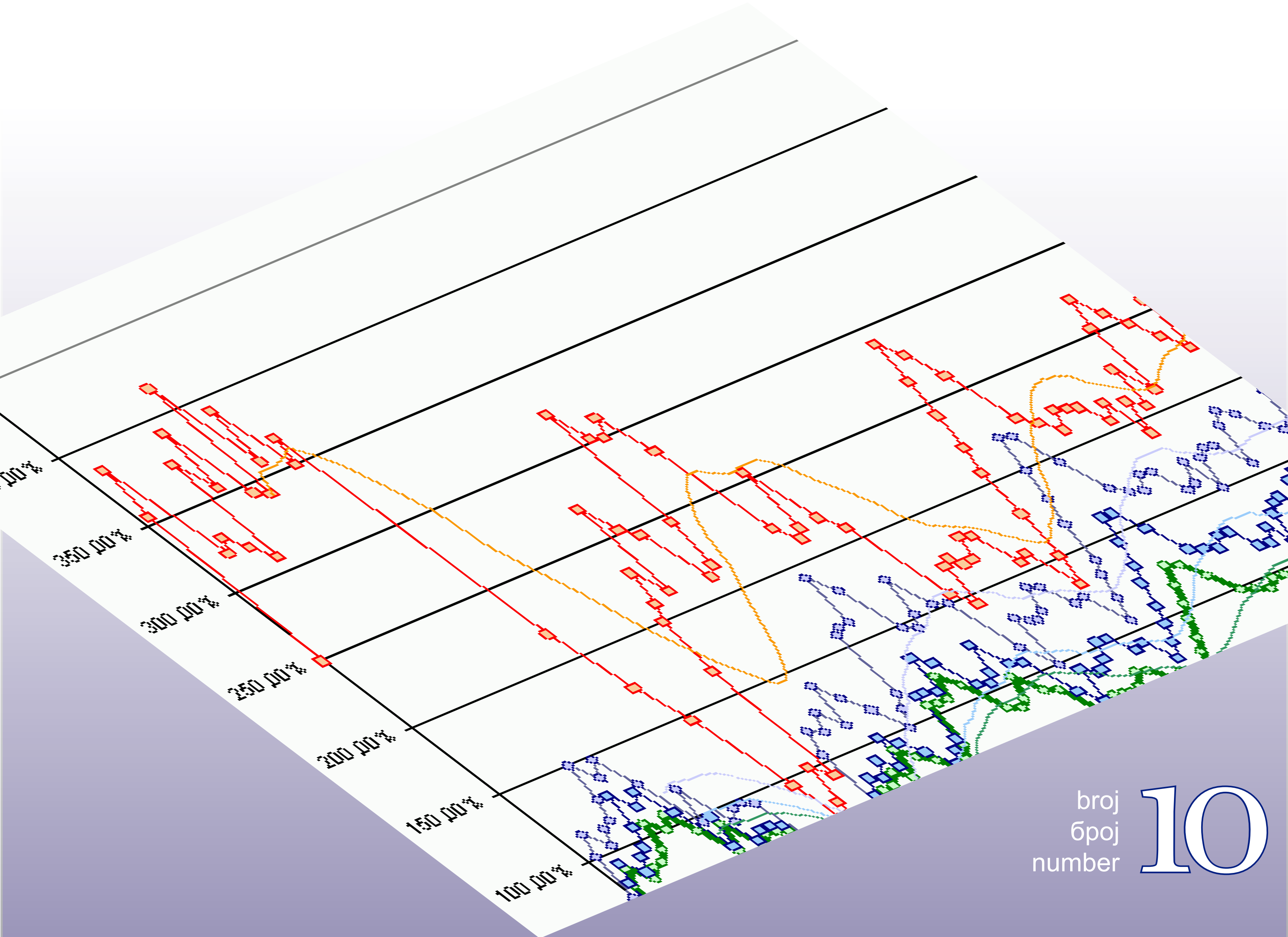
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-
neizravno oporezivanje

Босна и Херцеговина
Одјељење за макроекономску анализу
Управног одбора Управе за индиректно
опорезивање

Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

Oma Bilten



broj
број
number
10

• Maj 2006 • Svibanj 2006 • Maj 2006 • May 2006 •

With this issue…

The month of May was marked by discussions on first effects of VAT in BiH. We are pleased that great number of domestic and international institutions carefully analyzed our last issue of bulletin where we published the report on effects of VAT application in the first quarter of 2006. In order for these encouraging results of the fiscal reform in BiH to become sustainable, it's necessary to build analytical capacities and strengthen management structure of fiscal authorities in BiH. The International Community recognized that it's the right time to provide financial support on bilateral basis as well as to assist in building sustainable fiscal system and policy in BiH, which should guarantee fiscal and macroeconomic stability of the country.

As part of our regular column, we will present you analysis on collection of indirect taxes in April and compare it with the same period in 2005. Revenues from oil and oil derivatives are the most important source of revenues from indirect taxes. Trends in collection of these revenues are very unstable as it depends on few factors, primarily on world oil prices. The Unit prepared the impact analysis of world oil prices on collection of import revenues.

The Bulletin is open for all institutions and international projects working on reform of public finances and economic system in BiH. We are pleased to publish comments of the USAID GAP project in regards to new regulations on allocation of public revenues in entities.

In accordance with the recommendation of BiH fiscal authorities and institutions of international community, great number of cantons and municipalities are delivering timely monthly data on revenues and expenditures. We are continuing to publish consolidated monthly reports for fiscal operations of budgets entities and ITA Single Account in the month of April. For the first time since the system was established, we are providing you consolidated monthly reports for general government that include consolidated monthly reports of central governments (budgets of BiH, entities, Brcko District) and cantonal budgets for the first three months in 2006. In accordance with data being complete at cantonal level, we are also publishing consolidated monthly reports for some cantons in the Federation of BiH for the first three months and for the two months for Cantons with complete data. Data are complete of data at cantonal level when monthly data on revenues and expenditures were delivered by canton and all municipalities from that canton.

mr.sc. Dinka Antić
Head of Unit – supervisor

Table of contents:

News: Projects of support to the Unit	2
Collection of indirect taxes - April 2006	3
Price oil increase at the world market: impact on imports and public revenues in BiH	7
Allocation of public revenues in entities	11
Consolidated reports: general government	18
Consolidated reports: general government + cantons	19
Consolidated reports: cantons	20
Activities of the Unit	23

Translated by: Edin Smailhodžić

Banja Luka: Bana Lazarevića, 78 000 Banja Luka, Tel/fax: +387 51 335 350, E-mail: oma@uino.gov.ba
Sarajevo:Đoke Mazalića 5, 71 000 Sarajevo, Tel:+387 33 279 546, Fax:+387 33 279 625, Web: www.oma.uino.gov.ba

News: Projects of support to the Macroeconomic Analysis Unit – "Assistance in right time"

At the ceremony that took place on May 30th, 2006, two important project of the International Community were presented. The joint objective of these projects is to strengthen fiscal policy and analytical capacities in Bosnia and Herzegovina. In introductory speech, Mr. **Joly Dixon,** Chairman of the ITA Governing Board, emphasized that the assistance is being provided at the right time. Progress in reform of indirect taxes in the context of establishing ITA and Governing Board and introduction of VAT is great. However, it has to become sustainable and institutions of BiH must strengthen.

Ambassador **Michael B Humphreys**, Head of EC Delegation in BiH, briefly presented basic objectives of the project and emphasized that European partnership requires establishment of the Fiscal Council and adopting procedures for its efficient work. This includes strengthening coordination of economic policies at the country level. Strengthening of management and analytical capacities is necessary not only in context of stabilization and joining process but it will also give significant signal to foreign investors showing developed, coherent and stable economic policy.

On the occasion of presenting contract for funding the Unit of the ITA Governing Board, **Werner Almhofer,** Ambassador of Republic of Austria, emphasized that European Union is helping to establish and strengthen fiscal capacities in BiH through EU funds and bilateral agreements between EU members and BiH. Example of this support through bilateral agreements is donation of the Austrian Government to the ITA Governing Board.

On behalf of BiH authorities, Mr. sc. **Ljerka Marić**, Minister of Finance in BiH, expressed thanks to significant financial and expert assistance of EU. The Minister emphasized that the fiscal authorities in BiH want to improve fiscal policy in order to maintain macro-fiscal stability and development and growth of the country. In this context, the fiscal authorities will try to reduce public consumption and speed up releasing increasing revenues from taxes and use revenues to develop and satisfy needs of citizens and taxpayers in BiH.

from left: Ambassador Humphreys, J. Dixon, Ambassador Almhofer

Two year project with the value of 2 mill. EUR, will provide expert assistance from EU to the Macroeconomic Analysis Unit. This will be done through development of the Unit's fiscal capacities, and assistance in establishing the system for monthly reporting of all levels of the administration in BiH (state, entities, Brcko District, cantons, municipalities and extra budgetary funds). The contract between the government of Austria and ITA Governing Board envisages financing activities of the Macroeconomic Analysis Unit and establishment of the Governing Board secretariat in the amount of 225,000 EUR. During the next years of the project, financing will cover employment of key staff for these units, purchase of capital assets, and transfer of knowledge including training programs for the Macroeconomic Analysis Unit. The training will be provided by fiscal experts from the Austrian Ministry of Finance.

