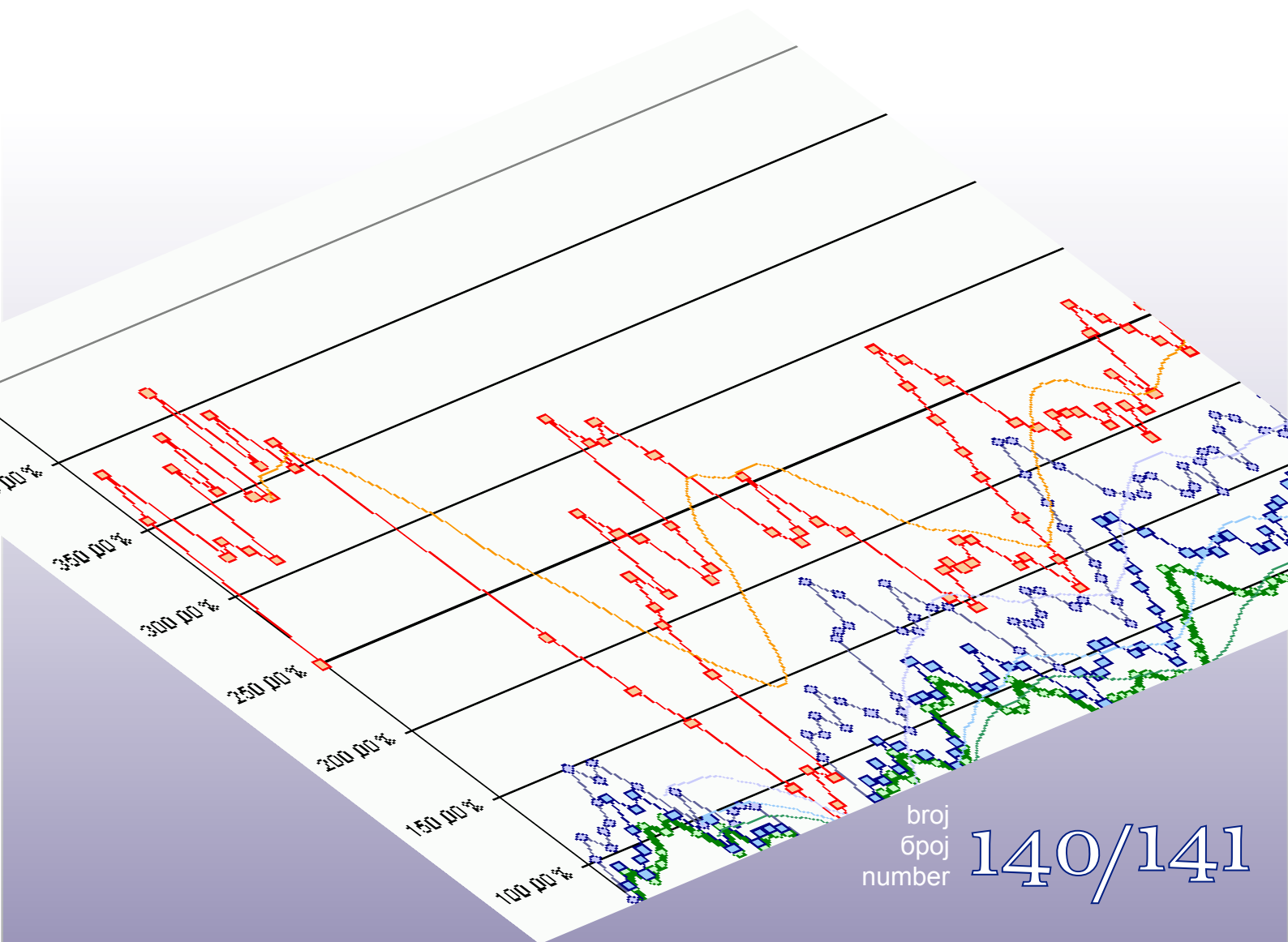




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

Oma Bilten



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With this issue

According to report, the ITA collected in February 2017, after deduction of refunds, 412 million KM of indirect taxes, which is lower by 0,2% than in the same month of 2016. The reason for the lower growth in net collection in relation to the growth of gross collection of 3,3% is the increase of refunds. A growth in gross collection of indirect taxes of 2,2% was recorded at the level of the first two months of 2016. However, due to the growth of refunds of 19,5%, the net collection is ultimately lower by 1,3% or by 10,4 million KM.

