

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 THE ADOPTION OF THE GLOBAL FRAMEWORK OF FISCAL BALANCE AND POLICIES
IN BOSNIA AND HERZEGOVINA 2022-2024 BETWEEN THE COUNCIL OF MINISTERS OF BOSNIA AND
HERZEGOVINA, THE GOVERNMENT OF REPUBLIKA SRPSKA AND THE GOVERNMENT OF THE
FEDERATION OF BOSNIA AND HERZEGOVINA**

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

Seeking to maintain the continuity of improving fiscal policy coordination in Bosnia and Herzegovina,

Appreciating the need for timely preparation of the 2022 Budget,

Aiming at the 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 2022-2024* for which the consent was given at the 14th session of the Fiscal Council held on 30 March 2022.

II

It is determined in the Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina 2022-2024, it is determined that the framework of the budget of the Institutions of Bosnia and Herzegovina shall amount as follows:

- For 2022, 1.073.600.000,00 BAM, with the allocation of the revenues from indirect taxes in the amount of 865.500.000,00 BAM;
- For 2023, 1.073.900.000,00 BAM, with the allocation of the revenues from indirect taxes in the amount of 865.500.000,00 BAM;
- For 2024, 1.074.100.000,00 BAM, with the allocation of the revenues from indirect taxes in the amount of 866.000.000,00 BAM.

III

The Global Framework of Fiscal Balance and Policies in Bosnia and Herzegovina 2022-2024 shall be an integral part of this Agreement.

**Chairman
of the Council of Ministers
of BiH**

Dr Zoran Tegeltija

Number: _____

**President
of the Government
of Republika Srpska**

Radovan Višković

Number: _____

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

Fadil Novalić

Number: _____



BOSNIA AND HERZEGOVINA
FISCAL COUNCIL

**GLOBAL FRAMEWORK OF FISCAL
BALANCE AND POLICIES
IN BOSNIA AND HERZEGOVINA
2022-2024 PROJECTIONS**

March 2022

List of abbreviations

BIH - Bosnia and Herzegovina

DEP - Directorate for Economic Planning

MEAD - Macroeconomic Analysis Department

VAT - Value Added Tax

SA - Single Account

ITA - Indirect Taxation Authority

RS - Republika Srpska

BD - Brčko District

FBD - Framework Budget Document

DG ECFIN - Directorate-General for Economic and Financial Affairs of EU

EU - European Union

GDP - Gross domestic product

EUROSTAT - European Statistical Office

ECB - European Central Bank

CPI - Consumer Price Index

IMF - International Monetary Fund

EC - European Commission

CAM - Capital Adequacy Ratio (of a bank)

NPL - Non-performing Loan

CBBiH - Central Bank of Bosnia and Herzegovina

CA - Current Account

UNCTAD - United Nations Conference on Trade and Development

SDU (DSU) - Foreign direct investments

CEFTA - Central European Free Trade Agreement

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Summary

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, it is envisaged that the real BDP growth rate in the period 2022-2024 will be 3.1, 3.3 and 3.6%, respectively.

Projections of indirect tax revenues in BiH between 2022 and 2024 demonstrate that in 2022, the net amount for distribution will amount to 5.873 million BAM, i.e. it will increase by 3.4% in comparison with 2021. In 2023, it is envisaged that funds for distribution from indirect taxes will increase by 3.5%, while further growth by 4.4% is envisaged in 2024.

Of course, the consequences of the global corona virus pandemic may not be overlooked, suffered primarily by the real sector and consequently by the budgets of all levels of governance in BiH. In this regard, all stated estimates and projections should be taken cautiously since these might imply revising the 2022-2024 Global Framework of Fiscal Balance and Policies of BiH, in particular its key determinants.

Bearing in mind the above said, and in accordance with the stated revenue developments, observing the necessity of decreasing total public spending in BiH and the needs and competencies of all Institutions in BiH, the envisaged amount of funds for financing the Institutions of BiH derived from indirect tax revenues for 2022, 2023 and 2024 is at the level of 819.0 million BAM. The remaining amount of indirect tax revenues will be distributed in accordance with the applicable regulations.

The BiH fiscal goal for 2022 is the primary surplus continuous increase, i.e. decrease of the primary deficit in 2022, 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 2022, is planned in the amount of 336.2 million BAM or 0.9% of the projected GDP for 2022.

The level of public spending as a part of GDP in 2022-2024 should be decreased with the aim for the consolidated public spending at the level of BiH to remain below 40 % of GDP, while it will be in the range between 44.4 and 39.5% of the estimated GDP, respectively, in the observed period.

The upper limits of budget indebtedness in 2022, 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

The 2022-2024 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 2022-2024 period, as well as the 2022 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). The first 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 Distrikt 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.

2019-2024 Macroeconomic Indicators and Projections

The following table presents the estimate and projections of macroeconomic indicators in BiH for the 2019-2024 period, representing the starting point for projections of total indirect taxes.

Table 1.1 2019-2024 Macroeconomic Indicators

Indicator	Official data		Projections			
	2019	2020	2021	2022	2023	2024
Nominal GDP in mill. BAM	36,527	35,436	36,806	38,447	40,094	41,907
Nominal growth in %	4.6	-3.0	3.9	4.5	4.3	4.5
GDP deflator (previous year=100)	101.8	100.2	100.8	101.0	100.7	100.8
Real GDP in mill. BAM (previous year=100)	35,885	35,359	36,520	38,051	39,803	41,577
Real growth in %	2.8	-3.2	3.1	3.4	3.5	3.7
Inflation measured by retail prices index in %	0.6	-1	1.1	0.9	0.8	1
Spending in mill. BAM	32,809	32,360	33,205	34,174	35,085	36,120
Real growth in %	2.0	-1.8	1.7	1.7	1.5	1.6
Government spending in mill. BAM	6,862	7,129	7,272	7,504	7,744	7,992
Real growth in %	0.9	1.3	1.3	0.7	0.7	0.7
Private spending in mill. BAM	25,947	25,232	25,934	26,670	27,341	28,127
Real growth in %	2.3	-2.6	1.9	2.0	1.7	1.8
Fixed assets investments (gross) in mill. BAM	8,129	7,779	8,252	8,916	9,664	10,624
Real growth in %	5.8	-3.0	4.8	7.0	6.9	7.9
Government investments in mill. BAM	929	1,674	1,719	1,939	2,130	2,449
Real growth in %	7.2	82.6	1.2	10.8	7.6	11.7
Private investments in mill. BAM	7,200	6,105	6,532	6,976	7,535	8,175
Real growth in %	5.7	-14.0	5.8	6.1	6.7	6.8
Import in mill. BAM	19,492	16,601	18,594	19,915	21,326	23,119
Nominal growth in %	1.7	-14.8	12.0	7.1	7.1	8.4
Real growth in %	1.3	-13.6	10.1	4.6	4.1	4.8
Export in mill. BAM	14,320	11,820	13,928	15,238	16,635	18,280
Nominal growth in %	0.5	-17.5	17.8	9.4	9.2	9.9
Real growth in %	0.4	-16.2	16.0	6.7	6.9	7.4
National gross savings in % of GDP	21.4	19.6	20.2	20.8	21.6	22.4
Current account balance in mill. BAM	-1,087	-1,090	-844	-950	-1,032	-1,223
Growth in %	-1.5	-15.4	-7.8	12.5	8.7	18.5

Current account balance in % of GDP	-3.0	-2.6	-2.3	-2.5	-2.6	-2.9
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Source: The Directorate for Economic Planning of Bosnia and Herzegovina

(DEP BiH)

The real sector

BiH GDP developments in 2020 and projections for 2021

The entire 2020 was completely marked by the global Covid-19 pandemic, both in view of health and economy. The economic crisis caused by Covid-19 and the introduction of the so-called lockdown of economies in BiH manifested in the identical manner as in the rest of the world and caused the decline of domestic (private spending and investments) and export demand (foreign trade). In accordance with the official data provided by BHAS, in 2020 BiH recorded the GDP downturn by 3.2 per cent compared to the previous year.¹ If we observe the GDP downturn structure more closely, we can conclude that it is the result of the private spending downturn by 6.2 per cent (contribution to the GDP growth -1.9 p.p.) and private investments by 14 per cent (contribution to the GDP growth -2.8 p.p.) compared to the previous year. On the other hand, due to fiscal expansion (support programmes to the health and economy sectors) during 2020, public spending increased by 1.3 per cent (contribution to the GDP growth 0.2 p.p.), while a two-figure number was recorded in public investments, while they contributed to the economic growth with the surprising 2.1 p.p. During 2020 and due to the global Covid-19 pandemic, the total foreign trade (goods+services) decreased by more than 5 billion BAM, representing the reduction of about 15 per cent compared to the previous year. The real decrease of total export amounted to 16.2 per cent, while export decreased by 13.6 per cent compared to the previous years. This import and export developments resulted in the decrease of the foreign trade deficit by approximately 7 per cent so that the contribution to the economic growth during the last year was mildly positive.

However, already in early 2021, gradual stabilisation of the epidemiological circumstances in the world, and partially in Bosnia and Herzegovina, resulted in a partial recovery of economic activity. Gradual opening and recovery of primarily export markets (EU countries) improved the demand for BiH products. This should also be contributed to the new post-Covid business (broken European industries' supply chains), which must have contributed to the improvement of business activities of export-oriented companies in Bosnia and Herzegovina, i.e., export of BiH goods. This somewhat unexpected, but strong recovery of the production and export sector represented the key basis of the achieved economic growth in Bosnia and Herzegovina in Q1, at the rate of 1.5 per cent in comparison with the same period of the same year. Namely, if observed by components, the most significant increase, and thus contribution to the economic growth, was recorded in net export, amounting to 11.0 per cent (3.3 p.p.), final consumption 1.2 per cent (1.1 p.p.), while the investments recorded a 12 per cent drop and negatively contributed to the economic growth at almost 3.3 p.p. On the basis of currently available national accounts data for Q1 2021 and certain short-term statistical indicators for the period between January and July of the current year, it can be concluded that the economic growth in the country was more substantial during the last few months. In addition to the increase of production in the processing industry of approximately 15 per cent and export of goods of more than 30 per cent between January and July 2021, export of goods increased by more than 20 per cent. This increase in the export of goods implicitly indicates that in Q2 2021, domestic demand significantly increased, primarily in terms of private spending and to a lesser extent ², which over the last few years together represented the key pillar of the economic growth in the country. Although the official data in the national accounts for Q2 2021 were not available, certain short-term statistical indicators imply

¹ The Agency for Statistics of BiH, Press release, "The statistics of national accounts - (expenditures method), data for 2020", September 2021

² The official data on the development of investments in Q2 2021 were not available, and this assumption is based on indicators of completed construction works in Q2, which increased by only 2.6 per cent when compared to the previous year.

gradual recovery of private spending in Bosnia and Herzegovina. Namely, the number of employed persons at the end of June almost reached the pre-Covid level, and the same goes for the increase of wages, by approximately 3.6 per cent, which, with the expected increase in the remittances from abroad of more than 10 per cent, and despite inflation pressure, indicates possible increase of the available income of citizens as key determinants of private spending. In addition, certain data from the domain of public finance indicate, in a certain way, strengthening of total business activity in the country, in particular of domestic demand. The collection of total public revenues in the first seven months of 2021 grew by 11.5 per cent, whereby the growth of indirect taxes was more than 10 per cent, within which revenues from VAT grew by about 13 per cent in comparison with the same period of the previous year. Earlier reports confirmed that the external environment represents a very important, if not the most important structural pillar when it comes to the economic developments in Bosnia and Herzegovina; this year, it was further conditioned by the development of the epidemic. In this view, the development of the epidemic and new Covid-19 variants, the degree of the immunisation of the population and the economic development trends in the external environment (EU and the region), will significantly determine the economic developments in 2021. The improved epidemiological situation in the EU member countries over the last couple of months resulted in the improved economic growth projections of the European Commission. Namely, in accordance with the latest available projections of the DG ECFIN (Summer 2021, Economic Forecasts) from July, the real GDP growth in the EU countries in 2021 is expected at the rate of 4.8 per cent.³ Observed by the countries which are both main foreign trade partners and investors in Bosnia and Herzegovina, the expected economic growth rates are as follows: Germany 3.6 per cent, Italy 5.0 per cent, Austria 3.8 per cent, Croatia 5.4 per cent and Slovenia 5.7 per cent. Assuming the achievement of these growth rates in the EU countries, and provided a favourable epidemiological situation related to Covid-19, the projections of the DEP BiH imply gradual economic recovery when compared to the previous year.⁴ In this view, and in accordance with the DEP BiH projections, the improved economic activities in the main trade partners and strengthening of export demand, it is expected that, at the end of 2021, BiH could achieve total export growth at the rate of 16 per cent in real terms. On the other hand, the expected growth of import in 2021 is approximately 10 per cent, which could eventually result in a moderate decrease of foreign trade balance by approximately 4.4 per cent. This stabilisation of circumstances in the foreign sector would gradually reflect on other segments of domestic economy, such as production, spending, employment and investments. The expected stabilisation of production and gradual recovery of employment, as well as increase in the remittances from abroad should encourage private spending in Bosnia and Herzegovina within the framework in which the expected growth is 1.9 per cent in real terms. On the other hand, the fight against Covid-19 in Bosnia and Herzegovina will require further support to both health and social sector, as well as direct support to the economy, which could result in the increase of public spending of at least 1.3 per cent when compared to the previous year. Uncertainties, in both domestic and foreign market, decreased financing could prolong the planned investments; therefore, in 2021, it is expected that Bosnia and Herzegovina will record only a moderate growth of gross investments in fixed assets, by up to 5 per cent when compared to the previous year. In addition, uncertain circumstances related to the global Covid-19 pandemic in the country, low level of immunisation of population and institutional capacity in the decision-making process in Bosnia and Herzegovina might pose a challenge when it comes to the economic recovery in the second half of 2021. Full stabilisation and stronger economic recovery in the country depends on a more efficient fight against the Covid-19 pandemic, as well as on the realisation of the economic development assumptions in the region and more efficient actions of the competent institutions in the process of development and implementation of economic policies in Bosnia and Herzegovina. Bearing in mind all stated circumstances and the effects of the low basis from the previous year, it is expected that the real GDP growth in Bosnia and Herzegovina will be at the rate of 3.1 per cent when compared to the previous year.

³ DG ECFIN, Summer 2021 Economic Forecasts: Reopening Fuels Recovery, July 2021.

⁴ DEP BiH projections, September 2021

2022-2024 economic development projections

The key basis of economic developments in Bosnia and Herzegovina in the 2022-2024 period will be the development of the Covid-19-related situation, economic activities in the external environment, as well as the contribution of internal dynamics in the creation of economic growth. The global reference international institutions, such as IMF, World Bank and European Commission envisage for the economic activity to reach the pre-crisis levels in 2022. In this view, and in accordance with the latest EC projections for the EU countries, it is expected that the growth rate in 2022 will be 4.5 per cent, which appears to be rather optimistic at this point. In terms of the main trade partners of Bosnia and Herzegovina, the projected economic growth rates in 2022 are: Germany 4.6%, Italy 4.2%, Austria 4.5%, Croatia 5.9% and Slovenia 5.0%. In this regard, short-term DEP projections are based on the projections of the stated international institutions and on the presumption of improvement of economic activity in the external environment, which would stabilise economic conditions and encourage economic growth in this period. In addition to the improved external environment, a very significant precondition for the recovery of economic growth in the country during this period will be the institutional capacities of the country in the implementation of structural reforms to contribute more to the internal dynamics. Under the assumption of the achievement of the stated circumstances, in accordance with DEP BiH projections for the 2022-2024 period, Bosnia and Herzegovina expects continuation of the approximately 3.5% economic growth annually (2022: 3.4%, 2023: 3.5%, and 2024: 3.7%). 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 increased total economic activity in the country, in addition to the expected increase in industrial production and civil works, accompanied by increased employment and export revenues (goods and services) should result in the increase in available income of citizens and thus in private consumption that will provide key support to economic growth as was the case in previous years. Therefore, it is expected that the 2022-2024 private spending will grow at the rate of 1.8% (2022: 2.0%, 2023: 1.7%, 2024: 1.8%). 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 stabilisation of public finance through the decrease in public expenditures and simultaneous increase in public revenues in order to limit public spending growth. In view of public finance in Bosnia and Herzegovina, the likely growth of public debt as the direct consequence of Covid-19 might represent a significant burden which will be visible in the medium term. Therefore, it is expected that the 2022-2024 private spending will grow at the rate of 0.7%. 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 to below 20 per cent at the end of 2024. 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 2022 and 2024, it is expected that total gross investments will increase at an average annual growth rate of 7.3 per cent between (2022: 7.0%, 2023: 6.9%, 2024: 7.9%). 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 BiH. 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, 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 10 per cent between 2022 and 2024. Therefore, the share of public investments in the GDP framework would increase and reach the level of approximately 5 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 2022-2024 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 7 per cent of import might be expected, whereby the projected increase in goods and services would be mostly balanced. Therefore, as the result of the export growth, the share of export in GDP would grow to 44 per cent by the end of 2024. At the same time, it is expected for the export to develop at a somewhat slower rate of 4.5 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 55 per cent by the end of 2024. A slightly stronger growth of export in comparison with the growth of export in the medium term would result in the gradual stabilisation of foreign trading balance as a share in GDP at approximately 12 per cent, i.e. in slightly positive contribution to the economic growth, while the export-import ratio should amount to almost 80 per cent by and including the end of 2024.

Risks

The risks for achieving the stated projections are mainly negative and may be classified into two groups, (foreign and domestic), whereby foreign risks are more certain and affect the economic growth in Bosnia and Herzegovina more. In addition to the fact that the available reports of international institutions already announced the recovery of the economic activity in the external environment, the global Covid-19 pandemic presence and the new variants of the virus represent the primary risk for the achievement of this basic scenario projections. It should be kept in mind that the external environment (primarily the EU countries), represented the main structural determinant of most economic developments in Bosnia and Herzegovina through trade and capital flows. The high level of trade integration (concentration), in addition to the insufficiently diversified export offer for a country such as Bosnia and Herzegovina, may represent a potential risk for economic developments in the medium term. Namely, the possible extended Covid-19 crisis and additional weakening of economic activity in the EU countries, primarily in countries such as Germany and Italy, would negatively affect the economic growth in 2021, as well as over the entire programme period. Namely, the deterioration of economic circumstances in the external environment would most likely endanger the assumptions of the economic growth in the baseline scenario. On the other hand, these developments in the external environment would slow down and extend the planned economic recovery of the country in the medium-term. It is assumed that it would be much more difficult for Bosnia and Herzegovina to achieve the economic growth level prior to the Covid-19 pandemic (approximately 3 per cent at an annual level), and the achievement of the potential level of GDP would be prolonged. Due to the big difference between trade integration with the EU countries, the lower level of export demand would lead to a slower export recovery, lower level of production and thus affect the aggregate offer of Bosnia and Herzegovina. On the other hand, the weakening of activities in the external environment would undoubtedly result in slower recovery of domestic aggregate demand, as the lower production level would slow down the planned increase in employment and salaries, what would weaken the available income of citizens, i.e., private spending, in addition to weaker inflow of remittances from abroad. The lower level of total economic activity in the country would undoubtedly lead to slowing down of the expected investments of both private and public sector.

On the other hand, domestic challenges, i.e. BiH domestic risks, pose a threat, as well, to the achievement of the projections from the baseline scenario. The domestic risks are represented by the complex decision-making system and the slow rate at which economic reforms are implemented in the country. Possible delays in the implementation of intervention measures in view of the Covid-19 pandemic, as well as in the implementation of general structural reforms, might affect negatively the total economic growth. Partial implementation of the envisaged structural reforms programme (business environment, labour markets, education, energy market, transport and social protection), as well as migrations of young and educated population would undoubtedly result in the decrease in productivity and a GDP growth that is slower than the one projected in the baseline scenario.

The overview of the physical volume of industrial production in 2020

The available statistical data show that the industrial production physical volume weakening trend was present even before the outbreak of the global Covid-19 pandemic. Namely, at the end of 2019, Bosnia and Herzegovina recorded the decline of industrial production physical volume at the rate of 5.5 per cent. In the relatively favourable international economic environment, this decline is the consequence of long-term challenges in the structure of industrial production in Bosnia and Herzegovina. Spreading of the Covid-19 pandemic in 2020 and worsening of the economic circumstances in the export markets had an additional negative impact on the developments of industrial production in Bosnia and Herzegovina. Namely, in accordance with the available BHAS 2020 data, BiH recorded a decline of the physical volume of industrial production of 6.2 per cent in comparison with the same period of the previous year.⁵ If observed by sectors, the most significant decrease in the production was recorded within the processing industry, at the rate of 7.6 per cent, which is not a surprise, as this industry is predominantly export-oriented. In addition to the processing industry, the decline in the production was recorded in the energy production sector, at the rate of 5 per cent, as well as in the mining sector, where production declined by 1.1 per cent.

The assumption for the industrial production developments in 2021

It is very hard to predict the industrial production development trends in Bosnia and Herzegovina, since the same showed signs of weakness already last year, with these manifested in the decrease of the physical volume of production. However, in the first half of 2021, the industrial production in BiH somewhat unexpectedly improved. Namely, in accordance with the available BHAS 2021 data, BiH saw a decrease of the physical volume of industrial production of 12.2 per cent in comparison with the same period of the previous year.⁶ Bearing in mind the global Covid-19 pandemic, this increase of the physical volume of industrial production looks encouraging; however, it is necessary to keep in mind the effects of the low basis from the last year which enabled this high grow rate. Observed by sectors, the most important contributions to the growth of total industrial production were achieved within the framework of the processing industry of approximately 15 per cent, while the mining industry recorded a downturn in production of approximately 5 per cent when compared to the same period of the previous year. It is worth noting that the industrial production in Bosnia and Herzegovina evidently improved, especially in terms of the processing industry, which may be related to the new circumstances arising due to the spreading of the Covid-19 virus. Namely, spreading of the global Covid-19 pandemic led to a disruption of the European industries global supply chains, particularly in terms of the supply with industrial inputs from China. This helped the most to the suppliers in the countries of Central and Eastern Europe, Turkey and even to products and exporters from Bosnia and Herzegovina and the countries in the region. Bearing in mind the previously depicted international developments and the structural composition of industrial production, it is only under the assumption of economic activity recovery in main trade partners in the second half of 2021 that we may expect further stabilisation and growth of industrial production in Bosnia and Herzegovina.

The assumption for the industrial production developments 2022-2024

The medium-term developments of the industrial production physical volume will mostly depend on the economic market developments in the main trading partners, as this was the case in the previous period. In case the consequences of the new developments (Covid-19 pandemics) are to be recovered

⁵BHAS, announcement entitled “Bosnia and Herzegovina industrial production volume index for December 2020-previous data”, 28/01/2021.

⁶ BHAS, announcement entitled “Bosnia and Herzegovina industrial production volume index for December 2021-previous data”, 25 August 2021.

in the short-term period, it may be expected for Bosnia and Herzegovina to record a more evident economic progress, in which the developments in the industrial production sector should play the crucial role. Although this is difficult to confirm at this point, certain research of reference international institutions imply that the new circumstances caused by the spreading of the global Covid-19 virus could even have a positive effect on the industrial structure of the countries of the Western Balkans in the post-Covid period. The disruption of global supply chains due to the spreading of the Covid-19 virus pandemic promoted the notion of near-shoring, i.e., relocation of production activities from far east to countries much closer to the EU. In this view, it is expected that certain share of production could be relocated to the Western Balkans region. The latest study of the reference institute WIIW implies that predominantly German companies have already taken certain steps to relocate the production to the region.⁷

In addition to more favourable circumstances in this medium-term period, it is expected that the internal dynamics will have a more significant impact on strengthening industrial production in Bosnia and Herzegovina. Namely, it is expected that the reform measures being implemented by the competent institutions in Bosnia and Herzegovina with the aim of improving the business environment will have measurable outcomes. This improvement in the business environment should result in increased investments (domestic and foreign), higher utilisation of the existing and mobilisation of new capacities, increased employment and strengthening of the competitive position of producers in Bosnia and Herzegovina, in both domestic and foreign markets. Bearing in mind all of the above mentioned circumstances, Bosnia and Herzegovina is expected to achieve somewhat higher industrial production physical volume growth rates in the 2022-2024 period.

Risks

The technological structure and high level of export orientation of industrial production in Bosnia and Herzegovina, especially processing industry makes it susceptible to economic developments in the international economic environment. Possible delay of economic recovery in main trade partners would negatively affect the physical volume, employment, investments and productivity within the framework of the industrial sector in Bosnia and Herzegovina. Weaker economic recovery of main trade partners, demanding business environment, as well as a low level of implementation of product market reforms (digital transformation, research, development and innovation) might represent a burden and slow down the planned recovery of industrial production in Bosnia and Herzegovina in the medium term.

