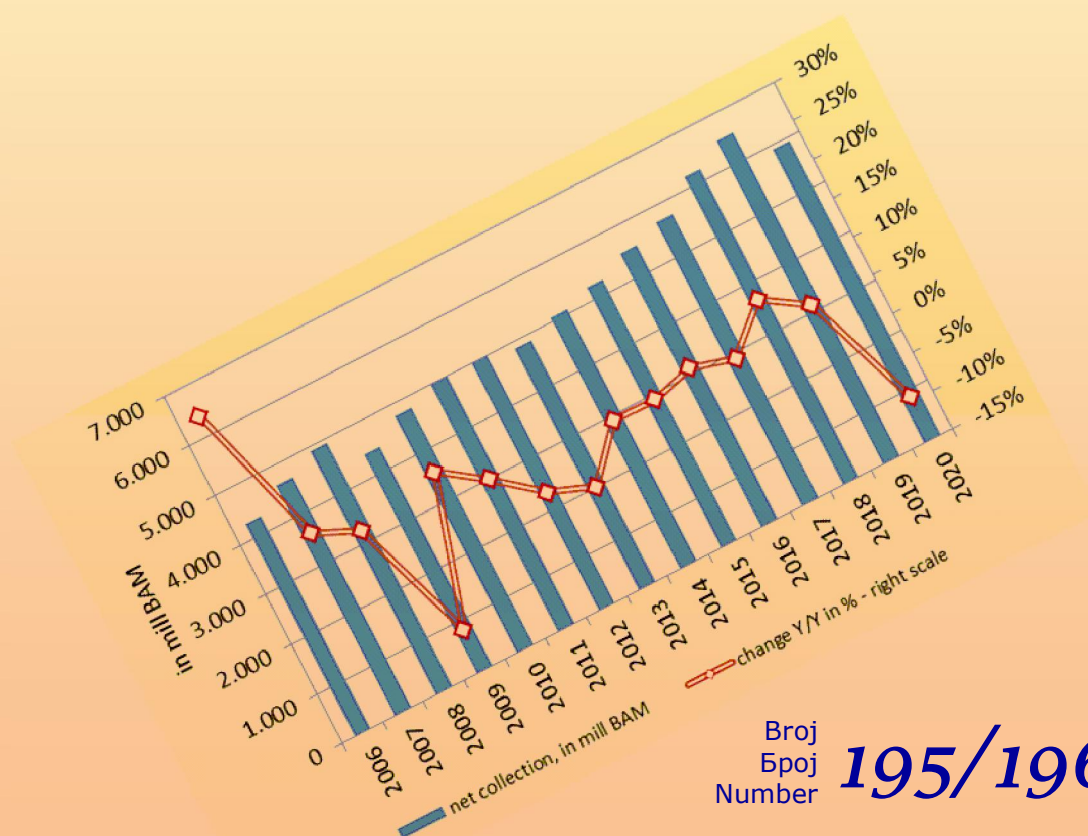




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

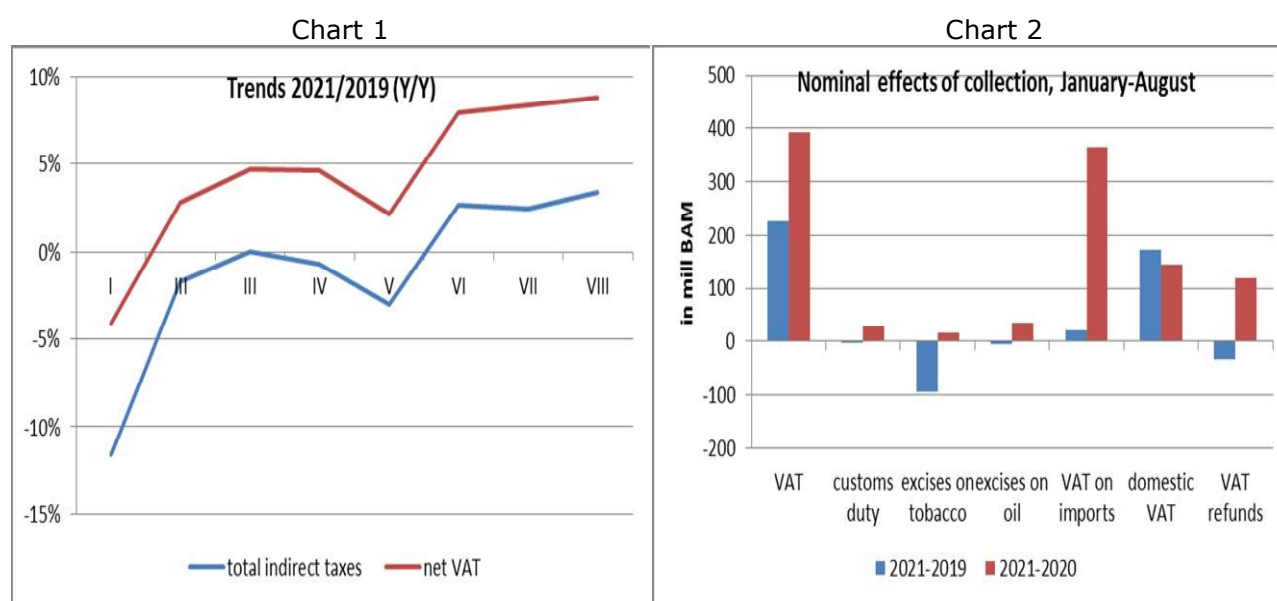
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With this issue

According to the preliminary ITA report, the net collection of indirect taxes in August 2021 was higher by 178.7 million BAM, or 38.2% compared to August 2020. In the period January-August 2021 the net collection of indirect taxes was higher by 543 million BAM, or 14.1% compared to the same period in 2020. A comparison of the net collection of indirect taxes in the period January-August 2021 with the same period of the year of historical maximum - 2019 shows an increase in collection of 3.3% (Chart 1).



High growth in the collection of indirect taxes was the result of high growth rates of VAT revenues. Compared to the eight months of 2019, the collection of VAT in 2021 is higher by 8.8% (Chart 1). A comparison with the year of historical maximum - 2019 shows a high increase in net VAT, which was largely offset by lower collection of excise duties on tobacco products (Chart 2, "2021-2019"). The decomposition of the effects of gross VAT collection shows that the main factor in the growth of VAT collection compared to 2019 was domestic consumption (increase of 173.3 million BAM), while the collection of VAT on imports in 2021 was only 20 million BAM above the collection in 2019, despite very high import growth rates (Chart 2, "2021-2019").

Dinka Antić, PhD
Head of Unit

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Cigarette taxation: EU vs B&H

(Author: Dinka Antić, PhD)

SUMMARY

The analysis of implications of the cigarette taxation policy in B&H in the period 2009-2021¹ indicated a large decline in the amount of taxed cigarettes, and, on the other hand, a huge increase in the collected excise revenues, which was stopped in 2020. Numerous initiatives and proposals for changes in the excise policy are aimed to stabilize the legal cigarette market in B&H, and at the same time to recover and increase the collected excise revenues. It is questionable whether this is possible given the new circumstances and external factors that determine the legal consumption of cigarettes. Since the excise policy in B&H, given the country's European path, necessarily follows the EU excise policy, the article analyzes the effects of cigarette taxation policy in the EU member states. The analysis showed that the large drop in the amount of taxable cigarettes in B&H is not the exception, but, on the contrary, the rule, not only in the new EU members, which went through a similar difficult path of increasing excise duties on cigarettes, but also in legally regulated, developed EU-15 members. On the other hand, a large number of EU member states have been facing a slow growth of collected excise revenues, and some even a stagnation or decline in collection. It indicates that the fiscal effects of the existing EU excise policy have been exhausted. Even the reduction of excise duties on cigarettes in some member states did not contribute to the stabilization in the cigarette market and the growth of excise revenues. The analysis of trends in B&H has shown that the continuous increase in excise duties, and thus in retail prices of cigarettes, leads to consumer segmentation into two groups: a lower income group, whose demand is elastic and thus largely dependent on rising cigarette prices; and higher income group, whose demand is inelastic and less susceptible to price changes. The analysis of trends in the EU member states showed a similar phenomenon, which resulted, in the end, in a large drop in cigarette consumption, but also in a drop in excise revenues, which cannot be recovered even by reducing the excise burden. Finally, the analysis also showed the extent of the impact of mass migration of the population from the new member states to the developed EU member states on the decline in cigarette consumption in the new EU member states. It can be concluded that the growth of revenues from excise duties on cigarettes has its maximum, both in the EU and in B&H.

I MINIMUM STANDARDS FOR EXCISE TAXATION IN THE EU

For the purpose of taxation, tobacco products in the EU are divided into two large groups: (i) cigarettes and (ii) other tobacco products (cigars, cigarillos, fine-cut tobacco, etc.). This approach has been applied for many years in the process of legal regulation, and separate directives have been adopted for each of these two groups of excise products, so that only after entering into force of Directive 2011/64/EU² the taxation policy for all tobacco products in the EU has been unified.

At the EU level, all members³ are required to tax all types of cigarettes with a complex excise tax, which includes a specific excise tax, calculated per unit of product (per 1,000 cigarettes), and an *ad valorem* (proportional) excise tax, calculated on the basis of the retail price including all taxes and VAT.

¹ More in: Antić, D. "Tobacco taxation policy in B&H in the period 2009-2021", March 2021, http://www.oma.uino.gov.ba/publikacije/ANALIZA_2021_EN.pdf.

² COUNCIL DIRECTIVE 2011/64/EU of 21 June 2011 on the structure and rates of excise duty applied to manufactured tobacco

³ Abbreviations: AT-Austria, BE-Belgium, BG-Bulgaria, CZ-Czech Republic, CY-Cyprus, DE-Germany, DK-Denmark, EE-Estonia, EL-Greece, ES-Spain, FI-Finland, FR-France, GB- Great Britain, HR-Croatia, HU-Hungary, IE-Ireland, IT-Italy, LV-Latvia, LT-Lithuania, LU-Luxembourg, MT-Malta, NL-Netherlands, PL-Poland, PT-Portugal, RO-Romania, SE-Sweden, SI-Slovenia, SK-Slovakia.

The following minimum standards for the taxation of tobacco products in the EU are in force as of January 1, 2014:

- criterion "60%" - the total minimum excise duty on cigarettes should be at least 60% of the weighted average retail selling price of cigarettes released for consumption;
- criterion "90 EUR" - the total excise duty on cigarettes must not be less than 90 EUR per 1000 cigarettes, irrespective of the weighted average retail selling price;
- the specific component of the excise duty on cigarettes must not be less than 7,5 % and must not be more than 76,5 % of the amount of the total tax burden (total excise + VAT).

The weighted average retail selling price of cigarettes is determined no later than 1 March of the current year, and is calculated on the basis of data on quantities and prices of cigarettes released for consumption in the preceding fiscal year.

All old EU member states (EU-15) and a few new members that joined the EU in 2004 were given four years to align their excise policy with the above rules. Bulgaria, Estonia, Greece, Latvia, Lithuania, Hungary, Poland and Romania have been allowed a six-year transitional period until 31 December 2017 to adjust the level of excise duties on cigarettes with a minimum of 90 EUR / 1000 pcs. The same deadline was later allowed to Croatia.

II CIGARETTE TAX POLICY IN B&H

The basic legal framework of the current policy of taxation of tobacco products is the Law on Excise Duties in B&H⁴ - (hereinafter: the "Law"), which has been in force since July 1, 2009. In the field of taxation of tobacco products, amendments to the Law were made on August 1, 2014.⁵

2.1. Evolution of harmonization with EU standards

Phase I: from July 1, 2009 to July 31, 2014

Implementation of the new Law on Excise Duties, which began on July 1, 2009, for the first time introduced in the segment of taxation of cigarettes several standards from the EU:

- a complex rate of taxation of cigarettes, which implies the application of *ad valorem* excise duty in the amount of 42% of the retail selling price of cigarettes and specific excise duty, in the certain amount of BAM per pack of cigarettes;
- the category of minimum excise duty on all cigarettes as of year 2010, which is linked to the category of the 'most popular price of cigarettes'⁶, as the reference brand for the application of the minimum excise duty rate. The introduction of the minimum excise duty should have prevented the occurrence of dumping at the lower price cigarette groups.
- the minimum excise duty in the EU in the amount of 64⁷ EUR or 126 BAM per 1000 cigarettes, where the harmonization process in B&H is ensured by the continuous annual increase of the specific excise duty, provided that the increase cannot be less than 0,15 BAM/pack.

