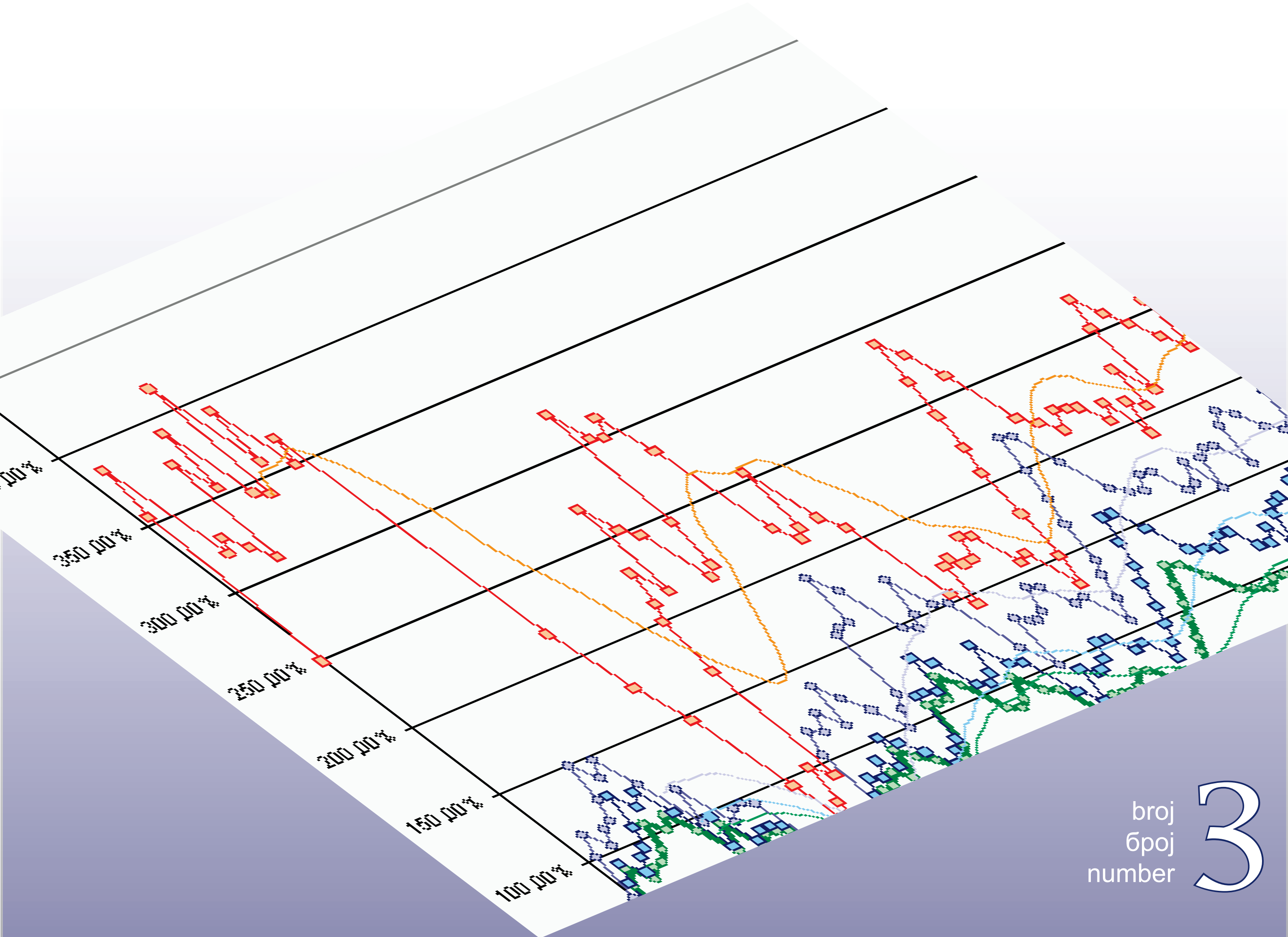
Bosna i Hercegovina
Odjeljenje za makroekonomsku analizu
Upravnog odbora Uprave za indirektno-
neizravno oporezivanje

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...

At it's last session, Fiscal Council of BiH made fiscal guidelines and decisions significant for preparing entity and state budgets that influence budgets and financing of lower levels of government. You can read more about FC decisions in the article of Prof. Spahn, IMF expert in charge of establishing FC.

Implementation of new system of taxation through VAT required in-depth reforms of the fiscal system in Bosnia and Herzegovina. This year represents transitional period – transfer of authority to collect indirect taxes was shifted from entities to the state, application of state laws on sales tax and excises, establishment of the Single Account and mechanism of financing the state and entities. Sales tax will be become part of history on January 1st, 2006. Introduction of VAT and elimination of sales tax opens great problem in financing lower levels of government (cantons and municipalities) that lose significant part of revenues. The Unit discussed modalities of new methodology for allocation of indirect taxes from the Single Account.

