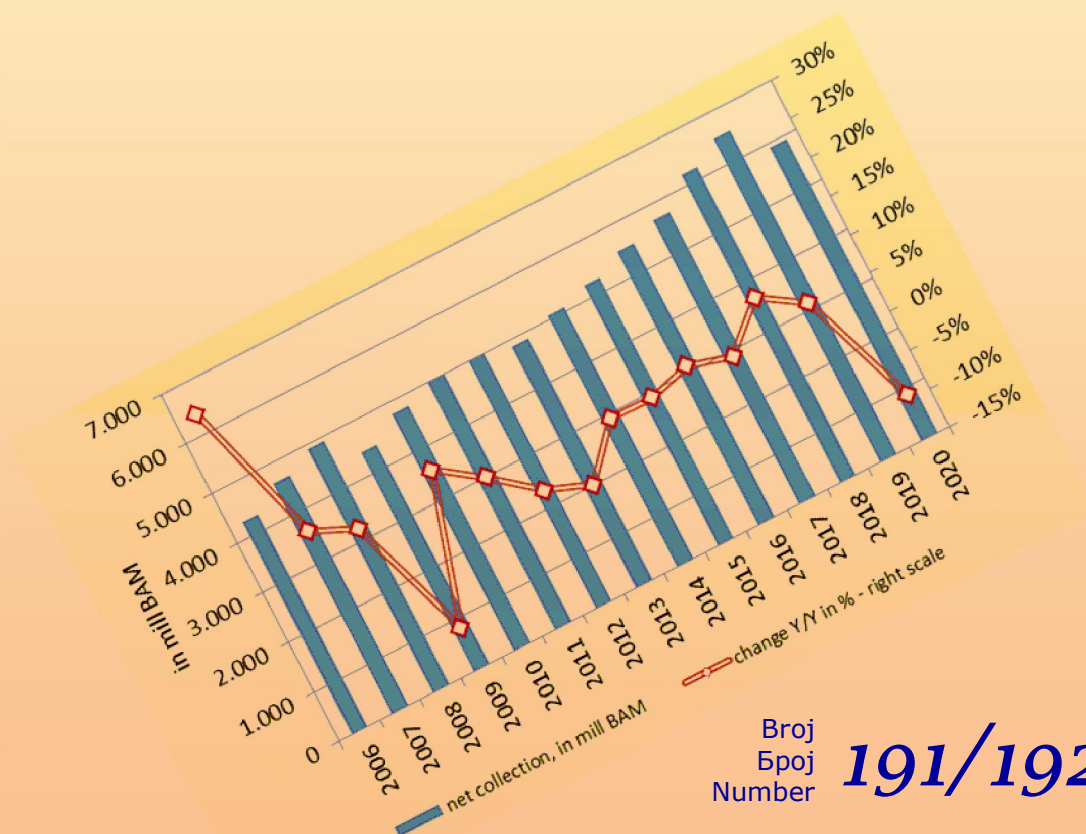




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

# ОМА Билтен



Broj  
Број  
Number **191/192**

maj/juni 2021 – svibanj/lipanj 2021 – мај/јуни 2021 – May/June 2021

**With this issue**

According to the preliminary cash flow report, the collection of net indirect taxes in April 2021 was higher by KM 104.4 million, or by as much as 24.9% compared to the same month in 2020. In the period January-April 2021 surplus of 34.9 million BAM was realized, representing an increase of 1.8% compared to the first four months of 2020. However, in order to conclude whether the collection of indirect taxes is on the road to recovery, it is necessary to compare it with the collection in 2019, before the outbreak of the pandemic, which was also a year of historical maximum since the founding of the ITA. Compared to April 2019, the collection of indirect taxes in April 2021 was lower by 2.8%, while compared to the first four months of the year of historical maximum - 2019, the cumulative collection was lower by 1%. Nominal collection of gross and net VAT realized in the four months of 2021 in relation to the nominal collection in the same period of previous years indicates that this was a maximum collection since the introduction of VAT (Chart 1). The decomposition of nominal gross collection shows that, compared to 2019, domestic VAT and lower VAT refund payments are factors of net VAT growth, while the collection of VAT on imports (as well as the collection of customs revenues) is lower than in 2019 (Chart 2).

Chart 1

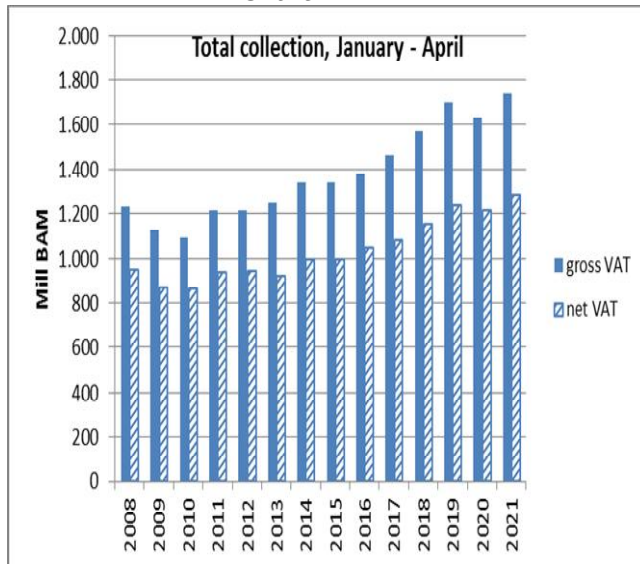
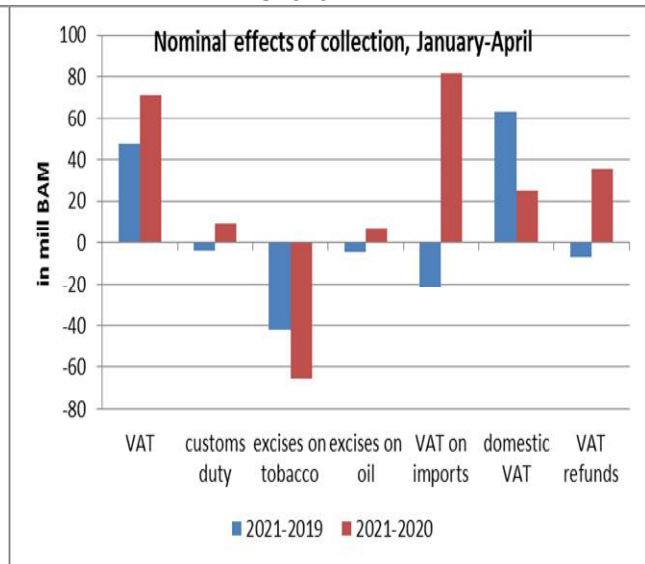


Chart 2



Despite the growth in 2021, the collection of excise duties on oil derivatives is still below the maximum from 2019. It seems paradoxical that the losses of revenues from excise duties on tobacco products are higher when comparing to 2020 than to 2019. However, when analyzing the collection of excise duties on tobacco products, one should keep in mind the high statistical basis for comparison in the first four months of 2020 (see Bulletin 189/190), which, even at the time of the pandemic, was higher than the base from the same period in 2019.

Dinka Antić, PhD  
Head of Unit

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## PROJECTIONS OF INDIRECT TAX REVENUES FOR THE PERIOD 2020-2024

### Summary

*The new virus pandemic has caused health and economic shocks around the world*

*According to data of the World Health Organization, by 4<sup>th</sup> of April, 2021, 130.5 million people in the world have been registered with the new coronavirus, with 2.8 million deaths. By the same date, 45.9 million people have been infected in Europe. 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 implemented measures to save the economy, such as tax reliefs, measures to preserve jobs etc. 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.*

*The coronavirus pandemic led to the collapse of the global economy and the EU economy in 2020. The estimated rate of real decline of the B&H economy in 2020 is 4.1% (DEP, March 2021).*

*The coronavirus pandemic led to the collapse of the global economy in 2020. According to the latest EC projections (2021 winter projections), the estimated real GDP growth rate in 2020 was -6.3% for the EU and -6.8% for the Eurozone. A negative real growth rate of the world economy (excluding the EU) of -3.4% was also estimated in the same document. According to the latest IMF projections, dating from April 2021, there was a negative growth rate of the world economy in 2020, amounting to -3.3%. Their projection of real GDP growth for 2020 for the Eurozone was -6.6%. According to the projections of the Directorate for Economic Planning (DEP) from March 2021, in Bosnia and Herzegovina, GDP fell by 4.1% in 2020, in real terms. The consequent decline in revenues from indirect taxes in B&H amounted to as much as 9.3% compared to the previous year.*

*DEP estimates real GDP growth in Bosnia and Herzegovina of 2.3% in 2021, compared to the previous year*

*The Directorate for Economic Planning of B&H estimates that the uncertainty caused by the worsening of the epidemiological situation will prolong the expected process of economic stabilization and recovery in the second half of 2021. The DEP's document from March 2021 states that stabilization is conditioned by: more efficient measures to combat the coronavirus pandemic, outturn of the assumptions of economic trends in the surrounding countries and more efficient action of competent institutions in the process of creating and implementing economic policies in Bosnia and Herzegovina. Having in mind all the above circumstances and the effect of the low base from the previous year, they expect real GDP growth of 2.3% at the end of 2021 in Bosnia and Herzegovina, compared to the previous year.*

*In the first quarter of 2021, the collection of indirect taxes decreased by 4.5%.*

*In the first quarter of 2021, the collection of indirect taxes decreased by 4.5%. Given that the net collection of indirect taxes in March reached the collection of March 2020, as well as high growth rates of imports and exports, it can be concluded that the economy and consumption of B&H is slowly recovering. This is indicated by the decreasing shortfall by types of revenue, compared to the collection in 2020. The loss of revenues for three months is minimal: -9.7 million BAM in VAT, -2.1 million BAM in customs, and -4.3 million BAM in road fund revenues. Excise duty collection is a matter of concern. The shortfall in excises was 61.1 million BAM, compared with the first quarter of 2020. In contrast to other types of revenues, which are strongly influenced by macroeconomic factors - economic trends, imports, exports, consumption, trends in the collection of excise duties on tobacco products are largely influenced by external factors, such as the business policies of tobacco companies (e.g. pricing policy), the pandemic and the restrictions imposed on EU imports.*

*Macroeconomic Analysis Unit (MAU) estimates the growth rate of revenues from indirect taxes in 2021 at 2.1%, and stable growth rates in the coming period*

*Preparing revenue projections for 2021 cannot rely on a seasonal revenue collection scheme, as it has dropped from all previous seasonal patterns due to the effects of coronavirus in the previous and current year. According to DEP's projections, the recovery of the economy is expected in the second half of the year, under the conditions of fulfilling the assumptions of economic trends in the surrounding countries and the implementation of measures in the country. Having in mind all the above specifics, the projected growth rate of revenues from indirect taxes for 2021 is 2.1%. The projected growth rates of indirect tax revenues for 2022, 2023, and 2024 are 3.4%, 3.5%, and 4.4%, respectively.*

*There are high risks for the realization of indirect tax revenue projections*

*Having in mind the huge unknowns at the time of preparing projections on the strength and duration of the shock caused by the coronavirus pandemic, we point out that there are significant risks for the realization of indirect tax revenue projections, with the risks of a worse outcome prevailing. The realization of the projected level of revenues from indirect taxes is subject to all risks for the outturn of the projected macroeconomic indicators (DEP) as well as the risks related to the collection of revenues from indirect taxes and the fight against the grey economy.*

*The program scenario (Chapter II) provides an indicative assessment of the effects of amendments to the Law on Excise Duties (adopted by the ITA Governing Board) on the collection of indirect taxes.*

*Unlike the baseline scenario of indirect tax revenue projections based on the assumption that there will be no change in indirect taxation policies, the program projection scenario is based on the assumption that there will be a change in excise policy regarding the prescribed deadlines for tobacco excise duties. The change in the regime of payment of excise duties on imported tobacco products is in the legal procedure, implying payment at the time of importing tobacco products instead of at the moment of taking over the excise stamps. According to the program scenario of MAU projections (Chapter II), the transition from the old to the new collection regime would cause large one-off losses of excise revenues.*

## I BASELINE SCENARIO OF INDIRECT TAX REVENUE PROJECTIONS

### 1. Basics and assumptions of indirect tax revenue projections from the baseline scenario

Indirect tax projections are based on the March 2021 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, March 2021

Table 1 presents the latest projections of the Directorate for Economic Planning of B&H (DEP, March 2021) of nominal and real GDP growth rates for the period 2020-2024. Since at the time of preparing the DEP projections (March 2021), no official data from the Agency for Statistics of B&H for 2020 were published for the gross domestic product of Bosnia and Herzegovina, the DEP forecasted GDP for 2020 (projected GDP growth rate is -4.1 %, in real terms).

Table 1. Projections of GDP growth, DEP, March 2021

Projected growth rate of GDP	official data	projections				
	2019	2020	2021	2022	2023	2024
Nominal	4.8	-3.7	3.1	4.7	4.5	5.5
Real	2.9	-4.1	2.3	3.1	3.3	3.6

Source: DEP, March 2021

#### Projections for 2021

The DEP estimates that the uncertainty caused by the deteriorating epidemiological situation will prolong the expected process of economic stabilization and recovery in the second half of 2021. They state in the text of their projections that stabilization is conditioned by more efficient actions to combat coronavirus pandemic, outturn of the assumptions of economic trends in the surrounding countries as well as by more efficient activities of competent institutions in the process of creating and implementing economic policies in Bosnia and Herzegovina. Having in mind all the circumstances and the effect of the low base in the previous year, they expect real GDP growth rate of 2.3% in Bosnia and Herzegovina at the end of 2021, compared to the previous year. According to the same projections, it is expected that, due to improved economic activity in major trading partners and strengthening export demand, at the end of 2021, Bosnia and Herzegovina could achieve real growth of total exports of 4.7%, while the expected real growth of imports in 2021 is 3%. Assuming a stabilization of production and a gradual recovery of employment, and an increase in the inflow of remittances from abroad, the real growth of private consumption should be around 2%. It is also stated that, continued support to health and the economy in the fight against the pandemic could lead to an increase in public spending of at least 1.3% in 2021.

