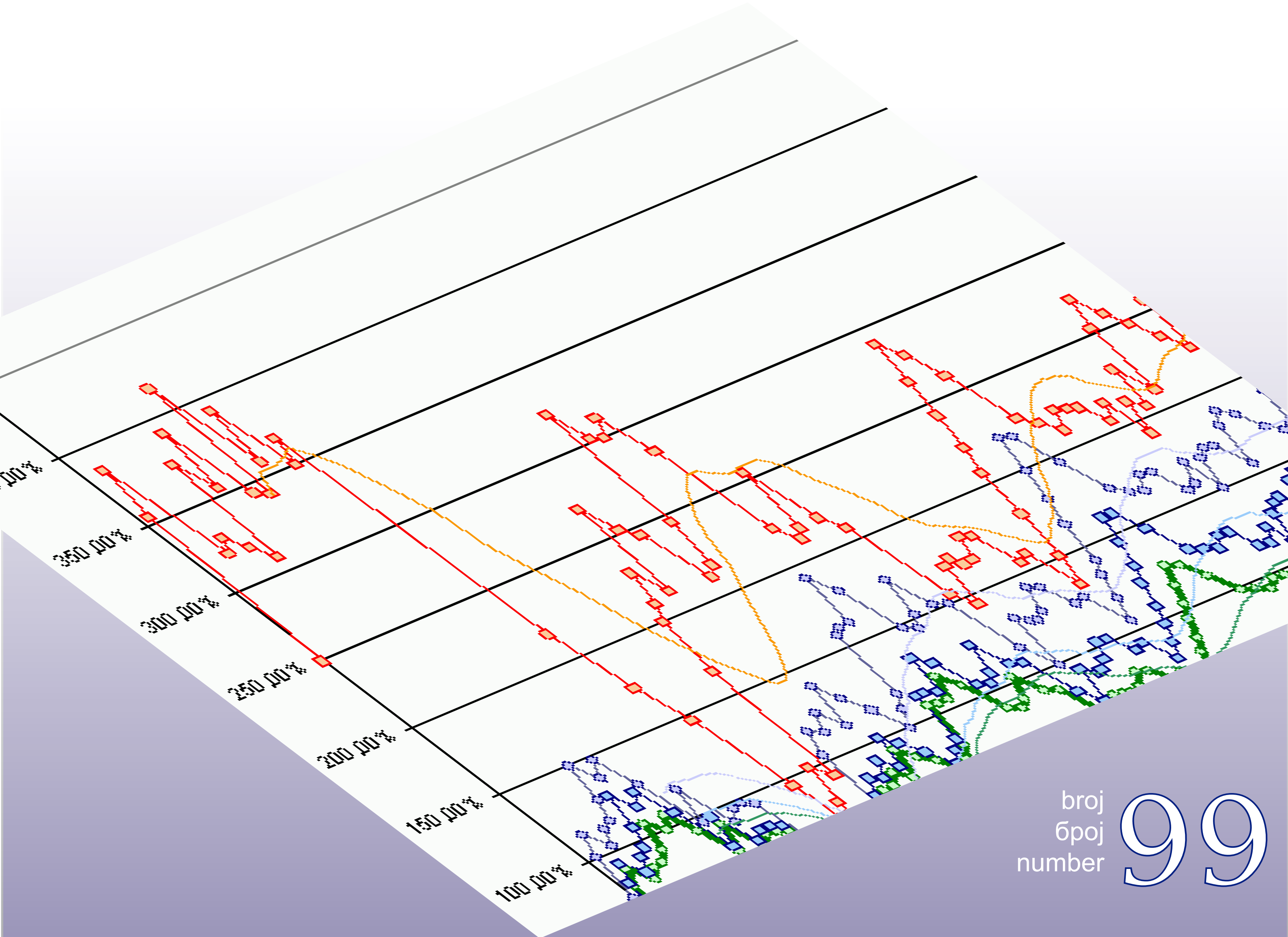
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-neizravno oporezivanje

Босна и Херцеговина
Одјељење за макроекономску анализу
Управног одбора Управе за индиректно опорезивање

Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

Oma Bilten



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With this issue

Net cumulative collection of indirect taxes collected in the period January – September 2013 was 2% below the collection from the same period in 2012 (Chart 1). Observed by types of revenue the largest drop was recorded in VAT, 52,6 million KM, and in customs revenues 11,6 million KM. Revenue decline was also recorded in excise and road taxes, a total of 7,1 million KM (Chart 2).

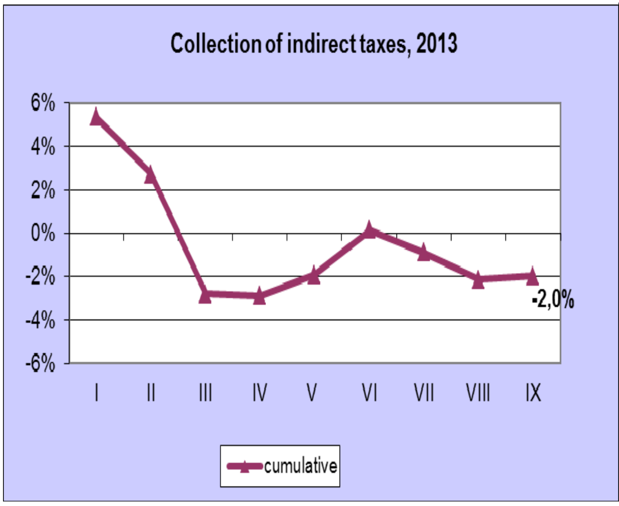

Chart 1

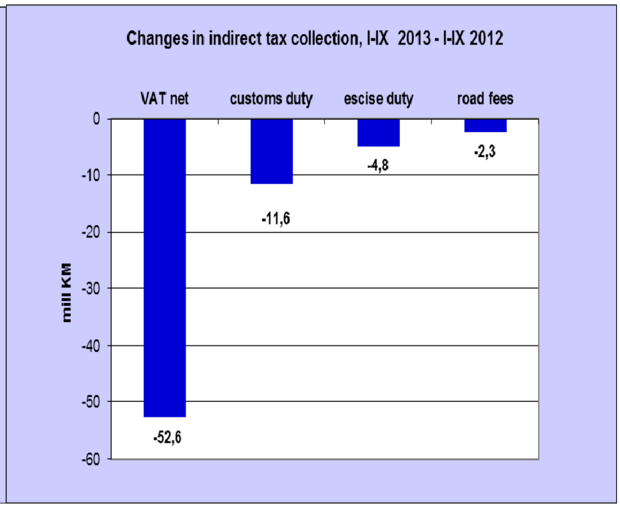

Chart 2

In addition to macroeconomic developments and the efficiency of revenue collection, factors that may affect the poorer collection of gross revenue from VAT are decline in imports, expanding the scope of exemption (for instance, exemption for purchases of goods and services within the projects financed from IPA funds), the increase in debt, VAT frauds, the gray economy, etc. On the other hand, VAT refunds determinate final net effects of VAT collection. Analysis of indirect tax revenue has pointed to several reasons of a downward trend in collection of all major types of revenue from indirect taxes. In the field of VAT these are, in the first place, the strong growth of VAT refunds and debts arising from VAT returns. It should be noted that the decline in imports and thus the gross of VAT, does not by default mean the decline in net VAT revenue, because the increased purchases from imports (for example, several months of supply due to lower procurement costs) are often accompanied by increased refund payments. Similarly, the decline in imports may be due to a shift towards domestic suppliers, which will have a positive impact on net VAT revenue. Poorer collection of excise duties largely affects the policy of differentiated taxation of substitutes, such as diesel and heating oil or cigarettes and tobacco. The gap in tax burden of substitutes is a strong incentive for abuses which lead to the strengthening of the gray economy, tax evasion and distortions on the regular market.

