

Government Spending in a Regional Perspective

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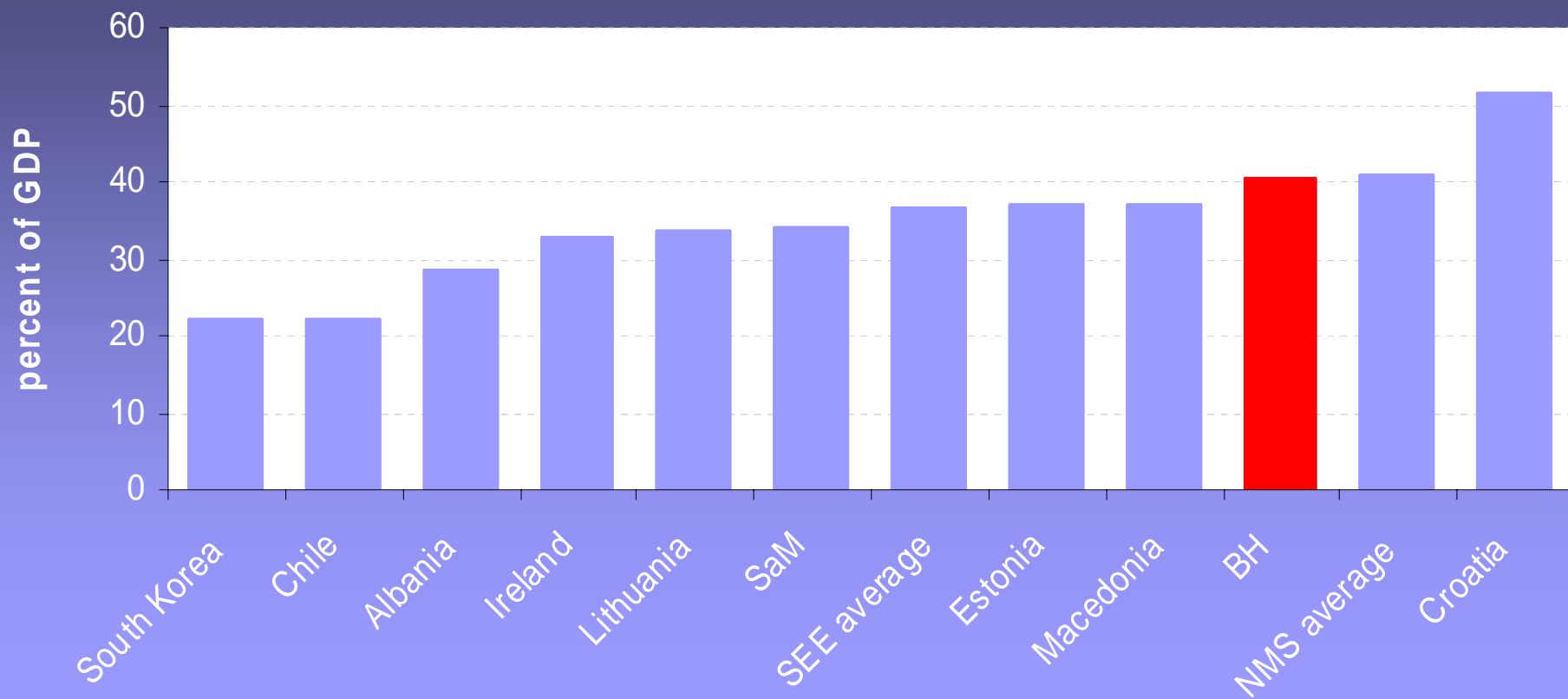
**The World Bank
October 19, 2006**

Overview

- Government spending: comparing BH with countries in the region
- Some lessons from the new member states of the EU

Government spending is high relative to countries in the region and fast-growing economies ...

