

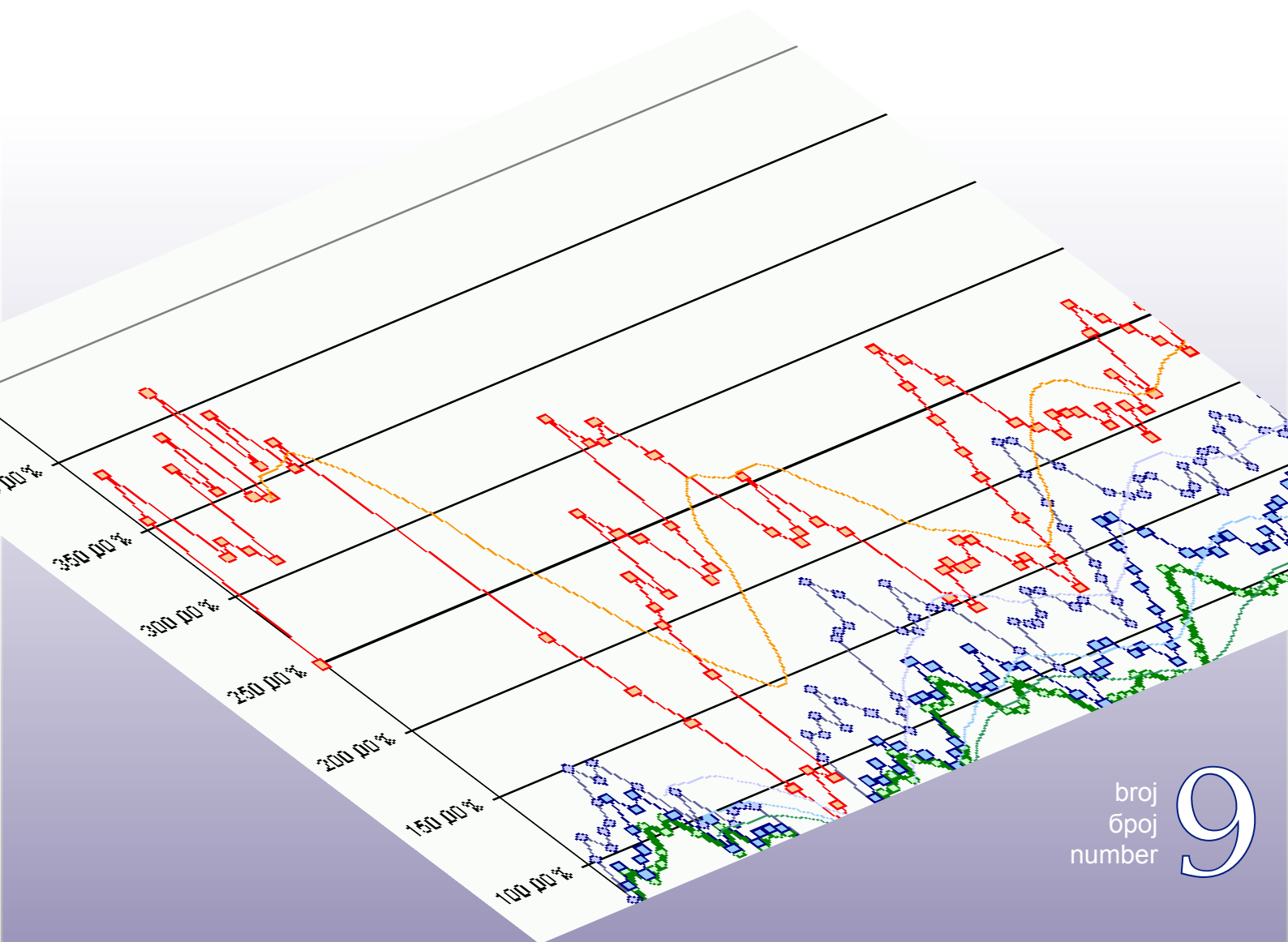
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-
neizravno oporezivanje



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



broj
број
number

9

With this issue...

It has been four months now since the Value Added Tax (VAT) was introduced. Due to specific shift from the sales tax to VAT system and VAT system characteristics, it's too early to provide final evaluation of the VAT first effects. Topic of this issue is focusing on VAT effects in the first quarter of 2006. There is the analysis of VAT effects on revenues from indirect taxes and trends of imports and exports in the first three months of 2006. Macroeconomic Analysis Unit will do regular follow up of the trends in indirect taxes collection in the country as well as foreign trade exchange.

The system of electronic monthly reporting on revenues and expenditures for all levels of the administration is in function. In accordance with the recommendation of the BiH fiscal authorities and institutions of the international community, high number of cantons and municipalities are sending monthly data on revenues and expenditures in time.

In this issue, for the first time since we have established the system, we will provide you with consolidated reports for cantons whose data were complete for the first two months of 2006. Data complexity at the cantonal level means that data on revenues and expenditures were delivered by the canton and all municipalities from the canton. Data complexity at the Federation level means that all of the cantons and municipalities delivered their data. We decided to do partial consolidation in regards to the level of data complexity. The Unit prepared comparative reports on monthly budget execution for 2006 in comparison with 2005 for all reporting units. If data were delivered for budget execution in 2005 and budgets for 2006, the above mentioned reports can be directly downloaded from our web site www.oma.uino.gov.ba. This is in the section that reporting units can access to with passwords assigned to them. The Unit can also provide other reports based on requests from municipalities and cantons.

Until we have conditions to publish monthly consolidated reports for the general government that includes all levels of the administration, we will continue to publish monthly consolidated reports according to the same system of reporting as in 2005. In this issue, we will provide you consolidated reports including fiscal operations of the state, entities, Brcko District and the ITA single account in the period from January to March 2006.

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

Table of contents:

VAT introduction effects: Analysis of indirect taxes collection in the first quarter of 2006	2
VAT introduction effects: Analysis of trade balance in the first quarter of 2006	5
Consolidated reports: general government	11
Consolidated reports: Cantons	14
Activities of the Unit	16

Translated by: Edin Smailhodžić

VAT introduction effects: Analysis of indirect taxes collection in the first quarter of 2006

(Prepared by: Dinka Antić, M.Sc.)

Introduction: Applied methodology

Analysis of indirect taxes collection is based on the starting points as follows:

- Total collection and collection by main revenues types for the first quarter in the period from 2002 to 2006 was observed
- Analysis includes total collection of indirect taxes regardless the level of government that did the collection (ITA or entity governments)¹
- Amount of value added tax collected in 2006 also includes lagging sales tax collected by entities and Brcko District in 2006.
- Net collection of VAT is used for March 2006.