Labour market

Labour market in 2020

The average number of employed persons in the period between January and December 2020 was approximately 813.1⁸ thousands and is by 1 per cent smaller than in 2019. The most significant decline in the number of employed persons in 2020 was recorded in the processing industry, whole sale and retail sale, accommodation services and preparation and food serving (hospitality). With the decline in the number of employed persons, the average number of unemployed persons registered in the period from January to December 2020 was approximately 415.2 thousands and is by 1 per cent higher y/y. Unemployment survey rate for 2020 is at the level of 15.9 per cent. The average net salary in 2020 amounted to 956 BAM, with a 3.8 per cent nominal growth rate when compared in 2019, and a higher real growth (4.8 per cent) due to the 1 per cent deflation rate.

⁷ For more details, see the WIIW Study *Getting Stronger after Covid 19: Potencijal Zapadnog Balkana za poslovanje u susjednim zemljama*“ <https://wiiw.ac.at/getting-stronger-after-covid-19-nearshoring-potential-in-the-western-balkans-dlp-5814.pdf>, May 2021.

⁸ Revised, final data.

Labour market - projections 2021-2024

In the first half of 2021, there has been a gradual stabilisation on the labour market. The average number of employed persons in the period between January and June 2021 was approximately 814.5⁹ thousands and it did not change when compared to the same period of the previous year. By areas of activities, the most significant decrease in the number of employed persons was recorded in trade, hospitality and hotel management. On the other hand, the most significant increase in the number of employed persons was recorded in the field of information and communications and health and social protection. The growth of the total number of employees positively influenced the decrease in the number of registered unemployed persons. In the period between January and June 2021 / January and June 2020, the number of registered unemployed persons in Bosnia and Herzegovina was by 1.8 per cent y/y smaller, at 404.1 thousands. The unemployment survey rate for 2021 was at the level of 19.1 per cent.¹⁰ In the period between January and June 2021 / January and June 2020, the average net salary nominally increased by 3.7 per cent and amounted to 980 BAM. Bearing in mind the minimum growth of prices at the rate of 0.1 per cent in the observed period, the real net salary growth was almost equal to the nominal growth (3.6 per cent). On the basis of the stated developments in the first half of 2021, it may be expected that a moderate growth in the number of employed persons by the end of 2021 will be approximately 0.5 per cent y/y). In the salary domain, the nominal growth rate of net salary could reach 4 per cent by the end of the year.

Developments in the labour market are significantly determined by the business environment, as well as by the duration of the Covid-19 pandemic. For this reason, as was the case in earlier years, the preparation of the baseline scenario for the indicators on the labour market in the 2022-2024 period is based on the assumed economic growth, i.e., its components (demand level, trade, investments). In addition, the available economic prognosis and analysis of relevant international institutions were also taken into account.

In accordance with ECB projections (September 2021), it is envisaged for the employment rate to grow by 1.2 per cent in the Euro zone in 2022, i.e., at a much higher rate than in the previous year. At the same time, the unemployment rate in the Euro zone might be somewhat lower than in the previous year and rest at the level of 7.7 per cent. However, the mentioned unemployment rate will still be higher in comparison with the year before the emergence of the pandemic. The ECB believes that the unemployment rate could be lower than in the period immediately preceding the pandemic¹¹ only in 2023 and rest at the rate of approximately 7.3 per cent.

In accordance with the DEP projections, Bosnia and Herzegovina is expected to record faster economic growth at the rate of 3.4 per cent y/y in 2022. The stated economic growth should positively affect the number of employed persons, especially in the sectors that employed the biggest number of persons in the previous years. In general, the business environment in the industrial, trade and certain hospitality activities could positively affect the number of employed persons. Bearing in mind the gradual recovery of the real sector, it is expected that the contribution to the increase in the number of employed persons could be more modest in the public¹² sector in comparison with all other areas of activities. It is envisaged that between 2022 and 2024, Bosnia and Herzegovina will record an increase in the demand, investments and trade volumes, which should positively affect the creation of new jobs and increase of average net salaries. With a positive business environment in both BiH,

⁹ Preliminary data.

¹⁰ During the preparation of the document, the data available were the data for Q1. In 2021, the Labour Force Survey in BiH was carried out continuously in accordance with the new, redesigned methodology aligned with the new Regulation of the European Parliament and Council which entered into force on 1 January 2021. For this reason, there has been an interruption in the data series. The results of the 2021 Labour Force Survey are not comparable with the results of the continued 2020 Labour Force Survey and the results of the annual labour force surveys carried out between 2006 and 2019.

¹¹ For the purpose of comparison, the unemployment rate in Euro zone in 2019 was 7.5 per cent.

¹² The analysis relates to public administration, health and education activities.

the region and the EU countries, it is expected that the number of employed persons in the period between 2022 and 2024 will increase by approximately 1.3-1.6 per cent annually, in addition to the decline in the number of unemployed persons and continuation of the gradual net salary increase trend at the level of 2.2-3 per cent annually. However, it is necessary to take into account the risks¹³ for the achievement of this projection that may affect the envisaged growth of the number of employed persons and salaries in Bosnia and Herzegovina. The epidemic and the business environment as a whole will definitely determine the developments of the number of employed persons, as well as net salary.

Risks

There are several risks determining the envisaged labour market projections. The business environment in Bosnia and Herzegovina, as well as those in the neighbouring countries and the EU have a significant impact on the labour market. It is especially important to emphasize the insecurity in terms of the duration of the Covid-19 pandemic, health factors (immunisation) and business environment, which could additionally slow the economic activity of Bosnia and Herzegovina, and thus delay the recovery of the labour market. In addition to the slower economic growth, the reduced investments and trade volumes, and generally deteriorated operating conditions, the increase in the number of employed persons, as well as salaries, could be lower than the one envisaged in the baseline scenario. The slowed down business activity might affect and delay the creation of new jobs, while the unemployment rate could still remain high. In addition to the uncertainty caused by the pandemic, the decrease in the number of employed persons (through migrations) and the volume of the implementation of structural reforms in the following period could also significantly determine the development of basic indicators on the labour market.

Prices

Prices in 2020

In the period between January and December 2020 / January- December 2019, the registered deflation in Bosnia and Herzegovina was 1 per cent. The price reduction was recorded in clothes and footwear, furniture, house appliances and regular house maintenance, housing, water, electricity, gas and other energy sources, as well as in transport. The prices in the transport were reduced by 8.6 per cent y/y in the observed period. Lower crude oil and oil derivatives prices determined the prices in the transport department. The prices in the clothes and footwear department are by 10 per cent lower and the department maintains the multi-annual deflation pressure on the total level of prices. The prices in the furniture, house appliances and regular house maintenance were by 1.1 per cent y/x lower, while the prices in the department of housing, water, electricity, gas and other energy sources were by 0.4 per cent y/y lower in the observed period (liquid fuels price reduction). The fastest prices growth of 4.5 per cent y/y was recorded in the department of alcoholic beverages and tobacco as the result of the growth of prices of cigarettes and tobacco in 2020.

Prices - 2021-2024 projections

After deflation, Bosnia and Herzegovina recorded a growth of prices in 2021. In the period from January to July 2021, the inflation, measured by the consumer prices index, amounted to 0.4 per cent in comparison with the same period of 2020. In analysing the CPI index developments by sections and

¹³ The stated risks will determine whether the growth rates of the number of employed persons and net salaries will be faster or slower than those envisaged in the baseline scenario.

the purpose of spending, it is evident that the prices in most sections are higher. In the period from January to July 2021/January to July 2020, the most important increase was noted in the sections of food and non-alcoholic beverages, transportation, alcohol and tobacco. The prices in the section of food and non-alcoholic beverages, taking the largest share in the CPI index, increased by 1.2 per cent in the observed period due to the increase in the prices of food, since the prices of non-alcoholic beverages did not change. In addition, due to the higher prices of oil and oil derivatives in the period from January to July 2021/January to July 2020, the prices in the transportation section increased by 1.5 per cent. In the period from January to July 2021/January to July 2020, the prices in the section of alcoholic drinks and tobacco increased by 1.9 per cent as the result of the excise duties¹⁴ on cigarettes and tobacco in 2021. The prices in the clothes and footwear department are by 10 per cent lower and the department maintains the multi-annual deflation pressure on the total level of prices. In the latest available projections of the EC (summer 2021), it is expected that the prices of crude oil in 2021 to be significantly higher when compared to the previous year, amounting to 68.7 USD/barrel (58.3 per cent y/y), including the higher growth rate of inflation in the EU at the rate of 2.2 per cent, i.e., 1.9 per cent in the Euro zone. In their projections from September 2021, in addition to the IMF, the ECB also predicted the higher growth rate of the crude oil prices. Bearing in mind the domestic factors determining the prices (utility services, excise duties, and alike), it can be expected that in 2021, the inflation in Bosnia and Herzegovina will be approximately 1.1 per cent y/y. However, it should be taken into account that the development of inflation will be influenced by the stated risks.

The projections of inflation in Bosnia and Herzegovina in the period between 2022.-2024. are based on the changes in the prices of crude oil in the world market, food prices, excise duties on certain products, utilities prices and alike. In their summer projections, the EC expects for the growth rate of the inflation in EU to be slower in 2022, at the rate of 1.6 per cent when compared to the previous year (1.4 per cent in the Euro zone), with a modest decrease of the crude oil prices at the rate of 0.6 per cent y/y to 68.3 USD/barrel. A similar development of the crude oil prices and inflation was presented by the ECB (September projections), under which the price of crude oil in 2020 would be lower by 0.7 per cent y/y. In 2023, the ECB predicts even lower crude oil prices in comparison with the previous year, at the rate of 4.8 per cent y/y (64.1 USD/barrel), while the level of inflation may be 1.5 per cent y/y. When it comes to the development of the food index on the global market, the latest available projections¹⁵ of the World Bank indicate that the food prices index could grow at the nominal rate of 0.9 per cent y/y in 2022-2024. Under the assumption of more stable oil and food prices, as well as utilities prices, Bosnia and Herzegovina may expect the inflation rate of 0.8-1 per cent between 2022 and 2024.

Risks

Basic risks for the inflation projections are based on the external and domestic factors affecting the prices in Bosnia and Herzegovina. Among others, the most important factors are the length of the COVID-19 pandemic, and the prices of crude oil (as well as food prices). Each deviation of the prices of these products in the world market in comparison with the projected prices in the baseline scenario, could affect the level of inflation in Bosnia and Herzegovina. In view of the domestic factors determining inflation, domestic factors determining inflation that should be taken into account are the prices of utilities, excise duties on certain products, and alike.

¹⁴ The Management Board of the Indirect Taxation Authority adopted a decision on determining the specific and the minimal excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2021. The minimum excise duty for a pack of 20 cigarettes amounts to 3.25 BAM (it was 3.04 BAM in 2020), while the specific excise duty for the same pack is 1.65 BAM. The excise duty on cigarettes determined at the level of 80 per cent of the minimum excise duty determined in Article 3, paragraph (3) of this Decision amounts to 130. BAM per kilogram it was 121.6 BAM in 2020). Source: The Decision on determining the specific and the minimal excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2021.

¹⁵ Source: World Bank Commodities Price Forecast (nominal US dollars), April 2021

Bank credits and deposits

2021-2024 bank credits and deposits growth development estimates

Due to the COVID-19 pandemic and decrease of domestic demand and economic activities, there has been a significant decrease in total credits at the end of the fourth quarter of 2020, the sum of which was 20.3 billion BAM with the negative growth rate of 2 per cent y/y. In 2020, the deposit growth rate was lower, at the rate of 4.9 per cent y/y (which is by 4.6 pp lower than in the end of 2019), and deposits amounted to 25 billion BAM. The deposit growth rate decreased in all sectors, except in the sector of non-financial companies which achieved the growth rate at 12.6 per cent y/y. In the same period, the population section recorded the 3.9 per cent y/y growth rate, while the growth rate of the general government sector recorded was reduced by 2.7 per cent y/y.

In accordance with the latest data, in the end of July 2021, the total issued credits amounted to 20.8 billion BAM with the growth rate of 1.9 per cent y/y. What contributed the growth most were the citizens' credits, with 1.8 pp, while the credits of non-financial companies recorded the negative contribution of 0.1 pp.

Due to the slower recovery of the level of employment in 2021, as well as the fact that non-financial private companies still record high growth rates of the deposited funds in 2020, and the continuation of the same trend in 2021 as the result of the lingering business uncertainties, it is expected that the credit activity in 2021 will recover at a moderate rate, and pick up in later years.

The demand for credit in 2021 is expected to slowly recover, which may result in the annual growth rate in intervals, from 3 to 4 per cent y/y.

The growth of public and private investments, better economic circumstances, the recovery of the number of employees and the growth of spending would result in a higher credit activity growth rate. The growth of the economic activity (the growth of the foreign trade, and investments) which need to be supported with new credits, may result in the increase of the demand for credits. It is estimated that the total credits growth rate in the period from 2022 to 2024 will increase between 6.5 and 8 per cent y/y.

In view of the deposit development, the growth rate of the citizens' deposits was lower in 2020 (3.9 per cent y/y in the end of December), while the non-financial private companies growth rate was higher (16.1 per cent y/y in the end of December). On the other hand, the deposits in the end of July grow at the rate of 11.4 per cent y/y, with the achieved amount of 26.6 billion BAM. The citizens' deposits and non-financial companies deposits contributed to the growth of total deposits on equal terms, at the rate of 5 pp. It is expected that the further growth of total deposits will be higher in 2021 as the result of the deposits of non-financial companies, but it is equally expected that the citizens' deposits growth rate will be higher due to the improved circumstances in the labour market and recovery and growth of income. In the period from 2022 to 2024, it is expected that total deposits will grow at more moderate rates (rates from the pre-crisis period), between 8 and 9 per cent y/y, with the higher contribution of the citizens' sector to the growth, while the deposits of non-financial companies are by several points lower due to the increased investment activity.

Risks

The worsening of the epidemiological situation, new business activity restriction measures in Bosnia and Herzegovina and in the states of main trade partners, as well as their negative influence on the economic activity, may lead to different estimates of growth in the banking sector. Measures to be

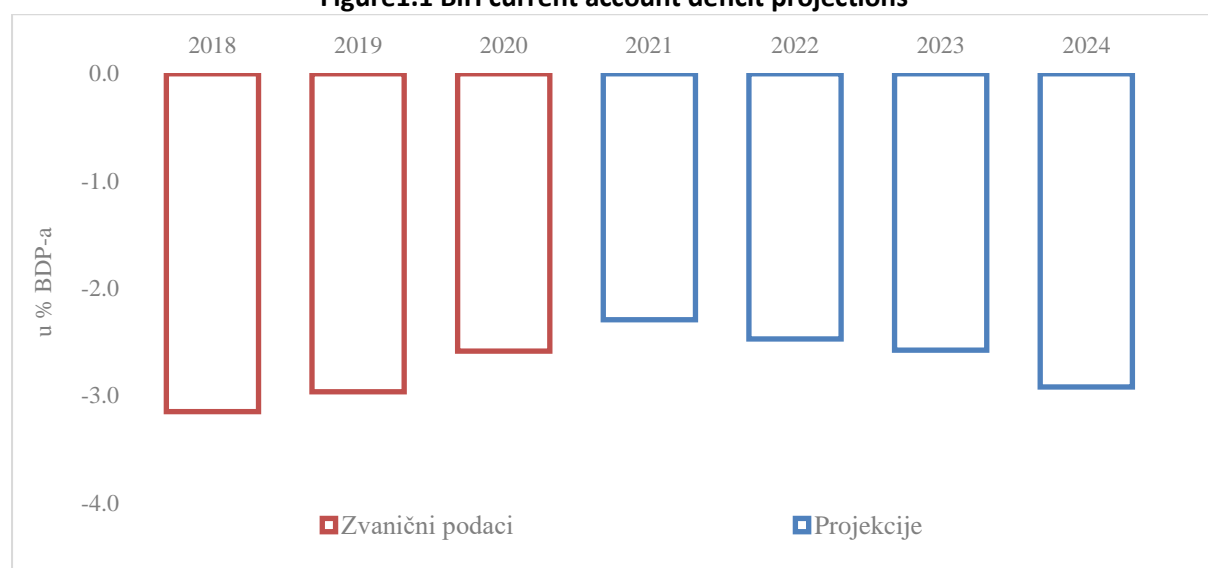
taken by competent institutions and public sector will contribute to the economic recovery. The negative developments in the segments of final spending and weaker performances of the foreign trade sector, as well as weakening of the industrial production and investments as the result of the slow dynamics of the vaccination programme and lockdown measures after the first half of 2021 would also affect the banking sector, through the continued growth of non-collectable assets, i.e., credits, and decrease in the demand for new credits by non-financial companies.

Bosnia and Herzegovina payment balance

In accordance with the official BiH payment balance data for Q1 2021¹⁶ and DEP projections for Q2, Q3 and Q4 of 2021, the current account deficit under BiH payment balance would amount to 850 billion BAM, thus representing increase by 7.8 per cent (annually). This current account deficit reduction would predominantly be the result of somewhat better economic activity in the EU (partial market recovery after the last year downturn caused by the Covid-19 pandemic), and thereby the more favourable influence on the foreign trade exchange of goods and services of Bosnia and Herzegovina.

In Q1 2021, the current account deficit amounted to 114 million BAM, representing a reduction of 64 per cent when compared to the same period of the previous year. This current account deficit reduction is predominantly determined by the deficit in foreign trade of goods and services (recording a downturn at the rate of 21.5 per cent), i.e., the increase in import and export by 0.7 and 10.4 per cent¹⁷ annually, respectively. Current net foreign inflows in Q1 2021 grew by 7.6 per cent as the result of the downturn of current inflows by 7.1 per cent (growth on the basis of transfers of citizens from abroad and compensation to BiH residents employed abroad) and decreased outflow of money to abroad by 5.5 per cent (predominantly due to drop in reinvested gain from investment in non-financial companies).

Figure1.1 BiH current account deficit projections



Source: DEP projections

2021-2024 payment balance assumptions

On the basis of DEP projections, the volume of foreign trade exchange in the period between 2022 and 2024 will increase. Therefore, in this period, the foreign trade exchange deficit would record a nominal growth rate of 0.2 to 3.1 per cent as the result of import rate growth (7.1 to 8.4 per cent) and export rate growth (9.2 to 9.9 per cent).

¹⁶ At the moment of drafting the projections, the data available were the data for Q1 2021.

¹⁷ Source: CB BiH

As a share in GDP, the current account deficit for 2021, in accordance with the DEP projections, would amount to approximately -2.3 per cent, while it could be expected for it to gradually increase (between 2022 and 2024, the deficit could range from -2.5 to -2.9 per cent of GDP). It is expected that the current foreign net inflows will range between 8.6 and 9.7 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

Main risks to changes in BiH payment balance developments for increase or decrease in the current account deficit are posed by foreign trade deficit, more exactly by changes in the rates of import and export of services and changes in the prices on the global market.

In terms of financing the current account deficit, the risks are the decrease in BiH foreign assets abroad, insufficient inflow of direct foreign investments, difficult access to trade loans and inability to borrow in the international financial market.

Overview of the developments of foreign trade in goods in 2020

Unlike in the previous couple of years, when Bosnia and Herzegovina achieved a solid growth of foreign trade in goods at the rate of about 7 per cent annually, the foreign trade was reduced in 2019. This trend was additionally intensified after the global Covid-19 outbreak in 2020. It is very well known that, in foreign trade view, BiH largely depends on the economic developments in EU countries, as almost 75 per cent of export is placed on the EU market, while approximately 60 per cent of import comes from the EU. Therefore, the economic developments in these countries, in addition to production level of the domestic production sector, almost completely determine foreign trade exchange developments. The slowing down of the economic activity in the EU countries in 2020 as the result of the spreading of the global Covid-19 pandemic resulted in the decrease of export demand, which was manifested by the reduction in the foreign trade of almost 5.4 billion BAM, i.e., 15 per cent. In accordance with the BHAS data for 2020, Bosnia and Herzegovina recorded a drop in the total export of almost 2.5 billion BAM, i.e., 16.2 per cent and export of 2.9 billion BAM, i.e., 13.6 per cent in real terms. On the other hand, if we observe goods, the downturn in terms of the trade in goods was somewhat more moderate. In accordance with the BHAS data, in comparison with the previous year, the export and import of foreign goods were reduced by 5.9 and 12.1 per cent, respectively

Projection of the developments of foreign trade in goods in 2021

When it comes to the foreign trade of goods in Bosnia and Herzegovina in 2021, it will depend to a large extent on the development of the epidemiological situation with Covid-19, economic activity developments in the external environment, i.e., in the main trade partners. These are predominantly the EU countries to the markets of which 3/4 of the goods exported from Bosnia and Herzegovina is placed. However, it was already in the end of the previous year and in the early 2021 that a noticeable progress took place, especially in terms of the export of goods. In accordance with the BHAS data for the period from January-July 2021, in comparison with the same period of the previous year, Bosnia and Herzegovina recorded the increase in the total foreign trade of goods by approximately 3.8 billion

BAM (24.5 per cent), which was encouraging.¹⁸ This increase is the result of the increase of the export of goods by 1.8 billion BAM (31.1 per cent), and the increase of the import of goods by almost 2 billion BAM (20.5 per cent) in comparison with the same period of the previous year.¹⁹ It can be concluded on the basis of these indicators that the foreign trade of goods in Bosnia and Herzegovina is showing the signs of a good recovery, as implied in previous reports. It was already in the first half of the year that Bosnia and Herzegovina managed to make up for the losses in the previous year, at least in terms of the foreign trade in goods, and it even exceeded the results achieved in rather successful years of 2018 and 2019. On the other hand, in accordance with the currently available projections, it is expected that the EU countries will achieve a stronger economic recovery in 2021, with the economic growth rate of 4.8 per cent, which should result in the increase of total foreign trade in goods. In accordance with the latest available projections of the DG ECFIN in 2021, it is expected that the export will grow by 8.1 per cent, while the expected growth rate is 9.0 per cent in comparison with the previous year. This gradual recovery of export markets will probably have a positive effect on the import of goods in Bosnia and Herzegovina. DEP's 2021 baseline scenario projection that Bosnia and Herzegovina may expect stabilisation and recovery within the global foreign trade in goods, especially in the domain of trade in goods runs in accordance with the above-mentioned developments. In accordance with the 2021 DEP projections, it is expected that the total export in Bosnia and Herzegovina will grow at the rate of 16 per cent in real terms, driven by the increase in the export of goods the expected growth rate of which is 18.8 per cent, while the expected rate growth of services export is 5 per cent. On the other hand, it is expected that total import will increase by about 10 per cent in 2021, with the aligned rates of growth of goods and services. These developments could result in the decreased foreign trade deficit by 4.5 per cent in 2021.

2022-2024 projections of the development of foreign trade in goods

Developments of economic activities and the epidemiological situation in the country and in the external environment in the medium term will definitely represent the main determinant of developments of foreign trade in goods in BiH in this period. Improvements in the foreign trade exchange in BiH may be expected only in case of the improvement of economic activities and new economic challenges caused by the COVID-19 pandemics the global economy is currently facing. Therefore, if the stated circumstances are exceeded, DEP projects that in the 2022-2024 period, BiH might expect real increase in total export of goods at annual rates ranging from 6.7, 6.9 and 7.4 per cent, respectively.²⁰ This increase in export depends on stable export demand, extension of production base and increased competitiveness in the country. These expectations are supported by the projections of the increase in import in the EU over the stated period. On the other hand, increase in the economic activity in the country, i.e. growth of domestic demand in the population and corporative sector through somewhat faster growth of spending should result in increased import in BiH. It is expected that the rates of import of goods will be somewhat lower than export and should range from 4.6 per cent in 2022, 4.1 per cent in 2023 and 4.8 per cent in 2024.²¹ Higher export growth rates in the medium term should result in increased export participation in GDP at the rate of approximately 44 per cent, while the total export (goods + services) would amount to 55 per cent, up to and including 2024. The result of such export and import development trends would be gradual stabilisation of the foreign trade deficit at approximately 11 per cent of GDP, with a mildly positive

¹⁸BHAS, announcement entitled "Bosnia and Herzegovina industrial production volume index for July 2021-previous data", 20 August 2021.

¹⁹ This part represents an estimate of the developments of the foreign trade in goods, as the data on services were not available at the time of preparation of this report.

²⁰ The detailed overview of the export growth rate developments: 2022-Total export 6.7 per cent (goods-7.4 per cent, services-3.8 per cent), 2023-total export 6.9 per cent (goods-7.4 per cent, services-4.5 per cent), and 2024-total export 7.4 per cent (7.3 per cent goods, 7.5 per cent services).

²¹ The detailed overview of the export growth rate developments: 2022-Total import 4.6 per cent (goods-4.7 per cent, services-3.6 per cent), 2023-total import 4.1 per cent (goods-4.2 per cent, services-2.7 per cent), and 2024-total import 4.8 per cent (4.8 per cent goods, 3.4 per cent services).

contribution to the economic growth and improved export-import ratio at almost 80 per cent up to and including 2024.

