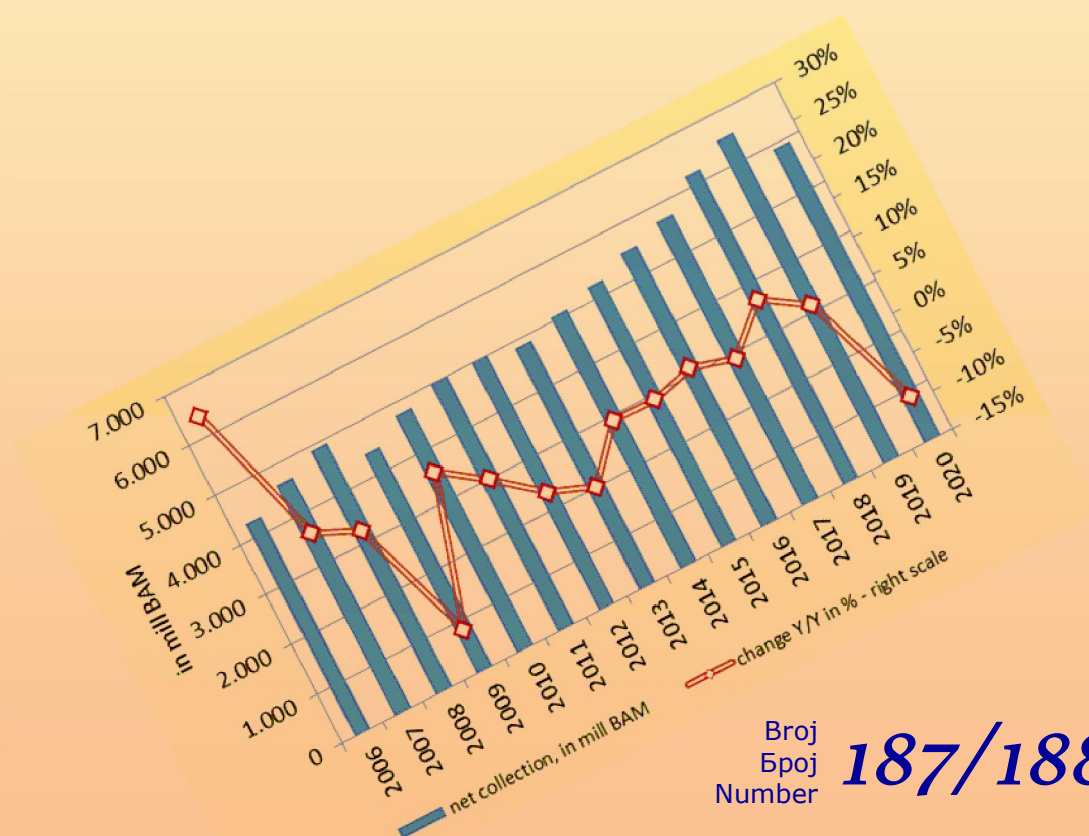




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

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With this issue

Last year (2020) was characterized by a coronavirus pandemic in all segments of society, including the economy. Measures taken by countries to protect population from coronavirus have severely affected consumption, which is a main generator of GDP growth in most small countries, and thus have influenced the collection of indirect taxes, which are dominant in tax structures. Collection of indirect taxes in Bosnia and Herzegovina in 2020 was lower by 611,4 million BAM compared to 2019, representing a decrease in net collection of 9,3% (Chart 1). A comparison of the nominal monthly net collection in 2020 with 2019 shows the influence of the anti-Covid measures on the collection of indirect taxes in B&H during the first (April-May) and second wave (August-September) of the coronavirus pandemic (Chart 2).

Chart 1

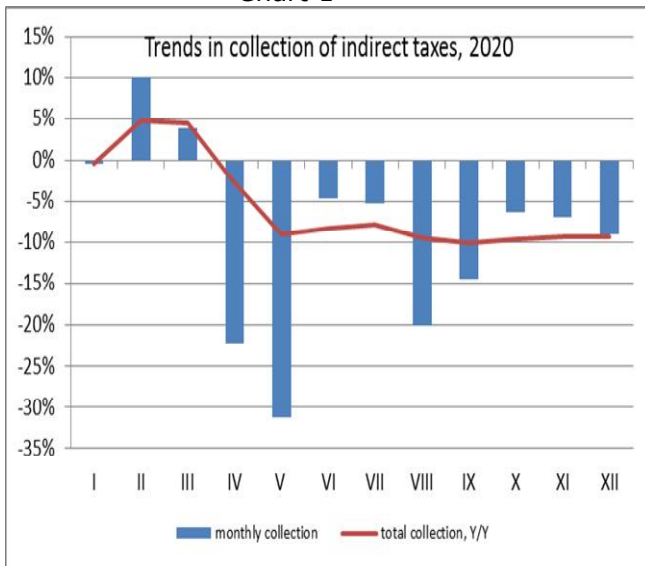
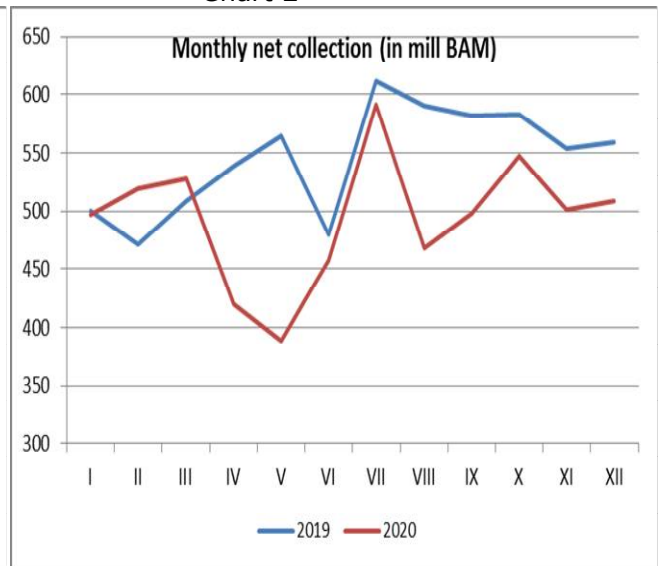


Chart 2



It can already be concluded that the emergence of a pandemic greatly undermines the traditional levers of tax policy in (de)stimulating consumption. Restrictive measures to combat spread of the virus have led to declining employment and income in all countries, and thus in private consumption. In addition, due to the uncertainty regarding the duration of the pandemic, citizens give up the consumption of non-essential goods and services, and postpone the purchase of capital goods for "better times". In such circumstances, tax incentives, such as differentiated rates, exemptions, reliefs, etc., cannot bring the expected effects in the consumption growth. On the one hand, it is not possible to know for sure the reactions of companies to more favorable taxation, and on the other hand, even in the case of price reductions due to lower tax burden, anti-Covid measures applying to citizens (travel and gathering restrictions, etc.) and economic entities (working hours, number of persons allowed, etc.) reduce the effects of tax measures from the very beginning, because they negatively affect demand for goods and services. At the same time, people's fear of spreading the virus is still the main demotivating factor for the increase in consumption in certain market segments.

Dinka Antić, PhD
Head of Unit

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Technical design: Sulejman Hasanović, IT expert
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Analysis of collection of revenues from indirect taxes, 2020

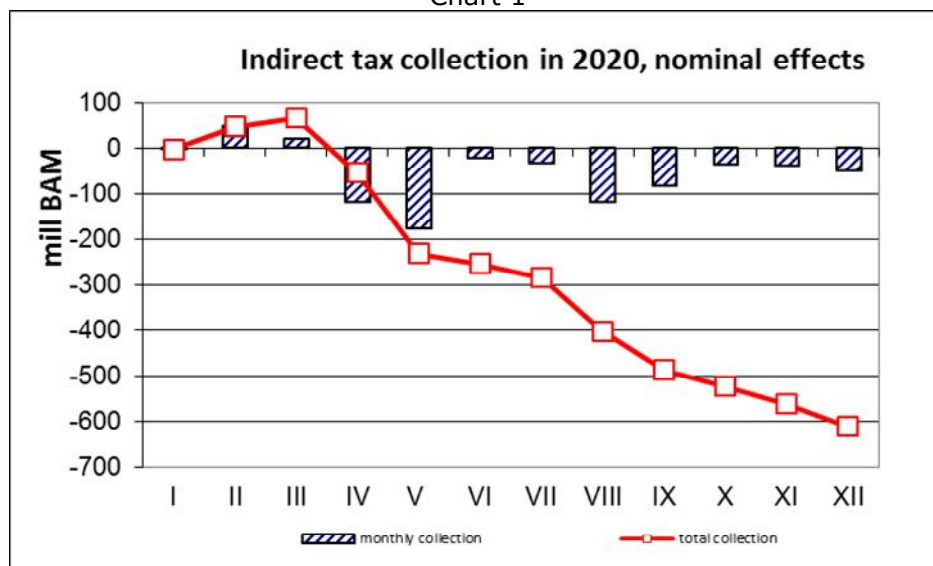
(prepared by: Dinka Antić, PhD)

Total collection

According to the cash flow report, 631,2 million BAM of gross revenues from indirect taxes were collected on ITA SA in December 2020, which is 60,8 million BAM less than in the same month in 2019. Since refund payments were lower by 10,4 million BAM, the net collection of indirect taxes was lower by 50,4 million BAM (Chart 1), or by 9% compared to the net collection in December 2019.

At the level of 2020, the gross collection of indirect taxes was lower by 757,1 million BAM or 9,5% compared to 2019, while refund payments were lower by 145,7 million BAM. Due to reduced refund payments, the drop in net revenues from indirect taxes is significantly lower than in gross revenues and amounts to 611,4 million BAM (Chart 1), representing a decrease in net collection of 9,3% compared to 2019.

Chart 1

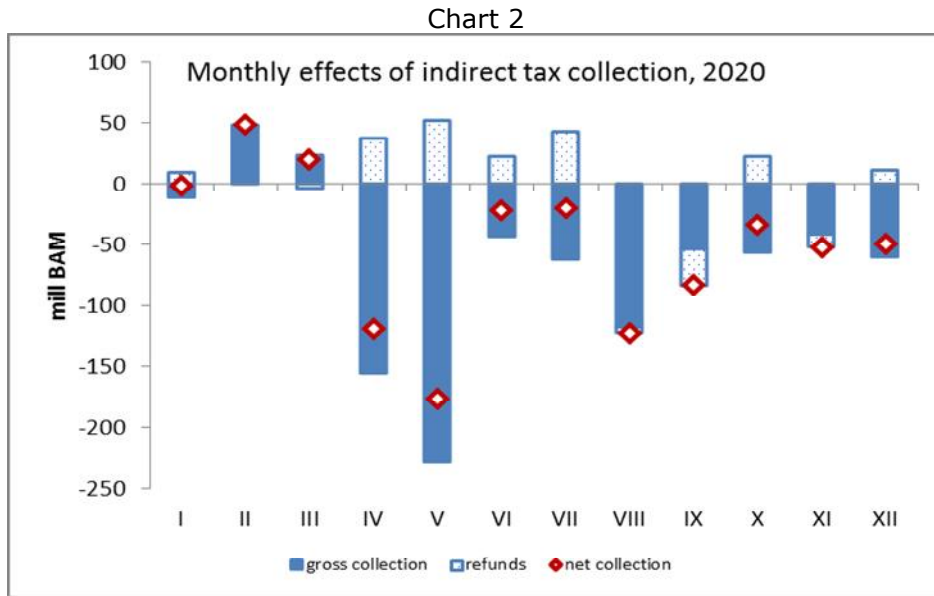


Revenue collection in 2020 was characterized by the effects of the coronavirus pandemic. The review of revenue collection by months indicates divergent trends caused by the effects of the coronavirus on the economy and private consumption (Chart 2). In the first three months, there was an increase in gross revenues with minimal fluctuations in refund payments,¹ and after the closure of borders and the economy due to the spread of the coronavirus, there was a sharp decline in gross collection, which was somewhat mitigated by reduced repayment payments. Some improvement in June and July was nullified in the rest of the year, mainly due to a fall in gross collection.

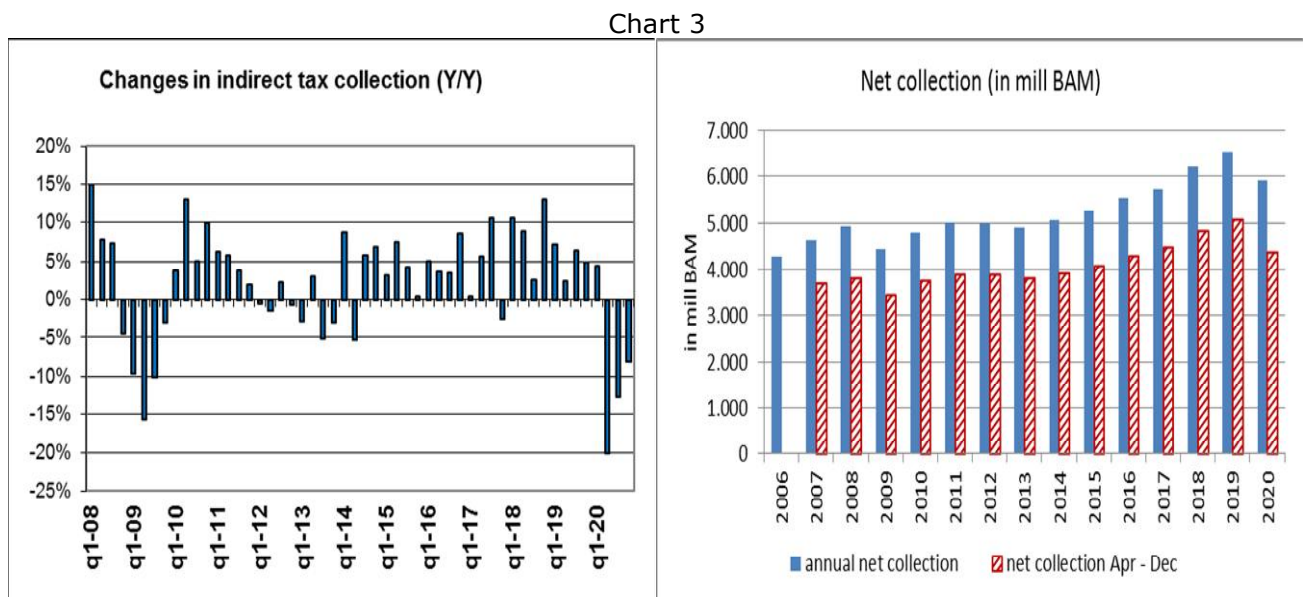
The corona virus appeared in B&H in early March, and significant restrictive measures were introduced by B&H authorities later that month. In the first quarter, the trend in the collection of revenues from indirect taxes was still influenced by the continuation of positive trends in the

¹Since refund payments are entered as negative corrections of gross collection in the accounting system (cancellation), monthly effects of refund payments (month of 2020 compared to the same month of 2019) in the positive zone of the chart imply a decrease in refund payments, while effects in the negative zone imply an increase in refund payments.

economy in B&H from 2019. For this reason, net collection of indirect taxes increased by 4,4% in the first quarter. The introduction of restrictive measures at the borders, closure of certain activities and travel restrictions brought a decline in imports and consumption, especially due to impossibility of arrival of non-residents (diaspora, tourists, in transit, cross-border consumption), which resulted in a drop in net collection of 20,1% in the second quarter.



