

Pursuant to Article 1, paragraph (6), Article 5, paragraph (1) item b) and Article 6 of the Law on the Fiscal Council of Bosnia and Herzegovina (*Official Gazette of BiH*, 63/08), the Council of Ministers of Bosnia and Herzegovina, the Government of Republika Srpska and the Government of the Federation of Bosnia and Herzegovina hereby c o n c l u d e the following

**AGREEMENT ON ADOPTION OF THE GLOBAL FRAMEWORK OF FISCAL BALANCE AND POLICIES IN BOSNIA AND HERZEGOVINA 2024-2026 BETWEEN THE COUNCIL OF MINISTERS OF BOSNIA AND HERZEGOVINA, THE GOVERNMENT OF REPUBLIKA SRPSKA AND THE GOVERNMENT OF THE FEDERATION OF BOSNIA AND HERZEGOVINA**

***Stating*** the competencies of the Fiscal Council of Bosnia and Herzegovina stipulated by the Law,

***Seeking*** to improve fiscal policy coordination in Bosnia and Herzegovina,

***Appreciating*** the need for urgent adoption of the 2024 budget at all levels of governance,

***Aiming*** at fulfilment of one of the fundamental competencies of the Fiscal Council of Bosnia and Herzegovina and achieving macroeconomic stability and fiscal sustainability of all levels of governance, the Parties agreed as follows:

I

The Council of Ministers of Bosnia and Herzegovina, the Government of Republika Srpska and the Government of the Federation of Bosnia and Herzegovina hereby adopt the document entitled *Global Framework of Fiscal Balances and Policies in Bosnia and Herzegovina 2024-2026* which was accepted at the 3<sup>rd</sup> session of the Fiscal Council held on 23 January 2024.

II

The Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina 2024-2026 shall be the integral part of this Agreement.

**Chairwoman  
of the Council of Ministers  
of BiH**

***Borjana Krišto***

Number: \_\_\_\_\_

**President  
of the Government  
of Republika Srpska**

***Radovan Višković, PhD***

Number: \_\_\_\_\_

**Prime minister  
of the Government  
of the Federation of BiH**

***Nermin Nikšić***

Number: \_\_\_\_\_

BOSNIA AND HERZEGOVINA

FISCAL COUNCIL

GLOBAL FRAMEWORK OF FISCAL BALANCE AND POLICIES IN  
BOSNIA AND HERZEGOVINA

2024 – 2026

January 2024

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## Summary

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On the basis of the analysis of macroeconomic developments in BiH in the previous period, as well as on the basis of consideration of key domestic and foreign development factors, according to the estimates of the Directorate for Economic Planning of BiH (DEP) from September 2023, it is envisaged that the real BDP growth rate in the period 2024 - 2026 will be 2.9, 3.0 and 3.4 per cent, respectively.

Projections of indirect tax revenues in BiH between 2024 and 2026, according to the Indirect Taxation Authority Government Board Department for Macroeconomic Analysis (MEAD) projections from October 2023, demonstrate that in 2024, the net amount for distribution will amount to 8.393,4 million BAM, i.e., it will increase by 4.9 per cent in comparison with 2023. In 2025, it is envisaged that funds for distribution from indirect taxes will increase by 3.6 per cent, while further growth by 3.7 per cent is envisaged in 2026.

Bearing in mind the above said and observing the needs and competencies of Institutions at all levels of governance in BiH, the envisaged amount of funds for financing the Institutions of BiH derived from indirect tax revenues for 2024, 2025 and 2026 is at the level of 1.020,5 million BAM. The remaining amount of indirect tax revenues will be distributed in accordance with the applicable regulations.

The BiH fiscal goal for 2024 is the continuous decrease of the primary deficit, expressed in accordance with the Law on the Fiscal Council of BiH as the difference between current revenues and current expenditures corrected by net interest which, in 2024, is planned in the amount of 899.5 million BAM or 1.8 per cent of the projected GDP for 2024.

The level of public spending as a part of GDP in 2024 - 2026 should be decreased with the aim for the consolidated public spending at the level of BiH to remain below 40 per cent of GDP, while it will be in the range between 42.7 and 44.3 per cent of the estimated GDP in the observed period.

The upper limits of budget indebtedness in 2024, expressed as the amount needed for total debt servicing or GDP percentage, depending on the legal solution, are estimated within frameworks prescribed by the laws regulating borrowing for each level of governance.

# Introduction

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The 2024 - 2026 BiH Global Framework of Fiscal Balance and Policies was prepared on the basis of the Law on Fiscal Council in Bosnia and Herzegovina (*Official Gazette of BiH*, 63/08), prescribing the contents of the document. In this regard, the document contains all necessary elements required by the fiscal policy leads in Bosnia and Herzegovina for preparation of their framework budget documents for the 2024 - 2026 period, as well as the 2024 budget. These elements are the following: fiscal goals defined as the primary fiscal balance (primary surplus or primary deficit), projections of total indirect revenues based on macroeconomic projections and their distribution for the following fiscal year, as well as the ceilings of indebtedness.

Agreement on the stated elements represents the basis for budget planning by fiscal policy leads in BiH and represent the essence of fiscal coordination in BiH. Without agreeing upon these, the coordination of fiscal policies and preservation of fiscal stability are not possible for both individual fiscal sovereignties and Bosnia and Herzegovina as a whole.

The first chapter of the document includes analysis and macroeconomic development trends in BiH prepared by the Directorate for Economic Planning of BiH (DEP BiH). This part includes projections of basic macroeconomic indicators with a special focus on macroeconomic elements which directly influence the elements of the fiscal policy, primarily the level of public revenues.

The second part provides analysis of the levels and structure of indirect tax revenues and provides these projections for the following three years prepared by the Department for Macroeconomic Analysis of the Management Board of the Indirect Taxation Authority of BiH (MEAD). Since these revenues are distributed between more fiscal entities in BiH, this part also includes elements of the distribution of indirect tax revenues starting from the applicable regulations of BiH in this field.

The third part of the document relates to the fiscal goals of the budgets of the Institutions of BiH, the Federation of BiH, Republika Srpska and Brčko District of BiH. The basic elements of fiscal policies such as the level of public spending and the policy of public borrowing are treated in this part, as well.

## 2022 – 2026 Macroeconomic Indicators and Projections

The following table presents the estimate and projections of macroeconomic indicators in BiH for the 2022 - 2026 period, representing the starting point for projections of total indirect taxes.

**Table 1: 2021 – 2026 Macroeconomic Indicators**

Indicator	Official data	Projections				
	2021	2022	2023	2024	2025	2026
Nominal GDP in mill. BAM	40,031	45,518	48,462	51,170	53,956	56,932
Nominal growth in %	12.5	13.7	6.5	5.6	5.4	5.5
GDP deflator (previous year=100)	104.9	109.5	104.4	102.6	102.4	102.1
Real GDP in mill. BAM (previous year=100)	38,144	41,560	46,421	49,853	52,697	55,776
Real growth in %	7.2	3.8	2.0	2.9	3.0	3.4
Inflation measured by retail prices index in %	2	14	6.2	3.1	2.2	1.9
Spending in mill. BAM	34,259	39,284	41,618	43,255	44,741	46,249
Real growth in %	3.8	1.8	0.9	1.4	1.2	1.3
Government spending in mill. BAM	7,595	8,513	8,939	9,296	9,575	9,843
Real growth in %	2.9	1.3	1.2	1.5	1.0	0.7
Private spending in mill. BAM	26,665	30,771	32,679	33,958	35,165	36,405
Real growth in %	4.0	1.9	0.8	1.4	1.3	1.5
Fixed assets investments (gross) in mill. BAM	8,399	10,081	10,656	11,229	12,083	13,023
Real growth in %	5.1	0.3	0.7	3.5	5.7	6.3
Government investments in mill. BAM	1,193	1,356	1,451	1,610	1,771	1,948
Real growth in %	-31.5	-5.0	1.9	7.8	6.8	7.7
Private investments in mill. BAM	7,206	8,725	9,205	9,619	10,312	11,075
Real growth in %	15.3	1.2	0.5	2.9	5.5	6.0
Import in mill. BAM	21,104	28,230	29,648	31,762	34,133	37,025
Nominal growth in %	26.8	33.8	5.0	7.1	7.5	8.5
Real growth in %	20.6	6.2	1.1	5.7	6.0	5.9
Export in mill. BAM	16,665	21,954	23,133	25,527	28,228	31,421
Nominal growth in %	38.7	31.7	5.4	10.4	10.6	11.3
Real growth in %	24.6	12.0	2.3	8.4	8.5	8.1
National gross savings in % of GDP	23.5	23.3	23.3	24.0	25.0	25.8
Current account balance in mill. BAM	-923	-2,045	-2,071	-1,873	-1,632	-1,573
Growth in %	-17.9	121.5	1.3	-9.6	-12.9	-3.6
Current account balance in % of GDP	-2.3	-4.5	-4.3	-3.7	-3.0	-2.8

Source: The Directorate for Economic Planning of Bosnia and Herzegovina

### Real sector

#### **Economic developments in 2022 and 2023**

After a pandemic year marked by a global health and economic crisis, Bosnia and Herzegovina recorded a relatively strong recovery in economic growth in 2021, given that the registered GDP growth rate was more than 7 per cent. However, not long after, in the first half of 2022, a conflict broke out in Ukraine, which had very negative consequences for the post-pandemic economic recovery of the world economy, the main trade partners, and ultimately, Bosnia and Herzegovina as well. Namely, as a result of the growth in world energy and food prices, inflationary pressures in the world increased, which halved global economic growth and significantly slowed economic activity in EU countries from 5.5 per cent in 2021 to around 3.5 per cent. in 2022.

Statistical data from BHAS for 2022 indicate that despite domestic and external challenges (conflict in Ukraine, increased inflationary pressures and weakening of global economic growth), Bosnia and Herzegovina recorded relatively strong economic growth. Namely, according to BHAS data for 2022, it is estimated that real GDP growth of 3.8 per cent was recorded in Bosnia and Herzegovina compared to the previous year.<sup>1</sup> If we look more closely at the structure of the economic growth in 2022, it can be concluded that domestic demand through an increase in final spending represented a key support for growth during 2022.

According to BHAS data for 2022, the real growth of final spending in Bosnia and Herzegovina was 1.8 per cent (private spending 1.9 per cent, public spending 1.3 per cent), so that its total contribution to economic growth was approx. 1.5 percentage points. An increase employment of about 2 per cent, a double-digit increase in foreign inflows, together with loan growth of the population sector of about 5 per cent, despite the strengthening of inflationary pressures, enabled this growth of private spending in Bosnia and Herzegovina. It is worth pointing out that certain measures of fiscal policies, such as increases in salaries, pensions and social benefits, contributed to the increase in private spending in Bosnia and Herzegovina in 2022. If we take into account that private spending accounts for 75 per cent of GDP, it can be concluded that the increase of private spending was the most responsible for the economic growth in 2022. In addition to the increase in final spending, according to the data of the national accounts statistics for 2022, there was a certain private investment growth in Bosnia and Herzegovina, while public investments did not achieve significant growth.

However, what characterized 2022 in the economic sense, both in Bosnia and Herzegovina and in the world, are certainly increased inflationary pressures and extremely high rates of growth in the prices of goods and services. Namely, the post-pandemic economic recovery, broken supply chains and ultimately the crisis in Ukraine led to a sudden leap in world prices, primarily of energy and food, which was reflected in the prices of other goods and services in the world. Thus, the world prices growth in 2022, according to IMF data, amounted to almost 50 per cent, with the most significant increases within the energy categories 97 per cent (crude oil 66.5 per cent, natural gas 213 per cent) and food of about 20, 5 per cent. These global pricing trends resulted in a rapid growth in the prices of goods and services in Bosnia and Herzegovina in 2022.<sup>2</sup> Thus, in Bosnia and Herzegovina, in 2022, the growth of the CPI of about 14 per cent was registered compared to the same period of the previous year. When it comes to the external sector in 2022, the simultaneous strengthening of both export and domestic demand with a significant increase in world prices resulted in a strong growth of the total foreign trade exchange in Bosnia and Herzegovina. According to BHAS data for 2022, the total foreign trade exchange (goods + services) increased by about ¼ in nominal terms, which is a consequence of the simultaneous growth of exports and imports. The nominal increase in total export and import in 2022 was quite high and amounted to 17.6 per cent, i.e. almost 26 per cent, however, due to the high growth in the prices of goods and services, the real growth of export was 12 per cent, while the real growth of import was 6.2 per cent compared to the same period of the previous year. This trend of export and import development resulted in a reduction of the foreign trade deficit in real terms, so that the contribution of the foreign sector to economic growth was about 1.7 percentage points.

The currently available international and domestic statistical data on economic developments for 2023 indicate that the trend of deceleration of economic activity and weakening of economic growth has continued. Namely, according to currently available data for Q2 2023, economic growth in EU countries was only 0.5 per cent, which is significantly lower than the previous year, when growth was over 3 per cent. The weakening of economic activity at the EU level is best illustrated by the data of the national accounts for Germany, according to which there has been a drop in economic activity for two consecutive quarters (Q1 2023 0.3 per cent and Q2 2023 0.1 per cent). The weakening of economic activity in the external environment was also reflected in the economic growth in Bosnia and Herzegovina in 2023, considering that the registered economic growth in Q1 amounted to only 1.1 per cent compared to the same period of the previous year.

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<sup>1</sup> BHAS, announcement entitled *Gross domestic product, expenditure method*, 26 August 2023.

<sup>2</sup> <https://data.imf.org/?sk=471DDDF8-D8A7-499A-81BA-5B332C01F8B9&sid=1547558078595>

This deceleration in the country's economic activity is a consequence of the base effect from the previous year (growth rate in Q1 2022 5.9 per cent), the growth of prices of goods and services - inflation, and the weakening of economic activity in the international economic environment (slow economic growth in the EU and the region). The slower economic activity growth in 2023 (which is confirmed by certain short-term indicators of the drop in industrial production, the weakening of exports and imports), and the high level of inflation of around 8.5 per cent will certainly affect the expected rate of economic growth at the end of the current year.

Considering the available indicators and estimates of international institutions such as DG ECFIN<sup>3</sup>, and the available domestic statistical data on economic developments, according to assessment by DEP, economic growth of about 2 per cent is expected in Bosnia and Herzegovina in 2023.<sup>4</sup> If the structure of projected economic growth is observed more closely, in 2023 it is expected that domestic demand through the expected increase in final spending should represent the key support for growth. Within the framework of final spending, a contribution to economic growth of 0.8 percentage points is expected, which is a consequence of an increase in private spending of 0.8 per cent, while the expected growth of public spending is about 1.2 per cent compared to the previous year. On the other hand, the slowdown in economic activity will also affect total investments in the country, considering the expected growth of total investments (including inventories) of about 2.7 per cent compared to the previous year. The weakening of domestic and export demand (low level of economic growth in the EU, expected growth rate in 2023 of 0.8 per cent) could negatively affect foreign trade exchange with the world.

Thus, a much slower growth of exports of around 2.3 per cent is expected (export of goods 1.1 per cent and export of services 6.1 per cent), in Bosnia and Herzegovina in 2023. On the other hand, the expected growth of total import is 1.1 per cent (import of goods 1.2 per cent and import of services -0.3 per cent). Such trends in the export and import of goods would lead to a decrease in the foreign trade deficit by about 3.5 per cent, so the expected positive contribution of the foreign sector to economic growth is about 0.5 percentage points.

## **2024 – 2026 economic development projections**

Given that external dynamics represent a very important structural determinant of all economic developments in Bosnia and Herzegovina, it is worth pointing out that the latest developments will have a major, if not decisive, role for the prospects of economic growth in the coming period, which especially refers to the year 2024. Apart from external dynamics, a very important factor for economic growth in the country during the program period 2024 - 2026 will be the institutional capacity of the country in carrying out structural reforms in order to strengthen the contribution of internal dynamics in its creation. Further complicating both external and internal dynamics would have very negative consequences for the Bosnian economy and reduce its potential growth.

However, the latest available projections of DG ECFIN for 2024 period indicate, first of all, a weakening of inflationary pressures with an expected inflation rate of 3.2 per cent and a gradual stabilization of economic growth of around 1.5 per cent compared to the previous year. Bearing in mind the above-mentioned external and internal circumstances, according to DEP projections in 2024 – 2026 period, economic growth in Bosnia and Herzegovina can be expected with an average economic growth rate of about 3 per cent on an annual basis (2024: 2.9 per cent, 2025: 3.0 per cent and 2026: 3.4 per cent). It is assumed that domestic demand through increased private spending and investments will play the key role in supporting the economic growth during this period. Namely, the sustainable growth of economic activity in the country with the expected increase in industrial production and civil works accompanied by slightly increased employment and export

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<sup>3</sup> European Commission, DG ECFIN, European Economic Forecast Summer 2023, September 2023.

<sup>4</sup> European Commission, DG ECFIN, European Economic Forecast Summer 2023, September 2023.



revenues (goods and services) should preserve the stability of the available income of citizens. If it is considered that private spending in the structure of GDP, it can be expected that it will represent the key pillar of economic growth during the program period. On the other hand, bearing in mind the high level of public spending under GDP in BiH and activities invested through the fiscal consolidation process, it is expected that this period will see gradual stabilization of public finance through the decrease in public expenditures and simultaneous increase in public revenues in order to limit public spending growth. If we keep in mind that the projected rate of the economic growth would be higher than public spending increase, the share of the same in GDP would partially decrease at the rate of 17.3 per cent at the end of 2026.

In this period, it is expected that the measures of fiscal policy would enable for the part of savings under current spending to be directed towards strengthening investment spending in Bosnia and Herzegovina. As the result of this and improvement of the business environment, investments could grow more significantly during this period in comparison with previous years, therefore contributing more to the GDP growth. In the period between 2024 and 2026, it is expected that total gross investments will increase at an average annual growth rate of 5 per cent (2024: 3.5 per cent, 2025: 5.7 per cent, 2026: 6.3 per cent) in Bosnia and Herzegovina. Within this period, it is expected that private investments, representing a major portion of total investments (approximately 80 per cent of total investments) will increase, in addition to a more significant increase in public investments. It is considered that the progress in terms of European integrations, in addition to the improvement of business environment through reform processes could spark interest of both domestic and foreign investors for investments in Bosnia and Herzegovina. At the same time, in view of BiH economy structure and position, it is regarded that public investments will have a more important role in encouraging the economic growth in the medium term. Road infrastructure construction projects and projects in the energy sector (green transition), as well as the availability of funds of international financial institutions could result, if adequately and timely implemented, in increased public investments at the rate of approximately 7 per cent between 2024 and 2026. Therefore, the share of public investments in the GDP framework would increase and reach the level of approximately 3.3 per cent of GDP. A stable external environment and improved industrial base and increased competency in BiH represent key preconditions for the improvement of external trade exchange with the world. Only if the stated external assumptions for the 2024 -2026 period are achieved, it might be expected that the external trade exchange with the world will increase. In this case, an average annual growth rate of approximately 8 per cent of import might be expected, whereby the projected increase in goods and services would be mostly balanced. Therefore, as a result of the export growth, the share of export in GDP would grow to 50 per cent by the end of 2026. At the same time, it is expected for the export to develop at a somewhat slower rate of 6 per cent in the same period. A rather balanced growth of import of goods and export of services is expected during this period. As the result of such import growth, the share of import in GDP should increase to approximately 60 per cent by the end of 2026. A slightly stronger growth of export in comparison with the growth of export in the medium term would result in the gradual stabilization of foreign trading balance as a share in GDP at approximately 10 per cent, i.e., in slightly positive contribution to the economic growth, while the export-import ration should amount to over 80 per cent by and including the end of 2026.

## **Risk**

The risks for achieving economic growth projections in the basic scenario may be classified into two groups (foreign and domestic). At the time of preparation of this report, it seems that foreign risks are much more pronounced and represent a greater risk for the realization of economic growth projections from the basic scenario compared to domestic ones. Namely, after the stabilization of the epidemiological situation related to Covid-19, at the beginning of 2022, there was an escalation of the conflict in Ukraine, which will undoubtedly have negative economic consequences for the global economy and, therefore, for Bosnia and Herzegovina. The further escalation of the Ukrainian crisis, as well as the strengthening of inflationary pressures both globally and in Bosnia and Herzegovina, would certainly have a negative impact on spending, investments, foreign trade exchange, and therefore on economic growth projections in the basic scenario. On the other hand, domestic challenges, i.e., BiH domestic risks, pose a threat to the achievement of these

projections. The domestic risks are represented by the slow rate at which economic reforms are implemented in the country. Possible delays in the implementation of the structural reforms might affect negatively the total economic growth. As for the risks in the medium term, they relate to the migration of the population of Bosnia and Herzegovina, and this particularly applies to young, educated and qualified population, which could result in the decrease in productivity and a GDP growth that is slower than projected.

## BiH industrial production

In the past few years, the post-pandemic economic recovery and the strengthening of economic growth in the main trade partners had a positive effect on export demand, and therefore on production processes in the country. Thanks to the economic recovery of the export markets, Bosnia and Herzegovina recorded relatively high growth rates in the physical volume of industrial production and especially in goods exports. However, as early as in the second half of 2022, due to the destabilization of economic conditions (conflict in Ukraine, energy and food prices growth, slow economic growth) in the external environment, there was a gradual slowdown in economic activity, which was reflected in the slowdown of production processes in Bosnia and Herzegovina. **During 2023**, the growth trend of the industrial production physical volume was completely stopped. Namely, the currently available BHAS statistical data for the January – July 2023 period indicate that Bosnia and Herzegovina recorded a decline in industrial production physical volume at the rate of 3.7 per cent, compared to the same period of the previous year.<sup>5</sup> This decline in the production physical volume, as well as the almost identical rate of decline in goods export, implicitly indicate a significant slowdown in economic activity, i.e. GDP in Bosnia and Herzegovina in 2023. If industrial production in Bosnia and Herzegovina in the first half of 2023 is observed by sectors, it can be noted that the decline in production was recorded within all three main sectors. Thus, the registered rates of decline in production amounted to 8.6 per cent in mining, 4.2 per cent in the processing industry and 0.1 per cent in the energy production sector.

**In the 2024 – 2026 period**, both in Bosnia and Herzegovina and in the world, a gradual weakening of inflationary pressures is expected, with the expected gradual stabilization of economic growth, which will be reflected in the development volume of production, employment and export. During the observed period, trends in industrial production will, in addition to economic trends in the external environment, depend a lot on internal dynamics in Bosnia and Herzegovina. Namely, during this period, it is expected that the implementation of reform measures to improve the business environment, implemented by the competent institutions in Bosnia and Herzegovina, will improve. This improvement in the business environment is a prerequisite for increasing investments (domestic and foreign), higher utilization of the existing and mobilization of new capacities, increasing employment and strengthening of the competitive position of BiH producers, in both domestic and foreign markets. Only under the condition of the materialization of both external and internal assumptions, in accordance with DEP projections, Bosnia and Herzegovina could record progress in the form of increased production, employment and technological structure when it comes to industrial production in the country.

## Risks

The risks regarding the projection of industrial production trends in Bosnia and Herzegovina in the basic scenario are identical to the general risks listed in the introductory part of the document on economic developments. In addition to the general risks mentioned in the introductory part, it is worth pointing out that stability in the production of electricity depends to a large extent on hydrological conditions and operational readiness of thermal power plants. Unfavorable hydrological conditions, as well as dilapidated

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<sup>5</sup> BHAS, announcement entitled *Bosnia and Herzegovina industrial production volume index for July, 2023 - Preliminary data*, 26 August 2023.

thermal energy capacities, i.e. low operational readiness, could have a negative impact on the total production of electricity in Bosnia and Herzegovina and thus the physical volume of total industrial production. It is very important to point out that the provisions of the CBAM (Carbon Border Adjustment Mechanism)<sup>6</sup> will enter into force in 2026, which, in case of untimely adjustment, could significantly threaten the energy and industrial competitiveness of Bosnia and Herzegovina. In the medium term, the risks for the projected strengthening of industrial production could be possible delays in the reform processes aimed at improving the business environment in the country.

## BiH labour market

### **Labour market in 2022**

During 2022, the number of employed persons in Bosnia and Herzegovina increased by 2.1 per cent annually and amounted to 839<sup>7</sup> thousand. By areas of activities, the number of employed persons increased most significantly in the area of processing industry and trade. With the increase in the number of employed persons, the average number of registered unemployed persons in 2022 decreased by 8 per cent annually and amounted to about 363 thousand. Unemployment survey rate in Bosnia and Herzegovina in 2022 decreased compared to the previous year and is now 15.4 per cent. The average net salary in 2022 is nominally higher by 12.5 per cent compared to 2021 and amounted to 1,122 BAM, with a negative real growth of 1.3 per cent due to high inflation.

### **Labour market projections 2023 – 2026**

In Bosnia and Herzegovina in the first half of 2023, the number of employed persons continued to increase (1.2 per cent annually) and amounted to 846.7<sup>8</sup> thousand. However, the employment growth rate is gradually slowing down from the beginning of 2023. The most significant growth in the number of employed persons in the first half of 2023 was in the field of information and communication, education and trade. In the first half of 2023, in the field of information and communication, the number of employed persons increased by 6.5 per cent annually, with a contribution to the growth of the total number of employees of 0.2 percentage points, while in the field of education, the number of employed persons increased by 2.4 per cent, with the same contribution to the growth of the total number of employed persons as the previous activity. In the area of wholesale and retail trade<sup>9</sup>, repair of motor vehicles and motorcycles, the number of employed persons in the observed period increased by 0.9 per cent annually (contribution to the growth of the total number of employees of 0.2 percentage points). All other activities had a smaller contribution to the growth of the total number of employed persons. The unemployment rate in Bosnia and Herzegovina, according to the labor force survey, is gradually decreasing compared to the previous year and was 13.1 per cent in Q2. In the first half of the 2023, the average net salary nominally increased by 14.6 per cent annually and amounted to 1,244 BAM. With the price growth of 9.3 per cent in the observed period, the real growth of the average net salary was much lower and amounted to 4.9 per cent. Based on the semi-annual developments on the labor market, as well as assumed economic growth, it is expected that the annual growth of the number of employed persons and the average net salary in Bosnia and Herzegovina in 2023 could amount to around 1.3 per cent, with the growth of the average net salary around 13 per cent annually.

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<sup>6</sup> EC, Taxation and Custom Unit , [https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism\\_en](https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en)

<sup>7</sup> Preliminary data. Source: BHAS.

