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Group 1
Albania
Armenia
Bosnia and Hercegovina
Croatia
Montenegro
Romania
Serbia

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## Discussion Overview as per Question 1: Fiscal Measures

- **Romania:**
  - Reduction of VAT on basic goods
  - Fiscal lottery with the aim of fiscal discipline improvement
  - Increase of retirement age threshold
  - Reduction in number of staff and public sector pay
- **Croatia:**
  - Revenue side measures: taxes on games of chance, tax on revenues from savings interest, real estate tax, concession rates increase, collection of public enterprises profit income, increase of health insurance rates, excise duties ....
  - Expenditure side measures: salary supplements freeze, decrease of transport reimbursements, maintenance costs, provision of intellectual and personal services (contractual services), reduction of subsidies, executing savings deriving from consolidation of public procurement system in the health care sector.

In-depth expenditure analysis on ongoing (implemented by external and internal teams of experts), in order to find additional cost-reduction options, while targeted expenditures are directed toward reduction of staff-related costs, subsidies, tax expenditures, and performing analysis on agencies and institutes as recipients of state budget funds. Targeted savings are set at the level of 10% against 2015 plan. Commitments taken toward EU are used as a consolidation engine. <sup>3</sup>



## Discussion Overview as per Question 1: Fiscal Measures

- **Bosnia and Hercegovina:**
  - The IMF program and EU accession process are considered to be consolidation engines.
  - There are limited measures on the revenue side, directed mainly toward area of corporate income tax, but with lower than expected effects.
  - Measures are mainly directed on achieving effects on the expenditure side, including sizeable public sector employees costs reduction (at the state level, the first reduction target was set at app 7%, followed by additional 4.5%), with employment freeze measure.
  - Mid-term planning improvement. Even though deficit level is not significant, unfavorable debt and GDP structure, large public sector, accompanied with pressures from the area of social protection and health and education sectors create issues regarding further consolidation efforts.



## Discussion Overview as per Question 1: Fiscal Measures

- **Serbia:**
  - Measures on the expenditure side included introduction of a special tax on salaries, aimed at redirecting funds toward social sector, but the measure was a short-term one. It was followed by a progressive income tax measure. The biggest reductions on expenditure side were made in the area of employees costs - termination of past performance pays, salary reduction of 10%, employees reduction of 5%. Pensions were also reduced for 5%. Other measures include reduction of subsidies, public enterprises restructuring (privatization or bankruptcy procedures), and reduction of issuance of guarantees for their debt settlement. Expected savings are projected at the level of 2% in 2015.
  - Measures on the revenue side were of a limited scope, with the focus on tax base expansion.
  - The issue remaining is a constant change of cabinets, which hampers consolidation process. All measures relate to local government level as well. Cooperation with the IMF is important.

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## Discussion Overview as per Question 1: Fiscal Measures

- **Montenegro:**
  - Measures on the expenditure side were made on mandatory as well as on discretionary expenditures – they include new hiring freeze policy, reduction of reimbursements, temporary pensions freeze, cancellation of issuance of guarantees for public enterprises debt settlement, as well as focus on reduction of unproductive expenditures in all categories.
  - On the revenue side, a new 6% crisis tax on above-average state level salaries was introduced. The VAT rate was also increased, and profits from public enterprises operations were collected. Tax on SIM cards as a single-year measure was introduced.
  - Also, all measures had to be implemented by state owned companies. Additionally, activities in the area of tax debt reduction and regarding increase of efficiency of tax administration operations are undertaken, as well as on expanding tax base.

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## Discussion Overview as per Question 1: Fiscal Measures

- **Armenia:**
  - Expenditure and revenue measures. Activities were undertaken regarding expenditure efficiency increase; programmatic budgeting was introduced. Lower government level transfers transparency was increased, as well as their connection with the increase of efficiency of local tax administrations. Public procurement sector was also reformed. Improvement of business environment for small and medium size enterprises was achieved, as well as broad reduction of grey economy sector activities. Number of staff in public sector was reduced, but at the same time, public sector salaries were increased.
- **Albania:**
  - As of 2013, a set of comprehensive measures were adopted. Retirement age threshold was increased. Progressive taxation was introduced, as well as e-payment of taxes. Fiscal lottery is in the plans. Privatization of energy sector is planned as well. Penalties on nonpayment of utilities (electricity) are increased. Decision on settlement of all arrears was made, and as of this year, budgetary limits in medium-term expenditure framework are mandatory for the whole mid-term period. Reform in the area of public procurement is planned, as well as reduction in number of municipalities from over 300 to 62.

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## Discussion Overview as per Question 2: Communication with the public

- It is very difficult to convince those whose rights are being reduced/cancelled that that is done for the purpose of achieving public good or long-term sustainability. On the other side, in majority of our countries, considerable fiscal consolidation and long-term fiscal sustainability are impossible without reforms executed in the social sector, pensions sector, education and health sectors - which all have direct effect on socially sensitive categories of population. At the same time, bearing in mind that these reforms can be seen to have a positive impact only on the long time horizon, it is difficult to secure political readiness for their implementation.
- Responsibility of political decision makers is necessary precondition for successful fiscal consolidation implementation, as well as for creating successful communication channels with the public. Making less than popular political decisions is easiest during the first year in the office, but in any case, fiscal consolidation requires taking over risks of potential loss of political power, which additionally hampers investing in fiscal consolidation efforts.
- Media globalization results in achieving greater transparency, but also creates additional pressure on the cabinet. Even though the quantity of information is increasing, they are not presented nor explained to the general public in the most adequate manner, which can cause additional confusion. It is necessary to create direct communication channels with the citizens in particularly clear and effective manner.
- Reduction of benefits for the cabinet and parliament members can be seen as positive symbolic activity for accepting of all rationalization measures, although they are insignificant against achieving overall necessary saving levels.

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**Thank you**