Collection of indirect taxes – April 2006

(Prepared by: Mr. Sc. Dinka Antić)

Introduction: Used methodology

Analysis of the collection of indirect taxes is based on data of:

- net cash inflow to the ITA Single Account[1]
- total collection of indirect taxes regardless level of the government that carried out the collection (ITA or entity governments)[2]

April is the second month in this year in which we have finalized VAT cycle and collection of all VAT revenue types (imports, based on VAT declarations, other) refunds paid to exporters who declared it in the declaration for February.

A. Analysis of total collection:

In April 2006, total net amount of 313 mil KM of indirect taxes was collected to the single account, which is 19% more than in the same month 2005.

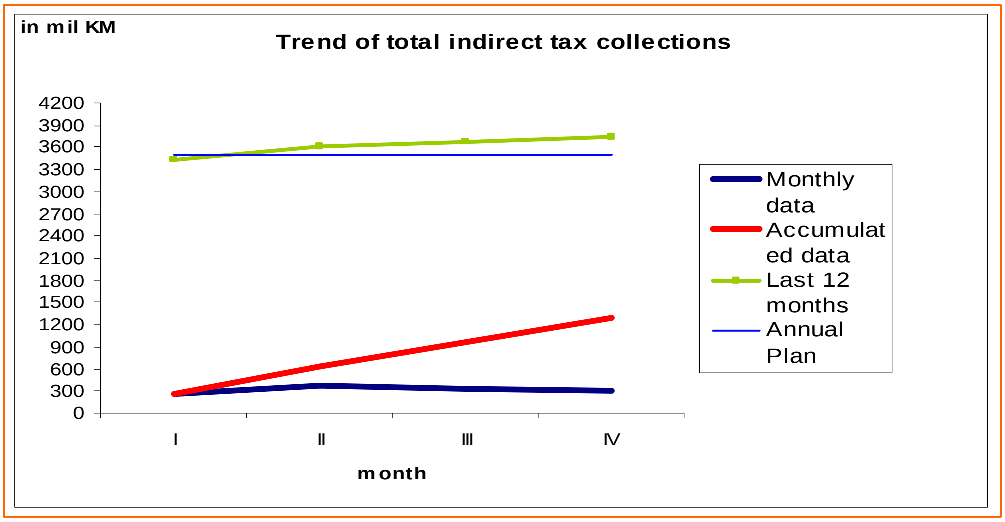


Chart 1.

[1] Gross VAT collection is: collection of VAT on imports, collection of VAT per declarations and other cases of single or enforced collection of VAT. Net VAT collections is obtained after deducting gross collection by the amount of refunds. Revenues from other indirect taxes are reduced for the amounts of refunds from the single account.

[2] more information about problems in reporting on collection of indirect taxes in the first year of VAT can be found in the bulletin no. 7

For four months in 2006, collected amount of indirect taxes was 1,279 mlrd KM in BiH or 35% more than in the same period 2005. ITA collected 1,212 mlrd KM or 88% and entity administrations collected close to 158 mil KM or 12%. This represents 32% of ITA annual collection plan and 35% of the annual collection plan for indirect taxes in BiH[3] for 2006.
Trend in total collection of indirect taxes is presented in the chart 1:

B. Analysis by types of revenues:

In April, we have continuous trend of decrease in revenues from customs and customs duties. In comparison with the same period January-April 2005, customs revenues decreased by 10.64%, which is mainly result of the application of the contract on free trade that was in a way suspended last year[4]. Trend continues in increase of revenues from excise and increase at this observed level is more than 10% compared to the same period in 2005. In comparison April/March, there was sudden increase of excise from oil and oil derivatives and imported beer. This is the result of large increase in imported quantities in comparison with March, 29% increase for oil and 39% for drinks. It should be mentioned that trend of increase for value of these imported goods is slower than increase for other imported quantities. There is also obvious decrease of excise from tobacco and tobacco products in April. However, from data for the first four months we can observe two month cycle of decrease and increase of excise, so we can assume that the collection of domestic excise from cigarettes is related to production and sales.

Comparison for collection of VAT and sales tax is possible only at the total level regardless what level of government collected this tax. In order to compare collection of VAT in 2006 with sales tax collection in 2005, it's necessary to add collection of lagging sales tax in entity accounts to VAT collection.[5] We can conclude that in April 2006 there was slight fall in VAT revenues in the amount of 9,2 mil KM or 4.5%. Reasons for the slight fall in VAT collection can be: (i) increase of refunds paid to exporters, (ii) declared VAT liabilities have not been paid[6]. In May, ITA will undertake first enforced collection actions to collect unpaid VAT debts.

Observed at the level of four months, the VAT/sales tax structure looks as follows:

Type of revenue	Competence	Amount	% Share
VAT	UIO	668.183	79.79%
Sales tax on excisable products	UIO	11.450	1.37%
	UIO total:	679.633	81.16%
Sales tax on other products and services	entities and BD	157.803	18.84%
	TOTAL	837.436	100.00%

If we wanted to make a comparison with collection of sales tax in BiH for 2005 (collected by ITA, entity administrations and Brcko District) it would be necessary to add the amount of sales tax collected by entities in 2006 to the amount of VAT and sales tax on excisable

[3] Plan for collection of indirect taxes in 2006 amounts 3,653 mlrd KM, out of which is 3,503 mlrd KM from the single account. Collection plan was adopted by the Fiscal Council in October 2005. More on this in the bulletin no. 3.

[4] when it relates to import of certain products from Croatia and Serbia and Montenegro.

[5] More information on methodology for comparative reporting on collection of indirect taxes in 2006 can be found in the Bulletin no. 7

[6] On April 25th, 2006, total VAT debts of taxpayers was close to 25 mil KM. Just for comparison, in the end of March debt was 11,4 mil KM. Another 3,741 debtors were registered and 153 taxpayers owe 66% of the total debt.

products collected by ITA. Total amount of sales tax and VAT collected by the end of April 2006 was 837,4. It represents 63% more than sales tax collected in BiH for 2005.

C. Collection of lagging sales tax in 2006

Very high collection of lagging sales tax deserves special attention. According to data available for four months in 2006, tax administrations of the BiH Federation and RS, and Brcko District Revenue Agency collected around 158 mil KM of lagging sales tax from 2005. It's interesting that the collection of lagging sales tax in January 2006 is higher in both entities than in January 2006. It is also higher than some other months in 2005 although January and February are regularly "poorest" months for indirect taxes. This is even more surprising because collection in January should include only collection of sales tax from the last week of December 2005.
This trend can be seen in the following chart 2:

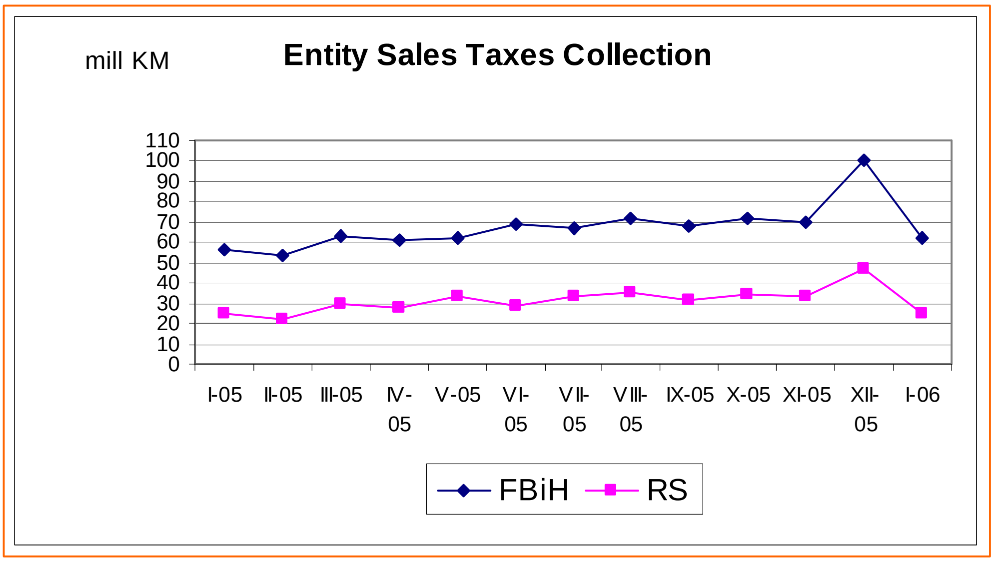


Chart 2.

According to the regulations that were valid in 2005, sales tax was paid every 7 days. It could have been expected that lagging sales tax will be collected in 2006 for declarations from the last week of December, postponed sales tax on services that some public utility companies were entitled to (up to 90 days) and sales tax from companies that provide services continuously. However, these reasons can not fully explain high collection of sales tax in January 2006 that exceeds amount of sales tax collected in January 2005 in both entities.

It is interesting to look at the structure of collected sales tax. In 2005, entity had competencies to collect:

- Sales tax on products – higher tariff (PP VT) 20% (except sales tax on excisable products-that was competency of ITA),
- Sales tax on other products – low tariff (PP NT) - 10% and
- Sales tax on services – 10%

From the data available showing the structure of sales tax collected in RS, we can conclude that the structure of sales tax collected in 2006 was significantly shifted in favor of sales tax on services.

