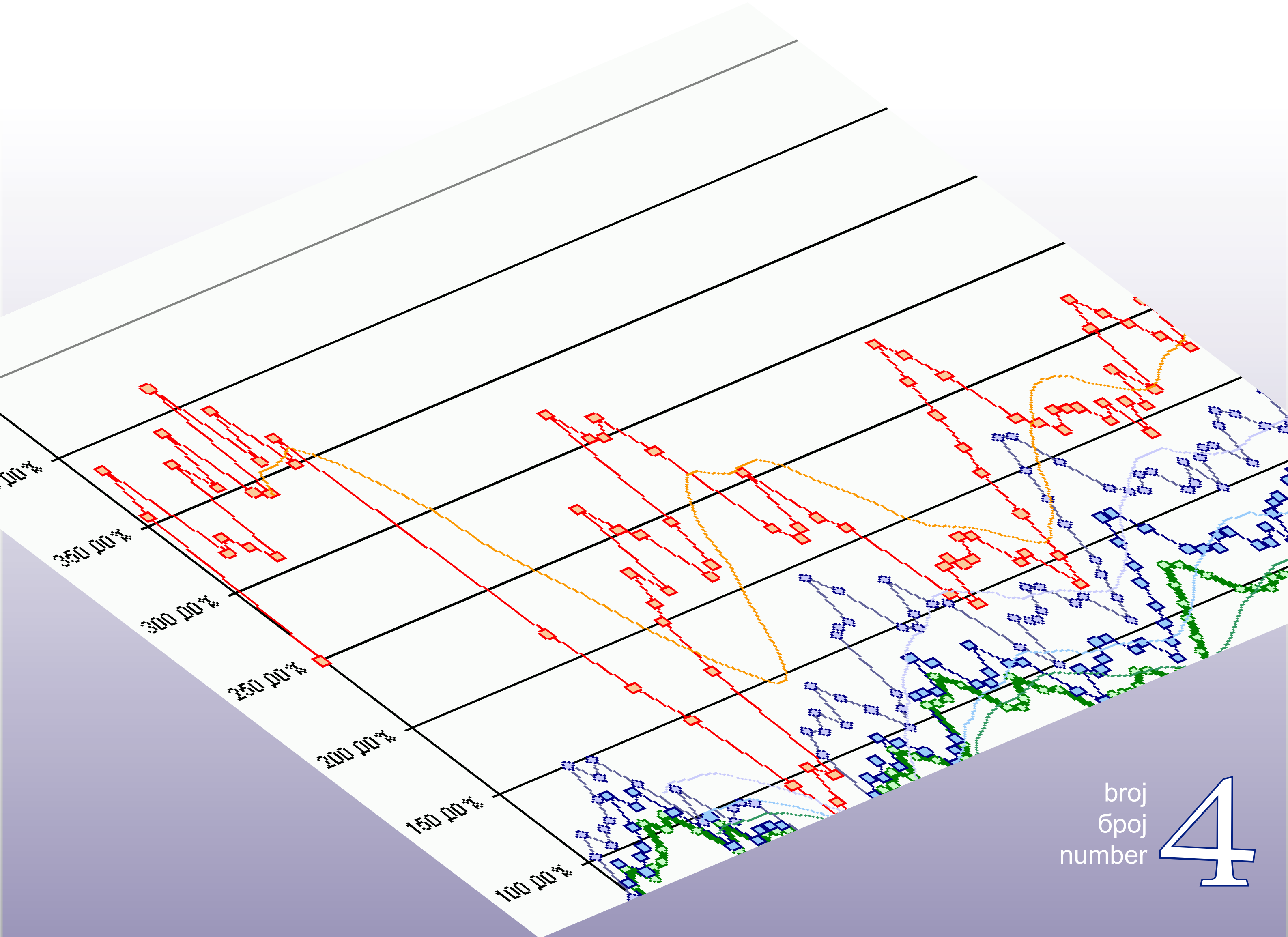
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-neizravno oporezivanje

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



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With this issue...

The end of November was marked by regular visit of the IMF mission in Bosnia and Herzegovina. Significant progress was noted in the country during 2005, support was expressed to structural reforms and efforts of domestic fiscal authorities in direction of establishing and sustaining fiscal stability.

One of important issues in negotiations with IMF mission was issue of the primary budget surplus. In his article, Prof. Paul Bernd Spahn explains term and contents of primary budget surplus as well as it's significance for new stand by arrangement with IMF.

Introduction of VAT in Bosnia and Herzegovina has effects on financial position of taxpayers. At one of it's sessions, the ITA Governing Board considered possible negative implications of VAT refund suspension, on liquidity of companies in the first year of applying VAT Law. The Unit considers this problem and possible directions for resolution.

As part of our column in the bulletin, we will present you analysis of revenues inflow to ITA single account with comparison of the same period in 2004. It's noticeable influence of change of certain parameters in terms of trade (first of all change of oil price) and change in tax policy on inflow of revenues from indirect taxes. On the basis of data on imports of excisable products, the Unit made analysis of influence for moving prices of imported excisable products on terms of trade in the last few years.

According to dynamics of receiving data from ministries of finance, as of this issue we are starting to publish monthly consolidated reports that include fiscal operations of the BiH budget and Brcko District and total revenues collected at entity level.

Dinka Antić, M.Sc.
Head of Unit – supervisor

Contents:

News: IMF mission visit to Bosnia and Herzegovina

(prepared by: Dinka Antić)

As part of the regular visit to Bosnia and Herzegovina, the IMF mission had some meetings with the National Fiscal Council. Basic issue in their discussions was fulfilling conditions of BiH authorities for new stand-by arrangement with IMF. Results of the negotiations can be summarized as follows:

1. **Agreement on fiscal architecture framework was reached**.

Fiscal council was established in 2005 as the highest fiscal authority in the country. Although the Law on Fiscal Council has not been passed yet, that was not obstacle for successful work of the Fiscal Council. The Council had series of meetings where they adopted macro projections, revenue projections including VAT, budget framework for the state in 2006, primary budget surplus and principles for it's allocation between state and entities. Efficient fiscal coordination of all authority levels is priority. In this context, it's necessary to regulate relations and competencies of the Parliament and Fiscal Council in the field of conducting fiscal policy, making budgets and complying with adopted budget frameworks.

2. **Agreement on total macro and revenue projections was reached**.

The Mission and Fiscal Council agreed on macro fiscal projections, GDP projections, consumption and revenues in the next year.