Dinka Antić, PhD
Head of Unit

Table of contents:

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Collection of revenues from indirect taxes in the period January – September 2013

(Author: Dinka Antić, PhD)

TRENDS IN TOTAL COLLECTION

According to the preliminary report of the ITA in September 2013, 432,5 million KM was collected after the deduction of refunds. Although September, compared to August when it was recorded extremely poor revenue collection from indirect taxes, has brought improvement in gross collection of 3% or 15 million KM in relation to the same month of 2012, the escalation of refund payments of 25,5% in September not only nullified the positive effects of the gross collection but also net effects brought into negative zone of 3 million KM. Bearing in mind the trends in September, the cumulative deficit in net revenues manifested in previous months increased to 73,4 million KM (Chart 1).

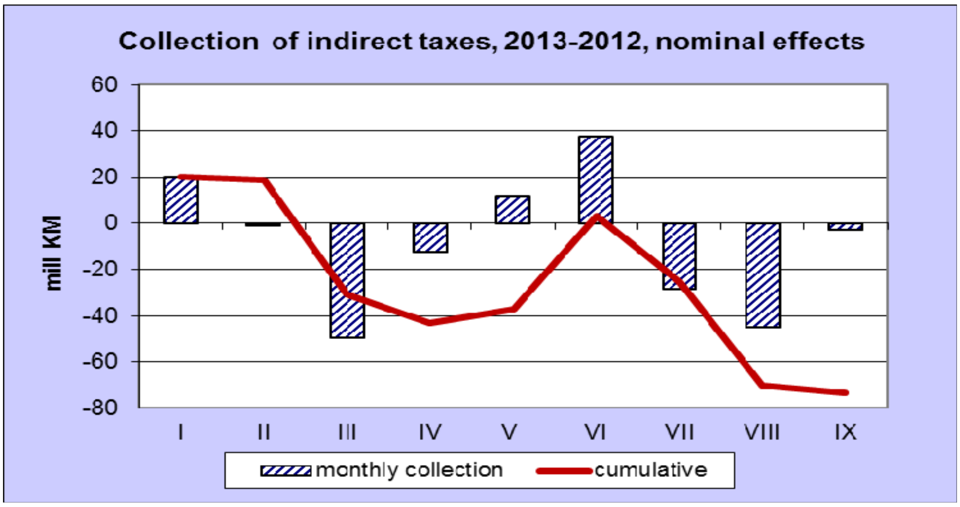


Chart 1

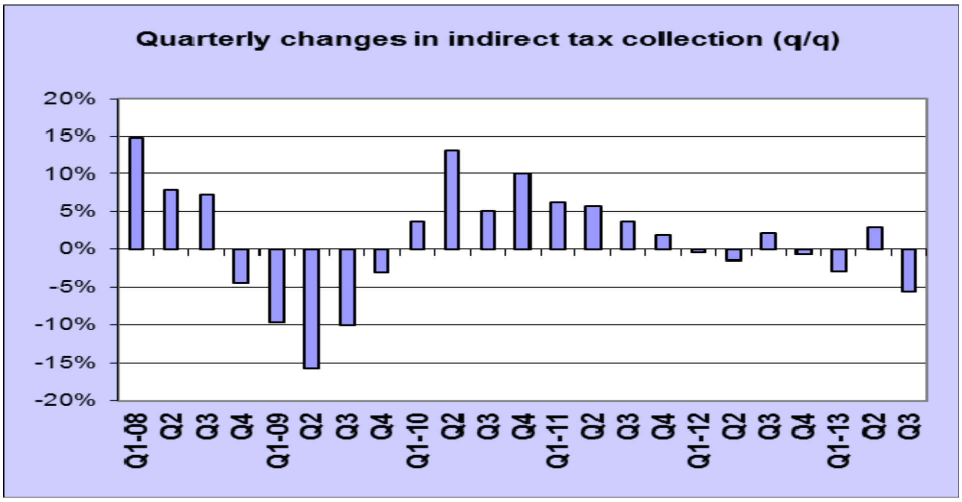


Chart 2

Comparison in collection of years 2013 and 2012 by quarters indicates sharp fluctuations in the collection of indirect taxes in 2013. After a drop in revenues in the first quarter of 2,8%, the second quarter brought a growth of 3%, and in the third quarter there was a decrease in revenues of 5,7% (Chart 2). Collection of revenues in the second and third quarter was strongly influenced by the growth of excise taxes on cigarettes before Croatia's accession to the EU. Business policy of importers of cigarettes from Croatia such as stockpiling for several months before 1 of July is reflected on the monthly trends of excise revenue collection during the period May – October 2013 but also on the dynamics of VAT net revenue collection, through increased gross collection in June and increased refunds in September 2013. By eliminating the effects of stockpiling cigarettes it can be seen that the cumulative net collection from March was constantly in negative zone (Chart 3). The downward trend of revenues from indirect taxes in 2013 in relation to 2012 confirms the trend of the moving twelve-month cumulative (Chart 4).

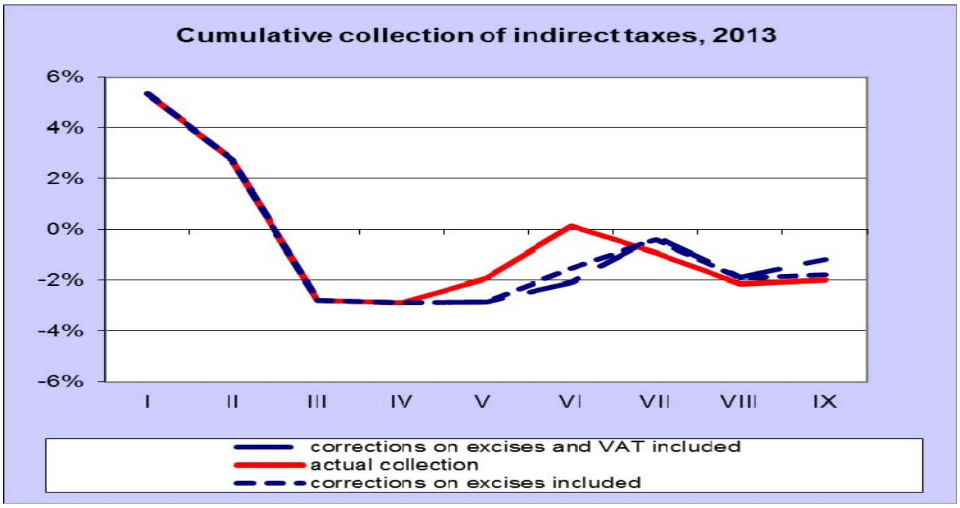


Chart 3

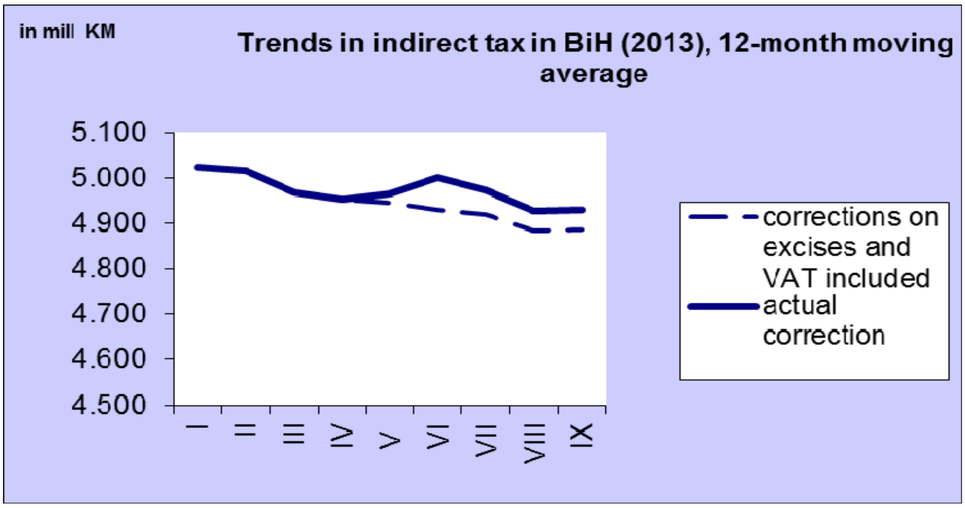


Chart 4

TRENDS BY TYPE OF REVENUE

	IX 2013 / IX 2012	Cumulative I-IX 2013/ 2012
Customs duties	2,4%	-7,1%
VAT	-3,6%	-2,3%
Excise taxes	2,8%	-0,5%