#### Projections for the period 2022-2024

The key basis for DEP's projections of economic trends in Bosnia and Herzegovina in the period 2022-2024 are the projected trends in economic activity in the external environment (DEP refers to the projections of reference international institutions), as well as the contribution of internal dynamics in creating economic growth. According to DEP's document from March 2021, in addition to the preconditions for improvement in the external environment, a very important condition for the recovery of economic growth in the country in the medium term is the country's institutional

capacity to implement structural reforms. Assuming the realization of these circumstances, a somewhat stronger economic recovery is expected (DEP, March 2021) in the period 2022-2024 in Bosnia and Herzegovina, with an average real economic growth rate of over 3% annually (Table 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 2021 has been regulated by the Law on Excises and Decision<sup>1</sup> 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, while the taxation of cut tobacco is regulated according to the amendments to the Law (in force since 2014).<sup>2</sup> The Law<sup>3</sup> 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. The phase process of liberalization of B&H's foreign trade is shown in Chart 1.

Chart 1. Phases of foreign trade liberalization in B&H

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

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

### 1.3. Indirect tax collection trends

After a long-term growth trend in collected revenues from indirect taxes,<sup>4</sup> in 2020 they fell due to the effects of the coronavirus pandemic. In 2006, 4.12 billion BAM of net revenues from indirect taxes were collected on the SA of the ITA, while in 2019 the amount of net collected revenues increased by as much as 58.7% (6.54 billion BAM) compared to 2006.<sup>5</sup>

<sup>1</sup> Decision on Determination of the Specific and Minimum Excise Duty for Cigarettes and Amount of the Excise Duty on Smoking Tobacco for 2021 („Official Gazette of B&H" No. 78/20)

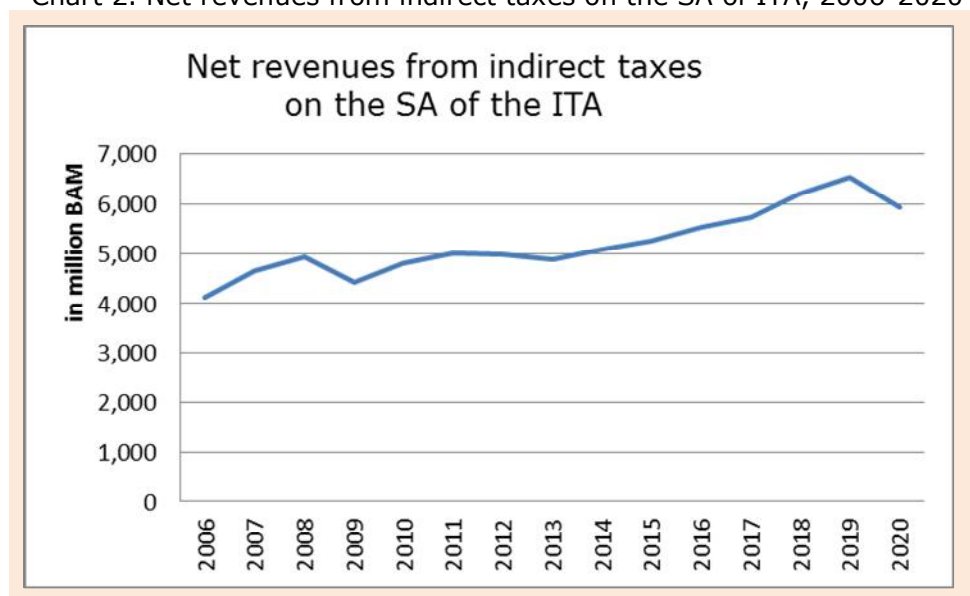
<sup>2</sup> The new policy is in effect since 1 August 2014 (Amendments to the Law on Excises in B&H "Official Gazette of B&H" No. 49/14)

<sup>3</sup> 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, 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.

<sup>4</sup> In almost all years from the establishment of the ITA until 2019, there were increases in collected revenues on the SA of the ITA. Exceptions were the "crisis" year of 2009, when there was a strong decline in revenues of 9.9%, and stagnation and a slight decline in revenues in 2012 and 2013, respectively (Chart 2).

<sup>5</sup> 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.

Chart 2. Net revenues from indirect taxes on the SA of ITA, 2006-2020



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

The share of indirect taxes on the SA of the ITA in GDP has varied in recent years (Table 2). After the decline of this share from 18.7% in 2008 to 17.0% in the crisis year of 2009, in the period from 2010 to 2019 it ranged between 17.3% (2013) and 18.5% (2011). It is estimated that in 2020 it dropped to 17.2%.<sup>6</sup> The share of indirect taxes on the SA of the ITA in total consumption has also varied, and from 2014 to 2019 it had a continuous growth trend. It reached the level of 19.6% in 2019. It is estimated that in 2020 it dropped to 18.2%.

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

(in %)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 pr
GDP	19.5	19.7	18.7	17.0	18.4	18.5	18.0	17.3	17.8	17.6	17.8	17.6	18.2	18.2	17.2
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	19.5	19.6	18.2

Source: Calculation based on ITA and BHAS data,<sup>7</sup> and DEP's projections (GDP for 2020)<sup>8</sup>

### 1.3.1. Collection in 2020

In 2020, the gross collection of indirect taxes was lower by 757.1 million BAM, or 9.5% compared to 2019, while refunds were lower by 145.7 million BAM. Due to reduced refund payments, the decrease in net revenues from indirect taxes was significantly smaller than in gross revenues, and amounted to 611.4 million BAM, representing a decrease in net collection of 9.3% compared to 2019. Collection of revenues in 2020 was characterized by the effects of coronavirus pandemic. Monthly review of revenue collection indicates divergent trends caused by the effects of the coronavirus on the economy and private consumption. In the first three months, there was an increase in gross revenues and minimal oscillations in refund payments. 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 mitigated to some extent by reduced refunds. Some improvement in June and July was nullified in the rest of the year, mainly due to a fall in gross collection.

<sup>6</sup> Data for 2020 are projections, given that official data on macroeconomic indicators have not yet been published by BHAS, but DEP projections have been used.

<sup>7</sup> GDP by expenditure approach, Agency for Statistics of B&H, February 2021.

<sup>8</sup> DEP, projections from March 2021.



The coronavirus 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 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%

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. 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.<sup>9</sup>

### 1.3.2. Collection in the period January - March 2021

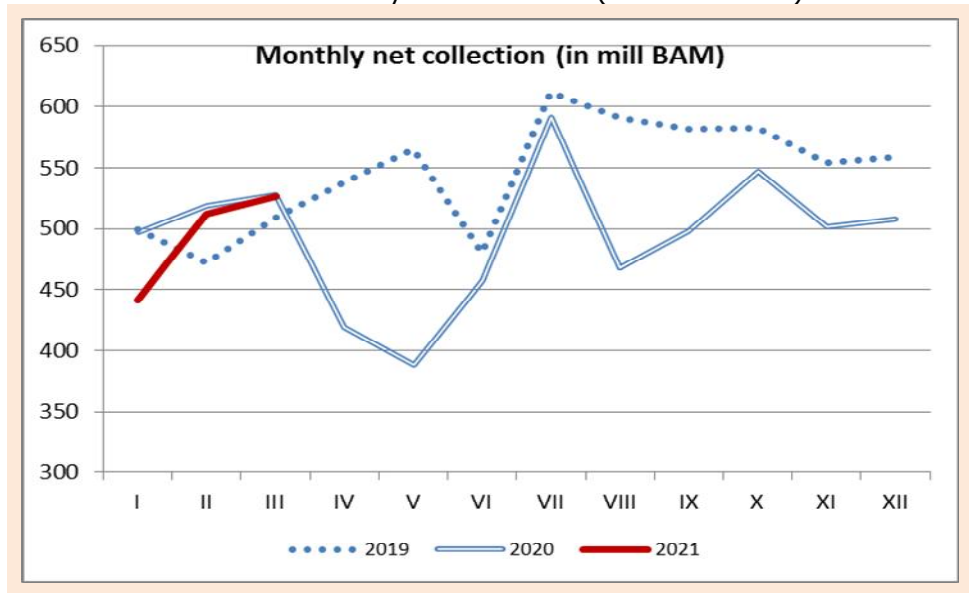
#### Total collection

Significant negative effects of COVID-19 virus on the collection of indirect tax revenues have been recorded since April 2020, after introduction of restrictive measures by the B&H and EU authorities in order to limit import of goods from China and Asian countries, as well as the movement of persons within and between countries. With this in mind, revenue collection in the first two months of 2020 reflects the trends of the previous few years, which were characterized by stable growth of indirect taxes. Since April 2020, the collection of revenues from indirect taxes has been constantly in the negative growth zone (Chart 3), and the negative trends have also continued in the first months of 2021.

Net revenue collection fell by 11.1% in January and by 3% in February. Given the higher statistical base for comparison with the first quarter of 2020, a smaller decline in revenue in February 2021 could be considered as a first signal of revenue recovery. Positive trends in collection have continued in March 2021. According to the preliminary ITA report on the cash flow in March 2021, the collection of net revenues from indirect taxes was at the level of collection realized in the same month in 2020 (Chart 3).

<sup>9</sup> More about the collection of revenues from indirect taxes in 2020 in the MAU Bulletin no. 187-188, January / February 2021, [www.oma.uino.gov.ba](http://www.oma.uino.gov.ba)

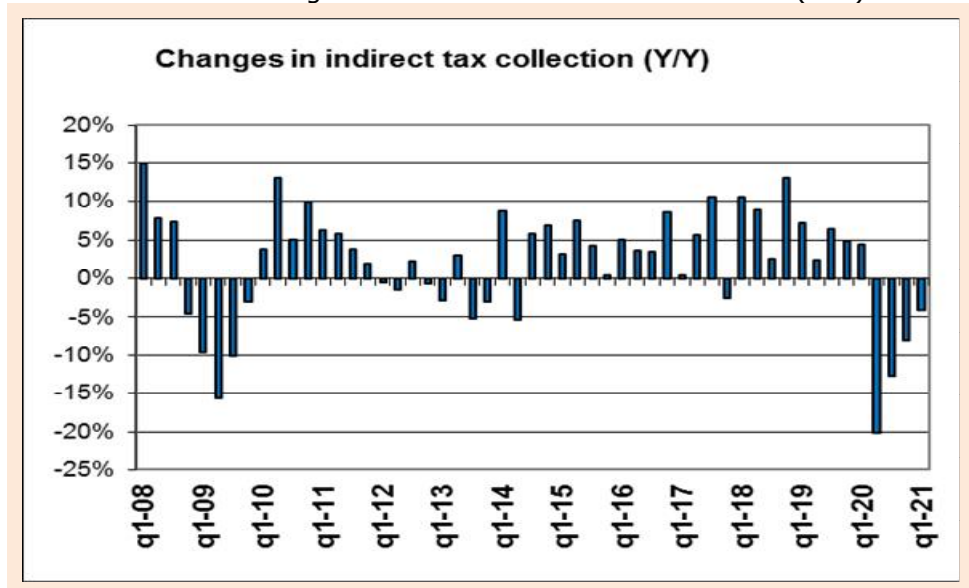
Chart 3. Monthly net collection (in million BAM)



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

Positive trends in March have improved the cumulative collection of indirect taxes in the first quarter of 2021. According to the preliminary report of the ITA, the gross collection in that period was lower by 58.9 million BAM, while refund payments were higher by 10.5 million BAM. Finally, in the first quarter of 2021, the net collection of indirect taxes was lower by 69.4 million BAM compared to the same quarter of 2020, representing a decrease of 4.5%.

Chart 4. Changes in the collection of indirect taxes (YoY)



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

A review of quarterly trends indicates a recovery in the collection of indirect taxes, although the rates have still remained in the negative growth zone (Chart 4). In the previous year, positive quarterly growth was achieved only in the first quarter, while with the outbreak of the COVID-19 virus pandemic in the second quarter, a decline of -20.1% was recorded. With the easing of

restrictive measures in the middle of the year, in the third quarter, the decline in revenue was -12.7%. The gradual recovery of the economy in B&H resulted in a decline in revenues in the fourth quarter of -8.1%, which is a smaller decline than those achieved in the previous two quarters. In the first quarter of 2021 the decline was halved to -4.5% (Chart 4). At the same time, we should keep in mind the high statistical basis for comparison of the revenue collection in the first quarter of 2021 with the same quarter in 2020, which increased the collection decline.

