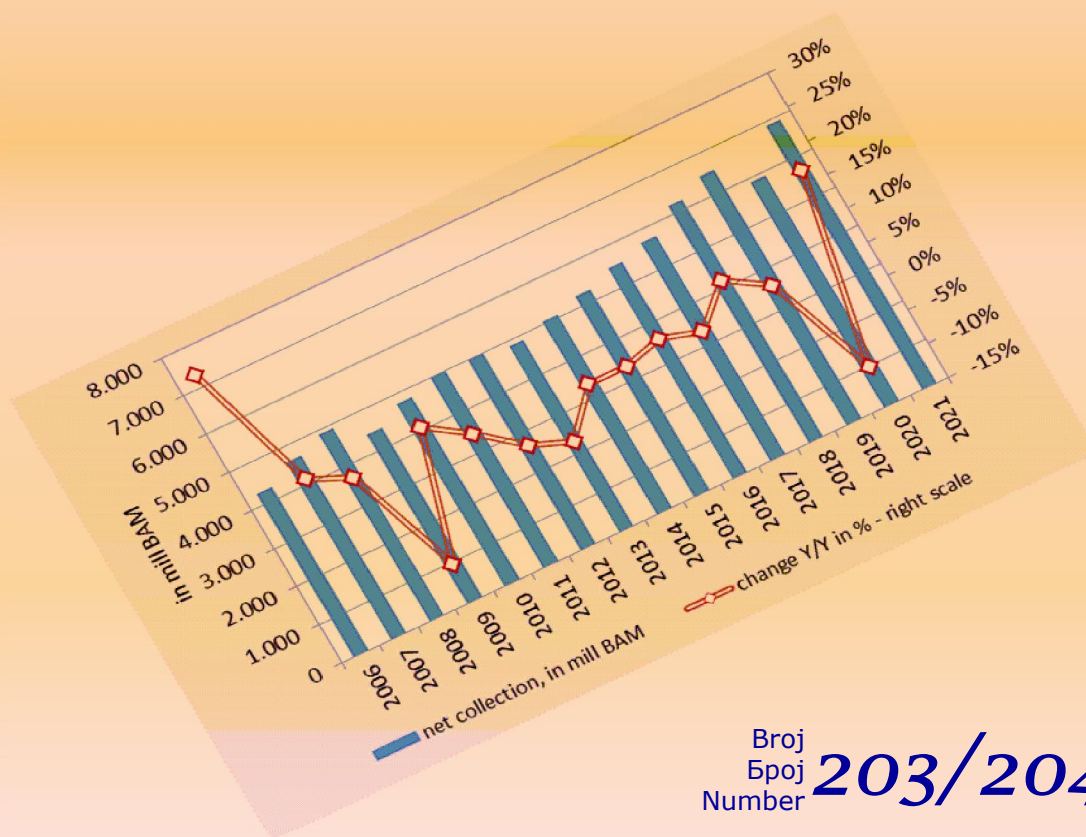




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

ОМА Билтен

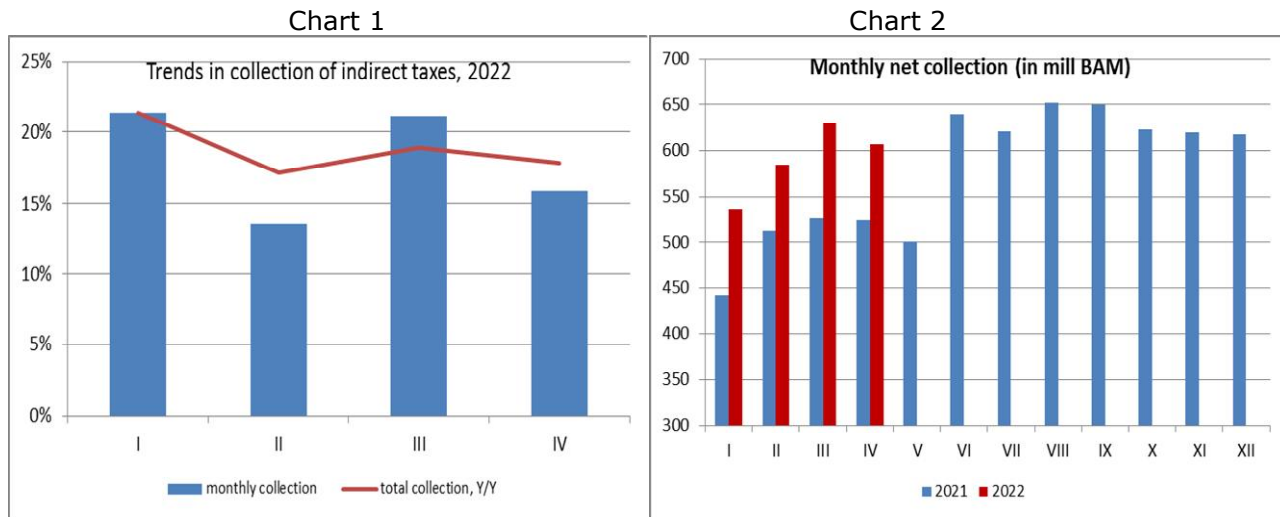


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With this issue

According to preliminary report, in April 2022, the ITA collected 606.5 million BAM of net revenues from indirect taxes on the Single Account. Net collection is nominally higher by 83.2 million BAM, representing an increase of 15.9%. The high growth of the collection of indirect taxes in April 2022 has increased the cumulative surplus realized so far this year. In the period January-April 2022, net collection was nominally higher by 356.8 million BAM compared to the same period in 2021, which represents a cumulative growth of 17.9% (Chart 1).



Despite the high monthly growth, a slowdown in collection is noticeable, both in absolute amounts (Chart 2) and in terms of the monthly growth rates (Chart 1). In addition to strong growth in refund payments (as much as 40.4% in April), one of the reasons for the slowdown in monthly and cumulative growth rates is the structure of the statistical basis for comparison (Chart 2, "2021"). Due to restrictive *anti-covid* measures in the first part of 2021, the collection of indirect taxes was significantly lower than in the rest of the year. Therefore, because of the increase in the statistical base, lower monthly growth rates of indirect taxes can be expected in the coming months.

Dinka Antić, PhD
Head of Unit

Table of contents:

Baseline scenario of indirect tax revenue projections	2
List of tables and charts	2
Summary	3
1. Basics and assumptions of indirect tax revenue projections from the baseline scenario	4
2. Projections of revenues from indirect taxes 2022-2025 (baseline scenario)	17
3. Differences from previous projections of indirect tax revenues	24
4. Risks	29
Annex I: Latest projections of international institutions	30

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BASELINE SCENARIO OF INDIRECT TAX REVENUE PROJECTIONS

LIST OF TABLES AND CHARTS

Tables

Table 1. Projection of GDP growth, DEP, March 2022	4
Table 2. Share of indirect taxes collected on the ITA SA in GDP and in total consumption	6
Table 3. Baseline scenario of the projections of indirect tax revenues (2022-2025), April 2022 ..	18
Table 4. Baseline scenario of the projections of indirect tax revenues (in % of GDP), April 2022.	18

Charts

Chart 1. Phases of foreign trade liberalization in B&H	5
Chart 2. Net revenues from indirect taxes on the ITA SA, 2006-2021	6
Chart 3. Indirect taxes in consumption and GDP, 2006-2021	7
Chart 4. Monthly collection of indirect taxes (million BAM)	8
Chart 5. Collection of revenues from indirect taxes in the first quarter and changes in collection (YoY)	8
Chart 6. Trends in customs revenue collection.....	9
Chart 7. Trends in gross VAT collection, YoY	10
Chart 8. Monthly collection of revenues from VAT on imports and domestic VAT	10
Chart 9. Quarterly trends in the collection of gross VAT components	11
Chart 10. Trends in VAT refunds.....	11
Chart 11. Trends in the collection of net VAT.....	12
Chart 12. Trends in excise duty collection	13
Chart 13. Trends in the collection of excise duties on tobacco	14
Chart 14. Trends in the collection of excise duties on oil derivatives.....	15
Chart 15. Trends in road fee revenue collection	16
Chart 16. Trends in the collection of revenues from excise duties on coffee	16
Chart 17. Trends in collection of excises on beer, non-alcoholic beverages, alcohol and alcoholic beverages and wine	17
Chart 18. Weekly prices of oil derivatives in B&H.....	20
Chart 19. Projected share of indirect taxes in GDP and total consumption.....	22
Chart 20. Contribution of certain types of revenue to the projected absolute growth	22
Chart 21. Projection of revenues from excise on tobacco	23
Chart 22. DEP's projections for GDP in 2021	24
Chart 23. DEP's projections for GDP in 2022	25
Chart 24. DEP: recent and previous projections of national accounts.....	26
Chart 25. Differences between the revenue realization in 2021 and revised projections from October 2021	27
Chart 26. Differences in revenue projections compared to the October 2021 projections	29
Chart 27. European Commission, European Economic Forecast, winter 2022.....	30
Chart 28. Projections of the ECB, March 2022	31

Summary

The real growth rate of the B&H economy in 2020 amounted to -3.2%, while the DEP's estimate of real growth for 2021 is 5.4%

DEP estimated real GDP growth in Bosnia and Herzegovina at 2.1% in 2022

At the level of three months of 2022, the collection of indirect taxes increased by 18.9%

MAU estimated the growth rate of indirect tax revenues in 2022 at 9.1%, and stable growth rates in the coming period

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

According to the official data of the Agency for Statistics of B&H, in 2020 in B&H there was a real decline in GDP of 3.2% compared to the previous year (BHAS, February 2022). Based on available national accounts data for the three quarters and short-term statistical indicators for the fourth quarter of 2021, the Directorate for Economic Planning (DEP) estimated that B&H recorded real GDP growth of 5.4% in 2021.

Taking into account the latest developments in the international economic environment, strong increase in world prices and a high GDP statistical base in the previous year, DEP's projection of economic growth in B&H in 2022 amounts to 2.1%.

In the first quarter of 2022, a very high growth rate of revenues from indirect taxes of 18.9% was achieved compared to the first quarter of 2021. Observed by types of revenues, the following growth rates were achieved at the quarterly level: customs 30.2%, net VAT 17.3%, excises 15.2% and road fees 7.2%.

Projections of revenues from indirect taxes are based on the projections of macroeconomic indicators (DEP, March 2022) and take into account trends in the collection of indirect taxes, and current government policies in the field of indirect taxation. Bearing in mind that the high revenue growth in the first quarter of 2022 was achieved partly due to the specificity of the statistical base for comparison (low base in the first part of 2021 due to strict restrictive measures against coronavirus), and taking into account the huge unknowns regarding developments in Ukraine and the development of the epidemiological situation in the country and the surrounding area, the projected growth rate of revenues from indirect taxes for 2022 is 9.1%. The projected growth rates of indirect tax revenues for 2023, 2024, and 2025 are 3.2%, 2.9%, and 3.0%, respectively.

There are significant risks for the realization of projections of revenues from indirect taxes due to huge unknowns regarding the events in Ukraine and the development of the epidemiological situation in the country and the region. Achieving the projected level of revenues from indirect taxes in the period 2022-2025 is subject to the following risks: all risks for the achievement of projected macroeconomic indicators (DEP) and risks related to the collection of revenues from indirect taxes and the fight against grey economy.

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

Indirect tax projections are based on the March 2022 macroeconomic projections of the DEP, and consider 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 2022

Table 1 presents the latest projections of the Directorate for Economic Planning of B&H (DEP, March 2022) of nominal and real GDP growth rates for the period 2022-2025. The DEP refers to the official data of the Agency for Statistics of B&H (BHAS, February 2022), according to which B&H in 2020 recorded a real decline in GDP of 3.2%, compared to the previous year. Based on available national accounts data for the three quarters and short-term statistical indicators for the fourth quarter of 2021, the DEP estimated that B&H in 2021 recorded real GDP growth of 5.4%.

Table 1. Projection of GDP growth, DEP, March 2022

	official data	projections				
	2020	2021	2022	2023	2024	2025
Nominal growth	-3,0	6,0	5,4	4,4	4,7	5,0
Real growth	-3,2	5,4	2,1	3,1	3,0	3,4

Source: DEP, March 2022

1.1.1. Projections for 2022

It was stated in DEP's macroeconomic projections (March 2022) that real GDP growth rate in 2022 had been revised to 2.1%, due to the following reasons: inflationary pressures and disruptions in global supply chains caused by the coronavirus, recent developments in relations between Russia and Ukraine, and the high statistical base in the previous year (growth rate of 5.4%).

1.1.2. Projections for the period 2023-2025

The DEP states that, assuming the normalization of external factors and internal dynamics in B&H, the expected rate of real GDP growth should be 3.1% in 2023, 3.0% in 2024 and 3.4% in 2025. The DEP's assumption is that the key pillar of economic growth during this period should be domestic demand through increased private consumption and investment.

1.2. Current policies in the field of indirect taxation

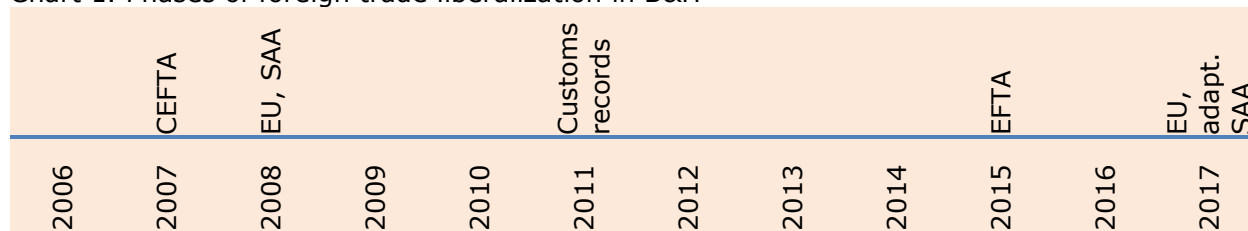
VAT obligations and payment system are regulated by the Law on Value Added Tax ("Official Gazette of B&H", No. 9/05, 35/05, 100/08 and 33/17). Excise policy is regulated by the Law on Excises in Bosnia and Herzegovina ("Official Gazette of B&H", No. 49/09, 49/14, 60/14 and 91/17). The policy of excises on tobacco in 2022 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

¹ Decision on Determination of the Specific and Minimum Excise Duty for Cigarettes and Amount of the Excise Duty on Smoking Tobacco for 2022 („Official Gazette of B&H" No. 67/21)

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

customs policy and general rules and procedures that apply to goods brought into and out of the customs territory of Bosnia and Herzegovina.

