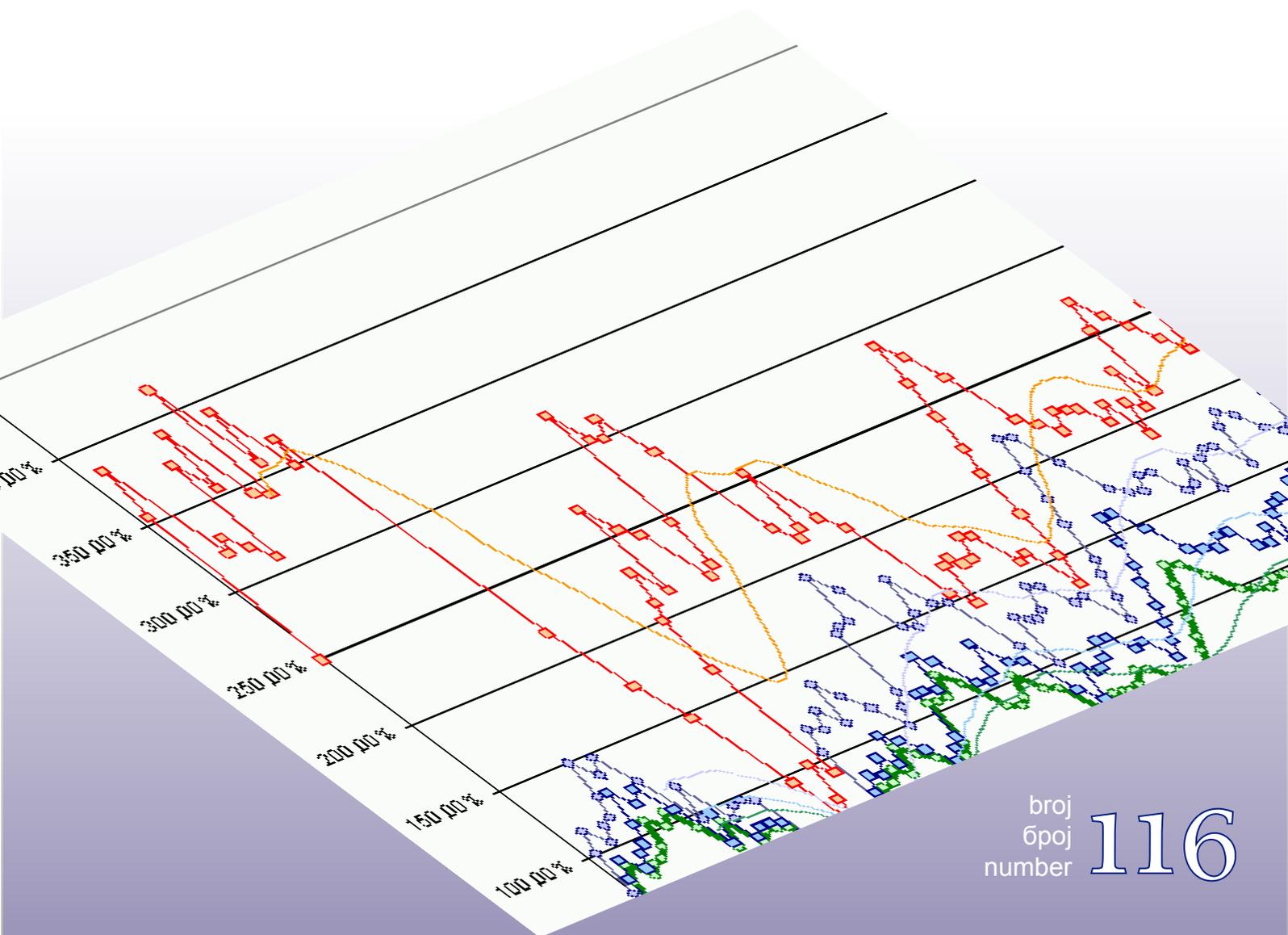




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

# *Oma Bilten*



broj  
број  
number **116**

## With this issue

According to preliminary report, the ITA collected in February 2015, after deduction of refunds, 394,9 million BAM of indirect taxes, which is 1% more than in the same month of 2014. The reason for the lower growth in net collection in relation to the growth of gross collection of 2,1% is the increase of refunds. A growth in gross collection of indirect taxes of 0,9% was recorded at the level of the first two months of 2015. However, due to the growth of refunds of 8,3%, the net collection is ultimately lower by 0,6% or by 4,9 million BAM. Analysis of collection by the main groups of revenues shows different effects. In the first two months there was a sharp drop in revenue collection from VAT of 38 million BAM, while the other groups recorded growth, most of all excise revenues. Analysis of the structure of gross VAT shows that the main reason for the negative trend of VAT in January 2015 was a decrease of VAT on imports and in February it was a decline in domestic consumption (Chart 1). The decline in VAT on imports in January was far greater than the decline in imports of goods which amounted to -2,8% according to the report of the Agency for Statistics of B&H. On the other hand, after the high growth rates of domestic VAT in the second half of 2014, it is noticeable an abatement of consumption. In addition to macroeconomic factors, the reason for the negative trends in VAT may be the higher statistical basis for comparison, since the historical maximum in gross and net VAT collection has been recorded at the beginning of the last year.