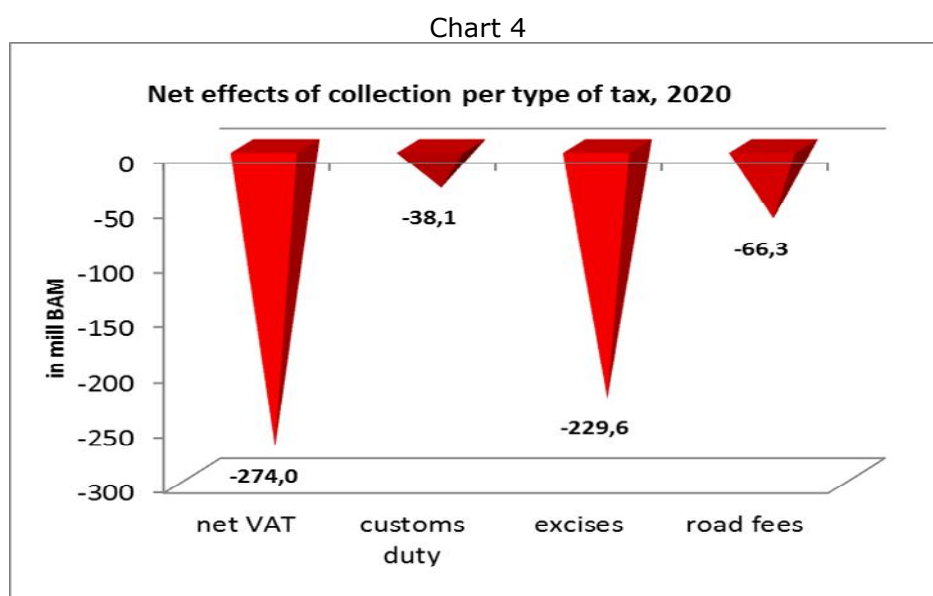
Although it was expected that there would be a relaxation of measures regarding entry and exit from the country in the summer months, this did not happen, both in EU countries and in the surrounding area, as well as in B&H. This resulted in a drop in net collection in the third quarter of 12,7%. Certain relaxation of measures and bans in B&H in the fourth quarter brought a weak recovery in consumption, which resulted in a smaller decline in revenues compared to previous quarters, at the rate of 8,1% (Chart 3, left side).



Overall, the magnitude of the impact of the coronavirus on the collection of indirect taxes is shown by the fact that nominal net collection in 2020 was only slightly higher than in 2017 (Chart 3, illustration on the right side, "annual net collection"). However, it should be borne in mind the positive trends in the first quarter of 2020 that mitigated the decline in revenue, so the true extent of coronavirus effects in 2020 can be seen only after the exclusion of the first quarter. In the period from April to December 2020, net collection of indirect taxes was lower by 13.5%, 9.5% and 2.4% compared to the same period in 2019, 2018. and 2017, respectively (Chart 3, right side, "net collection in the period IV-XII").

Trends by types of revenue

In December 2020, a decline in revenues was recorded for all major types of indirect taxes. Expressed in nominal terms, the largest decline in revenues in 2020 was recorded in VAT (-274 million BAM), excise duties (-229,6 million BAM), and revenues from customs (-38,1 BAM) and road funds (-66,3 million BAM) - Chart 4.



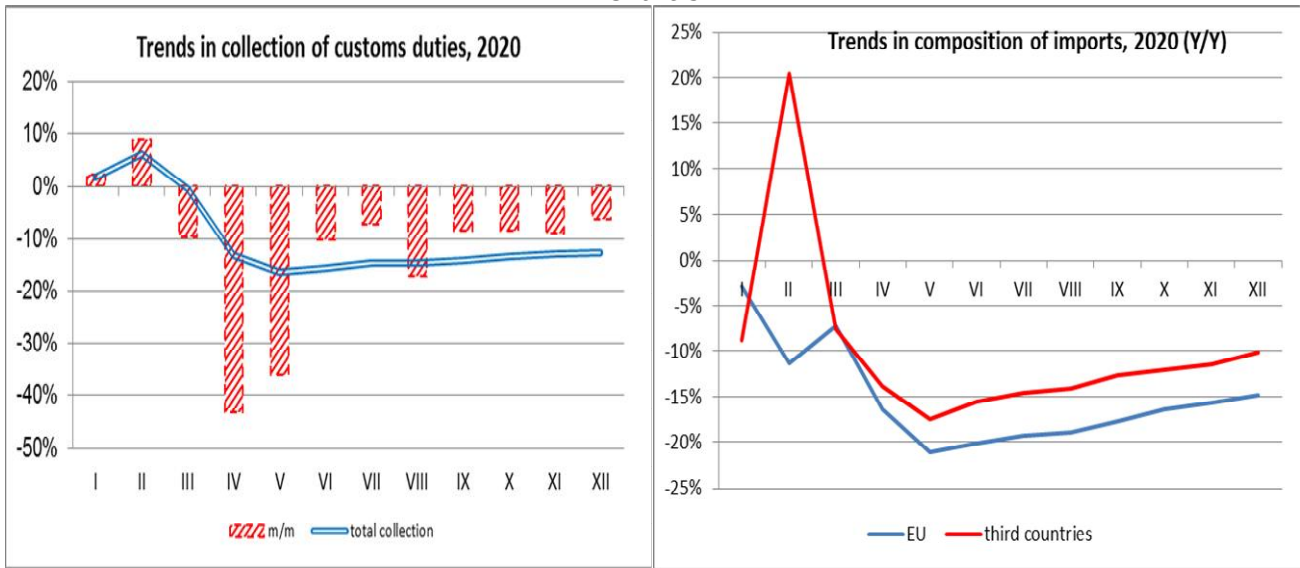
Customs

In December 2020, the negative trend in the collection of customs revenues has continued, although a gradual improving trend can be noted. This may be related to the recovery of imports in terms of lower import fall rates than during the year. In December, a decrease in the collection of customs revenues of 6,4% was recorded, which was the smallest decrease since March 2020 (Chart 5, left).

Collection of customs revenue depends on imports of goods from third countries under the customs regime and on limited share of EU goods still kept under the customs regime. The outbreak of the coronavirus pandemic in Asia and its rapid spread to Europe has led to closure of borders, which resulted in the difficulty of transporting goods in B&H. The import crisis peaked in April, and the gradual opening of borders, first to Chinese goods and then to the EU since May, has led to a significant slowdown in imports in the second half of 2020. Imports from China and other third countries have shown faster recovery than the EU imports² (Chart 5, right).

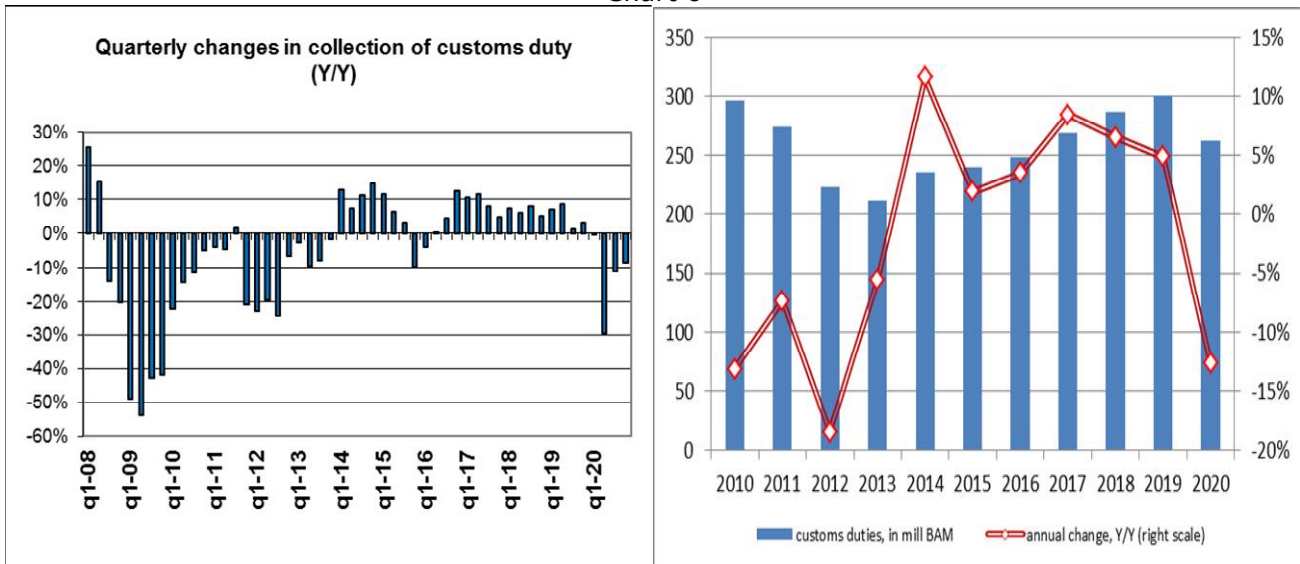
²Since UK left the Customs Union on February 1, 2020, data from the Agency for Statistics of B&H on imports from the EU in 2020 include imports from the UK only in January 2020, while reports for other months show imports from this country

Chart 5



The quarterly comparison (Chart 6, left) shows that the trend of positive growth of customs revenues, which lasted for four years, was interrupted in the second quarter of 2020. Due to decline in imports in March, the collection of customs revenues in the first quarter of 2020 was at the level of collection in the first quarter of 2019. In the second quarter there was a decline of 29,6%. There was a certain stabilization of imports in the third and fourth quarter, with a slight recovery at the end of the year, resulting in decreases in customs revenues of 11,3% and 8,7%, respectively. Overall, due to the disastrous second quarter, the annual decline in customs revenues amounted to 12,7% (comparison with 2019, Chart 6, right).

Chart 6

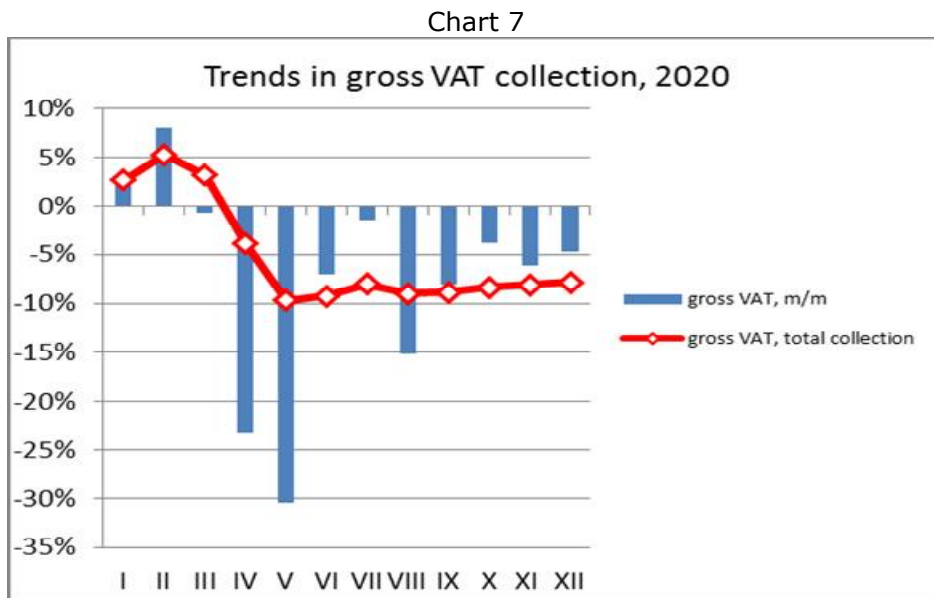


separately from the EU. However, for the purpose of this analysis, imports from the UK are included in imports from the EU for the all months in 2020, in order to ensure comparability with 2019.