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



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.

1.3. Indirect tax collection trends

1.3.1. Collection in the period 2006-2021

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 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 In 2021, a historical maximum in nominal collection of revenues from indirect taxes from the establishment of the ITA was achieved, in the amount of 6.92 billion BAM.

The share of indirect taxes on the ITA Single Account (SA) in GDP has varied significantly in recent years (Table 2). Since the establishment of the ITA, this indicator has 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 to 19.9%, which is the highest value since the establishment of the ITA, while in 2020 it dropped to 18.4%.

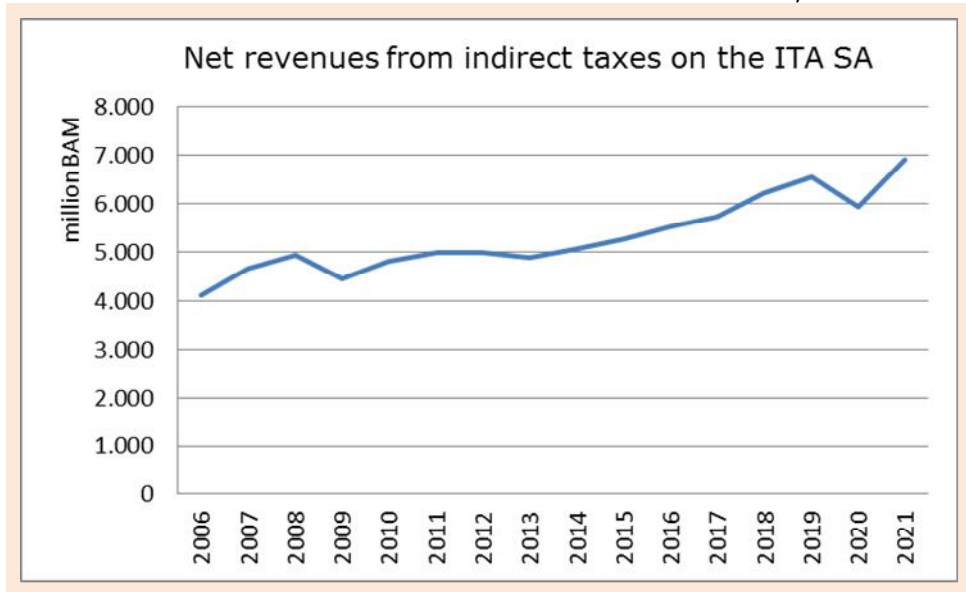
Based on data on collected revenues at the ITA Single Account in 2021 and projections of GDP and consumption (DEP) for 2021, the estimate of the share of indirect taxes for that year in GDP is 18.4%, and in consumption 20.3%. Estimated share of indirect taxes in consumption in 2021 represents the highest level since the establishment of the ITA.

³ The new Law on Customs Policy ("Official Gazette of B&H" No. 58/15) will apply from August 1, 2022 (Based on the proposal of the Indirect Taxation Authority, the Council of Ministers of B&H, at its 48th Session held on March 30, 2022, made a Decision amending the Decision on the Implementation of the Law on Customs Policy in Bosnia and Herzegovina, which postpones the deadline for its implementation from April 1, 2022 to August 1, 2022), 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).

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.

Chart 2. Net revenues from indirect taxes on the ITA SA, 2006-2021



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

Table 2. Share of indirect taxes collected 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	2021 pr.
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	18,4
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	18,4	20,3

Source: Calculation based on data of the ITA, BHAS⁶ and DEP's projections for 2021⁷

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 100%. Since 2015, there has been a downward trend in the share of consumption in GDP, and in 2020 it amounted to 90.8%. With the decline in the share of consumption in GDP, since 2015, the line of the share of indirect taxes in consumption has been 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 1.18 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. Analysing 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 1.52 percentage points, and the growth of the share of consumption in GDP of 1.0 percentage points.

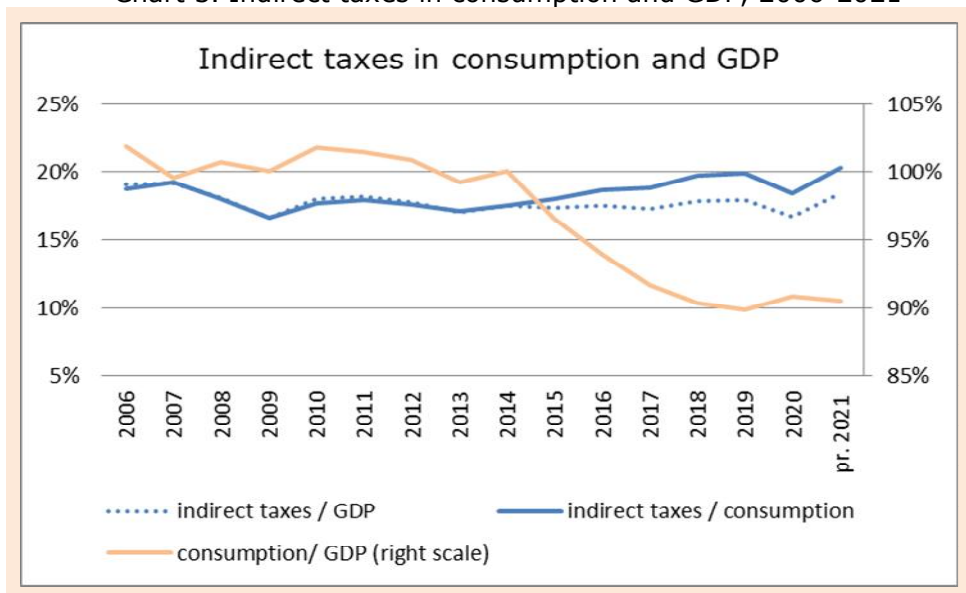
⁶ B&H Agency for Statistics (BHAS): "Gross domestic product by production, income and expenditure approach, 2020", February 28, 2022 and „Gross Domestic Product – Special First Release“, July 19, 2021.

⁷ DEP, March 2022.

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

According to DEP estimates, the share of consumption in GDP in 2021 slightly fell to 90.5%. In 2021, the estimated⁹ share of indirect taxes increased by 1.69 percentage points in GDP, and by 1.92 percentage points in consumption.

Chart 3. Indirect taxes in consumption and GDP, 2006-2021



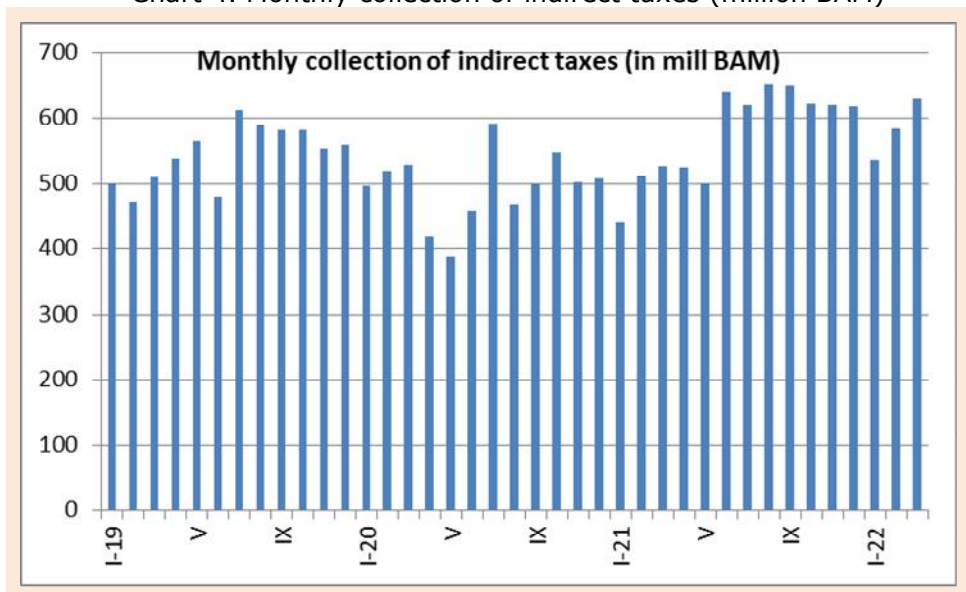
Source: Indirect Taxation Authority of B&H, calculation of the MAU

1.3.2. Collection in the period January - March 2022

The negative effects of the COVID-19 virus pandemic on the collection of revenues from indirect taxes were annulled during the second half of 2021. More liberal measures when entering B&H during the summer of 2021 resulted in a strong increase in the collection of indirect taxes from non-residents (diaspora, tourists, and cross-border and local border traffic) in the third and fourth quarters of 2021 of 23.4% and 19.4%, respectively. That ultimately brought an increase in the collection of indirect taxes at an annual level of 16.7% compared to the pandemic 2020, or 5.8% compared to 2019, which was previously the year of the historical maximum. Neither the emergence of the fourth wave of the pandemic in the fall in the EU, nor the application of restrictive measures in the member states and in the neighbouring countries, have significantly affected the consumption of non-residents in B&H, especially when it comes to non-residents from Croatia in B&H border areas. The policy of more liberal measures, against the pandemic in B&H as opposed to restrictive measures in well-known European ski resorts, has contributed to the affirmation of B&H, which has become an attractive tourist destination for winter tourism. Apart from the increase in domestic and non-resident consumption, another factor affecting the growth of indirect tax revenues in the first quarter of 2022 was the increase in prices of oil derivatives on the world market, as well as the prices of other stock and consumer goods, caused primarily by pandemics and political crises and then by the war in Ukraine. Surge in imports in the first quarter of 2022 has brought high growth rates of VAT revenues as *ad valorem* taxes, and thus indirect taxes, in whose structure VAT revenues have the largest share (Chart 4).

⁹ These are share estimates, as the data for national accounts for 2021 are DEP's estimates, not official BHAS data.
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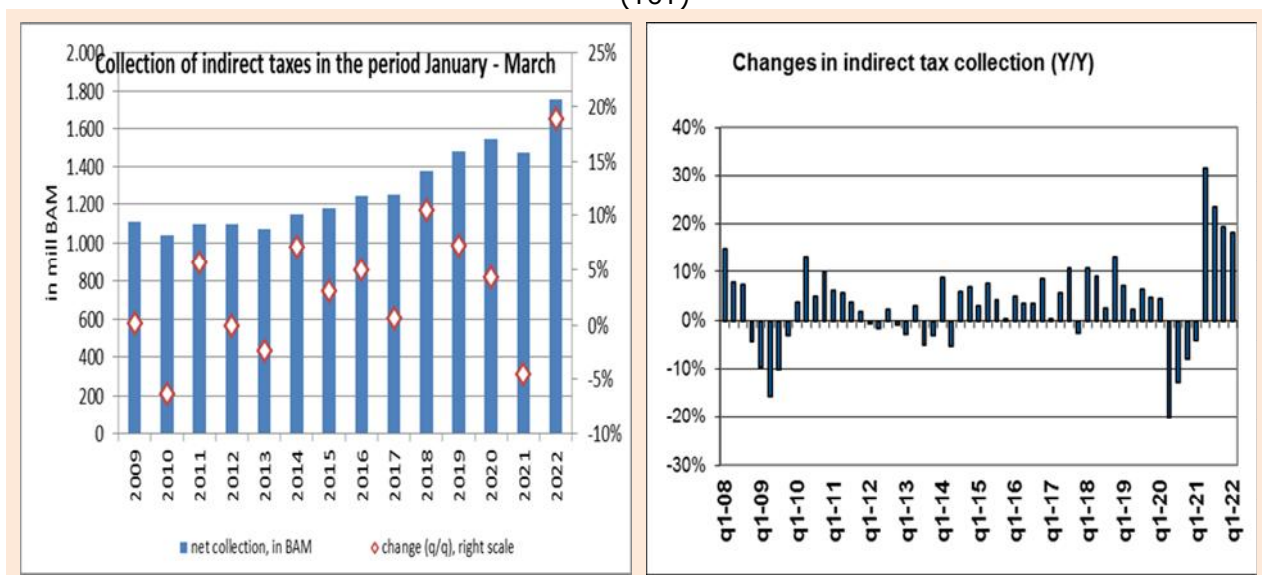
Chart 4. Monthly collection of indirect taxes (million BAM)



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

In the first quarter of 2022, a very high growth rate of indirect tax revenues of 18.9% was achieved compared to the first quarter of 2021 (Chart 5, left side). It should be borne in mind that stricter measures against the COVID-19 virus pandemic in B&H were in force in the first five months of 2021, so the collection was significantly lower than in the rest of the year, due to the negative effect of measures on the economy and consumption (see Chart 4 and Chart 5- right side). For that reason, the basis for comparison with the revenue collection in 2022 is significantly lower, which has the consequence that the mathematical calculation showed a significantly higher growth rate of indirect taxes in the first quarter of 2022. (Chart 5, right side).

Chart 5. Collection of revenues from indirect taxes in the first quarter and changes in collection (YoY)



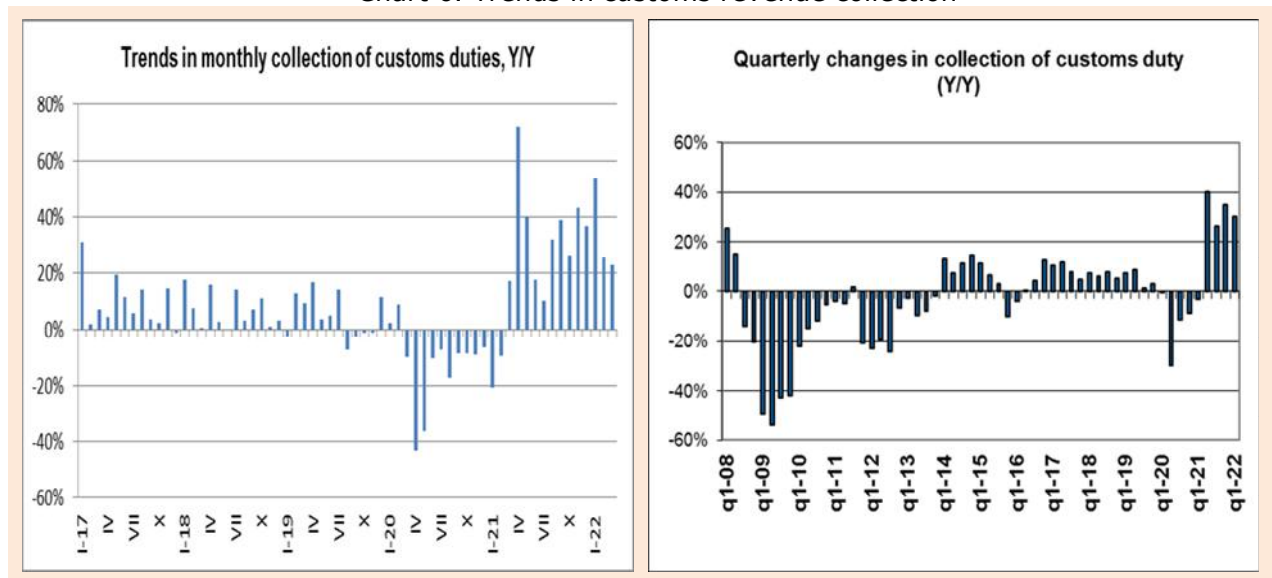
Source: Indirect Taxation Authority of B&H, calculation of the MAU

Revenue collection by type

Customs

The trend of high growth rates in customs revenues has been ongoing as of March 2021 (Chart 6, left side). The growth in customs revenues was a consequence of the enormous growth of imports from the EU, in the part of goods that are under the customs regime, and from third countries.¹⁰ In the first quarter of 2022, customs revenues grew by 30.2%, continuing the trend of high quarterly growth rates from the previous three quarters (Chart 6, right side).

