreements, it is additionally concerning that almost no public information exists on public investments and capital projects. Transparency is minimal even for projects that must be publicly disclosed under the Decree on Capital Project Management. Although the Public Finance Plan envisages the publication of capital project reports by the end of this year, they are still not available to the public.

For all these reasons, we propose establishing a publicly accessible platform for monitoring all public investments. This platform must ensure publication of all contracts and investment plans, monitoring of their implementation, and, crucially, monitoring of all related procurements with explanations of decisions. The fact that certain projects are exempt from the Public Procurement Law does not relieve the Government or contractors of their responsibility to make accountable decisions and to inform and justify them to the public. Such a platform would strengthen safety, integrity, and accountability in public financial management, as well as the capacities and mutual trust between the administration and civil society, well before 2027, when the Reform Agenda foresees the permanent discontinuation of such exemptions.

3. Reform of the systemic regulatory framework

The following considerations make sense only if pursued alongside substantive strengthening of the rule of law and institutional accountability.

Ten years after adopting the Law on the Planning System, Serbia conducts economic policy without a clear and binding strategic framework. The most salient example of this institutional vacuum, and of ad hoc economic and fiscal policymaking, is the "Leap into the Future – Serbia 2027" programme. Officials have repeatedly described this plan as a €17.8-billion package covering 323 projects, and it is referenced in the Fiscal Strategy. However, on 27 March 2024, the Government officially confirmed that "Leap into the Future" is not a public policy document within the meaning of the Planning System Law and that no state administration body participated in its development.

The problem is not only at the strategic level. Feasibility studies for selected investments, where they exist, are often not published. There are documented cases where they were conducted only after construction began, such as the National Stadium.

Another important indicator of politicization and arbitrariness in public spending is the unregulated system of employment and wages. Reform of this system was abandoned in 2017. There is still no plan defining which sectors or professional profiles should be strengthened, while administrative limits are circumvented through temporary and occasional service contracts, other non-employment arrangements, and agency hiring. Pay increases continue to be ad hoc, politically driven, and non-transparent, making it impossible to assess wage relations across the public sector.

Finally, the treatment of budget reserves significantly amplifies arbitrariness and ad hoc decision-making. Execution of budget reserves in 2024 amounted to nearly €68 million, or 0.08% of GDP. For more than 53% of these funds, there is no information on the budget programmes to which they were allocated, while 22% was used for "support to the work of the Government" and 12% for infrastructure projects. Looking at the users of these funds, the General Secretariat of the Government accounts for 72%, indicating centralisation and reduced transparency. The Ministry of Finance (12%) and the Ministry of Economy (5%) also hold significant shares. More than €9 million was allocated to various sports associations.

Recommendations:

- Begin drafting the Development Plan and Investment Plan in accordance with the law (to be comprehensive and cover all investments regardless of financing source) and ensure proactive involvement of all stakeholders under the Planning System Law.
- Regarding public investment management, beyond commitments already taken under the Reform Agenda (adoption of the Position Paper and Action Plan by end-2026 and ending procurement exemptions by end-2027), establish a publicly accessible platform for tracking all public investments. The platform must enable publication of all contracts, investment and implementation plans, monitoring of project execution, and full visibility of all procurements

with reasoning for decisions, including for projects currently exempt from the Public Procurement Law.

- Limit the size of the current reserve and logically and quantitatively link it to the risks it is intended to cover (World Bank recommendations exist on this).[1] Simultaneously, increase transparency of reserve spending and ensure full coverage of all purposes identified in the risk analysis.
- Restart and complete the reform of the public sector wage and remuneration system by adopting a new systemic law and by-laws based on the principles of the former (now repealed) 2016 Law on the Public Sector Wage System, introducing transparent pay grades and clear criteria for advancement and rewards.

4. Absence of programme-based management

Ad hoc policymaking is also reflected in the limited implementation of policies through genuine programmes. A detailed analysis of the submitted legislative proposals shows that the programme budget remains, in essence, line-item, meaning public spending is not approached programmatically. Accordingly, performance indicators are either missing or unexplained, both in budget proposals and in final accounts, making them unusable for analysis.

The lack of development programmes that build societal capacity and economic productivity creates a bias toward simplistic, easily implemented measures. The simplest among them are subsidies. However, subsidies have limited developmental reach because they are always a form of redistribution. In Serbia's economic policy, high subsidies of around 2.2% of GDP (or 2.5% including loans to public enterprises and activated guarantees) represent redistribution primarily from citizens and SMEs toward large companies (mostly public or foreign owned).