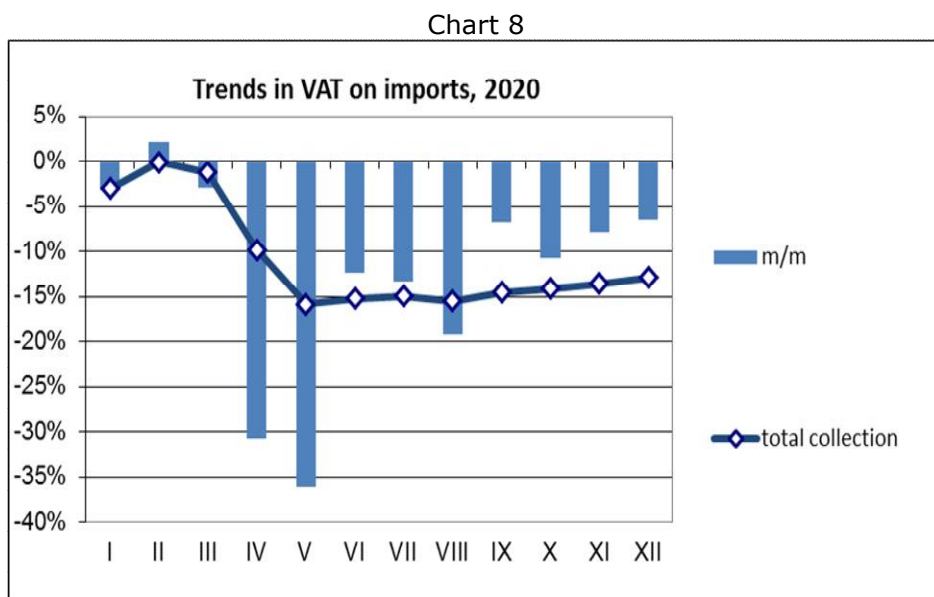
VAT

Gross VAT

In December 2020, the bad trends in the collection of gross VAT from the previous month have continued. It was collected 4,7% less revenues compared to the same month in 2019, which stabilized the rate of decline in total gross VAT to -7,8% (Chart 7).

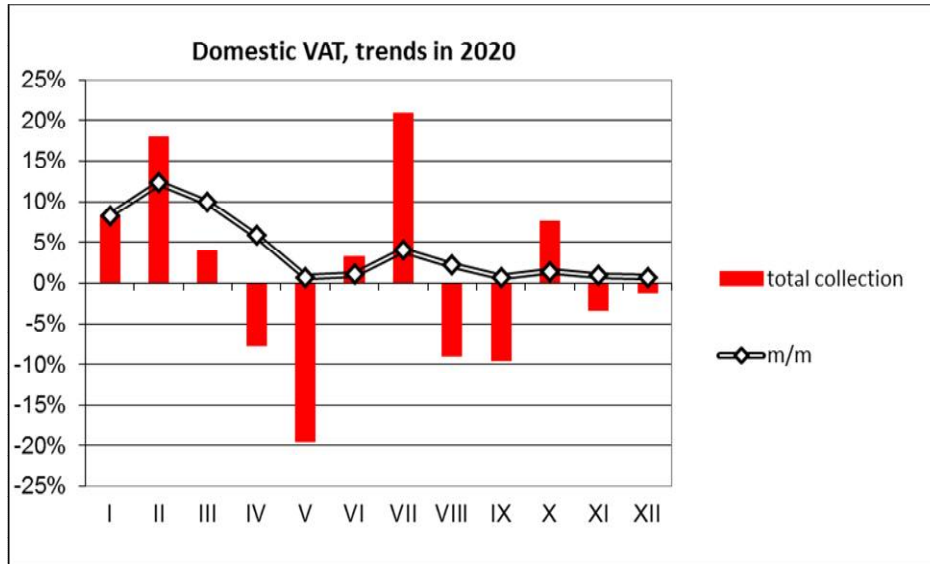


Given the high dependence of B&H on imports, the dynamics of gross VAT is mainly determined by trends in the collection of VAT on imports. In 2020, the growth of VAT collection on imports was recorded only in February, with decline in revenues in all other months, once even over -35% (May). In the last four months, collection has stabilized, with revenue declining in the range from -6% to -11%. However, this did not significantly improve overall trends, so the revenue fell by 12,9% at the level of the year (Chart 8).



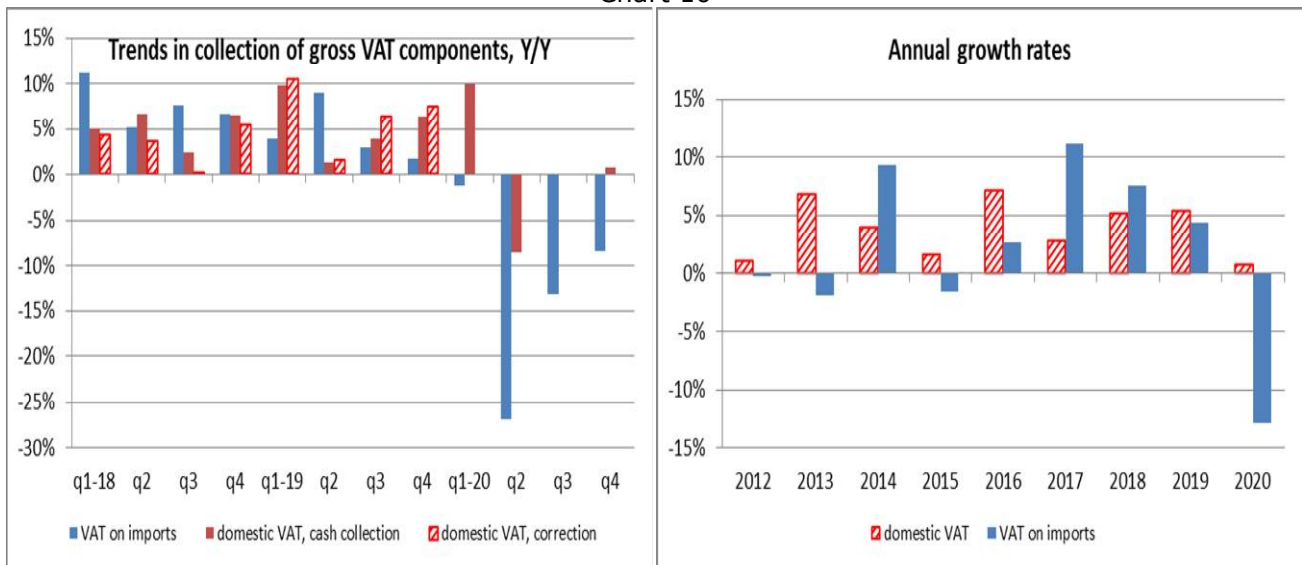
Domestic VAT collection fluctuated greatly during 2020, with monthly rates ranging from -20% (May) to + 20% (July). However, in the end, the annual cumulative collection of domestic VAT was at the level of collection from 2019 (Chart 9).

Chart 9



Quarterly and annual trends better reflect impacts of the coronavirus on gross VAT collection (Chart 10). In the first quarter, domestic VAT grew at a rate of 9,9%, while VAT on imports was in the zone of negative growth of -1,2%. In the second quarter, there was a strong decline in the collection of VAT on imports of 26,9%, and domestic VAT of 8,6%. In the third quarter, a certain improvement in trends in VAT on imports can be noticed (-13,2%), while the collection of domestic VAT was at the level of collection in the third quarter of 2019. In the fourth quarter, VAT on imports was lower by 8,4%, while the domestic VAT was higher by 0,8%, compared to the fourth quarter of 2019.

Chart 10

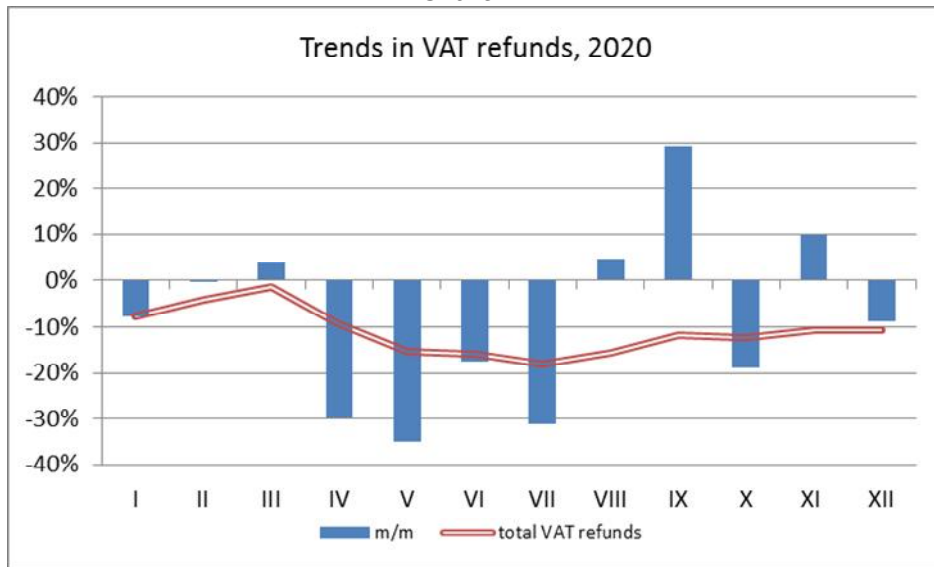


Note: The corrections in domestic VAT (shown in 2018 and 2019) are related to offsetting the excise duty liabilities on domestic oil derivatives with VAT credits during 2018

VAT refunds

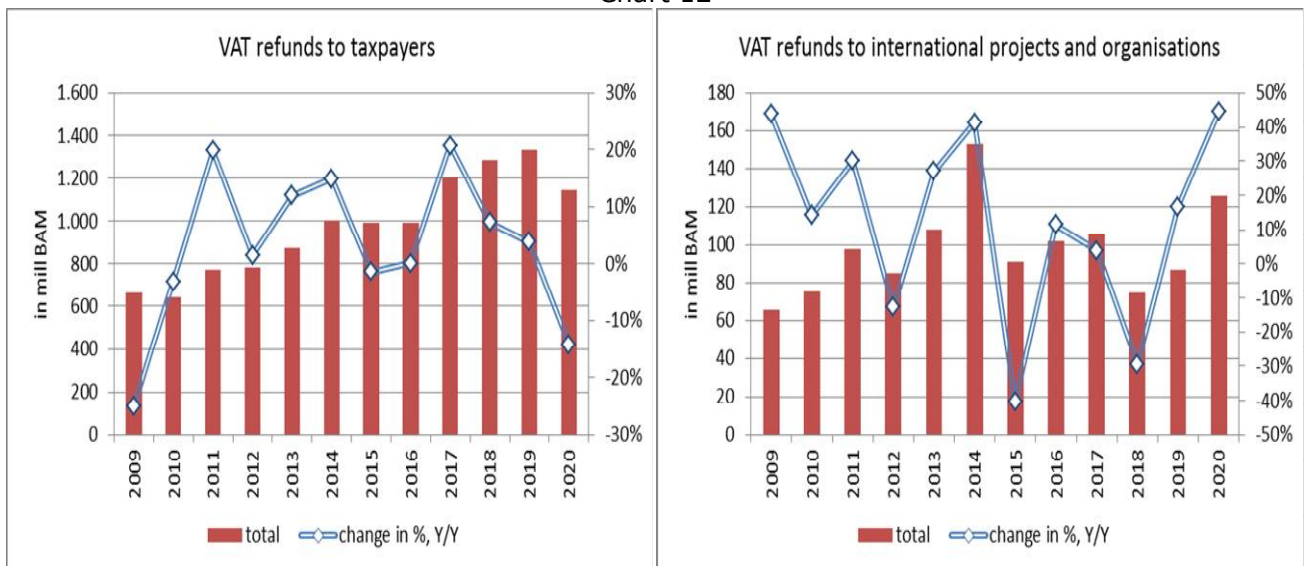
In December, VAT refund payments were lower by 8,7% compared to the same month in 2019 (Chart 11). Monthly refund payments fluctuated strongly throughout the year, ranging from -35% (May) to + 30% (September). However, due to the decline in exports and imports for investments, higher refunds were recorded in only a few months, and ultimately the annual VAT refunds were lower by 10,6% (Chart 11, "cumulative").

Chart 11



Analysis of refunds indirectly indicates the effects of the coronavirus on exports and investment. Payments of refunds to taxpayers in 2020 were lower by 189,4 million BAM, or by 14,2% (Chart 12, left). On the other hand, refunds for the international projects have expanded. It was paid 38 million BAM more than in the same period in 2019, which is an increase of 44,4%. (Chart 12, right).

Chart 12

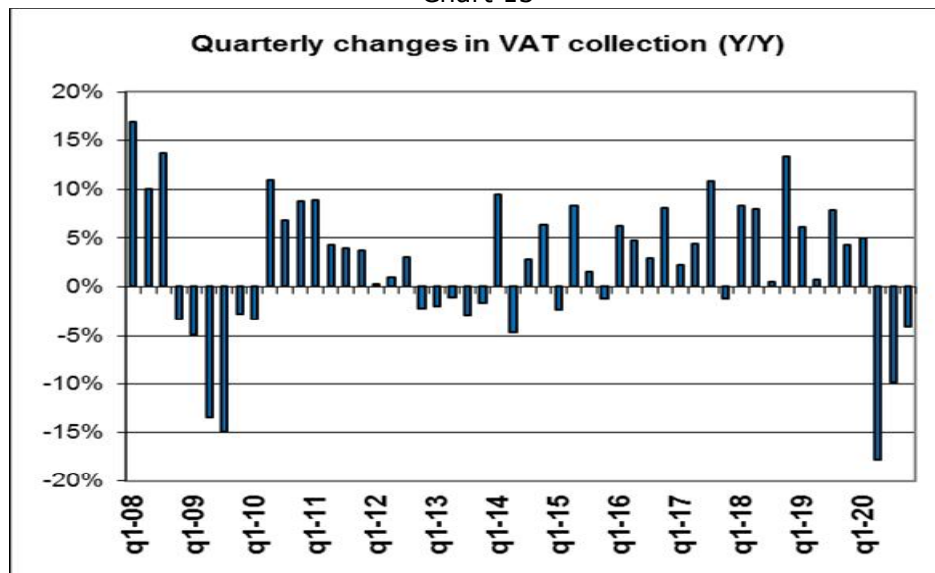


Since the pandemic caused a delay or slowdown in investments financed by international projects, it can be assumed that the increase came from payments of VAT refunds on international projects from 2019, which resulted in a spillover of revenues between the two fiscal years. VAT on investments financed from international projects was paid in 2019, increasing the VAT growth rate in that year, while VAT refunds were realized in 2020, increasing the VAT decline in 2020.

