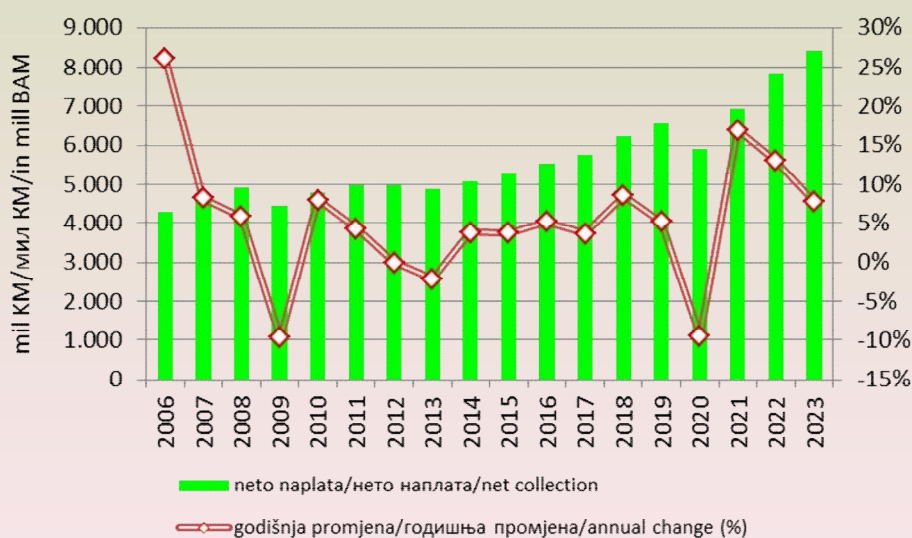




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

# ОМЈА Билтен

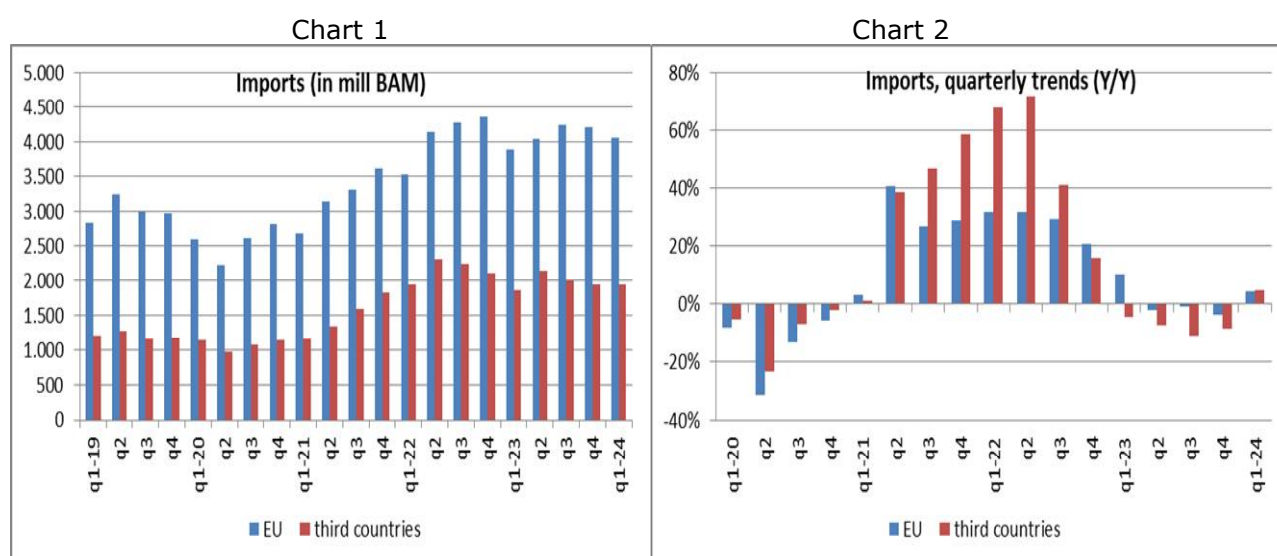


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## With this issue

Imports represent a significant factor in the collection of *ad valorem* taxes VAT and customs duties. In the structure of gross VAT, collected in the period 2006-2023, VAT on imports participated with as much as 62%, while the collection of customs revenue depended on the import of goods from the EU that has remained under the customs regime and the import of goods from third countries. At the time of preparation (mid-April) of the mid-term projections of indirect tax collection for the period 2024-2027, the official data on imports in March 2024 were not available, but data on the collection of VAT on imports and customs duties indirectly indicated a trend of import growth. After the publication of official data, the general assumption about the recovery of imports from the EU and third countries can be confirmed (Chart 1).



The above conclusion is also confirmed by the quarterly comparison. After three consecutive quarters of decline in imports from the EU and four consecutive quarters of decline in imports from third countries, caused by the rise in prices of energy and other goods after the outbreak of the war in Ukraine, import growth rates have been slowly returning to normal growth rates. Imports from the EU in the first quarter of 2024 were higher by 4.4% compared to the same quarter of 2023, while imports from third countries were higher by 4.8% (Chart 2).

Dinka Antić, PhD  
Head of Unit

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## PROJECTIONS OF REVENUES FROM INDIRECT TAXES FOR THE PERIOD 2024-2027

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## Summary

### *Projections of macroeconomic indicators*

According to the data of the Agency for Statistics of B&H, in 2022, real GDP growth of 3.8% was recorded in Bosnia and Herzegovina compared to the previous year. The projection of the Directorate for Economic Planning (March 2024) for real GDP growth in Bosnia and Herzegovina in 2023 is 1.8%. According to the same projection, real economic growth rates of 2.2% in 2024, 2.8% in 2025, 3.0% in 2026 and 3.1% in 2027 are expected.

### *Trends in revenue collection from indirect taxes 2006-2023*

In 2006, 4.12 billion BAM of net revenues from indirect taxes were collected on the Single Account (SA) of the ITA. In almost all years since the establishment of the ITA, there has been an increase in revenues collected at the ITA SA. The exceptions were: the "crisis" year of 2009, when there was a 9.9% drop in revenue, stagnation and a milder drop in revenues in 2012 and 2013, and a drop in 2020 of 9.3% as a result of the effects of the virus corona. In all other years, the growth of these revenues was recorded, and the highest was achieved in 2021, at a rate of 16.7%. In 2023, the annual growth of revenues from indirect taxes of 7.8% and a record nominal collection since the establishment of the ITA in the amount of 8,43 billion BAM has been achieved. Finally, the increase in collection in 2023 compared to 2006 was a high 104.6%.

### *Trends in revenue collection from indirect taxes in the first quarter of 2024*

In the first three months of 2024, the net collection of revenues from indirect taxes was higher by 239.5 million BAM compared to the same period in 2023, i.e. by 12.8%. Positive trends in the collection of indirect taxes in the first quarter of 2024 were expected due to the trend of increasing import values and rising prices in the country, which is favorable for ad valorem taxes (VAT, customs duties). Excise duties on oil derivatives and road fees have also significantly contributed to the growth of indirect tax revenue collection, and the growth rate was reduced by fluctuations in excise duty collection on tobacco products, due to the effect of the statistical basis for comparison.

### *Projections of revenues from indirect taxes*

Bearing in mind that the high rate of revenue growth in the first quarter of 2024 partly stems from the specificity of the statistical basis for comparison, and taking into account the huge unknowns regarding events on the global level, the projected growth rate of revenues from indirect taxes for 2024 is lower than the three-month growth rate and amounts to 9.7%.

### *Risks*

There are significant risks for the realization of projections of revenues from indirect taxes. The achievement of the projected level of revenues from indirect taxes in the period 2024-2027 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.

## BASIC SCENARIO OF PROJECTIONS OF INDIRECT TAXES

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

Indirect tax projections are based on the March 2024 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 2024

Table 1 presents the latest projections of the Directorate for Economic Planning of B&H (DEP, March 2024) of nominal and real GDP growth rates for the period 2024-2027.

Table 1. GDP growth projection, DEP, March 2024

	Official data	Projections				
	2022	2023	2024	2025	2026	2027
Nominal growth	13,7	7,8	4,7	5,1	5,2	5,2
Real growth	3,8	1,8	2,2	2,8	3,0	3,1

Source: DEP, March 2024

##### 1.1.1. Official data for 2022

According to data of the Agency for Statistics of B&H (BHAS) for the year 2022, it is estimated that real GDP growth of 3.8% was recorded in Bosnia and Herzegovina compared to the previous year.<sup>1</sup> The DEP explains<sup>2</sup> that the increase in private consumption was the most responsible for the achieved economic growth in 2022, and that in addition to the increase in final consumption, there was a certain growth in private investments, while public investments did not achieve significant growth. What is characteristic for the year 2022, both in B&H and at the global level, are extremely high rates of growth in the prices of goods and services. According to BHAS data, in 2022, an average increase in price levels of 14% was recorded in B&H compared to the previous year.<sup>3</sup>

##### 1.1.2. Economic trends in 2023

DEP's assessment of real GDP growth in Bosnia and Herzegovina in 2023 is based on available BHAS statistical data, and amounts to 1.8%. The DEP concludes that domestic demand through an increase in final consumption and investments was a key pillar of economic growth, while the weakening of economic growth in the main trade partners and export demand significantly slowed down foreign trade in Bosnia and Herzegovina.

##### 1.1.3. Projections for the period 2024-2027

In DEP's projections of macroeconomic indicators for the period 2024-2027, it is emphasized that economic trends in the external environment, especially in the EU-27 countries, represent an important structural determinant of economic trends in B&H. They point out that in the past period there have been big challenges in the world economy, such as the global pandemic, conflicts in

<sup>1</sup> GDP for B&H, 2022, Expenditure approach, first results, Sarajevo, September 29, 2023

<sup>2</sup> DEP, Macroeconomic Projections 2024-2026, September 2023

<sup>3</sup> BHAS, Consumer price index in Bosnia and Herzegovina, Thematic bulletin TB 09, Sarajevo 2023

Ukraine, etc., and that the negative economic consequences of these events were manifested through trade, financial and price shocks in B&H. They also state that, in addition to external dynamics, a very important factor for economic growth in B&H is the institutional capacity of the country in the implementation of structural reforms. According to DEP's projections, real economic growth rates of 2.2% in 2024, 2.8% in 2025, 3.0% in 2026 and 3.1% in 2027 are expected in B&H (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, 91/17 and 50/22)<sup>4</sup>. The policy of excises on tobacco in 2024 is regulated by the Law on Excises and Decision<sup>5</sup> of the ITA Governing Board. As the legally prescribed ceiling of the total excise tax on cigarettes of 176 BAM / 1000 cigarettes was reached for all price categories of cigarettes in 2019, the harmonization with EU standards in the field of cigarette taxation was completed, while the taxation of cut tobacco is regulated according to the amendments to the Law (in force since 2014).<sup>6</sup> The Law<sup>7</sup> on Customs Policy in Bosnia and Herzegovina regulates the basic elements of customs policy and general rules and procedures that apply to goods brought into and out of the customs territory of Bosnia and Herzegovina.

## 1.3. Indirect tax collection trends

### 1.3.1. Collection in the period 2006-2023

In 2006, 4.12 billion BAM of net revenues from indirect taxes were collected on the Single Account (SA) of the ITA. In almost all years since the establishment of the ITA, there has been an increase in revenues collected at the ITA SA. The exceptions were: the "crisis" year of 2009, when there was a 9.9% drop in revenue, stagnation and a milder drop in revenues in 2012 and 2013, and a drop in 2020 of 9.3% as a result of the effects of the virus corona. In all other years, the growth of these revenues was recorded, and the highest was achieved in 2021, at a rate of 16.7%. In 2023, the annual growth of revenues from indirect taxes of 7.8% and a record nominal collection since the establishment of the ITA in the amount of 8,43 billion BAM has been achieved. Finally, the increase in collection in 2023 compared to 2006 was a high 104.6%.

*The share of indirect taxes on the ITA SA in GDP* has varied significantly in recent years (Table 2). Since the introduction of the VAT (2006), this indicator has ranged from 16.6% (minimum value, 2009) to 19.2% (maximum value, 2007). It is estimated that in 2023 it amounted to 17.2%.<sup>8</sup> 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.

<sup>4</sup> Changes to the Law on Excises ("Official Gazette of B&H" No. 50/22) began to be applied from the moment of entry into force of the by-laws adopted by the Governing Board of the ITA.

<sup>5</sup> Decision on Determination of the Specific and Minimum Excise Duty for Cigarettes and the Amount of the Excise Duty on Smoking Tobacco for 2024 („Official Gazette of B&H" No. 87/23)

<sup>6</sup> 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)

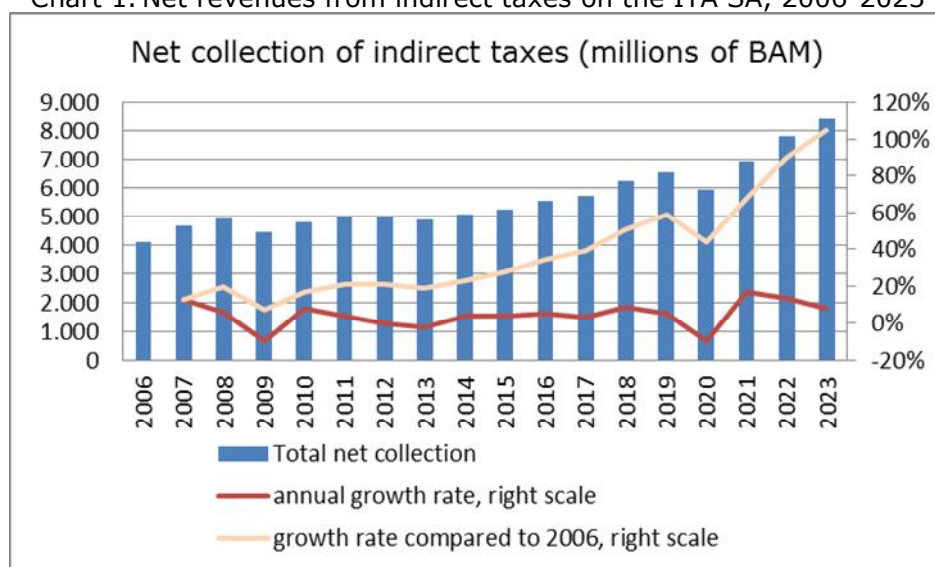
<sup>7</sup> The new Law on Customs Policy ("Official Gazette of B&H" No. 58/15) has been applied as of August 1, 2022 ("Official Gazette of B&H" No. 23/22), and until that date the old Law on Customs Policy was applied, with the exception of Article 207 of the new Law which has been applied as of 25 April 2018.

<sup>8</sup> It is an estimate, because at the time of preparing the document, official data on macroeconomic indicators were not available on the BHAS website, but DEP projections were used.



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%, while in 2020 it dropped to 18.4%. In 2021, it grew again to 20.2%, which is the maximum value since the introduction of the VAT. In 2022, it amounted to 19.9%, and it is estimated that it amounted to 20% in 2023.

Chart 1. Net revenues from indirect taxes on the ITA SA, 2006-2023



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

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

in %	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Indirect taxes / GDP	19,1	19,2	18,1	16,6	18,0	18,2	17,8	17,0	17,5	17,3	17,5	17,3	17,8	17,9	16,7	17,3	17,2	17,2
Indirect taxes / C	18,8	19,3	18,0	16,6	17,7	17,9	17,6	17,1	17,5	17,9	18,6	18,8	19,7	19,9	18,4	20,2	19,9	20,0

Source: Calculation based on the ITA and BHAS data<sup>9</sup> and DEP's projection for 2023 (March 2024)

In Chart 2, the share of indirect taxes in GDP of B&H in the period 2008-2023 is broken down into product components, in accordance with the methodology from the OECD analysis<sup>10</sup> : (1) share of indirect tax revenues in total consumption and (2) share of total consumption in GDP. It can be concluded from the Chart 2 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%. As of 2015, there has been a downward trend in the share of consumption in GDP (with the exception of a slight increase in 2020 and 2022), and in 2023 it amounted to 86%. 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.

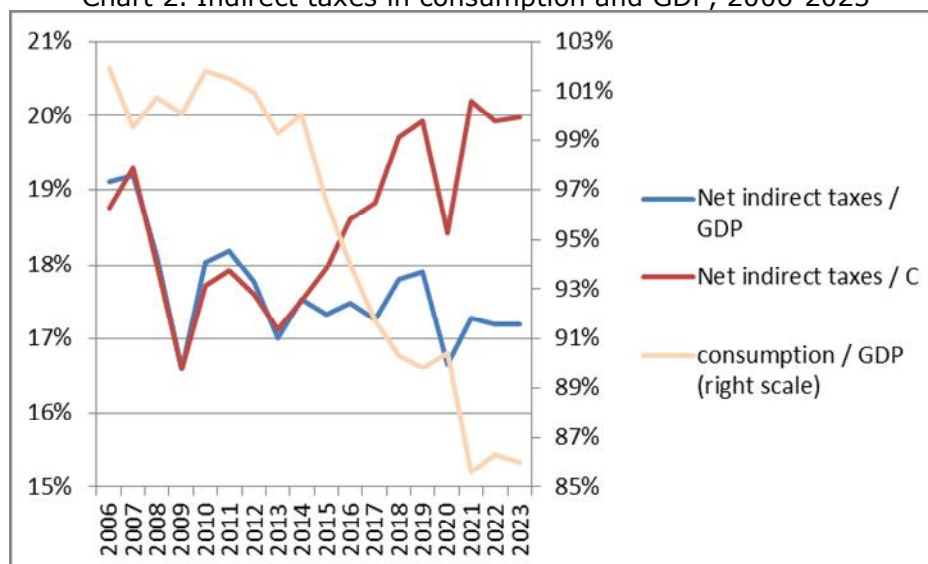
It is estimated that in 2023 the share of indirect taxes in GDP remained at the level of the previous year and amounted to 17.2%. Analyzed according to the components from the OECD equation, the stagnation of indirect taxes in GDP in 2023 was the cumulative result of the annual

<sup>9</sup> BHAS documents: (1) Gross domestic product - extraordinary announcement; July 19, 2021 (for data 2006-2014); and (2) Gross domestic product according to the production, income and expenditure approach in 2022, published on December 29, 2023 (for data 2015-2022)

<sup>10</sup> Simon, H. and M. Harding (2020), "What drives consumption tax revenues?: Disentangling policy and macroeconomic drivers" *OECD Taxation Working Papers*.

increase in the share of indirect taxes in consumption by 0.06 pp, and the decrease in the share of consumption in GDP by 0.29 pp.

Chart 2. Indirect taxes in consumption and GDP, 2006-2023



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

### 1.3.2. Collection in the period January - March 2024

In 2024, positive trends in the collection of revenues from indirect taxes have continued. In January and February 2024, high monthly growth rates of 15.5% and 23.1% were achieved, respectively, so that in the first two months, a net revenue growth of 19.2% was achieved. High growth rates in the first two months of 2024 were partly the result of the so-called base effect. In the first five months of 2023, a significantly lower collection of revenues from indirect taxes was recorded (Chart 3, red), as a result of the war in Ukraine, high VAT refund payments and the transition to a new excise tax payment regime on tobacco products. The lower statistical base influenced the higher monthly growth rates in 2024, although collected revenues in the first three months (Chart 3, green) were far lower than the revenues achieved in the second part of 2023.<sup>11</sup>

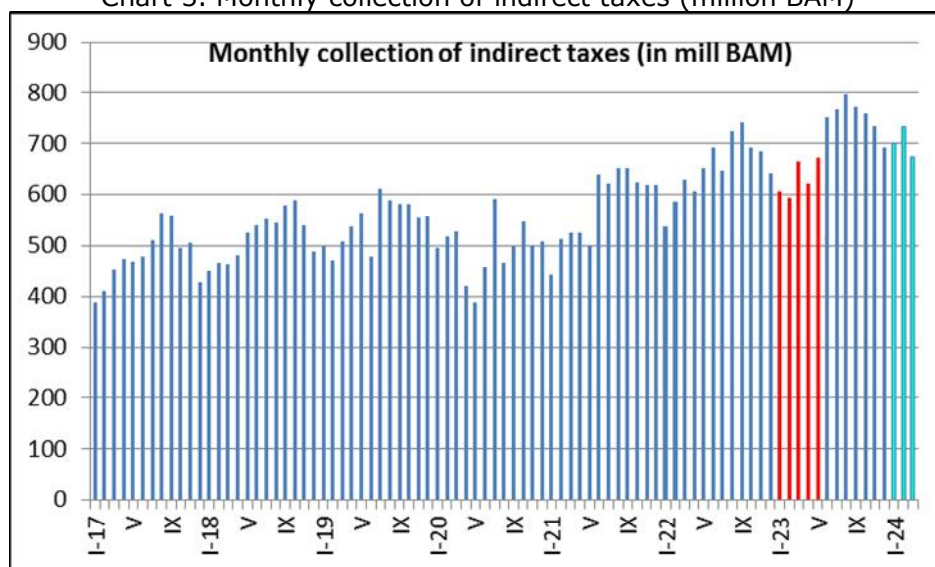
According to the preliminary cash flow report on the ITA SA, the net collection in March 2024 was higher by 9 million BAM compared to the net collection in the same month of 2023, representing an increase of 1.4%. The slowdown in the growth rate in March was a consequence of increased VAT refund payments in that month.

