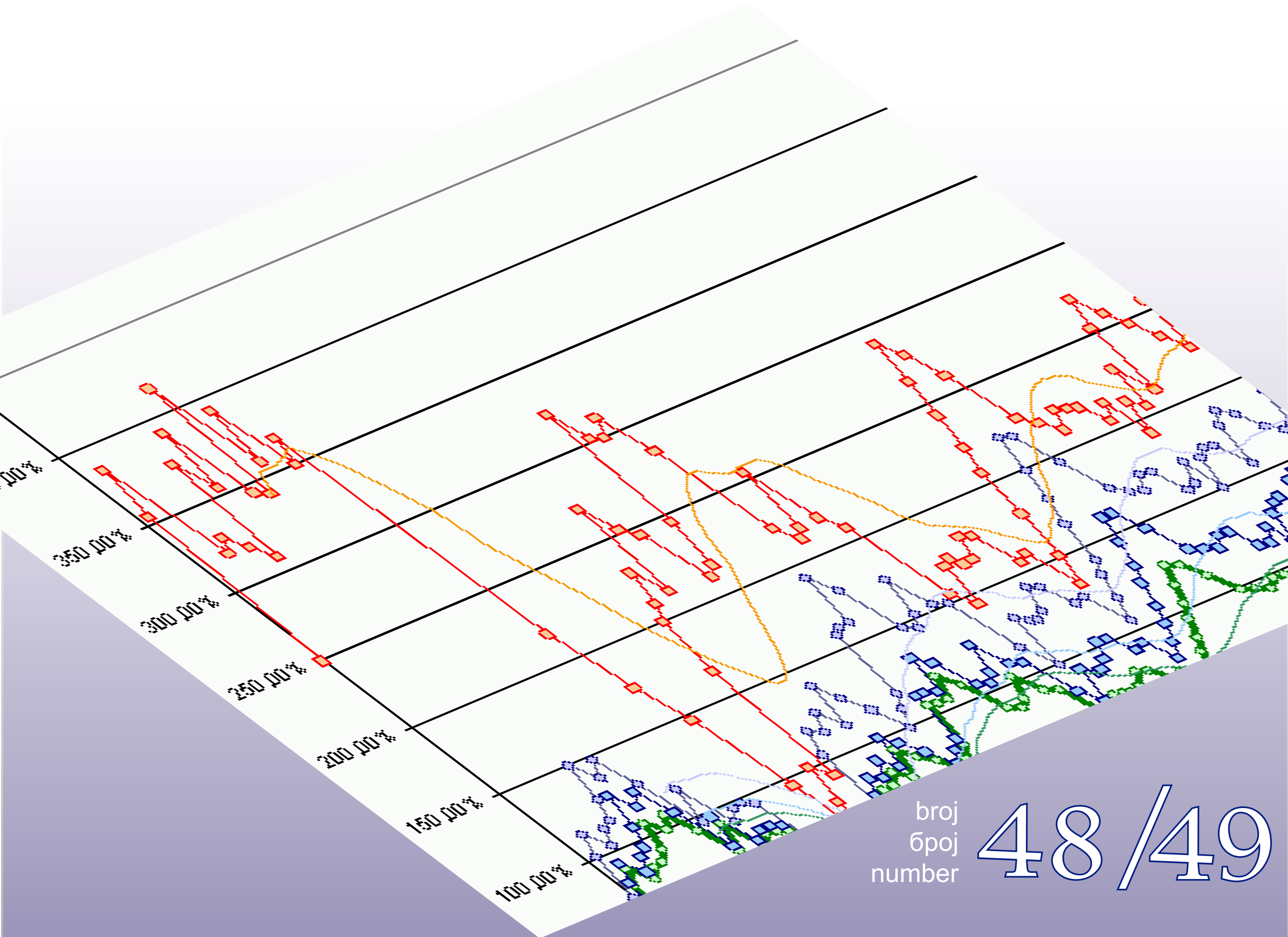
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-neizravno oporezivanje

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 double-issue

In previous issues of the bulletin, we pointed out to negative trend in the collection of indirect taxes, which started with fourth quarter of 2008. The application of Stabilization and Accession Agreement, firstly, and then negative effects of global financial and economic crisis have had a huge impact on losses of revenues from customs and VAT. It is expected that the loss of revenues can be partially compensated by increase of excise on cigarettes and road fees. Apart from fiscal effects, introduction of additional road fees from price of oil derivatives should contribute to financial certainty for international financial organizations supporting building highways in BiH. Furthermore, increase of the rate of road fees, as a special type of excise duties, should be observed as a necessary move in process of harmonization of excise taxation of oil derivatives in accordance with EU standards. Analysis of measures and instruments that EU brings regarding taxation energy products, vehicles and transport shows an oligopoly market structure of energy market in BiH can not be left to behavior of distributors. EU experiences and practices in the aspect of taxation of energy products and cards have shown that EU member states harmonized excise rates on energy products with EU minimum rates in a number of years without jeopardizing macroeconomic stability and causing inflation. In the past oligopoly oil market in BiH in case of the tax increase would cause a full pass on oil prices. In next step it would affect prices of other goods and services, particularly the energy-intensive ones. However, at the time of recession and depression in consumption, further decrease of consumption due to fall of economic activity and increase of unemployment represents contraction of derivatives market and hit on business operations of distributors. Increase of retail prices in such conditions would be counterproductive for distributors themselves. Analysis of the structure of retail oil prices in close EU member states has shown that there is a room to increase fiscal burden in BiH without increasing retail price, but with increase of internal economy efficiency.

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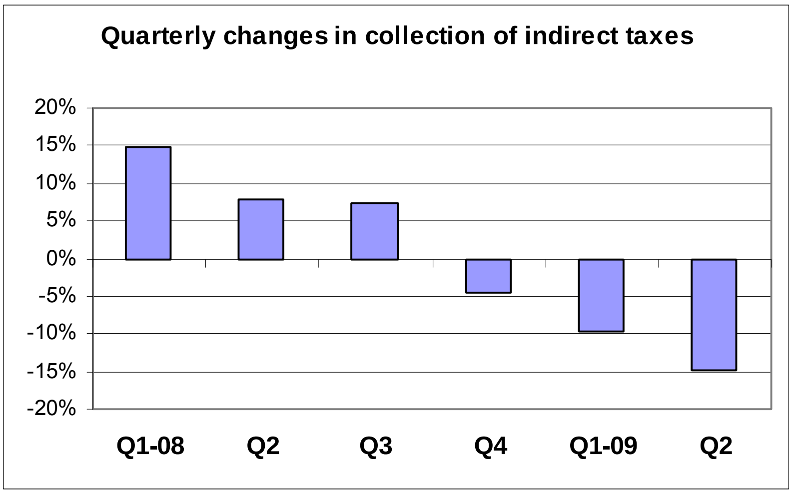
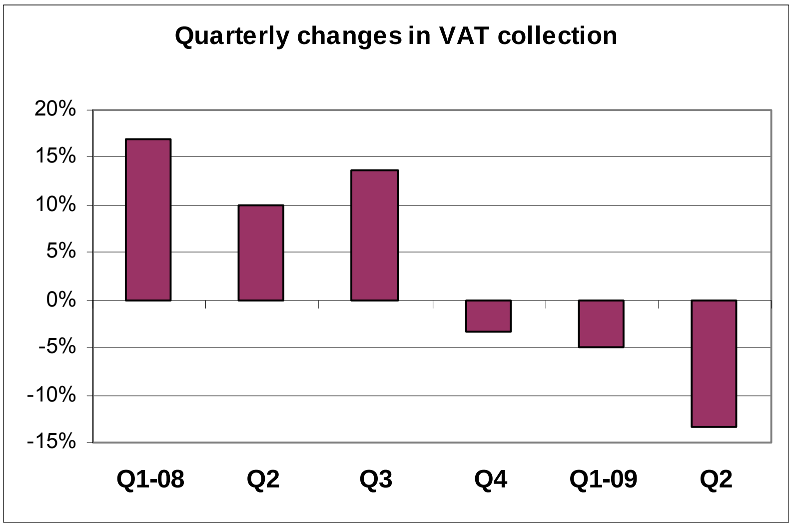
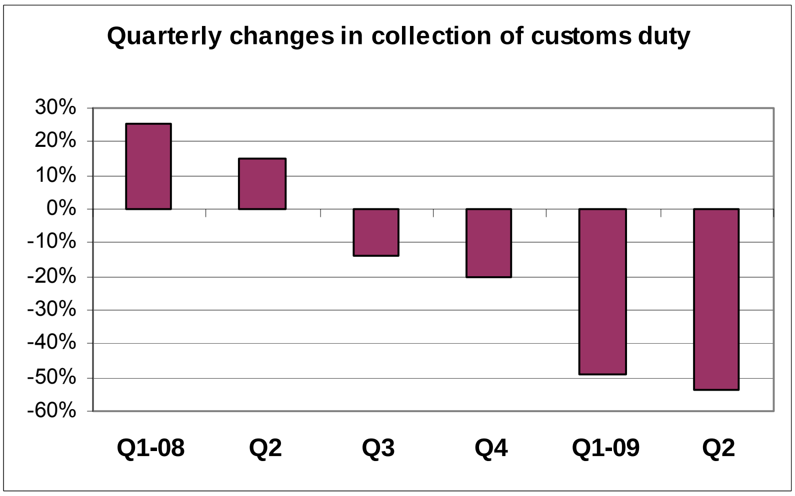
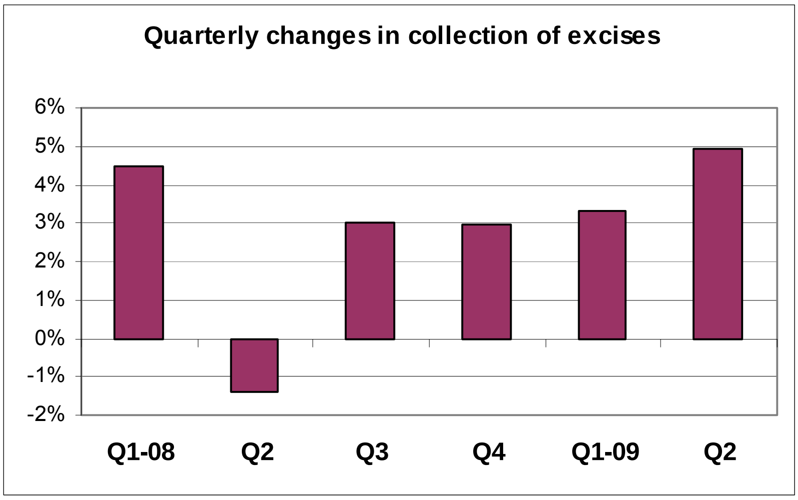
Highlights: Collection of indirect taxes in the period January – June 2009

