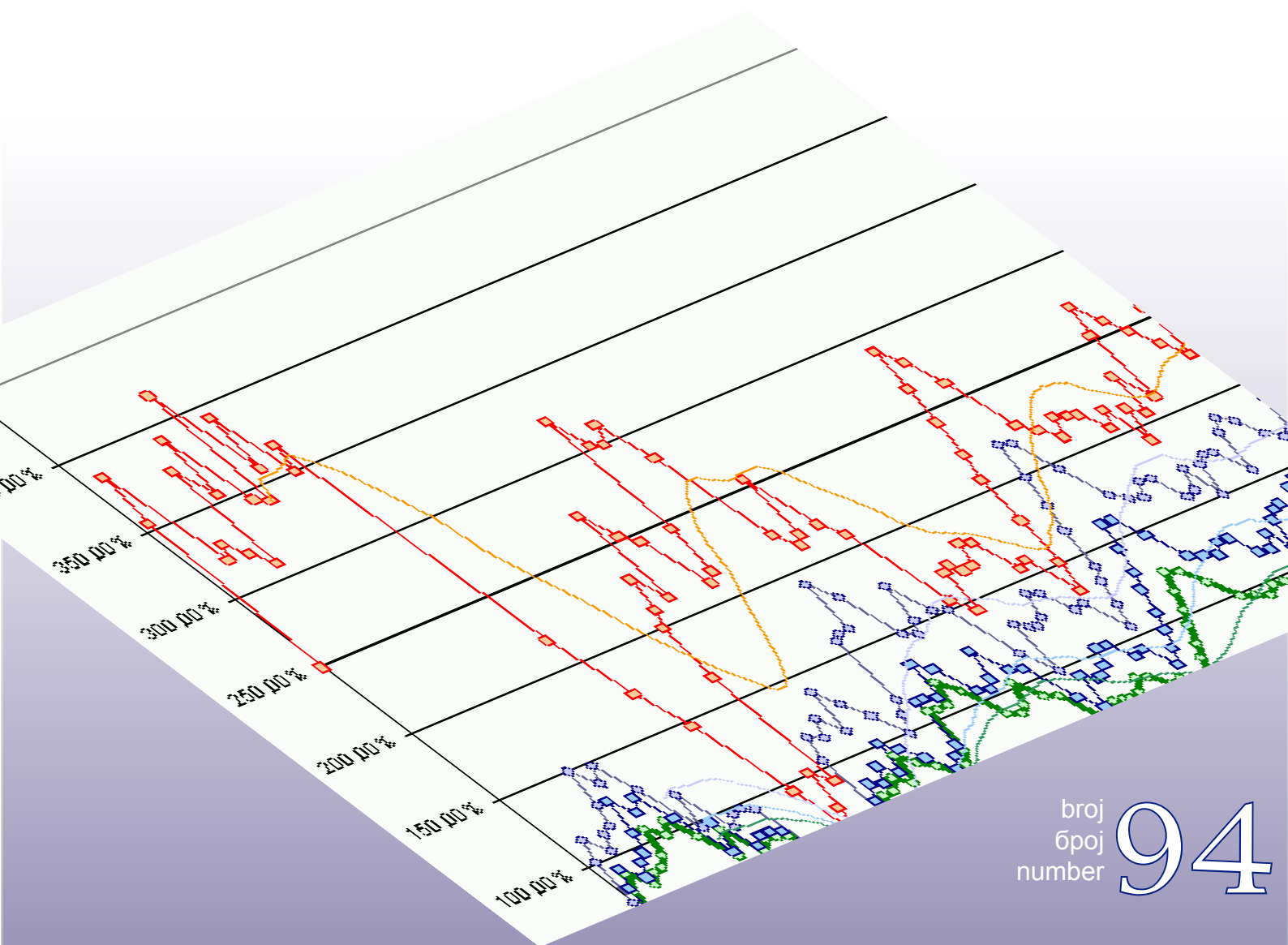




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

Oma Bilten



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With this issue

The month of April brought further deterioration of trends in revenue collection from indirect taxes which had been manifested in the first quarter of 2013. According to the preliminary report of the ITA by type of revenue, the gross revenue collected in April increased by 0,8%. Since at the same time refunds increased by 24,4%, a decrease in net revenues of 3,1% was recorded in April. Negative trends in collection in April increased the negative cumulative effects of collection in the 2013. Although the collected gross revenue in the first four months of 2013 increased by 0,6% or by 11 million KM in comparison with the same period of 2012, the increased payments of refunds

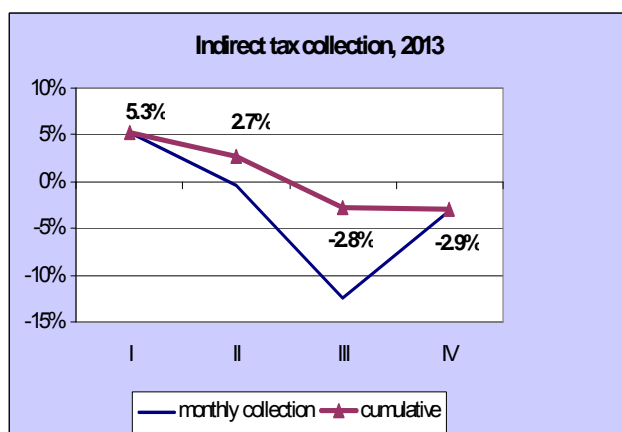


Chart 1

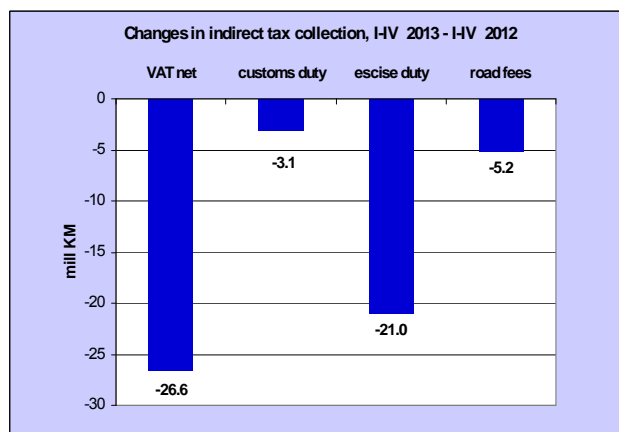


Chart 2

by even 54,3 million KM reduced the overall collection by 2,9% or by 43,2 million KM (Chart 1). The size of the fall of collection in the first four months of 2013 is shown by comparison with previous years. Compared to the pre-crisis 2008 it is collected even 90 million KM less, and 32 million KM less in comparison with 2011 (Chart 2). A decrease in collection of all major types of revenue was recorded in April. In the first four months the biggest drop in the nominal collection was recorded in the net of VAT (26,6 million KM) and excise taxes (21 million km) - (Chart 2). It should be noted that this situation is preliminary and that after the final adjustment of collection for April better effects of VAT could be expected. Nevertheless, the decline in revenues from VAT and excises of 2,8% and 5,5% has become a worrisome, considering that one third of the fiscal year had already passed.

Dinka Antić, PhD
Head of Unit

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Technical design: Sulejman Hasanović, IT expert
Reader/translator: Darija Komlenović, professor

Projections of Indirect Tax Revenues, 2013-2016

I. ASSUMPTIONS

Projections of revenues from indirect taxes for the period 2013-2016 are based on the following assumptions:

- a. Projections of macroeconomic indicators prepared by Directorate for Economic Planning (DEP) for the mentioned period,
- b. Policies in the area of indirect taxation referring to:
 - Elimination of tariffs on imports of goods originating in the EU in accordance with the last phase of liberalization under the Stabilization and Association Agreement. The effects are manifested only in 2013.
 - Application of Article 21 of the Law on Excise, which implies adjustment of excise rates in B&H with the minimum standards in the EU. The projections include the effects of increasing specific excise rate per package of cigarettes from 0,60 KM to 0,75 KM in 2013, as well as planned continuous increase of the rate in 2014 and 2015 by 0,15 KM per package.
- c. Current trends in collection of indirect tax revenues.

The baseline scenario of the projections includes the above assumptions, and Program scenario includes also the estimation of the effects of accession of Croatia to the EU on revenue from indirect taxes and of the changes in the Law on Excises in terms of introducing differentiated excise tax on beer, whose adoption is currently in process.

II. CURRENT TRENDS IN COLLECTION

Despite positive trends during the year, final effects of indirect tax collection in 2012 were negative due to the influence of several factors. Besides the exceptional and unforeseen circumstances such as snow storms in February or general repair of Refinery at the end of the year, the collection of indirect taxes in 2012 has been negatively affected by growth of VAT refunds and VAT debts, changes in the structure of consumption of oil derivatives and abuse in the use of heating oil, and by the substitution of consumption of cigarettes with cut tobacco.

The dynamics of indirect taxes in the first quarter of 2013 indicates a deepening of negative trends of 2012, when only in the third quarter a positive net growth have been recorded (Chart 1)

According to the ITA preliminary report by types of revenue in March 2013, after deduction of refunds, it was collected 349,9 million KM or 12,4% less than in the same month of 2012. At the quarter level it was collected net revenue in the amount of 1,067 billion KM, which is by 2,8% less than in the same quarter of 2012. This percentage also includes approximately 23,3 million KM of collected revenue that remained unadjusted after linking the Single Account payments with filed returns/declarations in modules of the ITA IT system. Although a positive trend in the collection was recorded in the first two months of 2013 which resulted in a net surplus of 19 million KM, extremely poor revenue collection in March not only annulled it but led revenues in the negative zone of 30,8 million KM. Problems with maintaining a stable level of collection could be discerned even in February when the revenue collection was the same as it was in February 2012, although extremely low revenue collection was recorded then due to snow storms. In addition to the fall of the gross revenue in March, the negative trend was additionally worsened by increasing refunds of indirect taxes.

