

# SERBIA



## AUSTERITY, SKEWED SPENDING PRIORITIES AND REGRESSIVE TAXATION UNDERMINE RIGHTS AND AN EQUITABLE COVID RECOVERY

### Introduction

This is a briefing document to accompany the joint submission by the A 11 - Initiative for Economic and Social Rights and the Center for Economic and Social Rights to the review of Serbia by the Committee on Economic, Social and Cultural Rights (CESCR). This document will provide a summary of the main findings as well as their recommendations to the CESCR.

In the joint submission, A11 and CESR seek to illustrate how the austerity measures introduced by the Republic of Serbia since 2014 violate its obligation to take steps to the maximum of its available resources with an aim to achieve progressive realization of all rights recognized in the Covenant. In the context of austerity, the inadequate measures taken by the government to respond to the COVID-19 pandemic have had a devastating impact on the rights to an adequate standard of living, social security and the right to housing in particular. Moreover the government's COVID response policy has exacerbated the unequal enjoyment of economic and social rights (ESR) by further widening the existing inequalities in Serbia. These inadequate policies have had a disproportionate impact on vulnerable groups in Serbia such as women, children, Roma, internally displaced persons, undocumented persons, migrants and refugees.

The submission aims to demonstrate why - in order to improve the realization of economic and social rights - significant changes to economic policy will be necessary, including reversal of austerity measures and the introduction of rights-based COVID-19 recovery measures.

### The economic context and economic policy in Serbia

In 2014, Serbia adopted a set of austerity measures as a result of the budget deficit and economic crisis. Some of these measures included (i) increases in regressive taxation - VAT, excise tax and the introduction of property taxes on social housing; (ii) reductions in pensions; and (iii) declaring "redundancies" in the public service which affected as many as 37,900 employees, and introducing a ban on new hiring in public sector. Notably the ban had a disproportionate impact on women because women are the majority of employees in the public sector. These measures were taken without the participation or consultation of the affected groups and in the absence of an overarching policy to alleviate the high levels of poverty in Serbia, especially among marginalized groups including Roma. There was a general lack of transparency around these budgetary decisions and these measures were taken despite clear evidence that they would have detrimental impacts on rights.

# VISUALIZING RIGHTS

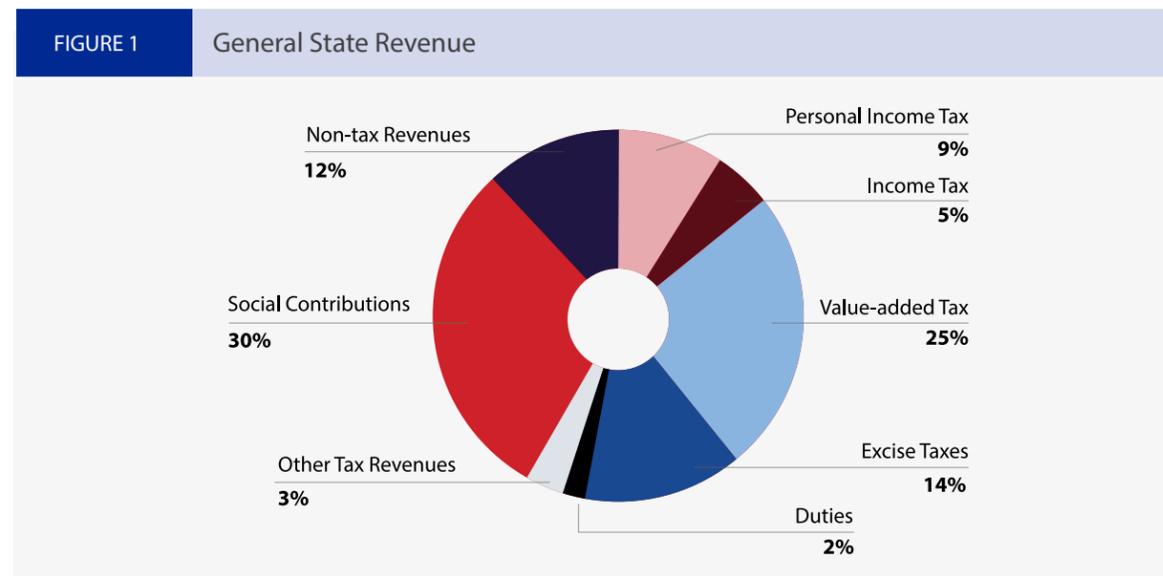
*Briefing on the Joint Submission to the Committee on Economic, Social and Cultural Rights on the occasion of the review of Serbia's third periodic report at the 71st Session, February 2022*



## Deficiencies and inequities in revenue-raising and resource mobilization

The government of Serbia has failed to adequately mobilize maximum available resources in a fair and progressive manner that allows for the realization of ESR. Currently, Serbia has a highly regressive tax system. For example, more than 40% of budget revenues come from taxes on production and imports - VAT, excise tax, and duties. As part of its austerity measures, the government also introduced a property tax on social housing, applicable to all social housing beneficiaries with a lease agreement longer than one year, including refugees and internally displaced persons. These revenues are mostly regressive in their nature and as a result they have a disproportionate effect on low-income households. They also affect the affordability of the right to housing as a whole.

