



Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

# ОМА Билтен



Број  
Број  
Number **209/210**

## With this issue

According to the October 2022 preliminary cash flow report of the Indirect Taxation Authority, the cumulative absolute increase in net indirect taxes at the Single Account for ten months of 2022 amounted to 818.4 million BAM, representing a growth of 14.4% compared to the same period in 2021. The growing trend of refunds is evident, greatly reducing the final effects in the indirect tax collection. Chart 1 shows that even 37.5% of the realized cumulative absolute increase in gross collection of 1.309 billion BAM for ten months of 2022 referred to VAT refunds.

Chart 1

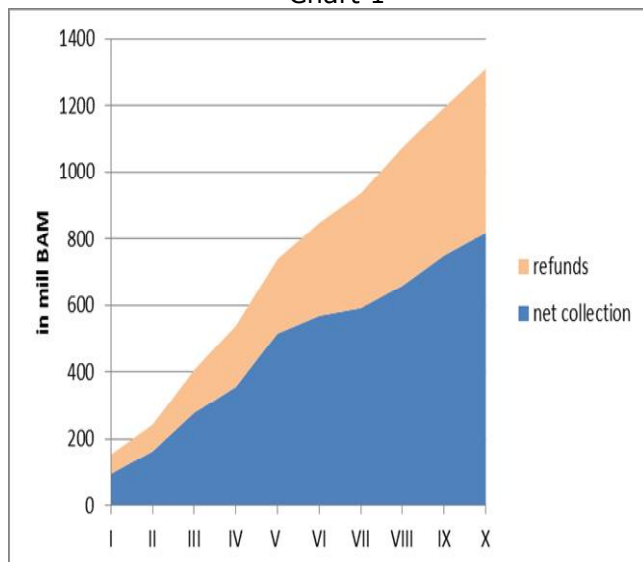
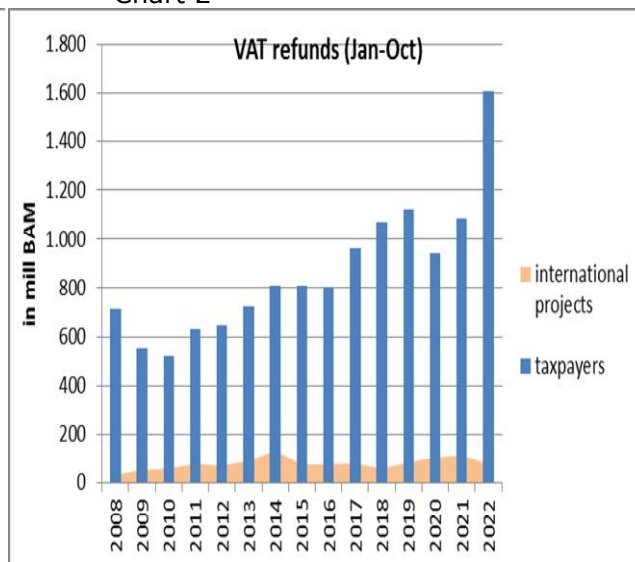


Chart 2



Refund payments to taxpayers in 2022 were higher by even 522.8 million BAM or by 48.2% compared to the same period in 2021, while refund payments based on international projects were lower by 40.7 million BAM or by 35% (Chart 2). The sharp increase in refund payments to taxpayers was a consequence of the high growth rates of imports and exports in 2022. On the other hand, the COVID-19 pandemic and the political crisis had a negative impact on foreign investments and international aid projects, resulting in the reduction of VAT refund payments on that basis in 2022.

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## Revised projections of revenues from indirect taxes for the period 2022-2025

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## Summary

### *Projections of macroeconomic indicators*

*According to the official data of the Agency for Statistics of B&H (BHAS), in 2021, Bosnia and Herzegovina recorded real GDP growth of 7.6% compared to the previous year. According to the projections of the Directorate for Economic Planning (DEP) real GDP growth of 2.7% is expected in Bosnia and Herzegovina in 2022. Bearing in mind the complication of international political and economic situation related to the events in Ukraine, and the negative economic consequences of these events in Bosnia and Herzegovina, the DEP states that the expected rate of real GDP growth should be 1.7% in 2023. , 2.7% in 2024 and 3.0% in 2025.*

### *Current revenue collection trends*

*When analysing the period since the establishment of the ITA, the record nominal collection of revenue from indirect taxes and the maximum share of indirect taxes from the Single Account of the Indirect Taxation Administration (SA of the ITA) in total consumption was achieved in 2021. In the period January-September 2022, the net collection was higher by 750.3 million BAM or by 14.8% compared to the same period in 2021. The largest absolute growth for nine months of 2022 compared to the same period in 2021 was achieved in the collection of VAT (534.2 million BAM), excises (126.6 million BAM) and customs (77.9 million BAM).*

### *Projections of revenues from indirect taxes*

*Projections of revenues from indirect taxes are based on the projections of macroeconomic indicators (DEP, September 2022) and take into account trends in the collection of indirect taxes, and current government policies in the field of indirect taxation. Bearing in mind specificities in the statistical base for comparison, and taking into account the huge unknowns regarding developments in Ukraine and the development of the epidemiological situation in the country and the surrounding area, the projected growth rate of revenues from indirect taxes for 2022 is 13.1%. The projected growth rates of indirect tax revenues for 2023, 2024, and 2025 are 2,9%, 3,7% and 3,3%, respectively.*

### *Risks*

*There are significant risks for the realization of projections of revenues from indirect taxes due to huge unknowns regarding the events in Ukraine and the development of the epidemiological situation in the country and the region. Achieving the projected level of revenues from indirect taxes in the period 2022-2025 is subject to the following risks: all risks for the achievement of projected macroeconomic indicators (DEP) and risks related to the collection of revenues from indirect taxes and the fight against grey economy.*

## BASELINE SCENARIO OF INDIRECT TAX REVENUE PROJECTIONS

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

Indirect tax projections are based on the September 2022 macroeconomic projections of the DEP, and consider trends in indirect tax collection and current government policies in the field of indirect taxation (baseline scenario).

#### 1.1. Projections of macroeconomic indicators, DEP, September 2022

Table 1 presents the latest projections of the Directorate for Economic Planning of B&H (DEP, September 2022) of nominal and real GDP growth rates for the period 2022-2025.

Table 1. Projection of GDP growth, DEP, September 2022

	2020	2021	projections			
			2022	2023	2024	2025
Nominal growth	-3,00	12,60	10,20	6,30	5,40	5,50
Real growth	-3,20	7,60	2,70	1,70	2,70	3,00

Source: DEP, September 2022

##### 1.1.1. Projections for 2022

According to official BHAS data, in 2021, Bosnia and Herzegovina recorded a real GDP growth of 7.6% compared to the previous year.<sup>1</sup> The DEP states that the high rate of economic growth is largely a consequence of the low statistical base from the previous year (2020), when GDP fell as a result of the effects of corona virus pandemic. DEP's GDP growth projections for 2022 are based on BHAS data for trends in Bosnia and Herzegovina that were available at the time of the preparation of their document (economic growth of 5.5% in the first quarter of 2022, and short-term indicators which indicate that the growth trend continued in the second quarter but at a lower rate), as well as data from Eurostat and international financial institutions for trends in the EU and the world. They also note that the intensification of the Ukrainian crisis and interruptions in the supply chains have led to a strong increase in the world prices of energy and food and to an increase in inflationary pressures in Bosnia and Herzegovina. Thus, according to DEP's projections, in the second half of 2022, a slowdown in economic growth is expected in B&H, with real growth of 2.7% projected for the whole 2022.

##### 1.1.2. Projections for the period 2023-2025

Bearing in mind the complicating international political-economic circumstances related to the events in Ukraine, and the negative economic consequences of these events in Bosnia and Herzegovina, the DEP states that the expected real GDP growth rates are: 1.7% in 2023, 2.7% in 2024 and 3.0% in 2025. The document states that, in addition to external circumstances, a very important factor for economic growth in the country is also the institutional capacity of the country in implementing structural reforms.

<sup>1</sup>Gross domestic product of B&H 2021, Expenditure approach, First results ", BHAS, September 30, 2022;  
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## 1.2. Current policies in the field of indirect taxation

VAT obligations and payment system are regulated by the Law on Value Added Tax ("Official Gazette of B&H", No. 9/05, 35/05, 100/08 and 33/17). Excise policy is regulated by the Law on Excises in Bosnia and Herzegovina ("Official Gazette of B&H", No. 49/09, 49/14, 60/14, 91/17 and 50/22)<sup>2</sup>. The policy of excises on tobacco in 2022 has been regulated by the Law on Excises and Decision<sup>3</sup> of the ITA Governing Board. As the legally prescribed ceiling of the total excise tax on cigarettes of 176 BAM / 1000 cigarettes was reached for all price categories of cigarettes in 2019, the harmonization with EU standards in the field of cigarette taxation was completed, while the taxation of cut tobacco is regulated according to the amendments to the Law (in force since 2014).<sup>4</sup> The Law<sup>5</sup> on Customs Policy in Bosnia and Herzegovina regulates the basic elements of customs policy and general rules and procedures that apply to goods brought into and out of the customs territory of Bosnia and Herzegovina.

