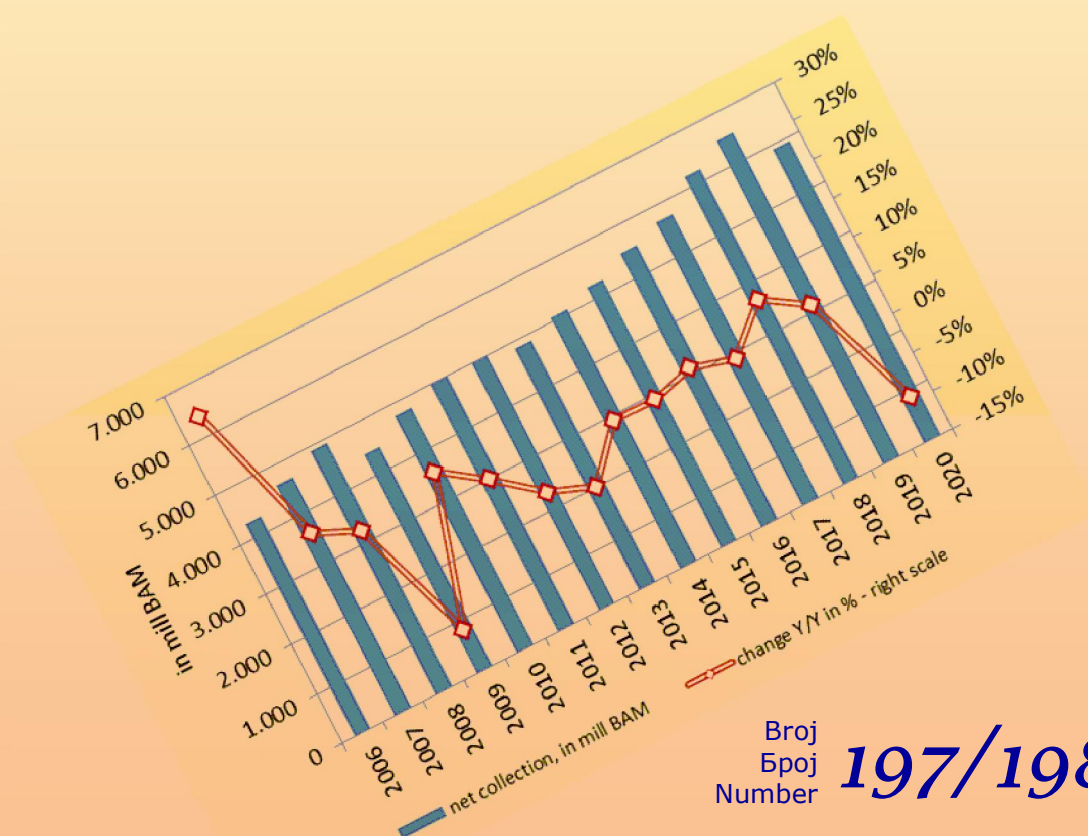




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

OMA Bilten



Broj
Број
Number **197/198**

With this issue

The collection of VAT on imports and customs revenues for nine months of 2021 recorded high growth rates compared to 2020 (see Section 1.3.2 of the "Revised Projections"). In order to get a more realistic picture of the pace of recovery of revenues from indirect taxes, collection in 2021 should be compared with the collection in 2019, given the impact of the COVID-19 virus pandemic on revenue collection in 2020. Collection of customs revenues is higher by 2.4% compared to the same period in 2019, and VAT on imports by 3.2%. According to import statistics, imports for nine months of 2021 compared to the same period in 2019 are higher by 4.7%. The growth of VAT revenues on imports is not accompanied by an increase in the customs base due to the prescribed exemptions, while customs duties are levied on a limited range of goods from the EU and on imports of goods from the third countries. However, even in the case of customs revenues, it is clear that trends in imports determine collection.

Chart 1

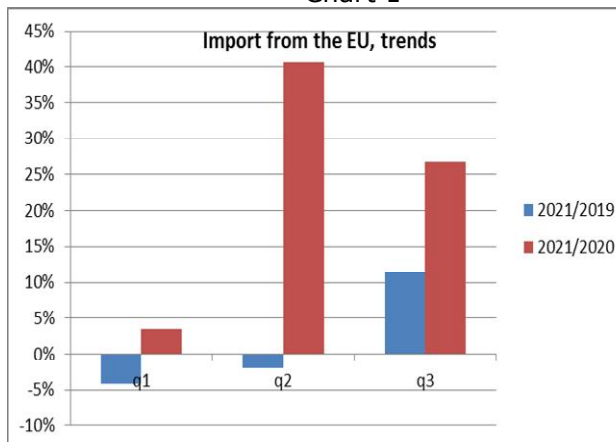
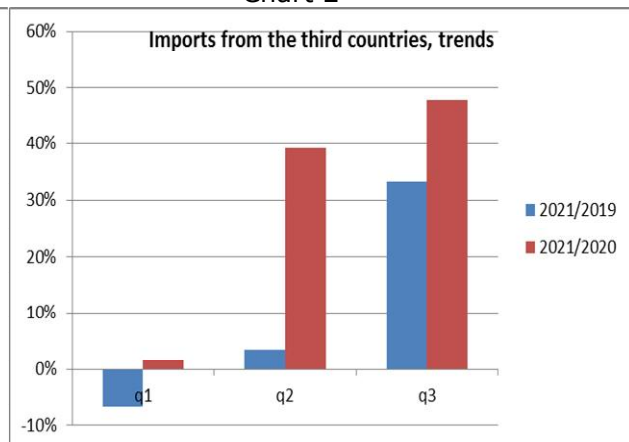


Chart 2



Quarterly comparisons of imports from the EU show that in the first two quarters of 2021, imports were lower than imports in 2019, while in the third quarter there was a significant increase of 11.5% (Chart 1, "2021/2019"). It should be noted that the consistency of import statistics was distorted by Brexit. Therefore, in order to maintain comparability of data in the last three years, imports from the UK were excluded from the EU data for 2019 and January 2020, and from the third country imports from February 1, 2020 to September 30, 2021. Quarterly comparisons of imports from the third countries show that imports from this group of countries (in which China holds a 30% share) have recovered faster. The recovery occurred in the second quarter of 2021, when a growth rate amounted 33.4% compared to the same quarter of 2019, while in the third quarter a growth of as much as 47.7% was reached (Chart 2, "2021/2019").

Dinka Antić, PhD

Head of Unit

Table of contents:

Revised projections of indirect tax revenues for the period 2021-2024	2
I BASELINE SCENARIO OF INDIRECT TAX REVENUE PROJECTIONS	3
1. Basics and assumptions of indirect tax revenue projections from the baseline scenario	3
2. Projections of indirect tax revenues 2021-2024 (baseline scenario)	22
3. Differences from previous projections of indirect taxes	27
4. Risks	35
II PROGRAM SCENARIO OF INDIRECT TAX PROJECTIONS	36

Technical design: Sulejman Hasanović, IT expert

Reader/translator: Darija Komlenović, professor

Revised projections of indirect tax revenues for the period 2021-2024

Summary

The rate of real decline of the B&H economy in 2020 was 3.2% (BHAS, September, 2021).

According to the data of the World Health Organization, by October 4, 2021, 234.6 million people in the world were registered with the corona virus infection, with 4.8 million deaths. By the same date, 70.6 million people in Europe were infected. The coronavirus pandemic led to the collapse of the global economy in 2020. The latest EC projections (2021 Summer Forecast) state that the real GDP growth rate in the EU and the Eurozone in 2020 was -6.0% and -6.5%, respectively. According to the B&H Agency for Statistics (BHAS) data from September 2021, GDP in Bosnia and Herzegovina in 2020 fell by 3.2%, in real terms. The consequent decline in revenues from indirect taxes in B&H amounted to as much as 9.3% compared to revenues from the previous year.

The DEP estimates real GDP growth in Bosnia and Herzegovina at a rate of 3.1% in 2021 compared to the previous year

Assuming the growth rates in the EU countries projected by the European Commission (Summer Forecast 2021) and with the precondition of a favorable epidemiological situation in B&H, as well as stabilization of production, employment recovery and increasing inflows of remittances from abroad, DEP estimates real GDP growth at a rate of 3.1% in 2021.

There was an increase in the collection of indirect taxes of 16% in the first three quarters of 2021

In the period January-September 2021, gross revenues increased by 828.8 million BAM, while refund payments were higher by 129 million BAM. Ultimately, the net collection for the nine months of 2021 was higher by 699.8 million BAM compared to the collection in the same period in 2020, representing an increase of 16%.

MAU estimates the growth rate of indirect tax revenues in 2021 at 14.8%, and stable growth rates in the following period

The projected growth rate of revenues from indirect taxes for 2021 is 14.8%. The projected growth rates of indirect tax revenues for 2022, 2023, and 2024 are 3.0%, 2.8%, and 3.1%, respectively. The projection of revenues in the mentioned period is based on the projected relevant macroeconomic indicators, the historical seasonal collection scheme and the projections of individual categories of revenues for 2020.

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.

Program scenario (Chapter II) provides an assessment of the effects of

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

amendments to the Law on Excise Duties on the collection of indirect taxes.

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, amounting at least 1.5 p.p. of the projected growth in revenues from indirect taxes in 2022.

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 September 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, September 2021

Table 1 presents the latest projections of the Directorate for Economic Planning of B&H (DEP, September 2021) of nominal and real GDP growth rates for the period 2021-2024. The DEP refers to the official data of the Agency for Statistics of B&H (BHAS, September 2021), according to which B&H in 2020 recorded a real decline in GDP of 3.2%, compared to the previous year.

Table 1. GDP growth projection, DEP, September 2021

Projected growth rate of GDP	official data		projections			
	2019	2020	2021	2022	2023	2024
Nominal	4,6	-3,0	3,9	4,5	4,3	4,5
Real	2,8	-3,2	3,1	3,4	3,5	3,7

Source: DEP and BHAS, September 2021

1.1.1. Projections for 2021

In the DEP projections it is stated that "*based on available data from the national accounts for Q1 2021 and certain short-term statistical indicators for the period January-July this year, it can be concluded that in the past few months there has been a significant strengthening of economic growth in the country*". Assuming the realization of growth rates in the EU countries projected by the European Commission (2021 summer projections) and with the precondition of a favorable epidemiological situation in B&H, the DEP projects real GDP growth at a rate of 3.1% in 2021. The document states that the expected real growth rates of export and import in 2021 are 16% and 10.1%, respectively. Assuming a stabilization in the environment, as well as stabilization of production, employment recovery and an increase in the inflow of remittances from abroad, the real growth of private consumption in B&H of 1.9% is expected. It is also stated that continued support to health and economy in the fight against the pandemic could lead to an increase in public consumption of at least 1.3% in 2021. Due to uncertainties in domestic and foreign markets, and given reduced funding sources, the DEP expects a growth in gross investment in fixed assets at a rate of 4.8% in 2021, compared to the previous year.

1.1.2. 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 September 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 in the period 2022-2024 in Bosnia and Herzegovina, with an average real economic growth rate of around 3.5% 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 Decision¹ 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).² The Law³ 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.

1.2. Indirect tax collection trends

After a long-term growth trend in collected revenues from indirect taxes,⁴ in 2020 they fell due to the effects of the coronavirus pandemic. In 2006, 4.12 billion BAM of net revenues from indirect

¹ 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)

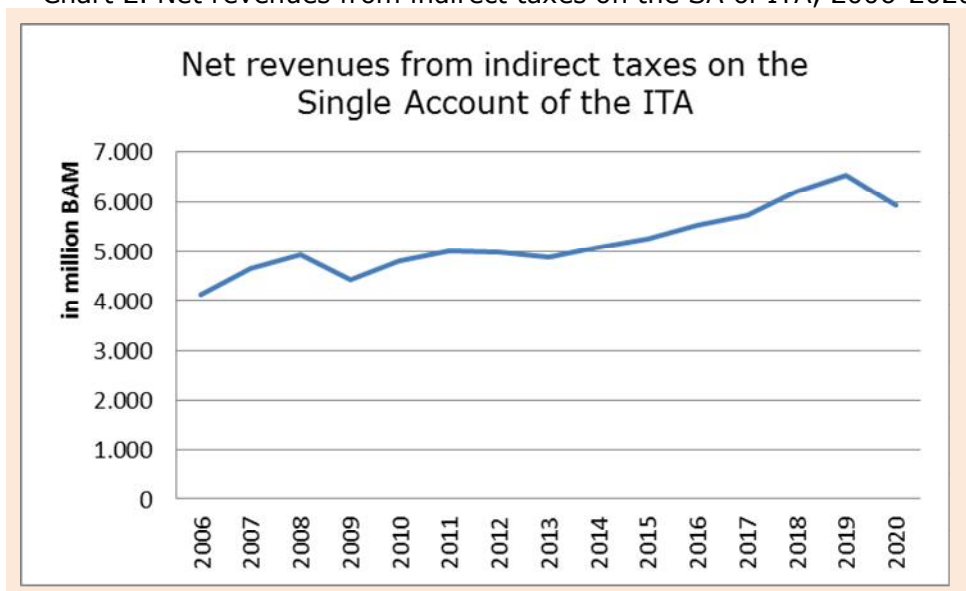
² The new policy is in effect since 1 August 2014 (Amendments to the Law on Excises in B&H "Official Gazette of B&H" No. 49/14)

³ The new Law on Customs Policy ("Official Gazette of B&H" No. 58/15) will apply from January 1, 2022 ("Official Gazette of B&H" No 49/21), 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.

⁴ 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).

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 2006.⁵

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 ITA Single Account (SA) in GDP has varied significantly in recent years (Table 2).⁶ In the last fifteen years, this indicator ranged from 16.6% (min value, 2009) to 19.2% (maximum value, 2007). It amounted 16.7% in 2020. The dynamics of indirect taxes in GDP depended on numerous factors: trends in tax rates and tax base, efficiency of tax collection, consumption trends, but the other categories of gross domestic product (investments, imports and exports), which, like consumption, also affect denominator of this indicator. The share of indirect taxes on the ITA SA in total consumption has also varied, having a continuous growth trend in the period from 2014 to 2019. In 2019, it amounted 19.9%, which was the maximum in the last fifteen years. In 2020, it dropped to 18.3%.

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

(in %)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GDP	19,1	19,2	18,1	16,6	18,0	18,2	17,8	17,0	17,5	17,4	17,5	17,3	17,8	17,9	16,7
Consumption	18,8	19,3	18,0	16,6	17,7	17,9	17,6	17,1	17,5	18,0	18,7	18,9	19,7	19,9	18,3

Source: Calculation based on ITA and BHAS data⁷

In Chart 3, the share of indirect taxes in GDP of B&H in the period 2008-2020 is broken down into product components, in accordance with the methodology from the OECD analysis⁸: (1) share of indirect tax revenues in total consumption and (2) share of total consumption in GDP. It can be concluded from the Chart that the share of indirect taxes in GDP and consumption was at approximately the same level until 2015, when the share of consumption in GDP was around

⁵ 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.

