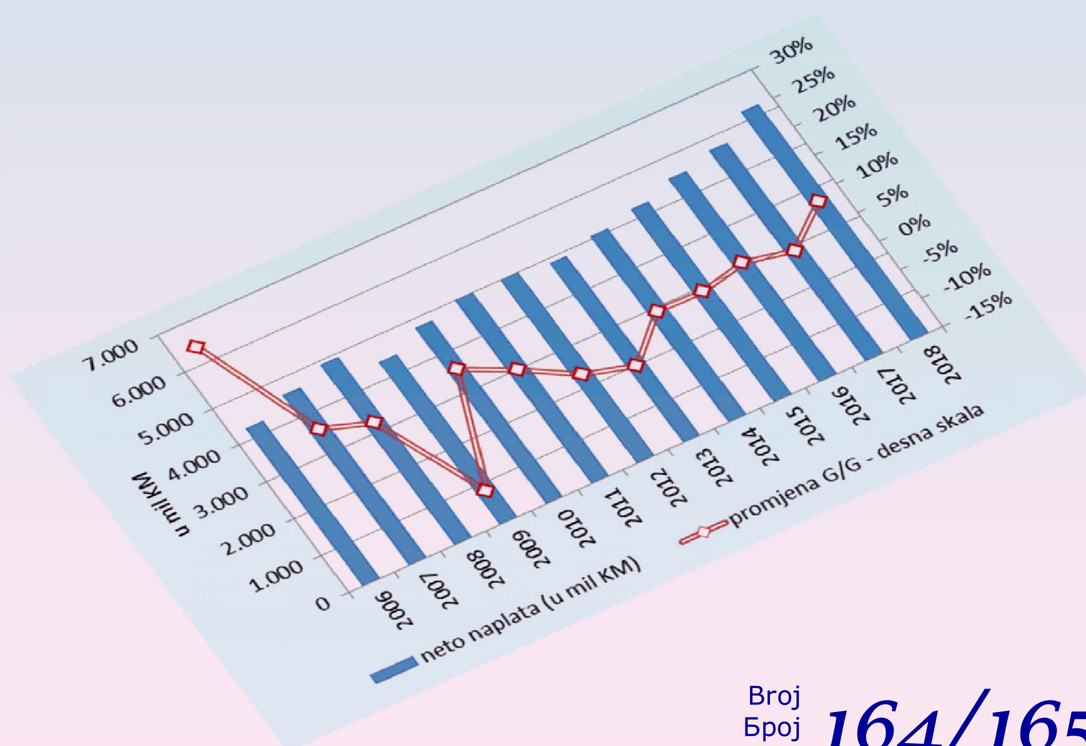
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno - neizravno oporezivanje

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

Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

OMA Bilten



Broj
Број
Number
164/165

mart/april 2019 – ožujak/travanj 2019 – март/април 2019 – March/April 2019

With this issue

In the first two months of 2019, it was recorded an increase of net revenues from indirect taxes of 5,2%. Since the Amendments to the Law on Excises, which included an increase in the rate of earmarked road tax, entered into force on 1st February 2018, the revenue collection in January 2019 includes the effects of applying the Law. After excluding the effects of the increase in the earmarked road tax rate and related VAT revenue, the growth rate of net revenues from indirect taxes amounts 3%. The growth in indirect tax revenues is burdened by poor trends in the collection of excises. After rise in excise revenues in January 2019, the revenues declined by 4,6% in February, which brought the total collection of excises to the 2018 level. After a sharp increase in excise tax on tobacco products in January 2019, which included the effect of paying the difference of excises after increasing the specific excise on cigarettes and cut tobacco as of 1st January 2019, there was a fall in consumption and thus a 13,8% excise tax revenues fall in February, due to the increase in retail prices of cigarettes. The lower collection of excises in February resulted in a negative growth of total excises on tobacco of 1,9%. Chart 1 shows a gradual reduction of revenues from domestic excise tax on tobacco, with the exception in January 2019, which may be related to large stocks of unsold products to which the excise duty had to be paid.