<sup>8</sup> Preliminary data. Source: BHAS.

<sup>9</sup> The total retail trade turnover in Bosnia and Herzegovina, observed in current prices, in June 2023 achieved a growth of 7.0 per cent compared to the same month of the previous year. Observed in constant prices, the total retail trade turnover achieved a growth of 13.0 per cent compared to the same month of the previous year. Source: announcement, Retail trade turnover indices in Bosnia and Herzegovina, June 2023.

The medium-term scenario in the area of the labor market is based on expected economic growth and developments in the area of trade, industrial production, domestic demand, investment and the overall business environment. Since faster economic growth is expected in Bosnia and Herzegovina in 2024 - 2026 than in 2023, this would affect the number of employed persons and salary growth. In addition, the forecasts of international institutions were taken into account, which could indirectly affect the business environment, and thus the development of events on the labor market. In ECB projections (in September 2023), it is predicted that the unemployment rate in the euro zone in 2024 - 2025 could be slightly increased and amount to 6.7<sup>10</sup> per cent, with a modest growth in the number of employed persons of 0.2 per cent annually. As in previous years, it is expected that the contribution to the growth of the number of employees in Bosnia and Herzegovina could be more modest in the public<sup>11</sup> sector compared to other areas of activity. The largest number of employed persons could still remain in the field of trade and processing industry, which at the same time employ the most persons (about 38 per cent). During the observed period (2024 - 2026) in Bosnia and Herzegovina, it is expected that the number of employed persons could continue to increase at a growth rate of 1.4 - 1.6 per cent annually, with a gradual decrease in the unemployment rate. In addition, the growth of the average net salary could be around 3-4 per cent annually. Nevertheless, labor market projections depend on risks that could significantly affect the expected growth of salaries, as well as the number of employed persons.<sup>12</sup>

## **Risks**

Risks for the labor market projections are determined by the events in the environment, that is, the business environment both in Bosnia and Herzegovina and in the world. With slower economic growth, lower volume of investments, trade and generally worse business conditions, the growth in the number of employed persons and salaries could be lower than assumed in the basic scenario. In addition, the continuous reduction of the labor force (through population migration) and the degree of implementation of the planned structural reforms in Bosnia and Herzegovina could affect the observed indicators of the labor market as well as the level of purchase power and living standards.

## **Prices**

### **Prices in 2022**

In the period between January and December 2022, inflation in Bosnia and Herzegovina amounted to 14 per cent annually. However, it is important to emphasize that after the accelerated inflation growth in Q1 - Q3 of 2022, there was a gradual slowdown in price growth in Q4. The global increase in the prices of crude oil, gas, and food products resulted in price increases in the sections of food and non-alcoholic beverages, transportation, housing (utilities), which are directly and/or indirectly correlated with the pricing trends of these energy sources. Due to higher prices of oil and oil derivatives in the transportation section, prices were higher by 25.4 per cent. In this way, external price pressures had a major impact on overall inflation through the transfer of cost pressures from producer prices to consumer prices. Prices in the section of food and non-alcoholic beverages (the largest share in CPI) increased by 21.5 per cent annually. In the housing, water, electricity, gas and other energy sectors, prices increased by 14 per cent annually. The only reduction in prices was in the clothing and footwear section, where prices were lower by 6 per cent in the observed period, which did not significantly slow down the growth of overall inflation in Bosnia and Herzegovina.

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<sup>10</sup> In 2022, it amounted to 6.5 per cent.

<sup>11</sup> The analysis refers to the activities of public administration, health and education.

<sup>12</sup> The intensity of the growth in the number of employed persons and net salaries in the basic scenario will depend on the above risks.

## **Prices – 2023 – 2026 projections**

Since the beginning of 2023, inflation has slowed down in Bosnia and Herzegovina. Inflation measured by the consumer price index in the period from January to July 2023 amounted to 8.5 per cent annually. The most significant increase in prices in the observed period was in the sections of food and non-alcoholic beverages, housing, water, electricity, gas and other energy sources. The prices in the section of food and non-alcoholic beverages, taking the largest share in the CPI index, increased by 14.7 per cent in the period between January and July 2023. However, since the beginning of the year, food prices have been growing more slowly when compared to the previous years. Prices in the sections housing, water, electricity, gas and other energy products increased by 12.1 per cent in the observed period and had, after food, a significant contribution to the development of inflation in Bosnia and Herzegovina. On the contrary, the lower prices of crude oil on the world market had a significant impact on the pricing trends in the transportation section, which decreased by 2.9 per cent annually in the period from January to July 2023. A gradual stabilization of prices is expected by the end of 2023. *In accordance with the ECB projections (September 2023)*, inflation in the euro zone could slow down significantly and amount to 5.6 per cent annually (it was 8.4 per cent in the previous year). Energy generating products prices could contribute to lower inflation. According to ECB projections, the price of crude oil in 2023 could be lower by 20.3 per cent annually and would amount to 82.7 USD/barrel, and the price of gas would be lower by 65 per cent annually. Lower energy prices would reduce production costs and thus affect consumer prices. Apart from energy generating products, it is expected that food prices on the world market will also begin to decrease in 2023 by 7.9 per cent annually (according to the WB April projections). The EC has a similar prediction in their summer projections, according to which inflation in the EU could amount to 6.5 per cent in 2023 (5.6 per cent in the euro zone), and the price of crude oil could be lower by 18.8 per cent annually. In addition to the above external price determinants, if stable utility prices in Bosnia and Herzegovina are considered, inflation of 6.2 per cent annually can be expected in 2023.<sup>13</sup>

As in previous years, inflation projections in Bosnia and Herzegovina in the 2024 – 2026 period are based on energy and food pricing trends on the world market and inflation projections in the EU, as important external factors. According to ECB projections (September 2023), it is expected that inflation in the euro zone could continue to move downward and amount to 3.2 per cent in 2024 with a decrease in crude oil prices by 1.1 per cent annually, reaching 81.8 USD/barrel. In 2025, crude oil prices are also predicted to drop by 4.8 per cent annually, and inflation in the euro zone could be even lower and amount to 2.1 per cent annually. Similar inflation forecasts were made by the European Commission in their summer projections.<sup>14</sup> When it comes to the development of the food index on the world market, the latest available World Bank projections<sup>15</sup> indicate that the food price index could be lower by around 2.8 per cent annually in 2024. Considering the great influence of world prices on domestic inflation, it can be assumed that in the 2024 – 2026 period there will be a gradual stabilization of prices in Bosnia and Herzegovina. Based on the above, inflation in Bosnia and Herzegovina could amount to 3.1 per cent in 2024, or 2.2 per cent in 2025 and 1.9 per cent in 2026.

## **Risks**

Basic risks for the inflation projections are divided into external and domestic factors. Therefore, energy, as well as food prices on the world market, play a significant role in the development of inflation. Higher energy prices would increase input costs, i.e., there would be a transfer of costs from producers to consumers. At

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<sup>13</sup> As in the previous year, the expected increase in prices will depend on the aforementioned risks (increase in the price of crude oil, electricity, food, etc.) that could influence inflation to be higher than expected.

<sup>14</sup> In 2024, inflation in the Eurozone could amount to 2.9 per cent, that is, in the EU, it would be 3.2 per cent annually. The price of crude oil in the observed year would be lower by 0.7 per cent annually and could amount to 81.2 USD/barrel.

<sup>15</sup> According to World Bank projections (April 2023).

the same time, an increase in the prices of food products could also be present. In this way, the total inflation could be slightly higher compared to the basic scenario. On the contrary, among the domestic factors that could influence the development of the overall price level are risks such as an unforeseen increase in utility prices that have not been taken into account and may lead to an increase in inflation.

## Banking sector

### **2023 – 2026 bank loans and deposits growth development estimates**

Loan growth recorded faster growth rates in 2022 compared to 2021. The loan growth rate at the end of 2022 was 4.7 per cent annually driven by the growth of citizens' loans. In contrast, the total growth of deposits amounted to 5 per cent annually at the end of 2022, driven by double-digit growth rates of private companies, but also of general government deposits, while citizens' deposits recorded a negative growth rate this year due to inflationary pressures and negative real growth of salaries. According to the latest available data, in 2023, there was a recovery of citizens' deposits, which at the end of July amounted to 15.3 billion BAM with a growth rate of 9.6 per cent annually, while general government deposits had a negative growth rate. In accordance with this, the contribution of the citizens sector to the total growth of total deposits amounted to 4.8 percentage points, while non-financial companies made a contribution of 3.5 percentage points. Loans to non-financial private companies at the end of July had a loan growth of 3.4 per cent, while the total loan growth was generated by citizens' loans (contribution of 2.9 percentage points in contrary to the contribution of private companies with 1.4 percentage points).

In 2023, despite the reduction of inflationary pressures, due to stricter financing conditions, rising interest rates and market expectations of tightening credit conditions, but also weaker economic activity within the European Union (the main trading partner of Bosnia and Herzegovina) will have an impact on the real economy, which could burden companies and citizens, and the growth of loan activity in 2023 will have a moderate growth rate of around 5.5 per cent annually.

Strengthening of external demand while reducing tension on the financial market will lead to further growth in production and stronger demand for domestic products, which will have a positive effect on the foreign trade of BiH. **In the period between 2024 and 2026**, the loan activity growth will be significantly faster with an average growth rate between 6.3 and 7 per cent annually, whereby the contribution of loans from non-financial private companies will have a greater contribution compared to 2022 and 2023.

The growth of disposable income and positive trends in the labor market will influence the trend of citizens' loans and deposits, which have a significant share in both segments. Until the end of 2023, the population sector will continue with positive growth rates, whereby the growth rate of total deposits will be between 7.5 and 8 per cent at the end of 2023. This growth in deposits was also generated by high rates of growth in deposits of private companies due to the still weaker investment activity of the business sector and reduced business confidence in stronger economic developments. **The growth rate of total deposits will be between 8.5 and 9 per cent in the 2024 – 2026 period.**

### **Risks**

Potential risks are related to new financial shocks, changes in economic developments of trade partners, which would affect the decline of foreign trade exchange in BiH, industrial production, investments and final spending. The aforementioned negative developments would be reflected in the banking system in the form of a drop in demand for new loans, an increase in interest rates on loans and a continued decrease in citizens' deposits. The development of loan growth will be conditioned by the development of deposits, as well as the quality of the loan portfolio, which can significantly limit the lending activity of banks.

## Foreign sector

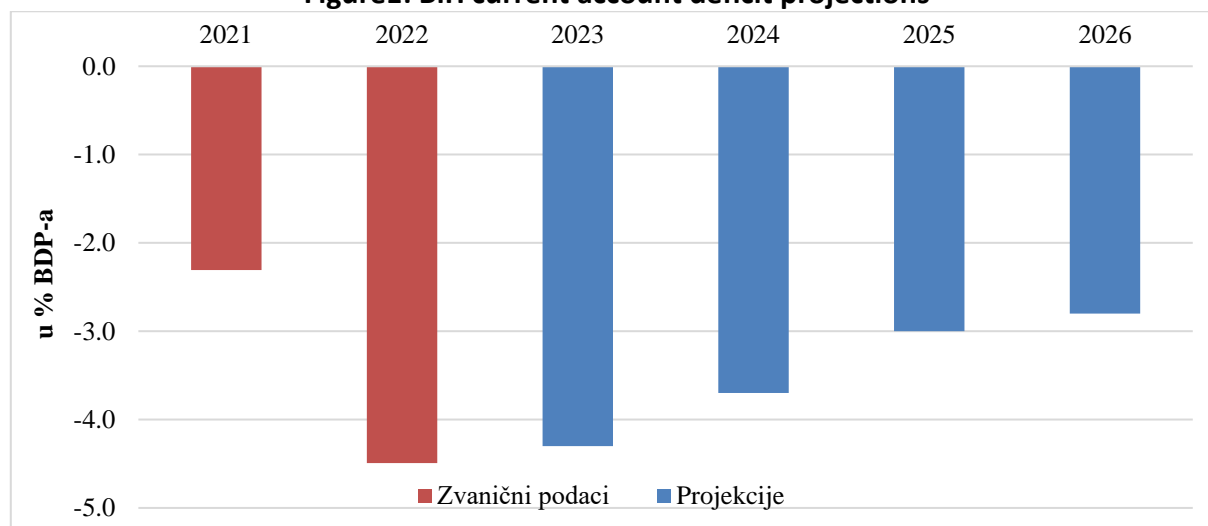
### **Bosnia and Herzegovina payment balance**

According to the CB BiH official data for Q1 2023 and DEP projections for Q2, Q3 and Q4, the current account deficit under BiH payment balance would amount to 2 billion BAM (i.e., at the rate of 4.3 per cent of GDP). Nominal import of goods and services in 2023 would amount to approximately 29.6 billion BAM (with a growth of 5 per cent annually), while the nominal export of goods and services would amount to approximately 23.1 billion BAM (with a growth rate of 5.4 per cent).

According to available data for Q1 2023<sup>16</sup>, the current account deficit is 0.5 per cent higher than in the same period last year. The current account deficit in Q1 2023 amounted to 410 million BAM, while in the same period last year it was 408 million BAM.

In accordance with the balance of payment data, the foreign trade deficit in Q1 2023 is higher by 8.7 per cent (annually). The import of goods and services increased by 6.5 per cent, while at the same time the export of goods and services grew by 5.9 per cent. Current net inflows increased by 100 million BAM in Q1 2023 (i.e., by 10.8 per cent annually).

**Figure1: BiH current account deficit projections**



Source: CB BiH and DEP projections

### **2023 – 2026 payment balance assumptions**

Based on DEP assumptions and projections, in 2023 it may be expected that the foreign trade exchange deficit would nominally be higher by 3.8 per cent annually. In the 2024 – 2026 period, a nominal reduction

<sup>16</sup> Source: CB BiH, Balance of payment data, June, 2023.

of the foreign trade exchange deficit could range from 4.3 to 5.3 per cent, as a result of an increase in the nominal rate of imports (7.1 - 8.5 per cent) with an increase in the rate of exports (10.4 - 11.3 per cent). As a share in GDP, the current account deficit for 2024, in accordance with the DEP projections, would amount to approximately 3.7 per cent, while the current account deficit in 2025 and 2026 would amount to 3 and 2.8 per cent of GDP. It is expected that the current foreign net inflows will range between 7.1 and 9.2 per cent of GDP in the period between 2022 and 2024.

When it comes to the source of financing the current account deficit, it may be expected that, as previously, the current account deficit will be financed from the inflows of financial funds from abroad, through trade credits, direct foreign investments and possible new borrowing in the international financial market.

### **Risks**

The biggest part of the risk for the payment balance of Bosnia and Herzegovina mainly comes as a result of changes in the foreign trade exchange deficit of goods and services, as well as in the inflow and outflow of money from abroad. In addition to the above, economic, financial and security challenges are still present in global economic flows. Important risks in the financing of the current account deficit include the reduction in the inflow of direct foreign investments, difficult access to trade loans, as well as difficulties in borrowing in the international financial market.

What could be identified as potential risks in the external borrowing of Bosnia and Herzegovina in the medium term are: negative economic growth, an increase in the share of the Entities' direct debt in the total external debt, an increase in public debt service (especially internal), interest burden, interest rates, risks exchange rate, refinancing risk, negative budget balance (deficit), increase in the overall level of public debt, but also the loan rating.

### **Developments of foreign trade exchange in 2022 and 2023**

The post-pandemic economic recovery and the strengthening of economic activity in the world in 2021 resulted in a strong recovery of foreign trade in goods in Bosnia and Herzegovina. Thus, according to BHAS data for 2021, Bosnia and Herzegovina recorded double-digit growth in all foreign trade exchange indicators. The growth trend of economic activity in foreign trade partners (economic growth in EU countries 3.5 per cent), increased production within the export-oriented branches of the processing industry and increased activity within the tourism sector enabled the continuation of the growth trend of foreign trade exchange in Bosnia and Herzegovina in 2022. Thus, according to BHAS data for 2022, the total foreign trade exchange in Bosnia and Herzegovina in 2022 amounted to over 50 billion BAM, which represents an increase of almost 12.5 billion BAM compared to the previous year. It is estimated that the export of goods and services from Bosnia and Herzegovina in 2022 amounted to 21.9 billion BAM, which represented an increase of almost 5.3 billion BAM, i.e., almost 31.7 per cent in nominal terms, while the growth rate in real terms amounted to 12 per cent. On the other hand, strong growth in domestic demand resulted in a nominal increase in imports of 7.2 billion BAM, which represents a nominal growth of 33.8 per cent, while the real growth in imports due to strong price growth was 6.2 per cent. However, the high level of inflation in the slowdown of economic growth of the main trade partners in 2023 led to a slowdown in foreign trade exchange with the world. Currently available statistical indicators and DEP estimates on foreign trade exchange trends indicate that the expected growth rates of exports and imports in 2023 could be significantly lower compared to the previous year. Thus, according to DEP projections for 2023, a growth in total export of 2.3 per cent (1.1 per cent goods and 6.1 per cent services) can be expected in real terms compared to the previous year. On the other hand, in 2023, due to high inflation and weakening of domestic demand, the expected growth of import is 1.1 per cent (1.2 per cent goods and -0.3 per cent services). Such development trend of import and



export would result in a slight reduction of the foreign trade exchange deficit of about 3.5 per cent, so that the contribution of the trade balance to economic growth would be positive and amount to 0.5 percentage points.

### **Projection of the developments of foreign trade exchange for the 2024 – 2026 period**

According to currently available projections in the EU countries, a slightly higher rate of economic growth of around 1.5 per cent is expected in 2024, which could have a positive impact on foreign trade exchange in Bosnia and Herzegovina.<sup>17</sup> In accordance with these developments and DEP assumptions from the basic scenario for 2024, Bosnia and Herzegovina can expect a continuation of the growth trend in foreign trade exchange, but with slightly higher growth rates compared to the previous year. Namely, according to DEP projections for 2024, in Bosnia and Herzegovina, total export growth of 8.4 per cent is expected in real terms, driven by the growth of goods export with an expected growth rate of 7.1 per cent, while the expected growth of service export is 12.2 per cent. On the other hand, given that Bosnia and Herzegovina is a rather import-dependent economy, in 2024, a real growth of total import of 5.7 per cent can be expected with uniform growth rates of import of goods and services. As it is the case with export developments, the expected increase in import prices would result in a significantly higher import growth rate in nominal terms. At the end of 2023, such developments of export and import should ultimately result in a reduction of the foreign trade exchange deficit by approximately 3.8 per cent, so that the trade balance would have a slightly positive impact on the estimated economic growth in 2024 of about 0.5 percentage points.

The development of economic activity in the external environment in the medium term will certainly represent the main determinant of the movement of foreign trade goods exchange in Bosnia and Herzegovina. Only under the assumption of improvement in economic activity and the remediation of newly emerging global economic challenges facing the world economy, it is possible to expect an improvement in foreign trade exchange in Bosnia and Herzegovina. Therefore, in the event that the aforementioned circumstances are overcome, based on DEP projections, in 2025 – 2026 period, a real increase in total exports could be expected with annual growth rates of 8.5 per cent in 2025 and 8.1 per cent in 2026 in real terms respectively. This increase in export is conditioned by stable export demand, expansion of the production base and increased competitiveness in the country. These expectations are also supported by projections of an increase in import into the EU during the mentioned period. On the other hand, an increase in economic activity in the country, i.e. an increase in domestic demand within the population sector and the corporate sector through somewhat faster growth in spending and investments should also result in an increase in import to Bosnia and Herzegovina. According to DEP projections, import growth rates are expected to be slightly lower than export growth rates and could be 6.0 per cent in 2025 and 5.9 per cent in 2026. Higher export growth rates than import in the medium term should result in an increase in the representation of export in GDP to approximately 55 per cent, while total export (goods + services) would amount to approximately 65 per cent by the end of 2026. The result of such export and import developments would be a gradual stabilization of the total foreign trade deficit at the rate of 10 per cent of GDP, with a slightly positive contribution to economic growth of 0.5 percentage points annually and improved import-export coverage to almost 85 per cent by 2026.

### **Risks**

External risks regarding foreign trade in goods in Bosnia and Herzegovina are related to economic developments in the main trading partners (EU 27 and countries of the region). The eventual escalation of the conflict in Ukraine, the growth of world energy and food prices, would have a negative impact on export

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<sup>17</sup> In the process of projecting economic developments in the external environment (export demand), available data from DG ECFIN were used, *European Economic Forecasts*, Summer 2023, September 2023.

demand, and therefore on foreign trade exchange in Bosnia and Herzegovina in the 2023 – 2026 period. In addition to external risks, the potential risk for foreign trade exchange projections in the basic scenario for the 2023 - 2026 period are also represented by internal risks. Namely, the additional complication of the political crisis in the country could result in further difficulties in the processes of economic management in the country, which would have a particularly negative impact on both economic activity and the institutions responsible for foreign trade operations in Bosnia and Herzegovina. The eventual materialization of these internal risks would further complicate and endanger the operations of export-oriented companies, and further weaken the otherwise insufficiently diversified export offer of Bosnia and Herzegovina. Indirect harmful consequences of the eventual materialization of internal risks would be reflected in the reduction of the market share of domestic companies on world markets and the loss of competitiveness of both companies operating on export markets and the entire economy.

## Foreign direct investments

### **Foreign direct investments in 2022**

The continuation of inflationary developments, as well as the conflict in Ukraine, inevitably had an impact on the decline of foreign investments (hereinafter: FDI) in 2022. According to preliminary OECD data (FDI in figures) for the first quarter of 2023, investments in the world were more than three times higher than the values registered in the last quarter of 2022. However, looking at the annual level, they were still lower by 24.4 per cent annually (compared to the values in the first quarter of 2022). Also, comparing the same period, investments in OECD countries were lower by 38 per cent annually, while investments towards China are lower by as much as 80 per cent annually.<sup>18</sup> In Bosnia and Herzegovina, the total FDI in 2022 reached 1.2 billion BAM (net financial liabilities) and thereby achieved a participation in GDP of approximately 2.6 per cent.

### **2023 – 2026 investment projections**

At the beginning of 2023, economic growth in the world was positively affected by the fact that energy generating products prices began to drop more significantly. On the contrary, in response to the increasingly rapid growth of inflation, the central banks of the leading countries in the world were forced to increase the reference interest rates<sup>19</sup>, which was reflected in the deceleration in the growth of economic parameters and stock indices on the world stock exchanges.

In Bosnia and Herzegovina, according to the latest available data, in the first quarter the total FDI reached 426.6 million BAM (net financial liabilities) and was higher by 79.5 per cent compared to the same period last year. It is estimated that, as a reflection of the current global economic developments, there will be a gradual decline in foreign investments in Bosnia and Herzegovina, so that the total investment in 2023 could be approximately 2.6 per cent of GDP.

Of the more significant, interesting investments, it is necessary to mention the start of the realization of the project by the company Adriatic Metals<sup>20</sup> in Vareš on the mining of polymetal, as well as the arrival of Lidl and Pepco retail chains. Large infrastructure investments which have already started will continue and will

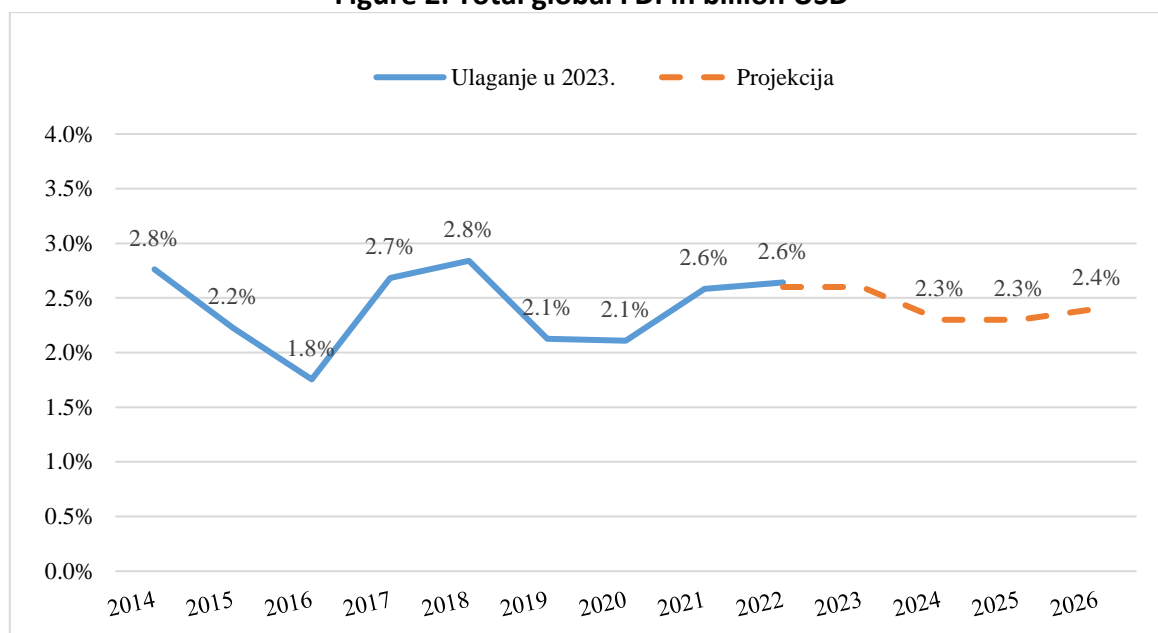
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19 <https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.mp230316~aad5249f30.en.htm>

20 <https://www.adriaticmetals.com/our-projects/the-vares-project-bosnia/>

bring significant financial resources in the coming period as well (motorway Banja Luka - Prijedor<sup>21</sup>, Brčko - Bijeljina<sup>22</sup>, Rača - Bijeljina<sup>23</sup> and Trebinje Airport).

**Figure 2: Total global FDI in billion USD**



Source: OECD, investment database

The current global ecological trend of switching to renewable energy sources makes this area of investment interesting in our country as well. It is likely that the Republic of Serbia will invest in the HPP Gornja Drina<sup>24</sup> hydropower project, within the framework of which the HPP Buk Bijela<sup>25</sup> (value of 200 million EUR), as well as the Bistrica hydropower plant<sup>26</sup>, would be built first. The construction of the wind power plant Iovik<sup>27</sup>, majority owner is the company from Luxembourg, Iovik Wind Power<sup>28</sup>, with a total value of about 130 million EUR is underway.