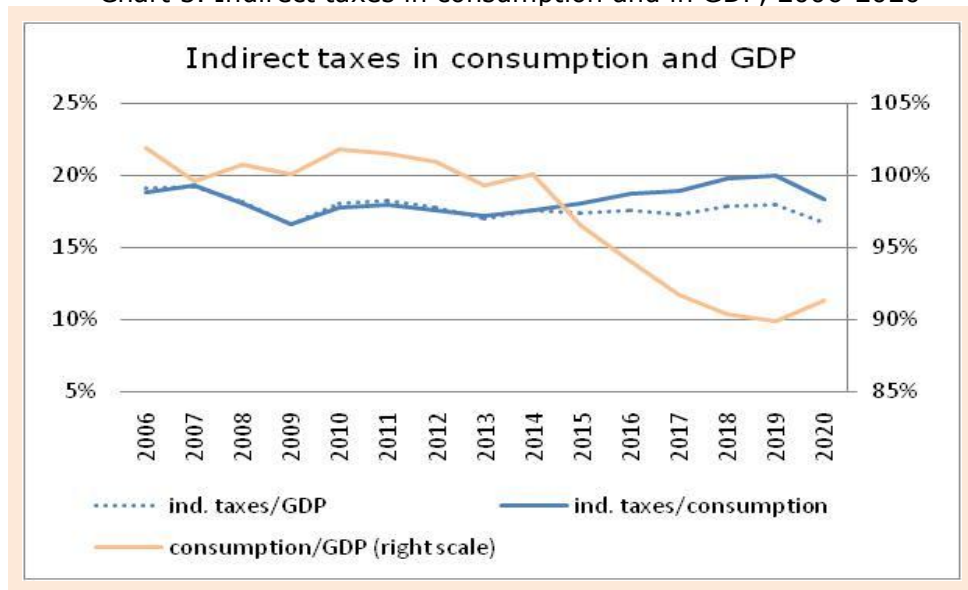
⁶ In the announcement published by the Agency for Statistics of B&H in September 2021 it is stated that the presented data series differs from the series that was published earlier, due to changes in the CBBH data.

⁷ GDP, expenditure approach; Agency for Statistics of B&H, September 2021 and Gross Domestic Product – Special First Release, July 19, 2021.

⁸ Simon, H. and M. Harding (2020), "What drives consumption tax revenues?: Disentangling policy and macroeconomic drivers" OECD Taxation Working Papers.

100%. Since 2015, there has been a downward trend in the share of consumption in GDP, and in 2020 it amounted to 91.3%. With the decline in the share of consumption in GDP, since 2015, the line of the share of indirect taxes in consumption is above the line of their share in GDP. In 2020, the share of consumption in GDP increased again. On the other hand, the share of indirect taxes in GDP fell by as much as 1.17 percentage points, compared to the previous year. This brought it to the level of 16.7%, only 0.1 pp. more than in the "crisis" year of 2009. Analyzing according to the components of the OECD equation, the decline in the share of indirect taxes in GDP in 2020 is the cumulative result of the decline in the share of indirect taxes in consumption of 1.61 percentage points, and the growth of the share of consumption in GDP of 1.50 percentage points.

Chart 3. Indirect taxes in consumption and in GDP, 2006-2020



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

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.

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%

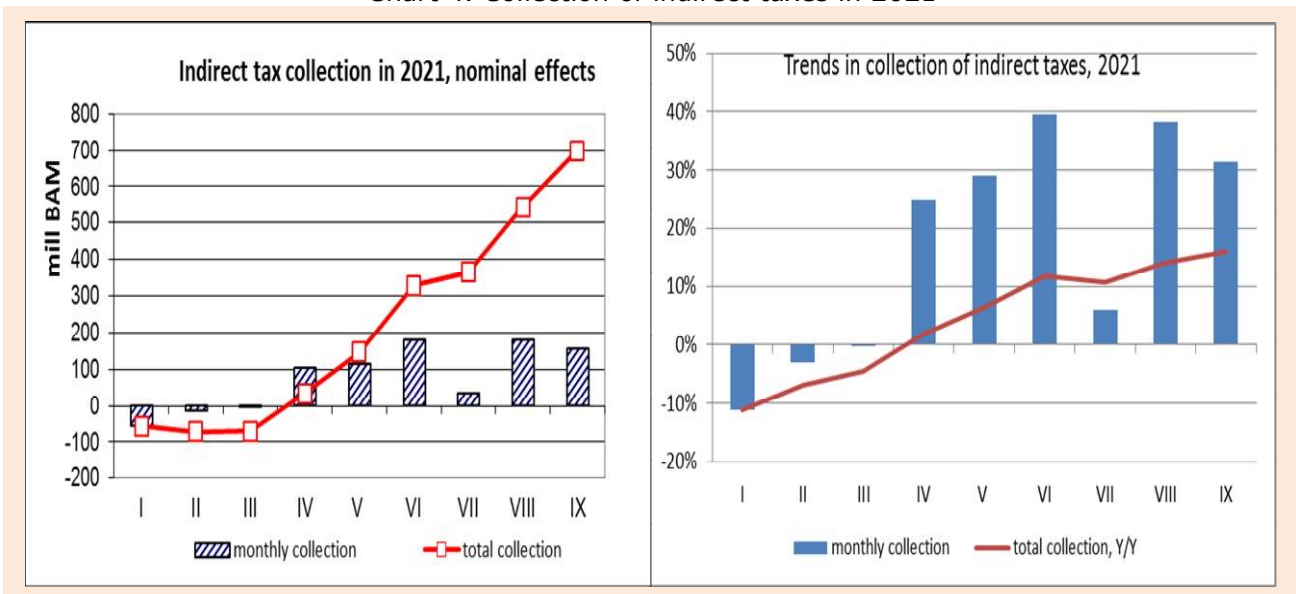
Overall, the magnitude of the impact of the coronavirus on the collection of indirect taxes is shown by the fact that nominal net collection in 2020 was only slightly higher than in 2017. However, it should be borne in mind the positive trends in the first quarter of 2020 that mitigated the decline in 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.⁹

1.3.2. Collection in the period January - September 2021

Total collection

According to the preliminary report on cash flow, in September 2021 the ITA collected 792 million BAM of gross revenues from indirect taxes on the SA, which is 168.5 million BAM more than in the same month in 2020. At the same time, refunds were higher by 11.6 million BAM, which slightly reduced the effects of net collection growth. Thus, in September 2021, the net collection of indirect taxes was 156.9 million BAM higher than in September 2020, which is an increase of very high 31.5% (Chart 4, right side, "monthly collection"). High growth in the collection of revenues from indirect taxes in September increased the cumulative increase. Thus, in the period January-September 2021, gross revenues were higher by 828.8 million BAM, while refund payments were higher by 129 million BAM. Ultimately, the net collection for the nine months of 2021 was higher by 699.8 million BAM compared to the collection in the same period in 2020, which is an increase of 16% (Chart 4, left side, "cumulative").

Chart 4. Collection of indirect taxes in 2021

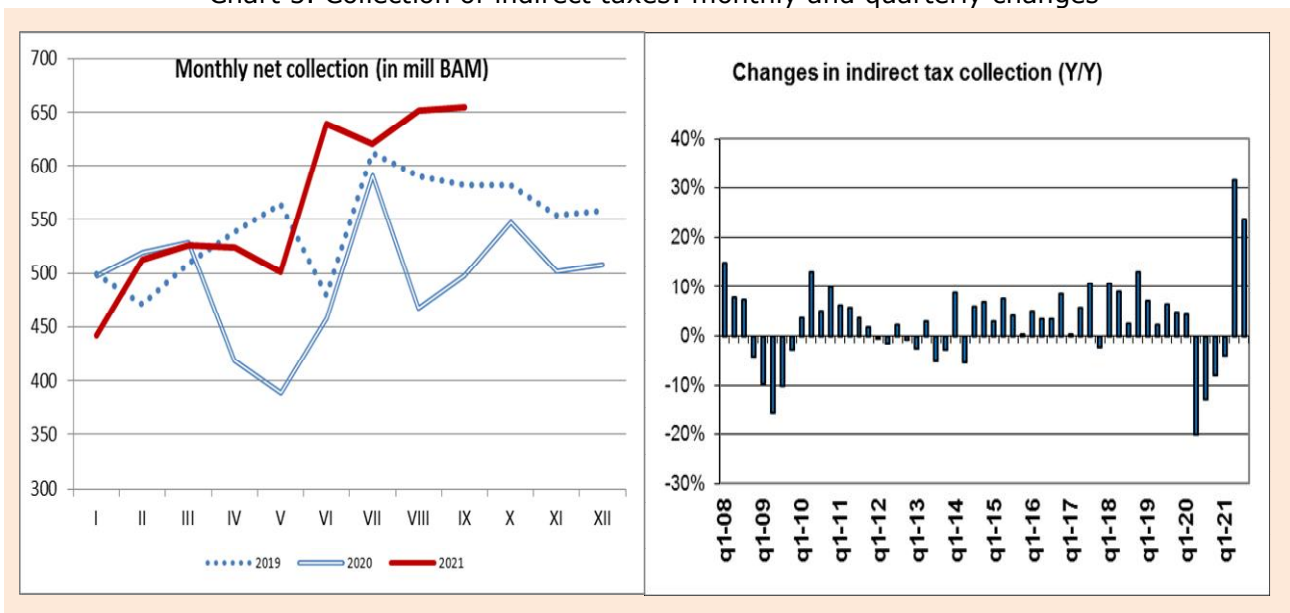


Source: Indirect Taxation Authority of B&H, calculation of the MAU

⁹ More about the collection of revenues from indirect taxes in 2020 in the OMA bulletin no. 187-188, January / February 2021, www.oma.uino.gov.ba

Both sides on the Chart 4 (nominal effect and relative ratios) show a sharp increase in cumulative net collection over the past nine months, which is encouraging in terms of trends for the rest of the year. However, in order to conclude that the collection of indirect taxes is recovering, it is necessary to compare it with the collection in 2019, the year before the pandemic, which was also a year of historical maximum since the establishment of the ITA. Left side of the Chart 5 shows the nominal monthly collection of indirect taxes in the last three years. It can be concluded that the collection of indirect taxes in September was significantly higher than in the same month 2019. In a few months, the collection was below collection in 2019. The reasons for monthly oscillations are not only in revenue collection in 2021, but also in the base - collection in 2019, which oscillated strongly from month to month. The most common cause of oscillations is the collection of excises on tobacco products, which basically depends on the business policies of several large tobacco companies - importers, due to its characteristics in terms of *ex ante* payment upon receipt of excise stamps.

Chart 5. Collection of indirect taxes: monthly and quarterly changes



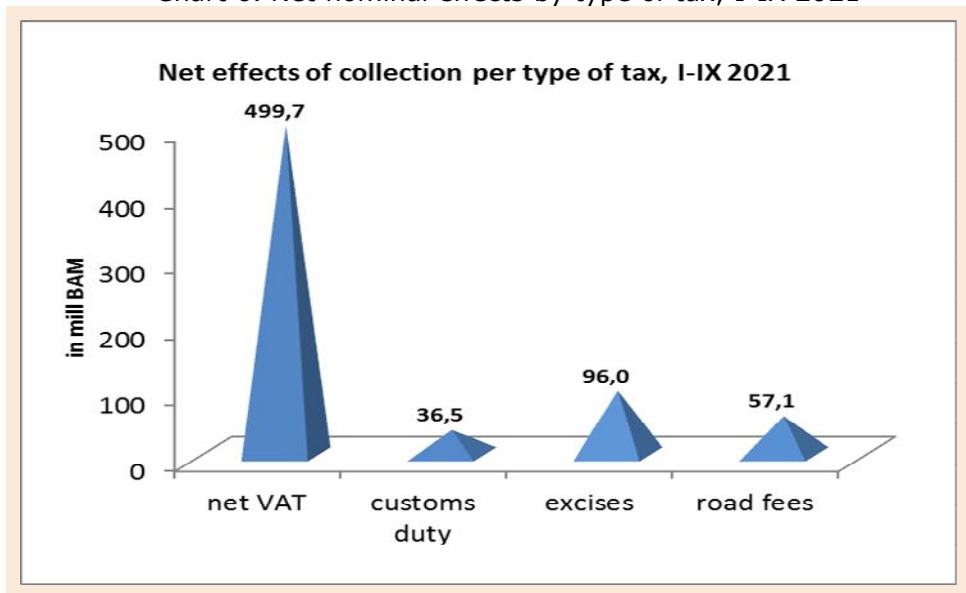
Source: Indirect Taxation Authority of B&H, calculation of the MAU

An overview of quarterly trends indicates a recovery in the collection of indirect taxes (Chart 5, right side). In the previous year, positive quarterly growth was achieved only in the first quarter. With the appearance of the COVID-19 virus pandemic, a large decline of 20.1% was recorded already in the second quarter. With the easing of restrictive measures in the middle of the year, collection weaknesses were reduced, but the negative effects continued in the first quarter of 2021, due to restrictions introduced with the appearance of a new wave of pandemics. Due to the higher base in the first quarter of 2020 and the negative effects of the pandemic in early 2021, the collection of indirect taxes in the first quarter of 2021 was lower by 4.2%, compared to the same quarter of 2021. Strong revenue recovery, which was evident in April and June 2021, has brought growth in the second quarter to a high 31.5%. Although in the third quarter of 2020 there was a relaxation of restrictive measures introduced to combat the COVID-19 virus pandemic, due to entry restrictions for non-residents in B&H, which was retained by B&H and EU member states, the recovery of collection did not proceed at the desired pace, so the collection was lower than expected in the third quarter of 2020, thus reducing the basis for comparison in 2021. A lower base and more liberal measures for entering B&H in 2021 during the summer resulted in a strong increase in the collection of indirect taxes in the third quarter of 2021 of 23.8%.

Collection by types of revenues

The high increase in collection in September has also improved the picture of collection by types of revenues. The largest increase for the nine months of 2021 was realized in the collection of VAT (+ 499.7 million BAM), excises (+96 million BAM), road tax (+57.1 million BAM) and customs (+36.5 million BAM). The analysis does not include unadjusted revenues by types in the amount of 32.6 million BAM.

Chart 6. Net nominal effects by type of tax, I-IX 2021



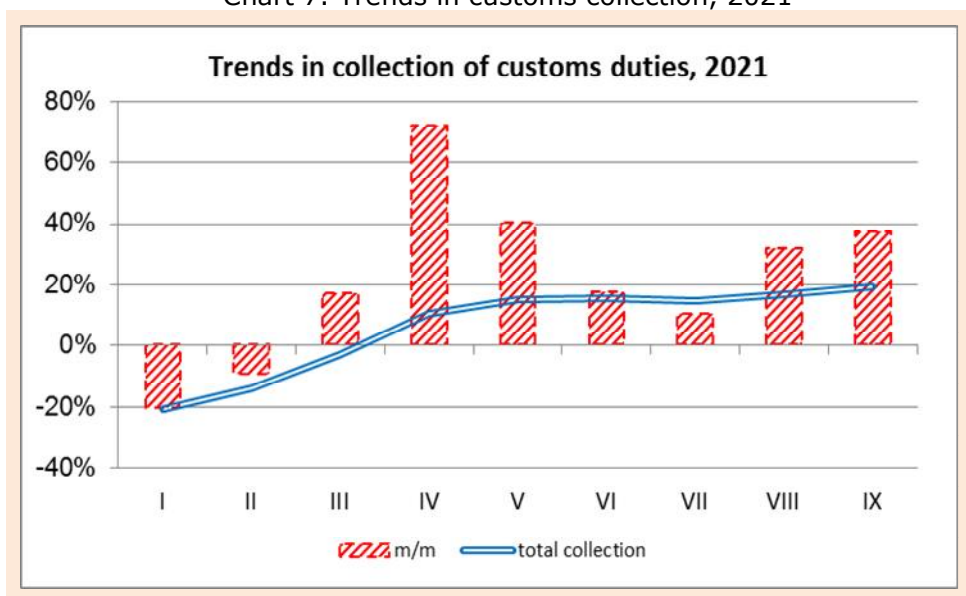
Source: Indirect Taxation Authority of B&H, calculation of the MAU

Customs

The beginning of the year brought a decline in the collection of customs revenues, bearing in mind the higher base for comparison in 2020, which refers to the time before the onset of the pandemic (Chart 7). In April, the collection of customs revenues increased by as much as 72.8%. There was a noticeable slowdown in growth in the next three months, which has been expected, as the high rates were the result of a low base in 2020, which was the lowest during the first wave of the pandemic, when the economy was closed and imports drastically dropped. By easing the restrictions, imports have slowly recovered, resulting in an increase in customs revenues.