Fiscal reform required new approach to making macro fiscal revenue projections at the administration level. Since indirect taxes have great share in total revenues, in the process of making revenue projections for 2006, special attention was given to defining starting point and methodology of indirect taxes projection including VAT. In this issue, the unit publishes projections for indirect taxes at the level of state, entities and general government in BiH as adopted by the Fiscal Council.

We continue to publish consolidated reports for state and entity governments on monthly basis. In accordance with dynamics of receiving data from ministries of finance, we present you consolidated reports for nine months in this issue. As part of permanent column of our bulletin, we will present you analysis of inflow of revenues to the ITA Single Account with comparison to the same period in 2004.

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Head of Unit – supervisor

Contents:

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Current events! – NFC decides on fiscal targets

The National Fiscal Council, cornerstone of the new fiscal architecture of Bosnia and Herzegovina, has made a number of crucial decisions during it session of October 27th, 2005. Under the chairmanship of the prime minister of Bosnia and Herzegovina, Mr. Adnan Terzić, the Council agreed on important fiscal targets that will guide governments and parliaments of the State, the Entities, and Brcko, in preparing their budgets for 2006. Through the Entity budgets the decisions of the NFC will also impinge on the budgets of the cantons and municipalities.

Macro economic outlook. For the first time in its young life the NFC considered the macro economic outlook prepared by a national institution, the EPPU, as a common starting point for public revenue estimates. With exports and investments expected to grow strongly, the increase of GDP at market prices is likely to attain a 8.4 percent rate of increase next year. Private consumption in current prices is expected to exhibit an annual rate of increase of 6.3 percent. Exports growth will be significantly higher than import growth. Under these circumstances the macro economic picture of the economy is likely to improve further.

Revenue estimates. The estimates of total public revenues based on these projections exhibit a rate of increase of 8.6 percent. Not surprisingly the discussion in the NFC focused on indirect taxes collected through the Single Account. The NFC agreed on preparing the consolidated public budgets on the MAU's estimate for the Single Account, which is expected to produce a total revenue of 3,503 million KM in 2006 (excluding lagging sales taxes). This amount includes VAT of 1,864 million KM (for details of the revenue estimates see "Indirect tax projections" in this Bulletin).

State portion of the Single Account. According to law the State is entitled to a portion of the Single Account to finance its administrative expenses that are not covered by its own revenue. Given that expenditure needs of the State are still expanding through shifting responsibilities from the Entities, the decision on the State portion of the Single Account proved to be particularly controversial and difficult. The NFC finally agreed on the MAU's proposal to transfer an amount of 305 million KM to the State budget in 2006 subject to certain conditions.

Defense budget. Another important decision of the NFC relates to the size of the defense budget, which is to be carried by the State from 2006 on. The NFC took the position that this upward shift of public responsibilities should be budget neutral for the Entities, which falls short of the estimates of the Ministry of Defense. A compromise was found by the Entities agreeing to sacrifice an additional 10 million KM for the State's budget.

Primary budget surplus. In the context of negotiations with the IMF on a stand-by loan the authorities had agreed to form a primary budget surplus of 1.5 percent of official GDP in 2006. The NFC confirmed this commitment and discussed methods to allocate this amount onto the Entities and the District. The total amount of the primary budget surplus was fixed at slightly less than 200 million KM, and a proposal by the chairman on the sharing of this amount was adopted.

Overall the outcome of this historic session of the NFC demonstrated the authorities' willingness to coordinate their fiscal policies effectively and to pool resources in matters of budget preparation. Moreover the NFC has found its *modus operandi* and established its role as vital institution for policy coordination in a decentralized government framework as exists in Bosnia and Herzegovina.

Paul Bernd Spahn
Macro Fiscal Advisor

Topic of the issue - Revenue allocation from the single account

(Author: Ognjen Đukić, macroeconomist in the Unit)

Transfer of competencies and need for allocation

The Law on Value Added Tax (VAT Law) will go into force on January 1st, 2006, when sales tax on products and services will cease to exist. As of this date, responsibility for collection of VAT and all other indirect taxes will be in the hands of Indirect Taxation Authority (hereinafter ITA), representing the last phase in process of transfering competencies for collection of indirect taxes from entity tax administrations onto this institution.

Previous step in this process started on January 1st, 2005, when the ITA took over responsibility for collection of one part of indirect taxes from entity tax administrations.[1] Accordingly, the single account was established to serve for collecting, recording, keeping and allocating revenues to the state, entities, Brčko District and to finance minimum reserve (refunds).

Following redirection of payment for part of indirect taxes from entity accounts to the single account, need arises to define methodology for allocation of these revenues between beneficiaries – state, entities and Brčko District. System of allocation from the single account is defined by the Law and based on the following principles:

- Out of total amount for allocation, deduction is made for financing minimum reserve and financing the state budget.
- Remaining part is shared between entities and Brcko District based on their share in final consumption. Shares in final consumption are calculated on the basis of data on tax collection.
- Amounts for financing external debt are deducted from entity shares.