⁴ „Official Gazette of B&H“ No. 49/09.

⁵ „Official Gazette of B&H“ No. 49/14.

⁶ The acronym for this category in the EU is MPPC - *Most Popular Price Category*

⁷ The standard has been in force in the EU until December 31, 2013. From January 1, 2014 the minimum excise duty on cigarettes in the EU is 90 EUR.

Phase II: As of August 1, 2014.

The new cigarette taxation policy, which has been in force since 1 August 2014, includes the following EU standards:

- harmonization of the scope of taxation with the prescribed scope in the EU, in terms of the type of tobacco products and definitions;
- introduction of the weighted average price of cigarettes as a reference price for determining the minimum excise duty
- abolition of the "most popular price category of cigarettes", as a reference for calculating the minimum excise duty on cigarettes;
- adoption of a new minimum excise burden on cigarettes in the EU in the amount of 90 EUR / 1000 pcs of cigarettes, or 176 KM / 1000 pcs.

The legally prescribed minimum excise duty on cigarettes of 176 BAM per 1000 pieces was reached in 2019, which completed the process of harmonization with the minimum excise duty in the EU. In practice, this meant that as of 2020 there is no increase in the specific excise duty on cigarettes (i.e. the rate from 2019 will be maintained), while the amount of excise duty on smoking tobacco, given the calculation methodology, depends on the dynamics of the retail cigarette prices.

2.2. Overview of cigarette excise rates

Ad valorem (proportional) excise duty: 42% of the retail price (taxes included)

Table 1: Specific excise duty on cigarettes (2009-2021)

	1.7.2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
BAM/box	0,15	0,30	0,45	0,60	0,75	0,90	1,05	1,20	1,35	1,50	1,65	1,65	1,65
BAM/1000 pieces	7,50	15,00	22,50	30,00	37,50	45,00	52,50	60,00	67,50	75,00	82,50	82,50	82,50

Due to the structure of the market where the cheaper categories of cigarettes have been dominating, and because of the calculation method which takes into account a set of data from two fiscal years (second half of the previous year and first half of the current year), and is applied in the next fiscal year, the minimum excise has no protective character in terms of collection of a guaranteed level of excise revenue.

Table 2: Minimum excise duty on cigarettes

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
BAM/1000 pieces	0,80	1,08	1,65	1,82	2,09	2,00	2,23	2,42	2,60	2,86	3,04	3,25
BAM/1000 pieces	40,00	54,00	82,50	91,00	104,50	100,00	111,50	121,00	130,00	143,00	152,00	162,50

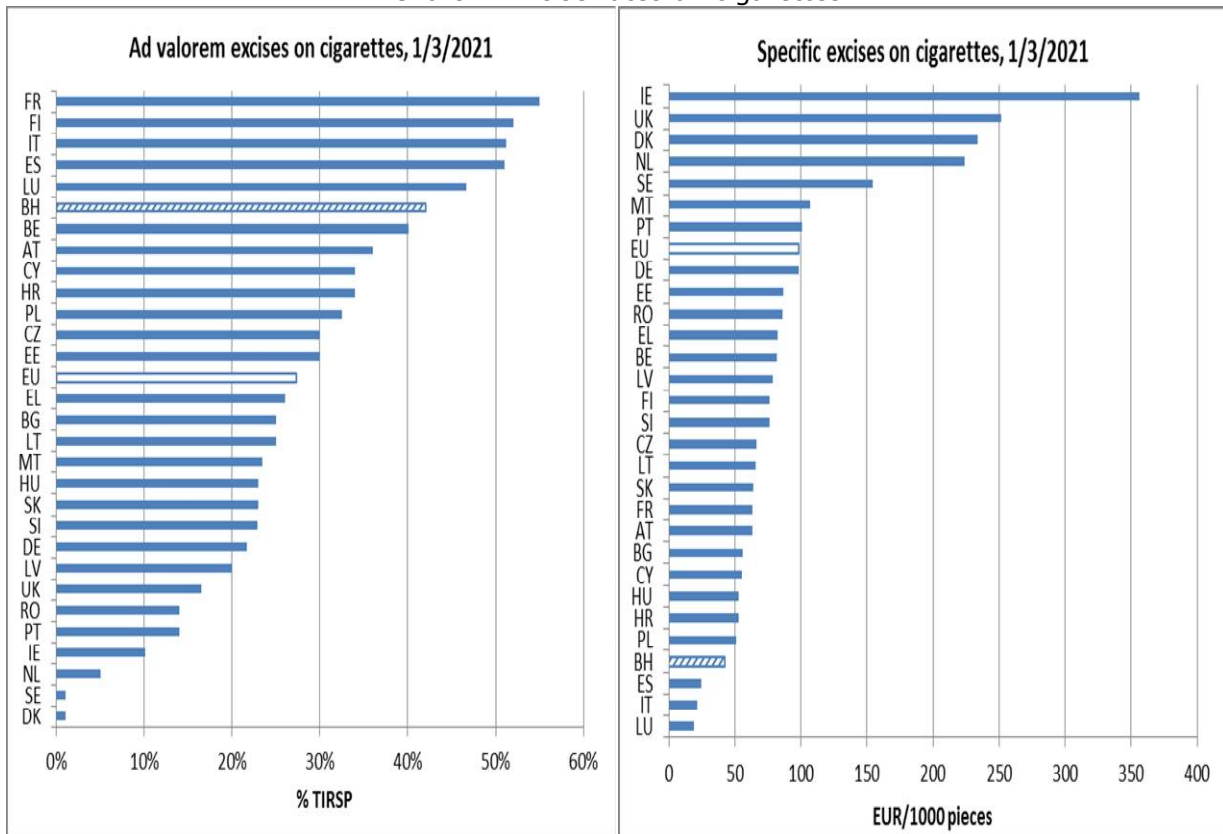
Note: In the period from 2010 to 2014, the minimum excise duty on cigarettes was determined on the basis of the most popular price category of cigarettes

III EXCISE POLICY ANALYSIS

3.1. Excise rates

Already at the moment when the minimum EU excise tax rose to 60 EUR, it was clear that some members would not be able to increase excise rates to the required minimum in the prescribed period. A further increase in the minimum excise tax to 64 EUR, and then to 90 EUR, was high burden for the new EU member states. Similarly, introduction of the “60%” criterion of the weighted average price of cigarettes represents a significant deterioration of the criteria for members with a large discrepancy between the price of the most popular brands (which are usually the cheapest) and the weighted average price. In developed member states, the differences between these two reference prices are negligible. A large number of member states have implemented the process of harmonization of the excise burden with the minimum EU standards by changing the structure of excise rates - by reducing the *ad valorem* excise rate and increasing the specific excise. In 2021, Denmark and Sweden apply the lowest *ad valorem* excise rates, amounting only 1%, while France applies the highest at the level of 55% (Chart 1, left). With an *ad valorem* excise tax of 42%, B&H is at the top of the list. Only five member states apply a higher rate.

Chart 1. Excise rates on cigarettes

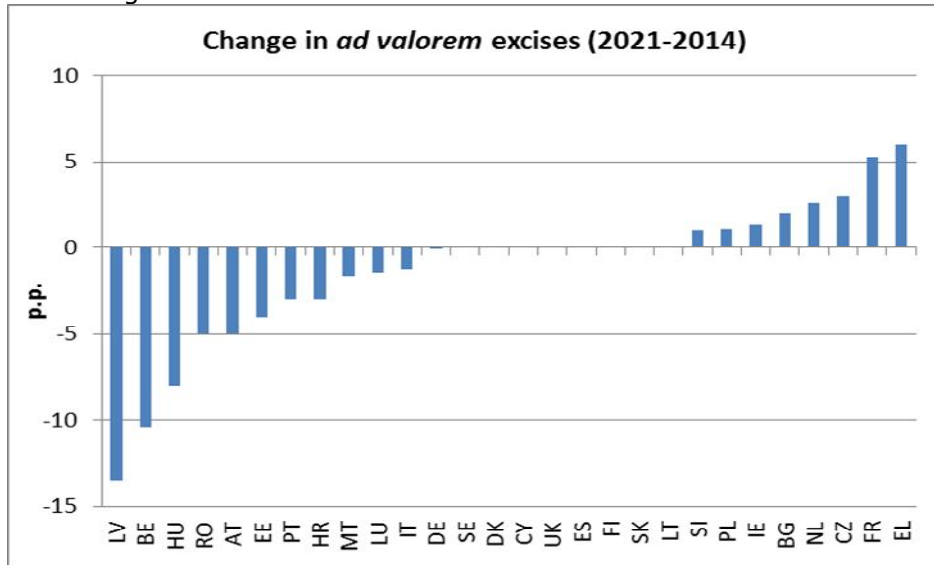


Source: European Commission, March 1, 2021; review of the author

Luxembourg currently applies the lowest specific excise duty on cigarettes, only 19.14 EUR per 1000 pcs, while Ireland applies a very high rate of excise duty, followed by the UK (Chart 1, right view). Regarding the level of specific excise, B&H is at the bottom of the list. Only three EU member states apply a lower specific excise rate than B&H.

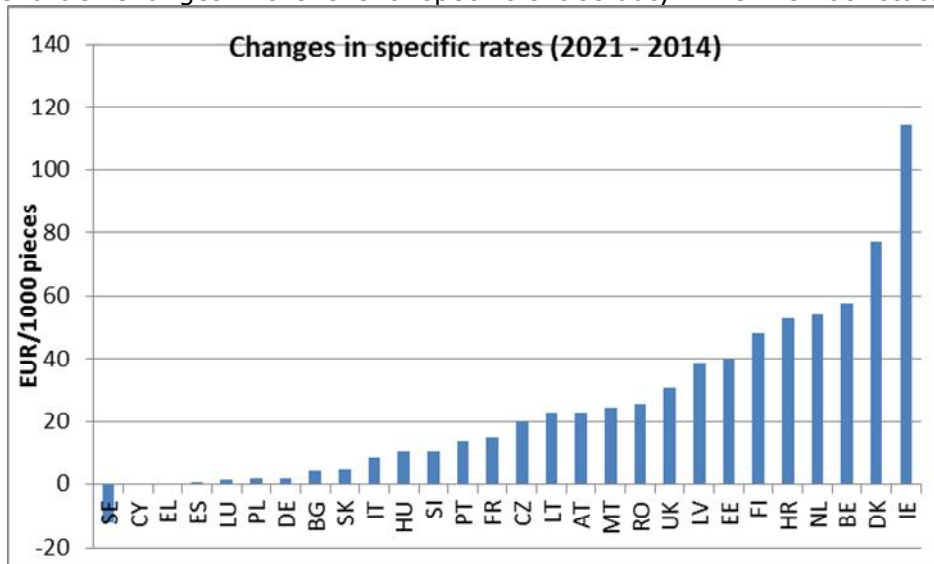
In the last seven years, a large number of member states have changed the *ad valorem* excise tax, while eight member states have kept the same rate. Seven member states have increased the rate, with the largest increase recorded in Greece. On the other hand, eleven member states reduced the rate, with the largest reductions recorded in Latvia and Belgium, 13.5 p.p. and 10.4 p.p., respectively (Chart 2). How high the rate had been applied in Belgium was also indicated by the fact that, despite the huge reduction in *ad valorem* excise rate, it is now only slightly below the applied rate in B&H.

Chart 2. Changes in the level of *ad valorem* excise rates in the EU member states



Source: European Commission, database; review and calculation of the author
 Note: The comparison of the *ad valorem* excise tax for Croatia was performed in relation to 2013.