Total General Government Spending, 2004

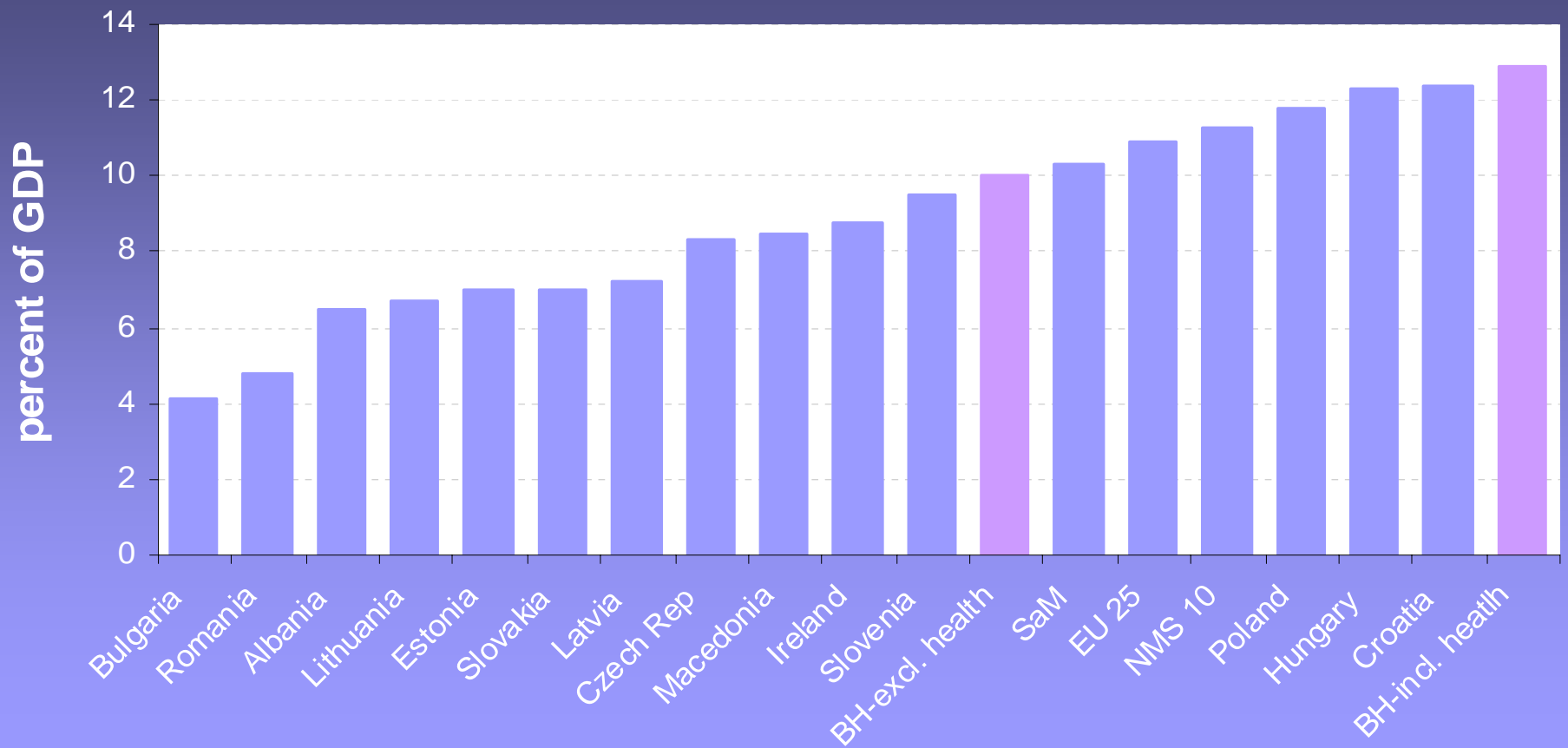


Spending and outcomes

- Other governments achieve the same outcomes as BH by spending about 30 percent of GDP
- BH spends about 40 percent of GDP adjusted for the size of the nonobserved economy
- Substantial inefficiencies, especially in social spending, do not help the poor.