Risks

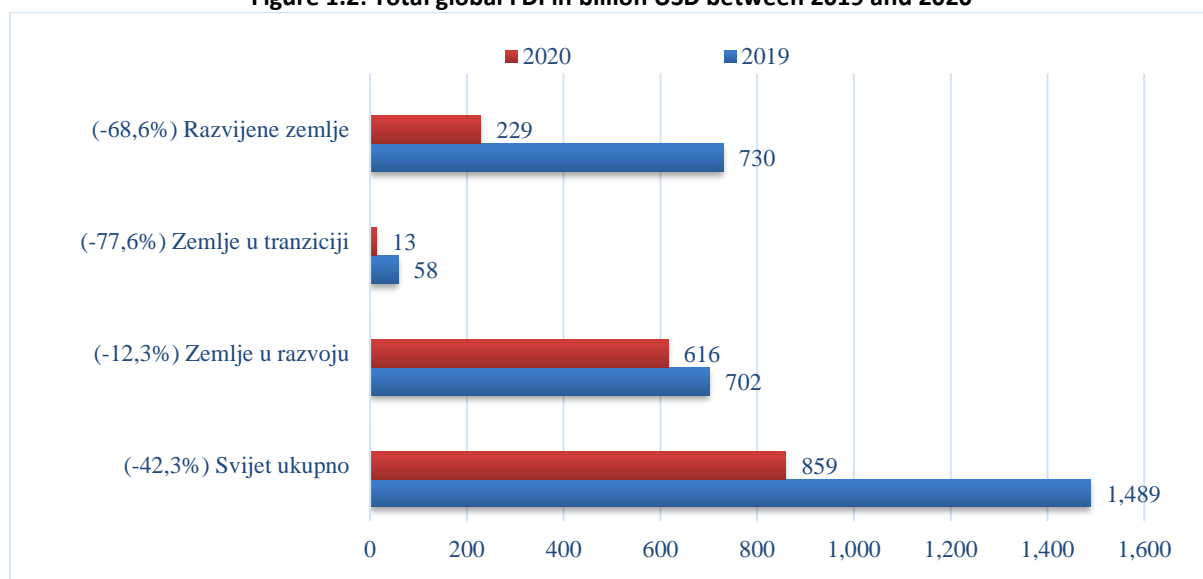
Further complication of the epidemiological situation in view of Covid-19 (new virus variations and a lower level of immunisation) represent the most significant risk related to the projection of foreign trade exchange represented in the baseline scenario. In this case, the domestic demand would decrease, which would result in the weakening of the total economic activity in the country, and the foreign trade exchange developments in 2021. These basis, and the prolonged crisis related to Covid-19, would also weaken the planned recovery of foreign exchange trade between 2022 and 2024. When it comes to the external environment, the additional risks are the possible negative developments of global prices of certain products. On the other hand, in addition to these risks resulting from the external environment and as a consequence of cyclic developments in the export markets, a significant risk to the foreign trade exchange of Bosnia and Herzegovina will be represented by domestic, i.e., structural challenges. The complex total business environment in Bosnia and Herzegovina, in terms of the foreign trade exchange, is manifested in a modest aggregate offer of a small number of products in a limited number of markets. In addition to elevating the total level of competitiveness in the country, the realisation of the baseline scenario will much depend on the implementation of structural reforms and improvement of the procedures in the foreign trade exchange operations over the programme period.

Foreign direct investments

2021-2024 foreign direct investments

In accordance with the latest available data, the report²² of UNCTAD (the United Nations Conference on Trade and Development) foreign direct investments (FDI) recorded a global downturn by 42 % y/y in 2020. Developing countries recorded the smallest reduction of investments, at the rate of 12.3 per cent y/y, while the investments toward developing countries recorded a reduction by 68.6 per cent y/y.

Figure 1.2: Total global FDI in billion USD between 2019 and 2020



²² Global Investment Trend Monitor, No. 38 [Special Coronavirus Edition] (UNCTAD/DIAE/IA/INF/2020/3)

After the relaxation of strict restrictive measures in the second quarter of 2021, there has been a more significant growth of most leading global and European economies. This resulted in the growth of the value of the most significant world indexes, which, as observed in August 2021 and compared with the end of 2020, recorded a significant growth (DJIA, Nasdaq, StoxxEurope600 recorded a growth by 20 to 30 per cent y/y). The stated positive developments in the world and in Europe, in addition to the current economic growth, will definitely determine further investments in Bosnia and Herzegovina. In accordance with the latest available data of the CB BiH, the total FDI in the first quarter of 2021 amounted to 271.8 million BAM (net financial liabilities), which is by 14.6 per cent more than the achieved amount in the same period of the last year. Within this amount, the reinvested earnings amounted 113.6 billion BAM, which means that a decrease by 4 per cent y/y has been recorded. This amount means that their share in the total FDI is 41.8 per cent. Net financial assets amounted to 29.6 million BAM.

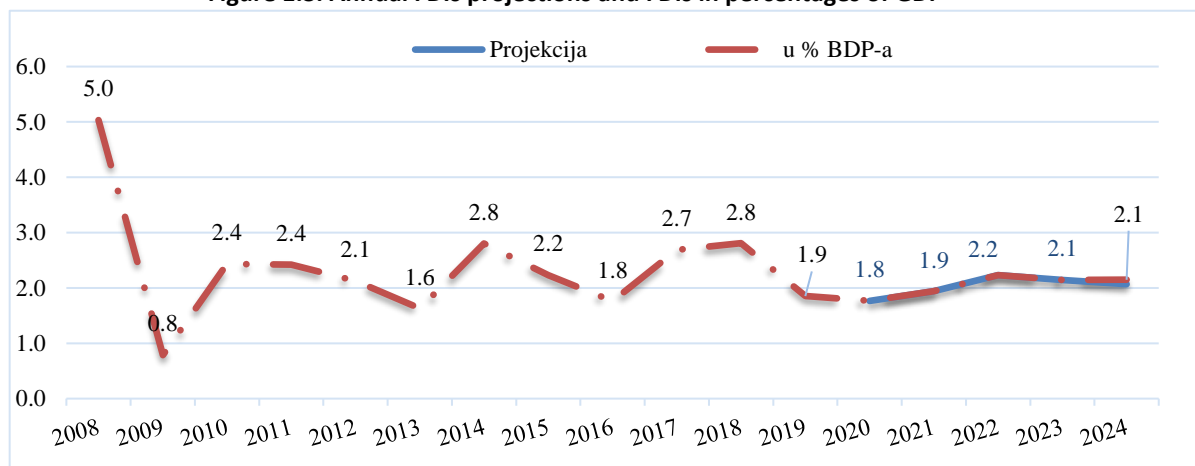
In estimating the investments for 2021, it should be definitely taken into account that a new wave of the epidemic appeared in the last quarter of the current and the first quarter of the year 2022.

This will definitely affect the scope and deadlines in the implementation of the already announced energy and infrastructure projects (TPP Ugljevik 3, TPP Gacko 2²³, Banja Luka-Prijedor²⁴ motorway). On the basis of the above-mentioned, it is estimated that the FDI in 2021 would increase by 15 to 20 per cent y/y, when compared to the previous crisis year, with 1.9 per cent share in the GDP.

The higher vaccination rate and more massive immunity of the world population will inevitably lead to a gradual stabilisation of epidemiological circumstances and normalisation of global economic developments in the following years.

More significant investments in the hydro energy sector are expected as well. The joint investment of the Republic of Serbia in the HPP Gornja Drina²⁵ has been announced. Under this joint investment, it is planned to build three HPPs in the total amount of 520 million EUR. The first to be built is HPP Buk Bijela²⁶, for the construction of which the amount of 200 million EUR would be invested. The Republic of Serbia also announced a joint investment in the Trebinje Airport in the amount of 30 million EUR, and there are also plans to invest in the solar energy sector by Italian investors²⁷. Thereby, the FDI would reach 2.2 per cent of GDP in 2022 and about 2.1 per cent in 2023 and 2024.

Figure 1.3. Annual FDIs projections and FDIs in percentages of GDP



Source: BHAS, CBBiH and DEP projection

23 <http://www.vladars.net/sr-SP-Cyrl/Vlada/Ministarstva/mper/media/vijesti/Pages/Potpisan-sporazum-o-izgradnji-TE-Gacko2>

24 <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.

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

26 <http://www.vladars.net/sr-SP-Cyrl/Vlada/media/aktuelnosti/Pages/11.zajednickasjednica.aspx>

27 <http://www.vladars.net/eng/vlada/ministries/MIEM/news/Pages/Italian-company-interested-in-construction-of-solar-power-plants-in-the-Republic-of-Srpska.aspx>

Risks

The new pandemic outbreaks caused by the new virus variants, in addition to the incomplete implementation of vaccination would definitely slow down the economic recovery in the following years. The lack of adequacy and efficiency in the adoption and implementation of political decisions in overcoming the economic consequences would negatively affect the attraction of FDI, as well. Additional geopolitical and trade tensions between the leading global economies (China, Russia, USA, EU) add additional burden and further complicate the economic development and new investments in Bosnia and Herzegovina.

2021-2024 Indirect Taxes Revenues Projections

Indirect taxes projections are based on projections of DEP macroeconomic indicators from September 2021, taking into account the indirect tax revenues collection trends and current government policies in the area of indirect taxation (baseline scenario).

Indirect taxes revenues projections-assumptions

Projections of indirect tax revenues for the period between 2021 and 2023 imply the basic (baseline) projections. The assumptions for development of projections are as follows:

- Prognosis of macroeconomic indicators of the DEP for the period from 2021 to 2024 from September 2021;
- Current trends in the collection of indirect taxes revenues;
- Current government policies in the area of indirect taxation.

I) THE INDIRECT TAXES PROJECTIO BASELINE SCENARIO

Current government 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). The 2021 policy of excise duties on tobacco is determined in accordance with the Law on Excise Duties and the Decision²⁸ 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 finalise, while cut tobacco is taxed in accordance with policies under the 2014 Amendments to the Law.²⁹ The Law on the Customs Policy in

²⁸ The Decision on determining the specific and the minimal excise duty on cigarettes and the amount of excise duty on smoking tobacco for 2021 (*Official Gazette of BiH*, 78/20).

²⁹ 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).

BiH³⁰ regulates basic elements of customs policy and general rules and procedures applied to goods imported and exported from the customs territory of BiH.

³⁰ The new Law on Customs Policy (*Official Gazette of BiH*, 58/15) will apply as of 1 July 2021 (*Official Gazette of BiH*, 21/20) will be applicable only as of August 2019, while the old Law on Customs Policy is applicable prior to that date (*Official Gazette of BiH*, 57/04, 51/06, 93/08, 54/10 and 76/11). Article 207 of the new Law applicable as of 25 April 2018 represents an exception.

Figure 2.1. BiH Foreign trade liberalisation stages

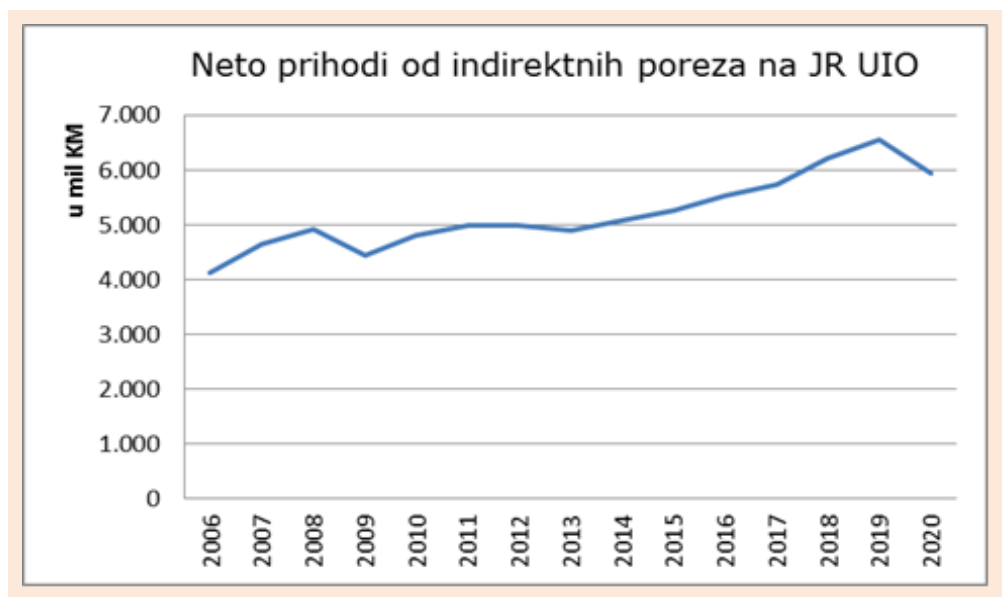
	CEFTA	EU, SSP			Customs records				EFTA		EU, Adapt. SSP
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017

Source: Antić, D. Liberalisation of BiH foreign trade (2007-2017): implications and comparative analysis, OMA bulletin 152/153, March/April 2018, www.oma.uino.gov.ba

Indirect taxes current collection trends

After the long-term growth trend, the collected indirect taxes revenues³¹, dropped in 2020 due to the effects of the corona virus pandemic. Net indirect taxes revenues collected in 2006 in the ITA Single Account amounted to 4.12 billion BAM, while net collected taxes in 2019 increased by 58.7 per cent (6.54 billion BAM) in comparison to 2006.³²

Figure 2.2. Net revenues from indirect taxes to the ITA SA 2006-2020.



Source: BiH ITA, OMA calculation

The share of indirect taxes in the ITA Single Account varied over the years (Table 2).³³ In the last fifteen years, this indicator was within the range of 16.6 per cent (minimum value, 2009) and 19.2 per cent (maximum value, 2007). In 2020 it amounted to 16.7 per cent. The dynamics of the indirect taxes in

³¹ In almost most years since the establishment of the ITA, and up to 2019, the ITA recorded growth of the revenues collected on the ITA SA. The exceptions were the 2009 crisis that resulted in strong decrease in revenues, at the rate of 9.9 per cent and stagnation and milder decrease of revenues in 2012 and 2013, respectively (Figure 2.2).

³² It should be noted that these amounts do not include remaining delayed payments of indirect taxes to the accounts of the Entities which were more significant in the first years after introduction of VAT.

³³ In the press release published by the BiH Agency for Statistics in September 2021, it was stated that the presented series of information is different from the series published earlier due to the changes in the CB BH data.

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, which is the maximum in the last fifteen years, while in 2020 it decreased to 18.3 per cent.

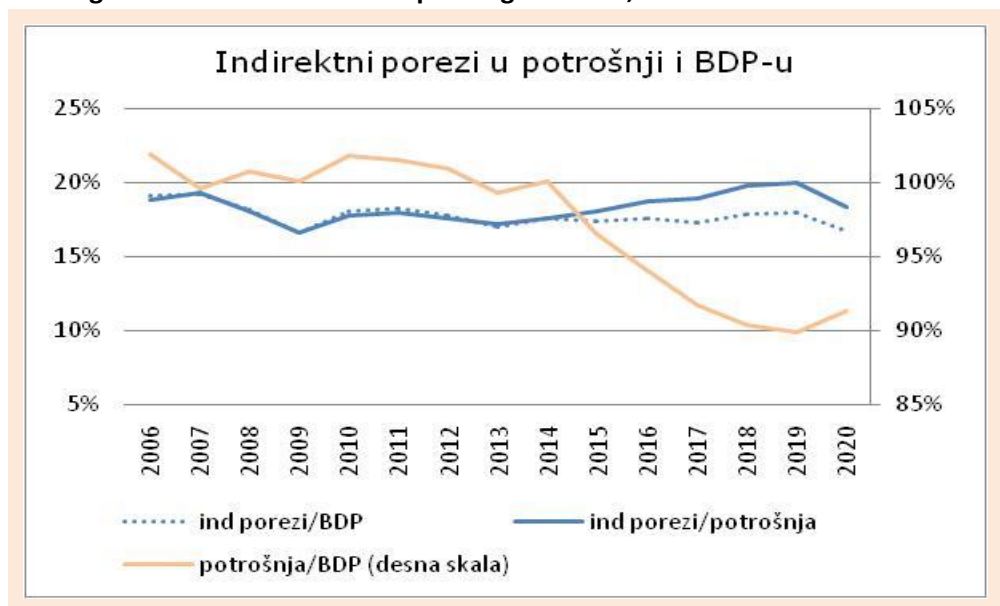
Table 2.1 The share of indirect taxes revenues from the ITA SA in the GDP and total spending

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

Source: Calculation on the basis of ITA and BHAS data³⁴

In Figure 2.3, the share of indirect taxes in GDP in BiH between 2008 and 2020 is divided into components in accordance with the methodology in the OECD analysis³⁵, to the product of: (1) share of indirect taxes revenues in total spending and (2) share of total spending in GDP. It may be concluded from the diagram 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%. From 2015, there was a downward trend in the share of spending in GDP, and in 2020, it was 91.3 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 2020, the share of spending in GDP increased again. On the other hand, the share of indirect taxes in GDP dropped by 1.17 p.p. in comparison with the previous year, whereby it reaches the level of 16.7 per cent, only 0.1 p.p. more than in the crisis year of 2009. Analysed by the components in the OECD formula, the decrease in the share of indirect taxes in GDP in 2020 is the cumulative result of the decrease in the share of indirect taxes in spending of 1.61 p.p., and the increase in the share of spending in GDP by 1.50 p.p.

Figure 2.3. Indirect taxes in spending and GDP, 2006-2020



³⁴ GDP in accordance with the expenditures principle, BHAS, February 2021

³⁵ Simon, H. and M. Harding (2020), "What drives consumption tax revenues? : Disentangling policy and macroeconomic drivers" OECD Taxation Working Papers.

Collection in 2020

In 2020, the gross collection of indirect taxes was by 757.1 million BAM, i.e., by 9.5 per cent smaller than in 2019, while the repaid funds were reduced by 145.7 million BAM. Due to reduced refund payments, the reduction of the net revenues from indirect taxes is far smaller than when it comes to gross revenues, and amounted to 611.4 million BAM, representing the drop in the net collection of 9.3 per cent in comparison with 2019. The collection of revenues in 2020 was marked by the corona virus pandemic effects. The overview of the collection of revenues by months indicated diverging trends caused by the corona virus effects on the economy and citizens' spending. In the first three months, the gross revenues increased, and the oscillations in the payment of refunds were minimal, while the gross collection experienced a strong downturn with the closing of the borders and the economy due to the corona virus, although this was somewhat mitigated by the decrease in the refund payments. Certain improvement in June and July was annulled later in the year, mainly due to the reduction in gross collections.

The corona virus appeared in BiH in the beginning of March, while BiH authorities introduced more significant restrictive measures at the end of the same month. In the first quarter, the indirect taxes revenues collection trends were still influenced by the continued positive developments in the BiH economy in 2019. This is why the net collection of indirect taxes revenues grew by 4.4 per cent in the first quarter. The introduction of restrictive measures on borders, the closing down of certain business activities and citizens' movement restrictions resulted in the reduction of import and spending, and especially so as the non-residents (the diaspora, tourists, persons in transit and in border areas) were not able to come to BiH, which resulted in the reduction of the net collection by 20.1 per cent in the second quarter. Although it was expected that summer months will bring the relaxation of measures in terms of entering and leaving the country, this did not happen, neither in the EU countries, nor in the neighbouring countries and BiH, which resulted in the reduction of net collection by 12.7 per cent in the third quarter. Certain relaxation of measures and restrictions by BiH authorities in the fourth quarter resulted in a weak recovery of spending, which reflected on the smaller reduction of revenues in comparison with previous quarters, at the level of 8.1 per cent.

In general, the scale of the affect that the corona virus had on the collection of indirect taxes revenues is demonstrated by the fact that the nominal net collection in 2020 was only somewhat higher when compared to the collection in 2017. However, the positive effects in the first quarter of 2020, that mitigated the drop in the revenues, should be kept in mind, so the true proportions of the corona virus effects in 2020 can only be observed if we exclude the first quarter of the year. Between April and December 2020, net collection of indirect taxes was by 13.5, 9.5 and 2.4 per cent smaller than compared with the same period of 2019, 2018 and 2017, respectively.³⁶

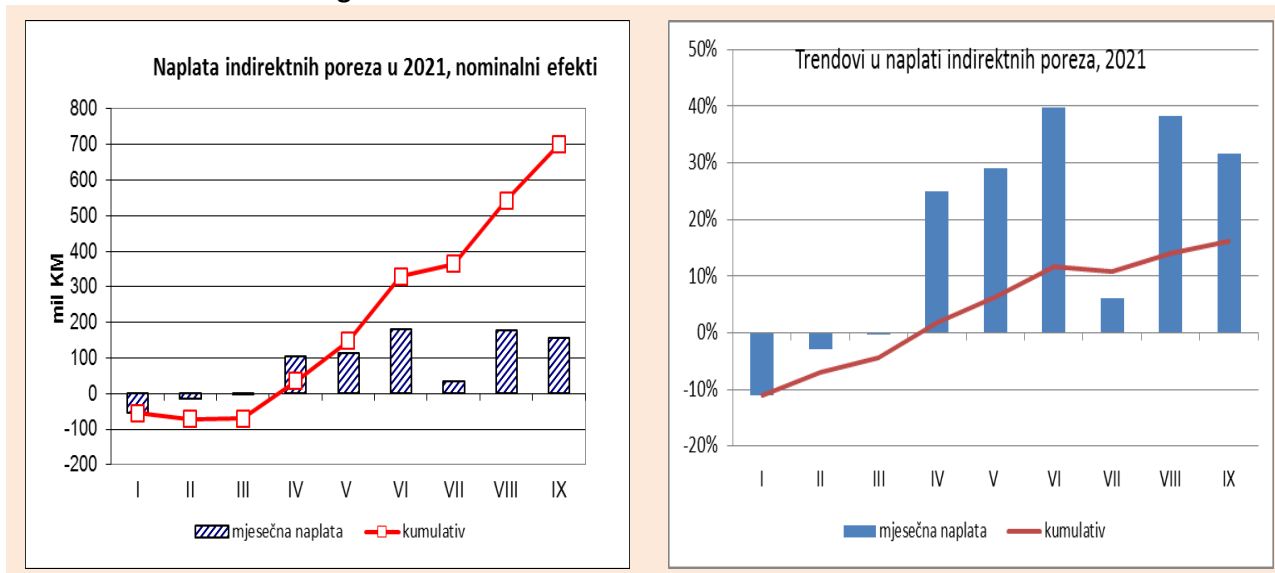
Collection of total revenues from indirect taxes from January to September 2021

In accordance with the preliminary report on the cash flows, in September 2021, ITA collected the amount of 792 million BAM gross, which is by 168.5 million BAM less than in October 2020. At the same time, the refunds increased by 11.6 million BAM, which insignificantly alleviated the effects of the net collection growth effects. In September 2021, the net collection of indirect taxes was by 156.9 million BAM higher than in September 2020, thus representing growth by 31.5 per cent (Figure 2.4, representation on the right, "monthly collection"). The high growth of the collection of revenues from

³⁶ More on the collection of indirect taxes revenues in 2020 in the OMA bulletin no. 187-188, January/February 2021, www.oma.uino.gov.ba

indirect taxes in September increased the cumulative excess. Therefore, in the period between January and September 2021, the collected gross revenues were by 828.8 million BAM higher, while the payment of refunds increased by 129 million BAM higher. Finally, in the nine months 2021, the net collection increased by 699.8 million BAM in comparison with the collection in the same period in 2020, thus representing a 16 per cent growth (Figure 2.4, representation on the left, “cumulative”).

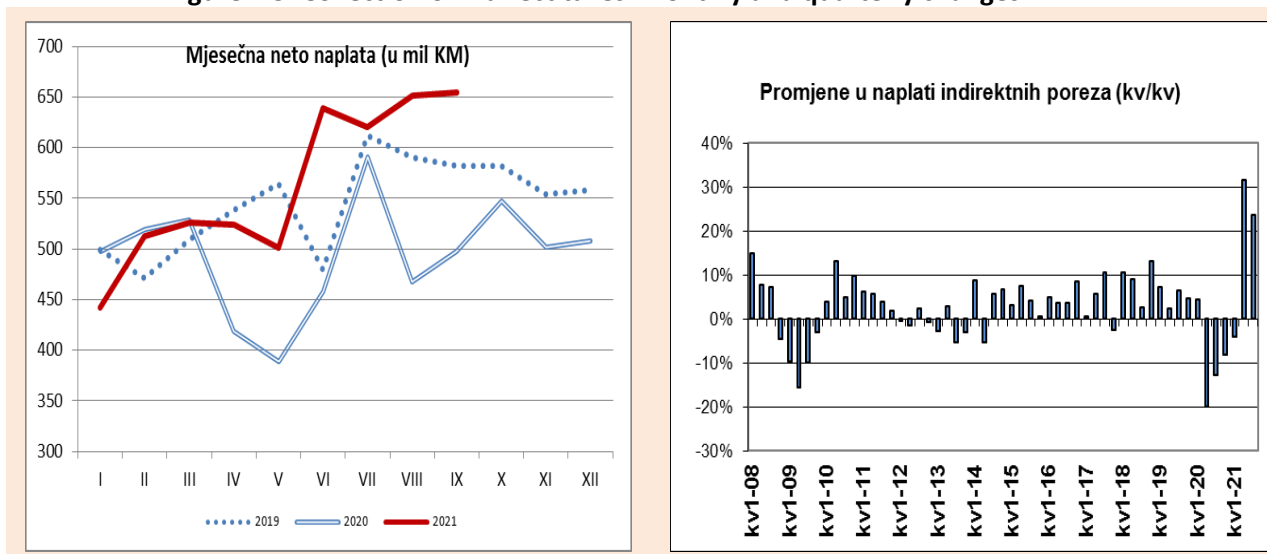
Figure 2.4. Collection of indirect taxes in 2021



Source: OMA representation, BiH ITA

Both representations in Figure 2.4, in nominal amounts of effects and relative proportions, indicate a strong increase of the cumulative net collection over the last nine months, which is encouraging in view of the trends over the remaining part of the year. However, to conclude that the collection of indirect taxes is on its way to recover, it is necessary to compare it to the collection in 2019, the year before the pandemic, which was the record year since the establishment of the ITA. Figure 2.5, representation on the left, represents the nominal monthly collection of indirect taxes over the last three years. It can be concluded that the collection of indirect taxes revenues in September was significantly higher than the one in the same month of 2019. The collection was below the collection in 2019 for a smaller number of months. The reasons behind the monthly oscillations were not just the collection of revenues in 2021, but also the basis - collection in 2019, which strongly oscillates from month to months. The most common reason for this oscillation is the excise duty on tobacco products, which, due to its characteristics in view of *ex ante* payments after the takeover of excise duty stamps, depends on the business policy of large tobacco companies - importers.