VAT gross collection contains VAT on imports, VAT declarations and other cases of single or enforced collection of VAT. Net collection of VAT is obtained by reducing gross collection for the amount of tax refunds. Refunds are paid from the single account reserves within 30 days from filling the declaration. Exporters who meet certain conditions prescribed by the Law are entitled to get financial refunds. Other taxpayers are entitled to get tax credit. Tax credits and financial refunds have different impact on the single account cash flow. It's important to emphasize that **both types of refund have impact on future inflows.**

VAT system in BiH is based on monthly declaration filed for "t" month in the month "t+1". Financial refunds are made in the month "t+2" and are shown as cash outflow from the single account. Tax credit is made in the month "t+2" by reducing current inflow for that month. **There is time lag of two months from filing declaration to getting refund / credit, which represents "postponed reflection" on cash flow.** This makes analysis more difficult if we compare cash flow and breakdown of revenues with breakdown of VAT declaration records. This can blur real trends and bring report users in delusion.

Macroeconomic Analysis Unit **will base analysis on data showing real net cash flow** for the reporting month / quarter. Data on refunds and tax credits are good reference for future forecasts on VAT collection trends. We should bear in mind that shown refunds and credits represent receivables for taxpayers. For the state, these are calculated liabilities that can or do not have to be fully paid because there is always certain percentage of frauds or mistakes in VAT declarations. Even if liabilities are fully paid due to legal obligations of the ITA and state, it's possible to make additional corrections for refunds and credits in case of identified mistakes by ITA controls. All this will impact collection only in the month when correction is made.

So, January and February of 2006 can not be representative months for monthly analysis, because we only have VAT on imports in January and VAT payments in February made for January declarations. This has significant impact on VAT quarter analysis because the first "normal" month is March 2006 that contains all VAT phases: VAT on imports, declarations and refunds. Amount of VAT collection in March is corrected for the amount paid to VAT exporters based on declarations from January.

¹ More info on problem of reporting about collection of indirect taxes in the first year of VAT can be found in the Bulletin issue no. 7

A. Total collection analysis:

In March 2006, the total amount of 326 mil KM was collected from indirect taxes², representing 8.9 % of the annual collection plan or almost 30% more than in the same month of 2005. In observing collection for the first quarter of 2006 in comparison with the first three months in 2006, **there was increase of 41% in collection of indirect taxes** compared with the same period last year.

The collection in the first three months is much more successful than the on in the same period last year. This is shown by the fact that for three months it was collected close to **27% of the annual plan for indirect taxes collection in 2006³**. For the same period in 2005, there was collection of close to 20% of the total indirect taxes collection, representing standard collection dynamics that reflect season impacts on economic trends in the country.

B. Analysis by revenue types:

There was increase of revenues from customs and customs duties in March compared to February. However, if it's observed for the quarter, customs revenues decreased by almost 8%. Such trend is expected since customs revenues reflect import trends.

Excise revenues are still increasing and the collection increased by 13% in comparison with the same quarter in 2005.

Comparison of collection between VAT and sales tax is possible at total level only regardless the level of government that collected tax. In order to compare collection of VAT in 2006 with sales tax collection in 2005, it's necessary to add collection of lagging sales tax in entity accounts to VAT collection.⁴ We can conclude that collection of VAT and sales tax in March 2006 was 55% higher than amount of sales tax collected in the same month of 2005. **At quarterly levels, it was collected almost 69% more.** The amount of VAT collected in March (gross VAT) was corrected for the amount of refunds paid in that month.

C. Conclusions for the first quarter after the introduction of VAT

The following graph shows parallel quarterly trends in collection of main groups of revenues from indirect taxes in BiH for the period 2002 – 2006.g.⁵ This segmented chart note positive effects of the VAT introduction in the first quarter of 2006 in regards to the amount of total revenues and sales tax and VAT. There is constant growth of revenues from sales tax and excise and unstable trend of road tolls.

² Collection of revenues in February 2006 includes: collection of indirect taxes made by ITA, real collection of lagging sales tax in RS and estimate of collection for lagging sales tax in FBiH and Brcko District based on 50% of January collection and this represents % of the collection in RS for February compared with January 2006..

³ Plan for collection of indirect taxes is 3,653 billion KM, out of which is 3,503 billion KM in the ITA single account. Collection plan was adopted by the Fiscal Council in October 2005. More on this can be found in the Bulletin 3.

⁴ More information on methodology for comparative reporting on collection of indirect taxes in 2006 can be found in the Bulletin no. 7

⁵ Data on indirect taxes collected for the first quarter in 2002 do not include Brcko.

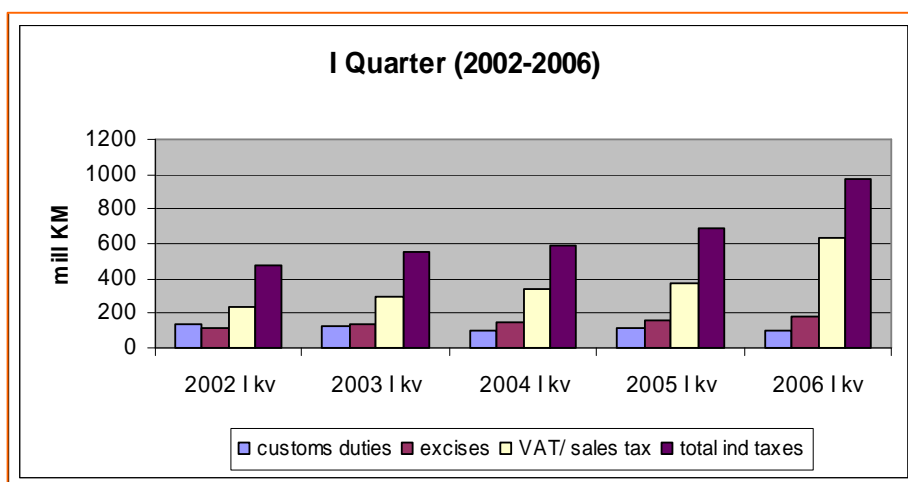


Chart 1.