Chart 6. Trends in customs revenue collection



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

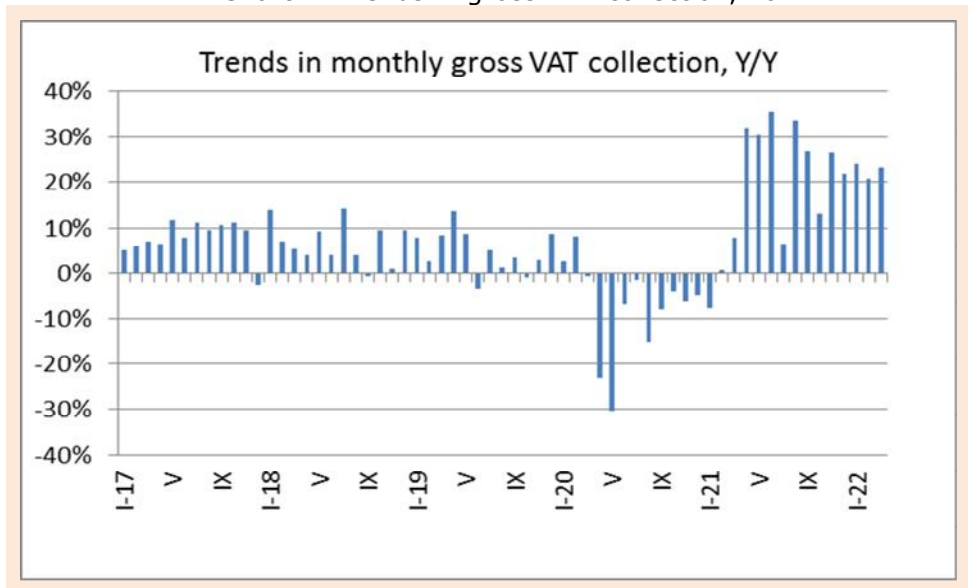
VAT

In March, the positive trends in the collection of gross VAT have continued, which have been ongoing as of February 2021. It can be noticed that monthly growth rates are still very high, but, despite the downward trend, they are far above the projections of consumption growth. In March 2022, the collection of gross VAT increased by 23.4% compared to the collection in March 2021 (Chart 7).

The analysis of the structure of gross VAT indicates that the growth of gross collection was mainly the result of the growth of VAT on imports. Positive trends in the collection of VAT on imports have been ongoing since February 2021. In March 2022, a growth rate of 34.7% was achieved (Chart 8, left side).

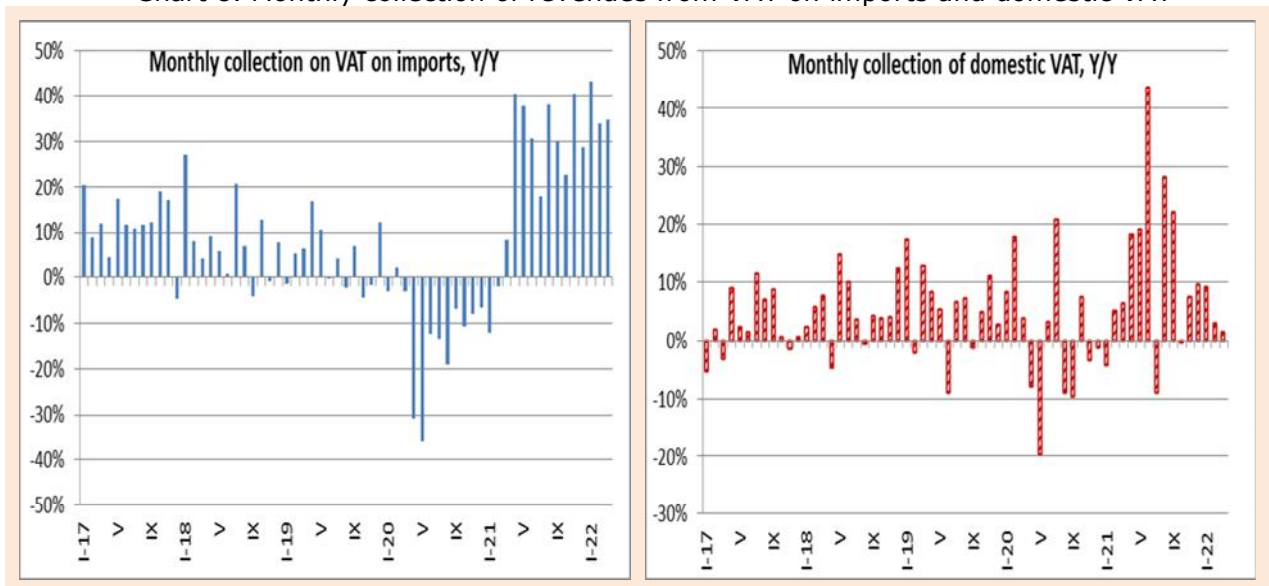
¹⁰ According to the data of the Agency for Statistics of B&H, in the first two months of 2022, imports from the EU grew at a rate of 30.1%, and from third countries as much as 78%.

Chart 7. Trends in gross VAT collection, YoY



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

Chart 8. Monthly collection of revenues from VAT on imports and domestic VAT

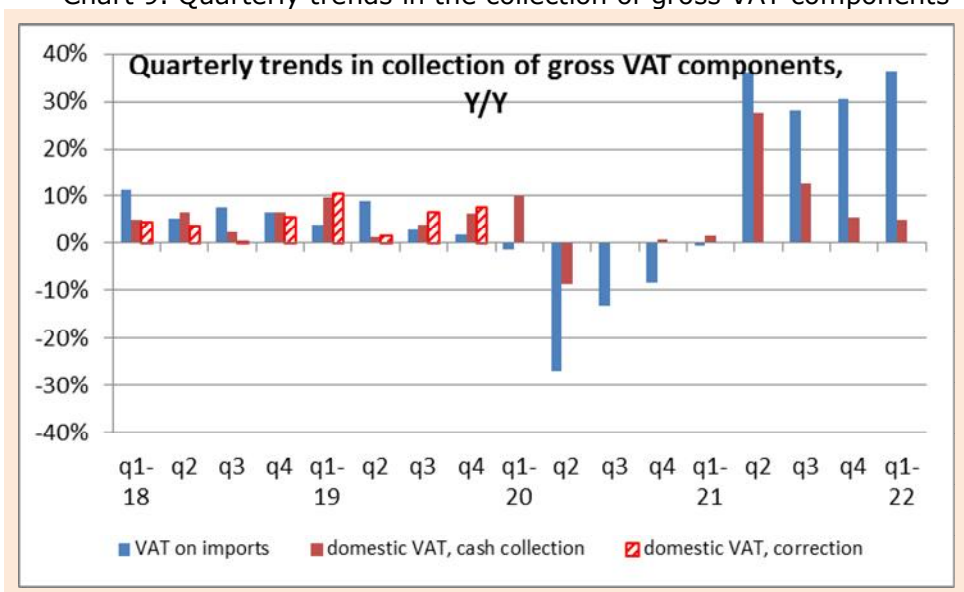


Source: Indirect Taxation Authority of B&H, calculation of the MAU

In contrast to trends in the collection of VAT on imports, the domestic VAT collection recorded more modest growth rates in the last six months, especially in February and March 2022, when growth rates of 3.1% and 1.6% were achieved, respectively (Chart 8, right side). In the first quarter of 2022, the collection of VAT on imports increased by 36.4%, and domestic VAT by 5.1% (Chart 9). An overview of quarterly trends in the collection of gross VAT components shows a growing trend in VAT on imports, which was expected given the increase in imports, which has been further stimulated by rising prices on the world market. In contrast, domestic VAT collection shows a downward trend in quarterly growth rates, which may be result of falling private consumption due to reduced purchasing power in the conditions of rising inflation that is not accompanied by increase in wages, but also due to increased VAT refunds to importers. Indeed, it

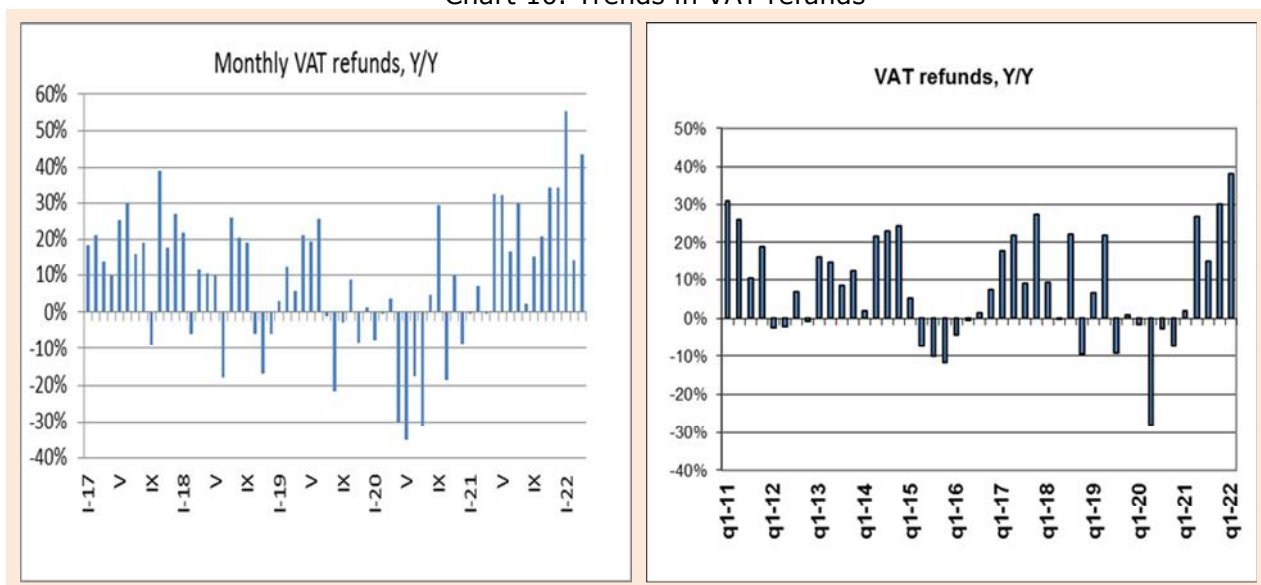
is possible that, fearing the continuation of rising prices on the world market and shortages of goods, larger quantities of goods are being imported, that cannot be absorbed by the B&H market in the short term. Since 45 million BAM of non-adjusted revenues were recorded in March, bearing in mind that the majority of non-adjusted revenues regularly refer to VAT payments, a higher growth rate of domestic VAT can be expected in the final adjustment of revenues in March 2022, thus and an increase in the growth rate in the first quarter of 2022. Since 45 million BAM of non-adjusted revenues were recorded in March, bearing in mind that the majority of non-adjusted revenues regularly refer to VAT payments, after final adjustment of revenues, a higher growth rate of domestic VAT can be expected in March 2022 and thus in the first quarter of 2022.

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



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

Chart 10. Trends in VAT refunds



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

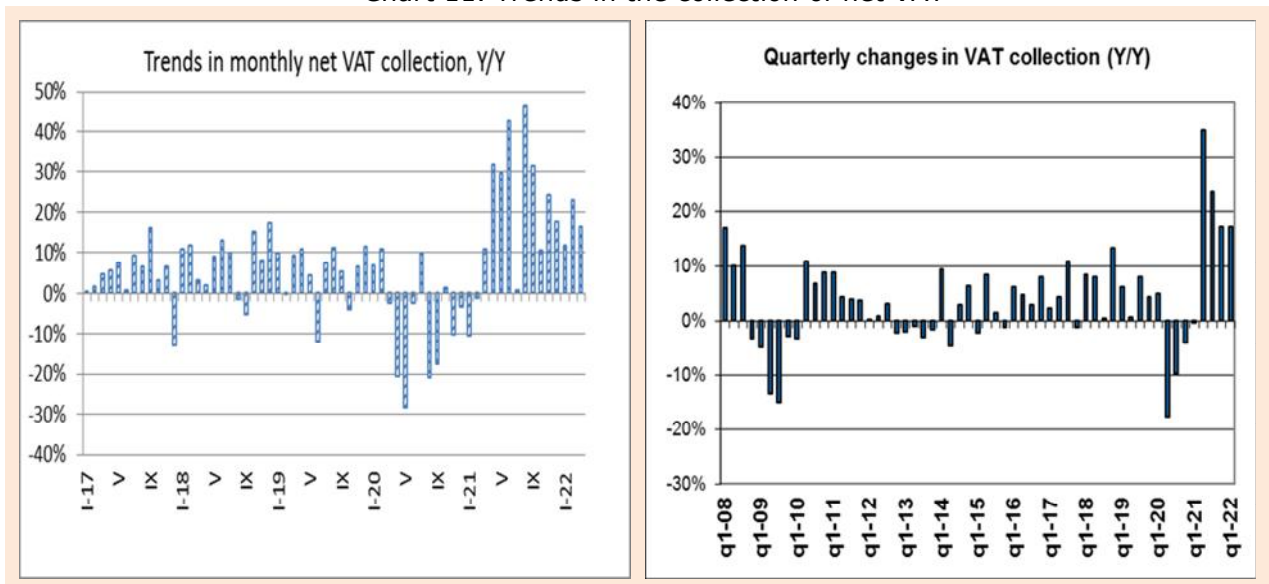
VAT refund payments in March 2022 were as much as 43.4% higher than in the same month in 2021 (Chart 10, left view). In the first quarter of 2022, refund payments increased by 38.1% (Chart 10, right side).