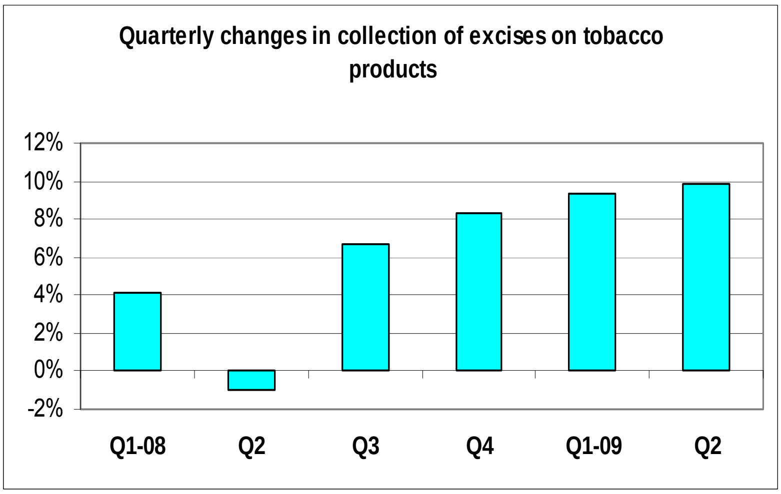
(prepared by: Dinka Antić)

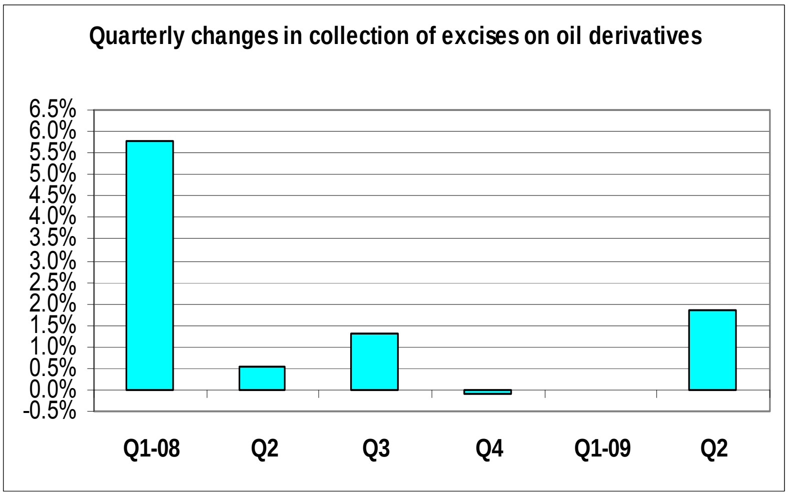












Note: quarterly collection is compared with the same quarter of the previous year

Implications of road fee increase
(Author: Dinka Antić, Phd)

1. INTRODUCTION

Proposal of new Law on excise, which was sent to BiH Parliament, caused displeasure of public in terms of increasing road fee rate, which is collected from retail price of oil derivatives from 0,15 KM/l to 0,25 KM/l. In addition, there is special allocation of road fees to finance construction of highways in BiH.

Critics of the public, mainly directed towards increase of road fee, are based on bad experiences from recent past. Experiences in introduction of value added tax confirmed different model of behavior of economic subjects regarding changes in tax rates. Two models of behavior were confirmed:

- Increase of tax rates for certain goods and services leads to higher increase of retail prices,
- Decrease of tax rates usually leads to lower reduction of retail prices.

Consumers lose in both cases. Swap from sales tax system, when excise products were taxed with 20%, to VAT system with 17% did not bring expected decrease of retail prices of excise products. Last year's turbulent trends in the world market of energy confirmed above mentioned rules. Economic subjects responded faster and easier to price increase at the world market by increasing retail prices. In other hand, reduction of retail prices caused by price decrease of oil in world market in fourth quarter and reduction of consumption due to global economic crisis, came later and lower than expected.

Increase of road fees in BiH should be considered from few aspects. Dedication to special purpose feature of these public revenues opens the issue on keeping consistency of existing system of indirect taxes and its allocation in BiH. In addition to analysis of fiscal, economic and social consequences, increase of tax burden in the price of fuel, which is more and less, input for production of all goods and services, it is necessary to assess if introduction of new tax rate falls under fulfillment of obligations towards EU in the process of stabilization and accession. The question arises if it is possible to compensate increase of tax burden in price of energy. In order to answer these questions, we should analyze current policy of excise in EU and strategy until 2014, analyze structure of price and market of energy in BiH and compare it with European practice.

2. INCREASE OF ROAD FEE IN BiH AND HARMONIZATION WITH EU STANDARDS

Fulfillment of obligations towards EU in the field of indirect taxes (customs, excise, value added tax) represents only one segment / chapter of *Acquis*, EU legal heritage. Transposition of provisions from EU legislation in the field of excise and its gradual application is one of most difficult tasks ahead of every new member state. It is also one of greatest challenges in the process of fulfilling pre-accession requirements.

Comparison of minimal rates in EU and current rates of excise in BiH, including road fees, shows that minimal excise rate on oil in EU is much higher than current rate on excise in BiH except for the heating oil. (Chart 1).

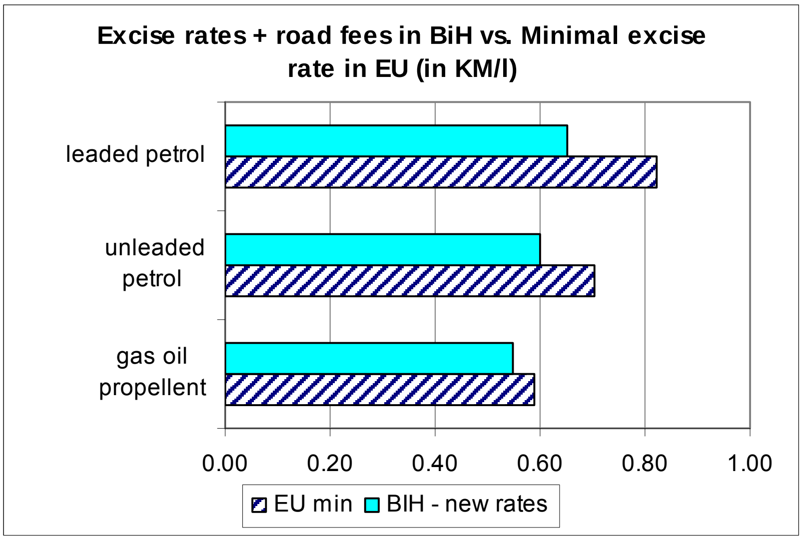


Chart 1

BiH will not significantly get close to currently minimal standard after increase of road fees by 0,10 KM (+ excise + current road fees) and it will be far from standards expected to go into force in 2010, 2012 and 2014. So, there are no doubts if excise rates on oil derivatives should be increased. In terms of obligations towards EU, which are expected in medium term, increase of rates can be assessed positively. However, question arises if it is the right time to increase excise rates on fundamental types of energy products.