The modest growth in March collection has resulted in a slowdown in the growth of cumulative collection. At the level of the first three months of 2024, the net collection was higher by 239.5 million BAM compared to the same period in 2023, i.e. by as much as 12.8%.

<sup>11</sup> The period from 2017 was used for the analysis of the monthly collection of revenues from indirect taxes, since it includes the impact of changes in indirect tax policies (road fee taxation), the effects of the pandemic and the war in Ukraine and the Middle East.

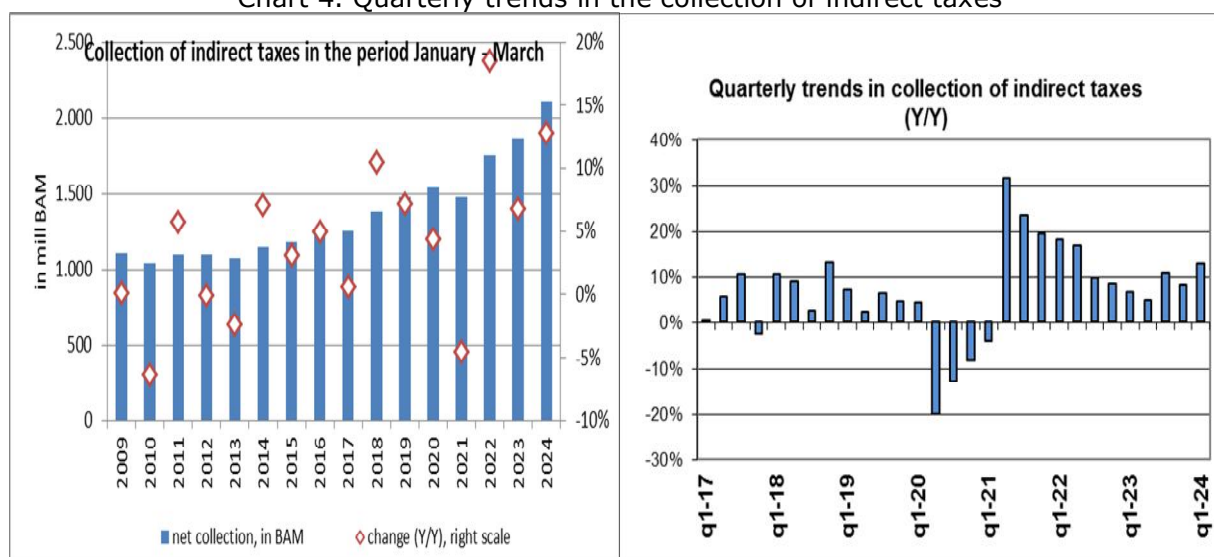


Chart 3. Monthly collection of indirect taxes (million BAM)



Source: Indirect Taxation Authority of B&amp;H, presentation of the MAU

Chart 4. Quarterly trends in the collection of indirect taxes



Source: Indirect Taxation Authority of B&amp;H, presentation of the MAU

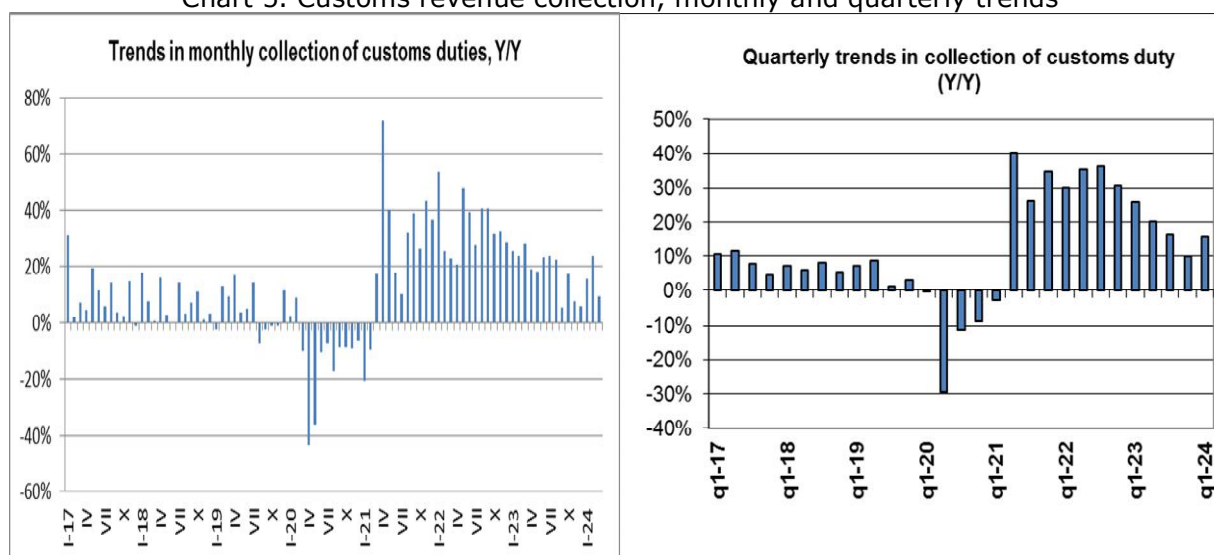
Chart 4 (left) shows the growing trend of indirect tax revenue collection in absolute amounts in the first quarter compared to the first quarter of previous years. The only reduction in collection was recorded in the first quarter of 2021, as a consequence of the effects of the pandemic, compared to the higher base from the first quarter of 2020. An increasing trend in the collection of indirect taxes is noticeable in the last three quarters (second half of 2023 and first quarter of 2024), after a decreasing trend from the third quarter of 2022 (Chart 4, right).

## Revenue collection by types

### Customs

After high monthly growth rates of customs revenue in the first eight months of 2023, which ranged from 20% to 30%, by the end of the year there was a slowdown in growth, with significantly lower monthly rates. However, in the first three months of 2024, a strong increase in revenue from customs duties was again recorded, in January 15.5%, in February as much as 23.6%, and in March a more modest 9.2% (Chart 5, left). The recovery of customs revenue collection was also reflected in the growth rate in the first quarter of 2024. A growth of 15.7% was recorded, which is significantly higher than in the fourth quarter of 2023 (Chart 5, right). Given that customs duties are retained only on a limited number of goods imported from the EU, and on the import of goods from China and other third countries, the trends in customs revenue collection are closely related to the import of goods from those countries and regions. According to available foreign trade statistics<sup>12</sup>, in the first two months of 2024, imports from the EU grew at a rate of 7.2%, and from third countries at a rate of 4.5%.

Chart 5. Customs revenue collection, monthly and quarterly trends



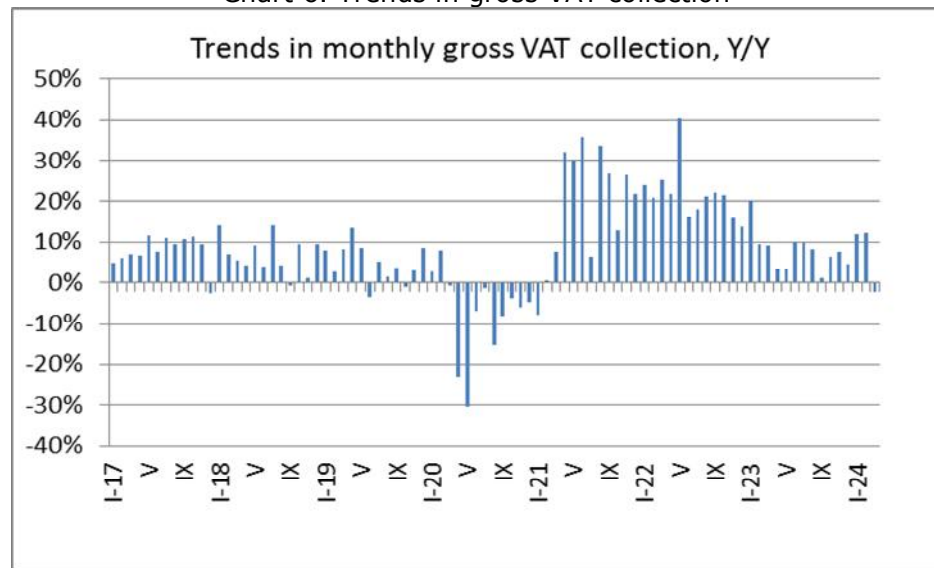
Source: Indirect Taxation Authority of B&H, presentation of the MAU

### VAT

After moderately high growth rates in the last four months of 2023, in January and February 2024, high growth rates of gross VAT collection were again achieved, around 12% (Chart 6). However, in March, gross VAT collection fell by -2.1%, reducing the cumulative growth rate in the first three months to 7%.

<sup>12</sup> Source: BHAS, calculation of the MAU

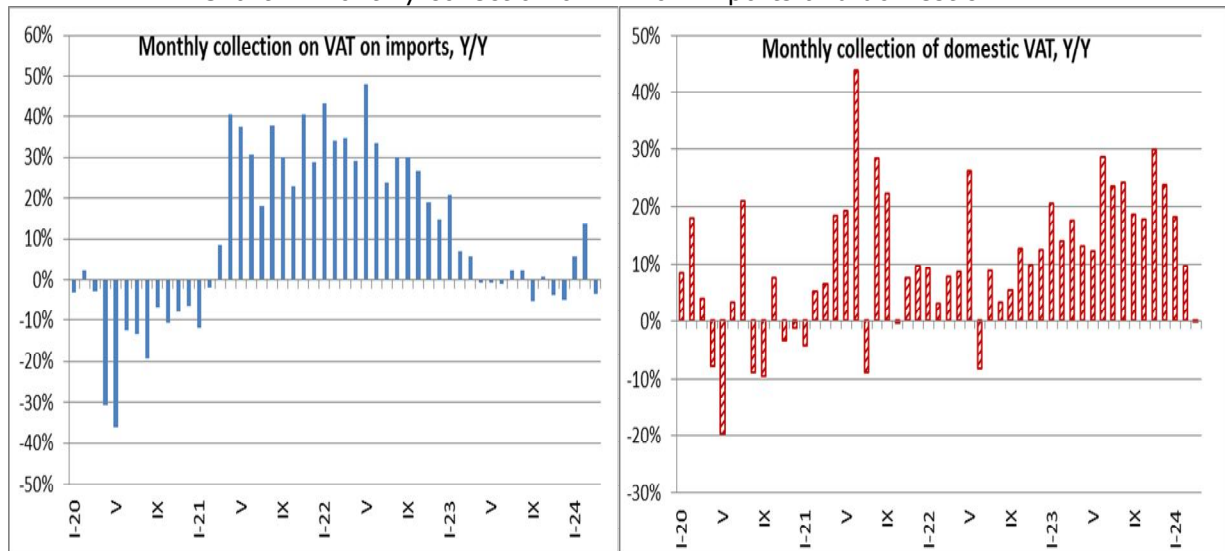
Chart 6. Trends in gross VAT collection



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

The analysis of the structure of gross VAT in the first two months of 2024 points to the conclusion that the strong growth of gross VAT collection was the result of the growth of both components: VAT on imports and domestic VAT. However, a -3.5% drop in import VAT was recorded in March (Chart 7, left), while domestic VAT collection was at the level of collection in March 2023 (Chart 7, right).

Chart 7. Monthly collection of VAT on imports and domestic VAT

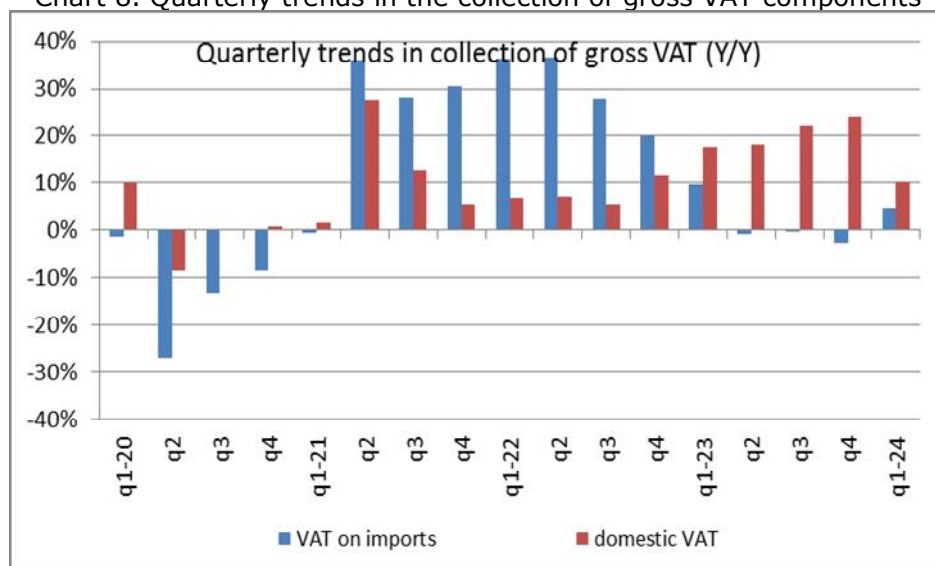


Source: Indirect Taxation Authority of B&H, presentation of the MAU

Nevertheless, the worse collection of VAT on imports in March did not threaten the positive trends in the first two months, and in the first quarter of 2024, a positive growth rate of VAT on imports of 4.7% was achieved. It is also the first quarter with a positive growth rate of VAT on imports, after three quarters of negative growth in 2023 (Chart 8). On the other hand, the sharp deterioration in domestic VAT collection in March reduced the growth rate of domestic VAT in the

first quarter to 10.3%. It is significantly below the growth rate in the previous four quarters (Chart 8).

Chart 8. Quarterly trends in the collection of gross VAT components



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

Given that 24.6 million BAM of unadjusted revenues were cumulated for the first three months, even a greater increase in domestic VAT can be expected in the first quarter, since a significant part of unadjusted revenues is regularly related to VAT. It should be noted that, despite the worse performance in March, the growth rate of domestic VAT in the first quarter greatly exceeds consumption projections. It will be shown in the coming months by collection trends whether it is a slowing down of price growth in the country. However, further growth of domestic VAT at high rates is possible only with an increase in the prices of goods in the country, either as a result of the rise in energy prices and/or other goods from imports or by the rise in prices of goods that have a monopoly position on the B&H market (e.g. local goods for which demand is inelastic).

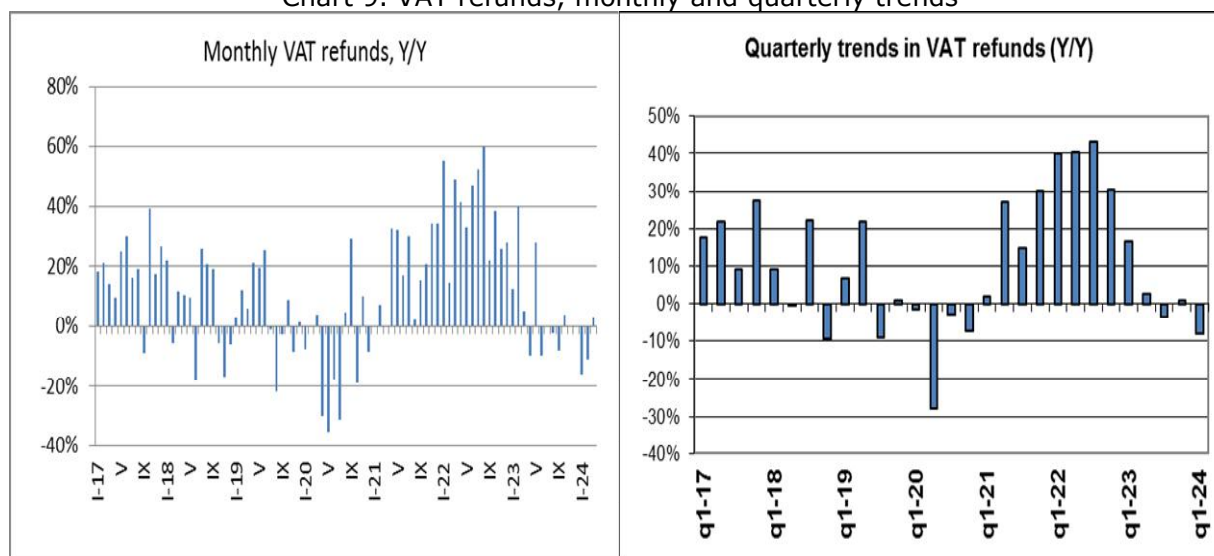
In the first two months of 2024, VAT refund payments were significantly lower than payments in the same period in 2023, in January by 15.9% less compared to January 2023, and in February by 11.2% less compared to the same month of 2023 (Chart 9, left). This represents a continuation of the positive trends in refund payments that have been going on since May 2023. The reduced refund payments are connected to the drop in imports and, especially, to the drop in exports of B&H. In accordance with deadlines<sup>13</sup> of the Law on VAT, in the period January - March 2024, the refunds were made to exporters who were registered on VAT returns from the period November 2023 - February 2024, and refunds to importers for the requests from the period October 2023 - January 2024. The trends in refund payments at the end of 2023 and the beginning of 2024 are also connected with events in large companies. Thus, the suspension of the work of Arcelor Mittal, as a large exporter, resulted in lower payment of VAT refunds at the beginning of 2024.<sup>14</sup> On the other hand, in March, VAT refund payments increased by 2.9%, as a result of a one-time payment of VAT refunds based on the suspension of investments in Tuzla Thermal Power Plant.<sup>15</sup>

<sup>13</sup> According to the Law on VAT, refunds are paid to major exporters within 30 days from the submission of the VAT return, and refunds to other taxpayers (other exporters and importers) within 60 days from the submission of the VAT return.

<sup>14</sup> Arcelor Mittal has suspended production from November 2023 to January 2024 due to unfavorable conditions in the world market regarding steel prices. It is a company that has a share of 3.4% in annual VAT refund payments.

<sup>15</sup> This is as much as 18.4% of the total VAT refunds paid in March 2024.