Figure 2.5. Collection of indirect taxes: monthly and quarterly changes



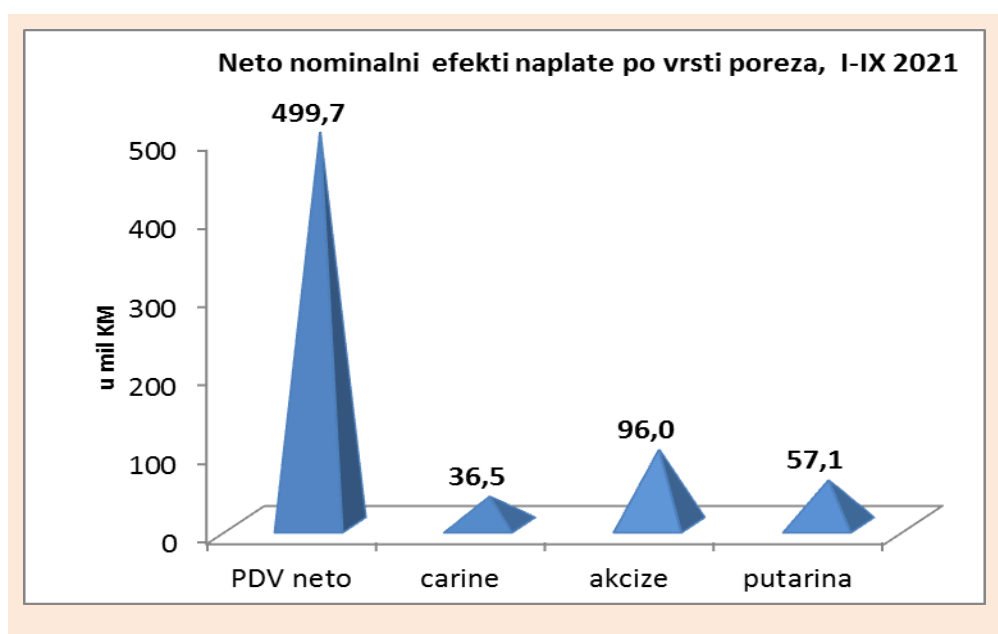
Source: BiH ITA, OMA calculation

The overview of three-month developments indicated a recovery of the collection of indirect taxes (Figure 2.5, representation on the right). In the previous year, the positive three-month growth was achieved only in the first trimester, whereby a big reduction by 20.1 per cent was recorded in the second trimester due to the outbreak of the COVID-19 pandemic. With the relaxation of the restrictive measures in the middle of the year, the doubts related to the collection were smaller, but the negative effects continued in the first trimester of 2021 due to the restrictions imposed because of the emergence of the new wave of the pandemic. Because of the higher basis in the first trimester of 2020 and negative effects of the pandemic in early 2021, the collection of indirect taxes in the first quarter of 2021 was by 4.2 per cent smaller when compared to the same trimester of 2021. A strong recovery of revenues, as visible in April and June 2021 resulted in a growth at the level of the second trimester, at the high rate of 31.5 per cent. Although the restrictive measures introduced during the COVID-19 pandemic were relaxed in the third quarter of 2020, the dynamics of the recovery was not as planned due to the restrictions related to non-residents ability to enter BiH, which were still in force in the EU, as well. In the third quarter of 2020, it was lower than expected, and the basis was consequently smaller when compared to 2021. The lower basis and more liberal measures related to entering BiH introduced in summer 2021, resulted in the strong increase in the collection of indirect taxes in the third quarter of 2021 at the rate of 23.8 per cent.

Trends per type of revenues

The high collection growth rate in September improved the image of the collection per type of revenues. The biggest excess for the first nine months of 2021 was achieved in the VAT collection (+499.7 million BAM), excise duties (+96 million BAM), pay toll (+57.1 million BAM) and customs (+36.5 million BAM). The analysis does not include the unadjusted revenues per type in the amount of 32.6 million BAM.

Figure 2.6. Net nominal effects per tax type, January-September 2021

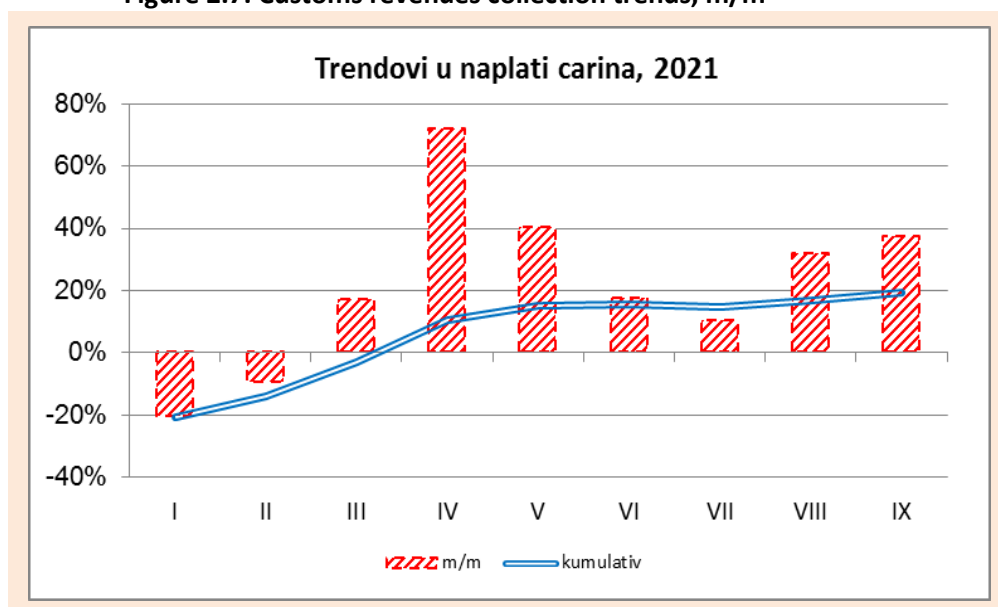


Source: ITA BiH, OMA representation

Custom duties

The beginning of the year brought a reduction in the collection of customs revenues, bearing in mind the higher basis for comparison in 2020, which relates to the period before the pandemic (Figure 2.7). The collection of customs revenues increased by 72.8 per cent in April. In the following three months there is a noticeable, but expected, slowing down of the growth, as the high rates were the consequence of the low basis in 2020, which was at its lowest at the time of the first wave of the pandemic, when the economy was closed down and when import was drastically reduced. Import slowly recovered as the consequence of the relaxation of measures and resulted in the increase of customs revenues.

Figure 2.7. Customs revenues collection trends, m/m



Source: BiH ITA, OMA calculation

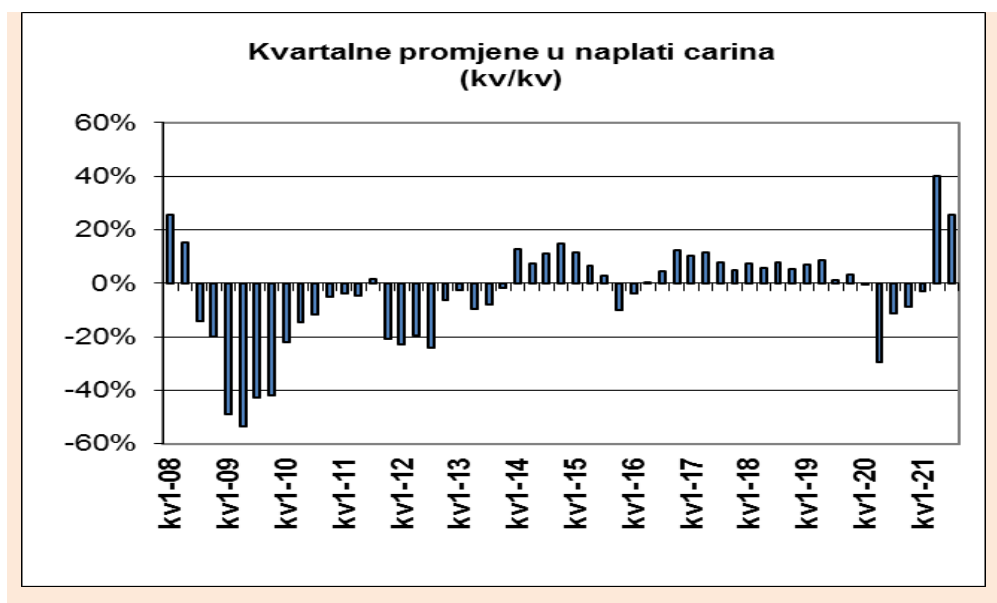
However, high import growth rates were again achieved in August and September, and this can be related to the growth of prices in foreign markets. As the customs revenues are strongly co-related to import, the growth of import resulted in the growth of customs revenues, as well, and, at the level of nine months, the customs revenues grew by 25.5 per cent (Figure 2.7, “cumulative”).

The customs revenues collection improvement is a consequence of the cumulative negative effects of the decreased import from the EU countries³⁷ in view of goods subject to customs, and the decrease in the import of goods from China³⁸ and other Asian countries.

Figure 2.8. Quarterly changes in customs collection (Q/Q)

³⁷ In accordance with the BHAS data, the import from the EU increased by 21.1 per cent in the period from January to August 2021.

³⁸ In accordance with the BHAS data, the import from China increased by 19.1 per cent in the period from January to August 2021.



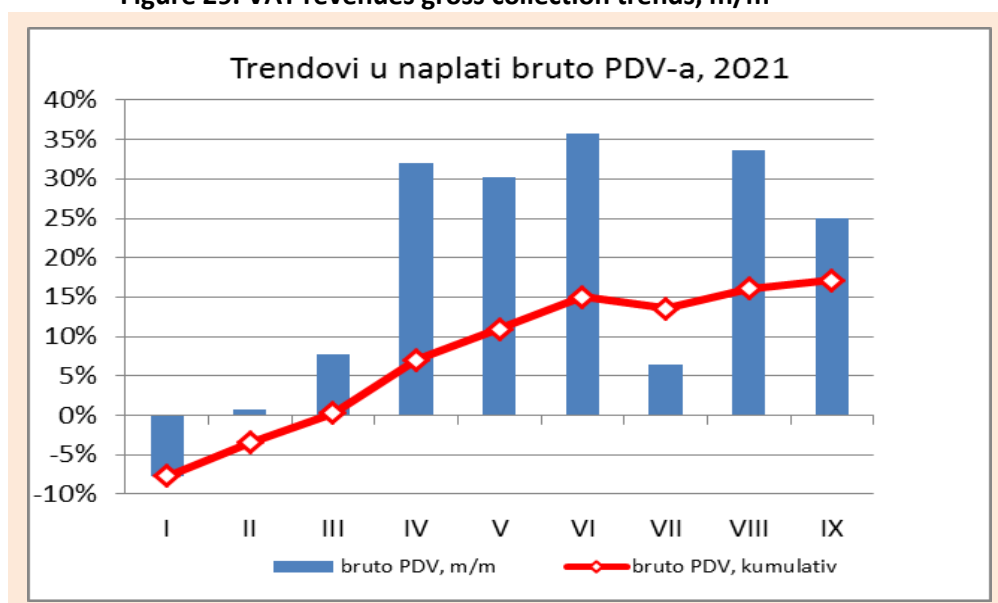
Source: BiH ITA, OMA calculation

The quarterly comparison indicates a strong improvement in the collection of customs revenues in the second quarter of 2021, following the negative growth rates in the preceding four quarters. The customs revenues were reduced by 3 per cent in the first quarter when compared to the same quarter of 2020, while the second quarter saw an increase at the rate of 40.1 per cent (Figure 2.8). As the result of the slowed down growth in July, the customs revenues growth rate was at the level of 25.5 per cent in the third quarter of 2021.

VAT

The VAT revenues collection growing trend continued in September, and it was characterised by very high growth rates. In September 2021, the VAT gross collection rate was by 24.9 per cent higher than in September 2020, which significantly improved the VAT gross cumulative growth, whereby the gross VAT increased by 17.1 per cent in the period from January to September 2021 (Figure 2.9).

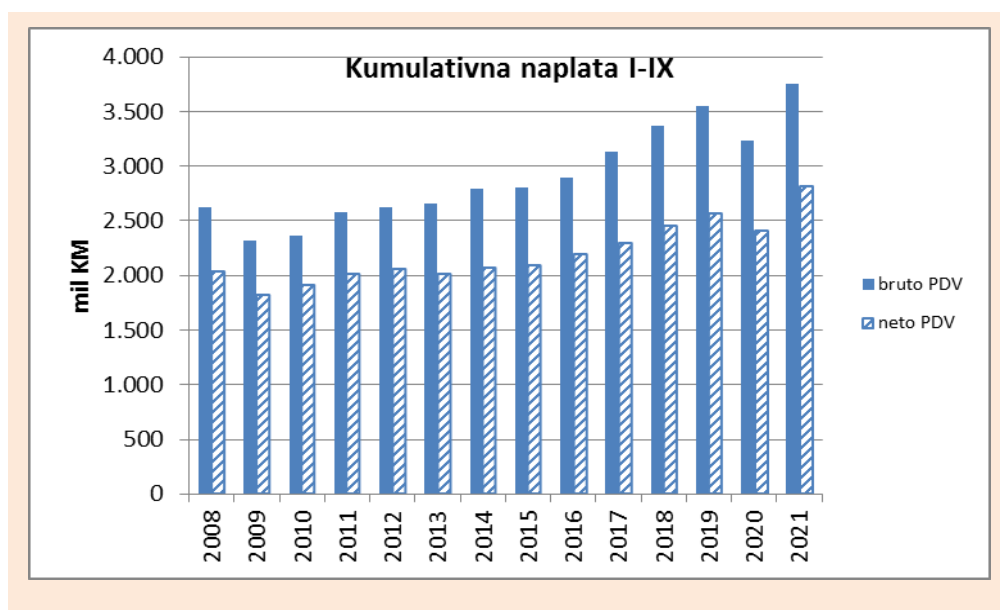
Figure 29. VAT revenues gross collection trends, m/m



Source: BiH ITA, OMA calculation

The comparison of the nominal VAT gross collection in the first nine months indicates that the VAT gross collection for the first nine months of 2021 was at a record level, exceeding the collection in the reference period of the record year 2019 by 6.8 per cent (Figure 2.10).

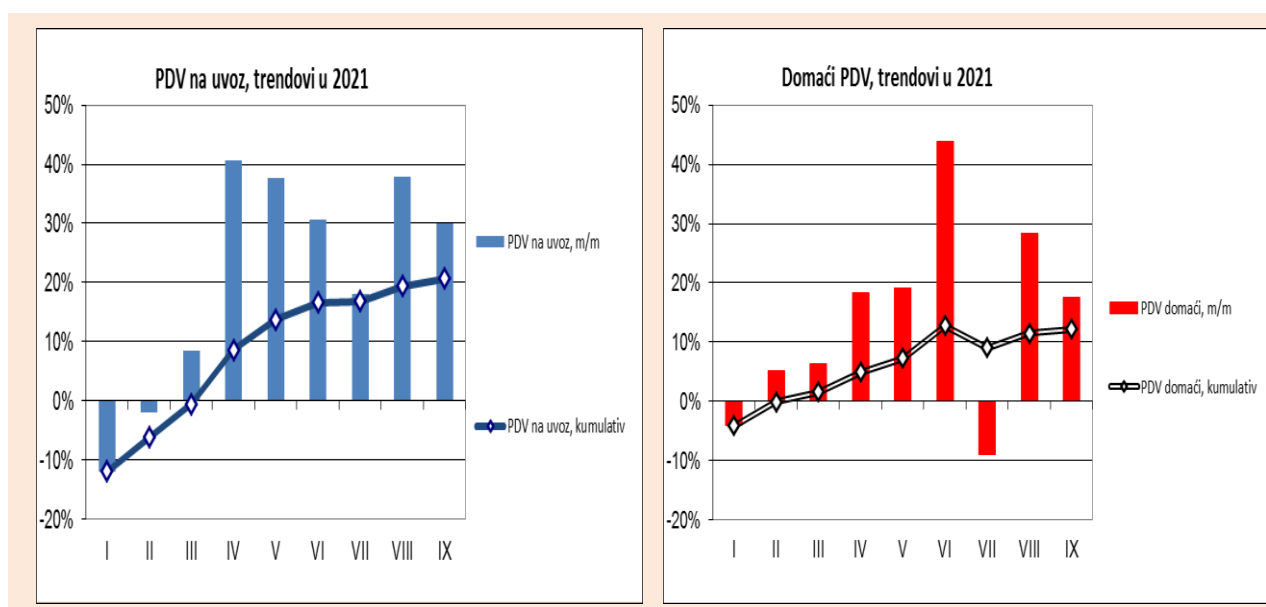
Figure 2.10. Cumulative VAT collection, January-September, VAT on import and domestic VAT, trends in 2021.



Source: BiH ITA, OMA calculation

The analysis of the development of the VAT gross collection structure in September 2021 shows the continuation of positive trends in both components. The collection of VAT on import in September was by 30.1 per cent higher, which increased the cumulative growth at the level of nine months to 20.7 per cent (Figure 2.11, "VAT on import-cumulative").

Figure 2.11. VAT on import and domestic VAT, trends in 2021 (Q/Q)

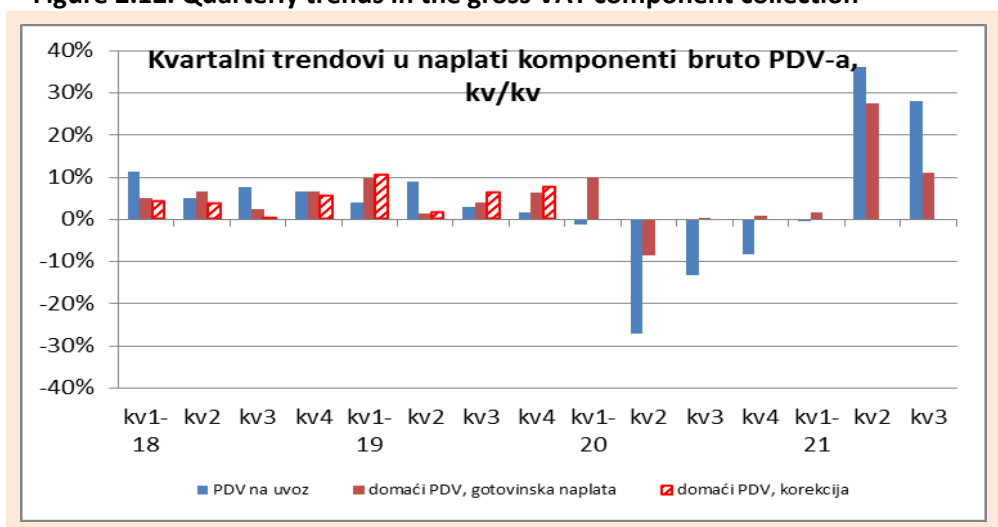


Source: ITA BiH, OMA representation

In September 2021, the trend of stable growth of domestic VAT continued, and lasted continuously for the entire 2021, with the exception of January and July. In September, the collection of domestic VAT was by 17.6 per cent higher, which additionally increased the cumulative growth rate to 12.2 per cent (Figure 2.11, “domestic VAT”).

The overview of three-month developments (Figure 2.12), shows a weak recovery of domestic VAT in the fourth quarter of 2020 and the first quarter of 2021, while the VAT collection on import was in the negative growth zone for five consecutive months. However, the trends strongly improved in the second quarter. The import VAT growth rates in the second quarter were at the level of 36 per cent, and those of domestic VAT 27.6 per cent in comparison to the collection in the same quarter of 2020. The rates slowed down in the third quarter, but the growth rates remain high above all other projections, where the import VAT is 28.1 per cent and domestic VAT 11.1 per cent. In each case, the domestic VAT growth rates are far above the 2021 spending projections.

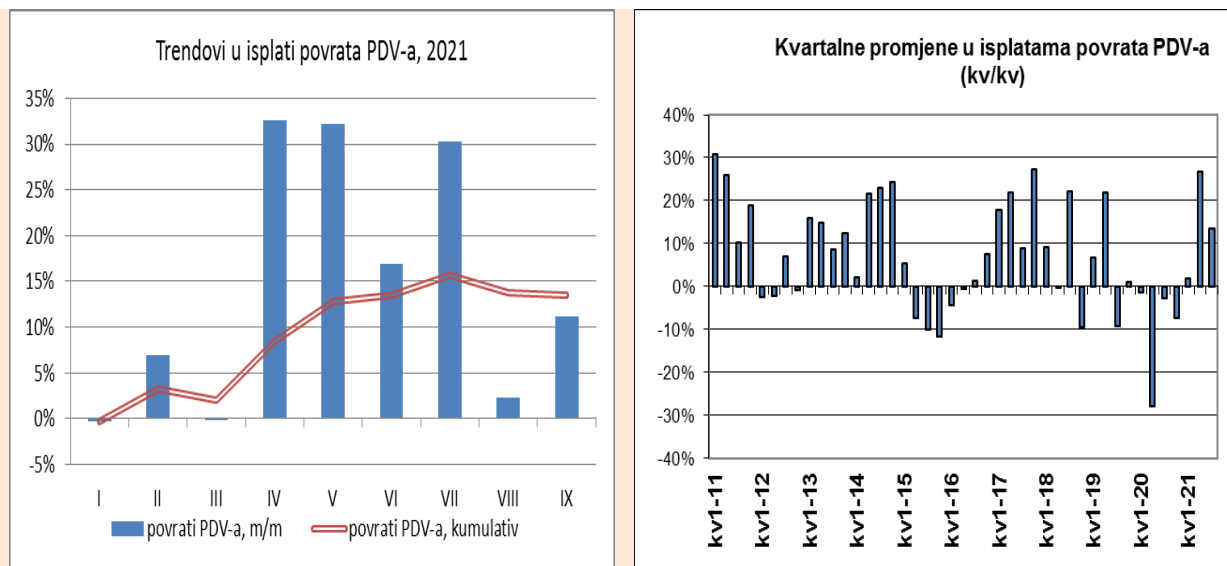
Figure 2.12. Quarterly trends in the gross VAT component collection



Source: ITA BiH, OMA representation

In September 2021, there was a significant growth of the VAT refund at the rate of 11.2 per cent as the result of export and import in the third quarter of 2021, of the import in July. Due to a somewhat lower growth of refunds in August, total payments in the last two months were reduced, while the cumulative increase, in comparison to the refunds in 2020, was at the rate of 13.5 per cent (Figure 2.13, representation on the left, “VAT refund, cumulative”).

Figure 2.13 Refund payment trends



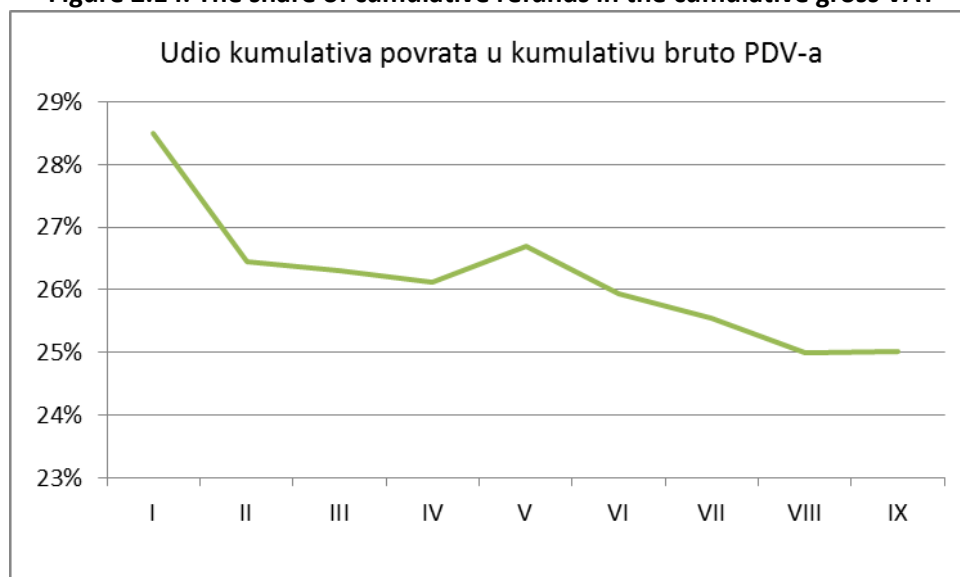
Source: ITA BiH, OMA representation

The three-month comparison shows the growth of productivity in 2021. In the first, second and third quarters, the growth rate was 2, 26.9 and 13.5 per cent, respectively, all due to the decreased payments in August (Figure 2.13, representation on the right).