In the first quarter of 2022, VAT refund payments to taxpayers were higher by 158.3 million BAM than in the same period in 2021, while refunds payments to international projects were lower by 23.7 million BAM. It should be emphasized that, for the first time in the analysis of VAT refunds, there were refunds paid to foreign taxpayers.¹¹

Due to the strong growth of refunds, the share of cumulative VAT refunds in the cumulative gross VAT in the first quarter of 2022 was 29.6%, which is 3.3 percentage points above the share in the same period in 2021. The high share of refunds in the gross VAT collection in the first quarter resulted from strong growth of exports and imports in the last two months of 2021 and in the first two months of 2022.¹²

High growth in refund payments reduced the net effects in VAT collection only to a lesser extent, as high gross collection was achieved at the same time. In March, net VAT revenues grew by 16.3% (Chart 11, left side). At the level of the first quarter of 2022, a growth of 17.3% was achieved, which is identical to the growth rate in the fourth quarter of 2021 (Chart 11, right side). Considering that 45 million BAM of non-adjusted revenues were recorded in March, significantly higher monthly (March) and cumulative growth rates (the first quarter of 2022) of net VAT can be expected, because most of the non-adjusted revenues regularly refer to VAT payments.

Chart 11. Trends in the collection of net VAT



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

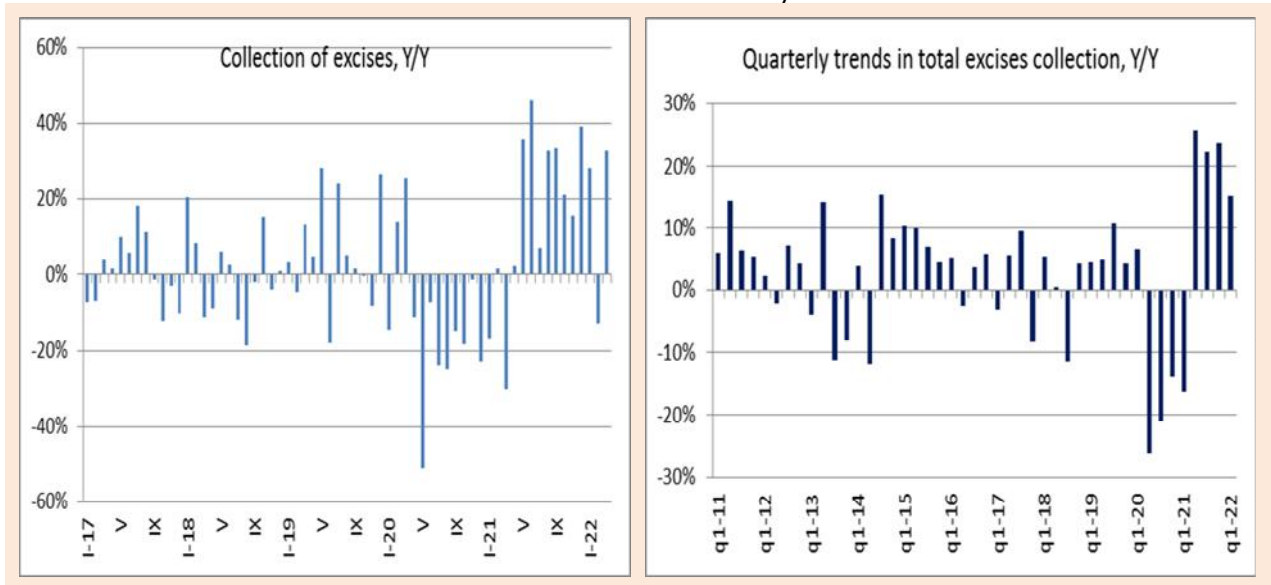
¹¹This comes from the implementation of amendments to the Book of Rules on the Implementation of the Law on Value Added Tax, in force as of December 2020, which, after several years of delay in the application of the Law on VAT, defined the rules for payment of refunds to foreign VAT payers for activities on the B&H territory, in accordance with the Thirteenth VAT Directive and the practice of EU members.

¹² In accordance with the provisions of the Law on VAT, refunds to predominant exporters are paid within 30 days of submitting the VAT return for the month in which the export took place, and other exporters and importers are refunded within 60 days of submitting the VAT return for the month in which the import / export was performed.

Excise taxes and road fees

Excise duty collection has fluctuated strongly in the first quarter of 2022. High growth rates were achieved in January and March, while a significant decline was recorded in February (Chart 12, left side). At the quarterly level, growth was 15.2%. However, the oscillations in the collection did not jeopardize the positive trend in the collection of excise duties, which has been ongoing for four quarters (Chart 12, right side).

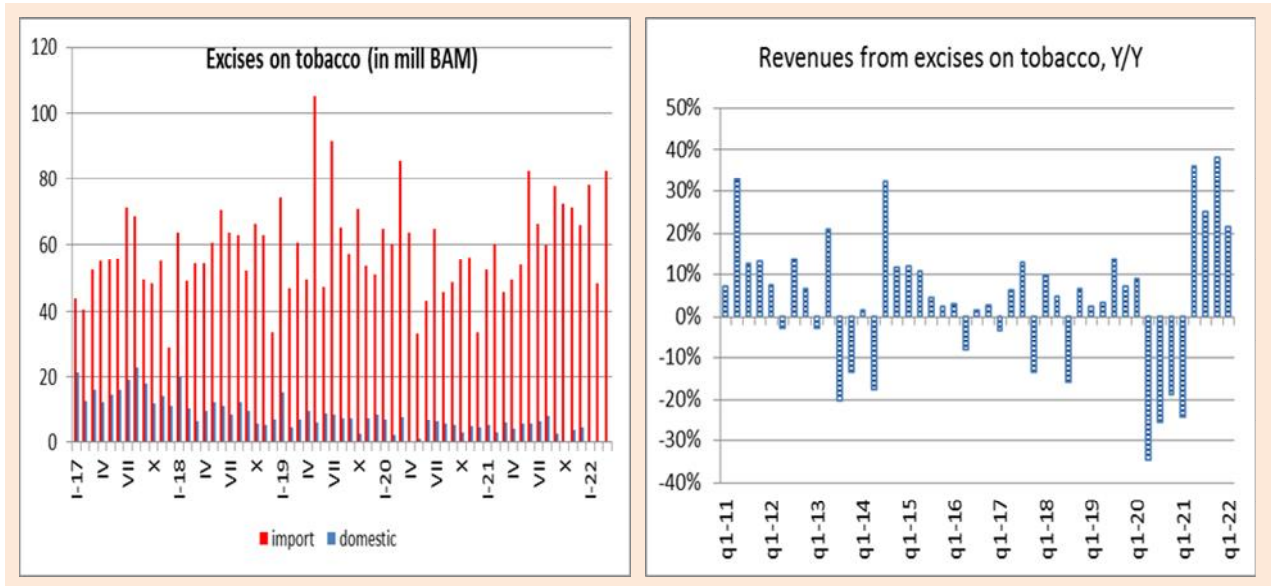
Chart 12. Trends in excise duty collection



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

Excises on tobacco products and excises on oil derivatives dominate in the structure of excise revenues. Oscillations in the collection of excise duties in the first quarter resulted from oscillations in collection of excise duties on tobacco products, which recorded high growth rates in January and March (as much as 60.6%) and decline in February 2022 (Chart 13, left). There has been a big change in the market of tobacco products in B&H in the first quarter of 2022, as the domestic tobacco industry was shut down after four years of rapid decline in production. This has also been reflected in the analytics of excise revenues, in which there are currently only excises on imported tobacco products (see Chart 13, left side, “domestic”).

Chart 13. Trends in the collection of excise duties on tobacco



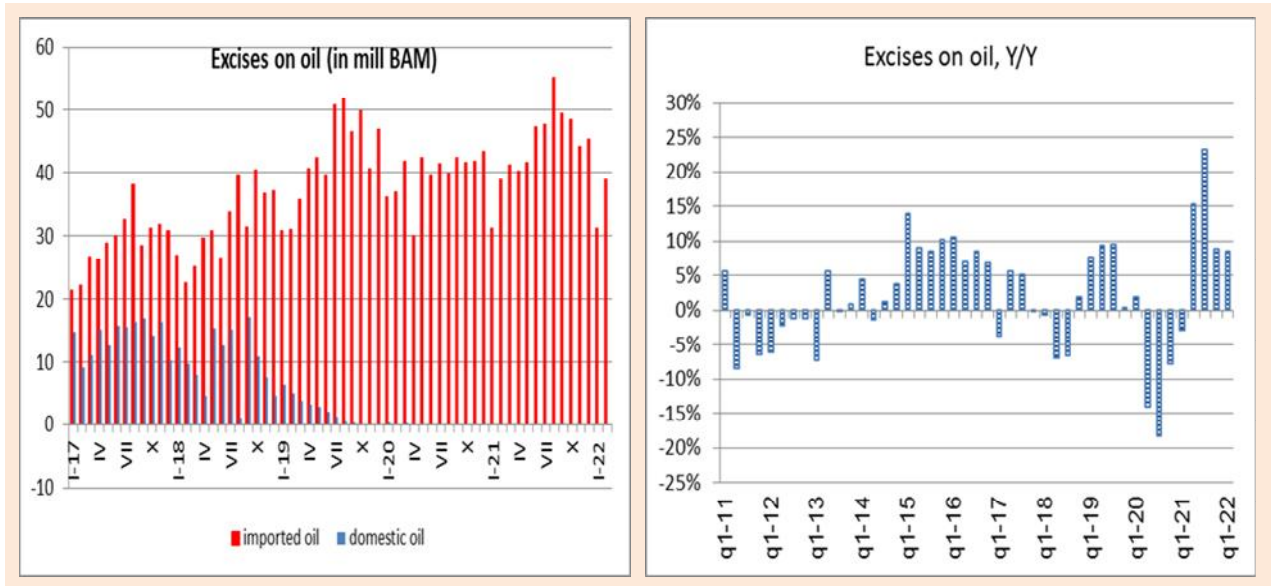
Source: Indirect Taxation Authority of B&H, calculation of the MAU

After shutdown of a large domestic producer on the B&H market, only three foreign tobacco companies have remained. Collection of excises in the short term is unpredictable because it is related to the business policies of the three companies, and basically has no direct link to consumption, as in the case of other excise products, because excise stamps are taken at least a month and a half before cigarettes are placed on the market. Despite monthly fluctuations in collection, growth of 21.3% was achieved in the first quarter, thus continuing the series of high growth rates from the previous three quarters (Chart 13, right side).

An important factor in the growth of excise duty collection in the first quarter was the stable price policy of tobacco companies. They did not increase prices this year, as was the case in the previous two years when they sought to compensate for losses caused by declining sales through price increases, even when the excise policy remained unchanged.¹³ A stable price policy provides a focus on economies of scale, resulting in greater capacity utilization, business profitability and profit growth. In addition to prices that are competitive in relation to EU member states, the growth in sales of tobacco products in the first quarter of 2022 was also contributed by the consumption of non-residents (diaspora, tourists, transit passengers, residents of the border area), which has increased due to mild epidemiological measures in neighbouring countries and EU member states. The return of non-residents after holidays to their countries of residence, the end of the holidays and the ski season in B&H have, as expected, led to a decrease in demand for tobacco products. Tobacco companies reacted to this with requests for the issuance of smaller quantities of excise stamps on which excise duties are paid, which resulted in a drop in the collection of excise duties in February. However, orders for excise stamps have already increased in March due to expectations of non-residents' consumption growth during the upcoming religious and state holidays in April and May, bringing a positive effect on excise duty collection in the first quarter of 2022.

¹³ The last increase in the specific excise tax on cigarettes was in 2019.

Chart 14. Trends in the collection of excise duties on oil derivatives

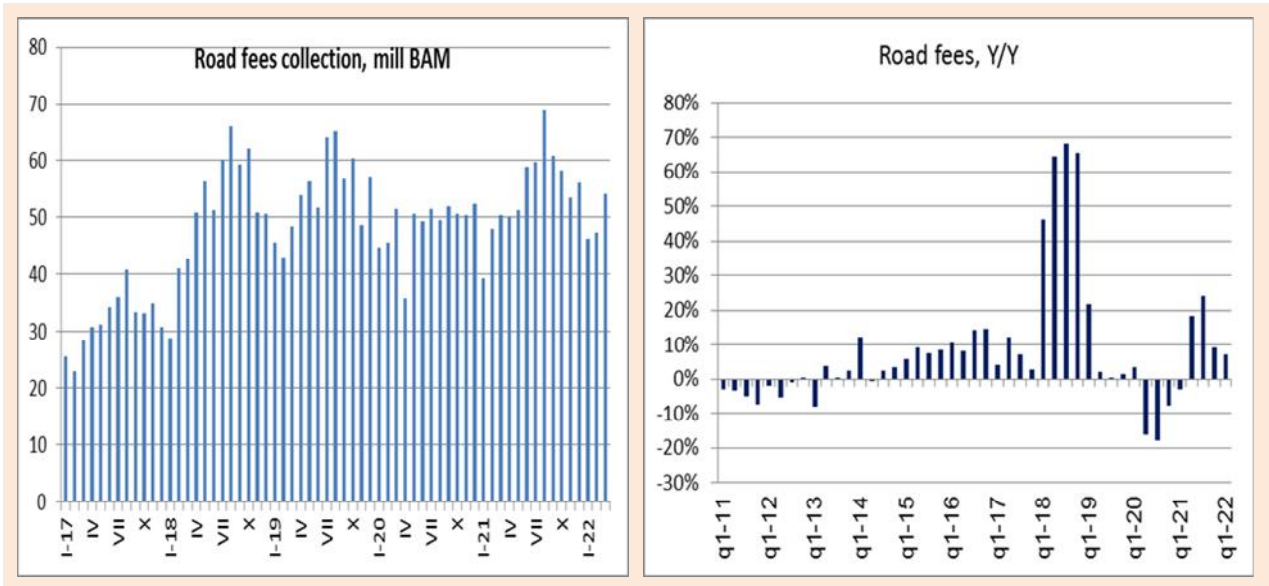


Source: Indirect Taxation Authority of B&H, calculation of the MAU

In the first quarter, oscillations in the collection of excises on oil derivatives were also recorded, but due to a lower weight in the structure, they did not determine oscillations in the collection of total excises, as in the case of excises on tobacco products. After a strong increase in revenues from excise duties on oil derivatives in January 2022 of 20.9%, a growth of only 0.2% was achieved in February. Collection increased by 7% in March (Chart 14, left side). Collection of excise duties on oil derivatives has been in a positive growth zone for four consecutive quarters. The growth rate of 8.5% achieved in the first quarter of 2022 was at the same level of growth achieved in the fourth quarter of 2021 (Chart 14, right side). The slowdown in the growth of revenues from excises on oil derivatives after winter holidays was expected, as in the case of excises on tobacco products, due to reduced consumption by non-residents. However, due to the price and tax competitiveness of oil derivatives in B&H, thanks to lower rates of excises and VAT, there is still an incentive for higher demand from non-residents living in border areas and people in transit. On the other hand, contractions in domestic consumption of oil derivatives have been expected due to the strong growth in retail prices because of disturbances in the world market caused by the war in Ukraine and the political crisis of global proportions.