## 1.3. Indirect tax collection trends

### 1.3.1. Collection in the period 2006-2021

After a long-term growth trend in collected revenues from indirect taxes,<sup>6</sup> in 2020 they fell due to the effects of the coronavirus pandemic. In 2006, 4.12 billion BAM of net revenues from indirect taxes were collected on the SA of the ITA, while in 2019 the amount of net collected revenues increased by as much as 58.7% (6.54 billion BAM) compared to 2006.<sup>7</sup> In 2021, a historical maximum in nominal collection of revenues from indirect taxes from the establishment of the ITA was achieved, in the amount of 6.92 billion BAM.

The share of indirect taxes on the ITA Single Account (SA) in GDP has varied significantly in recent years (Table 2). Since the establishment of the ITA, this indicator has ranged from 16.6% (minimum value, 2009) to 19.2% (maximum value, 2007). It amounted 17.3% in 2021. The dynamics of indirect taxes in GDP depended on numerous factors: trends in tax rates and tax base, efficiency of tax collection, consumption trends, but the other categories of gross domestic product (investments, imports and exports), which, like consumption, also affect denominator of this indicator. The share of indirect taxes on the ITA SA in total consumption has also varied, having a continuous growth trend in the period from 2014 to 2019. In 2019, it amounted 19.9%, while in 2020 it dropped to 18.4%. In 2021, it grew again to 20.1%, which is the maximum value since the establishment of the ITA.

<sup>2</sup> Changes to the Law on Excises ("Official Gazette of B&H" No. 50/22) will be applied from the moment of entry into force of the by-laws adopted by the Governing Board of the ITA.

<sup>3</sup> Decision on Determination of the Specific and Minimum Excise Duty for Cigarettes and Amount of the Excise Duty on Smoking Tobacco for 2022 („Official Gazette of B&H" No. 67/21)

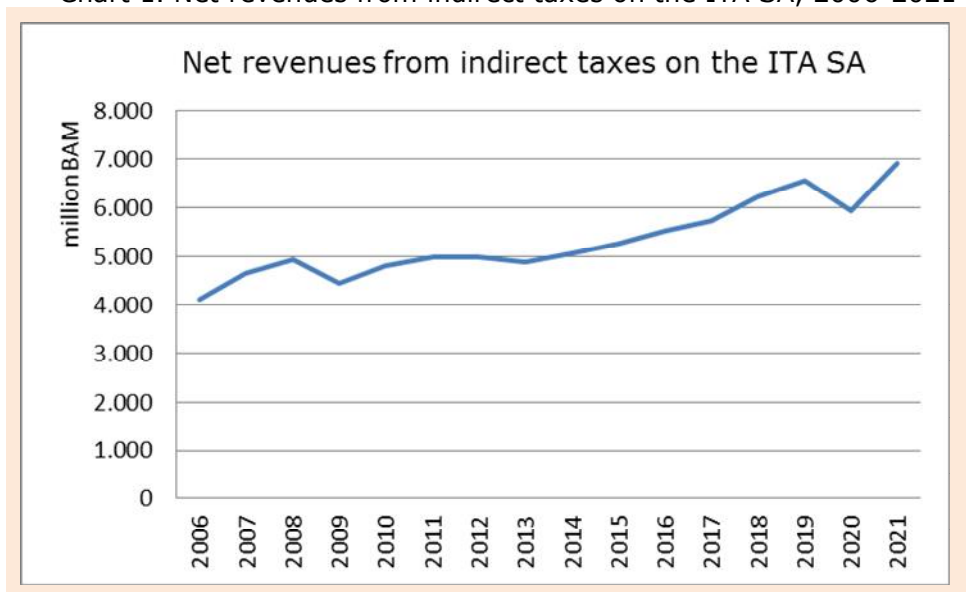
<sup>4</sup> The new policy is in effect since August 1, 2014 (Amendments to the Law on Excises in B&H "Official Gazette of B&H" No. 49/14)

<sup>5</sup> The new Law on Customs Policy ("Official Gazette of B&H" No. 58/15) has been applied as of August 1, 2022 ("Official Gazette of B&H" No. 23/22), and until that date the old Law on Customs Policy was applied, with the exception of Article 207 of the new Law which has been applied as of 25 April 2018.

<sup>6</sup> In almost all years from the establishment of the ITA until 2019, there were increases in collected revenues on the SA of the ITA. Exceptions were the "crisis" year of 2009, when there was a strong decline in revenues of 9.9%, and stagnation and a slight decline in revenues in 2012 and 2013, respectively (Chart 2).

<sup>7</sup> 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.

Chart 1. Net revenues from indirect taxes on the ITA SA, 2006-2021



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

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

(in %)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
C/GDP	101,9	99,5	100,7	100,1	101,8	101,5	100,9	99,3	100,0	96,5	94,0	91,7	90,3	89,8	90,8	86,0
indirect taxes/GDP	19,1	19,2	18,1	16,6	18,0	18,2	17,8	17,0	17,5	17,4	17,5	17,3	17,8	17,9	16,7	17,3
indirect taxes/ C	18,8	19,3	18,0	16,6	17,7	17,9	17,6	17,1	17,5	18,0	18,7	18,9	19,7	19,9	18,4	20,1

Source: Calculation based on data of the ITA and BHAS<sup>8</sup>

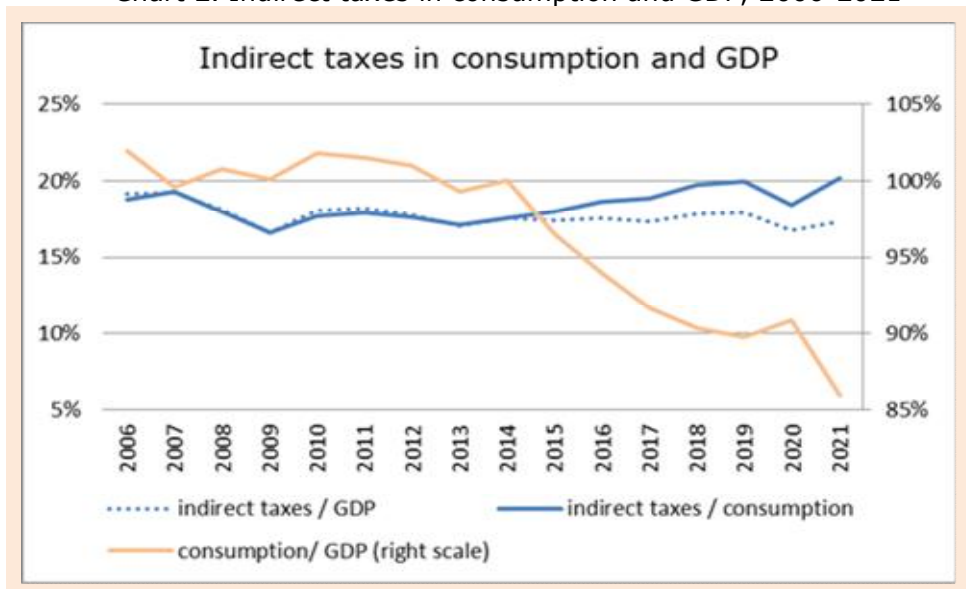
In Chart 2, the share of indirect taxes in GDP of B&H in the period 2008-2020 is broken down into product components, in accordance with the methodology from the OECD analysis<sup>9</sup>: (1) share of indirect tax revenues in total consumption and (2) share of total consumption in GDP. It can be concluded from the Chart that the share of indirect taxes in GDP and consumption was at approximately the same level until 2015, when the share of consumption in GDP was around 100%. As of 2015, there has been a downward trend in the share of consumption in GDP (with the exception of a slight increase in 2020), and in 2021 it amounted to 86.0%. With the decline in the share of consumption in GDP, since 2015, the line of the share of indirect taxes in consumption has been above the line of their share in GDP.

<sup>8</sup> Agency for Statistics of B&H (BHAS): "Gross domestic product of B&H 2021, Expenditure approach, First results", September 30, 2022; "Gross domestic product by production, income and expenditure approach, 2020", February 28, 2022 and "Gross Domestic Product – Special First Release", July 19, 2021.

<sup>9</sup> Simon, H. and M. Harding (2020), "What drives consumption tax revenues?: Disentangling policy and macroeconomic drivers" *OECD Taxation Working Papers*.

In 2021, there was a strong drop in the share of consumption in GDP compared to the previous year. On the other hand, the share of indirect taxes in GDP increased by 0.6 pp. reaching a level of 17.3%. The analysis according to the components from the OECD equation shows that the increase in the share of indirect taxes in GDP in 2021 is the cumulative result of the annual increase in the share of indirect taxes in consumption by 1.73 pp., and the decrease in the share of consumption in GDP by 4.81 pp.