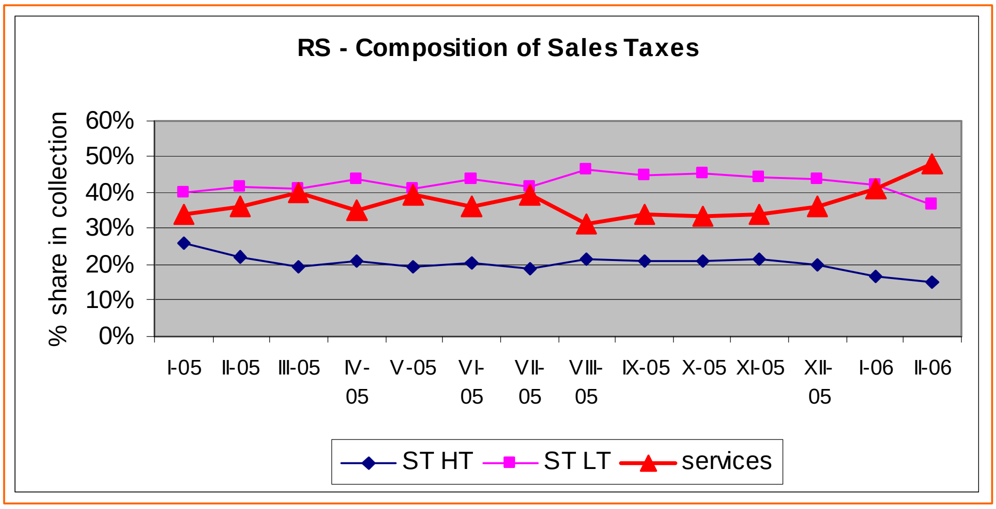


Chart 3.

This gives us a clear message that part of services to be delivered in 2006 were invoiced in 2005 using rate of 10% sales tax in order to avoid VAT with higher rate of 17%. In the structure of sales tax in January, there is relatively high share of low tariff sales tax and decreased share of other products belonging to high tariff. We can make conclusion that part of enormous import of low tariff products were sold-invoiced before the end of December 2005 in order to avoid higher VAT rate.

According to the provisions of the Law on VAT, all taxpayers should have invoiced all deliveries of goods and services by December 31st, 2005 and calculate sales tax. Final deadline for payment of sales tax for sales invoiced before December 31st, 2005, was June 30th, 2006. So, in June this year, we can expect more inflow of sales tax from regular activities in 2005 and later on only through enforced collection of sales tax.

D. Conclusion:

Besides good results in collection of indirect taxes, especially VAT, a slight fall in collection of VAT in April confirms experiences of other counties in the sense that VAT revenues in the first year oscillate and are quite unstable. This should be reason for additional care for allocation beneficiaries when it comes to spending of extra funds that are result of the VAT introduction.

Increase of world oil price: impact on imports and public revenues in BiH

(Prepared by: Ognjen Đukić, Macroeconomist in the Unit)

Oil at world market

World oil price has been increasing almost constantly for the last 2,5 years. Oil price is closely related to ratio between supply and demand as well as to expected ratio of these two elements. Historically, most dramatic changes in oil prices are related to supply disturbances. Examples of such disturbances are war conflicts in the Middle East such as wars between Israel, Syria and Egypt ((1973-1974) and Iran and Iraq (1980-1988). Impact of these events on oil price can be illustrated by the fact that oil price in 1974 was almost four times higher than in 1972. This price even doubled in the period from 1978-81, representing one of main indicators for recession of the world economy in 70-ties.

The last increase of world price oil that still lasts is explained with number of different factors such as USA attack on Iraq (2003), reduction of production quotas of OPEC countries, hurricanes that interrupted oil production (2004), tensions in the Middle East and increasing demand for oil from Asian countries. However, today's world economy is considered to be more resistant to such energy price shocks, which is proved by relatively smaller and economic disturbance than in 70ties. This "resistance" is usually explained by development of new flexible technologies that are less dependent on one source of energy, and by experiences on reactions to such shocks.

Oil imports to BiH

We don't have to mention that Bosnia and Herzegovina is not able to influence world oil price. This can be clearly seen in the Chart 4, showing trend of world oil price with import price in. From this graph, you can see how import oil price in BiH follows world price trends.

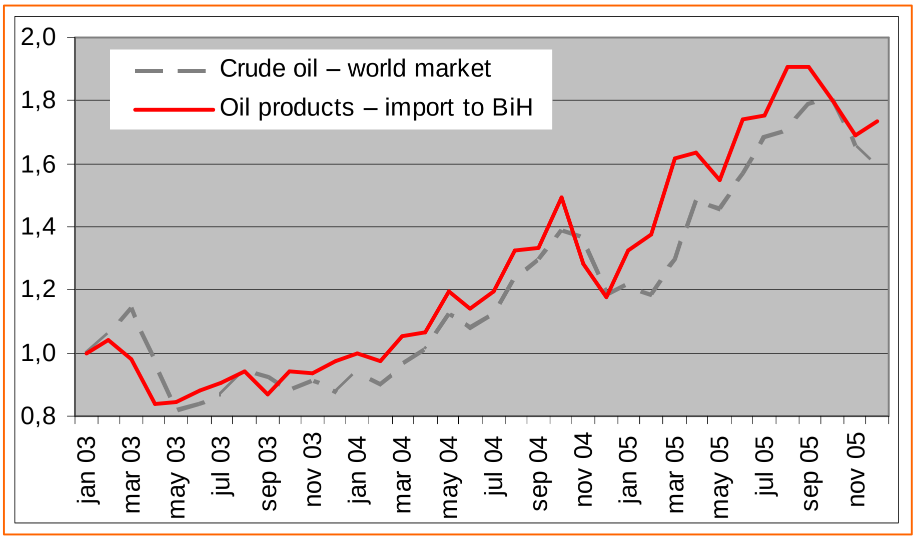


Chart 4. Oil price index, 2003=1

Source: Organization of petroleum exporting countries (OPEC) and Indirect Taxation Authority

World oil price had impact on imported quantities of oil products in BiH. Chart 5 shows ratio of price trend and quantity of imported oil. It suggests existence of so called negative price elasticity in terms of high price discourages oil consumption and imports to BiH. In making conclusions on size oil price impact on its import, we should be careful because there are other factors that influence on quantity of imported oil to BiH. These are seasonal influence, import fluctuations and GDP growth.

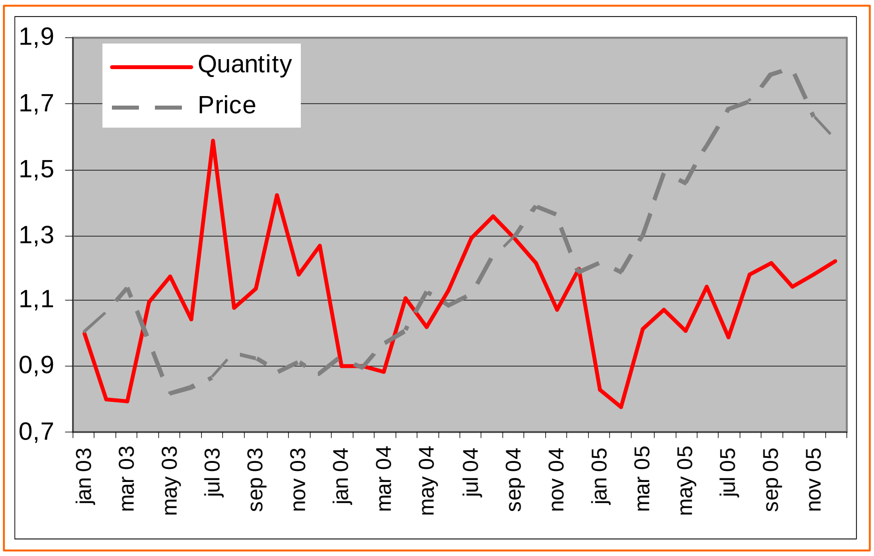


Chart 5. Import of oil[7] in BiH, index, 2003=1
Source: Indirect Taxation Authority in BiH

As part of this analysis, data were corrected to remove seasonal influence and GDP growth. So, monthly import time series was de-seasoned by applying method of X12 moving average, and then corrected for the amount of GDP growth. The following assumptions were made: 1) seasonal influences, GDP growth and import price are three basic factors that have impact on quantity of imported oil, 2) there is unit elasticity between GDP change and quantity of imported oil.

After these corrections, the result of elasticity coefficient was -0,29953, which tells us that oil price increase of 1% causes reduction of imported quantity by 0,29953%. This indicator shows relatively no elastic but significant influence of oil price on quantity of imported oil. So, we can make a conclusion that increase of world oil price resulted in decrease of oil products consumption in BiH. The size of this effect in 2005 was estimated in range of 70 to 95 thousands of tones less imported than quantity that would have been imported if all conditions remained unchanged. Significant price increases cause decrease of consumption in short term through current savings, but also in long term, through development of new products that consume less such as more economical cars, improved heat isolation of premises, but also development of new more flexible technologies in terms of energy, usage of alternative sources of energy etc.

Interesting results in this analysis were obtained after doing same calculations individually by groups of excisable products: unleaded motor fuel (BMB), motor fuel (BM), diesel and heating oil. This analysis showed these individual products had significantly different coefficients of price elasticity:

- BMB: -0,29159
- BM: -0,96557
- Diesel: -0,15413
- Heating oil: -0,28685.