Large spending reflects in large part outsized wage outlays

Spending on Wages



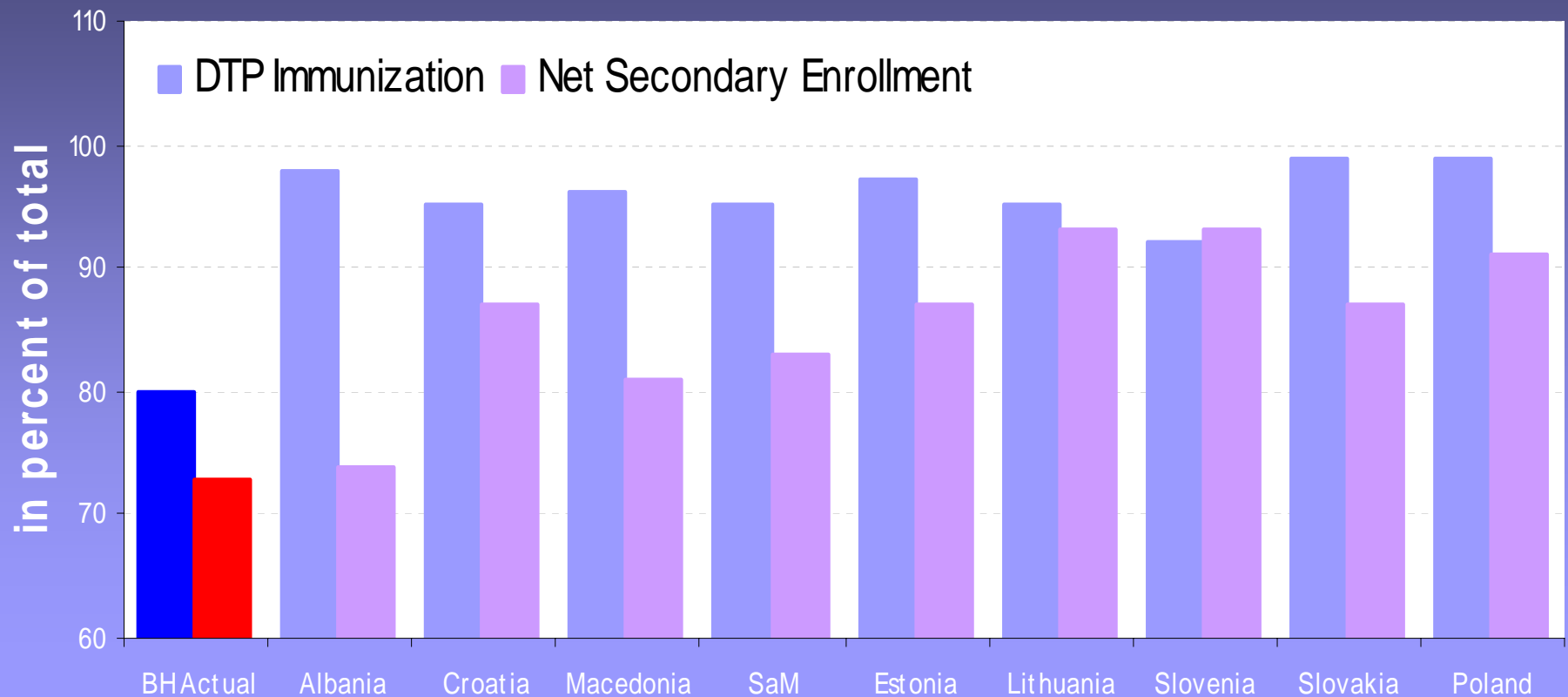
Education spending is not low