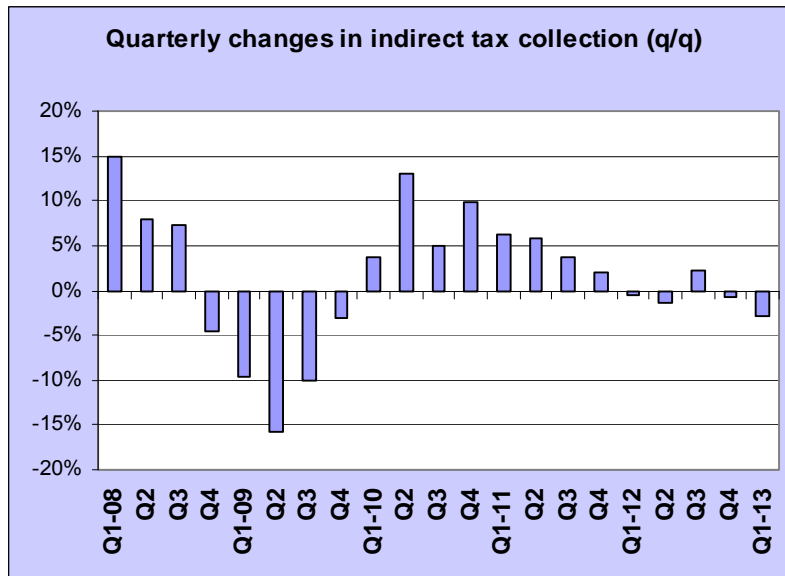


Chart 1

VAT

After the increase in revenues from VAT of 7,6% in January, in February it was reported decrease in net collected VAT of 2,7% and in March there was unexpected escalation and decline in revenues of 17%. Although after adjusting of revenues some improvements can be expected, the negative trend is troublesome, given that VAT is predominant type of indirect taxes. For several years VAT collection has been burdened by growing payments of refunds and debts of taxpayers.

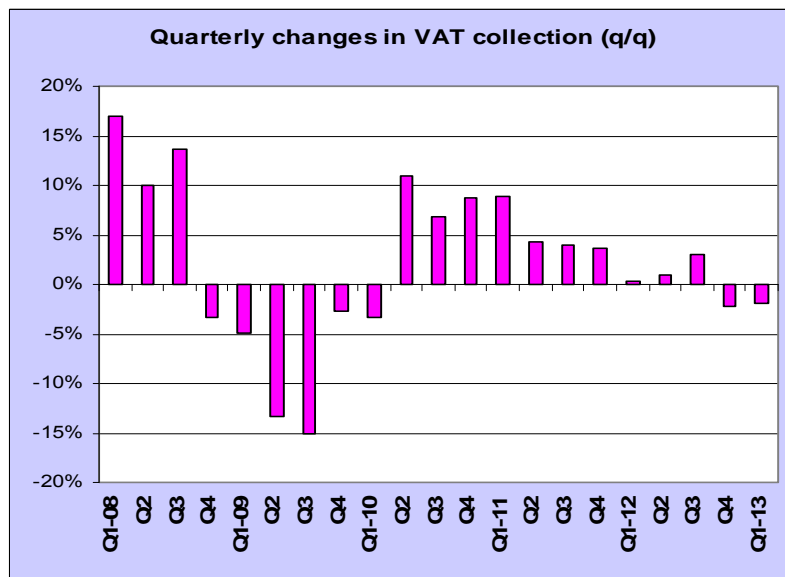


Chart 2

The separation rate of gross VAT for refund payments in the first quarter of 2013 was 26,7%, given that this rate was 28% in February and 27% in March. It can be concluded from observation of rates of refunds in the previous years that there has been a sharp deterioration in trends.

Comparison of VAT refunds payments in the first quarter of the previous years indicates the increase of refunds to taxpayers and international projects. In the first quarter of 2013, in nominal terms, the highest amount of refunds has been paid since 2008. Compared to the last year the increase of refunds is 18,2. Enormous growth of refunds in the first quarter relates to refunds to international projects, 62,7%.

Since the outbreak of the global economic crisis, revenue collection from VAT is burdened with rising debts arising from declared and unpaid VAT (Table 1). Net annual growth of debt in the previous three years ranges from 40 to 66 million KM. After the reduction of debts in January, additional 6 million KM of debt was recorded in February so the level of debt on February 28 2013 amounted to 251,5 million KM. Total debt, including debt assessed for taxpayers who failed to submit VAT returns, amounts to 310 million KM.

Table 1: Net annual growth of VAT debt (in million KM)

28.02.2009	28.02.2010	28.02.2011	28.02.2012	28.02.2013
14,1	39,9	49,5	66,5	56,1

Customs

In the first quarter of 2013 the trend of reduction in customs revenues continued. One of the reasons is the implementation of the final phase of liberalization of imports of goods originating from the EU in line with the Stabilization and Association Agreement with the EU.

Excises and road fees

Collection of excise revenue in March 2013 was entirely negative, except for excise duties on domestic cigarettes (Table 2). So far, the projected growth of indirect tax revenues depended to a great extent on the increase in revenues from excise duties on cigarettes. However, year after year, the net effects of increasing specific excise duty on cigarettes are becoming smaller due to the drastic decline of taxable cigarette consumption. From 2009 to 2012 the number of issued excise stamps was reduced by 22,6%. On the other hand, it is evident the increase of consumption of untaxed cut tobacco, illegally imported or produced in B&H. Unfavorable trends in collection of excise duties on oil derivatives continued in the first quarter of 2013. They are mainly a result of reduced economic activity and consumption of citizens as well as the growing substitution of gasoline with diesel. In addition, due to general repair of Refinery at the end of 2012 and the beginning of 2013, the import of oil was reduced and thus the production and trade of oil products in the first two months.

Table 2

	I - 2013 / I - 2012	II 2013/ II 2012	III 2013/ III 2012	Q1 2013/ Q1 2012
Total tobacco	12,4%	-15,0%	-9,7%	-2,7%
Tobacco import	18,1%	-12,4%	-20,7%	-4,3%
Tobacco domestic	1,9%	-21,6%	24,6%	0,9%
Oil derivatives	-6,2%	-7,5%	-8,4%	-7,3%
Imported	15,0%	-5,2%	-11,5%	-0,7%
Domestic	-27,9%	-10,6%	-3,8%	-15,5%
Coffee	-8,8%	-3,2%	-10,1%	-7,6%
Alcohol, beer, soft drinks	-2,8%	17,1%	-12,2%	3,2%
Road tax	-4,2%	-9,7%	-8,1%	-8,0%

PROJECTIONS OF INDIRECT TAX REVENUES (2013-2016), APRIL 2013

BASELINE SCENARIO

Type of revenue (net)	in million KM						growth rate			
	2012	2013	2014	2015	2016		2013	2014	2015	2016
VAT	3.162,8	3.203,4	3.267,8	3.385,3	3.523,6		1,3%	2,0%	3,6%	4,1%
Excises	1.299,2	1.294,3	1.314,1	1.337,4	1.370,1		-0,4%	1,5%	1,8%	2,4%
Customs	223,5	208,3	223,7	243,4	270,6		-6,8%	7,4%	8,8%	11,2%
Road fee	285,7	277,7	275,3	282,4	301,9		-2,8%	-0,9%	2,6%	6,9%
Other	18,2	19,7	20,0	20,4	20,7		8,4%	1,7%	1,7%	1,7%
Total	4.989,4	5.003,3	5.100,9	5.268,8	5.487,0		0,3%	1,9%	3,3%	4,1%
Road fee (0,10 KM/l)	-114,3	-111,1	-110,1	-113,0	-120,8		-2,8%	-0,9%	2,6%	6,9%
Funds for allocation	4.875,1	4.892,3	4.990,8	5.155,9	5.366,2		0,4%	2,0%	3,3%	4,1%

Table 3

III. PROJECTIONS OF REVENUES – BASELINE SCENARIO

Analysis of current trends of the collection of certain types of indirect taxes indicates that the projections of macroeconomic indicators for 2013 are more optimistic than the trend of revenue collection in the first quarter. At the level of whole year it is projected a positive nominal growth rate of GDP (1,9%) and consumption (2,7%), and it is also expected the corresponding real rates to be positive. A positive growth rate of imports and exports of 4,1% and 3,1% respectively are also projected. Optimism regarding these indicators gradually increases in the period after 2013, so that the real growth rate of GDP at the end of the observed period (2016) reaches 4,2%.

The baseline scenario of the projections of indirect taxes is presented in Table 3.