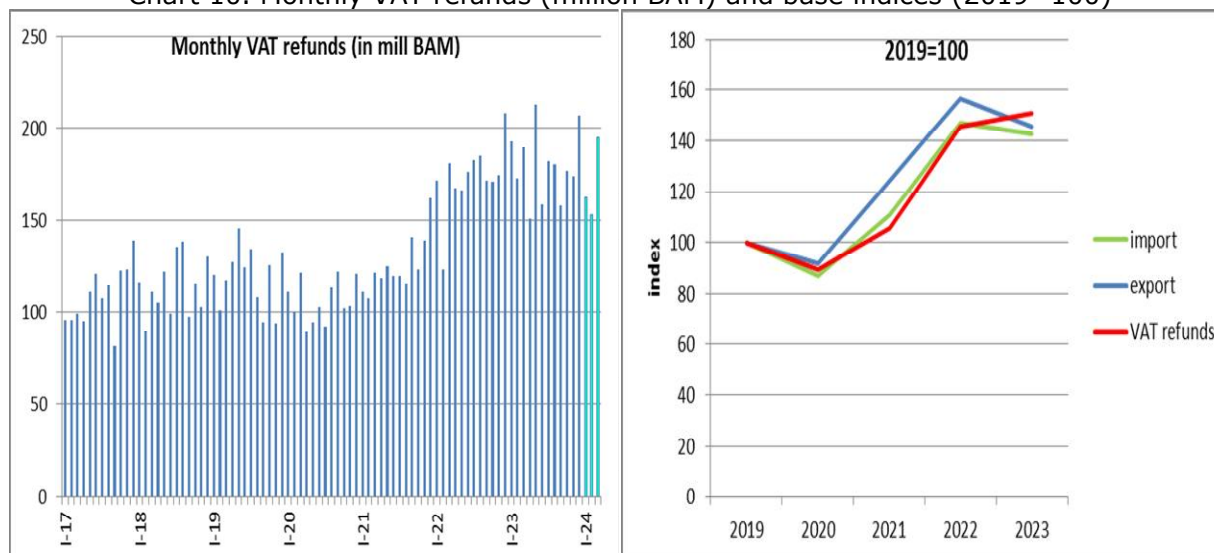
Chart 9. VAT refunds, monthly and quarterly trends



Source: Indirect Taxation Authority of B&amp;H, presentation of the MAU

The slight increase in VAT refunds in March did not significantly worsen the trends in the first three months of 2024. In the first quarter of 2024, an 8% decrease in VAT refunds was recorded, representing the largest decrease since the time of the pandemic in 2020 (Chart 9, right). In the first quarter of 2024, 22.3 million BAM less of refunds were returned to taxpayers than in the first quarter of 2023, while refunds to international projects were lower by 20.9 million BAM.

Chart 10. Monthly VAT refunds (million BAM) and base indices (2019=100)

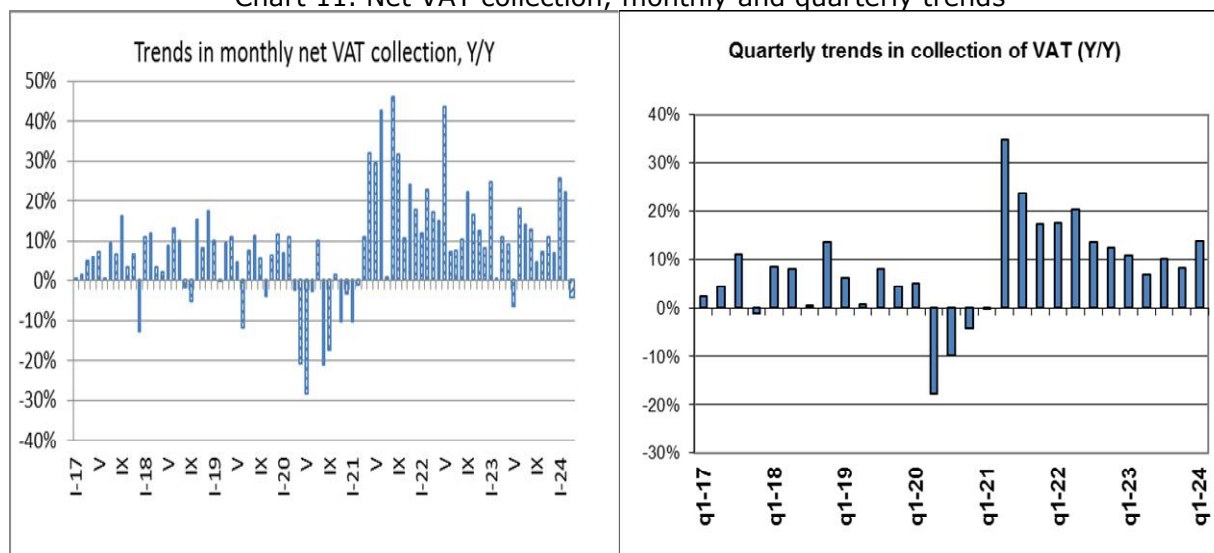


Source: Indirect Taxation Authority of B&amp;H and BHAS, presentation of the MAU

Generally, when observing refund payments in absolute amounts compared to the years before the pandemic and the war in Ukraine, it can be concluded that the trend of very high payments from 2022 and 2023 has continued in 2024, as a consequence of the enormous increase in prices on the world market, which are necessarily reflected in the amounts of VAT refund requests (Chart 10, left). Such a conclusion is confirmed by the comparison of imports and exports in the period 2020-2023 with the base year 2019, as the last year with stable economic trends. The rise in the

prices of goods on the world market has increased the value of imports and exports by more than 40 index points (Chart 10, right), reflecting in the amount of VAT refund payments.

Chart 11. Net VAT collection, monthly and quarterly trends



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

As a result of the positive cumulative effect - growth in gross collection and reduction in refunds - the monthly growth rates of net VAT in January and February 2024 amounted to 25.8% and 22.2%, respectively (Chart 11, left). However, opposite trends were recorded in March, a decrease in gross collection and an increase in refunds, and as a result of the negative cumulative effect, a decrease in net VAT collection of 4.3% was recorded (Chart 11, left). However, the poor collection of net VAT in March could not seriously threaten the high cumulative growth rate, so in the first quarter of 2024, a growth of 13.8% was achieved, representing the highest rate since the second quarter of 2022 (Chart 11, right). After the adjustment of unadjusted revenues, even a higher growth rate can be expected in the first quarter of 2024, because the greater part of unadjusted revenues is regularly related to VAT payments.

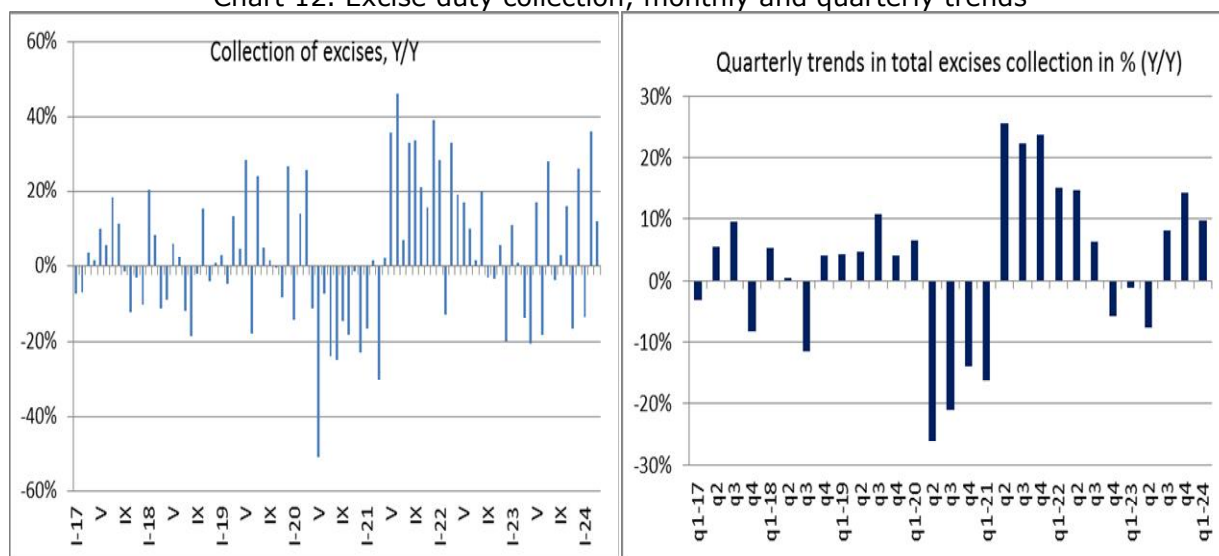
### Excise duties

The oscillatory trend of excise revenue collection which has been going on since the second half of 2022, continued in the first two months of 2024 (Chart 12, left).

The trend is characterized by strong monthly jumps and falls in collected excise revenue, with monthly growth rates ranging from -20% to +40%. After a high growth of 26.2% in December 2023, in January 2024 there was a -11% drop in collection, and in February a growth of even 35.9%. Excise duty collection has stabilized in March 2024, when a growth of 12.3% was achieved compared to the same month in 2023 (Chart 12, left). Finally, in the first quarter, a 9.7% increase in excise revenue was achieved, thus continuing the trend of positive growth rates from the second half of 2023 (Chart 12, right).



Chart 12. Excise duty collection, monthly and quarterly trends

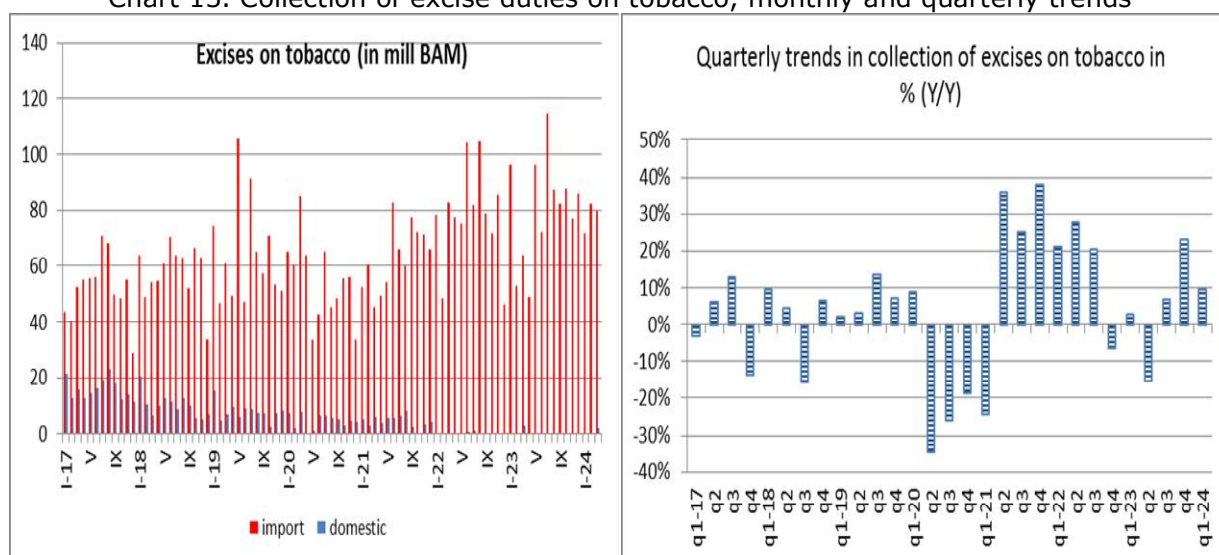


Source: Indirect Taxation Authority of B&amp;H, presentation of the MAU

Oscillations in excise revenues are mainly the result of strong fluctuations in the collection of excise duties on tobacco products, which have the largest weight in the structure of excise revenues. Although significant, excise duties on oil derivatives, if they have the same collection trends as excise duties on tobacco products, can increase the oscillations of the total collection of excise duties, and if their trends are of different signs, then they have a compensating and stabilizing effect on the growth rates of total excise revenues.

Revenue collection from excise taxes on tobacco products is growing in absolute amounts, but still has strong monthly oscillations, which is more a consequence of the base effect, and less of excise collection in absolute amount (Chart 13, left).

Chart 13. Collection of excise duties on tobacco, monthly and quarterly trends



Source: Indirect Taxation Authority of B&amp;H, presentation of the MAU

The strength of the base effect is indicated by the fact that in January 2024, there was a 25.1% drop in revenue from excise taxes on tobacco products, while in February there was an enormous 56.9% increase. A high growth rate of 22.3% was also achieved in March. At the quarter level, a growth of 9.6% was achieved compared to the same quarter in 2023. This continued the positive trend of revenue growth from excise taxes on tobacco products from the second half of 2023 (Chart 13, right).

Oscillations in the collection of excise taxes on tobacco products are common, given that only two tobacco corporations pay more than 83% of revenues from excise taxes, and, bearing this in mind, any change in the business policies of these two corporations is inevitably reflected in the total collection of excise taxes on tobacco products. Another reason for the strong oscillations in excise duty collection at the beginning of 2024 was the base effect, which resulted from the transition to a new way of paying excise duty in the first months of 2023. The new payment regime, which has largely changed the dynamics of excise duty payment, implies the payment of excise duty at the time of importing, instead of at the moment of collecting the excise stamps. The consequence of the new excise duty payment regime is the gap between calculated (when collecting excise stamps) and paid excise duties (when importing). The discrepancy has been increasing during 2023, and in December it fell to 99.4 million BAM. In January 2024, the discrepancy amounted to 36 million BAM, and for two months in 2024, it amounted to 47.6 million BAM. Expectations are that the payment scheme will stabilize during 2024, which should reduce the discrepancy to a minimum.<sup>16</sup>

The increased withdrawal of excise stamps in January 2024<sup>17</sup> should also be observed regarding the announced increase in the retail prices of cigarettes. Until now, before the price increase, tobacco companies had the practice of placing on the market the increased quantities of cigarettes, expecting that consumers would increase their purchases of cigarettes at the old prices.

Collection of excise duties on oil derivatives in absolute amount follows the old collection pattern, only at a higher level (Chart 14, left). The trends in the collection of excise duties on oil derivatives have improved since April 2023, because the prices of oil on the world market and then of derivatives on the B&H market have stabilized. Bearing this in mind, the decline in revenue from excise duties on oil derivatives in December 2023 is more of an exception to the continuous growth trend, while high growth rates of revenue from excise duties on oil derivatives in January and February of 24.3% and 12%, respectively, are consequences of the low base from the same period in 2023. At that time, the consumption of derivatives was lower due to higher retail prices of derivatives, and thus the collection of excise duties was also lower.

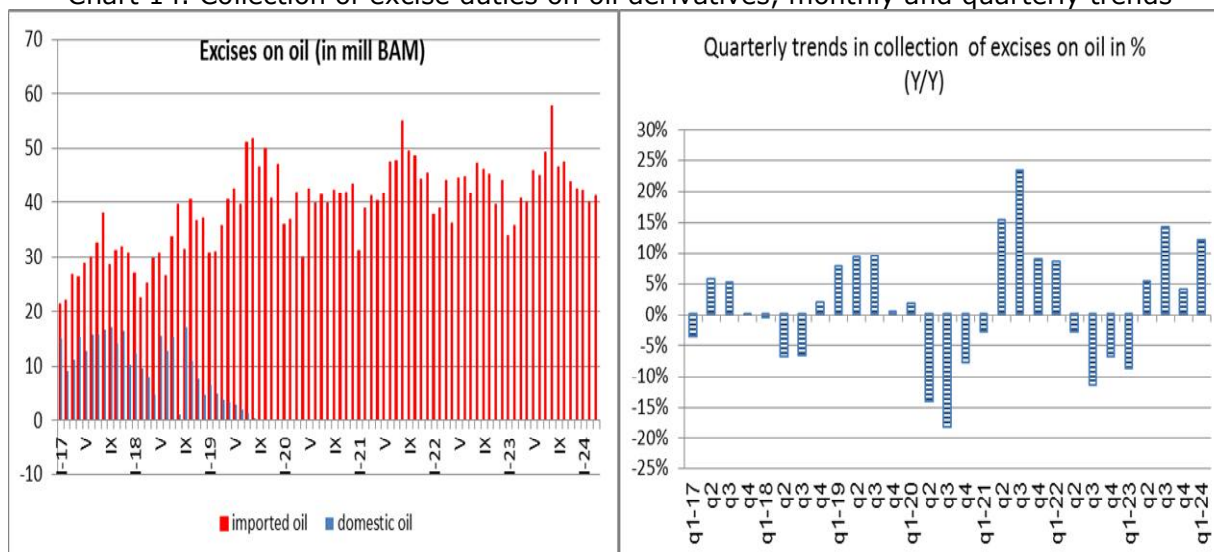
In March, a modest increase of 1.7% in revenues from excises on oil derivatives was achieved, probably as a result of the increase in retail prices in the country. Worse trends in March reduced to a certain extent the effects of high excise duty collection in the first two months of 2024, and a quarterly growth of 12% was achieved. The positive trend of excise revenue growth has been maintained for the fourth consecutive quarter, with growth rates exceeding the growth of real consumption (Chart 14, right).

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<sup>16</sup> In the excise duty payment regime when collecting stamps, the time period between collecting the stamps and placing on the market the cigarettes with those stamps was about a month and a half. The amount of stamps taken over did not depend only on the dynamics of sales, but also on the necessary financial resources, which must be engaged for the payment of excise taxes much earlier, even before the actual production of cigarettes. In the new payment regime, the time gap between the import of cigarettes, when excise duties are paid, and their sale is relevant. Therefore, the time of taking over the excise stamps, when excise duties are calculated, is no longer relevant to the company's cash flow.

<sup>17</sup> The increase in the retail prices of one part of the cigarette brands was on 19 February 2024 and for the other part on 1 March 2024.

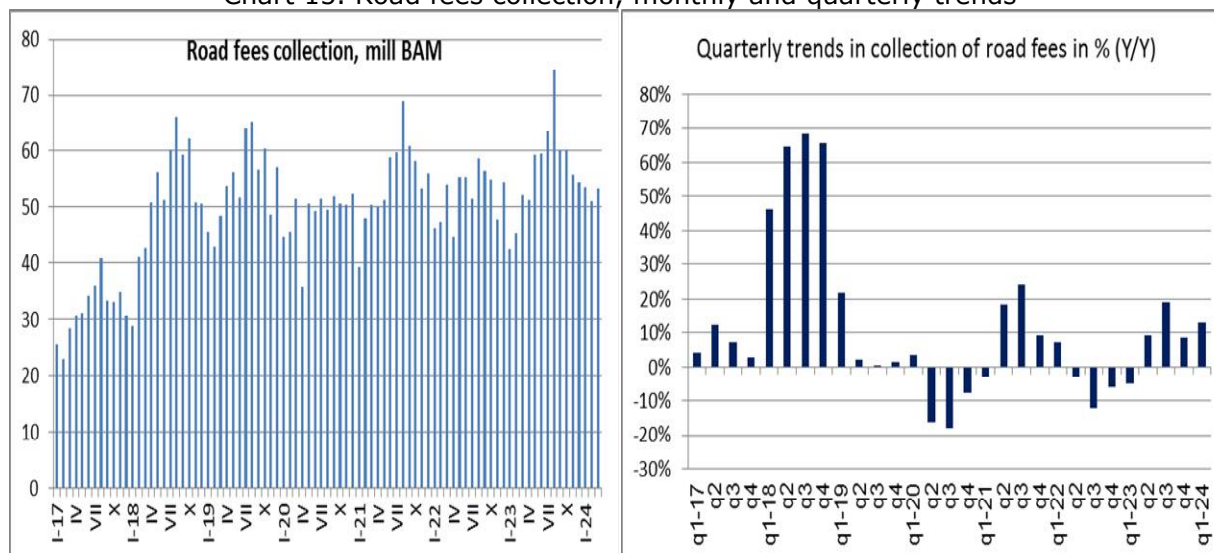
Chart 14. Collection of excise duties on oil derivatives, monthly and quarterly trends



Source: Indirect Taxation Authority of B&amp;H, presentation of the MAU

The overview of monthly road fee collection (Chart 15, left) shows a regular collection pattern in all years except 2020 (pandemic year) and 2022 (war in Ukraine), manifested by lower collection in the first quarter, gradual growth until the collection peak in August, gradually decrease in revenues and lower collection in the fourth quarter. Likewise, the collection pattern has been repeating, but year after year at a higher level of revenues.