3. **There was progress in negotiations on budget parameters in 2006.**

The Fiscal Council supported IMF requests for strong control of public consumption and borrowing. Being aware of the impact of foreign assistance on budgets and fiscal stability, the Fiscal Council supported including foreign projects in official budgets as of 2007.

In the meantime, together with the Mission, it's necessary to take over methodology of project recording, establish detailed database on all projects and beneficiaries (at all levels of administration including public corporations) and develop effective mechanisms for monitoring projects in regards to adopted budget aims.

The agreement was reached on most important deadlines for joint budget calendar for all governments that should be prepared and adopted by the end of June 2006. In this way, process of preparation and adopting budgets of the state and entities for 2007 would be carried out according to the single budget calendar of BiH.

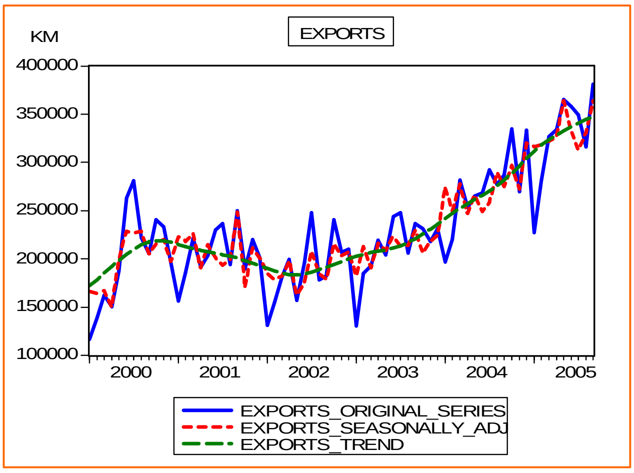
Negotiations on budget parameters will continue at the conference on medium and long term aspects of fiscal sustainability that is going to take place in Brussels on December 6th, 2005. Officials of BiH, European Commission, IMF, OHR and other relevant international organizations will be present. The next regular visit of the Mission was announced for the end of February 2006.

How the import prices affect the BiH terms of trade

(Authors: Ognjen Đukić, Macroeconomist in the Unit and Jan Werner, Visiting fellow at the MAU[1])

Bosnia and Herzegovina has improved its trade balance in the last years. In 1998 the negative trade balance amounted clearly over 50 % of the national GDP, but nowadays this deficit is approaching to the 40 % GDP level.[2]

The exports and imports in BiH have a strong seasonal influence, which can be observed in the following two figures:



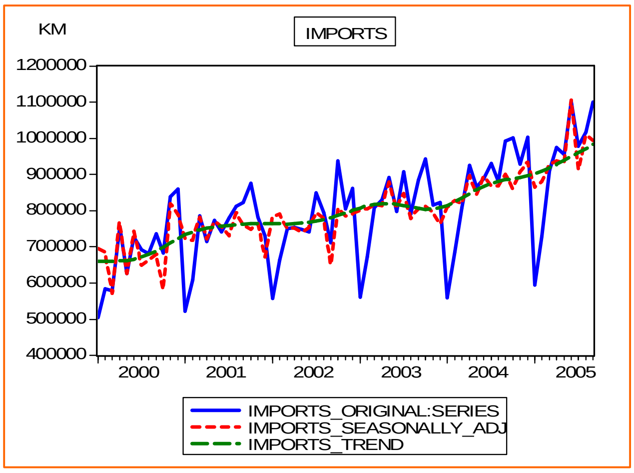


Figure 1:Development of exports from 2000-2005 *Figure 2:Development of imports from 2000-2005*
(Source: Central Bank)

A more detailed view on the imports can be found in the following figure # 3, which shows the development of the major, excisable products from January 2003 to September 2005. Besides to bear in mind that the series in the figure # 3 are not seasonal-adjusted, the huge share of oil products in the excisable, imported products is obvious:

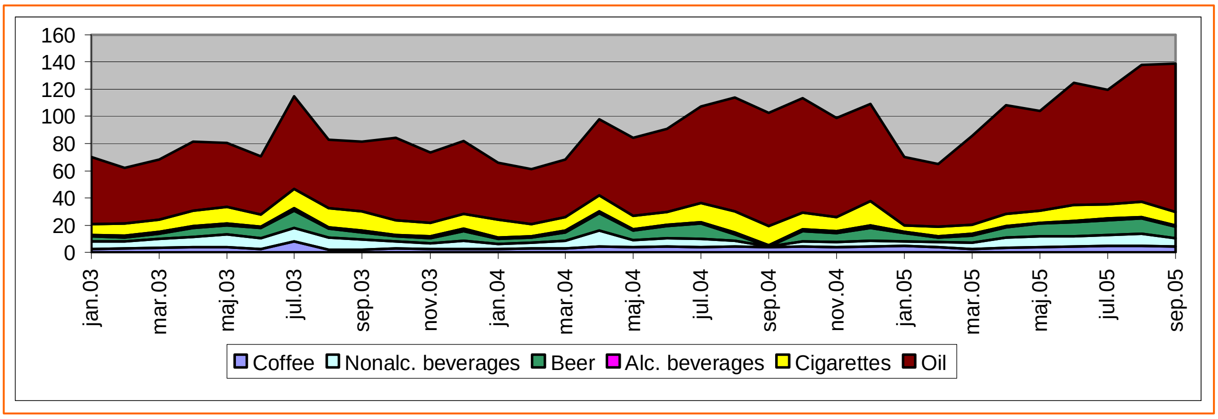


Figure 3: Absolute values in KM million of the major excisable imported products from 01 / 2003 to 09 / 2005 (by tariff codes)
(Source: own calculation)

[1] Mr. Jan Werner worked as a Consultant at the Department "Poverty Reduction & Economic Management Division" at the World Bank in Washington, USA and is a Ph.D candidate at the Johann Wolfgang Goethe-University in Frankfurt, Germany. Currently Jan Werner is also a lecture at the Université Lumière de Lyon 2 in Lyon, France.

[2] The central bank, the European Commission and the IMF show a different extent of the negative trade balance. However, all institution and their different sources of data suggest that merchandise trade deficit worsened between 2000 and 2002, but compared to 1998 demonstrate a positive development. See European Commission, 2004, page 35 and International Monetary Fond, 2004, page 6.