General Government Expenditures on Education



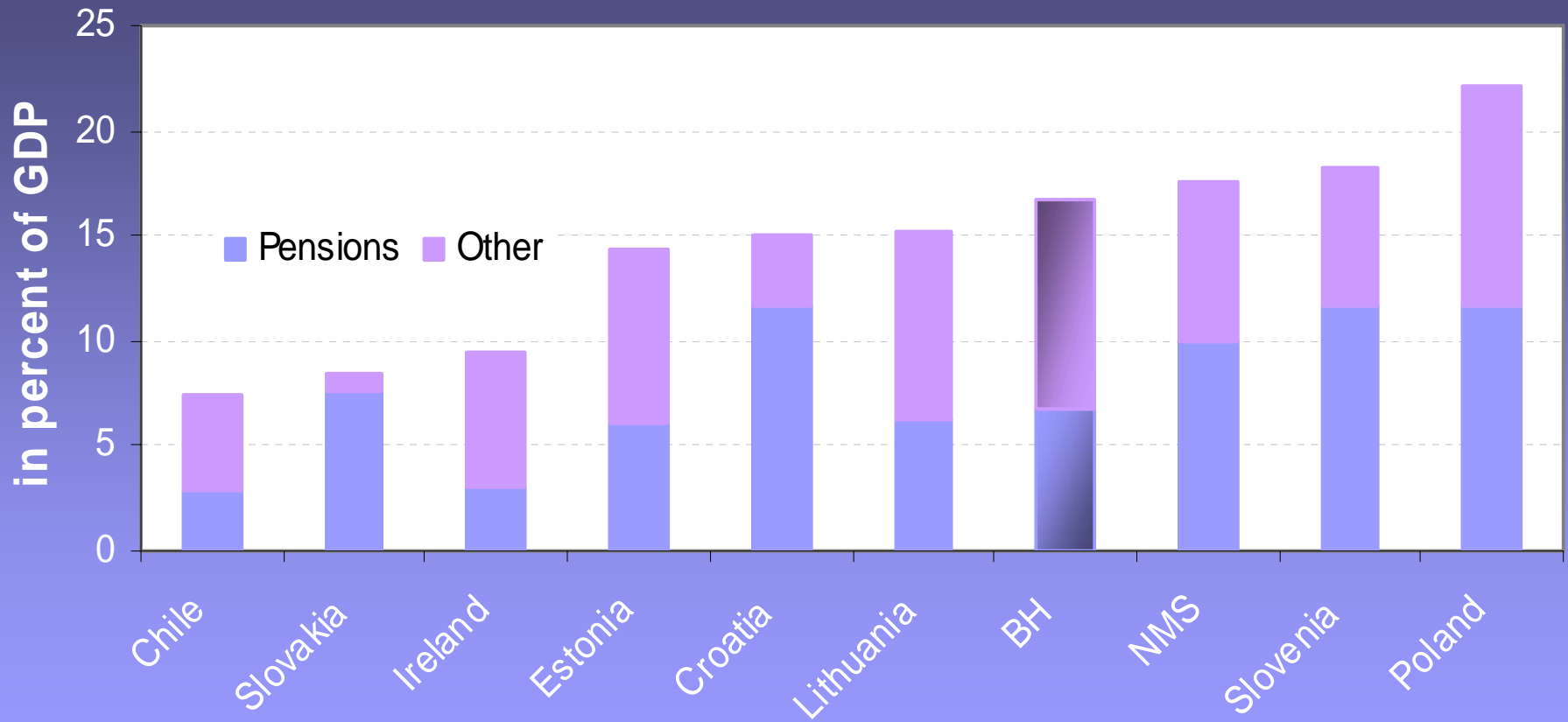
... but the quality of government spending is low.