Customs duties

In September it was collected by 2,4 % more customs revenues than in the same month of 2012. At the level of nine months of 2013 revenues from customs duties were lower by 7,1%. Quarterly comparisons (Chart 7) indicate no major changes in the collection of customs duties. As expected, due to the implementation of the last phase of the Agreement with the EU, customs revenues are lower than last year. However, although a decline in cumulative collection is steady and expected, since July it can be noted the improvement of monthly collection which may be the result of changes in the customs regime of imports of certain products from Croatia after the release of Croatia from the CEFTA Agreement (Chart 5).

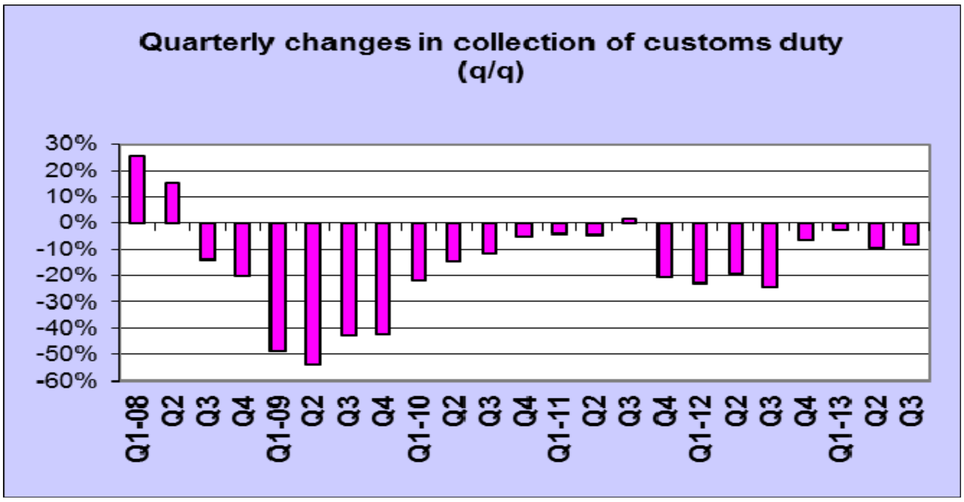


Chart 5

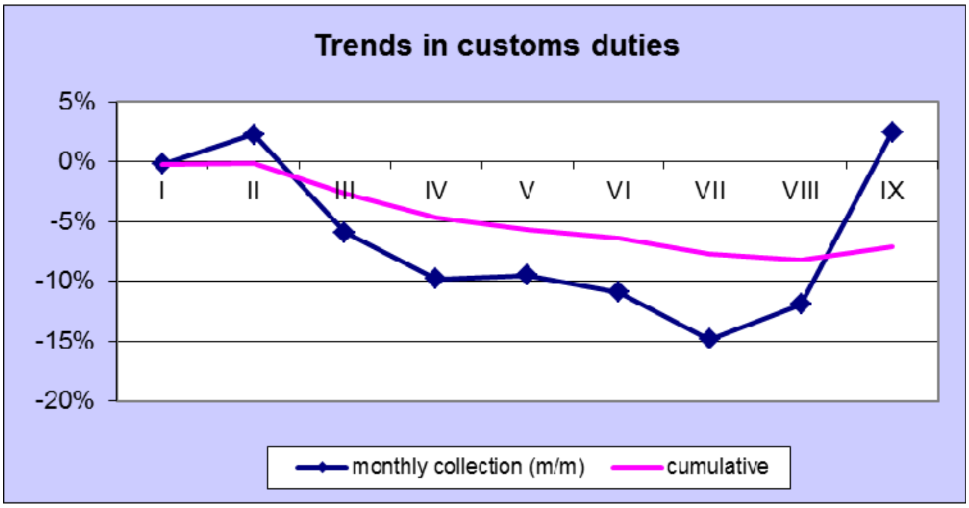


Chart 6

VAT

In September 3,6% of net revenue from VAT was collected less than in the same month of 2012. Compared to net collection in August the improvement was noticeable but still not enough to improve the cumulative collection. At the level of nine months 2,3% of net revenue from VAT was collected less than in the same period of 2012. It is noted that net revenues from VAT are constantly in negative zone since March 2013 (Chart 7). As it was recorded according to the preliminary report of the ITA at 30th of September 12,6 million KM of revenues that could not be at that time adjusted with indirect tax returns, a slight improvement of trends in VAT can be expected after the publication of the final report for September 2013.

Quarterly comparisons (Chart 8) indicate that collection of net VAT is negative for the fourth consecutive quarter.

