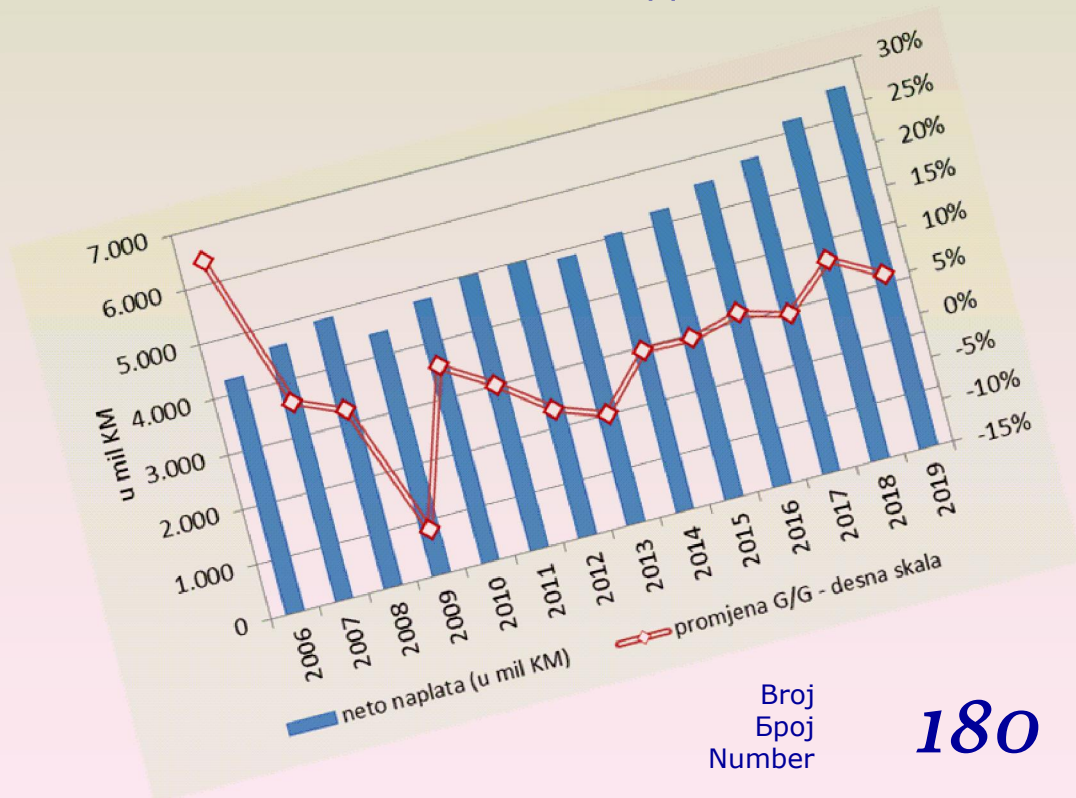




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

ОМЈА Билтен

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REVISED PROJECTIONS OF INDIRECT TAX REVENUES FOR THE PERIOD 2020-2023

Summary

The corona virus pandemic will have tremendous consequences on economic activity worldwide.

The crisis caused by the pandemic of the virus is quite different from the previous crises that economies have encountered. As in the case of wars or political crises, there is tremendous uncertainty about the duration and intensity of the pandemic shock. In addition, economic policy plays a much different role in current conditions than in previous crises. In "normal" crises, policymakers try to stimulate aggregate demand as quickly as possible. In the present case, the crisis is largely caused by much-needed containment measures. A large number of countries have implemented various measures to stop the spread of the virus: closing borders, closing schools and kindergartens, quarantines, isolations, travel restrictions, social distancing measures, etc. On the other hand, governments have also started measures to save the economy, such as tax reliefs, measures to preserve jobs etc. By the end of April, some countries had already announced or started relaxing the measures. Huge uncertainty in the economy due to the pandemic has led to a delay in investment in the economy. On the other hand, there was a decrease in private consumption due to the measures to combat the virus, and because of job losses or increases in savings due to precautions in the conditions of increased possibility of such an outcome.

According to European Commission's May 2020 projections, the European Union is expected to see a real decline in GDP of 7,4% in 2020, while growth of 6,1% is expected next year.

It is stated in the European Commission projections from May 2020 (European Commission, European Economic Forecast, Spring 2020) that ***"the pandemic pushes forecasters into uncharted territory."*** It also states that "due to unprecedented levels of uncertainty, model-based scenario analyzes may provide some guidance to forecasters" and that "combining insights from model-based analyzes with country-specific information (e.g. about policy measures) and expert knowledge, offers a flexible approach for preparing ***a forecast like no other.***" According to European Commission's projections, the European Union is expected to see a real decline in GDP of 7,4% in 2020, while growth of 6,1% is expected next year. The largest real decline in GDP in 2020 (over 9%) is projected for Greece, Italy, Spain and Croatia. The projections are based on the following assumptions: (1) that the major impact of the pandemic on economic developments will be manifested in the second quarter of 2020, (2) that the containment measures will be gradually lifted in the coming months, (3) that the measures adopted to limit the negative effects of the virus on the economy will prove effective. They emphasize ***a huge uncertainty regarding the realization of their projections, and that the projections should be understood as just one among several possible scenarios.***

The Directorate for Economic Planning (DEP) estimates the real decline of the B&H economy at 2,9% for 2020 and recovery in the coming period

The Directorate for Economic Planning (DEP) estimates the real decline of the B&H economy at 2,9% for 2020, while for 2021, 2022, and 2023, growth rates of 3,1%, 3,3%, and 3,5%, respectively, are projected. The key assumption of the DEP projections is "that the crisis will have the greatest impact in the first half of 2020, with the continuation of the negative impact until the end of the year, but in a somewhat milder form." It was also stated that the projections do not include the stabilization measures of the entity governments and the Council of Ministers of Bosnia and Herzegovina in full, because the final scope of the measures was not known at the time of preparation.

In April 2020, the growth trend in revenues from indirect taxes was stopped due to the effects of corona virus on the economy of B&H.

According to the ITA report by types of revenues, in April the gross revenue collection fell 155,8 million BAM or by 23.4%. Due to reduced refund payments, the net collection was 119,5 million BAM or 22,2% lower than in April 2019. The cumulative gross collection of revenues for the four months of 2020 is lower by 96,8 million BAM compared to the collection in the same period in 2019. At the same time refund payments were lower by 41,8 million BAM, which mitigated the overall negative results of the cumulative collection, and ultimately the net collection of indirect taxes was lower by 55,0 million BAM, or by 2,7%.

MAU estimates the decline in indirect taxes at a rate of 4,3% for 2020, while revenue growth is expected in the coming years.

*Based on the DEP's projections of macroeconomic indicators and current collection trends, **Macroeconomic Analysis Unit of the ITA Governing Board (MAU) has projected a 4,3% decrease in indirect taxes for 2020, and growth rates of 3,8%, 3,7% and 3,9% for 2021, 2022, and 2023, respectively.** Given the unknowns at the time of preparing the projections, as well as the used assumption that the crisis will be overcome in the short term (DEP), there are significant risks for the realization of the indirect tax revenue projections. Indirect tax revenue projections for 2020 and the next three-year period were made at a time when the May report on the revenue collection on the ITA SA was not available, which is the month of manifesting the significant effects of the crisis caused by the corona virus pandemic. Projections of macroeconomic indicators, on which revenue projections are based, were also made at a time when part of the statistics for March, a month in which there were mutual shocks on the supply and demand side, was unavailable. Considering the huge unknowns at the time of preparing the projections about the severity and duration of the shock caused by the corona virus pandemic, as well as many internal unknowns, and the assumptions used that the crisis will be overcome in the short term (DEP, macroeconomic indicators projections), **we point out that there are significant risks for the realization of projections of indirect tax revenues, where the risks of worse outcome predominate.***

1. Basics and assumptions of indirect tax revenue projections

On June 1, 2020, the Directorate for Economic Planning (DEP) submitted to the Macroeconomic Analysis Unit of B&H (MAU) the projections of macroeconomic indicators for Bosnia and Herzegovina for the period 2020-2023. Indirect tax projections are based on the May 2020 macroeconomic projections of the DEP and take into account trends in indirect tax collection and current government policies in the field of indirect taxation (baseline scenario).

1.1. Projections of macroeconomic indicators, DEP, May 2020

Indirect tax revenue projections are closely linked to projections of GDP and its components. Any deviation of the outturn of parameters from national accounts from their projected values represents a risk for revenue projections. Projections of GDP components relevant to projections of indirect taxes (DEP, May 2020), and their changes from DEP's previous projections (April 2020 and September 2019), are presented below, in Charts 1-3. It was stated in the introduction of document "Macroeconomic Projections for 2020-2023" (DEP, May 2020) that they were prepared at the time when part of the statistics was not available for March 2020, the month of the appearance of mutual shocks on the supply and demand side. The key assumption of the DEP projections is that the crisis will have the greatest impact in the first half of 2020, and that the negative effects will continue until the end of the year, but in a somewhat milder form. It was also stated that the projections do not include the stabilization measures of the entity governments and the Council of Ministers of Bosnia and Herzegovina in full, because the final scope of the measures was not known at the time of their preparation.

Table 1. Projections of GDP growth, DEP, May 2020

	official data	projection				
Projected growth rate of GDP	2018	2019	2020	2021	2022	2023
Nominal	5,2	3,9	-3,1	4,2	4,9	4,7
Real	3,3	3,2	-2,9	3,1	3,3	3,5

1.1.1. Projections for 2020

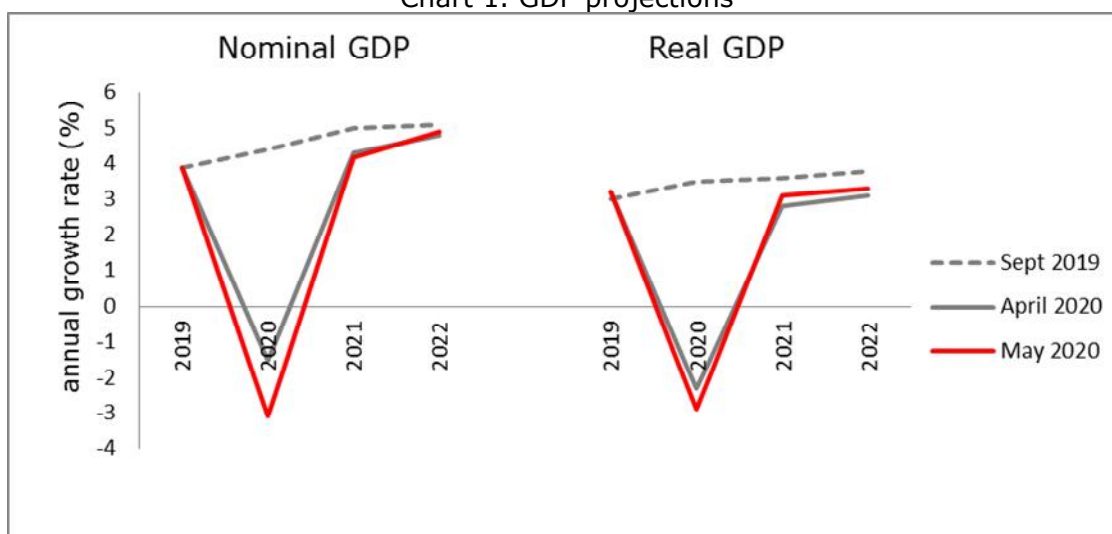
According to the DEP projections, economic growth slowed to 3,9% in 2019 (Table 1. Projections of GDP growth). It was stated that the slowdown in economic growth in Bosnia and Herzegovina in 2019 was largely caused by the slowdown in economic activity in the international economic environment, i.e. the weakening of economic growth in some EU countries such as Germany and Italy. The beginning of 2020 is characterized by a further complication in the international economic conditions and the appearance of corona virus, which, according to the DEP, will have a very negative implications on the economic developments in the world, region and, ultimately, in B&H. They also point out that, at the time of preparing their projections, a number of international institutions (IMF, World Bank, EC) are auditing their economic projections for 2020 on a weekly basis. In these circumstances, the DEP projects a nominal GDP decline of 3,1% in 2020, while the real GDP decline should amount 2,9%.