Chart 3. Changes in the level of specific excise duty in EU member states



Source: European Commission, database; review and calculation of the author

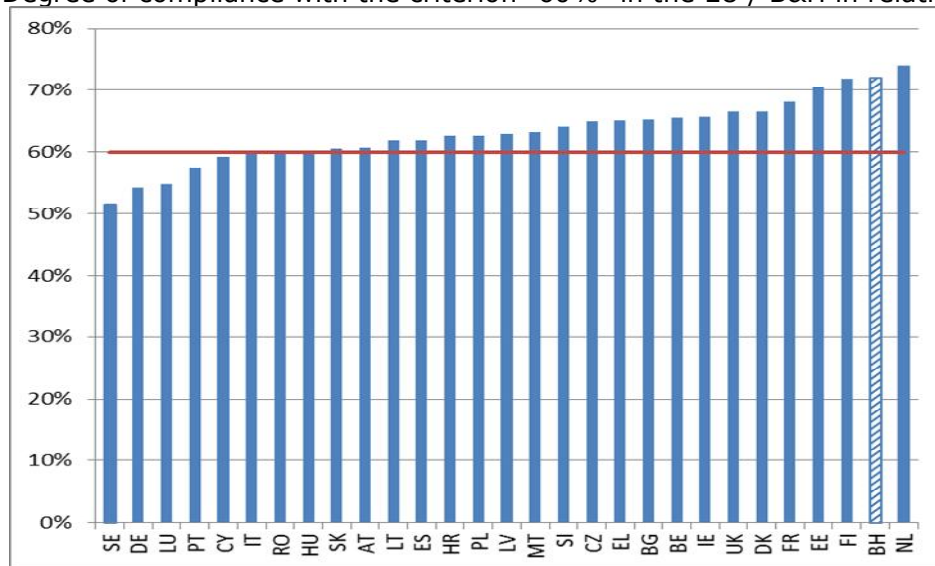
Unlike *ad valorem* excise, almost all member states increased the specific excise in the period of harmonization of excise policy with the new EU policy (Chart 3). Only Sweden reduced the rate, while two member states had no changes.

3.2. Degree of compliance with EU standards

In relation to the degree of compliance with the "60%" criterion, in terms of the excise burden on the weighted average retail price of cigarettes (WAP), only the Netherlands from EU member states is ahead of B&H, i.e. the share of excise in WAP in B&H is 12 percentage points higher than EU minimum standard (Chart 4). The maximum compliance with the criterion indicates the too fast pace of harmonization of excises with the EU standards. Given the minimum excise burden of 70% on the retail price, as a criterion for optimal taxation of cigarettes advocated by the World Health Organization (WHO)⁸, except for B&H, only three member states met this criterion when it comes to the weighted average price of cigarettes⁹.

On the other hand, four EU member states did not meet the set criterion, including some of the old EU-15 members. It should be borne in mind that constant variation of taxation policy, i.e. reduction / increase of *ad valorem* excise and specific excise, makes it difficult to maintain the set standards, especially since there are two unknowns at the time of assessing the effects of future measures, and these are the response of the tobacco industry and the response of consumers.

Chart 4. Degree of compliance with the criterion "60%" in the EU / B&H in relation to WAP



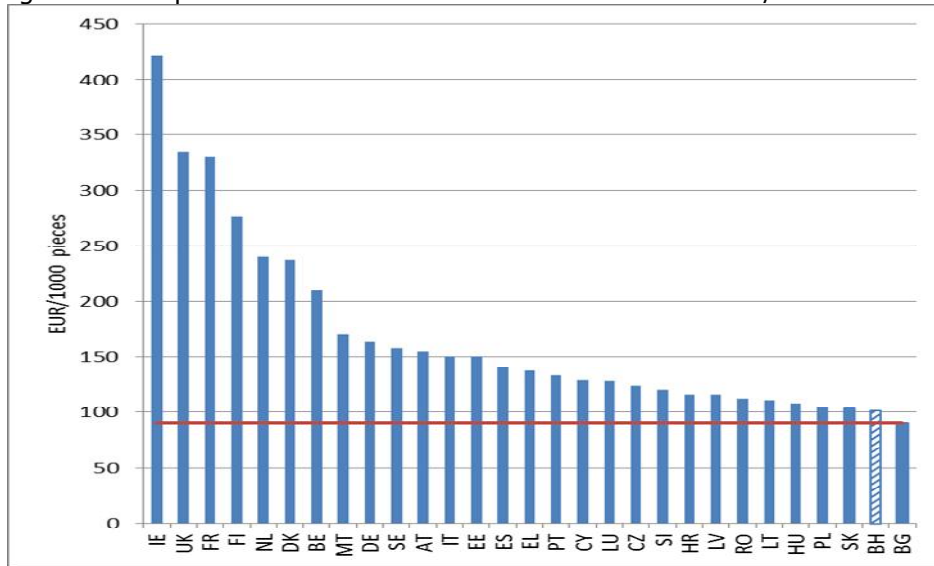
Source: European Commission, March 1, 2021; calculation of the author

Although the compliance with the "90 EUR" criterion should be observed in relation to the excise duty burden of all brands of cigarettes released for consumption, due to the extensiveness of statistics, the compliance with standards in relation to WAP is most often monitored. Chart 5 shows that the amount of excise duty in WAP in all EU member states exceeds 90 EUR / 1000 cigarettes. B&H is at the bottom of the list, at the level of Poland and Slovakia, while the share of excise duty in Bulgaria is at the level of 90 EUR / 1000 pcs.

⁸ More in: WHO (2021). Technical Manual on Tobacco Tax Policy and Administration.

⁹ It can be assumed that in a large number of member states more expensive cigarettes meet this WHO criterion.

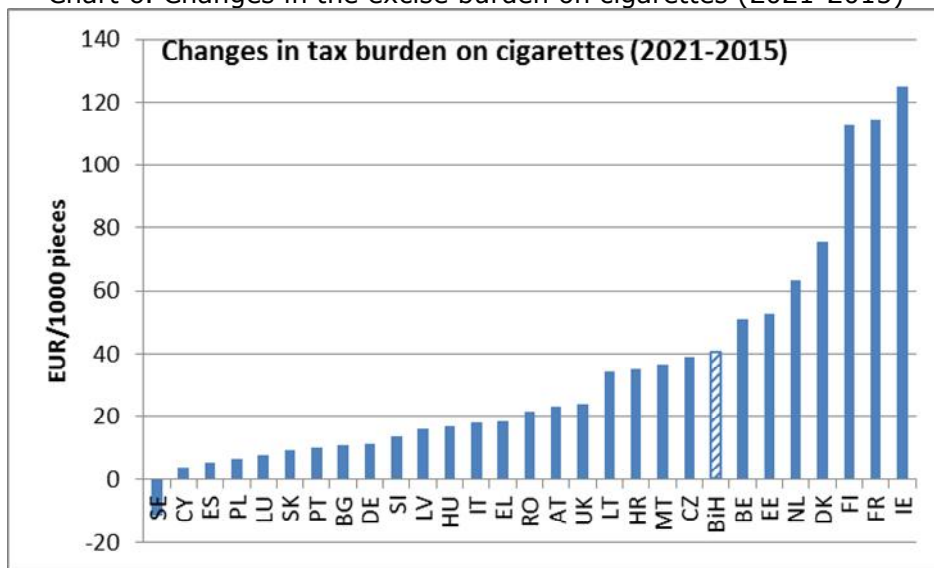
Chart 5. Degree of compliance with the criterion "90 EUR" in the EU / B&H in relation to WAP



Source: European Commission, March 1, 2021; calculation of the author

The constant variation within the structure of excise rates (*ad valorem* and specific) in the last six years¹⁰ has resulted in an increase in the excise burden on cigarettes. According to the growth of the excise burden on WAP, in the nominal sense, B&H is in the upper half of the list (Chart 6).

Chart 6. Changes in the excise burden on cigarettes (2021-2015)



Source: European Commission, database; review and calculation of the author

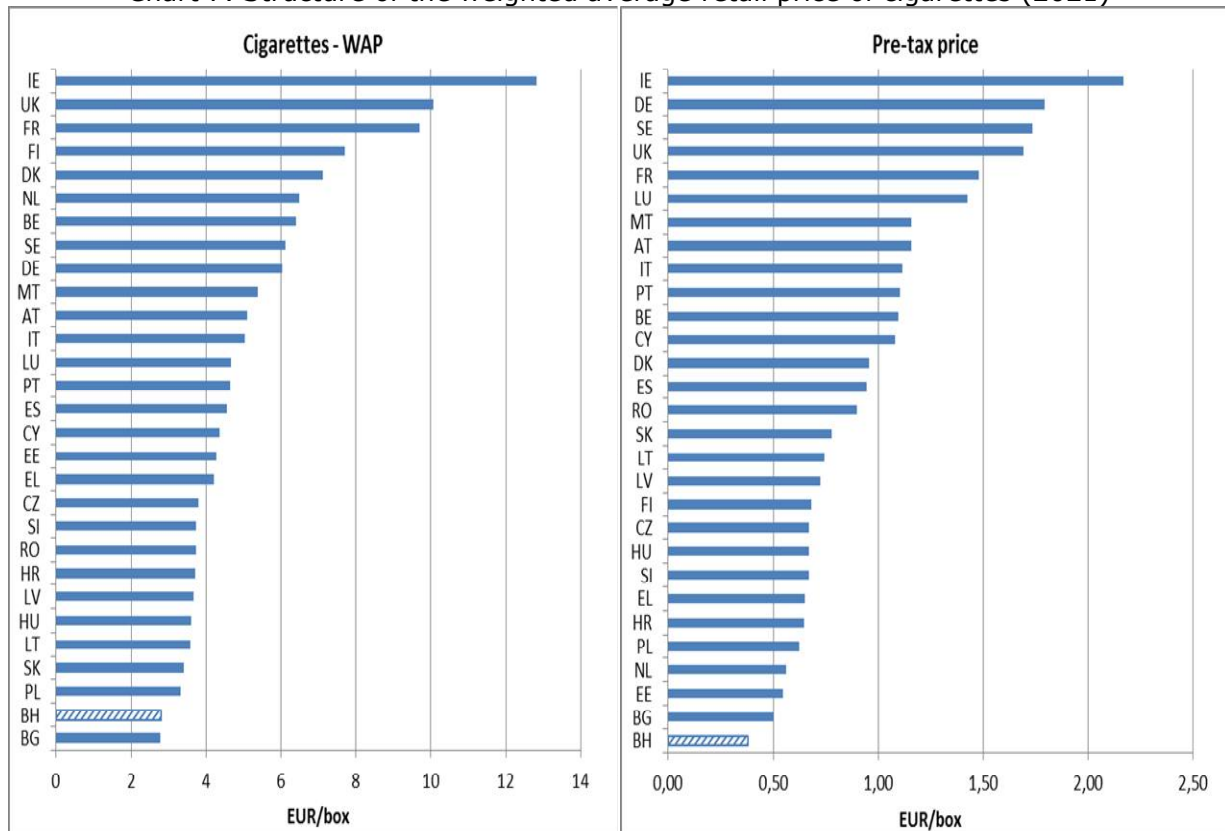
However, compared to the total excise burden (Chart 5), it can be concluded that a large number of member states already had a high excise burden before the observed period, while B&H was in the process of increasing excise duties to the new EU minimum. On the other hand, some countries, such as Finland, France and Ireland, have had a huge increase in the excise burden in recent years.

¹⁰ The period from 2015 to 2021 was taken for the analysis, in order to ensure comparability of B&H with the EU, since the category of weighted average retail price of cigarettes in B&H was introduced by amendments to the Law on Excise Duties in 2014.

3.3. Weighted average price of cigarettes

Given the large differences in the excise burden, the (non)compliance with the criteria "60%" and "90 EUR" is not enough to draw conclusions about the country's excise policy. An overview of the WAP in EU member states and a comparison with B&H shows that, in nominal terms, as expected, the WAP in B&H is at the bottom of the list, together with the new EU member states (Chart 7, left). It is expected, due to the economic development of the country and, consequently, the standards of the population. However, on the other hand, the relative relations are surprising. Thus, for example, the WAP of cigarettes in Slovenia and Croatia is about 30% higher than in B&H, although the differences in net income are much larger. From this it could be concluded that cigarette prices in B&H are higher than they should be given the standard of the population. However, for a more complete analysis, it is necessary to analyze the structure of WAP, which is the sum of pre-tax price and taxes (excise, VAT). The pre-tax price *de facto* represents the tobacco company's revenue, which includes the cost price and profit / margin.

