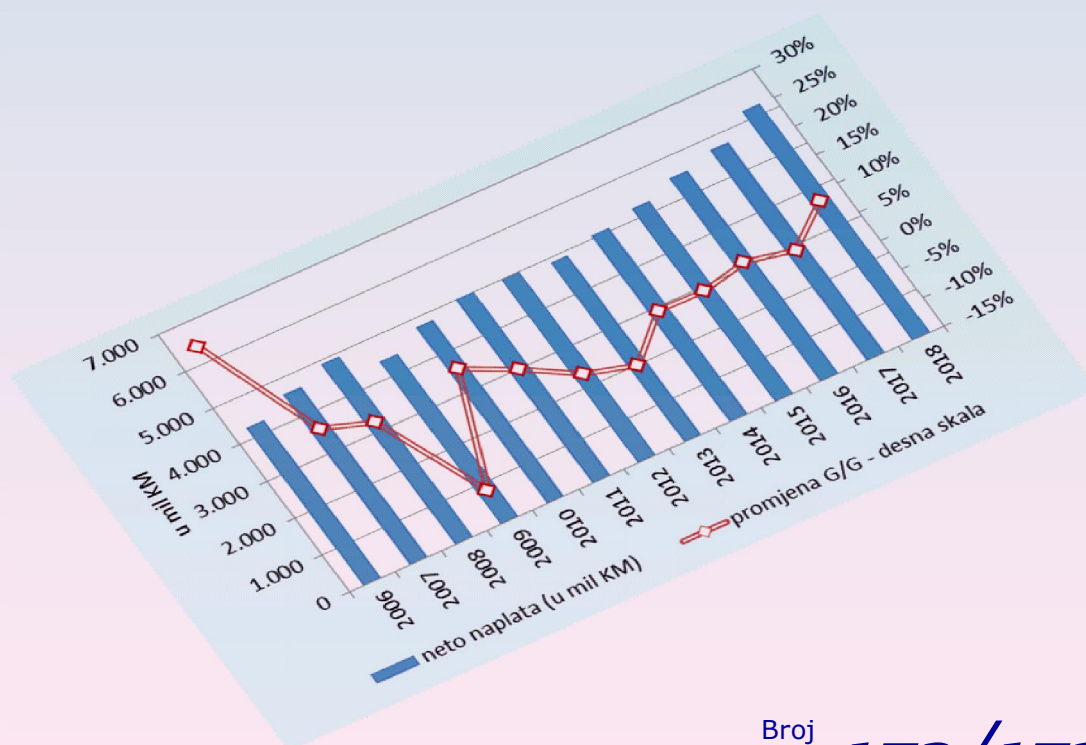




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

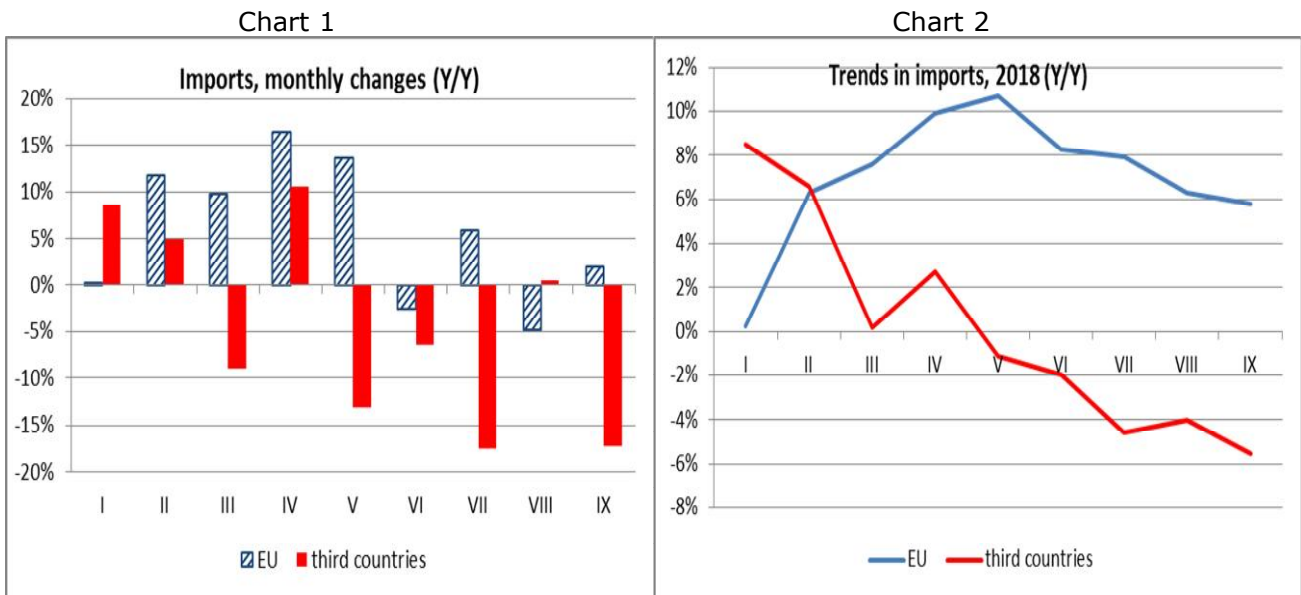
ОМЈА Билтен



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With this issue

After completing the most important two phases of foreign trade liberalization in B&H (CEFTA, SAA), customs revenues are losing their significance, given their share in the total collection of indirect taxes. Nonetheless, customs revenues are still significant due to the fiscal consolidation of the budgets of all levels of government, as well as the fact that they increase VAT collection. Trends in collection of customs revenues in 2019 indicate a sharp slowdown in the third quarter of 2019, after a long period of high growth rates (see Projections 2019-2022). The collection of customs revenues depend on the dynamics of imports from third countries and imports of goods from the EU that have remained under the customs regime. It can be concluded from the data on monthly imports of goods in 2019, that the lower collection of customs revenues in the third quarter was the result of a sharp fall in imports of goods from third countries and lower growth rates of imports from the EU, compared to the reference months of 2018 (Chart 1).



Source: Agency for Statistics of B6H, own calculation

The decline in imports in the last few months has led to a significant slowdown in cumulatives after a strong upturn in the first quarter (Chart 2). Given the evident B&H dependence on imports, these trends indicate a slowdown in B&H economy growth and household consumption.

Dinka Antić, PhD
Head of Unit

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Technical design: Sulejman Hasanović, IT expert
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Revised projections of indirect taxes for the period 2019-2022¹

Abstract

Half a year has passed since the publication of previous indirect tax revenue projections (April 2019). In the meantime (September 2019), the Directorate for Economic Planning (DEP) published revised projections of macroeconomic indicators. At the time of preparation of the DEP March projections, no official data of the Agency for Statistics of B&H (BHAS) of national accounts for 2018 were released, but based on the available data for the first three quarters of 2018 and short-term statistics for the fourth quarter, DEP estimated that real GDP growth in 2018 amounted to 3,3%. When drafting September projections, official BHAS data for 2018 were available, according to which slightly higher real GDP growth was achieved than in March projections, amounting to 3,6%.

If we compare the indicators for the next years, we will see that the latest DEP's projections of real GDP growth were revised by only -0,1 p.p. for 2019 and by -0.2 p.p. for all subsequent years (2020, 2021 and 2022). According to latest projections, the real GDP growth rate in 2019 should amount 3,0%, which is lower than the growth achieved in 2018. According to DEP's projections, the slowdown in the economic growth trend in Bosnia and Herzegovina is largely the consequence of the weakening economic trends in the international economic environment. Under assumption of a more favorable external environment and a better business environment in B&H, there are expected, according to DEP, real GDP growth rates of 3,5%, 3,6% and 3,8% in 2020, 2021 and 2022, respectively.

The projected amount of net indirect tax revenue collection for 2019 is 6.512,6 million BAM, which is 4,7% more than in 2018. The projected revenue growth rate is 1 p.p. higher than in the Unit's forecast from April this year. The largest contribution to the projected absolute revenue growth in 2019 of 291,8 million BAM have the VAT revenues (163,7 million BAM). The following are excise tax revenues with projected growth of 76,5 million BAM. The projected increases in revenues from road tax and customs are 36,5 million BAM and 14,9 million BAM, respectively. The residual of annual revenue growth of only 0,2 million BAM refers to other and unadjusted revenues at the Single Account of Indirect Taxation Authority (SA of ITA).

The projected amounts of revenues by type for 2019 make the basis for the projections for the period 2020-2022. The projected growth of indirect tax revenues is 196,1 million BAM, 217,5 million BAM and 246,9 million BAM for 2020, 2021 and 2022 respectively. The VAT revenues are again the largest revenue generator, due to their significant share in indirect tax revenues and stable growth rates in line with private consumption growth projections (DEP).

¹ Presented on 15 October 2019.

1. The basics and assumptions of projections of indirect tax revenues

Indirect tax projections are based on the DEP's projections of macroeconomic indicators (September 2019), and include trends in indirect tax collection and current government policies in the area of indirect taxation (baseline scenario).

1.1. Projections of macroeconomic indicators, DEP, September 2019

Projections of indirect tax revenues are closely related to projections of GDP and its components. Any deviation of the execution of national accounts parameters from their projected values represents a risk for revenue projections. It is shown below (Charts 1-3)² the graphical illustration of GDP components relevant for indirect tax projections, as well as their changes in comparison to DEP's previous projections (March 2019).

Projections for 2019

According to DEP projections, the real GDP growth rate in 2019 should be slightly lower than the previous year. The DEP states that the slowdown in the economic growth trend in Bosnia and Herzegovina compared to the previous year is largely the consequence of the weakening of economic trends in the international economic environment in the first half of 2019, which was manifested by a slowdown in the growth of gross domestic product, primarily in the EU Member States. Despite the weakening indicators from the export-processing sector, the DEP expects Bosnia and Herzegovina to achieve a nominal GDP growth of 3,9% at the end of 2019 through domestic demand components (consumption and investment), while the real growth rate should amount 3,0%.

Projections for the period 2020-2022

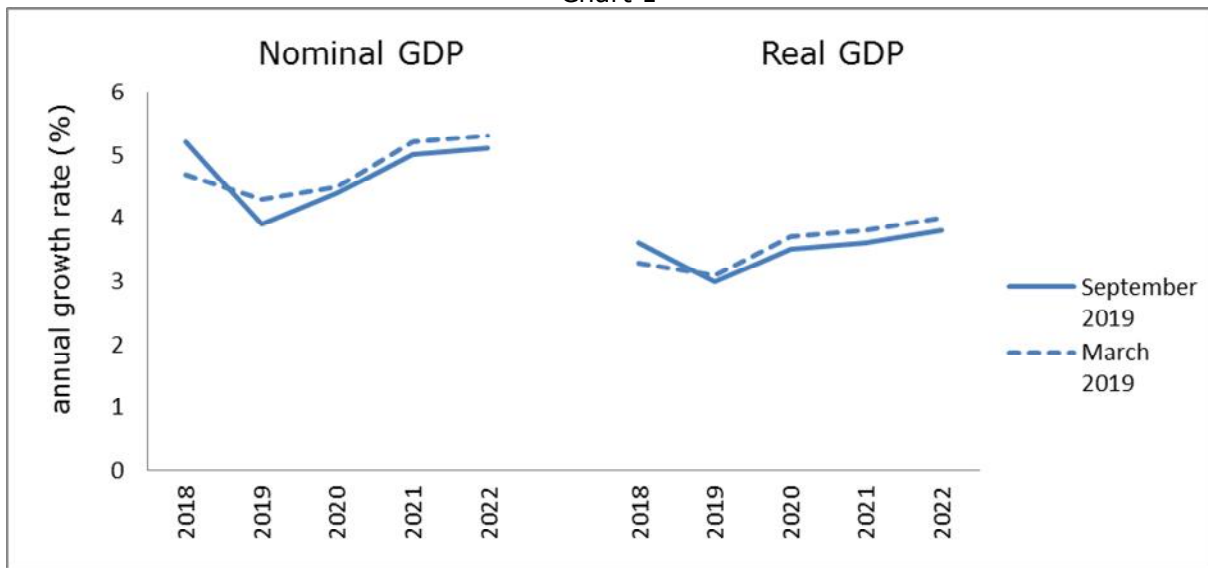
Under assumption of a more favorable external environment and a better business environment in the country in 2020, 2021 and 2022, DEP expects a continuation of the economic growth trend (Chart 1 and Table 1).

