

Bosnia and Herzegovina: Technical Assistance  
Report-Government Finance Statistics



# BOSNIA AND HERZEGOVINA

## TECHNICAL ASSISTANCE REPORT—GOVERNMENT FINANCE STATISTICS

February 2018

This Technical Assistance report on Bosnia and Herzegovina was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on February 2017.

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# **INTERNATIONAL MONETARY FUND**

Statistics Department



## **BOSNIA AND HERZEGOVINA**

**TECHNICAL ASSISTANCE REPORT ON THE  
GOVERNMENT FINANCE STATISTICS MISSION**  
(June 27–July 1, 2016)

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**February 2017**

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**ACRONYMS**

CBBH	Central Bank of Bosnia and Herzegovina
COA	Chart of Accounts
<i>ESA 2010</i>	<i>European System of Accounts 2010</i>
<i>ETP</i>	<i>ESA 2010 Transmission Programme of Data</i>
GFS	Government finance statistics
<i>GFSM 2001</i>	<i>Government Finance Statistics Manual 2001</i>
<i>GFSM 2014</i>	<i>Government Finance Statistics Manual 2014</i>
ITA	Indirect Tax Authority
MOF	Ministry of Finance (of the Republic of Srpska)
RS	Republic of Srpska
RZS	Republic of Srpska Institute of Statistics
TA	Technical assistance

## EXECUTIVE SUMMARY

In response to a request for IMF technical assistance (TA) made by the Ministry of Finance (MOF) of the Republic of Srpska (RS), Bosnia and Herzegovina, a TA mission on government finance statistics (GFS) visited Banja Luka, Bosnia and Herzegovina, during June 27–July 1, 2016. It was the fourth mission to Bosnia and Herzegovina and the first mission to the RS to be conducted under the Swiss State Secretariat for Economic Affairs–GFS capacity building project.

**The main objective** of the mission was to assist the MOF of the RS in the compilation and dissemination of GFS in accordance with the guidelines of the *Government Finance Statistics Manual 2014 (GFSM 2014)* and the *European System of Accounts (ESA 2010)*.

**The main findings and recommendations** are as follows: (1) the chart of accounts used by the RS is very comprehensive and facilitates the bridging of the national codes to *GFSM 2014* and *ESA 2010* codes; (2) some amendments and extensions may be performed to further improve the bridging to *GFSM 2014* and *ESA 2010*; (3) coordination between the MOF and the RS Institute of Statistics and the Bosnia and Herzegovina Agency for Statistics regarding bridge tables is essential to ensure consistency among GFS according to *GFSM 2014*, GFS according to *ESA 2010*, and national accounts.

The following benchmark actions will help in evaluating the MOF's progress in the area of GFS and in considering any future request for follow-up TA: (1) the MOF will examine budget items in the chart of accounts for which no unique GFS code could be assigned during the mission; and (2) it will review the draft bridging tables to *ESA 2010* codes discussed during the mission. Furthermore, the bridge tables have to be discussed with the Central Bank of Bosnia and Herzegovina and the RS Institute of Statistics in future in order to arrive at a common bridge table to be used by all compilers of macroeconomic statistics in Bosnia and Herzegovina.

The mission would like to thank the staff of the MOF for their hospitality and support, which contributed greatly to the success of the mission (Appendix I lists the officials with whom the mission met).

## I. INTRODUCTION

1. **The main objective** of the mission was to assist the Ministry of Finance (MOF) of the Republic of Srpska (RS) in the compilation and dissemination of government finance statistics (GFS) in accordance with the guidelines of the *Government Finance Statistics Manual 2014 (GFSM 2014)* and the *European System of Accounts 2010 (ESA 2010)*. The mission was conducted in the context of the Swiss State Secretariat for Economic Affairs-funded GFS project to strengthen capacities of five participating countries, one of which is Bosnia and Herzegovina, in the compilation and dissemination of GFS data based on the latest international standards. As all participating countries have applied for European Union membership, this project supports the implementation of both the *GFSM 2014* and *ESA 2010*.
2. **The major tasks** of the mission were to (i) review the MOF's chart of accounts (CoA) and its bridging to GFS codes; (ii) advise on the recording of some specific transactions according to *GFSM 2014* and *ESA 2010*; and (iii) assist the MOF with the bridging of the CoA to *ESA 2010*. The mission met staff members of the MOF: the Department for Consolidation of Financial Reports, Department for Macroeconomic Analysis and Policy, Department for Treasury, and Department for Fiscal System. The RS Institute of Statistics' (RZS) Department of National Accounts also participated in the meetings.
3. **The structure of this report** is as follows: Section II reviews the accounting standards used by the Bosnia and Herzegovina government and the institutional arrangements in Bosnia and Herzegovina related to GFS. Section III provides a discussion of the CoA and the main issues discussed during the mission. Section IV concludes the report with the main conclusions and recommendations.