An indicator of an improvement in refund payments is also a decrease in the share of refunds in the VAT gross collection. The share of refunds in the gross VAT collection amounted to 25,4% in 2020, which is 0,7 percentage points less than the share of refunds in gross VAT in 2019.

The quarterly review of refunds also shows a large drop in payments of 27,9% in the second quarter, while in the first and third quarters of 2020 the refunds were lower by 1,5% and 2,7% compared to the reference quarters in 2019. In the fourth quarter of 2020, the decline in refund payments was 7,3%.

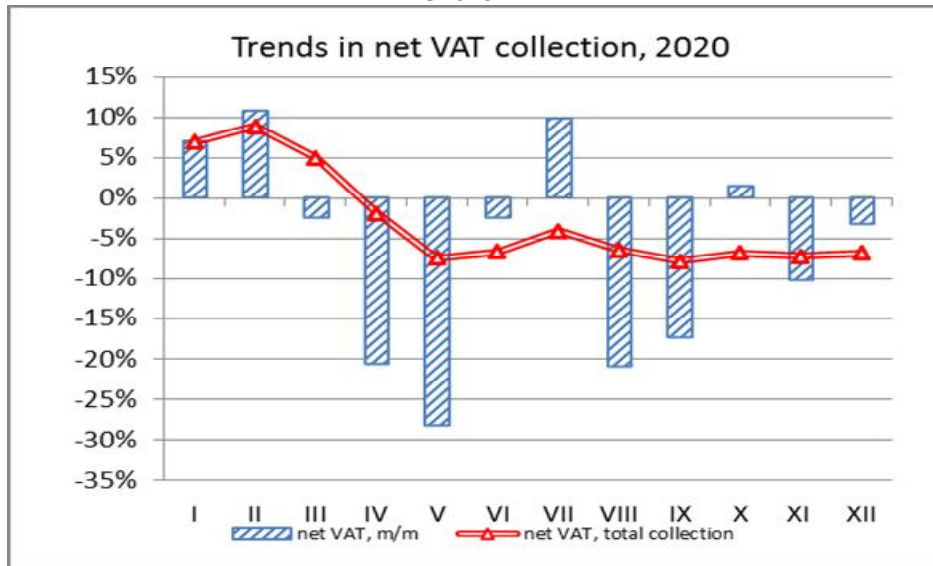
Chart 13



Net VAT

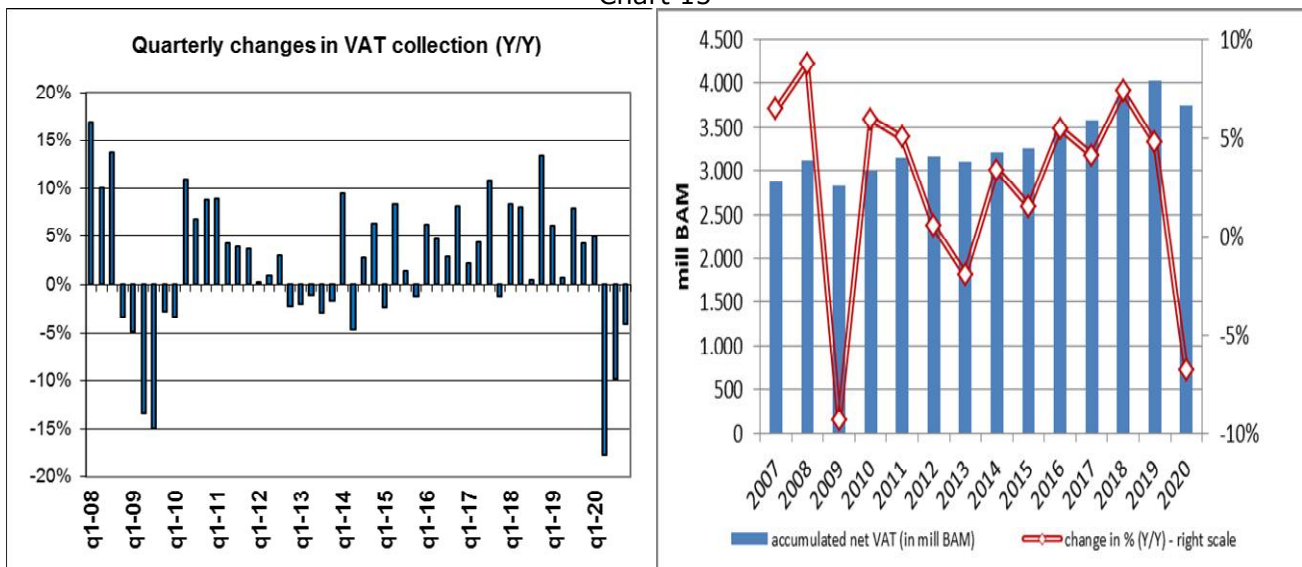
The decline in gross VAT collection in December 2020 was partly offset by reduced VAT refund payments, so that net VAT collection was lower by 3,3% compared to December 2019. However, this did not significantly affect cumulative trends, and annual decrease in net VAT amounted to 6,8% (Chart 14).

Chart 14



A review of quarterly trends indicates the effects of coronavirus on consumption in B&H. In the first quarter of 2020, the collection of net VAT was higher by 5% compared to the collection in the same quarter of 2019. However, there was a decline of 17,8% in the second quarter of 2020, when restrictive measures were in force regarding travel and operation of retail sales. The relaxation of measures in the third quarter did not bring a significant improvement either, as restrictions for non-residents remained in force, so that the net VAT collection fell by 9,8%. In the fourth quarter, thanks to the relaxation of the entry restrictions for non-residents and reduced refund payments, VAT collection was lower by 4,1% compared to the same quarter in 2019 (Chart 15, left).

Chart 15

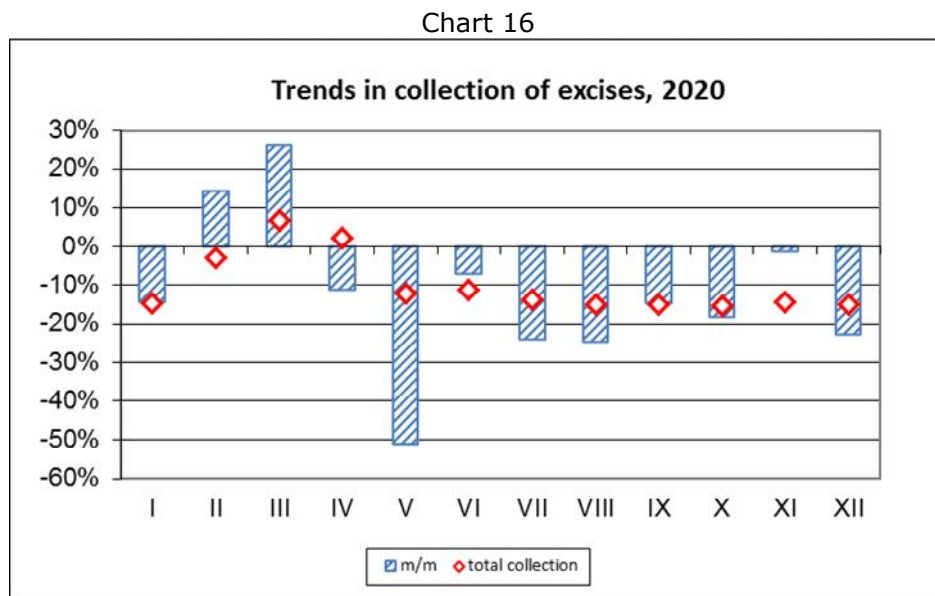


A comparison of the annual net VAT collection shows that the collection in 2020 was only 4,8% higher than in 2017 (Chart 15, right). However, the true extent of the effects of the coronavirus in 2020 on VAT collection can be seen only after excluding the first quarter. In the period April - December 2020, net VAT collection was lower by 10,2%, 6,3% compared to the same period in 2019 and 2018. Compared to the same period in 2017, it was higher by 0,3%.

Excises

A comparison of the total collection of indirect taxes and the collection of net VAT in the period April - December 2020 compared to the same period 2019 showed that the decline in total indirect taxes in that period (Chart 3, right side, "net collection IV-XII") was greater than the fall in net VAT (Chart 15, right). Therefore, it can be concluded that the extremely poor collection of revenues from indirect taxes in 2020 was significantly affected by the extremely bad collection of revenues from excises in 2020.

In December, the negative trends in the collection of excises continued, which have been continuous since April. Revenues fell by 22,9%, keeping the growth rate of total excise collection at the same level as in the previous few months, around -15% (Chart 16).

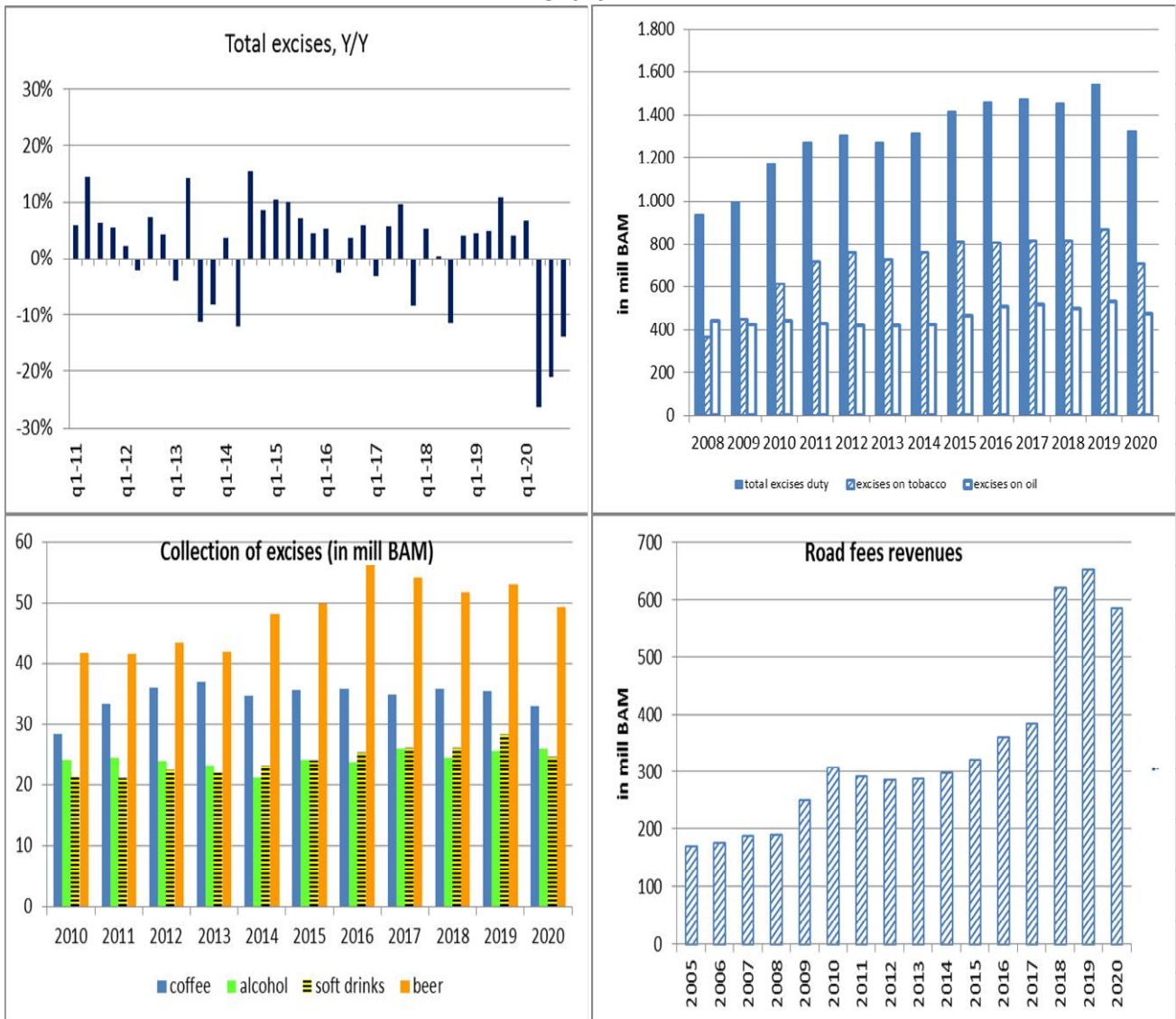


In December, there was a decline in revenues from excise on all excise products, which worsened the cumulative trend. Only excise duties on alcohol and alcoholic beverages recorded a modest increase in collection in 2020.

The analysis of quarterly collection of excise revenues shows an increase of 6,8% in the first quarter of 2020. After the outbreak of the pandemic, a sharp decline in the second and third quarters of 2020 of 27,3% and 21,6% respectively, were recorded. In comparison with the significantly smaller quarterly decline in net VAT, it can be concluded that the excise collection was more affected by the coronavirus.³ In the conditions of reduced employment and falling income, consumers limited themselves to the purchase of essential goods and services, which are not excise products. Second, it is obvious that the collection of excises is largely sensitive to the decline in external consumption (non-residents, diaspora, border traffic, religious and other forms of tourism), both tobacco products and other excise products. Even the modest recovery in consumption in the fourth quarter, which is evident in the collection of net VAT, did not have a greater impact on the collection of excise duties, which fell by 14,7% (Chart 17, "total excise duties").

³This difference is even greater if the part of VAT collected on excise duties is excluded from the collection of VAT in 2019 and 2020.

Chart 17



Data on the nominal annual collection of excise revenues show that the collection in 2020 was at the level of 2014 (Chart 17, right).