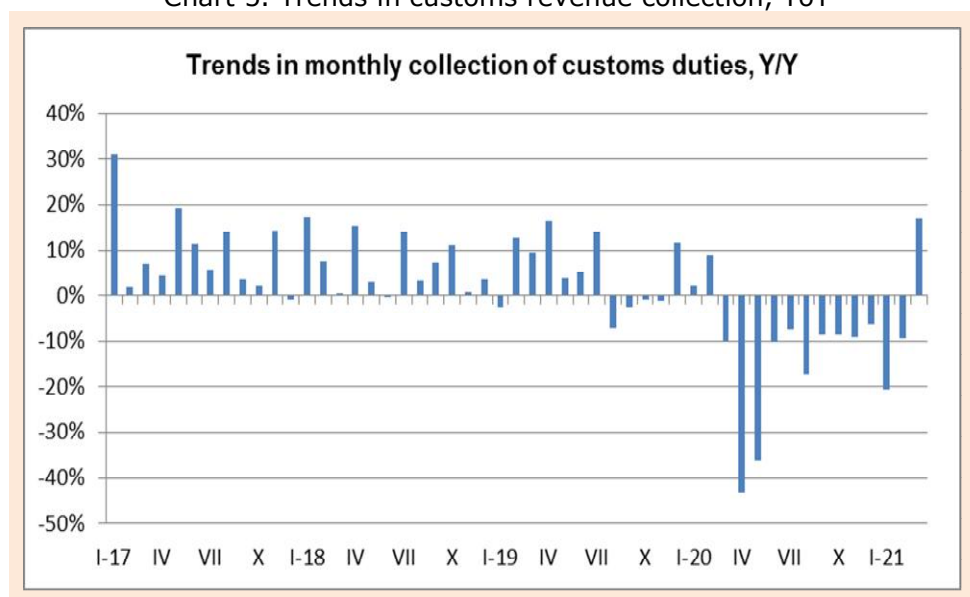
### Trends by types of revenues

The revenues that remained unadjusted after linking the payments with returns/declarations in the ITA IT system are excluded from the analysis by type of revenues. According to the preliminary report of the ITA, in the first quarter of 2021, 16.3 million BAM of unadjusted revenues were recorded.

### *Customs*

Negative trends in the collection of customs revenues from 2020 have continued in the first two months of 2021. In January 2021, a decline in customs revenues of -20.7% was recorded, and in February -9.4%. However, the turnaround occurred in March 2021, when customs revenues grew by as much as 17.2%, which was a consequence of the strong growth of imports in March of 19.1%<sup>10</sup> (Chart 5). The collection of customs revenues is determined by the dynamics of imports of goods from the EU in the part that is under the regime of customs, as well as of imports of goods from the third countries. The growth of imports in 2021 is a signal of economic recovery in B&H, since it reflects the growing needs of a small and open economy, such as B&H, as well as the consumption of citizens that cannot be met on the domestic market.

Chart 5. Trends in customs revenue collection, YoY

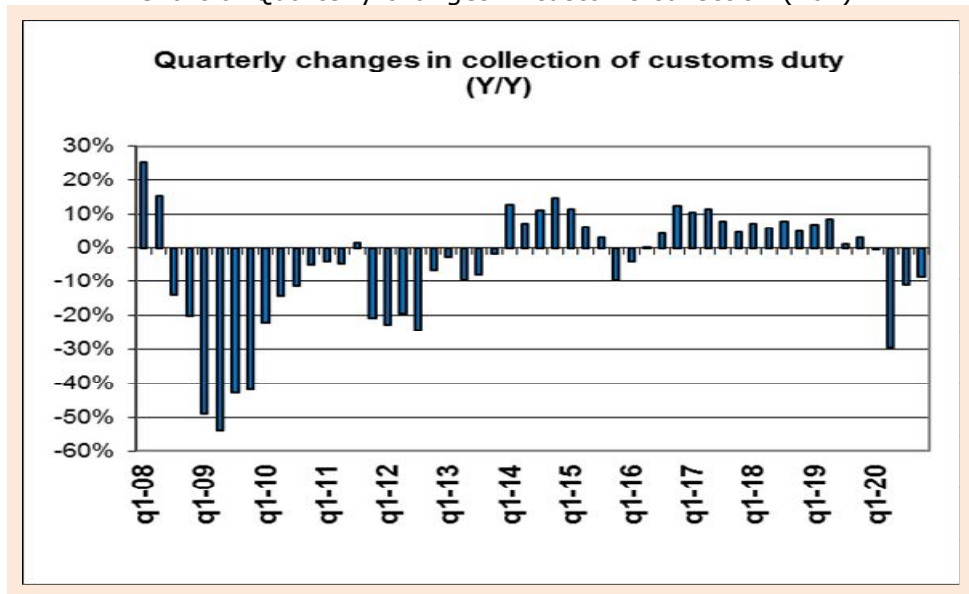


Source: Indirect Taxation Authority of B&H, calculation of the MAU

A strong recovery in customs revenue collection in March has significantly improved the cumulative collection. There was a decline in customs revenues of -3% compared to the same quarter in 2020, representing the smallest quarterly decline in the last year since the outbreak of the pandemic (Chart 6).

<sup>10</sup> Source: the ITA.

Chart 6. Quarterly changes in customs collection (YoY)

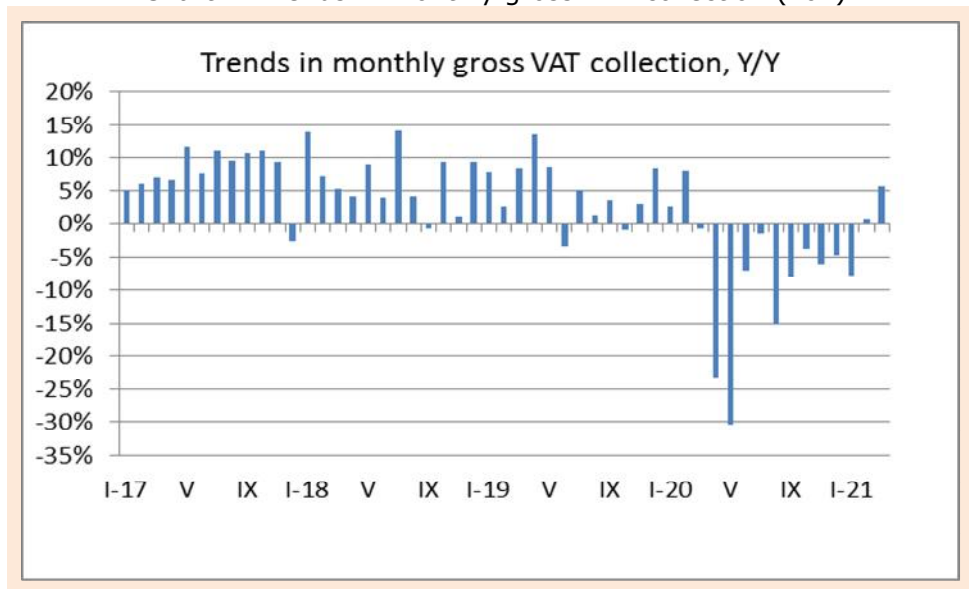


Source: Indirect Taxation Authority of B&H, calculation of the MAU

VAT

After a long period of negative trends caused by the COVID-19 virus pandemic, the first modest signals of recovery in the collection of gross VAT were recorded in February 2021. Growth rate of 5.7% was recorded in March (Chart 7). Nominally, the collection of gross VAT in the first quarter of 2021 reached the collection from the first quarter of 2020.

Chart 7. Trends in monthly gross VAT collection (YoY)

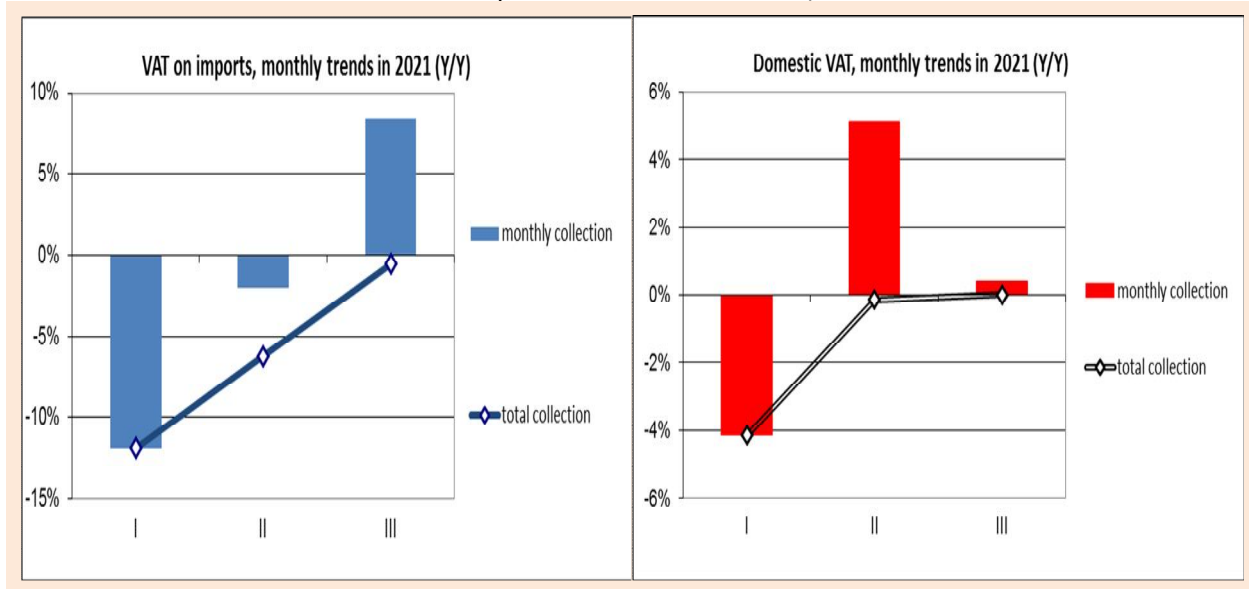


Source: Indirect Taxation Authority of B&H, calculation of the MAU

Positive trends in the collection of gross VAT in the first quarter of 2021 resulted from the recovery of VAT on imports. In March 2021, this component of gross VAT grew by 8.4% (Chart 8,

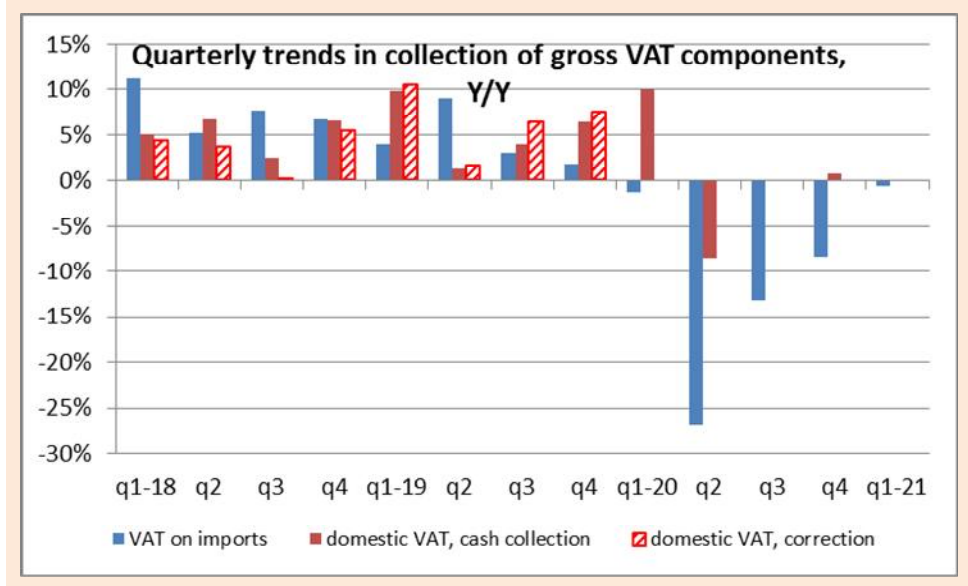
left), while the increase in domestic VAT was far more modest, only 0.4% (Chart 8, right). After the final adjustment of unadjusted revenues, a slightly higher growth of domestic VAT can be expected, since a significant part of unadjusted revenues refers to VAT payments / declarations.

Chart 8. VAT on imports and domestic VAT, trends in 2021



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

Chart 9. Quarterly trends in the collection of gross VAT components (YoY)

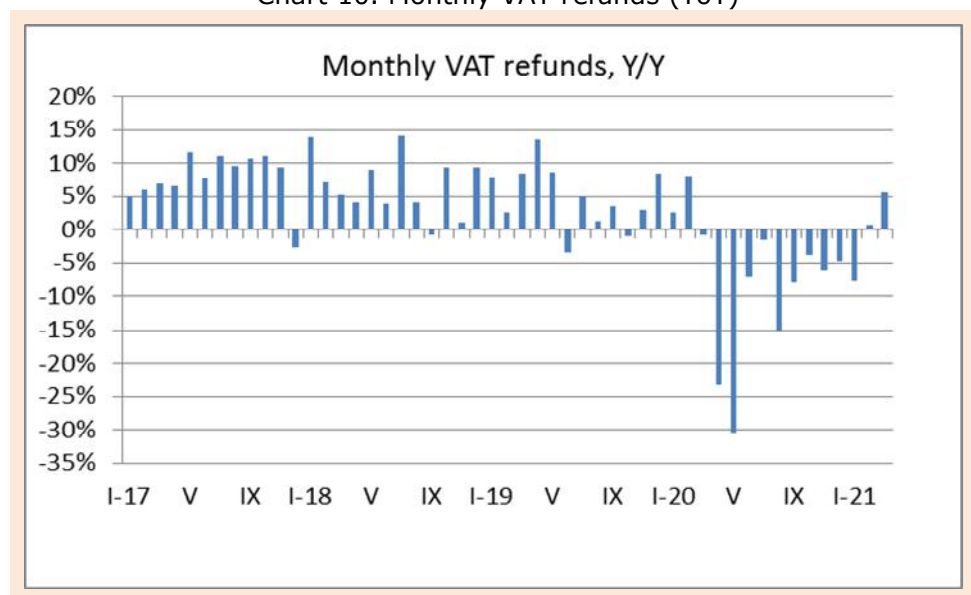


Source: Indirect Taxation Authority of B&H, calculation of the MAU

The quarterly comparison of the components of gross VAT indicates a rapid recovery of VAT on imports, as a consequence of the growth of imports in the last few months, observed in relation to the weaknesses in 2020 (Chart 9). On the other hand, quarterly domestic VAT growth rates have been fairly stable in the last three quarters, ranging from zero growth to a modest + 0.8%. It can be concluded that the taxable private consumption was not affected by the pandemic, and even a

modest growth was achieved, which could be higher after the final adjustment of revenues for the first quarter of 2021. Given the circumstances, there was probably only a change in the consumption structure, and, given the decline in the economy and employment, the consumption was financed from sources other than income.