1.1.2. Projections for the period 2021-2023

A key precondition of the DEP's projections of macroeconomic indicators in B&H for the period 2021-2023 represents an improvement of the external environment, and realization of **the**

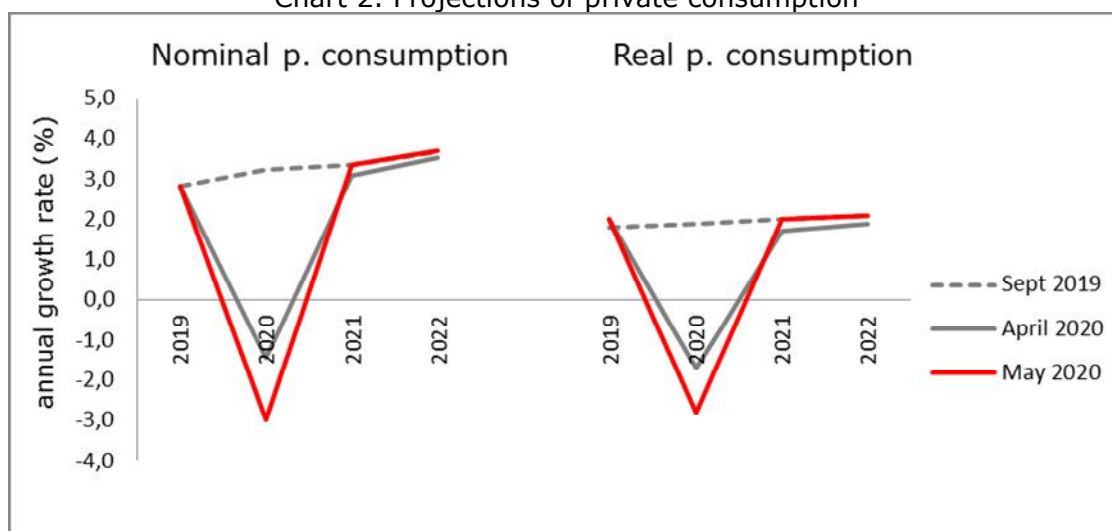
assumption that the virus epidemic will be overcome in the second half of 2020. It is noted in the DEP's document that the World Health Organization has not yet officially issued any statement about the duration of the global Covid-19 pandemic. DEP's medium-term projections rely on the IMF's (April 2020) forecasts, according to which a strong global economic recovery with a projected real growth rate of 5,8% is expected, as well as on the European Commission's (May 2020) forecast for real GDP growth of 6,1% for the EU. The preconditions for the realization of DEP's projections are: overcoming the new circumstances in the short term, improving the international economic environment and implementing the intervention and structural reforms in the country. Assuming the realization of the above circumstances, the DEP projects nominal GDP growth rates of 4,2%, 4,9% and 4,7% for 2021, 2022 and 2023, respectively (real growth rates of 3,1%, 3,3%, and 3,5%, respectively).

Chart 1. GDP projections



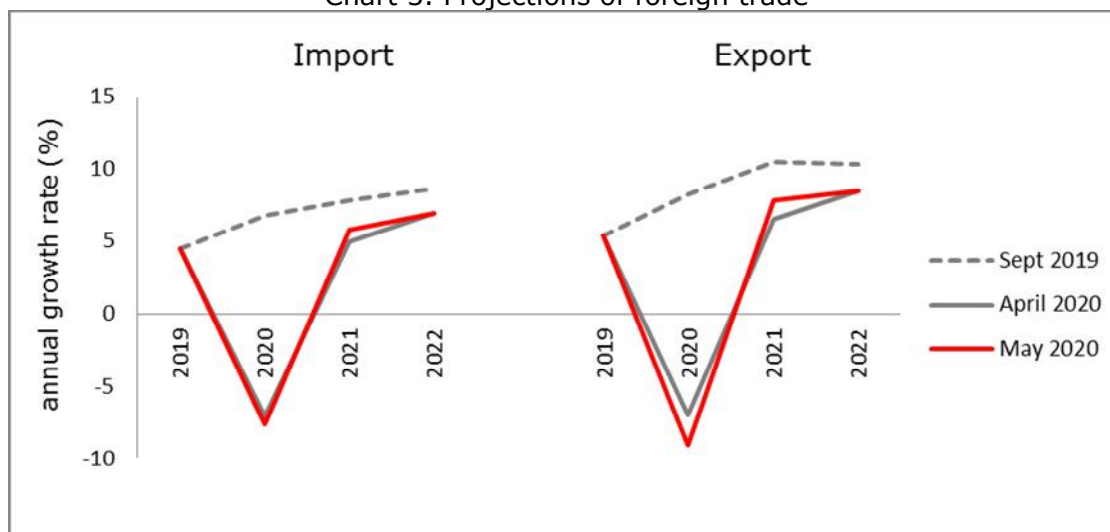
Source: DEP, "Macroeconomic Projections for 2020-2023", May 2020 and previous projections; Presentation of the MAU

Chart 2. Projections of private consumption



Source: DEP, "Macroeconomic Projections for 2020-2023", May 2020 and previous projections; Presentation of the MAU

Chart 3. Projections of foreign trade



Source: DEP, "Macroeconomic Projections for 2020-2023", May 2020 and previous projections; Presentation of the MAU

Charts 1-3 show the differences between May 2020 DEP's projections of GDP, consumption and foreign trade and previous projections (prepared in April 2020 and September 2019) for the period 2019-2022.¹

1.2. Current policies in the field of indirect taxation

VAT obligations and payment system are regulated by the Law on Value Added Tax ("Official Gazette of B&H", No. 9/05, 35/05, 100/08 and 33/17).

Excise policy is regulated by the Law on Excises in Bosnia and Herzegovina ("Official Gazette of B&H", No. 49/09, 49/14, 60/14 and 91/17). The policy of excises on tobacco in 2020 has been regulated by the Law on Excises and Decision² of the ITA Governing Board. As the legally prescribed ceiling of the total excise tax on cigarettes of 176 BAM / 1000 cigarettes was reached for all price categories of cigarettes in 2019, the harmonization with EU standards in the field of cigarette taxation was completed,³ while the taxation of cut tobacco is regulated according to the amendments to the Law (in force since 2014).⁴

The Law⁵ on Customs Policy in Bosnia and Herzegovina regulates the basic elements of customs policy and general rules and procedures that apply to goods brought into and out of the customs territory of Bosnia and Herzegovina.

¹ The parameters for 2023 are not shown since 2023 is not included in the September 2019 projections.

² Decision on Determination of the Specific and Minimum Excise Duty for Cigarettes and Amount of the Excise Duty on Smoking Tobacco for 2020 („Official Gazette of B&H" No 80/19).

³ There are currently in the parliamentary procedure the amendments to the Law on Excises adopted by the Governing Board of the ITA in 2018, which imply the introduction of a three-year moratorium on the increase of the specific excise duty on cigarettes starting from 2019. In the meantime, the Decision on Determination of the Specific and Minimum Excise Duty for Cigarettes and Amount of the Excise Duty on Smoking Tobacco for 2019 and 2020 according to the applicable Law has been adopted. Given that EU standards for cigarette taxation have been reached in 2019, the aforementioned amendments to the Excise Duty Act are no longer topical, and some legal steps are expected accordingly.

⁴ The new policy is in effect since 1 August 2014 (Amendments to the Law on Excises in B&H "Official Gazette of B&H" No. 49/14)

⁵ The new Law on Customs Policy ("Official Gazette of B&H" No. 58/15) will apply from July 1, 2021 ("Official Gazette of B&H" No 21/20), and until that date the old Law on Customs Policy ("Official Gazette of B&H" No. 57/04, 51/06,

The phase process of liberalization of B&H's foreign trade is shown in Chart 4.

Chart 4. Phases of foreign trade liberalization in B&H

	CEFTA	EU, SAA			Customs records				EFTA		EU, adapted SAA
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017

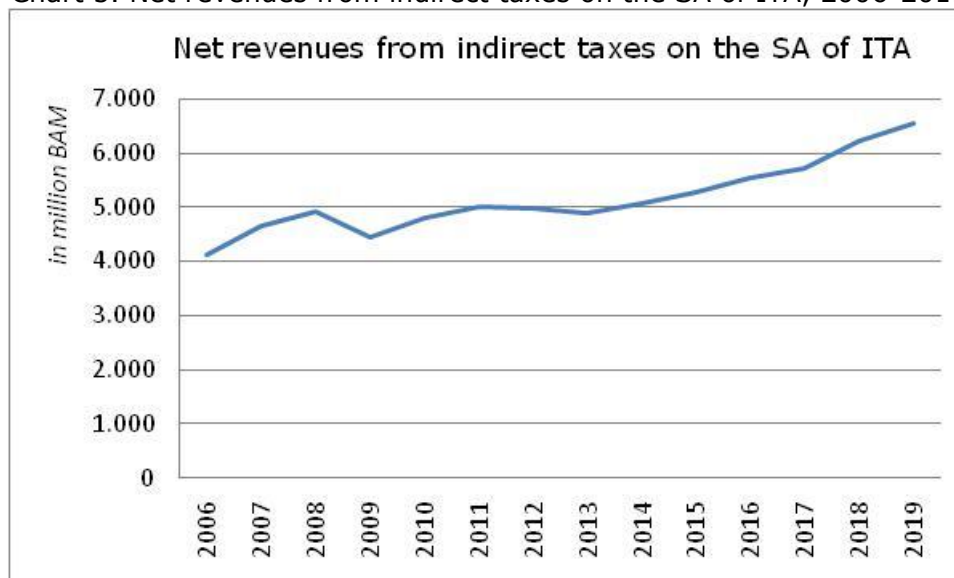
Source: Antic, D. "Foreign Trade Liberalization of B&H (2007-2017): Implications and Comparative Analysis", OMA Bulletin 152/153, March / April 2018, www.oma.uino.gov.ba.

1.3. Indirect tax collection trends

Collected revenues from indirect taxes show a long-term growth trend. Exceptions were "the crisis year" 2009 when a sharp drop in revenue of 9,9% was achieved, as well as stagnation and a slight fall in revenues in 2012 and 2013 respectively. The growth of collected revenues on SA of the ITA was recorded in all other years. It was collected 4,1 billion BAM of net revenues from indirect taxes on the SA of ITA in 2006, and in 2019 the net revenues increased by even 58,7% (6,54 billion BAM) in comparison with 2006. It should be noted that these amounts do not include the lagging payments of indirect taxes on Entity accounts, which were more significant in the initial years after the introduction of VAT.

The share of indirect taxes on the SA of ITA in GDP has varied over the years (Table 2). After dropping this share from 18,8% in 2008 to 17,1% in crisis year 2009, it has been ranging between 17,3% (2013) and 18,6% (2011) since 2010. It amounted 18,3% in 2018. The share of indirect taxes on the SA of ITA in total consumption has also varied, showing a steady upward trend since 2014. In 2018, it was 19,4%

Chart 5. Net revenues from indirect taxes on the SA of ITA, 2006-2019



Source: Indirect Taxation Authority of B&H, calculation of the MAU

93/08, 54/10 and 76/11) will continue to apply. The exception is Article 207 of the new Law which has been applied as of 25 April 2018.