Table 1. GDP growth rate projections, DEP, September 2019

Projected GDP growth rates	realization	projection			
	2018	2019	2020	2021	2022
Nominal growth	5,2	3,9	4,4	5,0	5,1
Real growth	3,6	3,0	3,5	3,6	3,8

² The indicators for 2018 from the September projections are official data of the Agency for Statistics of B&H
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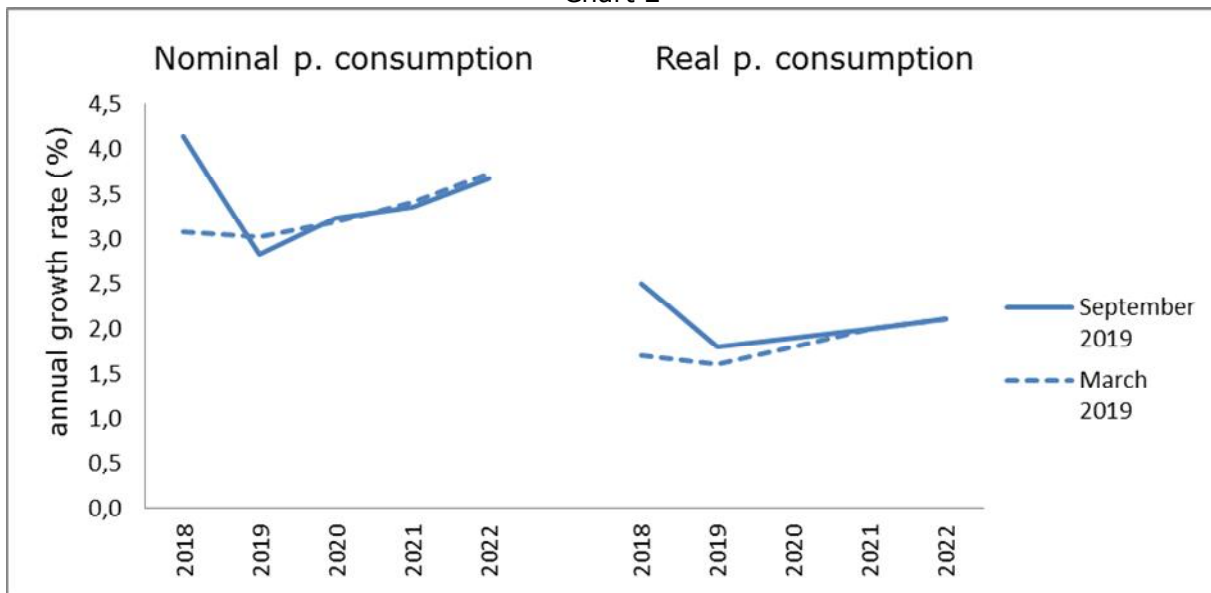
Chart 1



Source: DEP, Macroeconomic Projections 2020-2022, September 2019

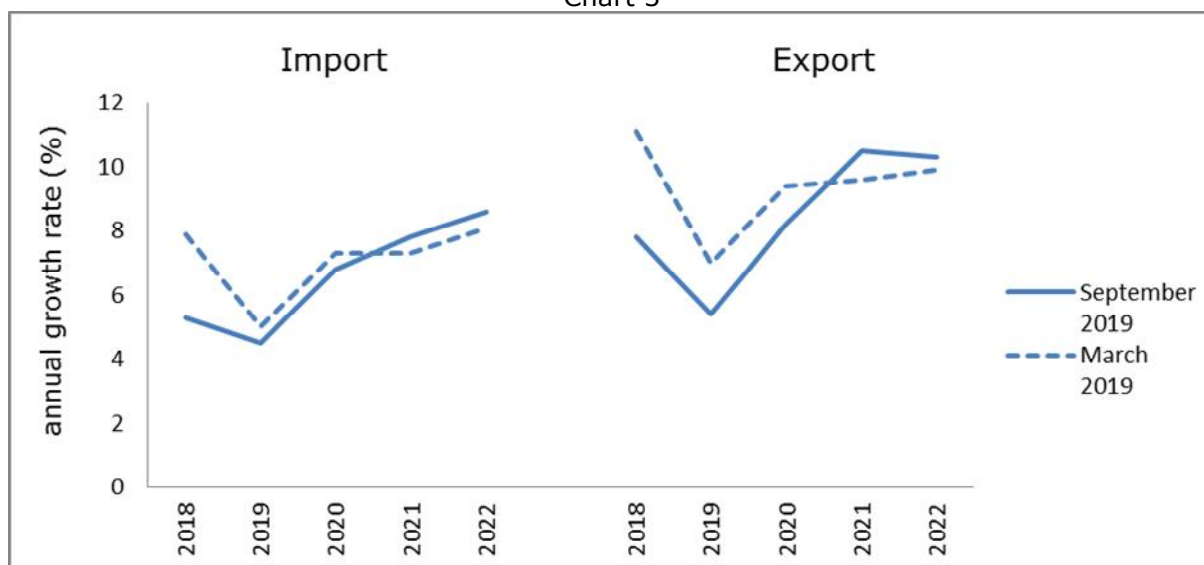
According to DEP projections, the key pillar of economic growth over the period 2020-2022 should be domestic demand. It is stated in DEP's assumptions that an increase in total economic activity in the country, as well as in number of employees, revenues from export and foreign remittances, should lead to an increase in the disposable income of citizens and, consequently, private consumption. The projected growth rates of private consumption are shown in Chart 2.

Chart 2



Source: DEP, Macroeconomic Projections 2020-2022, September 2019

Chart 3



Source: DEP, Macroeconomic Projections 2020-2022, September 2019

The key assumptions of foreign trade developments DEP's projections are a more favorable external environment with the improving of industrial base and enhancing competitiveness in the country. With a high degree of realization of the above assumptions, the DEP expects nominal export growth at the rates of 8,2%, 10,5% and 10,3% in 2020, 2021, and 2022 respectively. On the other hand, according to the DEP projections, imports should grow at slightly slower annual rates in those years, shown in Chart 3. During this period, the DEP expects a slightly stronger growth in imports of goods compared to imports of services, given the expected growth rates of private consumption and investment, which are largely supplied from imports of goods.

Investment projections for the period 2020-2022 indicate their significant growth, i.e. a greater contribution to the expected GDP growth. DEP expects total investment to increase at rates of 10,2%, 9,1% and 10,4% in 2020, 2021 and 2022 respectively (real growth rates of 9,7%, 8,9%, and 8,8%, respectively). Although these investment growth rates may seem optimistic, the DEP points out that investment still have a fairly modest share in GDP structure.

1.2. Current policies in the area of indirect taxation

VAT obligations and payment system are regulated by the Law on Value Added Tax ("Official Gazette of B&H", No. 9/05, 35/05, 100/08 and 33/17).

Excise policy is regulated by the Law on Excises in Bosnia and Herzegovina ("Official Gazette of B&H", No. 49/09, 49/14, 60/14 and 91/17). The policy of excises on tobacco in 2019 has been regulated by the Law on Excises and Decision³ of the ITA Governing Board. As the legally prescribed ceiling of the total excise tax on cigarettes of 176 BAM / 1000 cigarettes was reached for all price categories of cigarettes in 2019, the harmonization with EU standards in the field of

³ Decision on Determining of the Specific and Minimum Excise Duty for Cigarettes and Amount of the Excise Duty on Smoking Tobacco for 2019 („Official Gazette of B&H" No 75/18).

cigarette taxation was completed,⁴ while the taxation of cut tobacco is regulated according to the amendments to the Law (in force since 2014).⁵

The Law⁶ on Customs Policy in Bosnia and Herzegovina regulates the basic elements of customs policy and general rules and procedures that apply to goods brought into and out of the customs territory of Bosnia and Herzegovina.

The phases of liberalization of foreign trade in B&H are shown in Chart 4.⁷

Chart 4. Phases of liberalization of foreign trade in B&H

	CEFTA	EU, SAA			customs records			EFTA		EU, adapted SAA	
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017

1.3. Indirect tax collection trends

Collected revenues from indirect taxes show a long-term growth trend. Exceptions were "the crisis year" 2009 when a sharp drop in revenue of 9,9% was achieved, as well as stagnation and a slight fall in revenues in 2012 and 2013 respectively. The growth of collected revenues on SA of ITA was recorded in all other years (Chart 5). It was collected 4,1 billion BAM of net revenues from indirect taxes on the SA of ITA in 2006, and in 2018 the net revenues increased by more than 50% (6,2 billion BAM) in comparison with 2006. It should be noted that these amounts do not include the lagging payments of indirect taxes on Entity accounts, which were more significant in the initial years after the introduction of VAT.

The share of indirect taxes on the SA of ITA in GDP varied over the years. After falling this share from 18,8% in 2008 to 17,1% in the crisis year 2009, it has been ranging from 17,3% (2013) to

⁴ There are currently in the parliamentary procedure the amendments to the Law on Excises adopted by the Governing Board of the ITA in 2018, which imply the introduction of a three-year moratorium on the increase of the specific excise duty on cigarettes starting from 2019. In the meantime, the Decision on Determination of the Specific and Minimum Excise Duty for Cigarettes and Amount of the Excise Duty on Smoking Tobacco for 2019 according to the applicable Law has been adopted. Given that EU standards for cigarette taxation have been reached in 2019, the aforementioned amendments to the Excise Duty Act are no longer topical, and some legal steps are expected accordingly.

⁵ The new policy is in effect since 1 August 2014 (Amendments to the Law on Excises in B&H "Official Gazette of B&H" No. 49/14)

⁶ The new Law on Customs Policy ("Official Gazette of B&H" No. 58/15) will apply from 31 January 2020 ("Official Gazette of B&H" No 54/19), and until that date the old Law on Customs Policy ("Official Gazette of B&H" No. 57/04, 51/06, 93/08, 54/10 and 76/11) will continue to apply. The exception is Article 207 of the new Law which has been applied as of 25 April 2018.

⁷ More on liberalization of B&H foreign trade in Antic, D. " Liberalization of Foreign Trade in B&H (2007-2017): Implications and Comparative Analysis", OMA Bulletin 152/153, March / April 2018.

18,6% (2011) since 2010. It amounted 18,3% in 2018. The share of indirect taxes on the SA of ITA in total consumption also varied, and since 2014 it has seen a continuous growth trend. It amounted 19,4% in 2018.

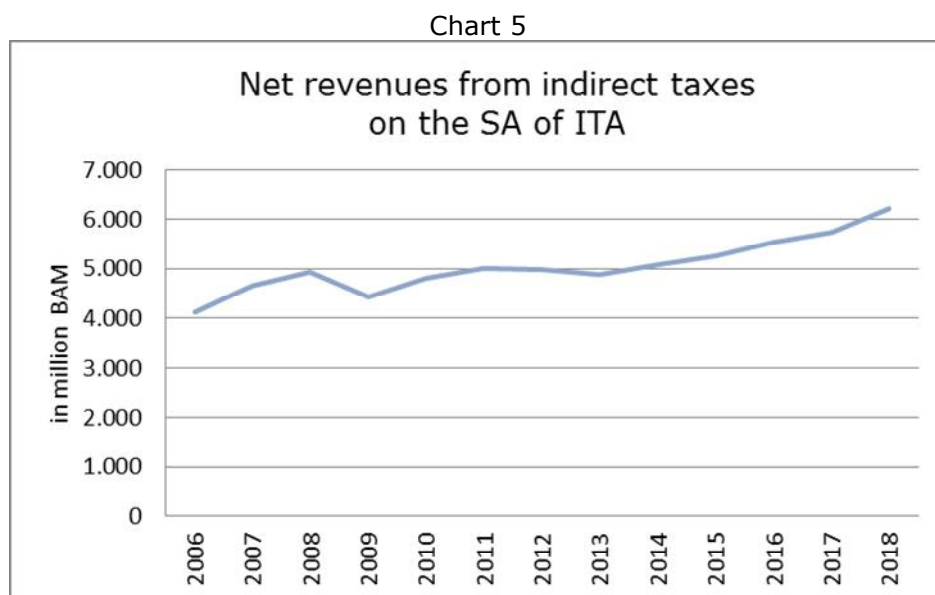


Table 2. Share of indirect tax revenues on the ITA SA in GDP and in total consumption

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
% GDP	19,5	19,8	18,8	17,1	18,4	18,6	18,1	17,3	17,9	17,7	17,8	17,7	18,3
% C	18,4	19,2	17,9	16,5	17,6	17,7	17,4	16,9	17,3	17,7	18,3	18,6	19,4

Source: Calculation based on data from ITA and BHAS

1.3.1. Collection in 2018

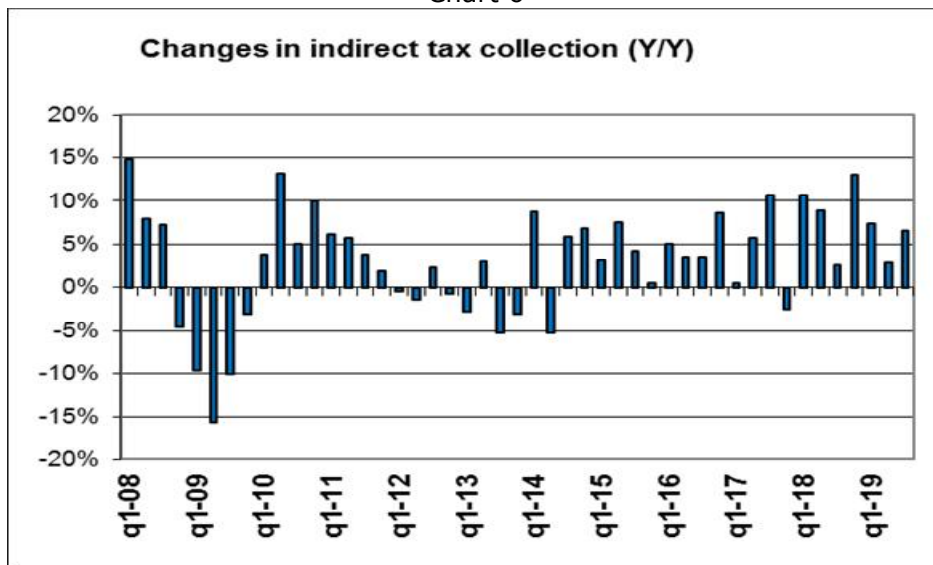
An overview of the nominal collection shows that the record amount of indirect tax revenues since the establishment of the ITA was collected in 2018 (6.220,8 million BAM) and the rate of growth reached even 8,6%. This was expected bearing in mind the amendments to the Law on Excises. In order to ensure, for the purpose of analysis, the comparability of collection of indirect tax revenues in 2018 with the collection in 2017 it is necessary to completely exclude the collection of the earmarked road tax, given that almost all the effects of the amendments to the Law on Excises (applicable of 1st of February 2018) refer to the earmarked road tax. The amount of revenues after the exclusion of earmarked taxes represents revenue transfers according to the budget of institutions of B&H, Entities and the District ("distribution funds"). After the exclusion of the earmarked road tax collection from the total amount of indirect tax collected in 2017 and 2018, the growth of distribution funds in 2018 amounts to 4,7%. Since the effects of amendments to the Law on Excises also include the amount of VAT charged on an additional earmarked road tax, excluding this effect the growth rate of distribution funds amounts 4%. Therefore, it can be concluded that the amendments to the Law on Excises brought 4,6 percentage points of increase in revenues from indirect taxes.