Chart 10. Monthly VAT refunds (YoY)



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

Comparison of VAT refund payments in the first quarter of 2021 with 2020 indicates a decrease in refunds to taxpayers of 2.3% or 7 million BAM, while refunds to international projects were paid 13.8 million BAM more than in the same period in 2020. A review of monthly refund payments indicates a sharp increase in refund payments in February 2021 (Chart 10), which can be related to the strong growth of exports in December 2020 of 14.8%.<sup>11</sup>

The main generators of VAT refunds are exports, imports and investments. Given the growth of imports and exports in March 2021,<sup>12</sup> increased VAT refund payments can be expected in April and May 2021.<sup>13</sup> Export growth, although considered a significant factor in economic recovery, initially has a neutral effect on the collection of net VAT and total net indirect taxes, because the total VAT paid in the supply chain before export is eventually returned to the exporter through refunds. This *de facto* nullify the effects of collected VAT in the previous stages of turnover. However, as the growth of exports drives the growth of domestic production, employment and income, we can also expect growth in consumption, and thus in the collection of indirect taxes in the coming months, if the positive trend of exports continues in the coming months of 2021.

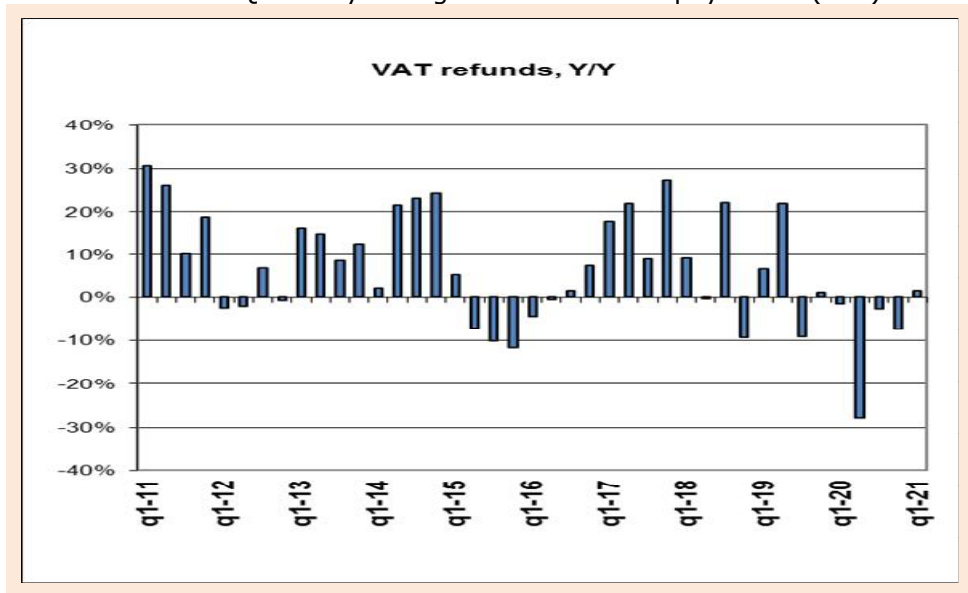
An overview of quarterly trends in the payment of VAT refunds shows that, after a decline that was recorded throughout 2020, in the first quarter of 2021 there was an increase of 1.4% compared to the first quarter of 2020 (Chart 11). At the same time, the average share of refund payments in gross VAT in the first quarter of 2021 was higher by 0.5 percentage points, compared to the same quarter 2020.

<sup>11</sup> Source: Agency for Statistics of B&H.

<sup>12</sup> According to data of the ITA, exports grew by 35.3% in March 2021.

<sup>13</sup> It is necessary to keep in mind the legal deadlines for refunds payments to predominant exporters and other taxpayers, no later than two months after the submission of the VAT return.

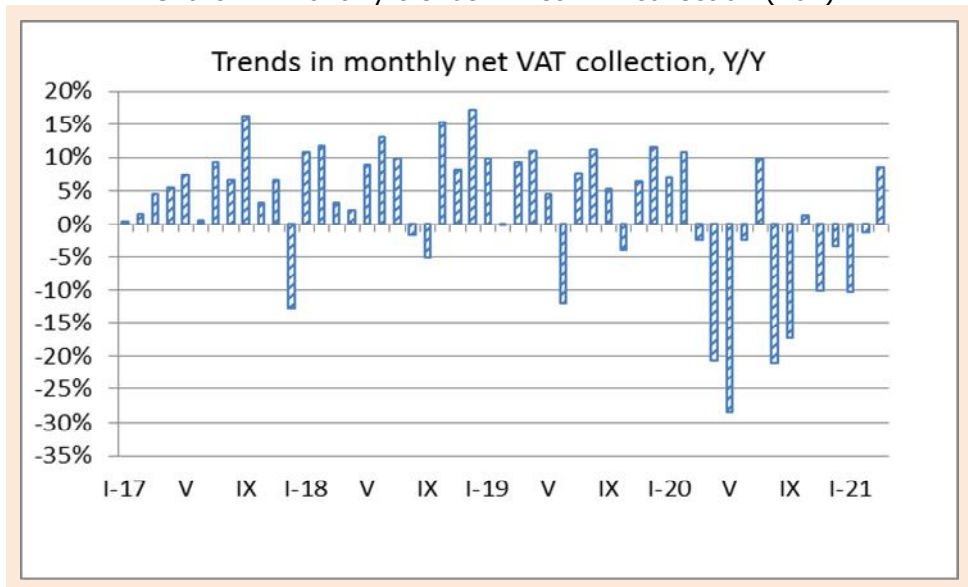
Chart 11. Quarterly changes in VAT refund payments (YoY)



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

The growth of refund payments in the first two months of 2021 had a negative effect on the collection of net VAT, so that the decline in net collection was greater than the decline in gross collection. However, after seven months of negative growth, reduced refund payments in March, together with the strong increase in gross collection, resulted in a high net VAT growth rate of 8.6% (Chart 12).

Chart 12. Monthly trends in net VAT collection (YoY)

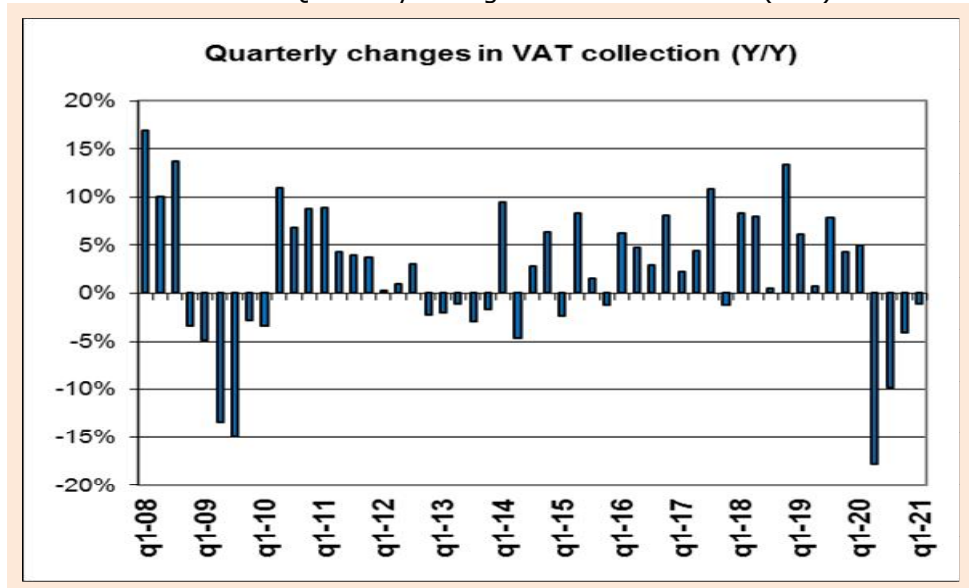


Source: Indirect Taxation Authority of B&H, calculation of the MAU

However, the positive trends in March were not sufficient to achieve a positive growth of net VAT at the quarterly level, and a decrease of 1% was recorded compared to the first quarter of 2020 (Chart 13). The review of quarterly trends in net VAT collection shows a significant recovery in net VAT collection, despite the fact that it has still remained in a negative growth zone. However, after

the final adjustment of unadjusted revenues, it can be expected that the collection of net VAT in the first quarter of 2021 will reach the collection from the same quarter of 2020.

Chart 13. Quarterly changes in VAT collection (YoY)



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

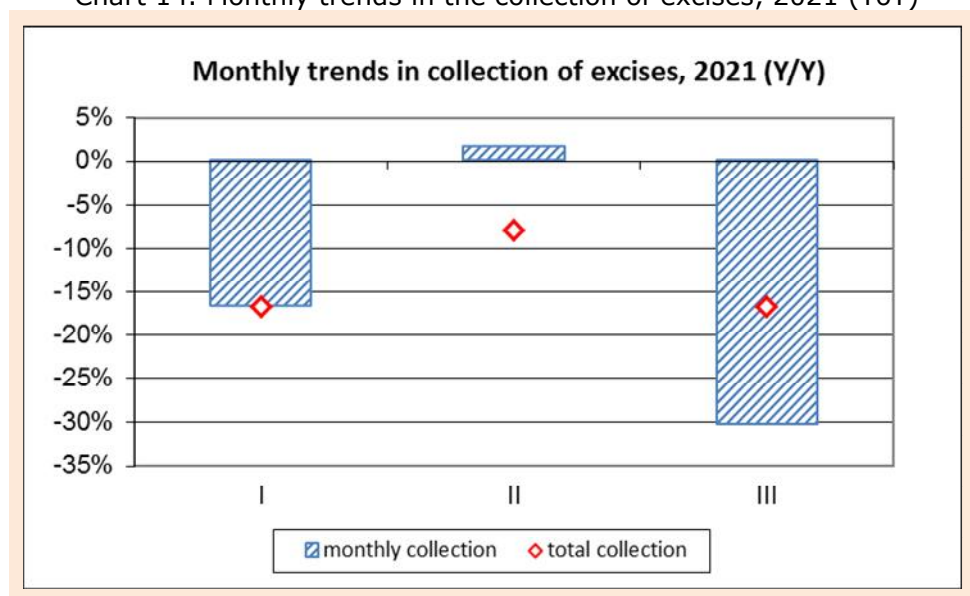
#### Excises and road tax

Unlike VAT and customs revenues, the collection of excise revenues in the first quarter of 2021 has still continued its negative trend from 2020. Although excise collection increased by 1.4% in February 2021, for the first time after ten months, a huge decline of 30% was recorded in March (Chart 14). The main reason for such a high decline in excise collection was extremely high statistical base in the first quarter of 2020. With the outbreak of coronavirus, tobacco companies did not revise their business plans, which resulted in an increase in the quantities of excise stamps and, consequently, higher payments of excises in March 2020.<sup>14</sup>

<sup>14</sup> In the first quarter of 2020, 32% of the total collected excise duties on tobacco products were collected in 2020, which is 10 pp. above the average share of the first quarter in the annual collection of excise duties in the period 2005-2019.



Chart 14. Monthly trends in the collection of excises, 2021 (YoY)



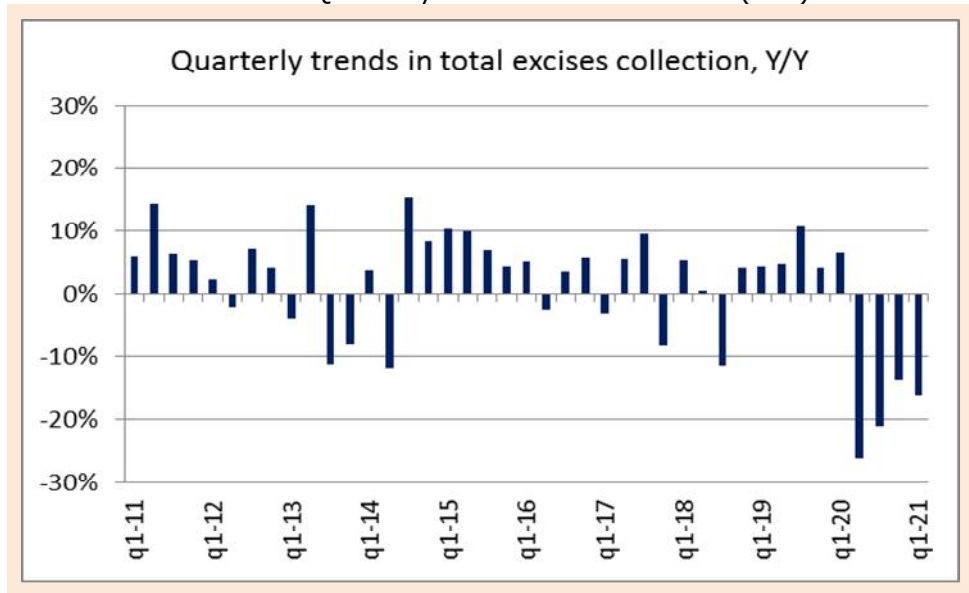
Source: Indirect Taxation Authority of B&H, calculation of the MAU

The quarterly observation shows a continuous negative trend in the collection of excise duties in the last four quarters (Chart 15). The huge decline in excise revenues in March 2021 has worsened the cumulative trends, and at the quarterly level a decline in collection of -16.7% was recorded (Chart 15).

