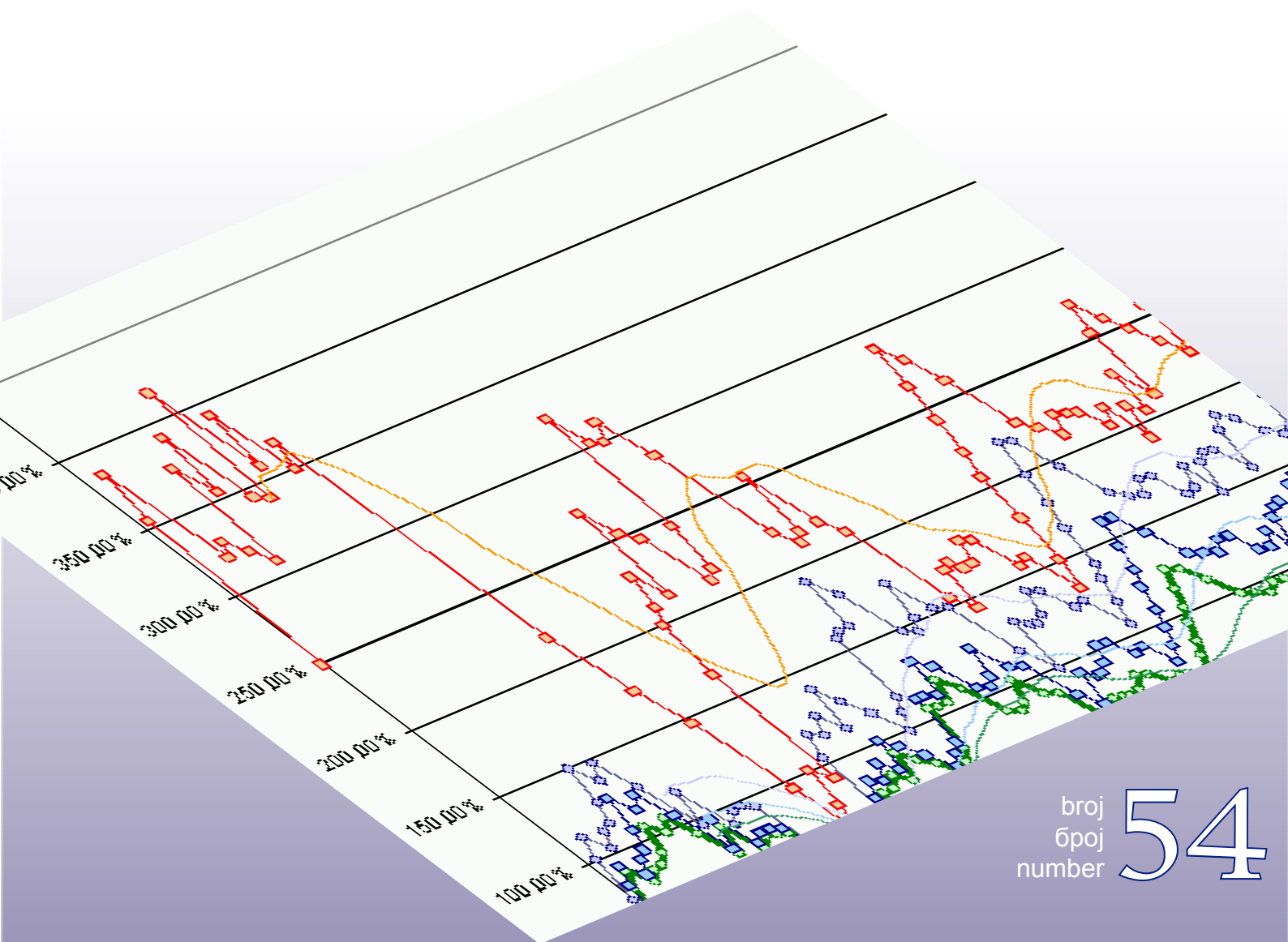




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

Oma Bilten



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number **54**

With this issue

Global financial and economic crisis has exposed all those engaged in producing revenue projections to a difficult test. Uncertainties regarding the depth and magnitude of the crisis, and then uncertainty about the time and speed of getting out of the crisis demanded the constant adjustment of projection of revenues with the current macroeconomic trends in 2009. Macroeconomic Analysis Unit has reviewed its projections of revenues from indirect taxes for several times, and last time it was in early November 2009. The latest projections have served as the starting point for the fiscal authorities and all levels of government in BiH for the preparation of the budget for 2010, and were the subject of regular review of the International Monetary Fund in the implementation of Stand-By Arrangement with the financial institution. Given that the revenues from indirect taxes account for over 80% of tax revenues (excluding contributions) of general government of Bosnia and Herzegovina, their projections are an essential basis for annual and medium-term budget planning at all levels of government in BiH. The basis of projections, in addition to current trends in revenue collection on the ITA single account, make forecasts of basic macroeconomic indicators and the estimated effects of the new Law on excise duties in 2010. Assessment of the effects of increased specific excise duties and the introduction of the minimum excise duties on cigarettes from the beginning of 2010, with the risk of achieving macroeconomic projections developed by DEP, is one of the main risks to achieve projected revenues. The Unit, led by the principle of prudence, has made three program scenarios that are explained in the special report of this newsletter. When developing scenarios we considered possible models of behavior and reactions of consumers and the tobacco industry to the increase of the rate of excise duties on cigarettes, the consequences of growth of duty rates that can have on cigarette market and public revenues, the theoretical assumptions regarding the elasticity of consumption of cigarettes, and the practice and experience of the EU Member Countries related with the excise rate harmonization and compliance with the EU standards.