1.3.2. Collection in the period January - September 2019

Total collection

According to the preliminary cash flow report on ITA SA, the net collection of indirect taxes in September 2019 increased by 2,7 million BAM or 0,5% compared to September 2018. Weaker collection of indirect taxes in September significantly slowed the growth of cumulative collection. At the level of nine months of 2019, gross collection of indirect tax revenues was higher by 309,1 million BAM or 5,5% compared to the same period in 2018. At the same time, refund payments increased by 65,8 million BAM or 6,4 %. Ultimately, in the first nine months, the net collection of indirect tax revenues was higher by 243,4 million BAM than in the same period of 2018, which represents an increase of 5,3%. A comparison of collection in 2019 with 2018 by quarter shows a steady increase in indirect tax collection over the past five years (Chart 6). Revenue growth of 7,4% in the first quarter of 2019 is partly due to the effects of the increase in road tax rate due to the implementation of the changes in the Law on Excise Duties, which manifested in January. Due to the extremely poor collection in June, growth of 2,8% was recorded in the second quarter. However, already in the third quarter a high growth rate of 6,5% was again achieved, mainly due to strong growth in excise tax revenues on tobacco products and oil derivatives.

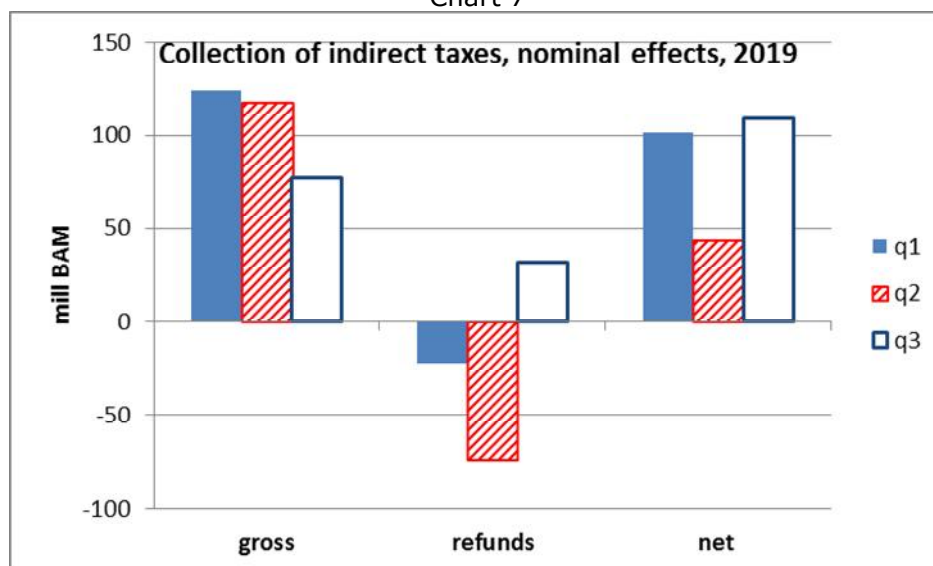
Chart 6



Comparison of quarterly nominal road tax effects (Chart 7) indicate that the largest effects were achieved in the first quarter, which has been expected due to the impact of increased road tax collection in January 2019, which together with the associated VAT amounted to approximately 20 million BAM. However, there is a declining trend in the quarterly effects of gross collection. On the other hand, revenue collection in 2019 was strongly characterized by fluctuations in refund payments, which escalated in the second quarter, significantly reducing the positive growth in gross collection. However, a slowdown in the payments of refunds appeared in the third quarter, and then the positive effects in September, which had a positive effect on the net collection of indirect taxes in the third quarter. The collection of indirect tax revenues of 5,3% for the nine

months of 2019 is 1,6 percentage points higher than in the April 2019 projections of the Unit.⁸ It should be emphasized that the effect of the implementation of the changes to the Law on Excise Duties brought 0,4 percentage points of indirect tax revenue growth.

Chart 7



Analysis by type of revenues⁹

Customs

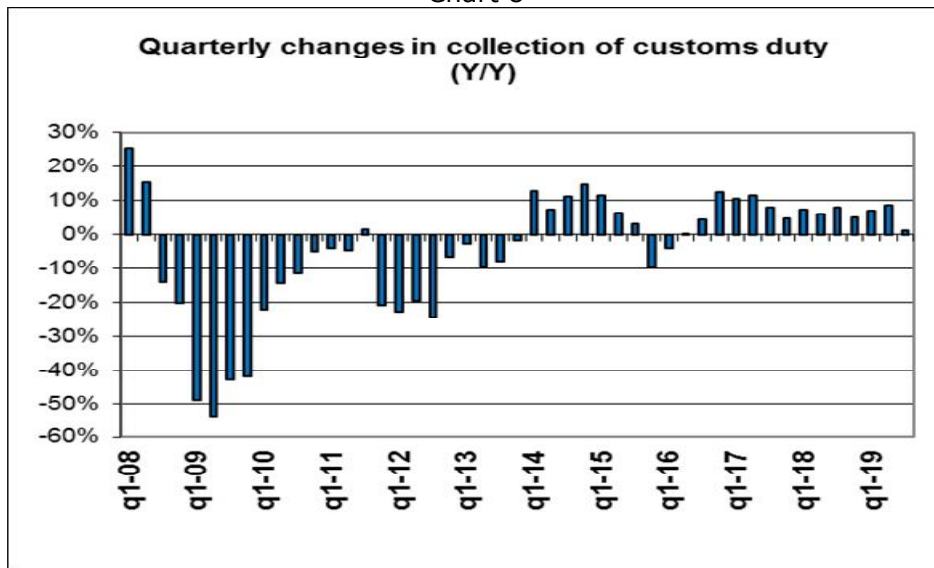
After a long period of positive monthly growth, customs revenue declined in August and September 2019, which slowed the cumulative growth rate to 5,5%. The fall in customs revenue in August was the result of a slowdown in imports from the EU and a fall in imports from Russia, China and other Asian countries.¹⁰ A review of quarterly trends shows a stable collection of customs revenue over the last twelve quarters, with quarterly growth rates between 5% and 10%, which has not even been jeopardized by the implementation of the SAA (Chart 8). In the first quarter of 2019, there was an increase in collection of customs of 7,1% and in the second of 8,5%. This trend was unexpectedly discontinued in the third quarter of 2019 when a modest revenue growth of 1,3% was achieved. It can be assumed that a slowdown in imports from the EU is a signal of a slowdown in the economy of B&H while a slowdown in imports from Asian countries is a signal of a slowdown in private consumption of B&H citizens.

⁸ The projections were published in OMA Bulletin no. 166/167, May / June 2019, www.oma.uino.gov.ba.

⁹ It should be noted that it was collected additional 21 million BAM of revenues which could not be taken into account in the analysis of revenue collection, since they remained unadjusted in the ITA IT system.

¹⁰ According to the Agency for Statistics of B&H imports from Asian countries decreased by 10,3% in August 2019, with imports from China decreasing by 7,3%. Likewise, imports from Russia declined by 11,6%. Source: www.bhas.gov.ba.

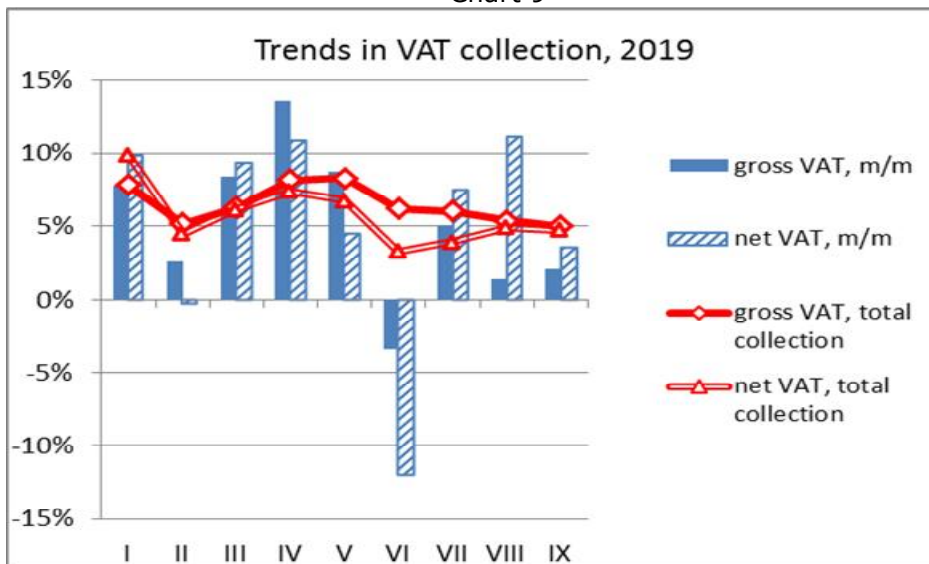
Chart 8



VAT

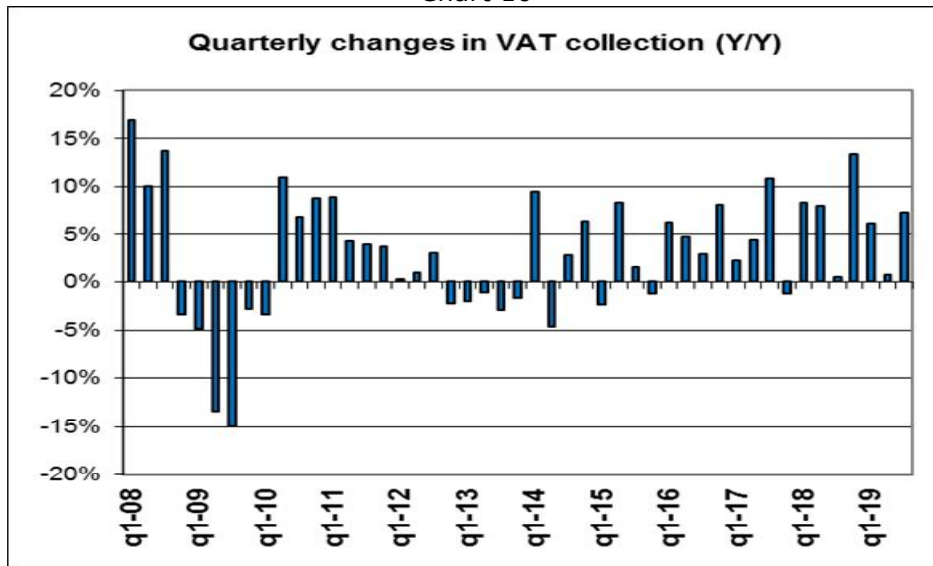
The collection of net VAT revenue in 2019 is characterized by high growth rates, except for the large fall in June, as a consequence of the cumulative negative effect of decline in gross collection and increase in refunds payments. In the last three months, there have been positive trends, both in gross collection and in refund payment, which have stabilized net collection. Gross VAT collection increased by 5% in the period January-September 2019, while net VAT collection grew at a rate of 4,7%. Given that, according to the preliminary report, 21 million BAM of revenues remained unadjusted, it is realistic to expect a slight increase in the cumulative rate after adjusting.

Chart 9



It should be emphasized that the consequence of using the concept of net cash reporting in 2018¹¹ was the increase in the collection of VAT by the amount of VAT credits used for payment of liabilities for excise duties on oil derivatives. After corrections in the 2018 base, the cumulative growth rate of net VAT in the period I-IX 2019 amounted 5,8%, or 1,1 percentage points more than in the cash report by types of income.

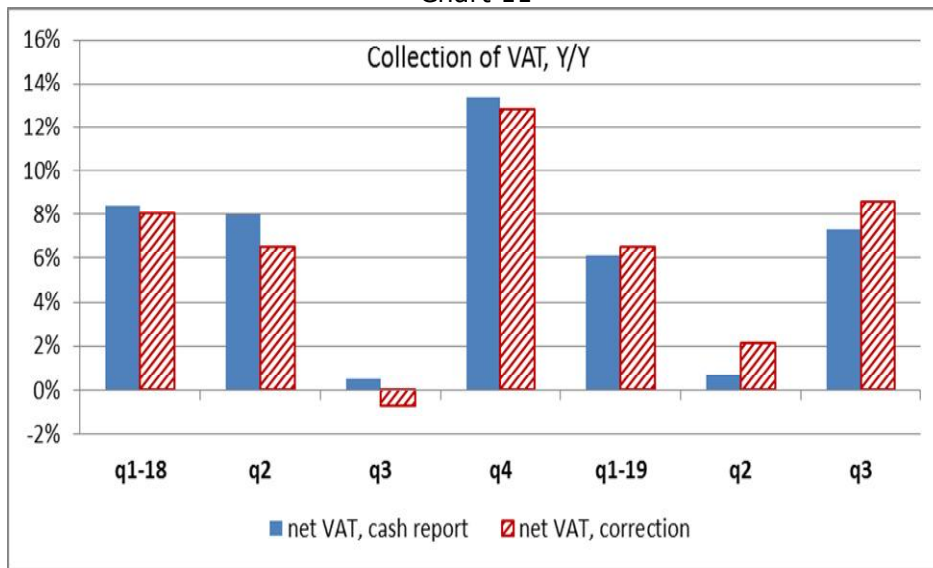
Chart 10



Quarterly trends (Chart 10) indicate strong quarterly fluctuations in the last two years, which are partly due to a change in the pattern of VAT refund payments, i.e. temporary suspensions of payments during extensive control activities. In the first quarter of 2019, the net VAT growth rate amounted 6,1%, in the second 0,7% and in the third 7,3%. After the correction of the basis for comparison in 2018, quarterly comparisons of VAT collection according to Chart 11 show higher growth rates at the quarterly level in 2019 compared to the calculation according to the data from the ITA cash report in Chart 10.

¹¹ The ITA uses net cash concept in its reports, according to which only net cash payments are shown as revenues by type of indirect taxes. Due to the significant amount of the offset liabilities for excise duties on oil derivatives and road tax by VAT claims (tax credit) in 2018, there were significant deviations of the structure of collected revenues compared to the one presented in the ITA report for that year. The excise tax collection was unjustifiably reduced, while, on the other hand, the VAT collection was unjustifiably increased by the amount of revenue that was offset. The same problem, but with the opposite direction of the impact of the amount of offset revenues on the collection structure, was also manifested in 2019, since the basis for comparison in 2018 was unjustifiably higher when it comes to VAT, and unjustifiably lower when it comes to excises and road taxes.