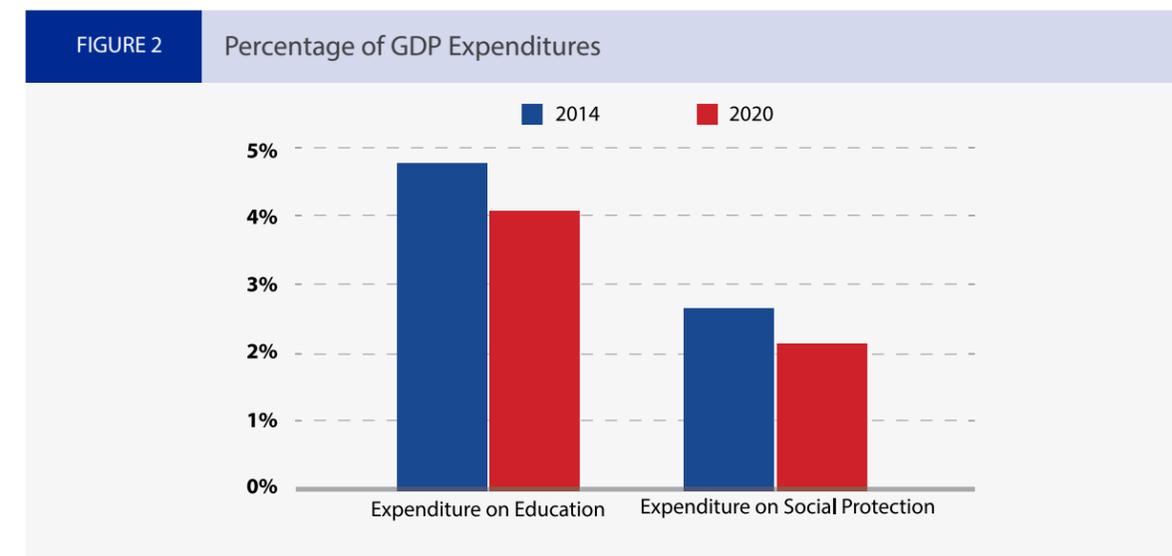
Meanwhile, more progressive tax measures are under-utilized. For example, inheritance tax is set at one of the lowest rates in Europe. Income tax is also not at all progressive, with comparatively flat rates which let high earners off the hook. To make matters worse, the government of Serbia recently introduced legislation exempting all those under the age of 40 from personal income tax; a massively regressive measure that has been criticized as a political tactic to gain government support before the upcoming elections. Meanwhile, the corporate income tax is set at 15%, a rate that is much lower than in comparable EU countries where the rate is 20.7% on average (for last year). Evidently, as it stands today, the tax mix in Serbia is highly regressive, as it disproportionately places the burden of raising tax revenues on the average and the more economically disadvantaged groups of the population, in comparison to their high income counterparts and corporate entities.



## Poor prioritization in budget allocation and spending choices

Public investment in education and health have declined in recent years. Public expenditure on education declined from 4.74% of GDP to 4.08% between 2014 and 2020, disproportionately impacting students from lower-income backgrounds. Capital investment in healthcare has been much lower than other Central and Eastern European countries for decades, and in 2022 the budget for these capital investments declined again. As a share of GDP, expenditure on social benefits has dropped from 2.63% in 2014 to 2.11% in 2020. Notably, social protection expenditure in Serbia is lower than the European average.

The government of Serbia has attributed the failure to allocate sufficient resources to the realization of ESR to the overall lack of resources. However, analysis of the state's spending choices in other areas however suggest otherwise. For instance, the government has significantly increased spending on the military (by more than 10 billion RSD). In addition, the state has lost significant resources which could have been channeled into the



realization of rights as a result of corruption and the misuse of public funds. Weaknesses in anti-corruption and transparency laws have enabled this problem to continue unabated.

Between 2016 and 2021, the government of Serbia failed to spend significant amounts of budgetary reserves towards their allocated purposes, including allocations to social assistance. For example, in 2016 a total of 1.7 billion RSD meant for social assistance was allocated to the Ministry of Defense and armed forces. In 2021, a total of 11 billion RSD earmarked for COVID-recovery were transferred to the Serbian Orthodox Church and other purposes, including the constructions of concert halls, and bonuses for staff members of the Ministry of Interior. Some of this budgetary malpractice is declared as a 'State secret', and is enabled by the Data Secrecy Law.