The completion of works on the solar power plant SPP Bileća<sup>29</sup> by the private company ETF is expected in the value of approximately 45 million EUR. In addition to this, the construction of seven solar power plants in Nevesinje<sup>30</sup> (440 million EUR<sup>31</sup>) is expected, for which the concession of the solar power plant in Trebinje<sup>32</sup> has already been signed. A contract was also signed between the Mine and Thermal Power Plant (RiTE) Ugljevik and the Chinese state company Beijing New Building Materials on the construction of a gypsum board factory worth approximately 50 million BAM<sup>33</sup>.

**Figure 3: Annual FDI projections in percentages of GDP**

<sup>21</sup> <http://www.autoputevirs.com/aprs/Doc.aspx?cat=5&subcat=24&id=24&lang=cir&txt=295>, the signed concession agreement with Chinese company China Shandong Int. Economic & technical cooperation Group Ltd.

<sup>22</sup> <https://autoputevirs.com/2023/02/23>

<sup>23</sup> <https://integral.ba/svecani-pocetak-radova-autoput-raca-bijeljina/>

<sup>24</sup> <https://www.srbija.gov.rs/vest/497512/srbija-od-2014-godine-ulozila-u-rs-59-miliona-evra.php>

<sup>25</sup> <https://www.vladars.net/sr-SP-Cyrl/Vlada/media/aktuelnosti/Pages/11.zajednickasjednica.aspx>

<sup>26</sup> <https://www.hebistrica.com/en/contact/>

<sup>27</sup> <http://www.fipa.gov.ba/novosti/aktivnosti/default.aspx?id=15383&langTag=en-US>

<sup>28</sup> <https://www.energetika-net.com/obnovljivi-izvori/novi-vecinski-vlasnik-ve-iovik-3557>

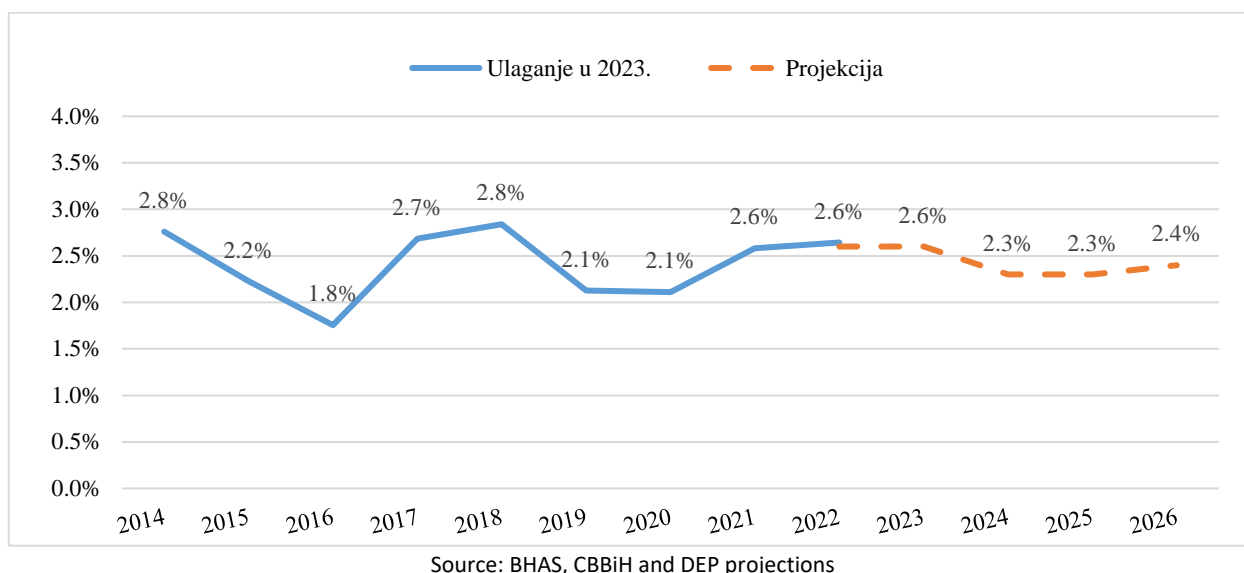
<sup>29</sup> <http://www.eft-sebileca.net/index.php/se-bileca>

<sup>30</sup> <https://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mper/media/vijesti/Pages/SENevesinje.aspx>

<sup>31</sup> <https://balkangreenenergynews.com/rs/etmax-dobio-koncesiju-za-gradnju-solarne-elektrane-snage-500-mw/>

<sup>32</sup> <https://energetika.ba/u-trebinju-planirana-gradnja-najvece-solarne-elektrane-na-balkanu/>

<sup>33</sup> <https://balkangreenenergynews.com/rs/termoelektrana-ugljjevik-planira-proizvodnju-gipsanih-ploca/>



The fact that at the beginning of August 2023, the credit rating agency Standard & Poor's increased Bosnia and Herzegovina's sovereign credit rating from "B with a positive outlook" to "B+ with a stable outlook" will have a positive effect. In the following years, FDI would reach an average of approximately 2.3 per cent of GDP (in 2024 and 2025 it would range approximately 2.3 per cent and in 2026 approximately 2.4 per cent of GDP).

## **Risks**

Further escalation of the conflict in Ukraine and consequent tightening of sanctions would certainly cause new price and inflationary shocks. This would have a negative impact on new investments, but also lead to interruptions in already existing projects in Bosnia and Herzegovina. The oil and gas industry, which is owned by Russian companies in the country, would be particularly affected. It should be noted that Bosnia and Herzegovina is a signatory to the Green Agenda<sup>34</sup> for the Western Balkans, which opens up the possibility of withdrawing funds from EU pre-accession funds, as well as possible sanctions from the Energy Community. The possible introduction of additional taxes on the export of electricity from so-called "dirty energy sources"<sup>35</sup> by the EU (which would be introduced from 2026) would additionally make Bosnia and Herzegovina a less attractive destination for investing in such projects. The complication of political conditions in the coming period would also have an additional negative impact on the lower FDI in the country.

## 2023 – 2026 Indirect Taxes Revenues Projections

<sup>34</sup> <https://europa.ba/wp-content/uploads/2020/11/Green-Agenda-Factsheet-2020.pdf>

<sup>35</sup> <https://balkangreenenergynews.com/eu-announces-carbon-border-tax-from-2026-what-lies-ahead-for-exporters-from-western-balkans-turkey/>

## Indirect taxes revenues revised projections basics and assumptions from the basic scenario

Indirect taxes revenues revised projections are based on projections of September 2023 DEP macroeconomic indicators, considering indirect taxes revenues collection trends and current government policies in the area of indirect taxation (baseline scenario).

### **Current policies in the area of indirect taxation**

VAT obligations and payment system are regulated by the Law on Value Added Tax (*Official Gazette of BiH*, 9/05, 35/05, 100/08 and 33/17). The excise duties policy is regulated by the Law on Excise Duties in Bosnia and Herzegovina (*Official Gazette of BiH*, 49/09, 49/14, 60/14 and 91/17).<sup>36</sup> The 2023 policy of excise duties on tobacco is determined in accordance with the Law on Excise Duties and the Decision<sup>37</sup> of ITA Governing Board. As the legal ceiling of total excise duty on cigarettes of 176 BAM/1000 cigarettes was achieved for all price categories of cigarettes in 2019, the alignment with the EU standards in the sphere of cigarettes taxation was finalized, while cut tobacco is taxed in accordance with policies under the 2014 Amendments to the Law.<sup>38</sup> The Law<sup>39</sup> on the Customs Policy in BiH regulates basic elements of customs policy and general rules and procedures applied to goods imported and exported from the customs territory of BiH.

### **Indirect taxes collection trends**

#### **2006 - 2022 collection trends**

Net indirect taxes revenues collected in 2006 in the ITA Single Account amounted to 4.1 billion BAM. In almost all the years since the introduction of VAT, there has been an increase in the revenues collected in the ITA Single Account. Exceptions were the 2009 crisis that resulted in decrease in revenues at the rate of 9.9 per cent; stagnation and milder decrease of revenues in 2012 and 2013, and the decrease at the rate of 9.3 per cent in 2020 as a consequence of the effects of the corona virus. In all other years, revenues collected in the ITA Single Account grew and the highest growth was achieved in 2021, at a rate of 16.7 per cent. In 2022, an annual growth of indirect tax revenues of 13.1 per cent was achieved and a record nominal collection since the introduction of VAT in the amount of 7.83 billion BAM. Finally, the collection growth in 2022 in comparison with 2006 was a high 89.8 per cent.

*The share of indirect taxes in the ITA Single Account varied over the years (table 2). Since the establishment of the ITA (2006) this indicator was within the range of 16.6 per cent (minimum value, 2009) and 19.2 per cent (maximum value, 2007). In 2022 it amounted to 17.2 per cent. The dynamics of the indirect taxes in GDP depended on numerous factors, such as the development of tax rates and tax basis, the tax collection efficiency, the developments of spending, but also other categories of gross domestic product (investments, import and export), which affect the level of this indicator in addition to spending.*

*The share of indirect taxes in the ITA Single Account in total spending also varied, while it showed a continuous growth trend from 2014 to 2019. In 2019, it amounted to 19.9 per cent, while in 2020 it*

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<sup>36</sup> Please note that the amendments to the Law on Excise Duties (*Official Gazette of BiH*, 50/22) are applied from the moment of entry into force of the bylaws adopted by ITA Governing Board.

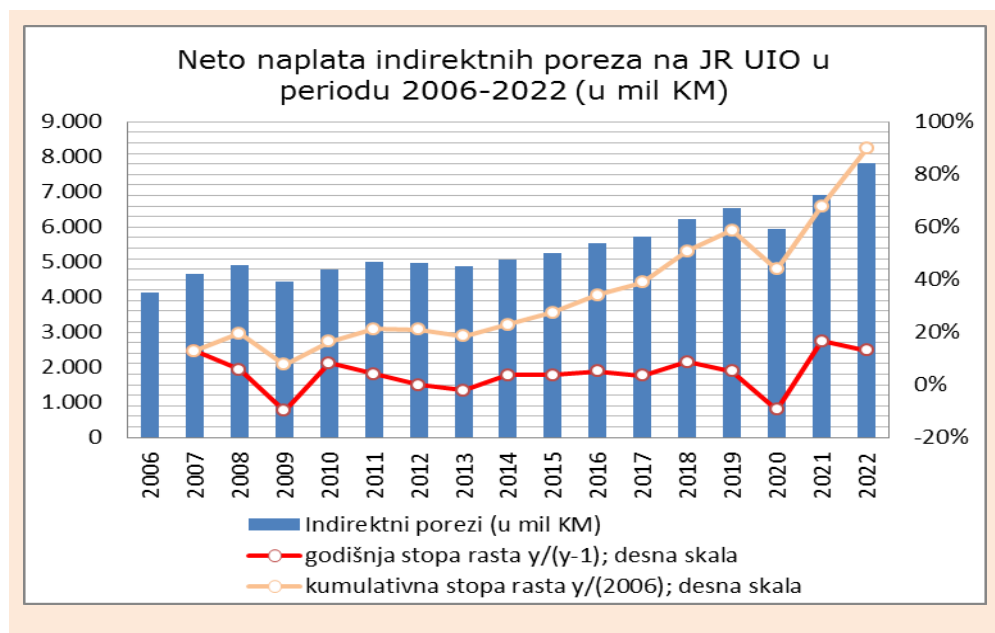
<sup>37</sup> The Decision on determining the specific and the minimal excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2023 (*Official Gazette of BiH*, 74/22). The Decision for 2024 should be adopted by ITA Governing Board by the end of October 2023.

<sup>38</sup> The new policy is applicable as of 1 August 2014. (Amendments to the Law on Excise Duties in BiH, *Official Gazette of BiH*, 49/14)

<sup>39</sup> The new Law on Customs Policy (*Official Gazette of BiH*, 58/15) is applicable as of 1 August 2022 (*Official Gazette of BiH*, 23/22) while the old Law on Customs Policy was applicable prior to that date, except for Article 207 of the new law which is applicable as of 25 April 2018.

decreased to 18.4 per cent. In 2021 it increased again to 20.2 per cent, which is the maximum since the establishment of the ITA. In 2022 it amounted to 19.9 per cent, which corresponds to the level of 2019.

**Figure 4: Net revenues from indirect taxes to the ITA SA 2006-2022**



Source: BiH ITA, OMA calculation and representation

**Table 1. The share of indirect taxes revenues from the ITA SA in the GDP and total spending (C)**

(u %)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
indirektni porezi / BDP	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
indirektni porezi / 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

Source: Calculation on the basis of ITA and BHAS data<sup>40</sup>

In figure 4, the share of indirect taxes in GDP in BiH between 2008 and 2022 is divided into components in accordance with the methodology in the OECD analysis<sup>41</sup>, to the product of: (1) share of indirect taxes revenues in total spending and (2) share of total spending in GDP. Based on figure 2, It may be concluded that the share of indirect taxes in GDP and spending was on equal levels up to 2015, when the share of spending in GDP rose to 100 per cent. From 2015, there was a downward trend in the share of spending in GDP (with the exception of a slight increase in 2020 and 2022), and in 2022 it amounted to 86.3 per cent. With the decrease in the share of spending in GDP, from 2015 the line of the share of indirect taxes in spending is above the line of their share in GDP.

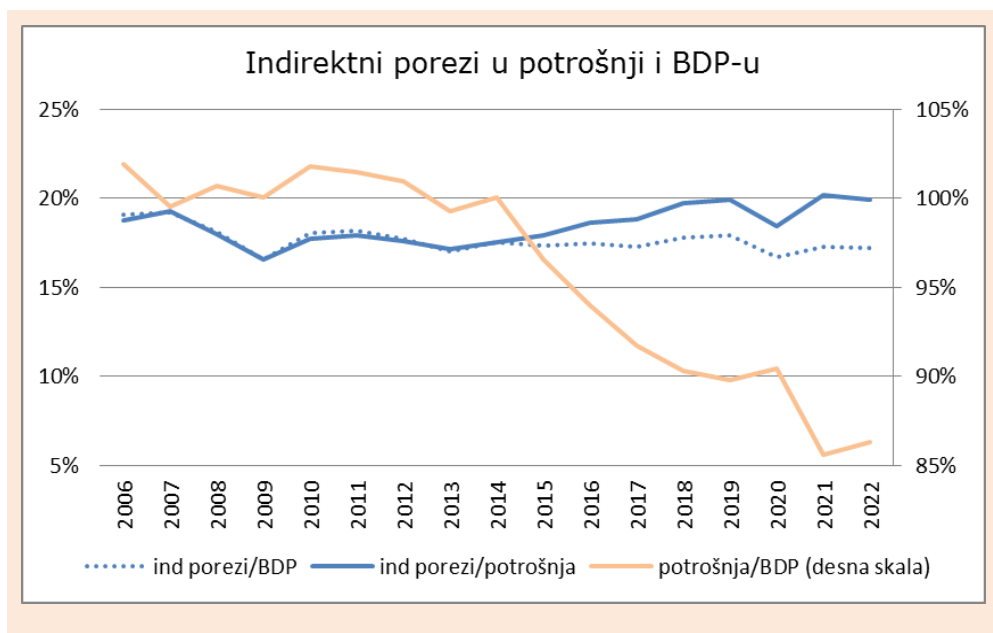
In 2022 the share of indirect taxes in GDP dropped by 0.09 percentage points, whereby it reaches the level of 17.2 per cent. Analyzed by the components in the OECD formula, the decrease in the share of indirect

<sup>40</sup> GDP for BiH 2022, Expenditure method, first results, Sarajevo, 29 September 2023.

<sup>41</sup> Simon, H. and M. Harding (2020), "What drives consumption tax revenues?: Disentangling policy and macroeconomic drivers", OECD Taxation Working Papers.

taxes in GDP in 2022 is the cumulative result of the decrease in the share of indirect taxes in spending of 0.27 percentage points, and the increase in the share of spending in GDP by 0.72 percentage points.

**Figure 5. Indirect taxes in spending and GDP, 2006-2022**

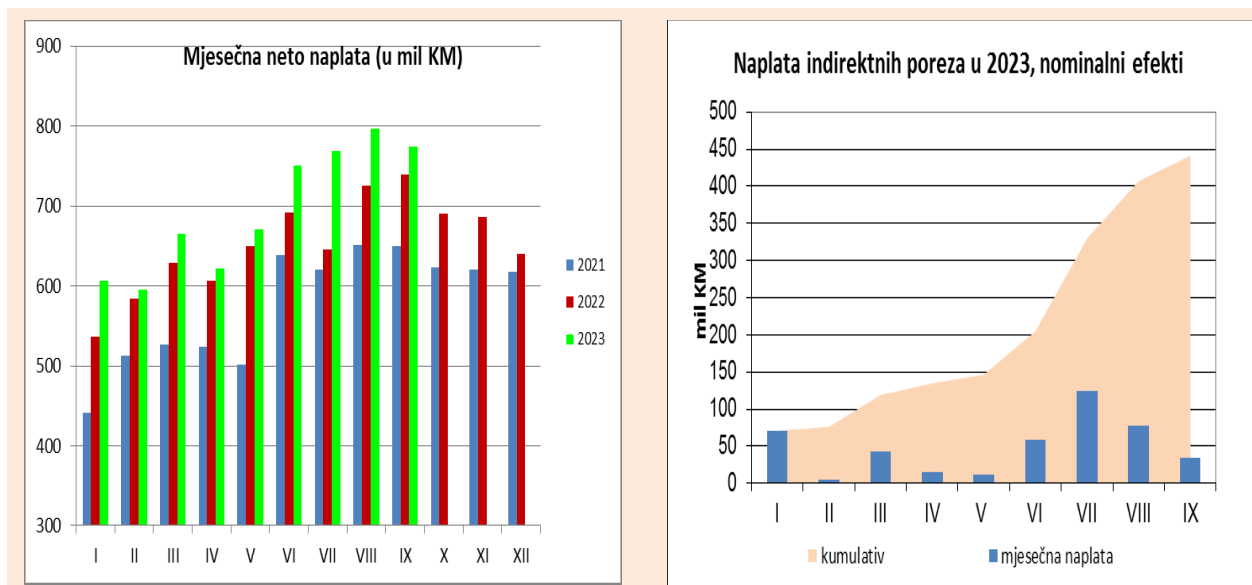


Source: BiH ITA and BHAS (OMA calculation and representation)

### January – September 2023 Collection

In accordance with the preliminary report, in September 2023, ITA collected the amount of 932.8 million BAM gross revenues from indirect taxes, which is 19.7 million BAM more than in September 2022. The payment of refunds decreased by 8.3 per cent so the net collection was ultimately higher by 34.1 BAM, i.e., by 4.6 per cent. The growth in indirect taxes collection in September had a positive effect on the cumulative effects at the level of nine months in 2023.

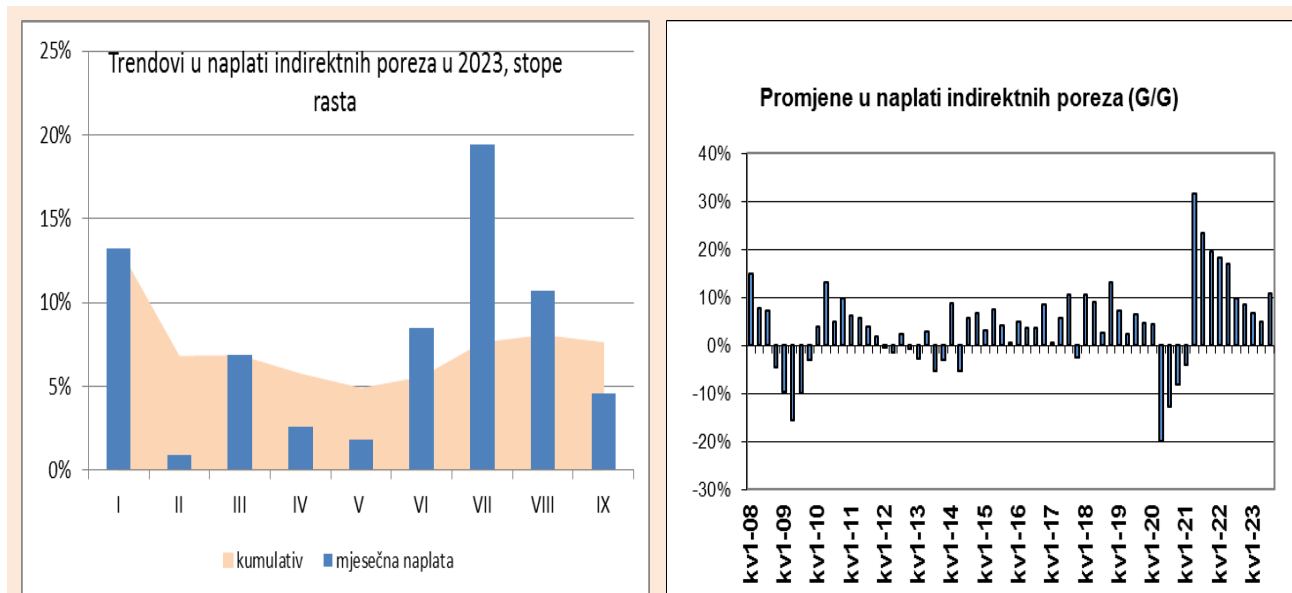
**Figure 6. Monthly net collection and nominal effects**



Source: BiH ITA, OMA calculation and representation

Therefore, in the period between January and September 2023 the collected gross revenues were by 7 per cent higher, while the payment of refunds increased by 73.6 million BAM. Finally, the net effect of indirect taxes collection in the period between January and September 2023 amounted 441.2 million BAM, which represents a growth of 7.6 per cent. The positive effects of collection from June 2023 are the result of the cumulative effect of two positive trends - the growth of gross collection and stagnation, and then the reduction of VAT refund payments.

**Figure 7. Growth rates of indirect taxes collection**



Source: BiH ITA, OMA calculation and representation

The deceleration in the collection of indirect taxes in the first half of 2023 can also be seen in the quarterly trends (figure 7, right). After extremely high growth rates in 2021 and 2022, in the first quarter of 2023 the growth rate of indirect tax revenues was 6.7 per cent, and in the second quarter 4.9 per cent. The lower quarterly growth rates in the first half of 2023 are a consequence of the drop in import in 2023 and the negative effects of the change in the excise duty payment regime on tobacco products, which will be applied from the spring of 2023. The impact of the base effect from 2022 is also significant for the collection comparison. The outbreak of the conflict in Ukraine had different effects on indirect tax revenues in 2022, and thus on the basis used for comparing indirect tax collections in 2023. The sudden leap in the prices of goods and services in the country, as a consequence of the energy crisis and disruptions in supply on the world market, brought an increase in the collection of *ad valorem* taxes (VAT, customs) in 2022 and a higher basis for comparisons of the collection of these revenues in 2023. On the other hand, the huge rise in the prices of oil derivatives brought a drop in spending and, consequently, a drop in revenues from excise and tolls in 2022 and a lower basis for comparing the collection of those revenues in 2023. The negative effects of a higher basis in the second quarter of 2023 and uncertainty in the collection of excise duties on tobacco products were partially mitigated by the growth of domestic VAT, reduced refund payments and growth in customs revenue. Continued growth in the collection of domestic VAT, customs and excise/toll on oil derivatives, and a significant slowdown in refund payments, resulted in a high growth rate of net collection of indirect taxes in the third quarter of as much as 10.8 per cent.

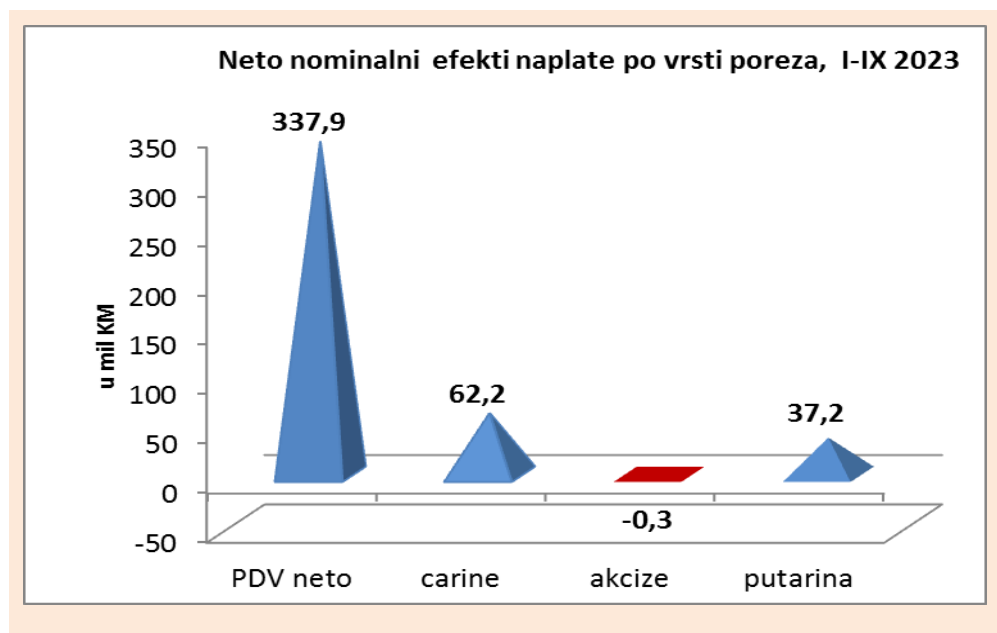
### Revenues collection per type

Observed per types of revenues, the biggest excess for the first nine months of 2023 compared to the same period in 2022 was achieved in the VAT collection (+337.9 million BAM) and customs duties (+62.2 million BAM). The excess of toll revenues increased to 37.2 million BAM, while excise collection is at the same level



of collection as in the same period of 2022 (Figure 8). Since during the preparation of the preliminary report approximately 45.4 million BAM of revenues remained unadjusted, after the final adjustment of revenues collection with applications and declarations in the ITA IT system, an even greater increase can be expected, first of all, in VAT revenues.