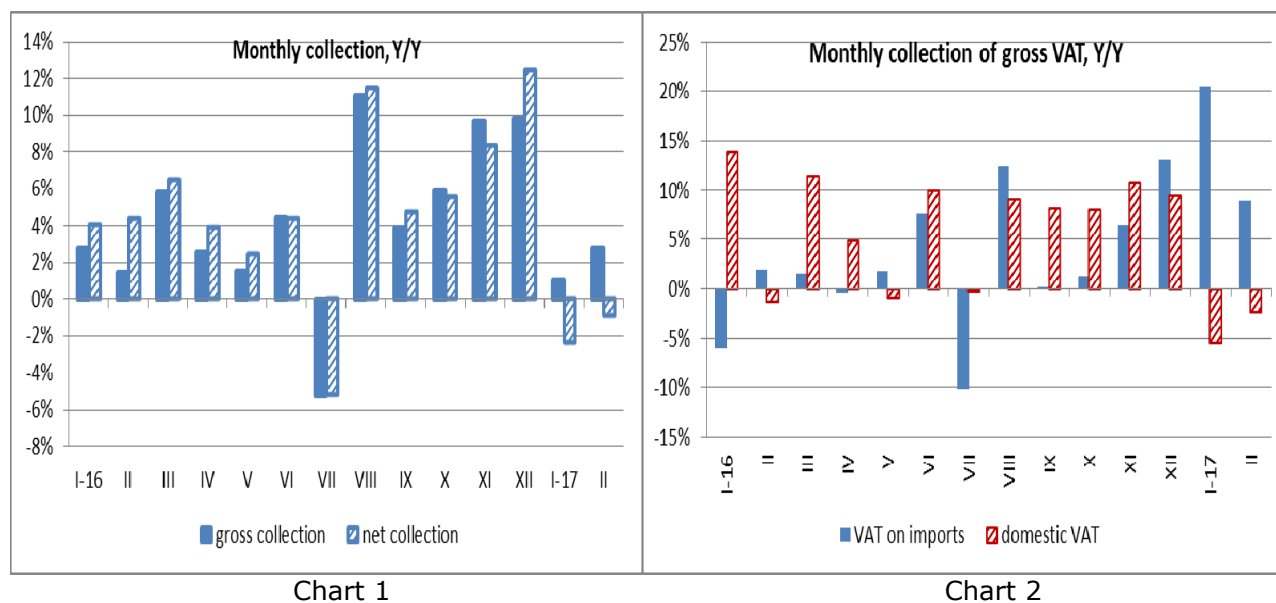


Chart 1

Chart 2

Analysis of collection by the main groups of revenues shows different effects. In the first two months there was a sharp drop in revenue collection from excises of 15,4 million KM, while the other groups recorded growth, most of all customs duties (12,9%). Analysis of the structure of gross VAT shows that the main reason for the negative trend of VAT was an increase of refunds and a decline in domestic VAT (Chart 1). On the other hand, after the high growth rates of domestic VAT in the second half of 2016 it is noticeable an abatement of consumption.

OMA bulletin is open to all institutions and international projects working on the reform of public finances and of the economic system in BiH. We are pleased to publish in this number the analysis of the impact of Brexit on the BiH economy, prepared by the Macroeconomist from the Foreign Trade Chamber of B&H.