Chart 15. Road fees collection, monthly and quarterly trends



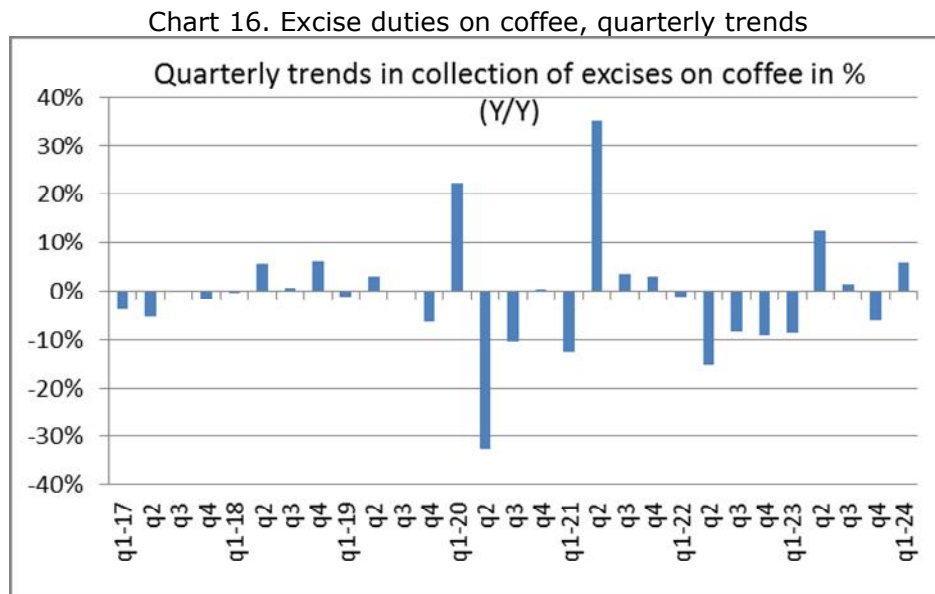
Source: Indirect Taxation Authority of B&amp;H, presentation of the MAU

Trends in the collection of road fees follow trends in the collection of excise duties on derivatives. Small deviations in relation to the trends in the collection of excise duties on oil derivatives are the result of different bases for the collection of excise duties and tolls, and to a lesser extent, exemptions from paying road fees.<sup>18</sup> At the level of the first quarter, a growth of 13.1% was

<sup>18</sup> The decisions of the State Aid Council of B&H contested the release of mines and thermal power plants. The only undisputed exemption of road fee is for railways.

achieved, continuing the positive trend of road fees revenue growth from the previous three quarters (Chart 15, right).

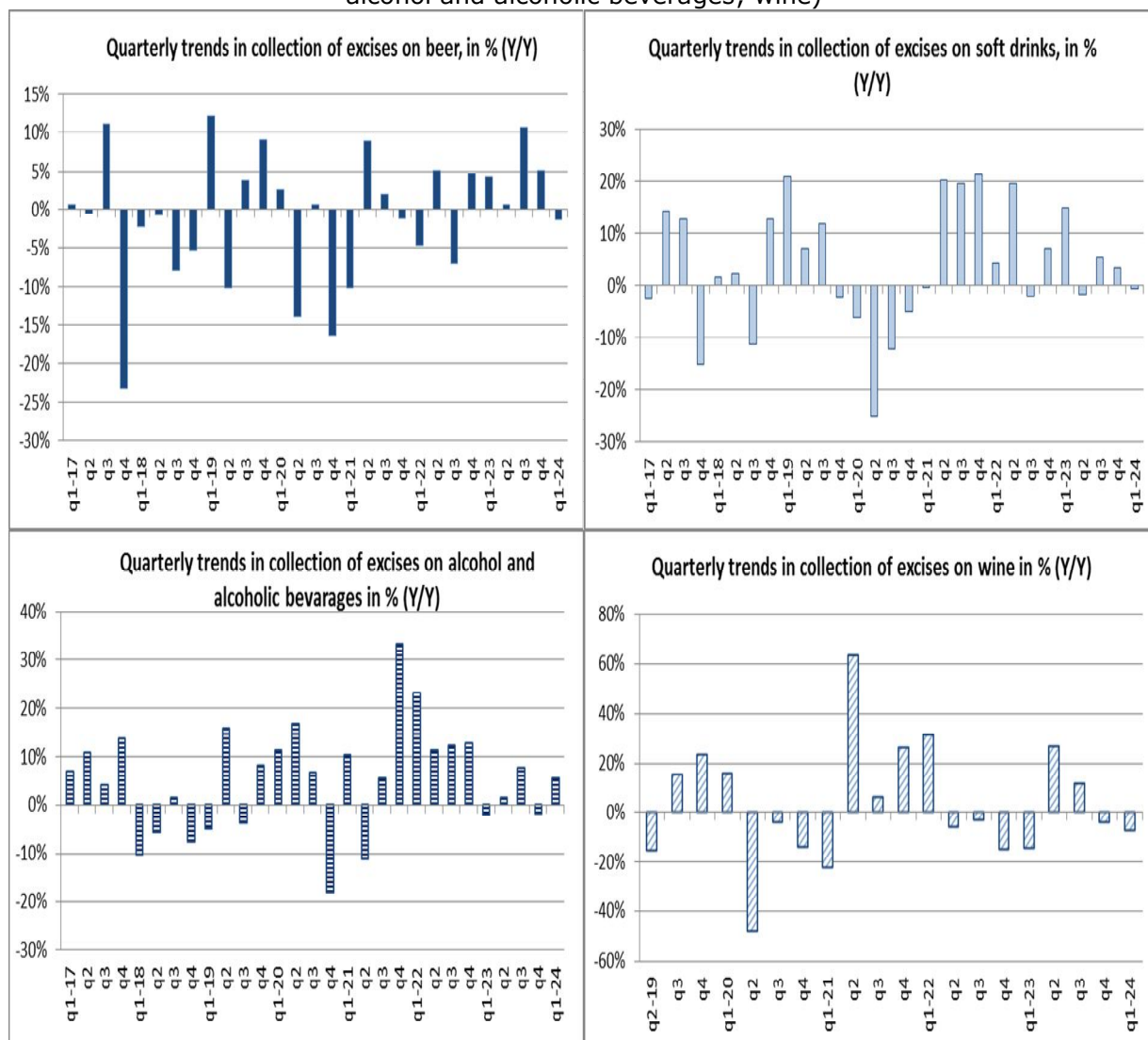
After poor collection of excise duties on coffee in most of 2023, a growth of 5.7% was recorded in the first quarter of 2024 (Chart 16).



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

When observing the collection of revenues from excise duties on the group of products consisting of alcohol, alcoholic and non-alcoholic beverages, beer and wine, it can be concluded that, in the first quarter of 2024, growth was achieved only in the case of excise duties on alcohol and alcoholic beverages (+5.5%), while in the collection of excise duties on beer, wine and non-alcoholic beverages, there was a decrease in excise revenues of -1.3%, -0.6% and -7.6%, respectively, compared to the first quarter of 2023 (Chart 17).

Chart 17. Quarterly trends in collection of excise duties (beer; non-alcoholic beverages; alcohol and alcoholic beverages; wine)



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

## 2. Projections of revenues from indirect taxes 2024-2027 (baseline scenario)

Revenue projections for the period 2024-2027 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 indirect tax revenue projections (2024-2027), April 2024

Type of revenue (net)	in million BAM						Projected growth rate			
	Realization	Projection					2024	2025	2026	2027
	2023	2024	2025	2026	2027					
VAT	5.586,6	6.146,9	6.366,9	6.622,6	6.886,6		10,0%	3,6%	4,0%	4,0%
Excises	1.604,0	1.782,3	1.846,5	1.916,4	1.988,4		11,1%	3,6%	3,8%	3,8%
Customs	506,7	542,3	575,4	623,2	669,9		7,0%	6,1%	8,3%	7,5%
Road fee	677,7	725,9	746,2	768,6	792,4		7,1%	2,8%	3,0%	3,1%
Other	59,5	54,9	54,9	54,9	54,9		-7,7%	0,0%	0,0%	0,0%
TOTAL	8.434,5	9.252,3	9.589,9	9.985,6	10.392,2		9,7%	3,6%	4,1%	4,1%
Earmarked road tax *)	-423,5	-453,7	-466,4	-480,4	-495,2		7,1%	2,8%	3,0%	3,1%
Funds for distribution	8.011,0	8.798,6	9.123,5	9.505,3	9.897,0		9,8%	3,7%	4,2%	4,1%

Note:

\*) Until February 1, 2018, the earmarked road fee amounted to 0.10 BAM per litter of oil derivative, intended entirely for the construction of highways. As of February 1, 2018 it amounts to 0.25 BAM per litter 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).

The category "Other" includes other revenues that are collected at Single Account of the ITA (revenues from terminals, rents, etc.) and unadjusted revenues (revenues that remain unadjusted after the final adjustment of revenue collection with applications and declarations in the ITA IT system)

Table 4. Baseline scenario of indirect tax revenue projections, April 2024 (% of GDP)

Type of revenue (net)	in % of GDP				
	Realization	Projection			
	2023	2024	2025	2026	2027
VAT	11,4%	12,0%	11,8%	11,7%	11,5%
Excises	3,3%	3,5%	3,4%	3,4%	3,3%
Customs	1,0%	1,1%	1,1%	1,1%	1,1%
Road fee	1,4%	1,4%	1,4%	1,4%	1,3%
Other	0,1%	0,1%	0,1%	0,1%	0,1%
<b>TOTAL</b>	<b>17,2%</b>	<b>18,0%</b>	<b>17,8%</b>	<b>17,6%</b>	<b>17,4%</b>
Earmarked road tax *)	-0,9%	-0,9%	-0,9%	-0,8%	-0,8%
Funds for distribution	16,3%	17,1%	16,9%	16,7%	16,6%

Data source for GDP: DEP projections, March 2024



## 2.1. Projections for 2024

When preparing revenue projections for the year 2024, one cannot rely on the seasonal revenue collection pattern from the last few years, due to turbulences at the global level that spilled over into B&H. The dynamics of revenue collection in 2020 and 2021 have changed from earlier patterns due to effects of the corona virus. Monthly dynamics of net revenues from indirect taxes in 2020 was completely different from the so-called *pre-COVID-19* seasonal pattern. Although it partially returned to the old pattern, the collection in 2021 was also quite different. In 2021, the range of monthly growth rates of net revenues from indirect taxes was even higher than in 2020, which was the result of: (1) the disruption of the seasonal pattern in the base year 2020, and (2) the characteristics of the seasonal pattern in 2021. Despite disruptions on the global level, turbulences in the oil derivatives market and strong price growth, in 2022 the range of monthly growth rates of net revenues from indirect taxes decreased compared to the previous two years. Monthly growth rates of net revenues from indirect taxes were positive throughout the year, while revenue dynamics have largely returned to the *pre-COVID-19* seasonal pattern. This is especially true for revenues from VAT, excise duties on alcohol, beer and non-alcoholic beverages, while revenues from excise duties on oil derivatives and road fees, expectedly, deviated considerably from the old seasonal pattern in 2022 as well. Revenues from excise taxes on tobacco and coffee have never had a pronounced seasonal component. In 2023, throughout the year, the monthly growth rates of net revenues from indirect taxes were positive (0.9% to 19.4%).

However, for the analysis of revenue collection in the first quarter of 2024 and preparing the projections, it is important to emphasize that the basis for comparison for the first five months is significantly lower than in the other months of 2023 due to the influence of the following factors in the mentioned period:

- the war in Ukraine, which resulted in the destabilization of the market for energy products, raw materials and other goods, that, as expected, spilled over to the B&H market, causing a drop in the consumption of energy products and, consequently, lower collection of excise duties and road fees in 2022 and 2023;
- high VAT refunds, which have stabilized and started to decrease only in the second half of 2023;
- the transition to the new regime of payment of excise duties on tobacco products, which took place in several months due to the necessary technical preparations, and the full negative effect on revenue collection was manifested in the first few months of 2023, reducing the basis for comparison in 2024.

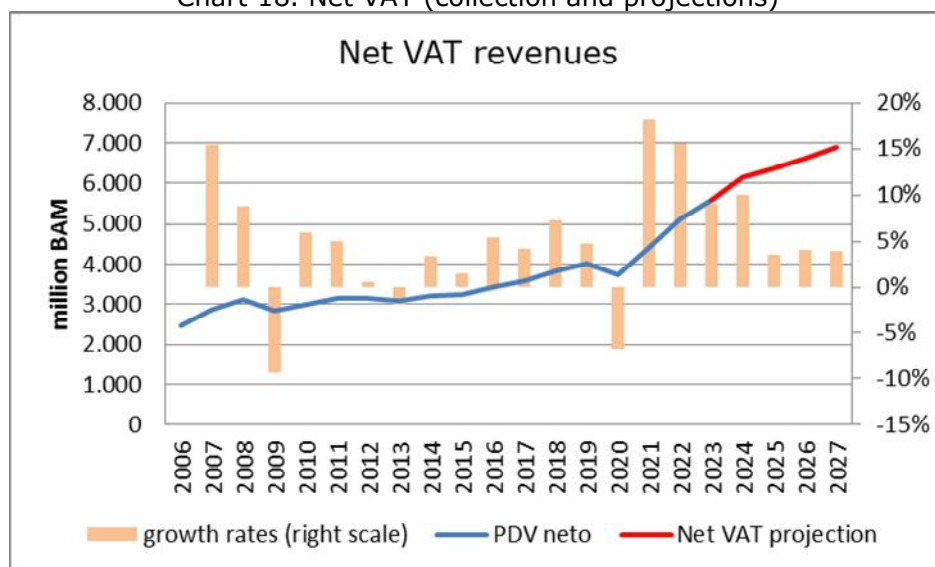
In the first three months of 2024, the growth rate of net revenues from indirect taxes was 12.8% compared to the same period in 2023. According to DEP's projections, nominal GDP growth of 4.7% is expected in 2024, and private consumption growth of 3.9%. The projected inflation rate is 2.2%<sup>19</sup>. Bearing in mind that the rate of revenue growth in the first quarter of 2024 partly stems from the specificity of the statistical basis for comparison, and taking into account the huge unknowns regarding events on the global level, **the projected growth rate of revenue from indirect taxes for 2024** is lower than the quarterly income growth rate and **amounts to 9.7%**.

<sup>19</sup> Inflation measured by the consumer price index, DEP, March 2024

### 2.1.1. VAT

In the year of VAT introduction (2006), 2,483.8 million BAM of net VAT revenue was collected. In all subsequent years, with the exception of 2009 and 2020,<sup>20</sup> the growth of these revenues was recorded. High growth rates were particularly pronounced in the year after the introduction of VAT (2007), and in the years following the outbreak of the corona virus pandemic (2021 and 2022). Finally, in 2023, 3,102.8 million BAM more net revenues from VAT was collected than in 2006, representing a growth of a high 124.9%.

Chart 18. Net VAT (collection and projections)



Source: the ITA data and MAU projections

The projected amount of net revenue from VAT in 2024 amounts to 6,146.9 million BAM, which is 10% more than the realization in 2023 (Chart 18). The projection is based on the historical seasonal collection pattern of certain categories of VAT (which does not include years with specifics), and trends and projections of macroeconomic indicators.

### 2.1.2. Excise duties and road fees

#### *Excise duties on oil derivatives and road fees*

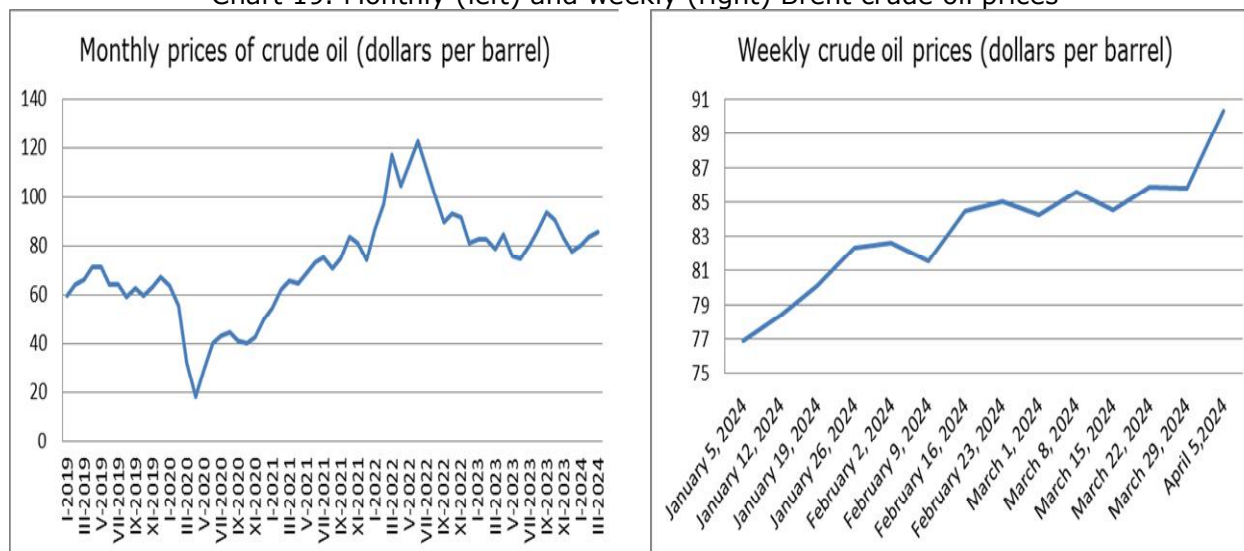
The last period was very turbulent, both in terms of crude oil prices (Chart 19, left) and in terms of the collection of excise duties on oil derivatives.<sup>21</sup> Crude oil prices fell sharply in 2020 (to only 42 dollars per barrel), and contrary to the laws of the market economy, as a result of restrictive measures in the fight against the corona virus and the consequent loss of consumption, the collection of excise duties on oil derivatives also fell (Chart 20). In 2021, the prices of oil on the world market increased, as did the collection of excise duties on derivatives, due to the recovery of consumption. In 2022, there was again a decline in excise duty collection and high oil prices on the world market due to the war events in Ukraine, and in 2023, the reverse trends were

<sup>20</sup> The years in which the effects of the global financial crisis (2009) and the emergence of the corona virus pandemic (2020) were manifested.

<sup>21</sup> If we set up a simple regression model and analyze the relationship between excise duties on oil derivatives in Bosnia and Herzegovina and prices of oil on the world market in the period 2006-2023, we will see that the coefficient of determination is only 20.4%. If we set up a multiple regression model with the dependent variable "collected excises on oil derivatives", and independent variables: (1) GDP and (2) oil prices on the world market (dollars per barrel), the coefficient of determination rises to a high 88.6%.

recorded. In the first quarter of 2024, a renewed upward trend in prices can be observed, and judging by the available published weekly crude oil prices, the upward trend has continued in the month of April (Chart 19, right).

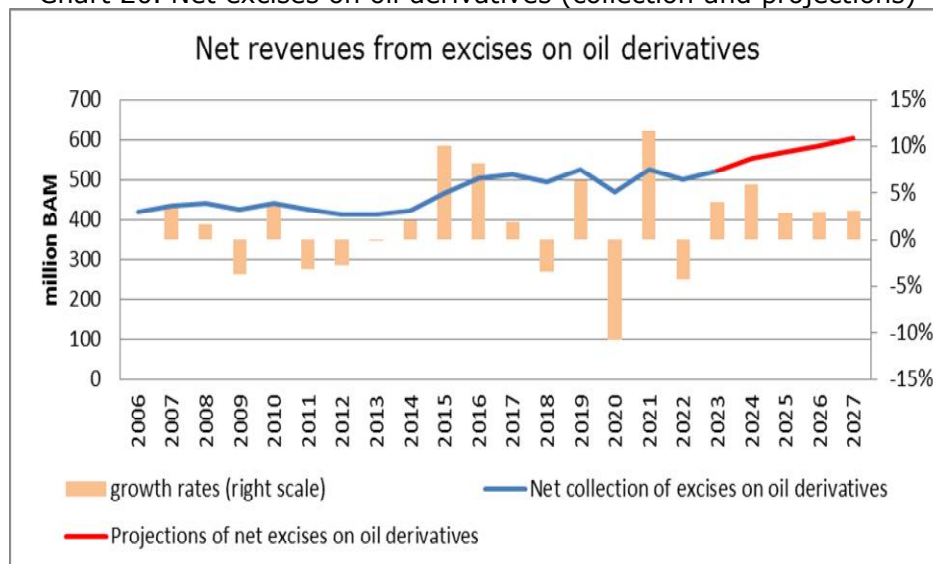
Chart 19. Monthly (left) and weekly (right) Brent crude oil prices



Source: Calculation and presentation of the MAU based on data of the U.S. Energy Information Administration, Europe Brent Spot Price FOB (Dollars per Barrel)

However, oil prices on the world market have varied much more than the collected excise duties on oil derivatives in Bosnia and Herzegovina. Revenues from excise duties on oil derivatives in the period 2006-2023 were quite stable, despite numerous crises in the world economy and turbulences on the oil market and their repercussions on the B&H economy (Chart 20, blue line).