**Figure 8. Net nominal effects of collection per tax type, I-IX 2023**

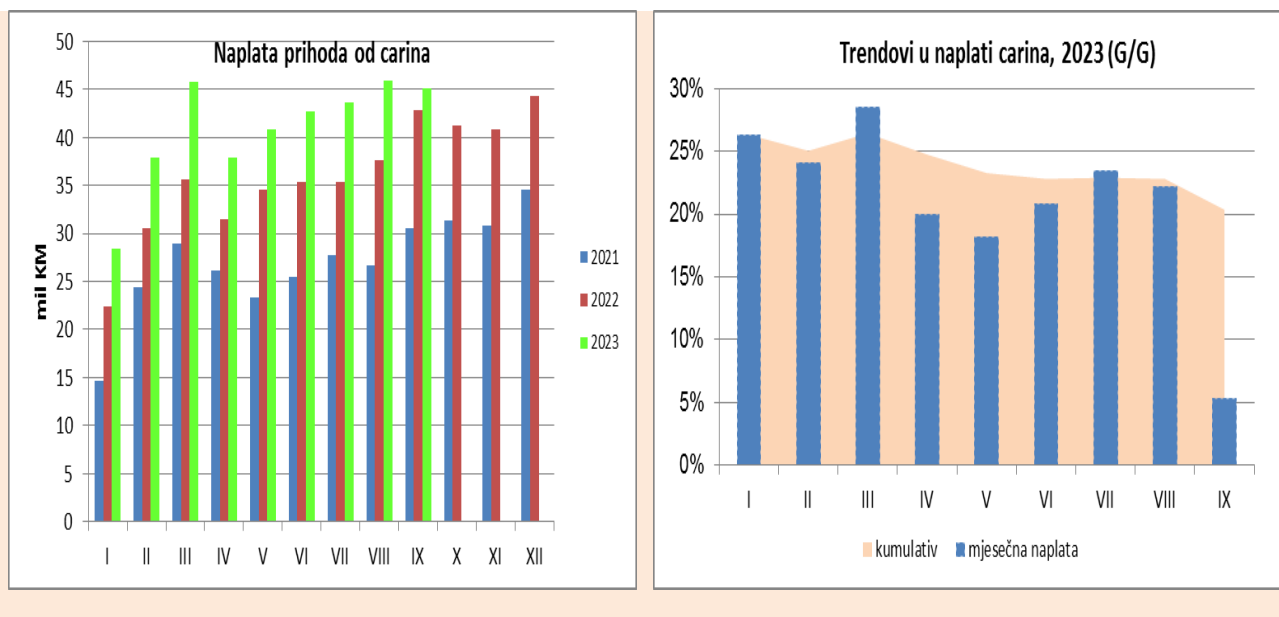


Source: BiH ITA, OMA calculation and representation

#### *Custom duties*

In the first months of 2023, an increase in customs revenues collection was recorded. Due to the lower basis in the first quarter of 2022, monthly growth rates were more than 25 per cent (Figure 9, left), thanks to the effect of the lower basis prior to the outbreak of the conflict in Ukraine. In the following months, customs revenues collection in absolute terms increased, but growth rates were lower due to the effect of a higher basis after the start of the conflict in Ukraine. In September, the lowest monthly growth rate in 2023 was achieved at 5.2 per cent, which reduced the cumulative growth to 20.4 per cent (figure 9, right).

**Figure 9. Customs revenues collection**

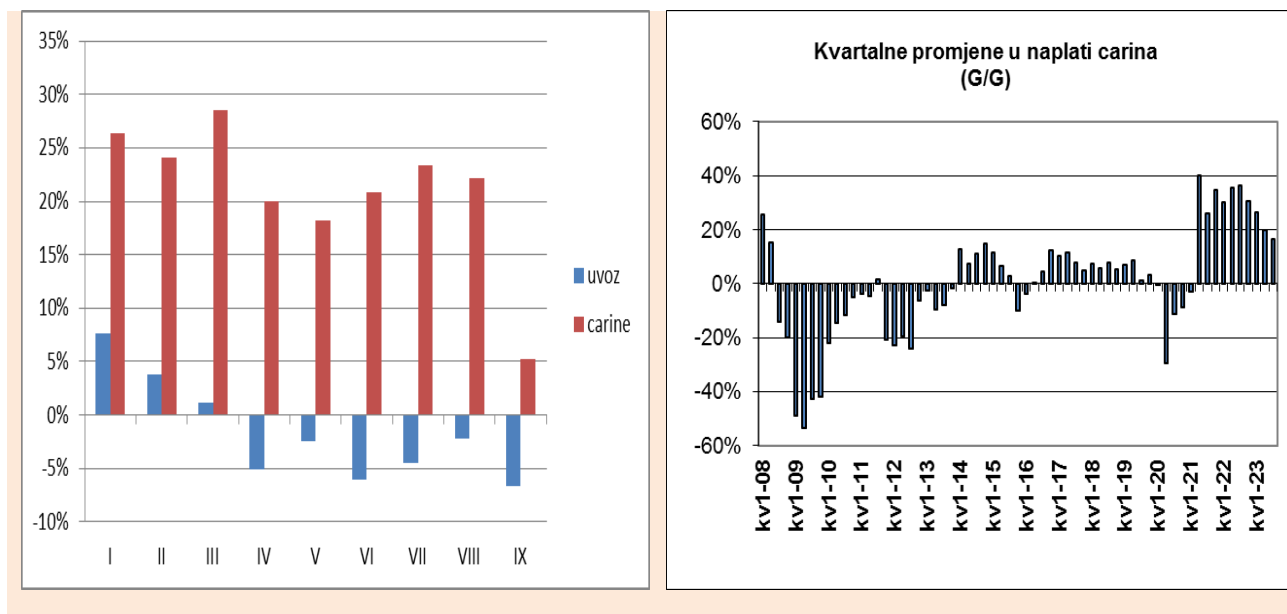


Source: BiH ITA, OMA calculation and representation

The trend of high growth rates of customs revenues is a surprise considering the decline in import in 2023. A comparison of the growth rates of customs revenues and statistical<sup>42</sup> data on the development of import for the first nine months of 2023 indicate an unusually large discrepancy in favor of the customs revenues growth in the first three months, and then the opposite trends - a drop in import and an increase in customs revenues since April (figure 10, left).

**Figure 10. Customs and import growth rate revenues**

<sup>42</sup> The source of data on import for the period January - August 2023 is the BHAS, and for September 2023 the ITA.



Source: BiH ITA, OMA calculation and representation

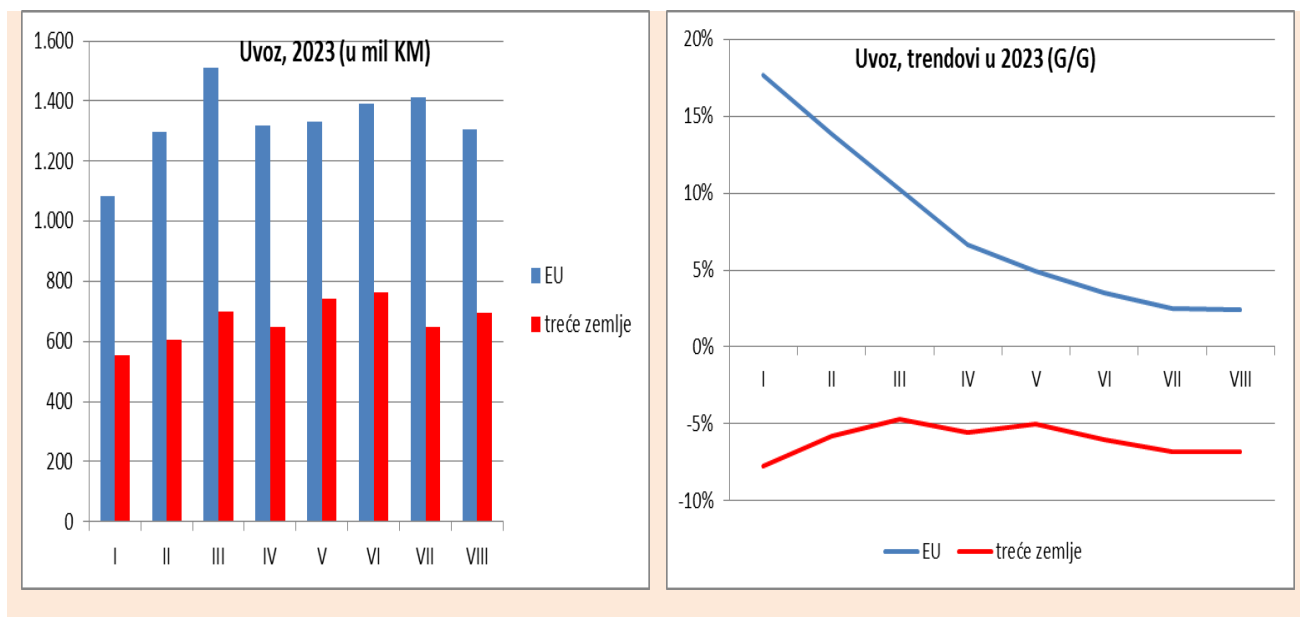
The deceleration in the growth of customs revenues can also be seen in the review of quarterly growth rates (figure 10, right). After very high growth rates in 2022, which ranged from 30 per cent to 40 per cent, in the first quarter of 2023, customs revenue growth of 26.4 per cent was recorded, in the second quarter 19.7 per cent, and in the third quarter 16.3 per cent.

One of the reasons for the higher growth of customs revenues may be the collection of old debts based on custom duties from the previous year<sup>43</sup>, and changes in customs procedures<sup>44</sup>. Likewise, the reason may be a disproportionate increase in the customs value of goods on which custom duties are calculated in relation to the increase in import. Considering the limited range of goods to which the customs regime is applied during import, the growth of customs revenues depends on the growth of import from the EU and from third countries. The presentation of import trends by the main groups of countries relevant for the collection of customs revenues shows a strong deceleration in EU import from April 2023. On the other hand, import from third countries shows quarterly cycles that start with lower import which increases by the end of the quarter, each time at a higher level of import (figure 11, left). However, as a whole, the import of goods from third countries, which is relevant for the collection of customs revenues, was 6.9 per cent lower in the first eight months of 2023 compared to the same period in 2022. On the other hand, import from the EU increased by 2.4 per cent, but a downward trend is noticeable, reflecting the deterioration in the economies in the EU (Figure 11, right).

**Figure 11. Import, trends in 2023**

<sup>43</sup> Old customs debts amount to 3.5 per cent of the annual customs collection in 2022. Source: Report on the work of the ITA for 2022.

<sup>44</sup> E.g. suspension of confirmation of EU origin for a large number of imported cars from 1 April 2023.

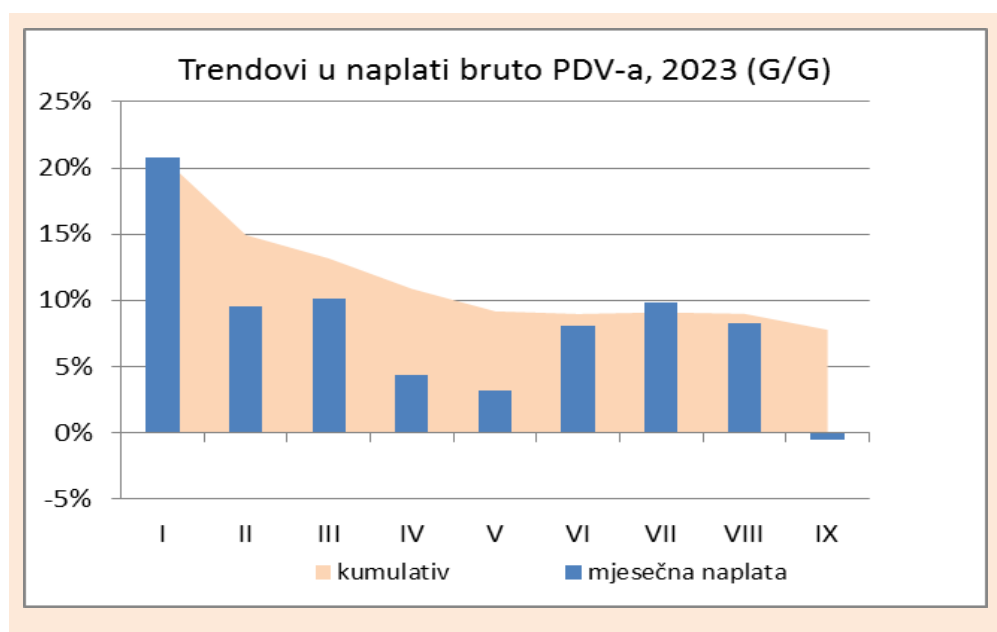


Source: BiH ITA, OMA calculation and representation

## VAT

The trend of a strong deceleration in the VAT gross collection in the first five months of 2023 was stopped in June, and since then the monthly growth rates have been significantly higher. However, in September, for the first time this year, VAT gross collection dropped by 0.5 per cent, which reduced the cumulative growth rate to 7.8 per cent (figure 12). Given that approximately 45.4 million BAM of unaligned revenues were recorded in July, we can expect the negative growth of gross VAT to be reversed, bearing in mind that a significant part of unaligned revenues relates to domestic VAT, as a component of gross VAT.

**Figure 12. VAT revenues gross collection trends**

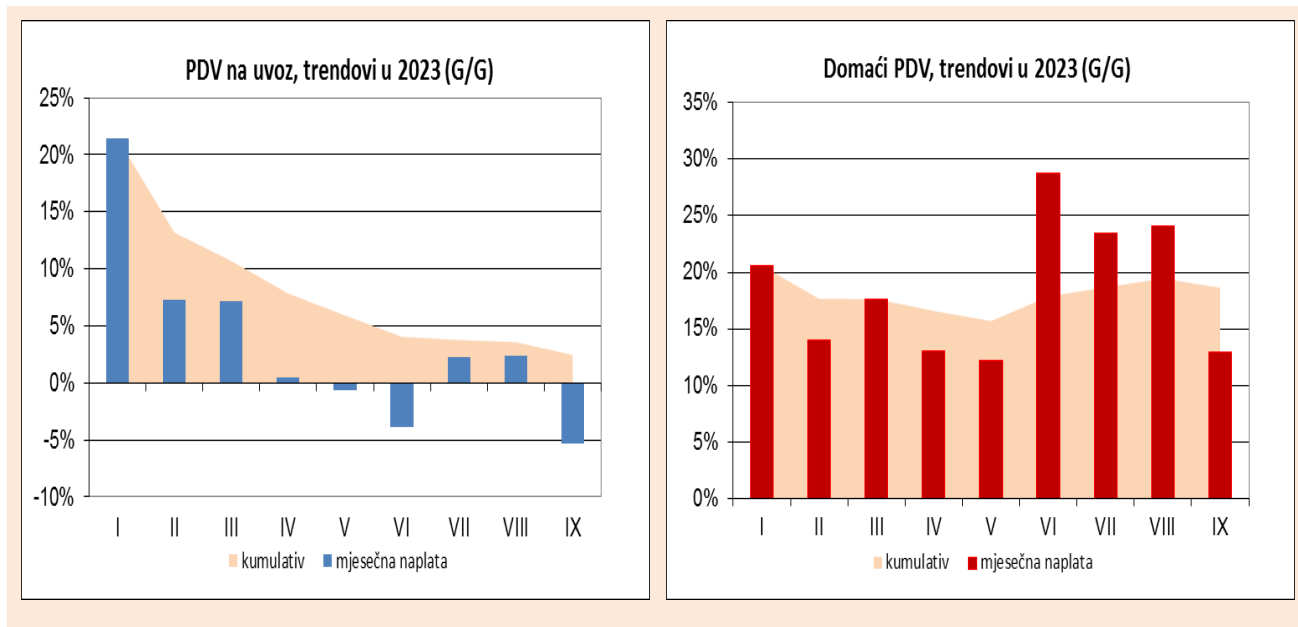


Source: BiH ITA, OMA calculation and representation

The analysis of the structure of gross VAT points to the conclusion that the drop in gross collection in September is a consequence of the drop in VAT collection on import of 5.3 per cent (figure 13, left), which could not be compensated by the high growth rate of domestic VAT of 13 per cent (figure 13, right) due to the high VAT weight on import in the structure of gross VAT. There is a noticeable downward trend in the

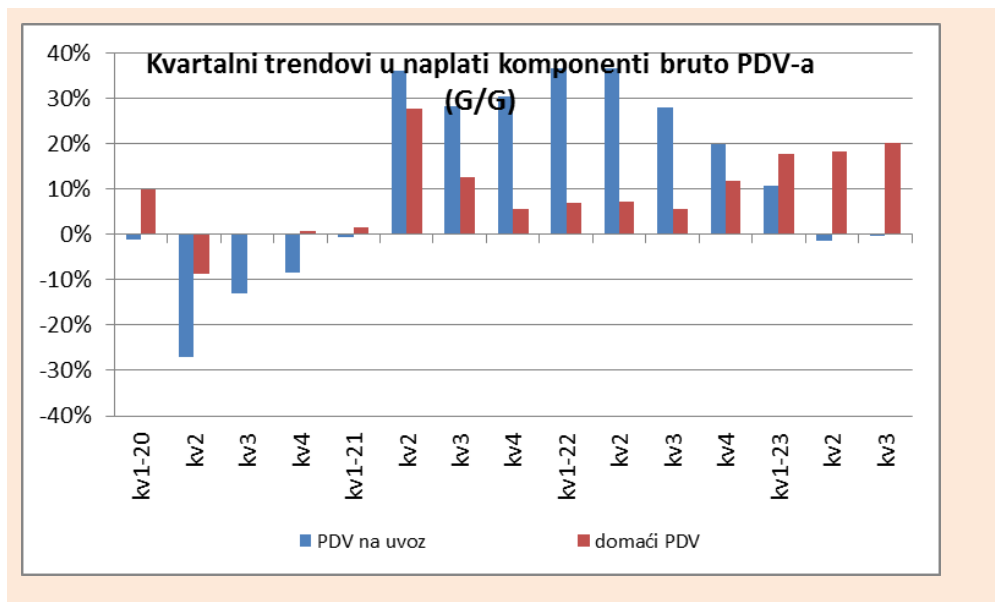
growth of VAT on import, so that at the level of nine months, the collection of VAT on import grew at a rate of a modest 2.5 per cent, while the growth of domestic VAT amounted to as much as 18.6 per cent. The increase in domestic VAT is partly a consequence of maintaining high prices in the country even after the drop in import prices, especially energy prices. One of the growth factors was the expansion of the scope of taxation of bank service packages, which brought 1.7 percentage points increase in domestic VAT. In any case, this is a very high rate of growth of domestic VAT, far above the spending projections.

**Figure 13. VAT on import and domestic VAT**



Source: BiH ITA, OMA calculation and representation

**Figure 14. Quarterly trends in the gross VAT component collection**



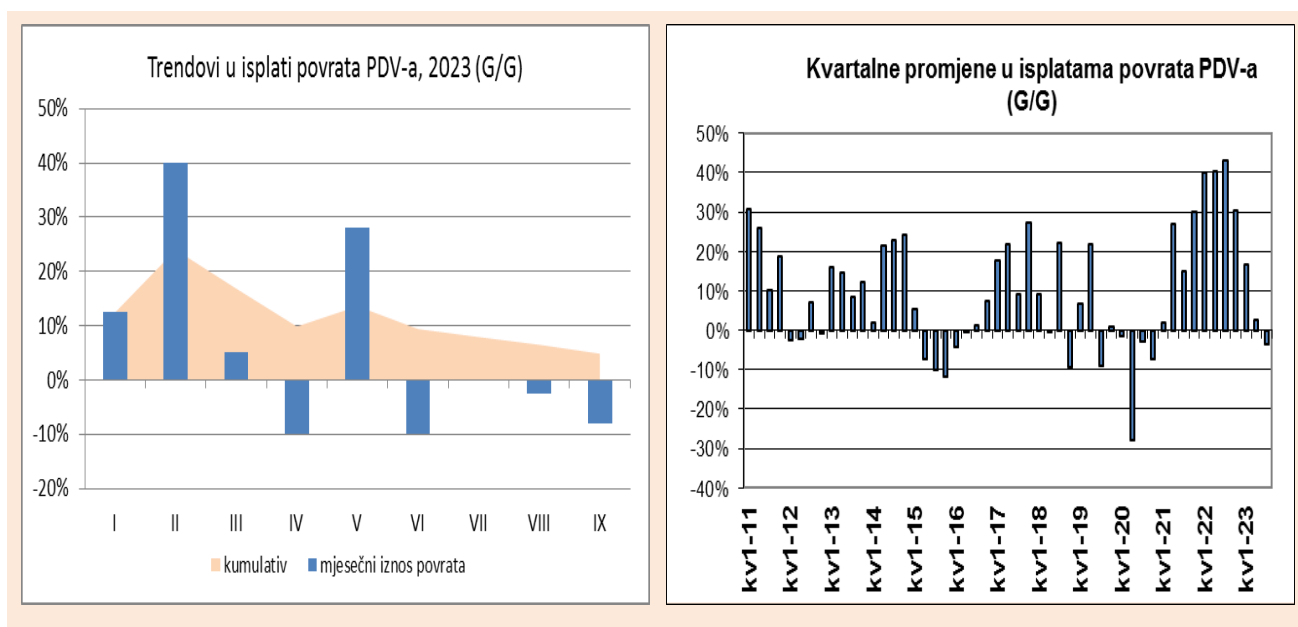
Source: BiH ITA, OMA calculation and representation

Quarterly trends in the gross VAT component collection confirm the conclusions presented above (figure 14). A sharp drop in the quarterly growth rates of VAT on import is noticeable. In the first quarter of 2023, the growth rate was positive 10.7 per cent, but in the second it was negative -1.4 per cent, for the first time after 9 quarters of continuous positive growth. The situation slightly improved in the third quarter, when VAT on imports dropped by 0.4 per cent. On the other hand, there is a continuous growth trend of domestic

VAT. In the first quarter of 2023, the growth rate was 17.6 per cent, in the second quarter 18.1 per cent, and in the third quarter as much as 20.2 per cent (figure 14).

VAT refunds fluctuated strongly in the first five months of 2023, with monthly growth rates ranging between -10 per cent and +40 per cent (Figure 15, left). Since June, monthly growth rates have been continuously negative. In September, refunds were 8 per cent less compared to the same month in 2022, which reduced the cumulative growth rate to only 4.9 per cent.

**Figure 15. Trends in VAT refunds**



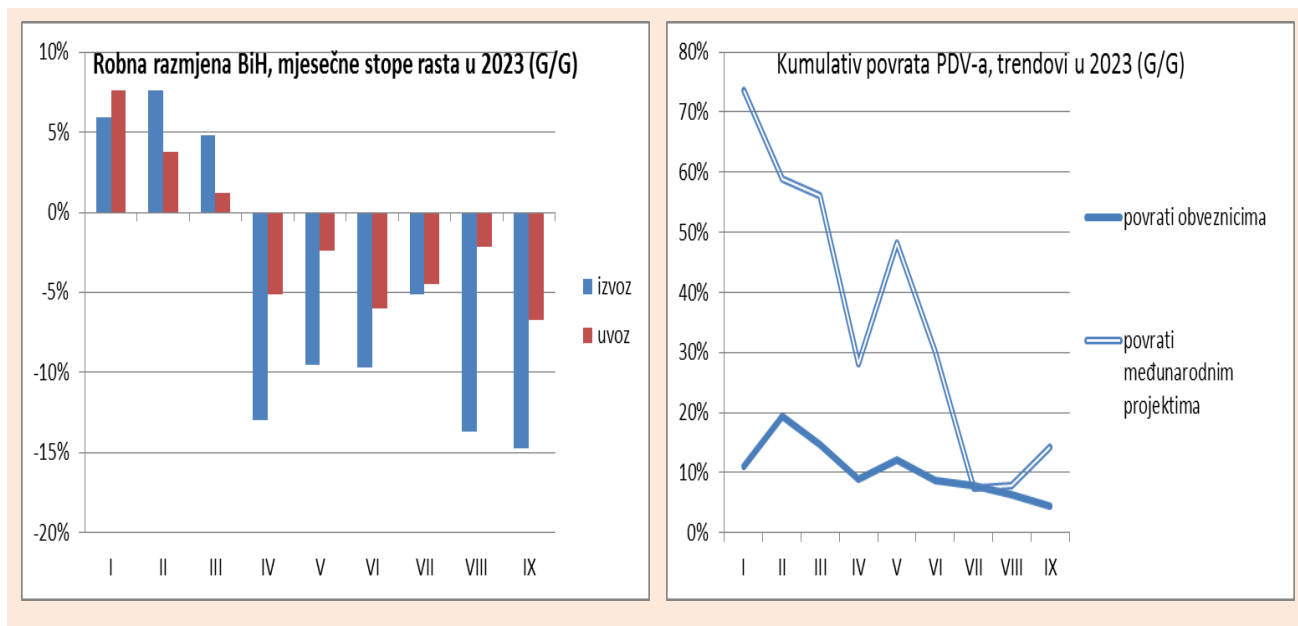
Source: BiH ITA, OMA calculation and representation

After extremely high quarterly refund growth rates in 2022, quarterly comparisons indicate a strong deceleration in 2023. Thus, in the first quarter of 2023, the growth rate of VAT refunds was 16.8 per cent, and in the second was only 2.5 per cent, while in the third quarter the refunds dropped by 3.4 per cent (figure 15, right). An indicator of the downward trend of refunds in 2023 is the decline in the share of cumulative refunds in cumulative gross VAT, which dropped from the initial 33.2 per cent in January to 28 per cent in September. Likewise, the share of cumulative VAT refunds in cumulative gross VAT for nine months in 2023 is lower by 0.8 percentage points, compared to the share in the same period in 2022.

The trends in refund payments are not surprising given the decline in import and export since April 2023 (Figure 16, left). In view of the prescribed deadlines<sup>45</sup> from the Law on VAT for refunds to taxpayers in September 2023, the reference VAT returns are from July and August. It should also be borne in mind that payments based on international projects are a significant factor that mitigated the effects of the drop in import and export on refund payments. These refunds are not directly related to export and import, but to the dynamics of the completion of certain phases of projects (e.g. construction of highway sections or construction situations for other infrastructural projects). Over the course of the year, the impact of refund payments to international projects on cumulative trends weakened, and the cumulative growth rate increased in September. On the other hand, there is a deceleration trend in refunds to taxpayers (figure 16, right).

<sup>45</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.