Chart 2. Indirect taxes in consumption and GDP, 2006-2021



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

### 1.3.2. Collection in the period January - September 2022.

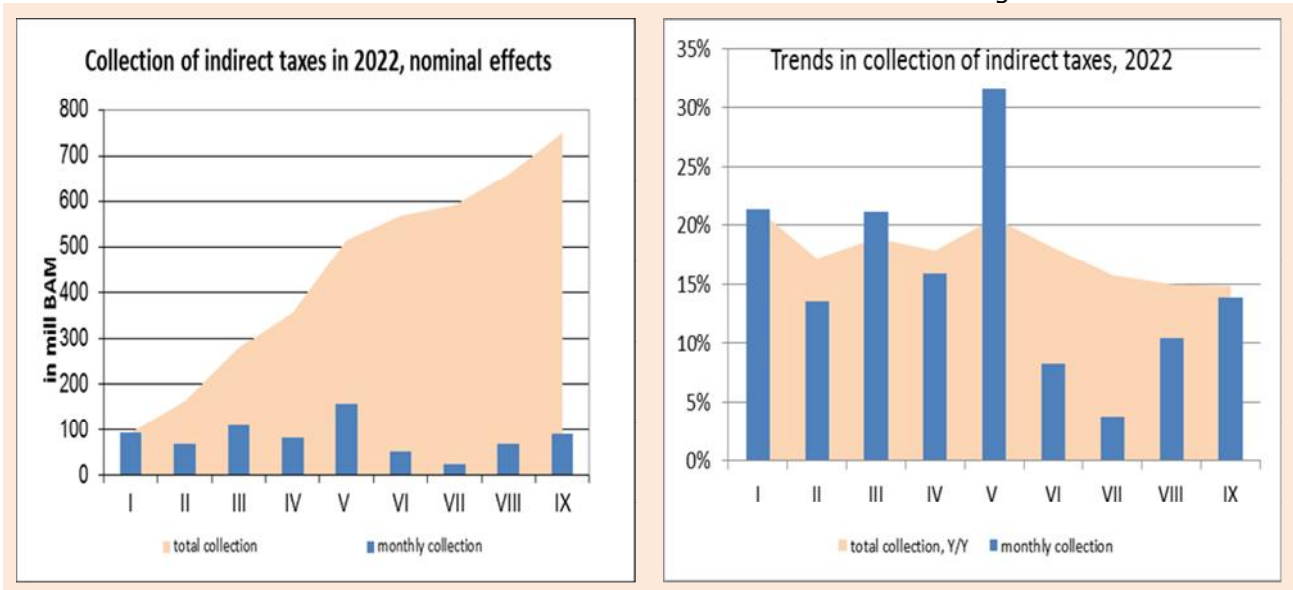
#### Total collection

According to the preliminary cash flow report at Single Account of the ITA, in September 2022, 121 million BAM of gross revenues was collected more than in the same month of 2021, and at the same time, refund payments were higher by 30.8 million BAM. Ultimately, the net collection of indirect taxes in September amounted to 740 million BAM, which is 13.9% or 90.2 million BAM more than in September 2021 (Chart 3). Strong collection growth in September increased the cumulative surplus in the collection of indirect taxes. Therefore, net collection in the period January-September 2022 was higher by 750.3 million BAM or by 14.8% than in the same period in 2021 (Chart 3).

The analysis of the collection of revenues from indirect taxes in the first five months of 2022 indicates high net effects (Chart 3, display on the left), which, due to the low statistical base for comparisons from 2021, resulted in a high monthly growth rates in 2022 (Chart 3, right side). Until June 2021, the basis for comparisons was low due to restrictive anti-COVID measures (Chart 4, left side), but already in the next months until the end of 2021, after easing of epidemiological measures, revenue collection has been increasing. Due to the higher statistical base for comparison, the net effects after May 2022 have been smaller, in terms of additional collected revenues, and the monthly growth rates have been significantly lower.

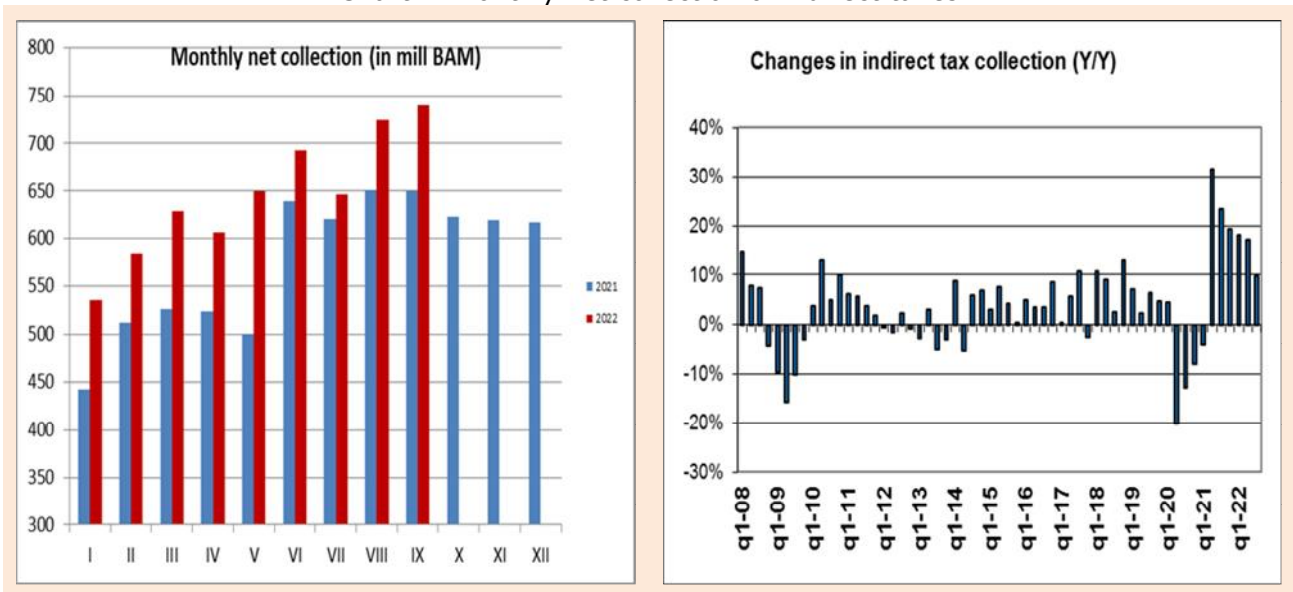


Chart 3. Collection of indirect taxes in 2022: nominal effects and growth rates



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

Chart 4. Monthly net collection of indirect taxes



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

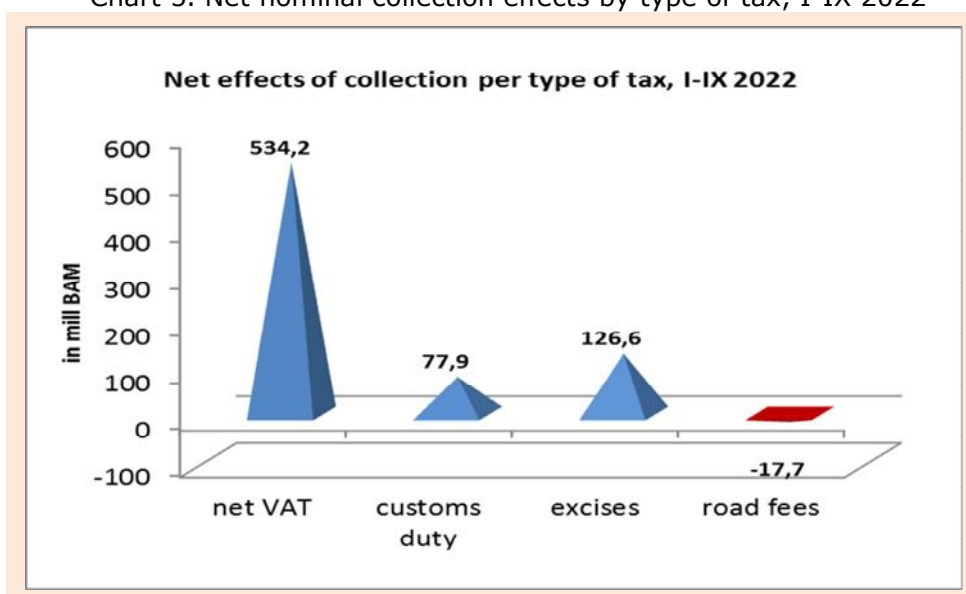
Quarterly comparisons indicate high growth rates of collection starting from the second quarter of 2021, with a slight slowing trend, which was expected due to the exhaustion of the statistical base effects from 2020 and 2021. In the first quarter of 2022, the net collection of indirect taxes grew by 18.2%, in the second quarter by 17.1%, and in the third quarter by 9.9%, compared to the same quarters in 2021 (Chart 4, right side) . The slowdown can also be seen in the distribution of net effects. Out of a total of 750.3 million BAM net effects, 279.2 million BAM (or 37.2%) was realized in the first quarter of 2022, 289.1 million BAM (or 38.5%) in the second, and 182 million

BAM (or 24.3%) in the third. A significant factor in the slowdown in the net collection of indirect taxes was the huge increase in refunds, as a result of the growth in imports<sup>10</sup> and exports<sup>11</sup>.

### Collection by type of revenue

Observed by types of revenue, the highest revenue growth rate in September 2022 was recorded in customs and VAT. On the other hand, the largest absolute growth for the nine months of 2022 compared to the same period in 2021 was realized in the collection of VAT (534.2 million BAM), excises (126.6 million BAM) and customs (77.9 million BAM) – Chart 5. Since even 55,4 million BAM of non-adjusted revenues were recorded in the preliminary report, a higher growth rate of revenues, primarily of domestic VAT, can be expected after the final adjustment of revenues with applications and declarations in the IT system of the ITA.