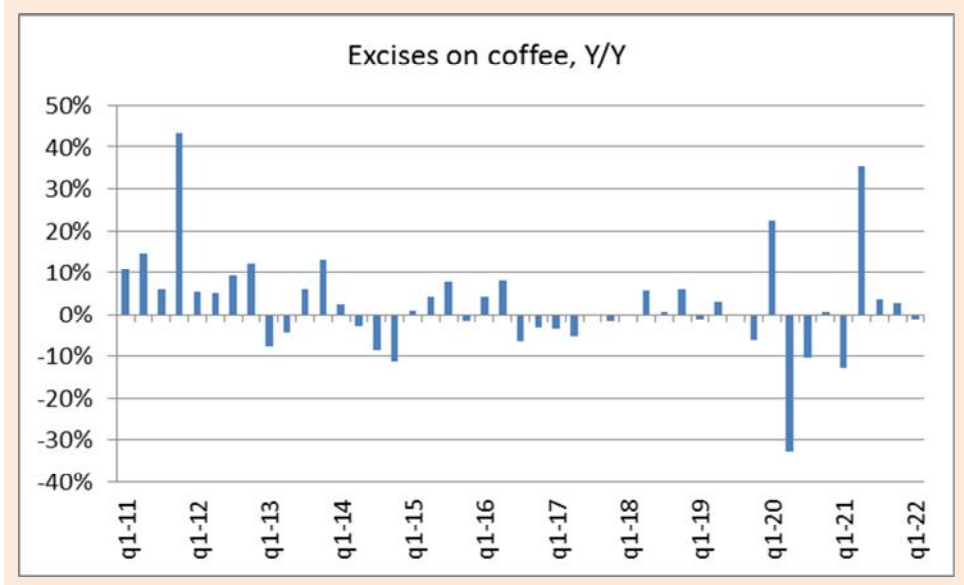
Collection of road fee revenues follows the collection of excises on oil derivatives, with certain differences arising from the different bases for the calculation and payment of road fee and excise duties on oil derivatives. Compared to excises on oil derivatives, the growth rate of road fee revenues was slightly lower, in February even negative (Chart 15, left side). At the level of the first quarter, the growth rate was 7.2% (Chart 15, right side).

Chart 15. Trends in road fee revenue collection



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

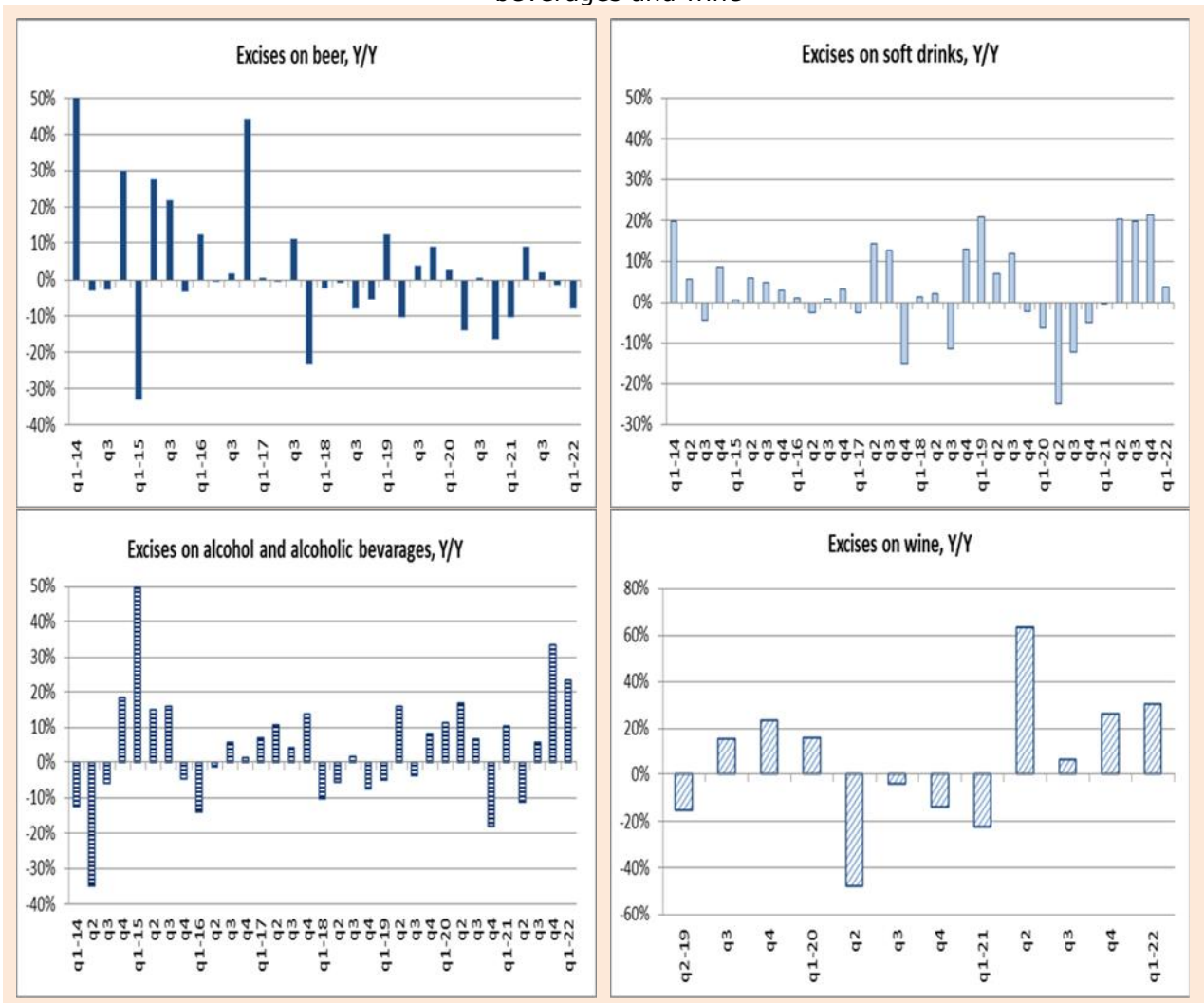
Chart 16. Trends in the collection of revenues from excise duties on coffee



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

Collection of revenues from excises on coffee has fluctuated strongly in recent years. However, in the last two quarters of 2021, modest growth rates were recorded, and in the first quarter a decline of 1.1% (Chart 16), which was surprising given the increase in consumption of other goods, especially by non-residents and, consequently, collection of excise on tobacco and oil derivatives.

Chart 17. Trends in collection of excises on beer, non-alcoholic beverages, alcohol and alcoholic beverages and wine



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

In the first quarter of 2022, revenues from excises on non-alcoholic beverages increased by 4%, excises on wine by 30.2% and excises on alcohol and alcoholic beverages by 23.3%, thus continuing positive trends from 2021 (Chart 17). On the other hand, negative trends in the collection of excises on beer have continued, with a decline in collection in the first quarter of 2022 of -7.8% (Chart 17). Collection of excises on imported beer was at the level of collection in the first quarter 2021, while collection of excises on domestic beer was lower by as much as 27.2%.

2. Projections of revenues from indirect taxes 2022-2025 (baseline scenario)

Revenue projections for the period 2022-2025 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. Baseline scenario of the projections of indirect tax revenues (2022-2025), April 2022

Type of revenue (net)	in million BAM					Projected growth rate			
	Realization	Projection							
	2021	2022	2023	2024	2025	2022	2023	2024	2025
VAT	4.429,9	4.915,3	5.069,4	5.214,8	5.365,6	11,0%	3,1%	2,9%	2,9%
Excises	1.475,9	1.565,7	1.605,9	1.641,9	1.681,4	6,1%	2,6%	2,2%	2,4%
Customs	324,4	363,5	389,3	412,7	441,2	12,0%	7,1%	6,0%	6,9%
Road fee	655,0	669,0	689,8	710,5	734,6	2,1%	3,1%	3,0%	3,4%
Other	34,1	36,9	36,9	36,9	36,9	8,3%	0,0%	0,0%	0,0%
TOTAL	6.919,3	7.550,4	7.791,2	8.016,7	8.259,7	9,1%	3,2%	2,9%	3,0%
Earmarked road fee *)	-409,1	-418,1	-431,1	-444,0	-459,2	2,2%	3,1%	3,0%	3,4%
FUNDS FOR DISTRIBUTION	6.510,3	7.132,3	7.360,1	7.572,7	7.800,5	9,6%	3,2%	2,9%	3,0%

Note:

*) Until February 1, 2018, the earmarked road fee amounted to 0.10 BAM per liter of oil derivative, intended entirely for the construction of highways. As of February 1, 2018 it amounts to 0.25 BAM per liter of oil derivative (0.20 BAM/l for the construction of highways and 0.05 BAM/l for the construction and reconstruction of other roads).

Table 4. Baseline scenario of the projections of indirect tax revenues (in % of GDP), April 2022

Type of revenue (net)	in % of GDP				
	Realization	Projection			
	2021	2022	2023	2024	2025
VAT	11,8%	12,4%	12,3%	12,0%	11,8%
Excises	3,9%	4,0%	3,9%	3,8%	3,7%
Customs	0,9%	0,9%	0,9%	1,0%	1,0%
Road fee	1,7%	1,7%	1,7%	1,6%	1,6%
Other	0,1%	0,1%	0,1%	0,1%	0,1%
TOTAL	18,4%	19,1%	18,8%	18,5%	18,2%
Earmarked road tax *)	-1,1%	-1,1%	-1,0%	-1,0%	-1,0%
FUNDS FOR DISTRIBUTION	17,3%	18,0%	17,8%	17,5%	17,1%

Source of data for GDP: BHAS, February 2022 and DEP's projections, March 2022.

2.1. Projections for 2022

Preparation of revenue projections for 2022 cannot rely on seasonal revenue collection scheme from 2020 and 2021, as they dropped from all previous seasonal patterns due to the effects of coronavirus. The seasonal scheme was undermined for all revenues with a pronounced seasonal component (domestic VAT, VAT on imports, excise duties on non-alcoholic beverages, road fees and customs), and for total net revenues where the seasonal component is not so significant. The monthly dynamics of revenues in 2020 completely deviated from the so-called *pre-COVID-19* seasonal pattern. The range of monthly growth rates of net revenues (the difference between the

maximum and minimum value) was 44.2 percentage points. Although it has partly returned to the old pattern, the collection of net revenues from indirect taxes in 2021 was also quite different from the old seasonal scheme.¹⁴ The range of monthly growth rates of net indirect tax revenues was even higher in 2021 than in 2020 (54.1 percentage points), which was the result of: (1) disorders of the seasonal pattern in the base year 2020, and (2) characteristics of the seasonal pattern in 2021.

In the first quarter of 2022, net revenues from indirect taxes increased by 18.9% compared to the first quarter of 2021. According to the DEP's projections, nominal GDP growth of 5.4% in 2022 is expected. Bearing in mind that high revenue growth in the first quarter of 2022 was partly due to the specificity of the statistical base for comparison (low base in the first part of 2021 due to strict restrictive measures against coronavirus), and taking into account the huge unknowns regarding developments in Ukraine and the epidemiological situation in the country and the neighbouring area, **the projected growth rate of revenues from indirect taxes for 2022 amounts to 9.1%.**

2.1.1. VAT

Analysis of collection trends in the current year indicates a strong recovery in VAT revenues. Collection in the first quarter of 2022 was characterized by a very high growth rate of VAT revenues on imports, a stable growth rate of domestic VAT revenues and high refund payments (see section 1.3.2. Collection in the period January - March 2022). The projected amount of VAT revenues in 2022 is 4,915.3 million BAM, which is 11.0% more than the realization in 2021. The projection is based on the historical seasonal pattern of collection of certain categories of VAT (which does not include specifics in the previous two years), and trends and projections of macroeconomic indicators.

2.1.2. Excises and road fees

Projected amount of total net revenues from excises in 2022 is 1,565.7 million BAM, which is 6.1% more than in 2021.

Projected amount of net revenues from road fees in 2022 is 669.0 million BAM, which is 2.1% more than in 2021. The projection is based on current collection trends, the historical seasonal collection pattern (which does not include data for years with specifics), forecasts of macroeconomic indicators (DEP, March 2022), price dynamics of oil derivatives and estimates of price elasticity of demand for oil derivatives in B&H (MAU).