According to the Law, allocation coefficients are determined on monthly basis, and revision of coefficients is done every six months until VAT Law comes into force. In the period from establishing the single account up to today coefficients determined at the end of 2004 have been applied.

Allocation to lower levels of government

Allocation of indirect and all other taxes to lower levels of government falls under responsibility of entities (and Cantons in the Federation). Prior to the introduction of the single account on January 1st, 2005, it was possible to carry out allocation of indirect taxes in entities by the principle of tax origin. It was possible to identify municipality of origin for every tax payment and this enabled "return" of certain amount of tax to municipality, i.e. share it between municipality and cantons (in the Federation[2]) or municipality and entity government (in RS).

This principle was not applicable in 2005 for indirect taxes that have come under the control of ITA because entities had no more information on origin municipalities for these revenues. According to that, entities in 2005 had to use new method of allocation that is now based mainly on applying shares from the last year.

[1] Sales tax on excisable products, excise, customs duties and other import duties.

[2] Except Sarajevo Canton that finances municipalities through grants and allocation of property tax.

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New methodology?

After VAT Law goes into force, coefficients for allocation of funds from the single account will be calculated on the basis of shares of entities and Brcko District in final consumption shown in VAT declarations. However, allocation of revenues to cantons and municipalities by origin principle will not be applicable after VAT introduction and entities will have to define new allocation methodology.

It's known that there are significant differences between VAT and sales tax, starting with differences in tax base to application methodology and place of collection. Question arises if the application of fixed historic relativities for allocation of funds from the single account after VAT introduction is realistic and if fits new conditions.

Anyhow, definition of new methodology and criteria for allocation of funds from the single account between entities and sub-entity levels of government remains open question that requires urgent response. USAID and SIDA Governance Accountability Project is actively involved in this process. Nonexistence of defined allocation concept for next year, great structural reforms such as VAT introduction create uncertainty in budget planning process which should be in its final stage at this time of the year.

Defining new allocation methodology is complex issue and we should have in mind the following facts:

1. Sales tax represents **most important single revenue** for sub entity governments in Bosnia and Herzegovina. According to GAP information, in the Federation and RS this tax represented 21% and 51% of total municipal revenues in 2003 and it was 63% of total revenues in cantonal budgets. So, every new allocation methodology will have significant influence on financial position of these government levels.

2. **Principle of allocation on sub entity levels of government by tax origin will not be possible any more**. Basically, entity governments are in position to choose between two basic options:

- To keep historical sharing relativities that can serve as temporary solution only. This is because fixed relativities of sharing do not follow changes in financial needs of certain areas (municipalities or cantons). Such situation stimulates migration of population from "poor" to "rich" regions which increases inequality in development.
- To define and apply other criteria for allocation. Definition of new criteria would offer opportunity of creating more direct relation between liabilities of certain level of government and its financing. Proposed criteria are different indicators of financing needs such as population, number of students, size of territory etc.

3. In current financing of sub entity levels of government there was **strong vertical and horizontal inequality**.

Vertical inequality means existence of nonconformity in financing different levels of government between administrative units. For example, GAP data from the same source suggest that there is significant inequality in financing municipal level of government[3].

Horizontal inequality means existence of non harmonization in financing units at the same level of government. At the municipal level in BiH, there are great inequalities in public revenues per capita. GAP data note examples where municipal revenues per capita in two municipalities differ for more than twenty times. It's easy to conclude that system of smoothing horizontal inequalities in BiH is very weak. So, introduction of new allocation methodology represents unique chance to decrease these inequalities.

[3] GAP states that municipal revenues in the Federation in 2003 represented 11% of total revenues of public sector (excluding health and pension funds) or approximately 3% of Gross domestic product (GDP) of the Federation, while municipal revenues in RS represented 21% of the public sector or 8% of GDP in RS.

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This would be of great significance for undeveloped areas that are in "vicious circle of poverty" according to the current allocation system. In other hand, new allocation formulas can be designed in a way to protect "richer" municipalities from losing their revenues in exact amounts. One of ways is to introduce new sharing relativities slowly through agreed transition period where revenues of "poor" would grow faster than revenues of "rich" until achieving new relativities.

4. Equalizing inequality in financing from previous item improves **balanced economic and social development** of the country which has more advantages. Some of these advantages are:

- Discouraging concentration of population in one or more regional centers and their business burden.
- Improving equal usage of development potentials.
- Improvement of infrastructural capacities in less developed areas.
- Accelerating development through effect of synergies on the country as whole. Development of undeveloped areas has great positive effects on development of developed regions.

5. **Competencies of municipalities are not the same in all cantons**. This should be in mind when defining new methodology of allocation. One of possible solutions is introducing additional criteria for allocation that would harmonize allocation of funds with real expenditures/burdens of municipalities that come from their obligations.