However, high import growth rates were again achieved in August and September, which may be related to price growth in foreign markets. As customs revenues are highly correlated with imports, the growth of imports also brought an increase in customs revenues. At the level of nine months a growth of customs revenues of 25.5% was recorded (Chart 7, "cumulative").

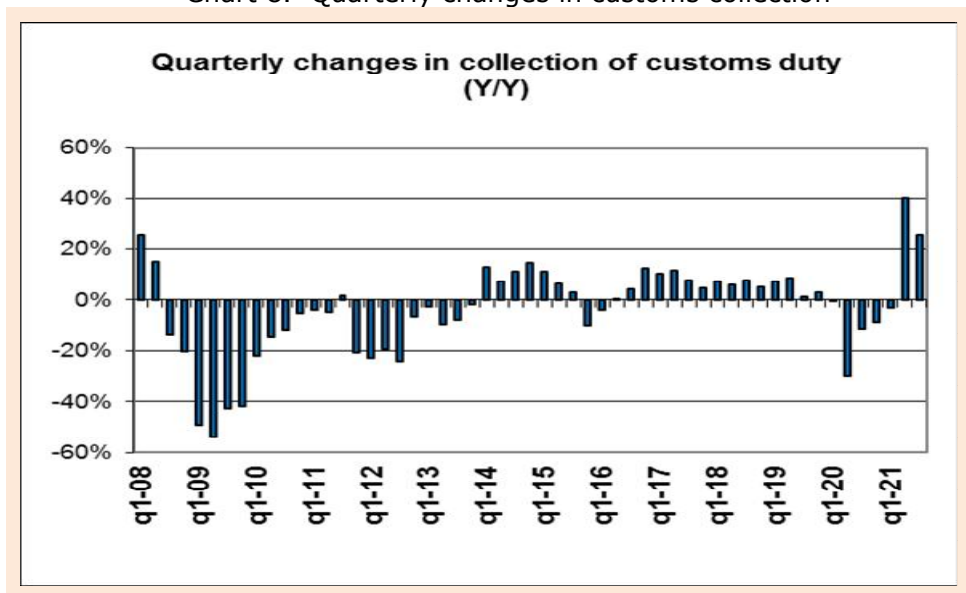
Chart 7. Trends in customs collection, 2021



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

The improvement in customs collection is a consequence of the cumulative positive effect of the growth of imports from the EU¹⁰ in the part of goods under the customs regime, and the growth of imports of goods from China¹¹ and other Asian countries.

Chart 8. Quarterly changes in customs collection



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

¹⁰ According to the data of the Agency for Statistics of B&H, imports from the EU in the period January-August 2021 increased by 21.1%.

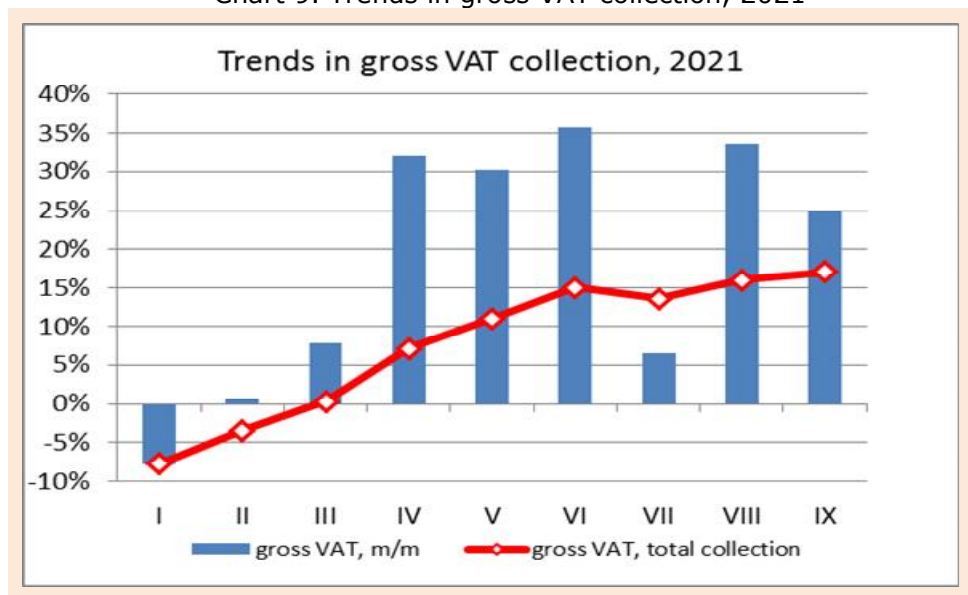
¹¹ According to the data of the Agency for Statistics of B&H, imports from China in the period January-August 2021 increased by 19.1%.

The quarterly comparison indicates a sharp improvement in customs collection in the second quarter of 2021, after negative growth rates in the previous four quarters. In the first quarter, a decrease in customs revenues of 3% was recorded compared to the same quarter in 2020, while in the second quarter there was a growth of 40.1% (Chart 8). Due to the slowdown in growth in July, the growth rate of customs revenues amounted 25.5% in the third quarter of 2021.

VAT

In September, the growing trend in the collection of VAT revenues has continued, characterized by very high growth rates. Gross VAT collection in September 2021 was higher by 24.9% compared to the same month in 2020, which significantly improved the cumulative increase in gross VAT, so that in the period January-September 2021, there was an increase in gross VAT of 17.1% (Chart 9).

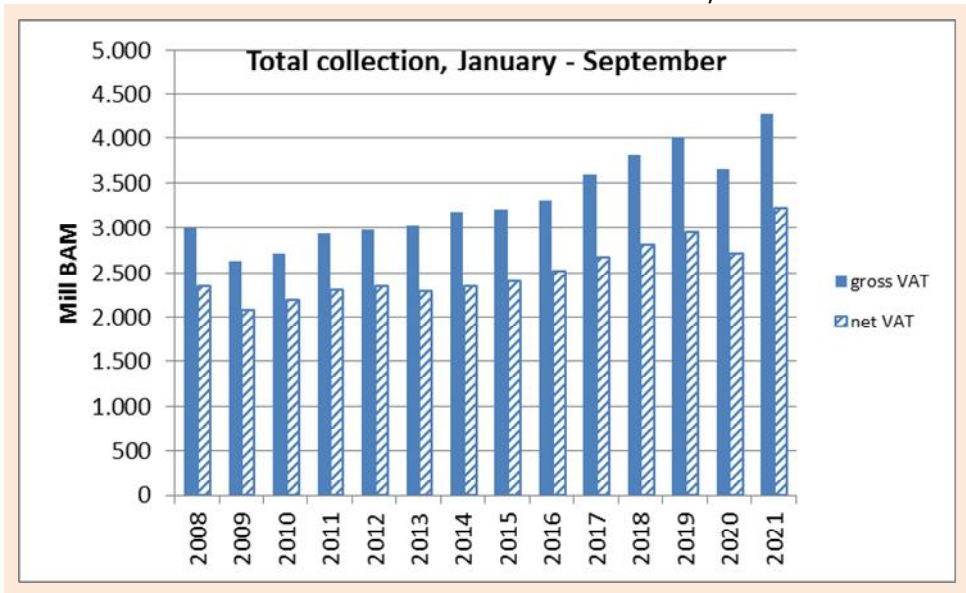
Chart 9. Trends in gross VAT collection, 2021



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

A comparison of the nominal gross VAT collection for nine months shows that the gross VAT collection for the nine months of 2021 has reached its historical maximum, exceeding even the collection in the reference period of the maximum in 2019 by 6.8% (Chart 10).

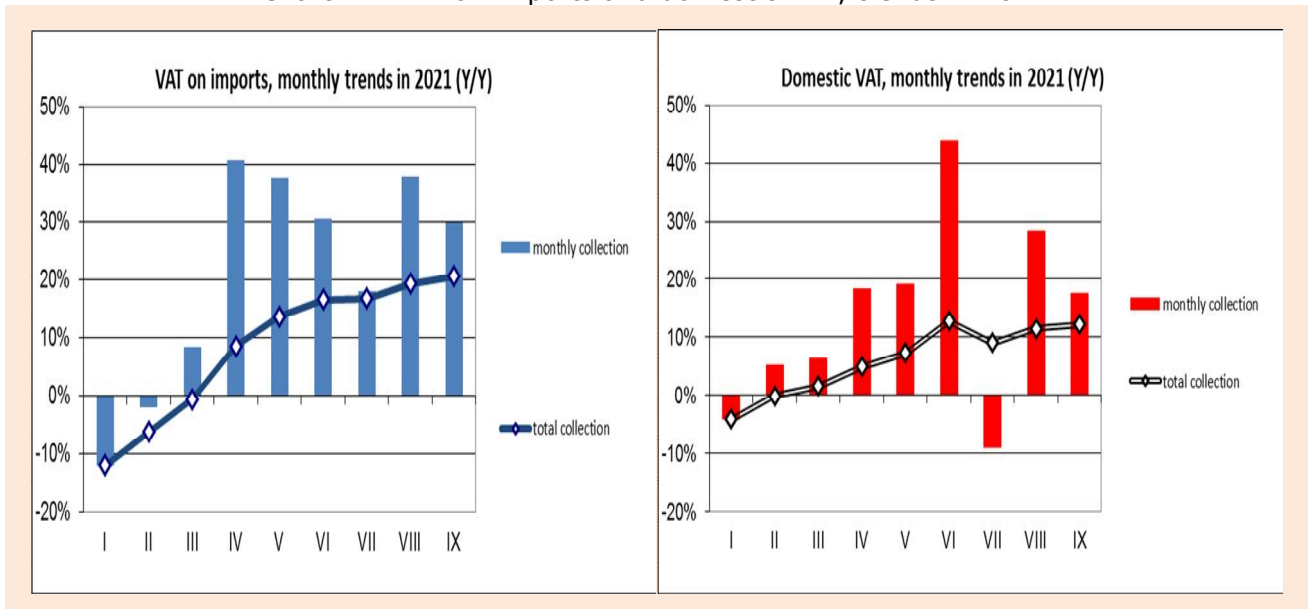
Chart 10. Cumulative VAT collection, I-IX



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

Analysis of the structure of gross VAT collection in September 2021 shows the continuation of positive trends in both components. VAT collection on imports in September was higher by 30.1%, which increased the cumulative growth at the level of nine months to 20.7% (Chart 11, "VAT on imports-cumulative").

Chart 11. VAT on imports and domestic VAT, trends in 2021

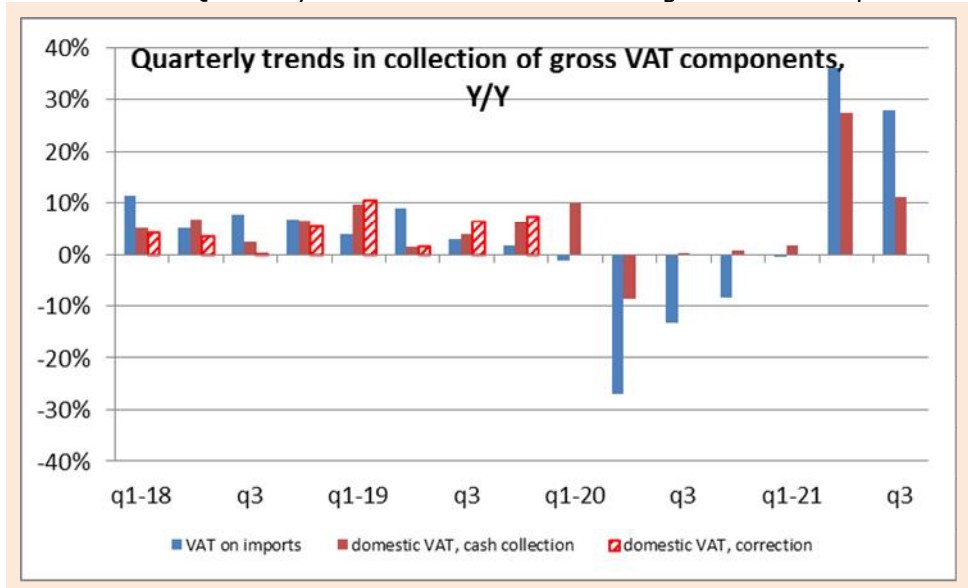


Source: Indirect Taxation Authority of B&H, calculation of the MAU

In September 2021, the trend of stable growth of domestic VAT has continued, which lasts for almost the entire year 2021, with the exception of January and July. In September, the collection of domestic VAT was higher by 17.6%, which further increased the cumulative growth rate to 12.2% (Chart 11, "domestic VAT, cumulative").

An overview of quarterly trends (Chart 12) shows that a weak recovery in domestic VAT was recorded in the fourth quarter of 2020, and in the first quarter of 2021, while VAT collection on imports was in a negative growth zone for five consecutive quarters. However, the trends have improved sharply in the second quarter of 2021. The growth rates of VAT on imports in the second quarter amounted to 36%, and domestic VAT to 27.6%, compared to the collection in the same quarters of 2020. There was a slowdown in collection in the third quarter, but still with a very high growth rates above all projections: VAT on imports of 28.1%, and domestic VAT of 11.1%. In any case, domestic VAT growth rates are far above consumption projections in 2021.

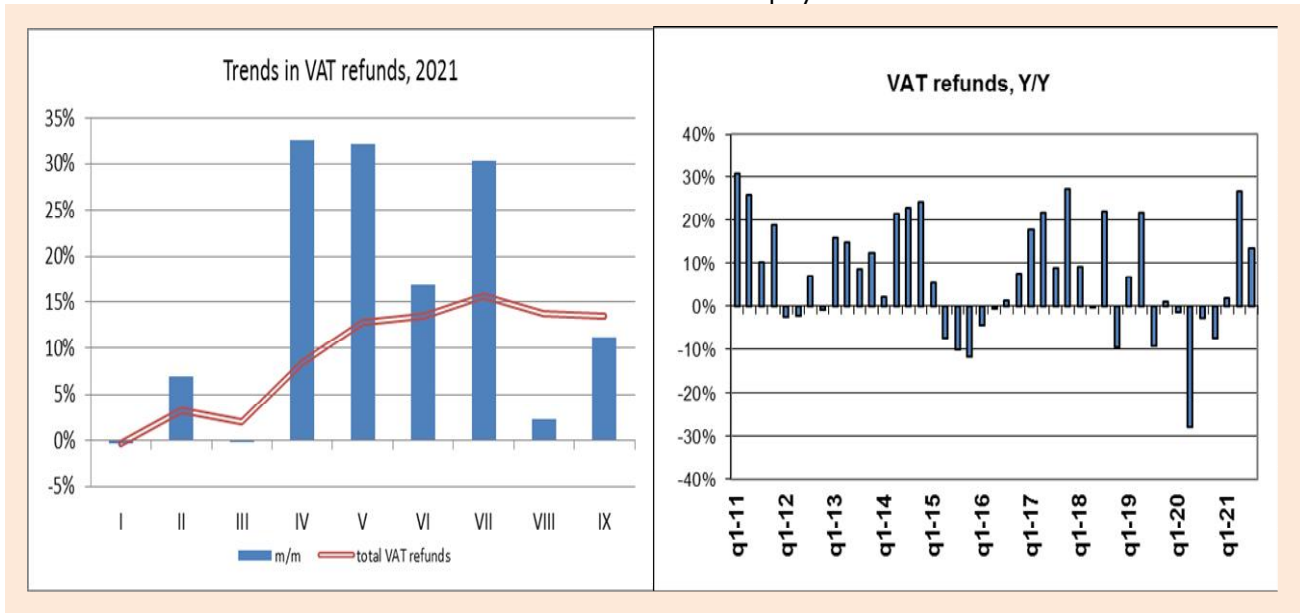
Chart 12. Quarterly trends in the collection of gross VAT components



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

In September 2021, there was a significant increase in VAT refunds of 11.2%, as a result of growth in exports and imports in the third quarter of 2021. Due to the legal deadlines for refunds, refunds to exporters in September refer to August, while refunds to other taxpayers refer to imports from July. Due to slightly lower growth of refunds in August, total disbursements in the last two months are declining, while the cumulative amount is higher by 13.5% compared to refunds in 2020 (Chart 13, left side "VAT refunds, cumulative").