[7] Tariff number 2710

BM shows highest price elasticity (almost 1). This means that imported quantities for this group of products are most affected by price impact, while diesel has lowest price elasticity. One of possible explanations for this phenomenon is that oil consumers are trying to use more economic fuels like diesel and not BM. In this way, there is gradual substitution between these two products and consumption of diesel decreases less slow by price increase. Chart 6 shows comparison of imports for these two products.

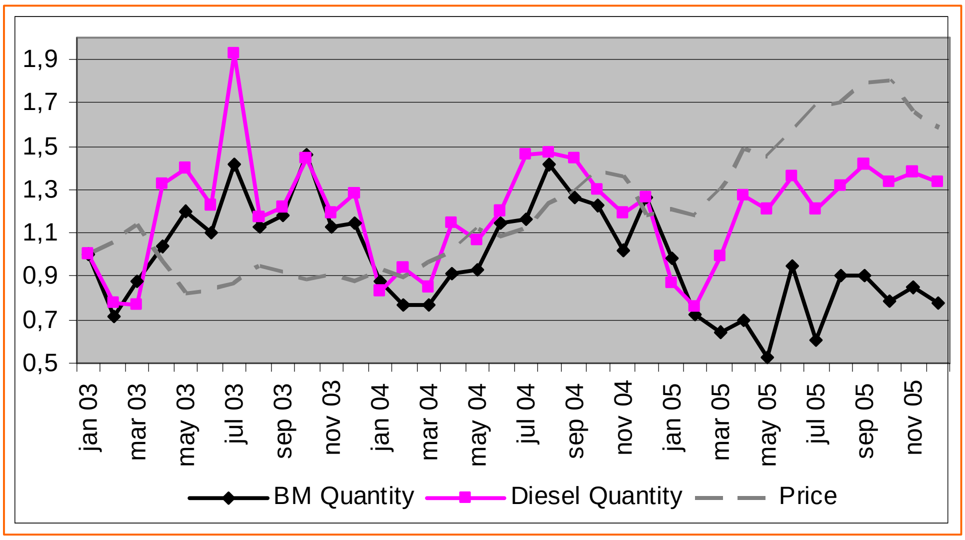


Chart 6. Import of oil to BiH, index, 2003=1

In 2005, there is split in import patterns of BM and diesel. It's hard to conclude if this trend is exclusive consequence of different reactions to fast price increase for these two products or some other reasons could have made impact in 2005.

Effects on public revenues

The question arises on what effect world oil price had on public revenues in BiH. This analysis considered oil price impact on the following types of revenue: customs, excise, road tolls and sales tax. The analysis is limited on effects in 2005, the year when oil price increase was highest. It tries to provide answer to the following question: How much did public revenues from oil imports in BiH decrease or increase in 2005 compared to the one that would have been collected if oil prices remained as in 2003? **Results of such analysis should be taken with care and be understood as estimates** given the constraints of used data and limited number of factors that were considered. It's also because of certain assumptions that were explained earlier in the text.

As a first step in analysis price impact on revenues from imported oil, excise and road toll can be taken on one side as duties related to quantity of import. On the other side, we can take customs and sales tax as duties paid according to the value of import. It's not hard to figure that price increase through decrease of imported quantities has bad impact on revenues from excise and road tolls. This impact was positive for customs and sales tax due to increase in price and value of import[8].

[8] Positive effect on revenues from sales tax would not have been possible only in the case if coefficient of price elasticity was close or less than 1, which is not case in BiH.

Analysis was made for individual groups of products: BMB, BM, diesel and heating oil. The results are summarized in the Table 1.

	u mil KM				
	Customs	Road tolls	Excise	Sales tax	Total
BMB	0,76	-3,14	-7,33	5,13	-4,57
BM	0,01	-2,85	-7,61	-1,93	-12,39
diesel	2,43	-5,27	-10,58	24,68	11,26
heating oil	0,38	0,00	-3,66	4,23	0,95
Total	3,58	-11,26	-29,17	32,11	-4,74

Table 1. Price increase effects (2003-2005) on revenues from oil imports in 2005

As expected, the table shows that price increase had positive effect on revenues from customs and sales tax and negative effect on revenues from road tolls and excise. Positive and negative effects are almost equal, so total negative effect on revenues is estimated to be a bit less than 5 mil. KM.

It can also be observed that revenues from diesel had highest positive effect due to its relatively low price elasticity. Price increase had relatively low impact on decrease in diesel imports and excise revenues. The same price increase increased value of imported diesel and sales tax revenues. In other hand, high prices had most negative effect on revenues from BM due to its high price elasticity.

Revenue projections for indirect taxes in 2006 that were prepared by the Macroeconomic Analysis Unit in April this year correspond to the results of analysis. The projection took care of historical trend in revenues, seasonal patter and revenues for the first three months of the current year. In accordance with these parameters and taking into consideration that there are no signals showing possible change of trend for world oil price in short term, the projection for growth of excise revenues is low 3.7% compared to 2005. In other hand, it is expected that positive effects on increase in value of imported oil will move revenues from VAT in the next period and annul negative effects on excise revenues.

Allocation of Public Revenues in the entities: „The FBiH Law on the Allocation of Public Revenues and the Recent Amendments to the RS Budget Systems Law"

(prepared by: Tony Levitas, Jasmina Đikić, Brankica Lenić, USAID-GAP)

Introduction:

During the month of April 2006, FBiH authorities adopted the Law on the Allocation of Public Revenues and the RS National Assembly accepted amendments to the RS Budget Systems Law. These reforms were designed to make the fiscal systems of both entities more transparent, predictable and fair and will significantly change the way public funds are allocated in BiH.

In August 2004, the USAID-Sida funded Governance Accountability Project (GAP) began work with the FBiH and RS Ministries of Finance, members of both Parliaments, and representatives from the respective Municipal Associations to design a new systems of sub-entity finance in both entities. Parallel Working Groups on Intergovernmental Finance Reform were created. All stakeholders were represented in each Working Group and for both GAP served as a technical secretariat, collecting data and preparing policy options.

The main goals of the Working Groups were to use the necessity of sub-entity fiscal reform created by VAT implementation to correct some of the problems of the existing systems. Specifically, the Working Groups wanted to introduce some measure of fiscal equalization for both cantons and municipalities; harmonize municipal finance regimes across cantons; and improve the overall fiscal position of municipalities. The Working Groups also assumed that the new systems of sub-entity finance would be phased in over time so that no sub-entity government experienced budgetary shocks when the intergovernmental finance systems changed.

I. Intergovernmental Finance in FBiH before the Implementation to VAT

Up until 2006, sub-entity finance in the Federation was based primarily on the sharing of two taxes, the wage tax and the sales tax. In both cases, Parliament set the base and the rates of these taxes, but assigned a hundred percent of their yields to the cantons. The cantons in turn, then assigned different shares of these taxes to their municipalities. On average, about 70 percent of all cantonal revenues came from sales tax, and 10 percent from the wage tax, while about 20 percent of municipal revenues came from sales tax, and about 10 percent from the wage tax.

This system of sub-entity finance had a number of serious consequences for the fiscal coherence and sustainability of the Federation. The first consequence was that because sales and wage taxes were allocated to cantons entirely by origin –on the basis of where the taxes came from-- there was no mechanism for redistributing resources from fiscally stronger cantons to weaker ones.

The lack of any mechanism for fiscal equalization resulted in very significant differences in the per capita revenues (and expenditures) of cantons and municipalities. For example, Sarajevo Canton had more than four times the per capita revenues of both Central Bosnia and Livno Cantons. Worse, differences in the per capita revenues of Federation municipalities exceeded 20 to 1. These differences meant that many sub-entity governments could not provide their citizens with public services of reasonable quality. And this lack of fiscal equalization was also in direct violation of the European Charter of Local Self-Governments, to which BiH is a signatory.

The second major problem caused by this system of sub-entity finance was that each canton was sharing different percentages of wage and sales taxes with its municipalities. Indeed, with the exception of Sarajevo Canton –which shared no wage or sales tax with its local governments and instead financed them with annually determined grants—each canton shared *different percentages* of *different types* of sales taxes with it municipalities. As a result, not only did the Federation have ten very different local government finance systems, but these systems were typically extremely complex, non-transparent, and unpredictable from year to year.

A third problem created by the way lower-level governments were financed in the Federation was that the municipal sector as a whole was under-funded. This can be seen by comparing municipal revenues as percentage of GDP in the Federation –4.1 percent in 2003—with the same figure in other countries where municipalities have been assigned similar expenditure responsibilities. In Croatia, for example, the figure was 5.6 percent in 2003, and in Serbia over 7 percent.

Finally, the creation of the Single Account and the implementation of the VAT reforms meant that the single most important pillar of the Federation's system of sub-entity finance – shared sales taxes— would disappear on January 1, 2006. From January 1st, 2006, all revenues from indirect taxes would flow into the Single Account.

First, the State would take its share. Then the rest would be divided between the RS , the BD and the Federation on the basis of final consumption. But the question remained, on what basis, and with what mechanism should the Federation "replace" the sales tax revenues lost by both cantons and municipalities?

This question was all the more pressing because it was both impossible and undesirable for the Federation to allocate Single Account monies to sub-entity governments on the basis of final consumption, as was being done between the entities. Impossible because tracking final consumption across cantons, to say nothing of municipalities would have been an overwhelming administrative task for both the entity and entrepreneurs.