Dinka Antić, Phd
Head of Unit

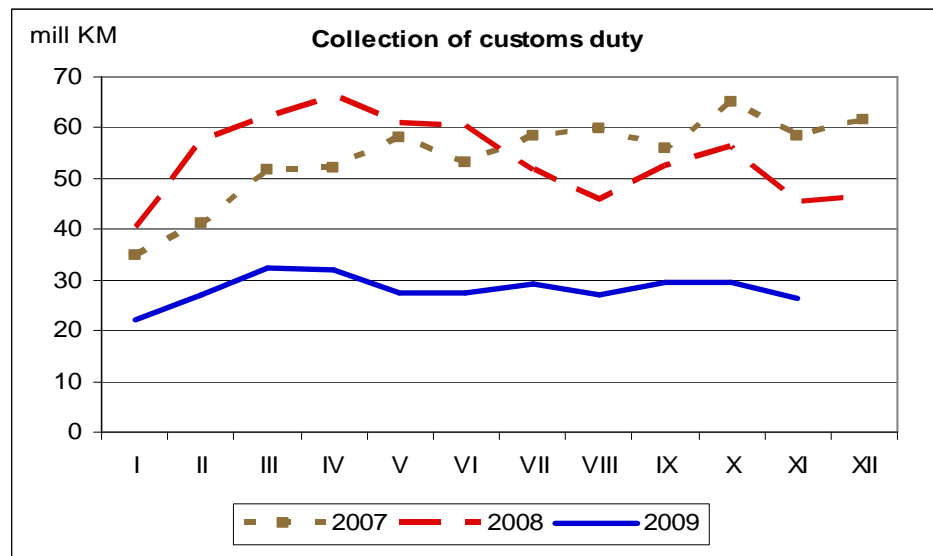
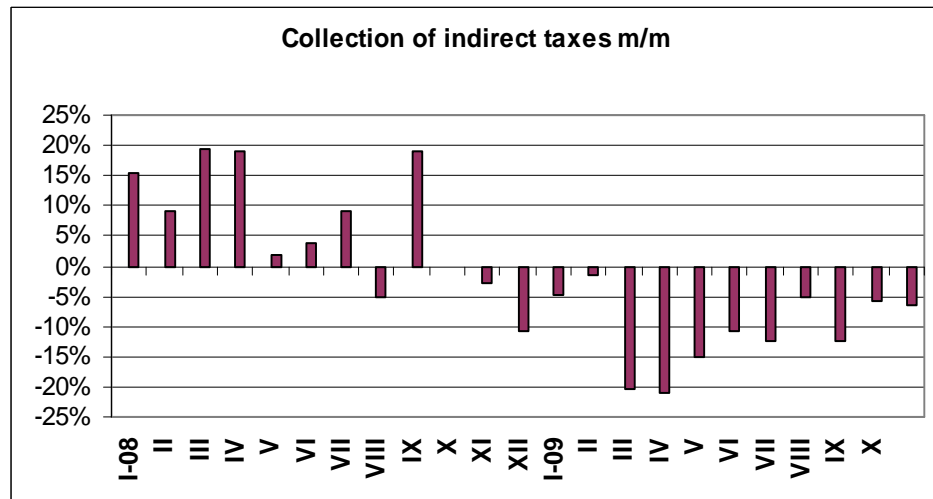
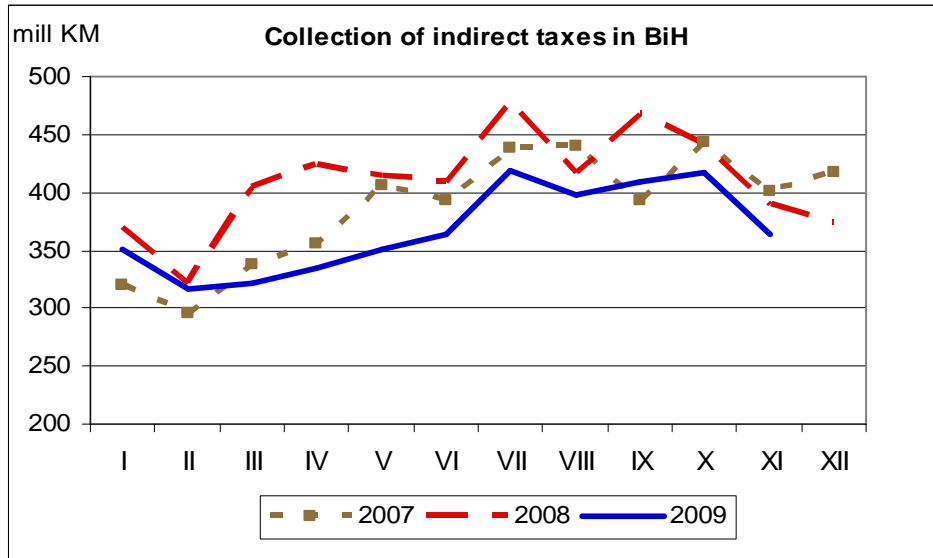
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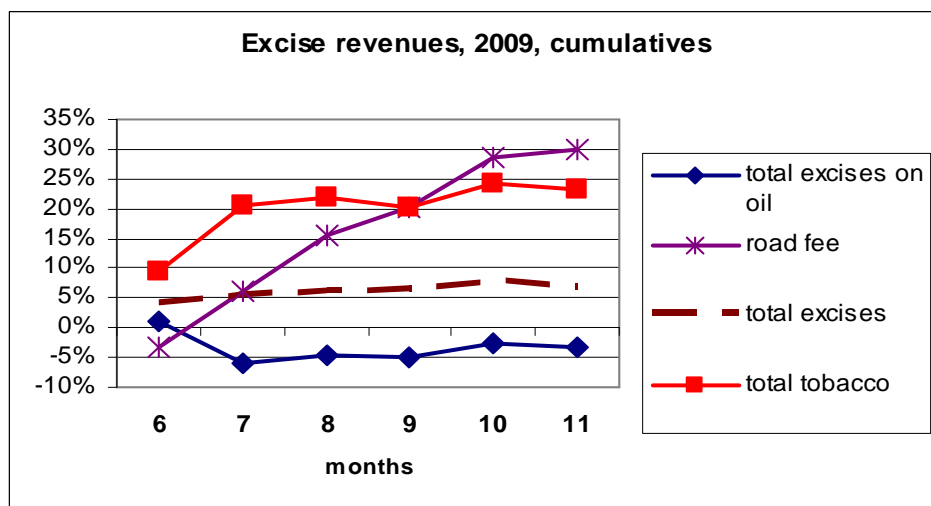
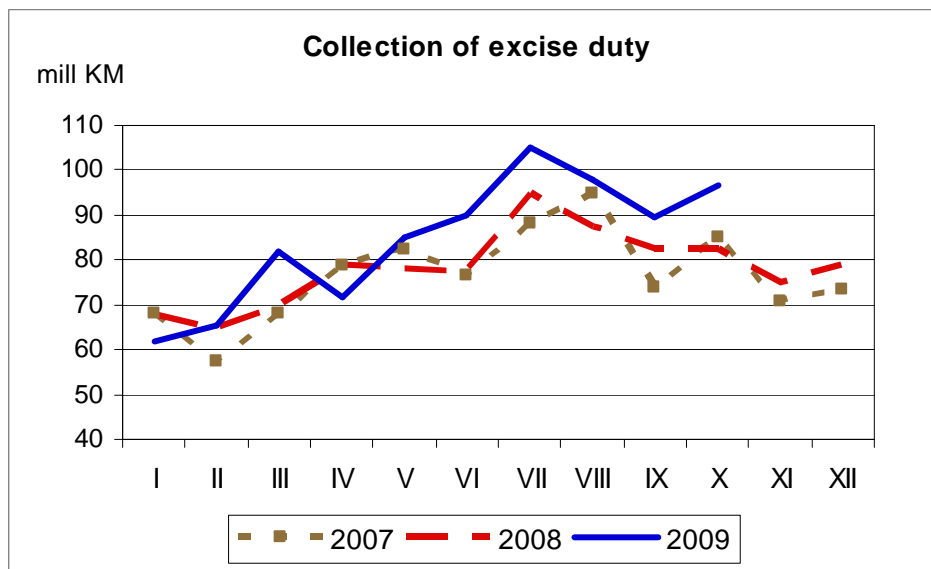
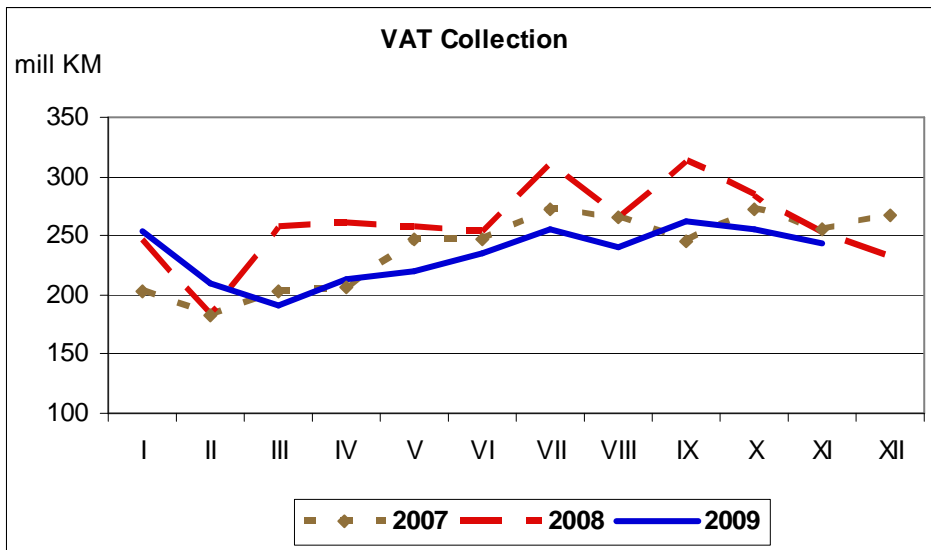
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Highlights: Collection of indirect taxes in the period January – November 2009

(prepared by: Dinka Antić)





Revenue projections of indirect taxes, 2010-2012

(Author: Aleksandra Regoje, macroeconomist)

Table 1 represents last updated projections of indirect tax revenue for the period 2009- 2012.¹

Table 1. Projections of indirect taxes for the period 2009-2012, November 2009

	2009	2010	2011	2012		2009	2010	2011	2012
VAT (net)	2.800,2	2.902,2	3.106,1	3.321,9		-10,2%	3,6%	7,0%	6,9%
Excise	1.005,6	1.104,6	1.268,2	1.436,1		7,3%	9,8%	14,8%	13,2%
Customs	346,0	327,9	294,1	255,0		-46,9%	-5,2%	-10,3%	-13,3%
Road fee	249,1	308,3	326,2	347,7		31,4%	23,8%	5,8%	6,6%
Other	20,0	20,2	20,4	20,6		-31,8%	1,0%	1,0%	1,0%
TOTAL	4.420,9	4.663,2	5.015,0	5.381,3		-10,3%	5,5%	7,5%	7,3%
Road fee (0,10 KM/I)	-65,4	-123,3	-130,5	-139,1			88,6%	5,8%	6,6%
FUNDS FOR ALLOCATION	4.355,5	4.539,9	4.884,5	5.242,2		-11,6%	4,2%	7,6%	7,3%

Revenue collection in 2009

According to preliminary report on Single account revenue collection, Indirect tax authority (ITA) collected total 5.171,9 mil KM indirect tax revenues in 2009. After reducing that amount by 740,6 mil KM for refund payments, we get the amount of 4.431,3 mil KM net indirect tax revenue, which is 0,2% higher compared to the projected amount of collection.

Table 2. Projection and real revenue collection -2009

2009	I Plan	II Execution	II/I Index
VAT (net)	2.800,2	2.814,0	100,5
Excise	1.005,6	997,2	99,2
Customs	346,0	346,7	100,2
Road fee	249,1	250,0	100,4
Other	20,0	23,3	116,7
TOTAL	4.420,9	4.431,3	100,2

It should be mentioned that column II- Execution shows the analytics of collected revenues according to ITA preliminary report for 2009, and item "other" contains 11,45 mil KM of unadjusted revenue of the III group of accounts (VAT, taxes and excises on domestic products).² Therefore final collection report can deviate from the preliminary one meaning that certain amount of the line "other" could be allocated on VAT or excise revenue.