Chart 20. Net excises on oil derivatives (collection and projections)

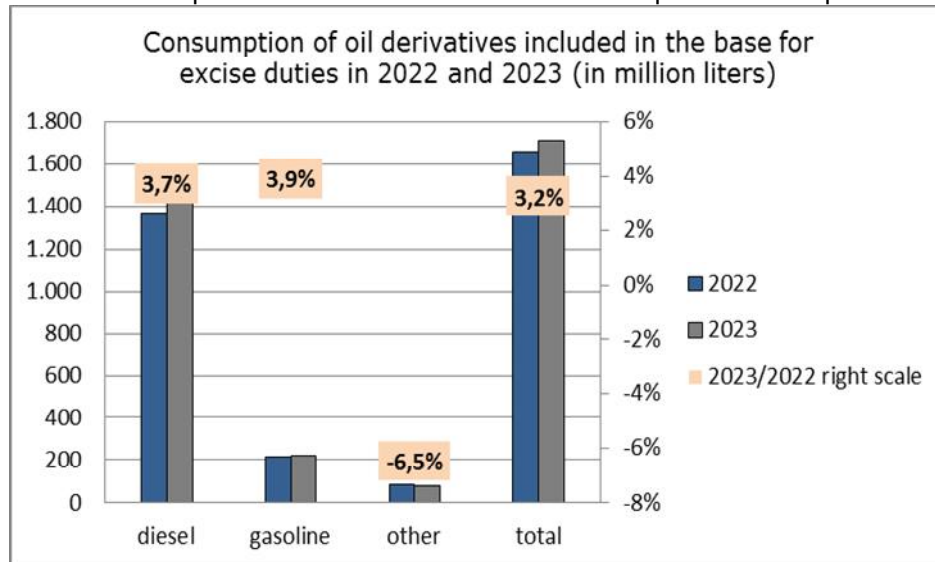


Source: the ITA data and MAU projections

It is shown below the consumption of oil derivatives that are included in the base for excise duties in B&H in 2023. According to the U.S. Energy Information Administration, the annual price of crude oil fell by 18.3% in 2023 compared to the previous year. The total consumption of oil

derivatives, which is included in the base for excise duties in B&H, was higher by 3.2% compared to the consumption in 2022. At the same time, the consumption of diesel fuel increased by 3.7%, the consumption of gasoline by 3.9%, and the consumption of other components (fuel oil, kerosene) decreased by 6.5% (Chart 21).

Chart 21. Consumption of oil derivatives in 2023 compared to the previous year



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

Judging from the collected excise duties on oil derivatives in the first quarter, the trend of growth in the consumption of derivatives has continued in 2024, but at a decreasing rate. The extremely high rates of growth in the collection of excise duties on oil derivatives in January and February are explained by the low statistical basis for comparison (relatively low collection in the same period of the previous year), while the lower rate of collection of excise duties on oil derivatives in March was contributed by the rise in prices of derivatives.

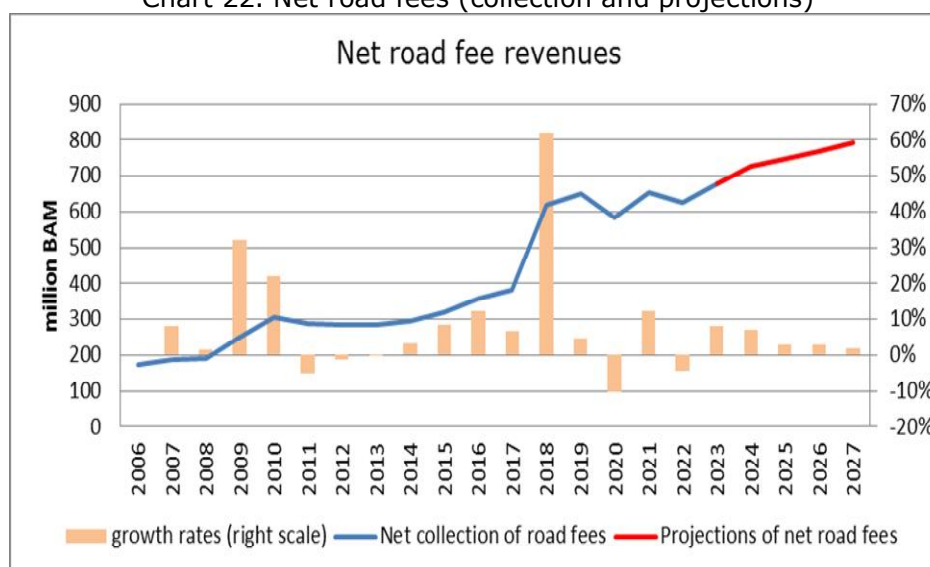
Bearing in mind all of the above, and based on projections of macroeconomic indicators, price movements on the world oil market and prices of oil derivatives on the B&H market, as well as the latest trends in excise duty collection and the seasonal collection pattern that does not include years with specificities, the projected growth rate of net excise revenue on oil derivatives for the year 2024 amounts to 5.9%, which is quite below the achieved growth rate of the same revenues in the first quarter of 2024.

The dynamics of the base for the road fee calculation is slightly different from the base for excise duties on oil derivatives because it does not include the consumption of kerosene and heating oil, but includes the consumption of liquid petroleum gas, and due to the existence of benefits, in the form of exemption from paying road fees, for mines, thermal power plants and railways. However, due to the decision of the State Aid Council of B&H<sup>22</sup>, the release of road fee payments for the mentioned categories of taxpayers was suspended in 2023. The long-term dynamics of road fee revenues were most affected by changes in taxation rates. Until 2009, the share of road fee revenues was not significant in indirect tax revenues. With the increase in the earmarked road fee rate in the middle of 2009, road fee revenues have a more significant share in indirect taxes. Observed in absolute terms, in the period 2009-2014, road fee revenues were in the range between 250.2 and 307 million BAM (Chart 22). With the drop in oil prices on the world market

<sup>22</sup> "Official Gazette of B&H" 49/23 and "Official Gazette of B&H" 63/23

and the prices of oil derivatives on the B&H market, in 2015 road fee revenues have been increasing. In the period 2015-2017, road fee revenues were in the range between 320.5 and 382.7 million BAM. In February 2018, the earmarked road fee rate increased again, and road fee revenues recorded a sharp jump in collection. In the period 2018-2023, they were in the range between 584 and 677.8 million BAM, and the significant fluctuation in this period was a consequence of restrictive measures in the fight against the corona virus, the war in Ukraine and the resulting huge differences in the prices of oil on the world market and oil derivatives on the B&H market. The projected amount of net road fee collection in 2024 is 725.9 million BAM, which is 7.1% more than in the previous year. In accordance with the decisions of the State Aid Council, the road fee revenue projections imply road fee collection for all payers, except for railways.

Chart 22. Net road fees (collection and projections)



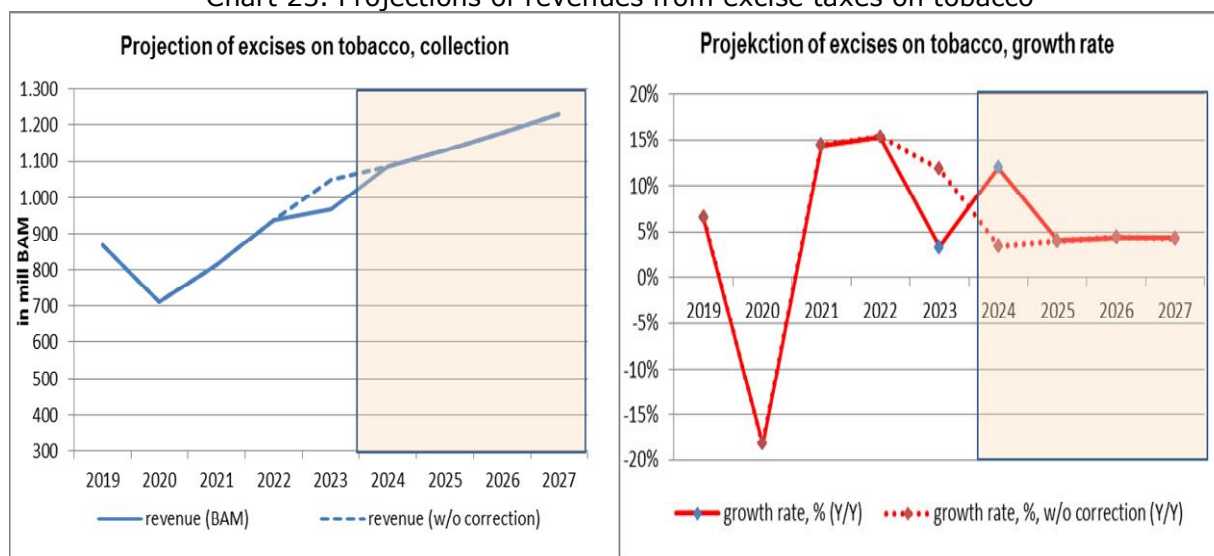
Source: the ITA data and MAU projections

### Revenues from excises on tobacco

The starting points for projections of revenues from excise taxes on tobacco products for 2024 are the current trends in the collection of excise taxes on tobacco products, which are characterized by large fluctuations. Unlike the projections for previous years, the historical trends in the collection of excise taxes on tobacco products cannot be a reliable starting point for the projections of collection in 2024 due to the change in the excise payment regime during 2023. As a result of the change in the method of payment of excise duties, a time vacuum was created in the collection of excise duties, which resulted in the loss of excise revenue of about 100 million BAM (see Chart 23, left) and a structural break in the series of data on excise duties collected. Due to the one-time loss of revenue from excise taxes on tobacco products in 2023, the base for comparing excise duty collection in 2024 is lower, which automatically produces higher growth rates in 2024 (see Chart 23, right). Bearing in mind the effect of the lower base from 2023, starting from the current trends in the collection of excise taxes on tobacco products and the current trends in the cigarette market in B&H in the first quarter of 2024, assuming that the total increase in the weighted average price of cigarettes in 2024, including the increase of the retail prices of cigarettes in the first quarter of 2024, will amount to a maximum of 2%, a 12% increase in excise revenue on tobacco products can be expected in 2024.



Chart 23. Projections of revenues from excise taxes on tobacco



Source: the ITA data and MAU projections

### Revenues from other categories of excise taxes

Revenues from other excise tax categories (alcohol and alcoholic beverages, beer, wine, non-alcoholic beverages and coffee) do not have a significant share in total excise revenues.<sup>23</sup> They are projected in accordance with current collection trends, historical seasonal patterns and projections of relevant macroeconomic indicators.

### 2.1.3. Customs

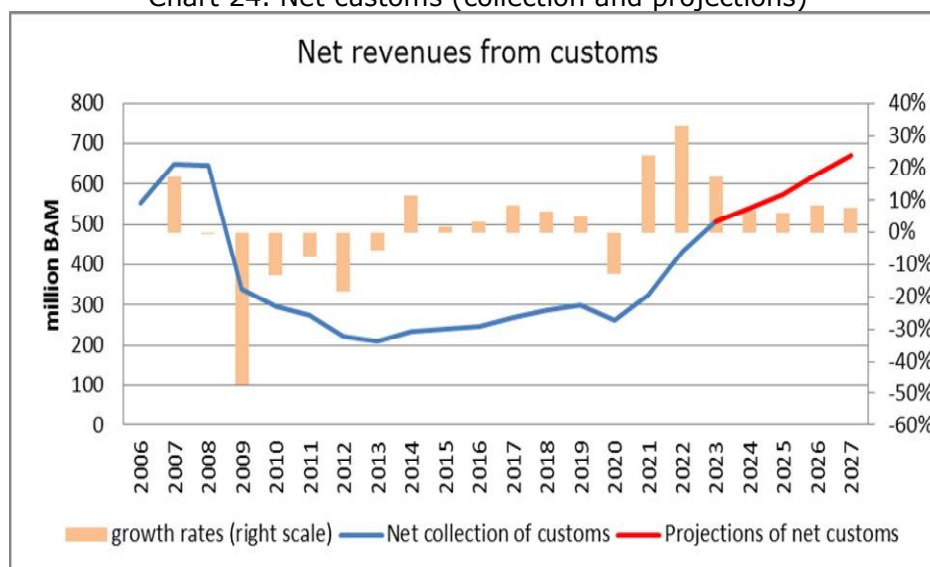
Liberalization of foreign trade led to a strong drop in customs revenues. From 650.4 million BAM in 2007, net revenues from customs fell to only 211 million BAM in 2013. Since 2014, a six-year trend of slight growth of these revenues has been recorded, reaching the level of 300.6 million BAM in 2019. In 2020, with the coronavirus pandemic, these revenues fell again to 262.2 million BAM, while in the period 2021-2023 they recorded a strong recovery, amounting to 506.7 million BAM in 2023 (Chart 24, blue line).

According to ITA data, in the period I-III of 2023, the growth rate of imports was 3.8% compared to the same period of the previous year. According to DEP's projections, a slightly higher import growth rate of 5.2% will be achieved for the whole year. According to the preliminary report of the ITA, the growth of gross customs revenue was a high 16.3%, but with declining growth rates from January to March. Taking into account the trends in the collection of customs revenues, the dynamics of imports and DEP's projections, for 2024 the net customs collection is projected in the amount of 542.3 million BAM, which is 7.0% more than the collection in the previous year (Chart 24, red line)

<sup>23</sup> Gross revenues from all listed types of excises accounted for only 9.2% of gross revenues from excise taxes in 2023.



Chart 24. Net customs (collection and projections)

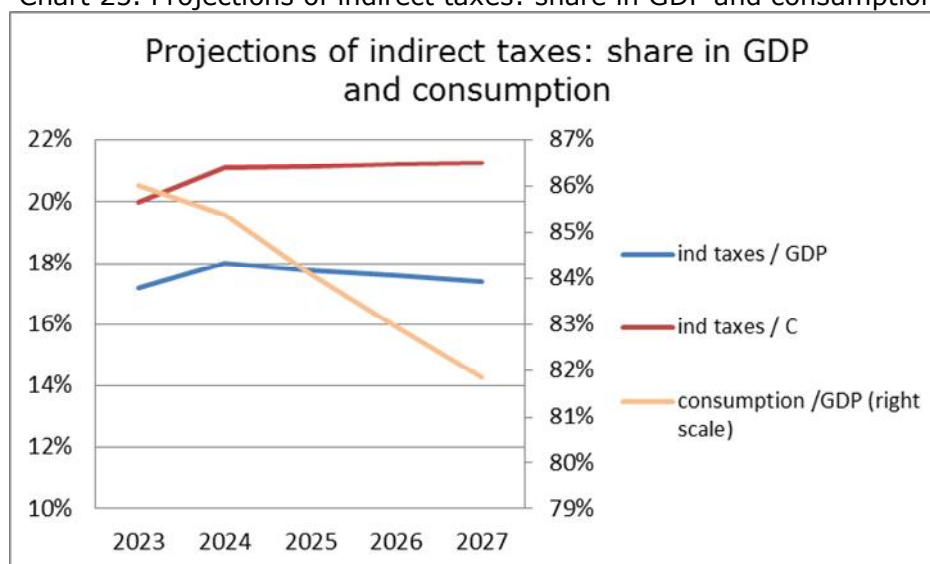


Source: the ITA data and MAU projections

## 2.2. Projections for the period 2025-2027

The projected growth rates of net revenues from indirect taxes for 2025, 2026 and 2027 are 3.6%, 4.1% and 4.1%, respectively. The revenue projections for the mentioned period are based on projected relevant macroeconomic indicators, historical seasonal collection pattern and projections of certain categories of revenue for the year 2024.

Chart 25. Projections of indirect taxes: share in GDP and consumption



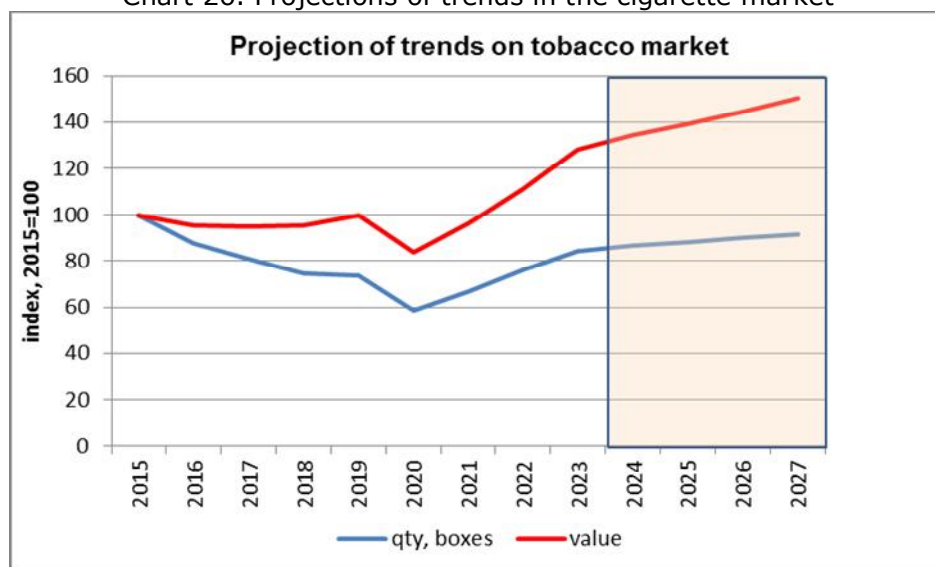
Source: the ITA data and MAU projections

In contrast to the projected decline of indirect taxes in GDP in the period 2024-2027 (Table 4), the projected share of revenues from indirect taxes (MAU) in consumption (DEP) in the specified period increases slightly from 21.1% in 2024 to 21.3% in 2027. The decline in the projected share of indirect taxes in GDP in the period 2024-2027 is the cumulative result of a slight increase in

indirect taxes in consumption and the decline in the projected share of consumption in GDP (Chart 25).

The biggest generator of the annual absolute growth of revenues from indirect taxes in the specified period is VAT<sup>24</sup>, given its significant share in revenues, and the planned stable growth rates in accordance with the projected growth rates of consumption (Chart 18, red line). An important factor in achieving the projections in the mentioned period is the unchanged policy of excise taxes on tobacco and oil derivatives, and the continuous fight against the black market of cigarettes and tobacco in B&H. In the next three years, stabilization of the political situation in the world and stabilization of commodity exchanges and prices on the world market, recovery and growth of the economy, income and consumption are expected in accordance with macroeconomic projections.

Chart 26. Projections of trends in the cigarette market



Source: the ITA data and MAU projections

The growth of the tobacco market should follow the macroeconomic projections of consumption, which, along with a 2% increase in the weighted average price of cigarettes, should lead to a further increase in the value of cigarette sales and taxed amounts of cigarettes (Chart 26). Under the aforementioned assumptions, in 2025, 2026, and 2027, revenue from excise taxes on tobacco products can be expected to grow by 4%, 4.4%, and 4.3% (Chart 23, right).

Projections of excise duties on oil derivatives and road fees follow the projections of relevant macroeconomic indicators (Chart 20 and Chart 22, red lines), while projections of customs revenues follow import projections (Chart 24, red line). Bearing in mind the decisions of the State Aid Council of B&H, the projections of road fee revenues imply the collection of road fee for all payers, except for railways.

<sup>24</sup> About 65% of the absolute revenue growth in all years refers to VAT revenues.