Chart 7. Structure of the weighted average retail price of cigarettes (2021)

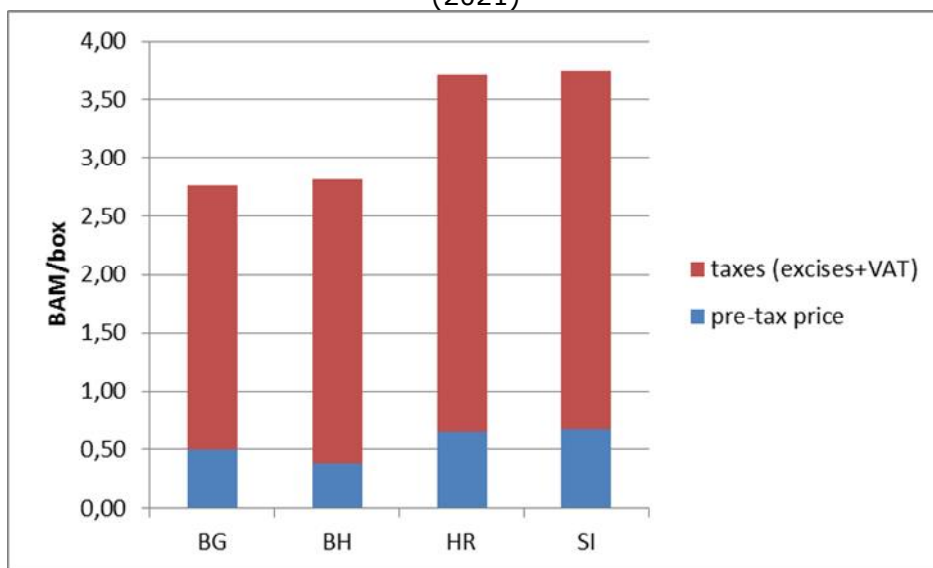


Source: European Commission, March 1, 2021; calculation of the author

The analysis of the pre-tax price shows that the nominal pre-tax price is the lowest in B&H (Chart 7, right). On the other hand, the pre-tax price in Bulgaria is higher than in B&H (Chart 8). Since B&H mainly imports¹¹ cigarettes, the entry price should be similar to prices from other countries, as it reflects the production costs of the same or similar brands, especially in countries that do not have their own cigarette production, with additional transport costs. It is obvious that the difference between pre-tax prices in B&H and the mentioned EU member states refers to the low profit / margin realized on the B&H market.

¹¹ Of the total number of cigarettes for which the excise stamp was taken over in 2020 in B&H, 93% are imported cigarettes.

Chart 8. Structure of weighted average retail price of cigarettes in B&H and selected members (2021)

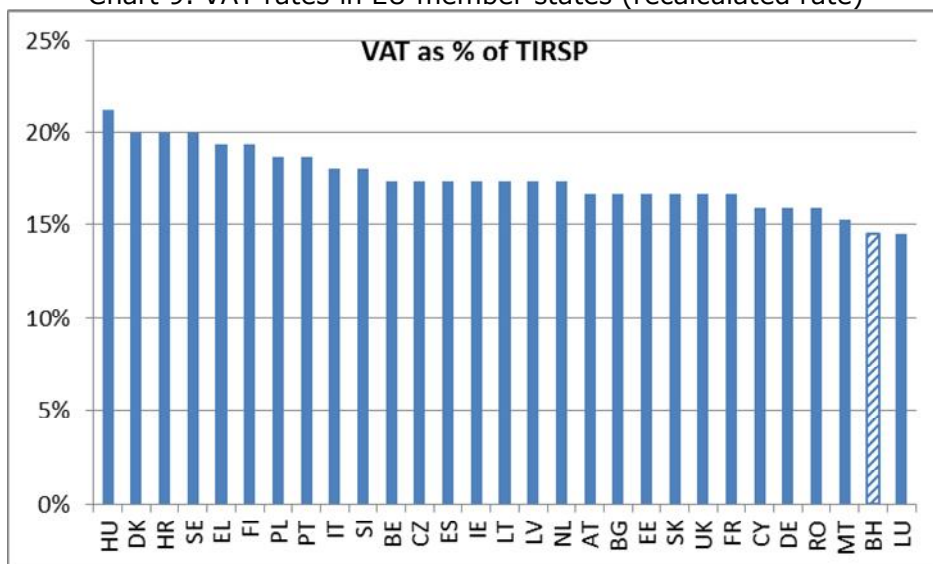


Source: European Commission, March 1, 2021; calculation of the author

3.4. Total tax burden on cigarettes

The total tax burden on cigarettes consists of excise duty and VAT. The importance of the VAT rate on the total excise burden on cigarettes is often neglected when analyzing and designing excise policy. According to the overview of VAT rates in the EU, the lowest VAT rate of 17% is applied in Luxembourg¹². The overview from Chart 9 shows that the VAT rate in B&H is at the level of the lowest rate in the EU.

Chart 9. VAT rates in EU member states (recalculated rate)

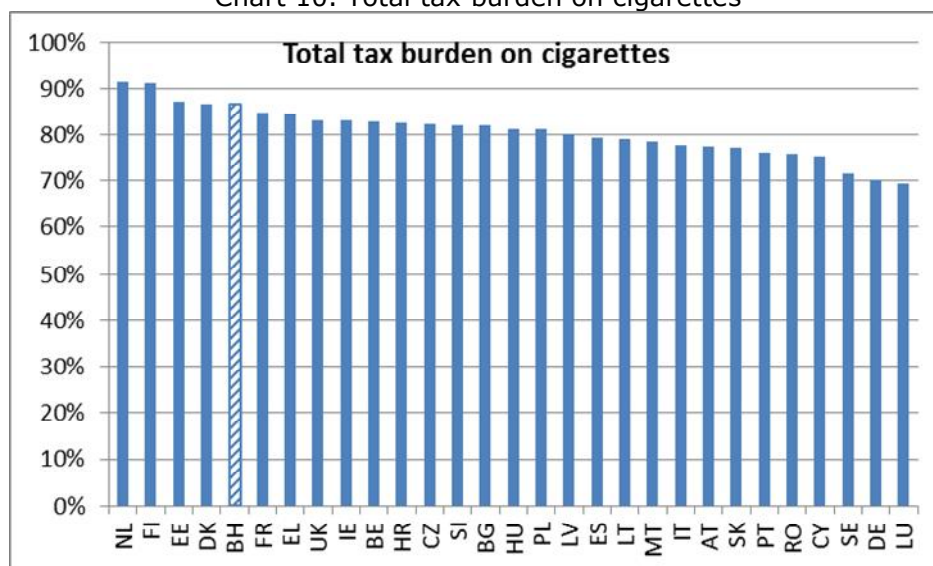


Source: European Commission, March 1, 2021; calculation of the author

¹² Note: The overview of VAT rates in Chart 9 refers to the recalculated VAT rate, which is applied to the base (i.e. the retail sales price) which includes all taxes, including VAT (tax inclusive retail sales prices, TIRSP).

The total tax burden is obtained by summing the % share of excise burden and VAT burden (Chart 10).

Chart 10. Total tax burden on cigarettes



Source: European Commission, March 1, 2021; calculation of the author

Comparing the position of B&H in relation to EU member states in terms of the level of excise burden on cigarettes as a percentage of WAP (Chart 5) and the level of total excise burden (Chart 10), it can be seen that four members are ahead of B&H in terms of total tax burden, three more than in the case of excise tax burden. It can be concluded that the low VAT rate in B&H serves as a corrective factor to the high excise burden on cigarettes.

IV TRENDS IN THE EU CIGARETTE MARKET

The rise in retail prices of cigarettes resulting from the harmonization of excise rates with the growing minimum excise duty in the EU have expectedly resulted in a decline in cigarette consumption. On the other hand, due to the inelasticity of cigarette consumption, an increase in excise revenues was expected.

4.1. The amount of cigarettes released for consumption

The process of harmonizing the excise policy of the member states with the minimum EU standards had different dynamics and different pace depending on whether they were old members (EU-15) or new members that joined the EU after 2003. Old member states have already taxed cigarettes at high rates of excise duty, far above the minimum. On the other hand, the new member states faced the need to sharply increase excise rates in order to reach the level of excise burden set in the pre-accession negotiations, and then had to reach minimum standards in the transition period prescribed by the treaty of accession to the EU.

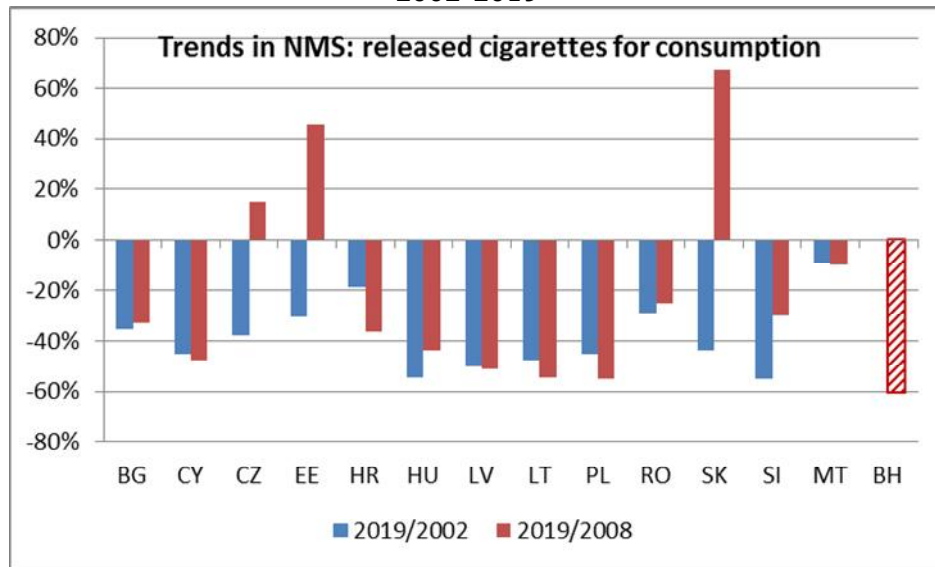
The analysis of trends in the cigarette market in the EU was performed in two ways. First, the whole period 2002-2019¹³ was taken for the observation, because it covers all relevant aspects related to the EU excise policy: the effects of increasing the EU minimum excise, first to 64 EUR¹⁴,

¹³ The latest available data are for 2019. Source: European Commission, August 2020.

¹⁴ At the beginning of 2002, the minimum excise duty in the EU was increased from 60 EUR to 64 EUR, applying from July 1, 2006.

and then to 90 EUR¹⁵, preparations for the entry of new member states into the EU, and transition period for harmonization of national excise policies with the first minimum (64 EUR), and then with the second minimum (90 EUR), since a number of member states have been approved a transition period for harmonization until 2017/2018. The second analysis was performed for a shorter period 2008-2019. This approach was necessary for two reasons. The period corresponds to the period for which data on the collection of excise revenues are available, which enables the analysis of the impact of the dynamics of quantities of cigarettes released for consumption on the revenue collection. Another reason is that the shorter period indicates the dynamics on the cigarette market in the EU member states which cannot be enabled by the comparison of quantities in the initial and last year of the data series 2002-2019.

Chart 11. Quantities of cigarettes released for consumption in the new EU member states, trends 2002-2019¹⁶

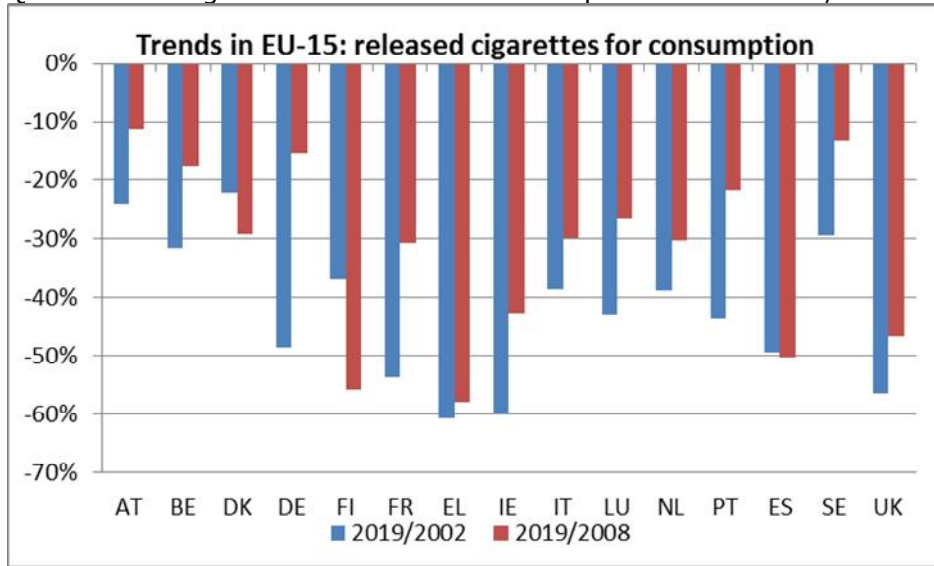


Source: European Commission, database; review and calculation of the author

¹⁵ The new minimum was adopted in 2011, applying from January 1, 2014.