The main generators of excise collection are excise duties on tobacco products and excise duties on oil derivatives.

The analysis of the nominal collection of these revenues shows that the main reason for the decline in the collection of excise revenues in 2020 were excises on tobacco products, whose total collection was at the level of 2011. The collection of excises on oil derivatives had a significantly smaller decline.

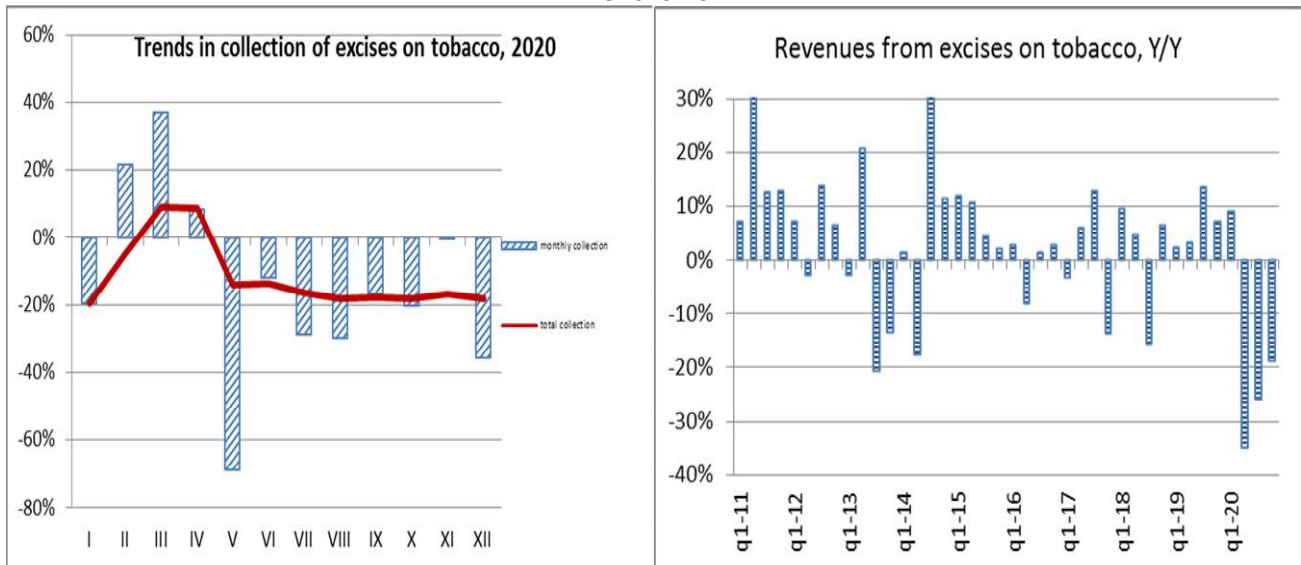
The annual collection of road tax revenues is below its level in 2018, but significantly higher than in 2017, which has been expected given the changes in the policy of taxation of oil derivatives as of February 1, 2018, which brought significantly higher road tax rates. However, a comparison of the quantities that were subject to road tax in both years suggests that in 2020 the amount of derivatives on which road tax has been paid was 4,6% lower than in 2017.

The annual collection of excises on coffee in 2020 was at the level of collection in 2011, while the collection of excises on non-alcoholic beverages and beer in 2020 was at the level of collection in 2015 (Chart 17).

Tobacco products

After poor collection of excises on tobacco products in January, high monthly growth rates of excise collection were achieved in the next three months (Chart 18, left), which was surprising in the conditions of a pandemic and restrictive measures that limited the entry of nonresidents and traveling within B&H. However, it should be borne in mind that this is not about the actual consumption, because excise duties are paid *ex ante*, when taking over excise stamps, and the amount of excise stamps taken over, and thus the collection of excise duties, depends on the perception of large tobacco companies regarding future consumption of tobacco products in B&H. For this reason, in the first quarter of 2020, revenues from excises on tobacco products grew by 9%, while optimistic expectations regarding the outcome of the pandemic led to increased collection of excises in April. However, after the correction of business plans, which resulted in a drastic reduction in the number of issued excise stamps, the collection of excises decreased by 34,7% in the second quarter (Chart 18, right). The consequences of entry restrictions for non-residents into B&H⁴ were catastrophic for the collection of excise revenues. Monthly rates of decline in excise collection in the third quarter ranged between -17% and -30%, causing a decline of 25,8% at the quarterly level. Negative trends have continued in the fourth quarter. After a solid collection in November, a recovery was expected in December. However, a new wave of pandemics and mass "locking down" of the EU Member States prevented a huge arrival of non-residents in B&H during the holidays, which led to a drop in demand for cigarettes, and to a decrease in the collection of excises of 18,7% in the fourth quarter. Even the announcement of an increase in retail prices of certain brands of cigarettes as of January 1, 2021 could not encourage consumer stockpiling, as it had been the practice in previous years. Ultimately, the collection of excise duties on tobacco products in 2020 was lower by 18,2% compared to 2019.

Chart 18

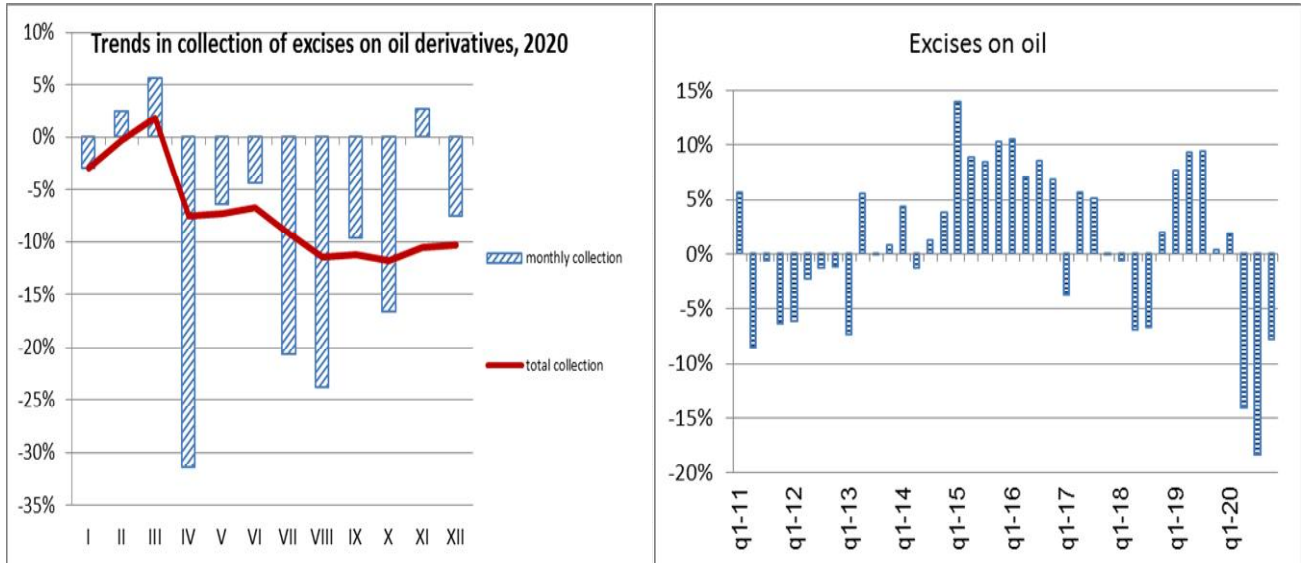


⁴Decisions of the B&H authorities regarding entry into B&H and EU decisions regarding the return of EU citizens from B&H
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 Sarajevo: Zmaja od Bosne 47b, 71 000 Sarajevo, Tel:+387 33 246 081, Fax:+387 033 246 080, Web: www.oma.uino.gov.ba

Oil derivatives

The maximum decline in the collection of excises on oil derivatives was achieved in April 2020, when most companies did not work or worked in difficult conditions. Since May, the situation has gradually improved, but it lasted only two months. The situation deteriorated sharply in July and August, persisting until November, when the excise revenues increased. However, already in December, the collection of excise duties was lower by 7,5%, and the annual collection was lower by 10,3% (Chart 19, left).

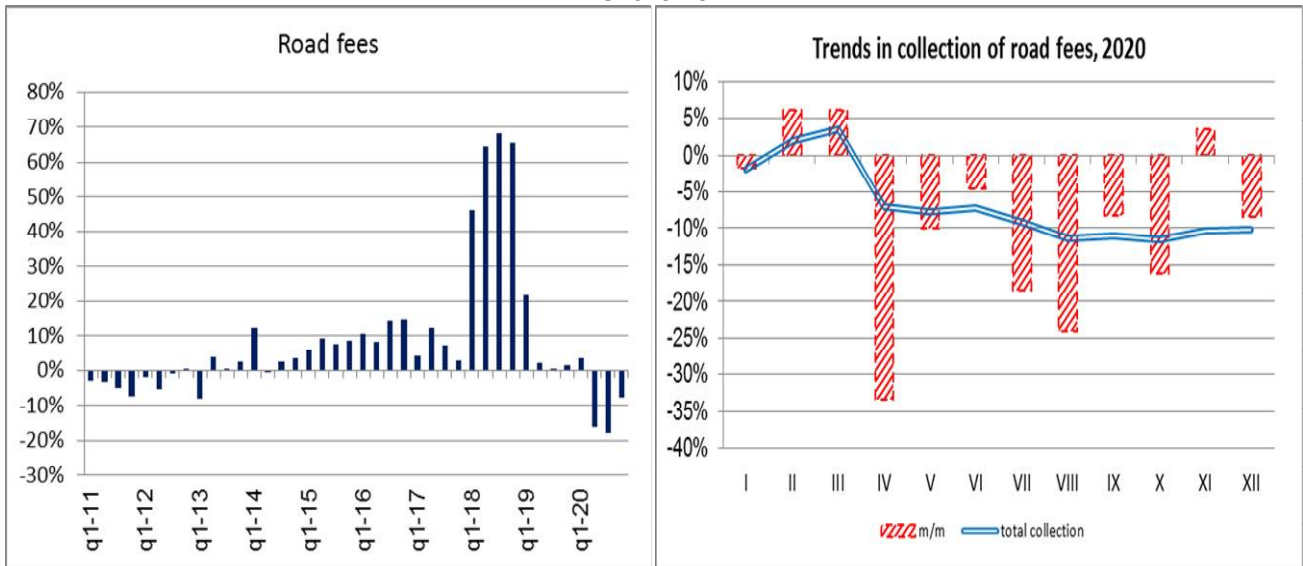
Chart 19



In the first quarter of 2020, the collection of excise revenues increased by 1,8%, while in the second and third it decreased by 14,1% and 18,3% (Chart 19, right). The recovery in excise collection in November significantly improved quarterly trends, so that in the fourth quarter the decline in excise revenues amounted to 7,8%.

Collection of road tax revenues in December was lower by 8,5% compared to the same month in 2019, and the annual collection was lower by 10,3% (Chart 20, left). In the first quarter, road tax revenues grew by 3,5%, while in the second and third, they fell by 16,1% and 17,8% (Chart 20, right). The recovery in road tax collection in November resulted in a smaller decline in collection in the fourth quarter of 7,7%.

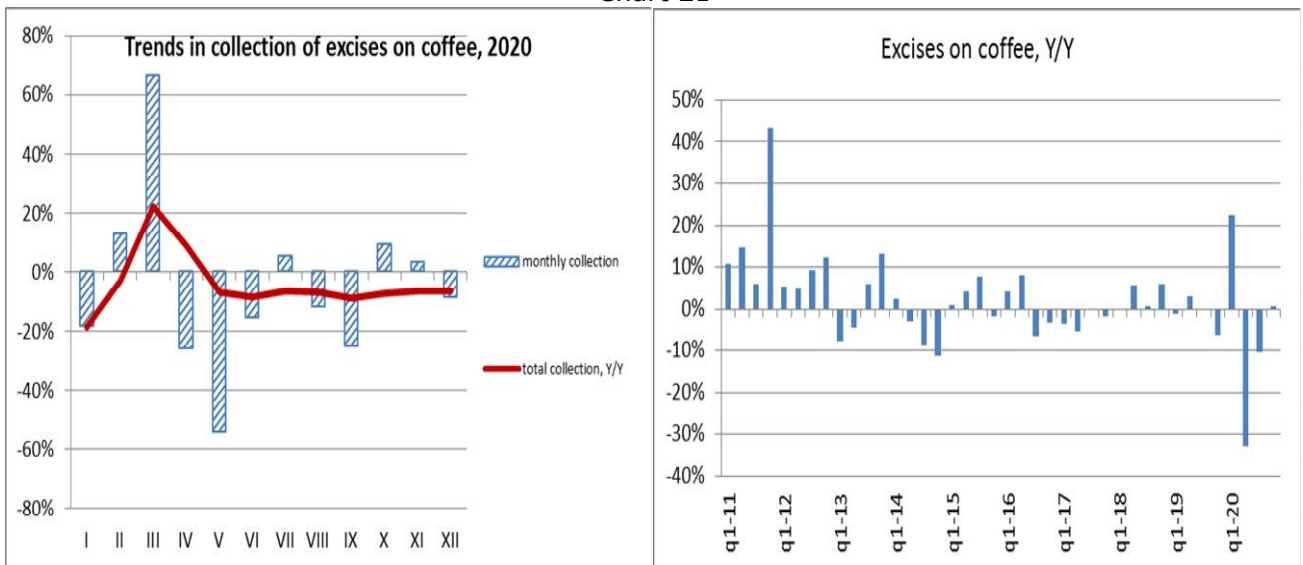
Chart 20



Coffee

The oscillations in the collection of excise revenues on coffee have continued in 2020, which is not only related to the appearance of the coronavirus, but also to the situation on the world coffee market. After a high increase of 22,3% in the collection of excises on coffee in the first quarter, in the second and third quarters of 2020 there was a decrease of 32,7% and 10,4% compared to the same quarters in 2019. A modest increase of 0,5% was achieved in the fourth quarter (Chart 21).