After a closer consideration of the figure # 3, the strong increase of the absolute value of the oil imports from January 2005 to September 2005 is noticeable. Therefore the next figure # 4 deals with the expansion of the quantity and prices of the oil imports in the period of January 2003 to September 2005:

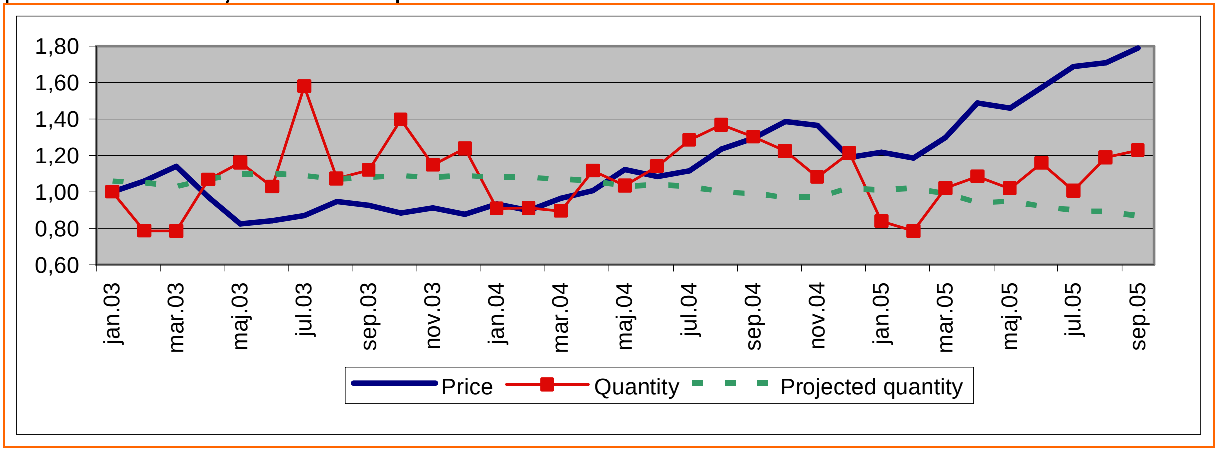


Figure 4: Development of the quantity and the price of imported oil products (January 2003 = 1)
(Source: own calculation)
Based on the results from figure # 4, the strong increase of the absolute value of oil imports in BiH in fist three quarters of 2005 can be explained by the price increase and not by an increase of the imported quantity. The line "Projected quantity" represents a projection of oil imports based on the correlation coefficient between the imported quantities and the price after all other factors affecting the oil imports have been removed. This line reveals how the oil imports would develop if the price was only factor determining the imported quantities. It shows that the demand for imported oil is negatively correlated with price, which can be seen from the figure # 4.

Furthermore the price of imported oil has developed a very similar pattern with the aggregate prices of all excisable imports. As a matter of fact the aggregate price level is highly influenced by the oil price. Both aggregate price indexes – Laspeyres and Paasche – have increased from January 2003 to September 2005, while since March 2005 the oil price increase has been stronger compared the two the price indexes, which can be observed in the following figure # 5. The price of oil increased by 79 % in the period January 2003 – September 2005, while the Laspeyres and Paasche indexes are with an increase of about 54 % and 51 % respectively in the same period.

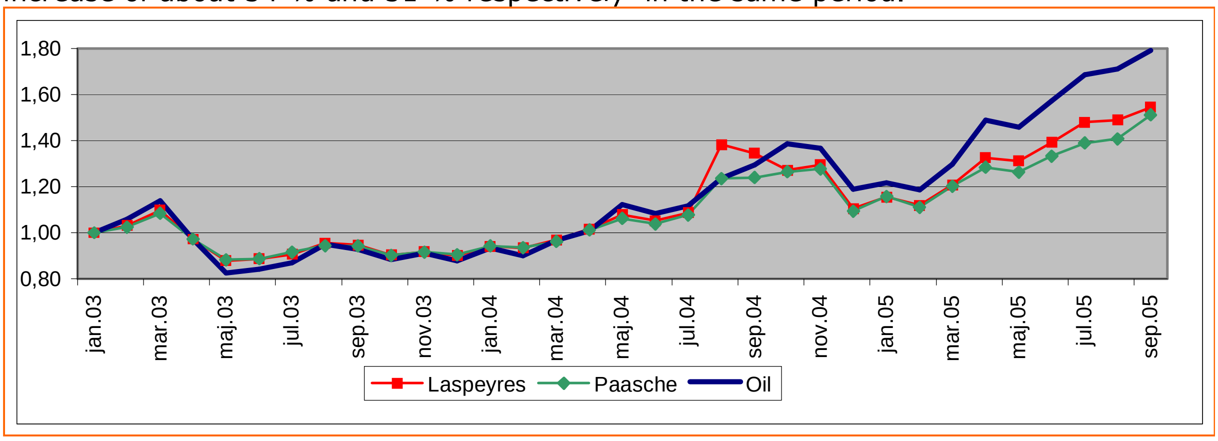


Figure 5: Development of the price indexes for imported excisable products and oil (January 2003 = 1)
(Source: own calculation)
It can be summarised that the oil price has a strong impact on the BiH terms of trade. The oil-price increase of 79% leads to a transfer of income from importing to exporting countries through a shift in the terms of trade. The exact size of this shift could be

estimated only after a consideration of the price developments of all imports as well as of exports. Worsening of the terms of trade means that a country needs to export more for the same quantity of imports.

Generally spoken, the volume of a direct effect of the oil price increase onto the domestic price level depends on the share of the cost of oil in national income, the degree of dependence on imported oil and the ability of end-users to reduce their consumption and switch away from oil. For this reason the development of domestic price level in BiH should be closely monitored. One major advantage of the actual currency board is the relative low inflation rate in BiH. However, an imported or rather a cost driven price increase can not be avoided by the currency board.

References:

European Commission (2004): *The Western Balkans in transition*, Occasional Papers No. 5 of the Directorate-General for Economic and Financial Affairs, Brussels / Belgium

International Monetary Fond (2004): *Bosnia and Herzegovina: Selected Economic Issues*, IMF Country Report No. 04/54, Washington, DC / USA.

Primary Budget Surplus: What is it? Why have it?