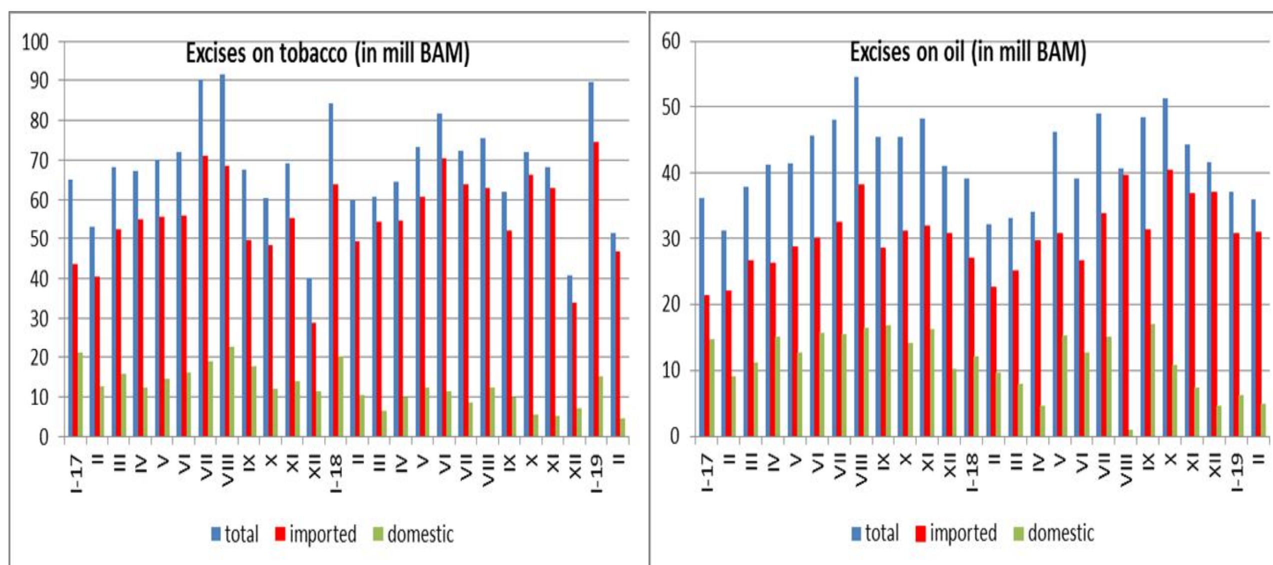


Chart 1 Chart 2

Given the fact that the Refinery is being overhauled from mid-January till further notice, it is expected the drop in turnover, and thus in the collection of excises and road tax on domestic oil derivatives. Bearing this in mind, it is also expected the substitution of domestic derivatives with the derivatives imported. Chart 2 shows a sharp reduction in the collection of domestic excises on oil derivatives over the past five months, as well as a rise in the significance of excise revenue on imported oil derivatives in the structure of total excises.

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Fiscal rules

(Prepared by: Aleksandra Regoje)

Introduction

An increasing number of countries have introduced fiscal rules over the last decades. The beginnings of application date from 1947 in Japan and 1969 in Germany. In 1990, apart from these two, three other countries applied rules covering at least the level of the central government (Indonesia, Luxembourg and the US). The application of fiscal rules has risen after the recent financial crisis, as a result of the growth of debts and deficits. Until March 2012, the number of countries has increased to 76.[1] More than 90 countries use them today.[2]

Fiscal rules impose long-term constraints on fiscal policy through numerical constraints on budget aggregates. Well defined rules allow formation of the savings in favorable economic conditions, in order to create a fiscal space for operations in unfavorable conditions. Their main goals are fiscal sustainability and responsibility, increased transparency and signalization on the directions of fiscal policy for the financial markets. They are an important part of maintaining budgetary discipline and sustainability of public debt. Their role is also important in scope of strengthening the coordination between different levels of government. Fiscal rules are often criticized for being too rigid and to "tie hands" to policy makers, especially under the conditions of a limited monetary policy. Failures in aplying the rules brought into questions their ability to maintain fiscal stability. On the other hand, striving to comply with the rules often inspired the "creative accounting" but also put the pressure on capital investment and expenditure on social benefits, especially in developing countries.