3. IMPLICATIONS OF INCREASING ROAD FEES IN BIH

Taxation of energy products by excise produces multiple implications: economic, fiscal, ecological, social etc. Having in mind high share of energy products in costs of company inputs, any change in taxation of energy products has direct impact on position in the market and competitiveness of transport companies as well as other companies that are more "energy" intensive (have high share of energy costs in total costs), which makes them more sensitive to change of price that includes taxes – VAT and excise). Due to high share of energy products in total consumption, level of taxation has impact on macroeconomic trends and competitiveness of companies in domestic and world market.

Retail prices of oil is not affected only by excise, but also by other burdens such as VAT. Although VAT systems in EU member states mainly include zero rate (standard and one or more lower rates), single VAT rate is applied on energy products in all countries. Hungary was exception to this rule until recently since it applied 25% to energy products, which is higher than standard rate[1]. We can notice certain pattern and balance in taxation of oil: countries that have higher excise rate apply lower VAT rate and vice versa (Chart 2).

Through this combination of excise and VAT, member states can in certain degree derogate process of excise rates convergence and harmonization of excise system in EU. Variation of excise and VAT rates in order to achieve economies of scale in this sector (lower taxes -> higher consumption of energy products -> higher total fiscal effects) lead to tax competition between the member states, which led to so called "tank tourism" as EU phenomena. Current process of

[1] In the meantime as of 1 July 2009 Hungary increased a standard VAT rate up to 25%, as well as reduced rate, applied for suplly of basic foodstaffs and district heating up to 18%.

convergence of excise rates on energy products in EU meant increase of excise rates in member states in order to achieve the minimum, and stagnation of excise rates in EU-15. Observed at EU level, such trend contributed to decrease of share of revenues from excise, measured in EU GDP share. Increase of excise rates in new member states could not compensate stagnation of excise rate in old member states since the ponder (GDP) is higher in EU-15. However, this trend did not affect retail prices as it was followed by increase of oil prices in the world market, which resulted in higher VAT revenues. High standard rates in EU member states, which are the result of applying lower scale of VAT rates (even zero in some countries) and wide range of derogations from general rule of taxation, through increase of oil price, have become a catalyst of increase in price of all goods and services, even those for which lower or zero rates were introduced. This basically derogates motive applied by member states – protection of living environment.

Under the burden of upcoming economic crisis, few EU member states tried to achieve certain positive effects through VAT rate changes, which would compensate negative effects of the crisis. Depending on the fact if the member states placed emphasis on fiscal consolidation of national budgets or stimulating consumption and economic activities, some of these member states increased (Ireland, Lithuania, Letonia) and some decreased VAT rate (UK). Hungary abolished higher rate of 25% on energy products and it has been applying standard rate as of January 1st, 2009. Review of new VAT and excise rates that are in force in EU since January 1st, 2009, is provided in the Chart 5.

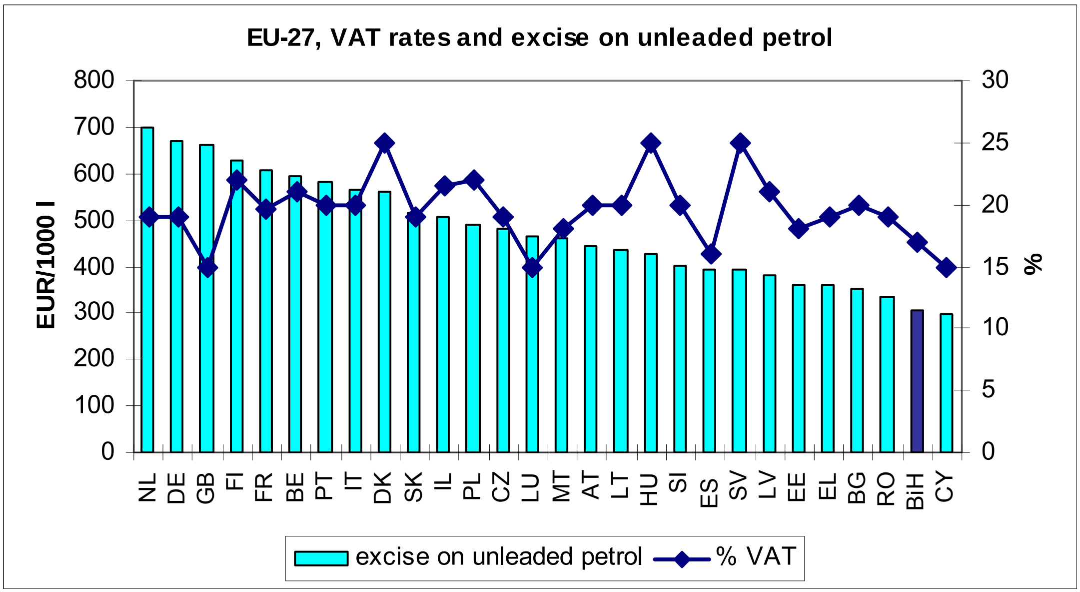


Chart 2

Sudden increase of excise rates in BiH may have long term consequences. Since the energy products are more and less integral part of cost price of all goods and services, increase of excise rate leads to chain increase of all input prices, which can ultimately generate inflation, lower living standards, jeopardize financial and business stability of companies, open room for smuggling of oil, development of grey market and losses of public revenues. Simple calculation shows that excise on oil in BiH should be increased by 30-40% to achieve EU minimum. However, impact on retail prices is even higher since excise is part of base for calculation of VAT. We should bear in mind that this calculation refers to minimal excise that are in force in EU now. At the time when BiH is expected to become EU member (2014), minimal excise on diesel and unleded fuel will be higher by 25,8% and 5,8% respectively.

In accordance with requirements of the above mentioned EU strategy until 2014, many EU member states increased excise rates in 2008 and 2009. Prior to last increase of excise rates, pre-tax price (which contains margin and purchase costs, including customs duties if calculated) is for example 18% lower in Slovenia than in BiH. We should not forget that the quality of oil in BiH is generally below EU standards. In other hand, with the same retail price in Slovenia, 1 liter of BMB contributed with 40% more excise revenues than in BiH[2]. After increase of excise in 2009, the situation changed so that prices of oil derivatives in some EU member states in the neighborhood are much higher than in BiH. However, detailed calculation in some member states and comparison with BiH shows that pre-tax price in BiH is still higher. We simulated the calculation of retail price of unleded fuel in BiH after road fee increased by 0,10 KM. Total excise in BiH on 1 l BMB consists of 0,35 KM of excise and 0,25 KM of road fee. We used real oil prices from few locations in BiH in the period for which we have data from EU member states (beginning of 28th week in 2009). Pre-tax price in BiH currently represents more than 50% of retail price of unleded gasoline. Argument that Bulgaria has lower costs since it is oil producer is not valid and Czech Republic has lowest pre-tax price and highest fiscal effects from gasoline retail price. We should emphasize that Czech Republic fulfilled EU minimum standards for all types of energy products, even those that will be in force in 2014, in accordance with adopted strategy for harmonization of excise rates in EU until 2020.

	Structure of retail price 1 l BMB	**Czech Republic**	**Slovenia**	**Bulgaria**	**BIH-1**	**BIH-2**
1	Retail price	**2.20**	**2.17**	**1.87**	**1.75**	**1.81**
2	VAT	0.35	0.36	0.31	0.25	0.26
3	Excise	0.94	0.79	0.68	0.60	0.60
4	Pre-tax price (1-2-3)	**0.90**	**1.02**	**0.87**	**0.90**	**0.95**
	In %					
	VAT	15.97%	16.67%	16.67%	14.53%	14.53%
	Excise	42.93%	36.31%	36.69%	34.29%	33.15%
	Pre-tax price	41.10%	47.02%	46.65%	51.18%	52.32%
		100.00%	100.00%	100.00%	100.00%	100.00%

[1]) Source of data for EU member states: European Commission, retail prices (06/07/2009), excise (1/1/2009), VAT (1/1/2009)
[2]) BiH: excise consists of excise of 0,35 KM and road fee of 0,25 KM

We can conclude that with current price level, there is possibility to entirely compensate increase of road fee with improvements in internal economy (pre-tax price). We should not neglect fiscal competitiveness of BiH due to lower VAT rate. Comparison of tax burden on 1 l of oil in BiH and other countries, having in mind that standard VAT rate in BiH is one of the lowest in Europe, there is a logical conclusion that there is a room to adjust in structure of oil price in BiH with different measures and instruments. Fiscal competitiveness of BiH compared to the region due to low VAT rate can be used for price competitiveness in comparison with the region.