(author: Prof. Dr. Paul Bernd Spahn, Macro Fiscal Advisor)

The IMF has suggested the consolidated government budgets in Bosnia and Herzegovina to generate a primary budget surplus of 1.5 percent of GDP in 2006. Based on the official GDP forecast this is about 231 million KM. A "primary" budget surplus is usually defined as the headline balance of the budget, which is total revenues minus expenditures on a commitment basis, plus interest payments. In the case of Bosnia and Herzegovina the IMF concedes corrections in that severance payments are not counted as expenditures, and only half of the revenue from GSM licenses, which could also count as financing "below the line", is considered regular revenue. Both concessions ease the budget constraint somewhat, and they could provide incentives to restructure the budgets, for instance through severance pay. The headline balance for 2006 after these corrections was estimated to be roughly 202 million KM on a consolidated basis. The governments would of course be able to count scheduled savings (such as the amortization of debt) against the primary budget surplus. But the IMF had proposed to put a ceiling on the redemption of domestic claims and restitutions of 1 percent of GDP.

Why a budget surplus target?

A budget surplus target is an important policy instrument in view of achieving macroeconomic stability. And macroeconomic equilibrium is in a critical condition in Bosnia and Herzegovina. It is a fact that neither households nor business enterprises generate any savings in the aggregate. Savings of both sectors are negative. As a result the country is continuously expanding its foreign debt, which is non-sustainable. In 2006, the current account will again be in deficit by approximately 15 percent of GDP according to MAU's estimates, and over 20 percent according to the IMF. Whatever number is correct: There is urgent need to redress the macroeconomic balance, in particular as foreign funding of economic activities in Bosnia and Herzegovina is drying out.

A primary budget surplus mobilizes savings through the public sector where there is a lack of savings in the private sector. Moreover it helps to establish fiscal discipline and to avoid the spiraling up of government debt, which could render fiscal policy unsustainable over the longer run. Of course fiscal policy is not the only tool to establish that balance, and not even the most appropriate to address the structural problems of the economy. For the medium term policy instruments such as corporate restructuring or greater flexibility in the labor market are better suited to stimulate productivity and income growth, which are essential to generate savings and allow the financing of capital formation on a sustainable path. But structural policies bear fruit only over time, while fiscal policy is more effective at short notice. This is why a primary budget surplus of the consolidated public sector is useful as a short run budget constraint. It is obvious however that sustainable economic development requires actions well beyond the realm of fiscal policy, and a willingness to address fundamental economic problems through structural policies.

How to coordinate budget policies?

The National Fiscal Council represents an innovative institutional element in a decentralized political environment and an extremely positive advance for fiscal policy coordination in Bosnia and Herzegovina. To support its work, MAU had projected the scope of government finances in the country on the basis of the macroeconomic outlook prepared by EPPU. The revenue estimates for 2006 are basically in line with the estimates of competing institutions, including the IMF, forming the guidelines for decisions by the National Fiscal Council on October 27, 2005.

The NFC has basically adopted these guidelines, but agreed on a total of 197.3 million KM for the primary budget surplus, which was somewhat lower than the targets proposed by both MAU and the IMF. The decisions included a resolution on the State's share of the

Single Account and the allocation of the primary budget surplus among Entities, which allowed the authorities to complete their budget proposals for the coming year.

However the calculations of the primary budget surplus as adopted by the NFC did not include foreign financed projects, which in Bosnia and Herzegovina are registered and monitored off budget. It is indeed common to apply budget restrictions to a comprehensive view of the public sector. For instance, the Maastricht public deficit and debt criteria of the European Union apply to the whole public sector, including central, state and provincial, municipal, and extra-budgetary funds such as social security institutions. The same is true for the primary budget surplus target proposed by the IMF. This would become a controversial issue in the dealings with the IMF, which insisted on including these projects for determining the target.

What means including foreign financed projects?
Foreign financed projects are financed either through grants or loans. Grants constitute both final revenues and expenditures and do not affect the primary budget surplus. However the target is affected to the extent that such projects are financed through borrowing. This borrowing "off budget" would necessitate corresponding extra savings "on budget" to reach a given target if foreign financed projects are included. Moreover, this borrowing for projects would have to be allocated onto budget beneficiaries at least by Entity, if not by canton or municipality.

The IMF insisting on the inclusion of these deficits necessitates a re-calculation of the primary budget surplus and its allocation onto Entities. This is not a trivial exercise as there is no accepted methodology for doing this. The IMF's estimates of borrowings against foreign financed projects are substantially higher than the authorities' projections. The difference hinges mainly on the estimations of payouts over time, which could vary substantially. The payouts depend on external parameters such as the signing and ratification of contracts, the fulfillment of conditions imposed by creditors, contingencies imposed by procurement and tendering procedures, the progress of works, etc. Moreover some of the larger projects (such as for electricity or water) are executed by companies and are hence outside the control of governments. Although international creditors request state guarantees in these cases, the loans flow directly to companies and are managed by them. Finally, these investments generate their own revenue (such as user charges), which is used to service the debt.

The discussions between the NFC and the IMF on the inclusion of foreign financed projects proved to be inconclusive in the end. The IMF was prepared to accept the authorities' estimates of payouts for foreign financed projects, but only in the form of annual ceilings to control the consolidated primary budget surplus. A higher "cap" on foreign financed project would allow capital spending at the expense of current spending such as wages and transfers to household. A lower "cap" would work in favor of the latter, but constrain public investments instead. The trade-off could be exerted individually by Entity, but under all circumstances the benchmarks would include the higher payout estimates of the IMF.

What is the outcome?
The discussion on the primary budget surplus was crucial in that it decided on the possibility of an IMF program. The authorities emphasized their great interest in having such a Stand-By Agreement, but in the end they were not prepared to accept the inclusion of foreign financed projects at the 1.5 percent level. The decision was corroborated by the fact that the IMF requested an additional contingency reserve of 1 percent of GDP to be released eventually on the basis of a list of delayed payments during the course of next year. The main argument of the authorities was that the inclusion of investment projects would reduce social spending, which – in particular in view of the implications of VAT for the poor – could jeopardize political stability in the country.

The positive side of this outcome is that the authorities are now fully aware of the macroeconomic policy implications, which facilitates the implementation of future structural policy decisions eventually. They also recognize the benefits of fiscal policy coordination. As a concrete step there is agreement on bringing foreign financed projects "on budget" from 2007 on . And they have agreed on a primary budget surplus of 1.5 percent of GDP but without including foreign financed projects."

In the focus: Implications of VAT refunds

(prepared: mr.sc. Dinka Antić)

Problem of refunds in the starting period of VAT application in Bosnia and Herzegovina

One of the basic principles of Value Added Tax system is **principle of neutrality**. This principles means VAT neutral impact on revenues and profit of companies and economic position of company-VAT taxpayer at the market. VAT neutrality is implemented through **credit mechanism of automatic chain deduction** of VAT. Accordingly, every VAT taxpayer has right to deduct input VAT stated on invoices of suppliers for goods or services from the amount of output VAT shown on invoices issued to buyers.