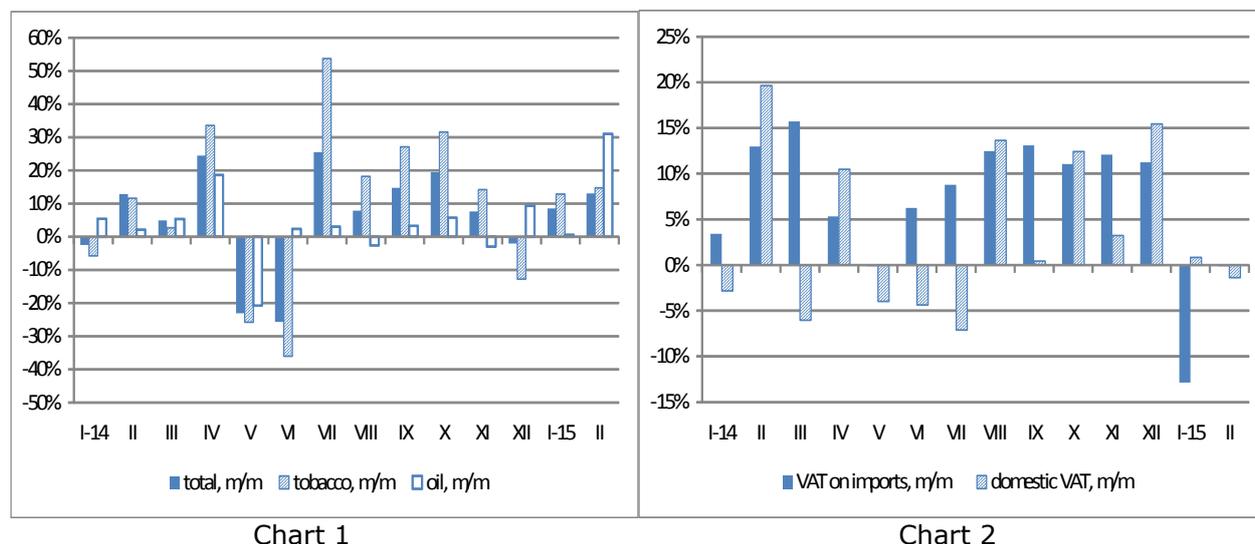


Chart 1

Chart 2

Excise taxes are the only group of revenue where a growing trend in collection has been recorded in the first two months of 2015 (Chart 2). After weaker collection in January, already in February excise taxes on derivatives recorded a strong growth of 31%. A growing trend is recorded in excises on tobacco, both in the imported and domestic tobacco. Total two-month effects on revenues from excises on derivatives amounted to 8,3 million BAM, and in excise duties on tobacco to 16,1 million BAM.

Dinka Antić, PhD  
Head of Unit

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Technical design: Sulejman Hasanović, IT expert  
Reader/translator: Darija Komlenović, professor

## Foreign trade of Bosnia and Herzegovina

(Author: Advisor in the Department for Macroeconomic System of the Foreign Trade Chamber of B&H)

*The trend of increasing exports, which began in the second half of 2012 and continued in 2013, has continued, but with a lower growth rate and the parallel increase in imports, resulting in an increase in the trade deficit and reducing the export-import ratio. Although the highest so far, export value was not high enough to make this relationship more favourable, due to the drastic increase in imports of almost a billion BAM.*

The value of exports of Bosnia and Herzegovina in 2014<sup>1</sup> was 8.939.844.544 BAM, which is by 343.609.860 BAM, or 4 %, more than in 2013. The value of imports was 15.789.140.137 BAM, which is 935.018.362 BAM, or 6,29 %, more than in 2013. These changes resulted in a reduction of export-import ratio for 2,16 %, so it was 56,62 % in 2014. Total foreign trade deficit has increased and reached 6.849.295.593 BAM, which is 9,45 % more than in 2013.

The quarterly and monthly indicators show the expected negative effects of catastrophic floods and their consequences, in the sense that they are negative in the second and third, and positive in the first and fourth quarter. However, even the positive developments, especially their structure, just confirm the "diagnosis" of long-term economic stagnation, in which only a small number of successful companies – the leading exporter is continuously developing.