In fact, BiH is already the smallest, and perhaps the only country in the world that tracks VAT on the basis of final consumption. Extending the system downward to cantons and municipalities would have been a nightmare for taxpayers and the ITA alike. Equally importantly, such an effort was undesirable because it would have left the Federation without any mechanism for the fiscal equalization that it so badly needs.

II. Explanation of Key Articles of the Law

Article 6 of the Law assigns specific percentages of the Federation's share of the Single Account to the Federation, cantons, municipalities and the Road Fund. The assignment of specific (vertical) shares of Single Account Revenues guarantees each level of government a transparent and predictable revenue stream that should grow with the economy. It also ensures that municipalities get their share of the Single Account directly from the Federation, and not as was the case with sales tax, from cantons. As a result, the new law will help harmonize the Federation's municipal finance systems.

The determination of how much of the Single Account each level of government should get, was made by calculating how much sales tax was retained by cantons and municipalities in 2005. Once the Fiscal Council had estimated the yield of the Single Account in 2006, and the 2006 State and Federation budgets had been projected, these values were converted into percentages of the Federation's of share of the Single Account. This exercise yielded a cantonal share of about 51 percent and municipal share of about 6 percent.

Parliament then increased the municipal share to 8.42 percent, by lowering the shares going to the Federation and the Road Fund. This was done to strengthen the overall fiscal position of municipalities in the Federation. Assuming that the Single Account performs as projected, the additional 2 percent share of the Single Account will increase municipal revenues by about 35 million KM and raise the percentage of municipal revenues coming from indirect taxes from 20 percent to over 25 percent.[9]

Articles 9 and 12 of the Law define formulas for how cantonal and municipal shares of the Single Account will be allocated to individual jurisdictions. These formulas are designed to introduce some measure of fiscal equalization at both levels of government. The formulas for allocating funds to cantons and municipalities are similar but not identical.

The most important variable in both formulas is the number of people estimated to be living in each jurisdiction. This is in line with the intergovernmental finance practices of all EU members states and is based on the fact that population is the single best comparative measure of the costs a local government must incur to meet its expenditure responsibilities. The most recent population estimates published by the Federation's Statistical Office will be used in the formulas, as they were used, for example, in the allocation of sales tax revenues from excisable goods in 2005. It is also worth mentioning, that the population data used in such formulas around the world are always *estimates* because populations are constantly shifting with births, deaths and migration.

Fifty seven percent of the cantonal share of Single Account revenues will be allocated to cantons on the basis of their populations, while the corresponding figure for municipalities is 68 percent. If the Single Account performs as expected this will amount to about 185 KM per person for all cantons, and about 40 KM per person for all municipalities. Municipalities with populations of over 60,000, however will receive an additional 20% percent per capita because of the greater costs associated with maintaining and improving urban infrastructure. This use additional 'weights' or coefficients for urban jurisdictions is in line with EU practice.

Six percent of the cantonal share, and 5 percent of the municipal share of Single Account revenues will be allocated to sub-entity governments on the basis of square kilometers in each jurisdiction. This amounts to an estimated 1900 KM per square kilometer for cantons and 280 KM per square kilometer for municipalities. Again, variables for area are often used in allocation formulas as a proxy measure for "rurality", meaning the additional costs of providing public services to dispersed settlements and sparsely populated areas.

Thirty-seven percent of the cantonal share, and 20 percent of the municipal share of the Federation's Single Account revenues will be allocated on the basis of the number of pupils enrolled in a jurisdictions primary and secondary schools. The enrollment data used in the formula for 2006 is based on the data published by the Federation Statistical Office for the school year 2005-2006. With the exception of 2007, the data should be updated every year using the data for the year two-years prior to the coming year (e.g. 2006 data will be used to update the 2008 allocation).

[9] The drafters of the Law expect that municipalities will use this additional revenue to increase capital investments and/or pay off debts to suppliers and contractors, but not to raise wages or expand employment.

Of the 37 percent allocated to cantons on the basis of school enrollment, 24 percent will be based on the number of primary school pupils and 13 percent on the number of secondary school pupils. This amounts to an estimated 740 KM for primary school pupils and 880 KM secondary school pupils. For municipalities only primary school pupils are used. They will receive an estimated 110 KM per pupil. However, in cantons where municipalities have been made fully responsible for the costs of maintaining and improving primary school facilities, pupils will be counted 1.5 times.

Seven percent of the municipal share will be allocated to municipalities on the basis of an index of development. The development, or fiscal capacity index has been calculated by dividing the per capita yield of all personal income related taxes (wages and Citizens taxes) as well as all sales taxes (without excisables) in each municipality in 2005, by the average per capita yield of these same taxes in the entity as a whole in 2005.

The data used to calculate the index is from the RAS system on public revenues. In future years, a decision will have to be made about whether to calculate the index solely on the basis of the (expected) new PIT tax, or in some other way. What is important, however, is that the index remain based on measures of relative fiscal capacity since this is in line with standard EU practice and is considered by public finance experts the most reliable measure of additional need ('under-development').

All municipalities whose index ranking is less than 80 percent of the national average will receive funds through this component of the formula on a weighted per capita basis. Using the official projections of the Single Account revenues, the base per capita amount for equalization is estimated to be about 6 KM. But municipalities whose ranking is less than 20 percent of the national average will receive 1.8 times base amount. Municipalities whose ranking is between: 20 and 40 percent of the national average will receive 1.6 times; between 40 and 60 percent, 1.4 times; and between 60 and 80 pecent, 1.2 times.

Article 9 of the Law also defines special coefficients for Sarajevo, Gorazde and Livno Cantons. These coefficients are designed to reflect the particular circumstances of these cantons. Sarajevo Canton's share of the Single Account will be multiplied by a factor of two, in part because as the capital jurisdiction of the entity Sarajevo Canton provides many public services to people living in other parts of the Federation. And in part because most of the resources being redistributed "originates" in Sarajevo, as the wealthiest canton.

Gorazde Canton's share of the Single Account revenues will be multiplied by a fact of 1.8 to reflect the fact that it is the poorest canton. And Livno Canton's share of the Single Account revenues will be multiplied by a factor of 1.1 to reflect the fact that it is among the poorest and most sparsely populated canton.

To ensure that the formulas do not create budgetary shocks for any individual sub-entity government, Article 20 of the Law states that both the cantonal and municipal formulas will be phased in over 6 year period. This has been done by converting the amount of money each sub-entity government received from sales tax in 2005 into a "historical" share of the Single Account revenues. This "historical" share was then "weighted" against the formula-driven share of each sub-entity government in order to guarantee a smooth transition to the new system. In 2006, the share of the Single Account revenues that all sub-entities receive will be based 90 percent on their historical share and 10 percent on their formula driven share. In 2007, 2008, 2009 and 2010 the proportions will be shifted annually to: 70-30; 50-50; 30-70; and 10-90. In 2011, only the formula driven share will be used.

Article 10 of the Law, requires that all cantons --with the exception of Sarajevo Canton (see below)-- share a minimum 28.5 percent of the wage tax with their municipalities on an origin basis. This is the average rate that all cantons shared with their municipalities in 2004, not including Sarajevo Canton.

This provision of the Law is designed to harmonize the municipal finance systems of the Federation and to ensure that all municipalities have the revenues they need to provide public services at a reasonable standard. Cantons that have been sharing less than the new 'minimum' wage tax share with municipalities will have to adjust their legislation to meet the new standard. Cantons that have been sharing more than new share may want to review their policies.[10]

The sharing rate for the wage tax will have to be adjusted, if the wage tax is replaced –as expected—by a new Personal Income Tax. The rate and the base of the new personal income tax will effect how much money sub-entity governments get from their shares. And the minimum PIT share for municipalities will have to take into account the fact that the implementation of the personal income tax will be accompanied by the elimination of the Citizens Taxes that many cantons currently share with their municipalities.

It is important to note, that Article 22 of the Law states that the municipalities of Sarajevo Canton will not receive funds directly from the Single Account. Instead, the amount of Single Account monies calculated for the municipalities of Sarajevo Canton will be transferred to the budget of the Canton, and canton policy makers will continue to decide on how to finance Sarajevo's local governments. The same article also exempts Sarajevo Canton from sharing any wage tax with its municipalities.

The exceptional treatment of Sarajevo Canton under the law was necessary because of the complicated nature of the division of expenditure responsibilities between Sarajevo Canton, the City of Sarajevo, and the municipalities of Sarajevo, and because Sarajevo Canton still provides most of the public services that have elsewhere been devolved to municipalities. The nature of this exceptional treatment of Sarajevo Canton will have to be reviewed if expenditure responsibilities within the canton are reapportioned between the Canton, the City of Sarajevo and the municipalities of Sarajevo.

Finally, Article 14 defines procedures for adjusting the law if significant expenditure responsibilities are transferred between levels of government within the entity or between the entity and the state. The principle stated in this article is that adequate funding must follow any shift in expenditure responsibilities, and that it is the Federation Ministry of Finance that propose to Parliament how the share of the Single Account flowing to the level of government that has been newly assigned the function should be adjusted.

III. Intergovernmental Finance in the RS before the Recent Amendments to the Budget Systems Law

Up until the passage of the recent amendments to the RS Budget Systems Law, municipal revenues in the RS were highly dependent on shared wage and sales taxes. About 50 percent of all municipal revenues came from shared sales tax, and about 20 percent from shared wage tax. As in the Federation, both the wage and the sales taxes were shared with

[10] Legislators hope that cantons that have historically shared more of the wage tax will continue these policies, because it is precisely these cantons that have already assigned more expenditure responsibilities to their municipalities.

local governments on an origin basis, but in the RS all local governments were given a 25 percent share of the wage tax.