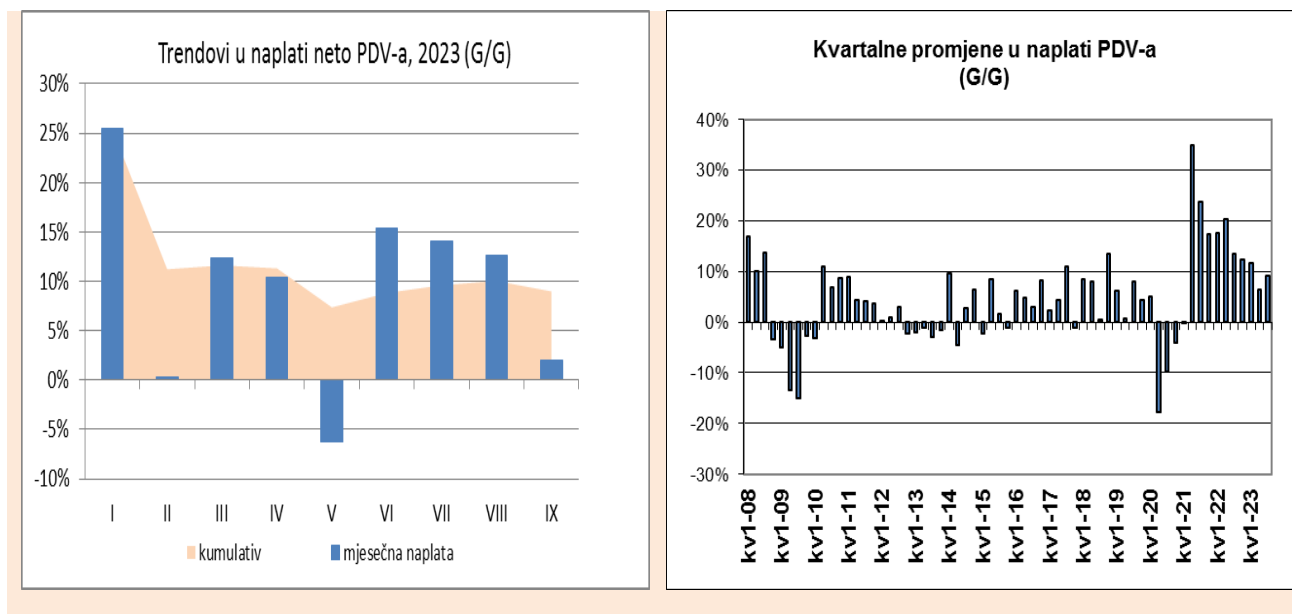
**Figure 16. Trade exchange of goods in BiH, monthly grow rates and cumulative VAT refunds**



Source: BiH ITA, OMA calculation and representation

The deceleration in refund payments had a positive effect on net VAT collections. The effect was further strengthened by the growth of gross VAT collection in recent months. However, the poor gross collection of VAT in September neutralized to a certain extent the positive effects of the reduction in refunds, so that the growth of net VAT in September amounted to only 2 per cent. Poor collection in September was also reflected in the growth of cumulative net VAT, so that the growth rate dropped to 9 per cent (figure 17, left).

**Figure 17. Net VAT collection trends**



Source: BiH ITA, OMA calculation and representation

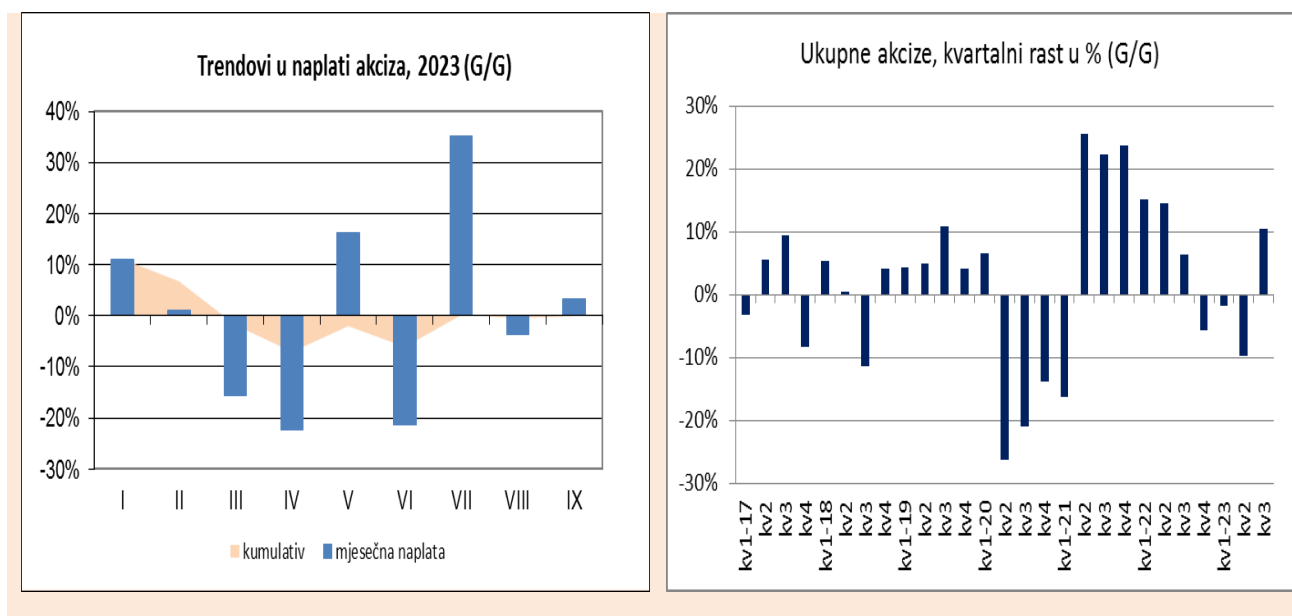
Quarterly comparisons show an increasing trend of net VAT. In the first quarter, a growth rate of 11.6 per cent was achieved, which was at the level of net VAT growth from the second half of 2022. Due to the deterioration of VAT collection on import, which dominates the structure of gross VAT, and despite the extraordinary growth of domestic VAT and the deceleration of refunds, the growth of net VAT in the second quarter of 2023 was 6.4 per cent (figure 17, right). However, in the third quarter, thanks to the significant reduction in refund payments and the growth of gross VAT in July and August, the net VAT growth rate amounted to 9.3 per cent. The already mentioned expansion of the scope of bank services taxation brought 0.9 percentage points growth of net VAT.

#### Excise duties

The collection of excise duties is usually characterized by strong monthly oscillations, determined by the collection of excise duties on tobacco products as the most significant component of total excise revenues. Oscillations of the monthly growth rate ranged from -22 per cent in April to +35 per cent in July (figure 18, left, "monthly collection"). The cumulative growth rate also fluctuated, but for most of the year it was in the negative growth zone. In September, a slight increase in excise duties revenues of 3 per cent was recorded, and the total collected excise duties revenues has only just reached the level of collection in the same period in 2022 (figure 18, left, "cumulative"). Monthly fluctuations in excise duties collection are the result of several factors. Of those related to developments in 2023, the most important are the change in the excise duties collection scheme due to the application of the new regime for payment of excise duties on tobacco products, as well as fluctuations in the retail prices of oil derivatives in the country, and thus the consumption of derivatives caused by developments in the world energy market. Likewise, monthly growth rates oscillate due to the influence of the base for comparison, which was strongly influenced by the beginning of the conflict in Ukraine from March 2022, when it comes to excise taxes on oil derivatives.

**Figure 18. Trends in the collection of excise duties**





Source: BiH ITA, OMA calculation and representation

A review of quarterly trends shows negative growth in the first and second quarter of 2023 of 1.8 per cent and 9.7 per cent, respectively (Figure 18, right). However, extremely high growth in excise duties collection in July and mild growth in September brought growth to the third quarter at the level of 10.5 per cent. Oscillations in the collection of excise duties on tobacco products are common, given that the collection depends on the sales policies of two multinational tobacco corporations, which hold 85 per cent of the cigarette market in BiH. However, in 2023, the oscillations in the collection of excise duties were further aggravated due to the application of the new payment regime from the spring of 2023.<sup>46</sup>

The new excise duties payment regime entails paying excise duties when importing tobacco products instead of paying excise duties when collecting excise stamps. With the transition to the new regime of excise duties payment, the time interval between the payment of excise duties and the sale of cigarettes to which the payment refers has been shortened<sup>47</sup>. The consequence of the transition to the new payment regime is a vacuum in the collection of excise duties, the length of which and, consequently, the impact on the collection of excise revenues, depended on the interval between the collection of stamps and the import of cigarettes<sup>48</sup>. It is a one-time effect, which is positive for the cash flow of tobacco companies, while for the country it represents a loss of excise revenues. Although it was expected that with the entry into force of all implementing regulations, the tobacco company would switch to a new payment regime in January 2023, but this did not happen due to adjustments to customs procedures regarding the payment of excise duties on import (obtaining bank guarantees, etc.). With that in mind, it is reasonable that the pace of adoption of the new procedures by the tobacco companies and the transition to the new payment regime differed. Ultimately, this had a consequence that the effect of the loss of revenues extends from mid-February to mid-April, that is, in three monthly reports in the period from February to April (figure 19, left). With the end of the transition period, the revenues collection stabilized. In May, revenue growth of as much as 26.9 per cent was achieved, but already in June, collection was extremely bad and a drop of as much as 32 per cent was recorded. July's strong 46 per cent rise in excise collections almost canceled out the decline in excise

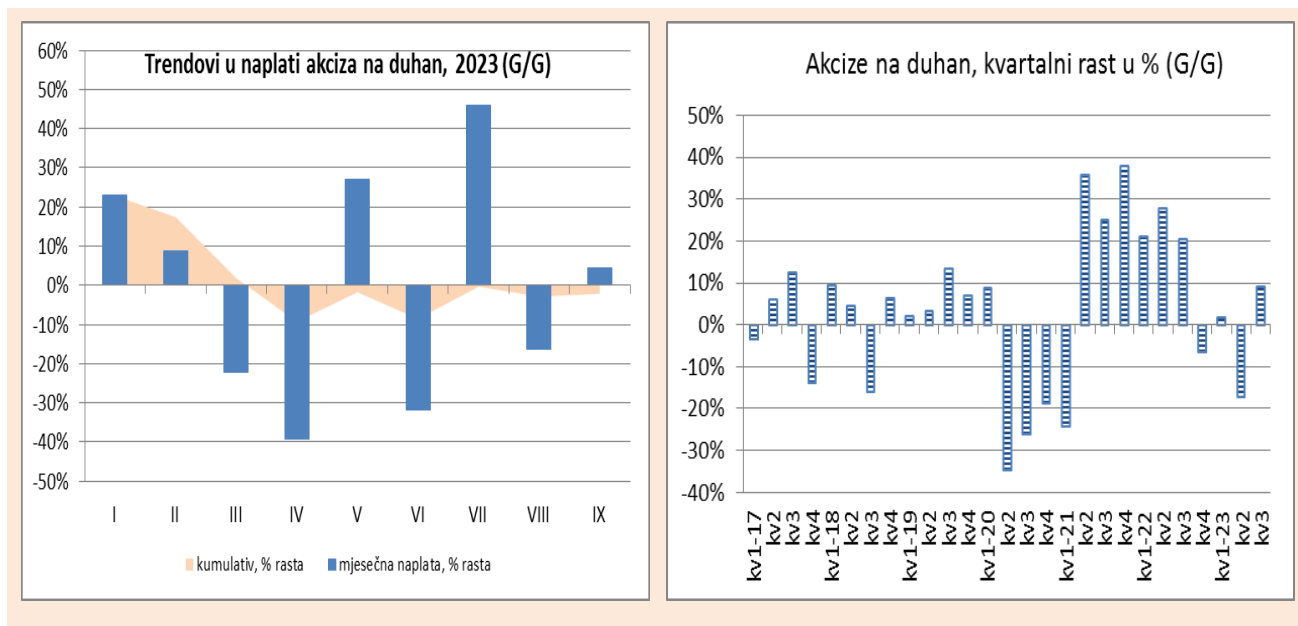
<sup>46</sup> Amendments to the Law on Excise Duties

<sup>47</sup> Before the amendments to the Law on Excise Duties, excise duties were paid at the time of collection of stamps, which produced negative effects on the cash flow of tobacco companies since it was necessary to pay significant financial resources for excise duties long before their sale.

<sup>48</sup> Between those two final activities, it is necessary to export excise stamps to the countries where tobacco products are produced, produce cigarettes and transport them to Bosnia and Herzegovina. So far, depending on the manufacturer, it has taken at least a month to import cigarettes with excise stamps on which excise duties have been paid.

collections from the first half of the year, however, August's 16.9 per cent decline in collections and a modest 4.3 per cent growth in September brought cumulative collections back into the negative growth zone at a rate of -2.1 per cent (figure 19, left, "cumulative").

**Figure 19. Trends in the collection of excise duties on tobacco**

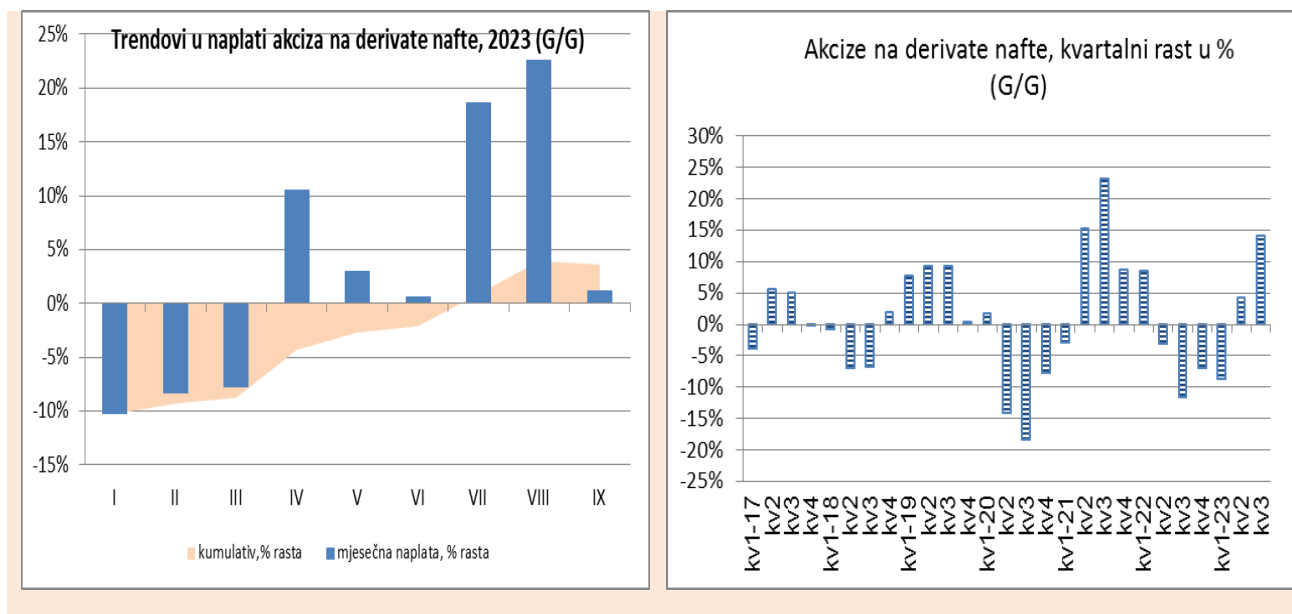


Source: BiH ITA, OMA calculation and representation

An overview of quarterly growth rates shows a slight improvement in the first quarter of 2023, when a growth rate of 1.8 per cent was achieved, but in the second quarter of 2023, due to the application of the new excise duties payment scheme and poor collection in April and June, there was a drop of as much as 17 per cent. (figure 19, right). In the third quarter, under the influence of the increase in spending by non-residents in the summer season, excise duties collection stabilized, and there was a growth of 9.1 per cent (figure 19, right).

In the first three months of 2023, negative growth rates of excise duties on oil derivatives were recorded, and in the rest of the year there was a strong recovery, so that a cumulative growth of 3.6 per cent was achieved at the level of the first nine months of 2023 (figure 20, left). Trends in the collection of excise duties on oil derivatives are strongly determined by the base effect from 2022. In the first three months of last year, in the period before the start of the conflict in Ukraine, the spending of oil derivatives was stable due to stable prices on the world market, which had a positive effect on the collection of excise duties in that period. However, in the same period in 2023, excise duties collection was lower due to a drop in spending caused by higher energy prices as a result of turbulence on the world energy market caused by the conflict in Ukraine. In the following months, the base effect was reversed. In the period from April to September 2022, due to the prices growth, there was a decrease in the spending of oil derivatives and, consequently, the collection of excise duties, while in the same period in 2023, the prices of oil derivatives stabilized and then started to drop, which had a positive effect on spending and collection of excise duties. As a consequence of the aforementioned trends on the derivatives market, excise duties collection in the period from April to September 2023 was higher by 3.6 per cent compared to the same period in 2022.

**Figure 20. Trends in the collection of excise duties on oil derivatives**



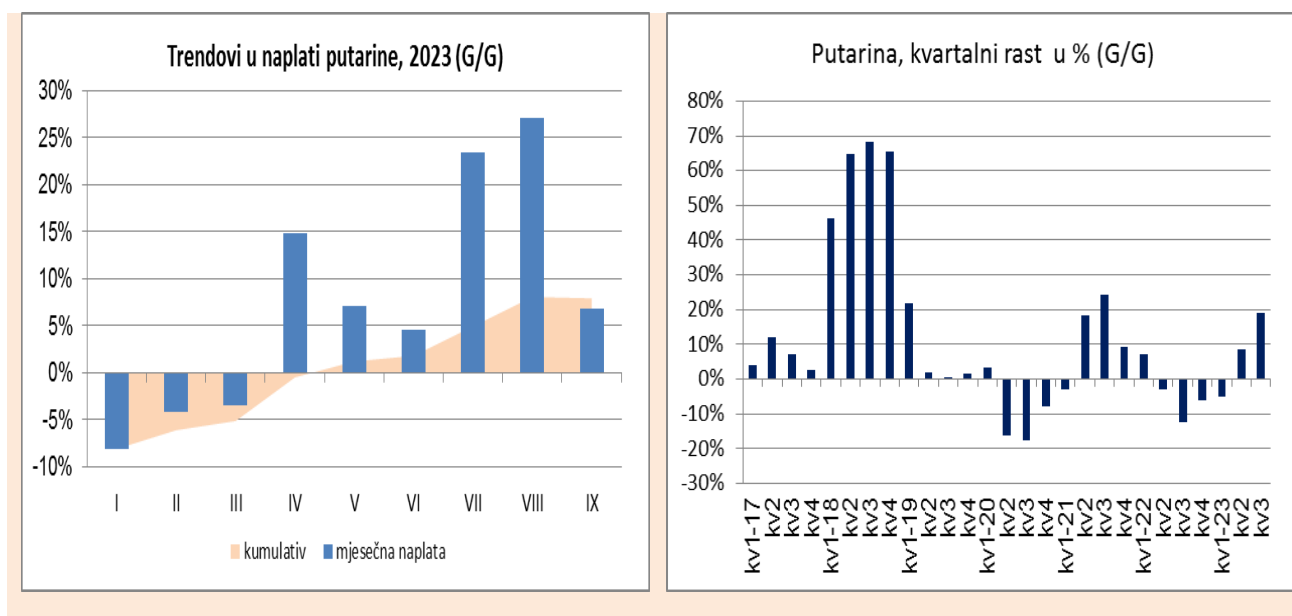
Source: BiH ITA, OMA calculation and representation

Quarterly comparisons indicate a strong recovery in the collection of excise duties on oil derivatives in the third quarter of 2023, with a growth of as much as 14.1 per cent, in contrast to the first quarter, when a decline in collection of 8.7 per cent was recorded, and a modest growth in the second quarter at the rate of 4.3 per cent (figure 20, right).

Basically, the trends in the collection of tolls in 2023 are similar to the trends in the collection of excise duties on oil derivatives (figure 21, left). In the first quarter, a 5.1 per cent drop in toll revenues was recorded, while in the second and third quarter, a positive growth of 8.4 per cent and as much as 19.1 per cent was achieved, respectively (figure 21, right). At the level of nine months, there was a growth of 6.8 per cent, which is significantly higher than the growth in the collection of excise duties on oil derivatives. Differences in growth/decline rates come from the different basis on which tolls are calculated and paid, that is, excise duties on oil derivatives, and benefits, in the form of toll exemptions, which are provided for mines, thermal power plants and railways. However, due to the decision<sup>49</sup> of the State Aid Council of BiH, the exemption of toll payment for the mentioned categories of taxpayers was suspended in 2023, which resulted in higher toll collections in 2023, higher rates of toll growth and a greater discrepancy in relation to the growth of excise duties on oil derivatives. The effect of the suspension of the toll exemption of mines and thermal power plants in 2023 brought 3.8 percentage points toll growth for nine months in 2023.

**Figure 21. Toll collection trends**

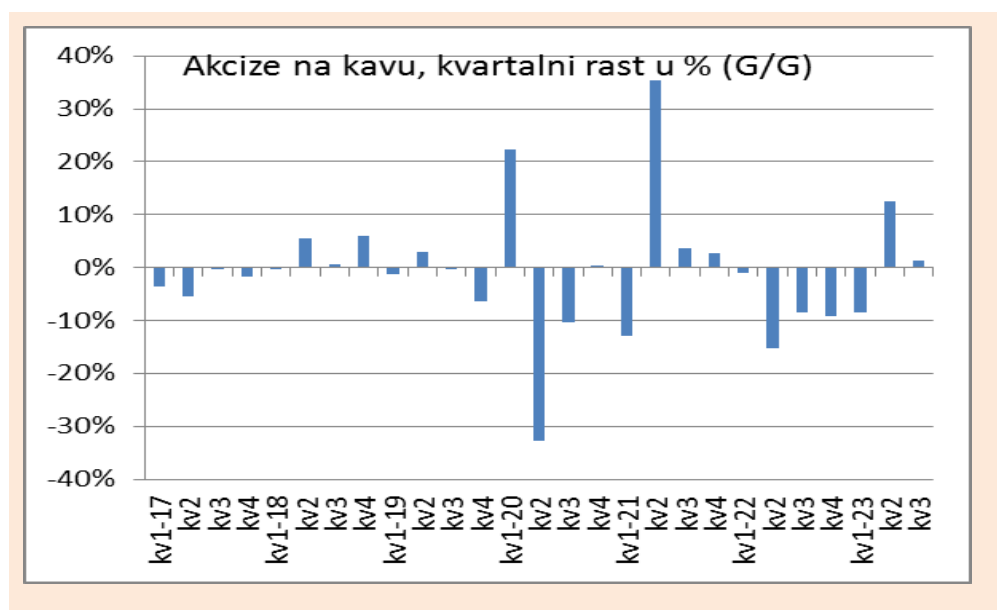
<sup>49</sup> (Official Gazette of BiH 49/23) and (Official Gazette of BiH 63/23)



Source: BiH ITA, OMA calculation and representation

After negative trends in revenues of excise duties on coffee in 2022 and a drop of 8.5 per cent, which was recorded in the first quarter of 2023, in the second and third quarter of 2023, collection recovered, and positive growth rates of 12.5 per cent and 1.4 per cent were recorded, respectively (figure 22). Positive developments in the last two quarters have improved cumulative growth, so that in the period from January to September 2023, a 7.9 per cent increase in revenues of excise duties on coffee was achieved.

**Figure 22. Excise duties on coffee**

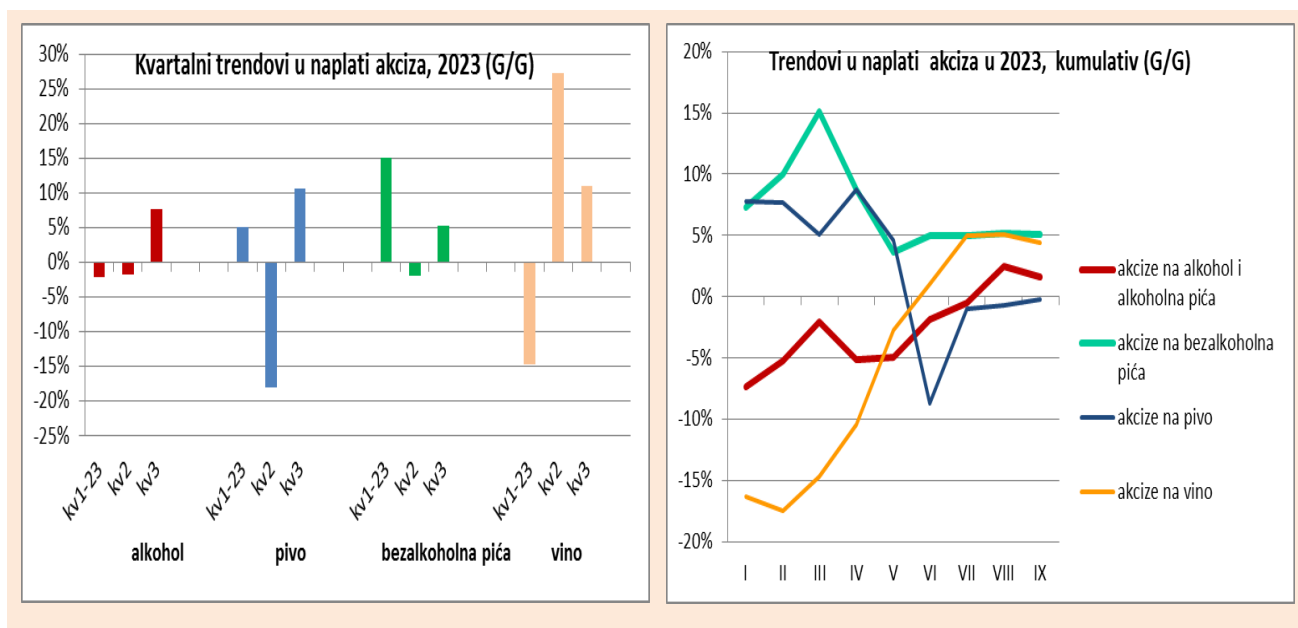


Source: BiH ITA, OMA calculation and representation

Trends in the collection of excise duties on the group of products which consists of beer, wine, alcohol, alcoholic and non-alcoholic beverages, during the first two quarters of 2023 were oscillatory for all the listed products (figure 23, left), but the growth in the third quarter was decisive to achieve a positive growth rate of excise duties on wine, alcohol, alcoholic and non-alcoholic beverages in the period from January to September 2023 (figure 23, left). Realized revenues from excise duties on beer for the first nine months of 2023 were at the level of collection in the same period of 2022 thanks to the growth of excise duties on

import beers of 2.3 per cent, which completely neutralized the decline in excise duties on domestic beers of 9.7 per cent in the same period.