Chart 11



The analysis of the components of gross VAT indicates a positive trend in collection of both VAT on imports and domestic VAT, but with sharp monthly fluctuations and slowdown in the third quarter. The quarterly analysis shows oscillating positive VAT growth rates on imports of 4% in the first quarter, 9% in the second quarter and 2,9% in the third quarter of 2019 (Chart 12). On the other hand, when it comes to domestic VAT, in the first quarter there was an increase in collection of 9,8%, and in the second and third quarters of 1,4% and 2,7%, respectively. After adjusting of unadjusted revenues for September, which have a large share of VAT in its structure, the growth rates of domestic VAT will surely increase. The correction of the 2018 base for comparison for the effects of cash reporting by types of income, results in increases in quarterly rates, as well as in an increase in the cumulative rate of growth of domestic VAT for the nine months of 2019 to 6,6% (see Chart 12, correction).

Chart 12

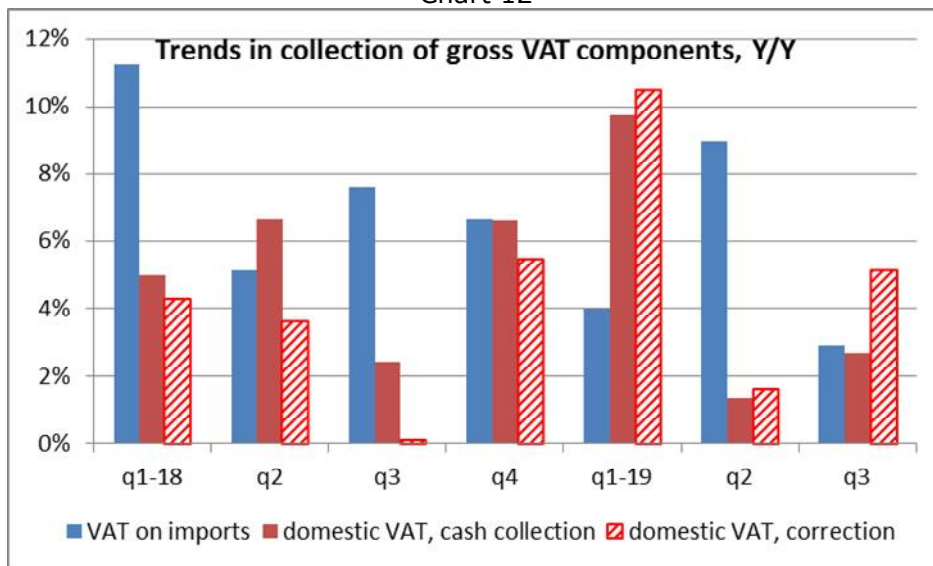
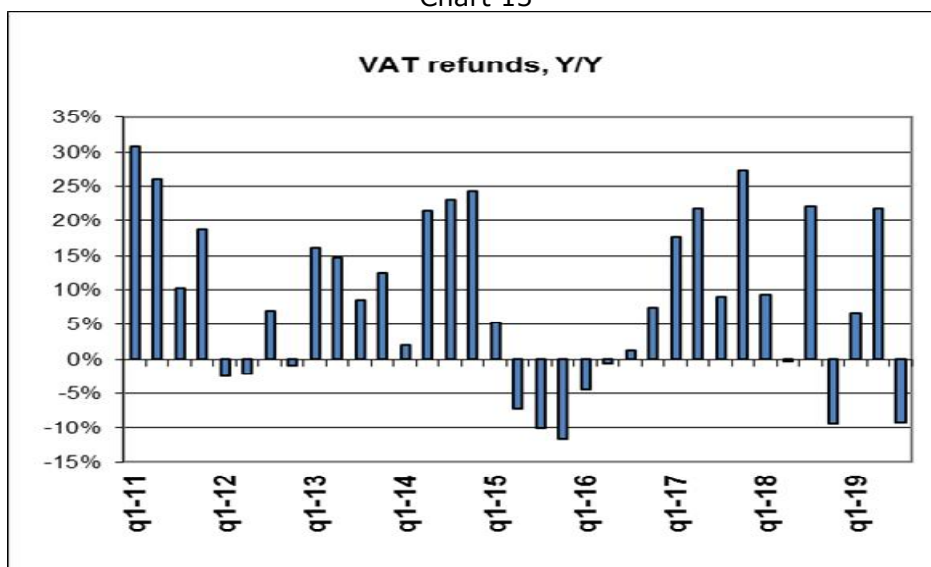


Chart 13

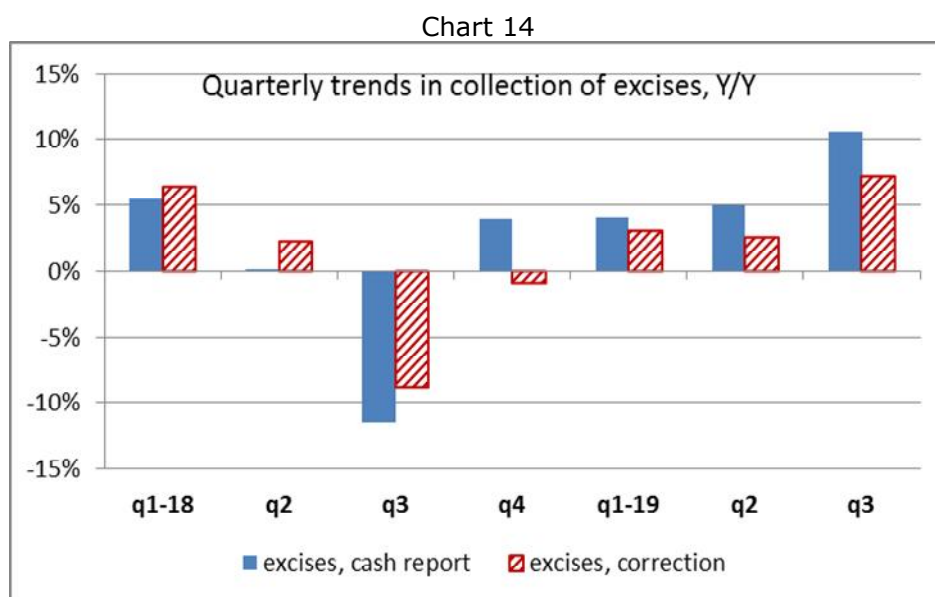


VAT refund payments in September 2019 decreased by 3,2% compared to September 2018, which further slowed the cumulative growth rate to 5,7%. At the nine-month level in 2019, taxpayers were refunded 61,3 million KM more than in the same period in 2019, while international organizations and projects were refunded 3 million BAM of VAT less than in the first nine months of 2018.

Due to the slowdown in growth of refund payments compared to the previous year, the share of VAT refunds in gross VAT collection was only 0,5 percentage points higher than the annual share VAT refunds in the gross collection of 2018. The quarterly analysis of VAT refund payments in 2019 shows strong turbulences - moderate growth of 6,7% in the first quarter, enormous growth of 21,9% in the second quarter, and a significant decline of 9,3% in the third quarter of 2019 (Chart 13).

Excises and road taxes

Excise tax revenue collection in 2019 has been in a zone of stable positive growth, with the exception of June. The maximum in the collection was achieved in the summer season, from which it can be concluded that the increase in collection is seasonally determined by consumption of non-residents, tourists and diaspora. In the last two months, there has been a gradual decline in growth rates, which slowed the cumulative growth rate to 6,7%. Quarterly trends in the total collection of excises show a steady positive growth in the last four quarters (Chart 14).



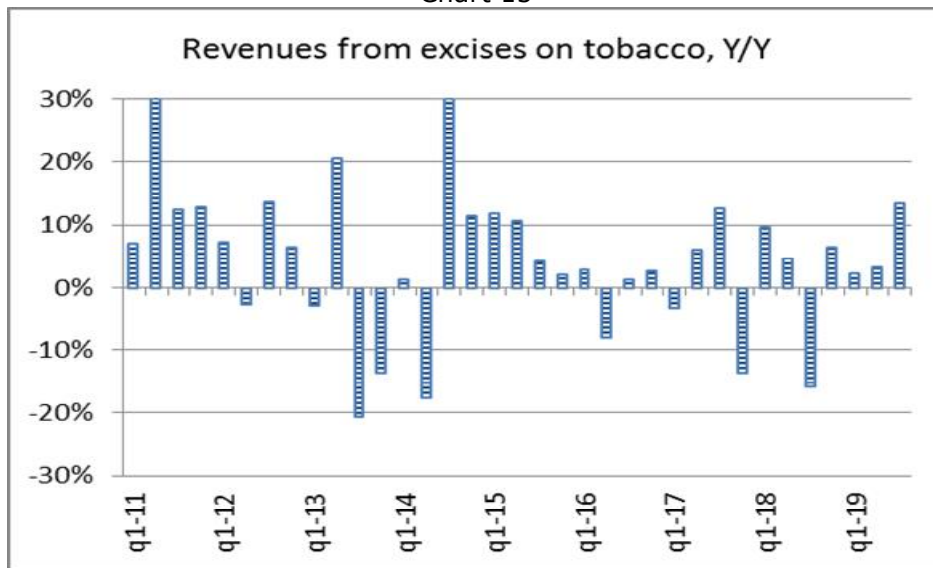
An increase of 4% was achieved in the first quarter of 2019, and of 4,9% in the second. The strong growth of excise collection of 10,6%, which was recorded in the third quarter, was the result of the increase in collection of excises on tobacco products and oil derivatives (Chart 14, cash collection). However, it should be borne in mind that a significant part of the excise tax revenue growth resulted from the accounting factor, i.e. cash reporting by types of income. The correction brings the higher base for comparison and lower growth rate in the period I-IX 2019 of 4,4%. Corrections also reduce quarterly growth rates to 3,1%, 2,6% and 7,2% (Chart 14, correction).

The collection of total excise tax revenues was determined by the excise tax on tobacco products, which accounted for 80%¹² of the surplus of the excise tax revenues in the period I-IX 2019. In the first quarter of 2019, an increase in excise taxes on tobacco of 2,3% was recorded in comparison with the same quarter of 2018 (Chart 15). The reason for the increase in revenues was the rise in cigarette sales due to the delay in the increase in retail prices of cigarettes, which was common in earlier years after the increase of the specific excise tax on cigarettes at the beginning of the year. In 2019, tobacco companies have borne the bulk of the additional tax burden at the expense of their profits for as much as six months,¹³ having a positive impact on revenue collection, which grew by 3,3% in the second quarter as well. The slightly higher revenue growth in the second quarter may be related to the announcement of price adjustments upwards as of July for the amount of the additional tax burden, which resulted in an increase in inventories prior to the increase in retail prices of cigarettes. Part of the effects of increasing inventories on revenue collection spilled over into the third quarter. In addition, the consumption of tobacco products in the third quarter increased also due to seasonal consumption, which all cumulatively influenced the growth rate of the collection in the third quarter recorded at the level of 13,5%.

¹² The calculation is made in relation to the adjusted base from 2018.

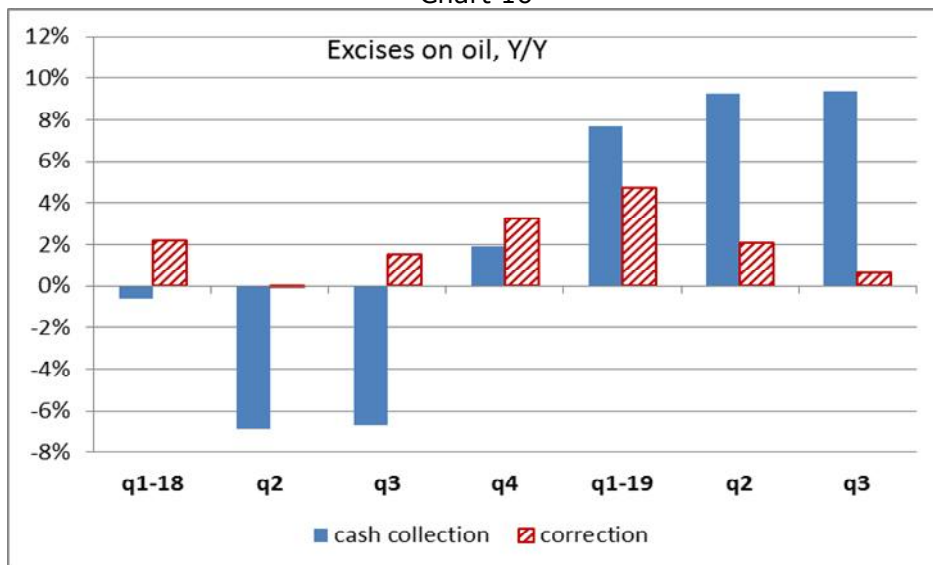
¹³ Unlike in 2018 when they have borne three months.

Chart 15



According to the ITA's net cash report stable positive trends in the collection of excises on oil derivatives were recorded in all three quarters of 2019. In the first quarter growth was 7,7%, in the second 9,2% and in the third 9,4% (Chart 16, cash collection). At the nine-month level growth rate amounted 8,9%.