Quality of Government Outcomes



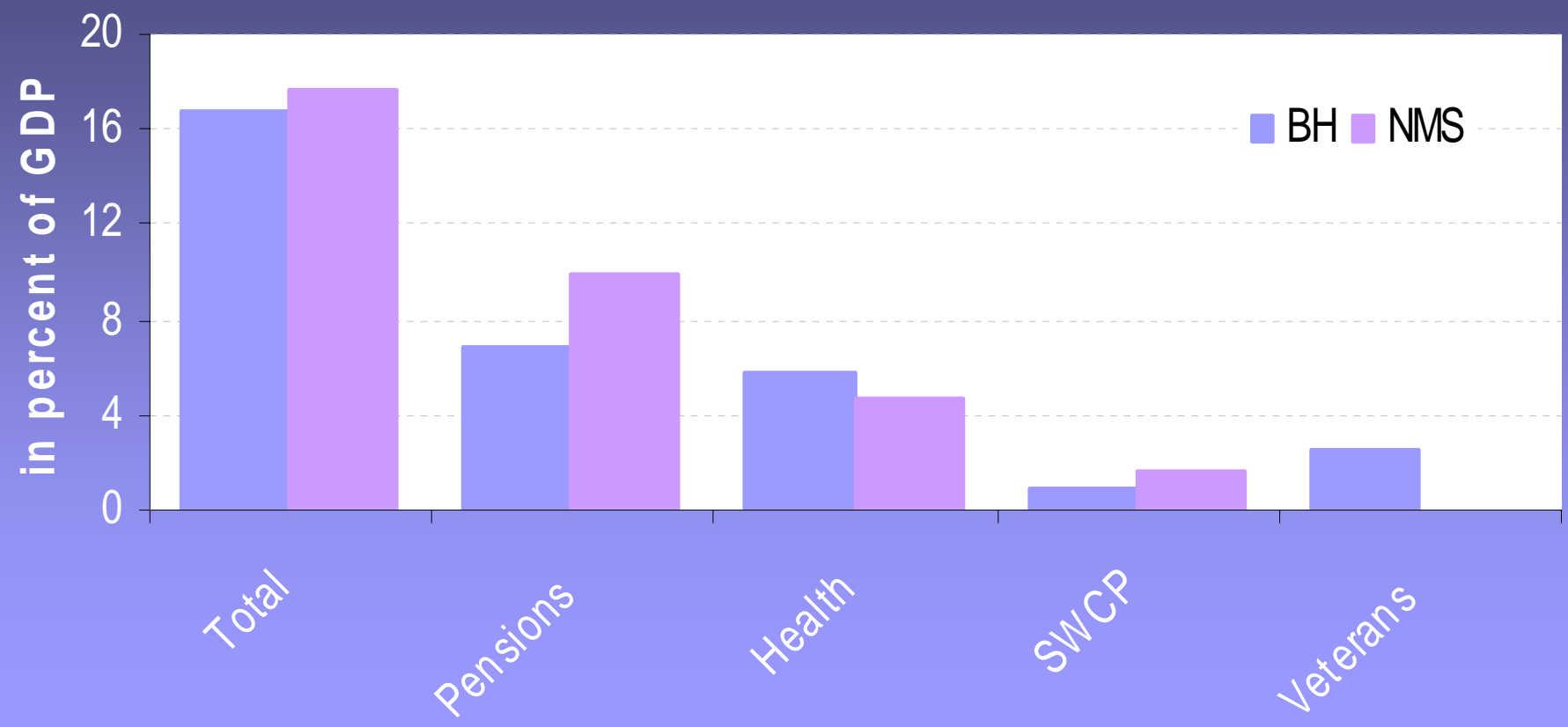
Social transfers are high ...