Projections for the period 2010 - 2012

Indirect tax revenue projection for the period 2010-2012 is based on the following assumptions:

¹ The last updated projections, which are made on 5th November 2009, are presented to the Fiscal council for the purpose of government budget planning and first IMF review after approval of stand-by arrangement. The projections are also included in Economic-fiscal program for 2010 which is being submitted to the European Commission. Comparing with the projections made in September, November projections for the year 2009 are revised upwards to KM 30 mil on VAT item. September projection of total indirect tax revenue for 2009 was 4.391 mil KM, which is 0,9% lower in comparison with the real payments.

² Unadjusted revenues include revenues for which breakdown of payments (single account) and analytical records of taxpayers in IT modules of ITA can not be matched (VAT, customs, excises)

- a. projections of relevant macroeconomic indicators prepared by Directorate for Economic Planning (DEP),
- b. Further implementation of the Stabilization and Association Agreement (SAA) in accordance with the dynamics of the reduction and elimination of tariffs on imports of goods originating in the EU
- c. Application of article 21 of the Law on Excise, which implies adjustment of excise rates in BiH with the minimum standards in the EU.

The projections include the effects of increasing specific excise rate from 0,15 to 0,30 KM per package as well as planned continuous increase of the same rate in each following year of 0,15 KM per package of cigarettes.

VAT

VAT revenue projection is based on the estimate of consumption growth prepared by DEP (table 3). According to the macroeconomic projections, stronger consumption growth is expected in 2011 and 2012 than in 2010, which is the main reason for higher projected VAT growth in those years.

Table 3. Consumption growth projection

Year	2010	2011	2012
Consumption growth projection (DEP)	3,00%	6,23%	6,21%

Source: DEP, May 2009.

VAT revenues are expected to grow over the projected rate of consumption growth as the result of the effects from the increase of excise specific rate on tobacco. It is explained by multiple effects of specific rate increase on the revenues: it affects not only specific and *ad valorem* component of excise revenue, but VAT revenue as well.

Excise

The change of legislation concerning excise rates brought more significant growth of those revenues in the second half of 2009 comparing with the first one. The stronger growth of those revenues is also recorded a few months before the legislation changed, as the result of positioning the companies in the tobacco industry before expected excise growth rate increase. So, after 0,3% decrease of excises in the first four months of 2009 (compared with the same period of the previous year), 9,3% increase was recorded in the last eight months³.

³ Data for December 2009 are preliminary, so the correction of this indicator is possible upwards after matching the breakdown of unclassified payments (single account) and analytical records of taxpayers

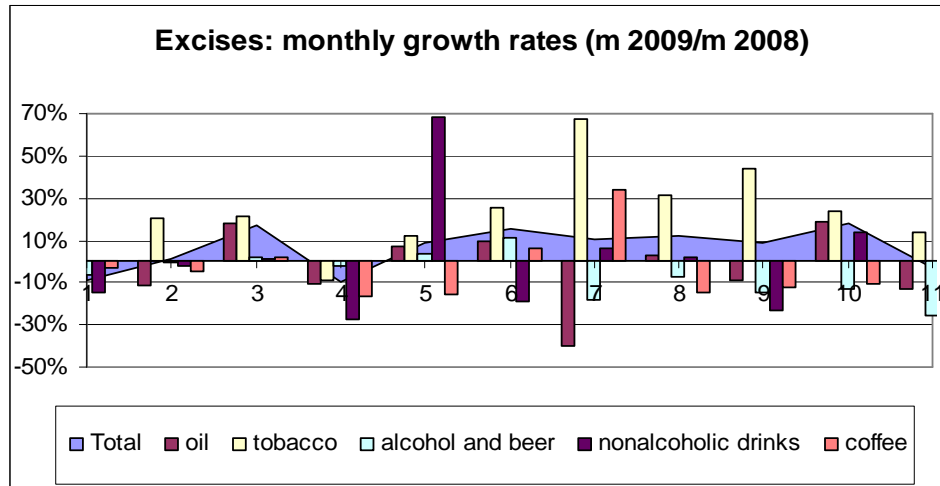


Chart 1

The projection for the following years was prepared on the basis of estimated macro indicators by DEP, prior of real consumption and GDP growth. As the result of legislation change in the field of tobacco, forecasts of excise revenues in the future are very uncertain because of scarce data and the lack of analysis on the market supply of cigarettes, price elasticity and structure of demand, as well as models of consumer behavior and psychology in the previous periods during the increase of tobacco excise rates and prices.

Regarding above mentioned and other important risks of carrying out the projections, such as the increase in tobacco smuggling or black market expansion, estimated effects of special excise increase rate on tobacco amount to 2,73% of totally projected indirect tax revenue for 2009. Trend of strong growth of excises is expected to continue in 2011 and 2012, due to projected increase of macroeconomic indicators and effects of planned continued increase of specific rate of excise on tobacco.

Road fee

Increase of road fee rate from 0,15 to 0,25 KM/l as of 1st July 2009 brought strong increase of those revenues in the second half of 2009 (63% compared with collection in second half of 2008 – according to preliminary report), despite of slight decrease of consumption of oil and oil derivatives.

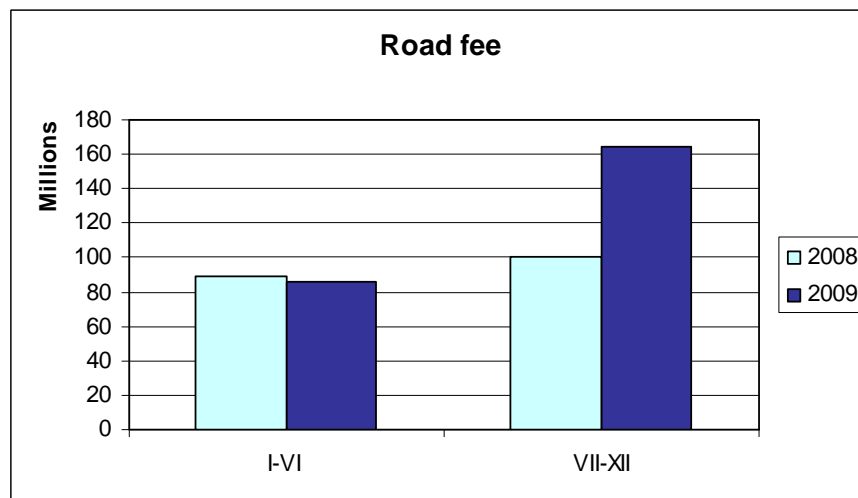


Chart 2

Road fee projections for the period 2010-2012 are related to the real GDP growth estimates. It should be mentioned that stronger growth of these revenues could be expected in first half of 2010 (as in the case of excise on tobacco) due to delayed effect of road fee rate increase (application of new Law since 1st July 2009). The strong growth of road fee revenue is projected due to inclusion of half-year effects of changing the rate, despite of projected zero growth rate of real GDP for 2010. Since there are no plans of further harmonization of excise rates on oil derivatives with EU standards in the foreseeable future, the effects of new Law are limited only to the first half of 2010 while the projection for 2011-2012 is based on DEP estimate of GDP growth.

Table 4. Real GDP growth projection

Year	2010	2011	2012
Real GDP growth projection	0,00%	5,80%	6,60%

Source: DEP, May 2009.

Customs

Provisions of interim Stabilization and Accession Agreement (SAA), which came into force on 1st July 2008 contributed to the large decrease in indirect tax revenues, since they prescribe immediate or gradual (until 2013) abolition of customs on imports of goods originating in the EU. Despite the fact that the most significant decrease of customs rates was recorded at the time of provisions entering into force, there was no significant decline in customs revenue in the first year of application of SAA (2008)- only 4 mil KM.

The main reason for this is that provisions came into force in the second half of the year, as well as strong import growth in 2008 (17,2%).

The next phase of SAA application (2009) also brought significant reduction of customs rates on goods originated in EU, which, together with strong import decrease and delayed effect of reducing customs rates from the first phase (SAA entering into force on 1st July 2008) ⁴ caused customs revenue decrease of enormous 304,6 mil KM compared to 2008.

The moderate process of reducing customs rates is foreseen in the coming years, since the same rates are already abolished on significant part of preferential imports from EU. For this reason, as well as for the projected import growth in the coming years, a strong decline of customs revenue as in previous period can't be expected (-5,2%, -10,3% and -13,3% for 2010, 2011 and 2012).⁵

Table 5. Import growth projection

Year	2010	2011	2012
Import growth projection	8,30%	9,90%	10,50%

Source: DEP, May 2009.