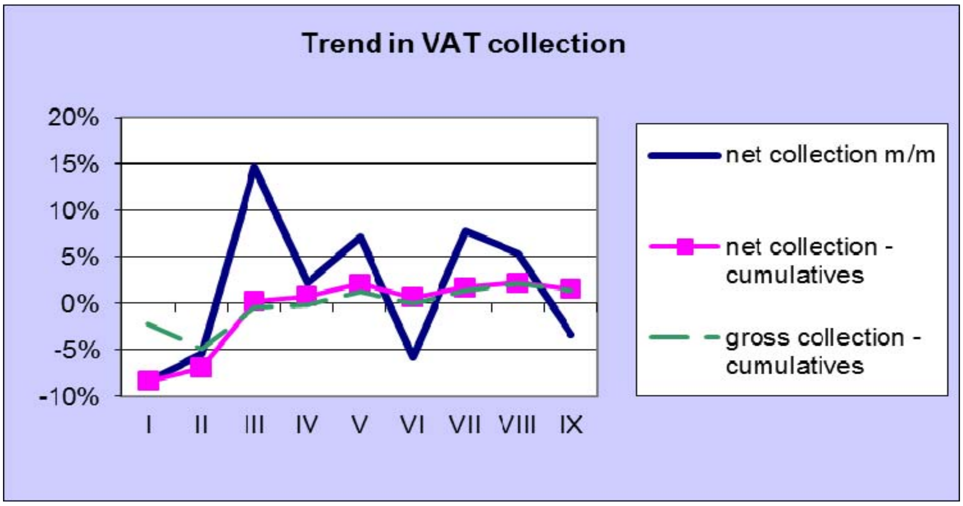


Chart 7

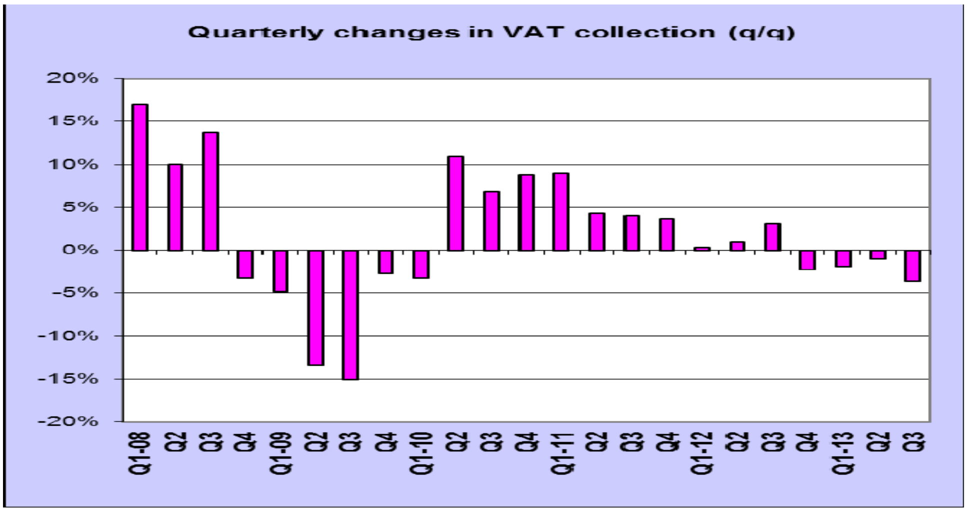


Chart 8

Analysis of components of gross VAT indicates the continuation of trends in the collection of VAT on imports and VAT in the country. Collection of VAT on imports is still below the collection in 2012, as a result of the fall in imports. On the other hand, the collection of VAT in the country is continuously positive, although it noted a slight slowdown in recent months (Chart 9).

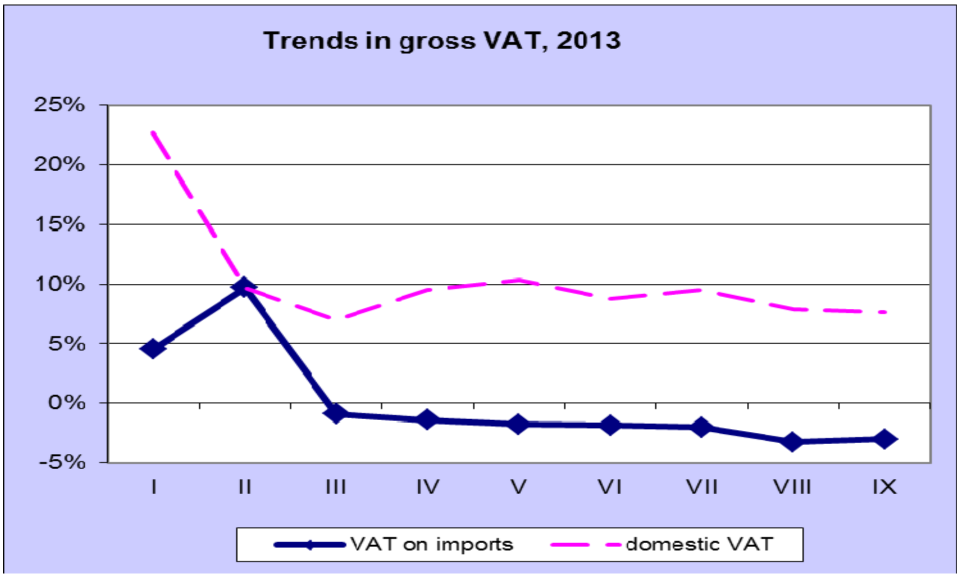


Chart 9

Refunds of VAT in the period January – September 2013 increased by 11,6% compared to the same period in 2012, while refunds to international organizations and projects are even higher for 40,8% than in the same period of 2012 (Chart 10). Nominally it was disbursed 67,5 million KM more to taxpayers than in the last year for nine months.

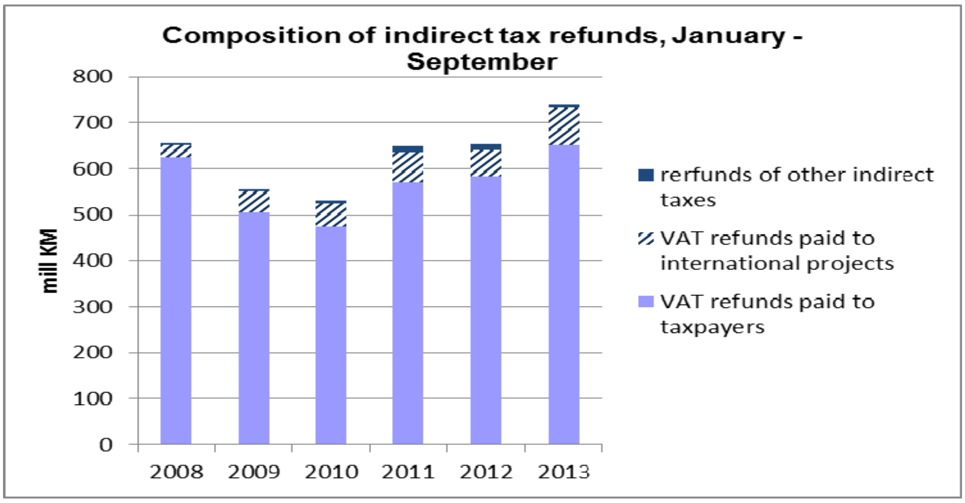


Chart 10

Since they are a predominant category of refunds, a deeper analysis of the structure of VAT refunds to taxpayers is required. The structure of VAT refunds to taxpayers in a fiscal year includes two main categories of refunds: refunds executed on requests for refunds and refunds related to refund payments of unused tax credits. In both these categories there are refunds related to the current year and refunds from the previous year[1]. Transfer of refund payments from

[1] Time determinant „current year" in order to analyze VAT refunds includes refunds based on VAT returns to be submitted in the current year, i.e. returns for December of the previous year and returns for the period January – November. Time determinant „previous year" includes refund related to VAT returns filed for all prior tax periods, ended with November of the last year.

one fiscal year to another is normal since it is a consequence of the statutory provisions which prescribe deadlines for submitting applications, deadlines for VAT refunds and deadlines for payments of unused tax credits. In principal, transferred refunds are composed of the transfer of refunds on requests for refund stated on VAT returns from October and November of the previous year, refunds of unused tax credits from VAT returns for the period June-November of the previous year and other transfers of refunds, such as refunds that are disputed in controls and later confirmed in the process.

Analysis of the structure of VAT refunds to taxpayers in recent years indicates a worsening trend in terms of increasing the transfer of refunds from previous years. After the abolition of suspension of refunds to other taxpayers in 2007 and resolving "the crisis of reserves on the Single Account" at the beginning of 2008, the amount of transferred refund varied considerably. Beginning of the crisis and trends in 2009 and 2010 bring a decrease of refunds as a whole, and thus the transfer of refunds. However, as of 2011 there was a re-increase of the amount of transferred refunds and it escalated during 2013 (Chart 11). It should be noted that the transfer of refunds will have no impact on the annual revenue collection if the amount of transferred refunds is stable from year to year. However, the acceleration (increase in the amount of transferred refunds) or deceleration (reduction in the amount of transferred refunds) may affect the annual revenue collection. Result of transferring a large amount of refunds than usual in the next fiscal year, as it was the case in 2012 and especially in 2013, is that the fiscal balance of the current year is becoming overvalued and undervalued for the next year, and vice versa.