### 3. Differences compared to previous projections of revenues from indirect taxes

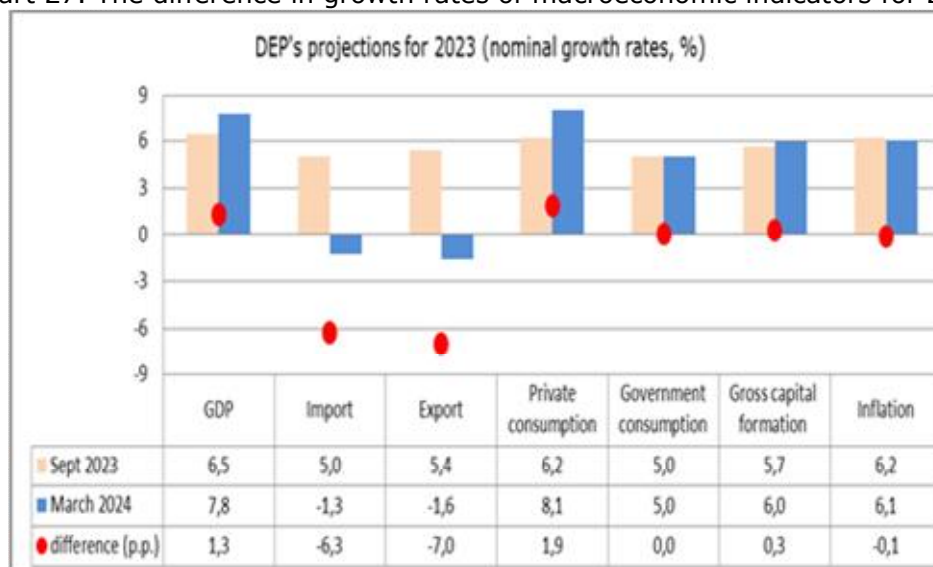
Projections of indirect tax revenues are closely related to the DEP's projections of GDP and its components. Any deviation of these parameters from the projected value represents the risk for revenue projection.

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

##### 3.1.1. Revision of projections of macroeconomic indicators for 2023

On the basis of Chart 27, DEP's latest projections of GDP growth rates for 2023 and its components (March 2024) can be compared with the previous DEP's projections (September 2023). The nominal GDP growth rate was revised by +1.3 p.p., from 6.5% to 7.8%. The growth rates of imports and exports were revised the most (-6.3 p.p. and -7 p.p.).

Chart 27. The difference in growth rates of macroeconomic indicators for 2023

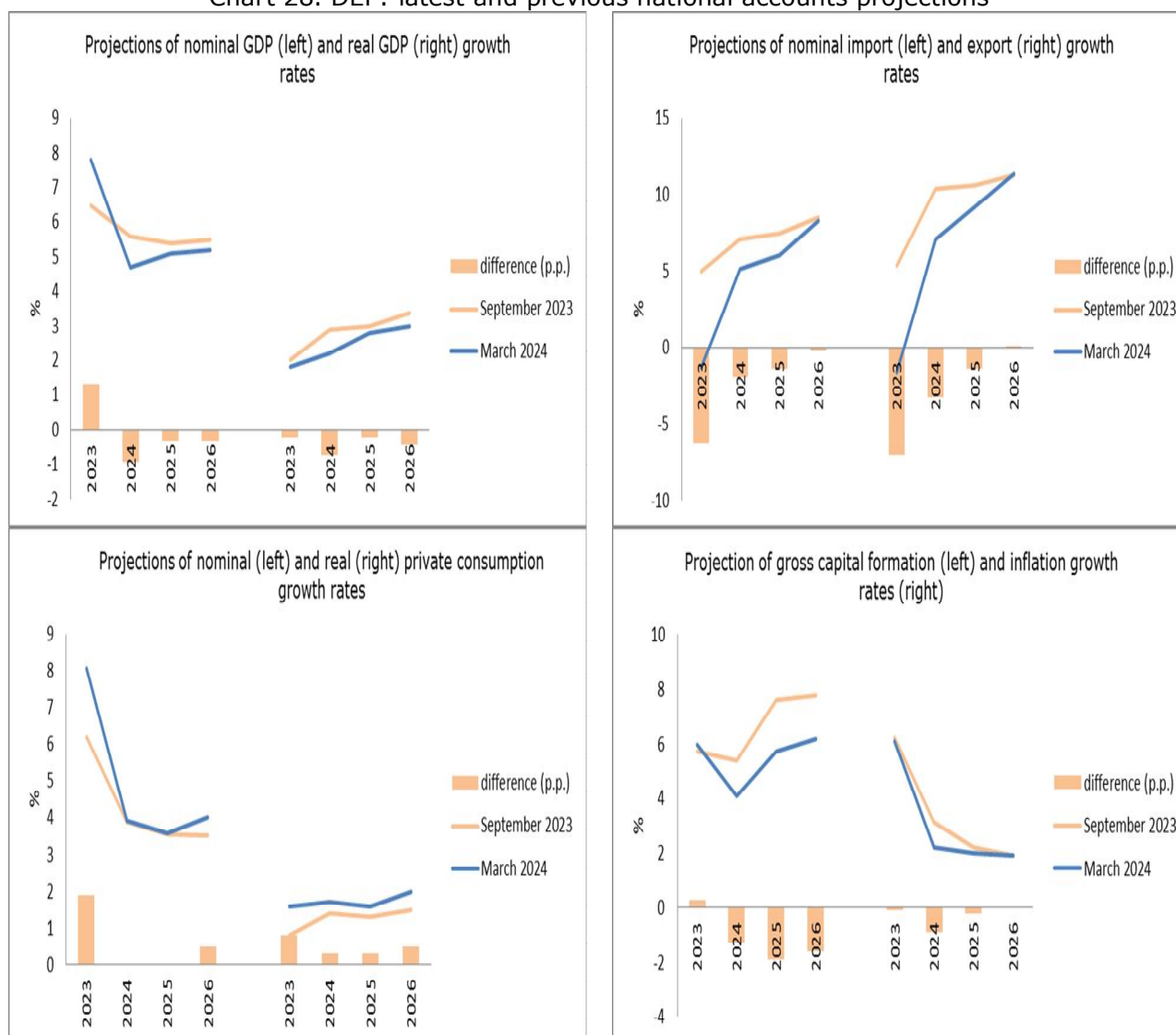


Source: Calculation and presentation of the MAU based on DEP's projections from September 2023 and March 2024

### 3.1.2. Revision of projections of macroeconomic indicators for the period 2024-2026

Compared to the previous, September projections, DEP's GDP growth projections from March 2024 have been revised downwards for the entire period 2024-2026, both in nominal and real indicators (Chart 28, top, left). Projections of nominal growth of imports and exports have also been revised downwards for the entire observed period (Chart 28, top, right). The exception is the export growth projection for 2026, which has been slightly revised upwards. Projections of the nominal growth of private consumption have not been changed for 2024 and 2025, but have been revised upwards for 2026 (Chart 28, bottom, left). Gross capital formation growth projections have been revised downwards for the entire period 2024-2026 (Chart 28, bottom, right).

Chart 28. DEP: latest and previous national accounts projections



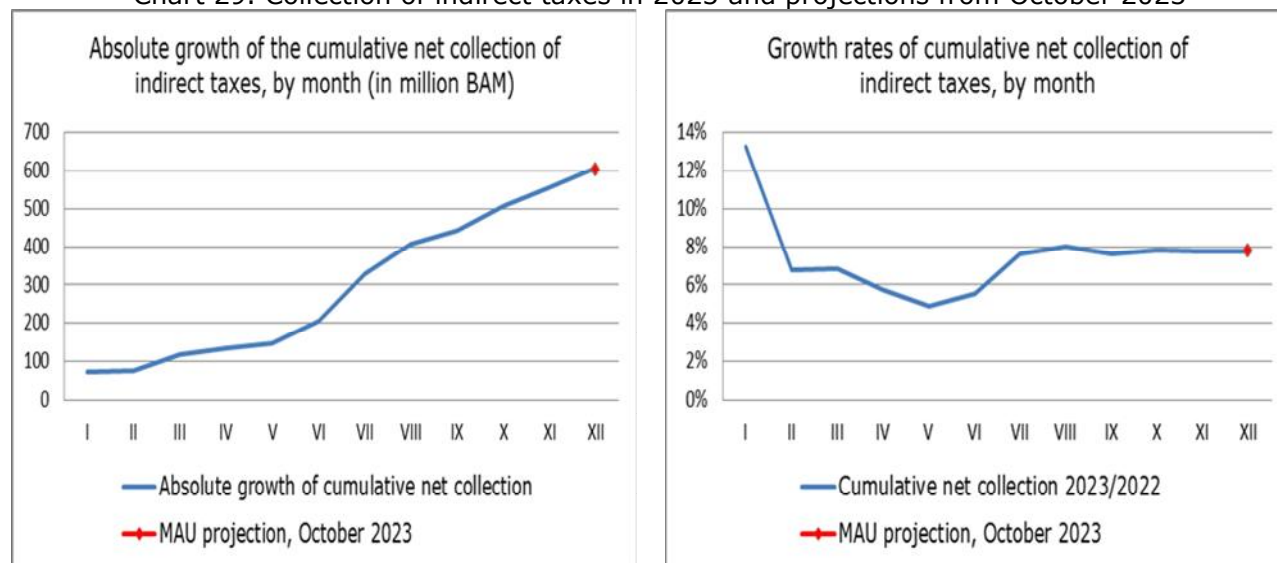
Source: Calculation and presentation of the MAU based on DEP's projections from March 2024 and September 2023.

### 3.2. MAU, revision of indirect tax revenue projections

#### 3.2.1. Differences in realization for 2023 compared to projections from October 2023.

Compared to the MAU's projections from October 2023, the net collection of indirect taxes is higher by 7 million BAM (Chart 29). It can be concluded that the Unit's October projections, as in the case of the previous year, were realized with an accuracy rate of almost one hundred percent (100.08%).

Chart 29. Collection of indirect taxes in 2023 and projections from October 2023



Source: Indirect Taxation Authority of B&H and MAU's October 2023 projections; presentation of the MAU

#### 3.2.2. Differences in revenue projections for the period 2024-2026 compared to the October projections

Differences of the revenue projections for the period 2024-2026 compared to the projections from October 2023 are presented in Table 5. Compared to the projections from October 2023, the revenue projections for 2024, 2025 and 2026 have been revised by +419.3 million BAM, +442.6 million BAM and +501.6 million BAM, respectively.

Table 5. Differences in revenue projections compared to October 2023 projections

Type of revenue (net)	2024	2025	2026
VAT	363,6	378,0	422,5
Excises	27,0	44,6	63,5
Customs	-5,2	-13,1	-15,4
Road fee	22,7	21,9	19,7
Other	11,3	11,3	11,3
<b>TOTAL</b>	<b>419,3</b>	<b>442,6</b>	<b>501,6</b>

Based on Chart 28, it can be concluded that there were no major revisions in DEP's projections of growth rates of relevant macroeconomic indicators for the period 2024-2026 in March 2024 compared to their previous projections. The statistical basis for making projections for the year

2024 (year 2023) was not significantly changed (+7 million BAM; see Part 3.2.1). The largest corrections of projections were made on VAT revenues. The factors that led to the differences in projections compared to previous projections are mainly related to trends in the collection of revenues from indirect taxes in the first quarter of 2024, which indicate a much more favorable collection of revenues compared to DEP's projections of macroeconomic indicators from September 2023, on which the MAU's previous projections were based, and even compared to the last projections of macroeconomic indicators from March 2024.

#### 4. Risks

Considering the huge unknowns at the time of preparing the projections about the further development of the situation on the international level related to the events in Ukraine and the assumptions used (DEP, macroeconomic projections), **we point out that there are significant risks for the realization of projections of indirect tax revenues.** 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 2024-2027 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.

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, requests for exemption or payment of refunds for sales in the country (e.g. medicines) etc.

The decisions of the State Aid Council of B&H regarding exemptions of road fee for mines and thermal power plants carry certain risks for the collection of indirect taxes. Bearing in mind the decisions of the Council (see Part: 2.1.2. *Excise duties and road fees* and 2.2. *Projections for the period 2025-2027*), **the projections of road fee revenues for the period 2024-2026 imply the collection of road fee for all payers, except for railways. A different outcome of the possible legal proceedings of the users of the tax relief would imply a lower road fee collection compared to the projections.** On the other hand, the return of the relief would have a positive effect on the collection of road revenues. Bearing in mind the unknowns regarding the dynamics of refund collection and the duration of possible legal proceedings in this regard, the refund of the relief is not included as one-time additional revenue in the revenue projections for the period 2024-2027.



## Annex: Latest projections of international institutions

### i. Projections of the European Commission (EC)

Based on Table 6, we can see projections of real GDP growth and inflation for the period from 2023 to 2025 from the latest EC projections.<sup>25</sup> For 2023, it was estimated that real GDP growth of 0.5% was achieved in the EU, while growth rates of 0.8% and 1.5% are projected for 2024 and 2025, respectively. As for the inflation rate in the EU, it is estimated that it will fall from 6.3% in 2023 to 3% in 2024 and to 2.5% in 2025.

Table 6. EC Winter Projections, 2024

Projection	Real GDP growth				Inflation		
	2023	2024	2025		2023	2024	2025
EA	0,5	0,8	1,5		5,4	2,7	2,2
EU	0,5	0,9	1,7		6,3	3,0	2,5

Source: European Economic Forecast, winter 2024 (Interim)

### ii. Projections of the International Monetary Fund (IMF)

The latest IMF projections date from January 2024.<sup>26</sup> According to the source, it is projected that the global growth in 2024 will amount to 3.1% (the same growth rate as the previous year), and that the growth rate will increase slightly in 2025 to 3.2%.

In addition to the projections for the World Output, Table 7 presents the IMF's projections for the Euro Area.

Table 7. Real GDP growth projections, IMF, January 2024

		Projection		Difference compared to October 2023 WEO	
	2023	2024	2025	2024	2025
World Output	3,1	3,1	3,2	0,2	0,0
Euro Area	0.5	0.9	1.7	-0.3	-0.1

Source: IMF, World Economic Outlook Update, January 2024.

### iii. Projections of the European Central Bank (ECB)

In the March 2024 ECB projections, the average annual growth rate of real GDP in the Eurozone is expected to be 0.6% in 2024, and to strengthen to 1.5% in 2025 and 1.6% in 2026.

Table 8. ECB projections of GDP growth and inflation for the Eurozone, March 2024

	2022	2023	2024	2025	2026
Real GDP	3,4	0,5	0,6	1,5	1,6
HICP Inflation	8,4	5,4	2,3	2,0	1,9

Source: ECB projections from March 2024; [www.ecb.europa.eu](http://www.ecb.europa.eu)

<sup>25</sup> European Economic Forecast, winter 2024 (Interim), February 2024

<sup>26</sup> IMF, World Economic Outlook Update, January 2024

## Analysis of revenue trends from excise duty on beer

(Author: Mirjana Popović, expert advisor - macroeconomist)

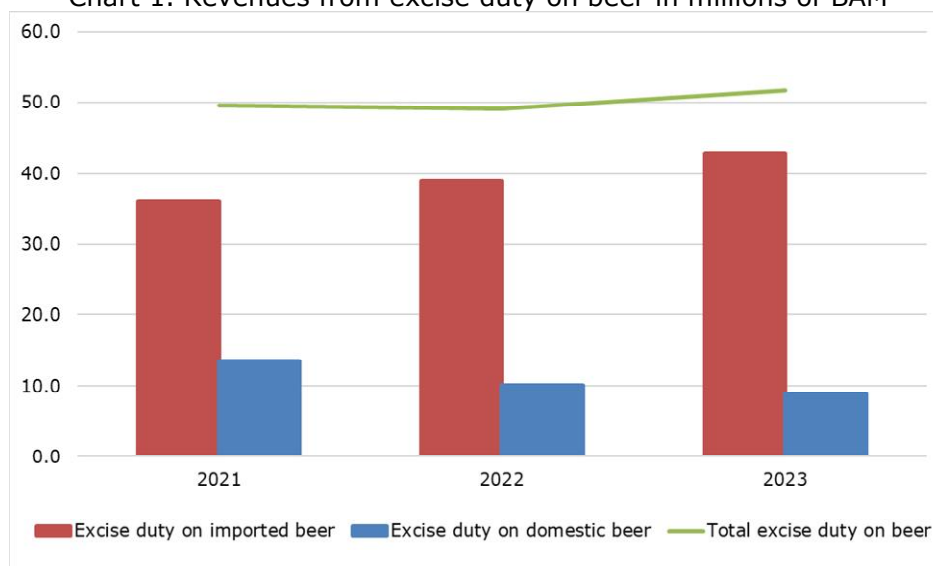
### Summary

The analysis of trends in the collection of excise revenue on beer is a continuation of the analysis published in previous issues of the Unit's bulletin<sup>27</sup>. The focus of the analysis is the annual collection of total revenue from excise duty on beer, as well as the annual collection of revenue from excise duty on beer in Bosnia and Herzegovina (hereinafter: BiH), separated into components - imported and domestic beer. The collection in 2023 was analyzed<sup>28</sup> in relation to the previous two years, 2022 and 2021<sup>29</sup>. The analysis shows the quarterly movement of total revenue from excise duty on beer and the quarterly movement of revenue from excise duty on imported and domestic beer for the period from the first quarter (Q1) of 2021 to the fourth quarter (Q4) of 2023<sup>30</sup>. The analysis also shows the monthly movement of total revenues from excise duty on beer and revenues from excise duty on imported and domestic beer for the period January 2021 - February 2024<sup>31</sup>.

### 1. Annual movement of revenues from excise duty on beer

Total revenues from excise duty have a significant share in total revenues from indirect taxes, while total revenues from excise duty on beer will contribute 3.1% to total revenues from excise duty in 2023. Chart 1 shows the movement of the annual collection of revenue from excise duty on beer for the period 2021-2023, in millions of BAM. The annual collection of total revenues from excise duty on beer in the observed time period and the annual collection of excise revenues separated by components are presented - revenues from excise duty on imported beer and revenues from excise duty on domestic beer.

Chart 1. Revenues from excise duty on beer in millions of BAM



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

<sup>27</sup> More about the beer taxation policy and collection of revenues from excise duty on beer: Popović, M. (2022). "Analysis of collection of revenues from excise duties on beer". MAU bulletin no. 205/206.

<sup>28</sup> Latest available annual data.

<sup>29</sup> Due to the consequences of the Covid-19 pandemic, the 2020 is not relevant for comparison.

<sup>30</sup> Latest available quarterly data.

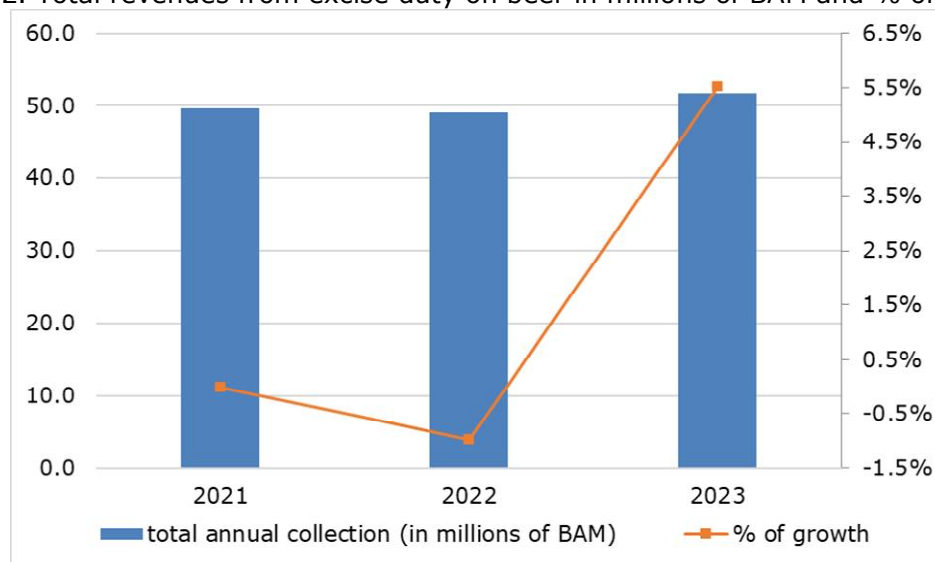
<sup>31</sup> Latest available monthly data.

It is evident from the data that the movement of total revenues from excise duty on beer in 2023 is slightly increasing. An increase in revenue from excise duty on imported beer was recorded while there was a decrease in revenue from excise duty on domestic beers. It is a result of an increase in the consumption of imported beer and a decrease in the consumption of domestic beer from year to year. A significantly larger supply of imported beer, as well as significantly larger financial resources of the world's beer producers intended for marketing, "suppressed" the visibility of beer produced by domestic producers in restaurants and cafes throughout the country. Namely, through the provision of a large number of promotional materials for catering facilities, taps for draft beer, garden furniture, showcases, sets and other equipment, the world's beer producers influenced the increase in the consumption of imported beer. On the other hand, this was reflected in the reduction of the "visibility" of domestic producers and the reduction of consumption of domestic beer in restaurants and cafes.