The most important foreign trade partner of Bosnia and Herzegovina in 2014 remained the European Union (71,86 % of exports and 66,14 % of imports). Share of CEFTA 2006 was significantly lower (16,13 % of exports and 14,26 % of imports), while all other countries totalled to 12 % of exports and 19,6 % of imports. Individually, with the trade volume over two billion BAM, the leading partners were: Croatia (10,98 % of exports and 16,41 % of imports), Germany (15,49 % of exports and 9,83 % of imports), Serbia (9,51 % of exports and 12,71 % of imports), Italy (13,45 % of exports and 9,10 % of imports) and Slovenia (7,96 % of exports and 8,50 % of imports).

Table 1 The volume of foreign trade of Bosnia and Herzegovina, by leading partners<sup>2</sup>

COUNTRY	2013	SHARE	2014	SHARE
Croatia	3.911.063.946 BAM	16,68 %	3.572.265.940 BAM	14,45 %
Germany	2.799.585.867 BAM	11,94 %	2.936.195.241 BAM	11,87 %
Serbia	2.614.286.564 BAM	11,15 %	2.856.947.648 BAM	11,55 %
Italy	2.274.622.165 BAM	9,70 %	2.639.404.393 BAM	10,67 %
Slovenia	2.027.290.086 BAM	8,65 %	2.054.215.647 BAM	8,31 %
Austria	1.635.375.474 BAM	6,97 %	1.738.433.655 BAM	7,03 %
Switzerland	1.485.172.698 BAM	6,33 %	1.221.081.704 BAM	4,94 %
Other countries	6.702.959.659 BAM	28,58 %	7.710.440.453 BAM	31,18 %
<b>TOTAL</b>	<b>23.450.356.459 BAM</b>	<b>100,00 %</b>	<b>24.728.984.681 BAM</b>	<b>100,00 %</b>
European Union	16.343.138.420 BAM	69,69 %	16.866.916.139 BAM	68,21 %
CEFTA 2006	3.436.003.196 BAM	14,65 %	3.693.427.897 BAM	14,94 %

<sup>1</sup> All data used in text have been provided by the Indirect Taxation Authority of Bosnia and Herzegovina. The data are allocated to the areas of trade, not the origin of the goods, unless otherwise stated.

<sup>2</sup> Data on foreign trade have been allocated by the area of direct imports, regardless of origin (e.g. goods made in Germany and imported from Croatia are registered as imports from Croatia).

The largest increase in exports in this period was in the markets of Italy, Austria, Turkey, Hungary, Germany and Serbia, while the largest decrease in exports was on the Croatian market. At the same time, imports increased the most from China, USA, Italy, Serbia, Turkey and the Netherlands, while significantly reduced from Switzerland. There is still a lot of products in Bosnia and Herzegovina imported indirectly through third countries, so that analysis of data on trade, "according to the origin of"<sup>3</sup> substantially changes the picture of the actual structure of foreign trade. There is huge room for improvement of direct trade (excluding brokerage costs and less risk of transfer pricing). E.g. export-import ratio according to these criteria in trade with the European Union is 70 %, with CEFTA 2006 is 78 %, and the EFTA even 248 %. Turkey is one of the few countries with which such differences almost disappeared in past several years.

For example, imports of "non-domestically originated" products in 2014 have been: 756 million BAM from Croatia, 601 million BAM from Slovenia, 448 million BAM from Austria, and 157 million BAM from Hungary. In contrast, import of products "originating" from Germany, Italy, France and some other countries is much larger than the direct, which reflects the real strength of individual economies. Switzerland and the Russian Federation are particularly specific case, with the difference in data on imports from those countries, according to the criteria of trade and origin, more than a billion a year. This difference is caused by the import of crude oil of Russian origin, through Switzerland, for processing in the refinery in Bosanski Brod.

By analysing the structure of foreign trade in 2014, based on sectors of economy, there was an increase in both exports and imports in most sectors, with no change in their ranking by importance or value. A significant part of these changes was caused by the aforementioned weather conditions, both in terms of reduced production and exports and increase imports to humanitarian and restoration and reconstruction needs. The biggest negative change was certainly the export of electricity, whose value has been drastically reduced compared to the previous year (for 163 million BAM).

Table 2 Foreign Trade of Bosnia and Herzegovina, by sectors of economy (in BAM)

SECTOR	VOLUME	EXPORT	IMPORT	BALANCE
Agro-industrial sector	3.391.357.080	661.805.679	2.729.551.401	-2.067.745.722
Mineral fuels and electricity	3.467.960.076	849.967.057	2.617.993.019	-1.768.025.962
Chem. and pharm. products, etc.	3.175.715.717	855.825.965	2.319.889.752	-1.464.063.787
Stone, lime, cement, concrete, ...	521.888.700	120.709.992	401.178.708	-280.468.716
Leather, fur, textile and products	3.043.425.818	1.260.043.389	1.783.382.429	-523.339.040
Wood, paper and furniture	2.574.342.574	1.791.231.328	783.111.246	1.008.120.082
Ores, metals and products	3.337.740.564	1.824.179.000	1.513.561.564	310.617.436
Machinery, appliances, devices, ...	4.954.908.967	1.503.766.086	3.451.142.881	-1.947.376.795
Other various products	261.645.186	72.316.049	189.329.137	-117.013.088
<b>TOTAL</b>	<b>24.728.984.681</b>	<b>8.939.844.544</b>	<b>15.789.140.137</b>	<b>-6.849.295.593</b>

<sup>3</sup> It refers to data on foreign trade according to the origin of, regardless of which area is directly imported.