Given that cigarette taxation policy has remained unchanged since 2019, an important factor in the collection of excise revenues is the business policy of a few large tobacco companies, in terms of quantities and dynamics of taking over excise stamps, and pricing policy, which is reflected in increasing retail prices of the cheapest categories of cigarettes in 2020 and 2021.<sup>15</sup> In addition to prices, the huge drop in cigarette consumption by non-residents (diaspora, tourists, people in transit, and people in the border zone) was affected by restrictions on the movement of citizens between countries, which were introduced during the COVID-19 virus pandemic. Other factors influencing the decline in the consumption of tobacco products related to the pandemic are: the growing number of patients with respiratory diseases, the outflow of population from B&H and the impossibility of their visit to B&H. These factors also had a negative effect on the collection of excises on tobacco products in the first quarter of 2021. Tobacco companies, despite disastrous sales in 2020, increased retail cigarette prices in early 2021, by an average of 1.6%. In addition to the tightening of restrictions on the movement of EU citizens, in addition, the sale of cigarettes to non-residents in B&H in the first quarter of 2021 was negatively affected by the decisions of Croatia and the EU to limit cigarette intake from the third countries.

<sup>15</sup> More in: Antić.D. (2021). „Tobacco taxation policy in Bosnia and Herzegovina in the period from 2009 to 2021“, [http://www.oma.uino.gov.ba/publikacije/ANALIZA\\_2021\\_en.pdf](http://www.oma.uino.gov.ba/publikacije/ANALIZA_2021_en.pdf)

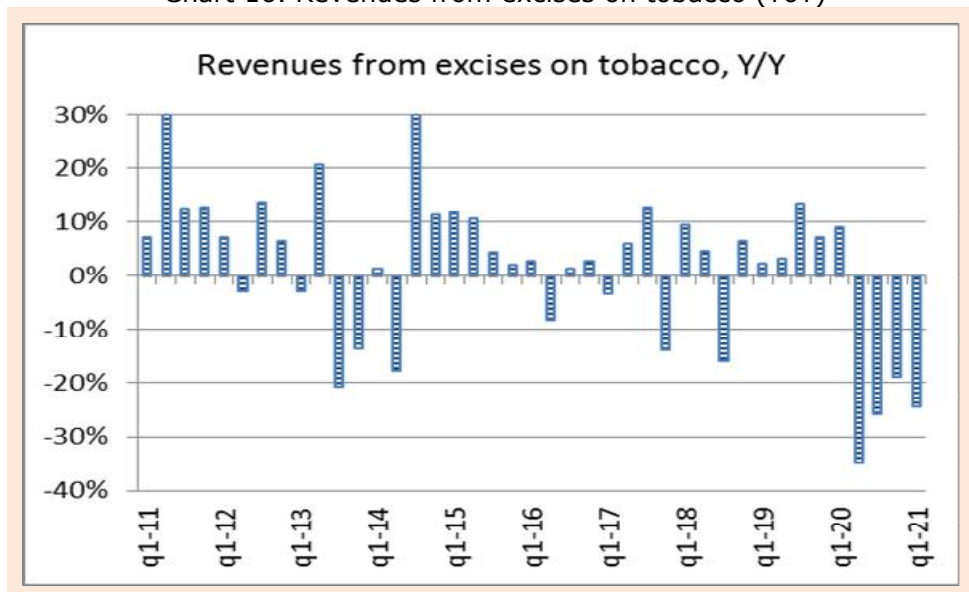
Chart 15. Quarterly trends in total excises (YoY)



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

The listed factors, along with the high statistical base from the first quarter of 2020, cumulatively led to a large drop in excises collected on tobacco products in the first quarter of 2021 of -24.2%, which is a deterioration compared to the fourth quarter of 2020 (Chart 16).

Chart 16. Revenues from excises on tobacco (YoY)

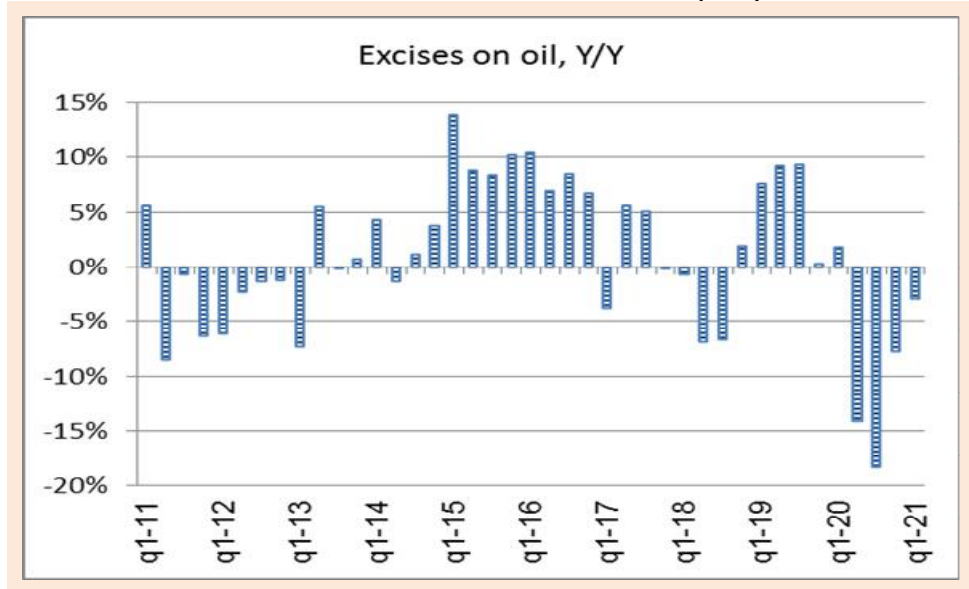


Source: Indirect Taxation Authority of B&H, calculation of the MAU

The beginning of 2021 brought the continuation of negative trends in the collection of revenues from excises on oil derivatives. However, revenue growth of 5.8% was achieved in February, followed by a decrease of -1.5% in March. Due to poor collection in January, at the level of the first quarter 2021, there was a decrease in collection of excise duties of -2.9% compared to the same quarter 2020. Given the higher statistical base and the trend of growth in retail prices of oil

derivatives in B&H, it can be concluded that the economy and consumption of oil derivatives has been gradually recovering (Chart 17).

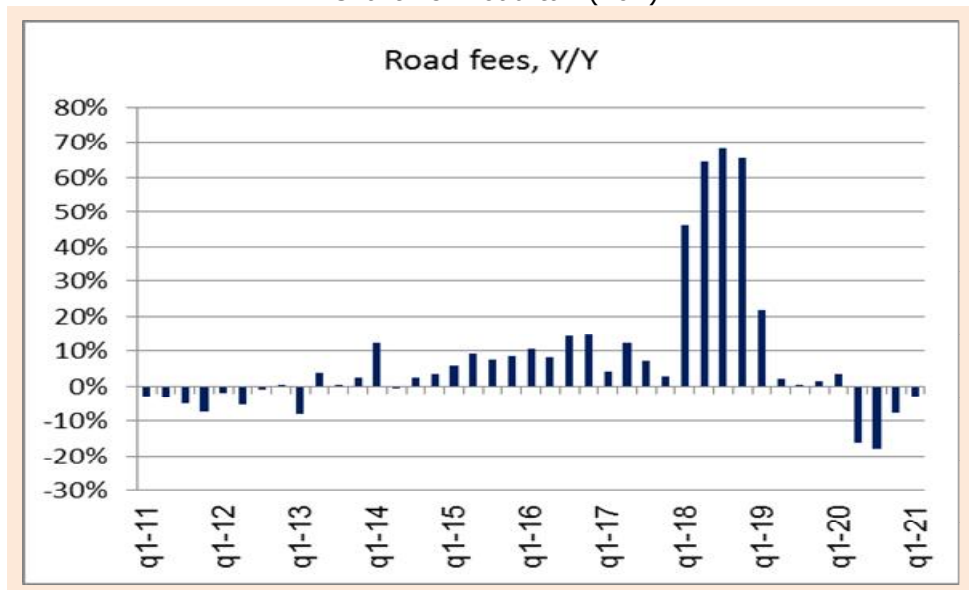
Chart 17. Excises on oil derivatives (YoY)



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

Trends in the collection of road tax revenues follow the trends in the collection of excise duties on oil derivatives. In the first quarter, the decline in gross road tax revenues was -3% (Chart 18). Differences between the growth rates of revenues from road taxes and excise duties on oil derivatives arise from the fact that mines, railways and thermal power plants are exempt from road tax, as well as from the different coverage of derivatives in the bases for the calculation of excise duties and road tax.

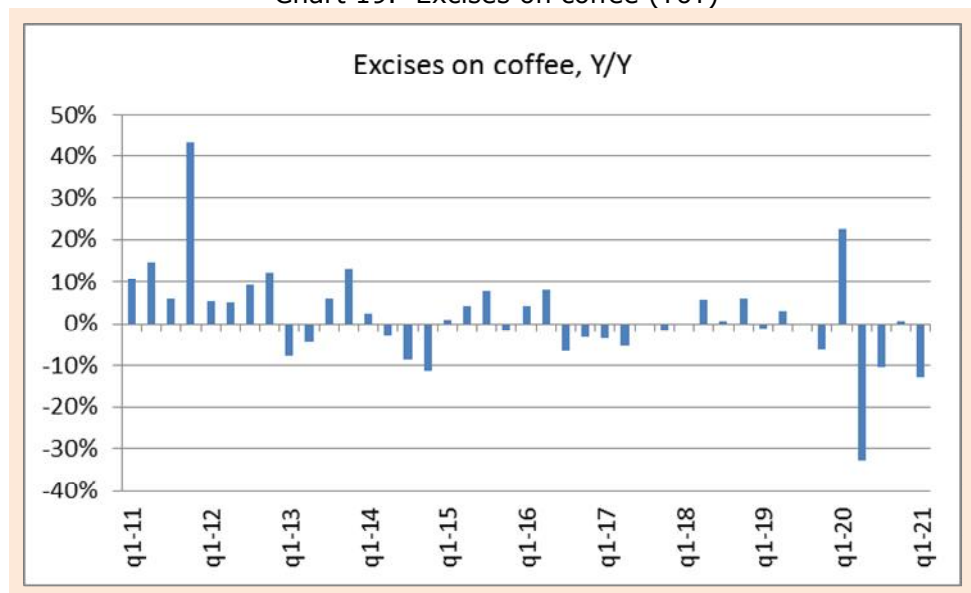
Chart 18. Road tax (YoY)



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

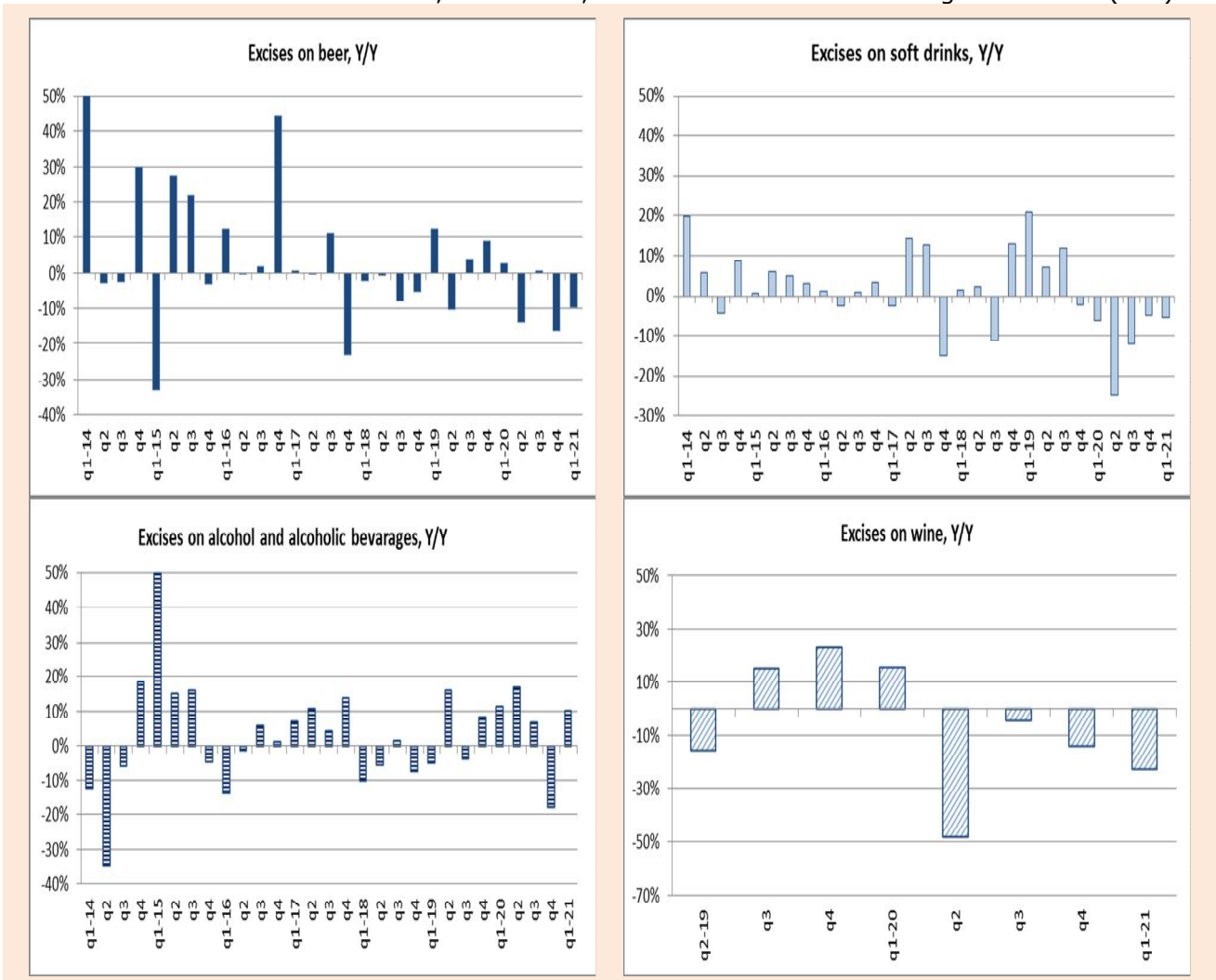
After a modest increase in the collection of revenues from excises on coffee in the fourth quarter of 2020, in the first quarter of 2021 there was a large decline in revenues of 12.8% (Chart 19).