Total

Regarding above mentioned, the coming years are expected to bring gradual recovery after indirect tax revenue decrease in 2009. The slight recovery of economy is projected for 2010, and the projected revenue increase is primarily caused by the effects of changing legislation in the field of excises. Beside the effects of increasing special excise rate on tobacco which entered into force on 1st January 2010, projected revenue growth for 2010 is also affected by the effects of new Law entering into force in second half of 2009. As a result of the abovementioned, the effect of implementation of new Law on Excise Duties will not be equally distributed during 2010 and the stronger growth is expected in the first half of the year. According to macroeconomic projections,

⁴ The provisions of SAA did not come into force in the first half of 2008, so the collection in 2009 includes half-year effects from the first phase of reducing customs rates.

⁵ Projection takes into consideration historical seasonal scheme in collection of these revenues, projection of imports, share of preferential import from EU in total imports and its structure by certain annexes of SAA.

the stronger recovery can be expected in the period 2011-2012, which will also bring indirect tax revenue increase. Besides that, revenue growth will also be contributed by continued increase of specific excise on tobacco (harmonization of excise rates with EU standards).

Finally, it should be mentioned one more time that the projections are tightly related to the projections of macroeconomic indicators prepared by DEP. Therefore, **every deviation of these parameters from the projected values indicates the risk for revenue projection.**

Revenue projections of excise duties on cigarettes FY 2010

(Author: Dinka Antić, PhD in Economics)

Revenues from the excise duty on cigarettes have been increasingly becoming an important source of public revenues. In previous years, the share of these revenues in total revenues from excise duties has increased from 31.7% in 2002, on stable 36-38% after the increase of excise rates in 2005. However, according to preliminary data, the share of revenues from excise duties on cigarettes in total excises has reached 45% FY 2009. At the same time the share of these revenues has increased in total revenues from indirect taxes from 7% in 2002 to 10% in 2009. The main reasons for increasing the share of revenues from excise duties on cigarettes in the structure of indirect taxes are as follows:

- The implementation of the Stabilization and Association Agreement led to a drastic fall of revenues from customs duties, and thereby to the change in revenues structure between revenues from VAT, customs and excise revenues as the main revenues sources;
- Global economic crisis has led to changes in the structure of revenues from excise tax for the benefit of excise tax on cigarettes. The fall of economic activities of companies and population consumption decline in demand during the crisis led to a decrease in energy consumption and falling revenues from excise taxes on oil products;
- With adoption of the new Law on excises ("Act") the process of harmonization of excise taxation started in order to meet minimum EU standards. The initial introduction of special excise of 0.15 KM / pack has led to a strong growth in excise revenues, which, according to preliminary reports, exceeds 23%.

It is expected that revenues from excise taxes on cigarettes in years come will have a greater importance due to the process of harmonization with the EU minimum standards. Even from the beginning of 2010 we had new increase of specific excise duty on cigarettes, and in accordance with the law we should expect the increase of specific excise duty every year for a minimum of 0.15 KM / pack, until the total excise duty (specific + ad valorem) reaches the minimum excise duty in the EU. Since we expect a modest recovery of GDP in 2010 and slow growth of BH economy in the coming years, projections of revenues from excise duties on cigarettes will have greater impact on projections of revenues from indirect taxes, and therefore the planning of the budgets of the ITA single account beneficiaries.

Projections of revenues from excise duties on cigarettes FY 2010 are uncertain for several reasons:

- Since the last projections were made in early November of 2009, and changes of the law entered into force on July 1st 2009, it did not leave much space for analysis the first effects of the Law implementation, especially for assessing the effects of increasing excise rates that became effective from 2010;
- Due to the short time period between the increase of excise duties on cigarettes on July 1st, 2009 and January 1st, 2010 we can not reliably estimate the model of consumers` behavior, which determines the volume and structure of consumption, even not the model

- behavior of the tobacco industry in terms of marketing strategies and overall business policy in a situation of continuing further increase of tax burden starting from 2010;
- There is no regular assessment of white and black market of cigarettes in BiH, nor the analysis of elasticity of demand for cigarettes from previous periods;
- Even if there exist analysis of elasticity of demand for cigarettes from previous periods it is certain that the global economic crisis modifies the models of consumer behavior and tobacco companies even though, by definition, it is believed that the demand of cigarettes is price-inelastic;
- The Unit has no information about the actual consumption of cigarettes since the excise duty on cigarettes is to be paid before placing cigarettes on the market. Information on the large increase of excises collected on this basis in the second half of the year show only segments of the tobacco industry strategy followed the introduction of the new law;
- For projections of revenues from excise duties on cigarettes FY 2010 the following provision is relevant which says that cigarettes with excise stamps issued prior to July 1st, 2009 can be traded on the market up until the end of the year 2009. Also, the decision of the Governing Board of the ITA for cigarettes with excise stamps issued in the second half of 2009 can be traded up until March 31st, 2010 will have certain consequences for the revenues from excise duties in 2010.

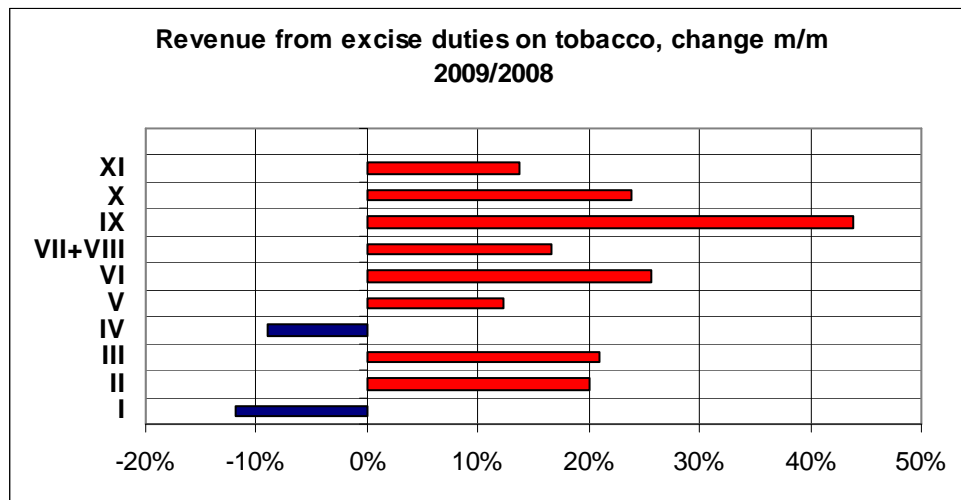


Chart 1

On Chart 1, we compared the executed/collected excises on cigarettes for each month in 2009 with the same month in 2008 (back-to-back). It should be noted that the data on revenues from excise duties on cigarettes in July and probably in August, include the payment of differences of excise duties on cigarettes as a result of inventory on June 30th, 2009. For this reason, revenues from excise duties on cigarettes in July and August, in order to be comparable with 2008, we presented summararily, reducing them previously for 25 million KM as paid difference. The fact that we have had an increase in revenues from excise duties on cigarettes at the beginning of 2009 shows that there had been an increased withdrawal of excise stamps, which, certainly could not be compensated by increased consumption in the first half. It is obvious that the tobacco-related companies began with the positioning on the market before the adoption of the new law. Given the problems outlined above it can be concluded that extreme caution is needed to revenues projections. Bearing in mind all of these, the Unit during the process of projecting revenues of indirect taxes for the period 2010-2012 developed three scenarios, optimistic, realistic, and conservative. Common assumption for all three scenarios is referred to passing on new tax burden (specific excise 0.15 KM + increase of ad valorem excise + VAT increase) onto the buyer through the retail selling price:

i. Scenario A:

Starting point for this scenario are the following assumptions:

- Consumption of cigarettes is **price-inelastic**
- Retains the **same structure of consumption** (distribution) of cigarettes.

Based on the above assumptions by passing on the tax burden on retail prices it is expected for average price to increase by 43.67% compared to 2008, and by 14.6% compared to the third quarter of 2009. Price increase further on impacts the change in structure of cigarettes in favor of more expensive brands with tax inclusive retail selling prices ("TIRSP") below 2.00 KM fell from 68% on 48%.