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Table 2. Share of indirect tax revenues on the SA of ITA in GDP and in total consumption

In %	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP	19,5	19,8	18,8	17,1	18,5	18,6	18,1	17,3	17,9	17,7	17,9	17,7	18,3
C	18,4	19,2	17,9	16,5	17,6	17,7	17,4	16,9	17,3	17,8	18,4	18,6	19,4

Source: Calculation based on ITA and BHAS data⁶

1.3.1. Collection in 2019

A review of the net collection of indirect taxes (Chart 5) shows that in 2019, a record amount of indirect tax revenues was collected since the establishment of the ITA, in the amount of 6.541,8 million BAM, while the growth rate was 5,2%. A review of quarterly collection⁷ shows that the highest revenue growth was recorded in the first quarter, when it reached 7,2%. It should be emphasized that collection in January 2019 also includes the effects of the changes in the Law on Excises in 2018, since the increase in the road tax rate has applied as of February 1, 2018. These effects contributed 1,4 percentage points to revenue growth in the first quarter of 2019, and 0,3 percentage points to the annual growth in net collection in 2019. In addition to the effects of legal changes, the growth rate in the first quarter is the result of: growth in consumption, stabilization and increase in the consumption of derivatives, and policies of tobacco companies that have borne part of the additional tax burden (increase in the specific excise tax on cigarettes and cut tobacco from as of January 1, 2019) at the expense of their own profit. Net collection growth rate in the second quarter of 2019 was only 2,3%. The low rate of revenue growth is the result of a sharp fall in revenue in June, primarily VAT. Poor VAT collection in June was partly offset by increase in excise tax revenues on tobacco products, as a result of further postponement of the shift of the additional tax burden to retail prices and the announcement of price adjustments in July. In the third quarter, strong revenue growth of 6,4% was again achieved, as a result of significant growth in net VAT revenues and excises on tobacco. At the beginning of the fourth quarter, revenue stagnation was recorded due to lower collection of almost all types of indirect taxes. However, strong collection of almost all revenue categories in December brought high effects and growth of 4,8% on a quarterly basis.⁸

1.3.2. Collection of total revenues in the period January - April 2020

The growth trend in indirect tax revenues was stopped in April 2020, due to the effects of corona virus on the B&H economy. According to the ITA preliminary report by types of revenues, the April gross revenue collection fell by 155,8 million BAM or by 23,4%. The net collection was 119,5 million BAM or 22,2% lower than in April 2019.

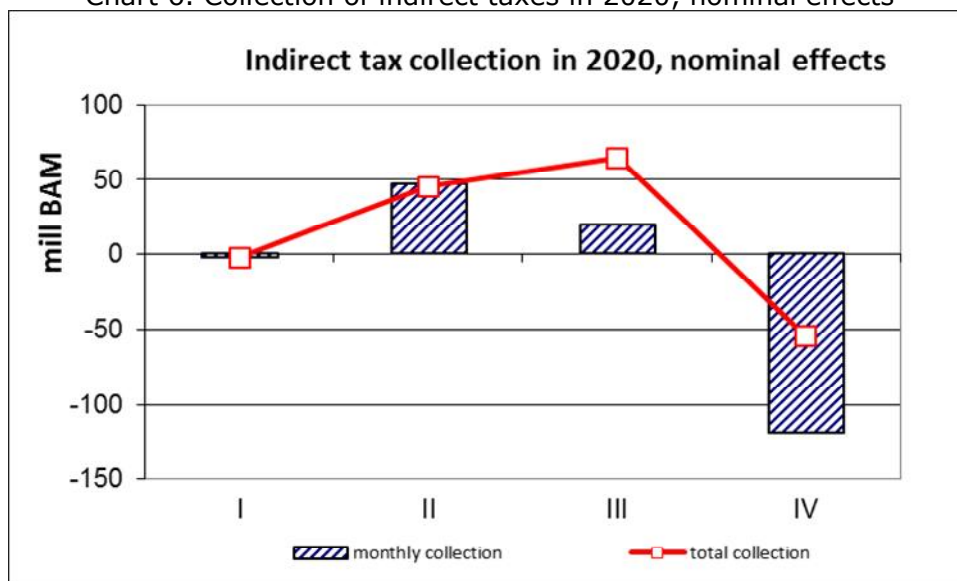
A large decline in revenue collection in April has annulled the surplus achieved in the first quarter of 2020. Cumulative gross collection of revenues in the four months of 2020 is lower by 96,8 million BAM compared to collection in the same period in 2019. At the same time, refund payments were lower by 41,8 million BAM, which mitigated the overall negative results in cumulative collection, and ultimately the net collection of indirect taxes decreased by 55,0 million BAM (Chart 6, "cumulative"), i.e. by 2,7% (Chart 7).

⁶ GDP by expenditure approach, BHAS, Thematic Bulletin; February 1, 2020.

⁷ Comparison of a particular 2019 quarter with a corresponding 2018 quarter (YoY growth)

⁸ More on 2019 collection in Antic, D. "Indirect tax collection in 2019", OMA Bulletin 176/177, March / April 2020, www.oma.uino.gov.ba.

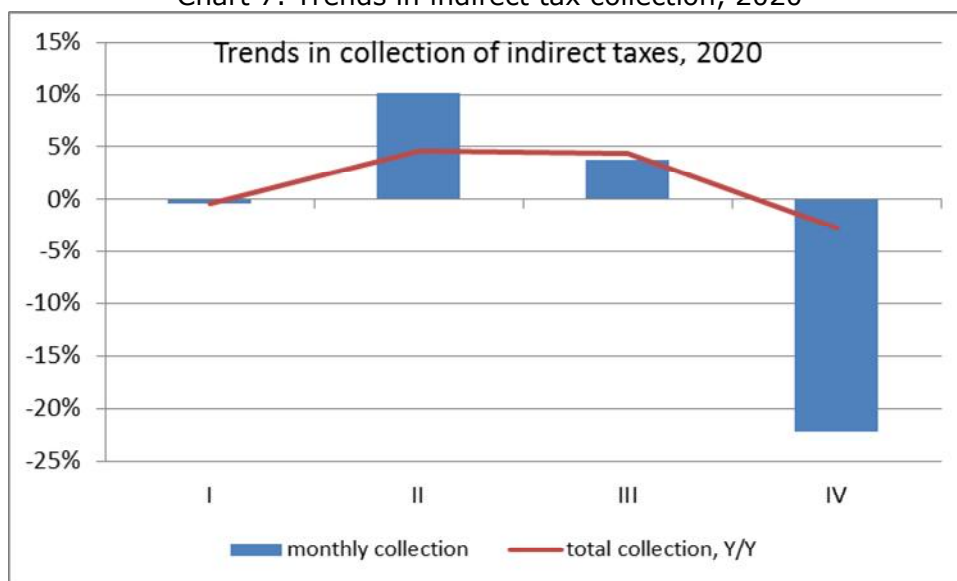
Chart 6. Collection of indirect taxes in 2020, nominal effects



Source: Indirect Taxation Authority of B&H, calculation of the MAU

Chart 7 shows a sharp increase in cumulative net collection in February, which was not jeopardized by weaker growth in March, when the first negative effects of corona virus on revenue collection were manifested.

Chart 7. Trends in indirect tax collection, 2020

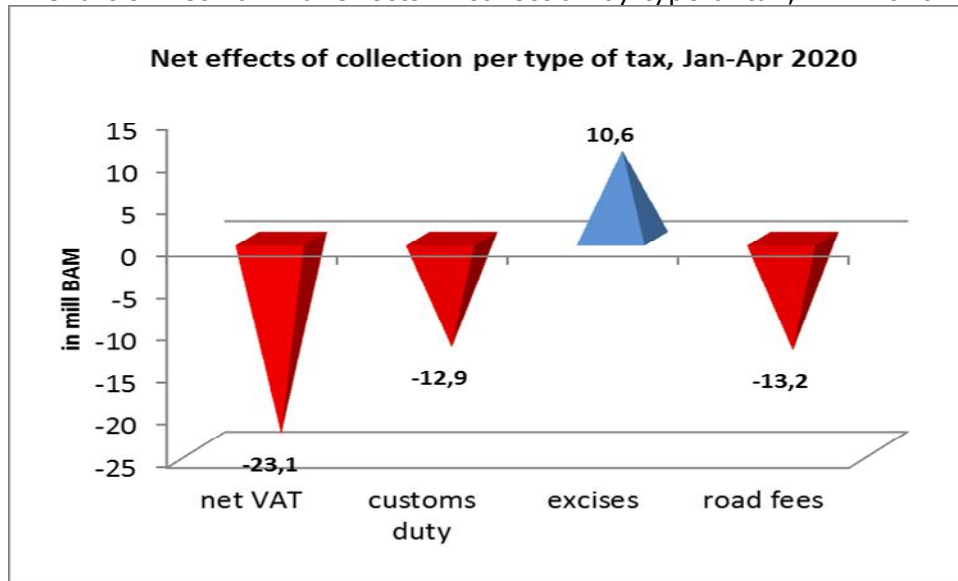


Source: Indirect Taxation Authority of B&H, calculation of the MAU

1.3.3. Collection by type of revenue in the period January-April 2020

A large drop in revenues in April was realized mostly in the collection of VAT (-23,1 million BAM), and then in the road taxes (-13,2 million KM) and customs (-12,9 million BAM), while the growth was only recorded in the collection of excise revenues (+10,6 million BAM).

Chart 8. Net nominal effects in collection by type of tax, I-IV 2020

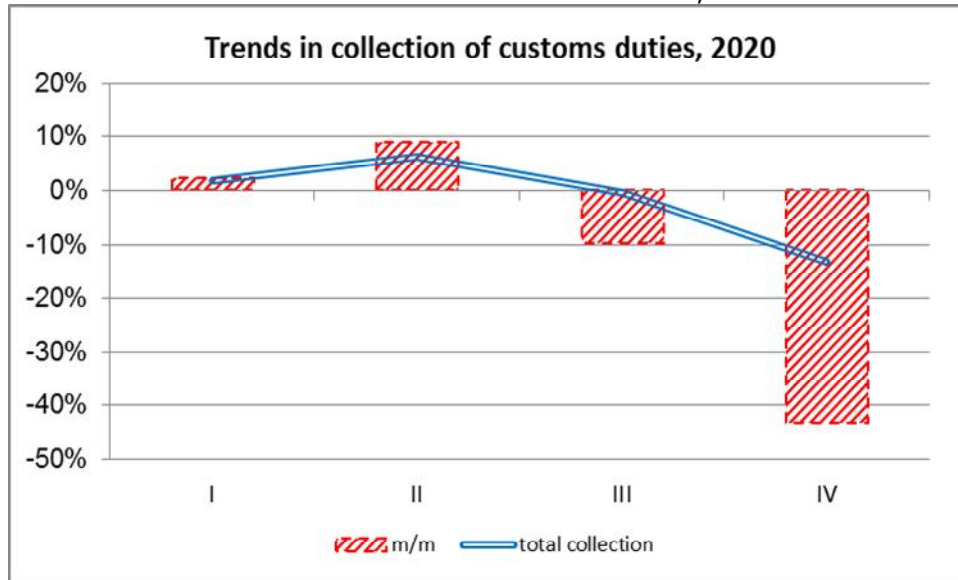


Source: Indirect Taxation Authority of B&H, calculation of the MAU

Customs

Collection of customs revenues in the first quarter of 2020 was at the level of the first quarter of 2019, due to the negative effects of closing the borders due to coronavirus which were manifested in March. In April, collection deteriorated dramatically, with revenue declining by as much as 43,3% (Chart 9).