Instead of simple redistribution, more complex programmes combine labour, materials, and services to create synergies and build capacity so that outcomes exceed costs. These activities are typically found in expenditures on goods (e.g., materials for education programmes) and services (e.g., training and re-qualification of the unemployed). Unsurprisingly, this expenditure category is limited in size, particularly since it also conceals some wage costs and corrupt activities. From 2018 to 2024, these expenditures grew significantly slower than subsidies (real growth 35% versus 52%).

Extreme centralisation inevitably produces a bias toward large-scale projects, such as major infrastructure, rather than numerous smaller initiatives, because decentralised decision-making is required for the latter. Large projects favour big cities and costly linear infrastructure, as seen with EXPO Belgrade 2027 and the transport links connecting major cities and especially Surčin with central Belgrade and the rest of Serbia.

Subsidies in this context favour a small number of large companies rather than a larger number of smaller enterprises.

At a time of extremely high unemployment and insufficient institutional capacity, this bias toward large, highly visible projects may once have had some justification. Today, that justification no longer exists. Serbia must now be developed beyond its major urban centres; educational profiles must be aligned with a wide range of economic needs; and innovation is required in an increasingly complex economy. A major structural concern is the sharp increase in capital expenditure in the defence sector, which more than doubles in 2025 to over 1% of GDP and grows even further in 2026. With material expenditures

[1] World bank, Serbia Public Finance Review, https://openknowledge.worldbank.org/server/api/core/bitstreams/b490cf79-4087-43a1-a0c4-b437404b81f0/content

rising similarly, total defence spending reaches 2.7% of GDP in 2026, almost double the average for Central and Eastern Europe (1.5% in 2023, the latest available data).

5. Revenue and Expenditure Analysis

5.1. Revenue Analysis

It is important to highlight that despite much slower-than-expected economic growth in 2025, general government tax revenues exceed the plan by as much as 6%. This recurring pattern, where realized revenues significantly outperform the plan, has been present since the beginning of fiscal consolidation. The question remains: where in the planning methodology does this systematic error occur? Regardless, this “overperformance” creates additional room for unplanned spending, on top of the already substantial space created through current budget reserves, whose unusually high levels deviate from established international standards.

This budget package also fails to address the long-standing discriminatory tax treatment of SMEs compared to large enterprises. Given the challenges facing SMEs and Serbia’s commitment in the Reform Agenda to align all state-aid schemes with EU rules by 2027, it is essential to begin correcting these inequalities without delay.

Further, despite increases in minimum wages, their tax burden, nearly half of the average net wage, remains almost unchanged in 2026 compared to 2025 (around 55%). The increase in the non-taxable amount is welcome but represents only a modest step toward reducing the tax burden on the lowest wages (from minimum to average) and enhancing tax progressivity. Civil society has long recommended these reforms, as Serbia continues to deviate from good international practice.

5.2. Expenditure Analysis

Planned expenditures, that is, the growth of total economic categories of the 2026 budget, show only slight deviations from the previous year. Among major categories, employee-related costs and pensions grow faster due to increases in the minimum wage and public-sector pay. Expenditures on goods and services also rise more quickly due to higher defence-sector costs. It should also be noted that 2025 saw a sharper increase in these expenditures due to the inclusion of own-source revenues of education and science institutions.

Subsidies decrease because agricultural subsidies (which account for nearly half of the total) stagnate, and no increases are visible in the budget, only the servicing of subsidies for business competitiveness.

As an illustration of institutional shortcomings, and how such failures directly spill over into budgetary expenditures, one should note allocations under economic classification 483 (Fines and penalties based on court decisions) amounting to EUR 212.5 million, and classification 485 (Compensation for damages caused by state bodies) amounting to EUR 89.3 million. Together, this represents more than EUR 300 million in direct costs for taxpayers, arising solely from unlawful, inefficient, or unprofessional conduct by state authorities.

Already in 2025, a substantial increase in wage costs is expected in education (39% compared to 2024), as well as in defence and transport (slightly above 20% each). In 2026, education wages rise by an additional 19%, and wage costs grow by more than 10% in public security and two smaller sectors (the labour market and debt servicing). It requires no expert analysis to understand that these increases are driven primarily by political objectives.

For the first time since 2017, a real decrease is projected in total general-government capital expenditures in 2026, falling from 7.1% to 6.7% of GDP. The decline is even greater (0.6 percentage points) when defence is excluded. The Fiscal Strategy explains this by stating that certain large projects are being completed while new projects have not yet reached peak spending. This explanation is not easily visible in the data.