**Figure 23. Quarterly trends in the collection of excise duties and cumulative**



Source: BiH ITA, OMA calculation and representation

## 2023 2026 Indirect Taxes Revenues Projections (basic scenario)

2023 – 2026 revenues projections are shown in table 3. In order to ensure comparability of projected and collected indirect taxes revenues, revenues projections are shown on a cash basis in accordance with ITA reports on collection per types of revenues.

Table 4 shows revenues projections in percentages of GDP.

**Table 2. Projections of revenues from indirect taxes basic scenario (2023-2026), October 2023**

Type of revenues (net)	in million BAM						Projected growth rate			
	Performance	Projection					2023	2024	2025	2026
	2022	2023	2024	2025	2026					
VAT	5,121.5	5,565.5	5,783.3	5,988.9	6,200.0		8.7%	3.9%	3.6%	3.5%
Excise duties	1,580.0	1,612.9	1,755.3	1,801.9	1,852.9		2.1%	8.8%	2.7%	2.8%
Custom duties	431.9	511.2	547.5	588.6	638.6		18.4%	7.1%	7.5%	8.5%
Pay toll	627.2	683.4	703.2	724.3	748.9		9.0%	2.9%	3.0%	3.4%
Other	66.1	54.5	43.6	43.6	43.6		-17.5%	-20.0%	0.0%	0.0%
TOTAL	7,826.7	8,427.5	8,832.9	9,147.3	9,484.1		7.7%	4.8%	3.6%	3.7%
Designated pay toll *)	-392.0	-427.1	-439.5	-452.7	-468.1		9.0%	2.9%	3.0%	3.4%
FUNDS FOR DISTRIBUTION	7,434.8	8,000.3	8,393.4	8,694.6	9,016.0		7.6%	4.9%	3.6%	3.7%

Note:

\*) Designated pay toll amounted to 0.10 BAM/liter of oil derivative until 1 February 2018, entirely dedicated to construction of motorways and was raised to 0.25 BAM/liter of oil derivative as of 1 February 2018 (0.20 BAM/liter) and for construction and reconstruction of other roads (0.05 BAM/liter).

The category "Other" includes other revenues collected in the ITA Single Account (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 3. Projections of revenues from indirect taxes in % of GDP basic scenario, October 2023**

Type of revenues (net)	in % of GDP				
	Performance	Projection			
	2022	2023	2024	2025	2026
VAT	11.3%	11.5%	11.3%	11.1%	10.9%
Excise duties	3.5%	3.3%	3.4%	3.3%	3.3%
Custom duties	0.9%	1.1%	1.1%	1.1%	1.1%
Pay toll	1.4%	1.4%	1.4%	1.3%	1.3%
Other	0.1%	0.1%	0.1%	0.1%	0.1%
<b>TOTAL</b>	<b>17.2%</b>	<b>17.4%</b>	<b>17.3%</b>	<b>17.0%</b>	<b>16.7%</b>
Designated pay toll	-0.9%	-0.9%	-0.9%	-0.8%	-0.8%
<b>FUNDS FOR DISTRIBUTION</b>	<b>16.3%</b>	<b>16.5%</b>	<b>16.4%</b>	<b>16.1%</b>	<b>15.8%</b>

GDP data source: BHAS, expenditure method, September 2023 and DEP projections, September 2023

### **Projections for 2023**

In the process of preparation of the projections of revenues for 2023, one cannot rely on the seasonal scheme of collection of revenues from 2020 and 2021, as this was outside all earlier framework because of the corona virus effects.<sup>50</sup> Despite the disruptions on the global level, turbulence on the oil derivatives market and strong price growth, in 2022 the range of monthly growth rates of net income from indirect taxes decreased compared to the previous two years (figure 24, left), and the monthly dynamics of revenues in 2022 has pretty much returned to the pre-Covid-19 seasonal scheme<sup>51</sup> (figure 24, right). This is especially valid for VAT revenues, excise duties on alcohol, beer and non-alcoholic beverages, while excise duties on oil derivatives and tolls, as expected, deviate considerably from the old seasonal scheme in 2022 as well. Revenues from excise duties on tobacco and coffee have never had a pronounced seasonal component.<sup>52</sup>

In the first nine months of 2023, the growth rate of net income from indirect taxes was 7.6 per cent compared to the same period in 2022. According to DEP projections, nominal GDP growth of 6.5 per cent in 2023 is expected. The growth rate of total net projected revenues from indirect taxes for 2023 is 0.1 percentage points higher than the nine-month growth rate and amounts to 7.7 per cent.<sup>53</sup>

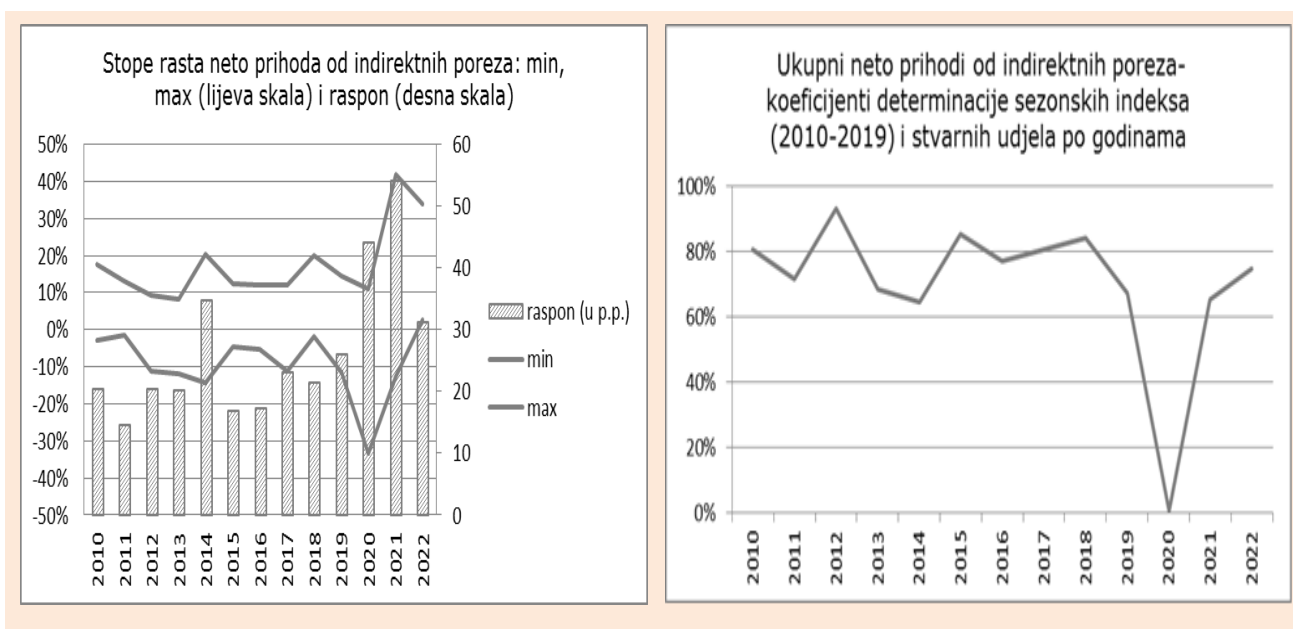
<sup>50</sup> The monthly dynamics of revenues in 2020 was completely different from the so-called pre-Covid-19 seasonal scheme. The range of the monthly net revenues growth rates (the difference between the maximum and minimum value) was 44.2 percentage points. Although it partially returned to the old pattern, the collection of net revenues from indirect taxes in 2021 also deviates quite a bit from the old seasonal scheme. In 2021, the range of the monthly net revenues growth rates was even higher than in 2020 and amounted to a high 54.1 percentage points which was the result of: (1) disruption of the seasonal scheme in the base year 2020, and (2) seasonal scheme characteristics in 2021

<sup>51</sup> After the calculation of seasonal indices for the 2010 – 2019 period, regression models were set up and coefficients of determination of seasonal indices and real shares of monthly amounts of certain types of revenues in the corresponding period were calculated, in order to show how well the seasonal indices "fit" into the real shares in the mentioned period.

<sup>52</sup> More about the monthly fluctuations of certain types of revenues from indirect taxes and the strength of the seasonal component in the bulletins of the Department no. 174/175 and 209/210 ([www.oma.uino.gov.ba](http://www.oma.uino.gov.ba))

<sup>53</sup> Projected revenue growth rates per types, on the other hand, differ from the realized growth rates for the first three quarters due to the specificity in the collection of certain revenues in the current year, but also in the statistical basis for comparing *ad valorem* taxes and taxes (excise duties and tolls) on oil derivatives.

**Figure 24. Measures of dispersion of indirect tax revenues**



Source: OMA calculation and representation based on ITA data

Note: The total monthly net revenues in the calculation do not include unadjusted revenues in the ITA Single Account

## **VAT**

After a 6.8 per cent drop in net VAT revenues in 2020, which was a consequence of the corona virus pandemic, in 2021 and 2022, a strong recovery and high growth rates of 18.2 per cent and 15, 6 per cent were recorded. Net revenues from VAT in 2022 were 1.1 billion BAM higher than in the pre-crisis year 2019, which represents a growth of 27.3 per cent.

Compared to 2006, when VAT was first introduced, net revenues from VAT in 2022 were higher by as much as 2.6 billion BAM or by 106.2 per cent. In the 2006 – 2021 period, the share of net revenues from VAT in total net revenues from indirect taxes was in the range of 60 – 64 per cent, while the mentioned share in 2022 amounted to a high 65.4 per cent.

The projected amount of net revenues from VAT in 2023 is 5,565.5 million BAM, which is 8.7 per cent more than the result achieved in 2022. The projection is based on the historical seasonal scheme of collection of certain categories of VAT (which does not include specifics in 2020 and 2021), and developments and projections of macroeconomic indicators.

## **Excise duties and pay toll**

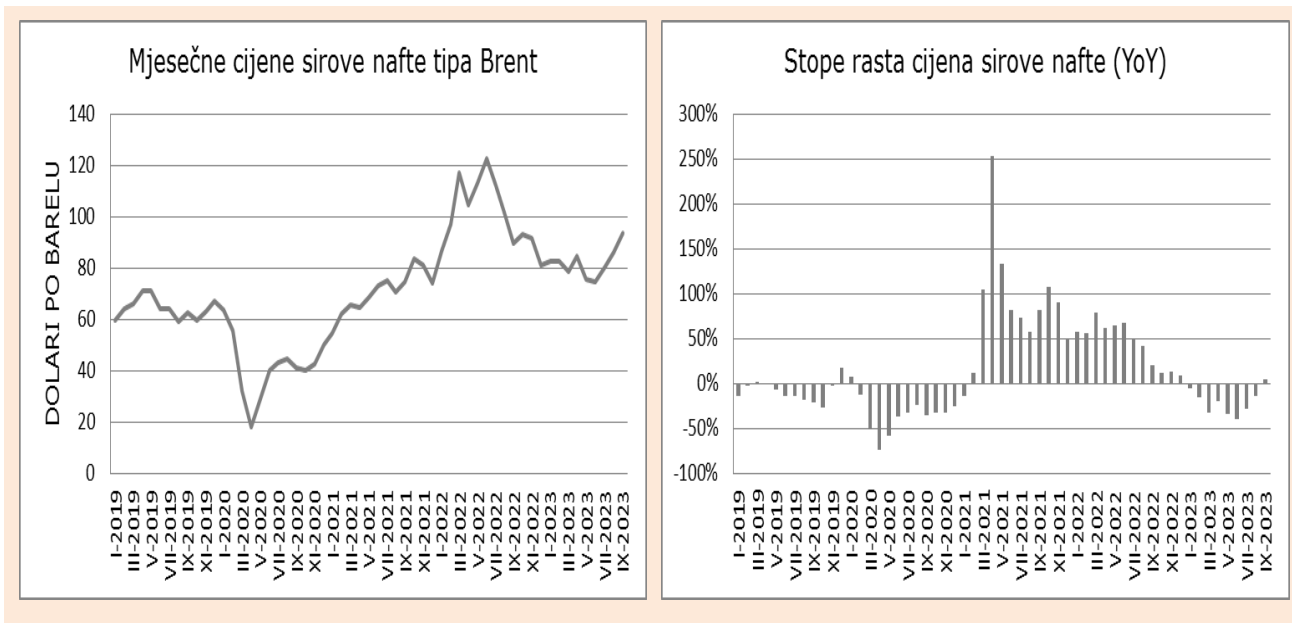
### *Excise duties on oil derivatives and tolls*

The price of crude oil fluctuated significantly in the period from the beginning of 2019 to September 2023, when the data of the U.S. Energy Information Administration was available at the time of making projections of revenues from indirect taxes. Figure 25 shows the monthly prices of Brent crude oil (*Europe Brent Spot Price FOB*) in the specified period, and their growth rates (YoY). It can be concluded that in 2022, positive growth rates of crude oil prices were recorded in all months, ranging between 9.1 per cent (December) and 67.7 per cent (June), which is the result of high prices caused by the conflicts in Ukraine (figure 22, right). In 2023, a drop in crude oil prices and negative monthly growth rates occurred. As a consequence of the higher basis from the previous year and relatively lower prices in 2023, until the end of August, the price growth



rates ranged between -39.0 per cent (June) and -4.6 per cent (January). In September 2023, crude oil prices increased by 4.4 per cent compared to the same month of the previous year.

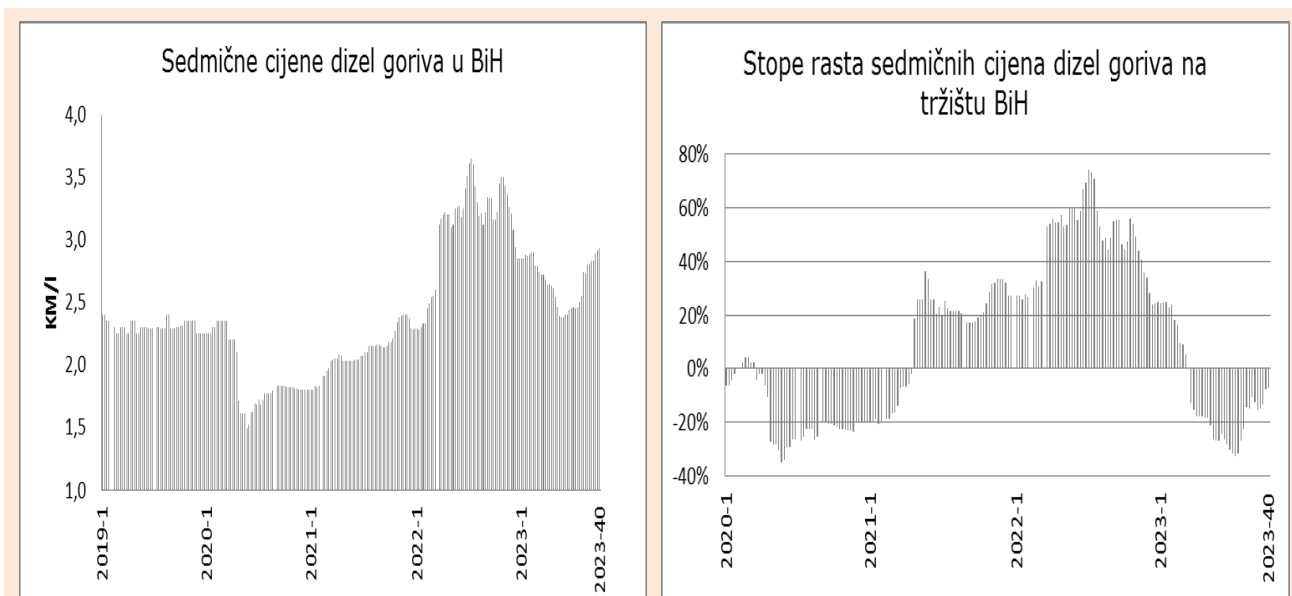
**Figure 25. Monthly prices of Brent crude oil and their growth rates**



Source: OMA calculation and representation based on data from the U.S. Energy Information Administration, Europe Brent Spot Price FOB (Dollars per Barrel)

Factors that influence the formation of derivative prices on the BiH market are crude oil prices, trading margins, tax rates, etc.

**Figure 26. Oil derivate prices in BiH**



Source: OMA calculation and representation based on data from the Foreign Trade Chamber of BiH

Figure 26 shows the weekly prices of diesel fuel<sup>54</sup> in BiH in the period from the beginning of 2019 to the 40th week of 2023, which follow the dynamics of crude oil prices. After a period of extremely stable prices in 2019, the oil derivative prices on the BiH market dropped heavily in the spring of 2020, as a result of the corona virus pandemic. In the 21st week of 2020, the price of diesel fuel was only 1.5 BAM/liter. From the 22nd week of 2020 (the end of May), the prices of derivatives recorded a stable growth trend, which was maintained throughout 2021. By the end of 2021, the average weekly price of diesel fuel amounted to 2.3 BAM/liter. The events in Ukraine influenced the intensification of the price growth trends in 2022. Average diesel fuel prices reached their maximum of a high 3.7 BAM/liter in the 28th week of 2022 (mid-July). After that, there was a downward trend in diesel fuel prices, and in the last week of the first half of 2023 (26th week), they amounted to 2.5 BAM/liter. Since then, the trend of rising diesel fuel prices has started again, and in the 40th week they amounted to 2.9 BAM/liter, as at the beginning of 2023.

If we compare the weekly prices of diesel fuel with the prices from the same week of the previous year, it can be concluded that they have been growing throughout 2022, with a culmination in the middle of the year. At the beginning of 2023, with a downward trend, positive growth rates of weekly diesel fuel prices were maintained, and from the 12th week of 2023 (the end of March), a downward trend in weekly prices began, at increasingly higher rates, from -12.9 per cent in the 12th week to -32.7 per cent in the 28th week (the end of June). With the increase in weekly diesel fuel prices from the 29th week of 2023 (figure 23, left), their growth rates compared to the same week of the previous year began to decline. In the 40th week of 2023, the observed rate amounted to -7.2 per cent.

At the time of making the projections, data on the consumption of oil derivatives<sup>55</sup> until the end of the third quarter of 2023 are available. The consumption of oil derivatives in the first quarter of 2023, due to relatively high prices and a high statistical basis for comparison, was lower by 6.8 per cent compared to the same quarter of the previous year, while in the second quarter, due to lower prices of oil derivatives, it recovered and reached a growth of 4.5 per cent. In the third quarter of 2023, the total consumption of oil derivatives increased by a high 12.5 per cent, as a cumulative result of a low statistical basis for comparison and lower prices of derivatives compared to the same quarter of the previous year. Observed at the level of three quarters, the consumption of oil derivatives in I-IX 2023 increased by 3.9 per cent compared to I-IX 2022, with diesel fuel consumption increasing by 4.3 per cent, gasoline by 3.3 per cent and other derivatives (heating oil, kerosene and liquid petroleum gas) by 0.5 per cent.

Quarterly growth rates of excise and toll revenues were influenced by the development of derivative prices, specifics in the statistical basis for comparison, and the suspension of toll exemption for mines and thermal power plants. Thus, in the first quarter of 2023, negative growth rates of excise duties on oil derivatives and tolls were recorded, while high growth rates of these revenues were achieved in the second, and especially in the third quarter of 2023. Therefore, the year 2022, as well as the previous two years (due to other specifics), cannot represent the basis for creation of revenues projections. Based on the old seasonal scheme and collection trends for 2023, the growth rates of net revenues from excise duties on oil and tolls are projected to amount to 5.3 per cent and 9.0 per cent, respectively. The difference in the projection of the growth rate of tolls in relation to the projection of the growth of excise duties on oil derivatives is largely due to the effect of the suspension of the exemption of tolls for mines and thermal power plants in 2023.

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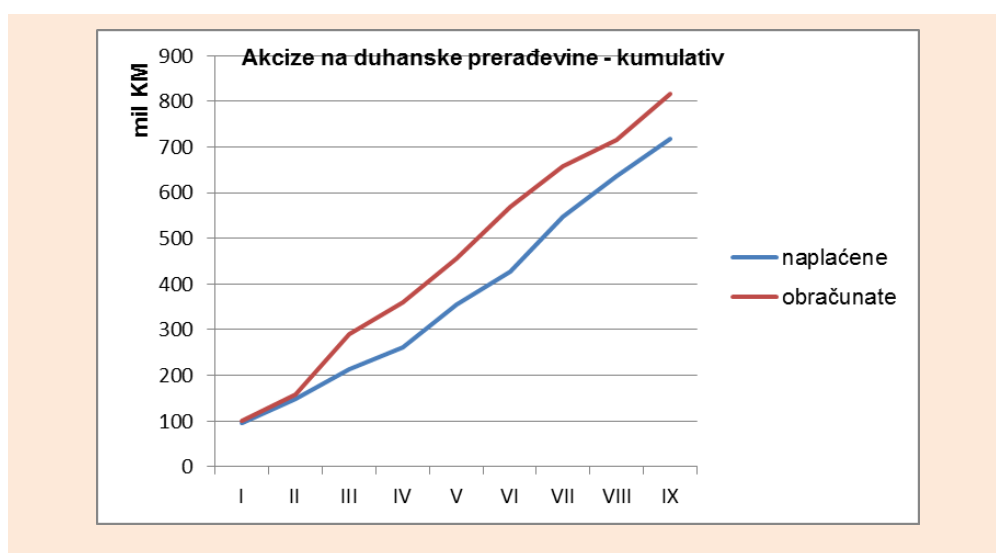
<sup>54</sup> Data used are from the *International Road Transport Union*, taken from the *website* of the Foreign Trade Chamber of BiH (FTC). After the 19th week of 2022, reporting on prices for fuel 95 BMB and 98 BMB on the website of the Foreign Trade Chamber of BiH with data from the *International Road Transport Union* was discontinued. Only data on the most common fuel prices for certain companies in BiH are available.

<sup>55</sup> It should be noted that the term "consumption of oil derivatives" in this inset implies quantities calculated by the author, and that they include the amount of imported oil derivatives and the amount of domestic oil derivatives placed in service. The quantities of domestic derivatives from excise declarations were taken with a time shift of m-1, in order for the basis to be correctly displayed in accordance with the provisions of the Law on Excise Duties in BiH, which refer to the emergence of the obligation to calculate and pay excise duties. The last year in which domestic derivatives were placed in service was 2019, due to the suspension of production at the Oil Refinery Brod after the accident that occurred in October 2018.

### Revenues from excise duties on tobacco

The main unknown matter in connection with projections of excise duties on tobacco products is the loss of revenues due to the transition to a new regime of paying excise duties at the moment of importing cigarettes instead of when collecting excise stamps. Assuming that the time interval between the receipt of the stamps and the import is one month, the Department estimated in the April projections a one-time loss of revenues from excise duties in the amount of the average monthly collection in 2022. The time interval depends on the location of the cigarette production, transport and distribution costs, which can vary significantly, given that they are multinational corporations. The variations are understandable, because the tobacco companies were adapting to the new excise payment procedures on the go, which was also reflected in the production and marketing plans. Likewise, one of the reasons for the greater discrepancy may be collecting a larger amount of stamps compared to the practice in previous years, because after the changes in the Law it was no longer necessary to have secured financial means for paying excise duties at the time of collecting the stamps. The estimate of the loss of revenues from excise duties has proven to be underestimated over time, from which it can be concluded that the time interval between the collection of stamps and the import of cigarettes is longer than a month. According to expectations, positive trends were achieved on the tobacco products market in BiH in the period from January to September 2023. An increase in the quantity of cigarettes, measured by the number of excise stamps, of 8.1 per cent was recorded, while the growth in the value of the cigarette market was 12.6 per cent compared to the same period in 2022. However, even though the amount of excise duties calculated in the period from January to September 2023 is 11 per cent higher than the amount of excise duties collection in the same period in 2022, due to the change in the excise duties payment regime, 2.1 per cent less revenues were collected than in the same period in 2022. The difference between the calculated and collected excise duties (figure 24) represents the loss of revenues due to the transition to a new payment method. The loss, which amounts to approximately 10 per cent of collected revenues from excise duties on tobacco products in 2022, reduces the projected growth of total indirect taxes in 2023 by 1.2 percentage points.

**Figure 27. Excise duties on tobacco products, cumulative**



Source: BiH ITA, OMA calculation and representation

It is realistic to expect that companies from the tobacco industry have already managed to establish a new dynamic of production and sale of tobacco products, which could have a positive effect on the excise duties collection scheme in the fourth quarter, in terms of mitigating oscillations and growth in excise revenues, which would cancel out the drop in revenues that occurred during the year. Since there are no announcements of an increase in the retail prices of cigarettes until the end of the year, in the fourth quarter of 2023 we can expect a stabilization of the collection of excise duties, which, bearing in mind the very low

basis from December 2022, as a consequence of the expected change in the payment regime, should result in a modest increase in revenues from excise duties on tobacco products of 0.8 per cent in 2023.

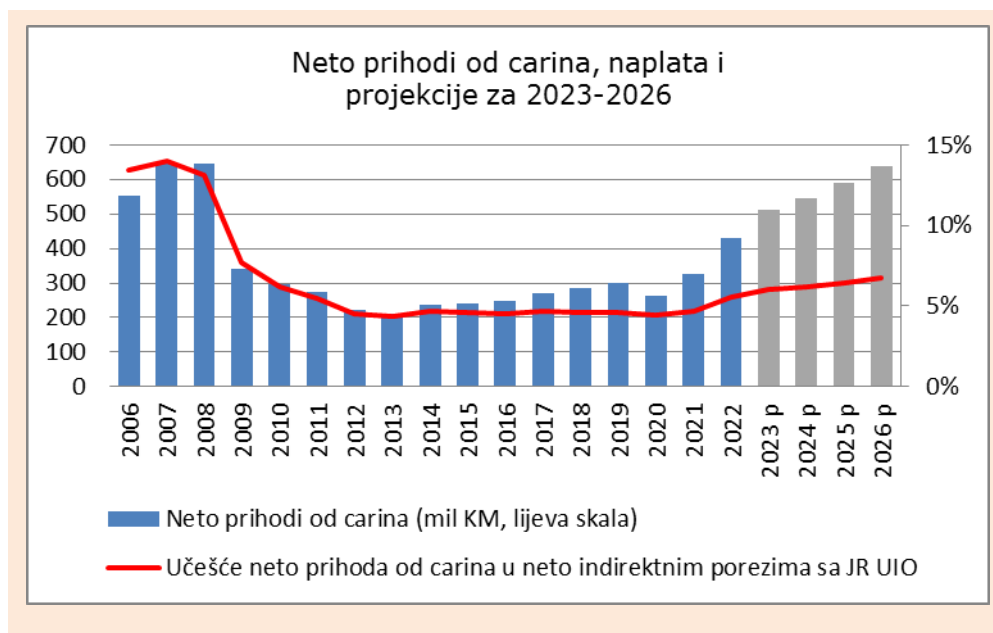
#### *Revenues from other excise duties categories*

Revenues from other excise duties categories (alcohol and alcoholic beverages, beer, wine, non-alcoholic beverages and coffee) do not have a significant share in total excise revenues.<sup>56</sup> They were projected in accordance with the current collection trends, the historical seasonal scheme and the projections of relevant macroeconomic indicators.