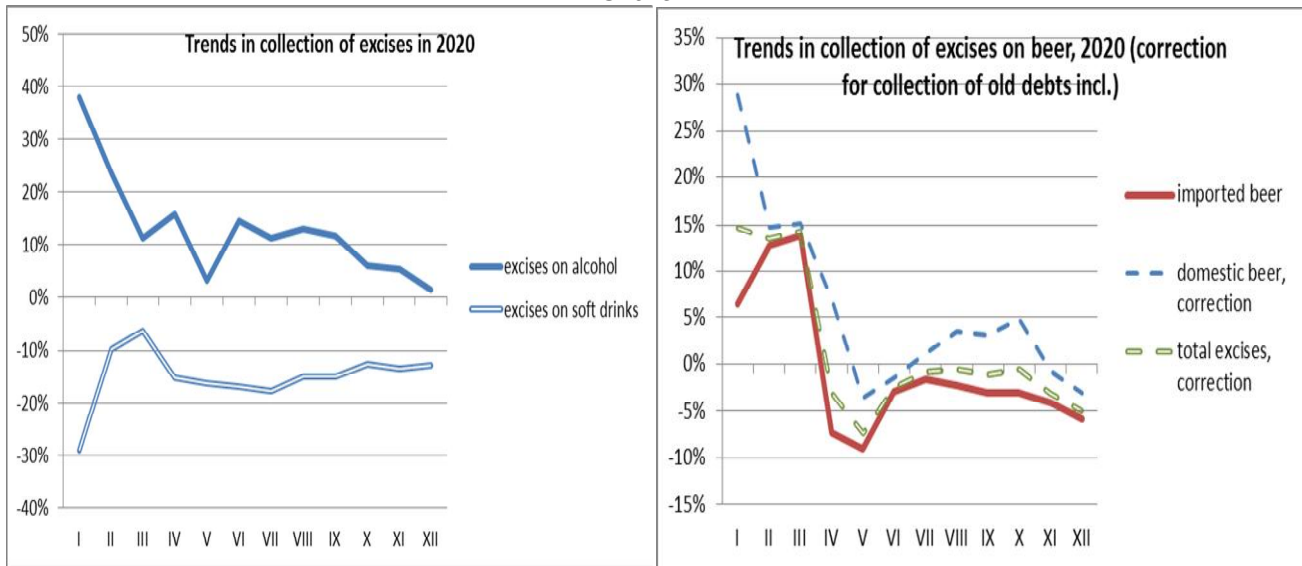
Chart 21



Alcohol and alcoholic beverages, non-alcoholic beverages, beer and wine

In December 2020, the erosion of revenues from excises on alcohol and alcoholic beverages continued, so that after high growth rates during the year, the annual growth of only 1,5% was finally achieved (Chart 22, left view).

Chart 22

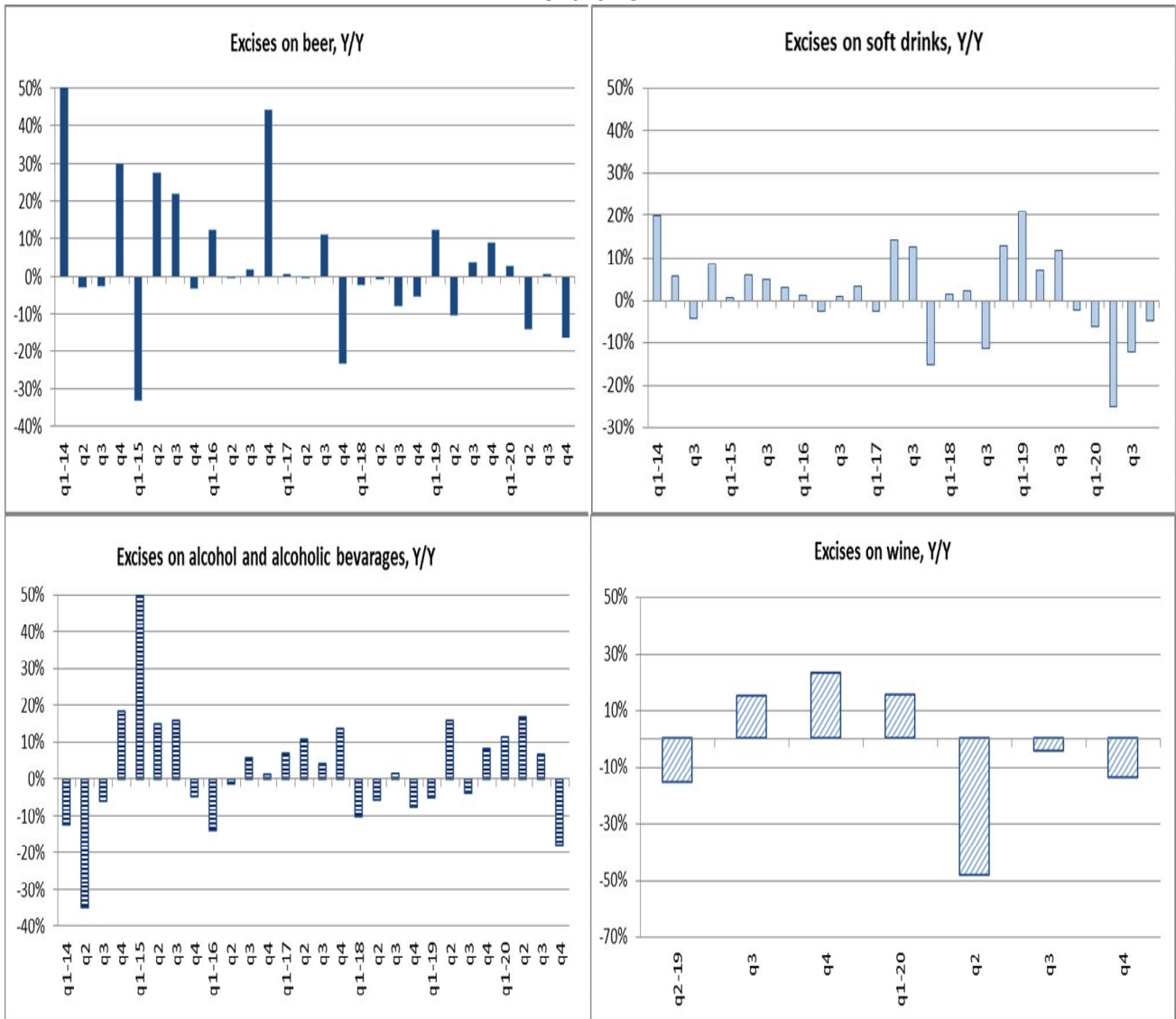


Revenues from excises on non-alcoholic beverages were in the negative growth zone continuously throughout the year, so that the collection decline in December at a rate of 5,7% further confirmed the negative trends (Chart 22, left). Nevertheless, quarterly trends indicate a recovery in collection. After high negative rates in the second and third quarters, the decline in excise revenues in the fourth quarter was 4% (Chart 23).

The collection of excise duties on beer fluctuated during the year, with positive growth rates in the first and third quarters, and negative in the second and fourth quarters of 2020 (Chart 23). In December, there was a large drop in the collection of revenues from excises on beer of 25%, which worsened the positive trends from the third quarter, as well as the cumulative trends. The total collection of excises on beer in 2020 was lower by 6,8% compared to the collection in 2019, where the collection of excises on imports decreased by 5,9%, and domestic excises by 8,6%. However, it should be borne in mind that in January 2019, old debts were collected on the basis of domestic excise duty, which increased the basis for comparison. After excluding the effect of collecting old debt from the base, the total collection of excises on beer is lower by 5%, while the collection of excise duties on domestic beers decreased by 3% (Chart 22, right, "corrections").

Collection of excises on wine recorded a positive growth only in the first quarter of 2020, while a negative trend was recorded for most of the year, with, expectedly, the largest decline in the second quarter (Chart 23). Ultimately, the annual collection was 11,9% lower than in 2019.

Chart 23



Analysis of the allocation of revenues from indirect taxes for 2020

(Author: Mirjana Popović, expert advisor - macroeconomist)

The analysis presents the movement of the allocation of revenues from indirect taxes in Bosnia and Herzegovina (hereinafter: B&H) for 2020. Focus of the analysis is the system of allocation according to the vertical structure, and in accordance with the prescribed methodology and procedure for allocation of revenues from indirect taxes.

1. Introduction

The outbreak of the coronavirus pandemic in 2020 has brought the world to the greatest challenge in recent history, showing all the weaknesses of countries and their systems. The pandemic has plunged B&H into recession, disrupting the country's normal functioning due to weaker exports, lower investment and lower private consumption. Measures introduced to prevent the spread of the virus have had negative effects on the country's already low economic development, reduced industrial production, disruptions in supply chains, affecting the country's overall economy and directly affecting collection and allocation of indirect tax revenues in B&H.

Revenues from indirect taxes most significantly participate in public revenues and budget structure of all levels of government in B&H. The dynamics of collecting revenues from indirect taxes to the Single Account and allocation of funds from the Single Account are crucial for all budgets.

Collection of revenues to the Single Account and allocation of funds from the Single Account to revenue users is performed by the Indirect Taxation Authority of B&H (hereinafter: ITA). This is prescribed by the Law on Payments to the Single Account and Allocation of Revenues⁵, the Rulebook on payment of indirect taxes and other revenues and fees charged by the ITA⁶, the Rulebook on Determining the Amount of Reserve on the Single Account for Settlement of Obligations related to Indirect Taxes by the ITA⁷ and the Rulebook on calculation of coefficients for allocation to the entities⁸.

2. Allocation of revenues from indirect taxes in the period January-December 2020

2.1. Allocation of gross revenues from indirect taxes

Gross revenues from indirect taxes represent total revenues intended for allocation, which include the amount of funds intended for refunds. Given that the priority in the allocation of total revenues from indirect taxes collected on the Single Account have refunds to taxpayers, the amount of revenue collected on the Single Account (VAT, customs, excise duties, road fees 0.15 BAM), is reduced by the minimum reserve⁹ required by the ITA for continuous and uninterrupted refund payment. Thus, 18.9% of the total allocated revenues from indirect taxes were allocated for minimum reserves in 2020, which can be seen from Charts 2 and 3, while Chart 1 shows the structure of refunds in 2020, in percentages.

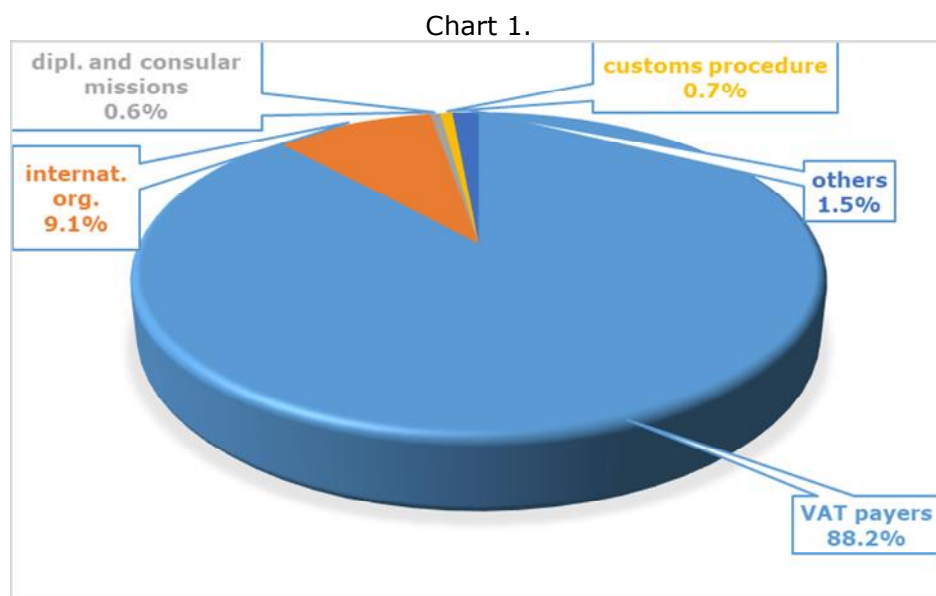
⁵ "Official Gazette of B&H", no. 55/04, 34/07, 49/09 i 92/17

⁶ "Official Gazette of B&H", no. 21/20 i 23/20

⁷ "Official Gazette of B&H", no. 59/04

⁸ "Official Gazette of B&H", no. 62/08

⁹ The minimum reserve is established in accordance with the Regulations on the collection, reconciliation, revenue allocation and reporting, „Official Gazette of B&H“, no. 05/05



Source: Data from the Indirect Taxation Authority of B&H, OMA overview

The most significant allocation of 88.2% refers to the VAT refund to taxpayers who, according to their VAT refunds, are entitled to a refund, followed by an allocation of 9.1%, which relates to VAT refund under international agreements.

The next step in the allocation is the remittance of the corresponding amount to the budget of B&H Institutions, where in 2020, 11.4% of the total allocated revenues from indirect taxes were allocated, shown in Charts 2 and 3.