Revenues from excises on oil derivatives

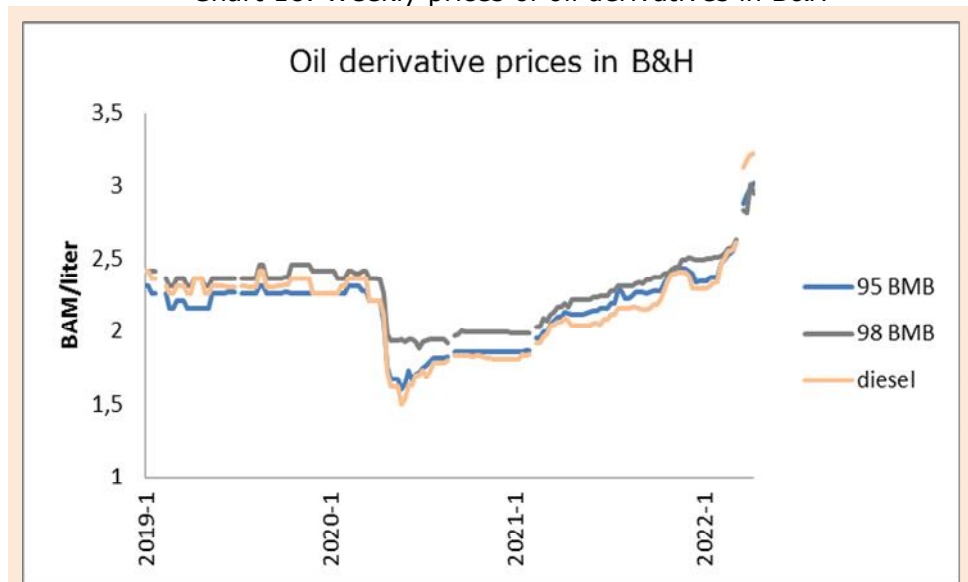
In 2021, the total consumption of oil derivatives increased by 12.2% compared to 2020. The growth of consumption of diesel fuel and gasoline was approximately at the same level, 12.5% and 12.8% respectively. Consumption of heating oil and liquefied petroleum gas, on the other hand, fell by 4.3% and 9.6%, respectively. Due to the extremely low base in 2020 the consumption of kerosene increased by a huge 145.4%. Due to the part of the lost consumption in 2020, because of the effects of coronavirus, that year cannot be a reference for comparison, so,

¹⁴ Regoje, A. (2022). "The impact of the coronavirus pandemic on the dynamics of collection of revenues from indirect taxes in 2020 and 2021"; OMA Bulletin No. 201-202, March / April 2022; www.oma.uino.gov.ba. In the analysis, after calculating seasonal indices based on data from the period 2010-2019, regression models were estimated and the coefficients of determination of seasonal indices and actual shares of monthly amounts of individual types of revenue in the corresponding period were calculated, in order to show how well the seasonal indices fit into the real shares in the observed period. Coefficient of determination of seasonal indices and actual shares of monthly amounts of total net revenues from indirect taxes in the period 2010-2019 amounted to 77.5%. In 2020, it amounted to only 0.6%, while in 2021 it increased to 65.3%.

except with 2020, the consumption in 2021 should be compared with 2019, as well. Compared to 2019, consumption in 2021 fell by 0.8%. In the case of diesel fuel, it increased by 2.8%, while consumption of other categories of derivatives decreased: gasoline by 8.7%, heating oil by 9.2%, kerosene by 29.7% and liquefied petroleum gas by 28.2%.

Weekly prices¹⁵ of diesel fuel and gasoline on the B&H market had a growing trend from the beginning to the end of 2021, and annual averages of weekly prices were below the 2019 average and above the 2020 average. The prices of oil derivatives on the B&H market fell sharply in April and May 2020, as a result of the coronavirus pandemic (Chart 18). In the 21st week of 2020, the price of diesel fuel was only 1.5 BAM/l, while the price of BMB-95 fuel was 1.6 BAM /l. From the 22nd week of 2020 (end of May), the prices of derivatives have recorded a steady upward trend. The events in Ukraine influenced the intensification of the price growth trend, so that, according to the latest available published data, in the 15th week of 2022, diesel fuel prices increased by 40.3%, and BMB-95 fuel prices by 28.2% compared to the 1st week of 2022, reaching high levels of 3.2 BAM/ l and 3.0 BAM/ l, respectively.

Chart 18. Weekly prices of oil derivatives in B&H



Source: Presentation of the MAU based on data from the International Road Transport Union, taken from the website of the Foreign Trade Chamber of B&H, <https://www.komorabih.ba/>

Taking into account all the above (trends in consumption and prices of oil derivatives), as well as forecasts of macroeconomic indicators (DEP, March 2022), and estimates of price elasticity of demand for oil derivatives in B&H (MAU), the projection of net revenues from excises on oil derivatives in 2022 amounts to 533.4 million BAM, which is 1.7% more than in 2021.

Revenues from excises on tobacco

The starting point for the projections of excise revenues on tobacco products for 2022 are trends in the tobacco products market and collection of excise revenues in 2021 and current trends in the first quarter of 2022. According to available data on issued excise stamps for the first two months of 2022, average weighted average cigarette prices were 2.1% lower than the weighted average

¹⁵ The Foreign Trade Chamber of B&H publishes on its website weekly prices of oil derivatives on the B&H market (data from the *International Road Transport Union*). Source: <https://www.komorabih.ba/>

price of imported cigarettes in 2021¹⁶, which was a surprise given the general upward trend in prices of goods and services caused by the global energy market disruption and the war in Ukraine. Apparently, tobacco companies made an unexpected turn in their policy on the B&H market, and, pursuing a policy of economies of scale, with lower prices, they achieved growth in cigarette sales in the winter season. It should be emphasized that a lower weighted average price of cigarettes can be achieved without reducing prices of individual brands of cigarettes, by varying the structure of cigarette sales by greater supply of cheaper cigarettes. However, given the uncertain political situation and problems in energy supply, minor upward adjustments in cigarette prices are possible, depending on the share of energy in the structure of cost price and transport costs from the production facilities / warehouses of importers to B&H. In 2022, restrictions on the consumption of non-residents are still present, although to a lesser extent. Restrictions are possible due to the continuation of the pandemic in the EU member states where the largest diaspora is from B&H, while the imposed restrictions on bringing tobacco products into Croatia and other EU member states are still in force. However, trends in the first quarter of 2022 indicate an increase in consumption of non-residents in all segments (diaspora, tourism, transit, cross-border consumption), which can significantly compensate for consumption that has been permanently lost due to the continuing trend of outflow of working-age population from B&H. In such circumstances, it is possible to recompose the structure of cigarette sales in favour of brands with higher retail prices, which may cause an increase in the weighted average price of cigarettes in the summer season. Given the described assumptions, the growth of cigarette sales and the value of the cigarette market are expected to exceed levels from the historical maximum in 2019. Economic crisis in the country, which has been worsening the living standards of citizens, may result in the substitution of cigarettes for cut tobacco, but this should not affect the collection of excises due to the low weight of excises on smoking tobacco in total excise revenues. Under these assumptions, the collection of excise duties on tobacco products is expected to increase by 9.2% in 2022.

2.1.3. Customs

According to data of the Agency for Statistics of B&H, in the period January-February 2022 import of goods in B&H increased by 44%. At the time of preparing the projections, ITA data were available, according to which imports grew by 41.3% in March, which kept the quarterly growth of imports at the high level of 43.2%. Having in mind trends in the collection of customs revenues and the projection of import growth (DEP, March 2022), the net collection of customs in the amount of 363.5 million BAM is projected for 2022, which is 12.0% more than in the previous year.

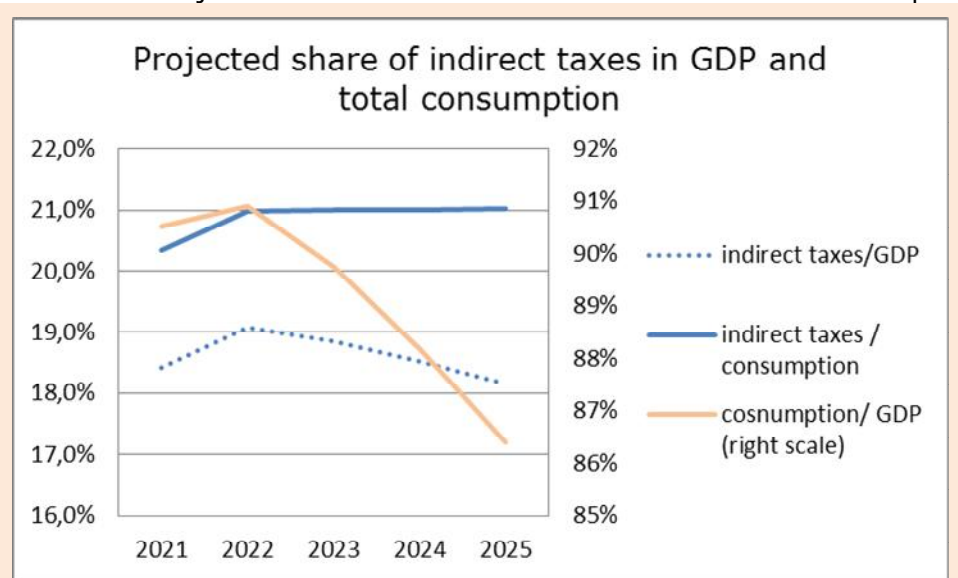
2.2. *Projections for the period 2023-2025*

The projected growth rates of net revenues from indirect taxes for 2023, 2024 and 2025 are 3.2%, 2.9%, and 3.0%, respectively. The projection of revenues in the mentioned period is based on the projected relevant macroeconomic indicators, the historical seasonal collection pattern and the projections of certain categories of revenues for 2022.

In contrast to the projected decline in indirect taxes in GDP in the period 2023-2025 (see Table 4, Section 2. Projections of indirect tax revenues 2022-2025), the projected share of indirect tax revenues (MAU) in consumption (DEP) during this period is stable at the level of 21%. The decline in the projected share of indirect taxes in GDP in the period 2022-2024 is a cumulative result of the stagnation of the projected share of indirect taxes in consumption and projected decline of consumption in GDP (Chart 19).

¹⁶ The prices of imported cigarettes in 2021 were taken for comparison, since the production of domestic cigarettes has been abolished as of 2022.

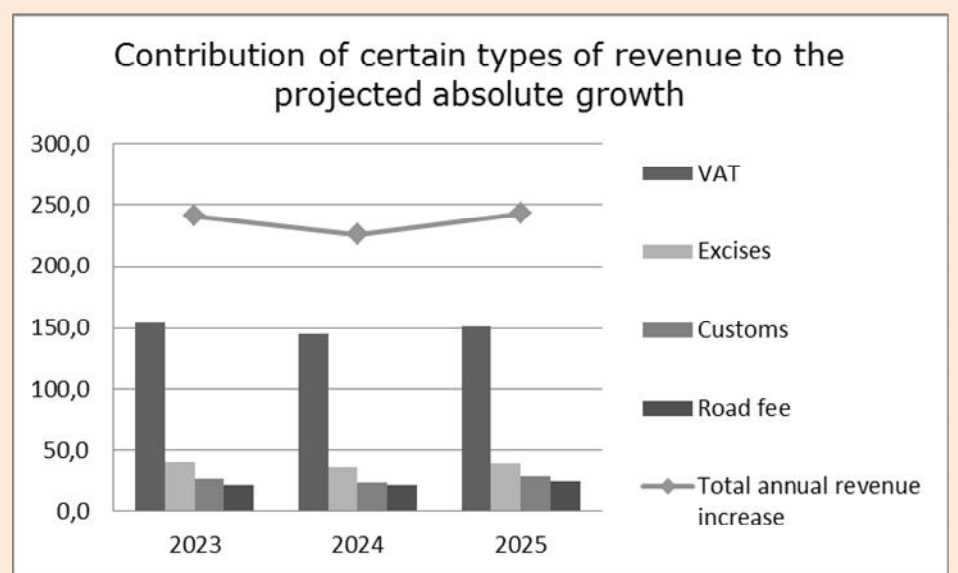
Chart 19. Projected share of indirect taxes in GDP and total consumption



Source: Presentation of the MAU based on projections of indirect tax revenues (MAU, April 2022) and projections of macroeconomic indicators (DEP, March 2022)

The largest generator of annual absolute growth of revenues from indirect taxes in this period is VAT, given its significant share in revenues and projected stable growth rates. After that, excises contribute the most to the absolute revenue growth. Revenues from road fee and customs contribute to absolute revenue growth at approximately the same level (Chart 20).

Chart 20. Contribution of certain types of revenue to the projected absolute growth

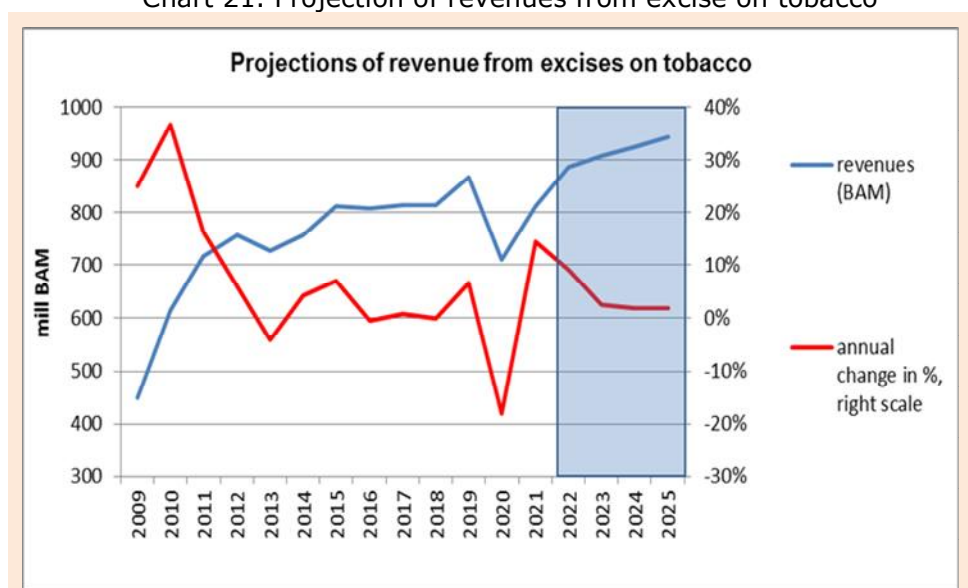


Source: Presentation of the MAU based on projections of indirect tax revenues (MAU, April 2022)

Due to uncertainty regarding the termination of external consumption restrictions (COVID-19 pandemic, political crisis and war in Ukraine), which could significantly change the structure of consumption in favour of essential goods and services in the conditions of realistically reduced

incomes due to rising inflation, the more modest growth in the collection of excise duties on tobacco products is expected in the period 2023-2025. In these circumstances, the positive fact is that the entire projection horizon implies an unchanged cigarette taxation policy. In the next years, tobacco companies are expected to continue with the policy of economies of scale and stable prices which, due to greater use of production capacity and lower costs per unit of measure, allows for growth in revenues from sales and profit.¹⁷ Due to the instability of energy prices on the world market, a slight increase in retail prices of cigarettes is possible, which will lead to an increase in the tax burden on smoking tobacco.¹⁸ The value of the tobacco products market in the next medium term will mainly reflect domestic cigarette consumption, but the outflow of the working-age population and entire families, whose cigarette consumption will be largely lost, remains a major risk factor. Further recovery of non-residents' consumption can be expected, especially in the case of diaspora and tourism, and the growth of cigarette consumption for non-resident customers in transit and cross-border area will largely depend on the regular supply of derivatives markets in B&H in the global energy crisis. Only quantitative restrictions on the supply of oil derivatives can limit B&H's competitiveness compared to neighbouring countries and the closest EU member states, due to the lowest retail prices of oil derivatives, and thus jeopardize the consumption of other goods, including cigarettes. In such uncertain circumstances, the value of the tobacco products market is expected to grow at lower rates compared to macroeconomic projections of consumption. Under the above assumptions, in 2023, 2024 and 2025, a more modest increase rates in revenues from excises on tobacco products of 2.5%, 1.9% and 1.9%, respectively, are expected.