Dinka Antić, PhD
Head of Unit

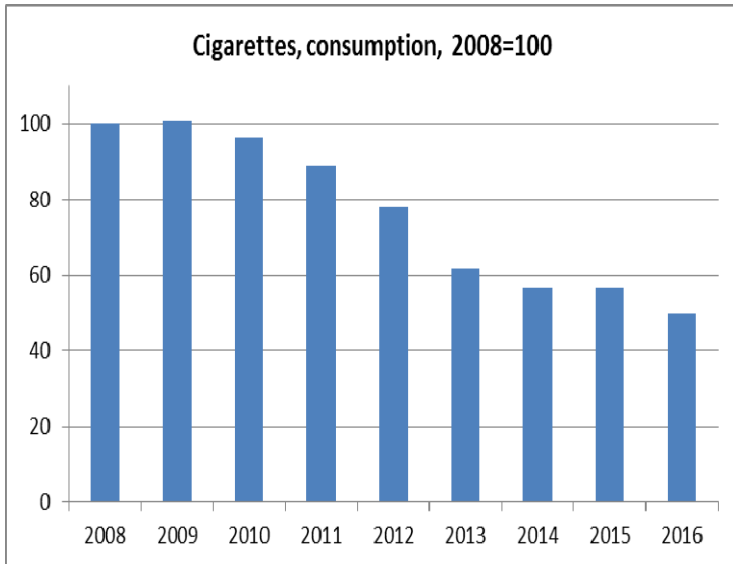
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Technical design: Sulejman Hasanović, IT expert

Trends in collection of excises duty on tobacco products in 2016

Tobacco market: consumption*)

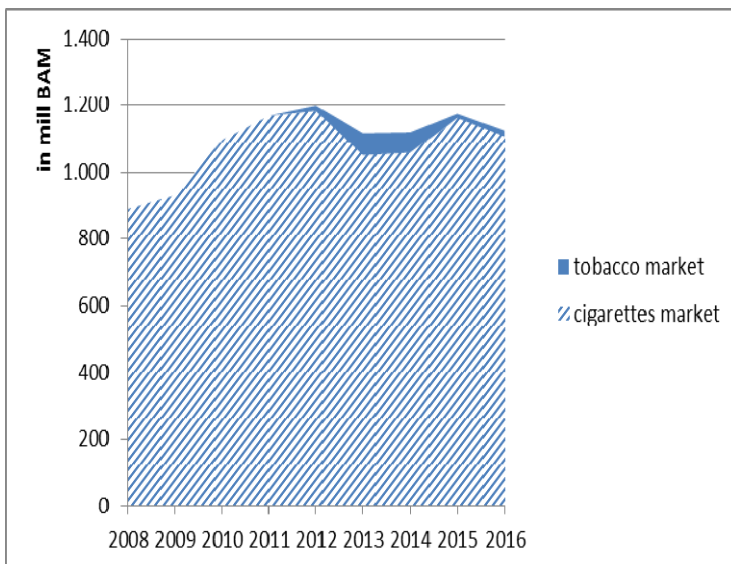


*) Expressed as quantity of issued tax stamps

Annual performance in 2016 - Change, Y/Y

	cigarettes	fine-cut tobacco
total	-12,3%	31,0%
domestic	-23,0%	-4,2%
imported	-8,0%	119,9%