Chart 19. Excises on coffee (YoY)



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

Chart 20. Excise duties on beer, soft drinks, alcohol and alcoholic beverages and wine (YoY)



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

In the first quarter of 2021, revenues from excise duties on non-alcoholic beverages increased by 62% and revenues from excise duties on alcohol and alcoholic beverages by 10.9%, thus interrupting the negative trends from 2020 (Chart 20). On the other hand, negative trends in the collection of excises on beer and wine have continued, with a decline of -4.7% and -19%, respectively (Chart 20).

## 2. Projections of revenues from indirect taxes 2021-2024

Revenue projections for the period 2021-2024 are available in Table 3. In order to ensure comparability of projected and collected indirect tax revenues, indirect tax revenue projections are presented on a cash basis in accordance with the ITA reports on collection by types of revenues.

Table 4 shows revenue projections in % of GDP.

Table 3. Projections of indirect tax revenues (2021-2024), April 2021

Type of revenue (net)	in million BAM					Projected growth rate			
	Realization	Projection				2021	2022	2023	2024
	2020	2021	2022	2023	2024				
VAT	3,748.5	3,842.5	3,977.5	4,120.8	4,309.9	2.5%	3.5%	3.6%	4.6%
Excises	1,303.5	1,313.3	1,347.0	1,383.5	1,430.3	0.7%	2.6%	2.7%	3.4%
Customs	262.2	269.9	285.7	305.4	328.8	2.9%	5.9%	6.9%	7.7%
Road tax	583.7	595.6	614.1	634.4	657.2	2.0%	3.1%	3.3%	3.6%
Other	32.3	32.3	32.5	32.7	32.9	0.0%	0.6%	0.6%	0.6%
<b>TOTAL</b>	<b>5,930.3</b>	<b>6,053.6</b>	<b>6,256.8</b>	<b>6,476.8</b>	<b>6,759.0</b>	<b>2.1%</b>	<b>3.4%</b>	<b>3.5%</b>	<b>4.4%</b>
Earmarked road tax *)	-364.7	-372.3	-383.8	-396.5	-410.8	2.1%	3.1%	3.3%	3.6%
Funds for distribution	5,565.6	5,681.3	5,873.0	6,080.3	6,348.3	2.1%	3.4%	3.5%	4.4%

Note:

\*) 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).

Table 4. Projections of indirect tax revenues in % of GDP (2021-2024), April 2020

Type of revenue (net)	in % of GDP				
	Realization	Projection			
	2020	2021	2022	2023	2024
VAT	10.8%	10.8%	10.7%	10.6%	10.5%
Excises	3.8%	3.7%	3.6%	3.6%	3.5%
Customs	0.8%	0.8%	0.8%	0.8%	0.8%
Road tax	1.7%	1.7%	1.6%	1.6%	1.6%
Other	0.1%	0.1%	0.1%	0.1%	0.1%
<b>TOTAL</b>	<b>17.2%</b>	<b>17.0%</b>	<b>16.8%</b>	<b>16.6%</b>	<b>16.5%</b>
Earmarked road tax *)	-1.1%	-1.0%	-1.0%	-1.0%	-1.0%
<b>FUNDS FOR DISTRIBUTION</b>	<b>16.1%</b>	<b>16.0%</b>	<b>15.8%</b>	<b>15.6%</b>	<b>15.5%</b>

Data source for GDP: DEP projections (Macroeconomic projections 2021-2024, March 2021), GDP by expenditure approach

## 2.1. Projections for 2021

Preparing revenue projections for 2021 cannot rely on a seasonal revenue collection scheme, as it has dropped from all previous seasonal patterns due to the effects of coronavirus in the previous and current year. The range of monthly revenue growth rates in 2020 was larger than ever,<sup>16</sup> from + 10.1% in February to as much as -33.1% in May.<sup>17</sup> In the first months of 2021, the negative trends from the previous year have continued, and revenue growth rates ranged from -11.1% in January to revenue stagnation in March, indicating a recovery in collection. According to DEP projections, economic recovery is expected in the second half of the year, under the conditions of realization of the assumptions from the baseline scenario regarding economic trends in the surrounding countries and the implementation of measures in the country. Having in mind all the above specifics and huge unknowns regarding development of the epidemiological situation

<sup>16</sup> The exception is 2007, due to the specifics of the base year 2006, which is the year of the introduction of VAT

<sup>17</sup> Comparisons with the same month last year.

in the country and the environment, as well as the current unfavorable epidemiological situation in the country, and based on the precautionary approach, the projected growth rate of indirect tax revenues for 2021 is 2.1%.

### 2.1.1. VAT

The analysis of collection trends in the current year indicates a recovery of VAT revenues (Section 1.3.2.). Although the positive trends in March were not sufficient for the achievement of positive growth of net VAT at the quarterly level, after the final adjustment of unadjusted revenues, it can be expected that the collection of net VAT in the first quarter of 2021 will reach the collection from the same quarter in 2020. The projection of VAT revenues is based on DEP's projections of macroeconomic indicators (consumption, imports, exports) according to which the economy is expected to recover in the second part of the year. The projected amount of VAT revenues is 3,842.5 million BAM, which is 2.5% more than in 2020.

### 2.1.2. Excises and road tax

The projected amount of total revenues from excises in 2021 is 1,313.3 million BAM, which is 0.7% more than in 2020.

The projected amount of road tax revenues amounts to 595.6 million BAM, which is 2.0% more than in 2020, and is based on current collection trends, forecasts of macroeconomic indicators (DEP, March 2021), and trends in the consumption of derivatives.<sup>18</sup>

#### *Revenues from excise duties on oil derivatives*

The past 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).<sup>19</sup> There were significant changes in the structure of the base<sup>20</sup> of excise duty on oil derivatives in the period 2017-2019. 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 period 2017-2019. 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 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

<sup>18</sup> More about the consumption of derivatives below in the part related to the forecasts of excise duties on oil derivatives. More about the coverage of the base and previous trends in the consumption of derivatives in Regoje, A. "Effects of changes to the Law on Excise Duties adopted in 2017 on the consumption of derivatives and indirect tax revenues" MAU Bulletin no. 181/182 and Regoje, A. "Statistical analysis of the consumption of oil derivatives", MAU Bulletin no. 183/184, [www.oma.uino.gov.ba](http://www.oma.uino.gov.ba).

<sup>19</sup> 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).

<sup>20</sup> Terms "base" for excises and "consumption" of derivatives refer 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.

implementation of containment measures has been permanently lost and irrecoverable. In 2020, there was a sharp decline in the consumption of oil derivatives, with the consumption of diesel fuel falling by 8.6% and unleaded petrol by as much as 19%. Heating oil consumption fell by 5.1%.

The projected amount of net revenues from excise duties on oil derivatives for 2021 is 478.8 million BAM, which is 2% more than in 2020. As in the case of road tax, the projection is based on current collection trends that indicate slight recovery (Section 1.3.2), forecasts of economic recovery in the second part of the year according to projections of macroeconomic indicators (DEP, March 2021), low base in 2020 due to part of permanently lost consumption, and forecasts of crude oil prices.<sup>21</sup>

#### *Revenue from excise duties on tobacco*

The starting point for projections of excise revenues on tobacco products for 2021 are trends in the tobacco products market and collection of excise revenues in 2020, as well as current trends in the first quarter of 2021. It is expected that retail prices of cigarettes from the first quarter will continue later in the year, which is an average increase of 1.6% compared to 2020, due to the real danger that further growth in retail prices of cigarette brands, especially the cheapest ones, would lead to a significant decline in consumption of low-income citizens and their shift to the black market.<sup>22</sup> As restrictions at the time of the 2020 pandemic have maximally reduced the non-residents' consumption, the value of the tobacco products market in that year mainly reflects domestic cigarette consumption. In 2021, restrictions on the consumption of non-residents are still present; both due to the continuation of the pandemic and due to restrictions on the import of tobacco products, which in the meantime were introduced by Croatia and other EU members. Given the projections of private consumption, and having in mind the obvious importance of non-residents' consumption in the structure of total cigarette consumption, the cigarette market should grow later in the year, but at a more modest rate compared to macroeconomic consumption projections. A gradual stabilization of the smoking tobacco market is also expected, but without a major impact on the collection of excises due to the low weight. Under these assumptions, the growth of excise revenues in the rest of the year should nullify the decline in revenues in the first quarter, so that the total collection of excises on tobacco products in 2021 should be at the level of collection in 2020.

#### 2.1.3. Customs

According to the Agency for Statistics of B&H, imports of goods in B&H fell by 6.3% in the first two months. At the time of preparing the projections, the ITA data were available, according to which imports grew by a high 19.1% in March, bringing the quarterly growth of imports in the positive zone of + 2.5%. At the annual level, the DEP forecasted growth in total imports at a rate of 4.8%. Having in mind the trends of collection and projections of the DEP, it is projected the collection of customs duties in the amount of 269.9 million BAM for 2021, which is 2.9% more than the collection in the previous year.

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<sup>21</sup> DEP's inflation projections rely, among other things, on crude oil price projections made by international reference institutions. In their document from March 2021, the DEP refers to the latest EC projections (winter projections from 2021) according to which it is expected that after extremely low crude oil prices in 2020, oil prices will increase to 54.7\$ /barrel (26% YoY) in 2021. They also refer to the projections of the ECB and the IMF, which also predict a rise in prices in 2021.

<sup>22</sup> More in: „Tobacco taxation policy in Bosnia and Herzegovina in the period from 2009 to 2021“, [http://www.oma.uino.gov.ba/publikacije/ANALIZA\\_2021\\_en.pdf](http://www.oma.uino.gov.ba/publikacije/ANALIZA_2021_en.pdf)



## 2.2. Projections for the period 2022-2024

The projected growth rates of indirect tax revenues for 2022, 2023, and 2024 are 3.4%, 3.5%, and 4.4%, respectively. The projection of revenues in this period is based on the projected relevant macroeconomic indicators, the historical seasonal collection pattern and projections of individual categories of revenues for 2020.

Unlike the projected decline in indirect taxes in GDP in the period 2022-2024<sup>23</sup> (Table 4, Section 2), the projected share of indirect taxes (MAU) in consumption (DEP) in this period is at a constant level of about 18%.

The largest generator of absolute growth of revenues from indirect taxes in this period is VAT, given its significant share in revenues and planned stable growth rates. In all three years, VAT revenues generate about two-thirds of the absolute annual projected revenue growth.

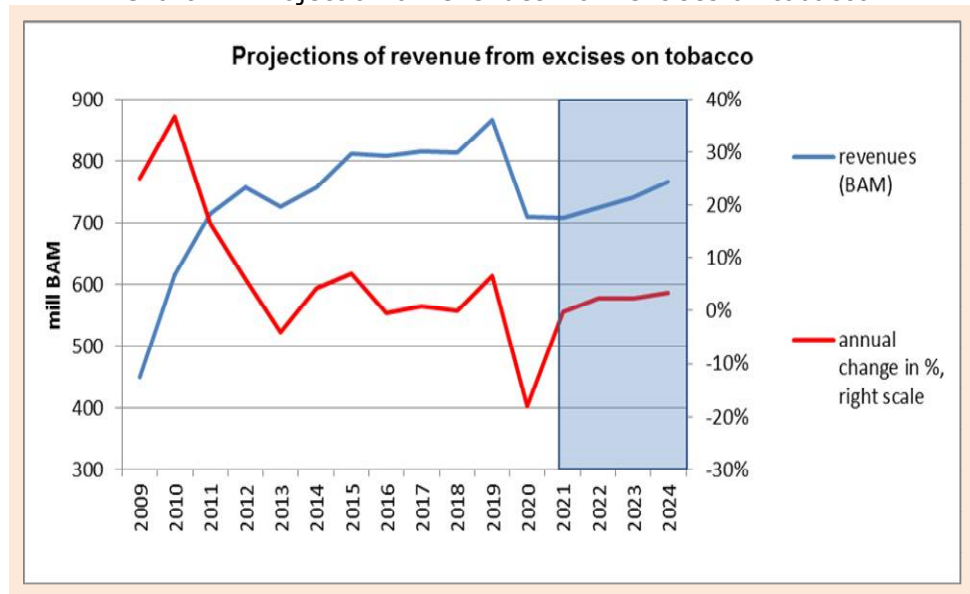
Due to the uncertainty regarding the end of the COVID-19 virus pandemic, a modest recovery in the collection of excises on tobacco products is expected in the period 2022-2024. Since the entire projection horizon implies an unchanged policy of cigarette taxation, the tobacco companies will try to use the recovery of the economy and private consumption to consolidate their profits in the coming years. For this reason, a slight increase in retail prices of cigarettes is expected. However, rising retail prices of cigarettes will lead to an increase in the tax burden on smoking tobacco,<sup>24</sup> which will have a negative impact on the legal consumption of tobacco. The value of the tobacco products market will mainly reflect domestic cigarette consumption in the next medium term, bearing in mind that the relaxation of movements outside B&H will lead to a further outflow of the working population and entire families, whose cigarette consumption will be largely lost. Consumption of non-residents (diaspora, tourists, in transit) is not expected to recover if the existing restrictions on the import of tobacco products into Croatia and other EU countries are maintained, because their cigarette consumption will be determined only by consumption while staying in B&H. In such circumstances, the market value of tobacco products is expected to grow at lower rates compared to macroeconomic consumption projections. Under these assumptions, modest increases in revenues from excises on tobacco products of 2.3%, 2.4% and 3.4%, are expected in 2022, 2023 and 2024, respectively. According to projections, the market value in 2024 will amount only 91% of the market value from a historic maximum in 2019, while the quantities of cigarettes will amount 82% and excise revenues 88% of the corresponding figures in 2019. It is obvious that without a rapid recovery of the economy, employment and income, with intensified efforts to combat black market, it will not be possible to reach the historic maximum in collection of excise revenues from 2019.