Equally importantly the RS government –unlike the Federation—had an equalization mechanism for municipal revenues. This mechanism was based on assigning different groups of local governments different shares of the sales taxes depending on their level of 'development'. The problem with this mechanism, however, was that it didn't work very well.

The first problem was that the measures used to determine a local government's 'level of development' were complicated and poorly related to fiscal capacity (relative wealth). The second problem was that the coefficients assigned to different measures of 'development' were open to political bargaining and frequently changed, often leading to significant swings in the revenues of individual local governments from year to year.

But the most important problem was that mechanism resulted in very little fiscal equalization: Assigning even very high shares of sales tax to fiscally weak local governments did not provide them with very much additional money because even a 100 percent of very little, is very little. Thus, disparities in the per capita revenues of municipalities in the RS exceeded 15 to 1, and the fiscally weakest jurisdictions actually received less equalizing money for additional increments of shared sales tax than fiscally stronger ones

Moreover, and as in the Federation, this system of municipal finance would have to change with the implementation of VAT and the elimination of the sales tax. In other words, it was imperative that the RS government develop a way to replace lost sales tax at the municipal level, as well as to develop a new and more effective equalization mechanism, precisely because this mechanism was also based on shared sales tax.

IV. Explanation of the Amendments to the RS Budget System Law

Article 3 of the Law assigns specific percentages of the RS's share of the Single Account to the RS, municipalities and the Road Fund. After deducting the RS external debt obligations, 73.5 percent of the RS's share of the Single Account are retained by the entity, 23 percent are shared with municipalities and 3.5 percent goes to the „Public Company Republic of Srpska Roads" These shares guarantee each level of government a transparent and predictable revenue stream that should grow with the economy.

Article 3 of the Law also defines the formula used to allocate the municipal share to individual local governments. This formula is designed to introduce some measure of fiscal equalization at the municipal level. Funds received through the formula are general transfers and can be spent by local governments as the choose, and in compliance with their budgets.
The most important variable in the formula is the number of people estimated to be living in each jurisdiction. Seventy five percent of municipal share will be allocated to municipalities on this basis.

This is in line with the intergovernmental finance practices of all EU members states and is based on the fact that population is the single best comparative measure of the costs a local government must incur to meet its expenditure responsibilities. The most recent population estimates by the RS's Ministry of Governance and Self-governance will be used in the formula, as they were used, for example, in defining local governments level of development in 2005.

Five percent of the municipal share will be allocated to municipalities on the basis of the area of the local government, fifteen percent will be allocated on the basis of the number of pupils in secondary schools, and five percent will be allocated on the basis of the number of pupils in primary schools. The enrollment data used in the formula for 2006 is based on the data published by the RS Ministry of Education for the school year 2004-2005. The data should be updated every year using the data for the year prior to the coming year (e.g. 2005/2006 data will be used to update the 2007 allocation).

Article 3 of the Law also defines special coefficients to reflect the particular circumstances of specific local governments. For local governments that after the application of the formula, achieve, at the end of the period stipulated in Article 3. a decline in revenue of more than 10% in comparison with their 2004 revenues additional coefficients will be applied to all the criteria. These coefficients are: Banja Luka 1.60; Gacko 1.40; Istocni Drvar 10.50; Donji Zabar 3.70; Petrovac Drinic 2.00; Ostra Luka 1.40; Laktasi 2.25; Han Pijesak 1.45; Istocno Novo Sarajevo 1.50; Pale 1.22; Ljubinje 1.20; Bijeljina 1.10; Sokolac 1.10; and Istocna Ilidza 1.05.

To ensure that the formula does not create budgetary shocks for any individual government, Article 4 of the Law states that the system of revenue allocation shall be phased in over a six year period. This has been done by converting the amount of money each local government received from sales tax in 2004 into a "historical" share of the Single Account. This "historical" share was then "weighted" or "averaged" against the formula-driven share of each local government in order to guarantee a smooth transition to the new system.

In 2006, the share of the Single Account that all local governments will receive will be based 90 percent on their historical share and 10 percent on the formula driven share. In 2007, 2008, 2009 and 2010 the proportions will be progressively shifted to: 80-20; 60-40; 40-60; and 20-80. In 2011, only the formula driven share will be used.

The amendments to the RS Budget Systems Law do not effect the amount of the Wage Tax the entity shares with local governments, and this share will remain at 25 percent. If, as expected, the entity government passes new Personal Tax Legislation, this share will have to be adjusted to reflect changes in the revenue that local governments will receive as the base and rate of the new PIT changes vis-à-vis the old wage tax.

Monthly Consolidated Report January – April 2006

prepared by: Aleksandra Regoje

	I	II	III	IV	Total
Current Revenues	**218,1**	**360,4**	**384,9**	**342,8**	**1306,2**
Taxes	206,0	343,9	355,1	330,5	**1235,4**
Indirect taxes	190,7	322,6	323,6	315,9	**1152,8**
VAT	57,3	212,7	203,7	194,4	**668,1**
VAT on imports	56,5	102,6	136,7	134,2	**430,0**
VAT from VAT returns	0,8	100,7	75,9	76,6	**254,0**
VAT from automatic assessment done by ITA			0,1	0,7	**0,8**
One-off VAT payments	0,1	9,4	2,1	0,3	**11,9**
Other			0,1	0,1	**0,1**
VAT refunds			-11,2	-17,5	**-28,7**
Customs duties	33,3	30,8	41,5	39,3	**144,9**
Sales tax	25,0	10,6	4,4	3,0	**43,0**
Imported excisable products	7,8	0,2	0,0	0,0	**8,1**
Domestic excisable products	1,1	2,0	0,2	0,1	**3,5**
Other products	9,4	4,1	2,3	1,2	**17,0**
On services	6,5	4,0	1,7	0,9	**13,1**
Excises	62,8	56,9	63,1	66,4	**249,2**
on imports	50,5	45,7	48,4	54,1	**198,7**
on domestic production	12,3	11,2	14,7	12,3	**50,5**
Railroad tax	11,9	11,2	12,1	14,3	**49,4**
Other	0,4	0,5	0,7	0,7	**2,3**
Other refunds			-1,9	-2,2	**-4,1**
Direct taxes	15,3	21,3	31,5	14,7	**82,7**
Income taxes	6,9	10,3	20,0	3,6	**40,9**
Other tax revenues	8,4	10,9	11,4	11,0	**41,8**
Non-tax income	11,6	16,1	29,7	12,0	**69,3**
Grants, gifts	0,0	0,3	0,1	0,1	**0,5**
Transfers from higher level of gvmt	0,5	0,1	0,1	0,1	**0,8**
Current expenditures	**204,3**	**298,4**	**221,8**	**341,0**	**1065,4**
Consumption expenditures	28,5	43,5	46,7	44,5	**163,3**
Wages and compensations	25,8	37,4	39,6	37,5	**140,3**
Wages	24,9	34,7	36,5	34,3	**130,3**
o/w: contributions	7,0	10,8	11,2	10,8	**39,8**
o/w: taxes on wages	1,6	1,9	2,1	1,9	**7,5**
Compensations	0,9	2,8	3,1	3,3	**10,0**
Purchases of goods and services	2,8	6,0	7,1	7,0	**23,0**
Grants	37,5	10,3	51,3	60,5	**159,6**
Transfers to households	32,5	3,6	45,2	38,3	**119,5**
Transfers to institutions/organizations	0,8	0,8	2,3	6,0	**9,9**
Subsidies	4,2	5,9	3,9	16,2	**30,2**
Interest payments	0,0	0,4	0,2	-0,3	**0,4**
Other outlays	0,8	2,3	1,7	6,5	**11,3**
Transfers from Single Account	126,4	209,7	95,3	174,6	**605,9**
BiH Budget	41,1	39,2	43,1	59,4	**182,8**
FBiH / Cantons, Road Fund	67,6	145,7	23,7	94,3	**331,3**
RS / Cities, Municipalities, Road Fund	13,1	15,6	18,7	11,6	**59,1**
Brcko Distrikt	4,5	9,3	9,8	9,2	**32,8**
Amortization of debt	8,0	27,4	21,8	17,4	**74,6**
Transfers to lower levels of government	3,1	4,8	4,7	37,7	**50,2**
Government Savings (1-2)	**13,8**	**62,0**	**163,1**	**1,8**	**240,8**
Capital receipts	23,9	6,5	1,2	6,1	**37,6**
Capital outlays	0,1	0,8	1,5	1,2	**3,6**
Government surplus/deficit (3+4-5)	**37,6**	**67,7**	**162,8**	**6,7**	**274,8**
o/w: Reserves from ITA Single Account	16,2	31,6	20,6	13,7	**82,1**