6. **New system could share risk in more fair way** in terms of shortfall of indirect taxes for different levels of government. According to current laws, in case of lower collection of revenues from indirect taxes, there might be tendency for burden of such shock to be transferred to lower levels of government, first of all municipalities. New more transparent system with detailed defined allocation criteria would make this process more difficult.

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Projecting indirect taxes for the 2006 budget estimates in BiH

(Author: Paul Bernd Spahn, Macro Fiscal Advisor)

The 1st of January 2006 will be marked by a number of important institutional changes in Bosnia and Herzegovina. In the light of current budget preparations there will be sizeable shifts of expenditure responsibilities between levels of government, including cantons; there will be policy-induced shocks through an expanding State budget and the forming of a primary budget surplus; indirect taxes will all be transferred to the Single Account; and major tax reforms will enter into force. In particular the replacement of sales taxes with a VAT will have significant repercussions on the economy and public budgeting. MAU had earlier discussed some of the economic and social effects of VAT (see OMA Bulletin #1), other effects of the new tax regime – such as its impact on intergovernmental fiscal relations – are discussed in this volume (see "3, 4 i 5").

New revenue forecasting methodology. The fact that some indirect taxes were transferred to the ITA in 2005 while others continued to be administered by the Entities has created structural breaks in the time series, which complicates their analysis. Moreover, the estimation of VAT receipts calls for a totally new forecasting methodology because the base of this tax is structurally different from sales taxes. The MAU has therefore developed a new approach to forecasting indirect taxes for the remainder of 2005 and the coming budget year whose results are presented below. The methodology adopted requires some explanations.

Indirect taxes other than VAT. The projections were initially based on macroeconomic data only, i.e. their rate of increase was linked to GDP or its components with specific elasticities for each type of tax. This had to be corrected in the light of effective tax collections for 2005. These corrections accounted for monthly revenue collections by the Entities (January through June) and the ITA (January through August). The adjustments are continuously being updated as new information becomes available.

Three aspects determine the monthly updates of projected taxes:
(1) trend;
(2) seasonal pattern and
(3) institutional changes, in particular changes in the tax law.

(1) <u>The trend</u> is typically linked to macro economic developments such as real activity and prices. The data of previous years and the current years are accumulated to obtain monthly trend data that were analyzed through regression analysis. This allows to establish tax elasticities and to identify structural breaks *inter alia*. The extrapolation of the regression equation results in establishing a benchmark for tax forecasting assuming that the structural parameters estimated on the basis of past trends will hold in the future. The analysis is carried out using both statistical tests and graphical analysis.

An example is given for the sales tax on domestic excisables in Bosnia and Herzegovina.

In some instances it is necessary to distinguish between price and quantity reactions of the tax, e.g. the mineral oil tax which is based on volume, not value.

(2) Adjustments involving monthly data on effective tax collections require the analysis of seasonal patterns. A graph of monthly tax collection data for different years reveals whether such a seasonal pattern exists, and their correlation can be tested statistically. An example is given for the tax on oil and oil derivatives in Bosnia and Herzegovina.

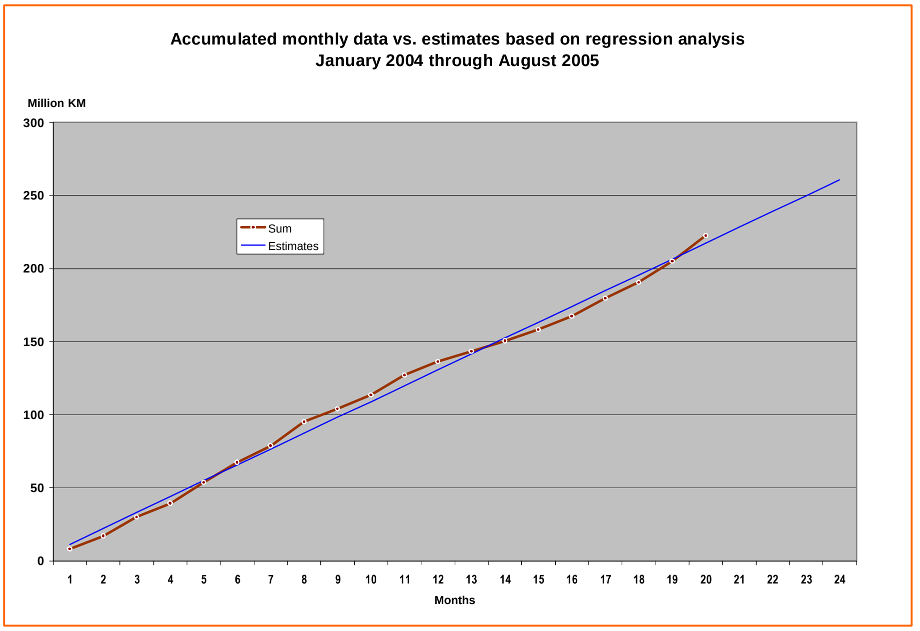

Chart 1. Accumulated monthly data vs. Estimates based on regression analysis January 2004 through August 2005

Where there is such a pattern (which generally is true for most taxes of the Single Account), it is possible to extrapolate the remaining months of the year on the basis of existing monthly data for that same year taking the trend component into account. It is useful to look at both methods: the trend extrapolation for the current year, and the completion of monthly data assuming a constant monthly pattern. If there are significant discrepancies between the projections, this calls for a more detailed analysis.