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<sup>23</sup> The decline in indirect taxes in GDP is explained by the decline in the projected share of consumption in GDP in the period 2021-2024 (DEP) and the fact that certain categories of revenues are not charged *ad valorem*.

<sup>24</sup> The reason is the methodology for calculating the rate of excise duty on smoking tobacco, which, according to the current law, depends on the weighted average price of cigarettes.

Chart 21. Projection of revenues from excises on tobacco



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

### 3. Differences from previous projections of indirect taxes

Projections of indirect tax revenues are closely related to the DEP's projections of GDP and its components. Any deviation of these parameters from the projected value represents the risk for revenue projection.

On the other hand, the projections of DEP's macroeconomic indicators are mainly based on the projections of international institutions, and therefore the projections of the European Commission (EC) and the International Monetary Fund (IMF) will be briefly presented here, as well as their revisions before and after the coronavirus pandemic.

#### 3.1. Revision of projections of the international institutions

##### *Projections of the European Commission*

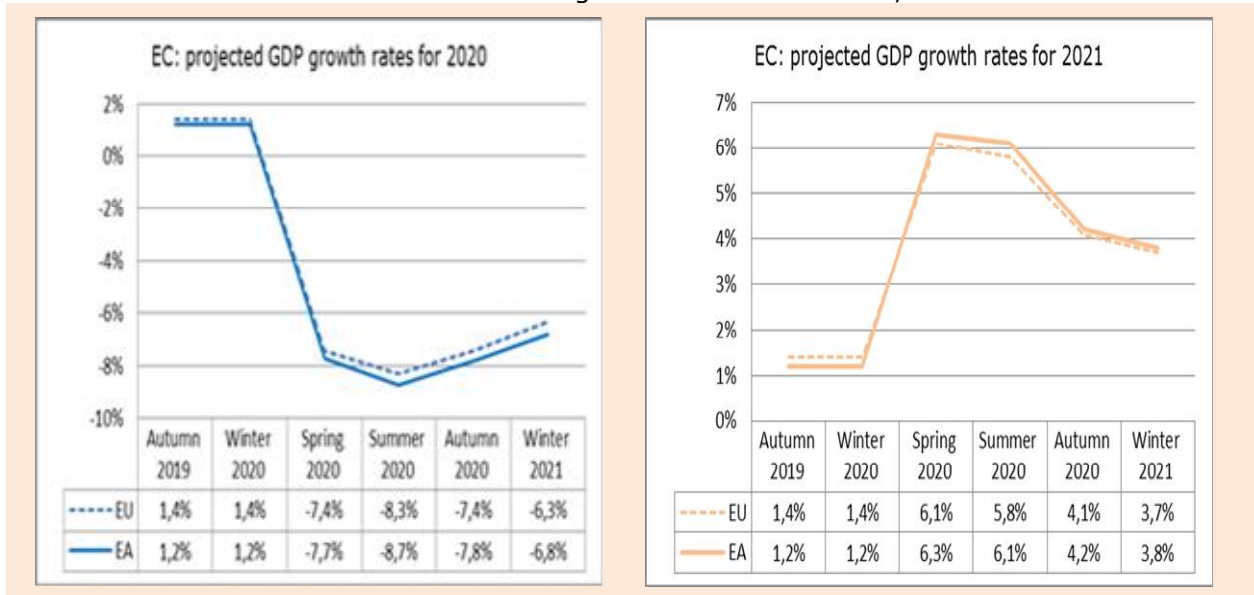
The European Commission (EC) publishes macroeconomic projections for the EU and its members four times a year. The projections are named by the season of publication.<sup>25</sup> The EC report from July 2020<sup>26</sup> (hereinafter: *Summer Forecast*) states that the European Union is facing the deepest recession since the Second World War, and that, during the period of implementation of the strictest restrictions, the euro area economy has operated at between only 70 to 75 percent of its capacity. The last six EC projections of the EU economy growth for 2020 and 2021 can be seen from Chart 22. The x-axis shows the time of publishing the EC projections, while the y-axis shows the projected GDP growth rate for 2020 (left) and 2021 (right). It can be concluded that the projections of GDP growth in the EU for 2020 have been reduced from + 1.4% (Autumn Forecast, 2019) to -6.3% (Winter Forecast, 2021). The direction of the revision of GDP growth projections in the EU for 2021 went in the opposite direction, from + 1.4% (Autumn Forecast, 2019) to + 5.8%

<sup>25</sup> The European Commission publishes two comprehensive forecasts (spring and autumn) and two interim forecasts (winter and summer) each year; <https://ec.europa.eu/>

<sup>26</sup> European Commission, European Economic Forecast, Summer 2020 - interim

(Summer Forecast, 2020), while in the last two issues, the EC has performed a downward revision of the growth rate, to + 4.1% in the Autumn 2020 Forecast, and further to + 3.7% in the Winter 2021 Forecast.

Chart 22. EC estimates for GDP growth in the EU and EA, 2020 and 2021



Source: Presentation of the MAU based on the EC projections

It is stated in the latest EC projections<sup>27</sup> that the forecasts are subject to high risks due to uncertainty regarding the development of the pandemic and the vaccination process. Due to the huge uncertainty, two alternative scenarios<sup>28</sup> have been developed, showing alternative directions of development of the EU economy based on different assumptions.

*Projections of the International Monetary Fund*

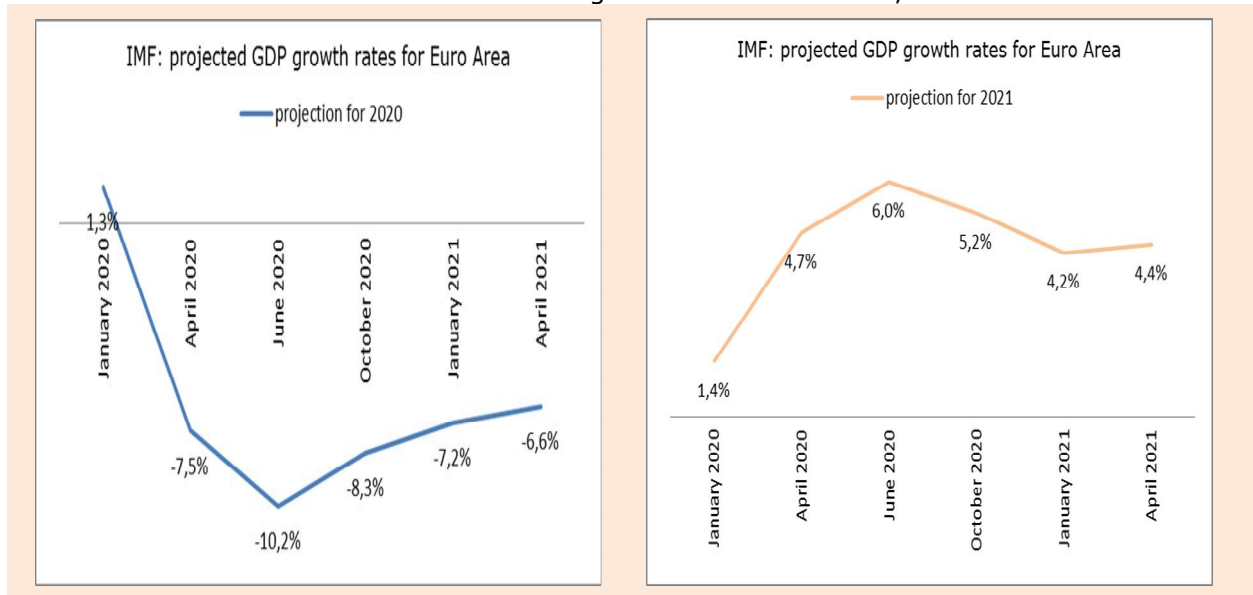
The latest IMF projections date from April 2021.<sup>29</sup> The April projections predict a slightly smaller decline in the global economy in 2020 (-3.3%) compared to the corresponding projected growth rate in January (-3.5%). A higher growth rate of the global economy is projected for 2021 (6%), compared to the corresponding projected growth rate in January (5.5%). The projections of real GDP growth for the Eurozone were also adjusted upwards (Chart 23). According to the April projections, in 2020 the Eurozone recorded a real decline in GDP of -6.6%, while a growth of +4.4% is expected in 2021.

<sup>27</sup> European Commission, European Economic Forecast, Winter 2021 - interim

<sup>28</sup> Upside and downside EC projection scenarios are available on pages 21-22 of Winter 2021 Forecast.

<sup>29</sup> IMF, World Economic Outlook, April 2021

Chart 23. IMF estimates for GDP growth in the Eurozone, 2020 and 2021



Source: Presentation of the MAU based on the EC projections

According to the latest IMF projections, a real GDP decline of 5.5% was achieved in B&H in 2020, while a growth of 3.5% is forecasted for 2021.<sup>30</sup>

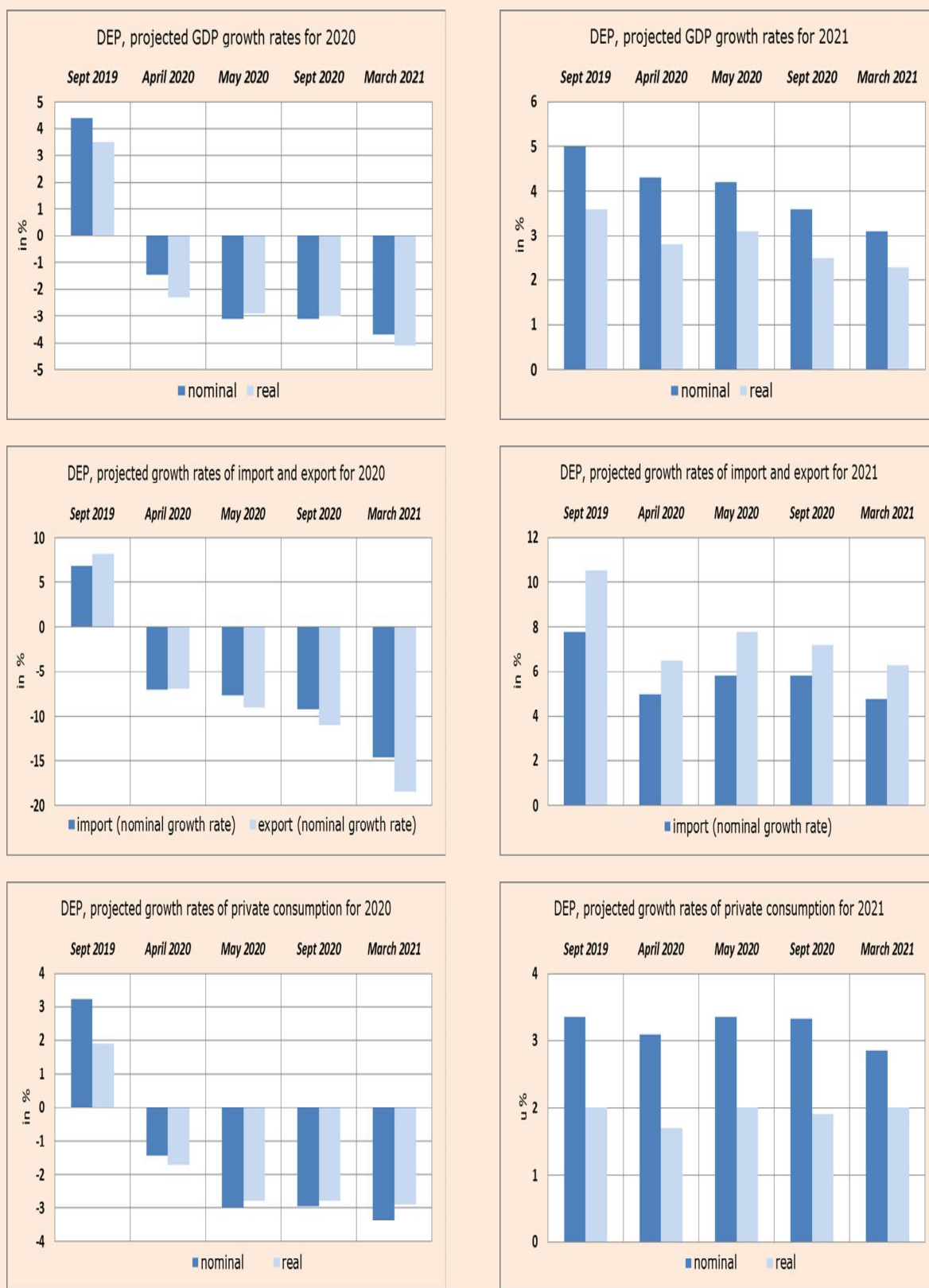
### 3.2. DEP, revision of the projections of macroeconomic indicators for B&H