2013

The estimated collection of indirect taxes by the end of 2013 is 5003,3 million KM, which is for 0,3% more than the previous year's collection. Despite the projected significant growth rates of consumption for 2013 of 2,7%, and positive dynamics of gross revenues at the beginning of the year, due to the strong upward trend of VAT refunds, the projected growth rate of net revenue from VAT is significantly lower than the growth rate of consumption, and amounts to 1,3%. Despite the growth in the tax burden of tobacco, negative growth rate of total excise taxes (-0,4%) was projected for 2013, because of the projection of poor effects and of the expected decline in other revenues from excise taxes. The situation is similar in revenues from road fees, for which is also projected a decline in this year (-2,8%). Despite the growth trend of imports at the beginning of 2013, and significant projected annual growth rate of imports (4,1%), it is expected a decline in customs revenue in 2013 of 6,8%. Since this is the last year of the transitional period of reducing tariffs from the EU, it is expected that the negative trend in customs revenues would have been stopped at the end of the year.

2014-2016

Taking into account various factors, primarily the projections of macroeconomic indicators, the effects of increase in tobacco taxation rate, as well as termination of the negative effects on customs revenues due to the expiry of the transitional period of reducing tariffs on imported goods originating from the EU, the increasing growth rates of revenues are expected in the next years. Thus, the projected growth rate amounts 1,9% in 2014, 3,3% in 2015 and 4,1% in 2016.

Differences from the projections made in October 2012

Projections made in October last year were revised downwards for all the years over the forthcoming mid-term period. Even the execution in 2012 was below the projections. It should be borne in mind that the growth rate of cumulative collection in October 2012 was higher than the projected annual rate (Table 4). Because of the lower base for comparison in the last quarter of the previous year due to the abolition of customs records, even greater collection could have been expected by the end of 2012. Unexpectedly, given the traditional pattern of collection, the month of December has brought a reversal which not only annulled by then realized positive effects, but brought revenues into the negative zone.

	Projections for 2012, October 2012	Execution I-X 2012	Execution I-XI 2012	Execution I-XII 2012
Total	0.60%	0.97%	0.40%	-0.20%
VAT	1.20%	2.44%	1.18%	0.52%
Excises-total	3.60%	3.12%	3.59%	2.90%
Excises- tobacco	7.68%	6.80%	7.64%	5.87%

Table 4

Decline in revenues in December 2012 results from (i) sharp fall in imports in December 2012 compared to the same month in 2011 of 17,9% and (ii) reduction of withdrawals of cigarette excise stamps, as a result of business policies of companies prior to the new excise tax increase from January 1, 2013. Thus, the decline in imports at the level of whole 2012 was higher than the projection of DEP in September, at which the revenue projections were based. The analysis of imports of mineral fuels in December by major trading partners shows a sharp drop in imports of mineral fuels from Russia. The cause for the reduction of oil import was general repair of Refinery in Brod, which, unlike previous years when the repair was carried out in the spring, in 2012 has been rescheduled for November and December. These factors have brought negative impacts on revenues in December, particularly on VAT and excise duties, and resulted in the realization of revenue below projections in the amount of 35.1 million KM.

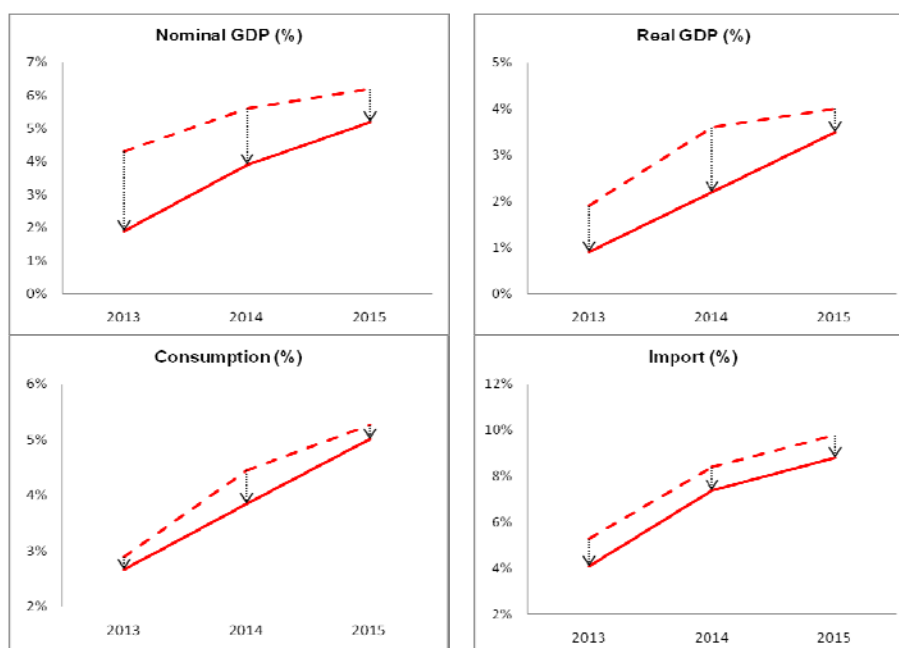


Chart 3

If we make a comparison of actual projections of macroeconomic indicators (DEP) with those from September last year, we will see that the growth rates of basic macroeconomic indicators were significantly lowered, including even those for 2012. For year 2012 growth rates of nominal and real GDP are revised (1 and 0,6 pp respectively), as well as the consumption and import growth rates.

Downward corrections of these indicators were made for all next years, as shown in Chart 3. Red interrupted lines show the projections made in September last year, while the current projections are shown by solid line. It can be seen that the most significant corrections were made in growth rates of gross domestic product.

Bearing in mind the current trends in revenue collection, and the fact that the projections of indirect tax revenues made in October 2012 have been based on the September DEP's projections of macroeconomic indicators which are later updated, revenue projections for the period 2013 to 2015 were significantly reduced (Table 5).

Table 5: Differences between projections made in October 2012 and projections made in April 2013

	Type of revenue (net)	2012	2013	2014	2015
I	VAT	-23,3	-65,3	-142,0	-202,1
II	Excises	-8,4	-49,8	-69,4	-82,4
III	Customs	2,1	8,6	7,2	5,7
IV	Road fee	1,9	-7,0	-14,3	-16,0
V	Other	-7,4	-5,9	-5,6	-5,2
VI	Total	-35,1	-119,3	-224,0	-299,9
VII	Road fee (0,10 KM/l)	-0,8	2,8	5,7	6,4
VIII	Funds for allocation	-35,9	-116,6	-218,3	-293,5

Projections for the 2013 were reduced by 119,3 million KM. As in the case of execution for year 2012, the biggest adjustments are related to revenues from VAT (-65,3 million KM) and excises (-49,8 KM). Besides reducing the base of the 2012, numerous of other factors influenced the reduction of projection. Due to the reduction in the projections of basic macroeconomic indicators (Chart 3) and the unfavorable trend of growth and debts of taxpayers, the projection of gross VAT were corrected downward. On the other hand, the projections of refunds have been increased due to unfavorable trends that occurred in the first quarter of 2013. Because of the fall in consumption of derivatives and unfavorable trends in collection of excise taxes on oil and road fees, the corrections were also made in these revenues, although the execution in 2012 were above October projections. Significant correction was made in excises on tobacco because of the sharp fall in taxable consumption, which is more explained in the appendix on projections of excises on cigarettes.

Appendix: Projections of revenues from excises on tobacco

The increase of tax burden on cigarettes in the first years of the application of the new Law brought a sharp increase in excise revenues, in 2009 of 85 million KM and in 2010 of 167 million KM. The continuous increase in the excise burden, which entails an increase in VAT in the price, expectedly brought a sharp increase in retail prices and the drop in consumption. It can be concluded from the analysis of conditions in 2012 compared to 2009 that the scope of regular cigarette market in three years was reduced by 22%.

Table 6 The effects of special excise rate increase

	Excise revenues (million KM)		Growth rate of revenues	Decrease in consumption
	Collected revenues	Increase in revenues		
2008	364			
2009	449	85	23%	
2010	616	167	37%	-4.4%
2011	716	100	16%	-7.8%
2012	758	42	6%	-12.2%

Greater decrease in taxable consumption of cigarettes in 2011 has been a signal of strengthening tax evasion and expanding black market of cigarettes in B&H. Apart from higher tax burden, increase in tax evasion is also a result of constant expansion of the gap between taxation of cigarettes and their substitutes - cut tobacco. The continued increase in difference in tax burden between tobacco and the substitutes gives a strong incentive for using less taxed cut tobacco

instead of cigarettes, as well as the smuggling of cigarettes from countries with lower excise burden, tobacco smuggling and illegal domestic production of cigarettes.

According to experiences of member states which have implemented the process of harmonization of excise rates with EU standards, the Unit prepared medium-term projections for the period 2010-2012 based on assumptions of high price inelasticity of cigarette consumption and the annual decline in consumption of 5%. During preparation of April 2012 projections, the reduction in cigarette consumption is projected at a level of 7% per year. The negative trends in the collection of excise revenue during 2012 required the revision of projections of the collection, so the Unit developed new projections in October 2012, based on annual consumption reduction of 10%. Since the taxable consumption of cigarettes in 2012 fell by 12,2% compared to 2011, and by 15,5% in the first quarter of 2013 compared to the first quarter of 2012, it is necessary to review the assumptions that were used for projections.

Further dynamics of revenues from excise on cigarettes depends on the actions which fiscal authorities and operating authorities and institutions will take to combat tax evasion. Because of the wideness of implications, the set of measures for combating tax evasion and distortions in the market of cigarettes should simultaneously include the following:

- **Change in policy in the area of taxation of cut tobacco and other tobacco products** in order to close the gap in the tax burden between tobacco and substitutes. The changes should include (i) determining the adequate rate of excise duty on all other tobacco products in accordance with the existing tax burden on cigarettes and (ii) the regulation of annual increase in excise tax on other tobacco products which will be in line with growth of the tax burden on cigarettes, with the ultimate goal of harmonization with EU standards;
- **Extensive operational measures** to combat channels of smuggling cigarettes, cut tobacco, untaxed tobacco sales (via internet portals, marketplaces) and illegal domestic production and sales of cigarettes;
- **Stimulation of the purchase of domestic tobacco** in order to eliminate illegal sales of tobacco and illegal production of cigarettes in the country.