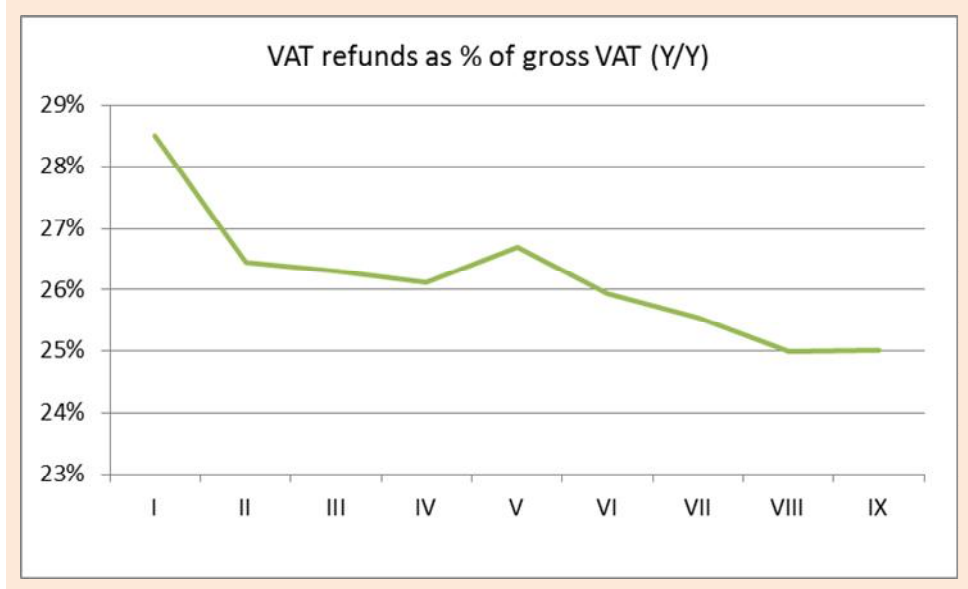
Chart 13. Trends in refund payments



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

Quarterly comparison indicates an increase in refunds in 2021. In the first quarter, the growth was 2%, in the second as much as 26.9%, and in the third 13.5% due to reduced payments in August (Chart 13, right side).

Chart 14. Share of cumulative refund payments in gross VAT cumulative



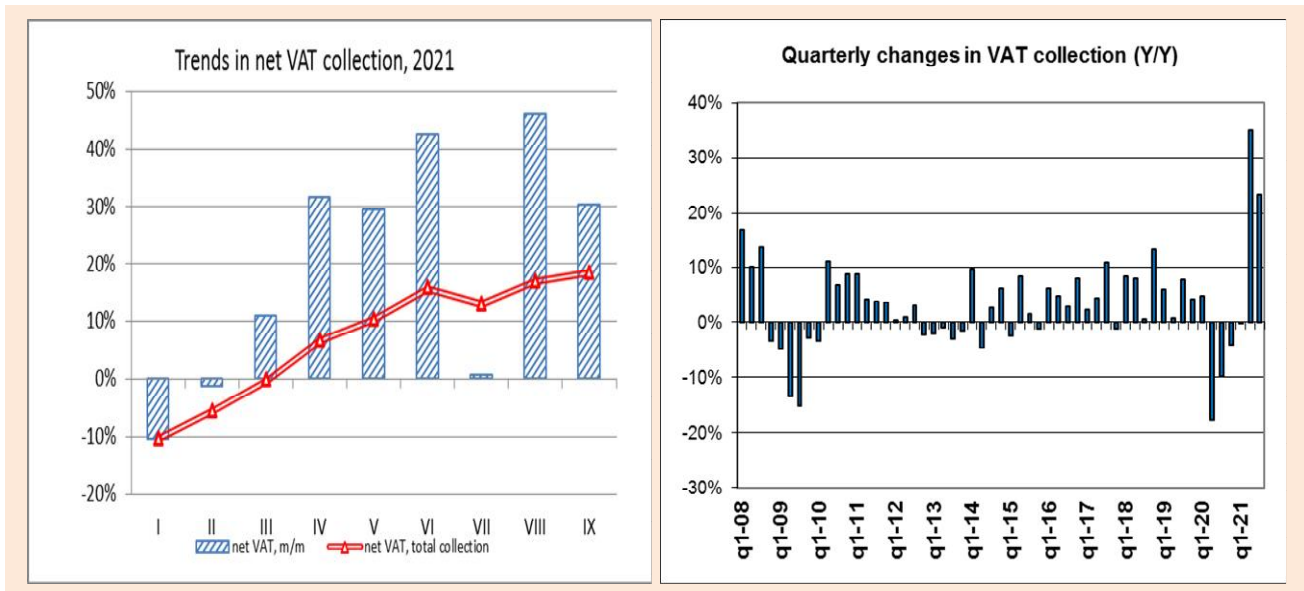
Source: Indirect Taxation Authority of B&H, calculation of the MAU

Analysis of the structure of refunds in the previous nine months showed an increase in refunds payments to taxpayers of 14.6% or nominally 124.2 million BAM. In the case of refunds to international organizations and projects the trend of slowing down payments from previous months has continued, and at the level of nine months an increase of 8.7% was recorded (or nominally 8.4 million BAM).

Along with the growth of refunds, the collection of gross VAT is also growing, but faster growth of gross collection to some extent neutralizes the growth of refunds. This is also indicated by the indicator of the share of refunds in gross VAT collection, which amounts to 25% in nine months, which is 0.8 percentage points less than in the same period in 2020. Chart 14 shows a downward trend in the share of refunds in gross VAT, which has a positive outcome in the growth of net VAT. In September 2021, a very high growth of net VAT of 30.4% was achieved, which increased the cumulative growth rate to 18.4% at the level of the period January - September 2021 (Chart 15, left). A comparison of the nominal net VAT collection shows an increase for the nine months of 2021 compared to the nominal collection in previous years in the same period. Observing the collection of VAT, it can be concluded that historical maximum since the introduction of VAT has been achieved (see Chart 10).

Quarterly comparisons show a strong recovery in net VAT in the second quarter of 2021 of 35%, after negative growth rates in four consecutive quarters (Chart 15, right). In the third quarter, the growth rate of net VAT amounted to 23.3%, and after the final adjustment of unadjusted revenues, higher growth rates of net VAT can be expected.

Chart 15. Trends in net VAT collection

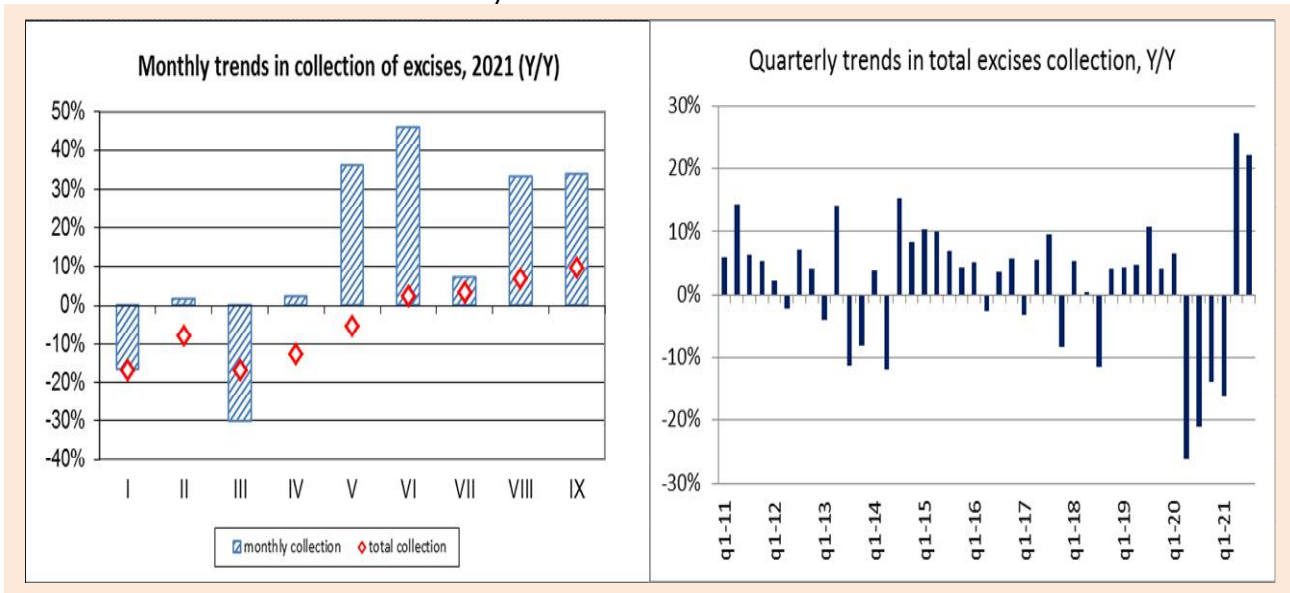


Source: Indirect Taxation Authority of B&H, calculation of the MAU

Excises

In September, the positive trend in the collection of excise revenues continued, which has been ongoing since May (Chart 16, left). In September, excise duty collection increased by 33.6%, which increased the cumulative growth rate to a high 9.7% (Chart 16, left side "cumulative"). The oscillating trend of excises collection in 2021 is mostly due to the statistical base from the same period 2020, which was lower in the case of excise duties on oil derivatives, under the influence of falling consumption due to the pandemic. In the case of excises on tobacco products, the base was higher in March and April 2020, due to the large takeover of excise stamps.

Chart 16. Dynamics of excise revenue collection



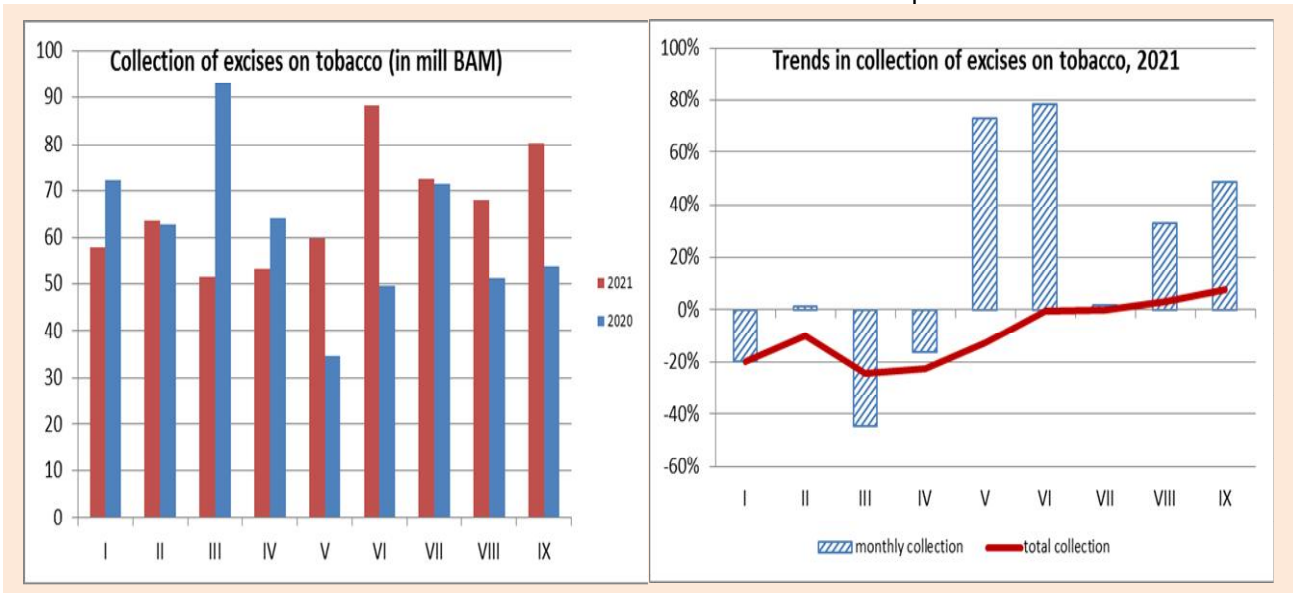
Source: Indirect Taxation Authority of B&H, calculation of the MAU

Quarterly comparisons (Chart 16, right side) indicate negative trends in excise duty collection, from the second quarter of 2020 to the first quarter of 2021. While other types of indirect taxes showed a gradual improvement in collection during 2020 and in the first quarter of 2021, in the form of a smaller drop in collection or modest growth, this was not the case with excise duties. Weaknesses in the collection of excise duties were very high for three quarters of 2020 in continuity, and the same trend has continued in the first quarter when a decline of 16.7% was recorded. The recovery in excise duty collection in the last five months brought the growth in the second quarter to 27.5% and in the third quarter to 23.6%.

In September 2021, there was a very high increase in the collection of excises on tobacco products and an increase in excise duties on coffee, oil derivatives, soft drinks and wine. On the other hand, the decline in revenues was realized in the collection of excises on alcohol, alcoholic beverages and excise duties on beer.

The main cause of oscillating trends in the collection of excise duties are excises on tobacco products, the collection of which depends on the sales plans of several large foreign tobacco companies. In September, a very high collection of 48.8% was achieved compared to September 2020, which increased the cumulative growth rate to 7.7% (Chart 17, right side). One of the reasons for the oscillatory trends in excise collection is in the statistical basis for comparing excise collection on tobacco products, which was very low in the first five months of 2020 (see Chart 17, left side). Another reason for the growth of excise revenues is the recovery of consumption of non-residents (diaspora, tourists, B&H citizens temporarily working abroad) due to more liberal measures when entering B&H during the summer season compared to restrictive measures of the EU and B&H authorities in the summer season 2020., which restricted the entry of non-residents into B&H.

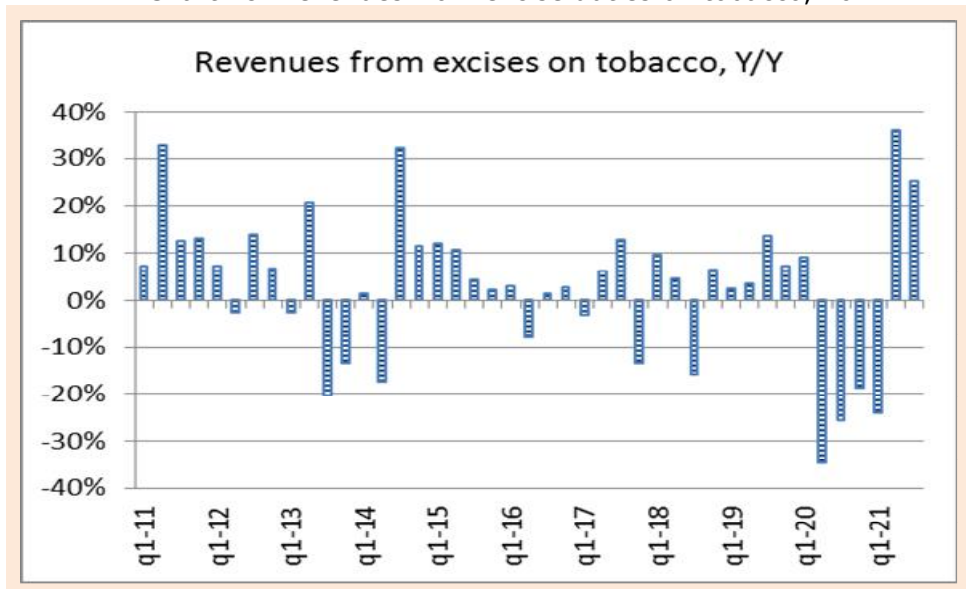
Chart 17. Collection of excise duties on tobacco products



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

Quarterly comparisons of trends in the collection of excise duties on tobacco products (Chart 18) show trends similar to the collection of total excise duties: negative growth in the three quarters in 2020 and the first quarter of 2021 (-24.2%), with very high negative rates, and enormous growth in the second quarter of 2021 of 36%, and in the third quarter growth of 25.1%.