### 1.1. Annual movement of total revenues from excise duty on beer

Chart 2 shows the annual trend in the collection of total revenues from excise duty on beer for the period 2021-2023, in millions of BAM (left vertical scale) and the annual growth rate of these revenues (right vertical scale)<sup>32</sup>.

Chart 2. Total revenues from excise duty on beer in millions of BAM and % of growth



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

In 2023, the collection of total revenues from excise duty on beer increased by 5.5% compared to the collection of these revenues in 2022 (Chart 2, % of growth), while in 2022, the collection of these revenues recorded a slight decrease of 1.0% compared to the collection in 2021 (Chart 2, % of growth).

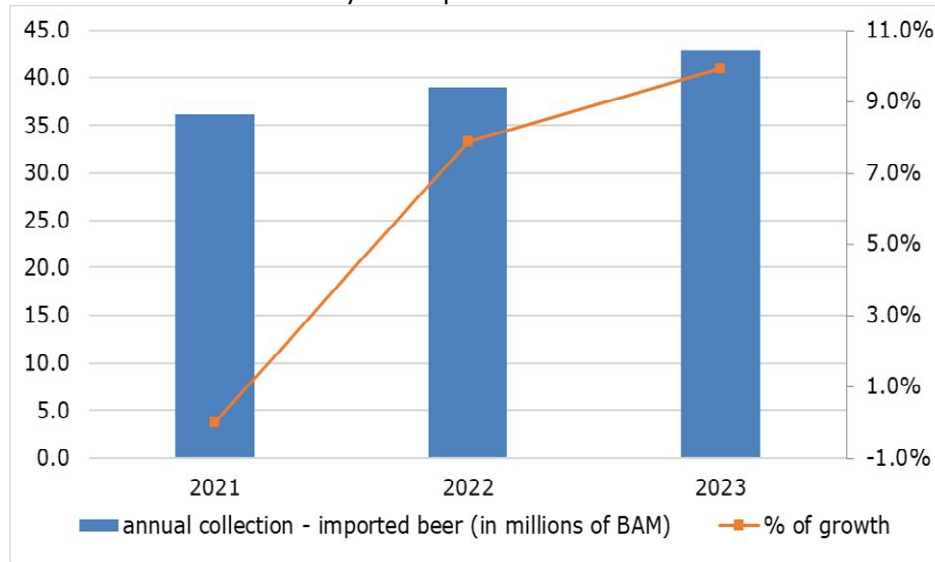
In addition to the annual collection of total revenues from excise duty on beer in the period 2021-2023, in the continuation of the analysis, the collection of revenues from excise duty on beer is shown, separated by components (import and domestic excise duty) for the same period. A more detailed analysis provides a more detailed picture of consumer preferences and the influence of other external factors on the consumption of this excise product.

<sup>32</sup> compared to the previous year

### 1.2. Annual movement of revenues from excise duty on imported beer

Chart 3 shows the annual trend in the collection of revenues from excise duty on imported beer for the period 2021-2023, in millions of BAM (left vertical scale), as well as the annual growth rate of these revenues (right vertical scale)<sup>33</sup>.

Chart 3. Revenues from excise duty on imported beer in millions of BAM and % of growth



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Since the largest share in the total revenues from excise duty on beer is the revenues from excise duty on imported beer, the collection of those revenues had the greatest impact on the increase in the collection of total revenues from excise duty on beer. Revenues from excise duty on imported beer in 2023 recorded a growth of 9.9% compared to 2022 (Chart 3, % of growth), while in 2022 a growth of these revenues was recorded by 7.9% compared to collection in 2021 (Chart 3, % of growth). The continuous increase in revenues from excise duty on imported beer from year to year is a consequence of consumer preferences, a larger offer of imported beer compared to domestic producers, and a slight difference in the selling price of imported and domestic beer.

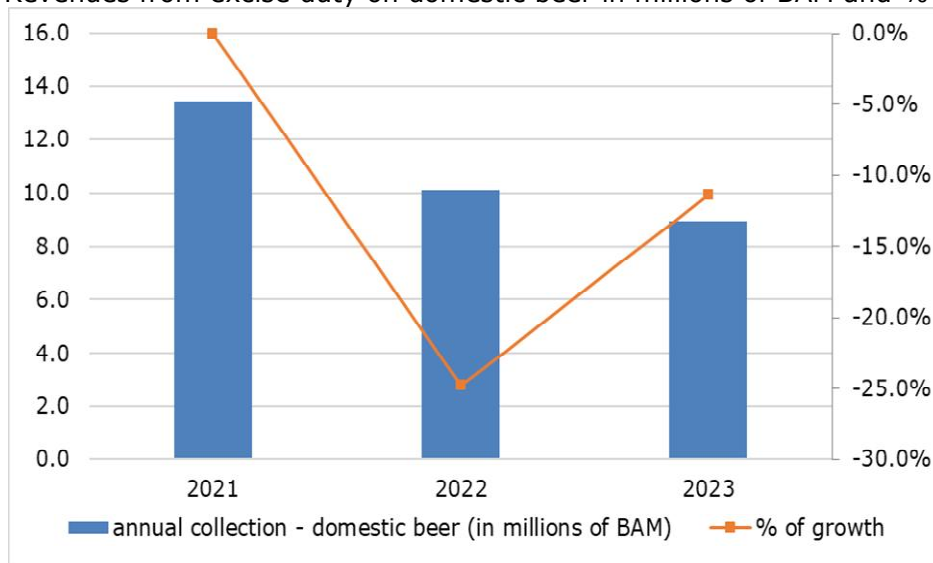
### 1.3. Annual movement of revenues from excise duty on domestic beer

Chart 4 shows the annual trend in the collection of revenues from excise duty on domestic beer for the period 2021-2023, in millions of BAM (left vertical scale), as well as the annual growth rate of these revenues (right vertical scale)<sup>34</sup>.

<sup>33</sup> compared to the previous year

<sup>34</sup> compared to the previous year

Chart 4. Revenues from excise duty on domestic beer in millions of BAM and % of growth



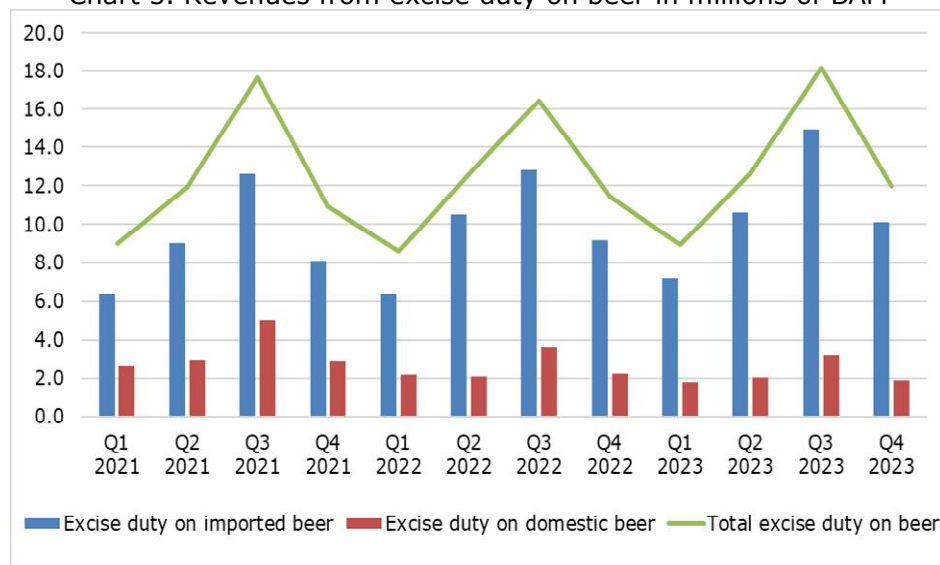
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

In contrast to the increasingly popular imported beer, the collection of excise duty on domestic beer is decreasing. Considering that, the 2023 is characterized by a decrease in revenues from excise duty on domestic beer by 11.4% compared to 2022 (Chart 4, % of growth), while the collection of these revenues in 2022 is lower by 24.8% compared to 2021 (Chart 4, % of growth). Despite the fact that new markets are opening up for domestic breweries and regardless of the fact that domestic producers have the prerequisites for a high-quality product of industrial and craft beer due to the quality of the water, revenues from excise duty on domestic beer are decreasing from year to year.

## 2. Quarterly movement of revenues from excise duty on beer

The most significant factors that affect the quarterly dynamics of collection of revenues from excise duty on beer are weather conditions, various events, celebrations and holidays. Chart 5 shows the quarterly movement of revenues from excise duty on beer for the period 2021-2023, in millions of BAM. The quarterly dynamics of the movement of total revenues from excise duty on beer, as well as revenues from excise duty on beer by component - revenues from excise duty on imported beer and revenues from excise duty on domestic beer, is shown for the period from the first quarter (Q1) of 2021 to the fourth quarter (Q4) of 2023.

Chart 5. Revenues from excise duty on beer in millions of BAM



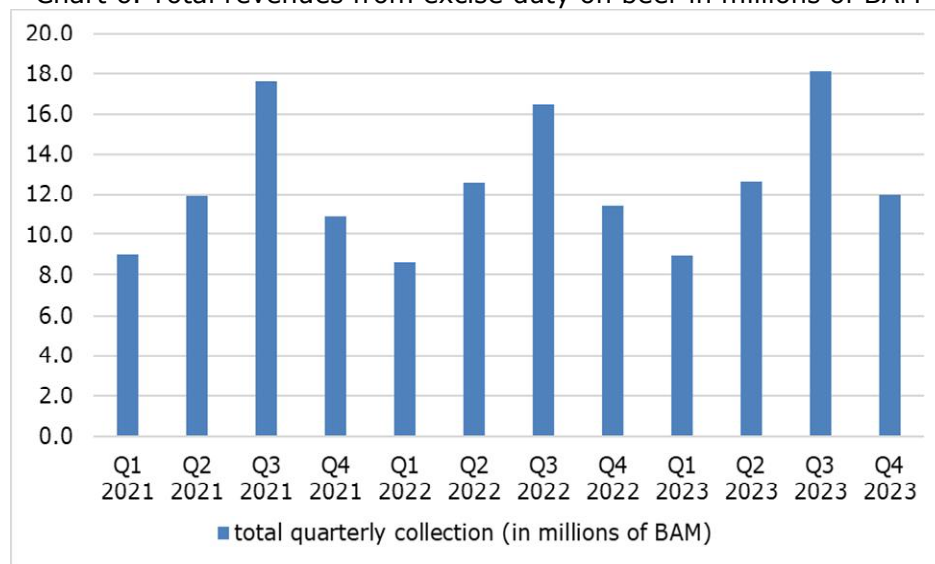
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The data shown in the chart is an analysis of the seasonal trend in the collection of excise revenues on beer as a consequence of weather conditions, where the highest consumption of beer in the observed three years was recorded in the third quarter. Below is a more detailed analysis of total revenues from excise duty on beer, revenues from excise duty on imported and domestic beer, as well as the growth rate of these revenues by quarter for the observed period.

### 2.1. Quarterly movement of total revenues from excise duty on beer

Chart 6 shows the quarterly trend in the collection of total revenues from excise duty on beer, in millions of BAM for the period Q1 2021 - Q4 2023.

Chart 6. Total revenues from excise duty on beer in millions of BAM

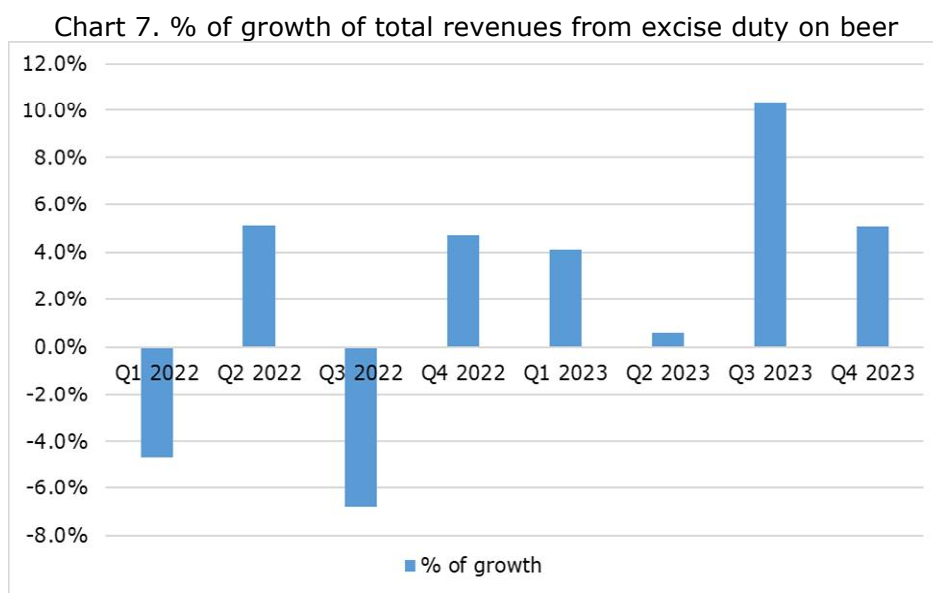


Source: Data from the Indirect Taxation Authority of BiH, MAU overview



As previously stated, the trend in the collection of total revenues from excise duty on beer on a quarterly basis in the observed period is seasonal, and the collection of these revenues is the highest in the third quarters of the observed period.

Chart 7 shows the quarterly growth rate of total revenues from excise duty on beer for the period Q1 2021 - Q4 2023, compared to the same quarter of the previous year.



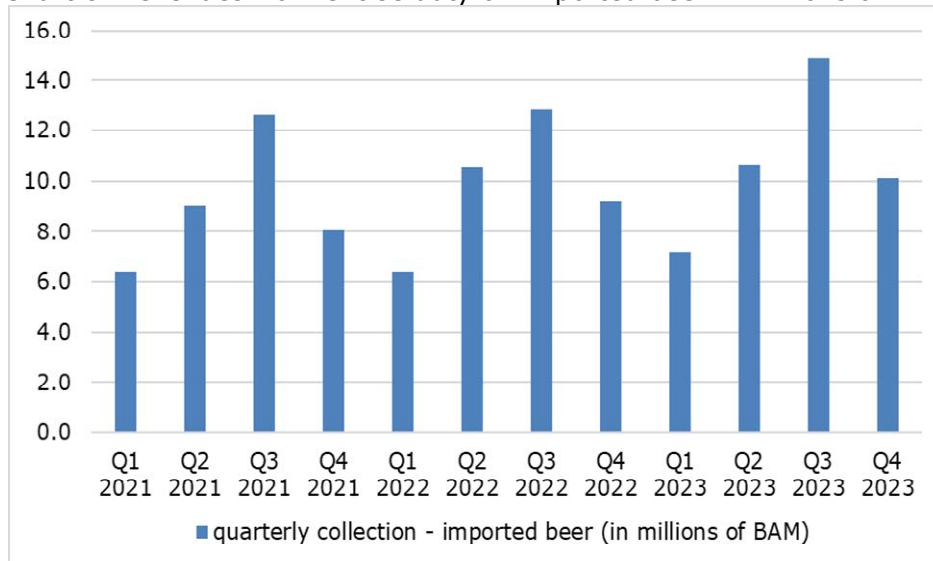
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Analyzing the quarterly trends in the total revenues from excise duty on beer, there is a noticeable decrease in the collection of these revenues in the first quarter of 2022 by 4.7% and in the third quarter of the same year by 6.8% compared to the same quarters of the previous year. The highest growth in total revenues from excise duty on beer on a quarterly basis was recorded in the third quarter of 2023 by 10.3%, and the lowest in the second quarter of the same year by 0.6%, while the increase recorded in the other analyzed quarters ranges between 4.1% and 5.2%, compared to the same quarters of the previous year.

## 2.2. Quarterly movement of revenues from excise duty on imported beer

Chart 8 shows the quarterly trend in the collection of revenues from excise duty on imported beer, in millions of BAM for the period Q1 2021 - Q4 2023.

Chart 8. Revenues from excise duty on imported beer in millions of BAM

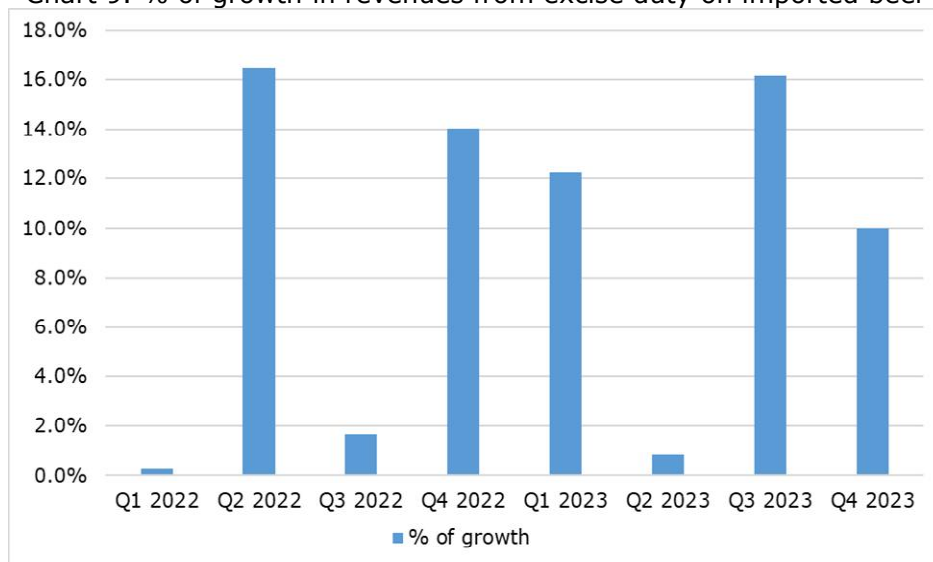


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

As with the movement of total revenues from excise duty on beer, the quarterly movement of collection of revenues from excise duty on imported beer is also seasonal. Accordingly, in the period shown in the chart, the collection of these revenues is highest in the third quarters.

Chart 9 shows the quarterly growth rate of revenues from excise duty on imported beer for the period Q1 2021 - Q4 2023, compared to the same quarter of the previous year.

Chart 9. % of growth in revenues from excise duty on imported beer



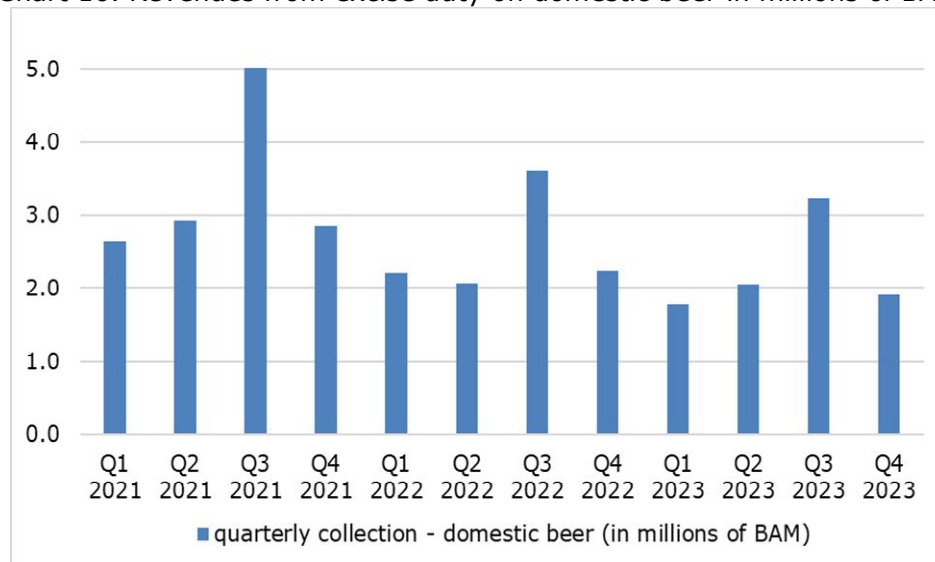
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The quarterly collection of revenues from excise duty on imported beer has a positive trend in all quarters in the observed two years. The highest growth of these revenues was recorded in the second quarter of 2022 by 16.5% and the fourth quarter of the same year by 14.0%, as well as in the first quarter of 2023 by 12.2%, the third quarter of 2023 by 16.2% and the fourth quarter of 2023 by 10.0% in comparison with the same quarters of the previous year.