If input VAT is higher than output VAT in the given tax period, taxpayer is entitled to refund of amount above VAT liability. VAT refund is implemented by transfer from the budget account to taxpayer's account. Since VAT refund represents outflow of funds from budget and delayed compensation of outflow from budget for taxpayer, through which taxpayer financed the state budget, question of stability of financing the state and keeping liquidity of taxpayers is of great significance. In the light of VAT introduction, this question becomes even more delicate as abolishing of revenues from sales tax, all levels of government, starting from state to local communities, will become directly dependent on efficiency of VAT collection performed by ITA. With the aim of protecting budget of BiH, payment of refunds to companies who are not exporters will be suspended for one year.

Refunds and financial position of companies

Occasional stating of right to refund is normal since we can expect stating of tax liability in future period. From the perspective of budget funds management, occasional refunds do not have negative effects on the budget. In the other hand, suspension of occasional refunds should not have significant consequences on liquidity of companies. However, suspension of refunds can affect taxpayers who accumulate high amounts of VAT for refund over the period of time.

Apart from exporters who realize most of their sales at foreign market, right to refund in longer term might have:

- Business activities that are under influence of seasonal work (agriculture and food industry, tourism, hotels or transport of passengers etc.)
- Business activities that have long production cycle and long periods of purchases (construction, ship building, process industry)
- Big investments in machinery and equipment that require longer period of return on investment.

Experiences of EU members

Analysis of influence of refund deadlines is closely related with analysis of deadlines for filing declarations and taxation periods. As part of their VAT systems, large number of EU countries introduced number of VAT declarations:

- monthly – for companies that continuously realize refunds (exporters) and for large companies that have high VAT liabilities;
- annual - for small companies under defined annual threshold
- quarterly – for all other companies

In regards to the issue of abolishing suspension of refunds, it's important to review position of other companies in EU members. Scale of different taxation periods influences deadlines for VAT refunds. Depending on member country, declaration is filed within 10 to 45 days upon the end of taxation period (month, quarter, year) and refunds are realized soon after filing declaration. It means that exporters get refunds within short time, small companies once a year and other companies get it four times a year, i.e. every 90 days. If we take into consideration taxation period of three months, it would mean that in some countries other companies can wait up to six months to get VAT refunds on big purchases or imports done in beginning of the period.

So, even in countries regulated legally and economically, having long tradition of VAT application, developed tax administrations and established system of fighting against frauds at country and EU level, state authorities prefer to protect budget revenues of members and uninterrupted financing of EU institutions. In balance of power and significance between macroeconomics and microeconomics, macroeconomic stability and fiscal sustainability prevails.

Directions for possible solutions of problem

In the starting phase of VAT application in Bosnia and Herzegovina and in interest of budget protection, the question is if it's possible to reduce negative effects of refund suspension on liquidity of companies, without interventions in the VAT Law? Introduction of VAT required fiscal reform in Bosnia and Herzegovina, new management structure and restructuring of the fiscal system. In the same way, VAT requires structural adaptation of banking sector and business. Since the problem is of financial nature, there is urging in cooperation between business and banks that can offer open loans or give guarantees and secure liquidity of companies in the starting period of VAT application. These days banks provide guarantees for payment of customs debt or imports, exports and capital investments. Banking sector should very interested in maintaining liquidity of its clients in VAT conditions, since companies have liabilities towards them and bad financial position of clients would jeopardize position of banks.

Introduction of VAT should be utilized by companies to work on restructuring, new organization, new market strategies and approach to business policy. This should be especially observed by specific business and producers who were not taxpayers of sales tax. Turn in business policy means keeping equal engagement of capacities during a year through taking additional activities in periods with low engagement of main activity. This should be carried out through horizontal diversification, joint investment operations or merger with other companies. These activities should be followed by daily management of cash, stock, claims and liabilities. Short term activities will contribute to maximum utilization of VAT advantages, balance of input and output VAT during a year, maintaining liquidity and overcome starting phase of VAT application. Long term activities in structural changes will result in increase of sales, profitability and growth of companies which will have positive effects on growth of budget revenues in Bosnia and Herzegovina.