Chart 18. Revenues from excise duties on tobacco, YoY

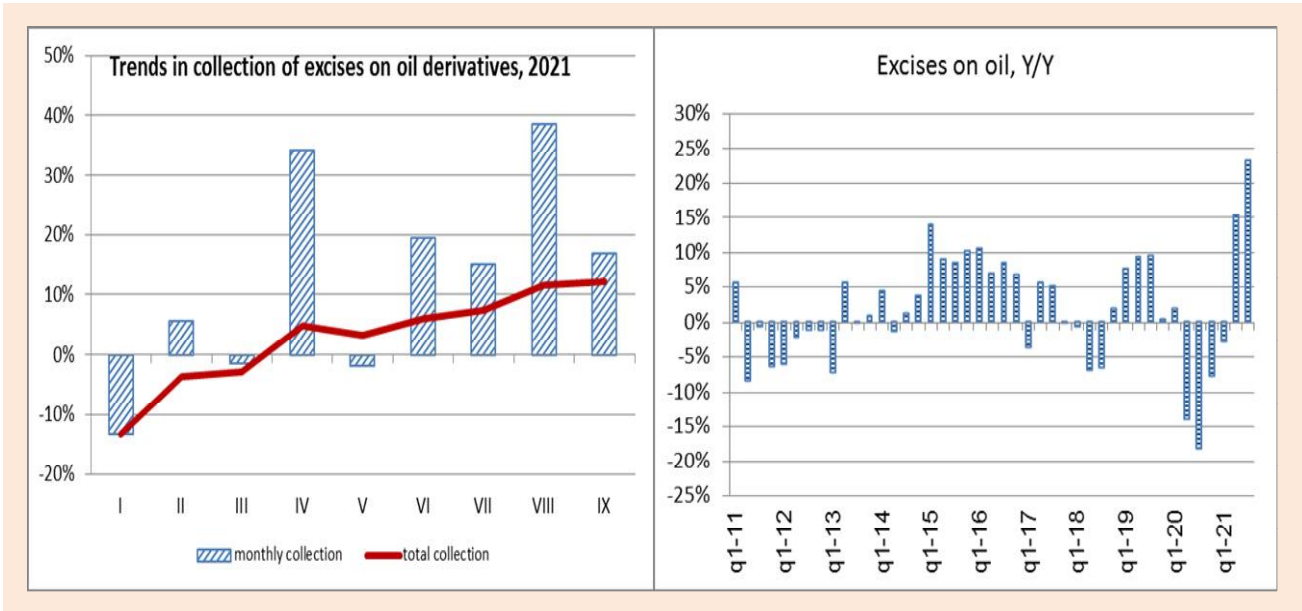


Source: Indirect Taxation Authority of B&H, calculation of the MAU

In September 2021, there was a high growth of collected revenues from excise duties on oil derivatives of 16.9%, which improved the cumulative trends, so that at the level of nine months of 2021 there was a growth of revenues from excise on oil derivatives of 12.2% (Chart 19, left side). Such high growth is a surprise, given the rise in prices on the world oil market. In addition to increased consumption by non-residents, one of the growth factors is increased cross-border

consumption in the area with Croatia, due to higher retail prices of oil derivatives in Croatia (because of higher excise duties and higher VAT rates), and liberal measures for catering and other entertainment industries in B&H in relation to the restrictions in Croatia at the time of the pandemic.

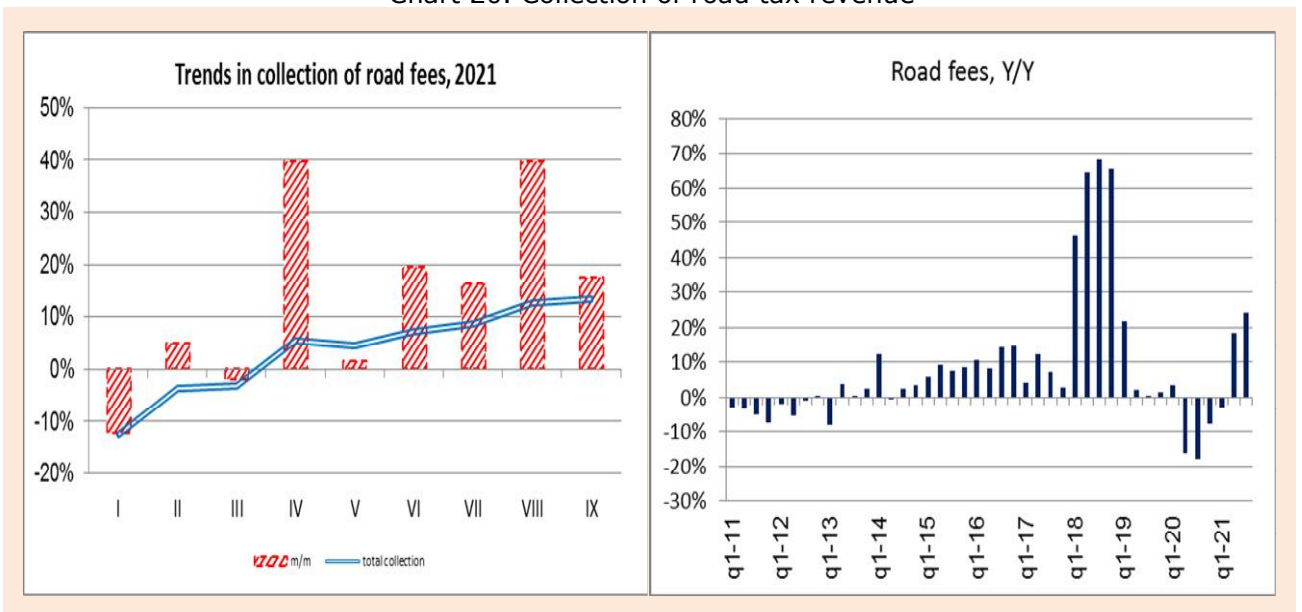
Chart 19. Collection of revenues from excise duties on oil derivatives



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

Monthly trends in the collection of excise duties on oil derivatives in 2021 are oscillating. It is similar with quarterly comparisons (Chart 19, right side). After three quarters of 2020 with negative trends, in the first quarter of 2021 there was a slight decline in the collection of excise duties of 2.9%. In the second and third quarters of 2021, growth was 15.3% and 23.3%, respectively.

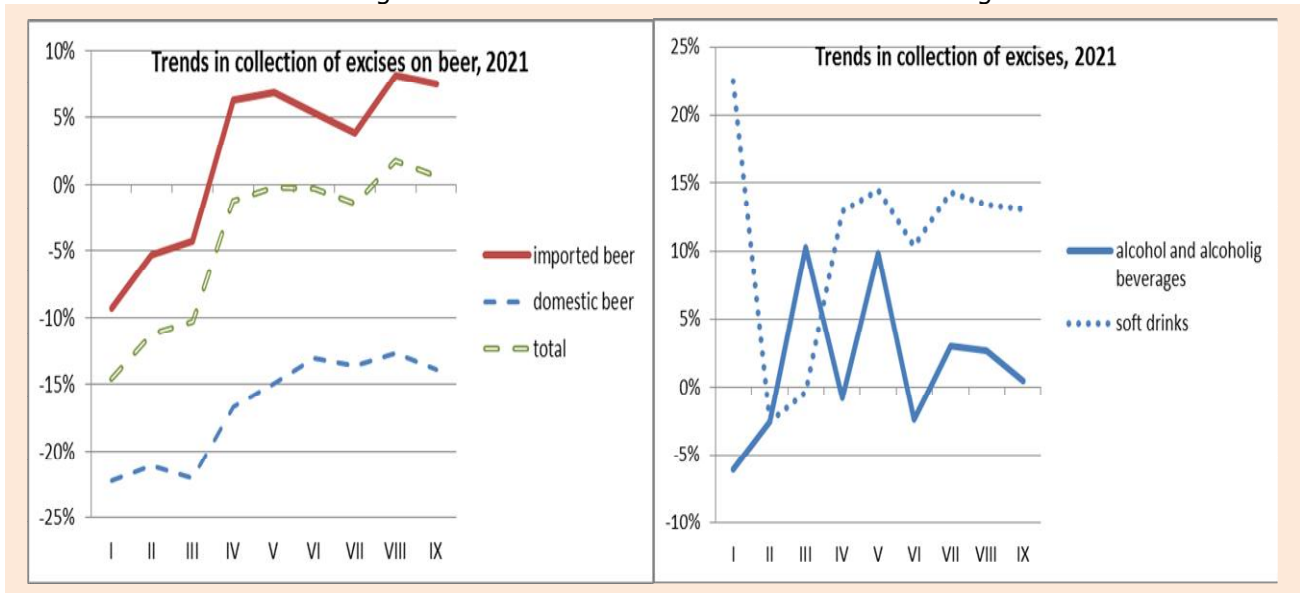
Chart 20. Collection of road tax revenue



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

Similar to the collection of excise duties on oil derivatives, road tax revenues recorded a 17.4% increase in collection in September (Chart 20, left side), while at the nine-month level the cumulative growth was 13.4%. After three negative quarters in 2020, negative trends continued in the first quarter of 2021, with a slight decline in road tax revenues of 3.1%, while in the second and third quarters there was growth of 18% and 24.2%, respectively (Chart 20, right side).

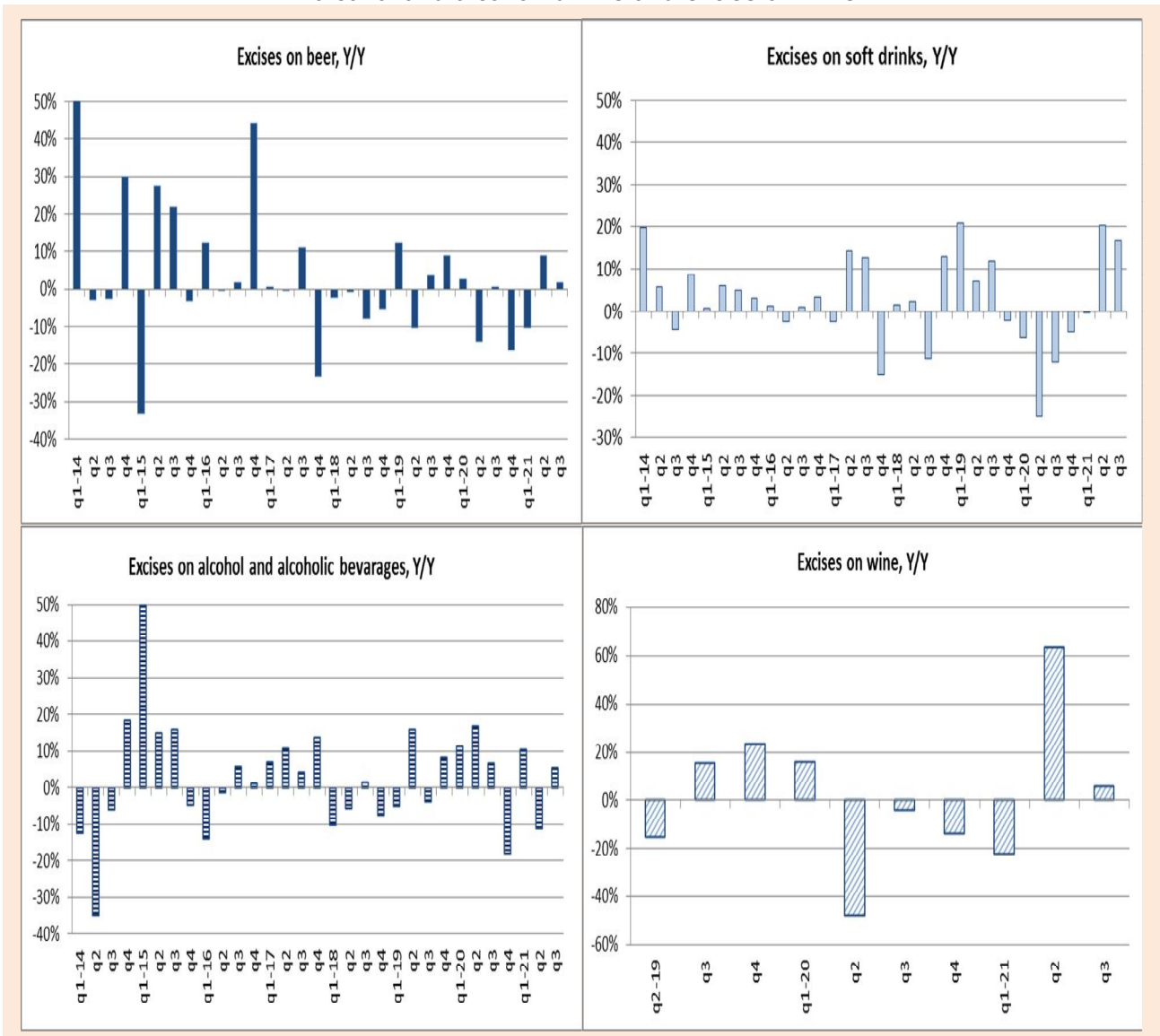
Chart 21. Trends in the collection of excise duties on beer, excise duties on alcohol and alcoholic beverages and excise duties on non-alcoholic beverages



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

In September, there was a positive trend in the collection of revenues from excise duties on soft drinks and wine. There was a decline in the collection of excise duties on alcohol and alcoholic beverages, which almost annulled the cumulative growth (Chart 21, right side). However, the decline in the collection of excises on domestic beer was offset by an increase in the collection of excise duties on imported beer, so that, finally, at the level of nine months, a modest increase in the collection of excises on beer was 0.6% (Chart 21, left side).

Chart 22. Revenues from excise duties on beer, excise duties on soft drinks, excise duties on alcohol and alcoholic drinks and excise on wine



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

Observation of quarterly trends in the collection of excise duties on beer, wine and soft drinks showed that the first quarter of 2021 brought a decline in the collection of excise duties, while the second and third quarters recorded positive trends. In contrast, the collection of excise duties on alcohol and alcoholic beverages increased in the first and third quarters of 2021, while in the second quarter there was a deterioration that annulled the positive trends in the other two quarters (Chart 22).