Chart 21. Projection of revenues from excise on tobacco



Source: Presentation of the MAU based on projections of indirect tax revenues (MAU, April 2022)

¹⁷ To illustrate how important the internal economy is for the profitability of any business is the fact that after the shutdown of domestic tobacco production capacity, it is profitable for foreign companies to produce the former domestic cigarette brands in other countries despite incomparably higher transport costs, especially during the energy crisis, and costs of distribution, comparing to a symbolic transport costs of the local manufacturer.

¹⁸ The reason is the methodology for calculating the excise rate on smoking tobacco, which, according to the current Law, depends on the weighted average price of cigarettes.

3. Differences from previous projections of indirect tax revenues

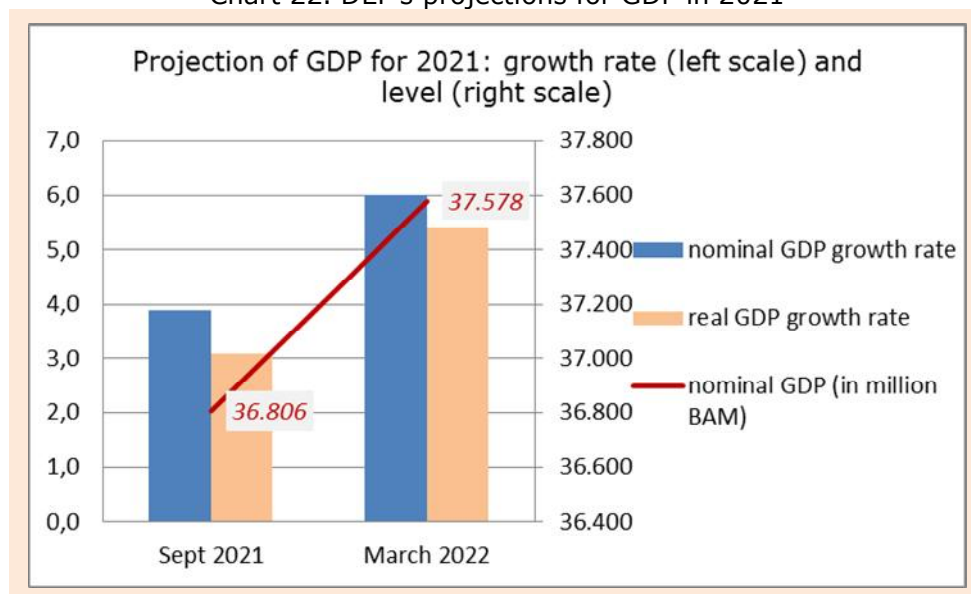
Projections of indirect tax revenues are closely related to the DEP's projections of GDP and its components. Any deviation of these parameters from the projected value represents the risk for revenue projection.

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

3.1.1. Revision of projections for 2021

Chart 22 shows the latest and previous projections of nominal GDP for 2021, as well as projected rates of nominal and real growth. It can be seen that all of the above has been revised upwards. The projection of nominal GDP was revised by 772 million BAM, while the projections of nominal and real growth rates were revised by 2.1 and 2.3 percentage points, respectively. At the same time, one should keep in mind the strong revision of the projections of nominal growth rate of imports by as much as 15.2 percentage points and exports by a high 18.8 percentage points (Chart 24).

Chart 22. DEP's projections for GDP in 2021

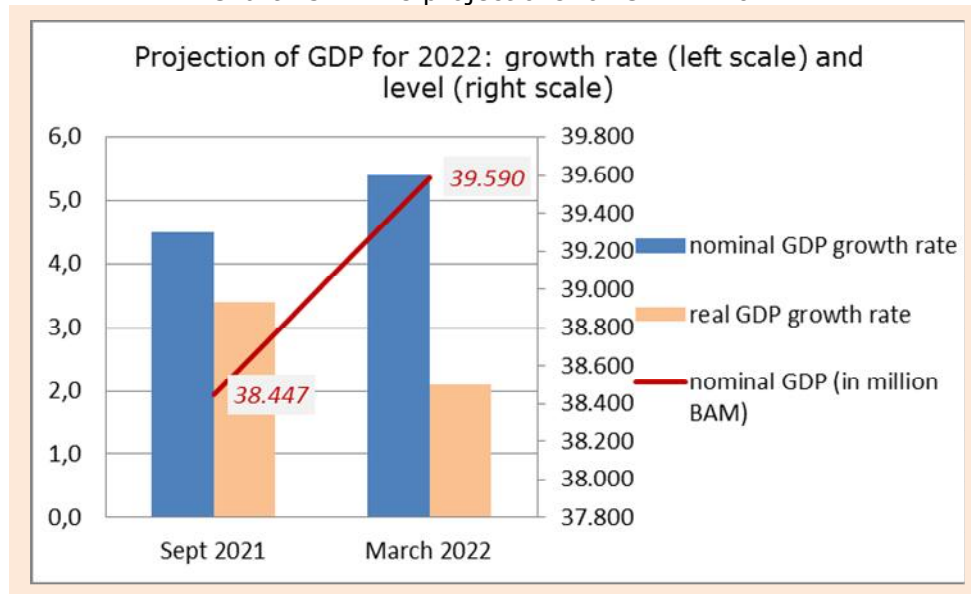


Source: Presentation of the MAU based on DEP's projections

3.1.2. Revision of projections for 2022

Projection of the nominal GDP level for 2022 was revised by +1,143 million BAM. The nominal GDP growth rate was revised by +0.9 percentage points, while the projection of the real GDP growth rate was revised by -1.3 percentage points (Chart 23). As in the case of 2021, projections of nominal of import and export growth rates for 2022 were strongly revised, by +12.2 percentage points and +11.9 percentage points (Chart 24).

Chart 23. DEP's projections for GDP in 2022

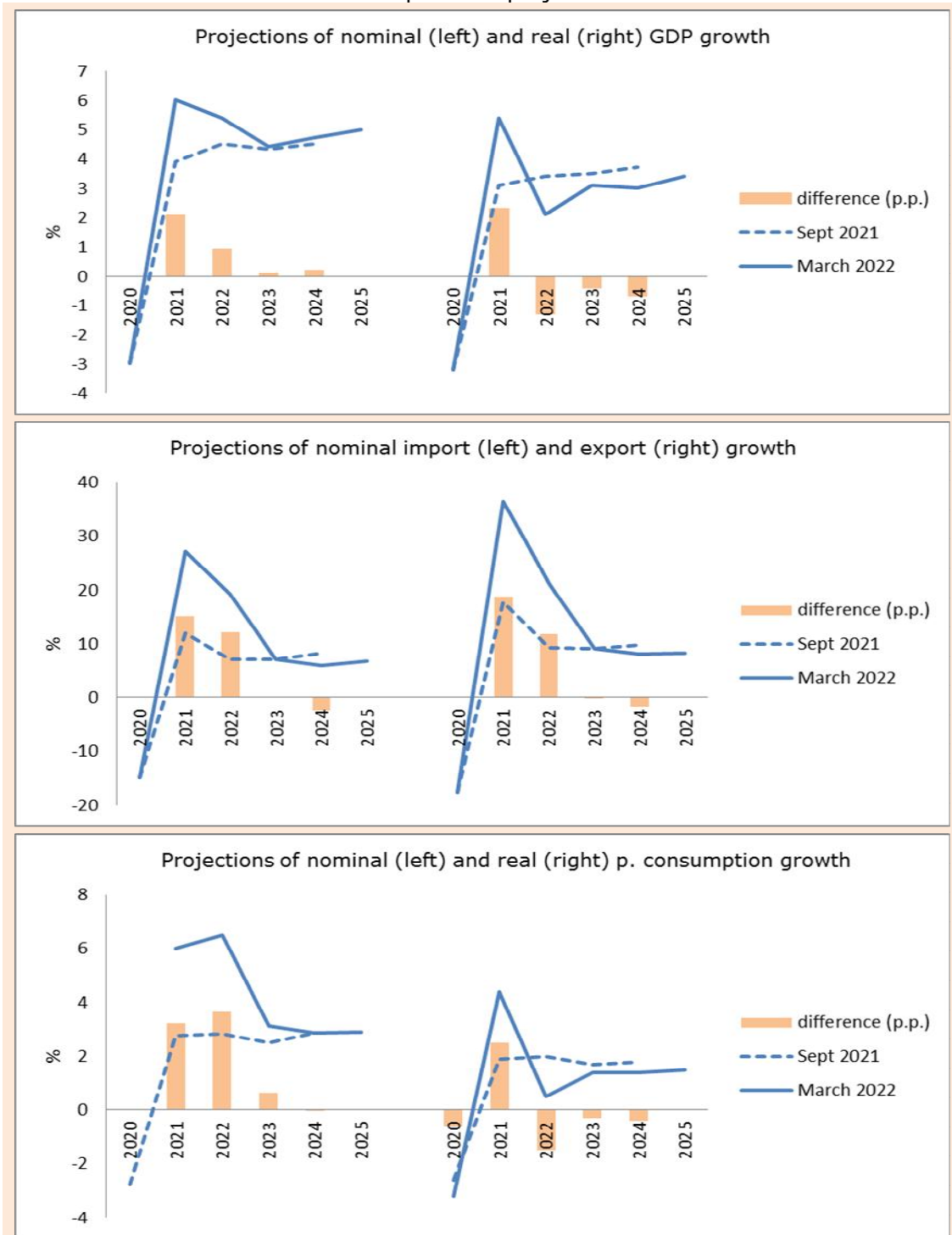


Source: Presentation of the MAU based on DEP's projections

3.1.3. Revision of projections for 2023 and 2024

Chart 24 shows the comparison of the projections of GDP and components for the period 2020-2025 with the projections from September 2021, from which the revision for 2023 and 2024 can be seen. The projections cannot be compared for 2025, as that year was not included in the DEP's projections from September 2021. Compared to the September 2021 projections, nominal GDP growth projections have been revised by only +0.1 and +0.2 percentage points for 2022 and 2023, respectively. Projections of real GDP growth for these years, on the other hand, were revised downwards by -0.4 and -0.7 percentage points. No high revisions were made in the growth rates of import and export for 2022 and 2023, as in the case for the previous two years (Chart 24).

Chart 24. DEP: recent and previous projections of national accounts



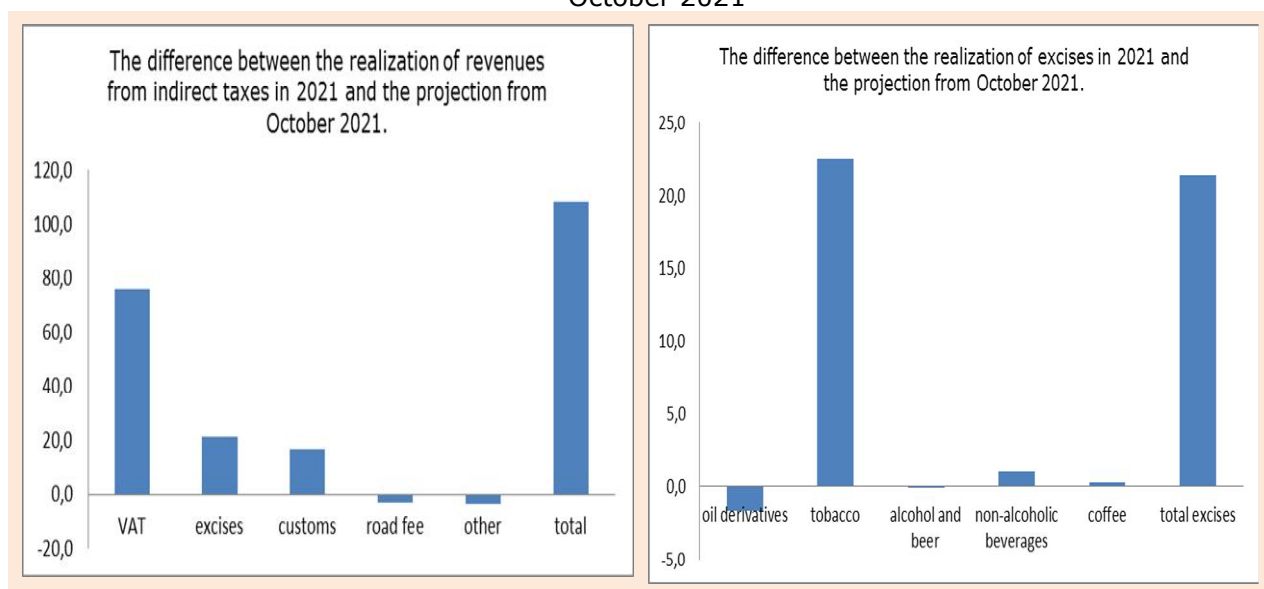
Source: Presentation of the MAU based on DEP's projections (March 2022 and September 2021)

3.2. MAU, revision of indirect tax revenue projections

3.2.1. Differences between the realization of revenues in 2021 and revised projections from October 2021

In 2021, 6,919.3 million BAM of net revenues from indirect taxes were collected, which is 108.5 million BAM more than the projection from October (6,810.9 million BAM). The projections were mostly exceeded on VAT revenues (76 million BAM), followed by excises (21.4 million BAM) and customs (17.2 million BAM). Regarding the revenues from excises, out of the total exceeded amount, 22.5 million BAM refers to excises on tobacco. Projections of revenues from excises on oil derivatives were realized in the amount that is 1.7 million BAM lower than the October projection. Projections of excises on non-alcoholic beverages were 1 million BAM higher, while other categories of excises were realized approximately at the level of the October projection. Realization of road fee revenues was 2.9 million BAM below the October projection (Chart 25).