The analysis of the returns structure showed the downturn in payment of refunds to tax payers at the rate of 14.6 per cent or 124.2 BAM in the previous nine months. When it comes to returns to international organisations and projects, the slowing down trend recorded in previous months continued, and the growth at the level of 8.7 per cent or nominally 8.4 million BAM was recorded at the level of nine months.

The gross VAT collection increases with the increase in refunds, but the faster growth of gross collections somewhat neutralises the increase in refunds. This is shown by the indicator of the share of return in gross VAT collection, which amounted to 25 per cent, which is by 0.8 percentage points less than in comparison with the same period of 2020. Figure 2.14 shows the trend of decreasing share of refund in gross VAT, which has a positive result in the growth of net VAT.

Figure 2.14. The share of cumulative refunds in the cumulative gross VAT

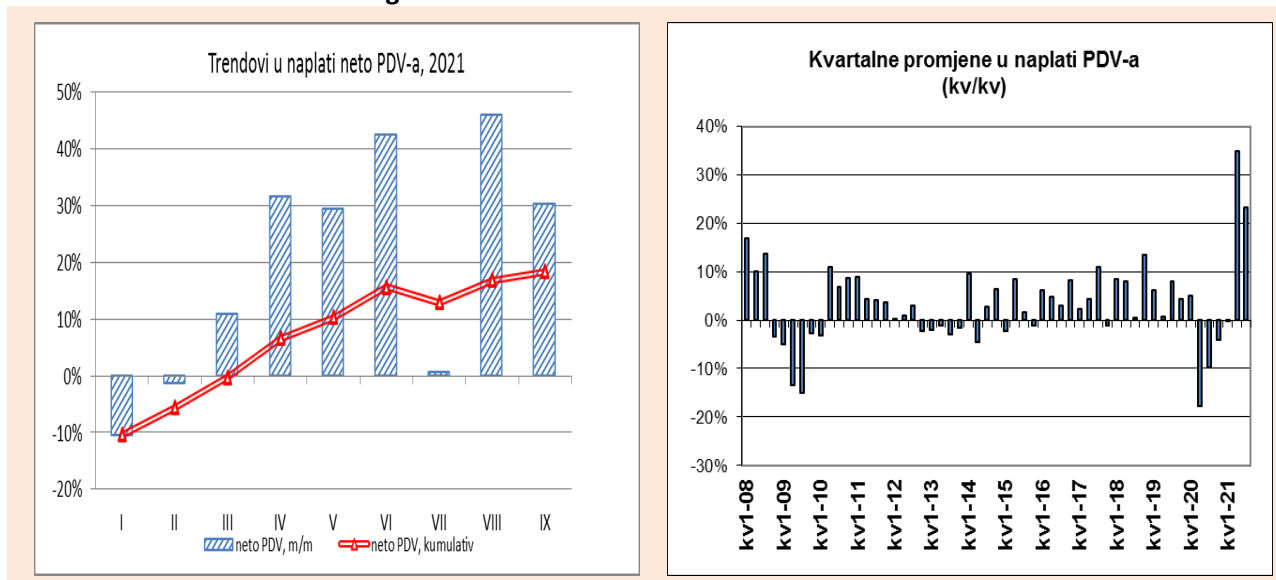


Source: ITA BiH, OMA representation

In September 2021, net VAT grew strongly, at the rate of 30.4 per cent, whereby the cumulative growth rate in the period between January and September 2021 increased by 18.4 per cent (Figure 2.15 on the left). The comparison of the nominal net VAT collection shows an increase in the first nine months 2021 in comparison with the nominal collection in the previous years in the same period. In observing the VAT collection, it may be concluded that this is the maximum that has been achieved from the introduction of VAT (see Figure 2.10).

Three-month comparisons show a strong recovery of net VAT in the second quarter of 2021 at the rate of 35 per cent, following the negative growth rates in four consecutive quarters (Figure 2.15, on the right). In the third quarter, the three-month net VAT growth rate was 23.3 per cent, and after the final adjustment of the unadjusted revenues, higher net VAT growth rates may be expected.

Figure 2.15. Net VAT collection trends

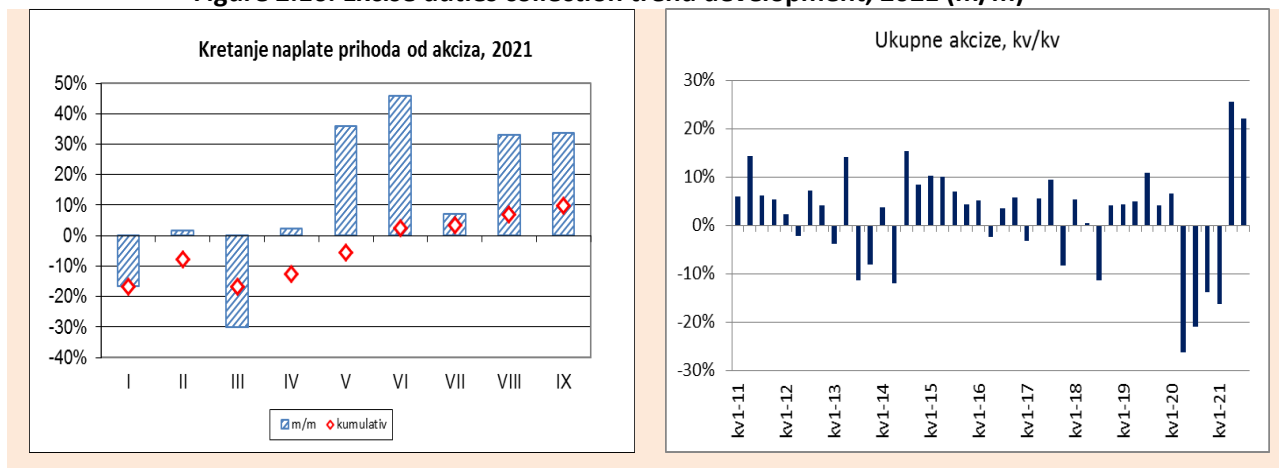


Source: ITA BiH, OMA representation

Excise duties and pay toll

The positive trend in the collection of revenues from excise duties, which started in May (Figure 2.16), continued in September. In September, the collection of domestic VAT was by 33.6 per cent higher, which additionally increased the cumulative growth rate to 9.7 per cent (Figure 2.16, “cumulative”). The oscillating trend in the collection of excise duties in 2021 is largely a consequence of the statistical basis from the same period of 2020, which, in the case of excise duties on oil derivatives was lower, as the result of the decreased spending due to the pandemic. When it comes to the excise duties on tobacco products, the basis was higher in March and April 2020 due to a significant take over of excise duty stamps.

Figure 2.16. Excise duties collection trend development, 2021 (m/m)



Source: ITA BiH, OMA representation

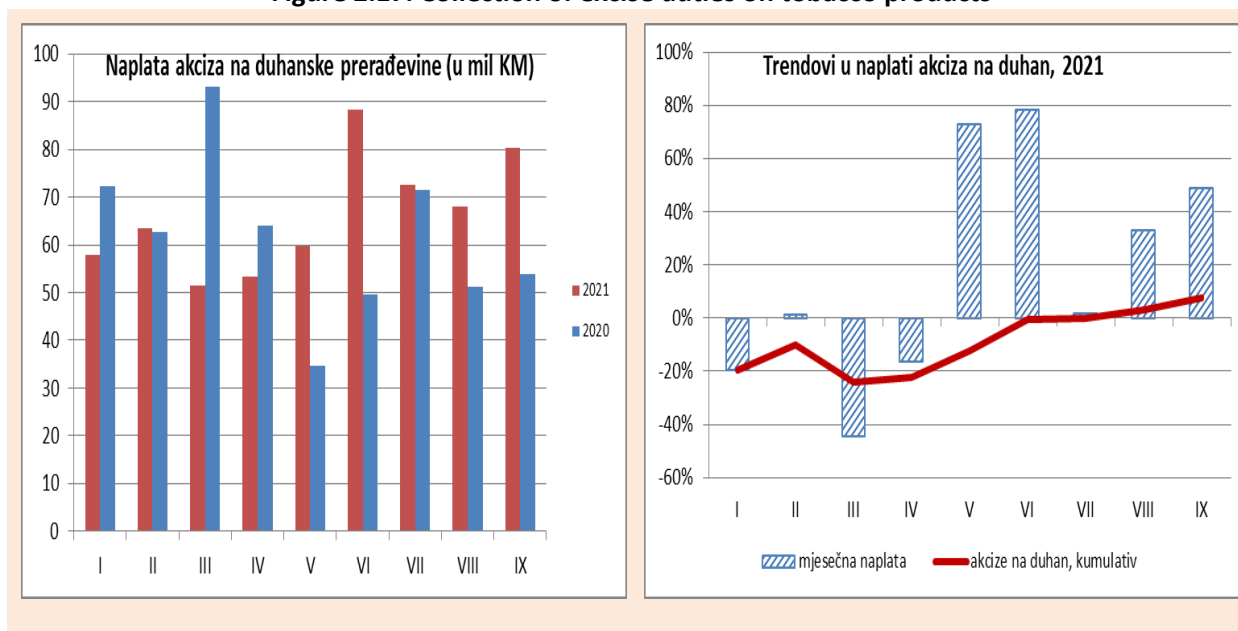
Three-month comparisons (Figure 2.16, on the right) indicate negative trends in the collection of excise duties, from the second quarter of 2020 to the first quarter of 2021. While other types of indirect taxes show simultaneous improvement of collection during 2020 and the first quarter of 2021 in case of smaller reduction of collection and modest growth, this was not the case with excise duties. The doubts related to the collection of excise duties were very high in the three quarters of 2020, continuously, while the same trend continued in the first quarter, when a reduction was recorded at

the rate of 16.7 per cent. The recovery of the collection of excise duties in the last five months brought the increase at the level of the second quarter at the rate of 27.5 per cent, and 23.6 per cent in the third quarter.

In September 2021, a very high increase in the collection of excise duties on tobacco products, as well as the increase of excise duties on coffee, oil derivatives, non-alcoholic beverages and wine. On the other hand, the reduction of revenues is achieved in the collection of excises duties on alcohol, alcoholic beverages and excise duties on beer.

The main reason behind the oscillating trends in the collection of excise duties are the excise duties on tobacco products, the collection of which depends in the sale plans of several large foreign tobacco companies. In comparison with September 2020, the collection rate in September 2021 was 48.8 per cent, whereby the cumulative growth rate was increased to 7.7 per cent (Figure 2.17, representation on the right). One of the reasons of oscillatory developments of the collection of excise duties represents a statistical basis for the comparison of collection of excise duties on tobacco products, which was very low within the first five months of 2020 (see Figure 2.17, the representation on the left). The second reason behind the increase of the revenues from excise duties on the recovery of spending of non-residents (diaspora, tourists, BiH citizens temporarily working abroad) due to more liberal measures when entering BiH during the summer season, in comparison with the restrictive measures of the EU in BiH in the summer season 2020 which restricted the entry of non-residents in BiH.

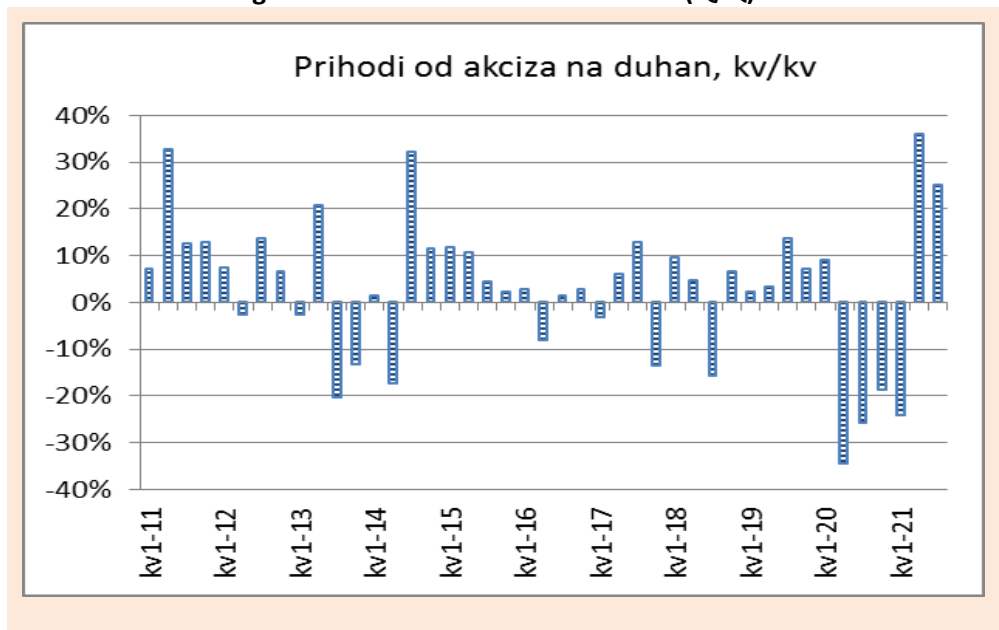
Figure 2.17. Collection of excise duties on tobacco products



Source: ITA BiH, OMA representation

Quarterly comparisons of the development of the collection of excise duties on tobacco (Figure 2.18) indicate trends similar to the collection of total excise duties, negative growth in the three quarters of 2020 and the first quarter of 2021. (-24.2 per cent), with negative rates very high and enormous growth in the second quarter of 2021 at the rate of 36 per cent, and 25.1 per cent in the third quarter.

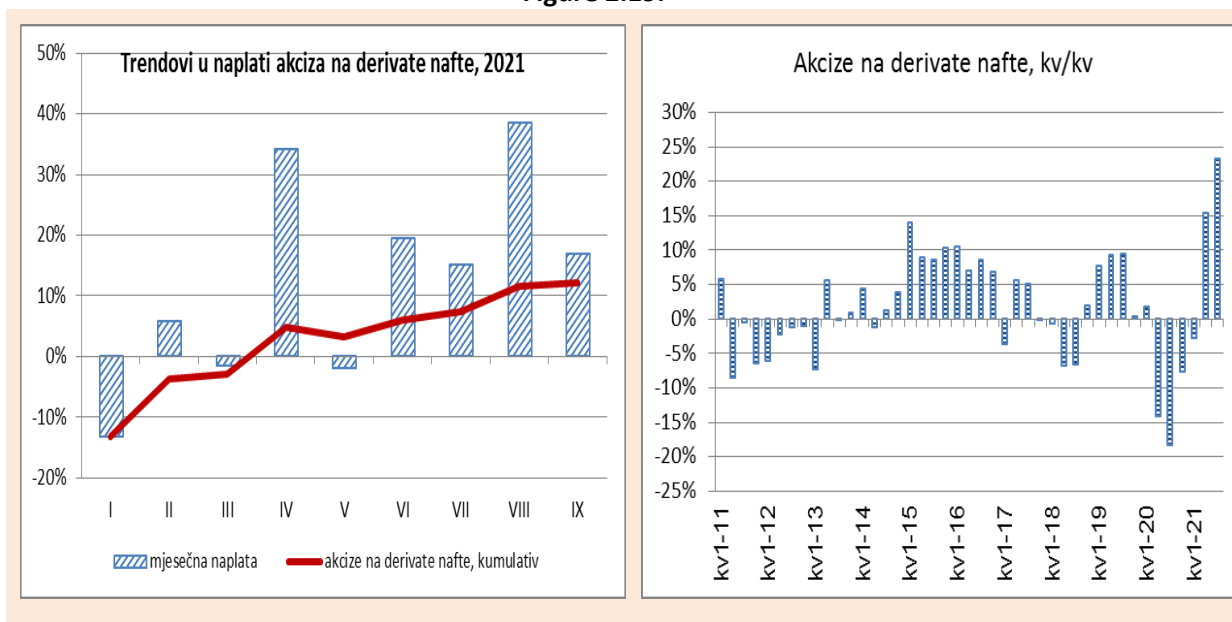
Figure 2.18. Excise duties on tobacco (Q/Q)



Source: ITA BiH, OMA representation

In September 2021, a high growth of the collected revenues from excise duties on oil derivatives was recorded at the rate of 16.9 per cent, which improved the cumulative developments, whereby at the level of nine months of 2021, the revenues from excise duties on oil derivatives increased by 12.2 per cent. (Figure 2.19., representation on the left). Such a high growth was surprising in view of the growth of global oil prices. With the increased spending of non-residents, one of the growth factors was the increased cross-border spending with Croatia due to the higher retail sale oil derivative prices in Croatia (due to higher excise duties and higher VAT rates), and more liberal measures in the hospitality and entertainment industry in BiH in comparison with the restrictions in Croatia during the pandemic.

Figure 2.19.

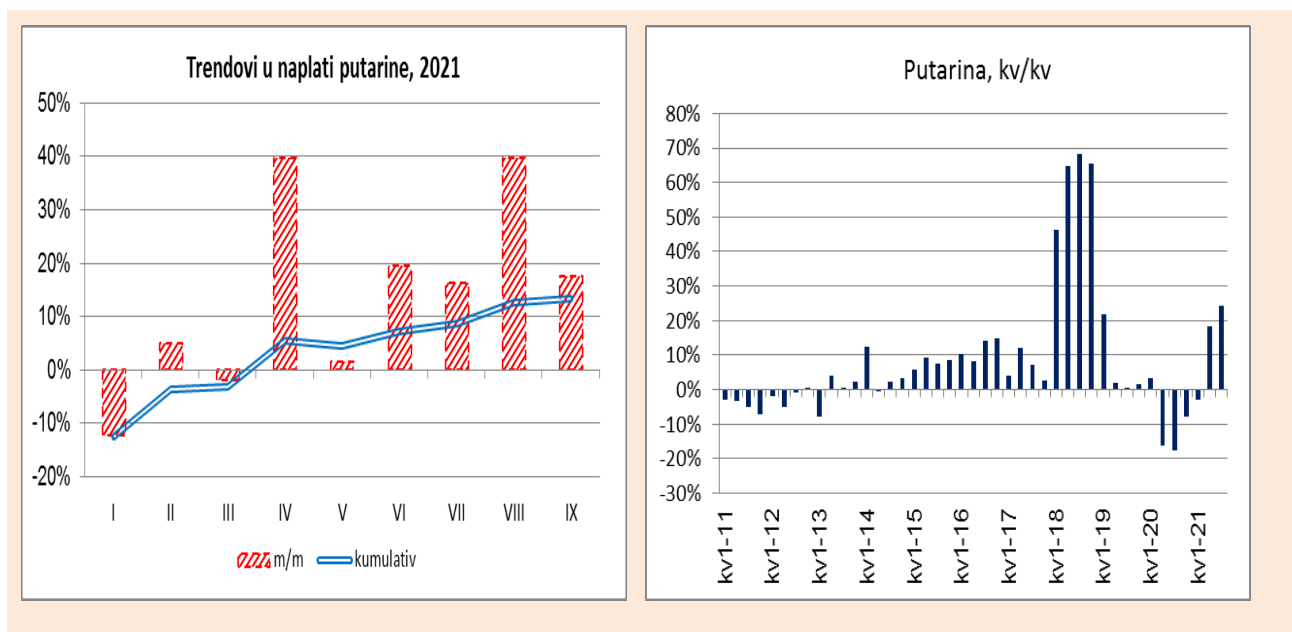


Source: ITA BiH, OMA representation

The monthly oil derivatives excise duties monthly collection trends oscillate in 2021. It is similar with the quarterly comparisons (Figure 2.19, representation on the right). After the three quarters of 2020 with negative trends, the first quarter of 2021 recorded a mild downturn in the collection of excise duties at the rate of 2.9 per cent. In the second and third quarter of 2021, the growth was 15.3 and 23.3 per cent, respectively.

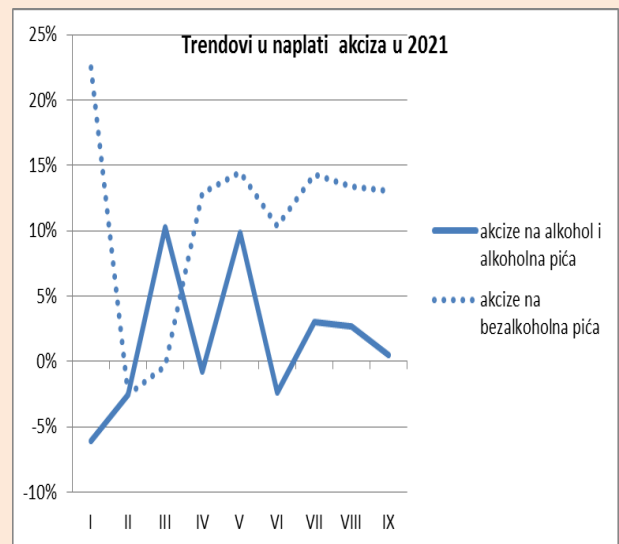
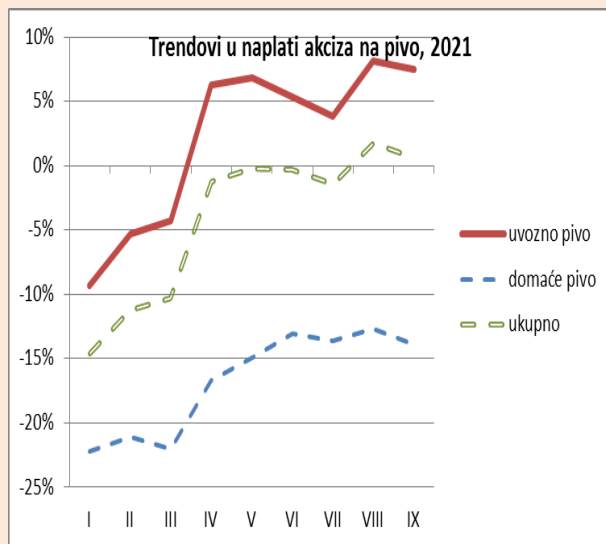
Similar to the trends in the collection of oil derivatives, the revenues from pay tolls in September recorded the growth at the rate of 17.4 per cent (Figure 2.20, representation on the left), while the cumulative growth at the nine-month level amounts to 13.4 per cent. After three negative quarters of 2020, the negative trends continued in the first quarter of 2021, with a mild reduction of revenues from pay tolls at the rate of 3.1 per cent, while the second and the third quarter recorded a growth at the rate of 18 and 24.2 per cent, respectively (Figure 2.20, representation on the right).