Monthly Consolidated Reports January – October 2005

Prepared by: Aleksandra Regoje, research worker assistant in the Unit

in mill KM

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Q1	Q2	Q3	Q4	total
Current Revenue	**168,8**	**174,2**	**220,9**	**213,5**	**242,3**	**364,0**	**269,5**	**281,0**	**258,7**	**226,9**			**563,9**	**819,9**	**809,2**	**226,9**	**2419,9**
Taxes	159,7	158,3	200,0	201,3	224,3	226,9	221,7	261,0	236,9	208,9			518,0	652,5	719,6	208,9	2098,9
Indirect taxes	142,0	139,3	171,3	187,8	208,3	211,6	206,8	246,7	222,2	193,6			452,6	607,7	675,7	193,6	1929,7
Customs duties	31,8	36,1	45,8	48,1	52,7	53,7	49,7	55,9	59,4	54,5			113,7	154,5	165,0	54,5	487,7
Sales Tax	45,9	44,6	56,6	61,7	70,4	69,4	72,1	84,5	73,2	65,9			147,2	201,5	229,8	65,9	644,3
Excises	54,8	49,0	56,4	64,5	70,6	72,1	69,3	87,3	73,8	60,4			160,2	207,2	230,3	60,4	658,1
Railroad tax	9,3	9,3	12,1	13,1	14,2	15,5	15,4	18,7	15,3	12,2			30,7	42,8	49,3	12,2	135,1
Direct taxes	17,6	19,0	28,7	13,5	15,9	15,3	14,9	14,4	14,6	15,3			65,4	44,7	43,9	15,3	169,2
Non-tax income	9,0	15,9	20,9	12,2	18,0	137,1	33,1	19,9	21,8	17,7			45,8	167,2	74,8	17,7	305,5
Grants, gifts	0,1				0,1	0,1	14,7	0,1		0,4			0,1	0,2	14,8	0,4	15,5
Current expenditures	**125,2**	**198,2**	**218,9**	**219,1**	**233,4**	**292,0**	**198,4**	**237,7**	**228,3**	**219,2**			**542,2**	**744,6**	**664,4**	**219,2**	**2170,4**
Consumption expenditures	30,9	54,8	71,7	64,0	62,2	94,9	41,1	59,3	60,9	67,8			157,4	221,1	161,3	67,8	607,6
Salaries and non-wage labor costs	25,2	45,6	62,4	53,9	53,4	85,2	32,6	52,1	52,6	56,6			133,1	192,5	137,2	56,6	519,5
of which: Compensations	1,7	10,9	13,1	13,2	13,2	29,3	2,9	14,4	14,5	15,1			25,7	55,8	31,8	15,1	128,4
Purchases of goods and services	5,8	9,2	9,3	10,1	8,8	9,7	8,5	7,3	8,3	11,2			24,3	28,6	24,1	11,2	88,1
Grants	32,8	60,4	60,1	62,2	60,0	103,2	66,1	60,7	65,9	63,4			153,3	225,4	192,7	63,4	634,8
Transfers to households	8,8	37,8	35,7	38,9	36,5	78,3	39,5	37,4	41,8	38,1			82,4	153,7	118,7	38,1	392,9
Transfers to organizations/institutions	19,8	15,5	19,0	14,1	16,8	16,1	14,4	13,1	14,3	16,3			54,2	46,9			
Subsidies	4,2	7,1	5,4	9,3	6,7	8,7	12,2	10,2	9,8	9,1			16,7	24,8	32,2	9,1	82,7
of which: Public enterprises																	
Interest payments	0,4	3,0	2,0	1,4	5,1	4,4	0,4	4,3	2,2	1,8			5,3	10,9	6,9	1,8	24,9
Other outlays	5,5	9,2	10,6	9,6	8,0	6,7	10,3	8,5	9,7	8,9			25,3	24,3	28,5	8,9	87,0
Transfers from Single Account	44,2	45,1	60,9	64,3	62,5	69,0	66,8	81,4	72,2	62,8			150,2	195,8	220,4	62,8	629,2
BiH Budget	18,6	19,6	23,5	20,6	20,6	21,5	20,6	22,5	21,5	20,6			61,7	62,6	64,6	20,6	209,4
FBiH/cantons, Road Directorate	16,8	15,4	25,0	27,9	27,4	32,8	32,0	37,9	33,6	28,7			57,1	88,1	103,5	28,7	277,4
RS / municipalities, cities, Road	5,8	6,1	7,4	10,2	8,3	8,2	7,8	13,0	10,2	7,7			19,3	26,6	31,0	7,7	84,6
Brčko	3,1	4,0	5,1	5,7	6,2	6,5	6,3	7,7	6,8	5,8			12,2	18,4	20,8	5,8	57,1
Amortization of debt																	
of which: foreign debt	10,5	24,8	12,7	16,3	34,7	12,4	12,7	22,4	16,4	13,6			47,9	63,4	51,4	13,6	176,4
Transfers to higher levels of authority																	
Transfers to Municipalities	0,9	0,9	0,9	1,3	0,9	1,5	0,9	1,1	1,1	0,9			2,7	3,7	3,2		
Government Savings (1 - 2)	**43,6**	**-24,0**	**2,0**	**-5,6**	**8,9**	**72,1**	**71,2**	**43,3**	**30,3**	**7,7**			**21,6**	**75,3**	**144,8**	**7,7**	**249,5**
Capital outlays	1,6	3,5	1,9	1,7	2,4	33,3	15,3	3,3	1,9	2,6			6,9	37,4	20,5	2,6	67,4
Government surplus/deficit (3-4)	**42,1**	**-27,5**	**0,1**	**-7,4**	**6,5**	**38,8**	**55,9**	**40,0**	**28,4**	**5,1**			**14,7**	**37,9**	**124,4**	**5,1**	**182,1**

Table 1. Montly consolidated Reports January – October 2005.

Monthly Consolidated Reports January – September 2005

Prepared by: Aleksandra Regoje, research worker assistant in the Unit

in mill KM

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Q1	Q2	Q3	Q4	total
Current Revenue	**443,2**	**499,1**	**548,1**	**537,4**	**554,5**	**702,2**	**626,8**	**626,6**	**601,4**				**1490,3**	**1794,1**	**1854,8**		**5139,1**
Taxes	**264,1**	**249,4**	**310,1**	**304,7**	**331,4**	**336,3**	**336,8**	**378,1**	**349,5**				**823,6**	**972,4**	**1064,4**		**2860,4**
Indirect taxes	**228,9**	**206,3**	**251,7**	**262,8**	**288,9**	**293,6**	**290,3**	**335,2**	**305,2**				**686,9**	**845,3**	**930,7**		**2462,9**
Customs duties	31,9	36,1	45,9	48,1	52,7	53,6	49,7	55,9	59,5				114,0	154,5	165,1		433,6
Sales Tax	128,1	110,9	135,9	136,4	150,8	151,2	155,4	172,8	156,0				374,9	438,4	484,2		1297,6
of which on imports	30,3	22,8	28,2	32,9	35,3	39,1	35,2	44,2	41,3				81,3	107,3	120,6		309,3
Domestic exciseable products	7,2	7,1	7,6	9,4	12,2	10,8	14,5	17,5	11,1				21,8	32,4	43,0		97,2
Other products	57,4	51,1	64,4	61,2	66,1	67,3	68,5	75,9	70,8				172,9	194,6	215,3		582,8
On services	28,1	27,4	32,5	30,3	34,7	32,1	35,6	34,1	31,5				87,9	97,1	101,2		286,3
Other	5,1	2,5	3,3	2,6	2,4	1,9	1,7	1,1	1,3				11,0	7,0	4,1		22,0
Excises	55,4	49,5	56,8	64,7	70,6	72,2	69,3	87,3	73,8				161,7	207,6	230,4		599,7
on imports	39,6	36,5	43,5	49,7	51,5	56,2	48,5	62,9	56,0				119,6	157,5	167,4		444,5
on domestic production	15,8	13,0	13,3	15,0	19,1	16,0	20,8	24,4	17,8				42,1	50,1	63,0		155,2
Railroad tax	13,2	9,5	12,5	13,2	14,3	15,6	15,4	18,8	15,4				35,2	43,0	49,6		127,8
Other taxes	0,3	0,4	0,5	0,4	0,5	0,9	0,4	0,4	0,5				1,1	1,8	1,3		4,3
Direct taxes	**35,2**	**43,1**	**58,5**	**41,9**	**42,4**	**42,8**	**46,4**	**43,0**	**44,3**				**136,7**	**127,1**	**133,7**		**397,5**
Income taxes	35,2	43,1	58,5	41,9	42,4	42,8	46,4	43,0	44,3				136,7	127,1	133,7		397,5
Corporate income	7,9	10,4	16,2	6,3	5,0	6,0	7,0	6,2	6,3				34,4	17,2	19,5		71,2
Other income	6,4	8,7	10,5	7,0	6,7	6,4	6,8	6,7	7,2				25,5	20,1	20,7		66,4
Other direct taxes	21,0	24,0	31,8	28,6	30,8	30,4	32,7	30,0	30,7				76,7	89,8	93,4		259,9
Non-tax income	22,8	79,8	35,5	28,4	41,3	153,5	71,1	42,0	39,4				138,1	223,2	152,4		513,7
Local government revenue																	
Social security contributions	137,8	146,5	179,1	168,1	161,5	178,3	181,8	182,6	184,1				463,4	507,8	548,4		1519,7
Other income	16,4	23,0	22,9	34,5	20,0	26,9	22,6	23,5	21,7				62,4	81,4	67,8		211,6
Grants, gifts	2,1	0,3	0,4	1,7	0,4	7,2	14,6	0,4	6,7				2,8	9,2	21,7		33,7
Transfers from higher level of gov.				0,0		0,0	0,0	0,0	0,0					0,0	0,1		0,1