Table 3. monthly Consolidated report January-April 2006

Monthly Consolidated Report January – March 2006

prepared by: Aleksandra Regoje

	I	II	III	Total
Current Revenues	**208.492.050**	**202.461.162**	**474.208.746**	**885.161.958**
Taxes	**179.149.157**	**165.416.682**	**420.977.134**	**765.542.973**
Income & profit tax	10.869.644	15.336.529	26.242.906	52.449.079
Social security contributions (Brcko)	1.159.755	1.159.755	1.159.755	3.479.264
Taxes on personal income and self-employment	17.587.400	18.902.445	21.020.856	57.510.700
Property tax	1.860.187	3.069.885	2.286.621	7.216.694
Sales tax (incl.excises) (according to Regulations until 31,12,2005)	66.582.432	30.894.351	16.400.678	113.877.461
Transfers from Single Account	80.498.867	95.181.753	351.444.141	527.124.761
Other taxes	590.872	871.966	2.422.178	3.885.015
Non-tax revenues	**28.448.738**	**35.815.078**	**52.642.182**	**116.905.998**
of which: Dividends of public enterprises	58.024	138	22.201	80.363
of wich: Licenses	134.733	409.905	54.224	598.862
Grants	**893.842**	**1.211.231**	**574.020**	**2.679.093**
of which: Grants from abroad	394.863	1.086.954	466.651	1.948.468
of which: Grants from other levels of government	498.979	124.277	107.370	730.626
Other revenues	**313**	**18.171**	**15.409**	**33.893**
Total expenditures	**201.367.042**	**210.791.880**	**260.069.216**	**672.228.138**
Current expenditures	**200.381.371**	**208.250.154**	**257.919.538**	**666.551.063**
Wages and compensations	112.676.502	123.682.945	131.135.104	367.494.551
of wich: Gross wages	98.496.451	106.219.733	112.327.888	317.044.071
of wich: Compensations	14.180.052	17.463.212	18.807.216	50.450.480
Other taxes and contributions	5.217.129	6.085.833	6.319.050	17.622.012
Purchases of goods and services	20.082.663	28.690.876	28.643.044	77.416.583
Current transfers	62.273.007	48.290.990	87.076.378	197.640.375
of which: Grants to other levels of government	6.272.393	8.079.508	5.476.492	19.828.393
of which: Grants to households	43.403.169	13.676.246	58.950.137	116.029.552
of which: Grants to non-profit organizations	3.217.982	13.325.620	11.303.282	27.846.884
of which: Grants to public enterprises	8.674.322	13.030.958	10.954.823	32.660.102
Capital grants	0	1.026.722	4.300.294	5.327.016
of which: Capital grants to other levels of government	0	0	105.683	105.683
Interest	132.070	472.788	445.669	1.050.526
Transfers to lower spending units	**242.932**	**363.373**	**429.670**	**1.035.975**
Other expenditures	**742.739**	**2.178.353**	**1.720.008**	**4.641.100**
Capital revenue	**20.879.835**	**-1.411.831**	**-2.401.460**	**17.066.545**
Capital revenues	20.879.835	-1.411.831	-2.401.460	17.066.545
of which: Net revenue on sale of fixed assets	20.758.846	-1.440.630	-2.536.569	16.781.648
Net financing*	878.574	5.787.655	3.012.562	9.678.792
Government surplus/deficit	**28.883.416**	**-3.954.893**	**214.750.633**	**239.679.156**

Net financing = Loans received + received payment of debts- payment of debt – borrowing

Table 3. monthly Consolidated report January-March 2006

Monthly Consolidated report January-March 2006 (ZENICA DOBOJ CANTON)

prepared by: Aleksandra Regoje

ZENIČKO DOBOJSKI CANTON	Canton + Municipalities (Consolidated)			Canton			Municipalities		
	I	II	III	I	II	III	I	II	III
Total revenue	**14.308.502**	**7.638.245**	**36.842.552**	**11.196.302**	**4.426.474**	**30.752.946**	**3.431.860**	**3.546.765**	**6.232.325**
Tax revenues	**11.474.926**	**4.695.665**	**32.283.407**	**9.717.412**	**3.163.934**	**27.867.903**	**1.757.514**	**1.531.731**	**4.415.504**
Income & profit tax	597.651	578.673	379.738	473.197	246.868	170.641	124.453	331.805	209.097
Taxes on personal income and self-employment	1.644.457	1.314.073	2.104.171	1.326.188	1.016.807	1.702.660	318.268	297.266	401.511
Property tax	372.990	547.271	727.961	0	0	0	372.990	547.271	727.961
Sales tax (incl.excises)(according to Regulations until 31,12,2005)	7.381.443	2.148.140	2.305.680	6.545.463	1.839.071	2.053.136	835.980	309.069	252.544
Transfers from Single Account	1.437.555	40.808	26.655.789	1.372.563	38.926	23.941.466	64.992	1.882	2.714.323
Other taxes	40.830	66.700	110.067	0	22.262	0	40.830	44.438	110.067
Non-tax revenues	**2.817.076**	**2.866.430**	**4.509.626**	**1.478.890**	**1.211.583**	**2.845.924**	**1.338.186**	**1.654.847**	**1.663.702**
Grants	**16.500**	**76.150**	**49.519**	**0**	**50.957**	**39.119**	**336.160**	**360.187**	**153.119**
of which: Grants from abroad	0	46.674	37.369	0	46.674	37.369	0	0	0
of which: Grants from other levels of government	0	4.283	1.750	0	4.283	1.750	319.660	334.994	142.719
Total expenditures	**13.133.050**	**15.052.716**	**16.519.674**	**11.068.475**	**11.472.752**	**12.036.378**	**2.527.256**	**3.932.824**	**4.691.824**
Current expenditures	**12.751.490**	**14.596.323**	**15.772.070**	**11.068.475**	**11.472.752**	**12.036.378**	**2.145.696**	**3.476.431**	**3.944.221**
Wages and compensations	7.403.051	8.073.088	8.191.288	6.800.225	7.003.939	7.133.021	602.826	1.069.149	1.058.267
of wich: Gross wages	6.220.699	6.689.196	6.628.870	5.805.325	5.888.642	5.913.244	415.374	800.555	715.626
of wich: Compensations	1.182.352	1.383.891	1.562.417	994.900	1.115.297	1.219.777	187.452	268.594	342.641
Other taxes and contributions	741.950	796.228	804.401	692.711	704.859	705.287	49.239	91.369	99.114
Purchases of goods and services	2.332.971	3.216.149	3.056.186	1.697.813	1.894.672	1.598.872	635.158	1.321.476	1.457.314
Current transfers	2.024.060	2.303.034	3.400.464	1.810.579	1.869.283	2.599.199	676.161	786.612	1.009.794
of which: Transfers to other levels of government	32.908	72.146	90.057	227.332	354.217	161.497	32.908	72.146	90.057
of which: Transfers to households	1.106.452	1.558.251	2.043.093	983.789	1.191.583	1.847.702	358.011	365.311	242.422
Capital grants	173.542	201.984	316.126	0	0	0	173.542	201.984	316.126
of which: Capital grants to other levels of government	900	55.789	4.400	0	0	0	900	55.789	4.400
Interest	75.916	5.842	3.605	67.147	0	0	8.769	5.842	3.605
Transfers to lower spending units	**381.560**	**456.392**	**747.604**	**0**	**0**	**0**	**381.560**	**456.392**	**747.604**
Capital revenue	**-459.462**	**251.984**	**-882.693**	**-466.307**	**-239.841**	**-513.862**	**149.866**	**509.692**	**-303.020**
Capital revenues	-466.307	251.984	-882.693	-466.307	-239.841	-513.862	0	491.825	-368.830
of which: Net revenue on sale of fixed assets	-466.307	251.984	-882.693	-466.307	-239.841	-513.862	0	491.825	-368.830
Capital grants	6.845	0	0	0	0	0	149.866	17.866	65.810
of which: from abroad	6.845	0	0	0	0	0	6.845	0	0
of which: from other levels of government	0	0	0	0	0	0	143.020	17.866	65.810
Net financing	**-20.281**	**-12.498**	**-12.498**	**-7.783**	**0**	**0**	**-12.498**	**-12.498**	**-12.498**
Government surplus/deficit	**695.709**	**-7.174.985**	**19.427.688**	**-346.263**	**-7.286.120**	**18.202.705**	**1.041.972**	**111.135**	**1.224.983**