### **Custom duties**

Liberalization of foreign trade exchange has led to a strong drop in custom revenues, both in absolute amounts and in indicators of participation in total net revenues from indirect taxes. With 650.4 million BAM in 2007, net revenues from customs dropped to only 211 million BAM in 2013. Since 2014, a six-year trend of slight growth of these revenues has been recorded, reaching a level of 300.6 million BAM in 2019. In 2020, with the corona virus pandemic, net revenues from custom duties dropped again to 262.2 million BAM, while in 2021 and 2022 they recorded a strong recovery, and in 2022 they amounted to 431.9 million BAM, which is the highest amount after the implementation of the EU Stabilization and Association Agreement in 2008. If we look at the participation in the total net revenues from indirect taxes, a strong decline is noticeable in the period from 2007 to 2013, from 14.0 per cent to 4.3 per cent. After that period (2014-2021), this participation is relatively stable, ranging from 4.4 per cent to 4.7 per cent, and will rise to 5.5 per cent in 2022 (Figure 28).

**Figure 28. 2006 – 2022 net revenues from custom duties and 2023 – 2026 projections**



Source: OMA calculation and representation based on ITA data and OMA projections

According to the data of the Indirect Taxation Authority BIH, in the period I-IX 2023, an import growth rate of -1.9 per cent was achieved compared to the same period of the previous year. Taking into account the trends in custom revenues collection, the development of import and DEP's projections, for 2023 the net collection of customs duties is projected in the amount of 511.2 million BAM, which is 18.4 per cent more

<sup>56</sup> Gross revenues from all listed types of excise duties had a share of only 9.2 per cent in gross revenues from excise duties in 2022.

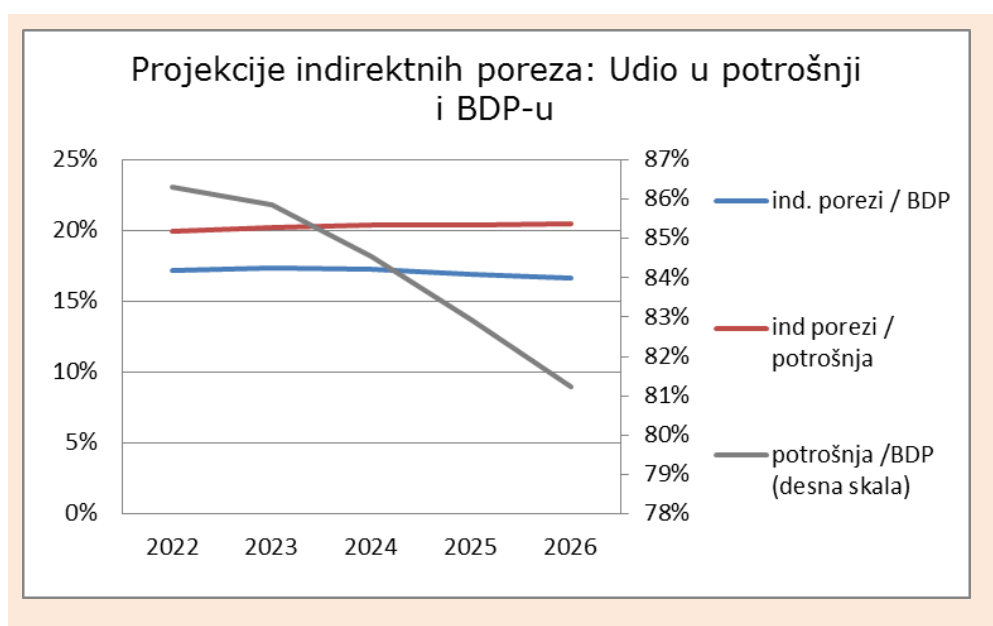
than the collection in the previous year. It is estimated that the share of custom duties in total net revenues from indirect taxes will further increase to 6.1 per cent in 2023 (figure 28, right scale).

## **2024 – 2026 projections**

The projected rates of growth of net revenues from indirect taxes for 2024, 2025 and 2026 are 4.8, 3.6 and 3.7 per cent, respectively. Projection of revenues in the stated period is based on the projected relevant macroeconomic indicators, historical seasonal collection scheme and projections for certain categories of revenues in 2023.

Unlike the projected reduction of the share of indirect taxes in GDP between 2023 and 2026 (table 4 and figure 29), projected share of revenues from indirect taxes (OMA) in spending (DEP) in the stated period is mildly growing from 20.2 per cent in 2023 to 20.5 per cent in 2026. The reduction of the projected share of indirect taxes in GDP from 2023 to 2026 is the cumulative result of a mild growth of indirect taxes in spending and a decrease in the share of spending in GDP (figure 29).

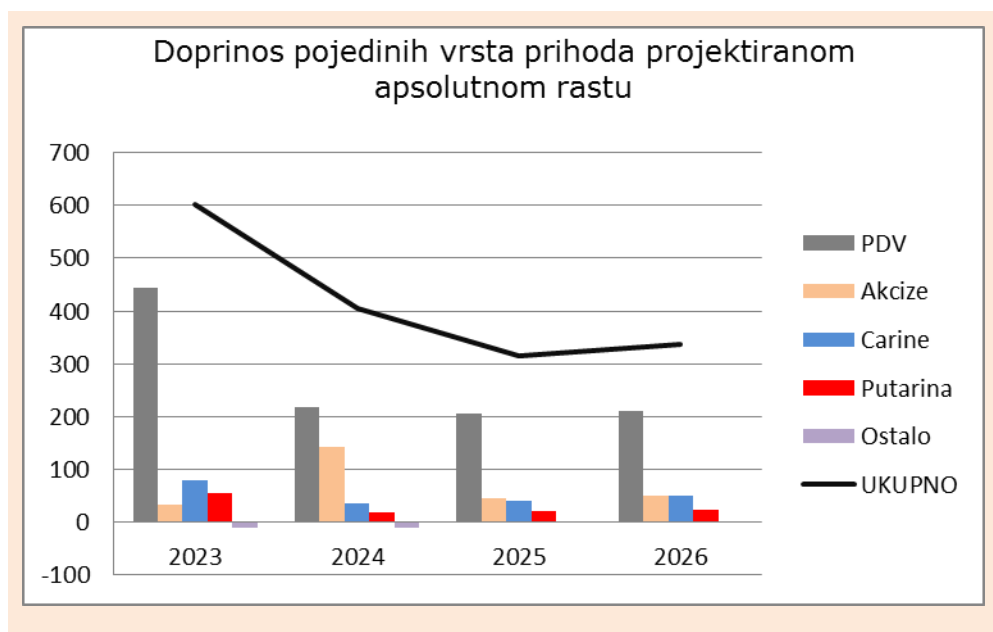
**Figure 29. Projected share of indirect taxes in GDP and total spending**



Source: OMA calculation and representation based on indirect tax revenues projections (OMA, October 2023) and projections of macroeconomic indicators (DEP, September 2023)

The biggest generator of the absolute growth of revenues from indirect taxes in that period is VAT, considering its significant participation in revenues and planned stable growth rates. In 2024, excise duties are also a significant generator of absolute growth, due to the strong projected absolute growth of tobacco excise duties (see explanation below in the section *Revenues from excise duties on tobacco*).

**Figure 30. Contribution of certain types of revenues to the projected absolute growth**



Source: OMA calculation and representation based on projections of revenues from indirect taxes (OMA, October 2023)

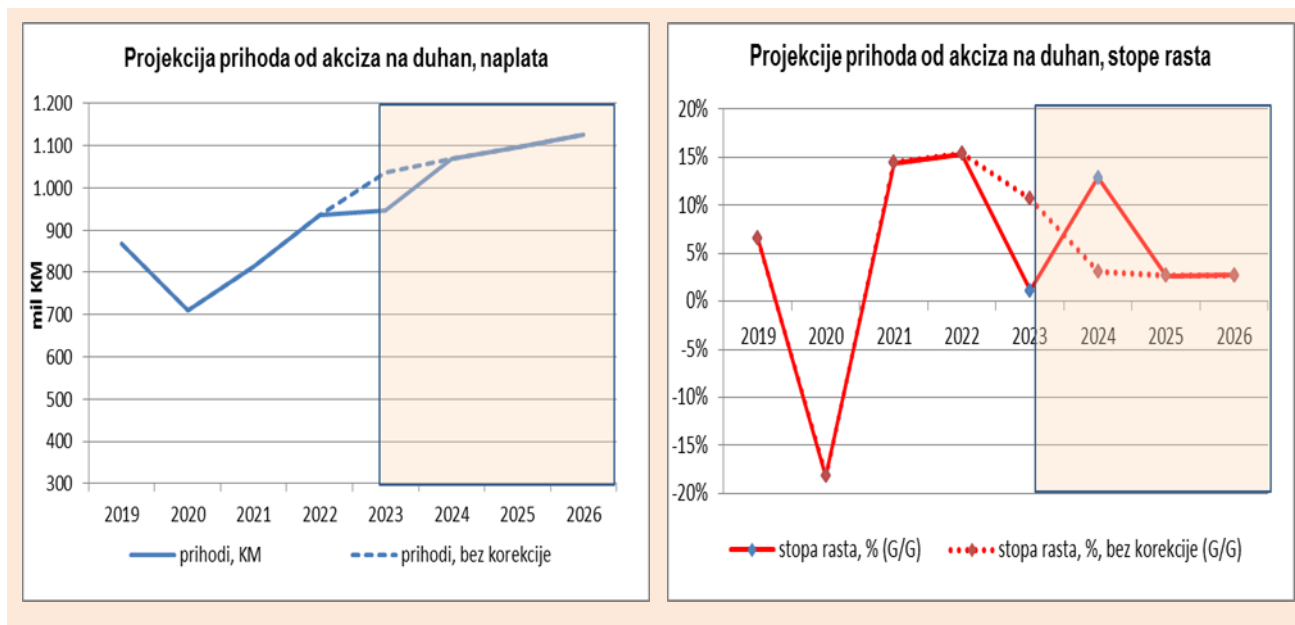
#### *Revenues from excise duties on tobacco*

Unlike 2023, in which there is a mix of two excise duties payment schemes, with a one-time negative effect on excise duties collection, a new excise duties payment scheme will be established from 2024, which will be neutral on the collection of excise revenues. An important factor in the realization of projections of excise duties collection is the unchanged excise policy and the continuous fight against the black market of cigarettes and tobacco in BiH. The growth of the market of tobacco products should follow the macroeconomic projections of spending, which, along with a moderate increase in the weighted average price of cigarettes, should lead to a further increase in the value of cigarette sales and the taxed amount of cigarettes.

Under the stated assumptions, it is expected that the revenues collection from excise duties on tobacco products will increase in 2024, 2025 and 2026 (figure 31, left), with growth rates of 13.2 per cent, 2.7 per cent and 2.7 per cent respectively (figure 31, right). The higher growth rate of revenues on excise duties in 2024 is a consequence of the lower basis from 2023 due to the transition to the new excise duties payment regime<sup>57</sup>.

<sup>57</sup> If there had been no change in the excise duties payment regime, the expected growth rate of excise duties on tobacco products would have been 10.7 per cent in 2023, and 3.1 per cent in 2024 (figure 31, lines "without correction").

**Figure 31. Projections of revenues from excise duties on tobacco**



Source: OMA calculation and representation base on ITA data and OMA projections

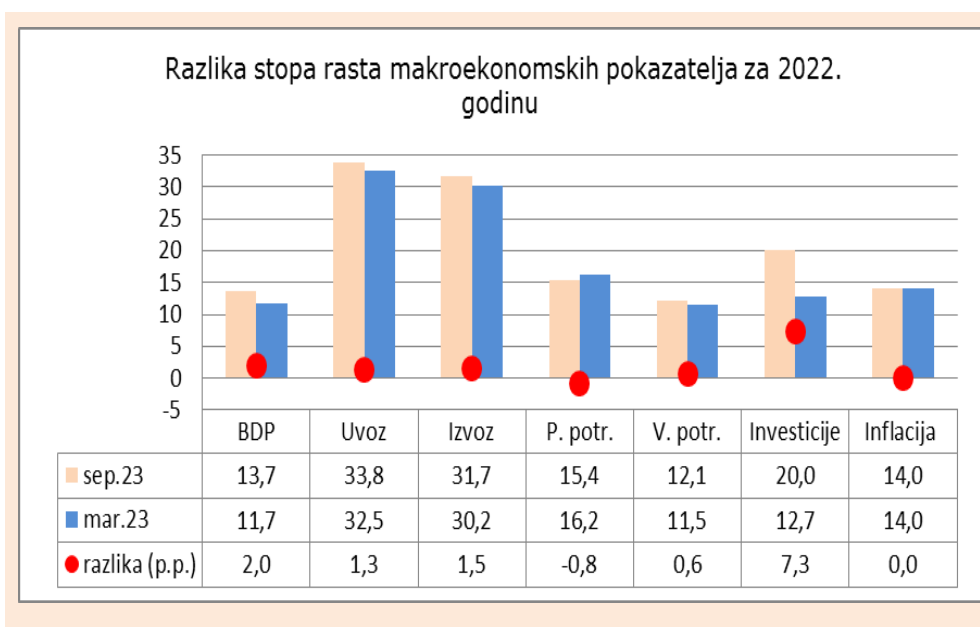
## Differences in comparison with previous indirect taxes revenues projections

Projections of revenues from indirect taxes are closely tied to DEP projections of GDP and its components. Each divergence of the execution of parameters from national accounts in comparison to their projected values represents a risk for the projection of revenues.

### Revision of projections of macroeconomic indicators for 2022

Based on figure 32, official BHAS data shown in DEP's latest projections (September 2023) and DEP's previous projections (March 2023) can be compared, which refer to GDP growth rates for 2022 and its components. The nominal GDP growth rate was revised by +2.0 percentage points, from 11.7 to 13.7 per cent. The growth rate of investments was revised the most (+7.3 percentage points).

**Figure 32. Differences in growth rates of macroeconomic indicators for 2022**

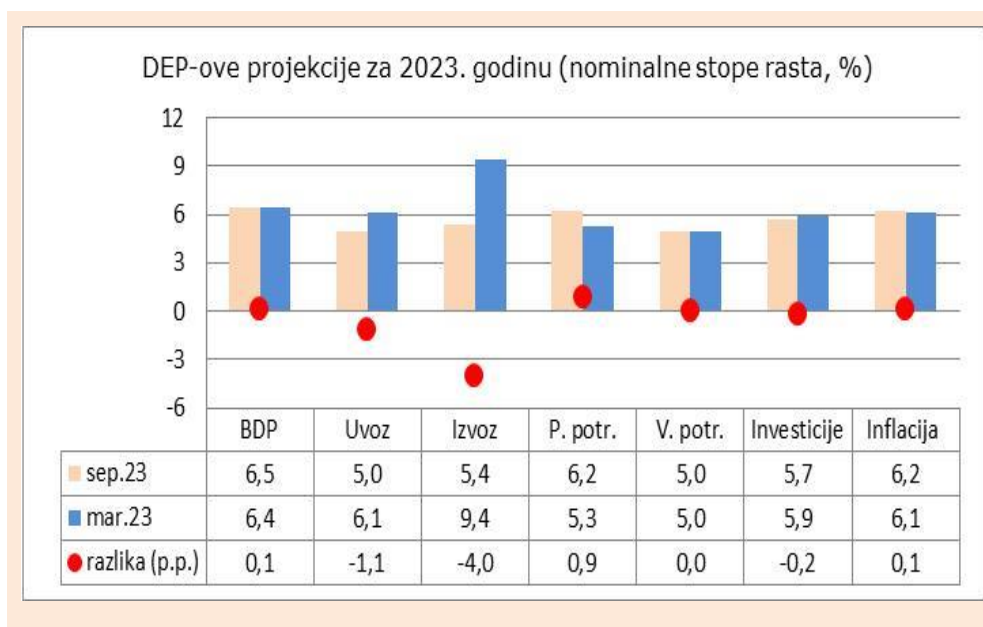


Source: OMA calculation and representation based on DEP projections from September 2023 (BHAS official data) and March 2023 (projections)

### **Revision of projections of macroeconomic indicators for 2023**

There are no significant corrections in the projected GDP growth rate for 2023 in the latest (September 2023) compared to the previous DEP projections (March 2023).

**Figure 33. Differences between DEP projections for 2023**



Source: OMA calculation and representation based on DEP projections

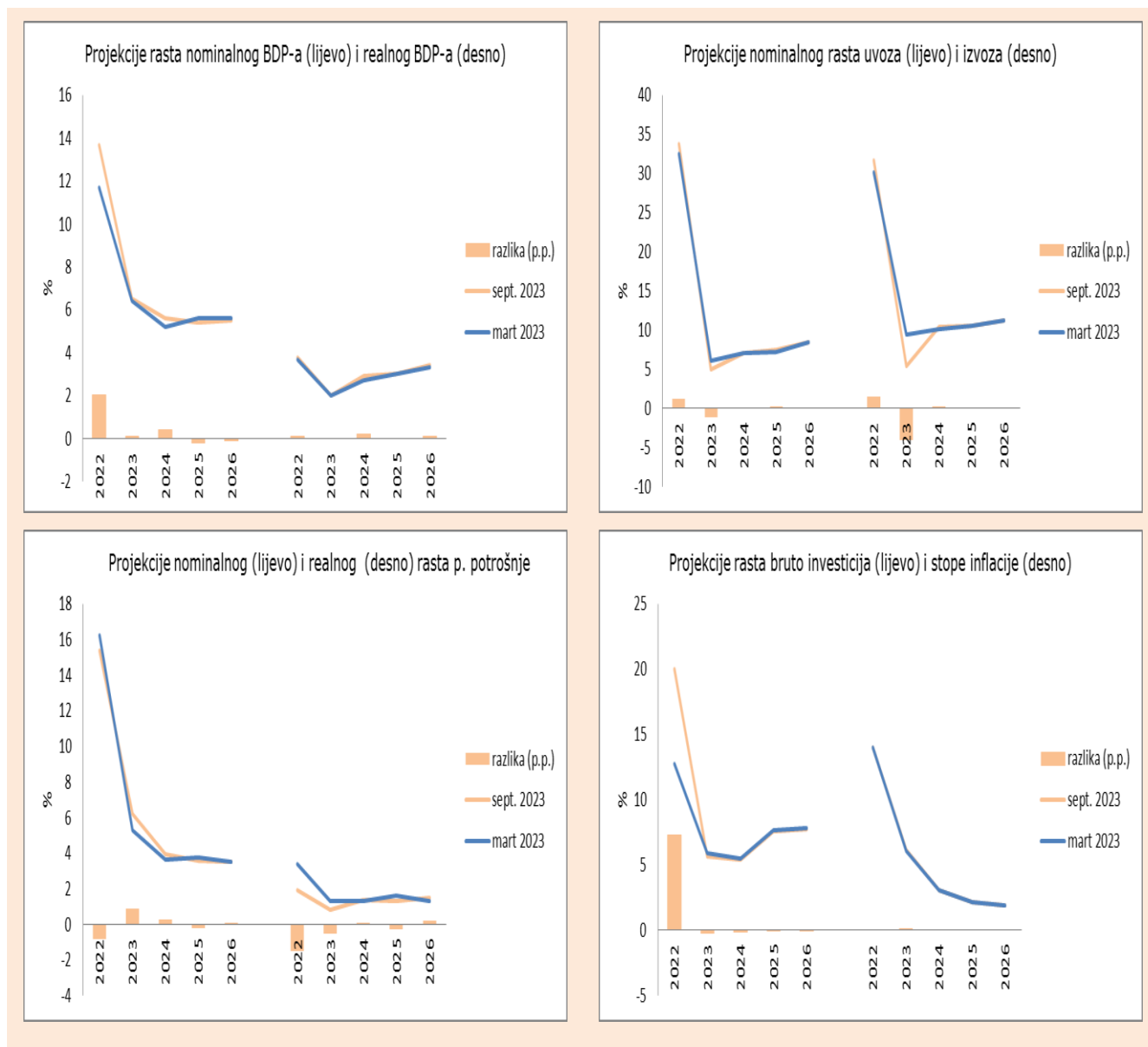
The projected nominal GDP growth rate was revised by only +0.1 percentage points. On the other hand, there are significant corrections in the projections of GDP components. The projected nominal growth rates of import and export were revised by -1.1 and -4.0 percentage points, respectively. Private spending growth projections were revised by +0.9 percentage points, while government spending growth projections were unchanged. The projected investment growth rate was revised by -0.2 percentage points (Figure 33).



## Revision of projections of macroeconomic indicators for the period from 2024 to 2026

Figure 34 shows September projections of GDP and components for the period 2022 - 2026 compared to the previous DEP's projections (March 2023), from which it can be seen that the corrections for the period 2024-2026 are not significant. Compared to the previous ones, nominal GDP growth projections were revised by +0.4, -0.2 and -0.1 percentage points for 2024, 2025 and 2026. Figure 34 also shows the revision of individual GDP components and the inflation rate.

**Figure 34. DEP: latest and previous projections of national accounts**



Source: OMA calculation and representation based on DEP projections from March 2023 and September 2023

### **Differences in revenues projections for 2023 compared to April projections**

Revenues projection from indirect taxes for 2023 is higher by 275.8 million BAM compared to projections from April 2023. The highest correction was made on VAT revenues, in the amount of +183.4 million BAM. The revision was made primarily because of the high growth rates of domestic VAT, which are well above the DEP's projected growth rate of spending, both from March and September 2023. Excise revenues were revised by -10.4 million BAM, which is the cumulative result of upward revision of excise duties on oil derivatives, downward revision of excise duties on tobacco<sup>58</sup> and minor corrections on other categories of excise duties.<sup>59</sup> Customs revenues were revised upwards by 40.9 million BAM due to the trend of high growth rates of these revenues despite the ongoing decreasing trend of import. Toll revenues were revised by +43.7 million BAM, which is the cumulative result of the suspension of the toll exemption for mines and thermal power plants in 2023, and positive collection trends above expectations in April 2023. Other revenues were revised by +18.2 million BAM, on unadjusted revenues.

### **Differences in revenues projections for the period 2024 - 2026 compared to April projections**

The differences in revenues projections for the period 2024 - 2026 compared to the projections from April 2024 are presented in Table 5. Compared to the projections from April 2023, the revenues projections for 2024, 2025 and 2026 have been revised by +314, million BAM +313.6 million BAM and +309.2 million BAM, respectively.

**Table 4. Differences in revenues projections for the period 2023 – 2026 compared to projections from April 2023**

Type of revenues (net)	2023	2024	2025	2026
VAT	183.4	204.7	199.2	207.5
Excise duties	-10.4	12.0	10.8	-8.3
Custom duties	40.9	43.8	48.6	52.8
Pay toll	43.7	46.2	47.6	49.9
Other	18.2	7.3	7.3	7.3
<b>TOTAL</b>	<b>275.8</b>	<b>314.1</b>	<b>313.6</b>	<b>309.2</b>

The revision is the cumulative result of corrections in the basis (revenue projection for the previous year:  $y-1$ ) and revision of growth rates of macroeconomic indicators for the current year (figure 35). Based on figure 35, it can be concluded that there were no major revisions in DEP's growth projections of relevant macroeconomic indicators for the period 2024 - 2026 in September 2023 compared to their March projections. The factors that led to the differences in the projections of certain types of revenues compared to the Department's previous, April projections, are mainly related to the revision of the basis for comparison (2023 for 2024, and consequent changes in the basis for the following period). We saw that the revision in

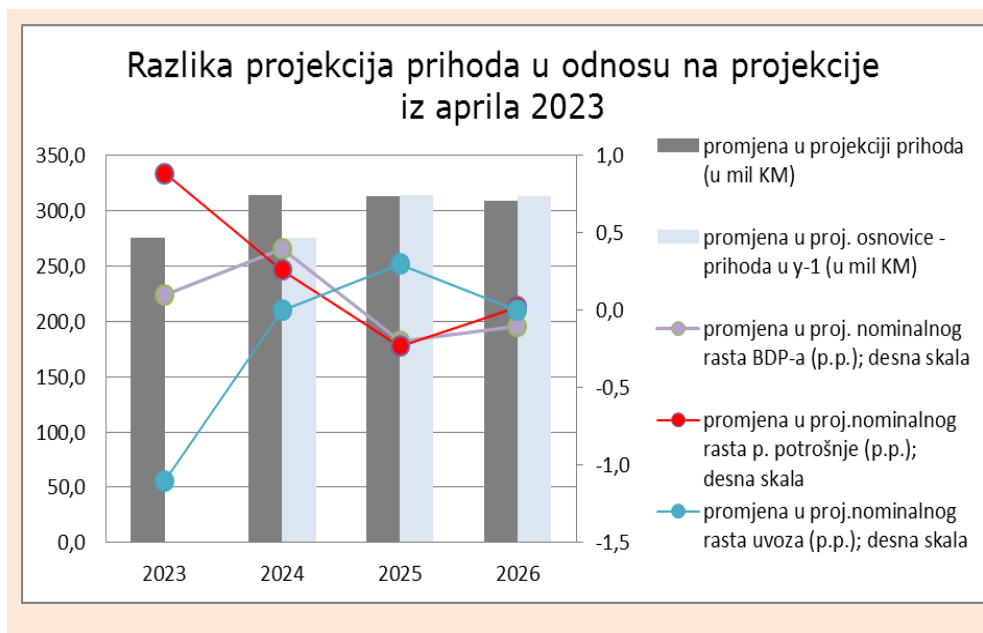
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<sup>58</sup> The implementation of the new excise duties payment scheme introduced a lot of uncertainty into the projections of excise duties collection in 2023. Although it was expected that with the entry into force of all implementing regulations, the tobacco companies would switch to a new payment regime in January 2023, but this did not happen due to adjustments to customs procedures related to the payment of excise duties on import (obtaining bank guarantees, etc.). The pace of adoption of new procedures by tobacco companies and the transition to the new payment regime varied, which caused a longer adjustment period and large fluctuations in excise duties collection. The retail prices of cigarettes were increased beyond the Department's expectations, which had a negative impact on the sale of cigarettes, resulting in a lower collection of excise revenues than expected. Finally, the lower spending of non-residents in the summer season than expected had a negative effect on excise duties collection.