Chart 5. Net nominal collection effects by type of tax, I-IX 2022



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

### Customs duties

In September, the trend of high growth rates of customs revenue has continued. It was collected 40.5% more customs than in the same month of 2021, which stabilized the growth of cumulative customs revenues at 34.2% (Chart 6).

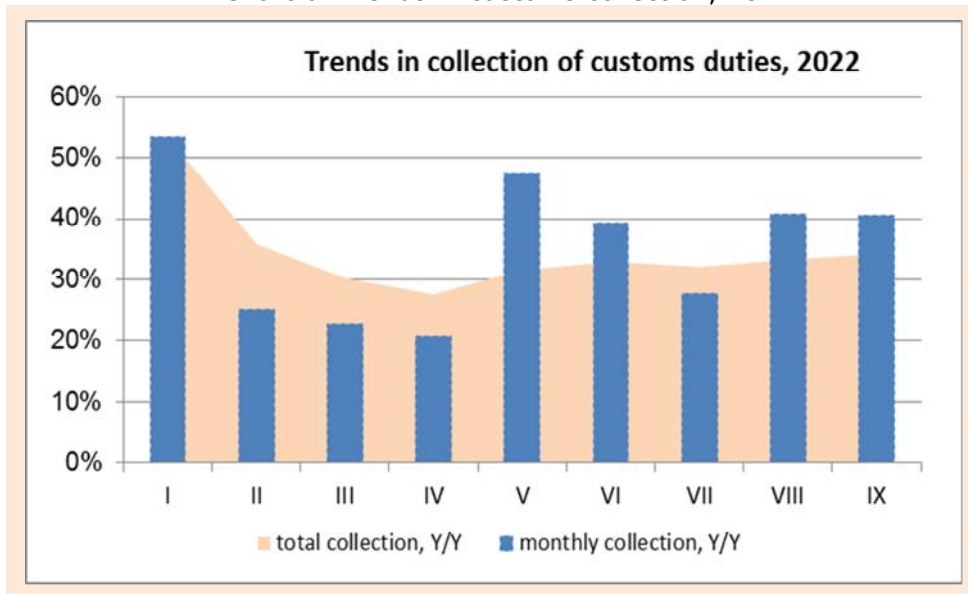
Considering the limited range of goods to which the customs regime is applied on import, the growth of customs revenue depends on the growth of imports from the EU and from third countries. In the period January-August 2022, imports from the EU increased by 31%, while imports from third countries increased by 61.6%.<sup>12</sup>

<sup>10</sup> According to ITA data, import growth rate in the period January-September 2022 was 38.5%.

<sup>11</sup> According to ITA data, export growth rate in the period January-September 2022 was 33.7%.

<sup>12</sup> Source: Agency for Statistics of B&H, calculation of the MAU by groups of countries

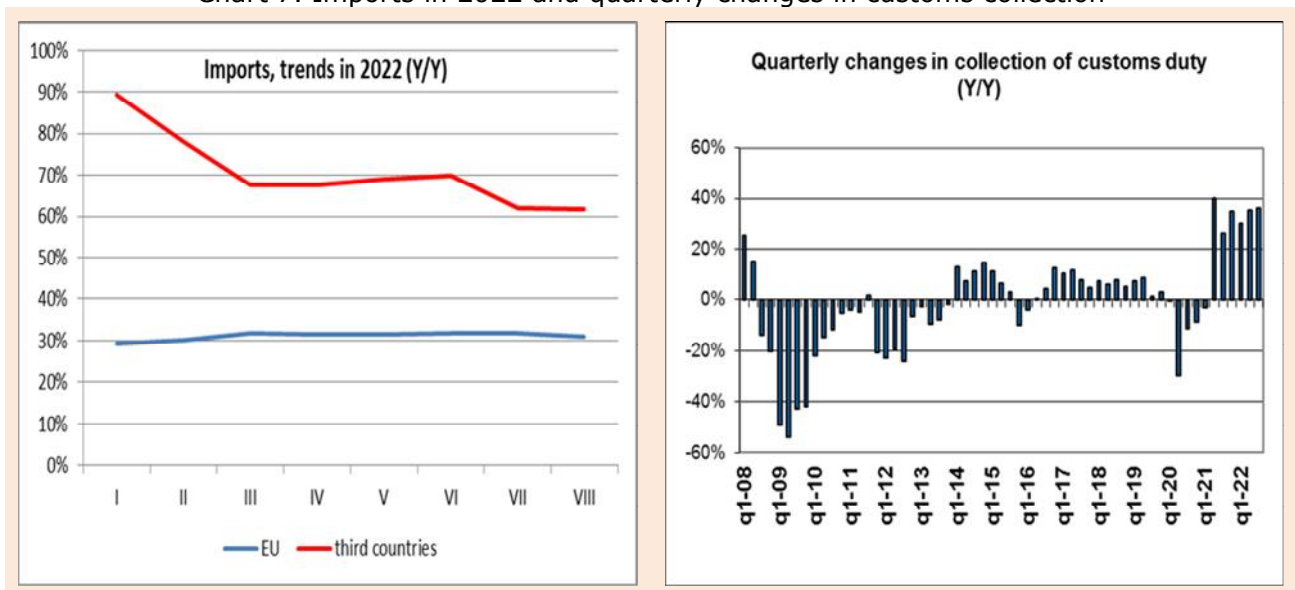
Chart 6. Trends in customs collection, 2022



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

Left side of the Chart 7 shows the movement of cumulative imports for eight months in 2022 compared to the same period in 2021. There is a noticeable downward trend in imports from third countries, while the growth rate of imports from the EU is stable throughout the whole period. The slowdown in the growth of imports from third countries also results in lower customs revenue collection. Import statistics from the EU is not structured into duty-free imports and imports subject to customs duties. However, since the trend in customs revenue collection is stable, it is obvious that the share on which customs are paid in the structure of imports from the EU is growing, which compensates for the reduction of customs due to the slowdown of imports from third countries.

Chart 7. Imports in 2022 and quarterly changes in customs collection



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

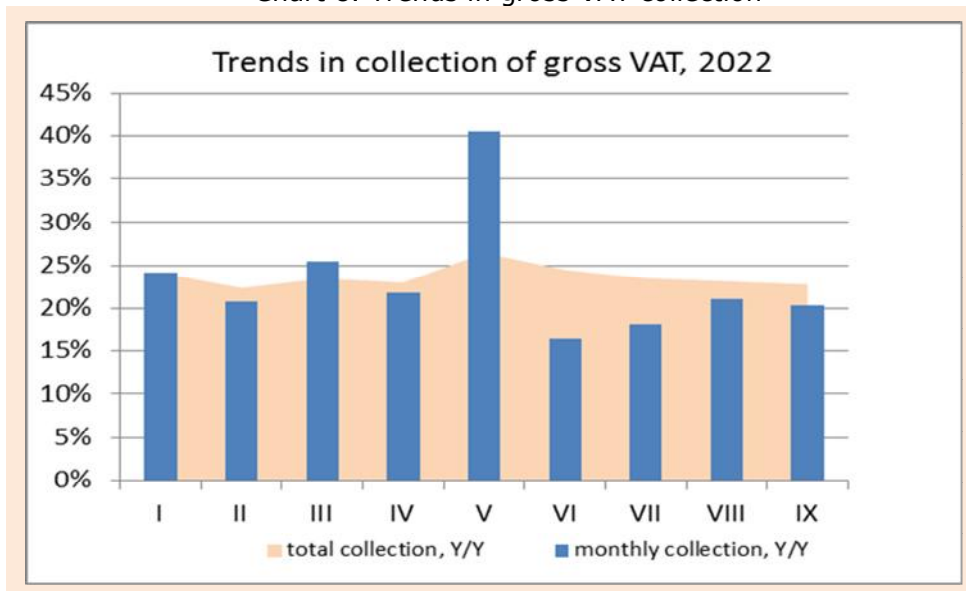
And the analysis of customs collection by quarters indicates a stable collection (Chart 7, right side). From the second quarter of 2022, the growth rates of customs revenues are maintained in the range of 30% to 40%, with the growth rates of 35.4% and 36.4% in the second and third quarter of 2022, respectively.

## VAT

### Gross VAT

VAT collection in 2022 is stable, with very high monthly growth rates. Monthly growth rates of gross collection ranged between 20% and 25% in the first five months of 2022 due to the 2021 statistical base effect. In the last three months, there have been more moderate growth rates. The very high growth rate in May of 40% represents this year's maximum value. More moderate growth rates after May, maximally up to 20%, led to a slowdown in cumulative growth to 22.8% at the level of nine months (Chart 8).