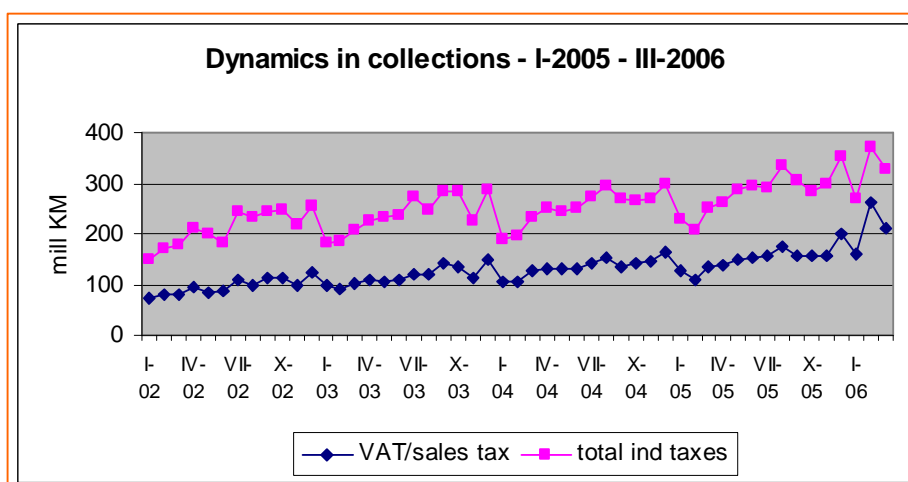


Chart 2.

No matter how fantastic results are in the collection of indirect taxes, we should be careful with further forecasts given the experiences of other countries. As it was said, the first quarter following the introduction of VAT can not be reliable base for making general conclusions on effects of VAT on revenues as stabilization is expected in the mid of the year. Spending of extra money that resulted by VAT introduction should be careful and there should not be early decisions on possible rebalances of governmental budgets financed from the ITA single account.

In the end, the following is obvious – the VAT system significantly helped creation of better and more administered business environment in economic and legal terms, creation of single economic space, elimination of grey economy and strengthening of financial compliance of taxpayers. Evidence of this is large number of registered taxpayers (over 34,000 taxpayers⁶), high level of taxpayer’s compliance and high increase of revenues from indirect taxes in the starting stage when it’s expected to have taxpayers making mistakes and not knowing VAT regulations.

⁶ Projections for number of VAT taxpayers were based on 16-20,000 taxpayers whose annual turnover amounts over 50,000 KM. Data on turnover were taken from the official financial reports. The fact that higher number of taxpayer registered confirms inclusion of grey economy and companies that were stating low turnover..

VAT introduction effects: analysis of trade balance in the first quarter of 2006

(Prepared by: Dinka Antić, M.Sc.)

Introduction: Applied methodology

For good analysis of trends in BiH trade balance in the first quarter after the introduction of VAT, it's not enough to analyze neither concrete quarter or to do comparison with the last year. Since the introduction of VAT biases real picture, it's necessary to also analyze fourth quarter of the last year and base our balance of trade on two periods⁷:

I. period: October 2004 – March 2005

II. period: October 2005 – March 2006

Main trends in balance of trade

Just before the introduction of VAT, balance of trade got worse resulting in 14% deficit increase compared with trends in 2004. Bad results in 2005 were influenced by large increase of imports in December 2005.

Looking at time series from 2004 to March 2006, there is repeated standard pattern in trends of imports and exports. Deviation can be observed only in the end of 2005 which was result of piling up goods in stock prior to the introduction of VAT and postponing certain quantity exports for 2006. This was done because of stimulating VAT effect on export (deducting full amount of input VAT).

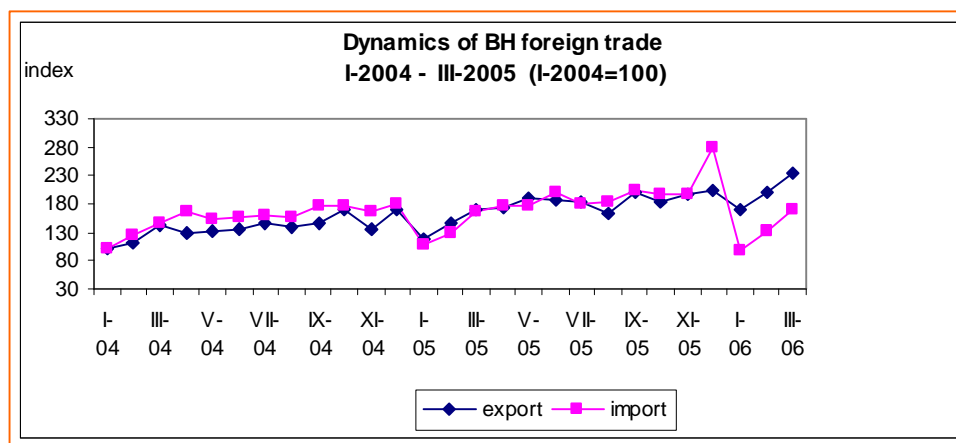


Chart 3.

Effects of VAT introduction had impact on foreign trade deficit that increased prior to VAT introduction and then suddenly decreased in the first quarter of 2006:

Balance of trade analysis in the beginning of 2006 show improved picture in balance of trade in terms of decreased imports and increased exports. However, fall of imports was "lasted for short time". In the end of March, these first positive effects were neutralized, having in mind a need to correct amount upwards because of import of goods that would have been purchased in 2006 but they were imported in the end of 2005 due to the VAT introduction.

⁷ Monthly data on imports and exports for the period from 2004 to March 2006 were prepared by Mr. Igor Gavran, Project Manager in the Macroeconomic Systems Sector of the BiH Foreign Trade Chamber

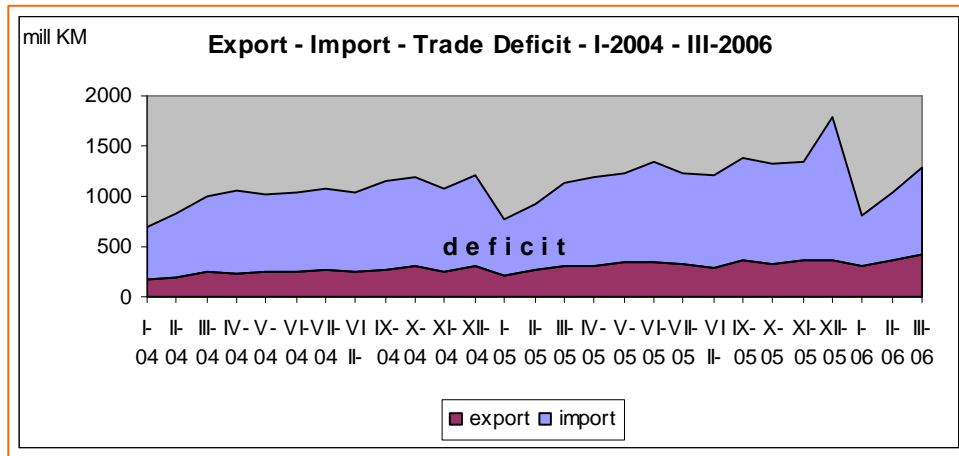


Chart 4.