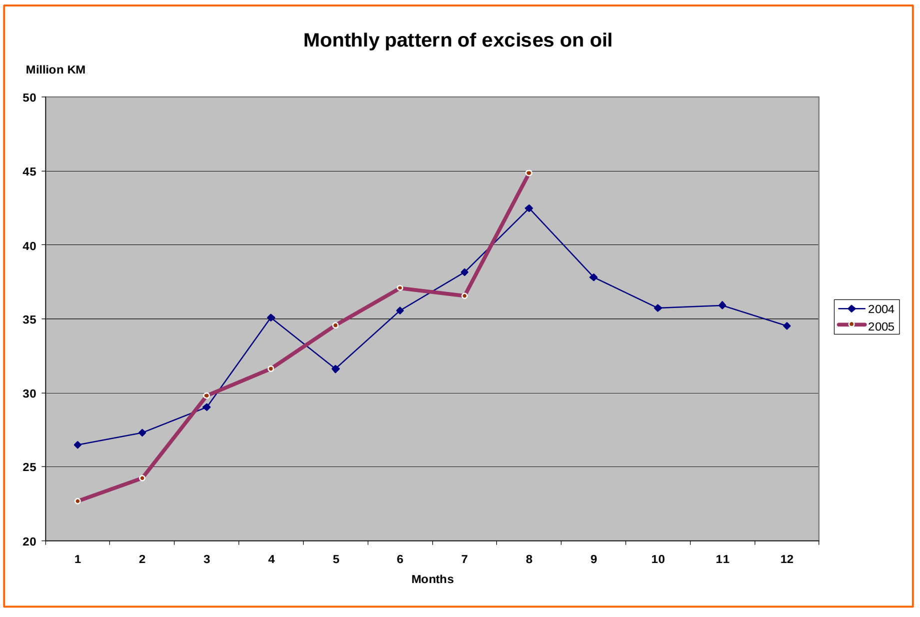

Chart 2. Monthly pattern of excises on oil

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(3) Institutional breaks and specific factors complicate tax forecasting, but there are methods to handle these as well. For instance the present tax forecasts had to account for shifts between the Entities' tax administration and the ITA, which requires to make appropriate corrections for the carryover of lagging taxes. Customs duties are effected by special influences such as the creation of free-trading zones and the harmonization of tariffs. And some taxes will be affected by legislation on tax bases and rates. The latter was necessary for the tax on tobacco products, for instance, which experienced a significant rate increase at the beginning of this year.

VAT projection. As said the projection of VAT revenue requires a totally new approach because an extrapolations of existing taxes are out of question. The adopted methodology aims at defining the potential tax base for VAT on the basis of structural macro data derived from EPPU's macro economic outlook. The main elements are the following:

- VAT is basically a levy on private consumption, so it is logical to use this aggregate from National Income Accounts as the starting point. However private consumption as calculated for GDP includes components that are not taxed such as in-kind consumption, interest on consumer credit, or the rental value of housing. And private consumption at market prices includes indirect taxes (including the estimate for VAT) minus government subsidies, which has to be deducted to derive the net-of-tax consumption base. Yet VAT is levied on a tax base including customs duties and excise taxes, which have to be brought back in to define the appropriate base.
- The VAT Law exempts a number of consumption items, which have to be estimated and deducted from the base. These include, *inter alia*, postal services, financial services, education, and health and social services. They were estimated from the production side of National Income Accounts. After these corrections the taxable consumption base is arrived at. However tax exempt sectors do not form part of the VAT system, which implies that they cannot claim VAT on their inputs. It will expand the effective VAT base conformingly. As no research on the input structure of tax exempt sectors could be carried out, the corrections in the form of percentages represent pure conjecture.
- Although VAT targets final private consumption, it is also levied on other aggregate expenditure items. This is true for investment of tax exempt agents, most of the housing sector, as well as for parts of government purchases of goods and services and public investments. These components can be estimated from National Income Accounts with some adjustments made in accordance with international experience. The inclusion of these items will define the potential VAT base.
- Calculating revenues for the potential tax base would overstate VAT collections because it does not account for tax leakages, tax evasion, and administrative slippage. These factors are extremely difficult to assess, especially for a new tax regime, and they are subject to judgment. Yet they represent serious risks of revenue shortfalls and have to be taken into account to avoid unrealistic budget estimates.