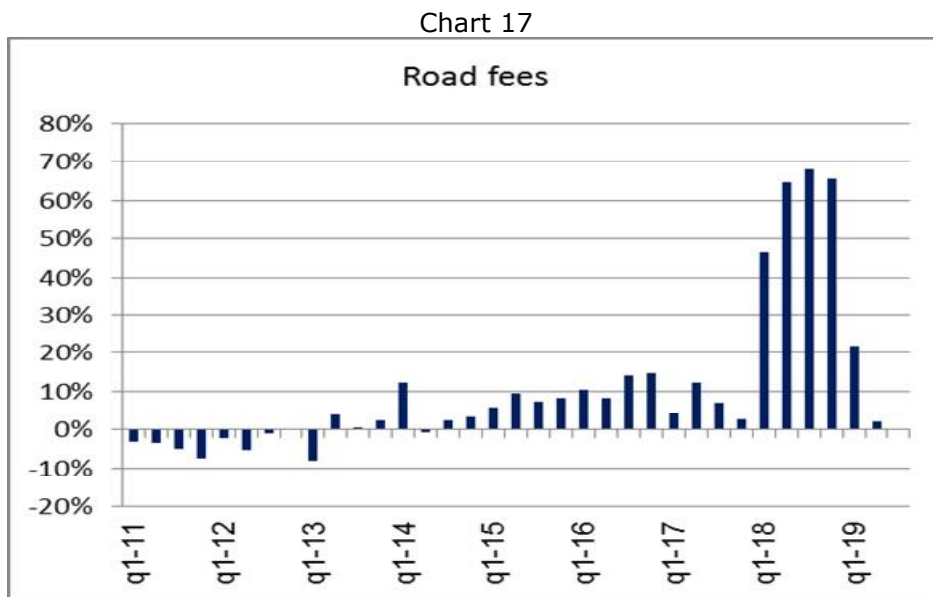
Chart 16



However, even $\frac{3}{4}$ of the net effects of excise duties on oil derivatives resulted from the ITA's cash reporting in 2018, which has reduced the basis for comparison (2018). The amount of the correction is significant, as much as 6,6 percentage points, reducing the cumulative growth for the nine months of 2019 to only 2,3%. Quarterly analysis after corrections shows that excise on oil derivatives increased by 4,7% in the first quarter, by 2,1% in the second quarter, and by 0,6% in

the third quarter (Chart 16, correction). The trends also reflect the impact of rising oil prices on the world market, generated by the political and military crisis in the Middle East, on domestic consumption of derivatives.

After exhausting the effects of rising road tax rate as of 1 February 2018, the growth rates in road tax revenues have stabilized since February 2019. There were even negative growth rates in the last two months, so the cumulative growth rate for the nine months fell to 6,1%. A review of quarterly trends shows the magnitude of the effects of changes in the Law on Excise Duties on the road tax collection (Chart 17).

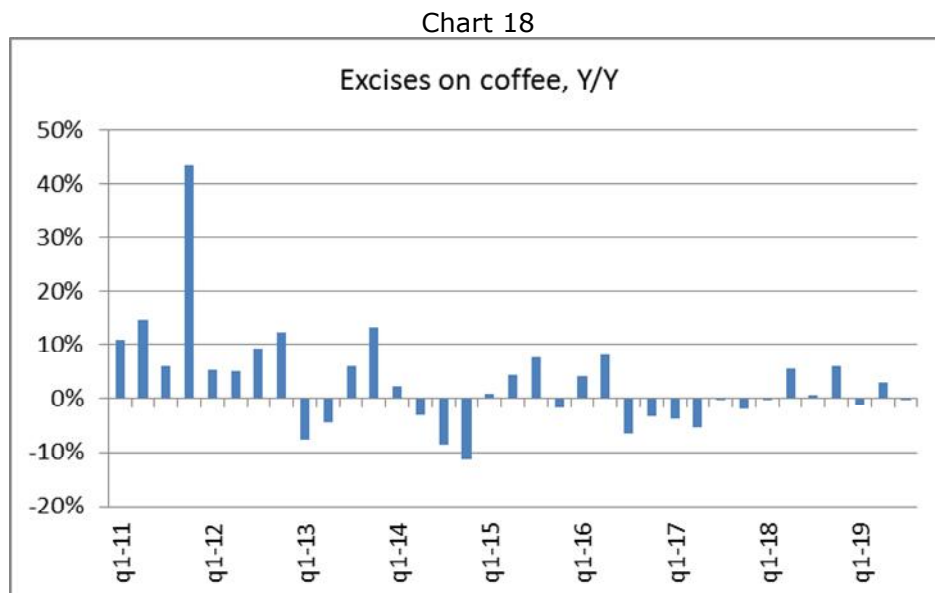


In order to perceive the real trends in road tax collection, it is necessary to decompose the road tax growth rate on the factors that generated it. The lower statistical basis for comparison in 2018 which resulted from the amount of road taxes collected through offsetting by VAT credits brought 1,3 percentage point of the growth of road tax revenue, while the effects of implementation of the changes in Law on Excises, which were manifested in January 2019,¹⁴ brought 3,7 percentage points of the growth. The correction factor with an opposite direction was a one-off payment of the road tax on the existing stocks on 31 January 2018, prior to the increase of the road tax rate, which increased base for comparison and thereby reduced the 2019 growth rate by 1,9 percentage points. Confronting negative and positive factors, comparing with the growth rate according to net cash report the growth rate of collection in the period January - September 2019 has been reduced to 2,9%.

Collection of excises on coffee increased by 0,7% in the period I-IX 2019 compared to the same period in 2018. Quarterly analysis shows that revenues fell by 1,2% in the first quarter, while a growth of 3% was realized in the second quarter. Despite a strong growth in collection in

¹⁴ The amendments to the Law on Excise Duties which increased the earmarked road tax apply from 1 February 2018, and the effects are spread over the period from 1 February 2018 to 31 January 2019.

September, the total collection in the third quarter of excises was at the level of collection in the same quarter of 2018 (Chart 18).



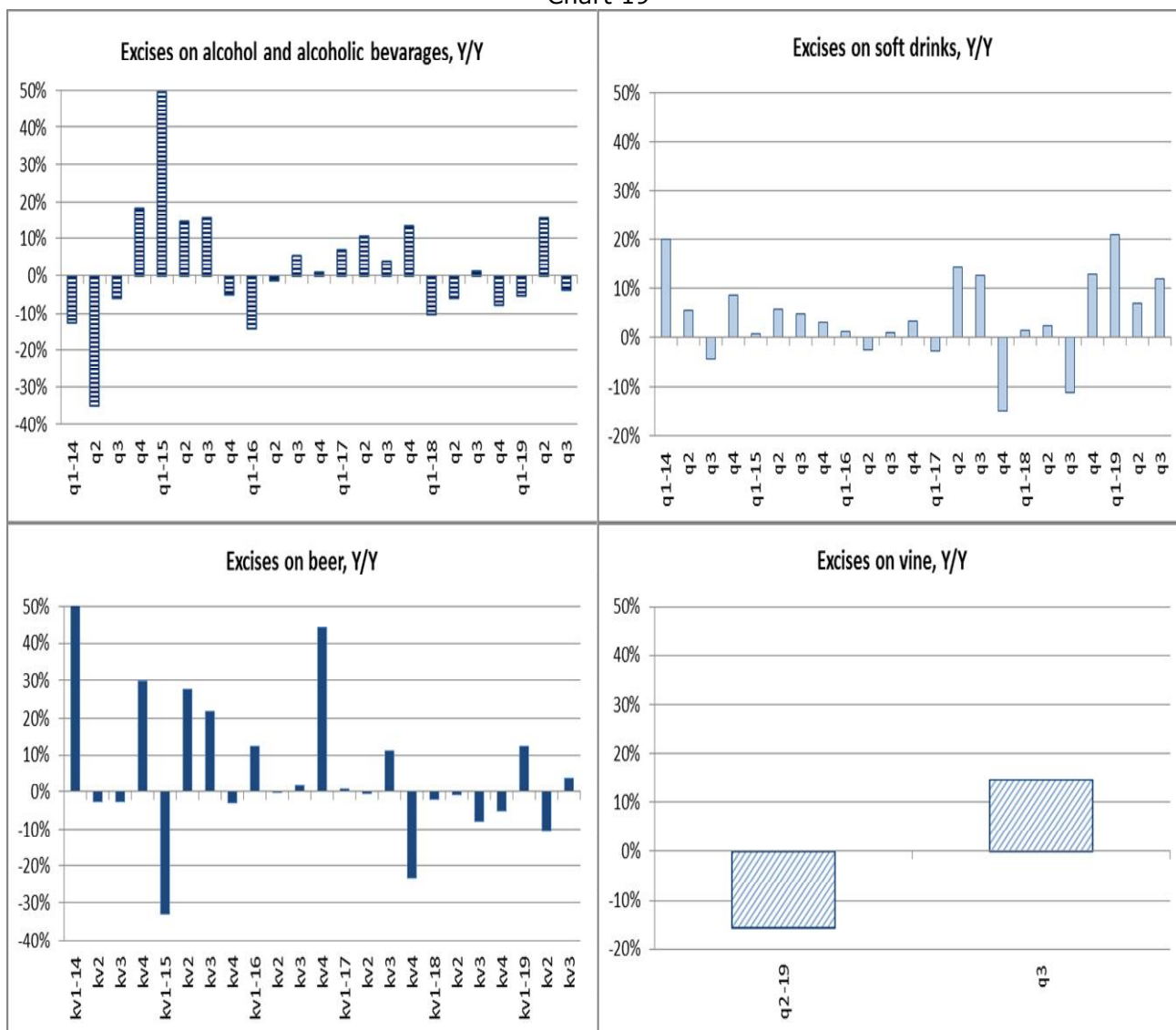
In September, negative trends in collection of excise duties on alcohol and alcoholic beverages from August continued, thus reducing the positive effects from the previous part of the year. The negative growth rates observed in the first and third quarters were neutralized by strong collection growth in the second quarter of 2019, so that the nine-month cumulative growth rate amounted 2,2% (Chart 19).

Collection of excises on non-alcoholic beverages has been recording positive growth rates for four consecutive quarters, so that at the level of nine months of 2019, a high increase of 12,3% has been recorded (Chart 19).

The growth rate of collection of excises on beer was positive in the first and third quarters of 2019 and negative in the second (Chart 19). However, it should be borne in mind that the old debts of domestic excises on beer were collected in January 2019, which increased the rate of growth of domestic excises and then of total revenues, above the real ones. After excluding the effect of the collection of old debts, the total collection of excise taxes on beer was negative -2,5%, while the collection of excises on domestic beers recorded a deep decrease of -8,8%

The excise tax on wine was introduced with the latest amendments to the Law on Excise Duties. As excises on wine have been collecting since February 2018, the comparison of the collection in the first quarter of 2019 is not relevant for the analysis. The second quarter of 2019 records a decrease of 15,6% while the third a growth of 14,4% (Chart 19).

Chart 19



2. Projections of revenues from indirect taxes for the period 2019-2022

Table 3: Revised projections of revenues from indirect taxes in million BAM (2019-2022)

Type of revenue (net)	In million BAM						Projected growth rate			
	realization	projection					2019	2020	2021	2022
	2018	2019	2020	2021	2022					
VAT	3.839,0	4.002,7	4.132,2	4.270,7	4.427,6		4,3%	3,2%	3,4%	3,7%
Excises	1.444,7	1.521,2	1.554,4	1.594,5	1.639,8		5,3%	2,2%	2,6%	2,8%
Customs	286,6	301,5	322,0	347,2	377,0		5,2%	6,8%	7,8%	8,6%
Road tax	620,7	657,2	669,7	683,1	697,5		5,9%	1,9%	2,0%	2,1%
Other	29,7	29,9	30,3	30,7	31,1		0,7%	1,3%	1,3%	1,3%
TOTAL	6.220,8	6.512,6	6.708,7	6.926,2	7.173,0		4,7%	3,0%	3,2%	3,6%
Earmarked road tax *)	-385,9	-410,8	-418,6	-427,0	-435,9		6,4%	1,9%	2,0%	2,1%
FUNDS FOR DISTRIBUTION	5.834,9	6.101,8	6.290,1	6.499,2	6.737,1		4,6%	3,1%	3,3%	3,7%

Notes:

*) The earmarked road tax amounted to 0,10 BAM /l of oil derivatives until 1 February 2018, aimed entirely for the construction of highways, and as of 1 February to 0,25 BAM /l of oil derivatives, for the construction of highways (0,20 BAM/l) and construction and reconstruction of other roads (0,05 BAM/l).

**) The amount of earmarked road tax to be distributed to users in 2018 under the provisions of the Law on Changes and Amendments to the Law on Payments into the Single Account and Distribution of Revenue¹⁵ does not fully correspond to the amount of the collected earmarked road tax shown in Table 3 (385,9 million BAM) due to the application of the new model of distribution of collected road tax as of 1st February 2018, according to which the distribution is not performed on a daily basis, but subsequently, at the end of the month for the previous month on the basis of the preliminary / final report of the ITA on collected revenues by type. The distribution of earmarked road tax of 0,10 BAM/l of derivatives according to the old model of daily distribution ended on 31 January 2018, and the distribution of an earmarked road tax of 0,25 BAM/l of derivatives to the Entities and the Brcko District according to the new model started only in March 2018.

¹⁵ Official Gazette of B&H, 91/17

Revenue projections for the period 2019-2022 are available in Table 3. In order to ensure the comparability of projected and collected revenues from indirect taxes, projections of indirect tax revenues are presented on a cash basis in accordance with ITA reporting on collection by type of revenue.

Table 4 shows projections of revenue shares in GDP. The declining trend of indirect taxes in GDP is explained by the projected decline in the share of consumption in GDP (DEP).¹⁶ The projected share of indirect taxes in total consumption over the next period is stable, amounting to 19,7% in 2019 and 2020 (an increase of 0,4 p.p. compared to 2018), and 19,8% in 2021 and 2022.