Exports increased in the sectors: "Machinery, appliances, mechanical devices, boilers, etc." (14,88 %), "Leather, fur, textile products" (12,32 %), "Stone, lime, cement, concrete, ceramics and products" (11,66 %), "Chemical and pharmaceutical products, fertilizers, plastics, rubber, tires, etc." (11,31 %) and "Wood, paper and furniture" (6,57 %), while decreased in sectors "Mineral fuels and electricity" (14,22 %), "Agro-industrial sector" (3,47 %) and "Ores, metals and products" (1,90 %). The highest export value has traditionally been achieved in sectors "Ores, metals and products..." (1.824.179.000 BAM), "Wood, paper and furniture" (1.791.231.328 BAM), "machinery, appliances, mechanical devices, boilers and others" (1.503.766.086 BAM) and "Leather, fur, textile products" (1.260.043.389 BAM) and the lowest in the sector "Stone, lime, cement, concrete, ceramics and products" (120.709.992 BAM).

Imports increased in almost all sectors, especially: "Machines, appliances, mechanical devices, boilers, etc." (19,51 %), "Leather, fur, textile and products" (17,48 %) and "Wood, paper and furniture" (13,70 %), and others in the range of 0,13 % in the "Agro-industrial sector" to 8,46 % in the sector "Chemical and pharmaceutical products, fertilizers, plastics, rubber...". It was reduced only in the "Mineral fuels and electricity" (11,25 %), but as a result of lower prices of oil and mineral fuels, and the amount of imported natural gas, rather than domestic substitution. The greatest import has been recorded in sectors: "Machinery, appliances, mechanical devices, boilers, etc." (3.451.142.881 BAM), "Agro-industrial sector" (2.729.551.401 BAM), "Mineral fuels and electricity" (2.617.993.019 BAM) and "Chemical and pharmaceutical products, fertilizers, plastics, rubber ..." (2.319.889.752 BAM), while the lowest in the sector "Stone, lime, cement, concrete, ceramics and products" (401.178.708 BAM).

A constant problem in most sectors is high trade deficit, i.e. low export-import ratio. Positive balance has been achieved only in sectors "Wood, paper and furniture" (228,73 %) and "Ores, metals and products ..." (120,52 %), while it has been negative in all other sectors, ranging between reasonably high 70,65 % in the sector of "Leather, fur, textile products ..." and extremely low 24,25 % in the Agro-industrial sector.

Foreign trade in Bosnia and Herzegovina, in addition to the aforementioned effects of extraordinary circumstances and impacts, is, for the most part, a reflection of the unfavourable business environment and lack of competitiveness of most of the economy. Necessary economic reforms have not been implemented even in 2014, so any better outcome was highly unlikely. Whole economy has been relying, predominantly, on a small number of export leaders, whose continuous development and investments, as well as adoption and implementation of the highest standards and requirements for export markets, practically "kept alive" BH export performance. The enormous natural resources and economic potential are good foundations for the future foreign trade reversal, but only if more companies reach the competitiveness level of current export leaders.

In addition to the systematic and structural economic reforms, creating a favourable business environment for domestic and foreign investments, production, employment and exports, it is necessary to take the "internal reforms" in the economy, through restructuring of many businesses burdened with too many employees, outdated technologies and production programs, mismanagement, lack of capacity and capital. Creating a broader "base", by increasing the number of competitive and successful business entities in Bosnia and Herzegovina, as well as the export structure and export markets, would allow the spreading of risk and reducing the dependence of the domestic economy and society on particular businesses and markets

Also, import substitution (often unfairly neglected) should be an important factor, because the existence of its own raw materials for processing is often a crucial element of competitiveness, particularly costs-related. Excessive imports of finished products, which we are able to produce with the same or better quality, indisputably lead to devastation and disappearance of the domestic economy. The fact that most of the leading exporters are also the leading importers,

confirms the insufficient utilization of domestic resources, even for the provision of suitable raw materials.

If the weather conditions in 2015 remain favourable, and demand for products from Bosnia and Herzegovina in key export markets is stable or growing, it is realistic to expect a continuation of the trend of export growth, even slightly higher than in the previous year, but most likely the increase in imports also. The implementation of the Free Trade Agreement with the EFTA countries is a great opportunity to expand the export market, as well as increased demand for certain products in the Russian Federation (depending on the current sanctions regime between this country and the European Union), while the inability to export products of animal origin to the European Union and EFTA and the complex and demanding procedure of fulfilling the conditions in other attractive markets (such as the aforementioned Russian Federation) remain major obstacles. Each new destabilizing event, climatic or market, could further undermine foreign trade position of Bosnia and Herzegovina, and jeopardize these expectations.