Significant decrease of deficit in balance of trade and huge increase in coverage of imports

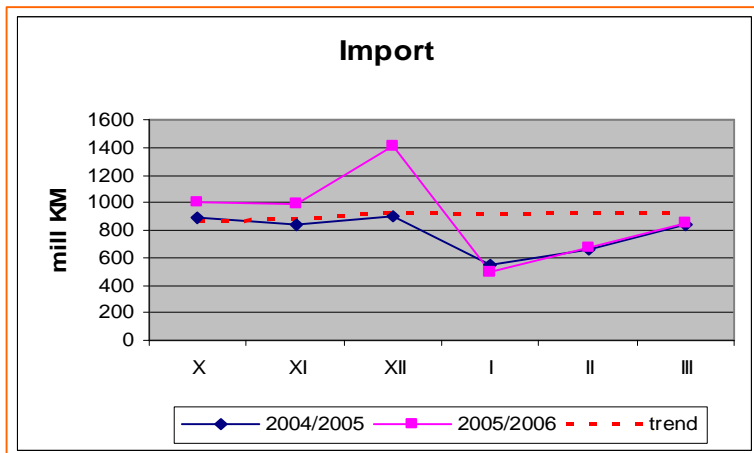


Chart 5.

by exports is the result of export increase in the first quarter. The following graph shows that export in the first quarter followed pattern in trends from the first quarter of 2006 with deviations in the last quarter of 2005 prior to VAT introduction:

Looking at export trends, the first conclusion could be that the VAT introduction stimulated existing exporters to export more.

However, for more serious evaluation of this, there is a need for indebt analysis of structure in exports and analysis of imports stated in quantity units and value.

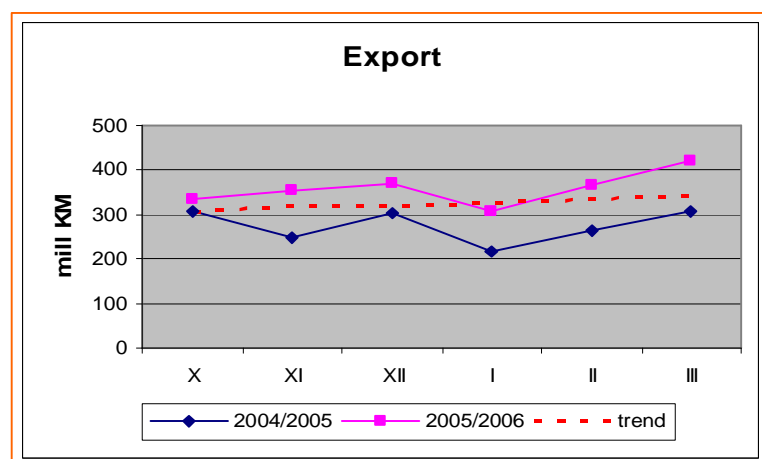


Chart 6.

in exports and analysis of imports stated in quantity units and value. Having in mind that export frauds are most common form of frauds in the VAT system in other European countries that have better administration, this increase of exports should be taken with reserve. This should be corrected if reports of ITA control units identify significant frauds made by exporters.

Structure of trade balance:

Analysis of trade balance structure will be based on analysis of imports and exports before and after the introduction of VAT. The analysis covers two main groups of products that have strongest impact on balance of trade.

Imports prior to the introduction of VAT:

In increase of imports in December 2005, biggest share falls on imports of capital assets (machines, equipment, vehicles)-approx. 47%. By observing trends for the same month in 2004, we can see large increase that was mainly caused by purchases and piling goods in stock prior to the introduction of VAT. Large increase was noted for import of products that were exempt from sales tax (raw materials etc) or were taxed with 0% (equipment, spare parts, medicines, food). When it comes to high duty goods that were taxed with 20%, there was increase in the value of oil imports. However, this was result of cumulative effect of oil price raise at world markets, US dollar exchange rate and structure of imports by type of product. Import of coffee, tobacco products, alcohol and drinks fit the import pattern for these products in the end of the year. There was large increase of imports for food products, primarily milk and milk products, oil and fat—44% and 78% respectively.

Imports in the first quarter of 2006:

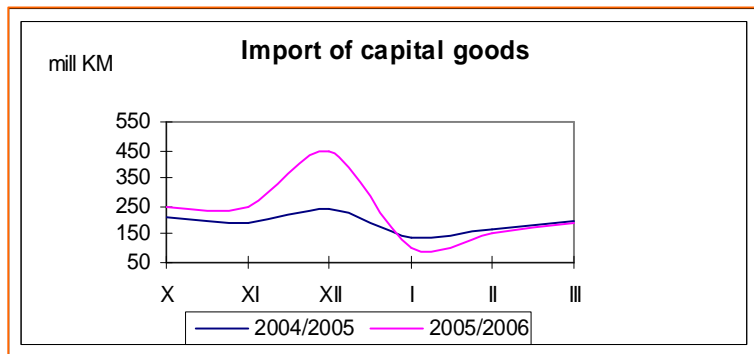
Although import is slowly getting back to normal this year, ratio and structure of imports reflect response of companies and market to the VAT introduction by management of goods in stock. In the beginning of 2006, all groups of products had decrease both in comparison with December 2005 and beginning of 2006. The biggest fall was for imports of machines and reproduction materials, which was expected since there were huge imports of these goods in the December before the introduction of VAT.

Groups of products	Imports structure			I Q 06 / I Q 05
	I Q 05	IV Q 05	I Q 06	
Mineral oils	13.48%	12.29%	16.24%	20.00%
Vehicles	6.72%	8.44%	6.00%	-10.95%
Machines and equipment	18.19%	19.15%	15.83%	-13.32%
Pharmaceutical products	2.55%	2.71%	2.41%	-5.77%
Raw materials / reproduction materials	25.78%	26.50%	25.79%	-0.38%
Food, food products (including drinks and coffee)	16.91%	13.94%	15.70%	-7.54%
Other products	16.37%	16.97%	18.03%	9.70%
	100.00%	100.00%	100.00%	-0.39%

Table 1.