Chart 25. Differences between the revenue realization in 2021 and revised projections from October 2021



Source: Presentation of the MAU based on its projections from October 2021 and the ITA data

According to the trade statistics of the Agency for Statistics of B&H, imports in B&H amounted to 21,596.9 million BAM, which is 27.9% more than in the previous year.¹⁹ The MAU's indirect tax revenue projections for October state the following: "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%." The projection of nominal growth in imports of goods and services in the DEP's document from September 2021, on which the October projections of revenues from indirect taxes were based, was only 12%. Although the MAU has projected revenues based on the current import trends and trends in related indirect tax revenues, import growth by the end of the year exceeded its growth at the level of then available data for nine months, not to mention the DEP's projection. Therefore, the excess of realized revenues from VAT in relation to the projections refers exclusively to revenues from VAT on imports, due to higher growth of imports at the level of the

¹⁹ B&H international trade in goods statistics, January-December 2021; January 20, 2022 www.bhas.gov.ba
Banja Luka: Bana Lazarevića, 78 000 Banja Luka, Tel/fax: +387 51 335 350, E-mail: oma@uino.gov.ba
Sarajevo: Zmaja od Bosne 47b, 71 000 Sarajevo, Tel:+387 33 246 081, Fax:+387 33 246 080, Web: www.oma.uino.gov.ba

year than for the nine months of 2021. The same factor has caused the excess revenues from customs compared to October projections.

The small shortfall in revenues from excises on oil and oil derivatives and road fee (together -4.5 million BAM) was the result of slightly lower consumption of derivatives than indicated by seasonal indices. Slightly lower consumption of derivatives than expected was probably caused by the growth of prices of derivatives on the B&H market in the last quarter of 2021.

The higher collection of revenues from excise duties on tobacco products in 2021 compared to the revised projections from October 2021 was the result of a change in the large tobacco companies' strategies on the market. Instead of focusing on pricing policy, which have been resulting in the increase of cigarette retail prices (even in years when there was no increase in excise duties) and a consequent decline in sales and excises revenues, in 2021 tobacco companies shifted to economies of scale. Such a shift, along with stable retail prices of cigarettes, has brought growth in sales, and thus in revenues from excises on tobacco products. The positive trend in the collection of excises on tobacco products in the fourth quarter of 2021 was significantly contributed by the policy of mild *anti-covid* measures in B&H, as opposed to stricter measures in EU member states, which made B&H a serious competitor in winter tourism. The increased growth in the collection of excises on tobacco products was partly a result of the shift in revenues from 2022 to 2021. Due to the specific method of paying excise duties at the time of takeover excise stamps²⁰, and not at the time of import or placing in the market, part of the excise revenues related to the consumption of non-residents at the beginning of 2022 (holidays, ski season) was collected in 2021.

3.2.2. Differences in revenue projections for 2022-2024 compared to the revised October 2021 projections

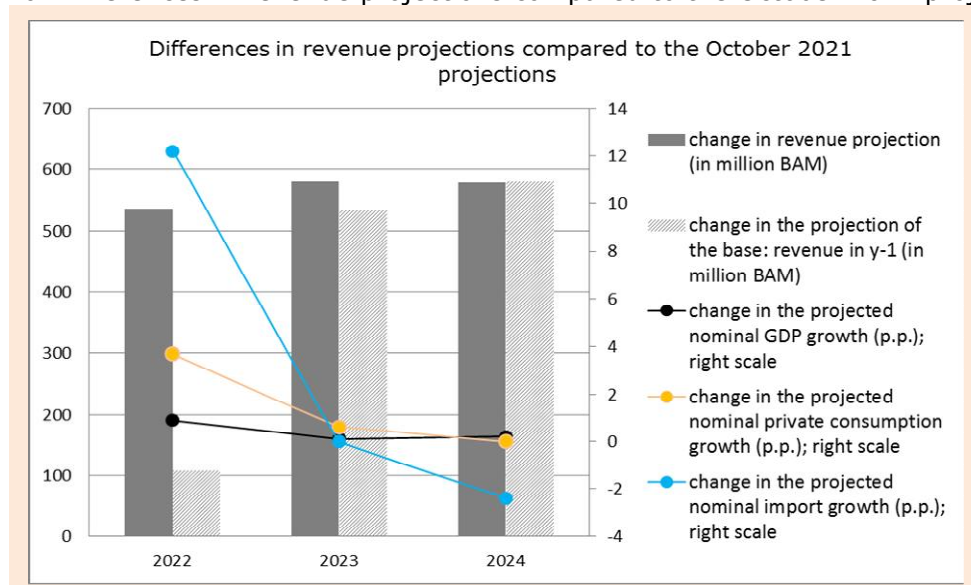
Compared to the revised projections from October 2021, revenue projections for 2022, 2023 and 2024 were revised by +534.9 million BAM, +579.8 million BAM and +578.5 million BAM, respectively.

The revision was the cumulative result of base change (realization or projection of revenues for the previous year: $y-1$), and the revision of growth rates of macroeconomic indicators for the current year (Chart 26).

Based on the presentation from Chart 26, it can be concluded that the revision for 2022 stems from a change in the base (+108.5 million BAM, see Section 3.2.1. *Differences between the realization of revenues in 2021 and revised projections from October 2021*), and from high upward revisions of the projections of macroeconomic indicators (GDP, imports, consumption; right scale of the Chart 26). On the other hand, revision of the projections for 2023 and 2024 mainly stems from the change in the base (revenue projections for the year $y-1$, i.e. for 2022 and 2023), while the revision of the projections of macroeconomic indicators was negligible or even negative (import growth projections for 2024).

²⁰ After the excise stamps in B&H are taken over, it takes at least a month and a half to export, produce cigarettes and import them into the country.

Chart 26. Differences in revenue projections compared to the October 2021 projections



Source: Presentation of the MAU based on its revenue projections and projections of macroeconomic indicators (DEP)

Differences in projections of revenues from tobacco products in the period 2022-2024, in addition to the upward revision of macroeconomic projections of consumption, were also a consequence of policies of better use of the internal economy by tobacco companies, resulting in stable retail prices and growth in cigarette sales, and therefore in excise revenues.

4. Risks

Considering the huge unknowns at the time of preparing the projections about the severity and duration of the shock caused by the coronavirus 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 2022-2025 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 grey 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 March 2022 DEP projections state 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 same document states the following: "... after the stabilization of epidemic conditions related to Covid 19, in early 2022 there was an escalation of the conflict between Ukraine and Russia, which will undoubtedly have negative economic consequences for the global economy and thus for Bosnia and Herzegovina. Further escalation of the Ukrainian crisis, as well as strengthening inflationary pressures both globally and in Bosnia and

*Herzegovina would certainly have a negative impact on consumption, investment, foreign trade and thus on the economic growth projections in the baseline scenario."*²¹

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

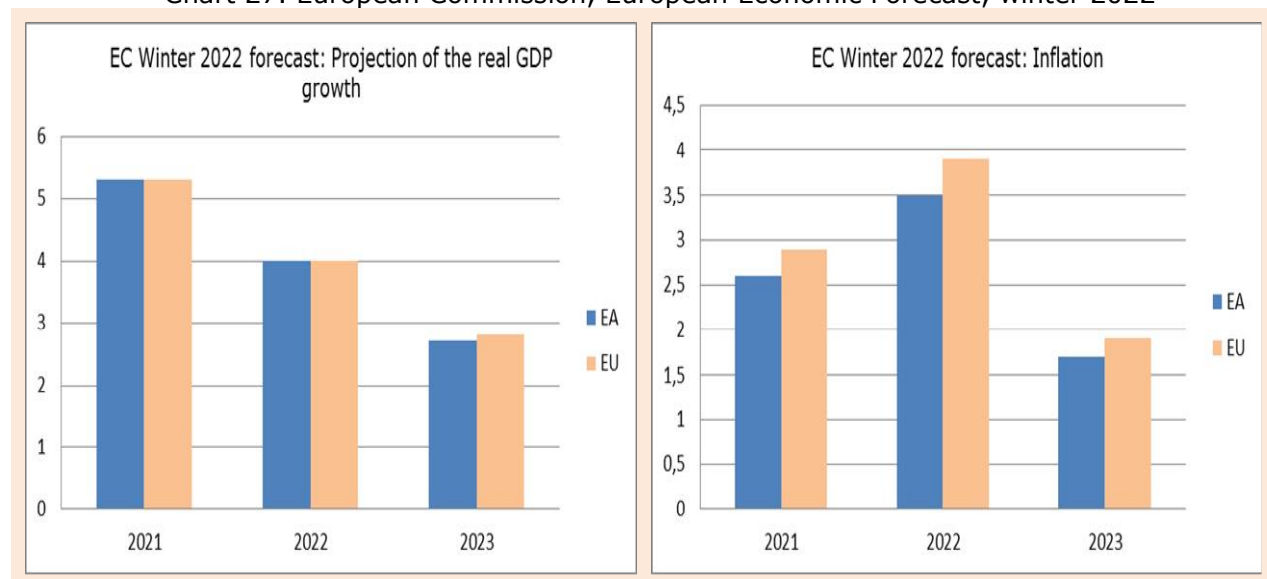
- The weakening of the measures to combat black market of tobacco products after completion of the harmonization of tax burden on cigarettes in B&H with the EU standards;
- Weakening of the fight against VAT fraud, especially in the field of refunds, which, in a situation of falling employment and illiquidity of taxpayers become attractive for fraud;
- Proposed changes in the policy of indirect taxation, such as: differentiated VAT rates, temporary abolition of excise duties on oil derivatives, change in the regime of payment of excises on imported tobacco products. These changes in legislation could lead to a significant decline in indirect tax revenues.

Annex I: Latest projections of international institutions

i. Projections of the European Commission (EC)

Chart 27 shows the latest, winter, projections of the EC (February 2022) of the real GDP growth and inflation for the period 2021-2023. The EC document state that, after a strong recovery of 5.3% in 2021, the EU and Eurozone economies are projected to grow by 4.0% in 2022, while 2.8% growth is expected in the EU in 2023 and 2.7% in the Eurozone.²² It should be borne in mind the time of preparing these projections, i.e. not taking into account the latest developments in Ukraine.

Chart 27. European Commission, European Economic Forecast, winter 2022



Source: Presentation of the MAU based on the European Commission projections

ii. Projections of the International Monetary Fund (IMF)

The latest IMF projections are from January 2022.²³ According to the projections, the growth in the Eurozone was at the level of 5.2% in 2021, while an increase of 3.9% is projected for 2022.

²¹ DEP, Macroeconomic Projections 2023-2025, March 2022, p. 6

²² European Commission. (2022). 'European Economic Forecast Winter 2022'. Institutional Paper 169, February 2022.

²³ IMF, World Economic Outlook, January 2022.

The estimated realized growth rate of the world economy in 2021 is 5.9%, while the projected growth for 2022 amounts to 4.4%. It should be noted that the January projections did not take into account the latest events in Ukraine, and the IMF announces on its website the publication of new, April projections, for April 19, 2022.

According to the latest IMF projections, real GDP growth of 2.5% and an inflation rate of 6.5% are expected in 2022 in B&H. It is stated that the projections are extremely uncertain, given the war in Ukraine, the political situation in B&H, while the potential emergence of new strains of coronavirus poses an additional risk.

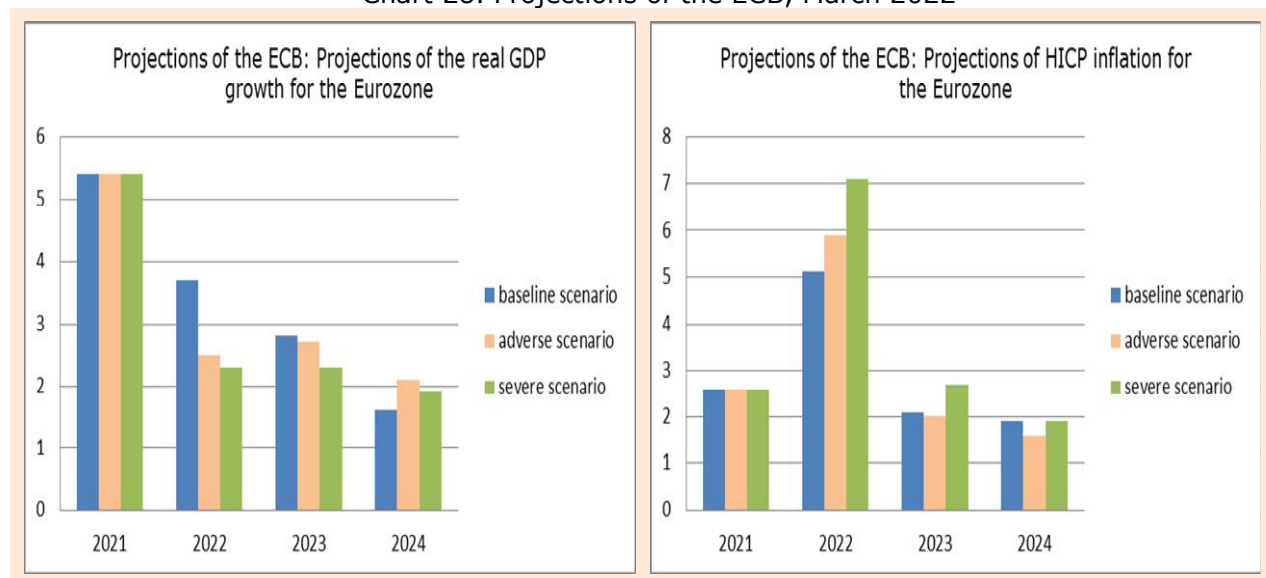
The IMF report states the following: „Although direct economic ties with Russia and Ukraine are limited, BiH's economy is vulnerable to soaring commodity prices, slower economic growth in Europe, and tighter financial conditions as a result of the war.“²⁴

iii. Projections of the European Central Bank (ECB)

The European Central Bank (ECB) has published macroeconomic projections for the Eurozone based on data available until March 2, 2022.²⁵ The document states that the projections are very uncertain and that they depend on further events in the war in Ukraine, the effects of sanctions and further measures. The ECB's baseline projection scenario is based on the assumption that current energy supply disruptions and negative impacts on confidence linked to the conflict are temporary and that global supply chains are not significantly affected. Under such conditions, the ECB forecasts real GDP growth for the Eurozone of 3.7% in 2022, 2.8% in 2023 and 1.6% in 2024.

Due to the great uncertainty regarding the events in Ukraine, in addition to the baseline scenario, the ECB developed two alternative scenarios of macroeconomic projections: an adverse and a severe projection scenario (Chart 28).

Chart 28. Projections of the ECB, March 2022



Source: Presentation of the MAU based on projections of the ECB

²⁴ IMF „Bosnia and Herzegovina: Staff Concluding Statement of the 2022 Article IV Mission“, March 25, 2022

²⁵ ECB, „ECB staff macroeconomic projections for the euro area“, March 2022