Table 4: Revised projections of revenues from indirect taxes in % of GDP (2019-2022)

Type of revenue (net)	in % of GDP				
	realization	projection			
	2018	2019	2020	2021	2022
VAT	11,3%	11,3%	11,2%	11,0%	10,9%
Excises	4,2%	4,3%	4,2%	4,1%	4,0%
Customs	0,8%	0,9%	0,9%	0,9%	0,9%
Road tax	1,8%	1,9%	1,8%	1,8%	1,7%
Other	0,1%	0,1%	0,1%	0,1%	0,1%
TOTAL	18,3%	18,4%	18,2%	17,9%	17,6%
Earmarked road tax *)	-1,1%	-1,2%	-1,1%	-1,1%	-1,1%
FUNDS FOR DISTRIBUTION	17,2%	17,3%	17,0%	16,8%	16,6%

GDP data sources: BHAS (2018) and DEP Projections (Macroeconomic Projections 2020-2022, September 2019)

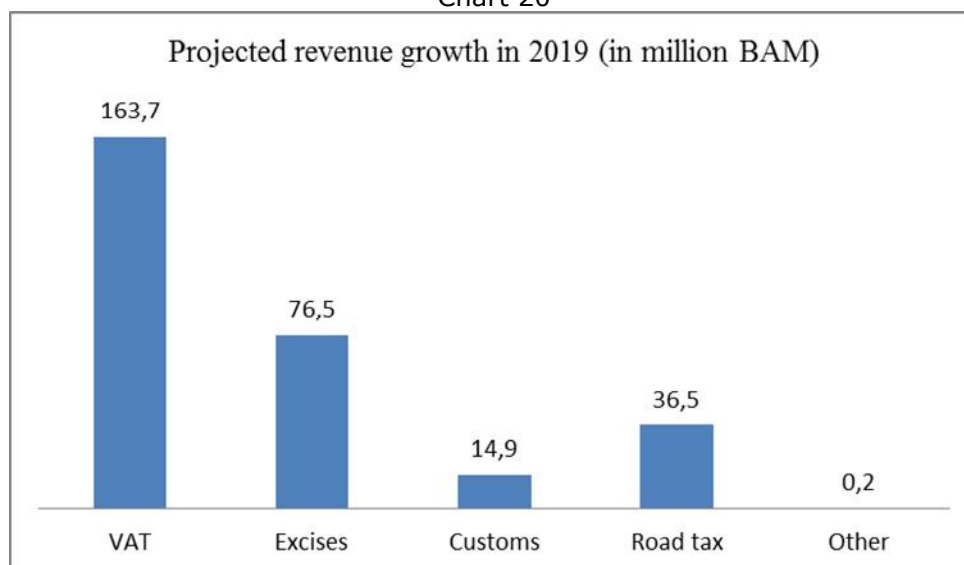
2.1. Projections for 2019

The projected amount of net collection of indirect taxes for 2019 amounts 6.512,6 million BAM, which is 4,7% more than in 2018. The projected revenue growth in the absolute amount is 291,8 million BAM.

Chart 20 shows shares of individual types of revenues in the projected absolute growth of total revenues (in million KM).

¹⁶ According to the DEP projections (September, 2019), the share of total consumption in GDP will fall from 94,4% in 2018 to 89,1% in 2022.

Chart 20



VAT

VAT revenues have the largest contribution to the projected absolute growth of revenues in 2019 (163,7 million BAM). The main factors that caused the projected annual growth rate of collection (4,3%) to be slightly below the realized rate of net VAT growth in the period I-IX 2019 are the following:

1. Annual projections of macroeconomic indicators (DEP), primarily growth rates of private consumption, are below the rate of growth of net VAT in the period I-IX 2019.
2. Basis for comparison, which was relatively more enlarged in the period I-IX 2018 than in the rest of the year, based on the practice of offsetting excise duties on oil derivatives and road taxes by VAT credits. Collection of domestic VAT was enlarged on this basis by 2,0% in the period I-IX 2018, in comparison with the enlargement of 1,1% for the period X-XII 2018.

Excises

The projected amount of total excise revenues in 2019 amounts to 1.521,2 million BAM, which is 76,5 million BAM or 5,3% more than the collection in 2018.

Revenues from excises on oil derivatives

The large part of the increase in excises in 2019 is due to the projected increase in excise tax on oil derivatives, which is significant due to the frequent practice of offsetting the liabilities for excise duties and road tax by VAT credits in 2018, which reduced the base for comparison. The projected high growth of excises on oil derivatives is also supported by favorable trends of collection of these revenues in the period I-IX 2019 (see part 1.3.2. Collection in January-September 2019, Chart 16).

Revenues from excises on tobacco

The projections of excises on tobacco products follow current and historical trends, bearing in mind that their dynamics depend on the business policies of 3-4 large tobacco companies. Trends are expected to worsen in the fourth quarter, as the tobacco industry, unlike in previous years, adjusted its retail prices even six months after the last increase in the specific excise tax on tobacco (1 January 2019). Keeping retail prices below expected levels, in the case of shifting the total added tax burden into prices, brought the growth in sales and revenues above the expectations. Since the maximum of cigarette and other tobacco products sales was recorded in the summer, the consumption is expected to decelerate and tax revenues to slow down in the fourth quarter. On the other hand, since the harmonization of excise duties on cigarettes with the legal ceiling on taxation was completed, there will be no more pressure on both tobacco companies and consumers for adjustments, as has been the case so far. This will greatly relax the tobacco industry's business policy and consumption of tobacco users, which could also have a negative impact on revenues in the last quarter of 2019. Based on these assumptions, an increase of 4,5% is expected in excise tax revenues on tobacco products.

Road tax

The projected amount of road tax in 2019 amounts to 657,2 million BAM, which is 5,9% more than the collection in 2018. The projected road tax growth of 36,5 million BAM in 2019 is based on:

1. The effects of increase of the earmarked road tax rate in January 2019 compared to January 2018 (the amendments to the Law on Excise Duties apply from 1 February 2018);
2. Estimates of macroeconomic indicators (DEP);
3. A lower basis for comparison (2018) on the basis of offsetting of road tax liabilities and VAT credits.

Customs

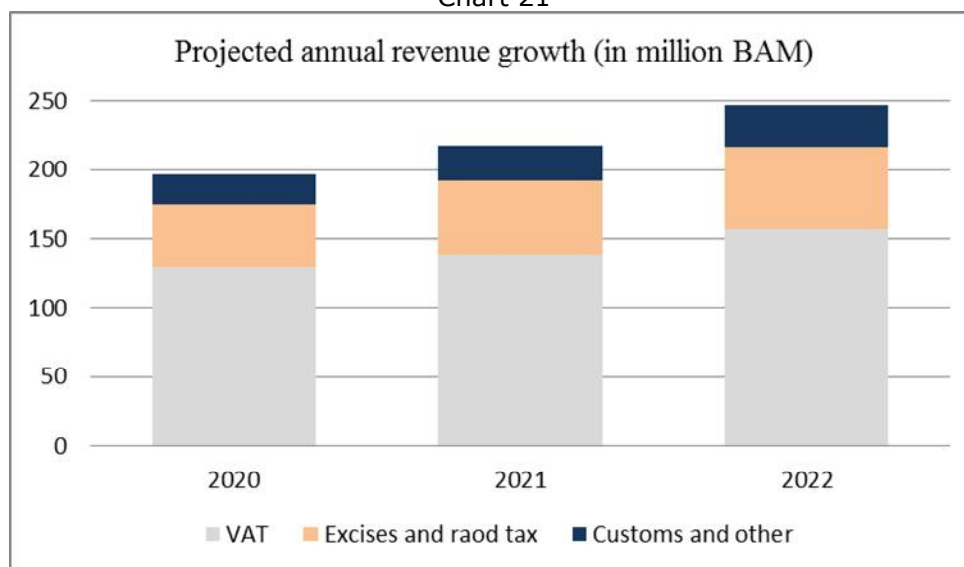
The projection of customs revenues for 2019 amounts to 301,5 million BAM and is based on current collection trends and projections of imports growth.

2.2. Projections for the period 2020-2022

The projected revenue growth rates for 2020, 2021 and 2022 are 3,0%, 3,2% i 3,6% respectively. Revenue projection in this period is based on projected relevant macroeconomic indicators, historical seasonal collection scheme and projections of individual revenue categories for 2019. As in the case of 2019, projections are made on a cash basis. It is assumed that there will be no offsetting the liabilities for road tax by VAT credits in 2019. If they eventually appear, this can be reflected in the deviations of collection from projections by type of revenue, rather than the total collection of indirect taxes.

Chart 21 shows the projected annual revenue growth by type.

Chart 21



The largest generator of the surplus of indirect taxes revenues in the mentioned period is VAT, given its significant share in revenues and planned stable growth rates in line with projections of consumption trends. In all three of these years, VAT revenues generate over 63% of absolute annual projected revenue growth.

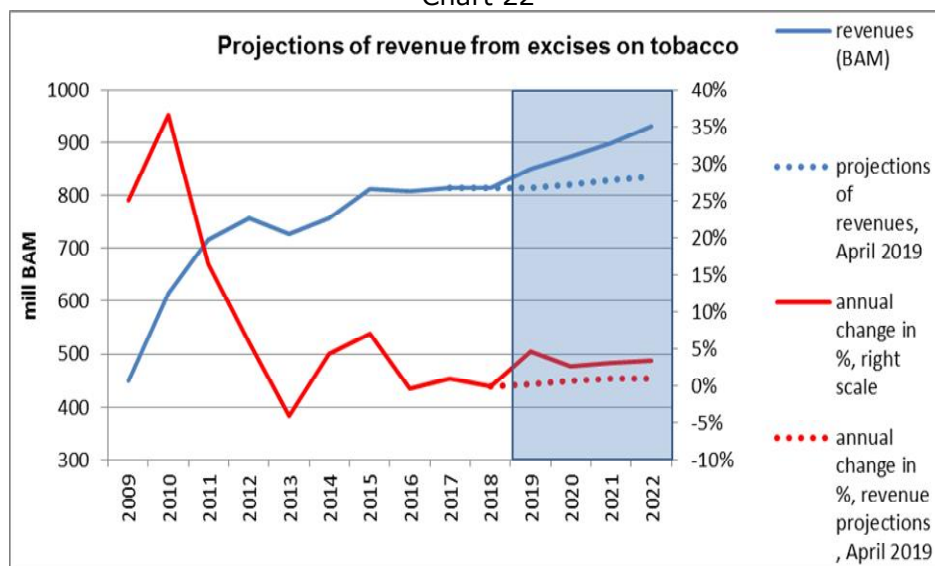
Road tax revenues do not contribute significantly to the projected absolute revenue growth in the period 2020-2022 due to the exhaustion of the effects of tax rate increase. Projections of excises (with the exception of part of excise duty on tobacco that is charged *ad valorem*) and road taxes are based on the projections of real growth rates of appropriate macroeconomic indicators, which is another reason, in addition to falling share of consumption in GDP, of the decrease of projected revenue shares in GDP (Table 4).

After completion of the process of harmonization of excise duties on cigarettes with EU standards in 2019, in the next three years stabilization in the tobacco market and then recovery can be expected. The realization of these forecasts depends on the growth of income, which could stimulate the smokers, who switched to cut tobacco earlier due to high cigarette prices, to return again to cigarette consumption. In such circumstances it is realistic to expect at first stagnation and then decline in the market of cut tobacco, especially because the tax burden on cut tobacco will be higher as of 1 January 2020 due to alignment with the movement of retail cigarette prices in 2019.¹⁷ Given that it is essential to stabilize the market, cigarette prices are expected to stabilize on average. Due to positioning on the market, there may be changes in the prices of individual brands, especially given the complete uncertainty about the future of domestic cigarette production. It is expected that the value of the cigarette market will follow a rise in consumption, which, in the conditions of maintaining retail prices at their level or even reducing them, could result in a rise in cigarette consumption after a decade of sharp decline. In such circumstances, it can be expected the excise tax revenue growth of 2,7% in 2020 and of 3% and 3,4% in 2021 and 2022, respectively (Chart 22). In addition to macroeconomic trends and income growth, the

¹⁷ The Governing Board of the ITA is expected to make a decision, based on the Law on Excises, on the amount of specific excise duty on smoking tobacco by the end of October 2019.

effectiveness of measures to combat the black market remains an important factor in achieving projected growth in excise tax revenue collection.

Chart 22



3. Differences compared to previous projections

The differences between the projections of indirect taxes for the period 2019-2021 compared to the projections from April 2019 result from changes in the trends of the collection of certain types of revenues and changes in the projections of macroeconomic indicators (see Charts 1-3 in section 1.1. Projections of macroeconomic indicators).

Table 5: Differences of projection for the period 2019-2021 compared with the projections from April 2019.

	In million BAM				in % of GDP *)			
	2019	2020	2021	2022	2019	2020	2021	2022
VAT	23,3	25,9	24,2	22,7	0,07%	0,07%	0,06%	0,06%
Excises	41,1	58,8	77,4	100,1	0,12%	0,16%	0,20%	0,25%
Customs	-0,8	-2,4	-1,0	0,7	0,00%	-0,01%	0,00%	0,00%
Road tax	0,8	1,5	1,5	1,6	0,00%	0,00%	0,00%	0,00%
Other	-4,6	-4,7	-4,7	-4,7	-0,01%	-0,01%	-0,01%	-0,01%
TOTAL	59,7	79,1	97,4	120,4	0,17%	0,21%	0,25%	0,30%

*) GDP projection, DEP, September 2019

It can be concluded from Table 5 that the biggest differences from previous projections are on excise tax revenues. The biggest part of these differences are related to excises on tobacco (87,8% of excises in 2019 and over 90% of excises in the next years). Differences in projections of excises on tobacco for 2019 originate mainly from a policy of longer delaying of the increases in retail cigarette prices and takeover of a part of the additional tax burden at the expense of the profits of tobacco companies, which contributed to higher cigarette sales and collection of excise

tax revenues above expectations. In addition, a factor which affected growth of revenues in the summer months was the increase in seasonal consumption of non-residents. In the next years, differences in the projections of excises on tobacco result from a higher base for comparison (2019), as well as from alignment of the movements of value of the cigarette market with the macroeconomic projections of the DEP.

Positive differences in VAT revenue projections for 2019 result from larger adjustments downwards on the amounts of refunds than those of gross revenues, compared to April projections of the Unit. Although projections of gross VAT revenue have been adjusted downward due to deterioration in collection trends compared to the first quarter of 2019, because of a decrease in the projected amount of refunds for 2019, which was made on the basis of latest trends of payments, the net collection has been adjusted upwards compared to April projections. In the coming years, the differences in VAT projections come again from a higher base for comparison (2019) and slight differences in the projections of private consumption growth (Chart 2).

Small differences in customs revenue projections come from the changes in import projections, while, again small, differences in road tax projections come from the projected higher increase in the road tax base compared to the base for excise duties on oil derivatives, due to changes in the structure of the bases according to the latest data available to the Unit.