Characteristics of fiscal rules

There are three basic characteristics of a well-defined fiscal rule:

1. A permanent character, i.e. the limitation should be set for a sufficiently long period of time;
2. Defining the fiscal indicator to which the rule applies (deficit, debt, revenue, expense);
3. Numerical limit or target. [3]

No matter whether all of these criteria are met, fiscal rules can only produce results if there are effective monitoring and enforcement mechanisms.

To be effective fiscal rules should have three basic characteristics: simplicity, flexibility and applicability. The trade-off between these attributes depends largely on the specifics of individual countries. It is difficult to find a compromise between these attributes, and their priorities have changed in recent decades. The rules that were in place before the global economic crisis are called first-generation rules. They preferred to meet the criteria of simplicity and flexibility, while the accent has not been placed on the mechanisms of application or the possibility of implementation. In the last decade, "second generation" rules appeared, emphasizing the feasibility (eg through the introduction of fiscal councils, wider sanctions, etc.), with improved flexibility. [4]

[1] Schaechter et al., 2012
[2] Eyraud et al., 2018
[3] Numerical fiscal rules in EU member countries, https://ec.europa.eu/
[4] More about „second generation" rules in Eyraud et al., 2018

Types of fiscal rules

There are numerous classifications of fiscal rules in the literature. We will present here the basic classifications: by the criterion of the level of adoption and the type of budget constraint that is limited.

Criterion of the level of adoption

There are two types of rules according to the criterion of the level of adoption. The first are rules adopted by the national authorities, while others are international (supranational) - imposed through international treaties (e.g. Stability and Growth Pact) or through the conditions of international organizations (e.g. the IMF). The basic components of national fiscal frameworks are numerical fiscal constraints, independent fiscal institutions and prescribed budget procedures. An IMF document (Schaechter et al., July 2018) states that 45 countries applied national rules in response to different pressures on public finances in 2002, while 47 countries applied supranational fiscal rules in the currency unions and the EU in order to constrain individual Member States to lead a policy that is inconsistent with common goals.

Criterion of the budgetary aggregate

There are four types of fiscal rules based on the type of budgetary aggregate thet they constrain.[5] These are debt rules, budget balance rules, expenditure rules and revenue rules.

i. Debt rules set limits or targets for the level of public debt in percent of GDP. These rules are very important for securing a targeted level of public debt but it is hard for policy makers to have a significant influence on them in a short period of time. It takes a lot of time for the implementation of budgetary measures in order to achieve the significant changes in the level of debt. On the other hand, it should be borne in mind that debt level could also be affected by other factors, other than budgetary measures, such as interest rate changes and foreign exchange rates.
ii. Budget balance rules can refer to different balance definitions, such as total balance, structural balance, cyclically adjusted, etc. These rules are much more controllable by policy makers, than the debt rules, and they indirectly affect the level of public debt.
iii. Expenditure rules set limits on total, primary, or current expenditures. They can be set in absolute terms, growth rates or in percentages of GDP. These rules do not directly affect the sustainability of debt because they do not affect the revenue side. They may be incentives for creative accounting, if the government would implement certain goals through tax expenditures instead of classical expenditures.
iv. Revenue rules set ceilings or floors on revenues. They are aimed at strengthening the tax discipline or preventing excessive tax burden. Similarly to the expenditure rules, these rules do not directly affect the sustainability of debt, because, in this case, they do not concern the expenditure side.