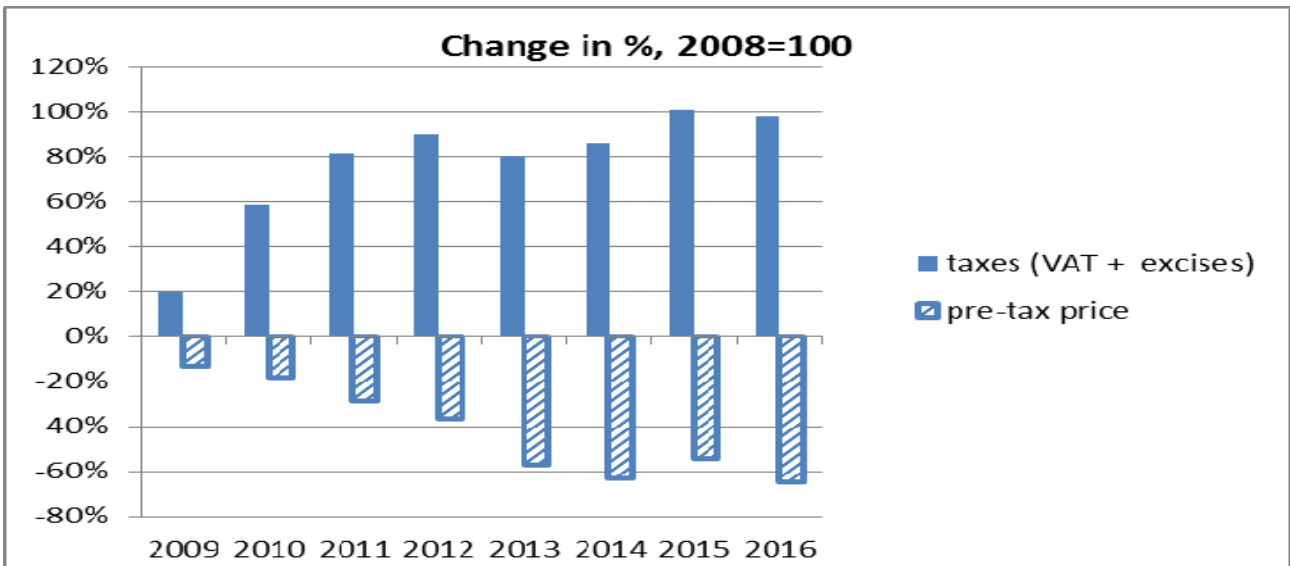
Tobacco market: value



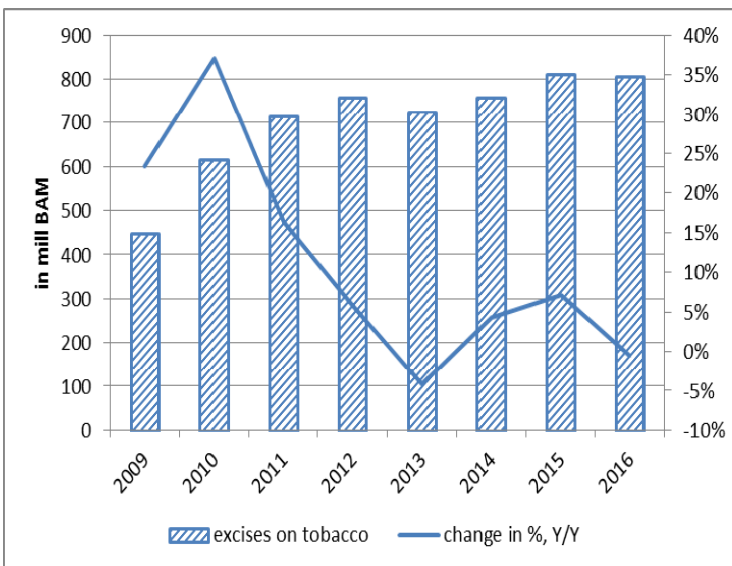
Annual performance in 2016 - Change, Y/Y

	cigarettes	fine-cut tobacco
total	-4,7%	49,3%
domestic	-15,5%	5,9%
imported	-0,8%	134,0%