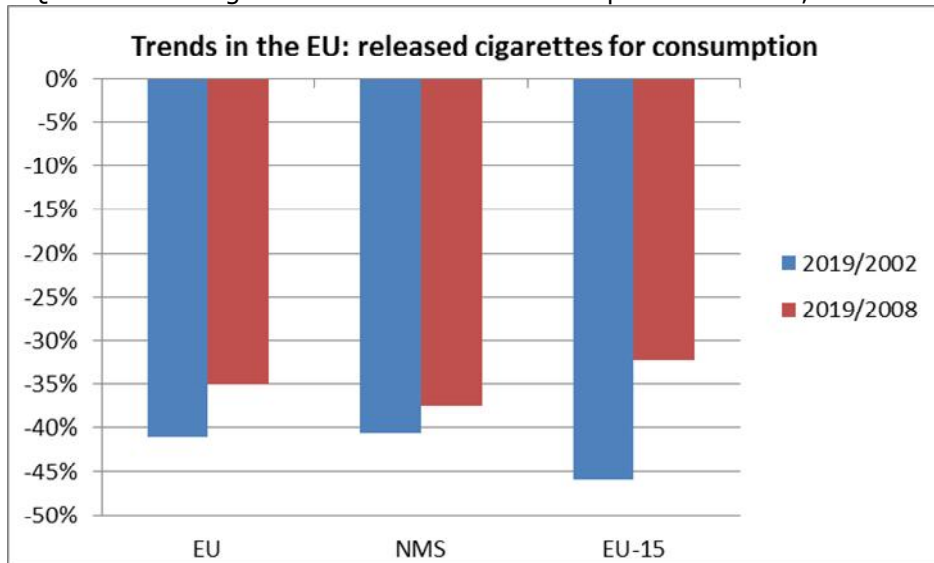
¹⁶ Due to the lack of data, year 2005 was taken as the base year for Romania, and year 2007 for the Czech Republic and Slovakia, which is the year when the historical maximum was achieved.

Chart 12. Quantities of cigarettes released for consumption in the EU-15, trends 2002-2019



Source: European Commission, database; review and calculation of the author

Chart 13. Quantities of cigarettes released for consumption in the EU, trends 2002-2019



Source: European Commission, database; review and calculation of the author

From the comparisons of the quantities of cigarettes released for consumption in 2019 with the quantities released for consumption in 2002 and 2008 (Charts 11 - 13), the following can be concluded:

- At the EU level, the total quantity of cigarettes released for consumption in 2019 compared to 2002 decreased by 41.1% (Chart 13). The situation has improved in the last ten years, but the decline in legally sold cigarettes in 2019 compared to 2008 is 35%. The question arises as to how high excise duties have deterred consumers from smoking, how many consumers are supplied with legal inputs from third countries, and how many of them on the Union’s black market. With the latest measures, adopted in 2020, the EU tried to reduce the legal intake of cigarettes from third countries;

- The decline in cigarette consumption in the old member states is higher than in the new member states (Chart 13), up to a maximum of 61%, despite the fact that the rate of increase in excise duties was slower. Although most of the old member states have already applied high rates of excise duty, it is still surprising that consumption has fallen sharply, even in the last decade, because consumers in those member states have far higher incomes;
- In some old EU member states (e.g. Greece) the decline in cigarette consumption is large due to the growth of the black market. It is similar in other southern member states (Chart 12). In the last decade, there has been an increase in the volume of cigarettes released for consumption, which has slowed down the negative trends, except in two member states where deterioration has been recorded (Finland and Spain);
- One of the reasons for the large decline in cigarette consumption in the old member states (Chart 12) is the entry of eastern members into the EU, which has increased import of cigarettes from eastern countries (e.g. Poland) to the old member states bordering them (e.g. Germany), thus increasing weaknesses in sales in the old members. However, there has been a noticeable improvement in the last decade, which can be linked to the achievement of a minimum EU excise tax in the new member states and, consequently, to rising retail sales prices, which has demotivated cross-border cigarette sales from those countries in the old member states;
- In the four new member states, the situation has worsened in the last decade (Chart 11), which may be related to the need to reach the minimum EU excise tax, but also to the reduction of legal consumption due to the mass outflow of working population after the opening of the internal borders of the western member states for the workers from the eastern countries. On the other hand, in the three member states, there has been an increase in cigarette quantities in the last decade (Chart 11), which is related to the events in the base year (2008). Namely, in all three countries, the historical minimum was achieved in 2008, in terms of the amount of cigarettes in circulation;
- Despite the rapid pace of harmonization of excise rates with the EU minimum standards, the decline in cigarette consumption in the new member states ranged between 30% and 55%. However, a comparison with the years before the signing of the Stabilization and Association Agreement would probably show a much larger decline, while the approval of a transition period of 6 to 7 years after the adoption of the 2011 Directive mitigated the decline in cigarette consumption;
- The decline in cigarette consumption in B&H is greater than in new member states due to the shorter harmonization period (2009-2019), but, on the other hand, is no exception, given that the data series for new members does not include the initial year of harmonization of excise duties with the EU standards.¹⁷

4.2. Collected revenues from excises

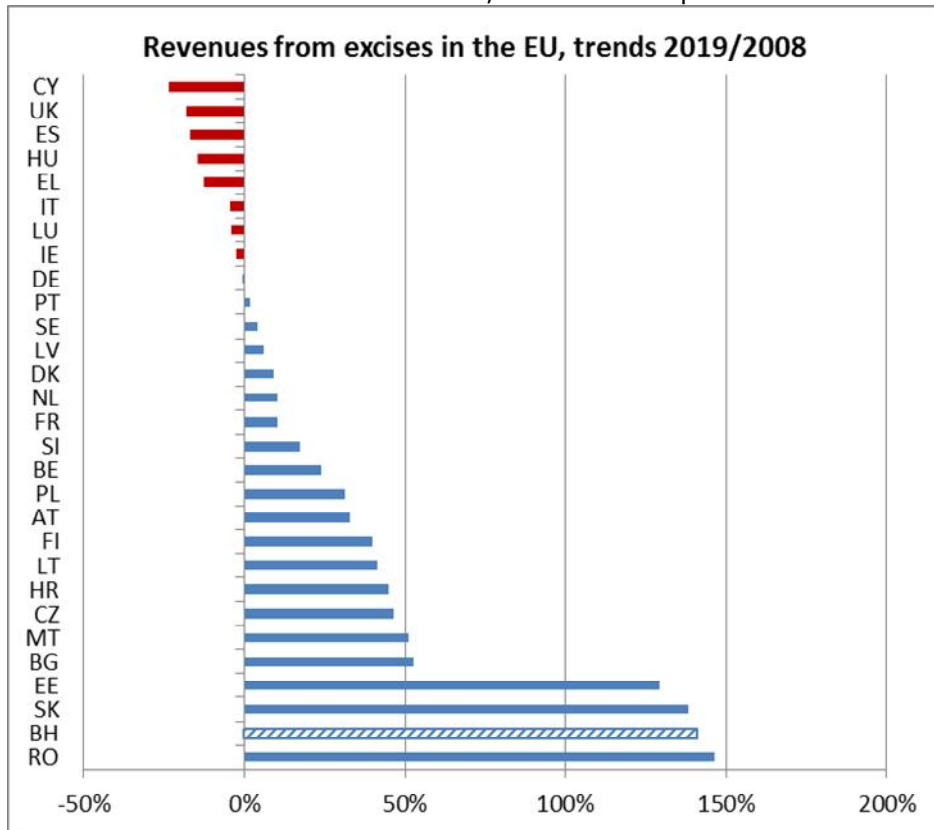
The period 2008-2019¹⁸ was used for the analysis of trends in the cigarette market in the EU, enabling a comparison with B&H.

¹⁷ First, data for previous years are not available. Second, the beginning of harmonization is individual for each new member state, as it depends on the start of EU accession negotiations and the dynamics of the obligations that future member state had to fulfill before joining the EU.

¹⁸ Latest available data; Source: European Commission, August 2020.

Eight member states collected less excises in 2019 compared to 2008, and among them are six old members with high excise rates and two new member states (Chart 14). Other member states increased revenues, with the highest growth recorded in Romania. The growth of excise revenues in B&H is right behind Romania, due to the fast pace of harmonization. The analyzed period fully covers the period of harmonization of excises in B&H to the level of 90 EUR, while in member states it mainly covers the harmonization of excises from the level of 64 EUR to the level of 90 EUR, and therefore, the revenue effects in B&H were expectedly greater.

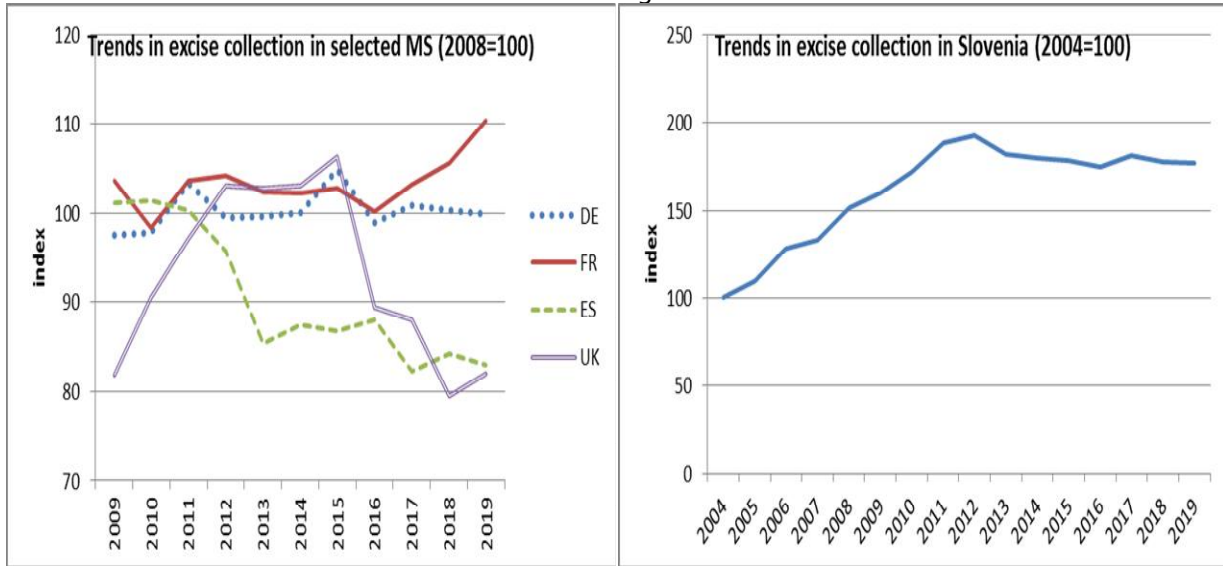
Chart 14. Excise revenues in the EU, trends in the period 2008-2019¹⁹



Source: European Commission, database; review and calculation of the author

¹⁹ The analysed period for Croatia is 2013-2019.