Chart 9. Trends in customs collection, 2020

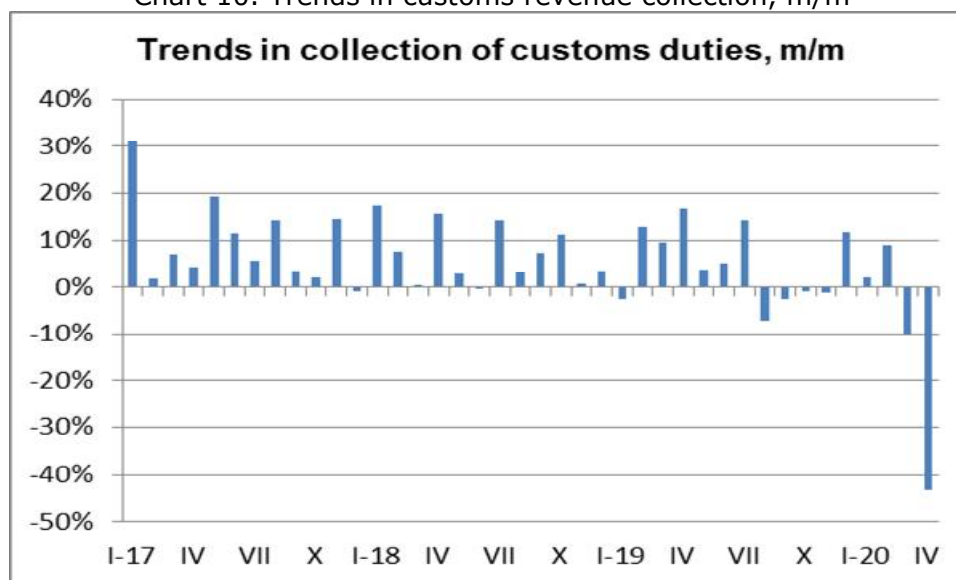


Source: Indirect Taxation Authority of B&H, calculation of the MAU

The high decline in revenues in April brought the cumulative collection of customs revenues into a negative growth zone of 13,1%. The deterioration in customs collection is a consequence of the cumulative negative effect of decline in imports from the EU in the part of goods under the customs regime, and decline in imports of goods from China and other Asian countries. However, positive trends in the collection of customs revenues, which were not

jeopardized even by the last phase of liberalization of foreign trade under the adapted SAA, have now been greatly deteriorated (Chart 10).

Chart 10. Trends in customs revenue collection, m/m

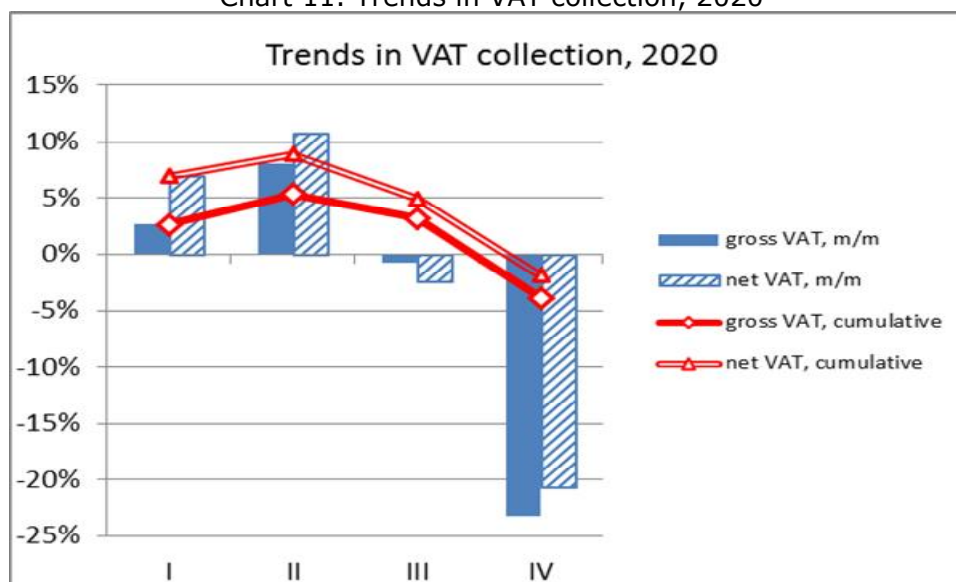


Source: Indirect Taxation Authority of B&H, calculation of the MAU

VAT

The growing trend in the collection of VAT revenues from the first quarter of 2020 was stopped in April. High negative growth rates in both gross and net collection of -23,3% and -20,7% were achieved, respectively. The high decline in VAT collection in April brought the cumulative gross and net VAT into a negative growth zone of -3,9% and -1,9%, respectively, compared to the same period in 2019 (Chart 11).

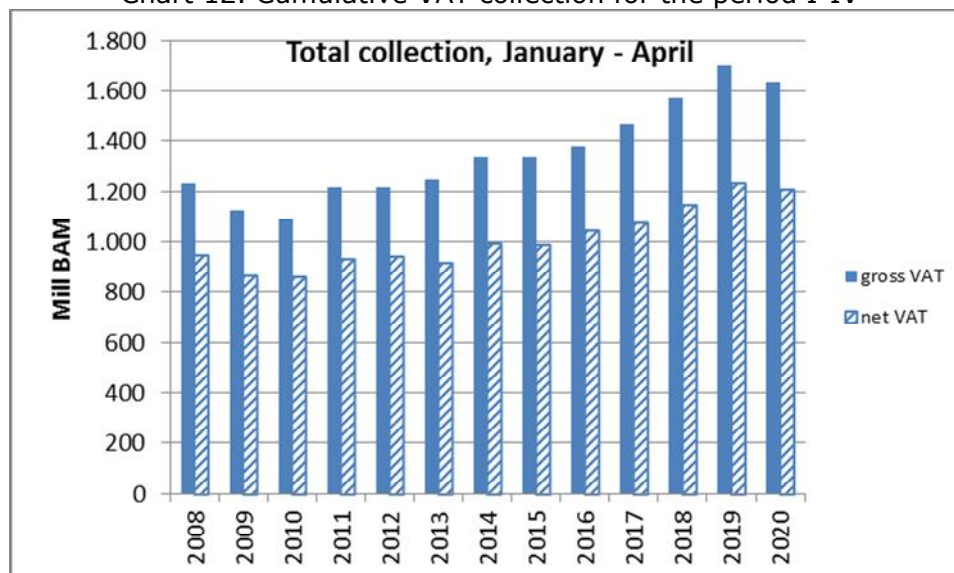
Chart 11. Trends in VAT collection, 2020



Source: Indirect Taxation Authority of B&H, calculation of the MAU

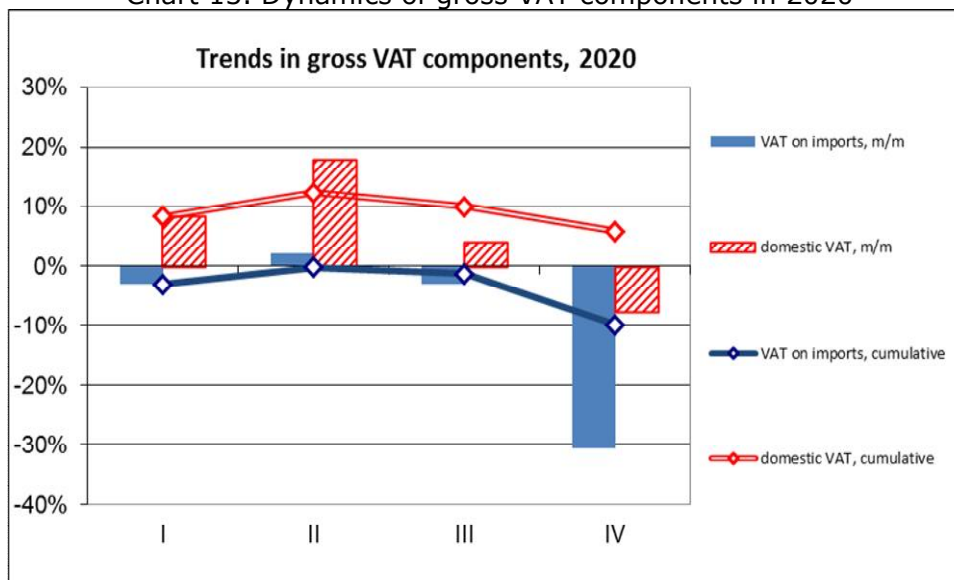
A comparison of nominal gross and net collection shows a decline in both gross and net collection in the first four months of 2020 compared to collection in previous years in the same period. Observation of the collection of VAT in the first four months of the fiscal year from the introduction of VAT until today shows that the maximum was achieved in 2019. On the other hand, the amount of revenue collected in 2020, despite the negative effects of corona virus, was still higher than the collection in 2018, which included the effects of changes in the Law on Excise Duties (Chart 12).

Chart 12. Cumulative VAT collection for the period I-IV



Source: Indirect Taxation Authority of B&H, calculation of the MAU

Chart 13. Dynamics of gross VAT components in 2020



Source: Indirect Taxation Authority of B&H, calculation of the MAU

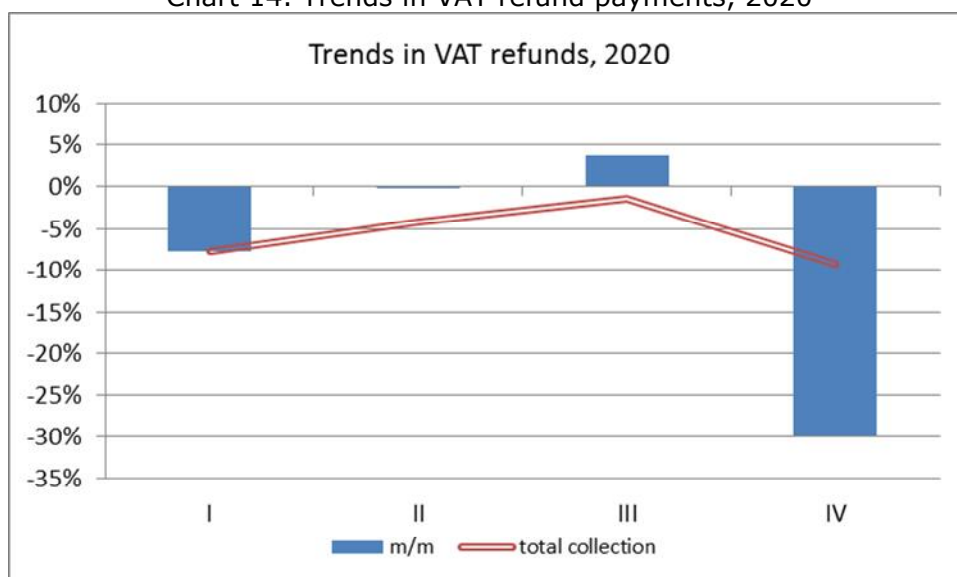
The analysis of the structure of gross VAT collection in April 2020 shows a strong decline in VAT collection on imports of 30,7%. The first quarter of 2020 was characterized by oscillating growth rates of VAT on imports in the range from -3% to + 3%, resulting in a cumulative decline of 1,2% at the level of the first quarter. However, a high decline in VAT collection on

imports in April led to a 9,9% drop in cumulative collection at the level of four months of 2020 (Chart 13, "VAT on imports-cumulative").

On the other hand, after a positive increase in the monthly collection of domestic VAT in the first quarter, a decline of 7,8% was recorded in April, (Chart 13), as a consequence of reduced turnover of taxpayers in March. The decline in domestic VAT collection in April have reduced the cumulative growth rate, keeping it still in a positive growth zone, with domestic VAT growth rate of 9,9% at the three-month level, and reduced growth rate of 5,9% at the four-month level (Chart 13, "Domestic VAT"). Despite the negative effects of coronavirus, the achieved growth rate is still above the DEP's projections of consumption growth, not only from the most recent projections dating from May and April, but also from the previous revisions of projections, that were published before the appearance of coronavirus.