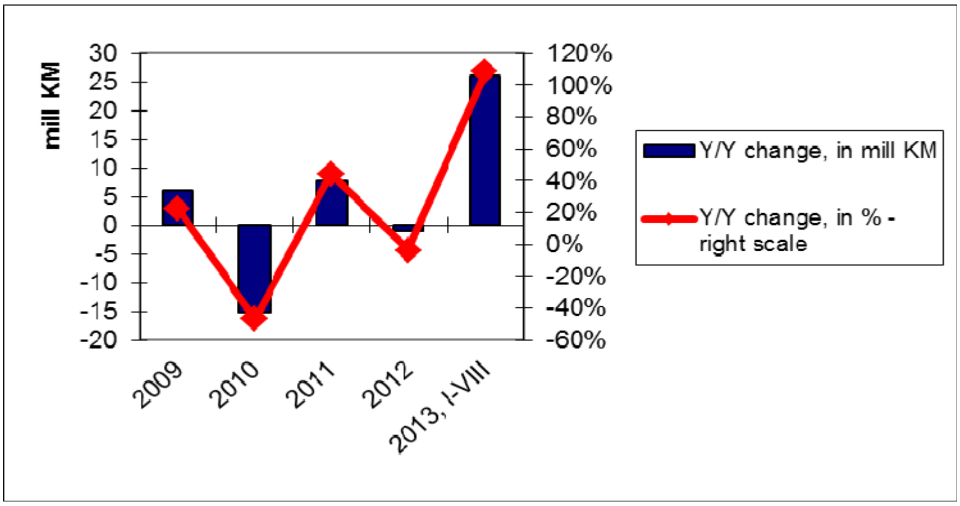


Chart 11

The cumulative balance of debts resulting from a reported unpaid VAT on 31st of August 2013 is 279 KM. In August, there was a net increase in debt of 1,7 million KM. Net increase in debt amounted to 54,3 million KM. Although it was significant amount, comparison with years 2012 and 2011 indicates a slowdown in debt (Chart 12). However, one should bear in mind that debt data do not include rescheduled debts.

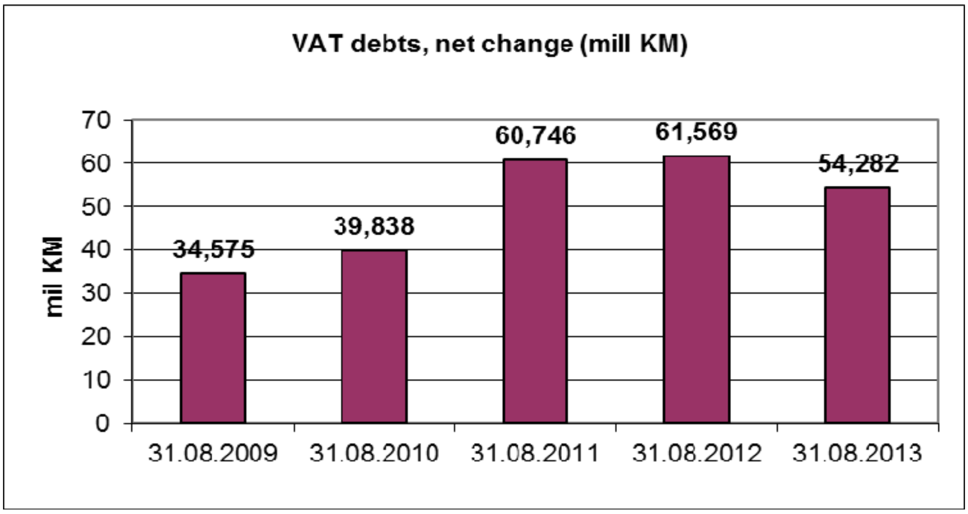


Chart 12

Excise taxes

In September, there was a growth in excise revenues by 2,8%, the first time after a sharp increase in excise taxes in June. Overview of monthly trends of excise collection in September 2013 by excise products indicates a significant increase in excise revenues from domestic tobacco, excise taxes on coffee and excise and road fees on imported oil derivatives. However, on the other hand, it was recorded a drop in excise taxes on imported tobacco, and excise and road fees on domestic oil derivatives.

	IX 2013 / IX 2012	Cumulative I-IX 2013 / 2012
Total tobacco	-0,6%	-0,9%
Tobacco import	-5,2%	1,8%
Tobacco domestic	10,1%	-7,3%
Oil derivatives	7,8%	-0,4%
Imported	19,3%	2,7%
Domestic	-3,0%	-4,2%
Coffee	10,7%	-1,6%
Alcohol, beer	0,9%	0,6%
Road fee, net	10,9%	-0,8%
Imported derivatives, gross	20,5%	2,6%
Domestic derivatives, gross	-0,2%	-5,9%

However, the increase in excise revenue in September was insufficient to meet the cumulative collection from 2012 (Chart 13).

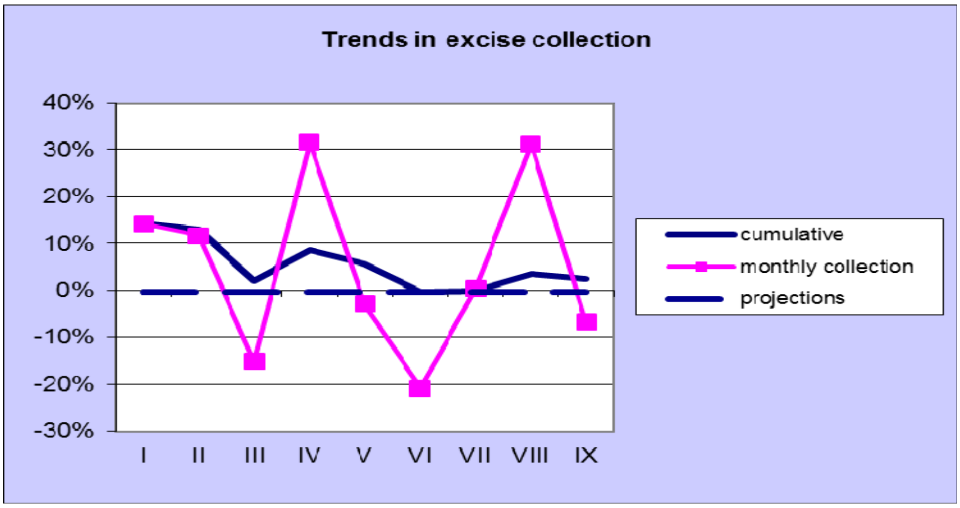


Chart 13

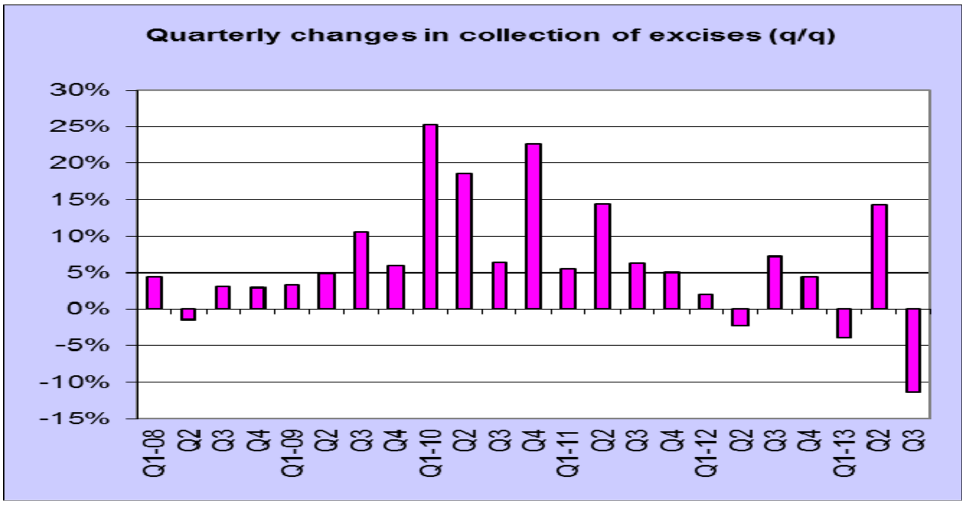


Chart 14

Quarterly comparisons of total excise revenue collection (Chart 14) and tobacco excise collection (Chart 15) in the full light illustrate the impact of stockpiling cigarettes to excise collection.