4. Risks

Given the basic set of projections of indirect taxes and overall economic conditions in B&H and in the world, the realization of the projected level of indirect tax revenues in the period 2019-2022 is subject to the following risks:

- Projections of indirect tax revenues are closely related to the projections of macroeconomic indicators of DEP. Any deviation of these parameters from the projected value represents the risk for revenue projection;
- The weak economic recovery of the main export partners of B&H (EU, CEFTA countries) increases the level of risk for achievement of macroeconomic projections, and thus projections of indirect tax revenues as a whole;
- The weakening of the measures to combat black market of tobacco products after completion of the harmonization of tax burden on cigarettes in B&H with the EU standards;
- The massive outflow of the population can cause a reduction in the taxable consumption of unemployed citizens leaving B&H which has been financed by incomes from the grey economy or by remittances from abroad, as well as the consumption of labour-intensive persons leaving B&H, whose income, due to family relocations, will mostly be spent outside B&H;
- The appearance of external shocks, in view of rising oil prices and derivatives in the world market beyond current expectations, will hit the market of derivatives in B&H and will negatively affect the derivative consumption and thus the execution of projections of revenues from excise duties on derivatives and road taxes from the price of oil derivatives.

Coffee as excise goods in European Union countries and Bosnia and Herzegovina - Part I

(Author: Mirjana Popović, Expert Advisor - Macroeconomists)

1. Introduction

Coffee was discovered in the 9th century and originates from the Ethiopian region. In the 14th century, slave traders brought coffee to Arabia from where the coffee trade spread throughout the world. The main place for coffee sales was the Mocha city. The first place where coffee could be consumed was opened in London in the 17th century and was called "Penny University" because a cup of coffee could be bought for one penny. This is the place where the London Stock Exchange was established.

Coffee is a tropical plant that usually grows in areas near the equator with a lot of rain and very high temperatures, over 21 degrees Celsius throughout the year. Coffee beans are the yield of the coffee tree, red berries that contain green coffee beans. The roasting process gives them a distinctive brown color. Although there are many different types of coffee, Arabica and Robusta make up over 90.0% of the coffee produced worldwide. Arabica is the traditional, highest quality and most expensive type of coffee, while Robusta has a higher amount of caffeine in seeds and can be grown in climates where Arabica doesn't succeed well. Robusta is used as a cheaper substitute for Arabica, and is usually mixed with a certain amount of Arabica because of its bitterly sour taste.

2. Coffee production

Today, more than 60.0% of the world's coffee production is made from Arabica bean, which are much more demanding than Robusta bean. Arabica comes from Ethiopia, while Robusta comes from Indonesia and can be grown even at altitudes between 200 and 600 meters. The most important producers of Arabica are Brazil and Colombia, while the most significant producers of Robusta are Africa and Asia. The most famous varieties of Arabica coffee are Colombian Milds, Other Milds and Brazilian Naturals.

There are around 70 countries of coffee producers. Brazil is the largest coffee producer and the second largest country where coffee is consumed. In 2005, about 28.2% of the world's green coffee bean harvest came from Brazil. This made Brazil the largest coffee producer in the world. Its coffee sector employs more than five million people and contributes 40.0% of the world's total coffee supply. Vietnam is the second largest coffee producer in the world and a major producer of Robusta coffee, accounting for 16.0% of world production. Coffee production in Vietnam creates jobs for more than one million workers.

Colombia is the second largest producer of Arabica coffee after Brazil. In Colombia, 2.4 million people or about 25.0% of the country's rural population depend economically on coffee production. Indonesia is the second largest exporter of Robusta coffee in the world, produced by about 1.5 million small farmers. In Africa, Ethiopia is the largest coffee producer. The European Union (EU) is the primary coffee market and coffee producers export about 60.0% of raw coffee to the EU.¹⁸

¹⁸ www.ecf-coffee.org

Table 1. Distribution of green coffee by type based on group of producer countries

Arabica			Robusta
Colombian Milds	Other Milds	Brazilian naturals	
Colombia	Bolivia	Brazil	Angola
Kenya	Burundi	Ethiopia	Benin
Tanzania	Costa Rica	Paraguay	Cameroon
	Cuba		Central African Rep.
	Dominican Republic		Congo
	Ecuador		Congo Democratic Rep.
	El Salvador		Cote d'Ivoire
	Guatemala		Equatorial Guinea
	Haiti		Gabon
	Honduras		Ghana
	India		Guinea
	Jamaica		Indonesia
	Malawi		Liberia
	Mexico		Madagascar
	Nicaragua		Nigeria
	Panama		Philippines
	Papua New Guinea		Sierra Leone
	Peru		Sri Lanka
	Rwanda		Thailand
	Timor-Leste		Togo
	Venezuela		Trinidad and Tobago
	Zambia		Uganda
	Zimbabwe		Vietnam

Source: International Coffee Organization

3. Coffee trade

Coffee is one of the largest export products for developing countries and the well-being of the international coffee market. Coffee affects the lives of many people engaged in its production and sale, i.e. trade in coffee. In addition, it is widely used and it is a very "visible" product so it is therefore often the focus of political debate on development issues and relations between developed and developing countries.

The worth of coffee trade is over \$ 20 billion annually. Coffee is considered to be the most important agricultural commodity in global trade and the most important export commodity after crude oil and is of great economic importance to the producing countries. More than 100 million people make a living from coffee production and processing, and many countries are completely dependent on the coffee trade. More than 100 million people make a living from production and processing of coffee, and many countries are completely dependent on the coffee trade. The most important trading venues for coffee are the London International Financial Futures Exchange, the New York Board of Trade, the Bolsa de Mercadorias & Futuros and the Tokyo Grain Exchange.¹⁹

¹⁹ <https://markets.businessinsider.com/commodities/coffee-price>

4. Coffee prices in the world market

Coffee is a commodity traded on the Stock Exchange. Prices for cheaper coffee - Robusta are generally more stable than prices for more expensive coffee - Arabica. Prices for crude coffee on the world market are presented in the form of a composite price indicator of the International Coffee Organization "ICO composite indicator" for Arabian coffee varieties (Columbian Milds, Other Milds, Brazilian Naturals) as well as for Robusta coffee.

According to the data from the International Coffee Organization²⁰, the monthly average of the ICO composite indicator increased by 7.1% in June 2019 compared to the previous month, reaching 99.97 US cents/lb. This is the first increase in the monthly average since January this year. This is shown in Picture 1.

Picture 1. ICO composite indicator daily prices

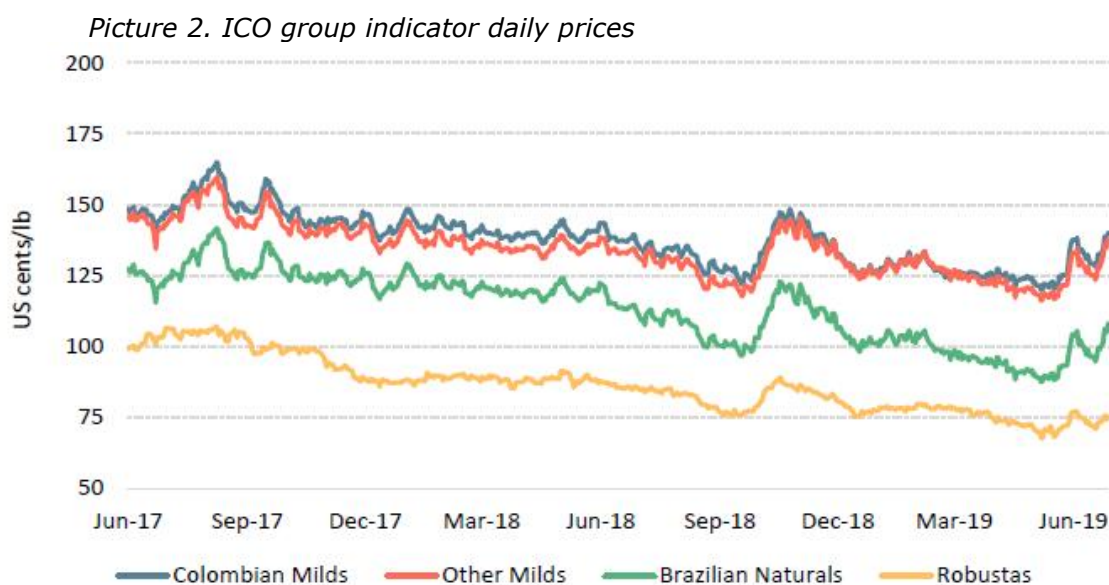


Source: International Coffee Organization

Average prices for all group indicators increased in June 2019 as shown in Picture 2. Prices for the Brazilian Naturals experienced the highest increase, averaging 100.69 US cents/lb, or 9.5% more than in the previous month. Robusta coffee prices rose 4.1% to 74.02 US cents/lb. Colombian Milds rose 7.3% or 133.49 US cents/lb while Other Milds rose 7.6% to 129.73 US cents/lb.

As a result of these price developments, the difference between Colombian Milds and Other Milds in June 2019 fell 2.3% to 3.76 US cents/lb, compared to May 2019 data.

²⁰ www.ico.org



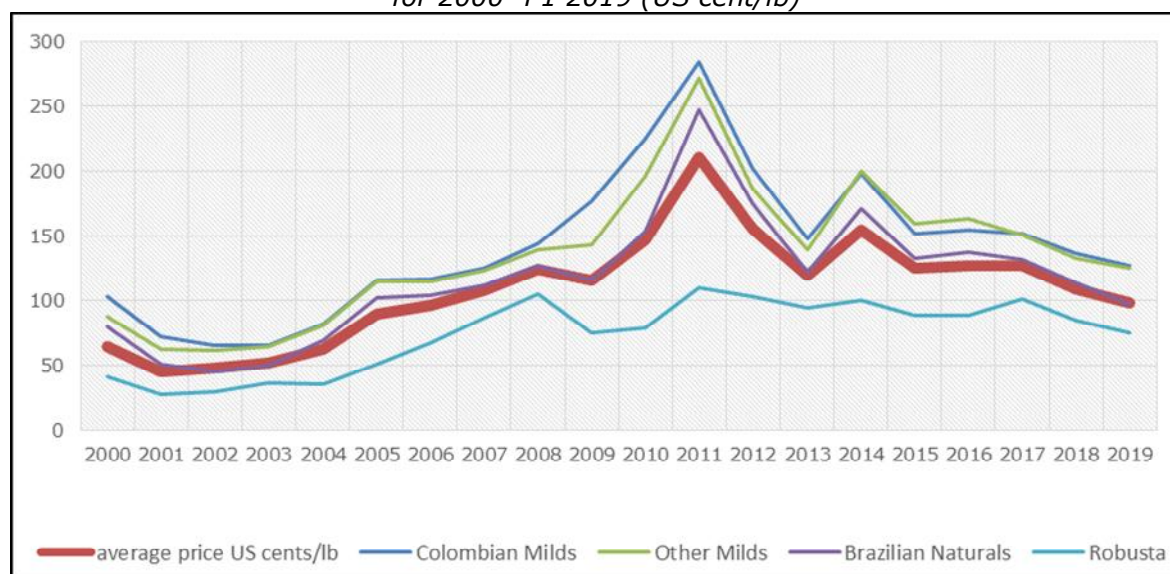
Source: International Coffee Organization

In May 2019, world coffee exports rose for 19.4% or 11.6 million bags compared to May 2018. It is estimated that global consumption of coffee in 2019 will increase by 2.0%, to 164.64 million bags, but despite continued demand growth, expected global production surplus of 3.11 million bags.

Chart 1. presented the average of composite and group annual price indicators presented in US cent/lb in 2000 - P1 2019²¹ for each year individually. From the data we can see that in the observed period, coffee prices were highest in 2011, after which coffee prices fell.

²¹ P1 represents the first half of the year, or period January-June

Chart 1. Average Composite and Group Annual Coffee Price Indicators for 2000- P1 2019 (US cent/lb)



Source: International Coffee Organization²²

Because coffee market prices have fallen significantly in recent years, revenue from coffee sales is often insufficient to cover production costs, which has hit hard especially small farmers. The demand for coffee is constant. However, the price of coffee beans is influenced primarily by the weather and the political situation in the producer countries.

5. Importance of coffee trade in EU countries

Given that the EU has the highest coffee consumption per capita in the world and is the largest importer of coffee, it is important to look at the data on import and export of coffee in EU member states. According to the International Coffee Organization, annual consumption of coffee is more than 50 million bags²³ respectively over 3 million tons of green coffee, or consumption more than 4 pounds of roasted coffee per capita in EU. Data on the consumption, import and export of coffee describe the economic importance of the coffee sector both in the EU food and beverage industry and in the economic importance of coffee for the EU. Given the great economic importance of coffee, we will analyze EU trade below.