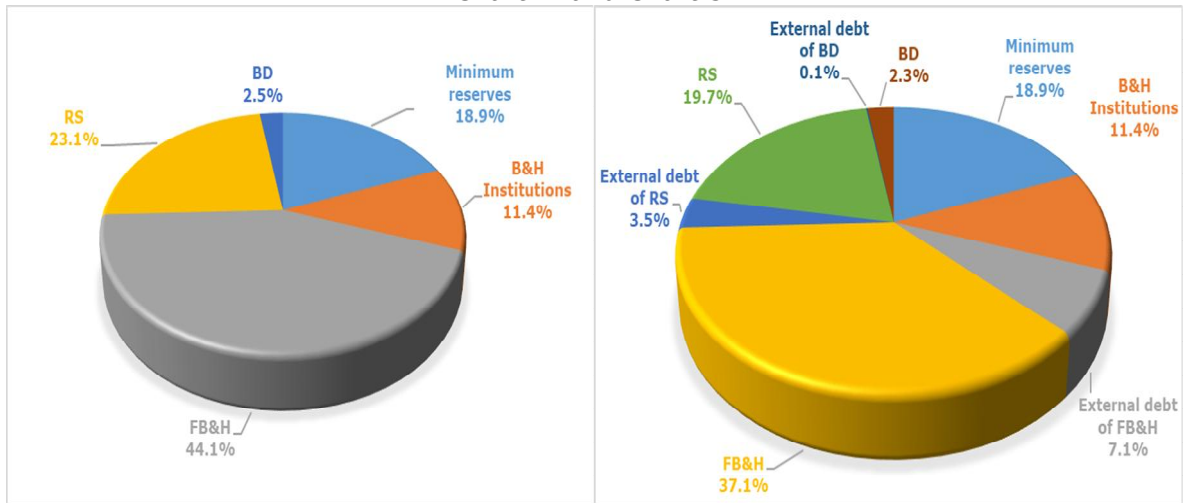
The remaining amount after deducting the amount for minimum reserves and the amount belonging to the budget of B&H Institutions is the amount to be allocated to the entities and Brcko District according to pre-determined allocation coefficients at the quarterly level¹⁰, while the allocation coefficient to Brcko District has been fixed since mid-2007¹¹. From the amount that belongs to the entities and Brcko District in the allocation, priority is given to funds for repayment of external debt.

Charts 2 and 3 show the percentage of participation in the allocation of indirect tax revenues by users in 2020. In Chart 2, the percentage of allocation to the entities and Brcko District includes the amount for financing the external debt, which is deducted from the amount intended for allocation to the entities and Brcko District, while Chart 3 shows the percentage of allocation allocated for repayment of external debt in 2020.

¹⁰ The ratio of the amount of final consumption stated in the VAT refunds of taxpayers in the territory of a given entity, or a given user of income, and the amount of final consumption stated in VAT refunds in the entire territory of B&H.

¹¹ The High Representative, while protecting the fiscal autonomy established by the Final Arbitration Award, on June 01, 2007 imposed a fixed coefficient for Brcko District 3.55% or at least 124 million BAM per year in absolute terms.

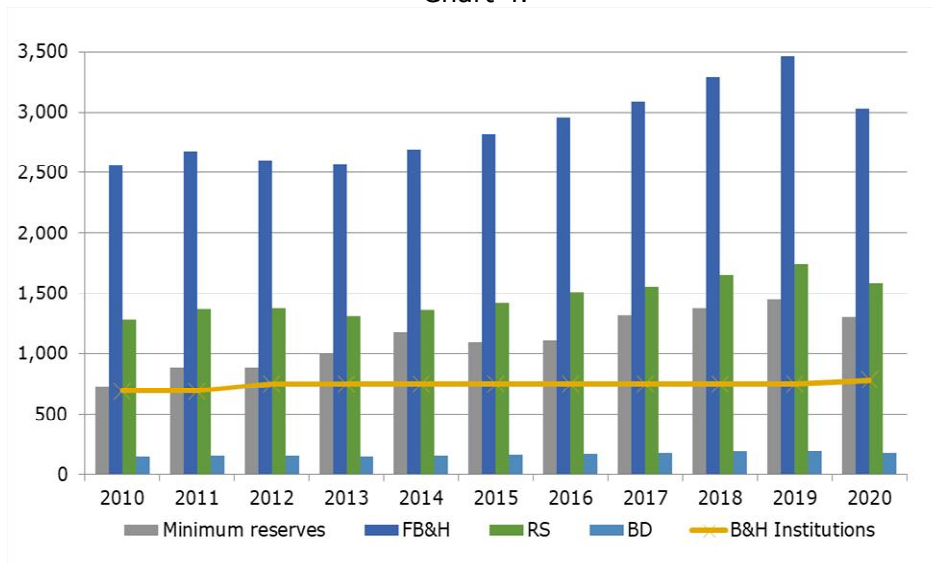
Chart 2. and Chart 3.



Source: Data from the Indirect Taxation Authority of B&H, OMA overview

Chart 4 shows the movement of the allocation of gross revenues from indirect taxes for the period 2010-2020, in millions of BAM¹². The data show that the allocated gross amount in 2020 is higher by 27.0% compared to 2010, as well as the amount of gross revenues from indirect taxes intended for allocation in the observed period is the highest in 2019. The largest increase of 78.3% in 2020 compared to 2010 was the amount of allocation intended for minimum reserves. In the same period, the share of the Republic of Srpska increased by 24.2%, Brcko District by 20.0%, the Federation of B&H by 17.9%, and the amount of allocation intended for financing B&H Institutions increased by 13.2%.

Chart 4.



Source: Data from the Indirect Taxation Authority of B&H, OMA overview

The data show that in the period 2010-2013 there has been a stagnation of gross revenues from indirect taxes intended for allocation, and the movement of the total allocation of gross revenues has not changed significantly. From 2013-2019 the amount of gross revenue intended for

¹² The amount of gross revenues excludes the collection of a dedicated toll

allocation to the entities and Brcko District has a tendency of constant growth. From the chart it is visible the fixed amount of allocation of revenues from indirect taxes to B&H Institutions in the period 2012-2019, which amounted to 750 million BAM annually¹³. In 2020, the annual amount of revenues from indirect taxes allocated for the financing of B&H Institutions is defined by the Agreement on the Adoption of the Global Framework of Fiscal Balances and Policies in B&H for the period 2020-2022¹⁴ increased to 780 million BAM.

The shock in the economy, caused by the appearance of the coronavirus and measures taken to combat the spread of the virus, interrupted the growing trend of remitted revenues from indirect taxes to the entities and Brcko District, as well as the amount earmarked for minimum reserves in 2020. Thus, compared to the previous year, the allocated gross amount in 2020 is lower by 9.5%. The largest decrease was recorded in the allocation of gross revenues to the Federation of B&H 12.6% and Brcko District 11.2%. There was a decrease in the allocation of gross revenues in 2020 for minimum reserves by 10.0% and for the Republic of Srpska by 8.5% compared to 2019.

Table 1 shows the allocation of gross revenues from indirect taxes for the period 2010-2020, in percent. Compared to other participants in the allocation, the presented data show changes in the structure of the allocation.

Table 1.

in %	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Index (2020 - 2010)	Index (2020 - 2019)
Minimum reserves	13.5	15.3	15.4	17.3	19.1	17.6	17.1	19.2	19.0	19.0	18.9	5.4	-0.1
B&H Institutions	12.7	12.0	13.0	13.0	12.3	12.0	11.6	10.9	10.4	9.9	11.4	-1.4	1.5
FB&H	47.5	46.4	45.2	44.5	43.9	45.2	45.6	44.9	45.4	45.7	44.1	-3.4	-1.6
RS	23.7	23.7	23.9	22.7	22.2	22.7	23.3	22.6	22.8	22.9	23.1	-0.5	0.3
BD	2.6	2.6	2.5	2.5	2.4	2.5	2.5	2.5	2.5	2.5	2.5	-0.1	0.0
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Data from the Indirect Taxation Authority of B&H, OMA overview

Looking at the average of the coefficients for 2020 compared to 2010, there is a noticeable decrease in the participation of entities, Brcko District and B&H Institutions in the allocation, and consequently, an increase in the share of allocation in favor of minimum reserves. The largest increase in the allocation in 2020 compared to 2010 refers to the minimum reserves (5.4 p.p.), while the largest decrease was recorded in the allocation of gross revenues to the Federation of B&H (-3.4 p.p.).

Observing the average of the coefficients for 2020 compared to 2019, the increase in the share in the allocation refers to B&H Institutions (1.5 p.p.) and to the Republic of Srpska (0.3 p.p.). On the other hand, the decrease was recorded in the allocation of gross revenues to the Federation of B&H (-1.6 p.p.), as well as in the allocation of revenues intended for minimum reserves (-0.1 p.p.).

2.2. Allocation of net revenues from indirect taxes

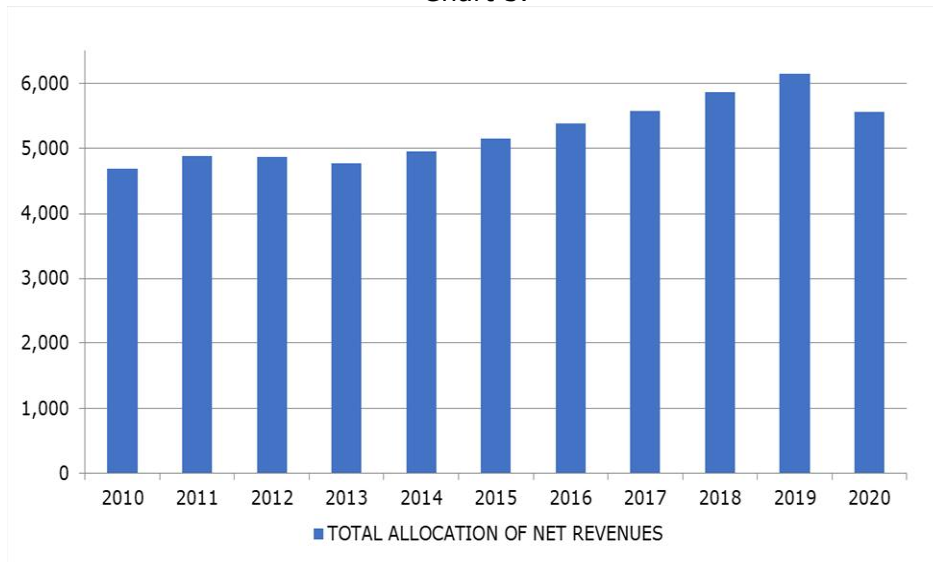
Net revenues from indirect taxes represent revenues intended for allocation to users after refunds have been made. Chart 5 shows the total allocated net revenues from indirect taxes for the period 2010-2020, in millions of BAM. The dynamic of the movement of net revenues shows a growth trend with the exception of 2013 and 2020. The amount of net revenues from indirect taxes

¹³ Agreement on the adoption of the document "Global framework of fiscal balances and policies in B&H"

¹⁴ [https://www.mft.gov.ba/srb/images/stories/budzet/qfo/2020/GFO%202020%20-%202022%20\(S\).pdf](https://www.mft.gov.ba/srb/images/stories/budzet/qfo/2020/GFO%202020%20-%202022%20(S).pdf)

intended for allocation to users in 2019 is the largest in the observed period. In 2020, the amount of total net revenues from indirect taxes intended for allocation to users is higher by 19.0% compared to 2010, while compared to 2019 it is lower by 9.3%.

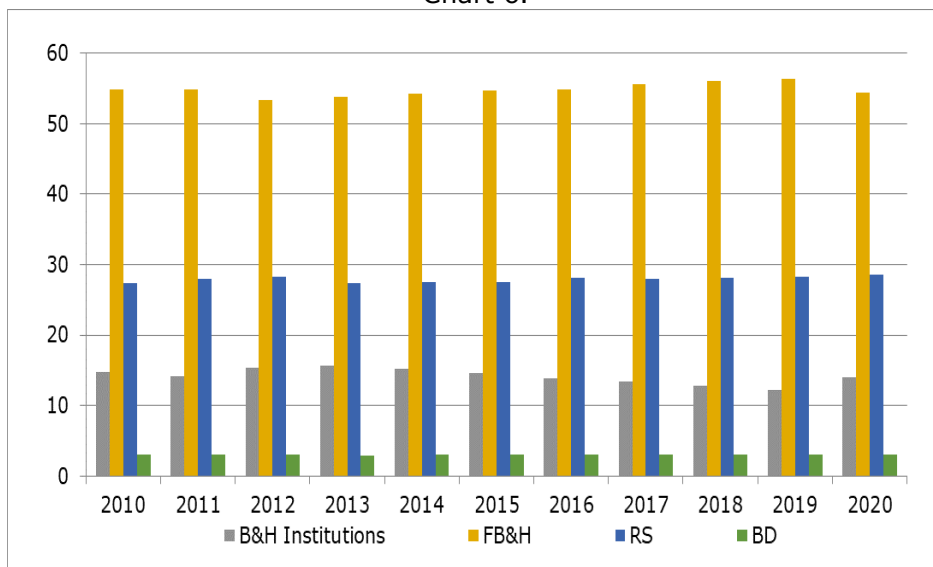
Chart 5.



Source: Data from the Indirect Taxation Authority of B&H, OMA overview

Allocation of net revenues from indirect taxes to users in the period 2010-2020, in percentages that include B&H Institutions, the Federation of B&H, the Republic of Srpska and Brcko District is shown in Chart 6.

Chart 6.