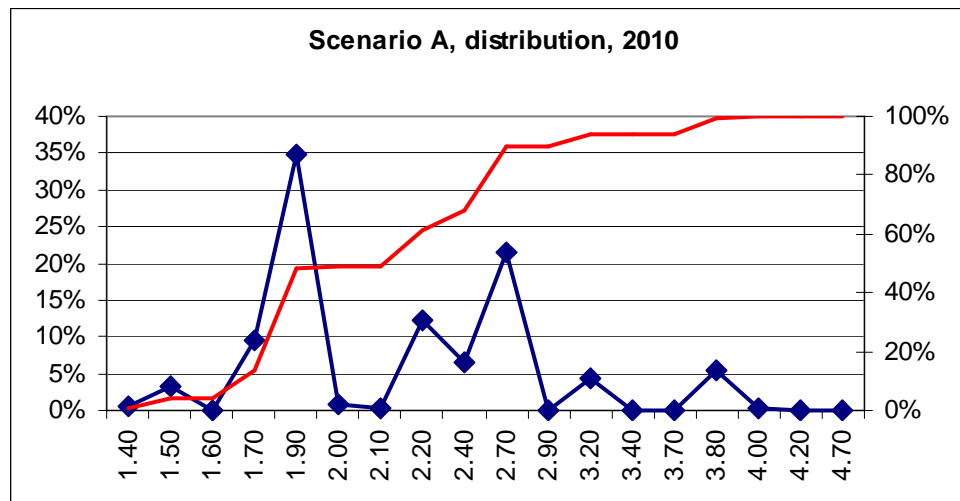


Chart 2

However, the price increase causes inevitably the emergence of two processes:

- People who consume cigarettes from the lower price categories can reduce consumption or quit smoking due to faster growth of costs of living than households' income,
- Price boom creates room for strengthening of smuggling activities and growth of black market.

Both processes lead to a reduction in legal taxable consumption. The Unit has projected, based on the experiences of the EU, the reduction in spending of 10% by 2012.

There are two more variables whose end net effect may be neutral to revenues collected in 2010:

- Cigarettes with excise stamps issued after July 1st, 2009 can be traded up until March 1st, 2010, which will partly reduce the trade of cigarettes with the new retail prices in 2010
- At the end of 2010 the new alignment of specific excise duty (at least 0.45 KM / pack as of 1/1/2011), a part of cigarettes with stamps issued in 2010 will be traded in 2011. These revenues from excise duty belong to the fiscal year 2010.

The first variable has negative impact on revenues in 2010, and the other one has positive. The end effect on revenues is neutral.

ii. Scenario B:

Starting point in Scenario B is the assumption that the consumption of cigarettes from the lower price categories (below 2.00 KM) is price-elastic, but limited, around the level of the most popular brand (probably the one who represents the base for the minimum excise tax), while the consumption of cigarettes from higher price categories (above 2.00 KM) is price-inelastic. Above assumption ensures conservation of the basic structure of consumption (distribution) of cigarettes

as before applying the new law on excises. The introduction of the minimum excise under this scenario resulted that 60% of cigarettes belong to the lowest price category (1.50 – 1.60 KM). Moving the structure of consumption towards the lowest price categories leads to a price increase of only expensive cigarettes, which ultimately leads to a decrease in the average price to 1.90 KM i.e. below the weighted average price in the third quarter of 2009 yet still above the average price before applying the new law.

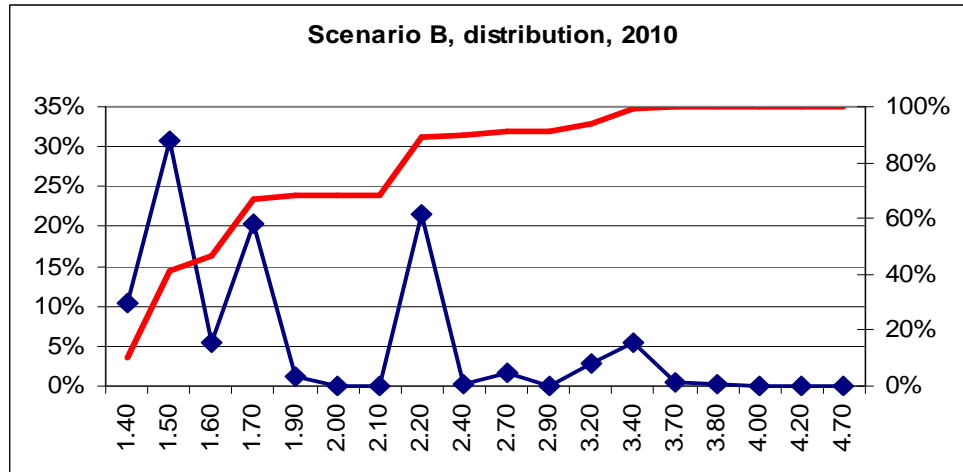


Chart 3

iii. Scenario C:

Starting assumption in Scenario C is that the **overall consumption of cigarettes is price-elastic**, which means that consumption, caused by the application of the minimum excise duty concept, from the lowest price categories is now fixated on the price level of 1.50 KM, whereas the rest of the consumption is led by price, not loyalty to a brand. In practice, this scenario implies that a buyer who was willing to spend 2 KM for a particular brand after its price increase quit of purchasing the brand and decides to buy a brand whose price is around 2 KM. Above assumption ensures keeping the structure of consumption (distribution) of cigarettes as before applying the new law on excise. Change the structure of consumption towards the lowest price categories decreases weighted average price at 1.78 KM, which ensures the increase of revenues from excise duty since it was above the average before the introduction of the new law.

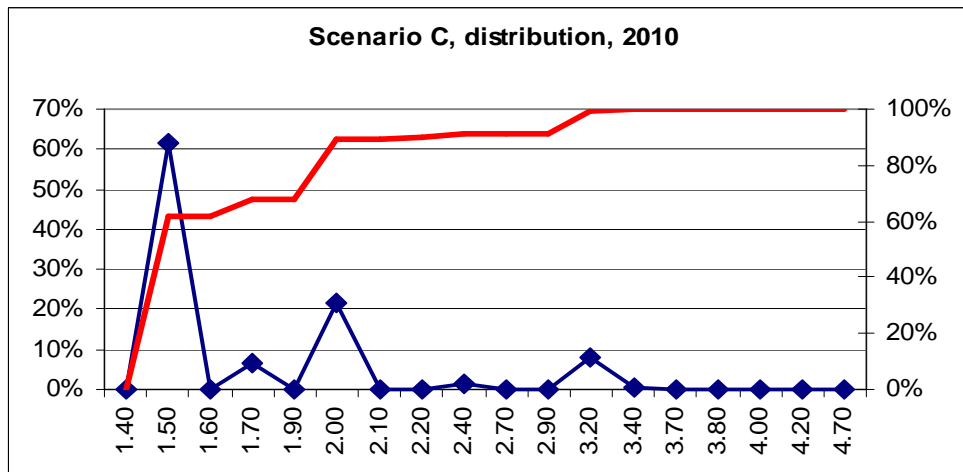


Chart 4

Overview of effects

Sustainability of assumptions from scenario A on price inelasticity of cigarette consumption is controversial, given the large number of consumers of cigarettes with low incomes. On the other hand, the likelihood of sustainability of the assumptions set in Scenario C about price elasticity of cigarette consumption, given the proven high degree of inelasticity of consumption of cigarettes in other countries, and with respect to the consumer mentality and habits of citizens in BiH, and the extreme fragmentation of society in BiH on rich and poor, where more and more middle class is diminishing, is minimal. However, given the high degree of uncertainty in relation to other factors that may affect the projections, and considering the poor fiscal position of all levels of government in BiH, the Unit has opted for a conservative scenario C. Fiscal effects of all three scenarios are presented in the following table:

scenario	Rate of revenues FY 2010*)	As share of GDP**)
A	5,11%	0.83%
B	3,46%	0.56%
C	2,73%	0.44%

*) in relation to overall projected revenues FY 2009 (see the Bulletin)