## II. ACCOUNTING AND STATISTICAL SYSTEMS

4. The RS is one of two entities of Bosnia and Herzegovina. The other one is the Federation of Bosnia and Herzegovina. Together with the District of Brčko (DB), they constitute the country of Bosnia and Herzegovina. The two entities, RS and Federation of Bosnia and Herzegovina, have a high degree of autonomy and comprise each about half of the country. Many of the tasks commonly observed as the responsibility of the government at the national level are in Bosnia and Herzegovina found at the entity level. For example, tasks related to issues like unemployment, social security, health, and highways are in Bosnia and Herzegovina under the responsibility of the entity and cantonal level authorities. This is also reflected by the budgets, where the budget of the government on the national level (Bosnian institutions) accounts for about 10 percent; Federation of Bosnia and Herzegovina, 60 percent; and RS, 30 percent. The RS has municipalities and cities.
5. The MOF of the RS is responsible for the public accounting standards used in the RS. The government entities (state, social security funds, and municipalities) in the RS have applied the International Public Sector Accounting Standards. The MOF informed the

mission that there are no deviations and the public accounts are aligned with the latest International Public Sector Accounting Standards. Thus, the public accounts are fully on an accrual basis. It should be noted that there is no full consolidation with state-owned enterprises as the latter use other accounting standards.

6. The MOF also classifies the accounts according to the *Government Finance Statistics Manual 2001 (GFSM 2001)*. The classification is based on a common CoA for all government institutions. This CoA can be bridged to *GFSM 2001* codes. For GFS reports, the revenues are reported on a cash basis. The reason for this is that government entities outside the RS do not have revenues on an accrual basis. The cash reporting was also done upon the request of the IMF's European Department. To this aim, the CoA contains the cash flows related to the revenues and, in addition, accrual adjustments to arrive at revenues on an accrual basis. The CoA was designed in 2011 and has not been updated since then. Many items in the CoA are no longer relevant.

7. These figures are sent by the MOF to the IMF's Resident Representative's Office in Bosnia and Herzegovina and to the Central Bank of Bosnia and Herzegovina (CBBH). The latter can further modify the data and the classifications when it compiles the government accounts according to the *GFSM 2001/2014*. The CBBH transmits these data to the IMF's Statistics Department. The MOF informed the mission that it does not receive feedback from the CBBH regarding their GFS data and does not know which GFS data regarding the RS are sent to the IMF's Statistics Department. There is no memorandum of understanding between the MOF of the RS and other institutions involved in GFS, such as the CBBH.

### III. CHART OF ACCOUNTS AND BRIDGE TABLES

8. The mission went through Classes 4–9 of the COA of the RS line by line. These classes denote the following:

- Class 4: expenses;
- Class 5: outlays for the acquisition of nonfinancial assets;
- Class 6: outlays for the acquisition of financial assets and liabilities;
- Class 7: revenues;
- Class 8: receipts from the disposals of nonfinancial assets;
- Class 9: receipts from the disposals of financial assets and borrowing.

9. Based on the description of the items in the COA and supplementary explanation by the MOF, the mission made a proposal for the coding according to *ESA 2010* and identified issues that needed to be further analyzed.

10. The *ESA 2010* is a regulation in the European Union. All member states in the European Union should comply. The *ESA 2010* consist of the legal text, a manual, and a set

of mandatory tables sent to Eurostat called the *ESA 2010* Transmission Programme of Data (ETP). For GFS, the ESA Table 2 (nonfinancial accounts), Table 9 (taxes and social contributions), Table 11 (Classifications of the Functions of Government), Table 27 (quarterly financial accounts), and Table 28 (quarterly Maastricht debt) are relevant. Other tables in the ETP also contain data on general government but as part of national accounts. The GFS according to *ESA 2010* and the national accounts should be fully consistent. Not all the variables described in *ESA 2010* are mandatory for the ETP. On the other hand, the detailed breakdown of taxes and social contribution required for Table 9 cannot be found in *ESA 2010*.

11. It was noted that consolidation (i.e., eliminating flow between government entities) of nonfinancial accounts in *ESA 2010* differs from *GFSM 2014*. Consolidation in *ESA 2010* only involves the elimination of transactions between government entities when it concerns property income (D.4); other current transfers (D.73); and capital transfers (D.9 excluding capital taxes) whereas *GFSM 2014* (paragraphs 3.152–3.162) recommends consolidation for almost all transaction categories. In the financial accounts, all transaction categories should be consolidated both in *ESA 2010* and *GFSM 2014*.

#### A. Revenues

12. Indirect taxes are collected by the Indirect Tax Authority (ITA), an institution at the Bosnia and Herzegovina's state level, which is authorized to implement and enforce legislation on indirect taxation. The Governing Board of the ITA is responsible for determining the policy proposals of indirect taxation. The governing Board defines strategic objectives and approves the annual work plan, budget and regulation of the ITA. Both entities can veto any decision. The tax proceeds are distributed to the entities and the state based on keys. The mission explained that the share of the proceeds should reflect underlying taxable economic event. If this is not the case, the difference should be recorded as a grant from one government to the other (see footnote 13 on page 90 of *GFSM 2014*).