The only complete, long-term and sustainable solution for significant improvements in foreign trade of Bosnia and Herzegovina, as in 2015, so in the future, are economic reforms and improvement of the competitiveness of the domestic economy. Bearing in mind the limitations of the domestic market and demand, it is clear that the exports expansion is one of the most important elements of economic recovery and overall economic development.

## **Cyclically adjusted and structural balances as the basis for conducting fiscal policy**

(prepared by: Aleksandra Regoje)

### **Introduction**

In a period when financial crisis has shaken many economies, the indicators for the assessment the fiscal position of the government particularly came to the fore. Fiscal balance is one of them, as the difference between government revenue and expenditure. However, this indicator is not the sole result of government policies, but also of other factors to which the government has no influence. Conducting the fiscal policy on the basis of indicator of fiscal balance, therefore, can have a number of disadvantages. For example, the fiscal balance can be advantageous in the period of economic expansion or introduction of one-off measures that can have a positive effect on revenues. The increase in expenditure in these circumstances can lead to deterioration in the fiscal position at a time when the economy is no longer in expansion or after expiry of the effects of temporary measures. Therefore, two other types of balance are being calculated: the cyclically adjusted balance and structural balance.

### **Cyclically adjusted balance**

The overall balance (OB) consists of cyclical (CB) and cyclically adjusted component.

The cyclical component (CB, *cyclical balance*) is a part of the balance that automatically responds to cyclical changes in the economy.

The other component is a cyclically adjusted balance (CAB) which indicates the fiscal position of the government after excluding the effects of cyclical factors on the revenues and expenditures of the state.

The cyclically adjusted balance, in fact, shows what would be the balance if the output was at the level of potential. It is the result of discretionary measures of the government, regardless of temporary, cyclical movements in the economy.

We can see from the following example how a government could make the wrong decision in conducting fiscal policy if it is guided only on the basis of overall balance indicator. Suppose that period of strong economic expansion has been started. In such circumstances there is an increase in tax bases and hence in government revenues. If the total expenditure do not change, the government overall balance will grow. If the government guided only by this indicator, they could increase its current expenses, for example salaries, pensions or social benefits. With the arrival of the period of recession there will be a decline in revenues and deterioration of the overall balance. In such circumstances, governments come into a situation that they should implement unpopular measures to reduce expenditures in order to achieve fiscal consolidation. Therefore, it should be remembered that the overall balance provides an optimistic picture of the fiscal position in the expansion phase, and pessimistic in the recession phase. If during the period of expansion cyclical factors lead to improved overall balance, it does not mean that public debt will decrease in the long run, since the advent of the recession may worsen the fiscal position. Therefore, it is important to analyze the level of government balance regardless of cyclical factors, in order to gain insight into the fiscal position with the exception of temporary factors that change over time. Only in this case we can see if the government's fiscal policy is expansive or restrictive. If the cyclically adjusted balance grows it implies the restrictive government policy, and if it decreases, than the expansive one. Expansionary policies in the period of recession are counter cyclical. Same is the case with restrictive policy at the time of expansion.

### Structural balance

The cyclically adjusted balance does not always provide all the necessary information for the assessment of the fiscal position, so it is sometimes necessary the further adjustment in order to obtain an indicator that is independent of all macroeconomic fluctuations. Structural balance implies further adjustments of cyclically adjusted balance, where the effects of one-off and other temporary measures on the government revenue and expenditure are corrected.

The Stability and Growth Pact (SGP) is a set of rules designed to ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies. The principle of equal treatment of all member states of the European Union is the basis of the Pact. Equal treatment does not mean that the same measures are applied to all members, but the assessment of the economic situation must be taken into account. The level of flexibility depends on whether a member state is in the preventive or the corrective arm of the Pact.

The rules of the preventive arm of the Pact oblige Member States to carry out a sound fiscal policy and attain their Medium-Term Budgetary Objective (MTO) which is determined in accordance with commonly agreed principles.<sup>4</sup> That budget deficit (or surplus) target is expressed in **structural terms**. As explained above, this means that the effects of cyclical factors, one-off and temporary measures are excluded. The main purpose of the preventive arm is that each member state achieve and maintain the budgetary position where the automatic stabilizers will enable mitigation of the possible economic shocks, and to reduce public debt to a sustainable level.

The corrective arm of the Pact applies to the member states whose budget deficit is higher than 3 % of GDP and/or public debt higher than 60 % of GDP without diminishing at an adequate rate (defined as a decrease of the excess debt by 5 % per year on average over three years)<sup>5</sup> In these cases the Excessive Deficit Procedure (EDP) is applied.