The following graphs show postponed VAT effects on imports in the first quarter of 2006 for characteristic groups of products:

There is gradual increase in imports of food and food products, so the imports for this group

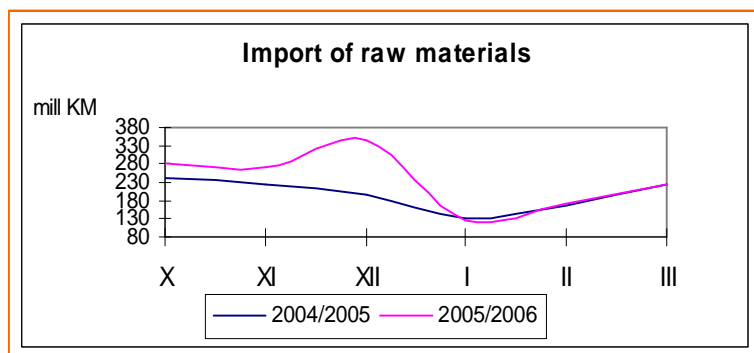


of products were almost identical to imports in 2005. By observations made at quarterly level, the first quarter in 2006 already achieved 87% of imports in the first quarter of 2005. Earlier purchases in December compensated for lack of imports in January.

Chart 7.

N.B. Capital assets include machines, equipment and vehicles

One group of products that had increase of imports in comparison with 2005 was mineral oils (oil and oil derivatives). It is interesting to compare import of mineral oils by quantity and value in the first quarter of 2006 with the same quarter in 2005. The value of imports in the first three months of 2006 increased by 20% and the imported quantity was only 75% of mineral oils imported in the same period 2005. This reflects huge oil price raise at the world market.



By observing other excisable products there is increase of coffee, alcohol and alcohol drinks by 25%, tobacco 27%, in comparison with same quarter in 2005.

Chart 8.

There is increase in imports of "other products" that compensated fall of imports for other main groups of products (machines, equipment, raw materials, reproduction materials, metals and metal products). In the first quarter of this year, especially in March, there was increase in imports of furniture, shoes, clothes, wood, paper and carton. There was also high increase in imports of leather and fibers in March 2006. Import analysis in the following months should show if the increase in imports is result of needs of domestic production and exports (lohn jobs).

Exports prior to the introduction of VAT:

Export analysis is based on some main groups of products that account for approx. 70% of total exports. It's interesting that this ratio is almost identical during the whole period from January 2004 to March 2006 regardless oscillations in the value of exports. However, data show different pattern for imports of products that do not belong to main groups of products.

In the end of 2005, there was slight increase of exports in comparison with previous months. In structure of exports, the highest increase was for export of mineral products (mainly export of cowl, KOKS and electricity), products of chemical industry and similar industries, wood and wood cowl, aluminum, machine and tools.

Exports in the first quarter of 2006:

The situation changed after the introduction of VAT. There is interesting observable fact of sudden increase in exports of certain products in January 2006 when there was no input VAT (except for paid sales tax on excisable goods in stock on December 31st, 2005) and motives to postpone exports. ITA investigations should identify reasons for increase of exports for some goods in January. However, export of some groups of products continued increasing in February and March which is result of stimulating effects of the VAT system as there refunds of input tax to exporters.

The table shows monthly oscillations of exports in 2006. In addition to cowl, wood, aluminum and electricity, there was increase in the first months of 2006 compared to the beginning of 2005 for the following group of products: inorganic chemical products, organic and inorganic compounds of noble metals, clothing, shoes, iron products (iron) and steel and machines. The table shows separately stated export of furniture due to high increase of exports in 2006.

groups of products	Monthly comparisons			Quarterly comparisons		% export structure		
	I-06/ I-05	II-06/ II-05	III-06/III-05	I kv 06 / IV kv 05	I kv 06 / I kv 05	I kv 05	IV kv 05	I kv 06
Energy	-9%	-1%	22%	14%	3%	11.44%	7.69%	8.47%
inorganic chemical products	96%	56%	99%	22%	84%	5.37%	6.02%	7.12%
Wood	3%	37%	24%	-29%	21%	7.56%	9.66%	6.60%
iron and steel	44%	52%	41%	16%	45%	11.01%	10.20%	11.48%
aluminum and aluminum products	32%	47%	33%	24%	37%	13.85%	11.35%	13.65%
Machines	49%	25%	23%	-4%	30%	14.56%	14.72%	13.66%
Furniture	155%	107%	124%	-3%	127%	4.95%	8.64%	8.08%
Other products	46%	44%	28%	1%	38%	31.26%	31.73%	30.95%
Total exports	42%	39%	37%	3%	39%	100.00%	100.00%	100.00%

Table 2.

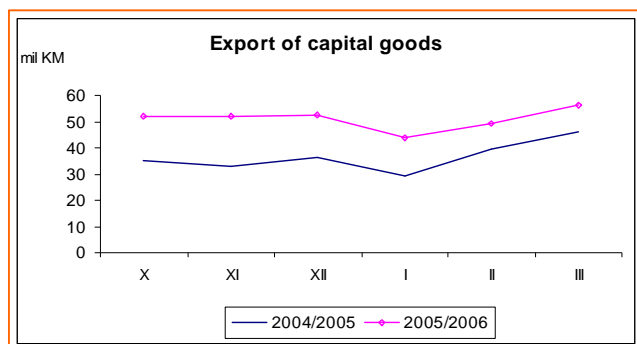


Chart 9.

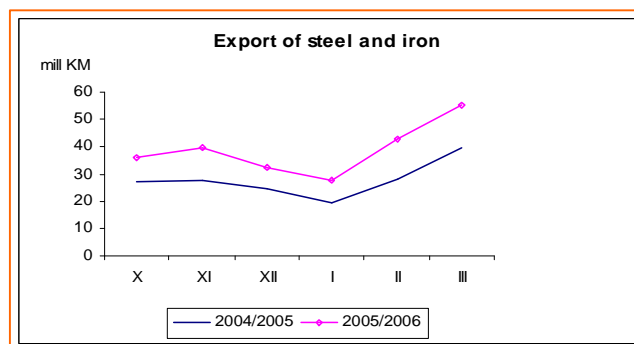


Chart 10.