In April 2020, the VAT refund payments decreased by 29,9%, as a result of a decrease in exports, imports and investments. The high decline in VAT refund payments had a positive effect on the cumulative refund payments, which have decreased by 9,3% since the beginning of the year (Chart 14, "VAT refunds, cumulative").

Chart 14. Trends in VAT refund payments, 2020

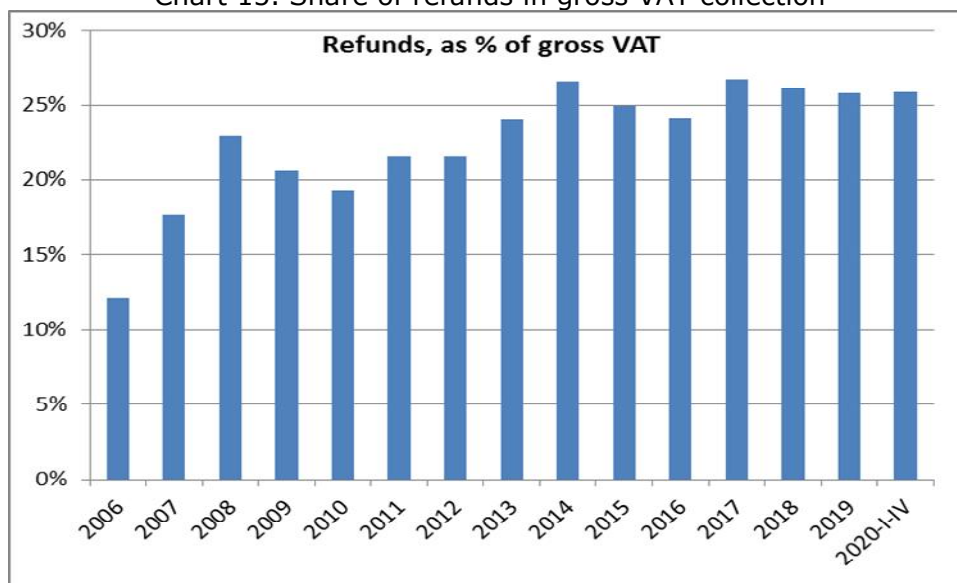


Source: Indirect Taxation Authority of B&H, calculation of the MAU

The analysis of the structure of refunds showed a decrease in payments of refunds to taxpayers of 12,8%, or nominally 55,4 million BAM in the previous four months. This was the lowest level of refund payments in the last three years. The growth trend from previous months has continued in the case of refunds to international organizations and projects, so at the level of four months, an increase of 39,7% (or nominally 12,4 million BAM) was recorded.

As gross VAT falls, so do refunds as well. The indicator of the share of refunds in the gross VAT collection is 25,8%, which is almost identical to the average share of refunds in the gross VAT collection in 2019, and lower than the annual averages in 2014, 2017 and 2018 (Chart 15).

Chart 15. Share of refunds in gross VAT collection

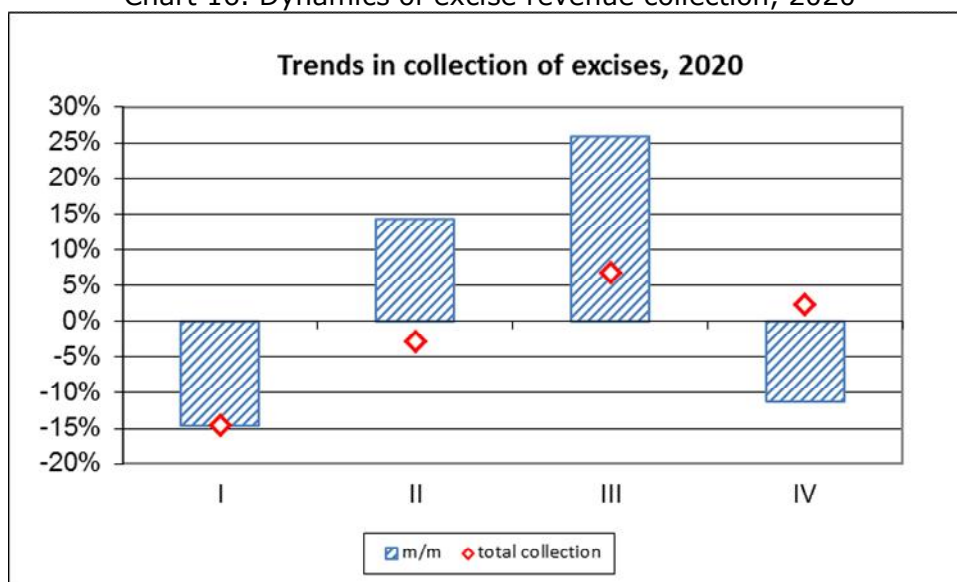


Source: Indirect Taxation Authority of B&H, calculation of the MAU

Excises

Excise collection in the first three months had a growing trend, with a wide range of monthly growth rates. A high growth rate of 25,8% was recorded in March, which increased the cumulative growth rate to a high 6,8%, above all projections of the real consumption growth rates. However, April brought a decline of 11,3%, reducing the cumulative growth rate to 2,3% (Chart 16).

Chart 16. Dynamics of excise revenue collection, 2020



Source: Indirect Taxation Authority of B&H, calculation of the MAU

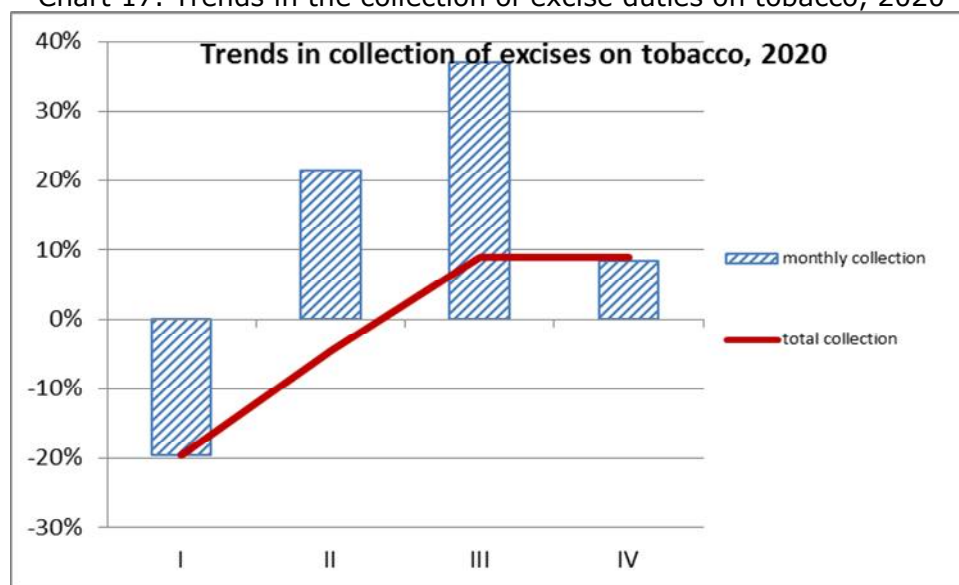
Revenues from excises on tobacco and excises on alcohol and alcoholic beverages increased in April, while collection of excises on other products decreased.

Revenues from excises on tobacco products recorded an increase of 8,4% in April, which kept the positive growth trend from February (Chart 17). The growth in excise collection in April was sufficient to maintain the cumulative growth rate at the level of the first quarter of 2020. Given the circumstances, the increase in revenues from excises on tobacco is surprising, especially since excise duties are paid to the ITA in advance, before the turnover and consumption. Since these are several large global tobacco companies, it could be concluded that they expect a growth in cigarette and tobacco consumption, even during the pandemic.

Despite the growth of excise revenues in April, the number of excise stamps (i.e. cigarette packs) was lower by 1,9%. Overall, at the four-month level, tobacco companies took 5,8% more excise stamps for cigarettes than in the same period in 2019, although retail cigarette prices increased at the beginning of the year (Chart 18).

Finally, it is indicative that the growth in revenues from excise duties on cigarettes in April comes entirely from the collection on imported cigarettes. **For the first time since the establishment of records of excise stamps, in accordance with the requirements of the new Law on Excise Duties as of 2009, it happened that not a single excise stamp for domestic cigarettes was taken over.** Based on that, a conclusion can be drawn that the domestic production of cigarettes is not planned, at least not in the next period. The question remains whether this business decision is just an introduction to the complete shutdown of the domestic tobacco industry in Sarajevo, or is temporary due to the difficult business in B&H caused by the coronavirus.

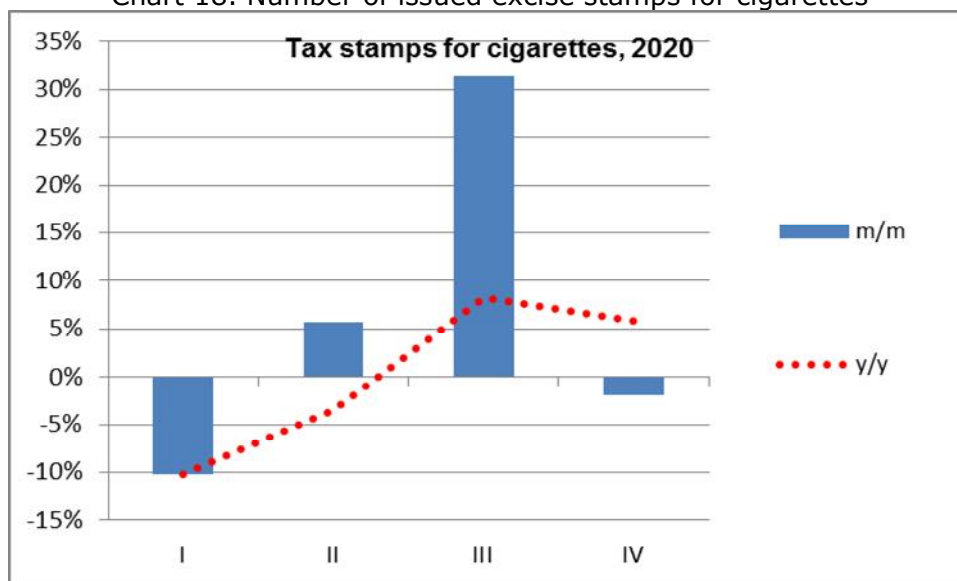
Chart 17. Trends in the collection of excise duties on tobacco, 2020



Source: Indirect Taxation Authority of B&H, calculation of the MAU

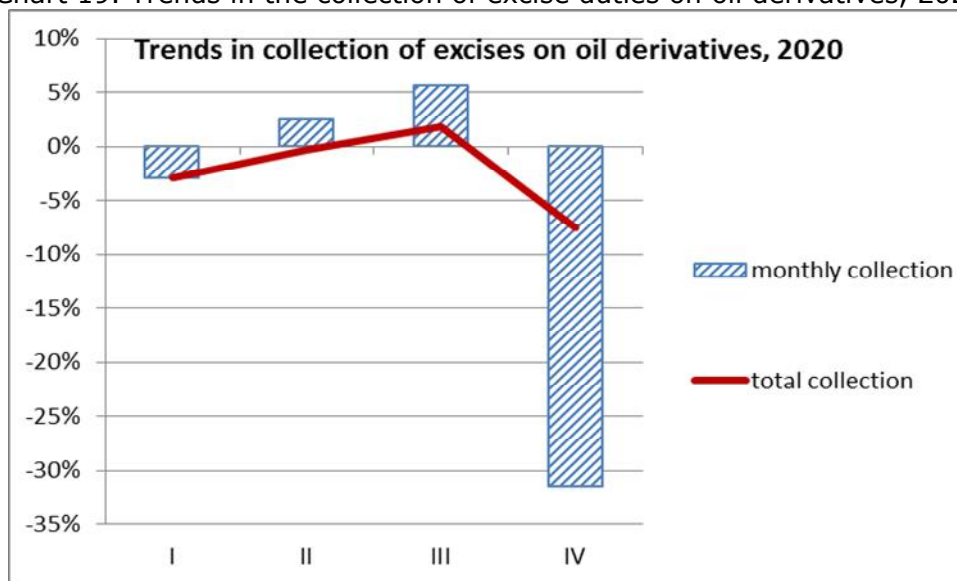
In April 2020, there was a large decline in the collection of revenues from excises on oil derivatives, as much as 31,5%. The decline was expected given all the restrictions in B&H regarding the movement of citizens, border closures and difficulties in imports, exports and domestic transport and in the business activities of companies as a whole. The large drop in excise revenues in April canceled the increase achieved in the first quarter and ultimately, at the level of four months, brought a decline of 7,5% (Chart 19, line „total“).