  Therefore some provisions were made for losses due to the statutory exemption of small traders, the cross-hauling of merchandise through free trading zones, and tax fraud through forged documentation, for instance. On the other hand it is expected that some parts of the grey economy can be captured under a VAT, especially at the import level.
- Finally, the effectiveness of tax administration will impinge on revenue collections. Based on international experience for similar countries, the model calculation operate with a compliance rate of 72 percent initially. This needs to be adjusted in the light of experiences.

The revenue estimates
The projections of indirect taxes for 2005 and 2006 are depicted in the following table.

Bosnia and Herzegovina			
	2005	**2006**	**2006**
	In million KM		Annual rates of increase
Single Account			
VAT	*0,0*	*1.864,3*	n.a.
Customs duties	580,5	550,5	-5,2%
Excises **)	*799,6*	*837,4*	4,7%
Tobacco	292,7	319,0	9,0%
Oil and oil derivatives	*403,1*	407,1	1,0%
Alcohol, incl. Beer	56,8	60,9	7,2%
Coffee	*29,5*	31,6	7,2%
Residual	17,5	18,7	7,0%
Sales taxes on	*535,9*	*70,1*	-86,9%
Excises Imported	411,5	51,4	-87,5%
Excises Domestic	*124,4*	*18,7*	-85,0%
Road tax	*164,7*	*180,3*	9,5%
TOTAL	**2.080,7**	**3.502,6**	**68,3%**
Government FBiH			
Sales tax (high rate)	n.a.***	n.a.***	
Sales tax, products	536,6	67,1	
Sales tax (low rate), products	n.a.***	n.a.***	
Sales tax (low rate), services	*252,0*	31,5	
Sales tax (low rate), total	n.a.***	n.a.***	
Carry over	n.a.***	0,0	
TOTAL *)	788,6	98,6	-87,5%
Government RS			
Sales tax (high rate)	*77,7*	9,7	
Sales tax (low rate), products	*168,6*	21,1	
Sales tax (low rate), services	*138,7*	17,3	
Sales tax (low rate), total	307,3	38,4	
Carry over	23,9	0,0	
TOTAL	408,9	48,1	-88,2%
Brcko District			
Sales tax, goods	21,9	2,7	
Sales tax, services	8,1	1,0	
Carry over	1,6	0,0	
TOTAL	31,6	3,8	-88,1%
General government	**3.309,8**	**3.653,1**	**10,4%**

*) Without carry overs

**) Incl. Entity collections

***) not available

The total annual rate of increase of the Single Account does not make much sense due to the structural break in the assignment of indirect taxes that, in 2005, are still partly collected by the Entities and the District. They can be interpreted by category however. The excises collected by the ITA will increase by 4.7 percent in 2006, while there is a decrease in the level of customs duties (- 5.2 percent).

VAT is shown in absolute terms only. Taking the various factors into account the actual VAT base is expected to be in the order of roughly 12.500 million KM, which with a rate of 17 percent would produce an annual revenue of 2.100 million KM over the medium term. This is a level increase of some 13.6 percent over the projected sales taxes, so the tax reform is not revenue neutral once it reaches its full potential. However there are special factors affecting VAT revenue in 2006, in particular a tax collection lag, which will reduce collected revenues. This explains why the final estimate was established at 1.864 million KM only. Together with the carry over of sales taxes at the Entity level and Brcko, the general taxes on consumption would produce 2.085 million KM.

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Monthly Consolidated Reports January – September 2005