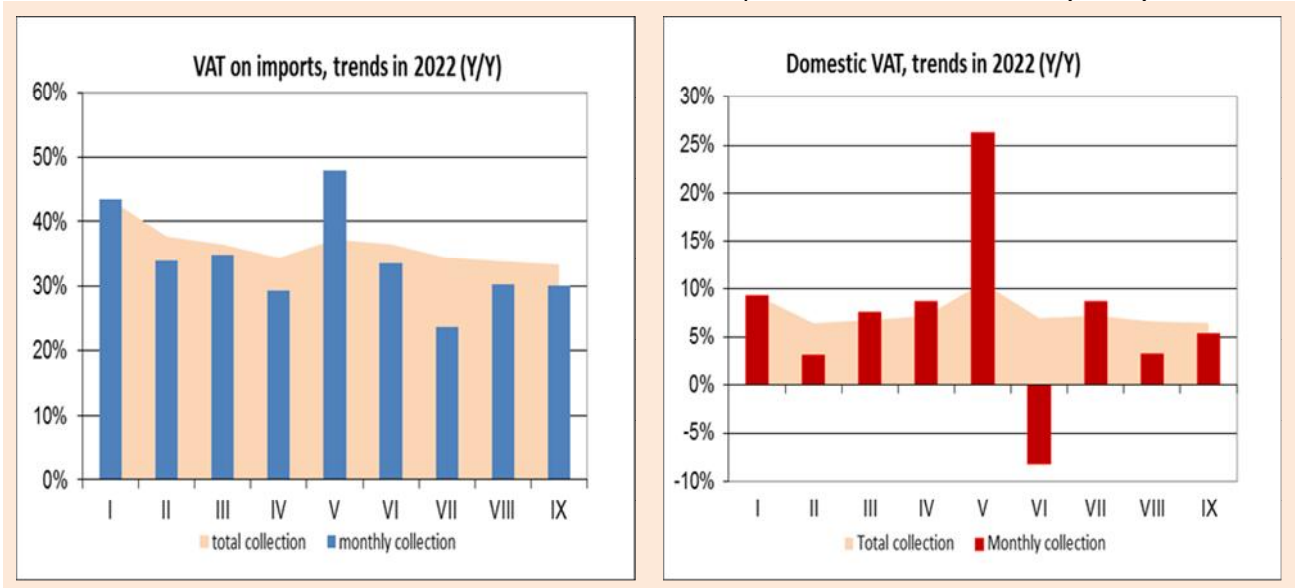
Chart 8. Trends in gross VAT collection



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

The analysis of the structure of gross VAT revenues points to the conclusion that the growth of gross VAT collection in 2022 was to the greatest extent a consequence of positive trends in VAT collection on imports. The cumulative effect of a higher weight of VAT on imports in the structure of gross VAT and very high monthly growth rates was a cumulative growth rate of 30% (Chart 9, left side). On the other hand, strong oscillations are noticeable in the collection of domestic VAT, especially in May and June (Chart 9, right side). Due to fluctuations in collection, the cumulative growth rate of domestic VAT in the same period amounted to 6.5%. However, this is still a high growth rate compared to consumption projections. After the adjustment of the currently unadjusted revenues, most of which relate to VAT, the cumulative growth rate of domestic VAT will be higher in any case.

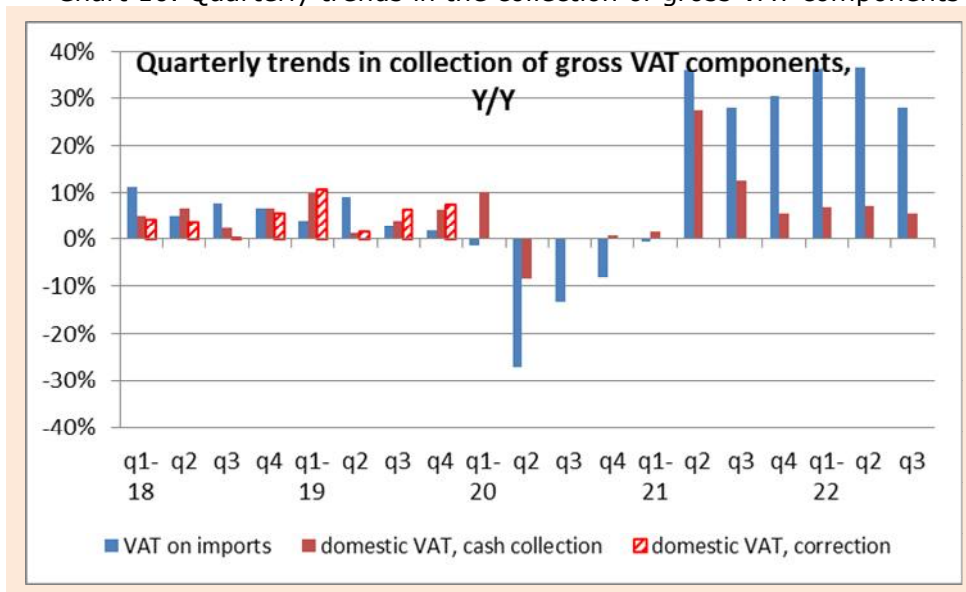
Chart 9. Trends in the collection of VAT on imports and domestic VAT (2022)



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

The quarterly analysis shows a stable quarterly growth of domestic VAT in the last six quarters. A slowdown in the growth of VAT on imports in the third quarter of 2022 is evident (Chart 10).

Chart 10. Quarterly trends in the collection of gross VAT components



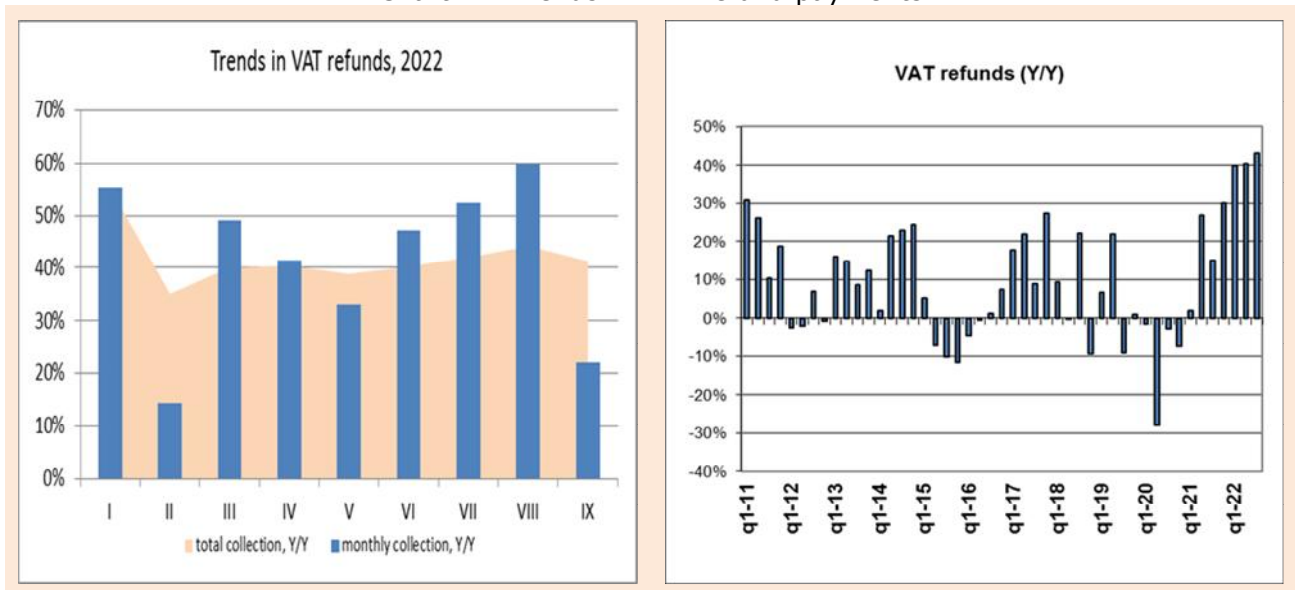
Source: Indirect Taxation Authority of B&H, calculation of the MAU

## Refunds

Analysis of monthly VAT refunds in 2022 shows high payments, even up to 60% higher than in the reference month of 2021, so that at the level of nine months of 2022, even 41.3% more VAT refunds were paid than in the same period of 2021 (Chart 11, left side).

The analysis of quarterly trends (Chart 11, right side) indicates very high quarterly growth rates in 2022, with an increasing trend in the third quarter (43.3%). Due to a slight slowdown in refund payments in September 2022 (Chart 11, left side), the share of cumulative VAT refunds in the cumulative gross VAT for nine months of 2022 was reduced to 28.9%, which is 3.8 percentage points above the share in the same period in 2021.