Chart 18. Number of issued excise stamps for cigarettes



Source: Indirect Taxation Authority of B&H, calculation of the MAU

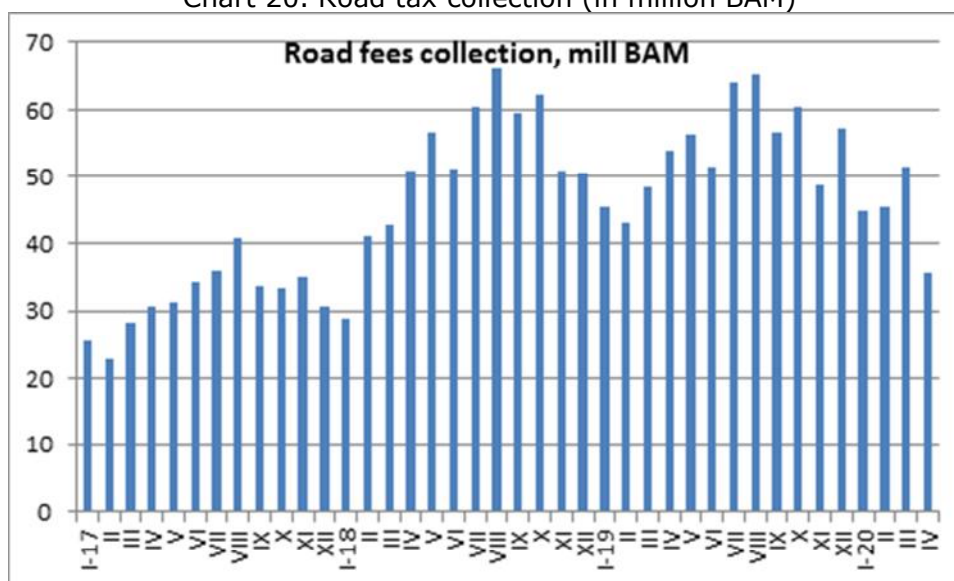
Chart 19. Trends in the collection of excise duties on oil derivatives, 2020



Source: Indirect Taxation Authority of B&H, calculation of the MAU

Road tax revenues decreased by 33,4% in April (Chart 20), while at the four-month level the cumulative decline was 6,9%.

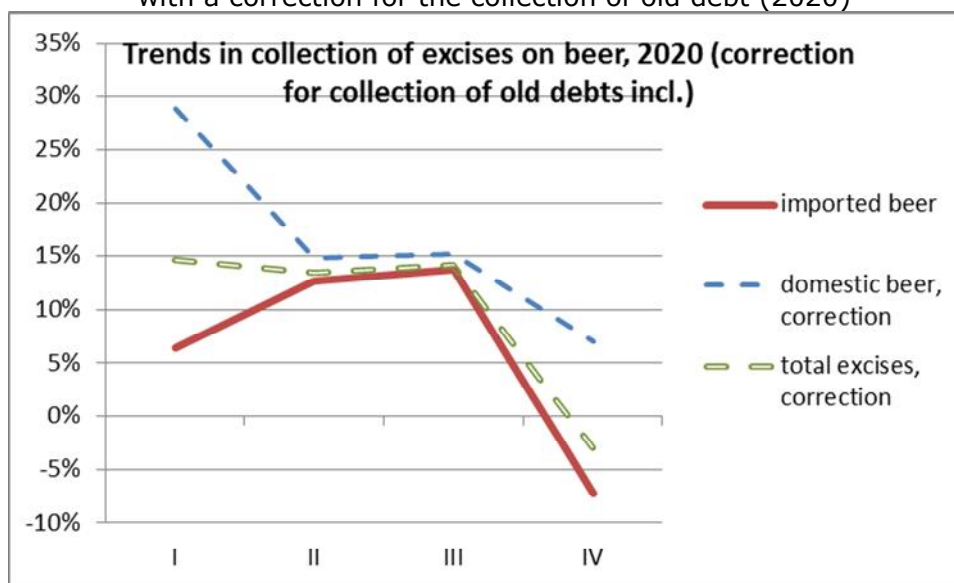
Chart 20. Road tax collection (in million BAM)



Source: Indirect Taxation Authority of B&H, calculation of the MAU

In April, the trend of increasing revenues from excises on alcohol and alcoholic beverages has continued, as well as the trend of declining revenues from excises on non-alcoholic beverages.

Chart 21. Trends in the collection of excise duties on beer with a correction for the collection of old debt (2020)



Source: Indirect Taxation Authority of B&H, calculation of the MAU

After two months of positive growth, a high drop in the collection of excises on beer of 41,9% was recorded in April, which shifted the cumulative total collection of excise duties on beer to a negative growth zone. However, it should be borne in mind that the statistical basis for comparison from 2019 is higher by the amount of old debts collected on the basis of excise duties on beer. After excluding the collection of old debt, the decline in the collection of excise duties on beer for the four months of 2020 amounts 4,2% (Chart 21, "total, correction"), while the cumulative collection of excise duties on domestic beers is in a positive growth zone of 3% (Chart 21, "domestic beer, correction").

2. Indirect tax revenue projections, 2020-2023

Revenue projections for the period 2020-2023 are available in Table 3. In order to ensure the comparability of projected and collected revenues from indirect taxes, projections of indirect tax revenues are presented on a cash basis in accordance with ITA reporting on collection by type of revenue.

Table 3. Projections of indirect tax revenues 2020-2023 (in million BAM), June 2020

Type of revenue (net)	in million BAM					Projected growth rate			
	Realization	Projection							
	2019	2020	2021	2022	2023	2020	2021	2022	2023
VAT	4.022,4	3.849,6	3.978,8	4.125,7	4.285,0	-4,3%	3,4%	3,7%	3,9%
Excises	1.533,3	1.493,6	1.548,7	1.599,0	1.651,7	-2,6%	3,7%	3,2%	3,3%
Customs	300,6	273,7	289,6	309,6	334,6	-9,0%	5,8%	6,9%	8,1%
Road tax	650,2	614,4	650,2	670,3	692,3	-5,5%	5,8%	3,1%	3,3%
Other	35,3	26,5	27,8	29,1	30,6	-24,8%	4,7%	4,9%	5,0%
TOTAL	6.541,8	6.257,9	6.495,2	6.733,6	6.994,2	-4,3%	3,8%	3,7%	3,9%
Earmarked road tax *)	-406,2	-384,0	-406,4	-418,9	-432,7	-5,5%	5,8%	3,1%	3,3%
Funds for distribution	6.135,6	5.873,8	6.088,8	6.314,7	6.561,5	-4,3%	3,7%	3,7%	3,9%

Notes:

*) The earmarked road tax amounted to 0,10 BAM /l of oil derivatives until 1 February 2018, aimed entirely for the construction of highways, and as of 1 February to 0,25 BAM /l of oil derivatives, for the construction of highways (0,20 BAM/l) and construction and reconstruction of other roads (0,05 BAM/l).

**) The amount of earmarked road tax to be distributed to users in 2019 under the provisions of the Law on Changes and Amendments to the Law on Payments into the Single Account and Distribution of Revenue does not fully correspond to the amount of the collected earmarked road tax shown in Table 3 (406,2 million BAM) due to the application of the new model of distribution of collected road tax as of 1st February 2018, according to which the distribution is not performed on a daily basis, but subsequently, at the end of the month for the previous month on the basis of the preliminary / final report of the ITA on collected revenues by type. The distribution of earmarked road tax of 0,10 BAM/l of derivatives according to the old model of daily distribution ended on 31 January 2018, and the distribution of an earmarked road tax of 0,25 BAM/l of derivatives to the Entities and the Brcko District according to the new model started only in March 2018.

Table 4 shows revenue projections in % of GDP.

Table 4. Projections of indirect tax revenues 2020-2023 (in % of GDP), June 2020

Type of revenue (net)	in % of GDP				
	Realization	Projection			
	2019	2020	2021	2022	2023
VAT	11,4%	11,2%	11,1%	11,0%	10,9%
Excises	4,3%	4,4%	4,3%	4,3%	4,2%
Customs	0,9%	0,8%	0,8%	0,8%	0,9%
Road tax	1,8%	1,8%	1,8%	1,8%	1,8%
Other	0,1%	0,1%	0,1%	0,1%	0,1%
TOTAL	18,5%	18,3%	18,2%	18,0%	17,8%
Earmarked road tax	-1,1%	-1,1%	-1,1%	-1,1%	-1,1%
FUNDS FOR DISTRIBUTION	17,3%	17,1%	17,1%	16,9%	16,7%

Data source for GDP: DEP Projections („Macroeconomic Projections for 2020-2023“, May 2020), GDP by expenditure approach

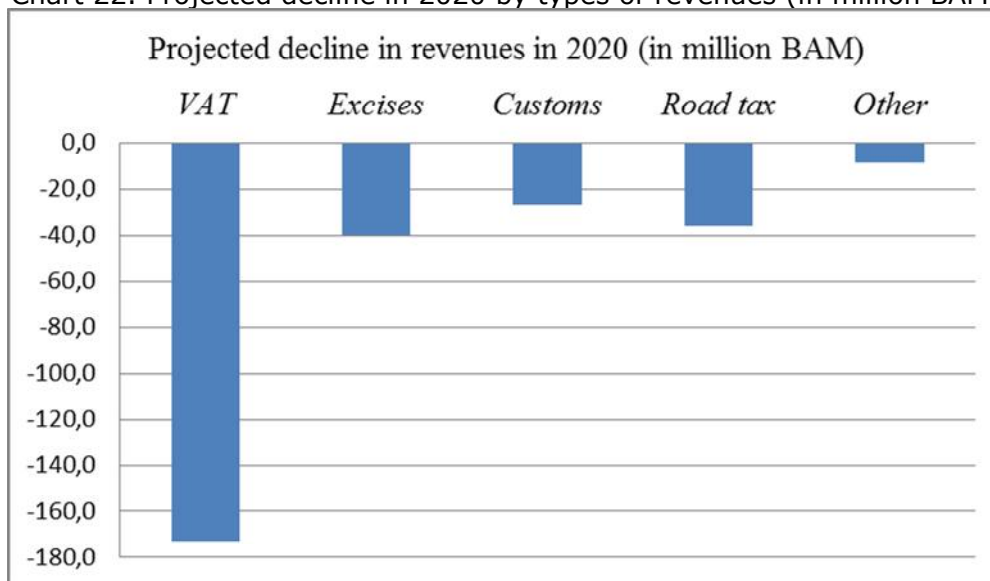
2.1. Projections for 2020

In the first quarter of 2020, the net collection of indirect tax revenues increased by 64,6 million BAM or by 4,4% compared to the collection in the first quarter of 2019. The first quarter growth rate was even 1,4 p.p. above the projected annual growth rate for 2020 in MAU projections from October 2019. Given the current situation caused by the corona virus pandemic, and based on projections of macroeconomic indicators (DEP, May 2020), we can be sure that positive trends from the first quarter will not continue in the rest of the year. Already in April, the net collection of revenues decreased by 119,5 million BAM or by 22,2%, compared to April 2019. The cumulative gross revenue collection for the four months of 2020 decreased by 96,8 million BAM, compared to the collection in the same period in 2019. At the same time, refund payments were lower by 41,8 million BAM, which mitigated the overall negative results in cumulative collection, and ultimately the net collection of indirect taxes was lower by 55,0 million BAM, or by 2,7%.