Social Spending by the General Government



... but are dominated by untargeted transfers

Expenditures on Social Protection, 2004



... financed by very high labor taxes

Social Security Contribution Rates



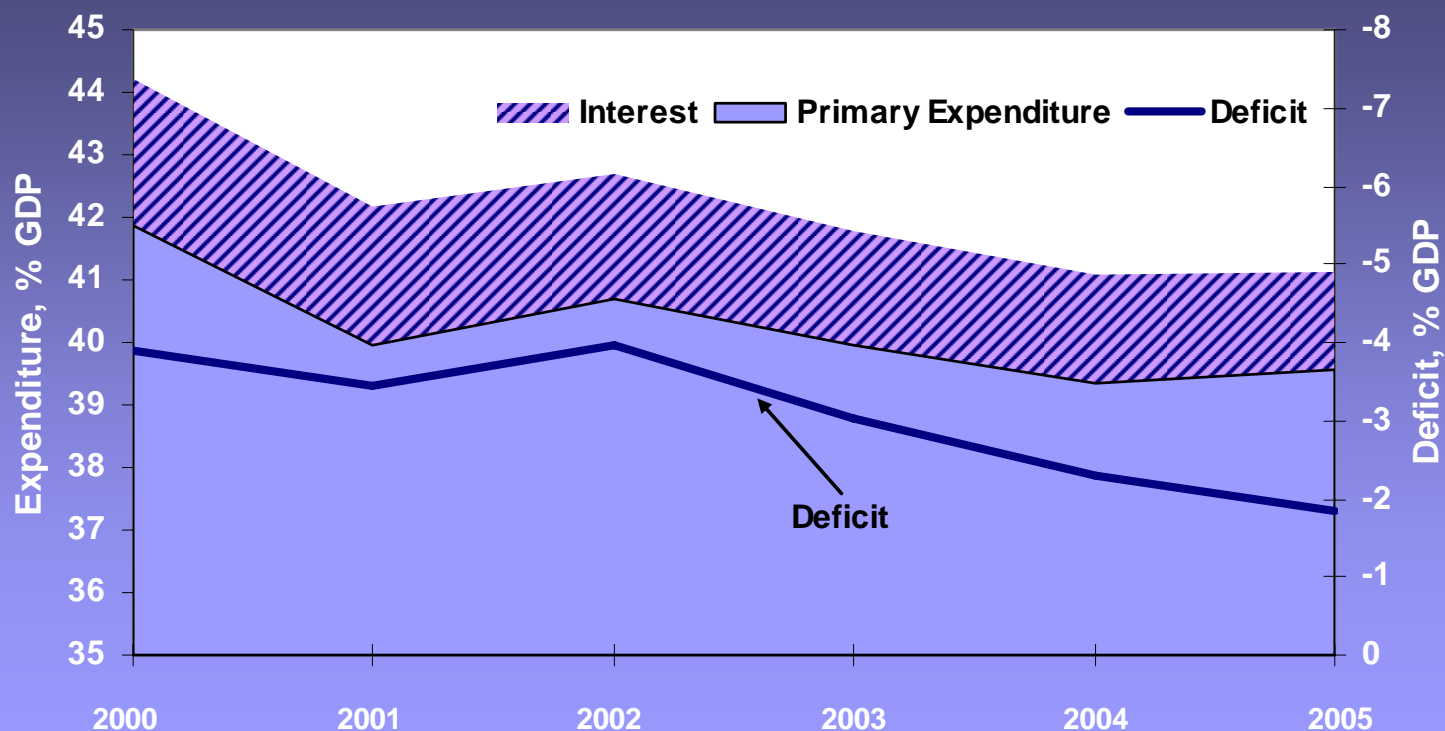
Poverty has not declined

Poverty Headcount (In percent)

	2001	2004
BH	17.8	17.5
	2002	2005
Albania	25.4	18.5

Key Lessons from the NMS

NMS: Government Spending and Deficit (% GDP)



- ┌ EU accession does not mean fiscal expansion
 - ┌ Fiscal deficit, primary spending: -2 percent of GDP

Key Lessons from the NMS (cont.)

- Use the exceptionally good times of the global economy at present to reduce and restructure spending
- Reforms will be harder to implement when global growth slows and international metal prices ultimately fall
- Take full advantage of EU integration to tackle tough reforms

Key Message

- Tough reforms are needed
- Spending has to decline
- Efficiency of government spending needs to increase
- Use VAT to cut labor taxes:
 - more poverty reduction impact