Fiscal rules in the EU

Fiscal rules were introduced in the EU countries through the Maastricht Treaty (1992) and the Stability and Growth Pact (1997). The Stability and Growth Pact is an EU Member State agreement aimed at ensuring the stability of public finances. It was introduced by the adoption of the Resolution of the European Council on the Stability and Growth Pact in Amsterdam in June 1997. Its application began on January 1, 1999. The Stability and Growth Pact is a set of rules established to secure stable public finances of the European Union Member States, as well as to

[5] Schaechter et al., July 2018

coordinate their fiscal policies. The principle of equal treatment of all EU Member States is the basis of the Pact. Equal treatment does not mean that the same measures apply to all members, but the assessment of the economic situation must be taken into account. The level of flexibility depends on whether the 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. 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. In these cases the Excessive Deficit Procedure (EDP) is applied.[6]

Contrary to expectations, the rules have not led to stability of public finances and macroeconomic stability. At the end of 2003, the half of the EU Member States had an excessive deficit.[7] The global financial crisis has further tested the efficiency of the fiscal framework of the European Union. The fiscal framework in place before the crisis had been useful for conducting fiscal policy and coordination, but it ultimately did not prevent the creation of fiscal imbalances. After the crisis in 2008, public debt rose to an average of 95 percent in 2014, nearly 30 percentage points above the pre-crisis average.[8] The appearance of imbalances showed the weaknesses of fiscal frameworks, which set ceilings on deficits in "bad times" without setting specific rules for savings in "good times". Bad experiences have triggered the numerous measures to improve fiscal frameworks, such as the 2005 reforms; the introduction of cycle of policy coordination through the so-called European semester; introduction of the so-called Six Pack (2011); "Fiscal Compact" from 2012 and the introduction of the so-called Two Pack (2013). In order to preserve the financial stability of Eurozone members, the European Stabilization Mechanism was established in 2012 (Text box no. 1).

Text box no. 1.

European Stability Mechanism

Eurozone members established the European Stability Mechanism (ESM) in 2012. Its mission is to provide financial assistance to euro area members who have financial difficulties. The ESM raises funds by issuing money market instruments as well as medium and long-term debt with maturities of up to 30 years. It can also conclude agreements with its members, financial institutions or other parties. The member states of the euro area are ESM shareholders. The most important decisions, including those on granting financial assistance to member states, are made by agreement of the ESM board of governors. In order to receive financial assistance, it is necessary to meet rigorous conditions that may include various measures of economic policy, depending on the specificity of the country.

Sources: http://www.consilium.europa.eu
https://www.esm.europa.eu

[6] More about the Stability and Growth Pact in Regoje A., "Cyclically adjusted and structural balances as the basis for conducting fiscal policy" , OMA Bulletin no. 116
[7] Anđelković M., 2013
[8] Andrle et al., 2015

Reforms of the Pact in 2005

The Stability and Growth Pact reform was carried out in 2005, but it did not bring any significant results, as the financial crisis, which occurred already in 2008, has created enormous budget pressures. As of Stability and Growth Pact reform in 2005, cyclically adjusted balances become a key indicator for carrying policies in EU Member States. On the other hand, the structural balance is a basic indicator for assessing the achievement of the medium-term budgetary objectives of the members in the preventive arm of the Pact, as well as for fiscal adjustment of the members with excessive deficits, that are in the corrective arm of the Pact.

European Semester - 2010

European Commission established coordination of economic policies in 2010 through so-called European Semester, whose first cycle took place in 2011. The coordination cycle is called semester, because the major part of it takes place in the first six months of each year. Budgetary and macroeconomic policies of the Member States are being coordinated during these months in order to provide that the views of the European Union are taken into account at an early stage of budgetary procedures, as well as in other aspects of economic policy-making. The goal is to provide an analysis and evaluation of all policies together, as well as to cover policy areas which have not been systematically included before in economic surveillance, such as, for example, macroeconomic imbalances or financial issues. [9]

Six Pack – 2011

Six Pack is a set of legislative acts from the EU legislation adopted in order to strengthen the Stability and Growth Pact, improve fiscal control in the EU and to better align the economic policies. It consists of five regulations and one directive. It introduces a new debt reduction rule and a limitation of expenditure growth

Fiscal Compact - 2012

The second chapter of the reforms was the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (known as Fiscal Compact) agreed at the EU Summit on 30 January 2012 and signed on 2 March of the same year by all EU Member States with the exception of the United Kingdom and the Czech Republic.