Figure 2.20. Collection of pay toll revenues



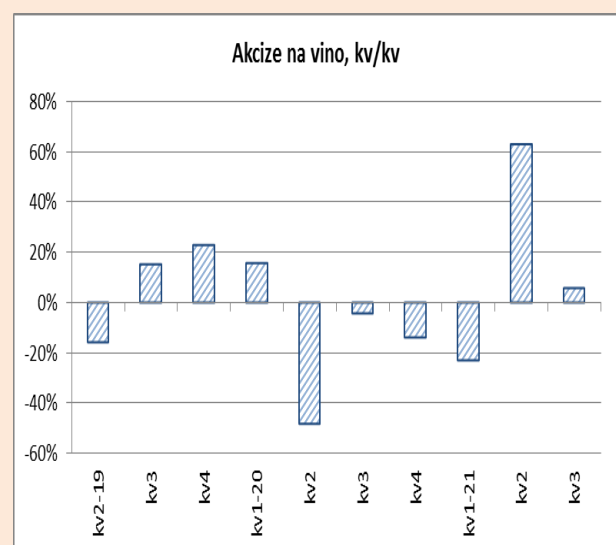
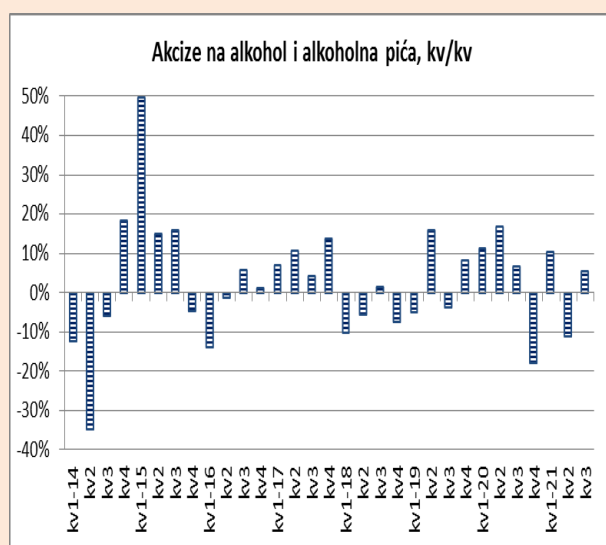
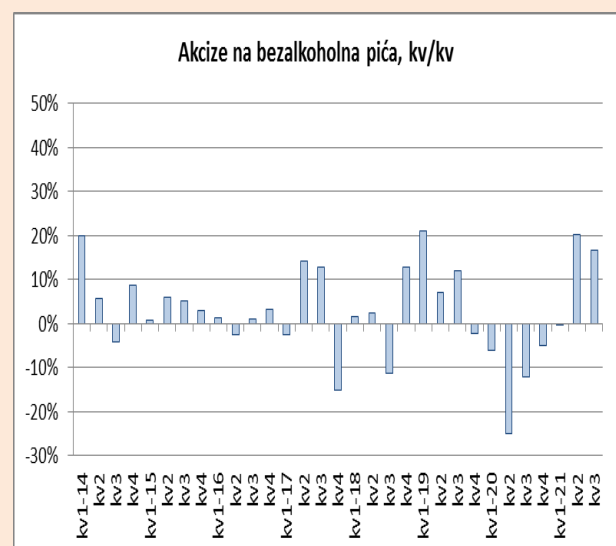
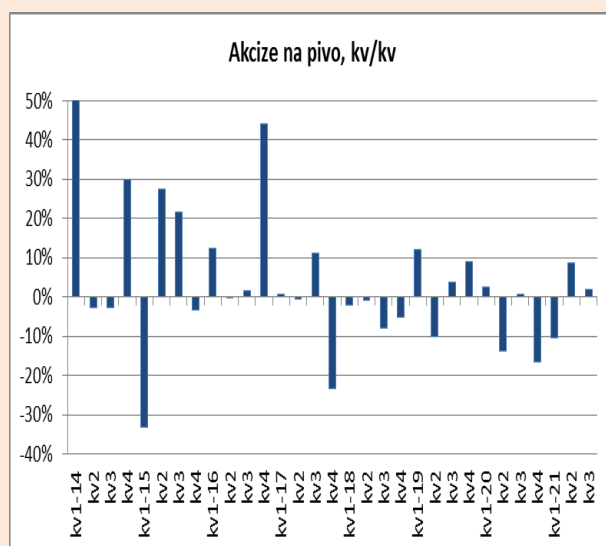
Source: ITA BiH, OMA representation

Figure 2.21. Trends in the collection of excise duties on beer, alcohol and alcoholic beverages, and excise duties on non-alcoholic beverages



Source: BiH ITA, OMA representation

Figure 2.22. Revenues from excise duties on beer, non-alcoholic beverages, alcohol and alcoholic beverages and wine



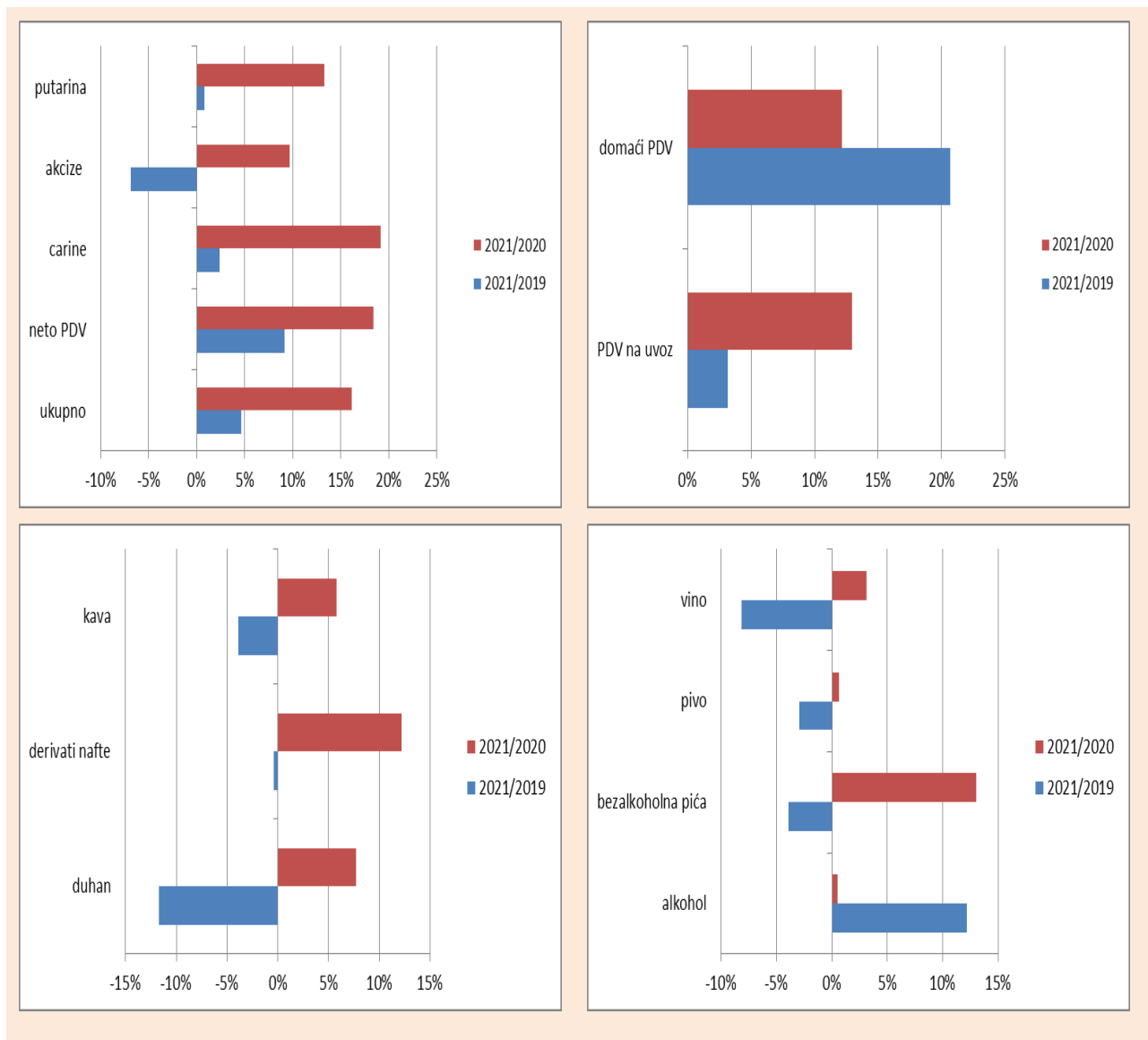
In September, a positive trend was recorded in the collection of revenues from excise duties on non-alcoholic beverages and wine. The collection of excise duties on alcohol and alcoholic beverages was reduced, and this almost annulled the cumulative growth (Figure 2.21, representation on the right). However, the reduction of excise duties on domestic beer was compensated with the increased collection of excise duties on import beers, where the final result was a modest growth of the collection of excise duties on beer at the rate of 9.6 per cent at the level of nine months (Figure 2.21, representation on the left).

When it comes to three-month developments of the collection of excise duties on beer, wine and non-alcoholic beverages, the first quarter of 2021 brought a downturn in the collection of excise duties, while the second and third quarter recorded positive trends. On the contrary, the collection of excise duties on alcohol and alcoholic beverages grew in the first and the third quarter of 2021, while the second quarter saw a downturn which annulled the positive trends in the other two quarters (Figure 2.22).

Comparison with 2019.

Due to the negative effects of the COVID-19 pandemic to the collection of indirect taxes, 2020 cannot be a reference year for comparison. In order to adopt conclusions on the recovery of collection in 2021, it is necessary to compare the collection with the record year of 2019 (Figure 2.23).

Figure 2.23. Comparison of the collection of revenues by types with the collection in 2020 and 2019



Source: BiH ITA, OMA representation

The total net collection of revenues from indirect taxes for the first nine months is by 4.4 per cent higher than the collection in the same period of 2019. The main source of growth is VAT, while the decomposition of the excess VAT shows that, in comparison with 2019, a positive trend was recorded in the collection of VAT on import and collection of domestic VAT, whereby the growth of domestic VAT in comparison with 2019 was a record, and even higher than in comparison with 2020. More modest growth rates in comparison with 2019 were recorded in the collection of revenues from customs and pay tolls, while the collection of excise duties in 2021 is still below the collection in 2019. (Figure 2.23, illustrations above).

Decomposition of revenues from excise duties by types of products shows that only the collection of excise duties on alcohol and alcoholic beverages recorded a positive growth in comparison with 2019, which is negligible. The collection of other subtypes of excise duties is lower when compared to 2019, especially in terms of excise duties on tobacco products, which, in view of the amount, determines trends to a large extent (Figure 2.23, representation below).

Indirect taxes revenues projections

Projections of revenues for the period from 2021 to 2024 are available in Table 2.2 In order to ensure comparability of the 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 2.2 Projections of revenues from indirect taxes in million BAM (2021-2024), April 2021

Type of revenues (net)	in million BAM					Projected growth rate			
	Performance	Projection							
	2020	2021	2022	2023	2024	2021	2022	2023	2024
VAT	3,748.5	4,353.9	4,477.4	4,590.1	4,722.0	16.1%	2.8%	2.5%	2.9%
Excise duties	1,303.5	1,454.5	1,491.4	1,527.5	1,566.7	11.6%	2.5%	2.4%	2.6%
Custom duties	262.2	307.2	329.0	352.4	382.0	17.2%	7.1%	7.1%	8.4%
Pay toll	583.7	657.9	680.2	704.1	730.1	12.7%	3.4%	3.5%	3.7%
Other	32.3	37.4	37.4	37.4	37.4	15.6%	0.0%	0.0%	0.0%
TOTAL	5,930.3	6,810.9	7,015.5	7,211.4	7,438.2	14.8%	3.0%	2.8%	3.1%
Designated pay toll *)	-364.7	-411.2	-425.2	-440.0	-456.3	12.7%	3.4%	3.5%	3.7%
FUNDS FOR DISTRIBUTION	5,565.6	6,399.7	6,590.4	6,771.3	6,981.9	15.0%	3.0%	2.7%	3.1%

Note:

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

Table 2.3 Projections of revenues from indirect taxes in % of GDP (2021-2024), October 2021

Type of revenues (net)	in % of GDP				
	Performance	Projection			
	2020	2021	2022	2023	2024
VAT	10.6%	11.8%	11.6%	11.4%	11.3%
Excise duties	3.7%	4.0%	3.9%	3.8%	3.7%
Custom duties	0.7%	0.8%	0.9%	0.9%	0.9%
Pay toll	1.6%	1.8%	1.8%	1.8%	1.7%
Other	0.1%	0.1%	0.1%	0.1%	0.1%
TOTAL	16.7%	18.5%	18.2%	18.0%	17.7%
Designated pay toll	-1.0%	-1.1%	-1.1%	-1.1%	-1.1%
FUNDS FOR DISTRIBUTION	15.7%	17.4%	17.1%	16.9%	16.7%

GDP data source: BHAS, September 2021 and DEP projections, September 2021

Projections for 2021

In the process of preparation of the projections of revenues for 2021, one cannot rely on the seasonal scheme of collection of revenues from 2020, as this was outside all earlier framework because of the corona virus effects. The range of the monthly revenues growth rates in 2020 was wider than ever,³⁹ from +10.1 per cent in February to -33.3 per cent in May.⁴⁰ In the first months of 2021, the negative trends from the previous year were continued, while the revenues growth rates ranged between -11.1 per cent in January to stagnating periods in March, which indicates the recovery of collection. From April, the trend of strong monthly growth rates was recorded in all months, except in the month of July⁴¹, they ranged between 20 and 40 per cent (comparisons with the same month of the previous year; see Figure 2.4, representation on the right). The reasons behind these monthly oscillations in the monthly growth rates do not rest only in the collection of revenues in 2021, but also in strong oscillations in the basis - monthly collection in 2020. Net salary for the first nine months of 2021 was by 16 per cent higher when compared to the same period of the previous year. In accordance with the DEP projections, it is expected that nominal GDP growth rate will be 3.9 per cent in 2021. Bearing in mind all the stated specificities and huge dilemmas in view of the development of epidemiological situation in the country and the neighbouring countries, the projected rate of the growth of revenues from indirect taxes for 2021 is at the level of 14.8 per cent.

VAT

The analysis of the trends of collection in the current year indicates a strong recovery of revenues from VAT (see Part 1.3.2). In September 2021, net VAT grew very strongly at the rate of 30.4 per cent, which resulted with cumulative growth rate at the level of 18.4 per cent from January to September 2021. The projected amount of VAT revenues amounts to 4,353.9 million BAM, which is by 16.1 per cent higher than the results achieved in 2020. The projection is based on the historical seasonal scheme of collection of certain categories of VAT (which does not include data for the specific 2020), and developments and projections of macroeconomic indicators.

Excise duties and pay toll

The projected amount of excise duties in 2021 amounts to 1,454.5 million BAM, which is by 11.6 per cent higher than the results achieved in 2020.

The projected amount of revenues from pay toll is 657.9 million BAM, which is by 12.7 per cent more than what was achieved in 2020, while it is based on the current collection trends, historical seasonal collection scheme (which does not include data for the years characterised by certain specificities), macroeconomic indicators prognosis (DEP, September 2021), and trends in the derivatives spending developments.

Revenues from excise duties on oil derivatives and tolls

The previous years recorded strong changes on the oil derivatives market due to the effects of the Law on Excise Duties in 2017 (effective as of 1 February 2018)⁴². Between 2017 and 2019, there was a

³⁹ The exception is 2007, where the specificities in the basis year of 2006, when the VAT was introduced

⁴⁰ Comparisons with the same months in the previous year.

⁴¹ In July, certain growth of revenues was recorded, however not at this high rate.

⁴² Changes in the policy of excise duties on oil derivatives and tolls in 2017 pertained to the following: increase of the excise duty rate on heating oil, from 0.30 to 0.45 BAM/L; introduction of excise duty on bio-fuels and bio-liquids (0.30 BAM/L); increase in the rate of the dedicated toll, from 0.10 to 0.25 BAM/L (including separation of rates and funds by their purpose for motorways and other roads); and changes in the scope of the toll basis in view of inclusion of bio-fuels and bio-liquids and liquid oil gas for motor vehicles (*Official Gazette of BiH*, 91/17).

significant changes occurred in the structure of the basis of excise duties⁴³ on oil derivatives. Despite the lower excise duty rate (0.3 BAM/L), the high share of diesel in the basis, in addition to stable spending growth rates, resulted in this derivative generating the highest growth in view revenues from excise duties on derivatives in the period between 2017 and 2019. The component of unleaded gasoline spending (as well as its share in the excise duties basis) decreased and negatively affected the revenues growth rate in the stated period. The total basis for excise duties, i.e., the amount of taxed derivatives increased by only 1.5 per cent in the period between from 2017 and 2019. The corona virus pandemics caused further turbulences in the oil derivatives market. Quarantine and isolation, reduced private and business travelling, gathering restrictions, inter-city transportation and movement due to the curfew resulted in the loss of revenues from excise duties in the restrictions period. Consumption of food staples recorded a rigid downturn, while the consumption of numerous other goods (e.g. furniture) is expected to be partially compensated in the period following the relaxation of measures. On the other hand, a significant portion of oil derivatives consumption in the restrictions period was permanently lost and irreplaceable. In 2020, there has been a sharp downturn in the consumption of oil derivatives, whereby the consumption of diesel fuel dropped by 8.6 per cent, and of unleaded petrol for 19 per cent. The consumption of fuel oil decreased by 5.1 per cent.

The envisaged amount of net revenues from excise duties on oil derivatives for 2021 is 526.1 million BAM, which is 12.1 per cent in comparison with 2020. The projection, as was the case with pay toll, is based on the current collection trends indicating the collection (see Section 1.3.2), prognosis of economic recovers (DEP, September 2021), low basis in 2020 due to the portion of permanently lost consumption, and the prognosis of crude oil prices. In accordance with summer projections of the European Commission, the crude oil prices will amount to 68.7 USD per barrel on average, which is by 54 per cent more than in the previous year. It is expected that the prices in 2020 will stabilise at the level of 68.3 USD per barrel.⁴⁴

Excise duties on tobacco

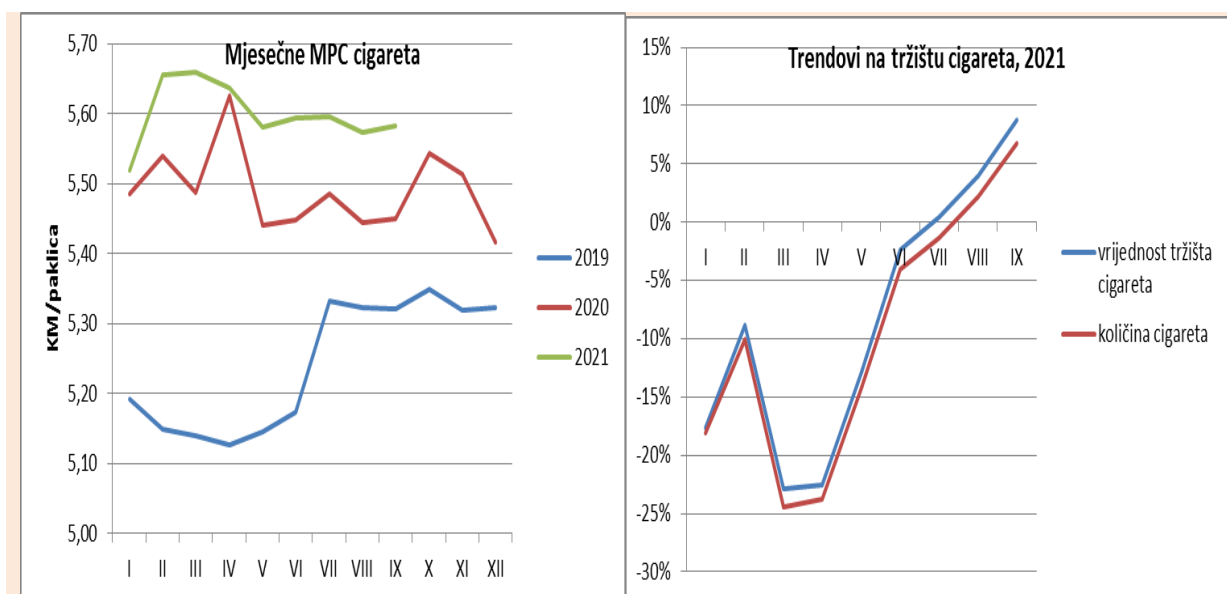
Although the excise duties policy of cigarettes taxation remained unchanged since 2019, tobacco companies continued increasing retail sale prices of cigarettes in 2021, on average by 1.8 per cent in the eight months in comparison with the average weighted price in 2020. The beginning of 2021 was marked by a sharp growth of prices, at the rate of up to 4.4 per cent on the monthly level in comparison with December 2020. (Figure 2.24, representation on the left⁴⁵). The reduction of the average price in the following four months, including the increased demand of non-residents during summer lead to the increased sale of cigarettes in the third quarter of 2021, both in terms of revenues from sale ("the value of the cigarettes market") and in terms of the quantity of cigarettes (Figure 2.24, representation on the right).

Figure 2.24. Monthly retail sale price of cigarettes and market trends

⁴³ The terms "basis" for excise duties and pay toll and "consumption" of derivatives implies quantities calculated by OMA. It includes the quantity of imported oil derivatives and bio-fuels and the quantity of marketed domestic derivatives and bio-fuels. The quantities in the excise duties reports were taken with a time delay, m-l, in order to correctly represent the basis in accordance with the provisions of the Law on Occurrence of Liability and Excise Duty Payment.

⁴⁴ European Economic Forecast, Summer 2021

⁴⁵ This is not the arithmetic mean of prices of cigarettes on the excise duties stamps issued in a certain month, but on the average monthly weighted retail sale price of cigarettes.



Source: BiH ITA, OMA representation

Bearing in mind the worsened epidemiological situation in BiH and the country being included on the “red EU list”, it cannot be expected for the measures to relax when it comes to the movement of non-residents and diaspora in BiH during New Year’s Holidays, and probably not before the next spring. On the other hand, strict restrictions imposed on restaurants and other entertainment industry activities in Croatia, including the difference in the prices of cigarettes and oil derivatives in BiH, encouraged increased cross-border spending by non-residents in the area of the border with Croatia in 2021, which is also reflected in the growth of revenues from excise duties on cigarettes. In those circumstances, it is expected that, by the end of the year, sale of cigarettes will be at the level of the average sale in the previous period, with maintaining the existing prices. Bearing in mind the stated estimations, it is expected that, in comparison with 2020, by 11.3 per cent more excise duties on tobacco products will be collected in 2021.

Custom duties

In accordance with the data provided by the BHAS, between January and August 2021, the import of goods in BiH increased by 22.6 per cent. During the preparation of the projections, data provided by the ITA were available, and in accordance with these, import grew by 34.8 per cent in September, where it resulted in the growth of import at the rate of 23.7 per cent at the level of the three quarters. Bearing in mind the trends of collection and developments of import, it is envisaged that the collection of customs in 2021 will amount to 307.2 million BAM, which is by 17.2 per cent higher than the collection in the previous year.

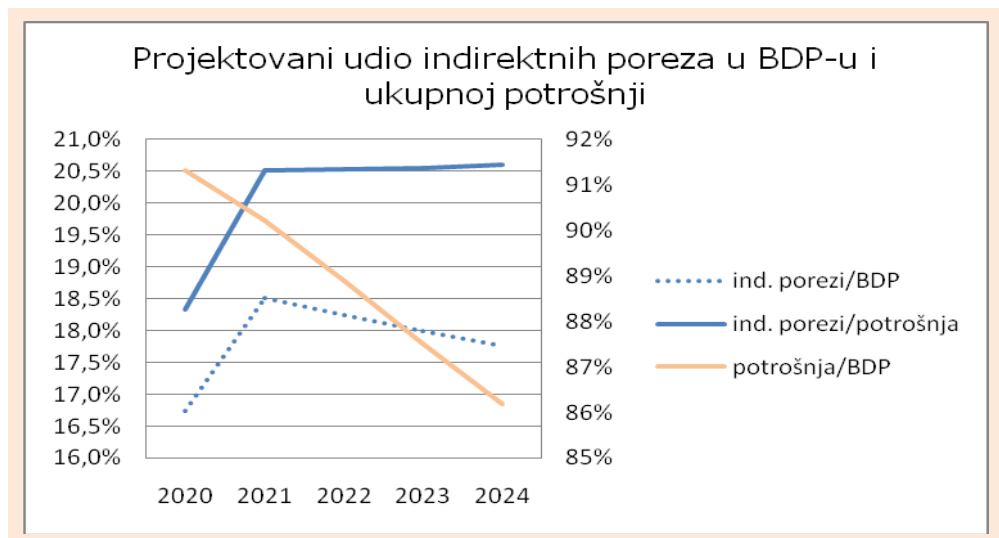
2022-2024 projections

The projected rates of growth of revenues from indirect taxes for 2022, 2023 and 2024 are 3.0, 2.8 and 3.1 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 2020.

Unlike the projected reduction of the share of indirect taxes in GDP between 2022 and 2024 (see Table 2.2, Part 2), projected share of revenues from indirect taxes (OMA) in spending (DEP) in the stated period is mildly growing, by only 0.1 p.p., from 20.5 per cent to 20.6 per cent. The reduction of the projected share of indirect taxes in GDP from 2022 to 2024 is the cumulative result of stagnation, i.e.,

negligible growth of the projected part of indirect taxes in consumption and projected reduction of spending in GDP (Figure 2.25).

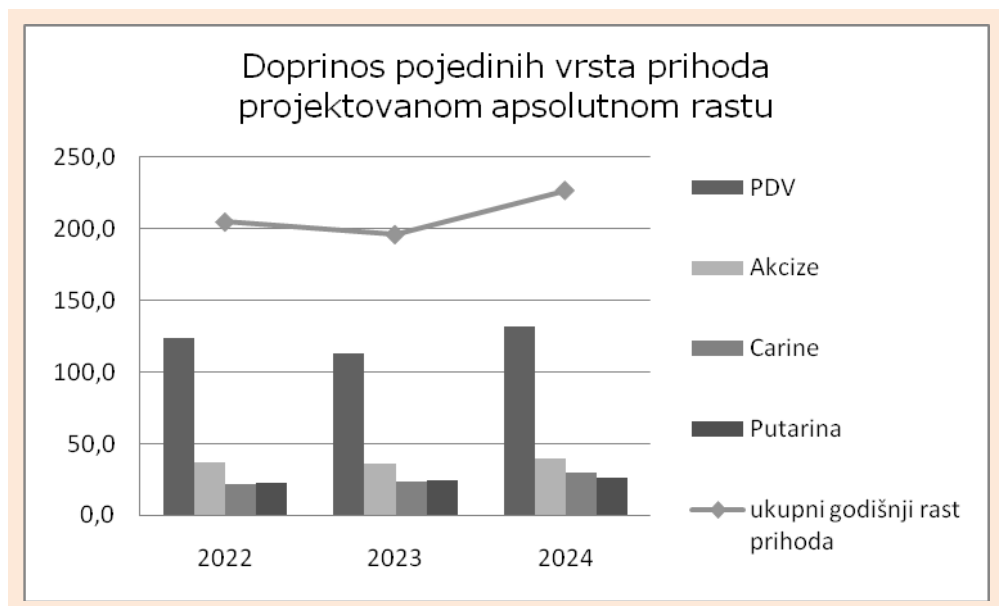
Figure 2.25. Projections of revenues from indirect taxes in % of GDP and % of total spending



Source: OMA revenues projections and projections of national accounts by DEP; OMA representation

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. This is followed by excise duties being the largest contributors to the absolute revenues growth. Revenues from pay tolls and custom duties contribute to the absolute growth on an approximately equal level (Figure 2.26).