After a strong increase in excise taxes in the second quarter, there was an expected sharp fall in revenues in the third quarter. Simulation given in Chart 16 shows how the trends of excise revenue collection would look like in 2013 in the situation of regular withdrawal of excise stamps on cigarettes from Croatia in the amount of average monthly volume in the first four months. By the elimination of fluctuations caused by the accession of Croatia to the EU, a constant stable downward trend in the excise revenue collection in 2013 in the range of -3,2% to -3,9% can be clearly noted.

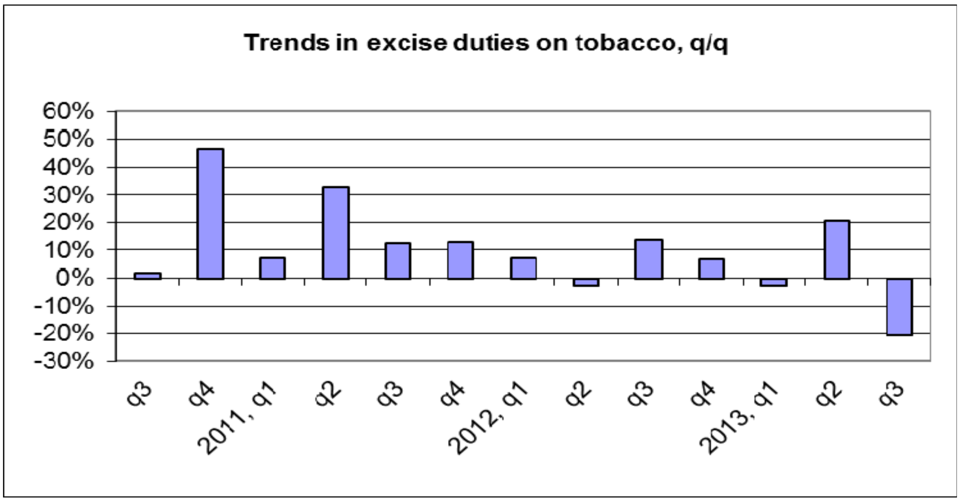


Chart 15

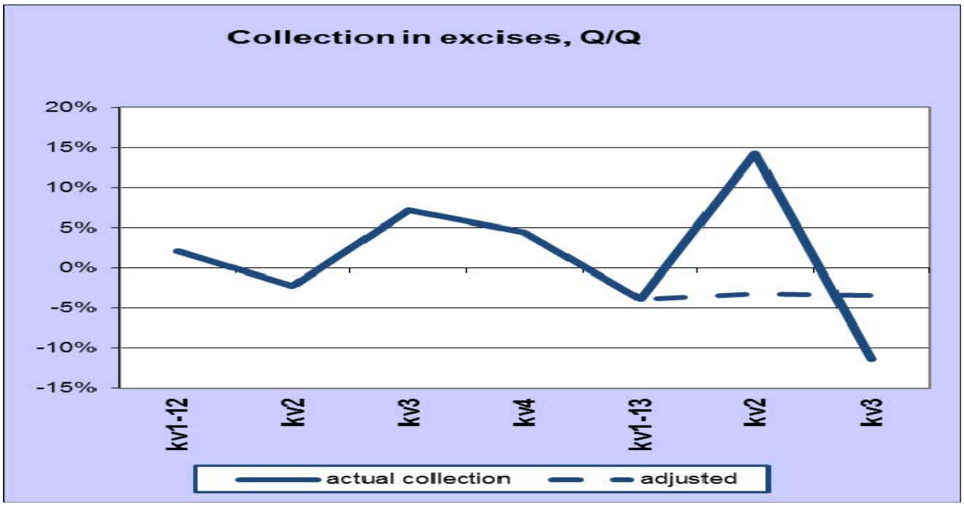


Chart 16

Strong fluctuations in excise revenues in the second and third quarter, ranging from -20% to +20% confirm the fact that excise taxes on tobacco are a predominant type of excise taxes, which movement not only determinates the collection of total revenues from excise taxes but also the total collection of indirect taxes.

Trends in the collection of excise taxes on derivatives show the convergence of collection of excise taxes on imported and domestic derivatives, although trends have still opposite signs, so negative trends in collection of excise taxes and road fees on domestic derivates continue. Despite the increase in excise collection in September, cumulative collection of excise tax on coffee is constantly in the negative zone, while the cumulative increase in excise revenue of the group of alcohol, beer, alcoholic and non-alcoholic drinks is insignificant.

The role of transparency in maintaining fiscal stability - lessons learned from past crises

(Author: Aleksandra Regoje)

THE INTRODUCTION

Solid fiscal policy is essential to maintain macroeconomic stability. Its important component is transparency. Fiscal transparency ensures that government policies are based on a precise assessment of the fiscal position, costs, benefits and risk assessment of policy and also to ensure information to the legislatures and the public. In recent years, significant efforts have been made to strengthen fiscal transparency in countries at all levels of development. Despite these efforts, it was shown that understanding of the government's fiscal position in many cases had not been complete, even among developed countries, which in some cases proved by emergence of previously unregistered government deficits and debts. Deterioration in fiscal space in a number of countries in the last crisis has encouraged national governments for activities that will provide them with the best possible assessment of the fiscal position and provide an adequate basis for conducting of fiscal policy.

DEVELOPMENT OF FISCAL TRANSPARENCY

Even the Asian crisis of the nineties of the last century stressed the importance of financial reporting in both public and private sector. There have been many efforts to develop a global fiscal transparency since than. The IMF has published the **Code of Good Practices on Fiscal Transparency**. The Code brings a set of principles and practices to ensure provision of the clear picture of government's structure and financing. While all countries are encouraged to adopt the principles of the Code, its implementation is voluntary. Detailed standards in the areas of reporting have also been published, such as the **IMF's Government Finance Statistics Manual** (GFSM 1986 and 2001).

International Public Sector Accounting Standards Board (IBASASB) publishes the International Public Sector Accounting Standards (IPSAS).[2] The IPSASB aims to enhance the quality and transparency of public sector financial reporting by:

- Establishing quality accounting standards for use by public sector entities;
- Promoting the adoption of IPSAS,
- Providing comprehensive information for public sector decision making,
- Providing guidance on issues and experiences in financial reporting in the public sector.[3]

The harmonization and basis for the financial reports of the public sector are being provided by the complying with these standards. It also provides better awareness and increased public responsibility. International standards are often updated to track trends on a global scale.

At the regional level the European Statistics Agency (Eurostat) has an important role in the harmonization of fiscal reporting of the member states. The main role of Eurostat is to process and publish comparable statistics at EU level. EU Member States collect statistical data analyzed by the statistical authorized bodies at the state level, after which the data is sent to Eurostat. Eurostat's role is to systematize the data by using harmonized methodology, ensure their comparability, and publish them.

In an earlier issue of the Bulletin it has been written in detail about the standards, objectives and the importance of transparency and the role of fiscal transparency of Bosnia and Herzegovina in

[2] International Federation of Accountants (IFAC), www.ifac.org
[3] IPSASB Fact Sheet, April 2013

the function of European integrations.[4] In this issue we write about the role of transparency in reducing the government's fiscal risks i.e. in preserving its fiscal sustainability.