Two Pack - 2013

Two Pack is a set of EU legislation aimed at strengthening economic governance in the euro area. It consists of two regulations. One regulation refers to members of the euro area with special rules for those in the corrective arm of the Pact. [10] Another strengthens surveillance for euro area members threatened or experiencing serious difficulties in maintaining financial stability.[11]

[9] More about the European Semester in Regoje A., „Economic policy coordination in the EU – the European Semester" OMA Bulletin no. 100
[10] Regulation No 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area
[11] Regulation No 472/2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability

Text box no. 2

Fiscal Compact and Six Pack

If implemented successfully, the Fiscal Compact is an important tool for securing fiscal stability. The Fiscal Compact introduces new elements for fiscal rules at national level and strengthens the fiscal framework of the Stability and Growth Pact. The Stability and Growth Pact had earlier been strengthened through the Six Pack in 2011. The countries have agreed to adopt provisions by 2014, including:

- **National structural budget balance rule.** The main novelty of the Fiscal Compact is the obligation to adopt in national legislation a rule that limit the annual structural deficit to a maximum of 0,5% of GDP or 1% of GDP for countries with a debt level below 60% and a low sustainability risk. The contracting parties ensure convergence towards their individual mid-term goals. A transition period is proposed by the European Commission, taking into account the specifics of the country.
- **Stronger enforcement of national rules.** In order to ensure enforcement of the rules, countries need to establish automatic correction mechanisms that would be triggered in cases of deviations from the rules.
- **New debt rule at the supranational level.** The Fiscal Compact and the "Six Pack" also include an obligation to continuously reduce the ratio of debt to GDP to the 60% threshold. The annual pace of debt reduction should not be less than one-twentieth of the distance between the observed debt and threshold level. This rule does not apply to the period of three years after termination of the excessive deficit procedure.
- **New expenditure benchmark at the supranational level.** The annual growth of primary expenditures, excluding unemployment benefits, should not be higher than the long-term GDP growth rate. The rule applies to countries that are not in the excessive deficit procedure.
- **Broader criteria and more automatic process to open an excessive deficit procedures.** In addition to cases of non-compliance with the deficit rule, Member States can be placed in an excessive deficit procedure (EDP) by a qualified majority of the Economic and Financial Affairs Council (ECOFIN) when they don't comply with the debt rule. In the event of non-compliance with the deficit rule, the Fiscal Compact should in principle provide more automatic triggering of EDPs, as it would be started on a proposal of the Commission unless a qualified Council majority blocks it *(so-called reverse qualified majority)*.
- **Budgetary procedures and independent fiscal councils.** For the purpose of effective implementation of fiscal rules, Six Pack sets out numerous recommendations in order to make medium-term budget frameworks more binding, make reports more timely, give a greater role to independent councils in preparing budget assumptions, etc.

Source: A Schaechter, T Kinda, N Budina, A Weber , "Fiscal Rules in Response to the Crisis—Toward the "Next-Generation" Rules. A New Dataset", IMF Working Paper, Juli 2012

EU fiscal rules database

Database of fiscal rules in the EU is available on the European Commission's web site.[12] The base includes data for all kinds of fiscal rules (budget balance, debt, expenditures, and revenues).

The database includes the following information on fiscal rules:

- Description and scope of the rule,
- Statutory base,
- Monitoring body,
- Correction mechanisms in case of deviation from rule and experiences with the rule.

The index showing the strength of fiscal rules in a country is calculated from the database information.