Prepared by: Aleksandra Regoje, research worker assistant in the Unit

in mill KM

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Q1	Q2	Q3	Q4	TOTAL
Current Revenue	**168,8**	**174,2**	**220,9**	**213,5**	**242,3**	**364,0**	**269,5**	**281,0**	**258,6**				**563,9**	**819,9**	**809,1**		**2192,9**
Taxes	159,7	158,3	200,0	201,3	224,3	226,9	221,7	261,0	236,9				518,0	652,5	719,6		1890,1
Indirect taxes	142,0	139,3	171,3	187,8	208,3	211,6	206,8	246,7	222,2				452,6	607,7	675,7		1736,1
Customs duties	31,8	36,1	45,8	48,1	52,7	53,7	49,7	55,9	59,4				113,7	154,5	165,0		433,2
Sales Tax	45,9	44,6	56,6	61,7	70,4	69,4	72,1	84,5	73,2				147,2	201,5	229,8		578,4
Excises	54,8	49,0	56,4	64,5	70,6	72,1	69,3	87,3	73,8				160,2	207,2	230,3		597,8
Railroad tax	9,3	9,3	12,1	13,1	14,2	15,5	15,4	18,7	15,3				30,7	42,8	49,3		122,8
Direct taxes	17,6	19,0	28,7	13,5	15,9	15,3	14,9	14,4	14,6				65,4	44,7	43,9		154,0
Non-tax income		15,9	20,9	12,2	18,0	137,1	33,1	19,9	21,7				45,8	167,2	74,7		287,7
Grants, gifts					0,1	0,1	14,7	0,1					0,1	0,2	14,8		15,1
Current expenditures	**125,2**	**198,2**	**218,9**	**219,1**	**233,4**	**292,0**	**198,4**	**237,7**	**228,3**				**542,2**	**744,6**	**664,4**		**1951,2**
Consumption expenditures	30,9	54,8	71,7	64,0	62,2	94,9	41,1	59,3	60,8				157,4	221,1	161,2		539,7
Salaries and non-wage labor costs	25,2	45,6	62,4	53,9	53,4	85,2	32,6	52,1	52,6				133,1	192,5	137,2		462,9
of which: Compensations	1,7	10,9	13,1	13,2	13,2	29,3	2,9	14,4	14,5				25,7	55,8	31,8		113,3
Purchases of goods and services	5,8	9,2	9,3	10,1	8,8	9,7	8,5	7,3	8,2				24,3	28,6	24,0		76,9
Grants	32,8	60,4	60,1	62,2	60,0	103,2	66,1	60,7	65,9				153,3	225,4	192,7		571,4
Transfers to households	8,8	37,8	35,7	38,9	36,5	78,3	39,5	37,4	41,8				82,4	153,7	118,7		354,8
Transfers to organizations/institutions	19,8	15,5	19,0	14,1	16,8	16,1	14,4	13,1	14,3				54,2	46,9			
Subsidies	4,2	7,1	5,4	9,3	6,7	8,7	12,2	10,2	9,8				16,7	24,8	32,2		73,7
of which: Public enterprises																	
Interest payments	0,4	3,0	2,0	1,4	5,1	4,4	0,4	4,3	2,2				5,3	10,9	6,9		23,1
Other outlays	5,5	9,2	10,6	9,6	8,0	6,7	10,3	8,5	9,8				25,3	24,3	28,6		78,2
Transfers from Single Account	44,2	45,1	60,9	64,3	62,5	69,0	66,8	81,4	72,2				150,2	195,8	220,4		566,5
BiH Budget	18,6	19,6	23,5	20,6	20,6	21,5	20,6	22,5	21,5				61,7	62,6	64,6		188,9
FbiH/cantons, Road Directorate	16,8	15,4	25,0	27,9	27,4	32,8	32,0	37,9	33,6				57,1	88,1	103,5		248,7
RS / municipalities, cities, Road	5,8	6,1	7,4	10,2	8,3	8,2	7,8	13,0	10,2				19,3	26,6	31,0		77,0
Brčko	3,1	4,0	5,1	5,7	6,2	6,5	6,3	7,7	6,8				12,2	18,4	20,8		51,4
Amortization of debt																	
of which: foreign debt	10,5	24,8	12,7	16,3	34,7	12,4	12,7	22,4	16,4				47,9	63,4	51,4		162,7
Transfers to higher levels of authority																	
Transfers to Municipalities	0,9	0,9	0,9	1,3	0,9	1,5	0,9	1,1	1,1				2,7	3,7	3,2		
Government Savings (1 - 2)	**43,6**	**-24,0**	**2,0**	**-5,6**	**8,9**	**72,1**	**71,2**	**43,3**	**30,2**				**21,6**	**75,3**	**144,7**		**241,7**
Capital outlays	1,6	3,5	1,9	1,7	2,4	33,3	15,3	3,3	1,9				6,9	37,4	20,5		64,8
Government surplus/deficit (3-4)	**42,1**	**-27,5**	**0,1**	**-7,4**	**6,5**	**38,8**	**55,9**	**40,0**	**28,3**				**14,7**	**37,9**	**124,3**		**176,9**

Table 1. Montly consolidated Reports January - September

Notes to Report:

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

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

3. Once monthly figures on own revenues and expenditures of the budget of Bosnia and Herzegovina are available the Unit will publish a corrected report for the same period.

ITA Single Account!

In three quarters of 2005, Indirect Taxation Authority (ITA) collected more than 80% of planned revenues. In September 2005 there was slight decrease in collection of revenues from indirect taxes compared to August when record amount of indirect taxes was collected, since January 1st, 2005 when the ITA single account was established. Such trend should not be worrying us.

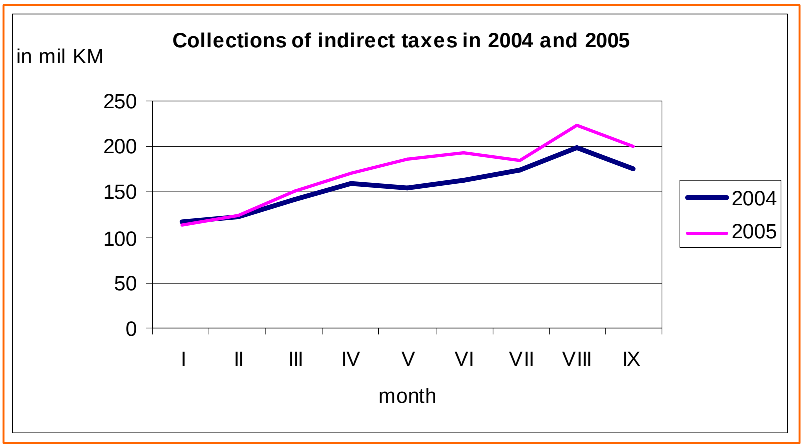

Chart 3. Collections of indirect taxes in 2004 and 2005

Collection of indirect taxes collected by ITA is subject of cyclic or seasonal changes in exchange of goods with foreign countries. As you can see in the chart 3. similar trend in collection was experienced in August last year when the maximum amount of revenues was collected in 2004.