Based on the available collection data and basic assumption of DEP's projections that the crisis will be overcome in the second half of the year, we can expect a large decline in revenues in the second quarter of 2020, and gradual recovery of collection in the second half of the year.

The projected amount of net collection of indirect taxes for 2020 is 6.257,9 million BAM, which is 4,3% less than in 2019. The projected decline in revenues in the absolute terms amounts 284,0 million BAM. Chart 22 shows the share of individual types of revenues in the total projected absolute decline (in million BAM).

Chart 22. Projected decline in 2020 by types of revenues (in million BAM)



Source: Projections of the MAU, April 2020

2.1.1. VAT

Based on revenue collection data for the first four months, projected negative effects of the crisis caused by the corona virus pandemic and projections of consumption, import, and export in 2020, it is expected the VAT revenue in the amount of 3.849,6 million BAM, which is lower by 4,3% than the collection in the previous year. The projected rate of VAT decrease is slightly higher than the projected rate of decline in private consumption. This is in line with long-term data on the elasticity of VAT revenues in relation to private consumption in B&H, as well as

with findings of the IMF Study showing that changes in tax collection are more pronounced than changes in the corresponding base from national accounts.⁹

2.1.2. Excises and road taxes

The projected amount of total revenues from excises in 2020 amounts to 1.493,6 million BAM, which is KM 39,8 million or 2,6% less than in 2019.

Revenues from excises on oil derivatives and road taxes

The past two years have been characterized by strong changes in the market of oil derivatives due to the effects of changes in the Law on Excises in 2017 (applicable from February 1, 2018).¹⁰ There were significant changes in the structure of the base¹¹ of excise duty on oil derivatives during the mentioned period. The share of heating oil in the base decreased significantly, from 5,0% in 2017 to 3,4% in 2019. The share of kerosene, as a component with the lowest aggregate tax rate (comprised of road and excise tax rates) increased from 1,4% to 2,1%.¹² Despite the lower excise duty rate (0,3 BAM/l), the high share of diesel in the base together with stable consumption growth rates has led to this type of derivatives generating the largest amount of excise tax revenue growth in the period 2017-2019. The component of unleaded petrol consumption (as well as its share in the excise duty base) decreased and had a negative impact on the growth rate of revenues in the observed period. The total excise tax base, i.e. the amount of taxed derivatives, increased by only 1,5% in the aforementioned period. That rate is well below the estimated two-year growth rate of real GDP and consumption, and we can look for reasons in the rise in derivative prices.¹³

The picture is quite different in the case of road tax revenues. As much as 70,1% more revenue was collected in 2019 than in 2017. This is a multiplied effect of a 60% increase in the rate of taxation and a 6,3% increase in tax base in the aforementioned period.¹⁴ Changes in the structure of the base, in terms of the components which had been included in 2017, had no effect as in the case of excise duties, given the unique rate of taxation of derivatives by road tax. An exception is the extension of the base to biofuels and liquid petroleum gas for motor vehicles, which has generated additional revenue.

The pandemic of the corona virus has brought further turbulences to the oil derivatives market. Quarantines and isolations, reduced business and private travel, curfew, restrictions in gathering and in transportation between cities led to a loss of excise revenues during the restriction period. Consumption of basic foodstuffs is rigid downwards, while the consumption

⁹ Sancak, Velloso and Xing, „Tax Revenue Response to Business Cycle“, IMF Working Paper, 2010

¹⁰ Changes in the excise policy on oil derivatives and road tax from 2017 refer to: increase in the excise rate on heating oil from 0,30 to 0,45 BAM/l; introduction of excise tax on biofuels and bio-liquids (0,30 BAM/l); increase in the rate of earmarked road tax from 0,10 to 0,25 BAM/l (with separation of rates and funds by purpose for highways and other roads); and change in the road tax base in terms of inclusion biofuels and bio-liquids, and liquid petroleum gas for motor vehicles („Official Gazette of B&H“ 91/17).

¹¹ The term "base" refers to the quantities calculated by the MAU. For excise duties it includes the amount of imported oil derivatives and biofuels and the amount of domestic derivatives and biofuels placed on the market. The amounts from excise declarations were taken with the time lag $m-1$, in order for the base to be correctly presented in accordance with the provisions of the Law on the occurrence of the obligation and payment of excise duties.

¹² It should be borne in mind that these two categories of derivatives could not have a significant impact on the dynamics of the total base and revenues, given their low weight in the base.

¹³ In 2019, there was a 2,7% increase in net excise tax revenue on oil derivatives compared to 2017 (an adjusted amount that takes into account the collected excise tax revenues through offsetting with VAT claims).

¹⁴ The reasons for higher base growth than in the case of excise taxes were: (1) decrease in consumption of heating oil, which was one of the goals of the amendments to the Law, in order to reduce abuses in the use of heating oil as fuel; (2) the extension of the road tax base on liquid petroleum gas, which had not been included in the road tax base in 2017; (3) a decline in the realization of the exempted diesel fuel used for the needs of mines, thermal power plants and railways in the observed period.

of many other goods (e.g. furniture) is assumed to be partially offset in the period after relaxation of the measures. On the other hand, a significant part of the consumption of oil derivatives in the period of implementation of containment measures will be permanently lost and irrecoverable.

The fall in oil prices should have a stimulating effect on consumption in the coming period. The document "Macroeconomic projections for 2020-2023" (DEP, May 2020) presents both the projections of the European Commission¹⁵ and the IMF¹⁶, according to which significantly lower crude oil prices are expected in 2020 and 2021 compared to 2019.

Table 5. Crude oil price projections, \$/barrel (EC and IMF)

	2019.	2020.	2021.	2022.	2023.
EC (May 2020)	64,1	38,4	40,2	n/a	n/a
IMF (April 2020)	61,4	35,6	37,9	n/a	n/a

Source: EC and IMF, taken from „Macroeconomic Projections for 2020-2023“ (DEP, May 2020)

Based on all of the above, and taking into account projections of real developments in macroeconomic indicators, gross revenues from excises on oil derivatives and road tax revenues are expected to fall by 5,3% and 5,5% in 2020, respectively, compared to 2019 gross collection.

Revenues from excises on tobacco products

The collection of excise duties on tobacco products basically depends on the business policies of the three major international tobacco companies, i.e. their estimates of growth factors in the market and the impact of external factors and risks. Since excise taxes on tobacco products are paid after the excise stamps are taken over, i.e. from one month to a month and a half before the import of cigarettes, collection of excise tax revenues in the case of tobacco products does not indicate current consumption of final consumers, but the expected turnover projected by tobacco companies for the future. The high increase in excise tax collection, which was achieved in February 2020, was expected given the fact that companies had taken over large quantities of stamps at the end of 2019, which was sufficient for the consumption in the beginning of 2020, but the increase in collection in March of 37,1% can be interpreted in two ways. Either tobacco companies did not expect a big drop in turnover in the second quarter, although the epidemic had already emerged in Europe and then in B&H,¹⁷ or they, aware of import problems, wanted to increase the stocks of tobacco products, while suffering financial damage due to excise duty payments before the planned deadlines. In April, there was a slight decrease in the number of issued excise stamps of 2%, which points to optimistic forecasts of the tobacco industry regarding the relaxation of restrictive measures and the opening of borders of B&H. The opening of borders of B&H on June 1, 2020 represents a positive step in terms of increasing the consumption of non-residents, diaspora and B&H citizens who are temporarily working abroad, in the first place. Another factor in the recovery of excises on tobacco products is the pace of recovery of the economy, i.e., the effectiveness of the measures adopted by the entity governments, which are primarily aimed at preserving jobs and employment. The growth of the cut tobacco segment at the expense of a decrease in cigarette consumption is possible due to a fall in income and employment. This would reduce the excise collection, since tobacco is less taxed than cigarettes.

¹⁵ European Commission, European Economic Forecast, Spring 2020, Institutional Paper 125, May 2020

¹⁶ IMF, World Economic Outlook, April 2020

¹⁷ The first case of corona virus in B&H was confirmed on March 5, 2020.

In these circumstances, estimates regarding the growth of the cigarette market in the coming quarters are not optimistic, but excise tax revenue growth of 9% in the first quarter is expected to largely nullify the negative trends in the rest of the year. The growth in the fourth quarter can be expected if the epidemic ends by autumn, and the situation at the B&H borders is normalized and the diaspora, tourists and other non-residents are able to arrive without interruptions. The assumption is that companies will not increase cigarette retail prices in such turbulent times full of uncertainty about the epidemic's course, especially since the last increase in early 2020 has increased the average weighted price of cigarettes by 5% compared to 2019. Based on the above assumptions, the weak revenue decrease of 0,6% is expected in 2020 (compared to 2019).

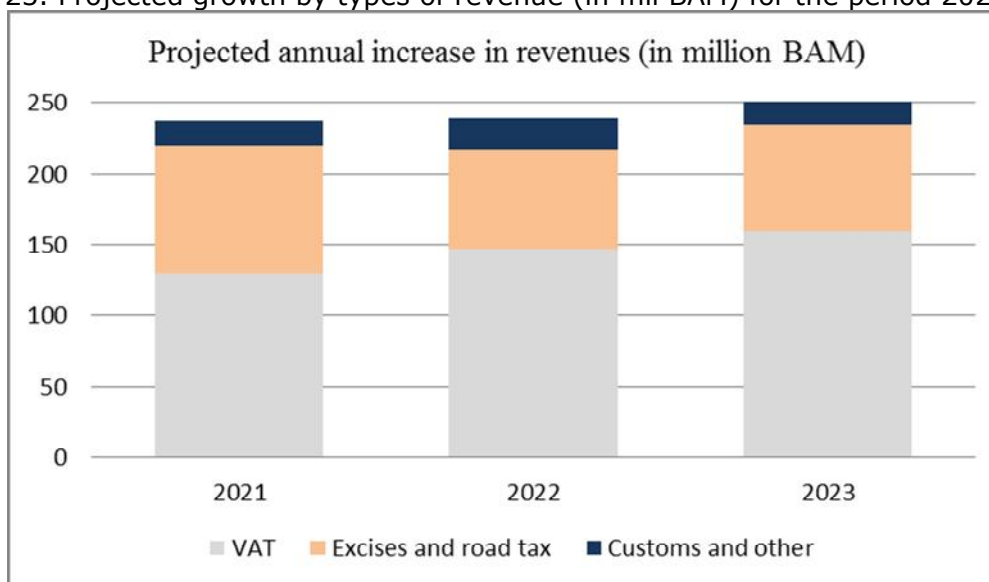
2.1.3. Customs

The projected amount of net customs revenue in 2020 amounts to 273,7 million BAM, which is 9% below the level achieved in 2019. The projections take into account trends of imports and customs in the first four months of 2020 and in previous years, as well as projections of imports (DEP).