Directorate General for Economic and Financial Affairs (DG ECFIN) calculated the fiscal rules strength index FRSI based on the following five dimensions:

- statutory/legal base,
- binding character (possibility of revising objectives),
- bodies for monitoring,
- correction mechanism,
- resilience to shocks

For every rule, each of these five dimensions (criteria) is evaluated, and the fiscal strength indices are calculated for each fiscal rule for each year in a country.

Based on these indices and the data on which government level the rule refers to, it is calculated (one) fiscal rule index (FRI) for each country. [13]

Based on the computed indices it is noticeable the strengthening of the role of fiscal rules in almost all Member States (Table 1)

[12] https://ec.europa.eu/info/publications/fiscal-rules-database_en

[13] The index calculation methodology is available in the first Excel worksheet (Fiscal Rule Index Explanation) of the database

Table 1. Standardised fiscal rules indices for EU Memeber States

	1990	1995	2000	2005	2010	2011	2012	2013	2014	2015	2016
AT	-0,93	-0,93	0,08	0,11	0,39	0,47	0,66	0,66	0,66	0,63	0,63
BE	-0,47	0,55	0,09	0,09	0,09	0,09	0,13	0,13	1,63	1,63	1,54
BG	-0,93	-0,93	-0,93	0,65	1,12	1,49	1,74	1,74	3,37	3,58	3,58
CY	-0,83	-0,83	-0,83	-0,83	-0,83	-0,83	-0,83	1,29	1,70	1,70	1,70
CZ	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93
DE	0,35	0,35	0,35	0,35	0,64	1,07	1,07	2,89	2,89	2,89	2,89
DK	-0,93	0,33	0,33	1,02	0,91	0,09	-0,56	1,01	1,52	1,52	1,52
EE	-0,93	0,47	0,78	0,78	0,90	0,90	0,45	0,76	1,30	1,30	1,30
EL	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	0,48	0,48	0,57	0,57	0,57
ES	-0,45	-0,45	-0,45	0,91	0,80	1,47	1,96	1,96	2,24	2,27	2,27
FI	-0,93	0,11	0,70	0,72	0,03	0,16	0,12	1,53	1,50	1,50	1,50
FR	-0,73	-0,73	-0,48	-0,48	-0,01	0,41	0,41	1,58	1,50	1,58	1,58
HR	-0,93	-0,93	-0,93	-0,93	-0,01	1,22	1,22	1,22	1,22	0,30	0,19
HU	-0,93	-0,93	-0,74	-0,74	0,03	0,03	-0,93	-0,27	1,58	1,66	1,66
IE	-0,93	-0,93	-0,90	-0,71	-0,71	-0,71	-0,71	2,36	2,36	2,22	2,22
IT	-0,93	-0,93	-0,45	0,32	0,21	0,24	0,24	0,28	3,48	3,51	3,37
LT	-0,74	-0,74	-0,27	-0,27	0,20	0,20	0,22	0,22	0,22	2,17	2,77
LU	-0,84	-0,65	0,12	0,63	0,28	0,28	0,28	0,55	1,10	1,24	1,24
LV	-0,93	-0,31	-0,31	-0,31	-0,31	-0,31	-0,31	2,23	3,19	3,19	2,53
MT	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	1,96	1,96	1,96
NL	-0,93	1,01	0,63	0,63	0,63	0,63	0,70	0,70	3,26	3,19	2,41
PL	-0,93	-0,93	0,92	0,92	1,31	1,66	1,62	1,46	1,78	2,44	2,16
PT	-0,93	-0,93	-0,93	-0,24	-0,20	-0,20	-0,07	1,33	1,45	2,36	2,54
RO	-0,67	-0,67	-0,51	-0,51	-0,51	-0,51	-0,51	-0,51	2,33	2,33	2,33
SE	-0,93	-0,93	0,92	0,92	1,13	1,13	1,13	1,13	1,13	1,13	1,13
SI	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	-0,93	0,67	1,44
SK	-0,93	-0,93	-0,93	0,05	0,02	0,02	1,89	1,89	2,61	2,61	2,74
UK	-0,93	-0,93	-0,28	-0,28	-0,35	-0,36	-0,36	-0,36	-0,34	-0,52	0,35

Source: European Commission database (Data withdrawn in September 2018)

Fiscal rules in B&H

A brief overview of the legal provisions regarding the coordination of fiscal policy and fiscal rules in Bosnia and Herzegovina is presented below.