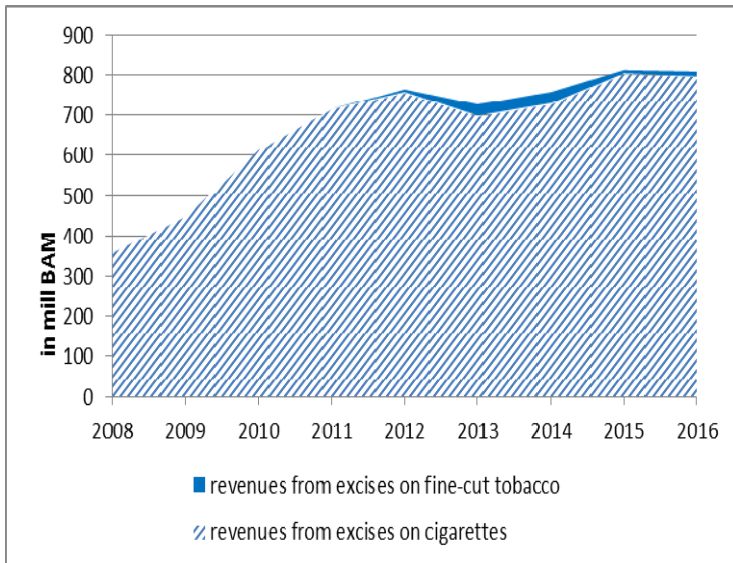
Pre-tax price



Revenue from excise duty



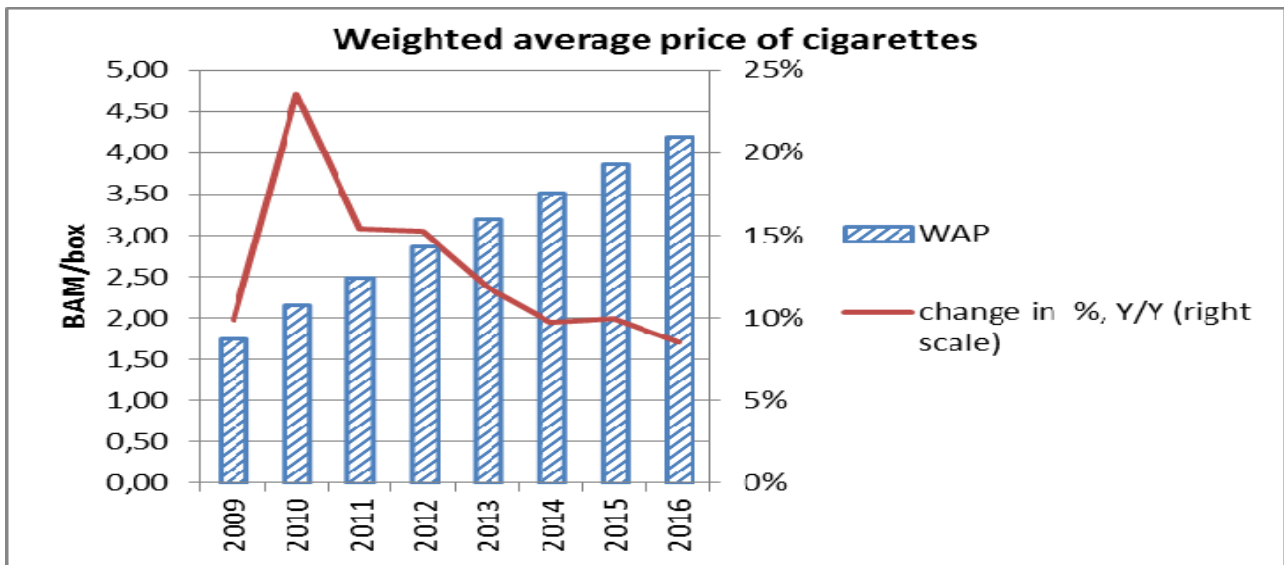
Total collection of excises on tobacco products in 2016 (Y/Y): - 0,5%



Annual collection of excises in 2016 - Change, Y/Y

Cigarettes	-0,9%
Fine-cut tobacco	46,8%

Weighted average price (WAP)



Note for readers:

Due to a longer absence of the key staff in 2017 articles (analysis, projections) are available only in bulletins in local languages.

Brexit and its potential impact on Bosnia and Herzegovina

(Author: Igor Gavran MSc, Macroeconomic Analyst in Foreign Trade Chamber of B&H)

The expected departure of the United Kingdom of Great Britain and Northern Ireland (United Kingdom) from the European Union (EU), commonly known as Brexit, goes well beyond their boundaries in its importance, being an event of global significance and impacting current and future relations within Europe and whole world. There is a two-way impact of Brexit on Bosnia and Herzegovina – direct impact of changes in its bilateral relations with the United Kingdom and indirect impact of changes in relations between the United Kingdom and the EU.

The scope and intensity of Brexit impact on each country out of the EU is in direct correlation with its economic relations with the United Kingdom and indirect correlation with its relations with the whole EU. In case of Bosnia and Herzegovina, there is a clear distinction between underdeveloped bilateral economic relations with the United Kingdom and dominant, to the extent of full dependency, with the EU, especially the Euro zone.

Economic co-operation between Bosnia and Herzegovina and the United Kingdom is underdeveloped, having in mind the potential opportunities, especially in terms of modest UK investments in Bosnia and Herzegovina. More significant capital inflow has been accounted through grants, donations and numerous projects conducted by the UK Government and non-governmental organisations. Trade has a major role in the economic co-operation unrelated to political relations, although still relatively limited and unfavourable for Bosnia and Herzegovina, despite the available opportunities.

BREXIT – Departure of the United Kingdom from the European Union

After years of speculations on the potential departure of Greece from the EU, commonly known as „Grexit“, such decision has been made in the United Kingdom instead, through the referendum on the EU membership. The referendum has taken place on 23rd June 2016 and the majority of voters (51.9 %) have supported the departure from the EU, which caused an instant economic “earthquake” and the national currency – British Pound (GBP) has suffered a dramatic fall in value. Although majority of these initial negative effects have been annulled since then and most of the economic indicators exceeded the pre-referendum values, the level of uncertainty and concern for future developments has not decreased – in the United Kingdom, within the EU and other countries tied with them.