Chart 15. Revenues from excises on cigarettes in selected member states



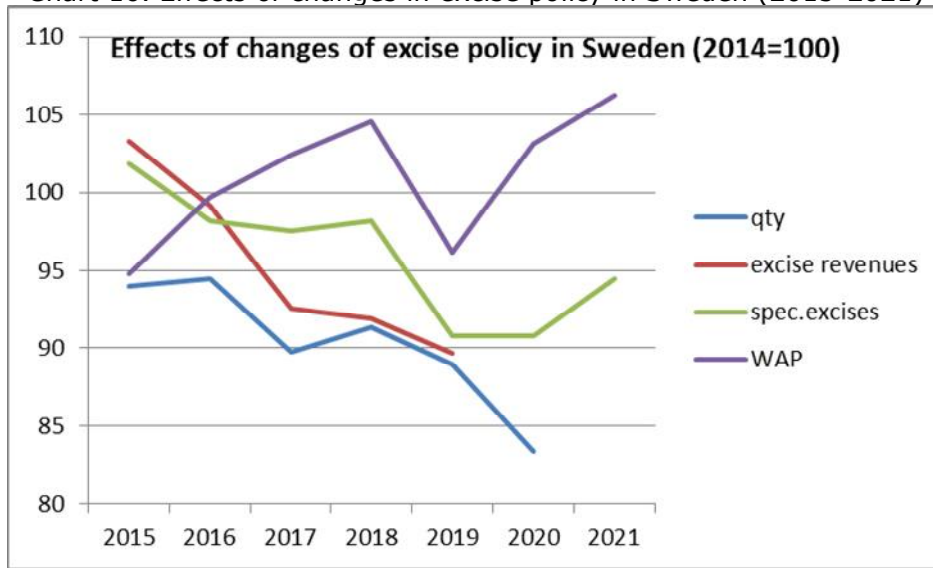
Source: European Commission, database; review and calculation of the author

A detailed analysis of revenue collection in most EU member states in the last few years shows stagnation in collection, as if the maximum that could be achieved had been reached. Chart 13 (left) shows the trend of excise revenue collection in the four major EU-28 member states, whose excise revenues account for half of the total collected excises on tobacco products in the EU in 2019. Oscillations in the collection of excises in Germany are insignificant during the observed period, and in the last few years revenues have been at the level of 2008. In Spain, there was a sharp downward trend in collection, while the collection of excises in the UK has fluctuated sharply with a large decline as of 2016. In France, until 2016, the collection of excise revenues has increased by a maximum of 5% while in the last two years it increased by up to 10%, compared to 2008.

Slovenia (Chart 15, right) is interesting due to the fact that it is a country that is historically close to B&H, and which, as a new EU member state, had a similar process of harmonization of excise duties with EU standards. Due to the unavailability of data on the collection of excises before accession to the EU, the analysis of trends in the collection of excises on cigarettes refers to the period 2004-2019. Slovenia reached a minimum of 64 EUR in 2008 and a minimum of 90 EUR in 2012. The decline in revenues in 2013 is evident, as well as the stagnation in collection that has lasted for six years.

An interesting case is Sweden, which has been reducing the specific excise duty on cigarettes for years in order to consolidate the cigarette market and the collected excise revenues (Chart 16). The example of Sweden is also useful to analyze, having in mind the initiatives in B&H that advocate the reduction of excise duties on cigarettes.

Chart 16. Effects of changes in excise policy in Sweden (2015-2021)



Source: European Commission, database; review and calculation of the author

It is noticed that the reduction of the specific excise tax has been gradual, and the largest downward correction of the rate was in 2019. The *ad valorem* excise tax was at the same level of 1% in the entire period. Chart 16 shows that, after the first reduction of the specific excise tax, there was an increase in retail prices (WAP), although the market logic would require a reduction in prices due to the reduced excise burden (+ associated VAT). The rise in prices produced a decline in cigarette consumption, and the cumulative effect of lower specific excise duties and smaller quantities released for consumption was a decline in collected excise revenues²⁰. The drop in sales forced tobacco companies to cut retail prices, which happened in 2019, but the drop in prices was smaller than the drop in the tax burden. The increase in the specific excise tax from 2021 has resulted in an increase in prices, but to a greater extent than the increase in the tax burden.

The analysis of the effects of excise policy in Sweden confirms researches on the directions of the effects of changes in indirect taxes. In the case of reduction of indirect taxes, the behavior of economic operators (companies, traders) is unpredictable. In general, even if there is a reduction in retail sales prices, it is not to the extent of the reduction in tax burden. On the other hand, the increase in indirect taxes (VAT, excise duties) is most often shifted to consumers through higher retail prices, with price increases often going above the tax burden increase.

The multi-year "adjustment" of excise policy in Sweden, in the conditions of uncertain reaction of tobacco companies, did not produce the desired effects in terms of higher excise revenues, which points to the conclusion that the opportunities for increasing revenues have been exhausted. Trends in these major member states (including Italy) and other EU-15 member states determine trends at EU level. In the period of twelve years (2008-2019), the EU achieved a modest growth of revenues from excises on cigarettes of 4.2%. In 2018, collected revenues from excise duties in the EU were lower by 0.3% than in 2017, while in 2019 there was a growth of 2.7% compared to 2018. It can be concluded that the era of high growth rates of revenues from excise duty on cigarettes is over, and that the maximum possible level of excise revenue has been reached within the current EU excise policy.

²⁰ Data on the quantities of cigarettes released for consumption and excise revenues are available only until the end of 2019.

Trade of goods and services for period January – June 2021

(Author: Mirjana Popovic, Expert Advisor - Macroeconomist)

The analysis of trade in Bosnia and Herzegovina (hereinafter: B&H) with other countries for the period January - June 2021 (hereinafter: I-VI 2021) is a continuation of analyzes published in previous issues of the bulletin of the Department. The analysis presents trends in total foreign trade, trends in trade with main foreign trade regions (EU²¹, CEFTA²², EFTA²³, Asian developing countries), and trends in trade with main product types. A comparison of the first half of the current year with the same period last year indicates a significant increase in foreign trade in the current year, which is not a realistic picture given the shock in the first half of 2020 caused by the coronavirus pandemic and the measures introduced to combat the virus. For this reason, the analysis also shows the movement of imports and exports in the first half of the current year compared to the first half of 2019, before the Covid-19 crisis and pandemic barriers that restricted the free movement of goods.

1. Trends in total foreign trade

In the first six months of 2021, B&H recorded an increase in the volume of foreign trade. Exports increased by 31.1%, while imports increased by 19.8% compared to the first six months of the previous year. The coverage of imports by exports is 67.5% and is higher by 5.8 p.p. compared to the same period last year.

If we compare the first half of the current year with the first half of 2019, i.e. the period before the Covid-19 crisis, B&H also recorded an increase in the volume of foreign trade. Exports increased by 11.3%, while imports remained at an approximate level, more precisely lower by 1.8%. The coverage of imports by exports increased by 7.9 p.p.

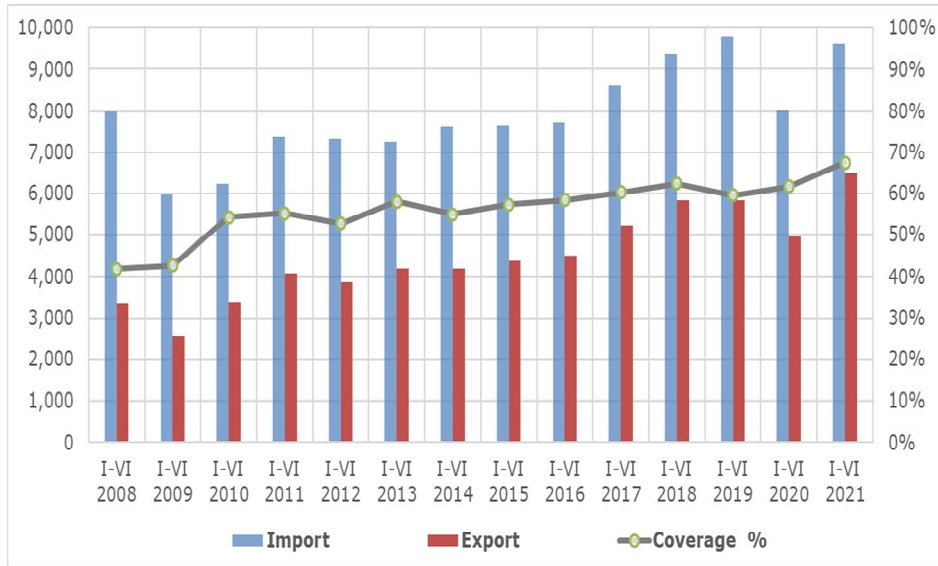
Chart 1 presents the trends in B&H foreign trade for the first six months in the period 2008-2021. The values of imports and exports in millions of BAM (left vertical scale) and the percentage values of the coverage of imports by exports (right vertical scale) for the observed period are shown.

²¹ European Union

²² Central European Free Trade Agreement (Albania, B&H, Montenegro, Northern Macedonia, Moldova, Serbia and UNMIK / Kosovo)

²³ European Free Trade Association uniting the markets of Switzerland, Norway, Iceland and Liechtenstein

Chart 1.

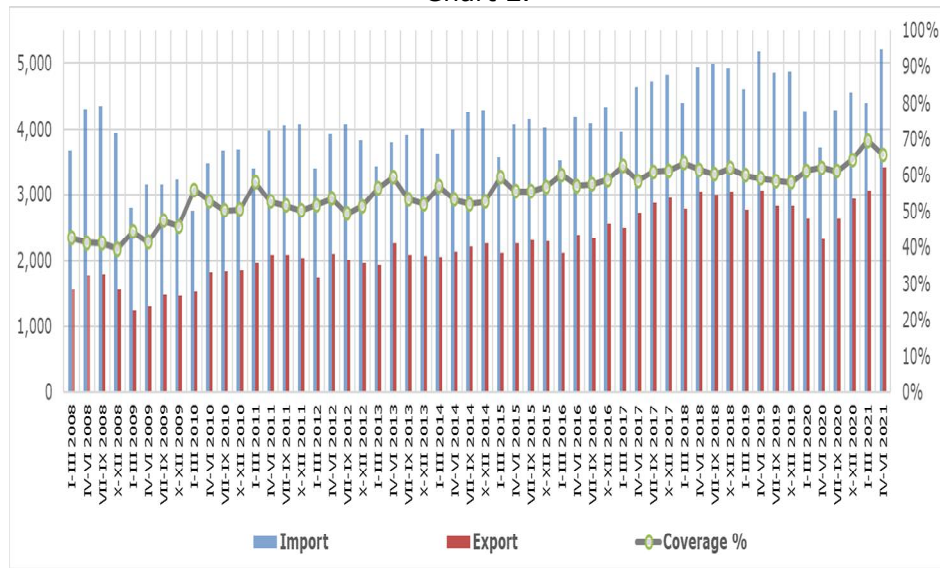


Source: Agency for Statistics of B&H, OMA review

Historically, through the data presented in the graphically presented time series, the largest decline in foreign trade was recorded due to the state of shock in the first half of 2009 and under the influence of the global economic crisis, as well as the first half of 2020, under the influence of the Covid-19 crisis. In the first half of the year in which there was no state of shock, there was a continuous growth in the country's foreign trade. The chart shows a significant recovery and increase in the volume of foreign trade in the first half of the current year compared to the same period last year. There was also an increase in the volume of foreign trade of the country compared to the first half of 2019. The coverage of imports by exports is the highest at the semi-annual level in the observed period. The foreign trade deficit is by 1.7% higher compared to the same period last year. However, looking at the first six months of the last year, the reduction in the foreign trade deficit, which was affected by the decline in imports, cannot be characterized as positive due to extraordinary circumstances, i.e. the decline in overall foreign trade activity. Compared to the period before the Covid-19 crisis, i.e. compared to the first half of 2019, the foreign trade deficit in the first half of the current year decreased by 21.0% which was influenced by the increase in exports.

Chart 2 shows the quarterly movement of imports and exports, and the coverage of imports by exports in the period from the first quarter of 2008 to the second quarter of 2021 (from I-III 2008 to IV-VI 2021). The quarterly trend shows the seasonal oscillations visible at the beginning of each year and the lowest trade of B&H with foreign countries in the first quarters. Under the influence of restrictive measures introduced in the fight against the coronavirus virus pandemic in 2020, B&H foreign trade is the lowest in the second quarter of the year, i.e. in the period of application of the most rigorous measures in the fight against the pandemic. The movement of trade in the first and second quarters of 2021 provides information on the recovery of the country's economy.

Chart 2.



Source: Agency for Statistics of B&H, OMA review

In the observed period, the coverage of imports by exports is the highest in the first quarter of the current year, while imports and exports are the highest in the second quarter of the current year. Imports in the second quarter increased by 18.4%, while exports increased by 11.7% compared to the first quarter of the current year.

Comparing the data for the first quarter of the current year with the same period of the previous year, imports increased by 2.7%, while exports increased by 16.6%. Import growth is not significantly higher because the beginning of the Covid-19 crisis in B&H was recorded at the end of the first quarter, more precisely in March 2020, and these measures did not have a significant impact on the first quarter. However, comparing the data for the second quarter of the current year with the data from the second quarter of the previous year, when measures to combat the spread of coronavirus were the most rigorous, a significant increase in imports by 39.6% and export growth by 47.5% was recorded.