Possible excuse for higher pre-tax prices in BiH is non-regulated market of energy products. Regulation of energy products market, definition of quality standards and rules of business operations in the sector ("entry" rules), regulation of margins in order to fight monopoly and creation of reserves for market interventions would definitely lead to establishment of competitive market for energy products in BiH. Stronger competition and market operation will lead to reduction of costs, shorter distribution chain and decrease of retail prices. In normal economic circumstances in BiH and world, regulation of the market for energy products and strengthening of

[2] More information on this: D. Antić, "Implications of oil excise in EU ", Poreski savjetnik no. 10, Revicon, Sarajevo, October 2008, pages 35-44.

competition through decrease of retail prices speeds up process of excise rates harmonization in BiH with EU standards without increase of retail prices at the same time. Postponing of energy market regulation may only have unfavorable consequences since oil distributors, acting through cartels, have oligopoly position. They can dictate retail prices, keep inefficiency of its own internal economy, influence increase of input costs for other companies, especially "energy intensive" ones and worsen social position of population. We have positive progress in the oil market after opening of oil refinery in Brod. Big producer's entry to the market made positive effect on competition and prices. Further expansion of refinery capacities, expansion of distribution to F BiH territory and increase of oil quality may contribute to breaking of entity and regional monopolies, which leads to elimination of small distributors who so far made this sales chain complex and expensive with the presence of price cartel. Care has to be taken on level of concentration at BiH level.

Current global economic and financial crisis and recession, which is expanding in BiH is not favorable for monopolistic behavior. It is questionable if the market will exist in required size to generate profit for distributors with inefficient internal economy if price of energy products increase by new amount of road fee (0,10+VAT). There is a number of factors that can lead to unfavorable outcome for oil distributors:

- Reduction of economic activities, which is consequence of recession, has negative impact on demand for diesel.
- Depression in consumption of population, which is the result of income decrease, reduced demand for loans, job losses and unemployment fear, will have negative impact on consumption of energy products. Decrease in collection of budget revenues and signed arrangement with IMF will lead to decrease of salaries in public administration and government agencies as well as to restrictions in social aid spending that will affect many citizens. In the situation when income is reduced and limited, citizens will choose to buy basic goods (non-elastic demand).
- Non-activation or postponing of government programs of public works and other capital investments will reduce demand for motor energy products.

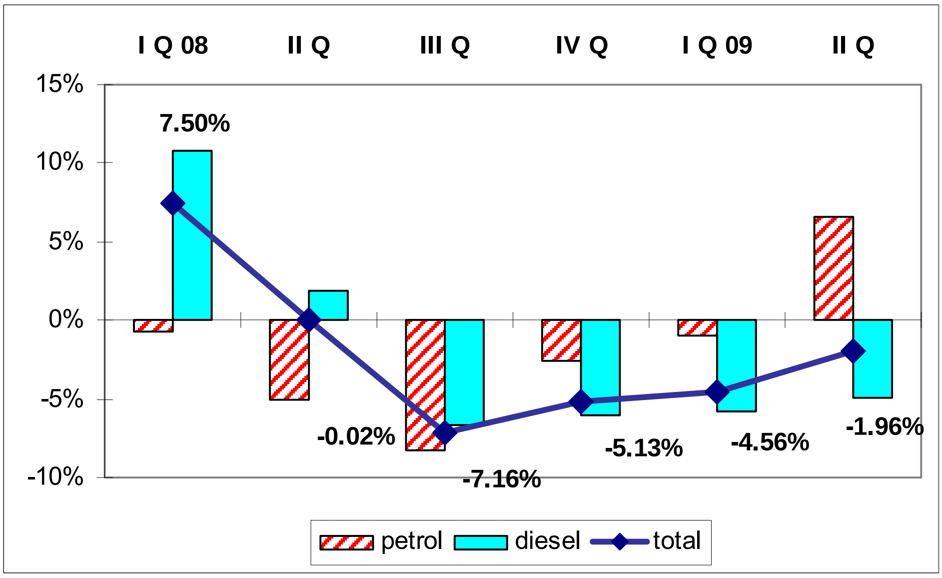


Chart 3

Some of these factors already had negative impact on total consumption of energy products in 2008 (Chart 3). Comparison of quarterly import (consumption) of energy products to BiH in 2008 in comparison with 2007 shows continued decrease of demand for diesel, primarily caused by enormous price increase in the world market, recession in fourth quarter of 2008 regardless price decrease in the end of year. Situation with consumption of gasoline was different and its consumption positively reacted to price decrease in fourth quarter.

Negative trends continued in 2009. Since the refinery in Bord started with production of higher capacity in the beginning of this year, import of diesel and gasoline significantly decreased. In order to do comparison with previous years, it is necessary to add quantity produced and sold by refinery to imported quantities. It is also necessary to apply uniform measurement unit (kg or l)[3]. First quarter of 2009 brought us moderate decrease in consumption of oil derivatives, while second quarter had increase in consumption of gasoline and further decrease in consumption of diesel.

Continuation of negative trends in BiH economy may worsen trend in consumption of energy products due to above mentioned reasons. Potential increase of retail prices as the result of increase of road fee may even deepen consumption depression and harm business operations of companies, especially energy intensive ones, which are coping with the crisis. It is obvious that increase of retail prices for energy products during the depression and recession may be act like boomerang on oil distributors.

4. CONCLUSION

Analysis of implications of increasing road fees from retail prices of oil derivatives in BiH and different treatment of this revenue type in the system of allocation of indirect taxes showed the following:

- Process of association and stabilization requires harmonization of indirect taxes with EU standards. In the meantime, EU member states, led by non-fiscal goals, such as protection of environment, are planning to increase minimum excise rates and this brings BiH into more difficult position. Only solution is gradual increase of excise rates on oil derivatives. So, increase of road fees represents a positive step in terms of fulfillment of EU requirements.

- EU experiences and practices in the aspect of taxation of energy products and cards have shown that EU member states harmonized excise rates on energy products with EU minimum rates in a number of years without jeopardizing macroeconomic stability and causing inflation. Few months ago when price of energy products enormously increased, increase of road fees would be transferred to sales chain and increase general inflation rate. Today, at the time of recession and depression in consumption, reaction of oil distributors is questionable. Further decrease of consumption due to fall of economic activity and increase of employment represents contraction of derivatives market and hit on business operations of distributors. Increase of retail prices in such conditions would be counterproductive for distributors themselves. Analysis of the structure of retail prices in close EU member states has shown that there is a room to increase fiscal burden in BiH without increasing retail price, but with increase of internal economy efficiency. Further more, low VAT rate and lowest excise rates in the region should be used to increase sales in border and transit routes.

- Analysis of measures and instruments that EU brings regarding taxation energy products, vehicles and transport shows that oligopoly market of energy products in BiH can not be left to behavior of distributors. It is necessary for the state to act as regulator, which means preparation of long term economic-development strategy and energy policy. Since proposed increase of road fee is insufficient to fulfill EU standards, BiH will face with similar

[3] Import of oil derivatives are recorded in kilograms while the quantity of derivatives being sold from domestic refinery is recorded in liters.

situations in near future. In order to avoid negative macroeconomic, financial and social implications for the population, companies and BiH economy, it is necessary to work on new macro-strategy that will cover few policies: energy policy, transport policy, fiscal policy and policy for protection of environment.

Foreign trade in period January-June 2009

(Author: Mirela Kadić)

Analysis of foreign trade exchange in the period January-June 2009 represents continuation of analysis published in previous issues of Unit's Bulletin. Previous issues disscused market liberalisation as a result of signing the Stabilization and Accession Agreement, and also its influence on foreign trade exchange. Nevertheless it seems that negative trends of basic macroeconomic indicators had much superior and abundant influence on trends of prices and quantities of goods Bosnia and Herzegovina exchange with other countries.

Risks of global economic crisis are becoming the risks of globalization, with a very serious effects on recovery and future prosperity. Depth of the existing crisis, most severe one since The Great Depression, does not show at least a glimpse of its end.

As emhassised in previous Unit's issues, the fact is that the value of export concentration coefficient is very high and that the overall global trends will have significant influence on the foreign trade exchange volume of Bosnia and Herzegovina.

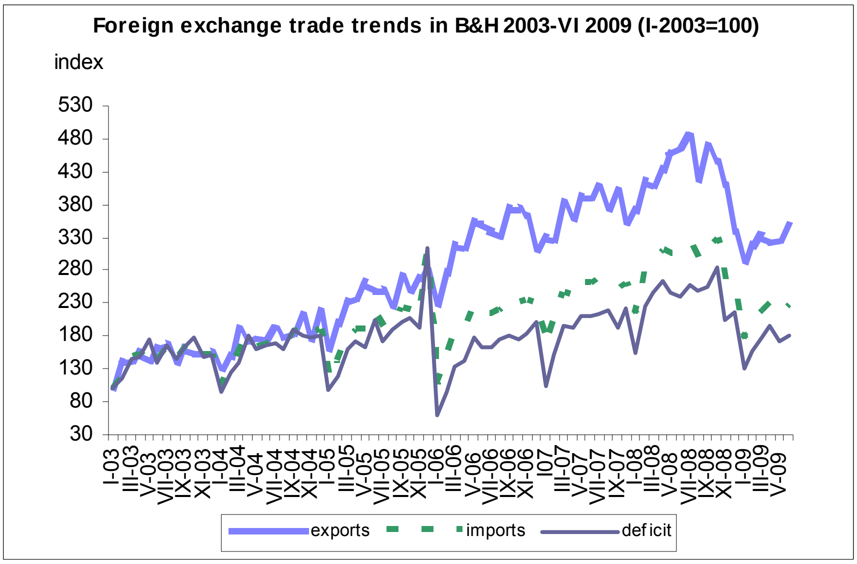


Chart 4

Chart 4 shows imports, exports and deficit trends since January 2003, whereas a base was taken a January 2003. Besides the seasonal oscilation noted in the beggining of each year, we notice significantly severe downturn of the total foreign trade activity at the beggining of 2009.