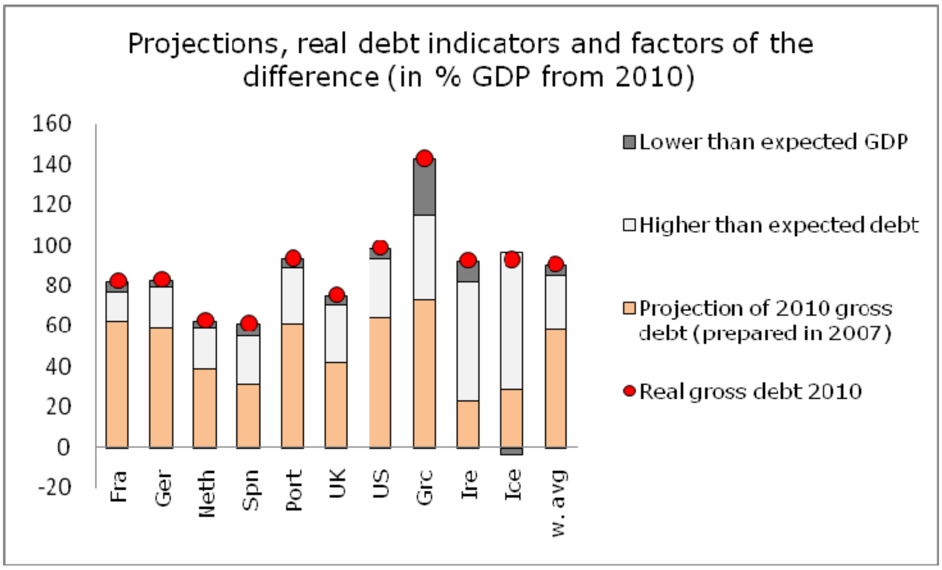
THE MAIN FINDINGS OF THE IMF's STUDY ON FACTORS OF UNFORSEEN DEBT GROWTH

The last crisis has again highlighted the growing need for fiscal transparency, given that in many countries it has been shown that the government has underestimated its fiscal risks which led to erosion of fiscal space and the need for adjustment. The weaknesses in the assessment of the fiscal position at the beginning of the crisis significantly affected the unexpected growth of debt in many countries. In its study "Fiscal Transparency, Accountability, and Risk" IMF analyzes the primary sources of unforeseen growth of debt in the 2010 in comparison with the projections for this year which were made in the period before the crisis (2007). The analysis covers 10 countries that have recorded huge unexpected increase in the gross debt to GDP ratio in this period. The weighted average of unforeseen increase in the debt to GDP ratio was 31,8 percent of GDP of year 2010, and in some countries it reached close to 70%. According to the mentioned analysis, a significant share of unforeseen growth in the debt comes from inadequate assessment of government fiscal position in the period before the crisis i.e. from weaknesses in fiscal transparency. Below is an illustration of the main results of the analysis, i.e. of the factors that influenced the deterioration in the debt indicators

GDP projections have proven to be optimistic

Chart 1 shows the projections of gross debt (2010) prepared in 2007, the actual debt ratios in 2010 and factors which have contributed to the difference between them.

Chart 1



Source: IMF, „Fiscal Transparency, Accountability, and Risk" p. 11

It could be seen from the chart that in addition to the factors which have contributed to the level of the debt (the numerator) to be above projected, the errors in the forecasts of gross domestic product (the denominator) have significantly contributed to the greater ratios of debt to GDP in some countries. Weighted average of the impact of this factor on the differences between

[4] Antic D., „Fiscal transparency in B&H in the function of European integrations ", MAU Bulletin 64/65, 2010

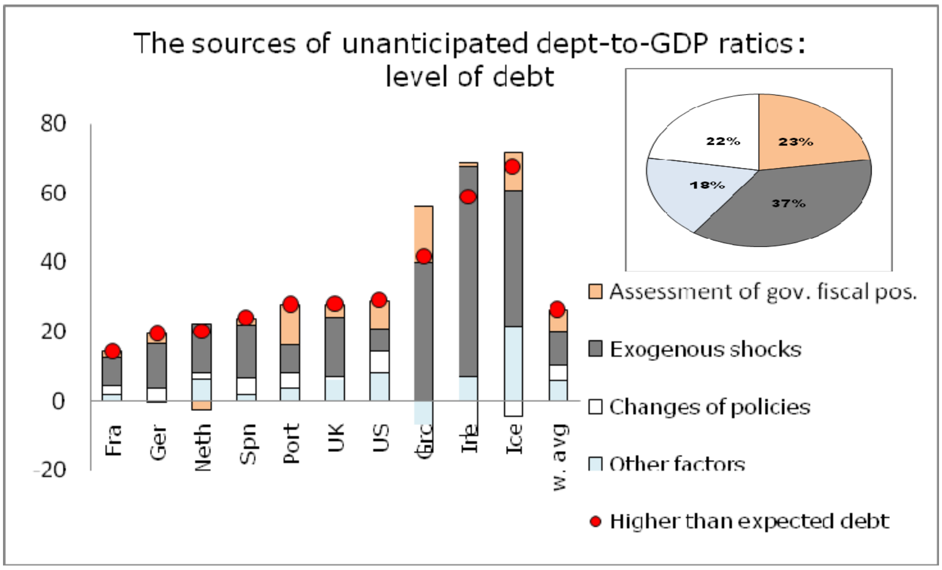
projections and realizations of the debt-to-GDP ratios for the countries shown in the chart is 5,4 percent of GDP. The greatest impact of GDP projections to the deviation of the actual debt from the projected one was in Greece (27,9% of GDP). Of all the countries analyzed GDP estimation proved to be pessimistic only in the case of Iceland, so the realization above projections resulted in the revision of the indicator of debt-to-GDP ratio down by 3,5% of GDP.

Projections of debt levels were underestimated

The factors that influenced the amount of debt could be divided into four basic groups:

1. Incomplete information about the government's fiscal position,
2. Exogenous shocks,
3. Government's policy changes,
4. Other factors.

Chart 2



Source: IMF, „Fiscal Transparency, Accountability, and Risk" p. 11

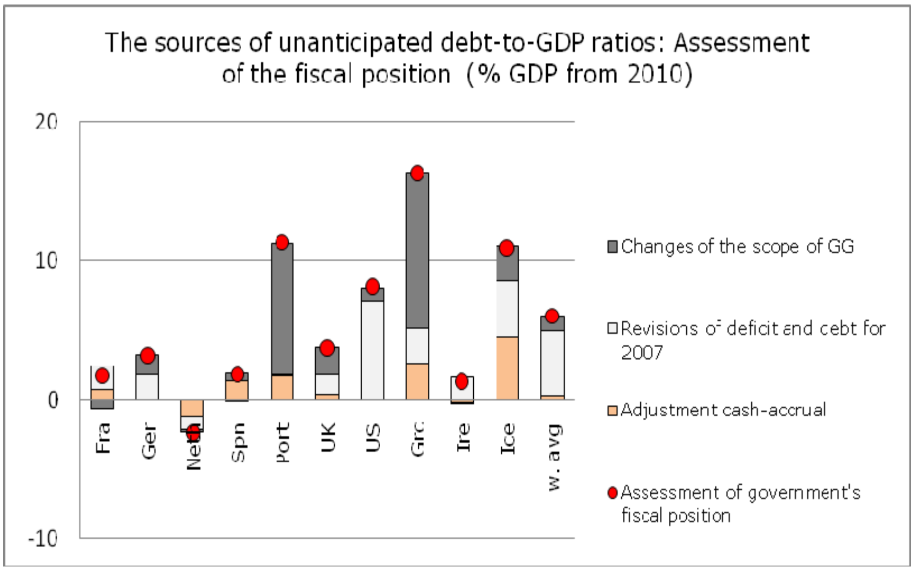
According to IMF estimates, **a 23%** of unanticipated debt growth in the countries under consideration relates to **incomplete information on the government's fiscal position** (see Chart 2, the circular part). This have been proved by the corrections of the indicators of government deficit and debt for 2007, by the revisions related to the coverage of general government and the accounting basis (adjustment cash - accrual).