The importance of the economic co-operation with other 27 countries within the EU for the United Kingdom is clearly visible. Around 44 % of its total exports goes to the rest of the EU, while around 53 % of its total imports is imported from there. There is also a specific role of London, as one of the main global financial centres, strategically important for the European and global financial stability and functioning of financial markets. It is impossible to instantly break up or alternate all complex ties and the complementarity of economies built and developed in past decades.

Although the United Kingdom has always had a specific, even privileged status compared to the other EU members, being excluded from application of many common rules and policies, its role in this economic and political association has been very important for “both sides” and it still is. Consequently, their disassociation will significantly change the economic and political structure of Europe and whole world. It is not only about the fact that, for the first time in history, one country is leaving the EU, after many decades in which all European countries out of the EU aspired the membership and conducted incredible efforts in order to join the EU. It is about tangible advantages of the UK membership for “both sides”, which are going to be lost soon, partially or completely.

Taking into account the complexity of the negotiations process, it will almost certainly last at least the pre-set maximum period of two years, with even further extension possible, if necessary. In addition, both the UK Government and the European Commission, have announced the possibility of transitional arrangements, which would enable gradual adjustments after Brexit, with a purpose to mitigate negative consequences and market instability. All hints on the negotiating positions of both sides have been mainly general and "blurry" so far, not providing sufficient foundation for credible forecasting of the final outcome and the scope and content of future ties between the United Kingdom and the EU.

Initial stance taken by the UK Government seemed unrealistic, even illusionary, expressing a kind of wishful thinking on keeping all economic benefits of the EU membership, while completely abolishing the freedom of movement and restricting the immigration in the same time. Initial stance of the representatives of the EU institutions, on the other hand, ranged from similarly unrealistic expectations that everything apart of formal membership can remain the same (hinting replication of the status of Norway) to the extent of complete breakdown and a sort of "punishment" for the United Kingdom, as a severe warning to other EU members which may consider leaving the EU in future.

An additional source of instability lies in the internal division on Brexit within the United Kingdom and multiple divisions within the EU on almost all important issues. The new initiative for the referendum on independency in Scotland and the security risk of instability in the Northern Ireland are the key challenges for the United Kingdom. On the other side, the EU faces a wide range of issues, with the most relevant for this process being a lack of a shared vision of its future and a plan of further development without the United Kingdom. All this factors will influence the negotiations, more or less, making it more complex and its potential implications more far-reaching.

Anyhow, the moment of Brexit, or even the expiration of the expected transitional arrangements which are expected to follow, will not end the period of changes. It will be still only a beginning of the process of redefining the position of the United Kingdom in Europe and the world and creating new ties and relations, with their separate effects – both positive and negative.

Economic co-operation between Bosnia and Herzegovina and the United Kingdom¹

The most of the economic co-operation between Bosnia and Herzegovina and the United Kingdom is based on the free trade and other economic sections of the Stabilisation and Association Agreement (SAA), as well as the other relevant documents on co-operation between Bosnia and Herzegovina and the EU. Only the avoidance of double taxation, the social security co-operation and some other relations of little to no economic relevance are regulated by bilateral agreements. Good political relations, recently enhanced by the role of the United Kingdom in the so-called "British-German Initiative", and the support of the UK Government and non-governmental organisations to the range of non-commercial projects in Bosnia and Herzegovina, also stimulate the strengthening and development of other relations. However, there is still no sufficient progress in strengthening their economic ties.

In addition to insufficient exports from Bosnia and Herzegovina, there is a recent increase of imports of goods from the United Kingdom which are originated elsewhere, with the largest share of crude oil, increasing the deficit in direct trade further and creating the illusion of a larger trade volume than the actual one. The balance of trade is more favourable for Bosnia and Herzegovina when only the trade of goods originated in two countries is considered, which is actually the only relevant in terms of potential post-Brexit changes in trade regime. Nevertheless, this trade

¹ The source of all data is the Indirect Taxation Authority of Bosnia and Herzegovina; imports representing the imported goods originated in the United Kingdom, regardless of country the good was directly imported from.

balance has been very changeable in past years and there was no continuous positive trend. For instance, the biggest increase of both exports and imports in past ten years has occurred in 2008, but with a dramatic decrease in the following year and multiple changes in values of annual exports and imports since then. There was no stability or impression of a strategic importance of trade for either country.