1.3.3. Comparison with 2019

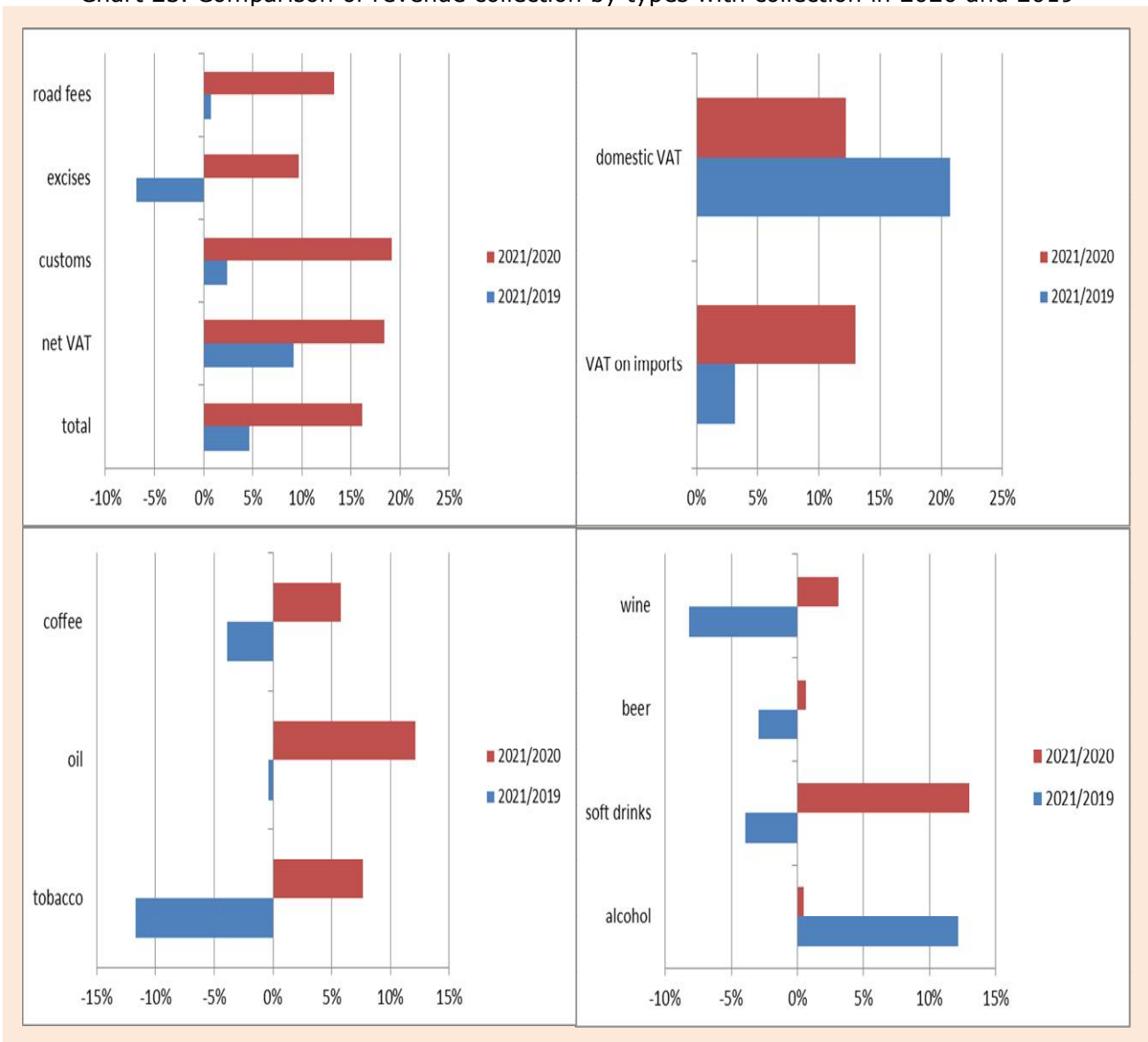
Due to the negative impact of the COVID-19 virus pandemic on the collection of indirect taxes, 2020 cannot be a reference year for comparison. In order to draw conclusions about the recovery of collection in 2021, it is necessary to compare the collection with the year of historical maximum: 2019 (Chart 23).

The total net collection of revenues from indirect taxes for nine months exceeds the collection in the same period 2019 by 4.4%.

The main source of growth is VAT, and the decomposition of the VAT increase shows that a positive trend compared to 2019 was recorded in the collection of VAT on imports and in the collection of domestic VAT, with the highest growth of domestic VAT compared to 2019, even higher than compared to 2020.

More modest positive growth rates compared to 2019 were achieved in the collection of revenues from customs and road tax, while the collection of excises in 2021 is still below the collection in 2019 (Chart 23, above).

Chart 23. Comparison of revenue collection by types with collection in 2020 and 2019



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

The decomposition of excise revenues by types of products shows that only the collection of excise duties on alcohol and alcoholic beverages has a positive growth compared to 2019, which is negligible. The collection of all other sub-types of excises is lower compared to 2019, especially when it comes to excises on tobacco products, which, given their share, largely determine trends (Chart 23, below).

2. Projections of indirect tax revenues 2021-2024 (baseline scenario)

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 (baseline scenario), October 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	4.353,9	4.477,4	4.590,1	4.722,0	16,1%	2,8%	2,5%	2,9%
Excises	1.303,5	1.454,5	1.491,4	1.527,5	1.566,7	11,6%	2,5%	2,4%	2,6%
Customs	262,2	307,2	329,0	352,4	382,0	17,2%	7,1%	7,1%	8,4%
Road tax	583,7	657,9	680,2	704,1	730,1	12,7%	3,4%	3,5%	3,7%
Other	32,3	37,4	37,4	37,4	37,4	15,6%	0,0%	0,0%	0,0%
TOTAL	5.930,3	6.810,9	7.015,5	7.211,4	7.438,2	14,8%	3,0%	2,8%	3,1%
Earmarked road tax *)	-364,7	-411,2	-425,2	-440,0	-456,3	12,7%	3,4%	3,5%	3,7%
Funds for distribution	5.565,6	6.399,7	6.590,4	6.771,3	6.981,9	15,0%	3,0%	2,7%	3,1%

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 2021-2024 in % of GDP (baseline sc.), October 2021

Type of revenue (net)	in % of GDP				
	Realization	Projection			
	2020	2021	2022	2023	2024
VAT	10,6%	11,8%	11,6%	11,4%	11,3%
Excises	3,7%	4,0%	3,9%	3,8%	3,7%
Customs	0,7%	0,8%	0,9%	0,9%	0,9%
Road tax	1,6%	1,8%	1,8%	1,8%	1,7%
Other	0,1%	0,1%	0,1%	0,1%	0,1%
TOTAL	16,7%	18,5%	18,2%	18,0%	17,7%
Earmarked road tax	-1,0%	-1,1%	-1,1%	-1,1%	-1,1%
FUNDS FOR DISTRIBUTION	15,7%	17,4%	17,1%	16,9%	16,7%

Data source for GDP: BHAS, September 2021 and DEP Projections, September 2021.

2.1. Projections for 2021

Preparation of revenue projections for 2021 cannot rely on a 2020 seasonal revenue collection scheme, as it has dropped from all previous seasonal patterns due to the effects of coronavirus. The range of monthly revenue growth rates in 2020 was larger than ever,¹² from + 10.1% in February to as much as -33.1% in May.¹³ 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. Since April, there has been a trend of strong monthly growth rates which ranged between 20% and 40% in all months except July¹⁴ (comparisons to the same month last year; see Chart 4, right side). The reasons for such oscillations in monthly growth rates are not only in revenue collection in 2021, but also in strong oscillations in the base - monthly collection in 2020. Net collection for the nine months of 2021 was higher by 16% compared to the same period last year. According to DEP projections, nominal GDP growth of 3.9% in 2021 is expected. Having in mind all the mentioned specifics and huge unknowns regarding the development of the epidemiological situation in the country and the environment, the projected growth rate of revenues from indirect taxes for 2021 amounts 14.8%.

2.1.1. VAT

The analysis of collection trends in the current year indicates a strong recovery in VAT revenues (see Section 1.3.2). In September, a very high growth of net VAT of 30.4% was achieved, which brought the cumulative growth rate at the level of the period January-September 2021 to 18.4%. The projected amount of VAT revenues is 4,353.9 million BAM, which is 16.1% more than in 2020. The projection is based on the historical seasonal scheme of collection of certain VAT categories (which does not include data for the specific year 2020), as well as the trends and projections of macroeconomic indicators.

2.1.2. Excise and road taxes

The projected amount of total revenues from excises in 2021 is 1,454.5 million BAM, which is 11.6% more than in 2020.

The projected amount of road tax revenues is 657.9 million BAM, which is 12.7% more than in 2020, and is based on current collection trends, the historical seasonal collection scheme (which does not include data for years with specifics), macroeconomic forecasts indicators (DEP, September 2021), and trends in the consumption of derivatives.

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).¹⁵ There were significant changes in the structure of the base¹⁶ of excise duty on oil derivatives in the

¹² The exception is 2007, due to the specifics of the base year 2006, which is the year of the introduction of VAT

¹³ Comparisons with the same month last year.

¹⁴ Revenue growth was also recorded in July, but not at such a high rate.

¹⁵ 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).

¹⁶ 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.

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 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 526.1 million BAM, which is 12.1% more than in 2020. As in the case of road taxes, the projection is based on current collection trends that indicate recovery (see Section 1.3.2.), economic recovery forecasts (DEP, September 2021), a low base in 2020 due to part of the permanently lost consumption, and crude oil price forecasts. According to the European Commission's summer projections, oil prices are assumed to reach an average of 68.7 USD per barrel in 2021, which is 54% more than in the previous year. In 2022, prices are expected to stabilize at 68.3 USD per barrel.¹⁷

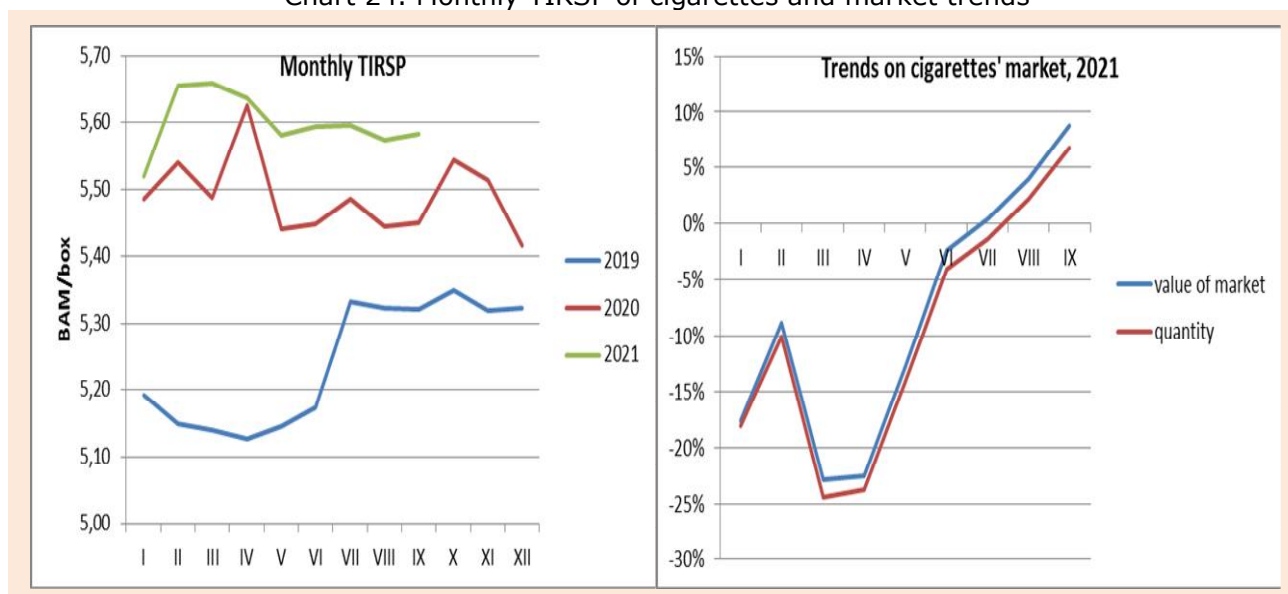
Revenues from excise duties on tobacco

Although the excise policy of cigarette taxation has not changed since 2019, tobacco companies have continued to increase the retail sales prices of cigarettes in 2021. In eight months, retail sales prices increased in average by 1.8% compared to the weighted average price in 2020. The beginning of 2021 was marked by a sharp rise in prices of up to 4.4% on a monthly basis compared to December 2020 (Chart 24, left side¹⁸). The decrease in the average price in the next four months, along with the increased demand of non-residents during the summer, led to an increase in cigarette sales in the third quarter of 2021, both in terms of sales revenue ("cigarette market value") and in terms of cigarette quantities (Chart 24, right).

¹⁷ European Economic Forecast, Summer 2021

¹⁸ It is not about the arithmetic average of the prices of cigarettes from excise stamps issued in a certain month, but about the average monthly weighted retail price of cigarettes.

Chart 24. Monthly TIRSP of cigarettes and market trends



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

Given the deteriorating epidemiological situation in B&H and putting the country on the EU "red list", relaxation of measures regarding the movement of non-residents and diaspora in B&H cannot be expected during the New Year holidays, and probably not until the spring of the next year. On the other hand, severe restrictions on the operation of restaurants and other activities in the entertainment industry in Croatia, with a discrepancy in prices of cigarettes and oil derivatives in favor of B&H, was an incentive for increased cross-border consumption of non-residents in B&H in the border area with Croatia in 2021, which is also reflecting in the growth of excise revenues on cigarettes. In such circumstances, it is expected that by the end of the year, cigarette sales will be at the level of average sales in the previous period, while maintaining existing prices. Having the above assumptions in mind, it is expected that 11.3% more excise duties on tobacco products will be collected in 2021 compared to the collection in 2020.

2.1.3. Customs

According to the data of the Agency for Statistics of B&H, in the period January-August 2021, import of goods in B&H increased by 22.6%. At the time of making the projections, ITA data were available, according to which imports grew by 34.8% in September, which brought the growth of imports at the level of three quarters to 23.7%. Having in mind the trends in collection and imports, collection of customs in the amount of 307.2 million BAM is projected for 2021, which is 17.2% more than the collection in the previous year.

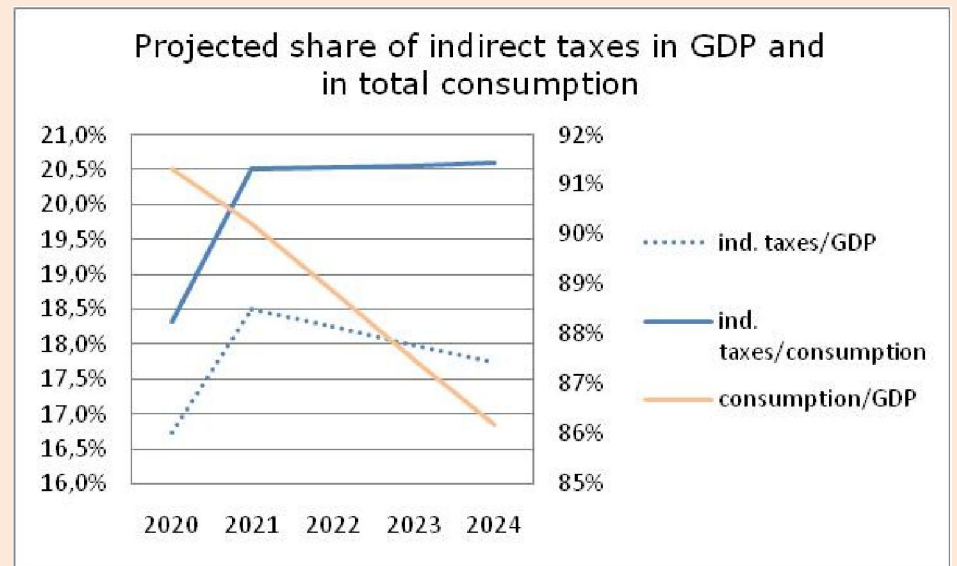
2.2. Projections for the period 2022-2024

The projected growth rates of indirect tax revenues for 2022, 2023, and 2024 are 3.0%, 2.8%, and 3.1%, respectively. The projection of revenues in the mentioned period is based on the projected relevant macroeconomic indicators, the historical seasonal collection scheme and the projections of individual categories of revenues for 2020.

Contrary to the projected decline in indirect taxes in GDP in the period 2022-2024 (see Table 4, Section 2), the projected share of indirect tax revenues (MAU) in consumption (DEP) in this period increased slightly by only 0.1 percentage points, from 20.5% to 20.6%. The decline in the projected share of indirect taxes in GDP in the period 2022-2024 is a cumulative result of

stagnation, i.e. a negligible increase in the projected share of indirect taxes in consumption and projected decline of consumption in GDP (Chart 25).