Table 4. Zenica Doboj Canton

Monthly Consolidated report January-March 2006 (POSAVA CANTON)

prepared by: Aleksandra Regoje

POSAVSKI CANTON	Canton + Municipalities (Consolidated)			Canton			Municipalities		
	I	II	III	I	II	III	I	II	III
Total revenue	**1.815.419**	**1.922.605**	**4.995.728**	**1.333.198**	**1.469.717**	**3.997.820**	**532.221**	**472.888**	**1.019.226**
Tax revenues	**1.496.091**	**985.299**	**4.343.963**	**1.189.973**	**732.077**	**3.594.003**	**306.118**	**253.222**	**749.960**
Income & profit tax	36.023	107.810	126.959	23.994	88.095	117.154	12.029	19.716	9.805
Taxes on personal income and self-employment	186.113	139.599	150.909	151.856	108.714	120.727	34.258	30.885	30.182
Property tax	27.089	21.356	16.931	12.829	11.781	9.171	14.261	9.575	7.760
Sales tax (incl. excises))(according to regulations until 31,12,2005)	1.011.670	678.659	452.193	798.681	511.061	75.919	212.989	167.598	376.274
Transfers from Single Account	208.569	5.712	3.528.121	198.984	5.712	3.266.942	9.585	0	261.179
Other taxes	26.627	32.164	68.851	3.629	6.714	4.091	22.998	25.450	64.760
Non-tax revenues	**285.113**	**438.896**	**470.099**	**109.010**	**239.230**	**222.151**	**176.103**	**199.666**	**247.948**
Grants	**34.215**	**498.410**	**181.667**	**34.215**	**498.410**	**181.667**	**50.000**	**20.000**	**21.318**
of which: Grants from abroad	34.215	312.743	0	34.215	312.743	0	0	0	0
of which: Grants from other levels of government	0	185.667	181.667	0	185.667	181.667	50.000	20.000	21.318
Total expenditures	**1.930.321**	**2.084.005**	**2.595.200**	**1.534.249**	**1.690.270**	**1.958.711**	**446.072**	**493.735**	**657.807**
Current expenditures	**1.930.321**	**2.084.005**	**2.595.200**	**1.534.249**	**1.690.270**	**1.958.711**	**446.072**	**493.735**	**657.807**
Wages and compensations	1.212.293	1.240.960	1.297.876	1.025.802	1.057.236	1.095.841	186.491	183.724	202.035
of which: Gross wages	986.429	1.006.704	1.024.321	836.624	860.635	876.079	149.805	146.069	148.242
of which: Compensations	225.863	234.256	273.555	189.178	196.602	219.762	36.686	37.655	53.793
Other taxes and contributions	119.786	122.838	124.306	103.505	106.156	107.804	16.282	16.683	16.502
Purchases of goods and services	425.160	508.676	623.004	311.605	342.961	372.071	113.556	165.715	250.933
Current transfers	168.741	207.428	547.555	93.337	183.917	382.995	125.405	123.512	185.878
of which: Transfers to other levels of government	11.610	17.198	138.385	2.500	101.000	120.500	11.610	16.198	39.203
of which: Transfers to households	35.103	75.470	83.477	63.670	55.118	59.580	18.933	20.352	23.897
Capital grants	1.636	1.636	0	0	0	0	1.636	1.636	0
of which: Capital grants to other levels of government	1.081	1.081	0	0	0	0	1.081	1.081	0
Interest	2.704	2.467	2.459	0	0	0	2.704	2.467	2.459
Capital revenue	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**80.000**	**0**
Capital grants	0	0	0	0	0	0	0	80.000	0
of which: from other levels of government	0	0	0	0	0	0	0	80.000	0
Capital spending	**260.469**	**12.233**	**28.995**	**260.405**	**3.737**	**8.138**	**64**	**8.496**	**20.857**
of which: Net expenditure on fixed assets purchase	260.469	12.233	28.995	260.405	3.737	8.138	64	8.496	20.857
Net financing	**-4.397**	**-1.538**	**0**	**0**	**1.889**	**0**	**-4.397**	**-3.427**	**0**
Government surplus/deficit	**-379.767**	**-175.171**	**2.371.533**	**-461.456**	**-222.401**	**2.030.971**	**81.689**	**47.231**	**340.562**

Table 5. Posava Canton

Notes to table 2:

1. The consolidated report includes:
- revenues from indirect taxes collected by the Indirect Tax Authority on the Single Account,
- transfers from the ITA Single Account for external debt servicing,
- transfers from the ITA Single Account for financing Brčko District, cantons, municipalities and Road Directorates,
- revenues of the budget of Bosnia and Herzegovina from the ITA Single Account,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Republika Srpska.

2. Figures on revenues and expenditures of the Federation of Bosnia and Herzegovina and the Republika Srpska are not fully reconciled due to different accounting methods.

Notes to table 3:

1. The consolidated report includes:
- revenues and expenditures of the budget of Bosnia and Herzegovina,
- revenues and expenditures of the budget of Brčko District,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Republika Srpska,
- revenues and expenditures of the budget of eight cantons in the Federation (missing cantons: Herceg-Bosna and West Herzegovina).

2. Figures on revenues and expenditures of the Federation of Bosnia and Herzegovina and the Republika Srpska are not fully reconciled due to different accounting methods.

Notes to table 4:
Considering the fact that the total amount of grants on the items „Grants to other levels of government‟ and „Capital grants to the other levels of government‟ on the expenditures of Cantons was less than received grants on the items of municipalities „Grants from other levels of government‟ and „Capital grants from other levels of government‟ and that expenditure item "Grants to households" consists of grants through municipalities budget, MAU made a consolidation as follows:

- Expenditure item of cantonal budget "Grants to other levels of government" is netted with revenue items of municipalities "Grants from other levels of government" and "Capital grants from other levels of government";
- Remain difference from the municipality items "Grants from the other levels of government" and "Capital grants from the other levels of government" is netted with the expenditure item of cantonal budget "Grants to households" .

Notes to table 5:
In the case of Posavski canton, the total amount of grants on the items „Grants to the other levels of government‟ and „Capital grants to the other levels of government‟ on the expenditures of Canton is higher than the amount of received grants on the municipality items „Grants from other levels of government‟ and „Capital grants from the other levels of government‟, in the total amount for the first three months. However, this amount is lower for January, so MAU made a consolidation for that month as in the Table 4 (the difference is netted with the expenditure item of cantonal budget „Grants to households).

Activities of the Unit

May 17th, 2006
Banja Luka- The RS Ministry of Finance and Faculty of Business Engineering and Management organized international round table on the topic "VAT and its effects on economy and society in BiH". Participants were eminent professors from Slovenia, Croatia, Serbia and BiH, business representatives, officials of employer's associations, trade unions and foreign trade chamber.

In his introduction, Dr. Renzo Daviddi, Head of Economic Department in EC Delegation, emphasized that the introduction of VAT is one of largest reforms that BiH implemented in short time given the complexity of it. Main effects of VAT introduction in the first quarter can be seen through increase of revenues from VAT above expectations, strengthening of fiscal policy and tax compliance. There has been modest increase in prices but below expected one and much lower than it was the case in surrounding countries. Great number of taxpayers registered for VAT. There has not been increase in unemployment that could have been contributed by VAT. Guests from neighboring countries presented experiences of their countries.

Based on bad experiences of Croatia, Prof. Dr. Gustavo Santini emphasized that introduction of VAT without budget constraints can have catastrophic consequences for the economy of this country in long term. Prof. Pušara from Serbia emphasized that serious country can not be built on grey economy, tax evasions and budget deficit. Due to this VAT is necessary as replacement for inefficient sales tax. Based on experiences from Slovenia, Prof. Slavin said that take should be taken about tax burden on economy and so called "fiscal watch". In lack of monetary, credit, currency and interest policies, BiH can only use fiscal policy. Domestic experts emphasized that application of VAT rate which is above neutral one, causes fiscal reallocation in the country. Business representatives said that VAT is simple tax and they are not having problems in applying it. Trade Unions talked about social situation of some population categories, bad liquidity, and unregistered labor. They also emphasized need to introduce differentiated rates. Employers would like to get relieving provisions of the VAT law and exemptions for certain activities. Mr. Milanovic, Vice President of the BiH Foreign Trade Chamber, emphasized importance of data collection and analysis of imports and exports based on consistent methodology and approach.

On behalf of the ITA and Macroeconomic Analysis Unit, mr. sc. Dinka Antić, gave speech underlining that the introduction of VAT was more complex operation than in neighboring countries that replaced one method of taxation (sales tax) with the new one (VAT). She emphasized that public, businesses, associations, trade unions etc. in BiH are not familiar enough with fiscal structure in BiH. There is political level – Fiscal Council; management level in field of indirect taxes – ITA Governing Board; and operational level – ITA. It's not well known that due to the transfer of competencies in the field of indirect taxes from entities to state, the Governing Board has specific position and crucial responsibility for creation and change of regulations in the field of indirect taxes (customs, excise, VAT... In terms of VAT effects on economy, she emphasized that in market conditions, it's not possible to continuously adjust laws to make business operations easier. Introduction of the VAT created conditions for fair market game. In order to adjust to new conditions, companies should reorganize and restructure, managing VAT as part of their financial management. It's necessary to finalize privatization process and write off debts to companies that are doing successfully but have big burden of debts that come from the period before the privatization. This would promote development and creation of new jobs.

In his final speech, Mr. Daviddi concluded that period of implementation is too short to give any serious estimates of VAT effects. However, even after few months only, it can be seen that introduction of VAT is successful reform. There are certain social consequences that can be reduced with appropriate instruments and adequate social programs before introduction of differentiated rates.

May 26th, 2006

H.E. Werner Almhofer, Austrian Ambassador in Bosnia and Herzegovina visited Banja Luka and talked to mr.sc. Dinka Antic, Head of Macroeconomic Analysis Unit. Reason for this talk was beginning of the implementation of donation from Austrian Government to the ITA Governing Board. Great part of this donation is for helping function and development of the Unit. Mr. Michael Weiner, Head of ADA (Austrian Development Agency) in BiH was also present. ADA is in charge of preparation of projects being financed from Austrian funds. Ambassador Almhofer was interested in current activities of the Unit, possible aspects of the Austrian support to programs in transferring expert knowledge and education of the Unit's staff. He was also interested in problems related to establishment of the system for monthly reporting of administration levels in BiH. Dinka Antić emphasized that low level of technical equipment is big problem for them to participated in modern "paper free" Internet based reporting system. Ambassador Almhofer and Mr. Weiner supported efforts of the Unit's staff and expressed readiness for ADA to get involved in providing technical support to reporting units in their inclusion to Internet based reporting system.