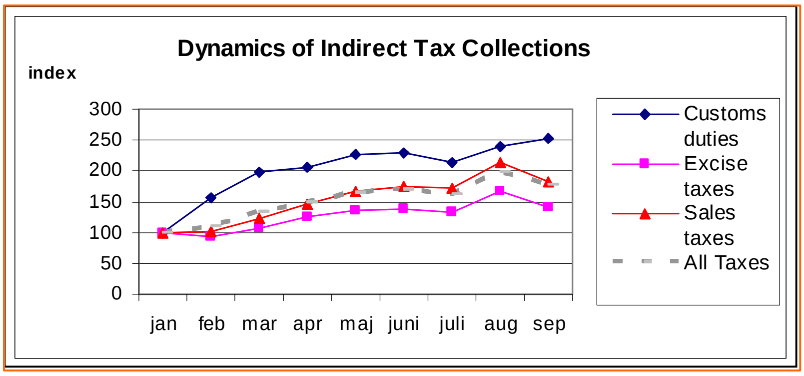

Chart 4. Dynamics of Indirect Tax Collections

In regards to main groups of indirect taxes, customs collection increased in September.
Movement of collection for most important groups of revenues and total amount of indirect taxes collected by ITA is provided in the charts 4 and 5.

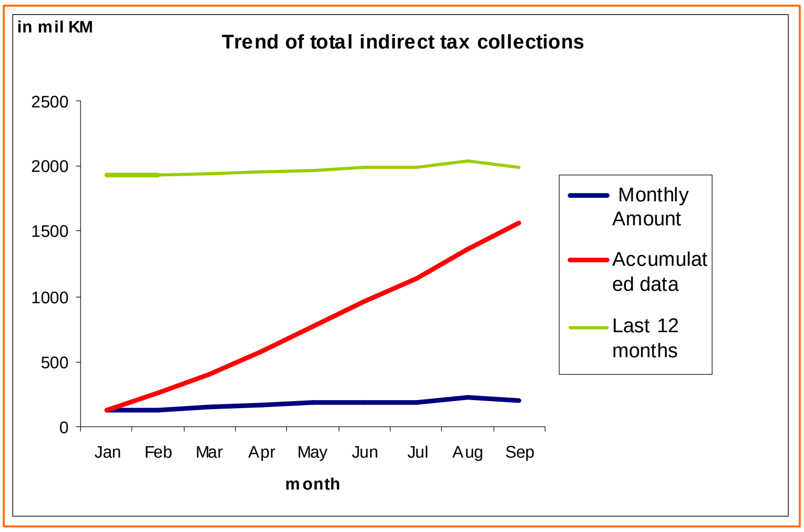

Chart 5. Trend of total Indirect tax collections

As of January 1st, 2005 ITA is the only authorized institution in BiH to collect indirect taxes: customs duties, excise, sales tax on excisable goods and road tolls.
According to dynamic plan of collection it is foreseen that ITA will collect approximately 2 billion KM to the single account from indirect taxes under its authority.

From the Unit Activities

October 4th, 2005.
At the meeting of diplomats from about 10 Embassies of EU countries, mr.sc. Dinka Antić gave a lecture on VAT introduction in the light of fiscal reform implementation in the field of indirect taxes. The focus was on provisions of VAT Law that are relevant for foreign companies. The meeting was initiated by the embassy of UK that chairs the EU by the end of 2005.

October 25th 2005.g.
The series of 12 lectures of Prof. Dr. Paul Bernd Spahn on the topic "Global Economic Environment" finished in the premises of ITA regional centre in Sarajevo.

Picture 1. Course participants (the last lecture)

Course is based on the masters program organized by Duke University (USA) and Goethe Business School from Frankfurt. It covered the following topics: macroeconomics, global economy, national income, macroeconomic policy, prices, inflation, employment, investments, capital and its international flows, interest rates, financial assets, money supply and monetary policy, foreign currency exchange and international financial system.

Prof. dr. Spahn is professor of the University in Frankfurt, IMF expert and world wide known expert in the fields of macroeconomics and fiscal policy. Prof. Spahn is engaged by the ITA Governing Board to set up the Macroeconomic Analysis Unit and Fiscal Council of BiH.