Table 1: Trade between Bosnia and Herzegovina and the United Kingdom (2007 – 2016)

YEAR	VOLUME (BAM)	EXPORTS (BAM)	IMPORTS (BAM)	BALANCE (BAM)	EXPORTS IMPORTS
2007	94,894,055	22,278,055	72,616,000	-50,337,945	30.68 %
2008	153,958,548	62,415,714	91,542,834	-29,127,120	68.18 %
2009	110,614,463	29,087,890	81,526,573	-52,438,683	35.68 %
2010	117,916,497	32,367,311	85,549,186	-53,181,875	37.83 %
2011	115,210,467	26,979,778	88,230,689	-61,250,911	30.58 %
2012	137,701,638	31,750,375	105,951,263	-74,200,888	29.97 %
2013	162,589,688	44,588,831	118,000,857	-73,412,026	37.79 %
2014	193,302,556	50,349,237	142,953,319	-92,604,082	35.22 %
2015	204,631,369	66,160,378	138,470,991	-72,310,613	47.78 %
2016	196,394,965	51,530,785	144,864,180	-93,333,395	35.57 %
TOTAL	1,487,214,246	417,508,354	1,069,705,892	-652,197,538	39.03 %

As seen in the previous table, the value of exports has decreased in 2016 for 22.11 % compared to 2015, mainly because there was no export of lead ore, valued 14 million BAM in the previous year, and the export of wire has declined. In the export structure in 2016, the wood and metal industry and their products had the biggest share in total value.

An increase in export of agriculture goods, especially water, can be considered as the biggest structural improvement, having in mind it was almost negligible in preceding years. There was also some encouraging export of cheese, although a fairly small amount, started after the access to the EU market has been approved. Since the majority of leading exporters were the UK-owned companies in Bosnia and Herzegovina, there is still lack of interest or competitiveness of other companies for export to this highly demanding market.

Table 2: Main goods from Bosnia and Herzegovina exported to the United Kingdom in 2016

TN	Tariff Name	Quantity (kg)	Value (BAM)
4819	Cartons, boxes, cases, bags and other packing containers	3,169,693	9,889,805
8544	Insulated (including enamelled or anodised) wire, cable...	147,270	8,918,396
8428	Other lifting, handling, loading or unloading machinery	533,596	5,424,206
9401	Seats (other than those of heading 9402)	430,811	4,334,774
9406	Prefabricated buildings	1,011,290	3,743,335
8417	Industrial or laboratory furnaces and ovens, nonelectric	322,365	2,762,839
9403	Other furniture and parts thereof	605,033	2,133,297
8431	Parts suitable for use with the machinery of TN 8425 to 8430	426,895	1,659,427
8421	Centrifuges, including centrifugal dryers; ...	54,938	1,323,386
4409	Wood (incl. strips and friezes for parquet flooring, not assembled)	408,460	1,124,112
6402	Other footwear with outer soles and uppers of rubber or plastics	202,154	976,158

2202	Waters, incl. mineral waters and aerated waters, cont. added sugar	666,883	932,247
9506	Articles and equipment for general physical exercise	137,880	915,279
4806	Vegetable parchment, greaseproof papers, tracing papers, glassine	273,013	861,938
7306	Other tubes, pipes and hollow profiles, of iron or steel	89,944	841,492
	Other goods	1,763,572	5,690,095
Σ	TOTAL	10,243,795	51,530,785

The value of imports from the United Kingdom in 2016 has reached the highest level in the post-war period. Wide range of chemical and pharmaceutical products have remained the leading group of imported goods, with the most significant increase in imports of the monofilaments and other products made of the synthetic fibres and plastic mass. Passenger cars and the other motor vehicles remained the leading imported specific products, with almost the same value as in 2015. There was, as well as some import of the bulldozers, car parts and other goods.