Chart 11. Trends in VAT refund payments



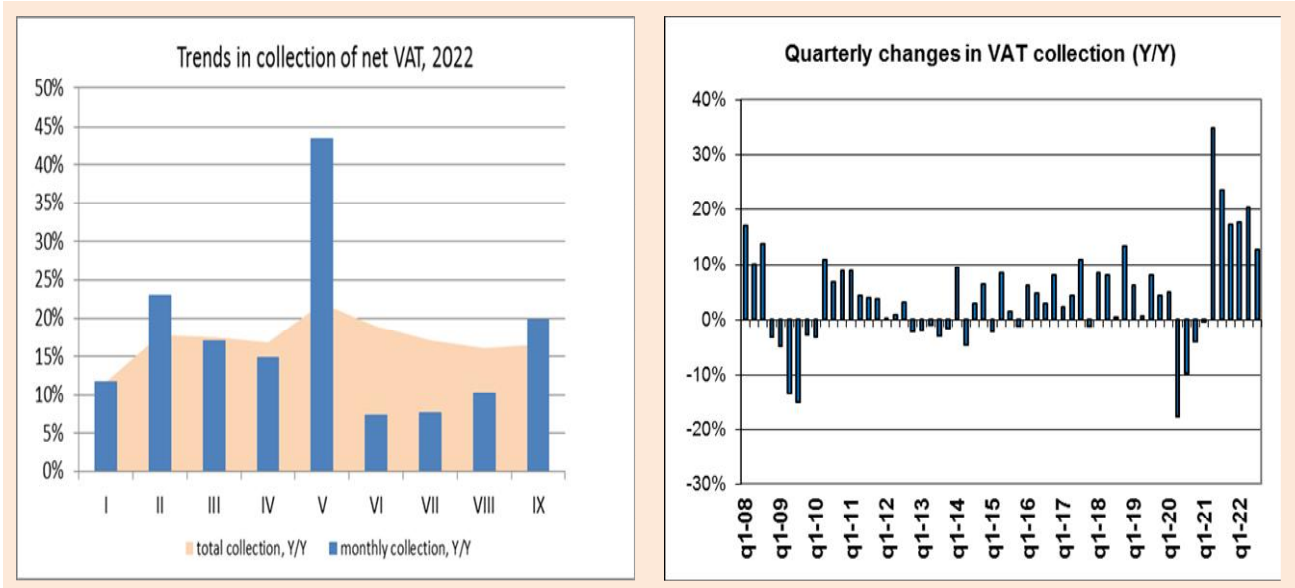
Source: Indirect Taxation Authority of B&H, calculation of the MAU

## Net VAT

The effect of the statistical base from 2021 was also reflected in the collection of net VAT. High growth rates were recorded in the first five months while from June the monthly rates have been significantly lower (Chart 12, left side). The decrease in refund payments in September had a positive effect on the monthly growth rate of net VAT and stopped the trend of reducing the cumulative growth rate to 16.6%.

Analysis of quarterly trends indicates positive growth rates from the second quarter of 2021. In the first quarter of 2022, due to the statistical base effect, net VAT grew by 17.6% and in the second quarter by 20.3%. The slowdown in the growth of net VAT is noticeable in the third quarter of 2022, when a growth of 12.6% was achieved (Chart 12, right side).

Chart 12. Trends in net VAT collection



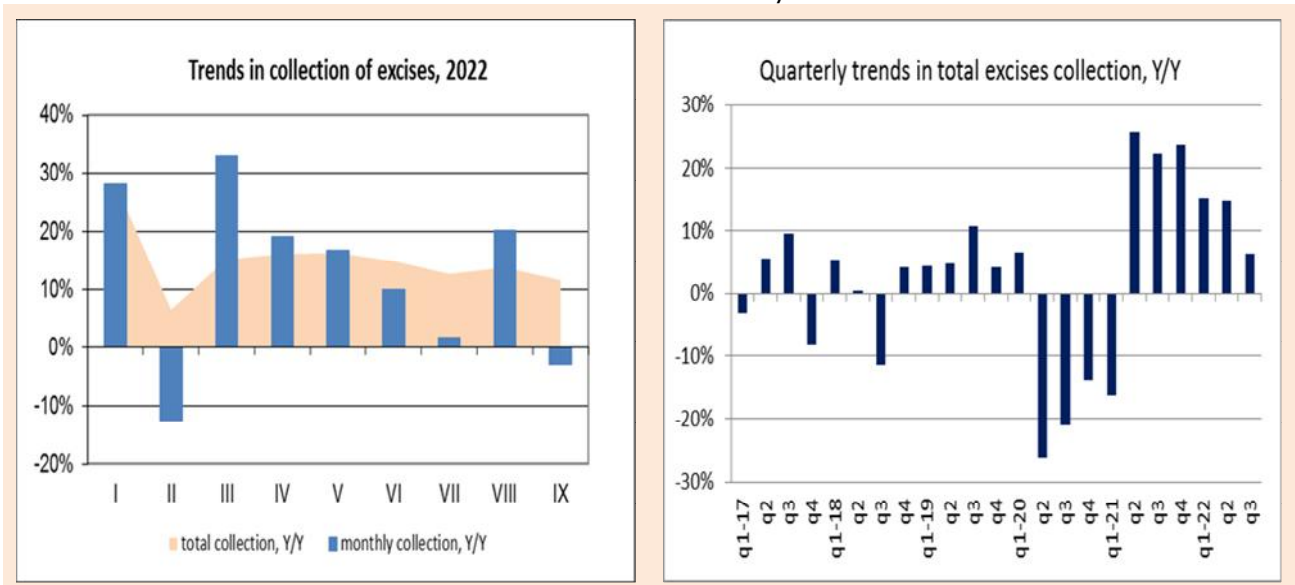
Source: Indirect Taxation Authority of B&H, calculation of the MAU

**Excise taxes**

Excise duty collection in 2022 fluctuated to a large extent, from negative monthly growth rates in February and September, to high growth rates above 20%. Due to the 3% drop in collection in September, the cumulative growth rate was reduced to 11.78% (Chart 13, left side).

Quarterly analysis shows positive growth in the last six quarters, with a noticeable slowdown in growth in 2022. In the first and second quarters, growth rates of 15.3% and 14.7% were achieved, respectively. Due to worsening collection in July and September, growth of 6.3% was achieved in the third quarter of 2022 (Chart 13, right side).

Chart 13. Trends in excise duty collection

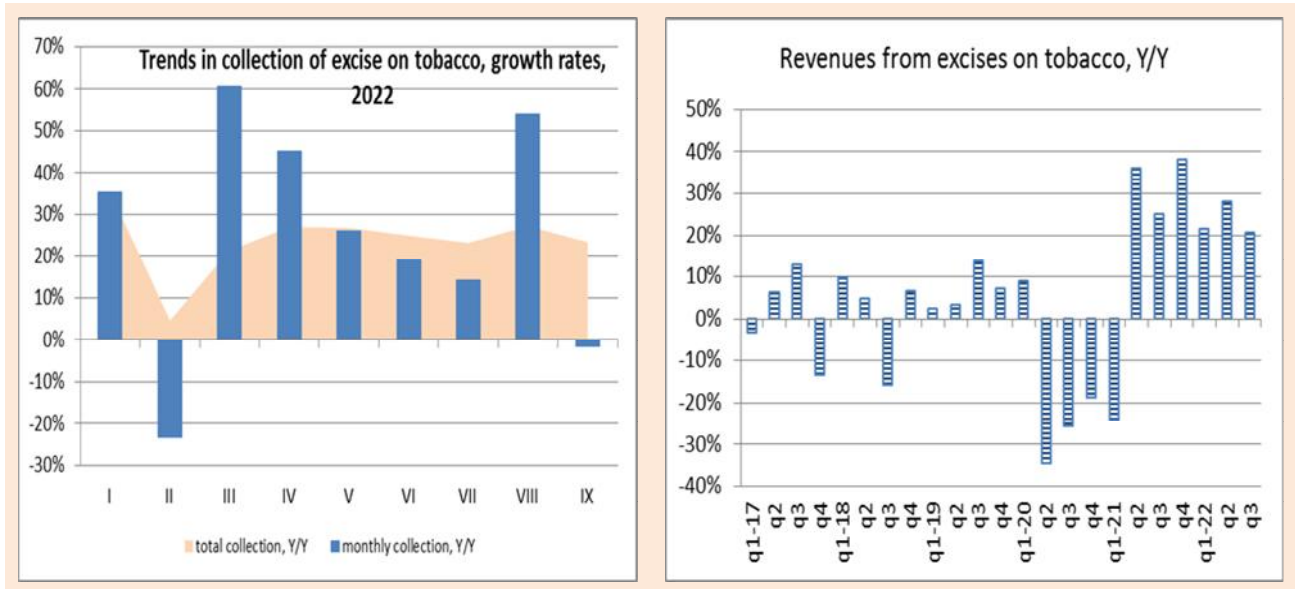


Source: Indirect Taxation Authority of B&H, calculation of the MAU

### Tobacco products

The analysis of excise collection by types of products points to the conclusion that the growth of excise revenue is entirely determined by the collection of excise duty on tobacco products. Moreover, the effects of the collection of excise taxes on tobacco products on the total collection are reduced to a certain extent due to the reduction of the collection of excise taxes on oil derivatives.