Data for the first quarter of the current year compared to data from the same period in 2019 show a decrease in imports by 4.6% and an increase in exports by 10.6%. In the second quarter of the current year, and compared to the second quarter of 2019, there was a slight increase in imports by 0.8%, as well as an increase in exports by 11.9%.

Table 1 shows the percentage of increase / decrease in foreign trade on a monthly basis for the first six months of 2021 compared to the same period in 2020.

Table 1.

	Jan 2021 / Jan 2020	Feb 2021 / Feb 2020	Mar 2021 / Mar 2020	April 2021 / April 2020	May 2021 / May 2020	June 2021 / June 2020	I-VI 2021 / I-VI 2020
Export	3.0	11.3	36.2	59.9	43.1	41.5	31.1
Import	-5.7	-6.8	19.7	49.9	42.5	28.9	19.8
Volume	-2.1	-0.1	25.7	53.7	42.7	33.8	24.1
Coverage	9.2	19.4	13.8	6.7	0.4	9.8	9.4
Deficit	-25.2	-32.7	-2.4	33.9	41.5	7.7	1.7

Source: Agency for Statistics of B&H, OMA review

The table shows an increase in exports on a monthly basis, especially in the period March-June, when global and national virus control measures were most rigorous. Imports in the period January-February of the current year are lower compared to the same period last year, i.e. compared to the period before the introduction of measures. Looking at the data on a monthly basis, in the period March-June of the current year, imports are significantly higher compared to the same period last year. The data give a clear picture that the measures to combat the pandemic, which were introduced in March 2020 and lasted until June of the same year, led to a significant decline in total exports and imports.

Table 2 shows the percentage of increase / decrease in foreign trade on a monthly basis for the first six months of 2021 compared to the same period in 2019.

Table 2.

	Jan 2021 / Jan 2019	Feb 2021 / Feb 2019	Mar 2021 / Mar 2019	April 2021 / April 2019	May 2021 / May 2019	June 2021 / June 2019	I-VI 2021 / I-VI 2019
Export	3.0	11.0	16.8	7.6	2.5	26.2	11.3
Import	-9.8	-5.7	0.1	-3.0	-6.8	13.5	-1.8
Volume	-4.7	0.6	6.1	1.0	-3.4	18.4	3.1
Coverage	14.2	17.7	16.7	10.9	10.0	11.2	13.3
Deficit	-34.9	-30.5	-21.0	-18.2	-19.1	-7.1	-21.0

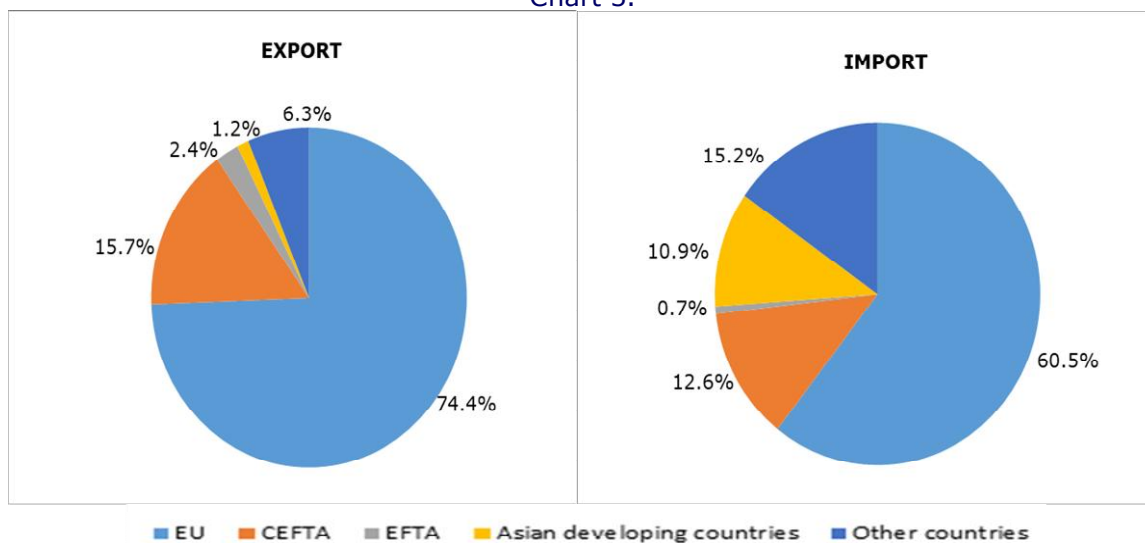
Source: Agency for Statistics of B&H, OMA review

The table shows the increase in exports on a monthly basis in the first six months of the current year compared to the first six months of 2019. In January, February, April and May of the current year, imports is lower compared to the same months in 2019, while in June there was a significant increase in imports compared to the same months in 2019. The presented data give a picture of the overall progress of the country's foreign trade in relation to the period before the Covid-19 crisis, and the recovery in relation to the period during the crisis.

2. Foreign trade of B&H towards the main regions for the period I-VI 2021

Chart 3 shows the percentage of participation of the main regions in foreign trade with B&H in the first six months of 2021.

Chart 3.



Source: Agency for Statistics of B&H, OMA review

The EU, as the main partner of B&H in foreign trade, in the first six months of 2021 participates with 74.4% of exports and 60.5% of imports. Exports to EU countries in the observed period increased by 33.3%, while imports increased by 19.8% compared to the same period last year. The coverage of imports by exports is 83.0%, which is 8.4 p.p. higher than in the same period in 2020. Compared to the first half of 2019, exports to EU countries increased by 11.0%, imports decreased by 4.3%, while the coverage of imports by exports increased by 11.4 p.p. in the first half of the current year.

In the first six months of the current year, CEFTA member countries participate in foreign trade with B&H with 15.7% of exports and 12.6% of imports. Exports increased by 31.0%, while imports increased by 21.6% compared to the same period last year. The coverage of imports by exports is 83.6%, which is 6.0 p.p. higher than in the same period in 2020. Compared to the first half of 2019, exports to the countries of the CEFTA region are higher by 11.5%, imports are higher by 6.9%, while the coverage of imports by exports is higher by 3.5 p.p. in the first half of the current year.

In the first six months of the current year, CEFTA member countries participate in foreign trade with B&H with 15.7% of exports and 12.6% of imports. Exports increased by 31.0%, while imports increased by 21.6% compared to the same period last year. The coverage of imports by exports is 83.6%, which is 6.0 p.p. higher than in the same period in 2020. Compared to the first half of 2019, exports to the countries of the CEFTA region are higher by 11.5%, imports are higher by 6.9%, while the coverage of imports by exports is higher by 3.5 p.p. in the first half of the current year.

In the first six months of the current year, EFTA member countries participate in foreign trade with B&H with 2.4% of exports and 0.7% of imports. Exports increased by 11.8%, while imports increased by 9.6% compared to the same period last year. The coverage of imports by exports is 219.6%, which is 4.2 p.p. higher than in the same period in 2020. Compared to the first half of 2019, exports to the countries of the EFTA region are higher by 14.2%, imports are lower by 7.9%, while the coverage of imports by exports is higher by 42.4 p.p. in the first half of the current year.

In the first six months of 2021, B&H realized 1.2% of exports and 10.9% of imports in foreign trade with a group of Asian developing countries. Of the total realized imports from this group of countries, 68.5% refers to imports from China. Exports decreased by 5.3%, while imports increased by 14.7% compared to the same period last year. The coverage of imports by exports is 7.5%, which is 1.6 p.p. less than in the same period in 2020. Compared to the first half of 2019, exports to Asian developing countries decreased by 3.2%, imports increased by 2.4%, while the coverage of imports by exports decreased by 0.4 p.p. in the first half of the current year.

3. Foreign trade of B&H by type of product for the period I-VI 2021

3.1. Exports by product type

Table 3 shows the share in exports of the ten main product groups in the first six months of 2019, 2020 and 2021. The table also presents the percentage of increase / decrease in exports of certain types of goods in the first half of 2021 compared to the same period in 2020 and 2019.

Table 3.

no.	code	Code description	EXPORT (% of participation)			change in relation to I-VI 2020 (%)	change in relation to I-VI 2019 (%)
			I-VI 2019	I-VI 2020	I-VI 2021		
1	94	Furniture; bed equipment and like products; lamps and other lighting fixtures	9.0	8.9	9.3	37.1	15.6
2	85	Electrical machinery and equipment and parts thereof; sound recording or reproducing apparatus; television sets, etc.	6.8	7.9	8.1	34.8	32.2
3	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	8.4	8.1	8.1	31.9	7.3
4	84	Nuclear reactors, boilers, machinery, apparatus and mechanical appliances; their parts	7.1	7.1	7.3	34.4	14.6
5	73	Iron and steel products	6.6	6.9	7.0	32.2	18.6
6	72	Iron and steel	5.2	4.1	6.5	106.7	38.7
7	44	Wood and wood products; charcoal	6.4	6.5	6.5	30.8	14.1
8	64	Footwear, slippers and the like; parts of these products	6.4	6.1	5.1	8.7	11.9
9	39	Plastics and plastic products	4.0	4.8	4.8	30.1	35.2
10	28	Inorganic chemical products; organic and inorganic compounds of precious metals, radioactive elements, etc.	5.6	5.3	4.7	16.1	-6.6
I		In total (from 1 to 10)	65.4	65.9	67.5	34.3	14.8
II		Other products	34.6	34.1	32.5	25.0	4.5
		TOTAL (I + II)	100.0	100.0	100.0	31.1	11.2

Source: Agency for Statistics of B&H, OMA review

Comparing the data from the first half of the current year with the first half of the previous year, total exports as well as exports of the ten main product categories are significantly higher. Given the restriction on exports in the first half of the previous year, the increase in exports in the first half of the current year does not represent a real increase in exports that would have occurred if there were no pandemic barriers that resulted in restrictions on free movement of goods. After the removal of barriers, in the first half of the current year, the total growth of exports was 31.1%, as well as the growth of exports in ten main product groups of 34.3% compared to the first half of the previous year. In comparison with the data before the Covid-19 crisis, i.e. with the data from the first half of 2019, in the first six months of the current year is recorded total export growth by 11.2% and total export growth in the top ten export products category by 14.8%. In the first half of the current year compared to the same period in 2019, nine main product categories achieved an increase in exports. One main product category code 28 - *Inorganic chemical products; organic and inorganic compounds of precious metals, rare earth metals, radioactive elements and isotopes*, is the only main group that recorded a decrease in exports.

The group of products code 72 - *Iron and steel*, achieved the highest growth of exports by 106.7% in the first half of the current year compared to the same period of the previous year. This category also recorded the highest export growth of 38.7% in the first half of the current year compared to the first half of 2019. In the first half of the current year, and compared to the same period in 2020 and 2019, this product category recorded higher growth than the code 73 - *Iron and steel products*. It means that the exchange value of raw materials of a higher degree of processing grew more slowly in relation to the value of the exchange of primary raw materials.

Faster growth in exports of final products or products with a higher degree of processing would have a greater impact on the volume of foreign trade than the growth of primary raw materials and semi-finished products. The coronavirus pandemic negatively affected the volume of iron and steel exchange in the first half of last year, during the "lockdown" period when the production of

this group of products in B&H suffered a severe blow due to the pandemic and reduced demand on the world market.

In the same period, the industry sector to which this group of products belongs, faced other problems such as quotas and tariffs imposed by the EU and the US on certain products, which further affected the reduction of exports. However, having in mind the country's potential when it comes to metal resources, this industry is a recognizable competitive advantage of B&H, and in the first half of this year there was an expansion of the value of exported iron. Thus, after the disturbance in the world market caused by the pandemic and the temporary closure of the production plant last year, an explosion of rising iron and steel prices has followed since the beginning of the current year.

In addition to the excellent results achieved in exports of iron and steel, as well as the results achieved in exports of iron and steel products, the wood processing sector also recorded significant growth in exports in the first half of this year compared to the same period last year. The production of furniture is one of the most successful industries in the country, and the export of a group of products code 94 - *Furniture, bedding and similar products (mattresses, pillows, etc.), lamps and other lighting fixtures, which are not included elsewhere*, have the largest share in exports from B&H. Thus, in the first half of the current year, there was an increase in exports of this group of products by 37.1% compared to the same period in 2020, as well as an increase by 15.6% compared to the same period in 2019.