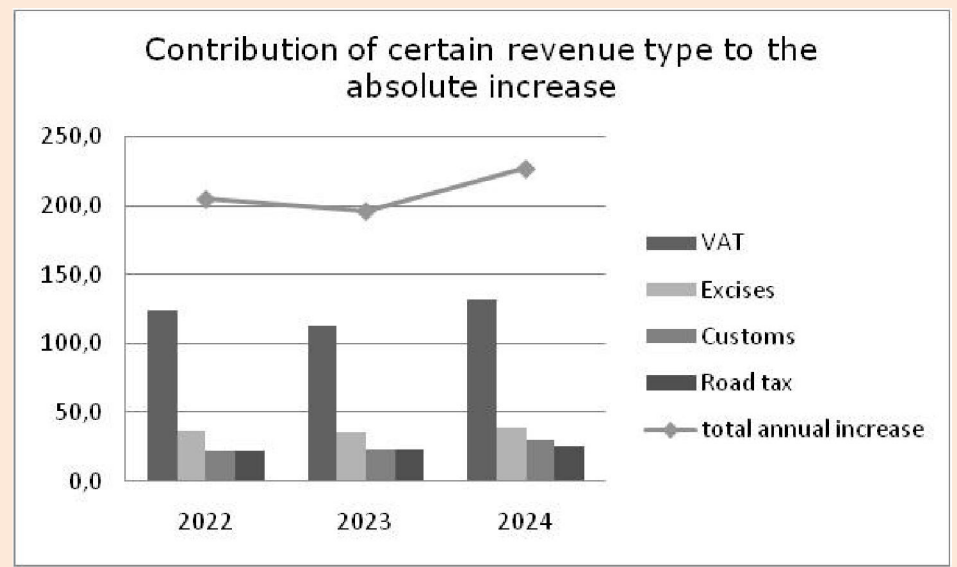
Chart 25. Projection of indirect tax revenues in % of GDP and % of total consumption



Source: MAU revenue projections and national accounts projections by the DEP; calculation of the MAU

The largest generator of absolute increase in revenues from indirect taxes in this period is VAT, given its significant share in revenues and planned stable growth rates. After VAT, excises contribute the most to the absolute increase in income. Revenues from road tax and customs contribute to the absolute increase in revenues at approximately the same level (Chart 26).

Chart 26. Contribution of certain types of revenue to the absolute increase (in million BAM)

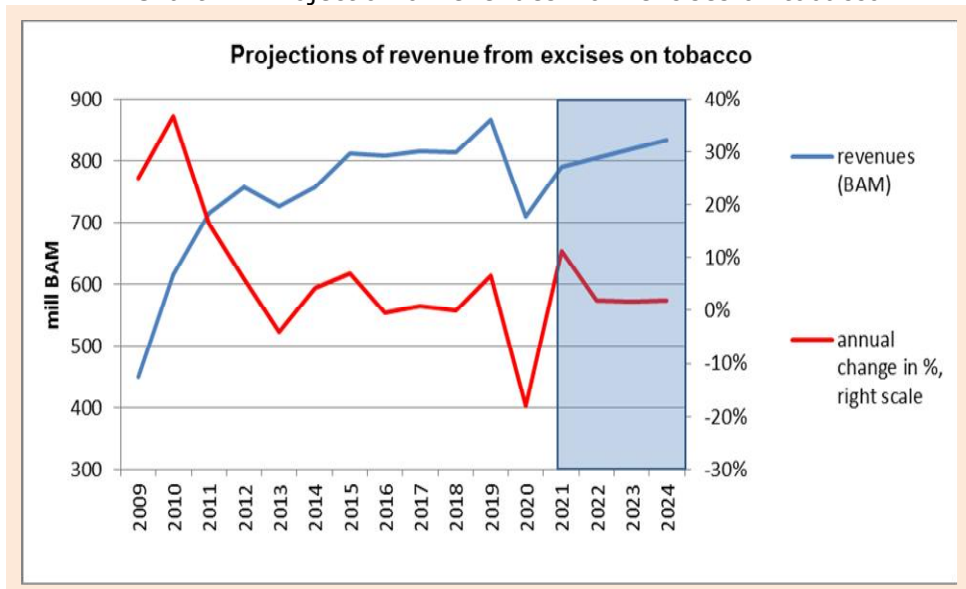


Source: MAU revenue projections

Given that no change in cigarette taxation policy is expected in 2022, it is assumed that tobacco companies (following the policy of the last three years) will increase retail sales cigarette prices at

the level of the increase in 2021. On the other hand, a change in the policy of taxation of smoking tobacco in 2021 is expected, because the increase in cigarette prices in 2021 generates a higher weighted average price of cigarettes, which, according to the current methodology, is the basis for calculating higher specific excise duty on smoking tobacco in 2022¹⁹, which is the reason for the rise in prices of smoking tobacco. In such circumstances, it is possible that consumers of smoking tobacco (which is a substitute for cigarettes) will shift to cigarettes again, unless there is a significant increase in cigarette prices in the meantime. But it can also be an incentive for lower-income people to give up more expensive branded smoking tobacco and shift to black market of tobacco and cigarettes. In any case, the declining trend in the collection of excises on smoking tobacco is expected to continue in the coming years. Following these assumptions and provided that there are no more severe restrictions due to the coronavirus pandemic that would limit the consumption of non-residents and the domestic population, with unchanged excise policy, the value of the cigarette market is expected to follow macroeconomic projections of consumption. Under the above assumptions, a slight increase in the collection of excise duties on tobacco products is expected in 2022, 2023 and 2024 of 2%, 1.7% and 1.8%, respectively (Chart 27). An important factor in achieving the projections of excise duty collection is the continuous fight against the black market of cigarettes and tobacco in B&H.

Chart 27. Projection of revenues from excises on tobacco



Source: MAU revenue projections

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

¹⁹The Law on Excise Duties prescribes a methodology for calculating the specific excise duty on smoking tobacco, which is based on the weighted average price of cigarettes and the minimum excise duty on cigarettes. It is expected that the Governing Board of the Indirect Taxation Authority will make a decision on the specific excise tax on smoking tobacco for 2022 by the end of October 2021. According to preliminary calculations, the specific excise tax on smoking tobacco in 2022 should be higher by 2.5% compared to the specific excise tax on smoking tobacco in 2021.

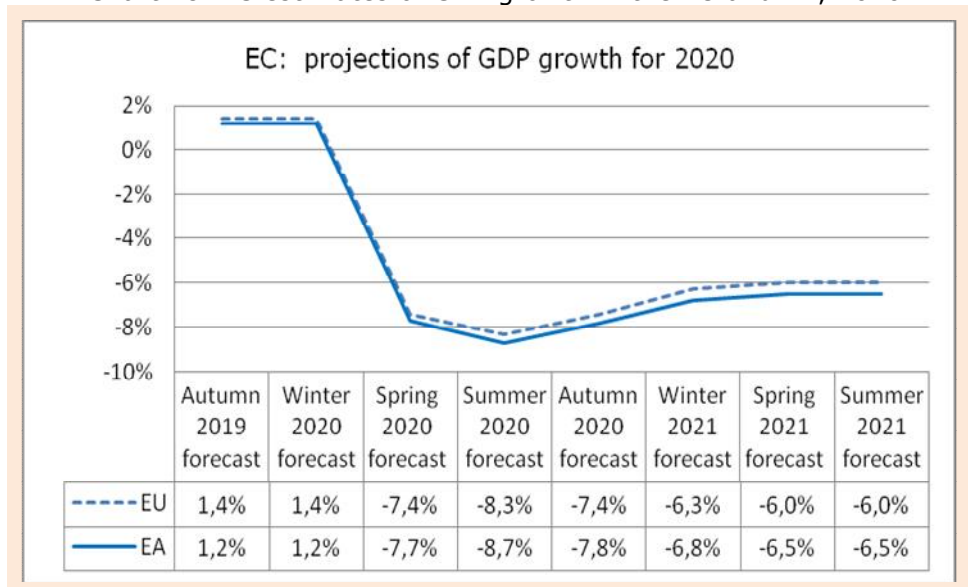
(EC) and the International Monetary Fund (IMF) will be briefly presented here, as well as their revisions before and after the coronavirus pandemic.

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.²⁰ The EC report from July 2020²¹ (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. In the latest, Summer Forecast of the EC, it is estimated that in 2020, the GDP in the EU and the EA will fall by as much as 6% and 6.5%, respectively. Although this is a high rate of decline, it is still lower than in the EC estimates from the period after the onset of the pandemic in 2020, when the estimated rates of GDP decline in the EU and the EA for 2020 even exceeded 8% (Chart 28).²²

Chart 28. EC estimates of GDP growth in the EU and EA, 2020



Source: MAU presentation based on EC projections

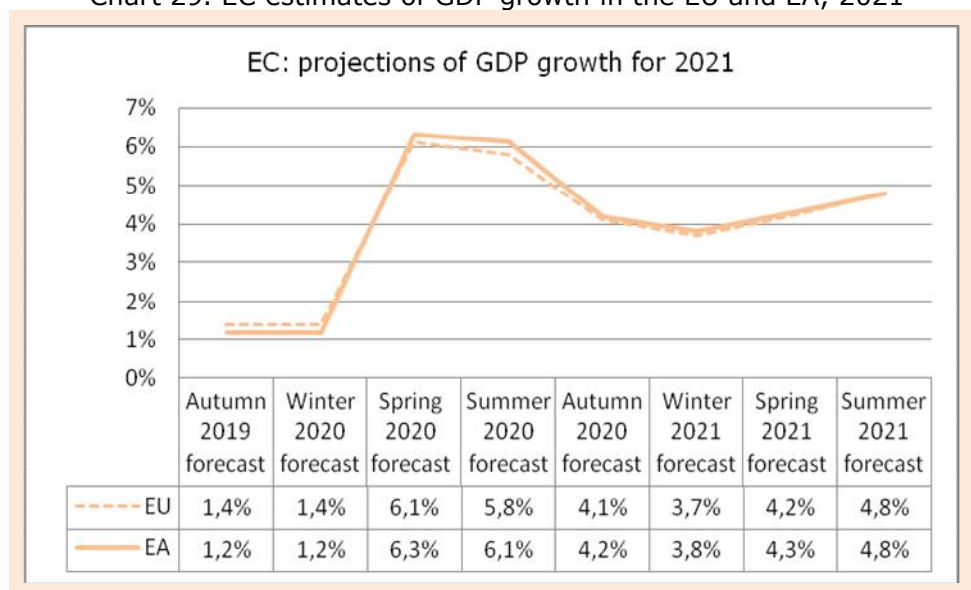
Chart 29 shows the chronology of projected growth rates of the EU and EA economies for 2021 prepared by the EC. The x-axis shows the projection time, and the y-axis shows the projected GDP growth rate. The direction of the revision of the EU GDP growth projections for 2021 has been changing over time. From a low of + 1.4% in the 2019 Autumn Forecast, EU GDP growth projections have been gradually revised upwards to + 6.1% in the 2020 Spring Forecast. Then again they have been gradually reduced to 3.7% in the 2021 Winter Forecast, while in the last two issues, the EC has performed an upward revision of the growth rate, to + 4.2% in the 2021 Spring Forecast, and further to + 4.8% in the 2021 Summer Forecast.

²⁰ The European Commission publishes two comprehensive forecasts (spring and autumn) and two interim forecasts (winter and summer) each year; <https://ec.europa.eu/>

²¹ European Commission, European Economic Forecast, Summer 2020 - interim

²² Projected decline in GDP in 2020 in the 2020 Summer Forecast for the EU and the EA amounted 8.3% and 8.7%, respectively.

Chart 29. EC estimates of GDP growth in the EU and EA, 2021

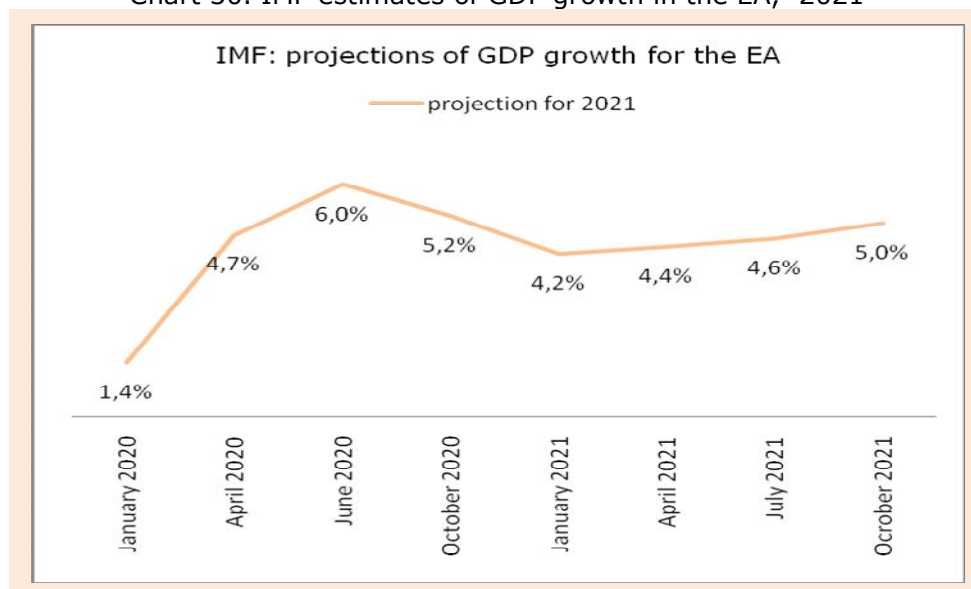


Source: MAU presentation based on EC projections

Projections of the International Monetary Fund

The latest IMF projections date from October 2021.²³ The October projections predict a decline in the global economy in 2020 at a rate of 3.1%. For 2021, the projected growth rate of the global economy is 5.9%. According to the same projections, the EA achieved a real decline in GDP of 6.3% in 2020, while in 2021 it is expected to grow by 5.0%. Chart 30 shows the revision of the IMF's GDP growth projections for the EA for 2021.

Chart 30. IMF estimates of GDP growth in the EA, 2021



Source: MAU presentation based on IMF projections

²³ IMF, World Economic Outlook, October 2021

According to the IMF projections from October 2021, Bosnia and Herzegovina achieved a real decline in GDP of 4.3% in 2020. For 2021 and 2022, real GDP growth rates of 2.8% and 3.2%, respectively, are projected.