Chart 14. Trends in the collection of excise taxes on tobacco



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

At the beginning of 2022, the collection of excises on tobacco products fluctuated strongly, and since March, a stable growth has been recorded, but again with strong oscillations. Due to the growing statistical base for comparisons from 2021, monthly growth rates fell from a high 60.6%, achieved in March, to 14.1% in July. However, in August the revenue collection growth of as much as 53.9% was achieved again, while in September there was a drop of 1.7%. Ultimately, the cumulative growth rate for the nine months of 2022 amounted to 23.3% (Chart 14, left side). The quarterly analysis shows very high growth rates from the second quarter of 2021. Growth rates in 2022 are slightly lower, amounting to 21% in the first and third quarter, and 27.9% in the second (Chart 14, right side). Monthly oscillations in the collection of excise duties on tobacco products are a consequence of the fact that *de facto* 86% of the cigarette market is held by two multinational tobacco corporations, and that the requirements for issuing excise stamps, and therefore the collection of excises, depend on their business plans, strategies for entering the B&H market and projections of future consumption. The analysis of excise tax collection pattern for tobacco products in 2021 shows that in the first five months the collection was very low, which results in a higher monthly growth rate in that part of 2022. The high growth of excise collection in January 2022 was the result of mild anti-COVID measures in B&H which attracted non-residents in B&H, and which resulted in a successful winter season in terms of consumption. The high collection of excises on tobacco products in March and April 2022 was a consequence of the import of cigarettes before religious and national holidays in April and May.<sup>13</sup> The announcement of an increase in cigarette prices<sup>14</sup>, even though it did not apply to all cigarette brands on the market,

<sup>13</sup> It should be borne in mind that excise duties are paid *ex ante*, at the moment of receipt of excise stamps by the importer, and that the placement of imported cigarettes on the BiH market takes place a month to a month and a half after receipt of the stamps.

<sup>14</sup> From July 1, 2022 and from July 18, 2022.

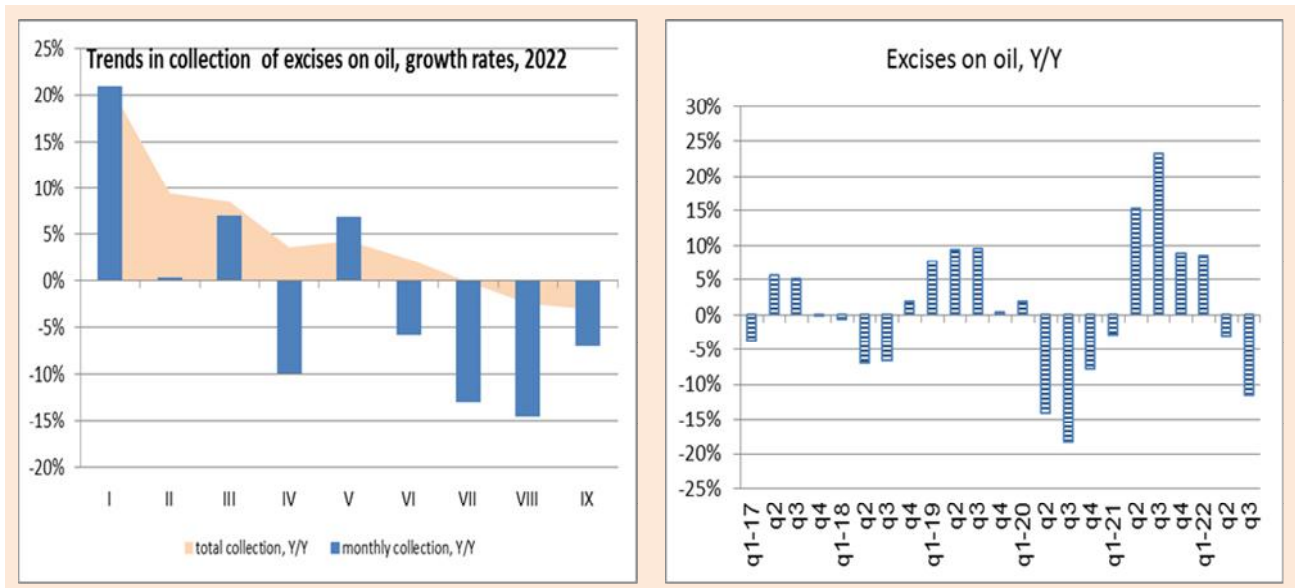


had a positive effect on revenue collection. In anticipation of higher demand for cigarettes due to the announced price increase, tobacco companies increased the requirements for issuing excise stamps in June, before the price increase, which resulted in an increase in excise collection. The growth in demand for cigarettes in the summer season, associated with high excise duty payments in August, was exhausted by the poor collection of excises in September, which was probably correlated with the drop in arrivals of non-residents. Generally, it is obvious the realization of the expectation that the consumption of non-residents would increase significantly in the summer season (diaspora, tourists, people in transit, cross-border consumption) despite the increase in retail prices of cigarettes. The policy of maintaining the same retail price of the cheapest brand of cigarettes for even seven months prevented the migration of consumers from that category of customers to the black market or to the use of tobacco. On the other hand, the policy of economy of scale with moderate prices was obviously profitable, despite the increase in input costs, and brought revenues, both to the tobacco industry, and to Single Account of the ITA (excises and related VAT).

### Oil derivatives

In contrast to excises on tobacco products, weaknesses in the collection of excises on oil derivatives are increasing every month. In June, there was a 5.7% drop in excise revenue, in July a drop of 12.9%, in August as much as 14.5%, and in September 7% compared to the reference months of 2021 (Chart 15, left side). It was expected, given the high growth in retail prices of oil derivatives that was not accompanied by income growth. It should be borne in mind that in the first two months of 2022, until the outbreak of the war in Ukraine, the collection of excises on oil derivatives was solid, taking into account the rise in oil prices on the world market. Due to price competitiveness, B&H was an attractive destination for non-residents in the winter season, both for the diaspora and tourists, as well as for people in border areas and in transit, which resulted in increased consumption. This is also the reason why a modest growth of 2.3% in the collection of excises on oil derivatives was achieved in the first half of the year. After the outbreak of war conflicts, the drop in consumption, and therefore in the collection of excises, was inevitable due to the high growth in retail prices of oil derivatives. After the sharp drop in collection in the third quarter of 2022, the cumulative collection of excises on oil derivatives for the nine months of 2022 was lower by 3.1% compared to the excise collection in the same period of 2021.

Chart 15. Trends in the collection of excise duties on oil derivatives



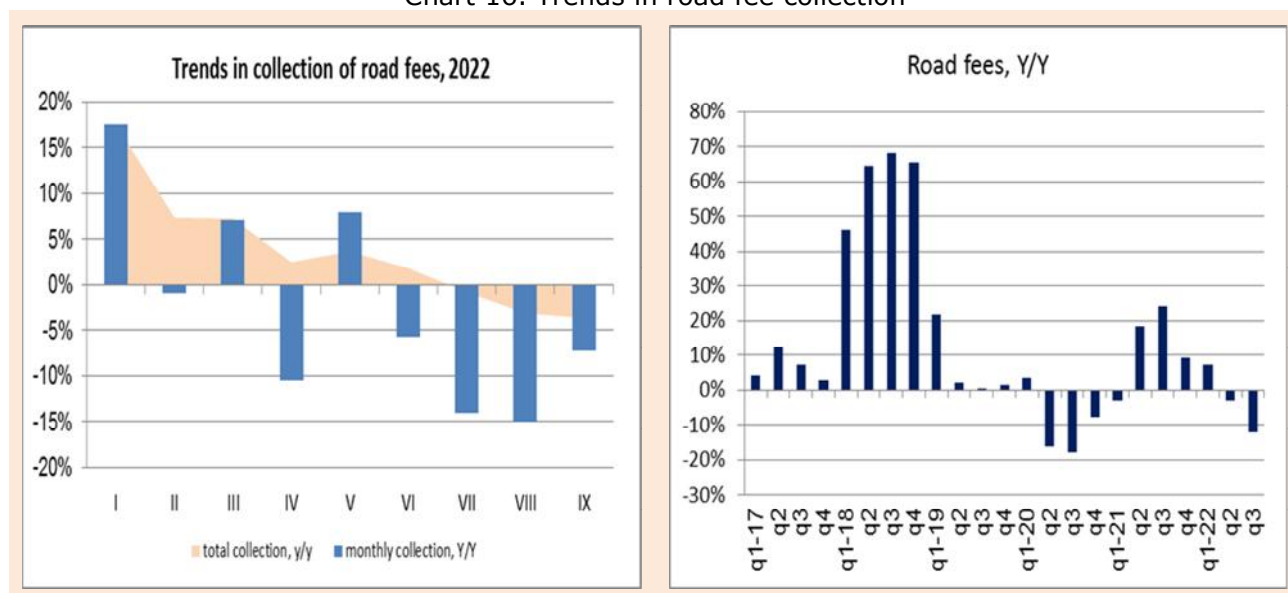
Source: Indirect Taxation Authority of B&H, calculation of the MAU

The quarterly analysis in the best way illustrates the negative trends in the collection of excises on oil derivatives. The positive trends from 2021 were maintained only in the first quarter, when excise taxes grew by 8.5%. The war in Ukraine, the worsening of the energy crisis and the increase in oil prices on the world market brought a drop of 3% in the second quarter of 2022, while in the third quarter the drop in excise taxes amounted to as much as 11.6% (Chart 15, right side).

### Road fee

The collection of revenues from road fee follows the collection of excises on oil derivatives, with the fact that the negative trends are worse than in the collection of excises on oil derivatives due to the different scope of tax base and way of calculation of excises and road fees. Due to the further drop in road fee collection in September of 7.3%, the cumulative drop for nine months amounted to 3.7% (Chart16, left side).