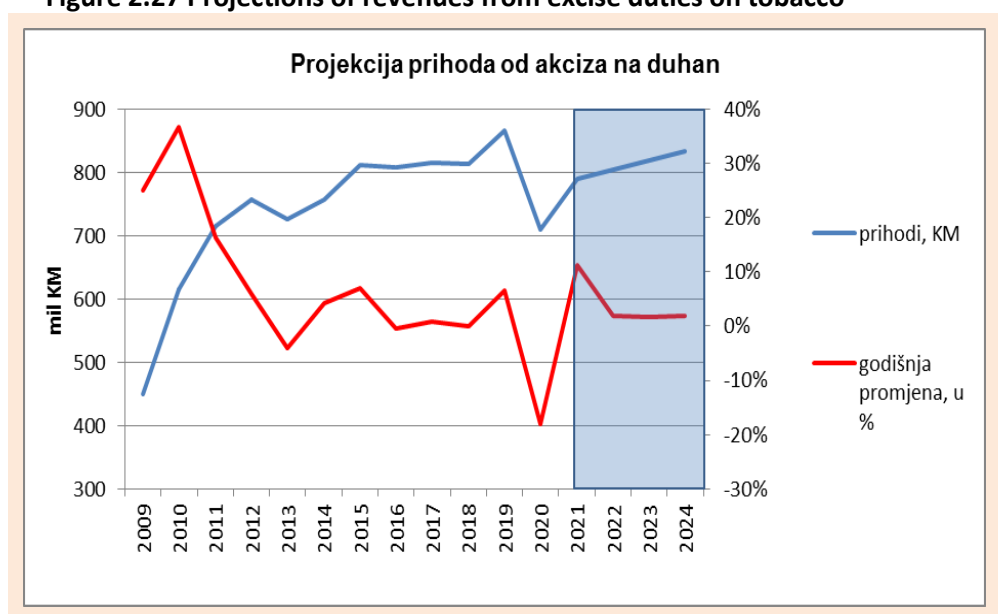
Figure 2.26. Contribution of certain types revenues to the absolute growth (in million BAM)



Source: OMA revenues projections

As it is expected that the cigarettes taxation policy will change in 2022, it is assumed that tobacco companies will increase the retail sale price of cigarettes to the level of growth in 2021, following the policy over the last three years. On the other hand, it is expected that the change of the smoking tobacco taxation policy in 2021, as the increase in the prices of cigarettes in 2021 generates higher average weighted price of cigarettes, which is, in terms of the previous methodology, the basis for calculation of more concrete excise duties on smoking tobacco in 2022⁴⁶, and thereby the reason increase the smoking tobacco prices. In such circumstances, it is possible that consumers smoking tobacco as replacement for cigarettes will return to smoking cigarettes, except in case of significant increase of the prices of cigarettes. However, this may also encourage people with lower income to give up on smoking more expensive tobacco and start buying tobacco and cigarettes on the black market. In any case, it is expected that the downward trend of the collection of revenues from excise duties on smoking tobacco will continue in the following years. In accordance with these estimates and provided there are no serious restrictions because of the corona virus pandemic which restricted the consumption of non-residents and domestic population, in addition to unchanged excise duties policy, it is expected that the value of the cigarettes market will follow the macroeconomic projections. Under the stated assumptions, it is expected that the excise duties on tobacco products will mildly grow in 2022, 2023, and 2024 by 2, 1.7 and 1.8 per cent (Figure 2.27). Important factor in the achievement of projections

Figure 2.27 Projections of revenues from excise duties on tobacco



Source: OMA revenues projections

Differences in comparison with previous projections

⁴⁶ The Law on Excise Duties prescribe the methodology of the calculation of specific excise duties on smoking tobacco based on the average weighted price of cigarettes and minimum excise duties on cigarettes. It is expected whether the ITA Governing Board will adopt a decision on the specific excise duties on smoking tobacco for 2022 will be adopted. In accordance with the preliminary calculations, the specific excise duties on smoking tobacco in 2022 should be by 2.5 per cent higher in comparison with the specific excise duties on smoking tobacco in 2021.

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.

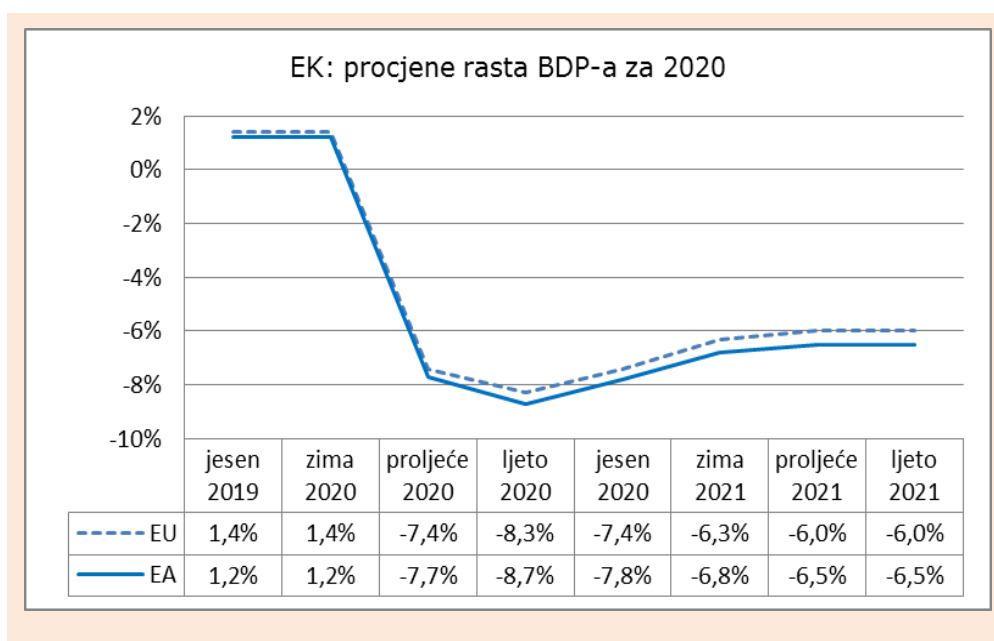
On the other hand, projections of macroeconomic indicators of DEP is founded on the projections of international institutions; therefore, here we will shortly present projections of the European Commission (EC) and the International Monetary Fund (IMF), and their review in the period prior to and after the outbreak of the corona virus pandemic.

Review of the projections of international institutions

Projections of the European Commission

The European Commission (EC) publishes projections for the EU and its members four times a year, entitled by the periods of the year in which they are published.⁴⁷ The EC Report from July 2020⁴⁸ states that the EU is facing the most severe recession from the Second World War and that, during the period of implementation of the strictest restrictions in 2020, the Euro zone economy operated with only 70 to 75 per cent of its capacity. In the latest summer projections, the EC estimates that GDP decreased by 6 and 6.5 per cent, respectively, in the EU and Euro zone in 2020. Although the reduction rate is high, it is still lower than the EC estimates from the period after the outbreak of the pandemic in 2020, when the estimated GDP downturn rates in the EU and the Euro zone for 2020 even exceeded 8 per cent (Figure 2.28).⁴⁹

Figure 2.28. EC estimates of the GDP growth for the EU and EA, 2020.



Source: OMA presentation based on the EC projections.

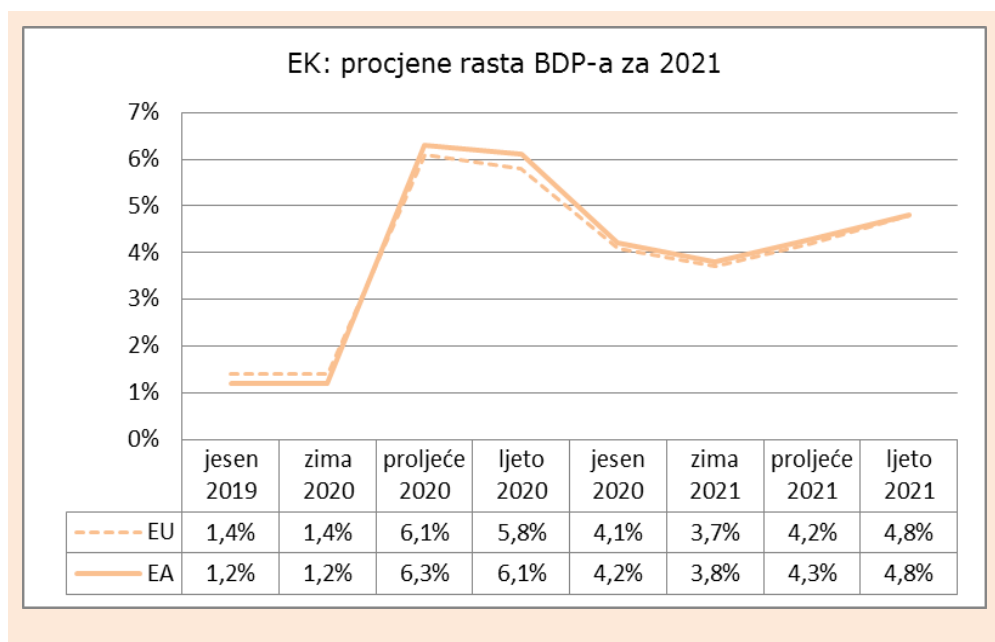
⁴⁷ Each year, the EC publishes two overall projections (spring and autumn), and two interim projections (winter and summer) <https://ec.europa.eu/>

⁴⁸ European Commission, European Economic Forecast, Summer 2020. - interim

⁴⁹ In their 2020 summer projections, it was projected that GDP will decrease by 8.3 and 8.7 per cent, respectively, in the EU and Euro zone.

In Figure 2.29, one can see the chronology of projected EU and Euro zone economy projected growth rates for 2021, prepared by the EC. The time of the preparation of projections and the projected GDP growth rate are represented on X and Y axis, respectively. The direction of the review of the GDP growth rates in the EU in 2021 alternated. From the low +1.4 per cent in the 2019 autumn projections, the projections of the GDP growth in the EU were gradually revised to the maximum of +6.1 per cent in the 2020 spring projections. Then they were again gradually decreased to 3.7 per cent in the 2021 summer projections, followed by the EC upward revisions after two years, to +4.2 per cent in the 2021 summer projections, and further to +4.8 per cent in the 2021 summer projections.

Figure 2.29. The EC estimates of the GDP growth for the EU and EA, 2021.



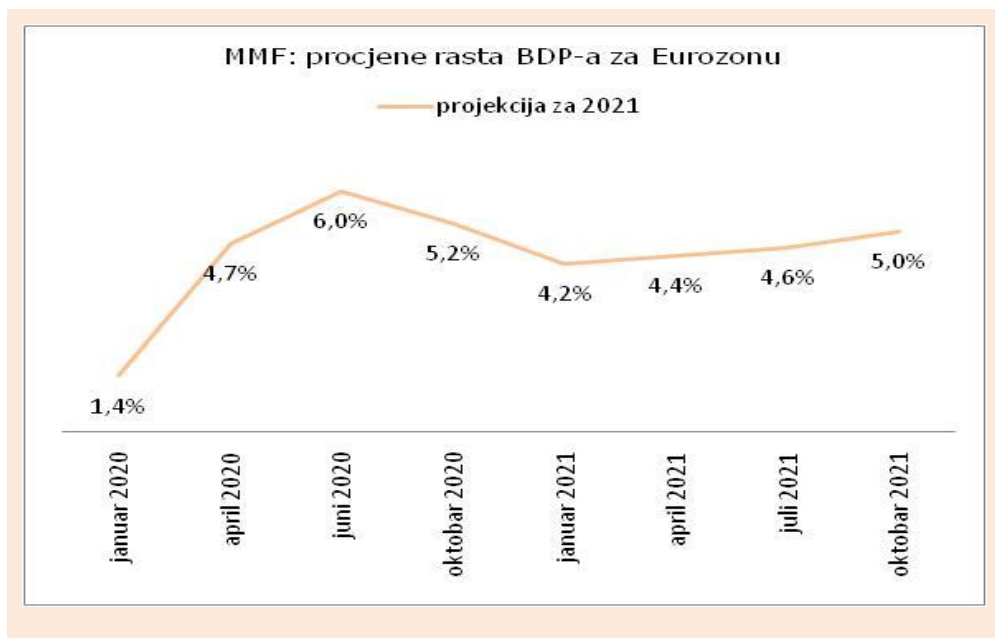
Source: OMA presentation based on the EC projections

Projections of the International Monetary Fund

The latest projections of the IMF date back to October 2021.⁵⁰ The October projections envisage the downturn of the global economy in 2020 at the rate of 3.1 per cent. In 2021, the projected growth rate of the global economy is 5.9 per cent. In accordance with the same projections, in 2020, the Euro zone achieved the real GDP decrease by 6.3 per cent, while it is expected that in 2021 growth will be achieved at the rate of 5 per cent. Figure 2.30 shows the revision of the IMF GDP projections for the Euro zone for 2021.

Figure 2.30. The IMF estimates of the GDP growth in Euro zone, 2021.

⁵⁰ IMF, World Economic Outlook, April 2021



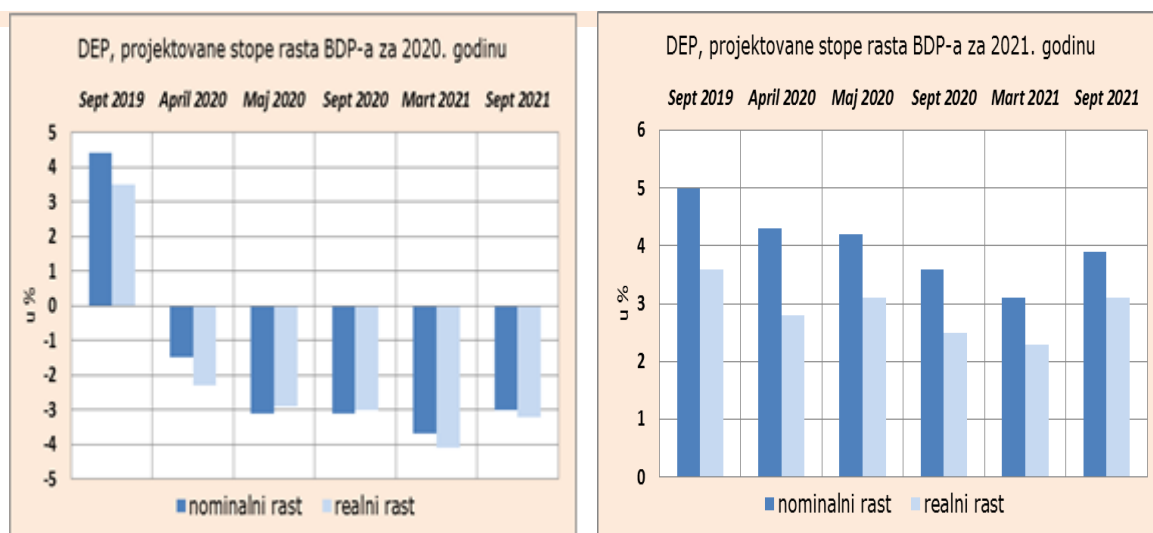
Source: OMA presentation based on the IMF projections

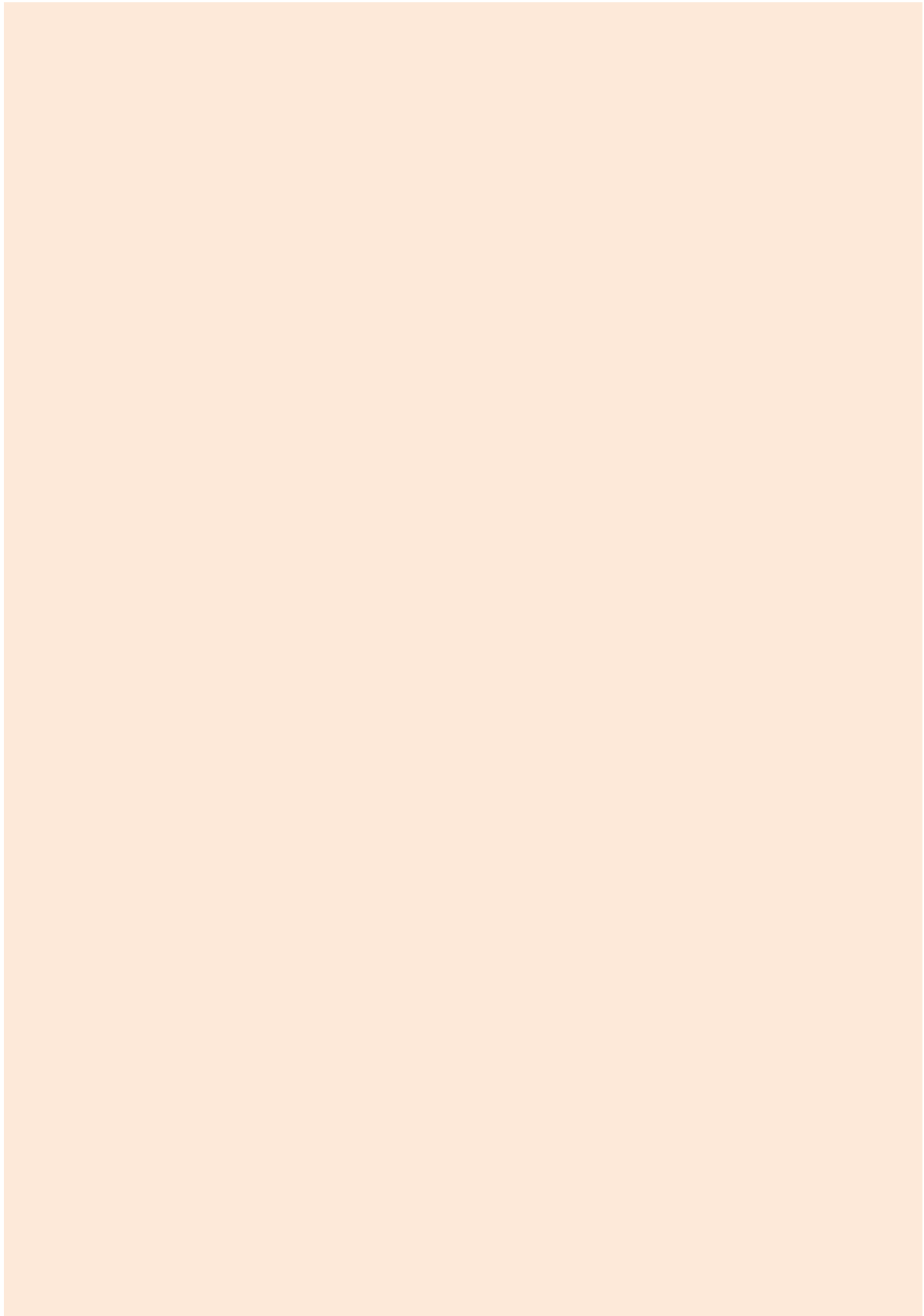
In accordance with the IMF projections from October 2021, Bosnia and Herzegovina 2020 achieved the real growth of the GDP by 4.3 per cent. For 2021 and 2022, the projected GDP real growth rates are 2.8 and 3.2 per cent, respectively.

DEP, revision of projections of macroeconomic indicators for BiH

Since September last year, DEP revised the 2020 macroeconomic indicators projections multiple times. Prior to the corona virus outbreak (projections from September 2019) for 2020, it was planned that the planned real GDP growth rate was 3.5 per cent. With the outbreak of the corona virus pandemic in April last year, DEP drastically lowered the GDP real growth rate for 2020 drastically, to -2.3 per cent. The projection was further revised in May, September and March 2021 to -2.9, -3.0 and -4.1 per cent, respectively. In the document of DEP's projections from September 2021, it is stated that, in accordance with the BHAS data in 2020, BiH recorded the real decrease of GDP by 3.2 per cent in comparison with the previous year.

Figure 2.31. DEP: latest and previous projections of GDP and components for 2020 (on the left) and 2021 (on the right)





Source: The presentation of OMA on the basis of DEP projections prepared between September 2019 and September 2021.

Figure 2.31 represents, on the left, the DEP's projections for 2020 prepared in the period from September 2019, before the corona virus pandemic and up to the latest projections from September 2021, in which data for 2020 are not projections, but official data on the achievement of

macroeconomic indicators, published by BHAS. The time of the preparation of the projection is given on x axis of the figure. Y axis of the figure represents the projected growth rates of GDP, import, export and spending. Corrections of GDP projections and its components in the previous period and their execution are clearly visible in the Figure.

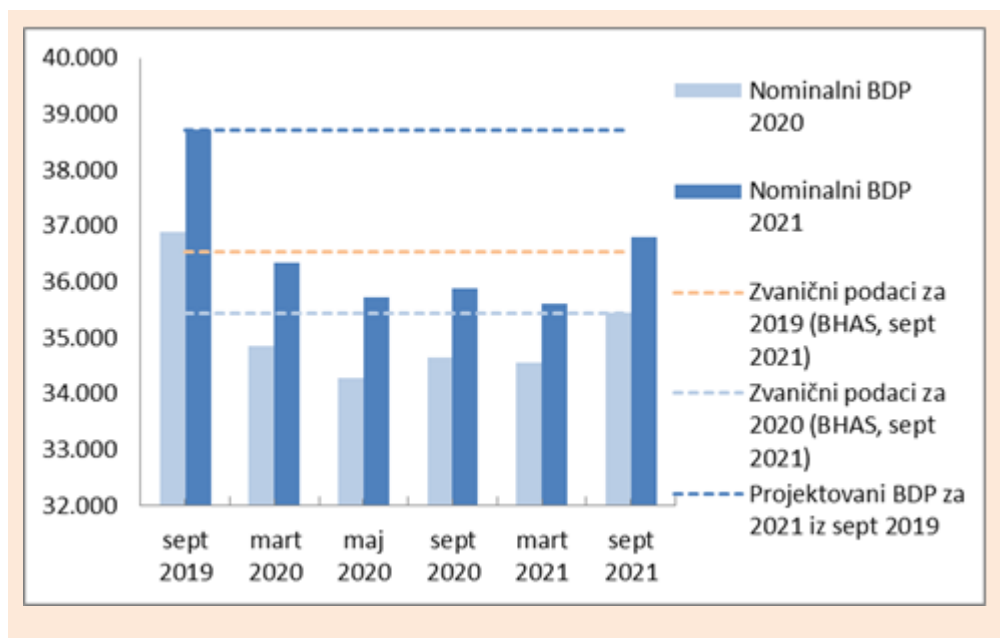
Revision of the 2021 GDP: comparison with the September 2019 projections

Unlike to 2020 projections, the projected growth rates of GDP and its components for 2021 were not that significantly revised in the previous period, except for the projected import and export growth rates (Figure 2.31, representation on the right). In the period of the preparation of the September 2019 projections (prior to the outbreak of the pandemic) from September 2021, the projections of the nominal GDP growth rates for 2021 were reduced by 1.1 p.p., while the projections of the real GDP growth rates were reduced by 0.5 p.p. In the period prior to the preparation of projections from April 2020 to March 2021, the projected import and export growth rates were not significantly revised, but were then strongly increased in September 2021 (Figure 2.31, representation on the right). However, if we observe the projections in their absolute amounts (Figure 2.32), it may be concluded that the projected amount of the nominal GDP for 2021 is significantly lower in September 2021 when compared to the projections of the same prepared in September 2019, as the consequence of a significantly lower basis, i.e., realisation in 2020. The achieved nominal GDP amount in 2020 is by 1.46 billion BAM below the amount for 2020 projected in September 2019.

Revision of the 2021 GDP: comparison with the September 2021 projections

In comparison with the projections from March 2021 (the previous DEP projections), the projections of nominal and real GDP growth rate for 2021 increased by 0.8 p.p.

Figure 2.32. Projections of the nominal GDP (DEP)



Source: The presentation of OMA on the basis of DEP projections prepared between September 2019 and September 2021.

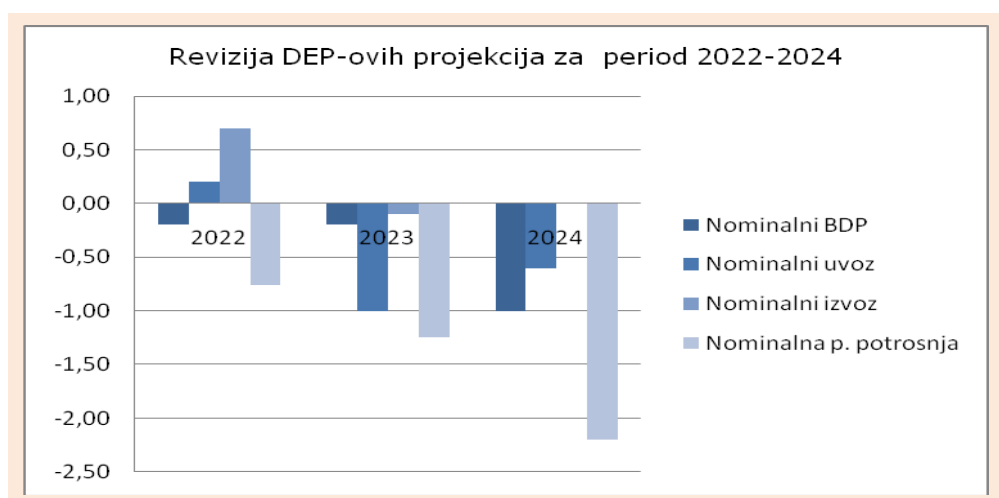
Note: The time of the preparation of projections and the projected GDP growth rate are represented on X and Y axis, respectively. Data for GDP for 2020 from the September 2021 projections represent official data of the BHAS, and not the projections.