Domestic raw materials from the group of products code 44 - *Wood and wood products; wood charcoal*, is more oriented towards the foreign market. In the first half of the current year, this group of products achieved an increase in the value of exports of 30.8% compared to the same period last year, and an increase in the value of exports of 14.1% compared to the same period in 2019.

Significant growth in exports in the first half of the current year compared to the same period of the previous two years was achieved by a group of products with a significant share in total exports from the country. This refers to a product group of code 85 - *Electrical machinery and equipment and their parts; sound recording or reproducing apparatus; television sets for recording or reproducing images and sound, etc.* Compared to the first half of 2020, exports grew by 34.8% while compared to the first half of 2019 exports grew by 32.2%. After blockades, locks and stagnation in the first half of the last year, in the same period of the current year there was a sharp explosive increase in activity in many economic areas. One of these areas is the production and export of goods of this group of products, because investments and economic activities related to this group of products, which were postponed in the first half of last year, are in the process of realization in the current year. As the country relies on these processes, exports of this group of products are increasing because B&H does not have a large domestic market. The development of technology, increasing the process of systematization and digitalization, is one of the reasons for the increase in exports of this group of products compared to the period before the Covid-19 crisis.

The group of products of code 39 - *Plastics and plastic products* achieved an increase in exports of 30.1% in the first half of the current year compared to the same period last year, while compared to the first half of 2019, this group of products achieved growth of 35.2%. Regardless of the coronavirus virus pandemic, this product group is the only one of the ten main product groups, which in the first half of 2020 achieved positive exports compared to the first half of 2019²⁴. Higher demand of the foreign market for plastic products, and the possibility of the domestic market for the production of these products, additionally affects the increase of exports, i.e. the reduction of the imbalance between exports and imports in this sector. This applies in particular to

²⁴ "Trade of goods and services for the period January - June 2020"; OMA Bulletin No. 183/184; http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_183_184.pdf

plastic construction products and products for the transport and packaging of plastic goods, such as stoppers, lids and other plastic closures, and the possibility of the domestic market for the production of these products.

The only one of the ten main product groups whose percentage growth in the value of exports in the first half of the current year is higher compared to the first half of 2019, than compared to the first half of 2020, is the product group code 64 - *Footwear, boots and similar products; parts of these products*. Thus, in the first six months of the current year, the export of the group of products from this sector was 8.7% higher compared to the first six months of the previous year, and 11.9% higher compared to the first six months of 2019. This increase in exports is the result of stable export demand, expansion of the production base of this group of products in the country, and raising competitiveness in B&H.

The group of products with a significant share in exports is the group of products code 27 - *Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes*. The value of exports of this group of products in the first half of the current year increased by 31.9% compared to the same period last year, while compared to the same period in 2019, the value of exports of this group of products increased by 7.3%.

Export value of product group code 84 - *Nuclear reactors, boilers, machinery and mechanical appliances; their parts*, in the first half of the current year is higher by 34.4% compared to the same period last year, while compared to the first half of 2019, the value of exports of this group of products increased by 14.6%.

Exports of the product category 28 - *Inorganic chemical products; Organic and inorganic compounds of precious metals, rare earth metals, radioactive elements and isotopes*, in the first six months of the current year increased by 16.1% compared to the same period last year. It is the only main product group recorded decrease in exports by -6.6% compared to the same period in 2019.

3.2. Imports by product type

Table 4 shows the share in imports of the ten main product groups in the first six months of 2019, 2020 and 2021. The table also presents the percentage of increase / decrease in imports of certain types of goods in the first half of 2021 compared to the same period in 2020 and 2019.

Table 4.

no.	code	Code description	IMPORT (% of participation)			change in relation to I-VI 2020 (%)	change in relation to I-VI 2019 (%)
			I-VI 2019	I-VI 2020	I-VI 2021		
1	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	14.3	10.6	10.7	20.1	-26.7
2	84	Nuclear reactors, boilers, machinery, apparatus and mechanical appliances; their parts	8.1	7.7	7.9	23.2	-4.4
3	87	Vehicles other than railway or tramway rolling-stock and parts and accessories thereof	7.9	6.7	6.8	21.4	-15.6
4	39	Plastics and plastic products	5.3	6.0	6.5	30.3	20.0
5	85	Electrical machinery and equipment and parts thereof; sound recording or reproducing apparatus; television sets, etc.	5.8	6.2	6.3	22.4	6.6
6	72	Iron and steel	3.4	3.3	4.3	58.2	25.5
7	30	Pharmaceutical products	3.2	4.2	3.8	9.7	18.2
8	73	Iron and steel products	2.6	2.7	3.2	40.5	18.0
9	76	Aluminum and aluminum products	2.4	2.2	2.8	48.3	12.7
10	74	Copper and copper products	1.3	1.4	2.0	71.3	50.0
I		In total (from 1 to 10)	54.3	50.9	54.1	27.5	2.0
II		Other products	45.7	49.1	45.9	11.9	1.4
		TOTAL (I + II)	100.0	100.0	100.0	19.8	1.7

Source: Agency for Statistics of B&H, OMA review

Total imports, as well as imports of the ten main product categories, were significantly higher in the first half of the current year compared to the first half of the previous year. Given the pandemic barriers that limited imports in the first half of the previous year, the value of significantly higher imports in the first half of the current year does not represent a realistic picture if there was no shock. In the first half of the current year, the total growth of imports was 19.8%, as well as the growth of imports in the ten main product groups by 27.5% compared to the same period last year. Compared to the data from the first half of 2019, total import growth of 1.7% and total import growth of 2.0% in the ten main import categories of products was achieved in the first six months of the current year. Imports increased in seven main product categories, while in the three main product categories, which also have the largest share in imports, the value of imports decreased in the first half of the current year compared to the first half of 2019.

The largest increase in imports in the first six months of the current year compared to the same period last year of 71.3% was achieved by the group of products 74 - *Copper and copper products*. This category also recorded the largest increase in the value of imports of 50.0% in the first half of the current year compared to the first half of 2019. The high growth in the value of imports of this group of products is a consequence of the growth of prices of copper and copper products on the world market²⁵.

In addition to a significant increase in imports of copper and copper products, in the first half of the current year, compared to the same period last year, a significant increase in imports of

²⁵ After the relaxation of rigorous measures in the fight against the coronavirus pandemic, the introduction of the Covid-19 virus vaccine, growing optimism in the world market, significantly increased the continuation of investments in production and investments that require demand for this group of products. Due to increased demand, mainly from China as the largest global consumer of copper and reduced supply and stock of copper and copper products on the world market, prices have reached a historic maximum. Given that copper is the most widely used metal in energy production, transmission infrastructure and energy storage, and is the second most used metal after aluminum and steel in construction, telecommunications, transportation and car manufacturing, demand for copper is expected to increase further due to growing concerns about low copper reserves. Also, infrastructure plans and incentives for "green energy" increase the demand for this group of products used in the production of electric vehicles.

58.2% was recorded in the product category 72 - *Iron and Steel*. Compared to the first half of 2019, imports of 25.5% were recorded in this product category. A significant increase in imports in the first half of the current year was also recorded in the product category 73 - *Iron and steel products* by 40.5% compared to the first half of the previous year, while compared to the first half of 2019 an increase in imports by 18.0% was recorded in this product category. As with the value of imports of copper and copper products, the value of imports of iron and steel and iron and steel products in the first half of the current year compared to the same period last year increased due to daily growth in demand for these product groups worldwide level. The reason for this is the sharp rise in global prices of many raw materials needed by the industry as restrictions and other measures have been eased to curb the spread of the coronavirus, and turning the world towards infrastructure to stimulate recovery after the Covid-19 crisis²⁶.

In the category of products code 76 - *Aluminum and aluminum products* in the first half of the current year, imports increased by 48.3%, compared to the same period last year, while compared to the same period in 2019 in this product category the import growth of 12.7% was recorded. The increase in the value of imports of aluminum and aluminum products was influenced by the growth of aluminum prices on the world market²⁷.

Imports of products under code 39 - *Plastics and plastic products* in the first half of the current year increased by 30.3% compared to the same period of the last year, while compared to the same period in 2019, the value of imports of this product group is higher by 20.0%. As plastic resin is a key material related to other materials such as steel, wood, microchips and other similar products, there has been a sharp rise in the current market price of plastic resin and other related raw materials on the world market. Given the close relationship and the impact of supply and demand of a particular type of goods on its market price, factors such as the global Covid-19 pandemic, supply chain problems, production difficulties and labor shortages have contributed to rising prices for this product group. Price analyzes indicate that plastic resins and raw materials reached record values, which led to a significant increase in the value of imports in the first half of the current year compared to the same period in 2019. The growth in imports of this product group relative to the same period 2020 can be attributed to congestion due to the coronavirus pandemic in the first half of 2020 when raw material production facilities and supply chains were closed or operated at markedly reduced capacity, while stocks were depleted.

Despite the fact that the country has large natural mineral resources such as salt, sulfur, stone, gypsum, lime, cement, etc., the main imported products are products 27 - *Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes*. In the first six months of the current year, the value of imports of these products increased by 20.1% compared to the same period last year, while compared to the same period in 2019, the value of imports of this group of products decreased by -26.7%. Despite the significant decrease in imports of this category of products compared to the period before the Covid-19 crisis, these products still occupy the most significant share in BH imports.

Product group 84 - *Nuclear reactors, boilers, machinery and mechanical appliances; their parts*, has a significant share in total imports to B&H. In the first half of the current year, the value of imports of this product group increased by 23.2% compared to the first half of the previous year,

²⁶ Huge measures of economic incentives by governments and central banks around the world have also increased demand for these product categories. As China recorded a rapid recovery in economic activity last year after its rapid exit from the lockdown, the trend of increased demand continued, resulting in a sharp jump in the prices of iron and steel and iron and steel products. This upward trend in the prices of these product groups could be sustained for some time, supported by global infrastructure incentive plans.

²⁷ This is the result of high demand in China and growing concerns that China's new climate policy, which focuses on reducing greenhouse gas emissions, could limit future metal supplies. Constantly growing demand could lead to a reduction in the global aluminum market, which would produce aluminum as a highly energy-intensive process, lead to a further increase in world aluminum prices, which would further increase the value of imports of this product group in B&H.

while compared to the first half of 2019, the value of imports of this product group decreased by -4.4%. Although the value of imports of this group of products is lower in the first six months of the current year compared to the same period in 2019, i.e. compared to the period before the Covid-19 crisis, it is still a category of products with a significant share in BH imports, as well as the second main imported product category.

In the period January-June of the current year, the value of imports of the product group 87 - *Vehicles, except for railway or tram vehicles and their parts and accessories*, increased by 21.4% compared to the same period in 2020, while compared to the same period in 2019, the value of imports of this group of products decreased by -15.6%. The coronavirus pandemic, i.e. the uncertainty related to the pandemic, is the reason for the population to focus on the purchase of basic foodstuffs, which negatively affected the import of vehicles in the first half of 2020. However, the lower value of imports of this product group in the first half of the current year compared to the first half of 2019 is a result of the ban²⁸ on imports of used vehicles with Euro 4 engine. Prior to the entry into force of the ban, imports of used vehicles with a Euro 4 engine were increased in the first five months of 2019. This increased the basis for comparisons, having a larger decrease in the value of imports of this group of products in the first half of the current year compared to the value of imports in the first half of 2019.

Import value of product group 85 - *Electrical machinery and equipment and their parts; sound recording or reproducing apparatus; television sets for recording or reproducing images and sound, etc.*, in the first half of the current year is higher by 22.4% compared to the first half of the previous year. Compared to the first half of 2019, the value of imports of this product group is higher by 6.6%.

Product group 30 - *Pharmaceutical products* is the only one of the ten main product groups that in the first half of 2020, i.e. in the period of disruption of foreign trade in the world, achieved positive imports compared to the same period in 2019²⁹. Comparing the data in the first half of the current year, the value of imports of this product group increased by 9.7% compared to the same period last year, while compared to the first half of 2019, the value of imports of this product group increased by 18.2%. The increase in imports of pharmaceutical products is the result of higher demand for drugs and dietary supplements, such as vitamins and other supplements, due to the corona virus pandemic.

²⁸ This ban has been in force in B&H since June 1, 2019, and applies mainly to cars older than ten years.

²⁹ "Trade of goods and services for the period January - June 2020"; OMA Bulletin No. 183/184; http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_eng_183_184.pdf