13. The mission explained that *ESA 2010* distinguishes between taxes on production and import and other taxes whereas GFS uses a breakdown into tax categories as usually available in tax administration. As a consequence, *ESA 2010* requires, for taxes on goods, information on the tax payer: is it a producer or a consumer? For example, taxes on vehicles paid by corporation are taxes on production (D.29), whereas such a tax for a household (for personal use) is classified as other current taxes (D.59).

14. One of the main issues related to social contributions concerns transfers between social security funds, or between ministries and social security funds. For example, a ministry pays a contribution to a social security fund so that some persons (not employed by government) are entitled to future social benefits. The mission recommended to record a grant (in *GFSM 2014*) or a current transfer (in *ESA 2010*). It is not possible to record social contributions as they can only be paid by households or employer. An option would be to record the contributions as social assistance benefits in cash, followed by a social

contribution from households to social security funds. However, this is not recommended as social benefits in cash are usefully not earmarked, but they can be used freely.

15. The CoA showed a lot of entries related to proceeds from the use of natural resources such as the right to extract water or to use land. In most cases, they could be considered as rent.

16. The mission drew special attention to dividends. They should exclude super-dividends. Super-dividends are dividends that are disproportionately large relative to the recent levels of earnings and dividends (*GFSM 2014* paragraph 5.111). The Eurostat's *Manual on Government Deficit and Debt* (Chapter III.5) provides further strict guidelines for the recording of super-dividends.

17. The *ESA 2010* uses the concept of production rather than sales in *GFSM 2014*. Production is what has been produced in a given year. Thus, it includes goods and services produced and sold in the year, but also goods and services produced but not sold in the year, which are recorded as adding to stocks of inventories. This is typically rather minor for government units in relation to revenue.

## **B. Expenses**

18. Borderline cases to distinguish between compensation of employees and intermediation consumption were discussed. Expenditures made by the employees in the course of their duties and compensated by government should be seen as intermediate consumption (e.g., costs related to business travels). Compensation for food or free food should be recorded as wages (in kind).

19. Wages and salaries, part of compensation of employees, should exclude payments to employees that are not related to work done such as family allowances, payments to workers absent from work, and severance payments to workers who lose their job. They should be recorded as employer-related social benefits. They are also recorded as imputed employers' social contributions and imputed social contributions.

20. Payments for work done to persons who do not have an employee–employer relationship with government should not be included in compensation of employees. However, it may be difficult to assess whether there actually is an employee–employer relationship. The *GFSM 2014* (paragraphs 6.33–34) provides some guidance in such cases.

21. The mission explained that interest should be recorded on an accrual basis. For loans, it means that interest accrued but not yet paid should be recorded as expense; simultaneously, recording a transaction with the same amount in loans (double-entry bookkeeping). When the interest is actually paid, it leads to negative transactions in loans (and a decrease of deposits). In case of debt securities, the premium and discount are also considered as interest under *GFSM 2014* and *ESA 2010* and should be spread over the lifetime of the security. Examples

for the calculations of interest accrued can be found in the *Public Sector Debt Statistics—Guide for Compilers and Users*, paragraphs 2.158 and 2.179, and the *Manual on Government Deficit and Debt*. It was also mentioned that the concept of interest in *GFSM 2001/2014* and *ESA 2010* are not equivalent. In the case of interest paid to banks and received from banks, part of the interest should be recorded as a payment for a financial intermediation services indirectly measured, the so-called FISIM.

22. Some transactions may occur in foreign exchange rates. In such cases, the value of the transaction should be converted into the domestic currency based on the prevailing market exchange rate. When the actual payment takes places later and the currency exchange rate has changed in the meantime, this does not affect the transaction value. It only affects the other accounts payable. Due to the change in the exchange rate, one has to record other economic flow in other accounts payable.

#### IV. CONCLUSIONS AND RECOMMENDATIONS

23. The mission discussed the CoA line by line with the MOF. As a result of the mission, Classes 4–9 of the CoA have been classified to *ESA 2010* codes. The CoA used by the RS is very comprehensive and facilitates the bridging of the national codes to *GFSM 2014* and *ESA 2010* codes. However, some amendments and extensions to the CoA may be performed to further improve the bridging to *GFSM 2014* and *ESA 2010*.

24. Since national accounts and GFS use mainly the same macroeconomic concepts and the *ESA 2010* codes are also relevant for the general government sector in national accounts, it is recommended that the MOF's GFS compiler and the compiler of national accounts in the RZS coordinate the coding to *ESA 2010*. It is essential to ensure consistency among GFS according to *GFSM 2014*, GFS according to *ESA 2010*, and national accounts.

25. The following benchmark actions will help in evaluating the MOF's progress in the area of GFS and in considering any future request for follow-up TA: (i) the MOF will examine budget items in the CoA for which no unique GFS code could be assigned during the mission; and (ii) it will review the draft bridging tables to *ESA 2010* codes discussed during the mission. Furthermore, the bridge tables have to be discussed with the CBBH and the RZS in future in order to arrive at a common bridge table used by all compilers of macroeconomic statistics in Bosnia and Herzegovina.

### Appendix I. List of Officials Met During the Mission

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