First half of the year in comparison with the same period last year, brings us a further decrease of exports and now is almost 24%, decerase in imports of 25,33%, which brings a decrease in total volume of foreign trade of 24,93%. In accordance with previously mentioned, it is also noted that deficit decreased for over 26%, which in every other, but the existing, circumstance would be a remarkable data. Being a result of a decrease in total foreign trade activities, and not a result of a significant increase in exports or decrease in imports, deficit decrease is an irelevant data.

Table 1.presents data on apsolute figures trends and relative changes in percentage per quarters and half years. Speaking in apsolute figures, we note that the exports only in second quarter has decreased for almost half a billion KM (474 millions of KM), while imports decreased for over 2 billions in first half of the 2009 compared to the same period previous year.

in mil of KM	I KV 08	II KV 08	I KV 09	II KV 09	I PG 09	I PG 08	I KV 09/08	II KV 09/08	I PG 09/08
EXPORT	1.567	1.783	1.237	1.309	2.546	3.349	-21,03%	-26,58%	-23,98%
IMPORT	3.673	4.305	2.799	3.158	5.957	7.978	-23,79%	-26,64%	-25,33%
VOLUME	5.240	6.088	4.036	4.467	8.503	11.328	-22,97%	-26,62%	-24,93%
DEFICIT	-2.106	-2.523	-1.561	-1.850	-3.411	-4.629	-25,85%	-26,69%	-26,31%
COVERAGE	42,67%	41,4%	44,21%	41,44%	42,74%	41,98%	3,63%	0,09%	1,81%

Table 1.

Export

Economic crisis brings, not only decrease in overall trade activity but also some changes in structure of foreign exchange. Chart 2. shows structure of exports for 2008.and 2009, average growth rate for 2009, and also growth rate for groups of products for 2009. Red collums represent share that a certain group of products had in a total export in first six months of 2008 and the blue ones represent a share that a group had in the same period 2009. We note that a share of certain groups in 2009 declined, compared to the 2008. This reffers namely to the share of exports of base metals, whereas share of iron has decreased from 15,81% in 2008. to 10,34% in 2009 and also aluminum from 10,24% to 6,74% this year. Milder decrease in share has been noted within the group of product 'machinery and mechanical appliances' and also 'chemical products'. On the other hand, there are groups of products almost undisturbed by the influence of overall global downturn, and they, even in the first six months of 2009, recorded significant growth rate and also an increase in share in total export, mostly to the detriment of other groups. Primarily those are groups of products reffering to food proccesing industry: animals and animal products (37,65% growth in first six months compared to the same period previous year), vegetable products (20,76%), prepared foodstuff (15,19%) and animal and vegetable fats (8,12%). This group of products non-elasticity to the current global trends can be partialy explained by the Engel's curve of consumption[4].

[4] Engel's curve of consumption explains individuals consumption behavior

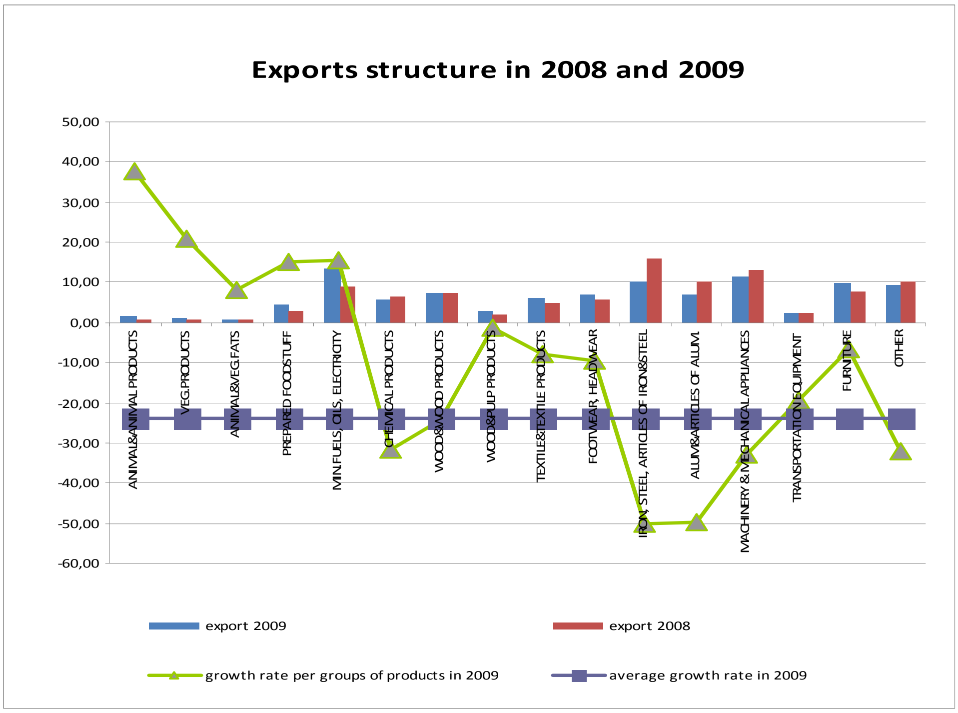


Chart 5.

Besides these groups, positive growth was realized solely in a subgroup 'mineral fuels, mineral oil and electricity', even 15,64% growth of export value. Share of export of electricity in total exports for the first halfyear of 2009 is 13,52%, which is significantly higher than the 8,89% in the previous year.

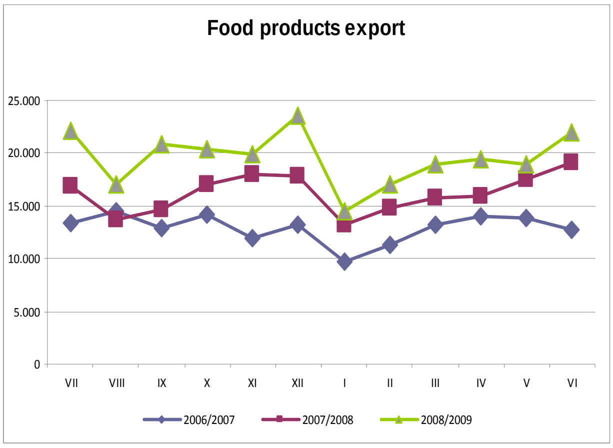


Chart 6.

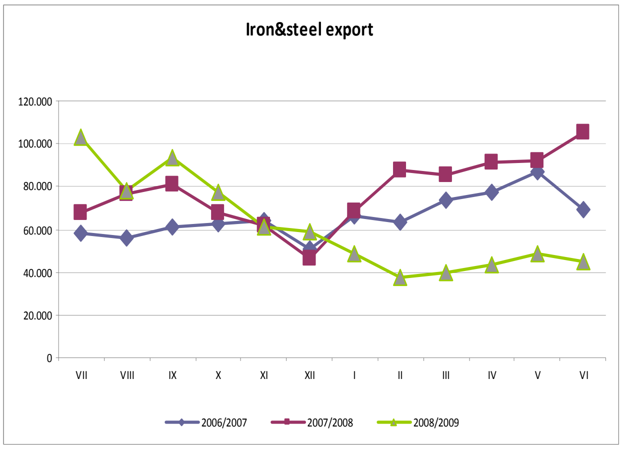


Chart 7.

Import

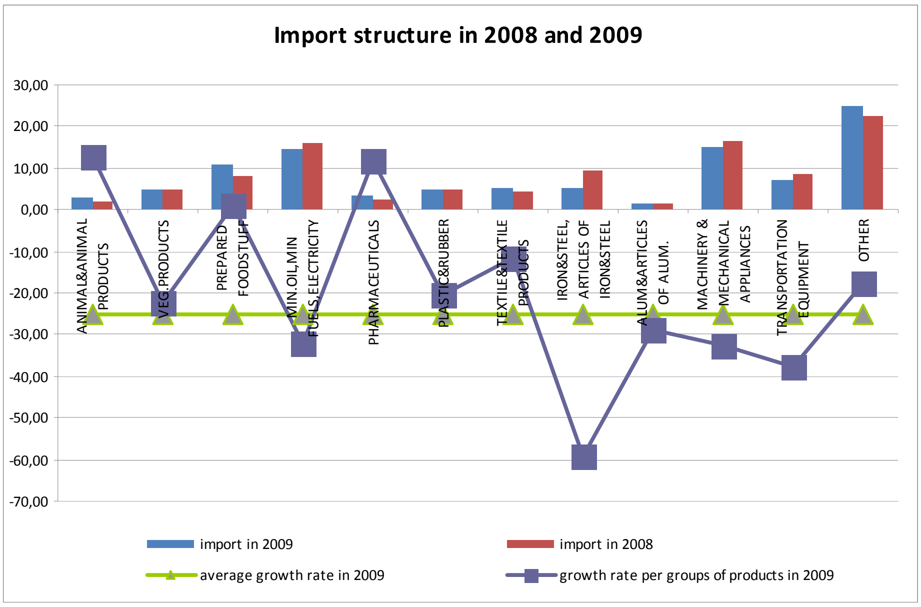


Chart 8.