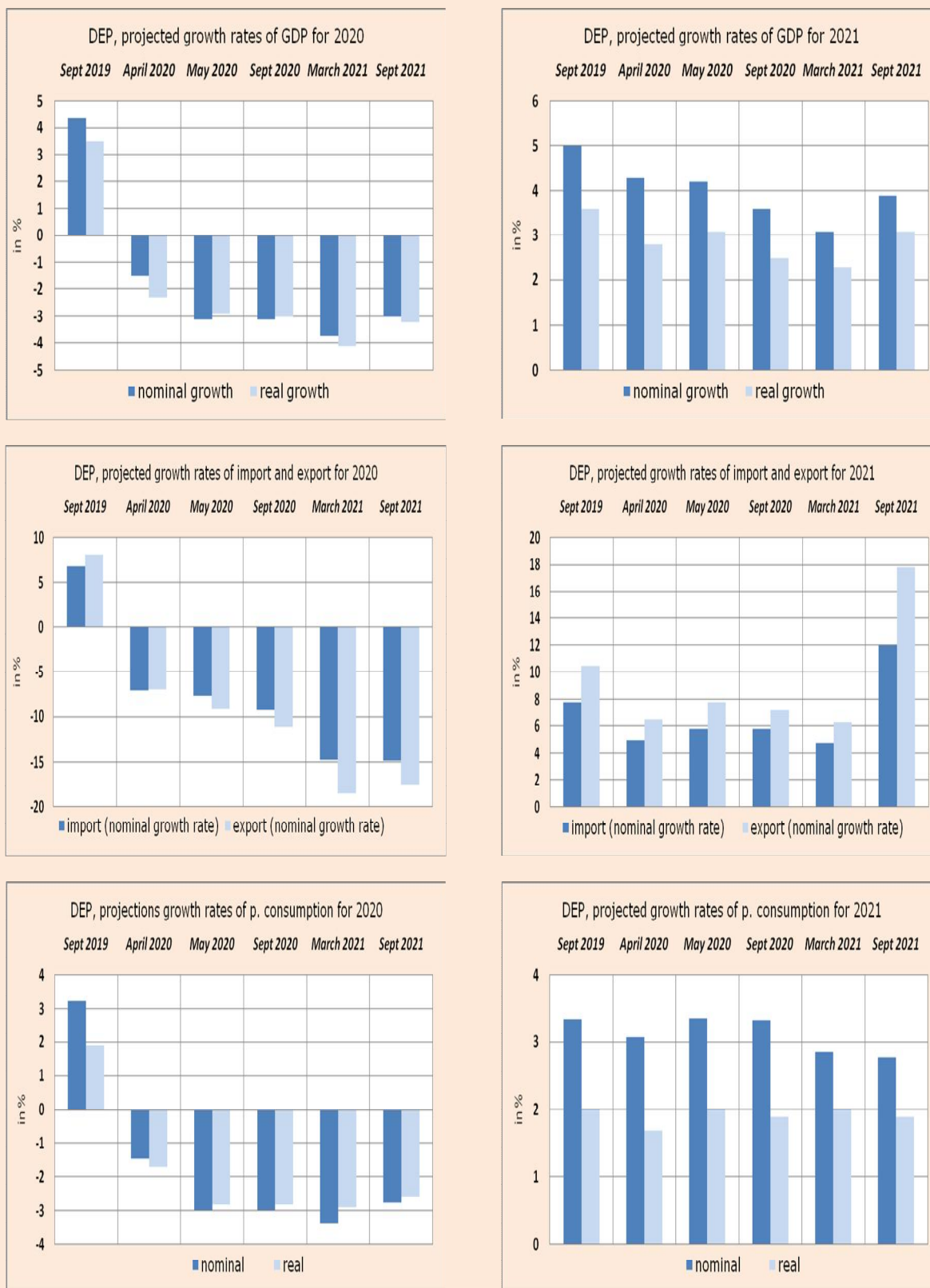
3.2. DEP, revision of the projections of macroeconomic indicators for B&H

3.2.1. Revision of GDP rates and components for 2020

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 outbreak of the coronavirus pandemic, in April last 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%, in September to -3.0%, and in March 2021 to -4.1%. The DEP's projection document from September 2021 states that, according to official BHAS data, B&H recorded a real decline in GDP of 3.2% in 2020 compared to the previous year.

The left side of Chart 31 presents the DEP's projections for 2020 prepared in the period from September 2019, before the coronavirus pandemic, until the last projections from September 2021, in which the data for 2020 are not projections but official data on the realization of macroeconomic indicators, published by BHAS. The projection time 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. From the chart, one can clearly see the corrections of the projections of GDP and its components in the past period and their realization.

Chart 31. DEP: latest and previous projections of GDP and its components for 2020 and 2021



Source: MAU presentation based on DEP's projections from September 2019 to September 2021

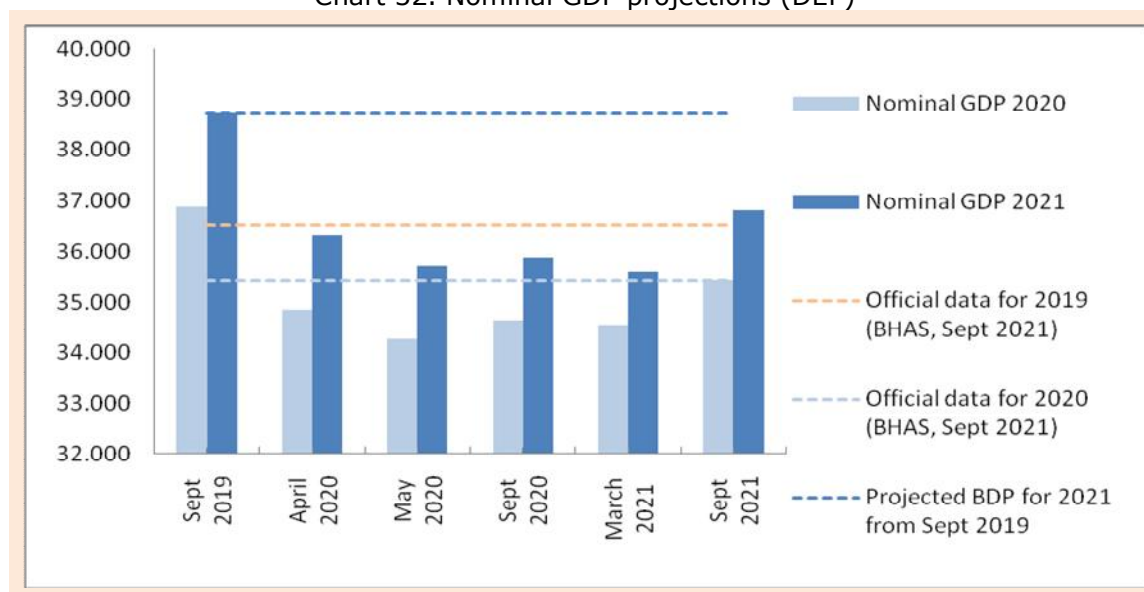
3.2.2. Revision of GDP projections for 2021: comparison with projections from September 2019

Contrary to the projections for 2020, the projected growth rates of GDP and its components for 2021 have not been so significantly revised in the past period, except for the projected growth rates of imports and exports (Chart 31, right). In the projection period from September 2019 (before the outbreak of the pandemic) to September 2021, the projections of the nominal GDP growth rate for 2021 were reduced by 1.1 p.p., while the projections of the real GDP growth rate were reduced by 0.5 p.p. In the period of preparing projections from April 2020 to March 2021, the projected growth rates of imports and exports were not significantly revised, but then in September 2021 they were strongly increased (Chart 31, right). If, however, we look at the projections in absolute terms (Chart 32), it can be concluded that the projected amount of nominal GDP for 2021 in September 2021 is much lower than the projections made in September 2019, which is consequence of a much lower base, i.e. realization in 2020. The realized nominal amount of GDP in 2020 was 1.46 billion BAM below the projected amount for 2020 from September 2019.

3.2.3. Revision of GDP projections for 2021: comparison with projections from March 2021

Compared to the projections from March 2021 (previous DEP projections), the projections of the nominal and real GDP growth rates for 2021 have increased by 0.8 percentage points each.

Chart 32. Nominal GDP projections (DEP)



Source: MAU presentation based on DEP's projections from September 2019 to September 2021;

Note: The x-axis shows the projection time, and the y-axis shows the projected amount of GDP. GDP data for 2020 from the September 2021 projections are official BHAS data, not projections

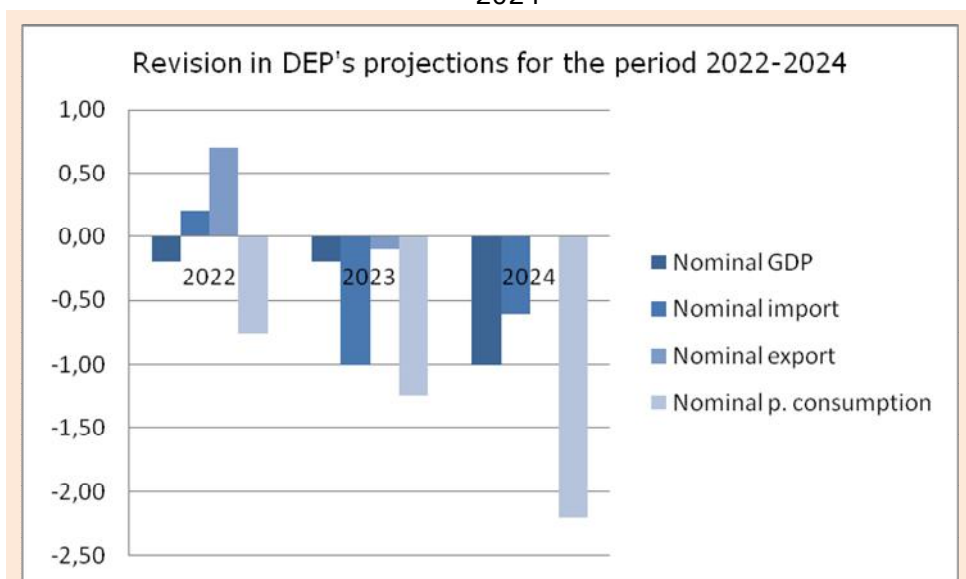
In absolute amounts, the projection of the nominal amount of GDP for 2021 has been increased by about 1.19 billion BAM, which is a consequence of higher realization of nominal GDP for 2020 (official BHAS data, Sept 2021) than the projected amount of the same in March 2021 by about 0.88 billion BAM (Chart 32, orange dashed line).

3.2.4. Revision of projections for the period 2022-2024: comparison with proj. from March 2021.

Compared to the projections from March 2021, the projections of nominal GDP growth for 2022 and 2023 were slightly revised by -0.2 percentage points each, while the projection of the same

indicator for 2024 was revised by -1 percentage points. The revisions of the GDP categories that are of the greatest importance for the preparation of indirect tax revenue projections are shown in Chart 33.

Chart 33. Differences in DEP's projections from September and March 2021 for the period 2022-2024



Source: MAU presentation based on DEP's projections prepared in March 2021 and September 2021.

3.3. MAU, revision of projections of indirect tax revenues

MAU continuously revises its projections of indirect tax revenues in line with current revenue collection trends and the revision of macroeconomic indicator projections (DEP).

Table 5 presents the differences between the current projections and previous projections of the Unit from April 2021.

Table 5. Differences between the current projections and previous projections of the Unit from April 2021

Type of revenue (net)	Differences from previous projections			
	in million BAM			
	2021	2022	2023	2024
VAT	511,4	499,9	469,3	412,2
Excises	141,2	144,4	143,9	136,3
Customs	37,3	43,3	47,0	53,2
Road tax	62,2	66,1	69,7	72,9
Other	5,1	4,9	4,7	4,5
TOTAL	757,3	758,7	734,6	679,1

Source: MAU projections (October 2021 and April 2021)

3.3.1. Revision of projections for 2021

The projected growth rates of GDP and its components for 2021 were not so significantly revised in September compared to March, except for the projected growth rates of imports and exports (Chart 31, right). Projections of nominal and real GDP growth rates for 2021 have been increased by 0.8 percentage points each. In absolute amounts, the projection of the nominal amount of GDP for 2021 has been increased by over one billion BAM, which is a consequence of higher realization of nominal GDP in 2020 than the projected amount of the same in March 2021 (Chart 32).

Compared to the Unit's April 2021 projections, based on the then projected nominal GDP growth of 3.1% and its components (DEP, March 2021), the projected amount of indirect tax collection for 2021 has now been revised by as much as 757.3 million BAM (Table 5).

Previous projections of indirect taxes (MAU, April 2021) were based on collection trends until March 2021, when collected revenues from indirect taxes were **lower by 4.2%**, compared to the same quarter of 2020. A strong recovery in revenues started after first quarter, and in the second quarter there was a growth of high 31.5%, and in the third quarter of 23.8%. Although the previous projections were based on the historical seasonal collection pattern that excludes 2020 with its specifics, strong revenue growth above all expectations and above projected GDP and consumption growth rates, which appeared after the first quarter, is the cause of the high revision of projection of revenues from indirect taxes.

Net VAT revenues were revised upwards by as much as 511.4 million BAM. VAT revenues on imports were the most revised, due to high growth rates of imports, well above DEP's expectations in March 2021, and even those in September 2021. According to the ITA data, in the first nine months of 2021, import growth was high 23.7%. The DEP projection from March predicted nominal growth of imports at the level of 2021 of only 4.8%.

Net revenues from excises were revised by +141.2 million BAM. The projections of revenues from excise duties on tobacco were mostly revised (+80 million BAM). Differences in excise revenues on tobacco products are due to the assumption that sales of tobacco products will mainly reflect domestic consumption of cigarettes, while recovery of non-residents' consumption (diaspora, tourists, in transit) has not been expected due to measures restricting movement during the pandemic and restrictions introduced on the import of tobacco products into Croatia and other EU member states. However, current trends in the tobacco market indicate an increase in demand for cigarettes, from which it can be concluded that non-residents' consumption has recovered, mainly due to more liberal measures when entering B&H and a significantly better tourist season in B&H in 2021 compared to 2020. The second reason is the increased cross-border consumption of non-residents from Croatia in restaurants, nightclubs and other facilities in the entertainment industry in B&H in the area with Croatia, due to restrictive measures and restrictions in these activities in Croatia.

Due to positive collection trends above expectations in April last year and the revision of DEP's projections, revenues from excise duties on oil derivatives were revised by +47.2 million BAM, revenues from excise duties on alcohol and beer by +8.2 million BAM. Minor positive corrections were also performed on other categories of excises (non-alcoholic beverages, coffee). Revenues from road taxes were revised by +62.2 million BAM.

Net customs revenues were revised by +37.3 million BAM due to the growth of imports well above the expectations of the DEP from March 2021 (Chart 31, right).

3.3.2. Revision of projections for the period 2022-2024

Revenue projections for 2022, 2023 and 2024 were revised by +758.7 million BAM, +734.6 million BAM and +679.1 million BAM, respectively. The revision is a cumulative result of corrections in base year (2021), and a revision of the growth rates of macroeconomic indicators for the period (Section 3.2.4. Revision of projections for the period 2022-2024; Chart 33).

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 (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 projected macroeconomic indicators (DEP) and (2) risks related to the collection of revenues from indirect taxes and 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 states²⁴ 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 global corona virus epidemic and new strains of the virus pose a primary risk to the realization 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 Section II - Program scenario of projections.

²⁴ DEP, September 2021

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 ITA²⁵ and the Council of Ministers, and were forwarded to the Parliamentary assembly of B&H for adoption.²⁶

Table 6. Program scenario of the indirect tax revenue projections 2021-2024, October 2021

Type of revenue (net)	In million BAM					Projected growth rate			
	Realiz.	Projection				2021	2022	2023	2024
	2020	2021	2022	2023	2024				
VAT	3.748,5	4.353,9	4.477,4	4.590,1	4.722,0	16,1%	2,8%	2,5%	2,9%
Excises	1.303,5	1.454,5	1.391,4	1.527,5	1.566,7	11,6%	-4,3%	9,8%	2,6%
Customs	262,2	307,2	329,0	352,4	382,0	17,2%	7,1%	7,1%	8,4%
Road tax	583,7	657,9	680,2	704,1	730,1	12,7%	3,4%	3,5%	3,7%
Other	32,3	37,4	37,4	37,4	37,4	15,6%	0,0%	0,0%	0,0%
TOTAL	5.930,3	6.810,9	6.915,5	7.211,4	7.438,2	14,8%	1,5%	4,3%	3,1%
Earmarked road tax	-364,7	-411,2	-425,2	-440,0	-456,3	12,7%	3,4%	3,5%	3,7%
Funds for distribution	5.565,6	6.399,7	6.490,4	6.771,3	6.981,9	15,0%	1,4%	4,3%	3,1%

In order for the amendments to the Law to be applied, it is necessary that, after the adoption of the Parliamentary assembly of B&H, the Governing Board of the ITA amend the implementing regulations within 60 days. Given this, even if the amendments to the Law are adopted in the remaining part of 2021, they will be applied in the next fiscal year.

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 month a half 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 month and a half 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 100 million BAM, which represents 1.5 percentage points of the projected growth in 2022** (see Table 6). The amount of losses may be higher if the interval between the payment of excise duty on taking over stamps and imports is longer than a month and a half, and if the quantities of imported tobacco products increase compared to the base 2021. Given the significant share of excise duties on tobacco products in total indirect taxes, **the implementation of amendments to the Law may cause minor disruption in the financing of the budgets of the entities and the Brčko District.**

²⁵ The amendments were adopted at the ITA Governing Board meeting held on March 22, 2021.

²⁶ [http://static.parlament.ba/doc/143370_\(B\)%20Prijedlog%20zakona.pdf](http://static.parlament.ba/doc/143370_(B)%20Prijedlog%20zakona.pdf)