<sup>4</sup> The MTO is calculated as a function of potential growth, general government debt and the cost of ageing.

<sup>5</sup> [http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/sgp/index_en.htm)

Banja Luka: Bana Lazarevića, 78 000 Banja Luka, Tel/fax: +387 51 335 350, E-mail: [oma@uino.gov.ba](mailto:oma@uino.gov.ba)  
Sarajevo: Đoke Mazalića 5, 71 000 Sarajevo, Tel:+387 33 279 553, Fax:+387 33 279 625, Web: [www.oma.uino.gov.ba](http://www.oma.uino.gov.ba)

## The new guidance of the European Commission on applying the existing rules of the Stability and Growth Pact

In January 2015 the European Commission issued new guidance<sup>6</sup> on application of the existing rules of the Pact. The aim of the new guidance is to strengthen the link between structural reforms, investment and fiscal responsibility in order to support economic growth and employment. This does not mean the replacement of the existing rules of the Pact, but the application of appropriate measures to make the most of their flexibility. Here we will address the explanation of the newness in the part related to cyclical circumstances.

### Member states in the preventive arm of the Pact

Article 5 of Regulation (EC) No 1466/97 determines the way in which members achieve fiscal stability. In principle, member states not having yet reached their Medium-Term Budgetary Objective are required, as a benchmark, to pursue an annual improvement in the structural budget balance of 0,5 % of GDP. It is provided that the Commission will take into account whether higher adjustment efforts are made in favorable economic conditions, whereas efforts may be at low intensity in bad times.

<i>Matrix for specifying the annual fiscal adjustment towards MTO under the preventive arm of the Pact</i>		<i>Required annual fiscal adjustment</i>	
<i>(in pp of GDP)</i>		<i>Debt below 60 % and no sustainability risk</i>	<i>Debt above 60 % or sustainability risk</i>
	<i>Condition</i>		
<i>Exceptionally bad times</i>	<i>Real growth &lt; 0 or Output gap &lt; -4</i>	<i>No adjustment needed</i>	
<i>Very bad times</i>	<i>-4 ≤ Output gap &lt; -3</i>	<i>0</i>	<i>0,25</i>
<i>Bad times</i>	<i>-3 ≤ Output gap &lt; -1,5</i>	<i>0 if growth below potential, 0,25 if growth above potential</i>	<i>0,25 if growth below potential, 0,5 if growth above potential</i>
<i>Normal times</i>	<i>-1,5 ≤ Output gap &lt; 1,5</i>	<i>0,5</i>	<i>&gt;0,5</i>
<i>Good times</i>	<i>Output gap ≥ 1,5</i>	<i>&gt; 0,5 if growth below potential, ≥ 0,75 if growth above potential</i>	<i>≥ 0.75 if growth below potential, ≥ 1 if growth above potential</i>
<i>Legend:</i>			
<ul style="list-style-type: none"> <li>• <i>Fiscal adjustment: improvement in the general government fiscal balance measured in structural terms</i></li> <li>• <i>Growth potential: estimated rate of growth if the economy is at its potential output</i></li> <li>• <i>Output gap: difference between the level of actual and potential output (expressed in percentage points compared to the potential output).</i></li> <li>• <i>Potential output: a summary indicator of the economy's capacity to generate sustainable, non-inflationary output.</i></li> </ul>			

Source: EC, COM (2015) 12, p. 20

<sup>6</sup> COM (2015) 12, 13 January 2015

In January 2015 the Commission designed a matrix that will be applied in future in order to take better account of cyclical factors in individual member states in the preventive arm of the Pact. The matrix determines the required fiscal adjustment in appropriate conditions. The higher the positive output gap is, the larger annual fiscal adjustment is required, and vice versa. The matrix also takes into account the growth rate of GDP, the level of debt and the fiscal sustainability risks. The point is that the members are expected to achieve greater savings in more favorable economic conditions in order to have sufficient fiscal space to respond in times of economic downturn.

#### *Member states in the corrective arm of the Pact*

For the member states that are in the corrective part of the Pact and which are therefore subject to the excessive deficit procedure, the Commission will continue to assess measures on the basis of structural fiscal effort, excluding cyclical developments which are not within the government's control.

#### **Projections of the overall, cyclically adjusted and structural balances for the EU**

According to the latest projections of the European Commission<sup>7</sup> in the year 2014 it is expected government deficit of 3% of GDP for the European Union, and deficit of 2,6% of GDP for the Euro area, which is a significant improvement compared to the previous years. This is the result of consolidation measures implemented by the individual member states, as well as the general improvement of economic circumstances.