2.2. Projections for the period 2021-2023

The projected revenue growth rates for 2021, 2022, and 2023 are 3,8%, 3,7% and 3,9%, respectively. Revenue projections in this period are based on projected relevant macroeconomic indicators, historical seasonal collection pattern and projections of individual revenue categories for 2020. As in the case of 2020, projections are made on a cash basis. It is assumed that there will be no offsetting the liabilities for road tax by VAT credits in 2019. If they eventually appear, this can be reflected in the deviations of collection from projections by type of revenue, rather than the total collection of indirect taxes. Chart 23 shows the projected annual revenue growth by type.

Chart 23. Projected growth by types of revenue (in mil BAM) for the period 2021-2023



Source: Projections of the MAU, June 2020

The largest generator of the surplus of indirect taxes revenues in the mentioned period is VAT, given its significant share in revenues and planned stable growth rates in line with

consumption projections. In all three of these years, VAT revenues generate over 54% of absolute annual projected revenue growth.

Road tax revenues do not contribute significantly to the projected absolute revenue growth in the period 2021-2023 due to the exhaustion of the effects of tax rate increase. The highest rate of growth for the road tax revenues in observed period is planned for 2021, due to the lower base in 2020, because of permanently lost consumption in the second quarter (caused by travel restrictions during the implementation of measures to control the spread of corona virus).¹⁸

Projections of excises (with the exception of part of excise duty on tobacco that is charged *ad valorem*) and road taxes are based on the projections of real growth rates of appropriate macroeconomic indicators, which is another reason, in addition to falling share of consumption in GDP, of the decrease of projected revenue shares in GDP (Table 4).

With the end of the corona virus epidemic and the normalization of the situation at the borders and within B&H, we can expect stabilization and then recovery on the tobacco market, especially in terms of consumption of non-residents. The realization of these forecasts depends on the recovery of the economy, increase in employment and income, which could cause smokers who switched to cut tobacco during the epidemic to return again to cigarette consumption. In such circumstances, it is realistic to expect first stagnation and then a decline in the cut tobacco market. Given that it is essential to stabilize the market, cigarette prices are expected to remain unchanged on average. Due to positioning on the market, there may be changes in the prices of individual brands, especially given the complete uncertainty about the future of domestic cigarette production. The value of the cigarette market is expected to follow the consumption growth, which, in case of retaining retail prices at 2020 levels, could result in increased consumption of cigarettes. In these circumstances, excise tax revenue can grow by 2,8% in 2021, while growth rates of 3,5% and 3,6 can be expected for 2022 and 2023, respectively (Chart 28). In addition to macroeconomic trends and income growth, the effectiveness of measures to combat the black market remains an important factor in achieving projected growth in excise tax revenue collection.

3. Differences from previous projections of indirect taxes

DEP's document "Macroeconomic Projections for 2020-2022" from September 2019 predicted nominal GDP growth of 4,4% for 2020, and growth rates of 5,0% and 5,1% for 2021 and 2020 year.

After including the estimates of the corona virus epidemic effects, the GDP growth rates projected in April in the DEP's document „Macroeconomic Projections for 2020-2023“ were shifted from a high and stable (projected in 2019) to the negative zone (see Charts 1-3 in section 1.1. Projections of macroeconomic indicators). It is mentioned in the document that the projections were made at the time when a part of statistical data was not available for March, the month in which there were mutual shocks on the supply and demand side. It was also pointed out that, at the time of preparing their projections, a number of international institutions (IMF, World Bank, EC) were auditing their economic projections for 2020 on a weekly basis, due to uncertainties about the duration and quantification of the consequences of the corona virus pandemic.

¹⁸ Directorate for Economic Planning does not submit estimates of consumption by categories. Based on the available data on collection of indirect taxes by type, MAU estimates that the decline in derivative consumption in 2020 will be greater than the decline in total consumption, and that, due to a lower base, growth in derivative consumption in 2021 will be greater than growth in total consumption.

On June 1, 2020 DEP submitted to the OMA the revised projections of macroeconomic indicators (DEP, May 2020) according to which the nominal decline in GDP in 2020 is projected to be twice as large as projected in their April projections (Charts 1-3).¹⁹ The most revised projection refers to the decline in private consumption (Chart 2),²⁰ which has a significant impact on the projections of revenues from indirect taxes.

Differences in projections of indirect taxes for the period 2020-2023 compared to the April 2020 and October 2019 projections arise from changes in the collection trends of certain types of revenues and changes in the projections of macroeconomic indicators (see Charts 1-3 in section 1.1. Projections of macroeconomic indicators) and are presented in Tables 6 and 7 below (sections 3.1 and 3.2).

3.1. Differences between projections of indirect taxes (June 2020) and projections from October 2019

Table 6 presents the differences between the projections of indirect taxes (June 2020) and OMA's projections from October 2019.

Table 6. Differences between the projections of indirect taxes (June 2020) and OMA's projections from October 2019

	In million BAM					in % of GDP *)			
	2019**	2020	2021	2022		2019	2020	2021	2022
VAT	19,7	-282,6	-291,9	-302,0		0,1%	-0,8%	-0,8%	-0,8%
Excises	12,1	-60,9	-45,7	-40,8		0,0%	-0,2%	-0,1%	-0,1%
Customs	-0,9	-48,3	-57,6	-67,4		0,0%	-0,1%	-0,2%	-0,2%
Road tax	-7,1	-55,3	-32,9	-27,2		0,0%	-0,2%	-0,1%	-0,1%
Other	5,4	-3,8	-2,9	-2,0		0,0%	0,0%	0,0%	0,0%
TOTAL	29,2	-450,8	-431,0	-439,4		0,1%	-1,3%	-1,2%	-1,2%

*) Projection of GDP, DEP, May 2020

***) 2019 figures represent revenue realization

3.1.1. Differences between 2019 revenue realization and October 2019 projections

Indirect tax revenue collection in 2019 was 29,2 million BAM higher than the revised projections from October 2019 (Table 5). Net VAT revenues exceeded by 19,7 million, while excise tax revenues exceeded by 12,1 million BAM. Customs and road tax revenues were 0,9 and 7,1 million BAM below the October projections, respectively. The positive difference of 5,4 million BAM relates to other revenues (other and unadjusted revenues at the SA of ITA).

In December 2019, there was an unexpectedly high growth in net VAT revenues (11,5%) as a result of strong growth in gross revenues of 8,6% and low growth in VAT refunds at a rate of 1,4%.

One of the assumptions of the revised projections from October 2019 was the remaining unchanged cigarette prices in 2020 at the level of 2019, following the completion of the process of harmonization of the excise duty on cigarettes with the EU minimum excise duty in

¹⁹ Projections from May predict a nominal decline in GDP of 3,1%, while projections from April predict a decline of 1,5%.

²⁰ The DEP's projections from May predict a twice as large nominal decline in private consumption compared to the DEP's projections from April 2020.

2019. However, the announcement of an increase in retail prices of January 1, 2020 triggered the cigarette stockpiling at distributors at the end of the year, in anticipation of increased consumption. As excise duties on cigarettes are paid *ex-ante*, before consumption, the effects of retail price announcements for 2020 have shifted from 2020 to 2019.

Therefore, it can be concluded that the main reasons for the higher increase in indirect tax revenues than in previous projections were the strong increase in the collection of net VAT and excises on tobacco products (as much as 46%) in December 2019.

3.1.2. Differences between projections for the period 2020-2022 and projections from October 2019

Compared to the projections from October last year, differences in projections of indirect tax revenues for 2020, 2021 and 2022 amount to -450,8 million BAM, -431,0 million BAM and -439,4 million BAM, respectively. The differences arose from the huge adjustments in the projections of macroeconomic indicators (DEP, May 2020 compared to September 2019) for 2020, due to the inclusion of estimates of the effects of the corona virus epidemic (Charts 1-3). Since 2020 is the baseline for the projections of future years, this explains the significant differences from previous projections in the period 2021-2022.

3.2. Differences between projections of indirect taxes (June 2020) and projections from April 2020

Table 7 presents the differences between the projections of indirect taxes (June 2020) and OMA's projections from April 2020.

Table 7. Differences between projections of indirect taxes (June 2020) and OMA's projections from April 2020

	In million BAM					in % of GDP *)			
	2020	2021	2022	2023		2020	2021	2022	2023
VAT	-95,3	-87,7	-83,6	-78,1		-0,3%	-0,2%	-0,2%	-0,2%
Excises	-21,9	-15,8	-13,1	-10,0		-0,1%	0,0%	0,0%	0,0%
Customs	-19,4	-18,2	-19,5	-21,0		-0,1%	-0,1%	-0,1%	-0,1%
Road tax	-14,5	-2,7	-1,5	0,4		0,0%	0,0%	0,0%	0,0%
Other	-5,2	-4,3	-3,3	-2,2		0,0%	0,0%	0,0%	0,0%
TOTAL	-156,4	-128,7	-121,0	-111,1		-0,5%	-0,4%	-0,3%	-0,3%

*) Projection of GDP, DEP, May 2020

Compared to the projections from April this year, the differences in the projections of revenues from indirect taxes for 2020, 2021, 2022 and 2023 amount to -156,4 million BAM, -128,7 million BAM, -121,0 million BAM and -111,1 million BAM, respectively. The differences arose from the corrections in the projections of macroeconomic indicators (DEP) compared to those used in April (Charts 1-3), and based on subsequently available data on revenue collection in April, which showed the first major effects of the coronavirus on the B&H economy.

4. Risks

Indirect tax revenue projections for 2020 and the next three-year period were made at a time when the May report on the revenue collection on the ITA SA was not available, which is the month of manifesting the significant effects of the crisis caused by the corona virus pandemic. Macroeconomic projections on which revenue projections are based were also made at the

time when a part of statistical data was not available for March, the month in which there were mutual shocks on the supply and demand side. **Considering the huge unknowns at the time of preparing the projections about the severity and duration of the shock caused by the corona virus pandemic, and the assumptions used that the crisis will be overcome in the short term (DEP, macroeconomic projections), we point out that there are significant risks for the realization of projections of indirect tax revenues, where the risks of worse outcome predominate.**

Given the basic set of projections of indirect taxes and overall economic conditions in B&H and in the world, the realization of the projected level of indirect tax revenues in the period 2020-2023 is subject to the following risks:

- Projections of indirect tax revenues are closely related to the projections of macroeconomic indicators of DEP. Any deviation of these parameters from the projected value represents the risk for revenue projection. The DEP states that the risks to their projections can be classified into two groups, external and internal, with external risks much more certain and influential in the direction of economic growth in B&H. The Covid-2019 epidemic is the primary risk for the outturn of DEP projections. The assumption of the DEP projections is that the crisis will have the greatest impact in the first half of 2020, and that the negative effects will continue until the end of the year, but in a somewhat milder form. The eventual prolongation of the epidemic would further jeopardize projected macroeconomic indicators. On the other hand, they mention internal challenges, i.e., internal risks in Bosnia and Herzegovina (a complex system of decision-making, slow pace of economic reforms in the country) as a threat to the realization of their projections. They also state that any delay in the process of government formation would adversely affect the planned dynamics of public investments and overall economic growth.
- The weak economic recovery of the main export partners of B&H (EU, CEFTA countries) increases the level of risk for achievement of macroeconomic projections, and thus projections of indirect tax revenues as a whole;
- The weakening of the measures to combat black market of tobacco products after completion of the harmonization of tax burden on cigarettes in B&H with the EU standards;
- The massive outflow of the population can cause a reduction in the taxable consumption of unemployed citizens leaving B&H which has been financed by incomes from the grey economy or by remittances from abroad, as well as the consumption of labor-intensive persons leaving B&H, whose income, due to family relocations, will mostly be spent outside B&H;
- The appearance of external shocks, in view of rising oil prices and derivatives in the world market beyond current expectations, will hit the market of derivatives in B&H and will negatively affect the derivative consumption and thus the execution of projections of revenues from excise duties on derivatives and road taxes from the price of oil derivatives.