### 2.3. Quarterly movement of revenues from excise duty on domestic beer

Chart 10 shows the quarterly trend in the collection of revenues from excise duty on domestic beer in millions of BAM for the period Q1 2021 - Q4 2023.

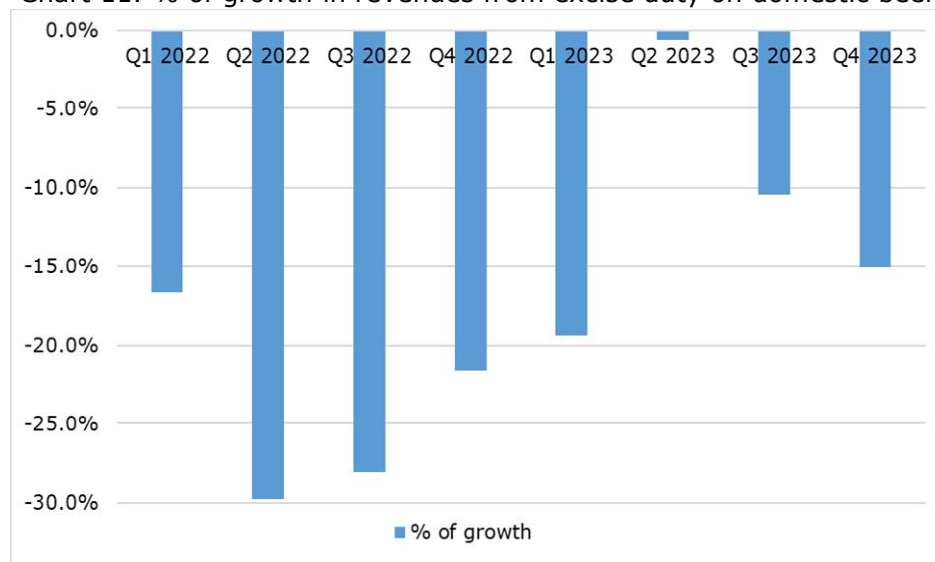
Chart 10. Revenues from excise duty on domestic beer in millions of BAM



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Chart 11 shows the quarterly growth rate of revenues from excise duty on domestic beer for the period Q1 2021 - Q4 2023, compared to the same quarter of the previous year.

Chart 11. % of growth in revenues from excise duty on domestic beer



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

A negative trend in the collection of revenues from excise duty on domestic beer on a quarterly basis was recorded in all quarters in the observed two years. The largest decrease in these revenues was recorded in the second quarter of 2022 by 29.8%, in the third and fourth quarters of the same year, by 28.1% and 21.6% respectively in comparison with the same quarters of

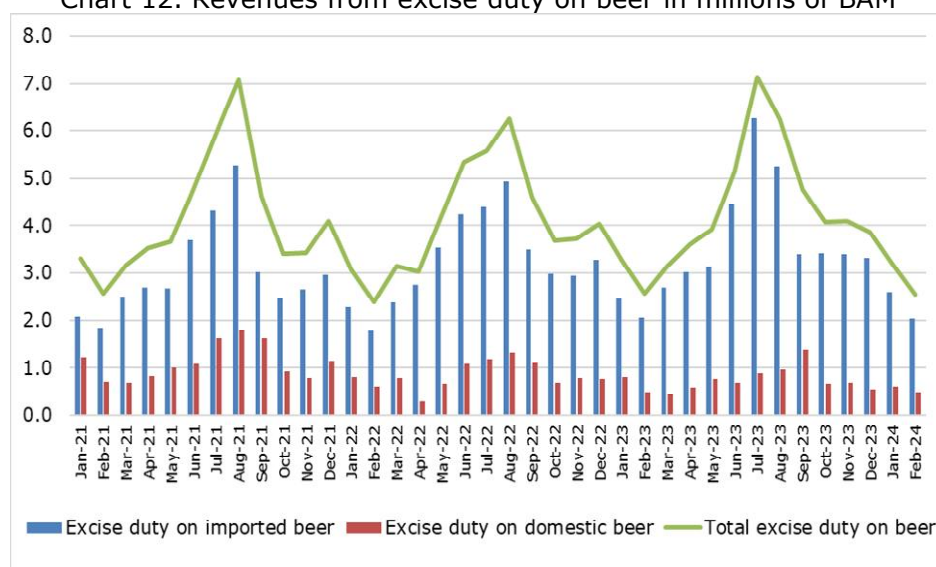
2021. The smallest decrease in the collection of these revenues was recorded in the second quarter of 2023 by 0.6% compared to the collection in the second quarter of 2022.

### 3. Monthly movement of revenues from excise duty on beer

The monthly dynamics of revenue collection from excise duties on beer is shown for the period from January 2021 to February 2024. The goal of the monthly analysis of revenue collection from excise duties on beer is a more detailed presentation of the movement of these revenues under the influence of numerous external factors on the price of beer, the quantity consumed, as well as the behavior and preferences of consumers. The analysis so far has shown that weather conditions and the seasonal factor have the greatest influence when it comes to these revenues, i.e. beer consumption. Although the consequences of the coronavirus are still present to a certain extent through changes in the behavior and habits of consumers, their impact on the revenues from excise duties on beer is getting weaker. Global inflation and price increases on the world market currently have the greatest impact on beer prices, as a result of the unstable situation in the Middle East and the continuation of the war between Russia and Ukraine.

Chart 12 shows the monthly movement of revenues from excise duty on beer for the specified period, in millions of BAM. The monthly movement of the total collection of revenues from excise duty on beer in the observed time period, as well as the monthly movement of the collection of revenues from excise duty on beer separated by components, are shown.

Chart 12. Revenues from excise duty on beer in millions of BAM

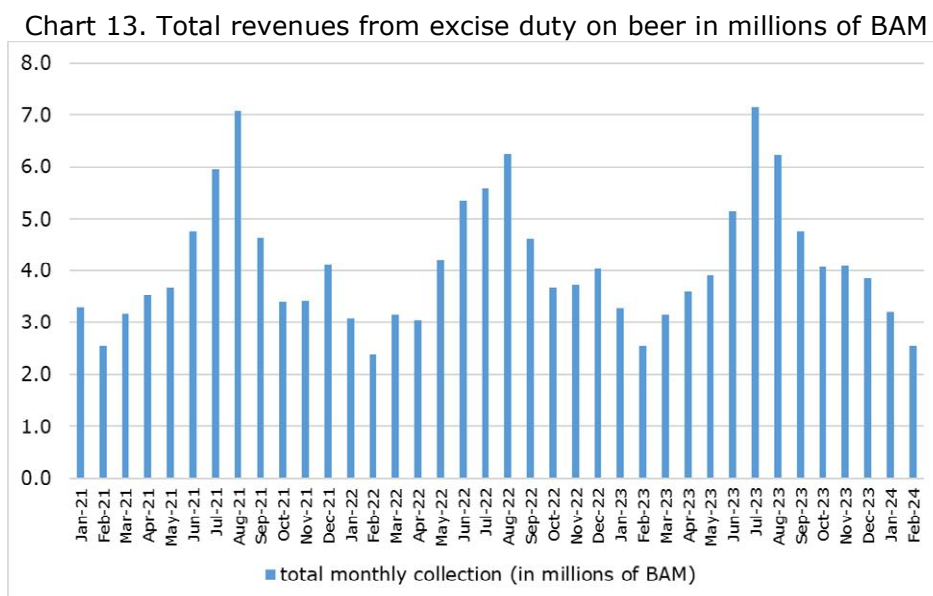


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

It is evident from the chart that the highest revenue collection from excise duties on beer is on a monthly basis in the summer months. Due to weather conditions, the highest consumption of beer is in the period from June to September, after which consumption decreases slightly until December. In December every year, a slight increase in the collection of these revenues was recorded as a result of increased spending during the holidays. A more detailed analysis of the trends in total monthly revenues from excise duty on beer and monthly revenues from excise duty on imported and domestic beer is presented below.

### 3.1. Monthly movement of total revenues from excise duty on beer

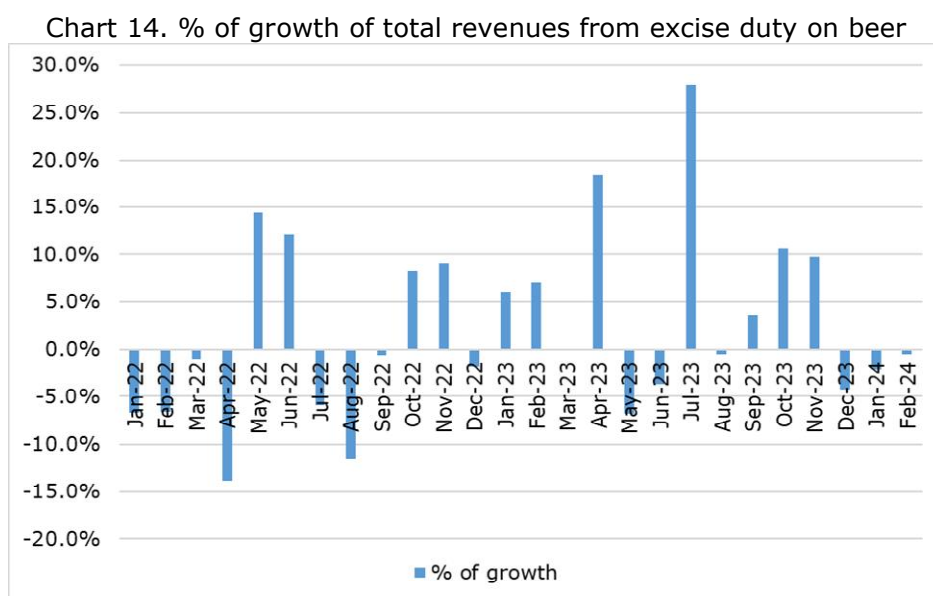
Chart 13 shows the monthly movement of total revenues from excise duty on beer, in millions of BAM for the period January 2021 - February 2024.



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The highest collection of total revenues from excise duty on beer was recorded in July and August every year when beer consumption is the highest.

Chart 14 shows the monthly growth rate of total revenues from excise duty on beer for the period January 2021 - February 2024, compared to the same month of the previous year.



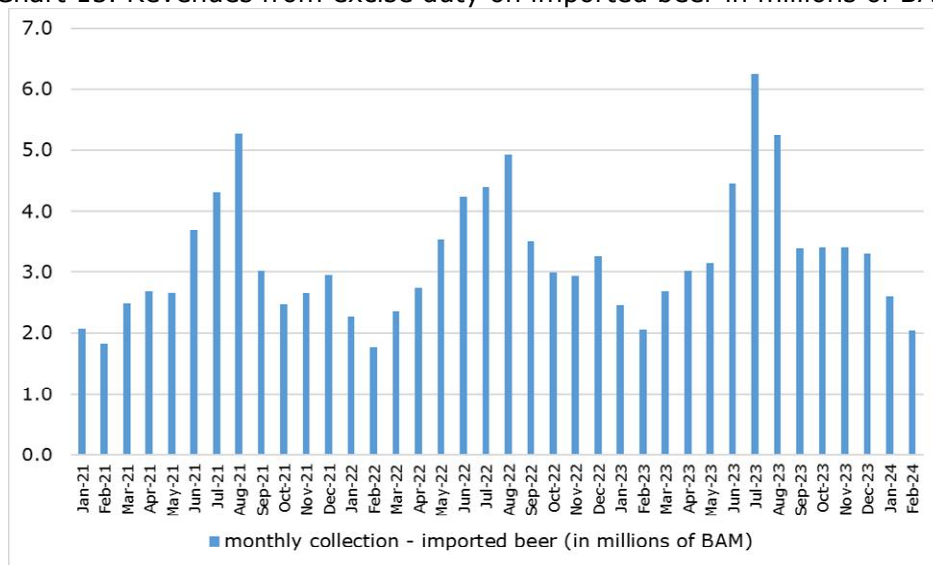
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Beer consumption is greatly influenced by weather conditions, and the reason for the decrease or increase in total revenues collected from this excise product is the decrease or increase in beer consumption, which is affected by weather conditions. Given that a large number of rainy days were recorded in May and June 2023, already in the following month, more precisely in July of the same year, the total revenues from excise duty on beer recorded the highest collection growth in the observed period of 27.9% compared to the collection in the same month of the previous year.

### 3.2. Monthly movement of revenues from excise duty on imported beer

Chart 15 shows the monthly movement of revenues from excise duty on imported beer, in millions of BAM for the period January 2021 - February 2024.

Chart 15. Revenues from excise duty on imported beer in millions of BAM



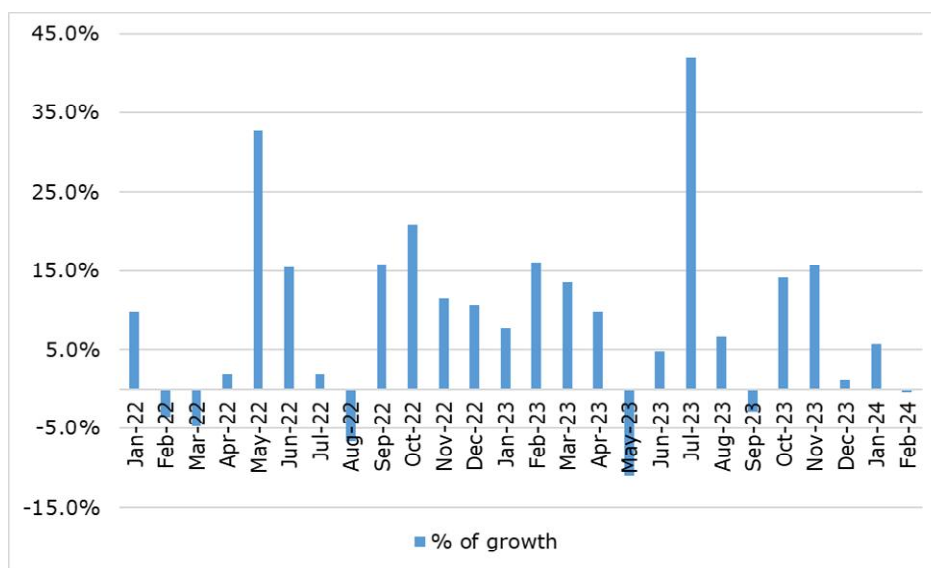
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

As with the total revenues from excise duty on beer shown on a monthly level, the highest revenue collection from excise duties on imported beer is also in the summer months. In the observed period, the highest collection of these revenues was recorded in July 2023, while the lowest collection was recorded in February 2022.

Chart 16 shows the monthly growth rate of revenues from excise duty on imported beer for the period January 2022 - February 2024, compared to the same month of the previous year.



Chart 16. % of growth in revenues from excise duty on imported beer



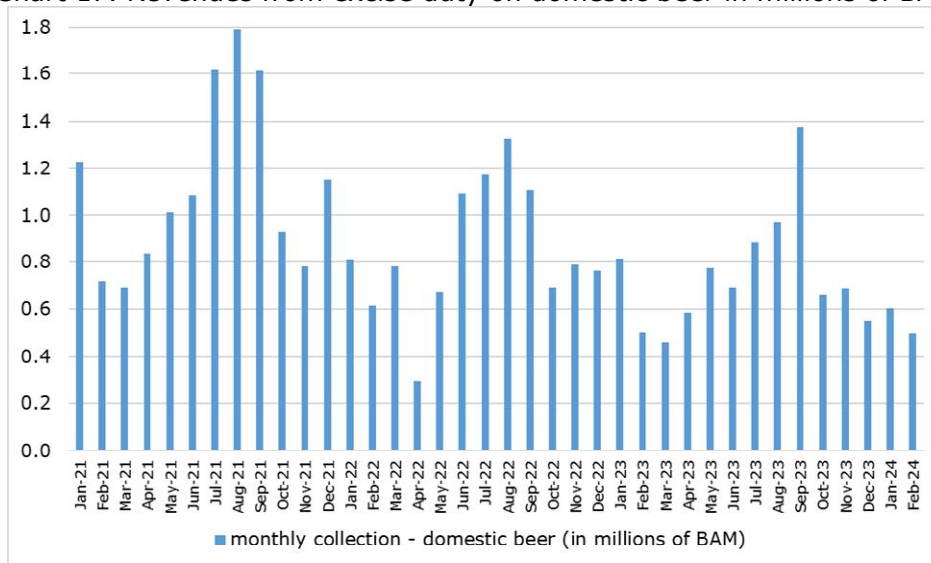
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Given that the consumption of imported beer has a large share in the total consumption of beer, the rate of growth in revenues from excise duty on imported beer, significantly affects the rate of growth in total revenues from excise duty on beer. The highest growth in revenue from excise duties on imported beer on a monthly basis in the observed period was recorded in July 2023 by 42.0% and in May 2022 by 32.7% compared to the same month of the previous year. A sudden change in weather and a large number of sunny days after a long period of rainy days that preceded these months contribute to a greater increase in consumption in the mentioned months.

### 3.3. Monthly movement of revenues from excise duty on domestic beer

Chart 17 shows the monthly movement of revenues from excise duty on domestic beer, in millions of BAM for the period January 2021 - February 2024.

Chart 17. Revenues from excise duty on domestic beer in millions of BAM

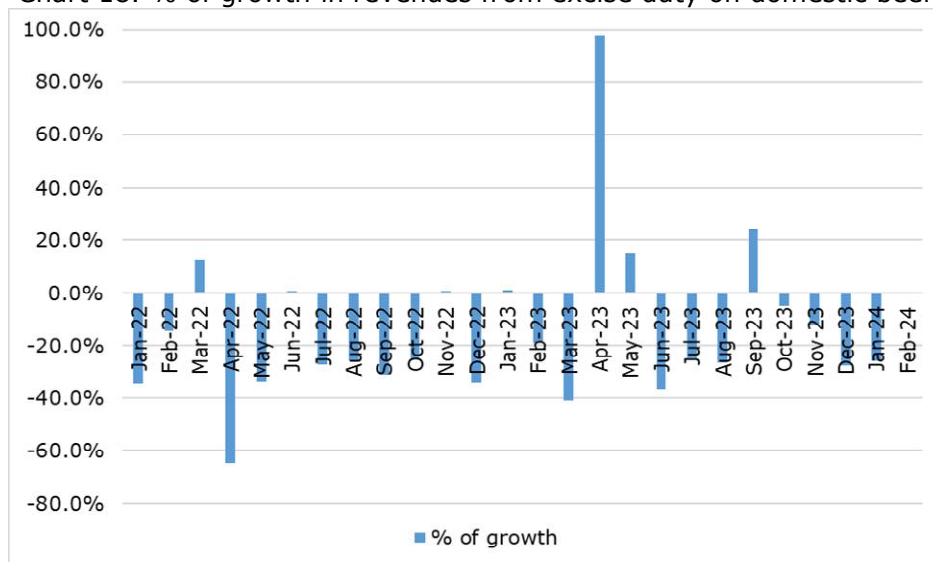


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Since the consumption of domestic beer is decreasing year by year, the chart shows that the highest collection of these revenues in the observed period was recorded in the summer months of 2021, more precisely in August of the same year. April 2022 is characterized by the lowest monthly collection of these revenues in the analyzed period.

Chart 18 shows the monthly growth rate of revenues from excise duty on domestic beer for the period January 2022 - February 2024, compared to the same month of the previous year.

Chart 18. % of growth in revenues from excise duty on domestic beer



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

In the observed period, the largest drop in revenues from excise duty on domestic beer of 64.7% was recorded in April 2022 compared to the same month in 2021. As a large drop in the collection of these revenues was recorded in April 2022, the recovery in April 2023 resulted in an increase in these revenues of 98.1%, which is also the highest monthly growth in the collection of revenues from excise duty on domestic beer in the analyzed period.

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