The Unit expects that, with the effective implementation of the above set of measures, it could be possible to return revenues from excise duties on the level of April 2012 projections. It should be borne in mind that it takes some time for the adoption of amendments to the Law on Excises due to the complexity of the procedure, and so the positive effects in the excise policy in best case can be expected in the second half of the 2013 or after January 1st, 2014. However, the operational measures of B&H institutions and entities of intersecting the channels of smuggling and illegal production could relatively quickly bring the necessary effects.

Depending on promptness of implementation of these measures during 2013, the Unit has developed three scenarios for collection of revenues from excise taxes on tobacco products in 2013 (Chart 4):

- Pessimistic scenario assumes the *status quo* in excise policy and operational measures in the 2013. It is expected that delay of the implementation of effective measures for combating tax evasion could lead to a continuation of negative trends in the first quarter of 2013, which would reduce revenue collection of excise taxes in 2013 compared to 2012 by 0,8%
- Medium scenario is based on the assumption that the operating measures during 2013 would return taxable consumption of cigarettes on the level of 2012 which would ensure revenue growth of 2,3%.
- Optimistic scenario, in addition to operational measures, assumes also the change in excise policy during 2013, which should result in higher taxable consumption in comparison with 2012 and growth in revenue from excise taxes of 4,9% in 2013.

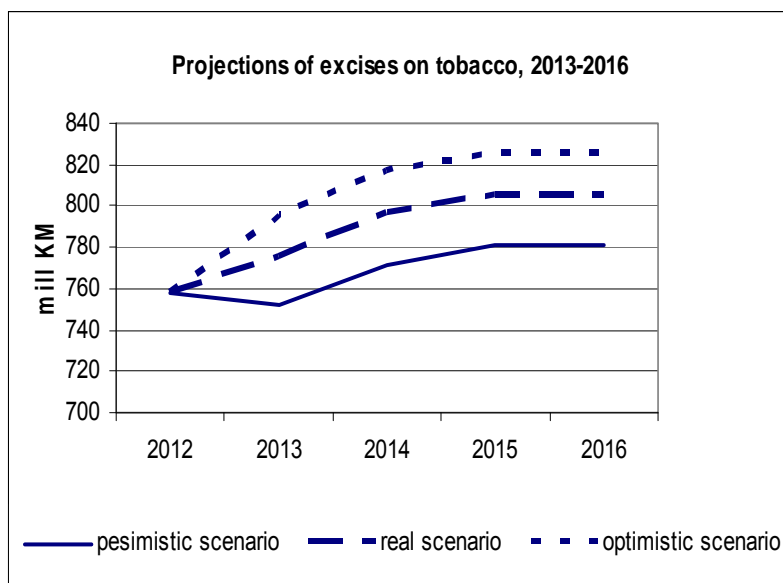


Chart 4

Projections for the period 2014-2015 are based on the increase of excise rates on 1st January 2014 and 1st January 2015, due to continuing of process of harmonization of special excise rates. The planned increase in the excise rate will inevitably lead to a further erosion of consumption and strengthen the black market. In order to mitigate the negative effects it is necessary to adopt amendments to the Law by the end of 2013. Middle and optimistic scenarios assume that the amendments will be effective from 1 January 2014 which should, together with the continuous implementation of effective measures, mitigate the negative effects of further harmonization of excises and lead to a minimal revenue growth in 2014 and 2015 of 2,7% and 1,1% respectively. According to the estimates the harmonization of special excise rates will have been completed in 2015 if in the meantime the Law do not change in this area, and so the same level of cigarette consumption and revenues from 2015 is planned to retain in 2016.

IV. RISKS FOR PROJECTIONS

Given the basic assumptions of the projections of indirect taxes and overall economic conditions in B&H and world, the achievement of projected level of revenue from indirect taxes in the period 2013-2016 is subject to the following risks:

- (i) The projections of indirect tax revenues are tightly related to the projections of macroeconomic indicators prepared by DEP. Every deviation of these parameters from the projected values indicates the risk for revenue projection;
- (ii) Slowing the economic recovery of major export partners of B&H (EU, CEFTA countries) increases the level of risk to achieve macroeconomic projections, and therefore the projection of revenues from indirect taxes in general;
- (iii) The continuous increase in special excise in order to reach the minimum EU standards becomes counterproductive without effective political and operational measures aimed at closing the gap between tax burden on cigarettes and cut tobacco and combating tax evasion, illegal import of tobacco and illegal production of cigarettes. The announced introduction of differential excises on beer can also cause similar distortions of revenues and the market in the forthcoming years;

- (iv) Possible changes in the area of indirect taxes, such as differentiated VAT rates, a significant increase in the standard rate, further differentiation of excise duties on oil derivatives ("blue diesel", etc.), in addition to fiscal losses and macroeconomic implications, can destabilize existing VAT system and revenue collection, reduce the efficiency of the ITA, burden businesses and significantly increase the risk of fraud.

V. PROGRAM SCENARIO

Program scenario of revenues from indirect taxes includes:

- estimation of effects of accession of Croatia to the EU on revenue from indirect taxes,
- estimation of effects of introduction of differentiated rates of excise duty on beer.

This scenario of revenue projections is presented in Table 7.

The effects of accession of Croatia to the EU

Since it was not possible to reliably predict the response of producers / importers of goods from the Croatia and of consumers in the country, for the purpose of the revised projections for the period 2012-2014 made in October 2012 the several variants of program scenario had been developed¹. The calculation of the effects of the introduction of custom duties on cigarettes produced in Croatia has been based on the data of number of the excise stamps issued for the cigarettes from Croatia in the first half of 2012, while the calculation of the effects of the introduction of tariffs on certain goods originating in Croatia has been made on the basis of data on imports from 2011. The calculation is made by applying customs tariffs of the annexes of the Agreement with the EU.

The assessment of the effects of accession of Croatia to the EU on indirect tax revenues has been prepared again for the purposes of revenue projections for the period 2013-2016. The calculation of the effects of the introduction of custom duties on cigarettes produced in Croatia has been based on the data of number of the excise stamps issued for the cigarettes from Croatia in 2012 and Q1 2013, while the calculation of the effects of the introduction of tariffs on certain goods originating in Croatia has been made on the basis of data on imports from 2012. The rates from the Customs Tariff for 2013 were used for the calculation.

According to ITA data for the first quarter 2013, the decline in consumption of cigarettes from Croatia amounts to 26% compared to the same quarter in 2012, which is far more than the fall in cigarette consumption in B&H in the first quarter of 15,5%. Such a trend indicates a decrease in the share of cigarettes from the Croatia on Bosnia and Herzegovina market in the first quarter of 2013. If this trend continues in the rest of the 2013, the expected additional revenues from customs duties will be annulled by the loss on excises due to fall in quantities of cigarettes. Possible improvement of trends in the rest of 2013, as a result of the implementation of measures against evasion and smuggling of cut tobacco, would bring the expected additional revenues from customs ranging from 3,5 to 5 million KM and minimal increase in excises as a result of the inclusion customs in the basis for calculation of *ad valorem* excise.

According to estimates of the effects related to other products in 2013, it could be expected around 17 million KM of additional customs revenue. According to macroeconomic projections of DEP, the increase of imports is expected in the period from 2014 to 2016. Given that, when calculating the effects of 2013, a decline in imports of goods from Croatia affected by the new customs regime in the amount of 10% had been assumed, the Unit expects that the expected growth of imports by 2016 should return imports of these goods from Croatia to the level of 2012.

¹ http://www.oma.uino.gov.ba/publikacije/Assessment_en.pdf

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

Effects of introduction of differentiated rates of excise duty on beer

ITA Governing Board supported the initiative of introducing a differentiated rate of excise duty on beer in March 2013. According to the proposal of the ITA, except for the existing excise tax in the amount of 0,20 KM/l, a higher rate of excise in the amount of 0,25 KM will be introduced for the taxpayers with an annual production exceeding 400,000 hl.

It should be noted that the introduction of differentiated tax rates on consumption is always an incentive to:

- (i) higher consumption of the less taxed goods
- (ii) increase in tax frauds in terms of smuggling or other frauds in consumption of more taxable goods

Therewithal, the risk of abuse increases with the increase in the taxation gap. It is necessary to bear in mind that the smuggling would cause the loss of 100% of the revenue from the excises which had been collecting prior to the policy changes, as well as 17% of the VAT from the retail prices. Since the draft of amendments to the Law on Excises is in one of the stages of the complex procedure of adopting regulations in the area of indirect taxation, the precise rules for qualifying the taxpayers to apply a lower rate of excise duty are not known. If a rigorous concept of "small independent brewery" will be taken, which is prescribed by the EU directives and the practice of countries that apply differentiated excise duty on beer in their tax systems, it can be expected the situation that only local breweries in BiH meet the criteria for the application of lower rates of 0,20 KM/l, while the most imports relates to the world-renowned brands of large corporations breweries. Starting from these assumptions, the introduction of differentiated excise tax on beer could be an incentive to substitute consumption of imported beer by domestic brands.