As it can be seen from the graph 9 and 10 showing exports of equipment, machines, iron and steel follows the pattern from the last observed period. It's expected that export structure will change in terms of having more exports for products processed in later stage and final products. Export of aluminum and aluminum products has highest individual share in total exports and it represents the main export product of the country providing chance for further development of domestic capacities. There was constant growth of exports in the last six months.

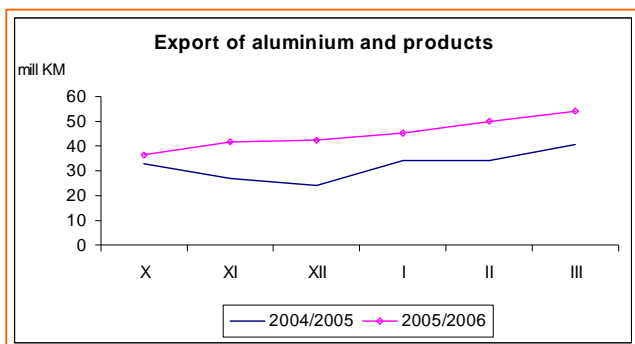


Chart 11.

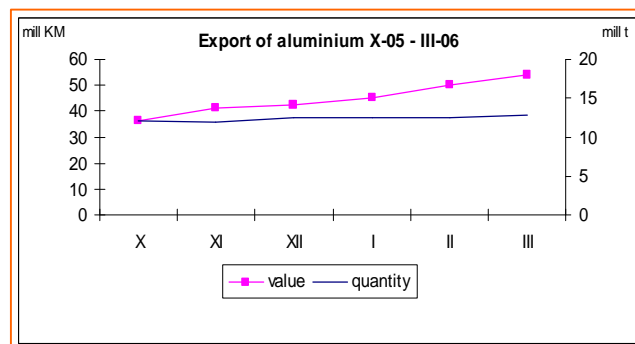


Chart 12.

However, if we analyze ratio of export value and quantities, we can conclude that increased export is result of price raise for alumina and aluminum at world market and not result of growth in exported quantities as it can be seen in the graph. This means there is room for increasing production within existing capacities or installation of new capacities for processing of bauxite and alumina in BiH as there is demand for aluminum and aluminum products in the world market.

Conclusion

In the first three months after the introduction of VAT we can see trends in comparison with the same quarter in 2005 as follows:

- **there was significant increase of exports by 39%**
- **Imports show sudden fall and gradual growth is continued at the same level**
- **Trade deficit decreased by 25%**
- **Coverage of imports by exports increased by 40%**

These results are showing the following:

- Expectations were confirmed in regards to introduction of VAT decreased and slowed down growth of imports and stimulated exports;
- High growth of coverage of imports by exports is result of sudden growth of exports and fall of imports. Imports continue with slow growth;
- Growth of imports in March neutralized the first encouraging results – such trends confirm that BiH economy is highly dependent on imports due to undeveloped domestic production;
- It's too early to make conclusions on further import trends – it's obvious that companies are still using goods in stock they piled up in December 2006. Whether the companies will chose new policy for stocks which means focusing on domestic suppliers remains the question that will be answered in the next quarter. In the VAT system, purchase of stocks from imports with payment of customs duties and VAT at the border is financially bad and it's expected that the introduction of VAT will lead to replace imports with domestic products;
- It's not enough to rely on positive effects resulting from VAT system – there is need to act simultaneously using other measures and instruments of economic policy in direction of stimulating investments and exports.

Monthly Consolidated Report January – March 2006.

prepared by: Aleksandra Regoje

	I	II	III	ukupno
Current Revenues	218,1	360,4	384,9	963,4
<i>Taxes</i>	206,0	343,9	355,1	904,9
<i>Indirect taxes</i>	190,7	322,6	323,6	836,9
VAT	57,3	212,7	203,7	473,7
VAT on imports	56,5	102,6	136,7	295,8
VAT from VAT returns	0,8	100,7	75,9	177,4
VAT from automatic assessment done by ITA			0,1	0,1
One-off VAT payments	0,1	9,4	2,1	11,6
Other			0,1	0,1
VAT refunds			-11,2	-11,2
Customs duties	33,3	30,8	41,5	105,6
Sales tax	25,0	10,6	4,4	40,0
Imported excisable products	7,8	0,2	0,0	8,0
Domestic excisable products	1,1	2,0	0,2	3,3
Other products	9,4	4,1	2,3	15,8
On services	6,5	4,0	1,7	12,2
Excises	62,8	56,9	63,1	182,8
on imports	50,5	45,7	48,4	144,6
on domestic production	12,3	11,2	14,7	38,2
Railroad tax	11,9	11,2	12,1	35,1
Other	0,4	0,5	0,7	1,6
Other refunds			-1,9	-1,9
Transfers from Single Account				
<i>Direct taxes</i>	15,3	21,3	31,5	68,0
Income taxes	6,9	10,3	20,0	37,3
Other tax revenues	8,4	10,9	11,4	30,7
<i>Non-tax income</i>	11,6	16,1	29,7	57,3
Grants, gifts	0,0	0,3	0,1	0,4
Transfers from higher level of gvmt	0,5	0,1	0,1	0,7
Current expenditures	204,3	297,8	219,3	721,4
<i>Consumption expenditures</i>	28,5	43,4	44,7	116,7
<i>Wages and compensations</i>	25,8	37,4	38,1	101,3
Wages	24,9	34,7	35,1	94,6
o/w: contributions	7,0	10,8	10,8	28,6
o/w: taxes on wages	1,6	1,9	2,0	5,5
Compensations	0,9	2,8	3,0	6,7
<i>Purchases of goods and services</i>	2,8	6,0	6,7	15,4
<i>Grants</i>	37,5	10,3	51,3	99,1
Transfers to households	32,5	3,6	45,1	81,2
Transfers to institutions/organisations	0,8	0,8	2,3	3,9
Subsidies	4,2	5,9	3,9	14,0
<i>Interest payments</i>	0,0	0,4	0,2	0,7
<i>Other outlays</i>	0,8	1,8	1,4	4,0
<i>Transfers from Single Account</i>	126,4	209,7	95,3	431,4
BiH Budget	41,1	39,2	43,1	123,4
FBiH / Cantons, Road Fund	67,6	145,7	23,7	237,0
RS / Cities, Municipalities, Road Fund	13,1	15,6	18,7	47,4
Brcko Distrikt	4,5	9,3	9,8	23,6
<i>Amortization of debt</i>	8,0	27,4	21,8	57,2
Transfers to lower levels of government	3,1	4,8	4,5	12,4
Government Savings (1-2)	13,9	62,6	165,6	242,0
<i>Capital receipts</i>	23,9	6,5	1,2	31,6
<i>Capital outlays</i>	0,1	0,8	1,5	2,4
Government surplus/deficit (3+4-5)	37,6	68,3	165,3	271,2
o/w: Reserves from ITA Single Account	16,2	31,6	20,6	68,4