In the absolute amounts, the projection of the nominal GDP amount for 2021 was increased by about 1.19 billion BAM, as the consequence of the higher achievement of the nominal GDP for 2020 (BHAS official data, September 2021) from the projected amount from March 2021 by about 0.88 billion BAM (Figure 2.32, orange dashed line).

Revision of the projections for the period from 2022 to 2024: comparison with the projections from March 2021.

In comparison with the projections from March 2021, the projections of the nominal GDP growth for 2022 and 2023 were mildly revised by -0.2 p.p., while the projection of the same indicator for 2024 was revised by -1 p.p. The revision of the GDP categories of importance for the preparation of the projections of revenues from indirect taxes is shown in Figure 2.33.

Figure 2.33. The differences between DEP projections from September and March 2021 for the period from 2022 to 2024.



Source: The presentation of OMA on the basis of DEP projections prepared in March 2021 and September 2021

OMA, revision of the indirect taxes revenues projections

In accordance with the current trends in the collection of revenues and the revision of projections of macroeconomic indicators (DEP), OMA continuously revises their projections of revenues from indirect taxes. Table 2.4 represents the differences of the projections in comparison with previous projections of the Department from April 2021.

Table 2.4 Differences in comparison with previous projections from April 2021

Figure Type of revenues (net)	Differences in comparison with previous projections			
	in million BAM			
	2021	2022	2023	2024
VAT	511.4	499.9	469.3	412.2
Excise duties	141.2	144.4	143.9	136.3

Custom duties	37.3	43.3	47.0	53.2
Pay toll	62.2	66.1	69.7	72.9
Other	5.1	4.9	4.7	4.5
TOTAL	757.3	758.7	734.6	679.1

Source: OMA projections (October 2021 and April 2021)

Revision projections for 2021

The projected growth rates of GDP and its components for 2021 were not that significantly revised in September in comparison with March, except for the projected import and export growth rates (Figure 2.31, representation on the right). Projections of nominal and real GDP growth rates for 2021 were increased by 0.8 p.p. each. In the absolute amounts, the projection of the nominal GDP amount for 2021 was increased by more than one billion BAM, as the consequence of the higher achievement of the nominal GDP for 2020 from the projected amount from March 2021 (see Figure 2.32).

In comparison with the OMA projections from April 2021, prepared on the basis of the then-projected nominal GDP and its components growth rate of 3.1 per cent (DEP, March 2021), the projected amount of the collection of indirect taxes for 2021 is now revised by 757.4 million BAM (Table 2.4).

The previous projections of indirect taxes (OMA, April 2021) were based on the collection trends up to March 2021, when the collected revenues from indirect taxes were by 4.2 per cent lower than in comparison with the same quarter of 2021. The first quarter was followed by a strong recovery of revenues, and at the level of the second quarter, the recorded growth was 31.5 per cent, while it amounted to 23.8 per cent in the third quarter. Although the previous projections were based on the historical seasonal collection scheme, excluding 2020 and its specificities, the strong growth of revenues above all expectations and above the projected GDP and consumption growth rates which occurred after the first quarter, is the result of the high revision of projections of revenues from indirect taxes.

Net revenues from VAT were revised upwards, by 511.4 million BAM. The most significant revision relates to the import VAT revenues, due to the high import growth rates which were significantly above the DEP's expectations in March 2021, and even those in September 2021. In accordance with the ITA data, import grew by 23.7 per cent in the first nine months of 2021. DEP's projection from March envisaged the nominal import growth rate at the 2021 level from 2021, at the level of only 4.8 per cent.

Net revenues from excise duties were revised by +141.2 million BAM. Projections that were revised the most are projections of revenues from excise duties on tobacco (+80 million BAM). The differences of revenues from excise duties on tobacco products are the consequence of the presumption that the sale of tobacco products will mostly reflect the domestic consumption of cigarettes, and it was not expected for the non-resident spending (diaspora, tourists, people in transit) to recover due to the measures which restricted movement during pandemic, as well as the restrictions related to bringing tobacco products to Croatia and other EU members. However, the current trends in the tobacco products market indicate the growth of the demand for cigarettes, and it may be concluded that the non-resident spending recovered, mostly because of more liberal measures for entering BiH and significantly better tourist season in BiH in 2021 when compared to 2020. Another reason is the increased cross border spending of non-residents from Croatia in hospitality facilities, night clubs and other entertainment facilities in the entertainment industry of BiH in the area bordering Croatia due to restrictive measures and restrictions imposed on the Croatian hospitality industry.

Because of the positive trends of collection which were above the expectations in April last year, and revision of DEP's projections, the revenues from excise duties on oil derivatives were revised by +47.2 million BAM, and revenues from excise duties on alcohol and beer by +8.2 million BAM. More moderate positive revisions were carried out in other excise duties categories (non-alcoholic beverages, coffee). Revenues from pay toll were revised by +62.2 million BAM.

Net revenues from customs duties were revised by +37.3 million BAM as the result of the growth of import which was above the expectations of DEP from March 2021 (Figure 2.31, representation on the right).

Revision of 2022-2024 projections.

Projections of revenues for 2022, 2023, and 2024 were revised by +758.7 million BAM, +734.6 million BAM, and +679.1 million BAM, respectively. The revision is the cumulative result of the basis corrections (2021), and growth of macroeconomic indicators for the stated period (Figure 2.33).

Risks

Bearing in mind many unknown facts at the moment of preparation of projections related to the strength and the duration of the shock caused by the corona virus pandemic, 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 unfavourable outcome are predominant.** Considering the basics of indirect taxes projections and total economic conditions in Bosnia and Herzegovina and globally, realisation of the projected level of revenues from indirect taxes between 2021 and 2024 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 states⁵¹ that the risks in achieving the stated projections might be classified into two groups, into foreign and domestic, whereby foreign risks are more certain and affect the economic growth in Bosnia and Herzegovina more. The global corona virus pandemic and new virus variants represent the highest primary risk to the achievement of the DEP's projections. External risks include possible prolongation of the crisis caused by corona virus and additional weakening of economic activity in the EU countries which would then reflect on the economic growth of BiH. As internal risks to the achievement of their projections, DEP states the complex decision-making process in BiH and slow implementation of structural reforms in the country. Likewise, they state that possible delays in the implementation of intervention measures due to the pandemic, partial implementation of the programme-envisaged structural reforms, as well as migration of young and educated people could endanger their projections of macroeconomic indicators.

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:

⁵¹ DEP, September 2021

- 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 tax payers become attractive fraud-wise.
- Changes in the policy of indirect taxation which may result in significant reduction of revenues, such as differentiated VAT and excise duties rate;
- Change in the regimen of the collection of excise duties on import tobacco products, the effects of which were especially shown below in Chapter II - Projections programme scenario.

I) THE INDIRECT TAXES PROJECTIONS PROGRAMME SCENARIO

The programme scenario of projections of indirect taxes implies amendments to the Law on Excise Duties in the area of tobacco products adopted by the ITA Governing Board⁵² and the Council of Ministers, and forwarded to the BiH Parliament for adoption⁵³.

Table 2.5 Programme scenario of the projections of indirect taxes for the period between 2021 and 2024, October 2021.

Vrsta prihoda (neto)	u mil KM						Projektovana stopa rasta			
	Izvršenje	Projekcija					2021	2022	2023	2024
	2020	2021	2022	2023	2024					
PDV	3.748,5	4.353,9	4.477,4	4.590,1	4.722,0		16,1%	2,8%	2,5%	2,9%
Akize	1.303,5	1.454,5	1.391,4	1.527,5	1.566,7		11,6%	-4,3%	9,8%	2,6%
Carine	262,2	307,2	329,0	352,4	382,0		17,2%	7,1%	7,1%	8,4%
Putarina	583,7	657,9	680,2	704,1	730,1		12,7%	3,4%	3,5%	3,7%
Ostalo	32,3	37,4	37,4	37,4	37,4		15,6%	0,0%	0,0%	0,0%
UKUPNO	5.930,3	6.810,9	6.915,5	7.211,4	7.438,2		14,8%	1,5%	4,3%	3,1%
Namjenska putarina	-364,7	-411,2	-425,2	-440,0	-456,3		12,7%	3,4%	3,5%	3,7%
Sredstva za raspodjelu	5.565,6	6.399,7	6.490,4	6.771,3	6.981,9		15,0%	1,4%	4,3%	3,1%

In order for the amendments of the Law to be applied, and after their adoption by the BiH Parliament, the ITA Governing Board implements the implementation provisions within 60 days, in accordance with the law. In this regard, even if the amendments to the Law are adopted in the remaining months of 2021, these will be applicable in the following fiscal year.

The amendments relate to the deadlines for calculation of the obligation for excise duties and excise duties payment deadlines. The effects of the implementation of new rules related to the excise duties payment deadlines are not significant when it comes to domestic tobacco products due to the low weighted value of domestic excise duties in the structure of total collected revenues from excise duties. However, the amendments to the Law have negative consequences on the dynamics of the down payment of excise duties on imported tobacco products. In applying the applicable provisions of the Law, at least month and a half elapses between the time of the take over of excise duties stamps

⁵² Amendments were adopted at the ITA Governing Board session held on 22 March 2021.

⁵³[http://static.parlament.ba/doc/143370_\(B\)%20Prijedlog%20zakona.pdf](http://static.parlament.ba/doc/143370_(B)%20Prijedlog%20zakona.pdf)

and payments of excise duties by importers, and the moment of the import of marked tobacco products. The change in the moment of the payment of excise duties on import tobacco products and the moment of paying the import duties, will result in an “empty” interval in the dynamics of the collection of excise duties on tobacco products of at least one month and a half from the moment of the implementation of the amendments to the Law.

The transition from the old to the new regimen of collection will result in big one-time losses of excised duties revenues. The statistical estimate of the loss of revenues from excise duties is based on the average monthly payment of excise duties on imported tobacco products in 2020. In accordance with the stated estimate, the loss of revenues from excise duties on tobacco products due to the change in the deadlines for payment for importers will amount to at least 100 million BAM, representing 1.5 p.p. of the projected growth in 2022 (see Table 2.5).

Losses may be even higher if the interval between the payment of excise duties on the occasion of the takeover of stamps and import is longer than one month and a half, and if the quantity of imported tobacco products increase in comparison with the basis year of 2021. Due to the large share of excise duties on tobacco products in total indirect taxes, the implementation of the Law may cause a smaller disturbance in the financing of the budgets of Entities and BD BiH.

FISCAL GOALS AND FISCAL POLICIES IN BIH

Public spending level and structure

Public expenditures level, as a part in GDP in the 2022-2024 period should be decreased with the aim of achieving a consolidated BiH public expenditures level below 40 per cent GDP.

Table 3.1 2021-2024 Total Public Expenditures in BiH (in million BAM)

Rashodi	2021.	2022.	2023.	2024.
Institucije BiH	1.022,4	1.069,3	1.057,9	1.070,4
Federacija BiH	9.982,2	10.213,9	10.478,9	10.781,8
Republika Srpska	5.454,9	5.493,7	5.279,0	5.231,3
Brčko Distrikt	266,5	256,0	262,2	270,9
Ukupno rashodi (konsolidovano)	16.726,0	17.032,9	17.078,0	17.354,4
BDP	36.806,0	38.447,0	40.094,0	41.907,0
Institucije BiH	2,8%	2,8%	2,6%	2,6%
Federacija BiH	27,1%	26,6%	26,1%	25,7%
Republika Srpska	14,8%	14,3%	13,2%	12,5%
Brčko Distrikt	0,7%	0,7%	0,7%	0,6%
Ukupno u BDP-u	45,4%	44,3%	42,6%	41,4%

Source: Calculations of the BiH Fiscal Council Counselling Group

Between 2022 and 2024, 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. Of course, the consequences of the global corona virus pandemic may not be overlooked, suffered primarily by the real sector and consequently by the budgets of all levels of governance in BiH. In this regard, all stated estimates and projections should be taken cautiously since these might imply revising the 2022-2024 Global Framework of Fiscal Balance and Policies of BiH, in particular its key determinants.

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 2020-2024 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 3.2.);

- 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; income, 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 pay tolls (Table 3.3.);
- 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 3.4) and
- revenues, expenditures and BD BiH budget and funds (Table 3.5);

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

BiH institutions**Table 3.2 BiH Institutions Budget Framework (in million BAM)**

Institucije BiH	Izvršenje 2020	Plan 2021	Plan 2022	Projekcija 2023	Pojekcija 2024
Prihodi	942,6	927,2	1.011,5	1.018,9	1.038,2
Porezni prihodi	780,0	780,0	865,5	865,8	866,0
Neizravni porezi	780,0	780,0	865,5	865,8	866,0
Izravni porezi					
Ostali porezni prihodi					
Doprinosi					
Grantovi i transferi	15,5	0,7	0,6	0,6	0,6
Ostali prihodi	147,1	146,5	145,4	152,5	171,6
Rashodi	984,1	1.022,4	1.069,3	1.057,9	1.070,4
Bruto plaće i naknade	687,8	723,6	814,1	819,8	824,3
Izdaci za materijal i usluge	141,9	189,6	188,2	170,4	190,4
Kamate	0,9	1,0	0,9	0,8	0,5
Subvencije, socijalna davanja i trasferi	53,2	26,2	16,2	16,2	13,5
Ostali rashodi	14,9	30,2	13,1	15,0	13,9
Neto izdaci za nefinancijsku imovinu	85,4	51,8	36,9	35,8	27,8
Bilanca	-41,5	-95,2	-57,7	-39,0	-32,3
Financiranje	41,5	95,2	57,7	39,0	32,3
Unutarnje	46,0	99,9	62,0	17,0	15,9
Otplata unutarnjeg duga	0	0,0			
Ostalo (+/-)	46,0	99,9	62,0	17,0	15,9
Vanjsko	-4,5	-4,7	-4,3	-16,0	-3,7
Povlačenje ino kredita	0,0	0,0			
Otplata glavnice ino kredita	-4,5	-4,7	-4,3	-16,0	-3,7
Nepokriveni višak rashoda		0,0	0,0	38,0	20,0

Source: Ministry of Finance and Treasury of BiH

Table 3.3 RS Budget Framework (in million BAM)

REPUBLIKA SRPSKA	Izvršenje 2020	Plan 2021	Plan 2022	Projekcija 2023	Projekcija 2024
Prihodi	4.465,9	4.968,8	5.193,8	5.348,1	5.563,3
Porezni prihodi	2.400,1	2.697,7	2.852,3	2.983,7	3.107,9
Neizravni porezi	1.913,5	2.165,6	2.272,4	2.379,8	2.475,2
Izravni porezi	451,4	488,9	526,9	552,4	578,6
Ostali porezni prihodi	35,2	43,2	53,0	51,4	54,2
Doprinosi	1.672,7	1.807,6	1.842,0	1.899,4	1.974,8
Grantovi i transferi	57,6	28,8	10,0	6,5	2,9
Ostali prihodi	335,4	434,7	489,4	458,5	477,7
Transferi					
Rashodi	5.046,7	5.454,9	5.493,7	5.279,0	5.231,3
Bruto plaće i naknade	1.092,9	1.150,3	1.251,8	1.259,4	1.265,5
Izdaci za materijal i usluge	387,2	397,1	389,0	379,9	371,9
Kamate	132,1	148,0	164,0	186,1	220,9
Subvencije, socijalna davanja i transferi	2.517,9	2.686,8	2.669,2	2.701,9	2.732,4
Ostali rashodi	210,6	252,6	217,9	186,9	188,0
Neto izdaci za nefinancijsku imovinu	706,0	820,1	801,8	564,9	452,5
Bilanca	-580,8	-486,1	-299,9	69,0	332,0
Financiranje	580,8	486,1	299,9	-69,0	-332,0
Domaće	371,7	-444,0	-118,8	-415,8	54,6
Otplata unutrašnjeg duga	-264,6	-467,8	-331,9	-320,7	-321,8
Ostalo (+/-)	636,3	23,7	213,0	-95,2	376,5
Vanjsko	210,8	930,2	418,8	346,9	-386,6
Povlačenje ino kredita / sredstava	439,6	1.182,5	687,8	1.080,6	44,2
Otplata glavnice ino kredita	-228,8	-252,3	-269,1	-733,8	-430,8
Statistička razlika i nepokriveni višak rashoda	-1,7	-0,1	0,0	0,0	0,0

Source: Ministry of Finance of Republika Srpska

Table 3.4 FBiH Budget Framework (in million BAM)

FEDERACIJA BiH	Izvršenje 2020	Plan 2021	Plan 2022	Projekcija 2023	Projekcija 2024
Prihodi	8.803,0	9.645,6	10.083,5	10.520,9	10.962,4
Porezni prihodi	4.044,9	4.667,1	4.876,0	5.065,3	5.281,4
Neizravni porezi	3.170,2	3.722,3	3.858,4	3.979,4	4.119,7
Izravni porezi	874,7	944,8	1.017,6	1.085,9	1.161,7
Ostali porezni prihodi	0,0				
Doprinosi	3.641,4	3.798,7	3.977,6	4.165,8	4.370,2
Grantovi i transferi	19,3	21,4	22,0	22,3	21,9
Ostali prihodi	1.097,4	1.158,4	1.207,8	1.267,5	1.288,9
Rashodi	8.781,8	9.982,2	10.213,9	10.478,9	10.781,8
Bruto plaće i naknade	2.065,5	2.200,0	2.210,3	2.215,5	2.306,9
Izdaci za materijal i usluge	1.918,4	2.192,4	2.195,3	2.239,3	2.284,0
Kamate	105,4	143,8	174,4	186,8	198,1
Subvencije, socijalna davanja i transferi	4.194,7	4.582,3	4.669,7	4.809,8	4.954,1
Ostali rashodi	198,4	352,4	366,9	350,2	356,4
Neto izdaci za nefinancijsku imovinu	299,4	511,3	597,3	677,3	682,3
Bilanca	21,2	-336,6	-130,5	42,0	180,6
Financiranje	-21,2	336,6	130,5	-42,0	-180,6
Domaće	-245,0	-303,8	-576,8	-484,0	-437,9
Otplata unutrašnjeg duga	-245,0	-303,8	-576,8	-484,0	-437,9
Ostalo (+/-)					
Vanjsko	467,6	804,4	449,3	581,4	452,7
Povlačenje ino kredita	922,5	1.266,8	900,6	1.197,8	1.080,5
Otplata glavnice ino kredita	-454,9	-462,4	-451,3	-616,4	-627,8
Nepokriveni višak rashoda	-243,8	-164,0	258,0	-139,4	-195,4

Source: FBiH Ministry of Finance

Brčko District**Table 3.5 BD BiH Budget Framework (in million BAM)**

BRČKO DISTRIKT	Izvršenje 2020	Plan 2021	Plan 2022	Projekcija 2023	Pojekcija 2024
Prihodi	242,0	263,1	259,8	267,5	277,3
Porezni prihodi	190,3	214,8	209,9	217,3	226,8
Neizravni porezi	163,5	186,9	178,2	185,6	195,1
Izravni porezi	26,8	27,9	31,7	31,7	31,7
Ostali porezni prihodi					
Doprinosi	35,3	36,7	37,2	37,2	37,3
Grantovi i transferi	2,9	0,5			
Ostali prihodi	13,6	11,2	12,7	12,9	13,2
Rashodi	264,2	266,5	256,0	262,2	270,9
Bruto plaće i naknade	84,8	93,7	99,4	99,4	99,5
Izdaci za materijal i usluge	76,1	79,4	72,0	71,9	72,3
Kamate	0,9	0,6	0,8	0,7	0,6
Subvencije, socijalna davanja i transferi	97,9	81,3	80,1	80,1	80,2
Ostali rashodi					
Neto izdaci za nefinancijsku imovinu	4,6	11,5	3,7	10,0	18,3
Bilanca	-22,2	-3,4	3,8	5,3	6,4
Financiranje	22,2	3,4	-3,8	-5,3	-6,4
Domaće	5,8	6,1	5,7	5,7	5,8
Otplata unutarnjeg duga	-0,6	-0,6	-0,8	-0,7	-0,6
Ostalo (+/-)	6,4	6,7	6,5	6,4	6,4
Vanjsko	-1,5	-2,7	-10,3	-13,8	-17,0
Povlačenje ino kredita	6,5	5,0			
Otplata glavnice ino kredita	-8,0	-7,7	-10,3	-13,8	-17,0
Nepokriveni višak rashoda	17,9	0,0	0,8	2,8	4,8

Source: BD BiH Finance Directorate

Table 3.6 BiH Consolidated (in million BAM)

BIH	Izvršenje 2020	Plan 2021	Plan 2022	Projekcija 2023	Projekcija 2024
Prihodi	14.453,6	15.804,7	16.548,6	17.155,4	17.841,3
Porezni prihodi	7.415,3	8.359,6	8.803,7	9.132,1	9.482,1
Neizravni porezi	6.027,2	6.854,8	7.174,5	7.410,6	7.656,0
Izravni porezi	1.352,9	1.461,6	1.576,2	1.670,0	1.772,0
Ostali porezni prihodi	35,2	43,2	53,0	51,4	54,2
Doprinosi	5.349,4	5.643,0	5.856,8	6.102,4	6.382,3
Grantovi i transferi	95,3	51,4	32,6	29,4	25,4
Ostali prihodi	1.593,5	1.750,8	1.855,3	1.891,4	1.951,5
Rashodi	15.076,8	16.726,0	17.032,9	17.078,0	17.354,4
Bruto plaće i naknade	3.931,0	4.167,6	4.375,6	4.394,1	4.496,2
Izdaci za materijal i usluge	2.523,5	2.858,5	2.844,4	2.861,5	2.918,6
Kamate	239,3	293,4	340,1	374,4	420,1
Subvencije, socijalna davanja i transferi	6.863,7	7.376,6	7.435,2	7.608,0	7.780,2
Ostali rashodi	423,9	635,2	597,9	552,1	558,3
Neto izdaci za nefinancijsku imovinu	1.095,4	1.394,7	1.439,7	1.288,0	1.180,9
Bilanca	-623,2	-921,3	-484,3	77,3	486,7
Financiranje	623,2	921,3	484,3	-77,3	-486,7
Domaće	178,5	-641,8	-627,9	-877,1	-361,6
Otplata unutrašnjeg duga	-510,2	-772,2	-909,5	-805,4	-760,3
Ostalo (+/-)	688,7	130,3	281,5	-71,8	398,8
Vanjsko	672,4	1.727,2	853,5	898,5	45,5
Povlačenje i no kredita	1.368,6	2.454,3	1.588,4	2.278,4	1.124,7
Otplata glavnice i no kredita	-696,2	-727,1	-735,0	-1.380,0	-1.079,2
Statistička razlika i nepokriveni višak rashoda	-227,6	-164,1	258,8	-98,6	-170,6

Source: Calculations of the BiH Fiscal Council Counselling Group

Budget indebtedness ceilings

The limitations 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 and 28/21) 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 and 28/21), 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 (in 2022, in accordance with the applicable estimates of the Ministry of Finance of Republika Srpska, amounts to 6.979.5 million BAM⁵⁴), 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 (in 2022, in accordance with the applicable estimates of the Ministry of Finance of Republika Srpska, amounts to 7.614.4 million BAM). 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 2020 amounted to 871.7 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 % of revenues achieved in the previous fiscal year. In 2020, 10 % of revenues of cities and municipalities amounts to 87.17 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.

⁵⁴ The estimated RS GDP for 2022 amounts to 12.690 million BAM (estimate of the Ministry of Finance of Republika Srpska)

Total revenues of Cantons in FBiH achieved in 2020 amounts to 2.417.7 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 % of revenues achieved in the previous fiscal year. In 2020, 10 % of revenues of cities and municipalities amounts to 241.47 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 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 2020 amounts to 6.319.8 million BAM, of which:

FBiH 3.905,1 mil. BAM,

Cantons 2.414,7 mil. 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 % of consolidated revenues of FBiH and Cantons achieved in 2020, i.e. up to 1.137.6 million BAM. Annual debt servicing in 2020 of all levels of governance in FBiH may amount up to 1,224.77 million, of which:

- Servicing of the debt of Cantons up to 87.17 million BAM (10 % of total revenues in 2020)
- Servicing of the debt of Cantons up to 241.47 million BAM (10 % of total revenues of Cantons in 2020)
- Servicing of the debt of FBiH to 896.13 million BAM, representing the difference between 1.137.6 million BAM (18 % of consolidated revenues of FBiH and Cantons in 2020) and 241.47 million BAM (10 % of revenues of Cantons achieved in 2020).