Law on Fiscal Council of B&H

The Law on the Fiscal Council of Bosnia and Herzegovina from 2008 established the Fiscal Council of B&H with the task of coordinating fiscal policy, ensuring macroeconomic stability and fiscal sustainability of Bosnia and Herzegovina, Federation of Bosnia and Herzegovina, Republic of Srpska and Brcko District B&H. The Fiscal Council has six members: the Chairman of the Council of Ministers of B&H, the Prime Minister of the RS Government, the Prime Minister of the Federation of B&H, the Minister of Finance and Treasury of B&H, Minister of the Finance of RS, and the Minister of Finance of the FB&H. The Governor of the Central Bank of B&H and the representative of BD Government have the status of observers.

According to the Law on the Fiscal Council, this body is responsible for the coordination of fiscal policy in B&H. It is responsible for adopting the Proposal of document "Global Framework of Fiscal Balance and Policies in B&H" (Text box no. 3).

Text box no. 3

Global Framework of Fiscal Balance and Policies in B&H

Global Framework of Fiscal Balance and Policies in B&H is the most important document of fiscal coordination. It includes the following:

- the proposal of fiscal objectives of the budgets of the institutions of B&H, Federation of B&H, RS and Brcko District,
- proposal of macroeconomic projections,
- proposal of indirect tax projections,
- a proposal for allocation of indirect tax revenues for the next fiscal year,
- the proposal of the ceiling of the borrowing of the budgets of the institutions of B&H, Federation B&H, RS and Brcko District.

Source: Law on the Fiscal Council of B&H, Official Gazette of B&H no. 63/08.

The Fiscal Council is also competent for adopting short-term and long-term macroeconomic projections, monitoring the realization of the set objectives and criteria in issuing and executing the budget, as well as taking off corrective measures and activities. In addition, the Council is obliged to coordinate activities in complying with the budgetary calendars in preparing, adopting, executing and auditing the budgets of the institutions of B&H, Federation of B&H, RS and Brcko District, etc. [14]

Law on Fiscal Responsibility in Republika Srpksa

The Fiscal Council of RS was established by the Law on Fiscal Responsibility in Republika Srpska.[15] The Law regulates fiscal rules, as well as the measures and procedures for the establishment of fiscal framework, limits public spending, strengthens responsibility for using budget resources and

[14] Law on the Fiscal Council of B&H, Official Gazette of B&H no. 63/08
[15] Official Gazette of the RS no. 94/15

strengthens system of control and supervision. The functions of the Fiscal Council are to analyze the macroeconomic and fiscal assumptions and projections used for the preparation of Budget Framework Document (BFD), draft and proposal of the budget of the Republic and economic policy, i.e. the Economic Reform Programme; to assess to what extent, in the previous fiscal year, the Government has respected and fulfilled the set objectives, as well as the fiscal rules defined in Law on Fiscal Responsibility in RS; assesses whether there are elements for approval of the temporary deviation, and what is the probability that the Government's adjustment plan would allow for re-enforcing of fiscal rules, etc. [16]

Fiscal rules are defined as "permanent or temporary restrictions imposed on fiscal policy to further strengthen budget discipline, improve coordination between different levels of government and establish long-term sustainable fiscal policy." Fiscal rules can be general and specific. The general fiscal rules relate to the overall budgetary system of the Republika Srpska and are defined by the Law on Fiscal Responsibility in RS. Specific fiscal rules are mandatory, automatic measures if the indicators specified by these rules reach one of the thresholds.