For the year 2015 even lower levels of deficit are projected: 2,6% of GDP for the EU and 2,2% of GDP for the Euro area. Under a no-policy-change assumption in 2016 deficits are expected to continue the trend of reduction (Charts 1 and 2).<sup>8</sup>

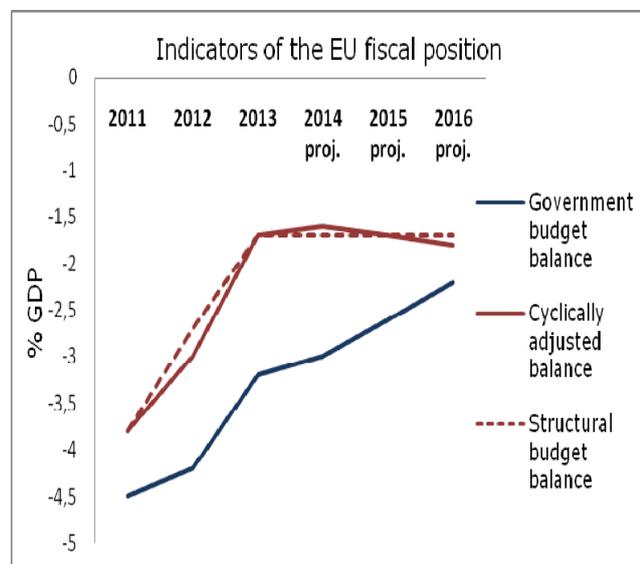


Chart 1

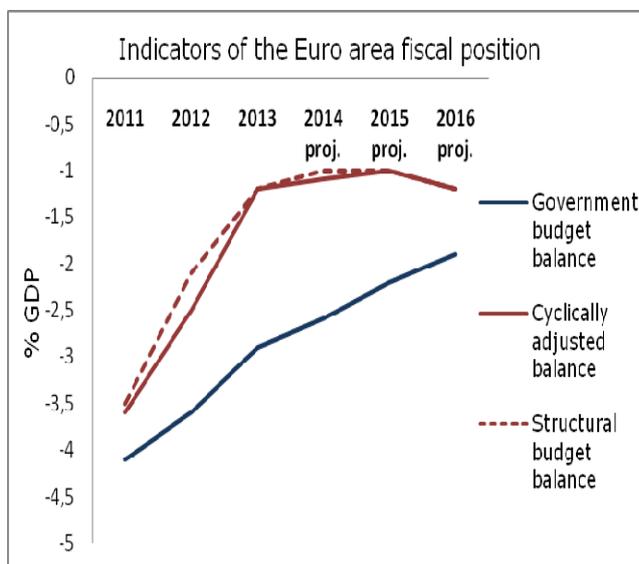


Chart 2

We can see from the dynamics of the structural deficit that, after a significant adjustment over the previous two years, the fiscal policy has been neutral in 2014. After a significant reduction in the structural deficit of the EU in the period 2011-2013, it is expected to remain stable in the period

<sup>7</sup> European Economic Forecast, Winter 2015, European Economy 1/2015

<sup>8</sup> Government balance refers to Net lending (+) / net borrowing (-)

2014-2016 and to maintain the level of 2013 (1,7% of GDP) . For the Euro area, a slight decrease of the structural deficit is projected in 2014 (from 1,2% to 1% of GDP). It is expected the same level of the structural deficit in 2015 as in 2014, and a slight deterioration in 2016 (1,2% of GDP).

We can see from Table 1 that, according to projections, the largest adjustments of structural balances in the period 2011-2014 were in Greece (8 pp), Cyprus (4,8 pp) and than in Ireland and Spain (4,1 pp each). Smaller structural adjustments are projected for the next years (between +1 pp for UK and -2,7 pp for Denmark).