37% of the growth is caused by the underestimation of the probability of **exogenous shocks** to the government's fiscal position. The shocks are related to the unexpected changes in macroeconomic conditions (output, interest rates, exchange rates) as well as the interventions in the financial sector.

18% of unanticipated growth of debt ratios relates to the **changes of government policies** (see Chart 2, white labels), whose net effect varies in the countries under consideration depending on whether their aim was to consolidate the fiscal position (Greece, Iceland, Ireland) or to stimulate the economy (other countries).

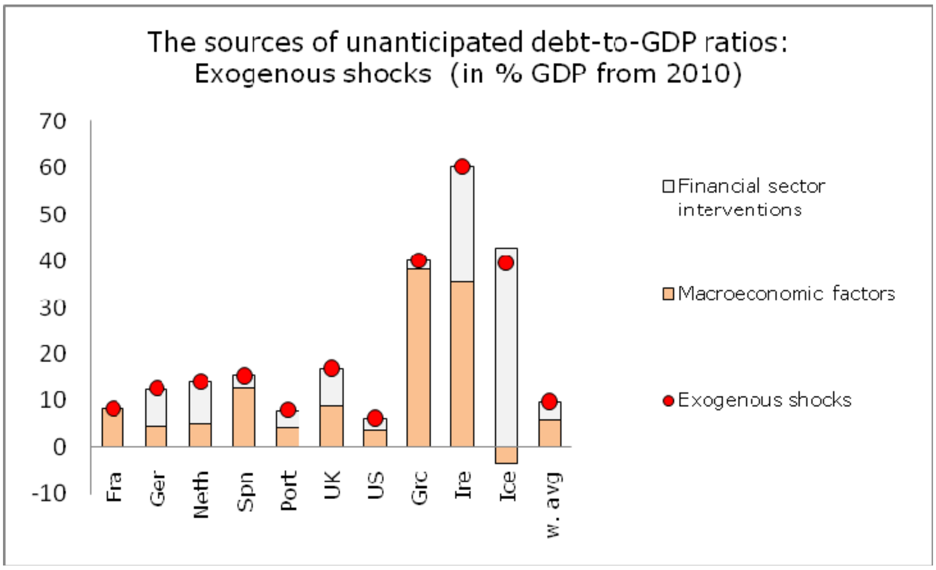
22% relates to **all other factors** (Chart 2, blue labels).

Chart 3



Source: IMF, „Fiscal Transparency, Accountability, and Risk" p. 11

Chart 4



Source: IMF, „Fiscal Transparency, Accountability, and Risk" p. 11

Instead of conclusion

In response to the international, regional and national pressures there have been big improvements in the quality of fiscal reporting of the public sector and the application of international accounting and statistical standards in recent years. However, significant weaknesses have been retained in certain segments, such as gaps in standards of transparency relating to the coverage of public institutions, and there are also mentioned the issues of the implementation of international accounting standards and the standards of statistical reporting.

Out of 182 countries only 55 **fully adopted** the GFSM 2001 for statistical reporting by 2010, while 124 of them were able to transform their national reports in the form GFSM 2001.

From the analysis conducted by the IMF it is shown that there are numerous of fiscal risks and factors influencing the difference between the realization and projection of indicators of government fiscal position. Fiscal transparency plays an important role in reducing these risks, by providing the understanding of them and timely response to their elimination.

Basic literature:

- „Fiscal Transparency, Accountability, and Risk“, IMF, August 2012
- „How does IMF Encourage Greater Fiscal Transparency?“, IMF , September 2013
- IFAC, http://www.ifac.org
- Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/

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.

**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)*

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

	I	II	III	IV	V	VI	VII	VIII	Total
Revenue	434,7	382,4	446,3	489,5	554,8	560,3	550,8	492,6	3.911,3
Taxes	409,4	348,7	402,9	424,1	477,1	478,0	473,9	455,1	3.469,2
Direct taxes	22,7	29,7	53,5	45,4	27,0	31,6	39,1	27,3	276,2
Taxes on income, profits and capital gains	22,0	29,0	52,5	44,3	25,9	30,6	37,9	26,2	268,6
Taxes on property	0,6	0,7	0,9	1,1	1,0	0,9	1,2	1,1	7,6
Indirect taxes (net)	386,7	318,9	349,4	378,3	450,1	445,9	434,5	427,6	3.191,4
VAT	240,7	210,2	227,6	243,4	274,7	254,2	291,5	269,6	2.011,9
Excises	112,0	76,4	82,4	93,0	129,9	150,3	99,2	111,2	854,4
Road fee	20,3	16,8	18,9	22,5	26,6	23,9	25,6	28,2	182,6
Customs	12,6	14,5	18,9	18,2	17,4	16,2	16,8	17,3	131,8
Other indirect taxes	1,0	1,0	1,7	1,3	1,5	1,3	1,5	1,3	10,7
Other taxes	0,0	0,0	0,1	0,4	0,0	0,5	0,3	0,2	1,6
Social security contributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Foreign grants	1,4	0,7	1,8	2,4	0,8	2,9	3,5	0,7	14,3
Other (non-tax) revenue	23,9	33,0	40,2	64,3	76,6	79,4	73,2	36,8	427,4
Transfers from other general government units	0,0	0,0	1,4	-1,4	0,2	0,0	0,1	0,0	0,4

	I	II	III	IV	V	VI	VII	VIII	Total
Expenditure	411,9	400,9	410,4	416,0	459,3	478,3	532,1	491,2	3.600,1
Expense	407,5	397,9	402,9	411,1	455,9	468,9	515,2	484,4	3.543,9
Compensation of employees	123,1	124,7	126,9	124,2	125,0	128,9	130,5	124,8	1.008,0
Use of goods and services	14,6	24,1	28,3	24,7	24,6	37,9	26,2	28,0	208,5
Social benefits	52,6	54,4	53,4	53,3	51,7	57,4	55,3	55,3	433,3
Interest	4,2	7,1	18,9	8,7	13,7	23,1	5,4	9,9	91,0
Interest payments to non-residents	2,3	5,5	10,1	6,0	6,2	14,1	3,1	5,4	52,9
Interest payments to residents	2,0	1,6	8,8	2,7	7,5	9,0	2,3	4,4	38,2
Subsidies	2,2	2,4	6,0	3,7	8,3	19,3	19,2	24,5	85,7
Grants (to non-residents)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Transfers to other general government units	40,3	42,2	41,5	37,8	42,4	49,5	60,0	48,3	362,1
Transfers from SA (BD, cantons, municip, funds, road f.)	165,4	134,4	119,1	153,2	184,6	144,8	197,2	187,9	1.286,5
Other expense	5,1	8,6	8,9	5,4	5,6	8,0	21,4	5,8	68,7
Net acquisition of nonfinancial assets	4,4	3,0	7,5	4,9	3,4	9,5	16,8	6,8	56,3
Acquisition of nonfinancial assets	4,6	3,3	8,2	5,6	3,9	10,1	17,4	7,0	60,0
Disposal of nonfinancial assets	0,2	0,2	0,7	0,7	0,5	0,6	0,5	0,2	3,8
Gross/Net operating balance (revenue minus expense)	27,1	-15,5	43,3	78,4	98,9	91,4	35,5	8,3	367,4
Net lending /borrowing (revenue minus expenditures)	22,8	-18,5	35,9	73,5	95,4	81,9	18,7	1,5	311,2
Net financing = (Minus) Net lending /borrowing	-22,8	18,5	-35,9	-73,5	-95,4	-81,9	-18,7	-1,5	-311,2

Table 1