<sup>59</sup> Revenues projections from excise duties on alcohol and alcoholic beverages and excise duties on coffee has been revised upwards, while the projections of excise duties on beer and non-alcoholic beverages have been revised downwards.

the projection of the statistical basis for 2024 (revision of revenues for 2023) was positive for all types of revenues, except for the projections of revenues from excise duties on tobacco<sup>60</sup> and minor corrections of revenues from excise duties on beer and non-alcoholic drinks.

**Figure 35. Differences in revenues projections compared to April 2023 projections**



Source: OMA calculation and representation based on OMA and DEP projections

## Risks

Bearing in mind many unknown facts at the moment of preparation of projections about the further development of the situation on the international level in connection with the events in Ukraine, and the assumptions (DEP, macroeconomic projections), **we note that there are significant risks to achievement of projections of revenues from indirect taxes, whereby the risks resulting in an unfavorable outcome are predominant.** Considering the basics of indirect taxes projections and total economic conditions in Bosnia and Herzegovina and globally, realization of the projected level of revenues from indirect taxes between 2023 and 2026 is susceptible to following risks: (1) all risks to the achievement of the projected macroeconomic indicators (DEP) and (2) risks related to the very collection of indirect taxes revenues, and the fight against grey economy.

Projections of revenues from indirect taxes are closely tied to projections of macroeconomic indicators of DEP. All risks mentioned in DEP's projections automatically represents risks to the projections of indirect taxes revenues, since every deviation in the achievement of DEP parameters and projected values inevitably leads to the deviation in the achieved and projected indirect taxes revenues. DEP states that the risks in achieving the stated projections might be classified into two groups, into foreign and domestic. The same document states the following: "At the time of preparation of this report, it seems that foreign risks are much more pronounced and represent a greater risk for the realization of economic growth projections from the basic scenario compared to domestic ones. Namely, after the stabilization of the epidemiological situation related to Covid-19, at the beginning of 2022, there was an escalation of the conflict between Ukraine and Russia, which will undoubtedly have negative economic consequences for the global economy and, therefore, for Bosnia and Herzegovina. The further escalation of the Ukrainian crisis, as well as the

<sup>60</sup> The factors that led to the lower tobacco excise basis are greater losses of excise revenues in 2023 after the change in the regime of payment of excise duties on processed tobacco compared to the estimate in April 2023, and a larger growth in the average weighted price of cigarettes than projected.

strengthening of inflationary pressures both globally and in Bosnia and Herzegovina, would certainly have a negative impact on spending, investments, foreign trade exchange, and therefore on economic growth projections in the basic scenario.”<sup>61</sup>

Risks that could endanger the achievement of the collection of revenues from indirect taxes in the sphere of politics and administration of indirect taxes may include the following:

- the weakened fight against black tobacco products market after alignment of tax burden on cigarettes in BiH with EU standards;
- the weakened fight against VAT frauds, especially in the area of returns, which, in the situation of the drop in the employment rate and lack of liquidity of taxpayers become attractive fraud-wise;
- proposed changes in the indirect taxation policy, such as: differentiated VAT rates, temporary abolition of excise duties on derivatives, increase in the threshold for VAT registration, requests for exemption or payment of refunds for sales in the country (e.g. medicines) etc.

The decisions of the State Aid Council of BiH regarding the toll exemption for mines and thermal power plants carry certain risks for the collection of indirect taxes. Solutions require the following: suspension of toll exemptions for mines and thermal power plants, suspension of exemptions in the Law on Excise Duties for the specified categories of taxpayers and relief refunds, which would entail payment of tolls by mines and thermal power plants on diesel quantities that were exempt from tolls in 2022. Bearing in mind the decision of the Council, **the projections of toll revenues for the period 2024 - 2026 include the collection of tolls for all taxpayers, except for railways. A different outcome of the possible legal proceedings of the users of the tax relief would imply a lower toll collection compared to the projections.** On the other hand, the refund of the relief would have a positive effect on the collection of toll revenues<sup>62</sup>.

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<sup>61</sup> DEP, 2024 – 2026 Macroeconomic Projections, March 2023

<sup>62</sup> Bearing in mind the unknown facts 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 a one-time additional revenue in the revenues projections for the period 2024-2026.

## Fiscal goals and fiscal policies in BiH

Primary fiscal balance, defined in accordance with Article 1, paragraph 2 of the Law on Fiscal Council in Bosnia and Herzegovina is planned in 2024 in view of a deficit, in the amount of 899.5 million BAM or 1.8 per cent of projected GDP for 2024<sup>63</sup>, of which:

- BiH Institutions plan a deficit in the amount of 81.6 million BAM,
- Republika Srpska plans a deficit in the amount of 260.3 million BAM,
- FBiH plans a deficit in the amount of 469.9 million BAM and
- BD BiH plans a deficit in the amount of 87.7 million BAM.<sup>64</sup>

### Public spending level and structure

Public expenditures level, as a part in GDP in the 2024 - 2026 period should be decreased with the aim of achieving a consolidated BiH public expenditures level below 40 per cent GDP.

**Table 6: 2022 – 2026 Total Public Expenditures in BiH (in million BAM)**

Expenditures	2022.	2023.	2024.	2025.	2026.
BiH Institutions	1,014.7	1,299.0	1,351.4	1,311.4	1,311.4
FBiH	10,749.0	12,109.3	13,576.8	13,786.2	15,037.3
RS	6,081.8	6,940.4	7,357.1	7,644.0	7,867.8
BD BiH	284.7	312.6	385.4	300.4	314.4
<b>Total expenditures (consolidated)</b>	<b>18,130.2</b>	<b>20,661.4</b>	<b>22,670.7</b>	<b>23,042.0</b>	<b>24,530.9</b>
<b>GDP</b>	<b>45,518.0</b>	<b>48,462.0</b>	<b>51,170.0</b>	<b>53,956.0</b>	<b>56,932.0</b>
BiH Institutions	2.2%	2.7%	2.6%	2.4%	2.3%
FBiH	23.6%	25.0%	26.5%	25.6%	26.4%
RS	13.4%	14.3%	14.4%	14.2%	13.8%
BD BiH	0.6%	0.6%	0.8%	0.6%	0.6%
<b>Total in GDP</b>	<b>39.8%</b>	<b>42.6%</b>	<b>44.3%</b>	<b>42.7%</b>	<b>43.1%</b>

Source: Calculations of the BiH Fiscal Council Counselling Group

In the 2024 and 2026 period, additional efforts are necessary in order to change the structure of public spending directed toward strengthening of capital investments at the expense of current expenditure.

<sup>63</sup> In accordance with DEP assumptions, GDP for 2024 in Bosnia and Herzegovina is projected in the amount of 51,170 million BAM.

<sup>64</sup> See tables 7 to 11.

## Tabular overview of budget framework

The structure of budget expenditures is illustrative and general, and each level of authority establishes the final expenditures structure in their Framework Budget Documents and annual budgets in accordance with adopted policies. The tabular budget overview (below) represents a consolidated overview of revenues, expenditures, financing and primary balance for the 2024 -2026 period, i.e., overview for BiH Institutions, RS, FBiH and BD BiH and consolidated overview for BiH.

The report includes:

- revenues, expenditures and BiH Institutions budget financing (Table 8);
- revenues, expenditures and RS budget financing (Fund 01) and Funds from 02 to 05; revenues, expenditures and financing of RS budget users operating through their own bank accounts outside the General Account Plan; revenues, expenditures and financing of budgets of municipalities and cities; revenues, expenditures and financing of financial plans of non-budget funds; revenues and financing of financial plans of PC Putevi RS and PC Autoputevi RS and foreign projects, escrow account funds and tolls (Table 9);
- revenues, expenditures and FBiH budget financing; revenues, expenditures and Cantonal budget financing; revenues, expenditures and financing of budgets of municipalities and cities; revenues, expenditures and financing of financial plans of non-budget funds and Cantonal roads directorates, revenues, expenditures and financing of public enterprises and foreign projects (Table 10) and
- revenues, expenditures and BD BiH budget and funds (Table 11).

**Note: On the occasion of comparison of level reports, differences in the scope of data should be taken into account.**

## **BiH institutions**

**Table 7: BiH Institutions Budget Framework (in million BAM)**

BiH institutions	2022 performance	2023 plan	2024 plan	2025 projection	2026 projection
<b>Revenues</b>	<b>1,044.3</b>	<b>1,173.3</b>	<b>1,269.8</b>	<b>1,198.3</b>	<b>1,208.9</b>
Tax revenues	865.5	1,020.5	1,020.5	1,020.5	1,020.5
Indirect taxes	865.5	1,020.5	1,020.5	1,020.5	1,020.5
Direct taxes	0.0	0.0	0.0	0.0	0.0
Other tax revenues	0.0	0.0	0.0	0.0	0.0
Contributions	0.0	0.0	0.0	0.0	0.0
Grants and transfers	13.4	0.7	0.7	0.7	0.7
Other revenues	165.4	152.1	248.6	177.1	187.7
<b>Expenditures</b>	<b>1,014.7</b>	<b>1,299.0</b>	<b>1,351.4</b>	<b>1,311.4</b>	<b>1,311.4</b>
Gross salaries and remunerations	758.6	963.3	973.3	1,013.7	1,022.3
Expenditures for material and services	184.8	199.9	214.0	200.5	207.2
Interest	0.7	0.9	0.6	0.5	0.4
Subsidies, social contributions and transfers	18.2	20.8	17.2	18.1	18.8
Other expenditures	11.5	23.5	33.3	26.8	17.1
Net expenditures for non-financial assets	40.9	90.6	113.0	51.8	45.6
<b>Balance</b>	<b>29.6</b>	<b>-125.7</b>	<b>-81.6</b>	<b>-113.1</b>	<b>-102.5</b>
<b>Financing</b>	<b>-29.6</b>	<b>125.7</b>	<b>81.6</b>	<b>113.1</b>	<b>102.5</b>
Domestic	<b>-25.1</b>	<b>142.1</b>	<b>85.6</b>	<b>32.1</b>	<b>35.0</b>
Internal debt repayment	0.0	0.0	0.0	0.0	0.0
Other (+/-)	-25.1	142.1	85.6	32.1	35.0
Foreign	<b>-4.5</b>	<b>-16.4</b>	<b>-4.0</b>	<b>-4.0</b>	<b>-4.0</b>
Foreign credits withdrawals	0.0	0.0	0.0	0.0	0.0
Repayment of foreign credits principal	-4.5	-16.4	-4.0	-4.0	-4.0
<b>Uncovered surplus of expenditures</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>85.0</b>	<b>71.5</b>

Source: Ministry of Finance and Treasury of BiH

**Table 8. RS Budget Framework (in million BAM)**

REPUBLIKA SRPSKA	2022 performance	2023 plan	2024 plan	2025 projection	2026 projection
<b>Revenues</b>	<b>5,803.0</b>	<b>6,523.7</b>	<b>7,096.8</b>	<b>7,432.1</b>	<b>7,765.5</b>
Tax revenues	3,216.1	3,532.0	3,881.6	4,079.0	4,277.4
Indirect taxes	2,543.8	2,708.0	2,923.2	3,054.9	3,191.7
Direct taxes	620.0	757.8	878.2	935.7	991.6
Other tax revenues	52.3	66.2	80.2	88.4	94.1
Contributions	2,005.4	2,289.0	2,525.0	2,653.2	2,779.9
Grants	42.1	63.4	63.1	60.8	51.8
Other revenues	537.9	637.6	626.6	638.6	655.9
Transfers	1.5	1.7	0.5	0.5	0.5
<b>Expenditures</b>	<b>6,081.8</b>	<b>6,940.4</b>	<b>7,357.1</b>	<b>7,644.0</b>	<b>7,867.8</b>
Gross salaries and remunerations	1,347.9	1,498.4	1,560.2	1,570.8	1,579.0
Expenditures for material and services	462.7	519.2	553.9	549.2	555.2
Interest	154.1	212.5	241.4	294.6	332.4
Subsidies, social contributions and transfers	3,082.9	3,565.9	3,843.4	4,023.0	4,122.9
Other expenditures	324.3	326.8	292.0	275.3	275.7
Net expenditures for non-financial assets	709.9	817.6	866.2	931.1	1,002.6
<b>Balance</b>	<b>-278.8</b>	<b>-416.7</b>	<b>-260.3</b>	<b>-211.9</b>	<b>-102.3</b>
<b>Financing</b>	<b>278.8</b>	<b>416.7</b>	<b>260.3</b>	<b>211.9</b>	<b>102.3</b>
Domestic	<b>262.8</b>	<b>505.6</b>	<b>-386.9</b>	<b>-121.2</b>	<b>-22.1</b>
Internal debt repayment	-322.6	-408.8	-503.8	-451.6	-385.9
Other (+/-)	585.4	914.4	116.9	330.4	363.8
Foreign	<b>15.1</b>	<b>-88.9</b>	<b>647.2</b>	<b>333.1</b>	<b>124.4</b>
Foreign credits / funds withdrawals	277.7	651.1	1,132.8	766.0	1,087.9
Repayment of foreign credits principal	-262.5	-740.0	-485.6	-432.9	-963.5
<b>Statistical difference and uncovered surplus of expenditures</b>	<b>0.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Ministry of Finance of Republika Srpska



**Table 9: FBiH Budget Framework (in million BAM)**

<b>FBiH</b>	<b>2022 performance</b>	<b>2023 plan</b>	<b>2024 plan</b>	<b>2025 projection</b>	<b>2026 projection</b>
<b>Revenues</b>	<b>11,166.3</b>	<b>12,256.0</b>	<b>13,106.9</b>	<b>13,995.3</b>	<b>15,000.7</b>
Tax revenues	5,546.5	5,877.3	6,185.2	6,506.6	6,862.7
Indirect taxes	4,296.5	4,450.3	4,649.2	4,844.8	5,056.8
Direct taxes	1,250.0	1,427.0	1,536.0	1,661.7	1,806.0
Other tax revenues	0.0	0.0	0.0	0.0	0.0
Contributions	4,401.2	5,070.1	5,585.6	6,149.6	6,775.0
Grants and transfers	13.6	17.1	20.5	21.7	22.6
Other revenues	1,205.0	1,291.5	1,315.6	1,317.4	1,340.4
<b>Expenditures</b>	<b>10,749.0</b>	<b>12,109.3</b>	<b>13,576.8</b>	<b>13,786.2</b>	<b>15,037.3</b>
Gross salaries and remunerations	2,498.0	2,746.2	2,996.4	2,943.6	2,972.1
Expenditures for material and services	2,254.7	2,621.4	2,468.9	2,517.3	2,566.6
Interest	120.1	185.9	249.5	257.0	264.7
Subsidies, social contributions and transfers	4,748.3	5,208.7	6,265.2	6,558.0	7,399.5
Other expenditures	286.0	447.4	748.1	759.9	902.0
Net expenditures for non-financial assets	841.9	899.7	848.7	750.4	932.4
<b>Balance</b>	<b>417.3</b>	<b>146.7</b>	<b>-469.9</b>	<b>209.1</b>	<b>-36.6</b>
<b>Financing</b>	<b>-417.3</b>	<b>-146.7</b>	<b>469.9</b>	<b>-209.1</b>	<b>36.6</b>
Domestic	-83.9	9.5	556.1	-12.6	-58.6
Internal debt repayment	-263.9	-380.5	-443.9	-472.6	-518.6
Other (+/-)	180.0	390.0	1,000.0	460.0	460.0
Foreign	-72.4	-32.3	106.0	4.7	203.6
Foreign credits withdrawals	391.8	697.4	864.0	587.1	672.2
Repayment of foreign credits principal	-464.2	-729.6	-758.0	-582.4	-468.6
<b>Uncovered surplus of expenditures</b>	<b>-261.0</b>	<b>-123.9</b>	<b>-192.2</b>	<b>-201.2</b>	<b>-108.4</b>

Source: FBiH Ministry of Finance

Table 10: BD BiH Budget Framework (in million BAM)

BD BiH	2022 performance	2023 plan	2024 plan	2025 projection	2026 projection
<b>Revenues</b>	<b>327.9</b>	<b>280.0</b>	<b>297.7</b>	<b>300.6</b>	<b>318.4</b>
Tax revenues	257.1	264.4	285.4	294.8	306.4
Indirect taxes	226.3	227.6	251.6	262.3	273.9
Direct taxes	30.8	36.8	33.8	32.5	32.5
Other tax revenues	0.0	0.0	0.0	0.0	0.0
Contributions	40.0	0.0	0.0	0.0	0.0
Grants and transfers	1.7	1.3	0.0	0.0	0.1
Other revenues	29.1	14.3	12.3	11.8	11.9
<b>Expenditures</b>	<b>284.7</b>	<b>312.6</b>	<b>385.4</b>	<b>300.4</b>	<b>314.4</b>
Gross salaries and remunerations	94.4	105.3	116.7	116.0	116.3
Expenditures for material and services	94.2	46.6	45.3	45.3	47.3
Interest	0.5	0.5	2.1	0.0	0.0
Subsidies, social contributions and transfers	89.6	112.5	100.8	98.9	118.6
Other expenditures	0.0	0.0	0.0	0.0	0.0
Net expenditures for non-financial assets	6.1	47.7	120.5	40.3	32.1
<b>Balance</b>	<b>43.2</b>	<b>-32.6</b>	<b>-87.7</b>	<b>6.2</b>	<b>4.0</b>
<b>Financing</b>	<b>-43.2</b>	<b>32.6</b>	<b>87.7</b>	<b>-6.2</b>	<b>-4.0</b>
Domestic	5.7	6.0	6.9	5.0	5.3
Internal debt repayment	-0.7	-0.5	0.0	-1.6	-1.0
Other (+/-)	6.3	6.4	6.9	6.6	6.3
Foreign	-4.4	-9.9	-13.5	-11.2	-9.3
Foreign credits withdrawals	2.8	0.0	0.0	0.0	0.0
Repayment of foreign credits principal	-7.1	-9.9	-13.5	-11.2	-9.3
<b>Uncovered surplus of expenditures</b>	<b>-44.5</b>	<b>36.5</b>	<b>94.3</b>	<b>0.0</b>	<b>0.0</b>

Source: BD BiH Finance Directorate

## **BiH: Consolidated**

**Table 11: BiH Consolidated (in million BAM)**

BIH	2022 performance	2023 plan	2024 plan	2025 projection	2026 projection
<b>Revenues</b>	<b>18,341.5</b>	<b>20,233.0</b>	<b>21,771.2</b>	<b>22,932.3</b>	<b>24,293.6</b>
Tax revenues	9,885.2	10,694.2	11,372.7	11,900.9	12,467.0
Indirect taxes	7,932.1	8,406.4	8,844.5	9,182.5	9,542.9
Direct taxes	1,900.9	2,221.6	2,448.0	2,629.9	2,830.1
Other tax revenues	52.3	66.2	80.2	88.4	94.1
Contributions	6,446.6	7,359.1	8,110.6	8,802.8	9,554.9
Grants and transfers	72.3	84.2	84.8	83.7	75.7
Other revenues	1,937.4	2,095.5	2,203.1	2,144.9	2,195.9
<b>Expenditures</b>	<b>18,130.2</b>	<b>20,661.4</b>	<b>22,670.7</b>	<b>23,042.0</b>	<b>24,530.9</b>
Gross salaries and remunerations	4,698.9	5,313.2	5,646.6	5,644.1	5,689.7
Expenditures for material and services	2,996.4	3,387.1	3,282.1	3,312.3	3,376.3
Interest	275.4	399.9	493.6	552.1	597.5
Subsidies, social contributions and transfers	7,939.0	8,907.9	10,226.6	10,698.0	11,659.8
Other expenditures	621.8	797.7	1,073.4	1,062.0	1,194.8
Net expenditures for non-financial assets	1,598.8	1,855.6	1,948.4	1,773.6	2,012.7
<b>Balance</b>	<b>211.3</b>	<b>-428.4</b>	<b>-899.5</b>	<b>-109.7</b>	<b>-237.3</b>
<b>Financing</b>	<b>-211.3</b>	<b>428.4</b>	<b>899.5</b>	<b>109.7</b>	<b>237.3</b>
Domestic	<b>159.5</b>	<b>663.2</b>	<b>261.7</b>	<b>-96.7</b>	<b>-40.4</b>
Internal debt repayment	-587.2	-789.8	-947.7	-925.8	-905.5
Other (+/-)	746.6	1,452.9	1,209.4	829.1	865.1
Foreign	<b>-66.2</b>	<b>-147.5</b>	<b>735.7</b>	<b>322.6</b>	<b>314.7</b>
Foreign credits withdrawals	672.2	1,348.5	1,996.8	1,353.1	1,760.1
Repayment of foreign credits principal	-738.4	-1,495.9	-1,261.1	-1,030.5	-1,445.4
<b>Statistical difference and uncovered surplus of expenditures</b>	<b>-304.6</b>	<b>-87.4</b>	<b>-97.8</b>	<b>-116.2</b>	<b>-37.0</b>

Source: Calculations of the BiH Fiscal Council Counselling Group

## Budget indebtedness ceilings

Limits of debt amounts at all levels of governance in BiH are stipulated by Laws, as follows:

- The Law on Borrowing, Debt and Guarantees of Bosnia and Herzegovina, (*Official Gazette of BiH*, 52/05),
- The Law on Borrowing, Debt and Guarantees of Republika Srpska (*Official Gazette of RS*, 71/12, 52/14, 114/17, 131/20, 28/21 and 90/21) and
- The Law on Debt, Borrowing and Guarantees of the Federation of Bosnia and Herzegovina (*Official Gazette of the Federation of Bosnia and Herzegovina*, 86/07).

### **Republika Srpska**

The Law on Borrowing, Debt and Guarantees of Republika Srpska (*Official Gazette of Republika Srpska*, 71/12, 52/14, 114/17, 131/20, 28/21 and 90/21), defines that the public debt of RS (RS debt, local self-government units debt and social security funds debt) at the end of a fiscal year may not exceed 55 per cent of GDP achieved in the same year (9,106.9 million BAM in 2024<sup>65</sup>), while the total debt of RS (RS public debt, public enterprises debt, debt of the RS Investment-Development Bank and public sector institutions) at the end of a fiscal year may not exceed 60 per cent of GDP achieved in the same year (9,934.8 million BAM in 2024). The Law on Amendments to the Law on Borrowing, Debt and Guarantees of Republika Srpska (*Official Gazette of RS*, 52/14) defines that the debt on the basis of borrowing for financing recovery from damages from the Single Registry, prescribed by the Law on the Solidarity and Reconstruction Fund of Republika Srpska, is excluded from the restrictions prescribed for the total and public debt of Republika Srpska.

### **FBiH**

Total revenues of cities and municipalities in FBiH in 2022 amounted to 1,139.0 million BAM. Pursuant to the Law on Debt, Borrowing and Guarantees, cities and municipalities may borrow in the long-term if, at the time when the borrowing is approved, the amount of debt servicing maturing in each subsequent year, including servicing of the proposed new borrowing and all loans guaranteed by cities and municipalities do not exceed 10 per cent of revenues achieved in the previous fiscal year. In 2022, 10 per cent of revenues of cities and municipalities amounts to 113.9 million BAM, representing the legal limitation of the total annual debt servicing of all municipalities. Each municipality/city may borrow individually if, at the time when the long-term borrowing is approved, the amount of debt servicing maturing in each subsequent year, including servicing of the proposed new borrowing and all loans guaranteed by municipalities/cities does not exceed 10 per cent of revenues of the relevant municipality/city achieved in the previous fiscal year.

Total revenues of Cantons in FBiH achieved in 2022 amounts to 3,293.5 million BAM. Pursuant to the Law on Debt, Borrowing and Guarantees, Cantons may borrow in the long-term if, at the time when the long-term borrowing is approved, the total amount of domestic and foreign debt and guarantees servicing maturing in each subsequent year, including servicing of the proposed new borrowing and all loans guaranteed cantons do not exceed 10 per cent of revenues achieved in the previous fiscal year. Ten per cent of revenues of Cantons achieved in 2022 amounts to 329.3 million BAM, representing the amount of total possible annual servicing of all debts (liabilities) of cantons, with each Canton being able to borrow if at the moment of the long-term borrowing, the amount of debt servicing for total domestic and foreign

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<sup>65</sup> The estimated RS GDP for 2024 amounts to 16,558 million BAM (Republika Srpska Economic Reform Program for the period 2024–2026).

debt and guarantees maturing in each subsequent year, including servicing of a new proposed borrowing and all loans guaranteed by Cantons, do not exceed 10 per cent of revenues of the particular Canton achieved in the previous fiscal year.

The consolidated revenues of FBiH and Cantons in 2022 amounts to 8,089.8 million BAM, of which:

FBiH	4,796.3 million BAM
Cantons	3,293.5 million BAM

FBiH may borrow in the long-term if the amount for servicing total domestic and foreign debt and guarantees maturing in each subsequent year, including servicing of the proposed new borrowing and all loans guaranteed by FBiH, together with limitations to the amount of debt of Cantons do not exceed 18 per cent of consolidated revenues of FBiH and Cantons achieved in the previous fiscal year. The annual debt servicing of FBiH and Cantons may not exceed 18 per cent of consolidated revenues of FBiH and Cantons achieved in 2022, i.e., 1,456.2 million BAM (18 per cent of 8,089.8). Annual debt servicing in 2022 of all levels of governance in FBiH may amount up to 1,570.1 million BAM, of which:

- servicing of debt of municipalities and cities up to 113.9 million BAM (10 per cent of total revenues in 2022),
- servicing of debt of Cantons up to 329.3 million BAM (10 per cent of total revenues of Cantons in 2022),
- servicing of debt of FBiH up to 1,126.9 million BAM, representing a difference between 1,456.2 million BAM (18 per cent of consolidated revenues of FBiH and Cantons in 2022) and 329.3 million BAM (10 per cent of revenues of Cantons achieved in 2022).