Table 3: Main goods imported to Bosnia and Herzegovina from the United Kingdom in 2016

TN	Tariff Name	Quantity (kg)	Value (BAM)
8703	Motor cars and other motor vehicles	893,859	12,152,634
3916	Monofilament of which any cross-sectional dimension > 1 mm	662,383	11,880,818
5903	Textile fabrics impregnated, coated, covered or laminated	327,407	9,780,235
8429	Self-propelled bulldozers, angledozers, graders, levellers	1,416,956	9,558,707
3307	Pre-shave, shaving or aftershave preparations, personal deod.	406,061	7,253,071
3004	Medicaments (excluding goods of heading 3002, 3005 or 3006)	37,679	5,301,161
3901	Polymers of ethylene, in primary forms	1,892,725	4,661,675
8414	Air or vacuum pumps, air or other gas compressors and fans	39,534	4,405,356
2208	Undenatured ethyl alcohol of alc. strength of less than 80 % vol	285,735	3,589,725
5402	Synthetic filament yarn (other than sewing thread)	406,804	3,139,734
2106	Food preparations not elsewhere specified or included	87,458	3,052,833
8431	Parts suitable for use with the machinery of TN 8425 to 8430	136,890	2,963,193
8708	Parts and accessories of the motor vehicles of TN 8701 to 8705	292,072	2,379,355
3304	Beauty or make-up preparations and preparations for skin-care	34,934	2,213,513
3306	Preparations for oral or dental hygiene, incl. denture fix. pastes	257,723	2,119,590
	Other goods	5,954,974	60,412,580
Σ	TOTAL	13,133,194	144,864,180

In addition to the unsatisfactory trade structure, the volume of investments from the United Kingdom in Bosnia and Herzegovina has been also well below the expectations, based on the

strength of the British economy and its investments in neighbouring countries. However, there are still some outstanding companies established or restructured and improved by investors from the United Kingdom, such as: Banja Luka Brewery JSC Banja Luka, RPC Superfos Balkan LLC Gračanica, Dempson Bosna LLC Bosanska Dubica, Gross LLC Bosanska Gradiška (mines Sase and Olovo), Excell Assemblies BH LLC Maglaj.

An exceptional value of these investments is their production and export nature, thus qualitatively surpass nominally higher but qualitatively substantially worse investments from many other countries. Such UK investments significantly contribute to the employment of skilled workers with higher income and improve the export performance, without negative side effects on the local economy.

As opposed to the limited bilateral economic relations with the United Kingdom, Bosnia and Herzegovina is fully dependant of the EU market, both in terms of trade and investments. This is a very dangerous level of exposure for a national economy, especially with monetary dependency and the national currency – Convertible mark (BAM) pegged to euro (EUR). Any change in the value of EUR equally changes the value of BAM. Therefore, the economic importance of the United Kingdom for Bosnia and Herzegovina should be seen primarily in that context – not as an independent economy, but an integral part of the EU.

Potential impact of Brexit on Bosnia and Herzegovina

Taking into account the aforementioned scope and content of the economic relations between Bosnia and Herzegovina and the United Kingdom, a significant direct impact is not to be expected, regardless the future developments and the specific position of the United Kingdom in relation with the EU. Everything will remain, mostly, within the indirect impact of potential changes and (in)stability in functioning of the Euro zone and the EU. Obviously, certain disturbances will be unavoidable, but their intensity and duration will depend of the negotiations between the United Kingdom and the remaining members of the EU and their future relations.

There is little doubt that the potential termination of the free trade regime between the United Kingdom and Bosnia and Herzegovina, currently regulated by the SAA, would have a strong negative impact on the exports, while not so much on imports, except for a limited number of authentic UK brands (car brands, alcoholic drinks, and others). Most of the “generic” imported goods can be easily substituted with the suitable alternatives from other markets. Such scenario could also jeopardize the business plans of the UK-owned companies in Bosnia and Herzegovina, which export to the United Kingdom, but it may also create an incentive for investments of those which want to maintain the free market access in the EU, other Western Balkan countries and Turkey.

Nevertheless, although it is unlikely that a significant negative impact will occur, nor even significant impact of any kind, this is one of many examples how risky an economic dependence of only one market is for a country. Bosnia and Herzegovina needs to diversify its economic relations beyond the EU market, in terms of trade, investments and everything else. Only such diversification can assure the stability and resistance to potential economic disturbances, such as the recent Euro zone crisis and the expected Brexit.