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Q1	Q2	Q3	Q4	total
Current expenditures	**380,2**	**509,2**	**531,5**	**513,2**	**532,0**	**608,2**	**532,2**	**563,8**	**547,2**				**1420,9**	**1653,4**	**1643,3**		**4717,6**
Current expenditures	57,8	84,3	104,5	98,0	95,8	133,9	71,3	92,2	94,4				246,7	327,7	257,9		832,2
Wages and compensations	42,5	64,5	83,6	73,7	74,6	109,9	53,7	75,1	74,6				190,7	258,2	203,4		652,3
Wages	38,4	51,0	67,1	57,3	58,0	73,0	47,1	55,8	56,2				156,5	188,3	159,1		504,0
of which: Social security contributions																	
of which: Income taxes																	
Non-wage labor costs	4,1	13,5	16,5	16,3	16,6	37,0	6,5	19,4	18,4				34,1	69,9	44,3		148,3
Purchases of goods and services	12,5	17,0	18,0	20,3	17,5	20,6	17,4	16,7	19,8				47,5	58,3	53,9		159,7
Other current expenditures	2,8	2,8	2,8	4,1	3,7	3,3	0,2	0,4	0,0				8,5	11,1	0,6		20,2
Grants	171,1	207,7	240,0	229,6	222,0	283,6	250,0	244,1	251,5				618,9	735,2	745,5		2099,7
Transfers to housholds	9,5	38,6	36,5	40,0	37,5	80,4	42,1	39,2	44,4				84,6	157,9	125,7		368,2
Transfers to organizations/institutions	20,5	16,2	19,7	15,1	17,5	17,6	15,3	13,4	14,5				56,3	50,2	50,4		
Transfers to funds based on social security contributions	136,9	145,9	178,5	165,2	160,2	176,9	180,4	181,3	182,8				461,3	502,3	517,6		
Subsidies	4,2	7,1	5,4	9,3	6,7	8,7	12,2	10,2	9,8				16,7	24,8	32,2		73,7
of which: Public enterprises																	
Interest payments	0,4	3,0	2,0	1,4	5,1	4,4	0,4	4,3	2,2				5,3	10,9	6,9		23,1
of which: on foreign debt																	
Other outlays	5,7	9,4	10,7	9,8	8,2	6,8	10,3	8,5	9,8				25,8	24,8	28,6		79,2
Transfers from Single Account	0,0	0,0	0,0	0,0	0,1	0,0	0,1	0,2	0,1				0,0	0,1	0,4		0,5
Reserve			0,0	0,0	0,1	0,0	0,1	0,2	0,1				0,0	0,1	0,4		0,5
Amortization of debt																	
of which: foreign debt	10,5	24,8	12,7	16,3	34,7	12,4	12,7	22,4	16,4				47,9	63,4	51,4		162,7
Transfers to higher level of gov.																	
Transfers to lower (incl. transfers from Single Accounts)	134,8	180,1	161,5	158,1	166,0	166,8	187,3	192,2	172,9				476,3	490,9	552,3		
Government Savings (1-2)	**62,9**	**-10,2**	**16,6**	**24,2**	**22,5**	**93,9**	**94,6**	**62,8**	**54,1**				**69,3**	**140,7**	**211,5**		**421,5**
Capital outlays	1,9	3,6	1,9	2,1	2,4	33,6	16,7	3,9	9,2				7,4	38,1	29,9		75,4
Government surplus/deficit (3-4)	**61,0**	**-13,8**	**14,7**	**22,1**	**20,1**	**60,3**	**77,9**	**58,9**	**44,9**				**61,9**	**102,6**	**181,6**		**346,1**

Table 2. Montly consolidated Reports January – September 2005.

Notes to Report (table 1):

1. The consolidated report (table 1) 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 Report (table 2):

1. The consolidated report (table 2) includes:
- revenues from indirect taxes collected by the Indirect Tax Authority on the Single Account,
- revenues of the budget of Bosnia and Herzegovina,
- revenues of the Federation of Bosnia and Herzegovina, the Republika Srpska and Brčko District,
- expenditures of the budget of the Federation of Bosnia and Herzegovina, the Republika Srpska and Brčko District.

2. Revenues of the entities include the revenues collected by the Treasury of the entities.

3. Transfers to lower levels (cantons, muinicipalities, Road Directorates, etc.), which are distributed on lower levles in accordance with entity legilislation, include transfers from the ITA Single Account and transfers of other revenues collected at the level of the entities.

4. 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.

ITA Single Account

Indirect Taxation Authority (ITA) collected almost 90% of planned revenues in ten months of 2005. In October 2005 there was further decrease in collection of indirect taxes in comparison with previous month. However, the collection is 5% higher compared to the same month in 2004. Such trend reflects cyclic or seasonal changes in terms of trade with abroad as well as changes in oil price. As you can see in the figure #6 we had similar trend in collection last year.