***) projection of GDP FY 2010 – Directorate for Economic Planning

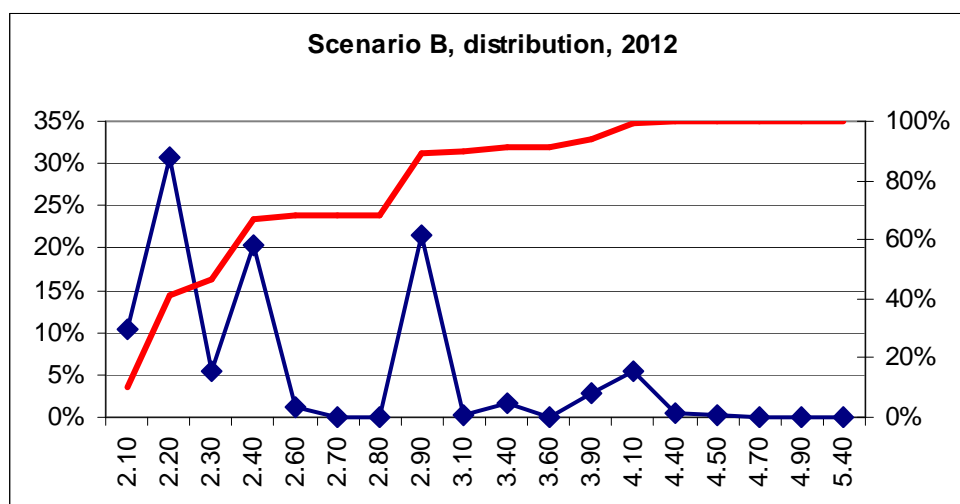


Chart 5

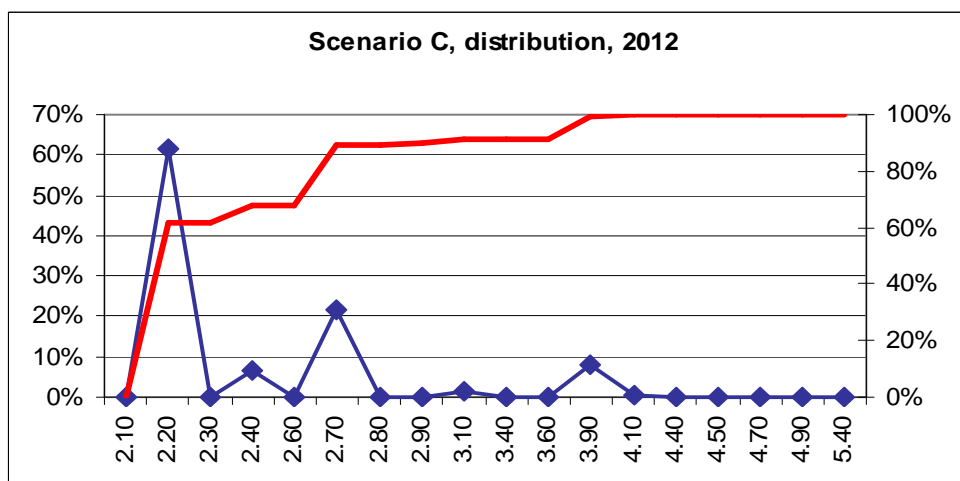


Chart 6

We have applied the same assumptions on projections since 2012. With scenario C (Chart 6) it can be noted the increase of the minimum Tax Inclusive Retail Selling Price and greater concentration of distribution around the cheapest cigarettes (in 2010 around 15% of the market and in 2012 around 40%!). According to the projections on the cheapest cigarettes in 2012 the excise duty will amount to an average of about 1.80 KM per a 20-cigarette pack. Also, it can be seen that over the time it comes to convergence between scenario C and scenario B because the minimum Retail Selling Price is continuously increasing and more consumption is concentrated around this price.

Stability and Growth Pact in terms of global economic crisis- part I

(author: Mirela Kadić)

Introduction

After more than ten years of Stability and Growth Pact existence and in times when some of eurozone members are reaching critical points of their public finances, question of its enforcement, adequacy and technical legitimacy has been brought more often than ever before. Situation in which Greece has gushed, as one of the oldest EU and Eurozone member is at least alarming, while some analysts go further and compare the situation with Argentina⁶. Forecasted budget deficit of 12,7% (as a share of GDP) for Greece in 2009 and public debt of over 120% of GDP value are far from fitting into parameters set by Maastricht treaty and by Stability and Growth Pact.

Stability and Growth Pact

Maastricht Treaty, signed on February 7th 1992 brought transformation of the European Community in European Union. By signing this Treaty, member countries confirmed they are to proceed with the next step in integration and some new goals. One of the major goals of the treaty was implementation of the final stage of economic and monetary union, i.e. introduction of common currency. For that purpose several criteria (so called '*Maastricht criteria*') have been determined, showing whether a certain country is eligible to introduce euro as its own currency. These are related to the following scopes:

- Price stability (Inflation rate should be no more than 1.5 percentage points higher than the average of the three best performing (lowest inflation) member states of the EU)
- The ratio of the annual government deficit to GDP must not exceed 3% at the end of the preceding fiscal year
- The ratio of gross government debt to GDP must not exceed 60% at the end of the preceding fiscal year
- The nominal long-term interest rate must not be more than 2 percentage points higher than the three lowest rates in member states
- Applicant countries should join ERM II ('Exchange rate mechanism') and should not devalue its currency during the period

These criteria are also known as '*convergence criteria*'.

According to Union and ECB (European Central Bank) regulations, penalties for the violation of these rules have not been foreseen. Nevertheless, that defect has been eliminated by the initiative from Germany⁷, the country which expected continuation of the long-standing growth rates with low inflation rates policy, through Stability and Growth Pact policy of setting limitations to proinflationary pressures of some member countries. In 1997 during the EU summit in Amsterdam, Stability and Growth Pact has been signed, and has took effect since the beginning of 1999. Its

⁶ 'Why Greece will have to leave the eurozone', Desmond Lachman, Financial times, January 2010

Available at: <http://www.ft.com/cms/s/0/a920bae4-fee9-11de-a677-00144feab49a.html>

⁷ Initiator was Theo Waigel, minister of finance in the chancellors' Helmut Kohl cabinet, also known as 'the father of the euro', due to the fact he suggested name of the common currency and the fact he was initiator of the implementation of the single currency

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task was to assure fiscal discipline implementation within the Eurozone by abiding to the following fiscal criteria:

- Share of the budget deficit of the general government in GDP should not exceed 3% of the GDP of the preceding year. If not, it is at least required to reach a level close to 3%.
- Share of public debt of general government in GDP should not exceed 60% of GDP at the end of the preceding year. Even if the target cannot be achieved, the ratio must be approaching the reference value.

Stability and growth pact has been reformed in the year 2005. The reform brought no changes in quantitative parameters, but some flexibility in definitions and rules interpretations. For example country with lower share of public debt and higher potential growth of GDP will be allowed to have budget deficit with violation of 'three-percent-of-GDP' rule with 1% in mid-terms, while highly indebted countries should tend to reach balanced public finances.

It has been stated in Protocol on excessive deficit procedure, as part of Maastricht Treaty, that fiscal deficit can be even higher only if it is a result of 'temporary and exceptional event'⁸. This clause has been a subject to many discussions during Pact establishment.

How does Stability and Growth Pact work?

Both Maastricht Treaty and Pact have foreseen certain procedural rules for fiscal discipline enforcement, for member countries and applicant countries. Those rules have preventive elements ('the preventive arm') and dissuasive elements ('the dissuasive arm').

The preventive elements include regular multilateral surveillance of member states' budgetary positions. Member states are obliged to (until 1st of December every year) submit **stability programmes** (eurozone countries) or **convergence programmes** (non-eurozone countries)⁹. Those programmes have to present mid-term goals of budgetary positions and, according to the need, specify a path to achieve those goals. Council gives opinions on these programmes, based on recommendations from the Commission. In the event of a significant divergence of the budgetary outcome from the target which will imply the risk that the three-per-cent-of-GDP-deficit ceiling will be breached, the Council can, on a recommendation of the Commission, issue a so-called '**early warning**' to a member state, demanding necessary adjustment measures to avoid deficit. Since Pact has reformed in 2005, the Council can also issue so-called '**policy advice**' as a specific substitute for an 'early warning' instrument

Corrective (dissuasive) elements of the procedural rules consist of the so-called excessive deficit procedure. The steps are as follows:

1. The Commission prepares a **report**. While drafting such report, the Commission shall also take into account whether the government deficit exceeds government investment expenditures and will include also medium-term economic and budgetary position of the Member State.
2. The Economic and Financial Committee, consisting of top civil servants from the ministries of finance and national central banks of the member states, formulates an **opinion** on the report of the Commission.
3. If the Commission then considers that an actual, or forecast, deficit is excessive, it shall address an opinion regarding this to the ECOFIN council¹⁰ as well as a recommendation on which policy action is appropriate for correcting the deficit.
4. Based on the opinion from the Commission, the ECOFIN council takes a **formal decision** on whether a deficit is excessive. If this is found to be a case, the Council gives recommendation, which contains two deadlines: one for taking effective action and one for actually correcting the deficit.

⁸ 'Protocol on excessive deficit procedure', Official Journal of the European Communities, No C 191/84, 29.7.1992.

Available at: http://eur-lex.europa.eu/en/treaties/dat/11992M/tif/JOC_1992_191_1_EN_0001.pdf

⁹ All stability and convergence programmes available at: http://ec.europa.eu/economy_finance/sgp/convergence/programmes/index_en.htm

¹⁰ ECOFIN council is the EC organ consisted of ministers of finances

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5. If a member state fails to heed of recommendation on corrective action, the ECOFIN council can give a **notice** to the state, as a final warning before the sanctions.
6. If a eurozone country fails to take corrective action as requested, the ECOFIN council can require the country to make a **non-interest bearing deposit** with the Commission. The deposit consists of a fixed component (0.2 per cent of GDP) and a variable component (0.1 per cent of GDP for each whole percentage points in excess of the deficit ratio over three per cent). If the excessive deficit persists, each year an additional deposit of 0.5 of GDP will be made¹¹.
7. If, in an opinion of the ECOFIN council, an excessive deficit has not been corrected two years after the deposit has been made, the deposit should be converted into a **fine**¹², to be distributed among those members of the eurozone that do not have an excessive deficit.