The Directorate for Economic Planning of B&H (DEP) has revised the projections of macroeconomic indicators for 2020 several times since September last year. Before the appearance of the coronavirus (projections from September 2019), a real GDP growth rate of + 3.5% had been planned for 2020. With the onset of the coronavirus pandemic, in April this year, the DEP drastically lowered the projection of real GDP growth for 2020 to -2.3%. In May, this projection was further revised to -2.9%, and in September to -3.0%. As the official data of the Agency for Statistics of B&H for the 2020 gross domestic product of Bosnia and Herzegovina have not been published yet, the DEP forecasted GDP for 2020 in its latest projections from March 2021. According to the latest projections, the GDP growth rate should be -4.1%, in real terms. The left side of Chart 24 presents all the DEP's projections for 2020 made in the period from September 2019, before the coronavirus pandemic until the last projections from March 2021 (the time of preparing the projections is given on the x axis of the chart). The y-axis of the chart shows the projected growth rates of GDP, imports, exports and consumption. Corrections of GDP components projections in the past period can be clearly seen from the chart. As a consequence of the effects of the coronavirus pandemic, in the period from September 2019 to March 2021, the projections of the nominal GDP growth rate were revised by -8.1 percentage points. In the same period, the growth rate of imports was revised downwards by 21.5 percentage points, exports by 26.7 percentage points, and private consumption by 6.6 percentage points (Chart 24, left). Investment growth projections were revised by -22.8 percentage points, from + 10.2% to -12.6%. Only government consumption projections were revised upwards from + 2.1% to + 2.9% because "the new circumstances due to the Covid-19 virus pandemic required increased involvement of institutions in Bosnia and Herzegovina through increased expenditures on public health, coping with the economic consequences of the crisis and economic support."<sup>31</sup>

<sup>30</sup> Ibid, p. 132.

<sup>31</sup> DEP, Macroeconomic projections 2022-2024, March 2021

Chart 24. DEP: latest and previous projections of GDP and its components for 2020 and 2021



Source: MAU presentation based on DEP projections from September 2019 to March 2020

Unlike the projections for 2020, the projected growth rates of GDP and its components for 2021 have not been so significantly revised (Chart 24, right). In the period of preparing projections from September 2019 to March 2021, the projections of nominal GDP growth rate for 2021 were reduced by 1.9 percentage points, while the projections of real GDP growth rate were reduced by 1.3 percentage points. In the same period, the projected growth rates of imports and exports were revised downwards each time, for a total of 3 pp and 4.2 pp respectively.

Compared to the projections made in September 2020, the projections of nominal GDP growth rate for 2021 were reduced by 0.5 percentage points and projections of real GDP by 0.2 percentage points. Projections of nominal and real GDP growth rates for 2022 have not been revised compared to September last year, while projections of both indicators for 2023 have been reduced by 0.1 percentage points.

### 3.3. MAU, revision of projections of indirect tax revenues

#### *Differences in execution for 2020 in relation to the projections from October 2020*

Projections of revenues from indirect taxes for 2020 from October 2020 were exceeded by 100.1 million BAM (Table 5). Some easing of measures and bans in the fourth quarter resulted in a weaker recovery in consumption, which was reflected in a smaller decline in revenues compared to previous quarters. Higher collection of revenues compared to the October projections was the result of a modest recovery of imports and revenues in the fourth quarter compared to past data available at the time of preparing the projections.

Table 5. Differences in realization for 2020 compared to the projections from October 2020

	(in million BAM)	VAT	Excises	Customs	Road tax	Other	Total
(1)	Projection for 2020	3,673.1	1,303.3	259.0	567.3	27.6	5,830.2
(2)	Realization in 2020	3,748.5	1,303.5	262.2	583.7	32.3	5,930.3
	Difference (2)-(1)	75.4	0.3	3.3	16.5	4.7	100.1

Three quarters of the exceeded amount refers to net VAT revenues (75.4 million BAM). The higher realization of net VAT revenues compared to the projections was due to the improvement of trends in imports and collection of revenues in the fourth quarter of 2020. In the second quarter of 2020, when restrictive measures were in force regarding population movements and operation of retail sales, there was a decrease in net VAT revenue of 17.8% compared to the same quarter of 2019. The easing of measures in the third quarter did not bring any significant improvement, as restrictions for non-residents remained in force, so that net VAT collection fell by 9.8%. Although the collection of net VAT decreased in the fourth quarter as well, there was a significant recovery in the collection compared to the previous two quarters. VAT on imports fell by 8.4%, which is a significantly lower rate of decline compared to the second and third quarters of 2020 (rates of fall amounted 26.9% and 13.2%, respectively). The collection of domestic VAT recorded a modest growth of 0.8% in the fourth quarter, which was also a significant recovery after a decline of 8.6% in the second and stagnation in the third quarter. Finally, with a 7.3% drop in refunds, a drop in net VAT revenues in the fourth quarter of 2020 amounted to 4.1%, which proved to be a much more successful collection than the projections made in October, based on data up to September 2020.

In 2020, 1,303.5 million BAM of excise revenues were collected, which is almost identical to the projections of excise revenues from October 2020 (1,303.3 million BAM). It should be emphasized, however, that, analytics of the Unit's excise projections shows the higher collection of excises on oil and oil derivatives, and lower collection of excises on tobacco compared to the corresponding figures in the October projections. Collection of revenues from excises on tobacco products in 2020 was 13.2 million BAM lower than projected in October 2020. There are two reasons for the

differences between projected and collected excises on tobacco products. At the time of revision of the projections, relaxation of measures and restrictions related to the coronavirus pandemic was expected, both in B&H and in the EU. However, the emergence of the second wave of the pandemic, which was much stronger than the first wave, resulted in the closure of a large number of countries for a longer period, which prevented the arrival of the diaspora and non-residents in B&H, which are significant factor in cigarette demand.

Another reason for the differences comes from the fact that the cash flow of excise collection on tobacco products is entirely dependent on the policies of tobacco companies and that excise duty payments are made *ex ante*, well before actual imports and consumption. Therefore, when preparing projections of revenues from excises on tobacco products, the assumption that the tobacco industry will not change its policies from previous years is mostly used. At the end of 2019, due to the announcement of the increase in retail prices of cigarettes, the companies took over a larger number of excise stamps in order to meet the expected higher demand for cigarettes at the old prices. Although the increase in retail prices for certain brands of cigarettes was announced at the end of 2020, this did not result in additional takeovers of excise stamps and increased excise payments, because the companies estimated that, due to all restrictions related to the pandemic, demand for cigarettes would not increase. On the other hand, the collection of excises on oil and oil derivatives in 2020 was higher than the projections from October 2020, thanks to the recovery of collection in the fourth quarter. In the first quarter of 2020, the collection of excises on oil and oil derivatives increased by 1.8%, while in the second and third quarter there were decreases of 14.1% and 18.3%. The recovery in collection November significantly improved quarterly trends, so that in the fourth quarter the decline in revenues from excises on oil and oil derivatives amounted to 7.8%. In absolute terms, on an annual level, the collection amounted to 469.5 million BAM, which is 15.8 million BAM more than the projection from October.

Road tax collection in 2020 amounted to 583.7 million BAM, which is 16.5 million BAM more than the projections from October. As in the case of excises on oil derivatives, the exceeded amount resulted from the improvement in collection trends in the last quarter of 2020. In the first quarter, road tax revenues grew by 3.5%, and in the second and third quarters by 16.1% and 17.8%, respectively. The recovery in November resulted in a smaller decline in road tax collection in the fourth quarter of 7.7%.

Revenues from customs were collected in the amount of 262.2 million BAM in 2020, which is 3.3 million BAM more than in the October projections. The higher realization is also the result of a modest recovery in imports and customs revenues in the fourth quarter.

#### *Differences in projections for 2021-2023 compared to projections from October*

In accordance with current revenue collection trends and the revision of macroeconomic projections (DEP), MAU continuously revises its indirect tax revenue projections. Compared to the October 2020 projections, made on the basis of the then projected amount of collection for 2020 and the projected nominal GDP growth of 3.6% and its components (DEP, September 2020), the projected amount of indirect taxes collection for 2021 has now been revised by 61.3 million BAM. The revision of projections does not stem from the revision of macroeconomic indicators (GDP growth projections are even slightly lower than in the September 2021 projections, Chart 24), but from the higher realization of revenues in 2020, which is the basis for projections for the coming years. The revised amount is the cumulative result of upward corrections in VAT revenues, excises on oil derivatives and road tax, and downward corrections in projections of excises on tobacco. Corrections in the projections of revenues from customs and other categories of excises did not have a significant impact on the overall revision of the projection of revenues from indirect taxes for 2021.

Projections for 2022 and 2023 were also revised upwards by 54.2 million BAM and 46.1 million BAM, respectively, also due to the revision in the bases.

#### **4. Risks**

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 assumptions of indirect tax projections and the overall economic conditions in B&H and in the world, the realization of the projected level of revenues from indirect taxes in the period 2021-2024 is subject to the following risks: (1) all risks for the realization of the projected macroeconomic indicators (DEP) and (2) risks related to the collection of revenues from indirect taxes and the fight against the gray economy.

Projections of indirect tax revenues are closely related to the projections of macroeconomic indicators of DEP. All risks mentioned by DEP in their projections automatically represent risks for the projections of indirect taxes, since any deviation of the realization of DEP parameters from their projected values inevitably leads to deviations from the projected indirect tax revenues. The DEP states<sup>32</sup> that the risks to their projections can be classified into two groups: external and internal, where the external risks are much more certain and influential in the direction of economic growth in B&H. The coronavirus epidemic is the primary risk for the outturn of DEP projections. External risks include a possible prolongation of the coronavirus crisis and a further weakening of economic activity in EU countries, which would then have a direct impact on economic growth in B&H. They cite the complex decision-making system in B&H and the slow pace of structural reforms in the country as internal risks to the realization of their projections in the DEP. They also state that possible delays in the implementation of intervention measures due to the coronavirus pandemic, partial implementation of the structural reforms envisaged by the program, as well as migration of young and educated population could jeopardize their projections of macroeconomic indicators.

Risks that may jeopardize the realization of indirect tax revenue projections in the area of policy and administration of indirect taxes include the following:

- 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;
- Weakening of the fight against VAT fraud, especially in the field of refunds, which, in a situation of falling employment and illiquidity of taxpayers become attractive for fraud;
- Changes in indirect taxation policy that could lead to a significant drop in revenue, such as differentiated VAT and excise rates;
- Change of the excise duty collection regime on the imported tobacco products, the effects of which are presented below in Chapter II - Program scenario of projections.

## **II PROGRAM SCENARIO OF INDIRECT TAX PROJECTIONS**

The program scenario of indirect tax projections implies the application of amendments to the Law on Excise Duties in the field of tobacco products, which were adopted by the Governing Board of the ITA.<sup>33</sup>

<sup>32</sup> DEP, March 2021

<sup>33</sup> The amendments were adopted at the ITA Governing Board meeting held on March 22, 2021.



In order for the amendments to the Law to be applied, it is necessary for them to be adopted by the Council of Ministers, and then by the Parliamentary Assembly of B&H, and after that, in accordance with the provisions of the Law, the Governing Board of the ITA has 60 days to amend the implementing regulations. Given all the above unknowns regarding the certainty of the adoption of amendments to the Law and their application at this time, it is possible to roughly assess the effects of the amendments on the collection of indirect taxes.

The changes refer to the deadlines for calculating the excise duty and the deadlines for paying excise duties. The effects of the application of the new rules regarding the deadlines for payment of excise duties are not significant when it comes to domestic tobacco products due to the low weight of domestic excises in the structure of total collected excise revenues. However, the amendments to the Law have significant negative consequences on the dynamics of excise duty payments on imported tobacco products. When applying the current provisions of the Law, there is at least two month time lag between the moment of taking over the excise stamps and paying excise duties by the importer and the moment of importing the marked tobacco products. The shift in the moment of payment of excise duties on imported tobacco products to the moment of payment of import duties produces an "empty" interval in the dynamics of collection of excise duties on tobacco products of at least two months from the date of application of the amendments.

The change from the old to the new collection regime will cause large one-time losses in excise revenues. The static estimate of losses of excise revenues is based on the average monthly payment of excises on imported tobacco products in 2020. According to the estimate, the loss of revenues from excises on tobacco products due to changing payment deadlines for importers will amount to at least 110 million BAM.

The amount of losses may be even higher if the interval between the payments of excise duty when taking over stamps and imports is longer than two months, and if the quantities of imported tobacco products increase compared to the base year 2020. Losses can only be expected in the year when the new rules apply, while in the following years a new dynamics of excise duty payment will be established according to the new rules. However, it is possible that the negative effects will be reflected in the collection of excises in two fiscal years, if the application of the new rules begins at the end of one fiscal year. In any case, given the significant share of excises on tobacco products in total indirect taxes, the implementation of amendments to the Law may cause a disruption in the financing of the budgets of all levels of government in B&H.