5.1. Imports of green coffee into EU countries by volume, origin and type of coffee

Green coffee trade within the EU member states (hereinafter referred to as EU28)²⁴ is very significant. Although Eurostat data are reliable, real imports by origin or type of coffee in practice is very difficult to determine with any accuracy. When green coffee arrives at major coffee ports within the EU28, the origin of green coffee may be recorded as Germany when arrives at port of Hamburg or as Belgium when unloads at port of Antwerp. Therefore, an analysis of green coffee

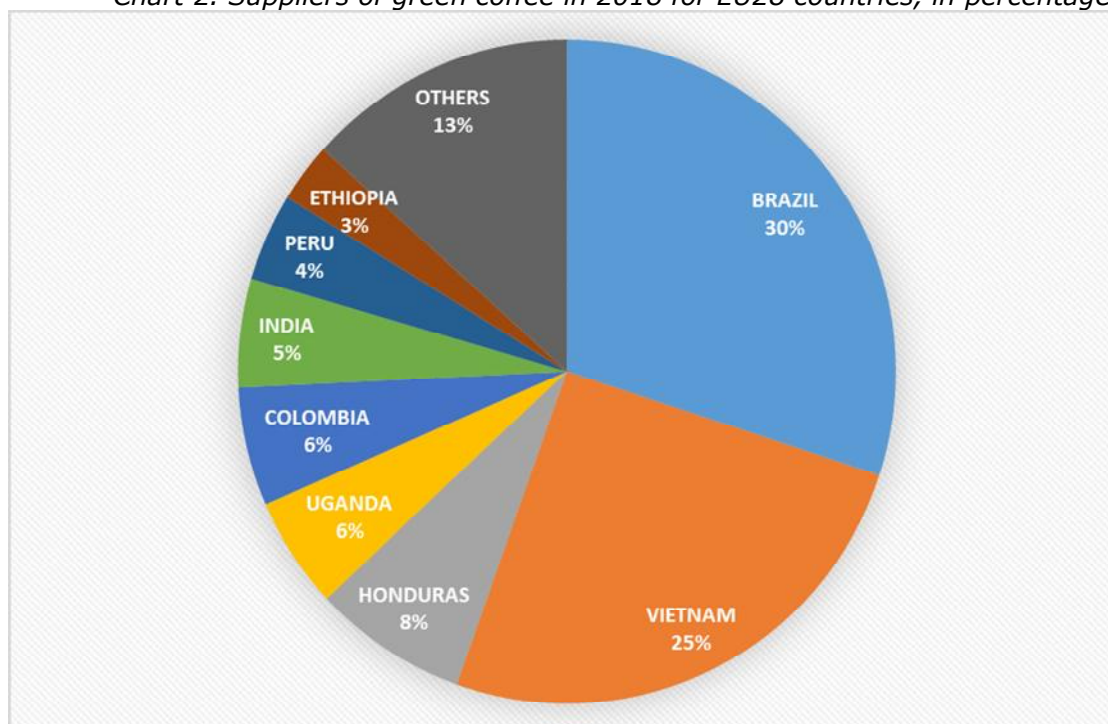
²² www.ico.org

²³ 1 bag = 60 kg of coffee

²⁴ The EU28 covers all 28 EU Member States

imports into the EU28 based on Eurostat data indicates trends. Chart 2 shows the largest percentage of green coffee suppliers to EU28 countries in 2018.

Chart 2. Suppliers of green coffee in 2018 for EU28 countries, in percentage



Source: Eurostat

According to the same rule as for the volume of green coffee imports, distribution trends of green coffee imports by type of coffee in the EU28 are shown in Table 2.

Table 2. EU28 imports by type of coffee, period 2017-2018, in percentage

Total EU28 green coffee imports by type of coffee (%)		
Type of coffee	2017	2018
Arabica	62.9	60.5
<i>Brazilian Naturals</i>	34.2	33.2
<i>Colombian Milds</i>	8.2	7.2
<i>Other Milds</i>	20.5	20.1
Robusta	34.8	35.4
Other types of coffee	2.3	4.1
Total	100.0	100.0

Source: Eurostat²⁵

From the data we can see that Arabica dominates in imports in 2017 and 2018. The import of green coffee beans of Arabica compared to green coffee beans of Robusta has almost doubled.

²⁵ Intra-EU trade is excluded

5.2. Import of decaffeinated green coffee, standard roasted coffee, roasted decaffeinated coffee and instant coffee

Although green coffee imports represent more than 95.0% of total amount of coffee products imported into the EU28, analysis of other coffee products is also important for a better understanding of the European coffee market. Table 3. shows the percentage of EU28 total imports of all types of coffee from non-EU28 countries in period 2016-2018.

Table 3. EU28 imports of all types of coffee from non-EU28 countries, period 2016-2018, in percentage of total imports

EU28 imports of green coffee and other coffee products from non-EU28 countries (%)			
Type of coffee	2016	2017	2018
Green coffee	96.0	95.8	95.8
Decaffeinated green coffee	0.4	0.4	0.5
Roasted coffee	1.7	1.9	2.0
Roasted decaffeinated coffee	0.1	0.2	0.2
Coffee extracts	1.7	1.7	1.5
Total	100.0	100.0	100.0

Source: Eurostat

Table 4. shows the percentage of increase or decrease in total EU28 imports all types of coffee from non-EU28 countries for 2017 and 2018. Comparisons were made compared to the previous year.

Table 4. EU28 increase or decrease in imports of all types of coffee from non-EU28 countries, in percentage

EU28 imports of green coffee and other coffee products from non-EU28 countries (%)		
Type of coffee	2017	2018
Green coffee	95.7	105.2
Decaffeinated green coffee	115.6	110.8
Roasted coffee	105.2	111.4
Roasted decaffeinated coffee	105.5	114.7
Coffee extracts	91.6	96.8
Total	100.0	100.0

Source: Eurostat

Eurostat data show that decaffeinated green coffee imports have been growing significantly in recent years and are 10.8% higher in 2018 compared to 2017. Standard roasted coffee imports are also on the rise and in 2018 increased by 11.4% compared to 2017, while imports of roasted decaffeinated coffee also achieved an increase of 14.7% compared to the previous year. Imports of instant coffee has a tendency to decline in 2018.

Several coffee producing countries have significant instant coffee production and are major exporters of this product. Table 5. shows the EU28 percentage of total instant coffee imports from non-EU28 countries in the period 2016-2018.

Table 5. EU28 instant coffee imports from non-EU28 countries, period 2016-2018, in percentage of total imports

EU28 imports instant coffee from non-EU28 countries (%)			
Country	2016	2017	2018
Brazil	23.5	20.1	21.1
India	10.4	13.1	16.8
Ecuador	18.6	18.0	13.4
Vietnam	7.5	11.1	13.0
Switzerland	10.1	9.9	10.9
Colombia	8.4	8.9	9.4
Others	21.5	18.8	15.4
Total	100.0	100.0	100.0

Source: Eurostat

All except Switzerland of the six largest suppliers of instant coffee in the EU28 countries are countries that produce coffee. Ecuador has been a major supplier of instant coffee to EU28 countries, but its market share is sharply declining in 2018 and now it is the third supplier with 13.4%. Brazil is still on top. India has taken a very high position and it is the second largest instant coffee supplier to EU28 countries. Its market share in 2018 has increased compared to previous years and it accounts for 16.8%. Vietnam pushed Switzerland to the fifth position, and its exports continued a steady climb.

Analyzing the data on imports of roasted coffee (with and without caffeine) to EU28 countries from non-EU28 countries, from Table 6. we can see that the largest import is from Switzerland.

Table 6. EU28 Imports of roasted coffee (with and without caffeine) to EU28 countries from non-EU28 countries in period 2016-2018, in percentage

EU28 Imports of roasted coffee (with and without caffeine) from non-EU28 countries (%)			
Country	2016	2017	2018
Switzerland	90.2	90.7	94.4
United States	6.2	4.5	1.7
Brazil	1.0	1.9	1.1
Bosnia and Herzegovina	1.0	1.1	1.0
Syria	0.8	1.0	1.0
Serbia	0.8	0.8	0.9
Total	100.0	100.0	100.0

Source: Eurostat

Bosnia and Herzegovina (B&H) occupies fourth place in the table above. Due to the geographical location and proximity of individual EU28 countries as well as lower transportation costs, a deeper analysis reveals that Croatia and Slovenia are the most important importers of roasted coffee from B&H from the EU28 group of countries.

Table 7. shows the percentage increase or decrease in imports of roasted coffee (with and without caffeine) to EU28 countries from non-EU28 countries for 2017 and 2018. Comparisons were made compared to the previous year.

Table 7. Increase or decrease imports of roasted coffee with and without caffeine to EU28 countries from non-EU28 countries, in percentage

EU28 imports of roasted coffee with and without caffeine from non-EU28 countries		
Country	2017	2018
Switzerland	105.7	117.0
United States	75.7	41.8
Brazil	196.6	63.2
Bosnia and Herzegovina	118.0	109.4
Syria	138.0	111.0
Serbia	109.2	116.3

Source: Eurostat

EU28 countries imported 17.0% more roasted coffee (with and without caffeine) from Switzerland in 2018 compared to 2017. Imports of standard roasted coffee to EU28 countries from non-EU28 countries have fallen sharply. Imports from the United States (US) in 2018 decreased by -58.2% compared to 2017, while imports from Brazil in 2018 decreased by -36.8% compared to the previous year. B&H as the fourth largest supplier of roasted coffee in the EU28 countries delivered 9.4% more roasted coffee in 2018 compared to 2017.

5.3. Coffee exports from EU28 countries

EU28 countries are not only the main importer of green coffee. These countries are also a significant exporter of coffee and coffee products. Imports of decaffeinated green coffee and standard roasted coffee into EU28 countries are modest compared to exports of the same products. Table 8. shows the percentage of total EU28 exports of green coffee and other coffee products to non-EU28 countries over a three-year period.

Table 8. Total EU28 exports of green coffee and other coffee products to non-EU28 countries, period 2016-2018, in percentage

EU28 exports of green coffee and other coffee products to non-EU28 countries (%)			
Type of coffee	2016	2017	2018
Green coffee	13.7	12.1	13.6
Decaffeinated green coffee	32.1	30.7	28.1
Roasted coffee	38.4	41.7	42.7
Roasted decaffeinated coffee	0.9	0.9	0.9
Coffee extracts	14.9	14.6	14.7
Total	100.0	100.0	100.0

Source: Eurostat

Table 9. shows the percentage increase or decrease in EU28 exports of green coffee and other coffee products to non-EU28 countries for 2017 and 2018. Comparisons were made compared to the previous year.

Table 9. Increase or decrease in EU28 exports of green coffee and other coffee products to non-EU28 countries, in percentage

EU28 exports of green coffee and other coffee products to non-EU28 countries (%)		
Type of coffee	2017	2018
Green coffee	90.8	116.4
Decaffeinated green coffee	98.3	94.7
Roasted coffee	111.3	106.3
Roasted decaffeinated coffee	107.9	97.1
Coffee extracts	100.2	104.5

Source: Eurostat

Exports of green coffee from EU28 countries increased by 16.4% in 2018 compared to 2017, exceeding the record levels recorded in 2016. Decaffeinated green coffee exports continued to decline for the third consecutive year, falling by -5.3% in 2018 compared to 2017. Exports of roasted coffee in 2018 kept the upward trend when it comes to standard roasted coffee 6.3%, while exports of decaffeinated roasted coffee declined -2.9% in 2018 compared to the previous year. Exports of instant coffee increased by 4.5% after being at the same level over the previous three years.

Twenty major destinations for the export of roasted coffee (with and without caffeine) from the EU28 in period 2016-2018 are shown in Table 10.

Table 10. Total EU28 exports of roasted coffee (with and without caffeine) to non-EU28 countries in period 2016-2018, in percentage

EU28 exports of roasted coffee (with and without caffeine) to non-EU28 countries (%)			
Russian Federation	15.1	15.6	16.4
Ukraine	11.3	11.5	12.0
United States	11.3	12.1	11.5
Switzerland	9.5	8.0	8.1
Norway	5.0	4.8	4.6
Canada	3.6	4.3	4.5
Australia	5.7	5.4	4.4
Turkey	2.8	2.7	3.2
Israel	2.3	2.0	2.2
China	2.1	2.3	2.0
United Arab Emirates	2.8	2.2	1.9
South Korea	1.8	1.9	1.9
Albania	1.9	1.7	1.8
Japan	1.8	1.7	1.8
Saudi Arabia	1.2	1.3	1.8
Belarus	2.0	1.6	1.6
Libya	0.5	0.7	1.3
Serbia	1.2	1.2	1.3
Bosnia and Herzegovina	1.4	1.2	1.2
Brazil	1.3	1.2	0.9
Others	15.5	16.5	15.6
Total	100.0	100.0	100.0

Source: Eurostat

The Russian Federation remained the largest destination outside the EU28 countries, absorbing 16.4% of total exports and at the same time increasing its demand. Ukraine has exceeded the US and is currently the second largest buyer of coffee with 12.0% of total EU28 exports. Sales to Ukraine also increased in 2018. The US is now the third destination for EU28 roasted coffee exports with 11.5% of total exports. Switzerland remains the fourth most important destination for the export of roasted coffee at 8.1%. These four countries, Russia, Ukraine, US and Switzerland are represent almost 50.0% of total exports of roasted coffee from the EU28 (48.0% in 2018) and set the pace for the development of EU28 sales of roasted coffee on external markets. However, other non-traditional markets also show a positive trend in period 2016-2018 such as Canada, Libya, Turkey and Saudi Arabia. Libya is currently the fastest growing market for roasted coffee from the EU28 after exports of this product to Libya have increased significantly over the observed period. On the other hand, exports to the United Arab Emirates, Australia and Brazil have decreased significantly. Bosnia and Herzegovina also represents a significant market for EU28 exports of roasted coffee (with and without caffeine).

Regarding exports of instant coffee from the EU28 to non-EU28 countries, the Russian Federation remains the largest importer, although the share of exports to this country continued to decline in 2018. This negative trend started in 2010, when the share of the Russian Federation in the EU28 exports was 33.0%. However, the Russian Federation still absorbs 20.5% of all EU28 instant coffee exports. Ukraine is now the second largest buyer of instant coffee from EU28 countries,

importing 14.7% of total coffee exports from the EU28, while Australia remained third with a share of 12.5%. South Africa has strengthened its position as the fourth largest market with 9.3% share. The US also recorded positive results with an increase of participation of 0.8% in 2018 compared to 2017. On the negative side, exports to Switzerland decreased, and returned to the level of 2016, indicating a one-time increase in 2017. EU28 exports to Canada and Turkey showed a negative trend in 2018.

Table 11. Total EU28 instant coffee exports to non-EU28 countries, period 2016-2018, in percentage

EU28 instant coffee exports to non-EU28 countries (%)			
Country	2016	2017	2018
Russian Federation	26.1	22.8	20.5
Ukraine	13.9	12.1	14.7
Australia	11.4	12.0	12.5
South Africa	7.6	9.4	9.3
United States of America	4.2	5.1	5.9
Norway	3.8	3.7	3.8
Turkey	3.5	3.9	3.1
Egypt	3.5	2.6	2.9
Canada	2.7	3.1	2.5
Switzerland	2.5	3.9	2.4
Others	20.8	21.4	22.4
Total	100.0	100.0	100.0

Source: Eurostat