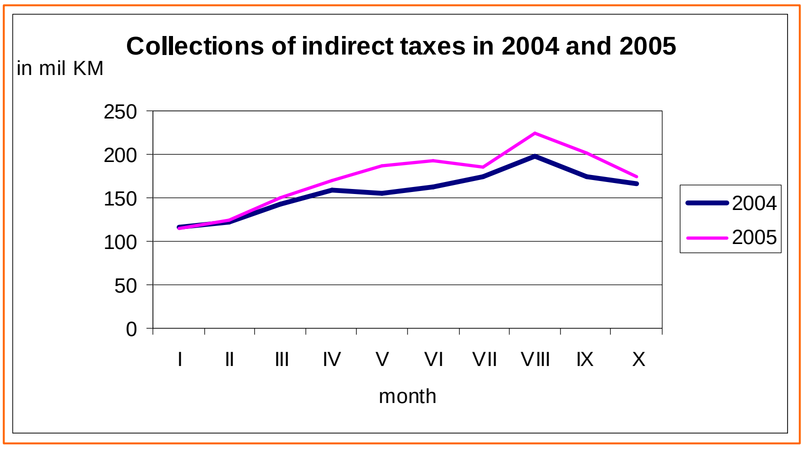


Figure 6. Collections of indirect taxes in 2004 and 2005

With regards to collection of main groups of indirect taxes, largest decrease in October was noted for sales tax on excisable products while collection of customs duties is slightly less than in September. Trend in collection of most important group of revenues and total of indirect taxes collected by ITA is given in figures #7 i #8.

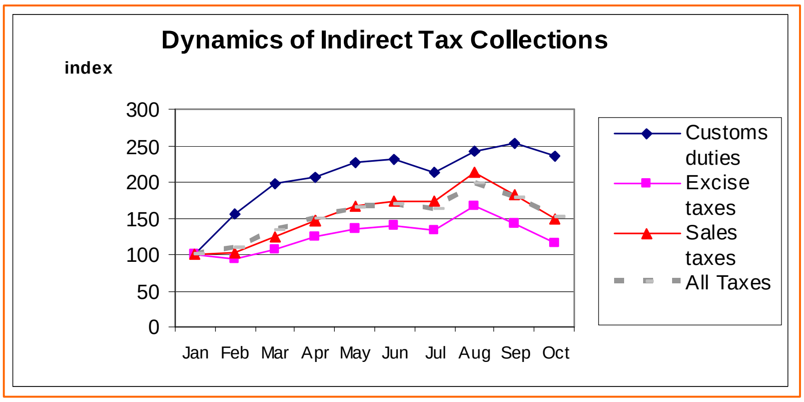


Figure 7. Dynamics of Indirect Tax Collections

As of January 1st, 2005 ITA is the only authorized institution in BiH to collect indirect taxes: customs duties, excise, sales tax on excisable goods and road tolls.
According to dynamic plan of collection it is foreseen that ITA will collect approximately 2 billion KM to the single account from indirect taxes under its authority.

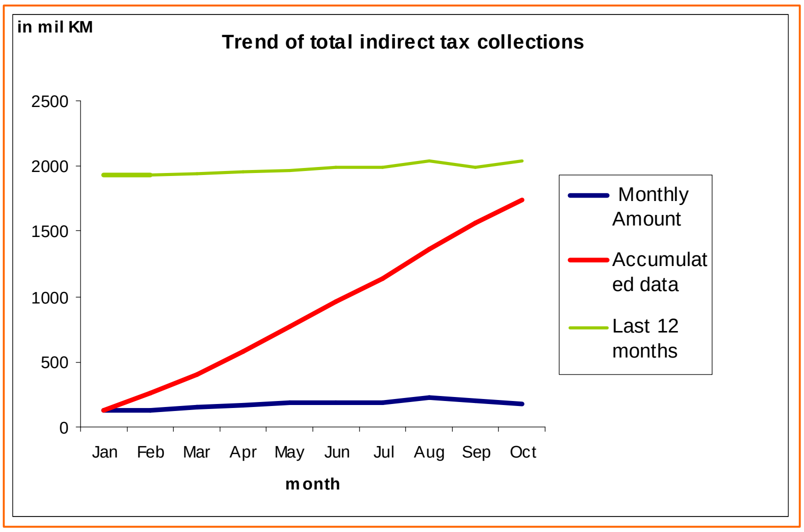


Figure 8. Trend of total indirect tax cllections

From activities of the unit

10th of November 2005.
As part of activities on receiving monthly reports on revenues and expenditures at all levels of authority, the Unit had meeting with ministers of finance from Cantons in the Federation of BiH. Working concept of the Unit was accepted and support expressed for establishing reporting via Internet. After the lecture of Prof. Spahn about new fiscal architecture in BiH, focusing on status of cantons after introduction of VAT, some ministers talked about problems in preparing the budget for 2006 and problems of vertical (from ITA single account) and horizontal distribution of revenues between cantons in the next medium term period. The meeting was supported by the Federation Ministry of Finance.

22nd of November 2005.
IMF delegation headed by Mr. Peter Doyle, head of the mission in Bosnia, talked to the Unit staff in regards to work of the Unit, with special emphasis on macro fiscal projections of revenues from indirect taxes. They also discussed methodology of monitoring and preparing comparative analysis for movement of main groups of indirect taxes in the light of tax policy and system reform in BiH.

Austrian government approved the project for financing the Unit

Government of the Austrian Republic approved the project for financing the Governing Board of ITA. The project foresees financing activities of the Macroeconomic Analysis Unit and establishment of the Governing Board secretariat in the amount of 225,000 EUR. During the next two years the project will finance employment of key staff for these departments, purchase of capital equipment, transfer of knowledge and training programs for the needs of Macroeconomic Analysis Unit. The training will be done by fiscal experts from the Austrian Ministry of Finance. The official ceremony for signing the contract on financing the Governing Board will take place in mid of December.

Notice to municipalities

The Unit is planning to have initial meeting with mayors and finance chiefs of municipalities in the Federation of BiH and Republika Srpska. Topic of the meeting is presentation of the Unit activities on getting monthly reports on revenues and expenditures for all levels of authority and including municipalities as of January 1st, 2006. The Unit will organize the meeting at three locations, starting at 11h, according to the following schedule:

TUZLA, 9.12.2005., meeting room, Cantonal chamber of commerce, Tuzla, Trg slobode bb.
BANJALUKA, 12.12.2005., large meeting room, RS Chamber of commerce, Đure Daničića 1/2
SARAJEVO, 13.12.2005., large meeting room, Foreign Trade Chamber of BiH, Branislava Đurđeva 10