## Outcomes and impact on particular Covenant rights

Serbia has failed to progressively realize an adequate standard of living for everyone, and to meaningfully tackle poverty. Income inequality in Serbia is amongst the highest in Europe, with a Gini coefficient of 35.6. It is estimated that almost 22% of Serbians are at risk of poverty (almost 1.5 million people), while 6.8% of the population live in *absolute* poverty (469,000 people), without enough resources to meet their basic needs. The unemployment rate is over 11%. Despite this, in December 2021, a Government's poverty reduction and social inclusion unit was dissolved due to the failure to devote sufficient financing to its operation. Instead of taking steps to progressively realize the right to social protection, without discrimination, the Law on Social Protection and the Law on Financial Support to Families with Children have placed conditionalities on access to social protection schemes, based on the number of household members. These laws have a disproportionate impact on Roma families in particular, which tend to be larger on average.

After the onset of COVID-19 pandemic, Serbia introduced measures to assist individuals and businesses. However the state failed to establish interventions specifically aimed at disadvantaged groups such as those engaged in the informal sector, who were severely affected by the pandemic, and those especially affected by derogation measures during the state of emergency enacted as part of the Government's COVID response measures. These measures disproportionately affected undocumented persons, and those without registered permanent residence who are almost exclusively Roma. Many Roma people depend entirely on precarious forms of income from the informal economy and activities as they cannot access work in the formal sector without official documentation.

The social housing tax has a devastating impact on the enjoyment of the right to adequate housing. During their last country visit, the Special Rapporteur on the right to adequate housing called upon the state to abolish this tax. Serbia, however, has failed to do so. The right to housing is also undermined by the fact that currently there are Roma living in more than 700 informal settlements, with a huge number of them without electricity, water and sanitation, and access to basic services.

## Conclusion and Recommendations

Serbia is one of the most unequal countries in Europe, with persistently high absolute poverty rates, and with almost one-fifth of the population at risk of poverty. By failing to reverse the austerity measures implemented in 2014, Serbia is failing to devote its maximum available resources to progressively realize Covenant rights. The pandemic has only exacerbated poverty and inequality since the state has failed to devote sufficient interventions to assist members of the disadvantaged and marginalized groups such as women, children and Roma. It is clear from the spending choices of the state that it has sufficient fiscal space to comply with its obligations yet it has failed to do so. These choices are resulting in violations of the rights to social protection, housing and an adequate standard of living in particular and retrogression in steps taken for the realization of the rights to health and education. It is essential that Serbia rather adopt measures which will enable a rights-based recovery from the COVID-19 pandemic.

A 11 and CESR propose the following key recommendations (a complete list of recommendations can be found in the full submission):

- **Take action to end austerity, including by:**
  - Increasing expenditure on ESCR priorities such as health, housing and social protection, as a share of GDP, in line with national and international recommendations.
  - Reversing social protection laws that results in discriminatory coverage outcomes on minorities and vulnerable populations.
  - Prioritizing the needs of the most vulnerable individuals, families, and communities in social protection and housing and work towards the implementation of universal social protection and healthcare services.
- **Improve fiscal decision-making and align it with human rights, including by:**
  - Introducing progressive tax reforms which decrease reliance on regressive taxation and increase fiscal revenue in a fair and equitable manner, for example by increasing corporate income tax and making personal income tax more progressive. Meanwhile, consider reducing VAT on basic food and non-food items essential for rights, dignity, and gender equality.
  - Undertaking human rights impact assessments for fiscal policy decisions
  - Adopting a human rights-based Poverty Reduction Strategy and introducing a clear set of indicators and targets for measuring poverty reduction and social inclusion, and a system of monitoring of these targets

## About This Factsheet Series

This series is intended to contribute to the ongoing work of UN and other intergovernmental human rights mechanisms to monitor governments' compliance with their economic, social and cultural rights obligations. It is also intended to contribute to strengthening the monitoring and advocacy capabilities of national and international civil society organizations. Drawing on the latest available socioeconomic data, the country factsheets display, analyse and interpret selected quantitative indicators in light of key dimensions of governments' economic and social rights obligations. The factsheets are not meant to give a comprehensive picture, nor provide conclusive evidence, of a country's compliance with these obligations. Rather, they flag some possible concerns which arise when statistics are analysed and visualized graphically in light of international human rights standards.

## About the organizations

CESR is an international non-governmental organization that aims to transform the dominant economic system. Our vision is of a world in which a just distribution of resources and power enables current and future generations to live with dignity, in full enjoyment of their economic and social rights.

The A11 Initiative is a Serbian non-profit, non-partisan and non-governmental organisation which promotes and protects the rights of individuals from vulnerable, marginalized and discriminated groups, with a particular focus on economic and social rights.

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## Acknowledgments

This factsheet is based on a collective report submitted to the UN Committee on Economic, Social and Cultural Rights by CESR and A11 on the occasion of the 3rd periodic review of Serbia at the 71st period of sessions of the Committee. The collective report is available at [www.cesr.org](http://www.cesr.org) or [www.a11initiative.org](http://www.a11initiative.org) (also in Serbian).

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