The general fiscal rules are (1) debt rule and (2) the rule of the consolidated budget deficit. The debt rule defines that the RS public debt at the end of the fiscal year can not exceed 55% of the realized GDP in that year. The second general rule defines that the consolidated budget deficit at the end of fiscal year can not exceed 3% of the realized GDP in that year.

The special fiscal rules define that: (1) if the public debt reaches 50% of the realized GDP in that year, the budget for the following year must be in surplus; and (2) if the consolidated budget deficit reaches 2,5% of the realized GDP in that year, the budget for the following year must be in surplus, as in case of the first special rule.

In the event that some of the general fiscal rules have not been complied with, the Government is obliged to prepare and submit to the National Assembly the Fiscal Consolidation Program with the opinion of the Fiscal Council, which will define the measures and the period for re-enforcing of fiscal rules.

Fiscal measures represent activities that are necessary for realization of the set fiscal rules. Executive municipal and city administration bodies can not submit to the municipal / city assembly a draft budget if they have not complied with the recommendations of the Ministry of Finance, i.e. they can not submit budget proposals or budget rebalances if they have not obtained the consent of the Ministry of Finance. The funds can not propose budget to the Government if they do not comply with the guidelines given in the Budget Framework Document and with the opinion of the Ministry of Finance and can not submit it to the competent body of the fund without the Government's approval. In the Law on Amendments to the Law on Fiscal Responsibility in RS, there are added provisions regarding responsibilities and deadlines for the preparation of a plan for the settlement of outstanding liabilities from the previous period for municipalities, cities and funds, as well as for budget users financed from the RS budget.

In exceptional cases (natural disasters, economic recessions and realization of major infrastructure projects), the National Assembly may, upon the reason proposal of the Government, issue a decision on approval of the temporary deviation from any of the fiscal rules. The Government submits to the National Assembly the report on temporary deviation (contains reasons for a deviation from the rules, measures that the Government plans to undertake to re-establish compliance with the rules and deadline in which the situation will be aligned with the rules) and the Fiscal Council's opinion on the report.

[16] See all functions of the Fiscal Council in Law on Amendments to the Law on Fiscal Responsibility in RS, Official Gazette of the RS no. 62/18

Law on Budgets in the FB&H

The Fiscal Coordination Body of FB&H was established in 2013 with the Law on Budgets in FB&H[17] in order to ensure the macroeconomic stability and fiscal sustainability of the FB&H. The Government appoints this Body, and it comprises of: Federal Minister of Finance, cantonal ministers of finance, and representative of the Association of municipalities and cities. Fiscal Coordination Body is responsible for: coordination of fiscal policy in FB&H; proposal of fiscal objectives of the budgets of FB&H, cantons, cities, municipalities and extra-budgetary funds; setting of macroeconomic projections and projections of total tax and non-tax revenues in FB&H; control of the implementation of fiscal rules; proposal of the budget borrowing ceilings for the budgets of FB&H, cantons, cities, municipalities and extra-budgetary funds; determining the level and projection of debt in the Federation, determining measures and activities to ensure stability of debt service, determining criteria and amount of new borrowing in line with the total Borrowing ceilings for the next fiscal year, and other competencies in accordance with Article 41 of the Law on Budgets in FB&H.

The Rules for Strengthening Fiscal Responsibility regulate that proposals of laws, regulations, provisions and other acts that the Government adopts or proposes to the FB&H Parliament must include an estimate of financial effects on the budget. The planned current budget balance must be either in surplus or balanced, except in cases of a catastrophe or natural disaster declared by legislative body, and where determined damages reach or exceed 20 percent of the executed expenditures from the previous fiscal year.

Government shall offset the fiscal deficits executed in previous fiscal years through planning the funds for covering deficit in the subsequent five fiscal years. [18]

The procedures related to borrowing and approval by the Federal Ministry of Finance must be implemented in line with provisions of the Law on Debt, Borrowing and Guarantees of the FB&H.

The Rules for Strengthening Fiscal Responsibility also apply to cantons, cities, municipalities and extra-budgetary funds. [19]

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