Besides fiscal criteria for euro introduction, Maastricht Treaty also contains some other provisions related to public finances in member countries. According to the Article 101-104, governments' deficit financing by European central bank and/or national central banks as well as privileged access of the public institutions to national financial institutions shall be prohibited. These regulations exclude the possibility for EU and European monetary union (EMU) to bear responsibility for any other member states' liabilities.

In practice this means that in case that any member state or its financial institution goes to default, other members would not be held responsible. This is so-called 'non-bail out clause'. Purpose of this clause was to, once established stability, remains undisturbed during the whole EMU stage.

Country	Date of the Commission report (Art.104.3/126.3)	Council Decision on existence of excessive deficit (Art.104.6/126.6)	Current deadline for correction
Austria	7 October 2009	2 December 2009	2013
Belgium	7 October 2009	2 December 2009	2012
Czech Republic	7 October 2009	2 December 2009	2013
Germany	7 October 2009	2 December 2009	2013
Italy	7 October 2009	2 December 2009	2012
The Netherlands	7 October 2009	2 December 2009	2013
Portugal	7 October 2009	2 December 2009	2013
Slovenia	7 October 2009	2 December 2009	2013
Slovakia	7 October 2009	2 December 2009	2013
Poland	13 May 2009	7 July 2009	2012
Romania	13 May 2009	7 July 2009	2011
Lithuania	13 May 2009	7 July 2009	2011
Malta	13 May 2009	7 July 2009	2010
France	18 February 2009	27 April 2009	2013
Latvia	18 February 2009	7 July 2009	2012
Ireland	18 February 2009	27 April 2009	2014
Greece	18 February 2009	27 April 2009	2010
Spain	18 February 2009	27 April 2009	2013
UK	11 June 2008	8 July 2008	financial year 2014/15
Hungary	12 May 2004	5 July 2004	2011

Table 1. Overview of the ongoing excessive deficit procedures

Source: http://ec.europa.eu/economy_finance/sgp/deficit/countries/index_en.htm

¹¹ These pecuniary sanctions are tied only to violations of the deficit criterion; no such sanctions can be imposed in the case of violations of the debt criterion.

¹² Pecuniary sanctions adequacy, as an additional burden to a member country already 'choking' in deficit, was a subject to the many discussions.

More on impact of the current global economic crisis on the Stability and Growth Pact in following issues of the Bulletin.

From the work of the ITA Governing Board

(prepared by: Darija Tošić)

105th ITA GB session was held on 28th of December 2009. in Sarajevo.

ITA GB members discussed and adopted opinions regarding proposal of the Law on Supplement to the Law on Indirect Taxation System, proposed by Committee for Foreign Trade and Customs as well as initiative proposed by the member of the Parliament of BiH regarding the amendment to the same Law. Negative opinion was given to both of these proposals. The Governing Board is of the opinion that there is no ground for supporting proposed amendments and supplements to the Law on Indirect Taxation System because they violate competences of the Governing Board prescribed by the Law.

Decision on Amount of Compensatory Interest Rate for the period of 1st of January to 30th of June 2010 was adopted as well. The amount of Compensatory Interest Rate for mentioned period is 12%.

Draft Law on Amendments and Supplements to the Law on Forced Collection of Indirect Taxes was also adopted, in the text proposed by the Working group established by the ITA GB. GB, advised by the Working group, rejected Proposal of Agreement on Forced Collection of judicial fees for lawsuits and verdicts explaining that it would demand additional employment of workers with no profit and more costs for the ITA.

GB also adopted Decision regarding employment of external audit for examination of collection and allocation of revenues for 2009. GB will adopt a special decision regarding subject, contents and scope of audit.

Consolidated reports

(prepared by: Aleksandra Regoje and Mirela Kadić)

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

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-XI 2009

		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	Ukupno
1	Current revenues	384,6	359,4	402,0	416,4	425,2	443,4	497,4	448,8	470,4	465,1	408,6	4721,3
11	Taxes	367,0	337,2	370,0	391,7	378,3	385,5	440,0	421,4	432,4	436,1	381,9	4341,4
111	Indirect taxes	351,7	316,9	322,8	335,6	355,0	365,1	420,0	397,7	409,9	417,1	364,8	4056,6
	VAT	254,3	209,2	191,4	213,1	222,7	235,1	255,8	239,8	261,6	255,2	242,8	2581,1
	VAT on imports	126,3	151,9	174,9	177,3	161,5	178,3	182,6	165,6	178,5	183,0	166,2	1845,9
	VAT from VAT returns	168,1	109,4	106,1	100,2	117,5	116,8	124,4	136,5	134,9	125,1	126,1	1365,1
	VAT from automatic assessment done by ITA	0,0	0,0		0,0	0,1	0,0	0,1	0,1	0,0	0,0	0,1	0,3
	One-off VAT payments	0,1	0,4	0,1	0,2	0,1	0,1	0,1	0,1	0,1	0,2	0,0	1,5
	Other	2,6	1,9	2,3	1,6	1,7	1,8	2,4	1,7	2,0	2,1	2,0	22,2
	VAT refunds	-42,8	-54,4	-92,0	-66,3	-58,2	-61,9	-53,7	-64,1	-53,8	-55,1	-51,6	-653,9
	Custom duties	22,3	27,7	33,2	32,4	27,9	28,5	29,7	27,6	30,0	30,1	26,7	316,0
	Sales tax	0,4	0,7	0,6	1,0	0,6	0,5	0,7	0,5	0,3	0,6	0,2	6,1
	Excises	61,7	65,4	81,8	71,5	84,9	89,7	104,9	98,2	89,4	96,6	72,7	916,8
	on imports	49,1	44,2	55,9	45,4	53,4	57,6	74,0	62,4	53,9	61,5	40,9	598,2
	on domestic production	12,6	21,2	25,9	26,1	31,5	32,1	30,9	35,7	35,5	35,1	31,8	318,6
	Railroad tax	12,0	13,3	15,4	16,7	17,9	10,7	27,5	30,3	27,2	33,4	21,4	225,9
	Other	1,0	1,1	1,3	1,4	1,5	1,4	1,8	1,8	1,7	1,6	1,4	15,9
	Other refunds	-0,2	-0,5	-0,8	-0,4	-0,5	-0,9	-0,4	-0,4	-0,4	-0,4	-0,5	-5,3
112	Direct taxes	15,3	20,3	47,1	56,1	23,4	20,4	20,0	23,7	22,5	18,9	17,1	284,8
	Income taxes	14,2	18,6	45,4	55,0	22,3	19,3	18,8	22,5	21,5	17,9	16,2	271,6
	Other tax revenues	1,1	1,7	1,8	1,1	1,0	1,1	1,2	1,2	1,0	1,1	0,9	13,2
12	Non-tax income	16,0	21,9	31,5	24,5	46,8	57,2	56,8	27,2	37,6	28,5	25,7	373,6
13	Other revenues	0,0	0,1	0,1	0,1	0,0	0,5	0,1	0,1	0,3	0,0	0,1	1,5
14	Grants	0,7		0,2	0,1	0,0	0,0	0,0	0,0	0,0	0,3	0,0	1,3
15	Transfers from other level of government	0,8	0,2	0,2	0,1	0,1	0,3	0,4	0,1	0,1	0,3	0,9	3,5

		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	Ukupno
2	Current expenditures	310,5	368,2	392,4	433,3	412,5	460,1	465,7	420,9	455,8	482,1	424,6	4626,2
21	Consumption expenditures	56,9	81,1	83,2	89,1	87,6	108,1	67,1	82,4	84,9	87,6	87,5	915,5
211	Wages and compensations	53,2	73,0	72,6	73,3	73,6	92,2	50,9	69,9	69,2	69,4	69,7	766,9
212	Purchases of goods and services	3,7	8,1	10,5	15,8	14,0	15,9	16,2	12,5	15,8	18,2	17,8	148,6
22	Grants, transfers, subsidies	17,5	56,2	70,0	87,4	82,0	75,0	107,1	66,4	94,9	91,7	94,3	842,5
23	Interest payments	1,2	3,9	13,1	2,1	16,4	19,8	3,3	9,5	4,7	5,0	8,5	87,6
24	Other expenditure/transfers	0,1	19,7	19,7	22,2	18,4	25,2	23,5	20,0	23,7	33,3	21,7	227,6
25	Transfers from Single Account	216,8	200,8	176,8	210,9	188,0	213,1	243,1	224,8	235,3	235,6	196,9	2342,2
	o/w : BiH Budget	52,3	60,7	62,2	62,2	56,5	62,2	65,0	59,3	62,2	62,2	59,3	664,0
	o/w: FBiH / Cantons, Municipalities, Road Fund	124,0	110,9	84,1	115,4	99,0	113,6	138,2	126,6	132,3	132,9	107,0	1283,9
	o/w: RS / Muncialities, Road Fund	29,8	20,0	21,3	23,5	22,2	26,5	28,1	27,2	28,9	28,4	20,3	276,2
	o/w: Brcko	10,6	9,2	9,2	9,8	10,3	10,9	11,9	11,7	12,0	12,1	10,3	118,1
27	Transfers to lower levels of government	18,6	6,4	33,0	21,9	21,9	20,9	22,1	18,0	17,1	29,5	21,0	230,3
28	Net lending*	-0,5	0,0	-3,4	-0,3	-1,9	-2,0	-0,6	-0,2	-4,8	-0,5	-5,3	-19,4
3	Net acquisition of nonfinancial assets	0,7	10,0	11,3	6,0	6,2	8,0	5,5	6,3	8,4	5,2	10,5	78,2
4	Government surplus (+)/ deficit(-) (1-2-3)	73,3	-18,9	-1,7	-22,9	6,6	-24,7	26,1	21,6	6,2	-22,2	-26,5	16,9
5	Net financing**	-1,33	-6,06	12,31	94,53	149,89	-25,05	372,27	-168,78	-10,28	-14,66	-20,50	382,3

Table 1.