Major share in total import in first six months in 2009 belongs to the imports of the group of products 'machinery and mechanical appliances', 14,95% of total imports. This group recorded a decerase of its import value of 32,42%, compared to the sam period previous year. Second most largest share belongs to the imports of 'mineral oil, mineral fuels and electricity' (14,44%). This group recorded a decrease of 32,07%. Imports of 'iron and steel and articles of iron and steel' consist merely 5% of total imports value, and has recorded very severe decrease of even 59,32%, owing that namely to world prices trends.[5] Will this significant decrease in base metal imports cause even more significant decrease in its exports, is to be seen in the following period, to be more precise in third and forth quarter, previously known as a most intensive quarters in foreign trade exchange.

Positive growth of import values is recorded just in imports of pharmaceuticals (11,98%).

Instead of the conclusion

In the first six months of 2009, we note the following trends:

- **decrease in export value by 23,98%**
- **decrease in import value by 25,33%**
- **decrease of deficit by 26,31**
- **coverage of import is 42,74%**

Will third quarter, in previous seasonal oscilation patterns known as the most intesive one, bring any significant changes to this trends is to be seen in the following period.

[5] www.metalprices.com

Fiscal policy in conditions of global economic crisis

(Author: Aleksandra Regoje, Macroeconomist in the Unit)

World today is facing with hardest financial and economic crisis since the great depression in thirties last century. Turmoils in financial market expanded outside United States of America (USA) and left strong consequences on real sectors worldwide through reduced liquidity and "stopping" credit lines to businesses and citizens. There was strong shortfall in production and employment and the governments worldwide are facing with decrease of revenues and dilemma how to find a path to recovery.

Through monetary and fiscal policy, economic policy makers are trying to regulate conjectural shakes and stimulate economic growth. Basic direction of current monetary policy should be to ease global deflation pressures. Fiscal policy consists of revenue and expenditure management i.e. budget cycle management due to its impact on aggregate demand.

In this article, we will provide short review of current fiscal policy in European Union with comments on causes and consequences of the crisis.

Global recession: how did it start?

Traditional banking was based on taking deposits and landing money to clients. Source of profit of traditional banks was difference between interest on credits and deposits. It in was in interest of bank to estimate payment power of client prior to loan approval. Client had to have an adequate job and assets and he was supposed to provide relatively high POLOG. This conservative approach of lending secured financial stability and regular profits to banks for decades.

However, nineties brought changes to traditional banking. In search for higher profits, banks started using money of clients through securitization, the process which enables them to convert bank claims into securities and trade with them. In race for higher profit, banks were not so careful in assessing loan requests as before. Clients who were not qualified to get a loan under standard banking procedures (so called „subprime" clients), were considered as good source of revenues. Loans were also approved to clients with no job, income or property (so called. „*NINJA*" loans). In some cases, banks did not try very hard to check information provided by clients. Banking sector looked like a bomb ready to explode at any moment.

Crisis in banking sector started at American market in the summer 2007. Due to excess supply of real estate in the market, their prices significantly dropped. Dealing with strong increase of interest rates and monthly payments, not being able to refinance mortgage, many clients were not able to repay their loans. In other hand, underestimated value of real estate represented a motive to leave real estate and avoid payment of loan.

As the crisis progressed, loosing mortgage became more often. In conditions of piling up financial problems, credit lines to businesses and citizens got blocked as banks were afraid of so called credit crunch. They were not able to sell securities since investors were suspicious regarding new investments. Specialized insurance companies that insured securities (monocline companies) became responsible for debt of millions of dollars. Solvency of "greatest names" in the banking sector was brought into question.

Bad credits and many clients lead to culmination of crisis in the banking sector, which transferred to other sectors of economy[6] through decrease of liquidity, production and consumption.

[6] The Real Truth, „America's banking crisis- A Financial Tsunami Approaching!", Robert R. Farrell, February 2008

How deep is the crisis and is the end near?

Economies worldwide are being hit due to fall of economic activity and aggregate demand. Industrial production decreased in most of the countries in the end of 2008. Decrease of economic activity, increase of savings due to uncertain future trends and decreased availability of loan led to strong decrease of demand. In other hand, this led to increase of stocks in economies worldwide. Investments decreased as business environment failed and profits decreased. GDP in USA decreased by 1,6% in the last quarter of 2008 compared to previous i.e. third quarter of 2008. It decreased by 3,2% in Japan and 1,5% in European Union[7] in the same period.

Estimates show that world GDP decreased by 6,25% in the last quarter of 2008 and more and less the same in first quarter of this year. Economies worldwide are seriously harmed although causes and level differ. While the crisis in US is mainly caused by the problems in banking sector and real estate market, Western European and Asian developed countries are hit primarily by trade failure. As opposed to non-developed countries, which are least hit by the crisis due to low level of global integration, developed countries experienced higher decrease (7,5% in the last quarter of 2008). Developing countries had decrease of 4%[8] in the same period.

Strong fall of international trade represented a basic channel through which the recession in developed countries expanded to rest of the world. In the last quarter of 2008, the volume of world trade noted highest decrease since the World War II. Projections of the world trade decrease *(European Commission)* in current year is 11% and modest increase of 0,75%[9] is expected next year.

Recession seems to be deeper than it was foreseen earlier in most of the countries. Projections for the growth of world economy for 2009 prepared by European Commission (*Economic Forecast, Spring 2009*) have negative values and it's important to note level of uncertainty for macroeconomic projections for future period. Projections for decrease of the world economy amount to 1,5% and projected growth for next year is a bit below 2%. Such trends of economic activity will result in many lost jobs. It is expected to have unemployment rate over 10% both in USA and European Union.

Newest projections of International Monetary Fund (IMF) are generally in accordance with projections of the European Commission. Both institutions expect decrease of gross domestic product in Euro zone by 4% and more in 2009 and gradual recovery in 2010.

Fiscal policy – is there optimal solution?

According to the study "Fiscal Policy for the crisis"[10], prepared by IMF, current crisis requires two sets of measures. First set refers to measures for recovery of financial system and the other one refers to stimulating aggregate demand. Analysis of previous crisis have shown that timely solution to problems in financial sector and well developed 'fiscal reaction" represent precondition for economic recovery.

According to this study, package of fiscal measures should be:

- *timely* (as there is an urgent need for action),
- *large* (because the drop in demand is large),
- *diversified* (as there is uncertainty regarding which measures will be most effective),
- *collective*, all economies that have fiscal scope should participate and

[7] Quarter On Quarter measure (QOQ), „Economic Forecast, Spring 2009", European Commission, 4.5.2009
[8] World Economic Outlook, Crisis and Recovery, IMF, April 2009
[9] „Economic Forecast, Spring 2009", European Commission, 4.5.2009.
[10] „Fiscal Policy for the Crisis", IMF staff position note, December 29,2008

- *sustainable*, to avoid debt explosion in the long run

Measures of fiscal stimulation mainly refer to measures to stimulate demand and capital investments i.e. measures with goal to keep jobs. However, not all countries have capacity to carry out "fiscal reaction" since expansive fiscal policy may jeopardize public finances. Non-developed and developing countries as well as some developed economies can not afford fiscal incentive, especially if they have high public debt. Even the countries that do not have problems with high debts, but are in crisis in terms of public revenues decrease, high fiscal deficit or current account deficit have little space for maneuver. We should also bear in mind that the countries with highly open economies have less benefits from fiscal stimulations. If economy is more open it will have les benefits from domestic demand expansion since this can lead to worsening of balance of payments.

Developing countries are facing with two types of shocks. One is sudden break of capital flow and the other one is decrease of export demand. These countries faced with recession in different circumstances. In some, domestic crisis was already present due to non-sustainable fiscal policy or debt increase, while others were caught as "storm observers". Despite lack of empiric evidence, it is believed that conventional fiscal multiplications can have relatively small effect in developing countries compared to developed countries and impact of fiscal stimulations is more uncertain. It is necessary to take care of time and speed in conducting fiscal stimulations. They have to be based on reliable crisis exit strategy, which will provide sustainable government finances in future period[11].