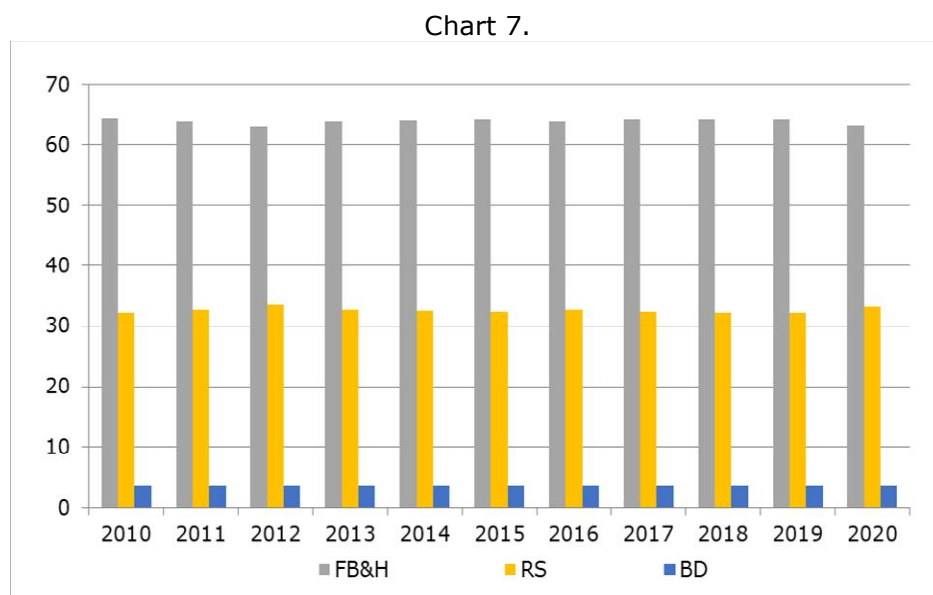


Source: Data from the Indirect Taxation Authority of B&H, OMA overview

Observing the dynamics of the movement, the data show the fluctuation trend of the movement of allocation to the entities, while the coefficient for allocation to Brcko District is fixed. The Federation of B&H has the highest percentage of participation in the allocation, after which a

significant amount in the allocation went to the Republic of Srpska, then to B&H Institutions and Brcko District.

Chart 7 shows the allocation of net revenues from indirect taxes to the entities and Brcko District in the period 2010-2020, in percent, after the allocation of the corresponding part of B&H Institutions.



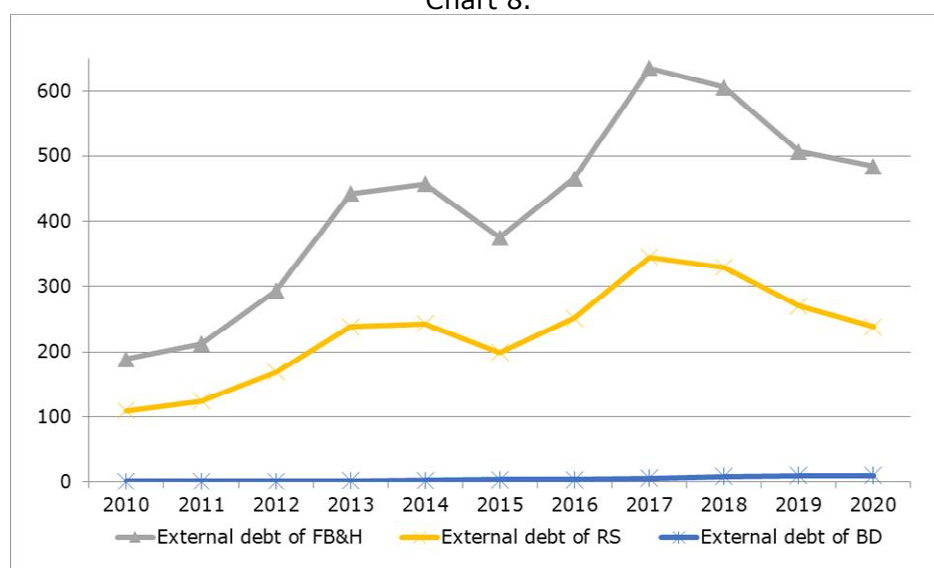
Source: Data from the Indirect Taxation Authority of B&H, OMA overview

In the observed period, the Federation of B&H achieved the highest allocation coefficient in 2010, and the lowest in 2012, which leads to the opposite movement of allocation to the Republic of Srpska, given the fixed allocation coefficient belonging to Brcko District. Observing the allocation of net revenues from indirect taxes in 2020 compared to 2010, there is a decrease in the coefficient in the Federation of B&H, in favor of the Republic of Srpska by 1.1 p.p. Reduction of the coefficient in the Federation of B&H in favor of the Republic of Srpska in 2020 compared to 2019 is 1.0 p.p.

3. External debt

The increase in the allocation of revenues from indirect taxes intended for financing external debt indicates an increased repayment of external debt to foreign creditors. Chart 8 presents the movement of the allocation of revenues from indirect taxes intended for financing external debt for the period 2010-2020, in millions of BAM.

Chart 8.



Source: Data from the Indirect Taxation Authority of B&H, OMA overview

The amount of allocation for the repayment of the external debt of Brcko District in the observed period has a slight tendency to increase, while, looking at the entities, changes are visible that are in line with previously assumed international obligations and the dynamics of external debt repayment. Although the country's indebtedness on the international financial market reached its maximum in 2014, the most significant repayment of the entity's external debt was recorded in 2017, when the most significant part of the debt to international creditors was repaid¹⁵. Accordingly, from 2017-2020, it can be seen that the amount intended for the repayment of the entity's external debt, which is allocated from indirect tax revenues, is gradually decreasing¹⁶.

Table 2 shows the percentage of participation of the entities and Brcko District in the total allocations for external debt repayment. Observing the movement of the external debt, there is a noticeable increase in the allocation of funds in the Federation of B&H, as well as a slight increase in the share of the allocation in Brcko District, and consequently a decrease in the allocated funds of the Republic of Srpska for 2020, compared to 2010. The same dynamics of movement is visible in comparison 2020 with 2019.

Table 2.

in %	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
External debt of FB&H	63.39	63.13	63.43	64.94	65.18	65.01	64.71	64.54	64.34	64.52	66.20
External debt of RS	36.57	36.84	36.54	34.94	34.60	34.49	34.93	34.99	34.90	34.40	32.58
External debt of BD	0.04	0.04	0.03	0.12	0.21	0.50	0.36	0.46	0.76	1.08	1.22
Total	100	100	100	100	100	100	100	100	100	100	100

Source: Data from the Indirect Taxation Authority of B&H, OMA overview

¹⁵ <https://www.imf.org/external/np/fin/tad/exportal.aspx?memberKey1=75&date1key=2020-12-31&category=EXC>

¹⁶ The tendency to reduce the repayment of the external debt of the entity does not necessarily represent a lower indebtedness of the entity, but represents the dynamics of repayment. In the last few years, there has been a "recomposition" of the entity's indebtedness, i.e. a reduction in external debt and an increase in indebtedness in the country.

4. Allocation of road fees revenues for highways

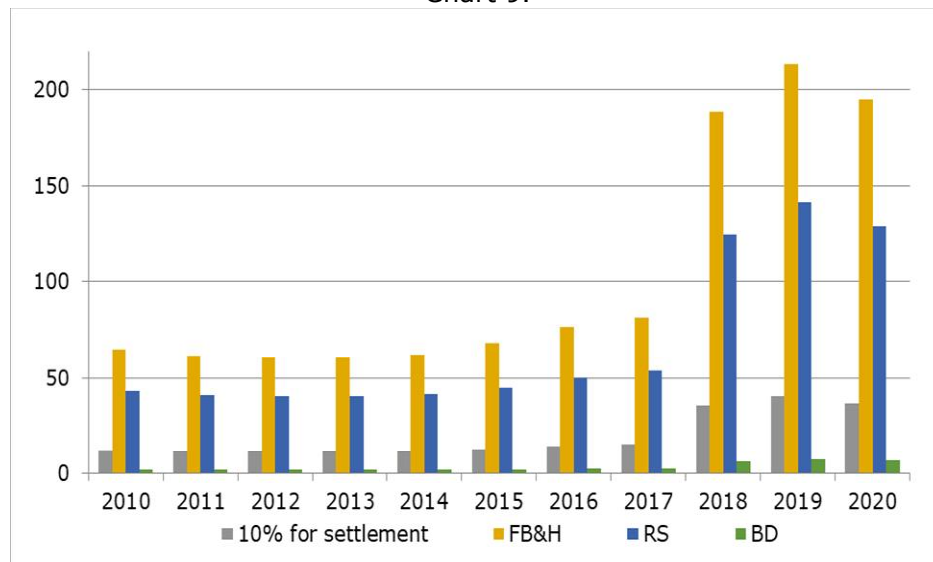
After the beginning of the application of the Law on Excise Duties in B&H¹⁷, the Governing Board of the Indirect Taxation Authority of B&H passed the Decision on the temporary allocation of revenues from road fees for highways¹⁸, (hereinafter: the Decision). According to the Decision, revenues are collected in a special sub-account within the Single Account. Of the total revenues collected, 10% remains in the Single Account sub-account and serves to settle revenues after determining the final allocation methodology. The remaining 90% is divided between the entities and Brcko District according to the established percentages (Federation of B&H 59%, Republic of Srpska 39%, Brcko District 2%).

The decision was applied until February 1, 2018, before the beginning of the application of the new Law on Amendments to the Law on Excise Duties in B&H¹⁹ (hereinafter: Law). With this Law, the amount of toll for highways per liter of derivatives sold on the B&H market, which is collected on a special sub-account of the Single Account, has been increased from 0.10 BAM to 0.25 BAM.

After the beginning of the application of the new Law, a new Decision on temporary allocation of toll revenues for the construction of highways and construction and reconstruction of other roads was adopted²⁰, which prescribes the same allocation methodology as prescribed by the previous Decision.

Chart 9 shows the amount that was allocated in the period 2010-2020 in accordance with the prescribed methodology according to the Decision on temporary allocation of toll revenues for highways and the Decision on temporary allocation of toll revenues for construction of highways and construction and reconstruction of other roads, allocated in the period 2010-2020, in millions of BAM. Chart shows the allocation of revenues from road fees for highways, which, in proportion to the prescribed coefficients, are allocated in the observed period.

Chart 9.



Source: Data from the Indirect Taxation Authority of B&H, OMA overview

According to the Decision on Temporary Allocation of Toll Revenues for Highways and the Decision on Temporary Allocation of Toll Revenues for Highway Construction and Construction and

¹⁷ "Official Gazette of B&H", no. 49/09, 49/14 i 60/14

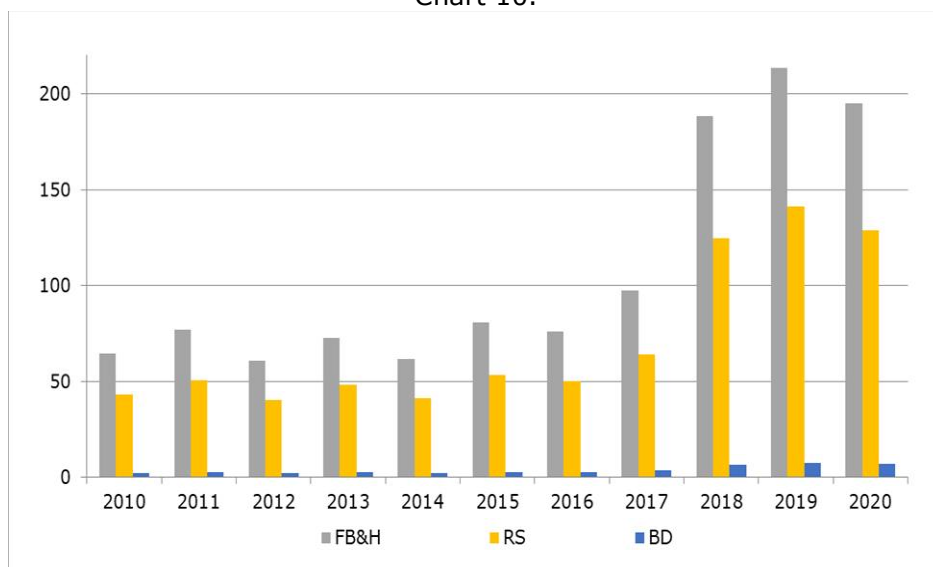
¹⁸ "Official Gazette of B&H", no. 102/09

¹⁹ "Official Gazette of B&H", no. 91/17

²⁰ "Official Gazette of B&H", no. 50/18

Reconstruction of Other Roads, the amount of 10% is left on the Single Account sub-account and serves to settle revenues after determining the final allocation methodology. After that, this amount is accumulated until the decision of the Governing Board of the Indirect Taxation Authority of B&H on the temporary allocation of toll revenues for highways that remained in the sub-account of the Single Account. Thus, the Governing Board of the Indirect Taxation Authority of B&H in the period 2010-2020, passed four Decisions on the temporary allocation of toll revenues for highways that remained in the sub-account of the Single Account²¹. In accordance with these Decisions, in 2011, 2013, 2015 and 2017, a part of the accumulated amount intended for settlement was allocated from the sub-account of the Single Account. Chart 10 shows the amount that was allocated to the entities and Brcko District during the regular allocation, increased by the amount of allocation according to the Decisions on temporary allocation of toll revenues for highways that remained on the Single Account sub-account, in millions of BAM.

Chart 10.



Source: Data from the Indirect Taxation Authority of B&H, OMA overview

In the period 2010-2020 the most significant changes are the legal changes in the amount of road fees for highways. As the Law was not in force for all twelve months of 2018²², the full effect of the amendment of the Law on an annual basis is visible in 2019 and 2020. Chart 9 shows the allocation of toll revenues to users without the allocated amount according to the Decisions on temporary allocation of toll revenues for highways that remained in the sub-account of the Single Account. In the period 2010-2017, when the same amount of toll was applied for highways per liter of derivatives (0.10 BAM), no significant oscillations were noticed. Significant oscillations in the period 2010-2017 can be seen in Chart 10 in the years when additional allocations occurred. In the mentioned period, in 2017, the most significant amount for the allocation of revenues from road fees for highways was recorded, which is related to the collection of these revenues. Observing the period from the beginning of the application of legal changes 2018-2020²³, the amount of allocated toll revenues for highways is significantly higher, compared to previous years. In 2019, the total allocated amount of toll revenues is the highest compared to the previous period, and is significantly higher than in 2017, when the highest allocated amount was recorded before the amendment of the law. In 2020, the total allocated revenues from road fees are lower by 8.5% compared to 2019.

²¹ "Official Gazette of B&H", no. 83/11, 62/13, 67/15; 42/17

²² Start of application February 01, 2018

²³ February 01, 2018 – December 31, 2020