Table 1. Structural budget balance, general government  
in % GDP

	2011	2012	2013	Forecast		
				2014	2015	2016
Belgium	-3,6	-3,0	-2,6	-2,8	-2,1	-2,0
Germany	-1,2	0,1	0,7	0,9	0,7	0,5
Estonia	-0,2	-0,3	-1,1	-0,7	-0,8	-1,0
Ireland	-8,0	-7,1	-4,8	-3,9	-3,4	-3,4
Greece	-6,1	-0,3	2,7	1,9	1,7	1,2
Spain	-6,2	-3,5	-2,2	-2,1	-2,3	-2,7
France	-5,0	-4,3	-3,3	-2,9	-2,6	-3,0
Italy	-3,2	-1,5	-0,8	-0,9	-0,6	-0,8
Cyprus	-5,7	-5,5	-2,1	-0,9	-1,4	-1,1
Latvia	-1,1	-0,1	-1,1	-1,6	-1,6	-1,7
Lithuania	-3,7	-2,7	-2,2	-1,9	-1,7	-1,2
Luxembourg	0,9	1,7	2,1	1,3	0,4	0,5
Malta	-3,0	-3,9	-2,7	-2,7	-2,4	-2,2
Netherlands	-3,8	-2,3	-0,6	-0,7	-0,9	-1,1
Austria	-2,5	-1,9	-1,4	-1,1	-1,0	-1,0
Portugal	-5,4	-2,3	-2,0	n/a	n/a	n/a
Slovenia	-4,5	-1,8	-1,9	-2,5	-2,2	-2,9
Slovakia	-4,0	-3,5	-1,5	-2,4	-2,0	-1,9
Finland	-0,8	-1,0	-0,6	-1,0	-1,0	-1,3
<b>Euro area</b>	<b>-3,5</b>	<b>-2,1</b>	<b>-1,2</b>	<b>-1,0</b>	<b>-1,0</b>	<b>-1,2</b>
Bulgaria	-1,9	-0,5	-1,3	-3,2	-2,7	-2,5
Czech Republic	-2,6	-1,4	0,1	-0,7	-1,7	-1,5
Denmark	-0,6	-0,1	-0,1	1,2	-1,8	-1,5
Croatia	-7,1	-4,4	-3,6	-3,4	-4,3	-4,8
Hungary	-4,3	-1,3	-1,3	-2,6	-2,6	-2,4
Poland	-5,9	-4,0	-5,0	-3,0	-2,7	-2,4
Romania	-3,3	-2,1	-1,4	-1,3	-1,2	-1,3
Sweden	0,0	0,0	-0,3	-1,3	-1,0	-0,9
United Kingdom	-5,9	-6,5	-4,4	-5,0	-4,6	-4,0
<b>EU</b>	<b>-3,8</b>	<b>-2,7</b>	<b>-1,7</b>	<b>-1,7</b>	<b>-1,7</b>	<b>-1,7</b>

Source: European Economic Forecast, Winter 2015, European Economy 1/2015

From Charts 1 and 2 it can be seen that, in contrast to the period up to 2013 when the reduction in deficit is attributable to the discretionary government measures, there are no significant changes in projections of the average structural and cyclically adjusted balances in the period from 2014 to 2016. We can conclude from this that during this period the reduction in deficit can be more attributed to the cyclical factors or one-off measures.

### Instead of conclusion

Cyclically adjusted and structural balances play an important role in assessing fiscal stability. They can be used for the assessment of fiscal space i.e. the maneuvering capacity in the government budget that can provide funds for the implementation of desired objectives without jeopardizing its financial sustainability or the stability of the economy. These are also indicators on which basis the direction of fiscal policy can be determined. With the 2005 reform of the Stability and Growth Pact, the cyclically adjusted balance has become the key indicator for conducting the policy of the European Union. On the other hand, the structural balance is the key indicator for both the assessment of achieving of Medium-Term Budgetary Objectives of the member states under the preventive arm of the Pact, and the fiscal adjustment of the member states dealing with excessive deficits, under the corrective arm of the Pact.

### Literature

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## Consolidated reports

(Author: Aleksandra Regoje)

### Table 1 (Consolidated report: B&H institutions, entities, SA)

The preliminary consolidated report includes

- revenues from indirect taxes collected by the Indirect Tax Authority on the Single Account,
- transfers from the ITA Single Account,
- revenues and expenditures of the institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Republika Srpska.\*

Report doesn't include unadjusted revenues collected on ITA SA.

*\*Includes: (A) Budget of the Republic and extra-budgetary funds recorded in Treasury General Ledger of the RS, (B) total foreign debt for the projects realized through municipalities and companies, and (C) Budget users who have their own bank accounts (including foreign project implementation units established by ministries)*

**Preliminary report: SA, B&H Institutions and entities, I 2015**

<i>(in million KM)</i>	I
<b>Revenue</b>	<b>466,2</b>
Taxes	422,5
Direct taxes	21,7
Taxes on income, profits and capital gains	20,8
Taxes on property	0,9
Indirect taxes (net)	373,6
VAT	217,9
Excises	118,6
Road fee	21,6
Customs	14,3
Other indirect taxes	1,2
Other taxes	27,2
Social security contributions	5,9
Grants	1,2
Foreign grants	0,8
Transfers	0,4
Other (non-tax) revenue	36,6
<b>Expenditure</b>	<b>398,4</b>
Expense	394,5
Compensation of employees	129,5
Use of goods and services	11,2
Social benefits	55,5
Interest	7,1
Interest payments to non-residents	3,8
Interest payments to residents	3,3
Subsidies	2,1
Grants, transfers (incl. transfers from SA**)	188,2
Other expense	0,9
Net acquisition of nonfinancial assets	3,9
Acquisition of nonfinancial assets	4,5
Disposal of nonfinancial assets	0,6
<b>Gross/Net operating balance (revenue minus expense)</b>	<b>71,7</b>
<b>Net lending /borrowing (revenue minus expenditures)</b>	<b>67,8</b>

\*\* transfers from SA include unconsolidated transfers to BD, cantons, municipalities and road funds

Table 1