Measures recommended by IMF in the document "Coping with the crisis: Policy options for emerging market countries" are primarily stabilization of financial system, growth of capital expenditures and support to most jeopardized categories of the population (that have high marginal tendency to consumption) and increase of wages in public administration is not recommended. We should bear in mind that there is **no optimal fiscal policy** and every individual economy should be adjusted to its specifics and opportunities.

Fiscal measures in European Union

The crisis shook financial and real sectors in European Union. Reduced liquidity and higher uncertainty caused sharp decrease of aggregate demand, which stimulated failure of foreign trade. Exports in Euro zone reduced by 26% in the last quarter of 2002[12]. Economic recovery requires strong policy coordinate on common basis.

Numerous measures were undertaken to reduce effects of financial and economic crisis. Measures differ in form, volume and budget impact. Although most of these refer to reduction of tax rates, some EU member states decided to apply measures for increase of budget revenues referring to lack of room for budget maneuvers. One typical measure is support to purchasing power of the population through income tax reforms. Measures mainly refer to cases for increase of tax benefits rather than reduction of tax rates as this has higher impact on purchase power of poor population who have higher marginal tendency to consumption. In some cases, income tax rates where increased (applying only to richer households) or planned reduction of tax rates were postponed[13].

There are rare measures that refer to reduction of profit tax rates as except for long term effects, such measures do not have significant effect on business operations of companies in short term. In other hand, numerous measures are being undertaken, which are directed to the sector of households such as reduction of taxes in the field of inheritance, tourism etc.

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[11] „Coping with the Crisis : Policy Options for Emerging Market Countries", IMF staff position note, April 23,2009
[12]„ Europe Battles a Deap Recession", Edda Zoli, IMF European Department
[13] „Taxation trends in Europaean Union", Eurostat, 2009 edition

Most of EU member states did not decide to reduce VAT rate as a measure to stimulate demand. Some exceptions are UK (temporary decrease of VAT rate from 17,5% to 15% from December 1st 2008 to December 31st 2009), Belgium and Romania (decrease of tax rate for construction of apartments). Exception is also Finland, which reduced rate on food (from 17% to 12%. In other hand, many member states increased the rate[14], reduced number of exceptions and lower rates or increased excise duties[15] in order to cover lack of budget funds. As a measure to improve liquidity, regulations in some fields were changed regarding period for calculation of VAT liabilities. So, Netherlands move to quarterly calculation of VAT liabilities instead of previous monthly calculation. In Poland, they reduced deadline for payment of refunds (from 180 to 60 days).[16]

Instead of conclusion

With deep recession, governments of many countries introduced measures for fiscal stimulation in order to strengthen production and avoid growing unemployment. It is estimated that fiscal stimulations in Europe will amount to 3% of GDP this year[17]. However, countries with poor financial position may hardly afford stimulations. It is also very important for the countries that are considering fiscal expansion to assess potential risks of such measures as every expansion has potential threat to long term sustainability of public finances.

Although it is expected that the crisis will reduce by the end of current year, estimates show that global recovery will be gradual. There are strong reasons to expect lower annual growth rates in 2010 and future than in the period that was before global crisis[18]. Uncertainty remains at high level and the time for recovery will depend on effectiveness and speed to carry out anti-recession measures.

[14] VAT rates were increased in: Hungary, Ireland, Letonia, Lithuania
[15] Excise rates were increased in: Finland, Ireland, Lethonia, Lithuania, Romania, Slovenia
[16] Eurostat, ibid.
[17] Saha i Weizsacker, 2009 (taken from „Finansijska prevranja u središnjioj i istočnoj Europi i fiskalna politika u Hrvatskoj", Dubravko Mihaljek, IJF Zagreb, Maj 2009)
[18] European Commission, Ibid

Consolidated reports

(prepared by: Mirela Kadić, Research Assistant)

Table 1. (Consolidated report: BiH: SA and Entities)

The consolidated report includes:

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

Table 2. (Consolidated report: BiH: State, Entities, Brčko Distrikt, Cantons)

1.The consolidated report includes:

- revenues and expenditures of the budget of Bosnia and Herzegovina
- revenues and expenditures of the budget of Brčko District,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Republika Srpska,
- revenues and expenditures of the budget of 10 cantons in the Federation.

2. Report includes amortization of foreign debt
3. Data for May for Bosnia-Podrinje Canton are estimated

Table 3.1, 3.2. and 3.3. (Consolidated report: Cantons)

1. Consolidated report includes:

- revenues and expenditures of the cantonal budgets,
- revenues and expenditures of the budgets of related municipalities.

BiH: entities and SA, I-VI, 2009.

		I	II	III	IV	V	VI	Q1	Q2	Total
1	**Current revenues**	**384,6**	**359,4**	**402,3**	**417,5**	**426,9**	**445,6**	**1146,3**	**1290,0**	**2436,3**
11	Taxes	367,0	337,2	370,4	392,8	380,0	387,7	1074,6	1160,5	2235,1
111	Indirect taxes	351,7	316,9	322,8	335,6	355,0	365,1	991,4	1055,7	2047,1
	VAT	254,3	209,2	191,4	213,1	222,7	235,1	654,9	670,9	1325,9
	VAT on imports	126,3	151,9	174,9	177,3	161,5	178,3	453,0	517,1	970,1
	VAT from VAT returns	168,1	109,4	106,1	100,2	117,5	116,8	383,6	334,6	718,2
	VAT from automatic assessment done by ITA	0,0	0,0		0,0	0,1	0,0	0,1	0,1	0,1
	One-off VAT payments	0,1	0,4	0,1	0,2	0,1	0,1	0,6	0,4	0,9
	Other	2,6	1,9	2,3	1,6	1,7	1,8	6,9	5,2	12,1
	VAT refunds	-42,8	-54,4	-92,0	-66,3	-58,2	-61,9	-189,2	-186,3	-375,5
	Custom duties	22,3	27,7	33,2	32,4	27,9	28,5	83,2	88,8	171,9
	Sales tax	0,4	0,7	0,6	1,0	0,6	0,5	1,7	2,1	3,8
	Excises	61,7	65,4	81,8	71,5	84,9	89,7	209,0	246,0	455,0
	on imports	49,1	44,2	55,9	45,4	53,4	57,6	149,2	156,3	305,5
	on dosmestic poduction	12,6	21,2	25,9	26,1	31,5	32,1	59,8	89,7	149,5
	Railroad tax	12,0	13,3	15,4	16,7	17,9	10,7	40,7	45,4	86,1
	Other	1,0	1,1	1,3	1,4	1,5	1,4	3,4	4,2	7,6
	Other refunds	-0,2	-0,5	-0,8	-0,4	-0,5	-0,9	-1,5	-1,8	-3,2
112	Direct taxes	15,3	20,3	47,5	57,2	25,0	22,6	83,1	104,8	188,0
	Income taxes	14,2	18,6	45,7	56,0	24,0	21,6	78,5	101,6	180,1
	Other tax revenues	1,1	1,7	1,8	1,1	1,0	1,1	4,6	3,2	7,9
12	Non-tax income	16,0	21,9	31,5	24,5	46,8	57,2	69,4	128,4	197,8
13	Other revenues	0,0	0,1	0,1	0,1	0,0	0,5	0,2	0,6	0,8
14	Grants	0,7		0,2	0,1	0,0	0,0	0,9	0,0	0,9
15	Transfers from other level of government	0,8	0,2	0,2	0,1	0,1	0,3	1,2	0,5	1,7

		I	II	III	IV	V	VI	Q1	Q2	Total
2	**Current expenditures**	**311,6**	**374,2**	**396,9**	**437,7**	**419,7**	**468,3**	**1082,7**	**1325,6**	**2408,3**
21	Consumption expenditures	56,3	80,3	82,0	88,0	86,3	107,0	218,6	281,3	499,9
211	Wages and compensations	53,0	72,7	72,4	72,9	73,2	91,8	198,1	238,0	436,1
212	Purchases of goods and services	3,4	7,6	9,6	15,1	13,1	15,2	20,5	43,3	63,8
22	Grants, transfers, subsidies	17,4	55,4	69,6	86,9	81,6	74,6	142,4	243,1	385,5
	Transfers to households	14,6	43,3	58,1	57,6	61,2	54,2	116,1	173,0	289,1
	Transfers to organizations/ institutions	0,1	1,2	2,6	3,4	1,5	4,5	3,9	9,4	13,4
	Subsidies	2,7	10,9	8,8	25,9	18,9	15,9	22,4	60,7	83,1
23	Interest payments	0,7	9,1	13,1	2,2	20,2	23,5	22,8	45,9	68,7
24	Other expenditure/transfers	1,0	20,6	21,6	24,4	21,8	28,3	43,2	74,5	117,7
25	Transfers from Single Account	216,8	200,8	176,8	210,9	188,0	213,1	594,4	612,0	1206,4
	o/w : BiH Budget	52,3	60,7	62,2	62,2	56,5	62,2	175,2	180,8	356,0
	o/w: FBiH / Cantons, Municipalities, Road Fund	124,0	110,9	84,1	115,4	99,0	113,6	319,0	328,0	647,0
	o/w: RS / Municicialities, Road Fund	29,8	20,0	21,3	23,5	22,2	26,5	71,1	72,2	143,3
	o/w: Brcko	10,6	9,2	9,2	9,8	10,3	10,9	29,1	31,0	60,1
27	Transfers to lower levels of government	18,7	7,5	33,6	22,7	22,6	21,8	59,8	67,1	126,9
28	Net lending*	0,7	0,5	0,2	2,6	-0,7	-0,1	1,4	1,8	3,2
3	**Net acquisition of nonfinantial assets**	**0,3**	**9,7**	**10,8**	**5,7**	**5,6**	**7,8**	**20,9**	**19,0**	**39,9**
4	**Government surplus (+)/ deficit(-) (1-2-3)**	**72,6**	**-24,5**	**-5,4**	**-25,8**	**1,6**	**-30,4**	**42,7**	**-54,6**	**-11,9**
5	**Net financing****	**-0,63**	**-0,40**	**15,96**	**97,48**	**154,84**	**-19,36**	**14,9**	**233,0**	**247,9**

Table 1.