Table 3. Monthly Consolidated Report January-March 2006

Banja Luka: Bana Lazarevića, 78 000 Banja Luka, Tel/fax: +387 51 335 350, E-mail: dinka.antic@uino.gov.ba
Sarajevo: Đoke Mazalića 5, 71 000 Sarajevo, Tel:+387 33 279 546, Fax:+387 33 279 625, Web: www.oma.uino.gov.ba

Monthly Consolidated report January – March 2006.

prepared by: Aleksandra Regoje

	I	II	III	ukupno
Current Revenues	229,8	372,2	395,9	997,9
<i>Taxes</i>	208,2	346,1	357,3	911,5
<i>Indirect taxes</i>	192,3	324,3	325,2	841,8
VAT	57,3	212,7	203,7	473,7
VAT on imports	56,5	102,6	136,7	295,8
VAT from VAT returns	0,8	100,7	75,9	177,4
VAT from automatic assessment done by ITA			0,1	0,1
One-off VAT payments	0,1	9,4	2,1	11,6
Other			0,1	0,1
VAT refunds			-11,2	-11,2
Customs duties	33,3	30,8	41,5	105,6
Sales tax	26,6	12,1	6,0	44,7
Imported excisable products	7,8	0,2	0,1	8,1
Domestic excisable products	1,1	2,0	0,2	3,3
Other products	10,5	5,2	3,3	19,0
On services	7,0	4,4	2,2	13,5
ostalo	0,2	0,3	0,2	0,7
Excises	62,8	56,9	63,1	182,8
on imports	50,5	45,7	48,4	144,6
on domestic production	12,3	11,2	14,7	38,2
Railroad tax	11,9	11,2	12,1	35,1
Other	0,4	0,6	0,7	1,7
Other refunds			-1,9	-1,9
<i>Direct taxes</i>	15,9	21,8	32,0	69,8
Income taxes	7,1	10,5	20,2	37,9
Other tax revenues	8,8	11,3	11,8	31,9
<i>Non-tax income</i>	18,6	23,5	35,8	77,9
<i>Social security contributions</i>	1,2	1,2	1,2	3,5
<i>Other income</i>	1,0	0,9	1,2	3,1
<i>Grants, gifts</i>	0,4	0,4	0,4	1,1
<i>Transfers from higher level of gvmt</i>	0,5	0,1	0,1	0,7
Current expenditures	207,0	297,0	215,9	719,9
<i>Consumption expenditures</i>	74,8	89,5	92,6	256,9
<i>Wages and compensations</i>	63,0	74,1	77,0	214,1
Wages	56,2	64,9	67,5	188,5
Compensations	6,8	9,2	9,5	25,5
<i>Purchases of goods and services</i>	11,8	15,4	15,6	42,8
<i>Grants</i>	39,2	11,9	52,9	104,0
Transfers to households	33,8	4,7	46,3	84,8
Transfers to institutions/organisations	1,2	1,2	2,7	5,2
Subsidies	4,2	5,9	3,9	14,0
<i>Interest payments</i>	0,0	0,4	0,2	0,7
<i>Other outlays</i>	1,1	1,8	1,4	4,3
<i>Transfers from Single Account</i>	80,8	161,3	42,4	284,4
FBiH / Cantons, Road Fund	67,6	145,7	23,7	237,0
RS / Cities, Municipalities, Road Fund	13,1	15,6	18,7	47,4
<i>Amortization of debt</i>	8,0	27,4	21,8	57,2
Transfers to lower levels of government	3,1	4,8	4,5	12,4
Government Savings (1-2)	22,8	75,1	180,0	278,0
<i>Capital receipts</i>	23,9	6,5	1,2	31,6
<i>Capital outlays</i>	1,3	1,0	1,8	4,1
Government surplus/deficit (3+4-5)	45,3	80,7	179,4	305,5
o/w: Reserves from ITA Single Account	16,2	31,6	20,6	68,4

Table 4. Monthly Consolidated Report January-March 2006

Notes to Table 3:

1. 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.
2. Figures on revenues and expenditures of the Federation of Bosnia and Herzegovina and the Republika Srpska are not fully reconciled due to different accounting methods.

Notes to Table 4:

1. 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 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.
2. Once the figures from the Federation are available a full report will be published, including:
 - revenues of the entities collected by the Treasury of the entities
 - transfers to lower levels (cantons, municipalities, Road Directorates, etc.), which are distributed on lower levels in accordance with entity legislation, including transfers from the ITA Single Account and transfers of other revenues collected at the level of the entities.
3. Figures on revenues and expenditures of the Federation of Bosnia and Herzegovina and the Republika Srpska are not fully reconciled due to different accounting methods.

Consolidation of budgets for cantons and municipalities

(Prepared by: Ognjen Đukić, Macroeconomist in the Unit)

Zenica-Doboj Canton is the first Canton in BiH whose municipalities and Canton itself provided data on the budget execution for the first two month of 2006. So, the Unit will publish consolidated budget of Zenica-Doboj Canton in this issue. (Table 5).

In order to do appropriate consolidation of budget for two levels of administration, concretely canton and municipality, it's necessary to net inter budgetary transactions, i.e. reduce consolidated report for this amount this transaction. For example, if there was transaction in January made by canton to one of municipalities, consolidated budget should be reduced for the amount of that transfer, i.e. net this expenditure of canton with revenue of municipality. Otherwise, there will be double accounting because the same money would be calculated as both revenue and expenditure.

Direct consequence of this is increase in consolidated budget, which may lead to wrong conclusions on size of certain level of administration, it's efficiency and share in total consolidated budget of BiH.