The Unit has prepared several scenarios for projections of revenues from excises on beer in 2013 and next years, depending on the percentage of substitution of consumption of imported, more taxed beer, by domestic consumption of less taxed beer. However, the effect of substitution cannot be significant on the amount of excise revenue, since the share of the domestic beer in the structure of total consumption ranges from 35-37% in recent years, which represents a small weight in terms of impact on the total collected revenues from excises.

Given that in the best case the adoption of amendments to the Law on Excises regarding the differentiated taxation of beer can be expected in the second half of 2013, the expected effects of the introduction of differentiated rates of excises spread within two years, i.e. in the second half of 2013 and the first half of 2014.

According to conservative scenario, which envisages a redistribution of consumption of beer in a way of reducing consumption of imported beer by 10% per year, while domestic beer consumption increases by 10% per year, it can be expect in 2013 additional 2,5 million KM of revenues from excise taxes on beer, and 5,5 million KM in 2014. Collection in the forthcoming years depends on the projected growth of consumption (DEP).

PROJECTIONS OF INDIRECT TAX REVENUES (2013-2016), APRIL 2013

PROGRAM SCENARIO

Type of revenue (net)	in million KM						growth rate			
	2012	2013	2014	2015	2016		2013	2014	2015	2016
VAT	3.162,8	3.207,3	3.275,3	3.393,2	3.532,0		1,4%	2,1%	3,6%	4,1%
Excises	1.299,2	1.299,8	1.316,6	1.341,5	1.376,1		0,0%	1,3%	1,9%	2,6%
Customs	223,5	225,7	265,1	285,6	313,7		1,0%	17,5%	7,7%	9,8%
Road fee	285,7	277,7	275,3	282,4	301,9		-2,8%	-0,9%	2,6%	6,9%
Other	18,2	19,7	20,0	20,4	20,7		8,4%	1,7%	1,7%	1,7%
Total	4.989,4	5.030,2	5.152,3	5.323,1	5.544,4		0,8%	2,4%	3,3%	4,2%
Road fee (0,10 KM/l)	-114,3	-111,1	-110,1	-113,0	-120,8		-2,8%	-0,9%	2,6%	6,9%
Funds for allocation	4.875,1	4.919,1	5.042,2	5.210,1	5.423,6		0,9%	2,5%	3,3%	4,1%

Table 7

Current model of tobacco taxation with fiscal consequences in BiH and selected European countries

(Author: Aleksandar Eskić)

Introduction

Production, trade and consumption of various tobacco products affect the well-being of both individuals and the entire society. The fact that only the value of the legal cigarette market in the last stage of the reproductive cycle was approximately 1.2 billion over the past few years speaks in favor of it. This means that every citizen of Bosnia and Herzegovina during the 2012 spent in average about 310 KM for this purpose. This indicator has increased by 41% compared to 2008 i.e. for 90 KM in absolute terms. At the same time, revenues from excise taxes on cigarettes have increased by 108%.

If we add on top of that the revenue from VAT calculated on the sale of tobacco products, this indicator becomes even more important. Two factors are crucial for this development; one is the tendency of consumers to consume namely cigarettes and their willingness to allocate each year a large sum of money to settle the urge to smoke, and the other is for sure the adoption of Law on Excise Duties in Bosnia in mid-2009 when the dynamic model is defined by the amount of the excise burden on cigarettes. As a specific excise tax increased by 0.15 KM every year so the weighted average retail selling price of cigarettes has been increased by about 0,35 KM which means that the tobacco industry has been fully transferred the increased excise tax on customers. Certainly, it should be noted that the tobacco industry behaved differently at different times.

At certain periods some of the market players were taking one of the new excise burdens on themselves, while in the future they increased the retail selling price that is above the excise increase i.e. total tax on cigarettes. It is notable that some even decreased retail selling prices of their products, thus becoming more competitive price-conscious reducing the contribution margin that can only generate profit. Determining the pricing strategy and the definition of distribution channels has become a real battle that is more a product of internal factors, long-term vision of the market and the assessment of the behavior of competitors in the light of external factors, primarily embodied in the part of the tax and customs treatment of tobacco and tobacco products, as well as the assessment of the behavior of consumers towards the end offered.

If objectives of the tax policy treatment of tobacco and tobacco products at the moment of its redesign can be summarized in reducing the amount of consumption which leads to improvement of public health and increase of revenues from excise duties and VAT on these sorts of products, it can be argued that the objectives have been achieved. The available data show that consumption of cigarettes is constantly falling at an average rate of 6.6% for the period 2008 - 2012. In the same period, revenues from excise taxes were increased on average by 27% per year. Consumers i.e. buyers showed, in the observed period, a high level of insensitivity towards constant increasing of retail selling prices which brought a steady growth of revenues to the country's budget so that revenues from excise duties and VAT on cigarettes have reached more than 900 million KM in the previous year. At the same time, it is evident that the growth rate of these revenues was declining over time. During the past year we could hear more and more frequent appeals from representatives of the tobacco industry on the demonstrated negative tendencies on the market of tobacco products, and the reasons for the complete satisfaction seems to have only those who have since managed to get rid of the more and more expensive smoking habit.

Most recent developments on the tobacco market

Market of tobacco products, in addition to the legal framework, largely depends on general economic developments as well. According to official figures, in recent years, the economy of Bosnia and Herzegovina was actually growing at a modest rate reaching 2.0%² in the 2011, but then fell by 0.2% in the 2012. According to estimates by the Central Bank, real GDP fell by 0.5% during the 2012, compared with a positive growth rate of 1% a year earlier. However, negative trends are evident in terms of size of GDP in 2012. The second half of the year has had a decisive influence on such outcome. According to the report, the average gross salary adjusted by inflation fell by 0.5% compared to a growth of 0.7% a year earlier. In the past year there has been a simultaneous rise in unemployment and the decline in employment, which definitely had a negative impact on the average level of disposable income aimed to meet the needs of the population. Data for the first quarter of 2013 do not bring anything good to be fully reflected on the market of tobacco products.

If we compare the ratio of necessary funds needed for the purchase of one pack of cigarettes per day at an average retail price in 2008 with the data for the first quarter of 2013, it can be seen that this ratio doubled i.e. it has increased from a level of about 6% reaching almost 12%. This means that it is necessary to allocate nearly 1/8 the average salary for the purchase of one pack of cigarettes per day at an average retail selling price. If we include into the model the reduced level of wages due to rising unemployment i.e. decline in employment, it should not be surprising such a sharp decline in cigarette consumption measured by the number of issued tax stamps released for consumption. The decline was almost 12% in only 2012 and for the previous year the number of issued stamps declined by 8% compared to 2010.

This could lead to the conclusion that the consumption of tobacco and tobacco products fell for the same amount which is not to be true. The difference in consumption of about 11,000 tons of tobacco³ in the 2008 and the consumption of about 8,250 tons of tobacco in cigarettes only in 2012 were partly compensated with fine-cut tobacco that was traded on the legal but also illegal market. There is an evident increase in the consumption of fine-cut tobacco in the second half of the 2012 which culminated in the first quarter of 2013. Only the number of stamps released to mark fine cut tobacco in the first quarter of this year is higher by 10% compared to the total number of stamps released throughout the 2012.

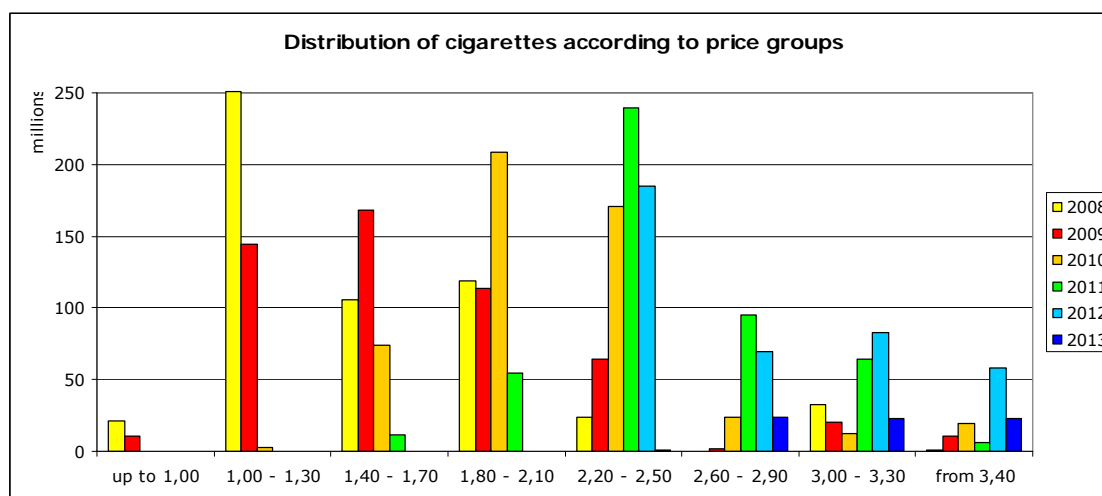
The end result of all the factors of change for the period 2008 - 2013 can best be seen on Chart 1. It shows the distribution of cigarette price groups where it can be clearly seen the pronounced shift to the right while completely disappearing price group on the left side of the graph. At the same time, the number of issued stamps has declined over time so that the amount of the tax stamps price groups range from 50 to 100 million pieces.

² Agency for statistics of BiH (www.bhas.ba)

³ If assumed that 1000 cigarettes contain 1 kilogram of tobacco

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

Chart 1. Overview of the distribution of cigarettes according to price groups for period 2008 – 2013.