BiH: BiH, entities, BD, cantons, I-V, 2009.

		I	II	III	IV	V	Q1	Q2	Total
1	**Revenues** (11+12+13+14)	**361.621.530**	**384.787.981**	**439.503.843**	**577.426.790**	**453.734.263**	**1.185.913.353**	**1.031.161.053**	**2.217.074.406**
11	**Tax revenue**	**319.298.953**	**340.213.980**	**383.291.493**	**401.183.323**	**378.005.985**	**1.042.804.426**	**779.189.308**	**1.821.993.734**
	Income and profit tax	23.185.593	39.045.333	76.485.845	103.317.370	54.005.305	138.716.772	157.322.675	296.039.447
	Property tax	2.616.954	2.550.559	1.618.842	1.547.039	1.595.707	6.786.355	3.142.745	9.929.100
	Indirect taxes	292.781.079	297.423.279	304.253.151	294.125.325	319.821.652	894.457.509	613.946.978	1.508.404.486
	Other taxes	715.327	1.194.809	933.655	2.193.589	2.583.321	2.843.791	4.776.910	7.620.701
12	**Nontax revenues**	**37.355.275**	**42.477.553**	**55.144.550**	**173.230.120**	**70.336.670**	**134.977.378**	**243.566.790**	**378.544.168**
13	**Grants**	**4.943.518**	**1.956.955**	**1.013.242**	**2.949.876**	**5.378.728**	**7.913.715**	**8.328.604**	**16.242.320**
14	**Other revenues**	**23.784**	**139.492**	**54.558**	**63.471**	**12.880**	**217.834**	**76.351**	**294.185**
2	**Expenditures** (21+22+23**)**	**313.213.289**	**361.437.719**	**442.638.460**	**454.447.819**	**457.317.156**	**1.117.289.467**	**911.764.975**	**2.029.054.442**
21	**Current expenditures**	**311.348.837**	**356.872.495**	**438.565.905**	**445.499.994**	**451.664.908**	**1.106.787.236**	**897.164.902**	**2.003.952.139**
	Gross wages and compensations	195.616.357	221.788.826	222.760.579	220.823.261	223.416.540	640.165.763	444.239.801	1.084.405.563
	Purchases of goods and services	23.098.692	33.157.560	38.208.844	44.588.143	42.031.088	94.465.096	86.619.231	181.084.327
	Grants	91.215.234	92.751.156	164.423.265	177.818.537	165.954.278	348.389.656	343.772.816	692.162.471
	Interest payments	1.418.553	9.174.952	13.173.216	2.270.053	20.263.002	23.766.721	22.533.055	46.299.777
22	**Other expenditures**	**1.280.520**	**4.127.522**	**4.129.946**	**6.541.133**	**6.544.775**	**9.537.988**	**13.085.908**	**22.623.896**
23	**Net lending**	**583.932**	**437.702**	**-57.391**	**2.406.692**	**-892.527**	**964.243**	**1.514.165**	**2.478.407**
3	**Net acquisition of nonfinancial assets**	**7.421.692**	**9.851.371**	**13.738.450**	**9.005.291**	**14.545.943**	**31.011.513**	**23.551.235**	**54.562.748**
4	**Gov. surplus/deficit** (1-2-3)	**40.986.549**	**13.498.891**	**-16.873.067**	**113.973.679**	**-18.128.836**	**37.612.373**	**95.844.843**	**133.457.216**
5	**Net financing**	**-1.284.777**	**-640.935**	**15.568.201**	**100.858.810**	**154.647.315**	**13.642.489**	**255.506.125**	**269.148.614**

Table 2.

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

Bosnia-Podrinje Canton, I-III 2009. g.

		I	II	III	I-III 2009	I-III 2008
1	**Revenues** (11+12+13+14)	**2.516.509**	**2.478.733**	**2.231.419**	**7.226.661**	**8.557.384**
11	**Tax revenue**	**2.141.951**	**1.973.848**	**1.900.398**	**6.016.198**	**7.445.639**
	Income and profit tax	165.920	98.254	64.954	329.128	829.889
	Property tax	30.880	23.956	11.004	65.841	161.727
	Indirect taxes	1.942.462	1.851.298	1.823.950	5.617.709	6.424.489
	Other taxes	2.689	341	490	3.520	29.534
12	**Nontax revenues**	**296.728**	**248.296**	**252.575**	**797.599**	**873.700**
13	**Grants**	**76.252**	**254.423**	**76.491**	**407.166**	**191.023**
14	**Other revenues**	**1.578**	**2.165**	**1.955**	**5.698**	**47.022**
2	**Expenditures** (21+22+23)	**2.932.191**	**2.961.305**	**3.288.815**	**9.182.312**	**8.888.016**
21	**Current expenditures**	**2.933.057**	**2.961.626**	**3.289.178**	**9.183.862**	**8.888.976**
	Gross wages and compensations	1.656.581	2.077.436	1.825.636	5.559.653	5.221.184
	Purchases of goods and services	339.204	360.786	485.728	1.185.719	1.458.685
	Grants	875.438	522.065	976.499	2.374.002	2.204.798
	Interest payments	61.834	1.339	1.315	64.488	3.923
	Other expenditures	0	0	0	0	386
22	**Net lending**	-866	-321	-363	-1.550	-960
3	**Net acquisition of nonfinancial assets**	**42.336**	**29.056**	**108.165**	**179.558**	**496.208**
4	**Gov. surplus/deficit** (1-2-3)	**-458.019**	**-511.629**	**-1.165.561**	**-2.135.209**	**-826.840**
5	**Net financing**	**-180.889**	**0**	**-14.968**	**-195.858**	**-155.768**

Table 3.1.

Middle Bosnia Canton, I-III 2009. g.

		I	II	III	I-III 2009	I-III 2008
1	**Revenues** (11+12+13+14)	**12.947.314**	**12.853.716**	**12.350.647**	**38.151.677**	**46.319.540**
11	**Tax revenue**	**10.778.527**	**10.570.026**	**10.086.376**	**31.434.929**	**38.643.613**
	Income and profit tax	693.335	576.808	1.197.255	2.467.398	5.003.867
	Property tax	408.870	479.185	356.209	1.244.264	1.206.845
	Indirect taxes	9.664.190	9.498.444	8.522.050	27.684.683	32.204.828
	Other taxes	12.132	15.589	10.862	38.583	228.073
12	**Nontax revenues**	1.817.446	2.115.899	2.083.737	6.017.082	6.804.171
13	**Grants**	**351.341**	**167.791**	**180.534**	**699.666**	**844.256**
14	**Other revenues**	0	0	0	0	27.500
2	**Expenditures** (21+22+23)	**12.178.176**	**14.244.615**	**15.490.407**	**41.913.198**	**39.619.591**
21	**Current expenditures**	**12.178.176**	**14.244.615**	**15.490.407**	**41.913.198**	**39.619.591**
	Gross wages and compensations	8.950.230	9.728.180	9.939.461	28.617.870	24.180.311
	Purchases of goods and services	1.646.132	1.777.153	1.646.753	5.070.039	5.286.751
	Grants	1.536.509	2.641.647	3.765.548	7.943.704	9.848.883
	Interest payments	6.587	21.789	5.234	33.610	85.376
	Other expenditures	38.718	75.847	133.410	247.975	218.270
22	**Net lending**	0	0	0	0	0
3	**Net acquisition of nonfinancial assets**	**205.379**	**322.402**	**285.865**	**813.646**	**700.365**
4	**Gov. surplus/deficit** (1-2-3)	**563.759**	**-1.713.301**	**-3.425.626**	**-4.575.168**	**5.999.584**
5	**Net financing**	**-16.270**	**-17.481**	**-15.489**	**-49.240**	**-6.840**

Table 3.2.