Information required from the Canton

Due to above listed reasons, it's important to identify transactions between different budgetary units, i.e transactions from one budget to the other one. At cantonal/municipal level, most common direction of these transactions is from cantons to municipalities in the form of different grants. Very often, it's not possible to separate transfers to municipalities from other transfers by looking reports. For example, in the case of Zenica/Doboj Canton, expenditure item "Grants to individuals" contains grants directed through municipal budgets. In order to do appropriate consolidation, it's necessary to know the amount of Grants to individuals directed through municipalities and the maount that was paid directly to individuals. **Due to this, the Macroeconomic Analysis Unit will require all cantons to provide additional information with regular monthly reports. These additional information will precisely show all transfers to municipalities. It's important to emphasize that delivery of these data is in their own interest, because correct consolidation will show right picture of structure and size of consolidated budgets for all levels of government. At the same time, double accounting that increases amounts will be avoided.**

In case with the lack of information for the consolidation of Zenica/Doboj Canton, the Macroeconomic Analysis Unit had the following approach:

1. Expenditure item of the cantonal budget "Grants to other levels of government" was net with revenue items of municipalities „Grants from other levels of government" and „Capital support from other levels of government ".
2. Remaining difference in items of municipalities „Grants from other levels of government " and „Capital support from other levels of government" is net with revenue item of the cantonal budget „Grants to individuals".

	Canton +municipalities (consolidated)		Canton		Municipalities	
	jan	feb	jan	feb	jan	feb
Expenditures	13.133.050	14.947.502	11.068.475	11.472.752	2.527.256	3.802.610
Current expenditures	13.214.171	14.809.520	11.068.475	11.472.752	2.145.696	3.336.768
Wages and compensations	7.403.051	8.089.536	6.800.225	7.003.939	602.826	1.085.597
Gross wages	6.220.699	6.705.645	5.805.325	5.888.642	415.374	817.003
Out of which: Wage tax	162.396	222.235	146.724	191.812	15.672	30.423
Out of which: Contributions burdened by employees	1.917.403	2.054.863	1.780.206	1.800.682	137.197	254.181
Compensations	1.182.352	1.383.891	994.900	1.115.297	187.452	268.594
Employer's contributions and other contributions	741.950	796.228	692.711	704.859	49.239	91.369
Expenditures for materials and services	2.332.971	3.216.149	1.697.813	1.894.672	635.158	1.321.476
Current grants	2.024.060	2.328.034	1.810.579	1.869.283	676.161	786.612
Out of which: Grants to other levels of government	32.908	72.146	227.332	354.217	32.908	72.146
Out of which: Grants to individuals	1.106.452	1.583.251	983.789	1.191.583	358.011	365.311
Capital grants	173.542	195.840	0	0	173.542	195.840
Transfers to lower spending units	381.560	456.392	0	0	381.560	456.392
Revenues	14.308.501	7.637.219	11.196.302	4.426.474	3.431.859	3.520.739
Tax revenues	11.440.226	4.695.665	9.691.243	3.163.934	1.748.983	1.531.731
Income tax from individuals and corporations	597.651	578.673	473.197	246.868	124.453	331.805
Personal income tax	124.453	314.517	0	0	124.453	314.517
Corporate income tax	473.197	246.868	473.197	246.868	0	0
Other taxes on income of individuals and corporations	0	0	0	0	0	0
Wage and labor taxes	1.644.457	297.266	1.326.188	0	318.268	297.266
Property tax	372.990	1.564.078	0	1.016.807	372.990	547.271
Domestic taxes on goods and services (According to regulations until December 31 st , 2005)	7.355.274	2.148.140	6.519.294	1.839.071	835.980	309.069
Other taxes	40.830	66.700	0	22.262	40.830	44.438
Non tax revenues	2.843.245	2.865.344	1.505.059	1.211.583	1.338.186	1.653.761
Current support (Grants)	16.500	76.150	0	50.957	336.160	335.187
Out of which: Grants from abroad	0	46.674	0	46.674	0	0
Out of which: Grants from other levels of government	0	4.283	0	4.283	319.660	309.994
Transfers from the Single Account (revenues from indirect taxes)	1.437.555	40.808	1.372.563	38.926	64.992	1.882
Receipts	11.845	547.292	5.000	0	149.866	565.159
Capital receipts	0	547.292	0	0	0	547.292
Capital grants (support)	6.845	0	0	0	149.866	17.866
Out of which: Capital support from abroad	6.845	0	0	0	6.845	0
Out of which: Capital support from other levels of government	0	0	0	0	143.020	17.866
Payments received from given loans and returns from share in capital	5.000	0	5.000	0	0	0
Out of which: Payments received from loans given to other levels of government	5.000	0	5.000	0	0	0
Expenditures	491.588	307.806	479.090	239.841	12.498	67.965
Expenditures for purchase of fixed assets	466.307	295.308	466.307	239.841	0	55.467
Payment of debts	25.281	12.498	12.783	0	12.498	12.498
Out of which: Payment of debts received through the state	0	0	0	0	0	0
Out of which: External payments	12.783	0	12.783	0	0	0

Table 5. Zenica-Doboj Canton: budget consolidation for cantons and municipalities

Banja Luka: Bana Lazarevića, 78 000 Banja Luka, Tel/fax: +387 51 335 350, E-mail: dinka.antic@uino.gov.ba
Sarajevo: Đoke Mazalića 5, 71 000 Sarajevo, Tel:+387 33 279 546, Fax:+387 33 279 625, Web: www.oma.uino.gov.ba

Activities of the Unit...

April 13th to 14th, 2006

In his farewell visit to Bosnia and Herzegovina, Mr. Peter Doyle, Head of IMF mission to Bosnia and Herzegovina, talked to the staff in our Unit about further activities on establishing and developing the system for monthly reporting of all levels of the administration. We also discussed the problems that Unit is facing with in work with municipalities and cantons as well as other tasks of the Unit, primarily in regards to revenue projections for indirect taxes in this year and future period. Staff of the Unit had pleasure to meet Mr. Dimitri Demekas, new head of the IMF mission to Bosnia and Herzegovina. He announced the next visit to Bosnia and Herzegovina in June 2006, when IMF is going to deliver recommendations to BiH authorities.



From the left: Ognjen Đukić, Peter Doyle, Dinka Antić, Dimitri Demekas, John Norregaard (IMF resident representative in BiH)

Notice to municipalities and cantons:

We would like to ask reporting units that have not delivered budget for 2006 and budget execution for 2005 to send it to the Unit. The Unit designed comparative reports on monthly budget execution, which will be updated on daily basis and available at our web site www.oma.uino.gov.ba. Reports can also be faxed on request.