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

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	Ukupno
1 Revenues (11+12+13+14)	361.428.773	384.566.668	438.976.489	576.343.281	448.816.096	470.088.338	488.648.779	443.100.601	468.531.677	474.611.343	408.958.424	4.964.070.469
11 Tax revenue	319.159.691	340.204.085	382.917.308	398.596.255	374.040.869	369.252.263	401.826.309	391.654.573	405.410.266	402.448.312	345.866.048	4.131.375.978
Income and profit tax	23.185.593	39.044.313	76.119.523	102.222.090	52.339.929	42.677.971	46.454.764	43.861.568	43.978.131	40.652.075	38.145.413	548.681.370
Property tax	2.616.954	2.550.559	1.618.842	1.547.039	1.591.952	1.682.939	1.761.066	1.523.452	1.475.482	1.474.880	1.364.805	19.207.969
Indirect taxes	292.781.079	297.423.279	304.253.151	294.137.097	319.854.295	324.735.731	352.919.252	344.999.821	359.764.114	360.101.456	306.262.176	3.557.231.452
Other taxes	576.065	1.185.934	925.792	690.030	254.693	155.622	691.226	1.269.731	192.538	219.901	93.654	6.255.187
12 Nontax revenues	37.494.537	42.486.428	55.152.413	174.733.679	72.804.915	89.457.490	83.355.114	49.961.609	57.084.279	69.246.327	51.950.349	783.727.138
13 Grants	4.750.762	1.736.662	852.211	2.949.876	1.958.317	10.886.970	3.331.858	1.310.791	5.842.592	2.884.265	10.999.242	47.503.545
14 Other revenues	23.784	139.492	54.558	63.471	11.996	491.614	135.498	173.629	194.541	32.440	142.785	1.463.808
2 Expenditures (21+22+23)	312.034.174	355.317.558	438.010.283	450.122.979	447.094.213	486.292.030	445.271.945	415.926.024	456.884.020	468.273.594	473.317.054	4.748.543.873
21 Current expenditures	312.356.982	354.116.283	440.214.720	448.224.293	447.688.229	486.867.714	442.968.529	415.674.526	460.187.263	458.408.176	476.405.580	4.743.112.295
Gross wages and compensations	195.867.926	222.173.513	223.009.579	221.169.481	223.704.039	239.793.495	181.721.865	214.994.718	213.224.275	207.439.306	216.700.924	2.359.799.120
Purchases of goods and services	23.494.698	33.709.169	39.136.273	45.382.301	43.084.039	52.135.366	40.515.302	40.416.258	52.321.257	51.411.429	50.050.474	471.656.566
Grants	91.083.780	94.197.742	164.843.223	179.452.325	164.426.852	174.365.279	217.024.054	150.302.696	188.777.873	194.437.109	201.070.769	1.819.981.703
Interest payments	1.910.579	4.035.858	13.225.644	2.220.186	16.473.300	20.573.573	3.707.309	9.960.853	5.863.858	5.120.332	8.583.413	91.674.906
22 Other expenditures	280.439	1.286.094	1.407.840	2.389.385	1.475.933	1.433.146	2.348.448	432.195	827.561	-149.103	547.257	12.279.195
23 Net lending	-603.248	-84.819	-3.612.276	-490.699	-2.069.949	-2.008.829	-45.032	-180.697	-4.130.805	10.014.521	-3.635.783	-6.847.617
3 Net acquisition of nonfinancial assets	7.799.828	10.157.560	15.318.561	11.423.096	17.652.866	30.765.586	17.302.324	23.639.222	30.767.080	15.869.154	24.017.971	204.713.250
4 Gov. surplus/deficit (1-2-3)	41.594.772	19.091.550	-14.352.355	114.797.206	-15.930.983	-46.969.278	26.074.510	3.535.355	-19.119.423	-9.531.405	-88.376.601	10.813.346
5 Net financing	-1.982.327	-6.304.047	11.916.135	97.911.531	149.730.473	-26.977.634	371.654.481	-168.888.753	-10.832.647	-12.291.253	-20.296.044	383.639.916

Table 2.

Una-Sana Canton, I-X 2009

	I	II	III	IV	V	VI	VII	VIII	IX	X	I-X 2009	I-X 2008
1 Revenues (11+12+13+14)	16.879.496	15.066.541	15.744.683	19.810.164	19.714.689	19.347.865	20.289.555	19.270.663	21.571.105	21.514.118	189.208.880	214.904.438
11 Tax revenues	13.115.451	11.907.454	12.231.764	16.465.715	13.407.589	14.606.268	16.785.842	15.551.471	15.464.125	15.691.886	145.227.565	170.037.028
Income and profit tax	652.461	633.805	996.271	4.410.944	1.770.103	1.682.036	1.692.053	1.431.894	1.152.600	1.327.451	15.749.619	18.865.440
Property tax	676.893	595.498	385.930	300.716	342.713	361.048	302.626	400.170	345.750	380.338	4.091.682	5.425.313
Indirect taxes	11.775.006	10.665.780	10.841.059	11.743.237	11.282.343	12.551.394	14.780.156	13.709.922	13.959.741	13.979.329	125.287.967	144.940.633
Other taxes	11.091	12.371	8.504	10.818	12.431	11.790	11.007	9.485	6.034	4.768	98.298	805.642
12 Nontax revenues	3.368.727	2.459.199	2.859.018	3.031.372	4.458.396	3.333.043	2.767.887	3.202.024	4.144.996	5.152.818	34.777.480	39.264.157
13 Grants	390.785	704.421	653.901	313.077	1.848.704	1.408.554	735.826	517.168	1.961.984	669.414	9.203.834	5.603.253
14 Other revenues	4.533	-4.533	0	0	0	0	0	0	0	0	0	0
2 Expenditures (21+22)	16.305.907	16.347.920	20.856.300	16.576.334	17.293.641	20.587.445	15.942.030	15.171.521	22.316.334	16.457.804	177.855.236	198.563.826
21 Current expenditures	16.311.696	16.351.507	20.855.624	16.582.316	17.293.641	20.587.445	15.919.893	15.171.521	22.320.432	16.457.804	177.851.879	198.581.110
Gross wages and compensations	11.335.351	11.195.414	12.558.462	11.504.620	10.849.917	11.134.613	9.754.668	9.790.719	10.329.168	9.021.947	107.474.880	110.609.190
Purchases of goods and services	1.757.583	1.572.992	1.665.807	1.058.234	1.474.805	2.013.992	1.997.442	1.530.996	3.256.128	2.308.733	18.636.711	19.829.181
Grants	2.859.676	2.380.571	3.492.865	3.593.517	3.603.964	3.633.106	3.294.161	2.195.211	4.868.274	3.031.625	32.952.970	44.489.962
Interests payments	154.890	71.068	43.846	119.978	118.050	24.469	207.861	72.898	14.631	39.340	867.033	850.426
Other expenditures	204.196	1.131.462	3.094.644	305.967	1.246.904	3.781.264	665.760	1.581.697	3.852.230	2.056.160	17.920.284	22.802.351
22 Net lending*	-5.789	-3.587	676	-5.982	0	0	22.137	0	-4.098	0	3.357	-17.284
3 Net acquisition of nonfinancial assets	450.985	308.038	1.239.504	539.757	1.624.266	670.978	3.973.763	4.626.279	5.420.690	932.820	19.787.079	20.245.362
4 Gov. surplus/deficit (1-2-3)	122.604	-1.589.416	-6.351.122	2.694.073	796.782	-1.910.557	373.762	-527.137	-6.165.919	4.123.494	-8.433.435	-3.904.750
5 Net financing**	-9.126	-29.904	-9.070	-21.218	-105.286	-8.759	-26.824	-9.294	-590.824	-9.421	-819.727	6.383.018

Table 3.1.