Source: Data from the ITA BiH

At the same time, imports of goods that are classified according to the current Customs Tariff as cigarette paper in the form of booklets or tubes has increased by more than 3 times the 2012 so that this information points to the enormous increase in the use of fine-cut tobacco consumption that replaces a more expensive substitutes such as cigarettes. The reason for this should be sought primarily in the different tax treatment of fine-cut tobacco compared to cigarettes, according to the relevant regulations. Namely, on cigarettes is calculated ad-valorem excise duty amounting to 42% of the retail selling price and the specific excise duty increases each year for a minimum of 0.15 KM per pack amounting 0.75 KM for a pack of 20 cigarettes while on fine-cut tobacco is calculated only ad-valorem excise duty of 42% on the retail selling price. In this way, it can be concluded that the gap in terms of excise burden between cigarettes and fine-cut tobacco is increasing every year.

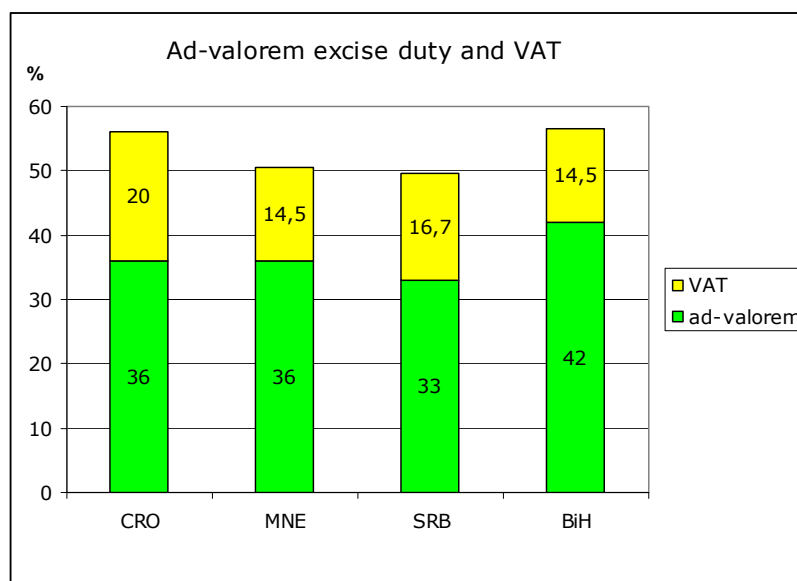
Similarly, excise taxpayers engaged in the trade of tobacco and tobacco products, determine the different retail selling prices for packages of the same weight of fine-cut tobacco and vice versa, determine the same retail price for package of different weight of fine-cut tobacco. It is therefore very difficult to determine how much is the consumption of these goods replaced in the overall consumption of tobacco, and how big is potential illegal production, sale and use of tobacco. One thing is for sure, the decline in the consumption of tobacco certainly is not equal to a decline in cigarette consumption. It can be presumed there only occasional smokers reduce cigarette consumption, while those with lower income levels moved towards a cheaper substitute i.e. fine-cut tobacco. If a pack of 200 grams of fine-cut tobacco can be purchased for about 10 KM on the legal market from which you can make at least 200 cigarettes, and if we add the cost of about 5 KM of rolling papers in the form of tubes and other equipment needed for the preparation of this tobacco smoking, it can be concluded that the calculated excise tax is 4.2 KM. If we assume that 10 packs of cigarettes contains the same mass of tobacco, the excise tax calculated on an average retail selling price of cigarettes would amount to 21 KM i.e. 5 times higher than for fine-cut tobacco. It actually becomes the sole motive, price driven motive of consumers to shift focus from cigarettes to fine-cut tobacco. In this manner, positive effects of improving the overall level of public health are in danger, which affects the quality of tobacco released for consumption and especially if we add tobacco that circulates on the illicit market whose quality is not subject of control.

Also, fiscal revenues from taxation of tobacco products become lower with the increase in consumption of fine-cut tobacco. All this affects the legitimate tobacco industry, which is also comprised of registered producers and processors of tobacco who suffer major damage due to increase of the black market. At the same time, the question what is the final destination of income from illegal tobacco production is of particular concern, for what purposes are being spent and what kind of consequences could have it on stability of the economy, but also the security system of Bosnia and Herzegovina. In doing so, it should not neglect the costs of restoring the previously achieved level of stability and security, as well as the lost trust of citizens and the international community. This is certainly a big problem and a serious threat that requires far more attention and by effective, emergency measures act in order to stop the negative trends that are related to the market of tobacco products.

Comparative analysis of excise policies and its effects in European countries

At the beginning of this section it should be highlighted that the term 'European countries' means neighboring countries that are not yet members of the European Union (hereinafter: EU), such as Serbia, Montenegro and Croatia (which is to become a full member of the EU from July 1st, 2013) and the observed EU countries. What is common to all of them is that they are extensively adjusted its legislation regarding tobacco products excise treatment driven by individually set goals and prescribed minimum standards in this area at the EU level.

Chart 2. Comparative analysis of ad-valorem excise duty and VAT rate on January 1st 2013

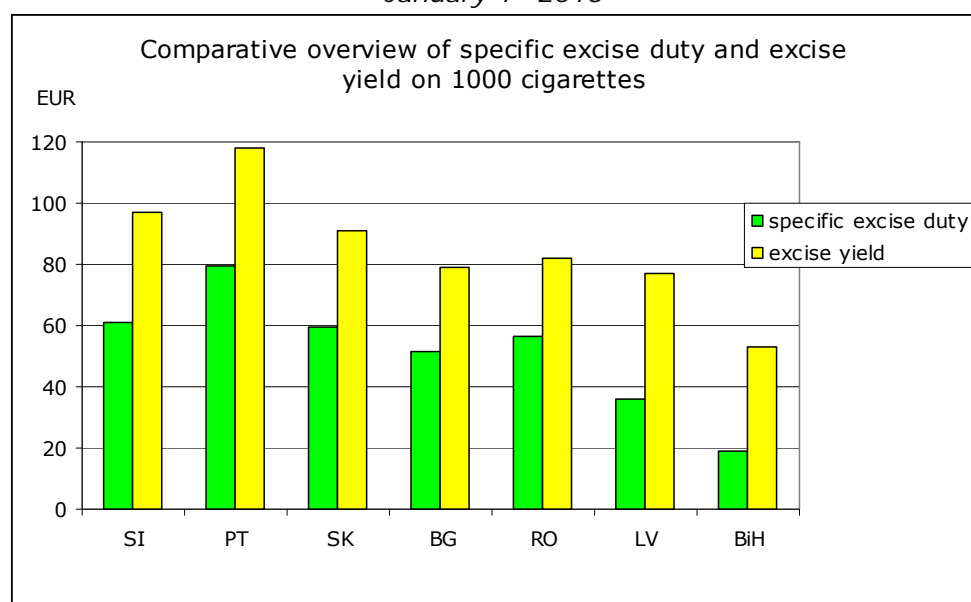


Source: effective excise laws in observed countries
CRO – Croatia, MNE – Montenegro, SRB – Serbia, BIH – Bosnia and Herzegovina

The main difference between Bosnia and Herzegovina and the observed countries is in the amount of specific excise duty on cigarettes. In Croatia, this duty is approximately 1.00 KM per pack of cigarettes. Minimum excise duty is around 130 KM per 1000 cigarettes, which is 41% higher than the current minimum excise duty in Bosnia. The essential features of the legislation that determines the excise treatment of cigarettes in Croatia is that it delegates competencies to the Government to determine, and if necessary, adjust the amount of specific and ad-valorem excise duties on the basis of the weighted average retail selling price.

According to the current European directive⁴ related to the structure and rates of excise duty applied on tobacco products, the structure of excise duties shall include, in addition to the specific excise duty, which is calculated per unit of product, and ad-valorem excise duty calculated on the retail selling price, which includes all taxes. Sales tax on cigarettes has the same effect as the ad-valorem excise duty and this fact must be taken into account when establishing the relationship between the specific excise tax and the total tax burden. In order to proper functioning of the internal market, it is recommended to establish mandatory minimum excise duties for all categories of tobacco products. But here it is evident that the current legal framework in Bosnia and Herzegovina has no established minimum excise duties on fine-cut tobacco, as well as other, most frequently used category of tobacco products in consumption. As for the retail price and the level of excise burden, especially for cigarettes and fine-cut tobacco, observable significant differences between Member States which may impede the activities of the internal market. A degree of convergence between the level of tax burden in the member states should impact on reducing fraud and smuggling in the EU.

Chart 3. Comparative overview of specific excise duty and excise yield on 1000 cigarettes on January 1st 2013



Source: Excise Duty Table (Part III); DG for Customs and Taxation; January 2013

SI – Slovenia, PT – Portugal, SK – Slovakia, BG – Bulgaria, RO – Romania, LV – Latvia, BiH – Bosnia and Herzegovina

It is therefore necessary to amend the first sentence of this article and so that the legal framework of a country that regulates the production, sale and consumption of tobacco products additionally exert influence over its borders. It is therefore the responsibility of every government to design its legislation taking into account the existing models and proposed taxation trends in neighboring countries and at EU level.

On Chart 3 it is clear that the specific excise duty in Bosnia and Herzegovina, even after 5 consecutive increases, is half the size of the same type of excise duty in Latvia, which has the smallest specific excise duty comparing with observed EU countries. Also, the amount of excise yield per pack of cigarettes is highest in Portugal, followed by Slovenia, and finally there is Bosnia and Herzegovina with about 2.10 KM per pack.