Although no comprehensive presentation exists for all projects included in the informal "Leap into the Future" program, planned spending for projects above EUR 20 million can be found in Fiscal Strategies. Over a single year, their total estimated value increased by roughly EUR 820 million.

Projects linked to Belgrade Expo 2027, including the National Stadium (approximately EUR 3 billion total), are delayed by EUR 270 million in 2025, with a smaller delay expected in 2026 (about EUR 14 million). Additionally, around 10% of total construction costs are shifted into 2027 (14% when considering only EXPO and the National Stadium, about EUR 260 million), and part of the National Stadium spending is further shifted into 2028 (another 10%, around EUR 62 million).

Delays are also recorded in 14 additional projects, including the Belgrade–Budapest railway, with 6% of its value (roughly EUR 83 million) shifted into 2026. Conversely, 16 projects progressed faster than planned, some significantly, resulting in overall 2025 capital-expenditure realization exceeding the plan by about EUR 360 million.

The key concern with delays in projects tied to Expo 2027 lies in the enormous pressure to complete them on time for the World Exhibition, which heightens the tendency to bypass procedures and amplifies construction-quality risks, such as those that led to the collapse of the canopy at the Novi Sad railway station.

In the program to strengthen Serbia's competitiveness, the main issue is the completely unexplained budget line for "investments of special significance" (approximately EUR 217 million), which appears to serve as a de facto discretionary fund.

This effectively legalizes arbitrariness. That amount is an entire order of magnitude larger than the total investments in entrepreneurship support.

In fact, incentives (i.e., grants) allocated solely for Expo, around EUR 20.5 million, exceed all expenditures dedicated to entrepreneurship support, which is allocated only about EUR 16.5 million. Essentially, in this and previous Serbian budgets, entrepreneurship is treated as a form of social assistance rather than a development opportunity, while support for genuine social entrepreneurship is smaller than the administrative costs required to maintain the appearance of such a program (around EUR 0.4 million).

Recommendations:

- Urgently initiate the development of support programs for entrepreneurship and social entrepreneurship, which also requires prior development of the institutional framework that would sustain such support.[2]
- Enhance the effectiveness of support provided by AOFI by establishing a state guarantee fund for SME export. A dedicated guaranteed line of EUR 15 million would be sufficient to launch this fund.[3]
- The investments described above, as well as the correction of discriminatory tax treatment of SMEs, can be financed using tax revenues collected above planned levels, as well as through the unexplained competitiveness-support budget line mentioned earlier.

[2] CEVES, MSP100 Barometar, https://ceves.org.rs/wp-content/uploads/2024/10/CEVES_Barometar_MSP-Kompas_2024.pdf

[3] CEVES, AOFI inicijative, https://shorturl.at/XDRPY

6. Sectoral Needs and EU Preparation

There is still no indication of the radical preparation and adjustment required in the environmental sector, both for climate change, which is already affecting agriculture year after year, and for the regulatory changes taking place within the European Union. Given that Expo-driven investments are crowding out other priorities, even the recently increased, though still insufficient, investment in environmental protection is now in question.

Institutional strengthening is urgently needed across the board, but nowhere is this more visible than in the environmental sector, where a fundamental shift is overdue. Establishing a Green Fund, accompanied by a reform of environmental fees that would also include new charges under two tax laws related to the CBAM regulation (the Law on Greenhouse Gas Emissions Tax and the Law on the Tax on the Import of Carbon-Intensive Products), would be only a small but necessary first step.

There is likewise no sign of structural changes in other sectoral policies that have long required comprehensive reform, agricultural development, healthcare, education, and social protection among them.

7. Conclusion

Developing a long-term development vision and programmatic thinking requires years of preparation, and there is still no indication that such preparation is underway. Development plans and program-based policymaking are essential for decentralized institutional action. Without them, the state cannot effectively reach every part of society and every region of Serbia, identify the needs of diverse communities, and mediate in the selection of priorities.

Priorities must strengthen productivity and generate synergies across different sectors of the economy and society. Broad participation of citizens and the business community is essential to ensure that these priorities are chosen appropriately. Furthermore, implementing such programs requires even stronger institutions, capable of recognizing problems and acting with clearly defined goals, rather than relying on superficial indicators that currently dominate so-called program budgeting in Serbia.

Without strong and decentralized institutions, and without synergy in how all segments of society and the economy function together, Serbia cannot equip itself for membership in the club of European countries with high levels of income per capita, such as those in the European Union.