⁴ Council Directive 2011/64/EU; Official Journal of the European Union L 176/24; published on July 7, 2011

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

Apparently, the EU countries have gone the way that Bosnia and Herzegovina is moving. Many of them faced with a sharp decline in the number of released stamps for cigarettes as it could be clearly seen in Table 1. At the EU level the number of released stamps declined by 18% in the period 2007 - 2011. In some countries this decline was much sharper as in Latvia and it was 61.2%, while in Bulgaria almost halved over the same period.

Table 1. Overview of number of released stamps for marking cigarettes in selected EU member states (the number of stamps is rounded in order to easy capture the manifested tendencies)

	2007	2011
Portugal	640.000.000	600.000.000
Bulgaria	1.000.000.000	540.000.000
Romania	1.900.000.000	1.250.000.000
Latvia	240.000.000	95.000.000

Source: Releases for consumption of cigarettes; DG for Customs and Taxation; July 2012

If we consider the ratio of the mass of fine-cut tobacco and mass of cigarettes it can be seen that the ratio has moved from 10% in 2007 to 15% in 2011 in favor of fine-cut tobacco. Different countries have applied various measures to stabilize the market of tobacco products and to maintain the level of revenues to the extent that was possible. In addition to measures of fiscal policy, the EU is constantly fighting a battle with illegal production and sale of tobacco products.

Conclusion

Data for Bosnia and Herzegovina on the number of stamps released to mark cigarettes and fine-cut tobacco for the first quarter of 2013 indicate a more pronounced continuation of previously manifested negative trends. Price elasticity of demand is closer to the value 1⁵, which means that customers almost proportionally react to any change in the price growth if other factors remain unchanged. It's certainly found its reflection on the amount of revenues collected. Fine cut tobacco consumption begins to rise sharply in the current year, but that growth is not accompanied by an increase of excise tax collected on tobacco products due to the increasing difference between the amount of excise duty on cigarettes and fine-cut tobacco. This further stimulates the consumption of fine cut tobacco on account of cigarettes. If we add up the field of illegal production and sale of tobacco, then this problem becomes even more important and requires urgent, coordinated response of the relevant institutions at all levels of government that are responsible for the production, circulation and consumption tax regulation of tobacco and tobacco products. Damage suffered by the already exhausted legitimate tobacco industry may leave lasting effects on its profitability and jeopardize its future development.

One of the measures is that the concept of most popular retail selling price of cigarettes should be replaced with the weighted average retail selling price, which would secure more importance to the concept of minimum excise duty. Next, determination of minimum excise duties in absolute terms on cigarettes just as on fine-cut tobacco would be a step forward which would bring the tax policy of tobacco products closer to the current practice in the surveyed countries. In Croatia the amount of excise duty on fine-cut tobacco is 95 KM/kg. Such an excise duty can be combined with an ad-valorem excise duty to discourage price driven increased demand for this category of tobacco products. Also, the minimum excise duty on fine-cut tobacco can be put in direct correlation with the minimum excise duty on cigarettes, so the gap between current and future excise burden on cigarettes and fine-cut tobacco would get narrower.

The issue of quality of statistical data on the consumption of fine-cut tobacco is of great importance, and does not require significant financial investment. This is even more important

⁵ Price elasticity calculated using mean method for Q1 2013 was 0,96

since Bosnia and Herzegovina, as a signatory side of the Framework Convention on Tobacco Control, assumed the obligation to provide and to assist in identifying the point of distinction and monitor, document and control the movement of tobacco products and their legal status. According to this convention, State Parties are required to monitor and collect data on cross-border trade in tobacco products, including illicit trade, and exchanges data at the level of customs, tax and other authorities as well as to implement and tighten legislation with appropriate penalties and legal options directed against the illicit trade in tobacco products, including counterfeit and contraband cigarettes.

One of the unknowns, which could have significant repercussions on the cigarette market in Bosnia and Herzegovina, is Croatia's accession to the EU at the beginning of the second half of the year and the consequences that this event will have on Tobacco Factory Rovinj. Various scenarios are possible, but consumers will give their final word. This is particularly evident in the time of extreme sensitivity to any change in the consumer retail price.

Consolidated reports

(Author: Aleksandra Regoje)

Table 1 (Consolidated report: B&H institutions, entities, SA)

The preliminary consolidated report includes

- revenues from indirect taxes collected by the Indirect Tax Authority on the Single Account,
- transfers from the ITA Single Account,
- revenues and expenditures of the institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Republika Srpska.*

Report doesn't include unadjusted revenues collected on ITA SA.

Tables 2 and 5 (Consolidated report: General Government)

Preliminary consolidated report includes:

- revenues and expenditures of the budget of Institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina, cantons, municipalities** and funds,
- revenues and expenditures of the budget of the Republika Srpska*, municipalities and funds,
- revenues and expenditures of the budget of Brčko District and funds.

Tables 3 and 6 (Consolidated report: Central Government)

Preliminary consolidated report includes:

- revenues and expenditures of the budget of Institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of B&H and cantons,
- revenues and expenditures of the budget of the Republika Srpska*,
- revenues and expenditures of the budget of Brčko District.

Tables 4 and 7 (Consolidated report: B&H Institutions, entities, BD)

Preliminary consolidated report includes:

- revenues and expenditures of the budget of Institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of B&H,
- revenues and expenditures of the budget of the Republika Srpska*,
- revenues and expenditures of the budget of Brčko District.

**Includes: (A) Budget of the Republic and extra-budgetary funds recorded in Treasury General Ledger of the RS, (B) total foreign debt for the projects realized through municipalities and companies, and (C) Budget users who have their own bank accounts (including some foreign project implementation units established by ministries)*

*** data for City of Mostar are estimated by FMF in the report for 2013*

Preliminary report: B&H Institutions, entities and SA - 2013

	I	II	III	Total
Revenue	434,7	382,4	442,9	1.260,0
Taxes	409,4	348,7	402,9	1.160,9
Direct taxes	22,7	29,7	53,5	105,9
Taxes on income, profits and capital gains	22,0	29,0	52,5	103,5
Taxes on property	0,7	0,8	0,9	2,3
Indirect taxes (net)	386,7	318,9	349,4	1.054,9
VAT	240,7	210,2	227,6	678,5
Excises	112,0	76,4	82,4	270,9
Road fee	20,3	16,8	18,9	55,9
Customs	12,6	14,5	18,9	45,9
Other indirect taxes	1,0	1,0	1,7	3,7
Other taxes	0,1	0,0	0,1	0,2
Social security contributions	0,0	0,0	0,0	0,0
Foreign grants	1,4	0,7	1,8	3,9
Other (non-tax) revenue	23,9	33,0	38,2	95,1
Transfers from other general government units	0,0	0,0	0,0	0,1
Expenditure	411,9	400,9	412,2	1.225,0
Expense	407,5	397,9	404,8	1.210,3
Compensation of employees	123,1	124,7	126,4	374,1
Use of goods and services	14,6	24,1	28,3	67,0
Social benefits	52,6	54,4	53,4	160,4
Interest	4,2	7,1	19,0	30,3
Interest payments to non-residents	2,3	5,6	10,2	18,0
Interest payments to residents	2,0	1,6	8,8	12,3
Subsidies	2,2	2,4	6,0	10,6
Grants (to non-residents)	0,0	0,0	0,0	0,0
Transfers to other general government units	40,3	42,2	41,5	124,0
Transfers from SA (BD, cantons, municip, funds, road f.)	165,4	134,5	121,7	421,6
Other expense	5,1	8,6	8,5	22,2
Net acquisition of nonfinancial assets	4,4	3,0	7,4	14,8
Acquisition of nonfinancial assets	4,6	3,3	8,1	16,0
Disposal of nonfinancial assets	0,2	0,2	0,7	1,2
Gross/Net operating balance (revenue minus expense)	27,1	-15,5	38,1	49,7
Net lending /borrowing (revenue minus expenditures)	22,8	-18,5	30,7	34,9
Net financing = (Minus) Net lending /borrowing	-22,8	18,5	-30,7	-34,9

Table 1

Preliminary report: General Government - 2013

	Q1
Revenue	2.456,7
Taxes	1.258,5
Direct taxes	235,9
Taxes on income, profits and capital gains	205,9
Taxes on payroll and workforce	3,9
Taxes on property	26,0
Indirect taxes	1.011,7
Other taxes	10,9
Social security contributions	930,6
Foreign grants	6,3
Other (non-tax) revenue	258,3
Transfers from other general government units	2,9
Expenditure	2.470,9
Expense	2.431,8
Compensation of employees	785,8
Use of goods and services	443,9
Social benefits	1.053,2
Interest	37,5
Interest payments to non-residents	19,1
Interest payments to residents	18,4
Subsidies	32,3
Grants	0,9
Transfers to other general government units	7,6
Other expense	70,5
Net acquisition of nonfinancial assets	39,2
Acquisition of nonfinancial assets	44,7
Disposal of nonfinancial assets	5,5
Gross/Net operating balance (revenue minus expense)	24,9
Net lending /borrowing (revenue minus expenditures)	-14,2
Net financing = (Minus) Net lending /borrowing	14,2

Table 2

Note: data for City of Mostar are estimated by FMF

Preliminary report: Central Government - 2013

	Q1
Revenue	1.266,4
Taxes	1.113,5
Direct taxes	187,9
Taxes on income, profits and capital gains	177,9
Taxes on payroll and workforce	3,5
Taxes on property	6,5
Indirect taxes	915,0
Other taxes	10,6
Social security contributions	0,0
Foreign grants	5,0
Other (non-tax) revenue	146,1
Transfers from other general government units	1,8
Expenditure	1.229,9
Expense	1.212,6
Compensation of employees	667,2
Use of goods and services	106,0
Social benefits	208,9
Interest	32,1
Interest payments to non-residents	18,5
Interest payments to residents	13,6
Subsidies	21,6
Grants	0,2
Transfers to other general government units	132,5
Other expense	44,1
Net acquisition of nonfinancial assets	17,3
Acquisition of nonfinancial assets	18,5
Disposal of nonfinancial assets	1,2
Gross/Net operating balance (revenue minus expense)	53,8
Net lending /borrowing (revenue minus expenditures)	36,5
Net financing = (Minus) Net lending /borrowing	-36,5

Table 3

Preliminary report: B&H Institutions, entities, BD - 2013

	Q1
Revenue	875,6
Taxes	771,1
Direct taxes	111,9
Taxes on income, profits and capital gains	107,4
Taxes on payroll and workforce	1,9
Taxes on property	2,5
Indirect taxes	658,9
Other taxes	0,4
Social security contributions	0,0
Foreign grants	3,9
Other (non-tax) revenue	99,5
Transfers from other general government units	1,2
Expenditure	836,6
Expense	821,9
Compensation of employees	395,0
Use of goods and services	71,7
Social benefits	165,9
Interest	30,4
Interest payments to non-residents	18,0
Interest payments to residents	12,4
Subsidies	12,3
Grants	0,2
Transfers to other general government units	124,0
Other expense	22,2
Net acquisition of nonfinancial assets	14,8
Acquisition of nonfinancial assets	16,0
Disposal of nonfinancial assets	1,2
Gross/Net operating balance (revenue minus expense)	53,7
Net lending /borrowing (revenue minus expenditures)	39,0
Net financing = (Minus) Net lending /borrowing	-39,0

Table 4

Preliminary report: General Government – 2012

	Q1	Q2	Q3	Q4	Total
Revenue	2.507,7	2.823,1	2.878,9	2.995,9	11.205,6
Taxes	1.271,3	1.435,8	1.537,9	1.506,3	5.751,2
Direct taxes	233,2	242,4	210,6	232,1	918,2
Taxes on income, profits and capital	208,1	215,6	184,5	201,7	809,8
Taxes on payroll and workforce	2,6	5,3	3,5	6,0	17,3
Taxes on property	22,5	21,6	22,6	24,4	91,1
Indirect taxes	1.036,0	1.191,7	1.325,3	1.268,3	4.821,2
Other taxes	2,1	1,7	2,1	6,0	11,9
Social security contributions	931,3	1.020,6	1.001,0	1.091,6	4.044,4
Foreign grants	5,2	11,0	8,2	14,1	38,5
Other (non-tax) revenue	299,0	354,3	327,5	377,4	1.358,2
Transfers from other general government units	1,0	1,5	4,3	6,5	13,2
Expenditure	2.522,8	2.741,5	2.861,4	3.364,4	11.490,1
Expense	2.469,7	2.655,8	2.733,4	3.173,8	11.032,6
Compensation of employees	801,2	808,0	802,2	848,1	3.259,4
Use of goods and services	432,8	503,7	474,4	622,9	2.033,7
Social benefits	1.043,5	1.066,7	1.108,4	1.162,9	4.381,6
Interest	37,0	59,7	38,8	55,7	191,1
Interest payments to non-residents	19,3	39,5	20,4	35,7	114,9
Interest payments to residents	17,7	20,2	18,5	20,0	76,3
Subsidies	49,3	65,8	123,7	146,9	385,7
Grants	0,3	3,2	8,2	1,5	13,2
Transfers to other general government units	24,8	47,3	45,3	106,2	223,6
Other expense	80,7	101,4	132,5	229,6	544,2
Net acquisition of nonfinancial assets	53,2	85,7	128,0	190,6	457,5
Acquisition of nonfinancial assets	60,9	94,0	136,8	205,7	497,4
Disposal of nonfinancial assets	7,7	8,3	8,8	15,1	39,9
Gross/Net operating balance (revenue minus	38,1	167,3	145,5	-177,9	173,0
Net lending /borrowing (revenue minus expenditures)	-15,1	81,7	17,5	-368,5	-284,4
Net financing = (Minus) Net lending /borrowing	15,1	-81,7	-17,5	368,5	284,4

Table 5

Preliminary report: Central Government - 2012

	Q1	Q2	Q3	Q4	Total
Revenue	1.326,4	1.534,2	1.591,1	1.582,2	6.033,9
Taxes	1.122,0	1.274,1	1.354,9	1.334,3	5.085,3
Direct taxes	189,1	194,6	164,8	179,5	727,9
Taxes on income, profits and capital	180,1	184,6	155,9	169,3	689,9
Taxes on payroll and workforce	2,4	4,5	3,3	5,0	15,2
Taxes on property	6,6	5,5	5,5	5,2	22,8
Indirect taxes	931,4	1.078,3	1.188,5	1.149,3	4.347,5
Other taxes	1,5	1,3	1,6	5,5	9,9
Social security contributions	0,0	0,0	0,0	0,0	0,0
Foreign grants	3,7	9,3	3,6	12,8	29,3
Other (non-tax) revenue	200,3	250,3	231,3	231,4	913,3
Transfers from other general government units	0,4	0,5	1,4	3,7	5,9
Expenditure	1.242,6	1.417,4	1.505,4	1.949,1	6.114,5
Expense	1.226,3	1.378,3	1.459,2	1.844,3	5.908,0
Compensation of employees	684,0	683,2	680,1	717,0	2.764,3
Use of goods and services	98,1	144,9	135,1	242,0	620,1
Social benefits	217,2	216,3	237,6	303,4	974,6
Interest	31,6	52,0	32,1	49,6	165,3
Interest payments to non-residents	18,8	38,6	19,7	34,5	111,5
Interest payments to residents	12,8	13,4	12,4	15,1	53,8
Subsidies	27,0	46,8	98,4	151,8	324,1
Grants	0,0	2,1	5,8	1,0	8,9
Transfers to other general government units	127,8	160,5	185,4	194,6	668,2
Other expense	40,5	72,5	84,7	184,8	382,5
Net acquisition of nonfinancial assets	16,3	39,1	46,2	104,8	206,5
Acquisition of nonfinancial assets	17,9	42,1	48,5	117,2	225,7
Disposal of nonfinancial assets	1,5	3,0	2,3	12,4	19,2
Gross/Net operating balance (revenue minus	100,2	156,0	131,9	-262,1	125,9
Net lending /borrowing (revenue minus expenditures)	83,9	116,8	85,7	-367,0	-80,6
Net financing = (Minus) Net lending /borrowing	-83,9	-116,8	-85,7	367,0	80,6

Table 6

Preliminary report: B&H Institutions, entities, BD – 2012

	Q1	Q2	Q3	Q4	Total
Revenue	930,4	1.091,4	1.108,4	1.155,2	4.285,3
Taxes	766,0	882,3	928,7	953,9	3.530,9
Direct taxes	113,9	109,0	91,7	100,1	414,7
Taxes on income, profits and capital	110,1	103,8	86,0	94,2	394,1
Taxes on payroll and workforce	1,5	2,2	2,2	2,5	8,4
Taxes on property	2,4	3,0	3,5	3,4	12,2
Indirect taxes	651,3	772,5	836,2	850,8	3.110,8
Other taxes	0,7	0,7	0,8	3,0	5,3
Social security contributions	0,0	0,0	0,0	0,0	0,0
Foreign grants	3,5	8,6	3,7	12,4	28,3
Other (non-tax) revenue	160,9	199,4	175,5	188,0	723,8
Transfers from other general government units	0,0	1,1	0,4	0,9	2,4
Expenditure	832,5	964,7	1.044,4	1.381,6	4.223,2
Expense	819,7	933,0	1.007,8	1.298,8	4.059,2
Compensation of employees	414,6	412,1	409,9	419,7	1.656,3
Use of goods and services	60,3	96,7	95,6	170,5	423,0
Social benefits	174,1	163,4	184,3	235,2	757,0
Interest	30,1	50,5	32,0	47,9	160,5
Interest payments to non-residents	18,3	37,8	19,2	33,9	109,1
Interest payments to residents	11,9	12,7	12,8	14,1	51,4
Subsidies	9,2	29,5	78,1	123,1	240,0
Grants	0,0	2,1	5,8	1,0	8,9
Transfers to other general government units	120,8	150,1	169,0	181,8	621,8
Other expense	10,6	28,5	33,2	119,5	191,9
Net acquisition of nonfinancial assets	12,9	31,7	36,6	82,8	163,9
Acquisition of nonfinancial assets	13,9	34,1	38,1	94,3	180,3
Disposal of nonfinancial assets	1,0	2,4	1,4	11,5	16,3
Gross/Net operating balance (revenue minus expenditure)	110,7	158,4	100,6	-143,6	226,1
Net lending /borrowing (revenue minus expenditures)	97,9	126,7	63,9	-226,4	62,1
Net financing = (Minus) Net lending /borrowing	-97,9	-126,7	-63,9	226,4	-62,1

Table 7