Chart 16. Trends in road fee collection



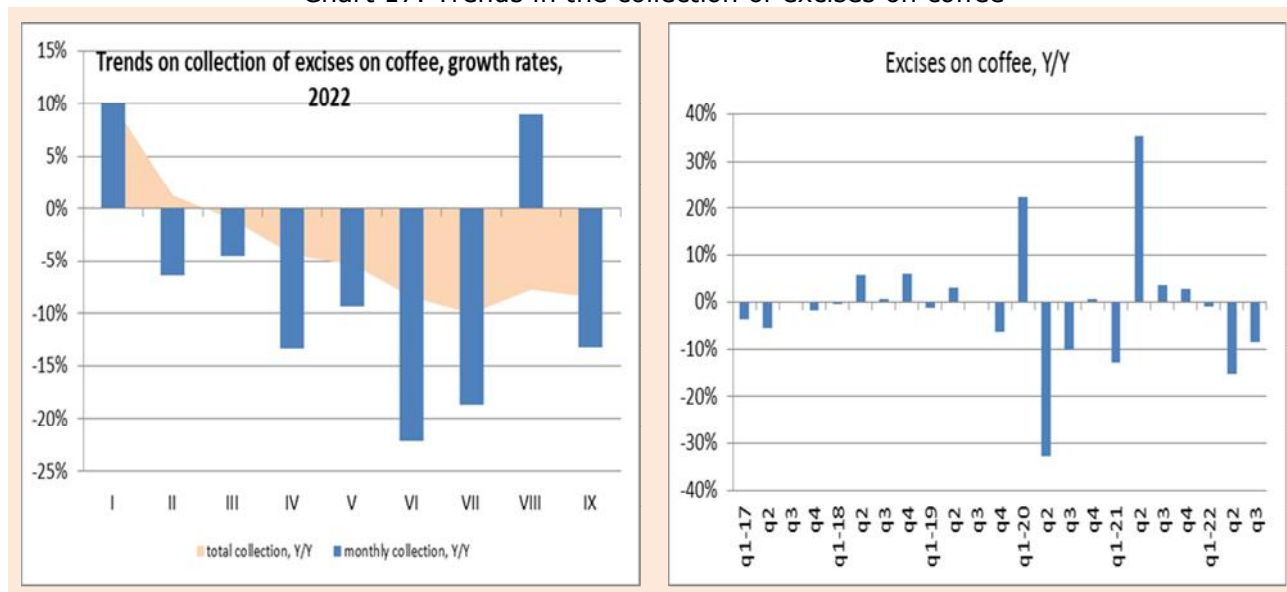
Source: Indirect Taxation Authority of B&H, calculation of the MAU

The quarterly analysis shows a similar negative trend as in the case of excises on oil derivatives, with the fact that the rates are even lower. In the third quarter, the drop in road fee revenues amounted to 12.2% (Chart 16, right side).

### Coffee

The collection of excises on coffee was negative in all months except January and August, so that at the level of nine months in 2022, a decrease of 8.5% was recorded (Chart 17, left side). Quarterly analysis indicates negative trends in all three quarters of 2022 (Chart 17, right side).

Chart 17. Trends in the collection of excises on coffee

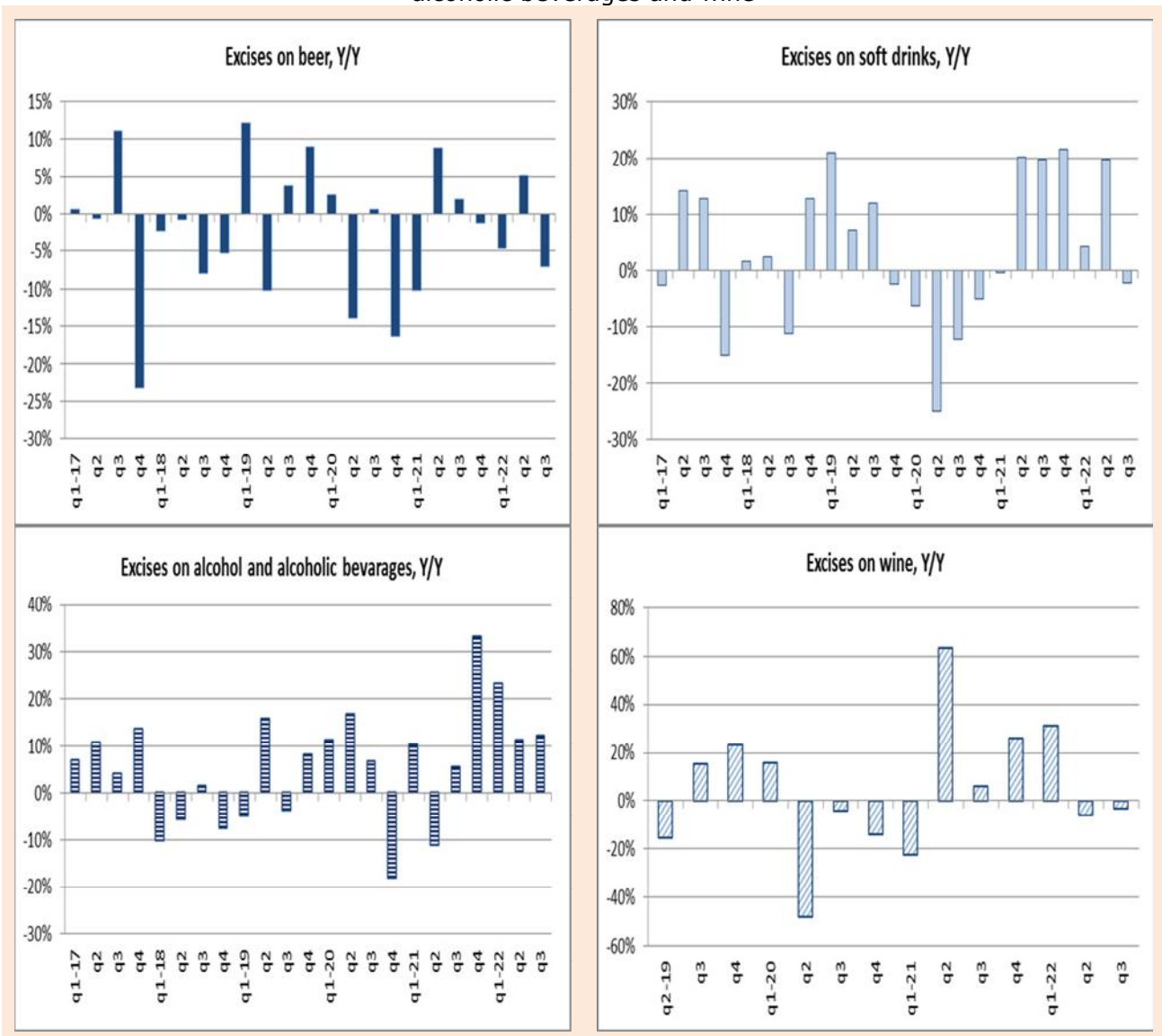


Source: Indirect Taxation Authority of B&H, calculation of the MAU

#### *Beer, wine, alcohol, alcoholic and non-alcoholic beverages*

In 2022, the positive trends from 2021 have continued only in the collection of excise taxes on alcohol and alcoholic beverages in all three quarters (Chart 18). On the other hand, trends in the collection of excise taxes on non-alcoholic beverages have worsened in the third quarter of 2022, and in the collection of excise taxes on wines in the second quarter of 2022. Unlike other types of indirect taxes, there were no positive effects in the collection of excise taxes on beer, both in the second half of 2021 compared to the extremely low base in 2020, and in the first part of 2022. A positive growth in collection was achieved only in the second quarter of 2022, while in the first and third quarters there was a decline in collection. Even the growth of 6.1% in the collection of excise duties on imported beers at the level of nine months of 2022 and their high weight in total collection could not neutralize the 8.8% drop in revenues from the excises on domestic beers.

Chart 18. Trends in the collection of excise duties on beer, non-alcoholic beverages, alcohol and alcoholic beverages and wine



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

## 2. Projections of revenues from indirect taxes 2022-2025 (baseline scenario)

Revenue projections for the period 2022-2025 are available in Table 3. In order to ensure comparability of projected and collected indirect tax revenues, indirect tax revenue projections are presented on a cash basis in accordance with the ITA reports on collection by types of revenues.

Table 4 shows revenue projections in % of GDP.

Table 3. Baseline scenario of the projections of indirect tax revenues (2022-2025), October, 2022

Type of revenue (net)	in million BAM					Projected growth rate			
	Realization	Projection							
	2021	2022	2023	2024	2025	2022	2023	2024	2025
VAT	4.429,9	5.087,1	5.329,3	5.474,8	5.663,2	14,8%	4,8%	2,7%	3,4%
Excises	1.475,9	1.640,4	1.604,4	1.709,8	1.744,4	11,1%	-2,2%	6,6%	2,0%
Customs	324,4	423,2	449,1	476,0	510,3	30,5%	6,1%	6,0%	7,2%
Road fee	655,0	626,5	637,2	654,4	674,0	-4,4%	1,7%	2,7%	3,0%
Other *)	34,1	50,8	34,1	34,1	34,1	49,2%	33,0%	0,0%	0,0%
<b>TOTAL</b>	<b>6.919,3</b>	<b>7.828,1</b>	<b>8.054,0</b>	<b>8.349,0</b>	<b>8.625,9</b>	<b>13,1%</b>	<b>2,9%</b>	<b>3,7%</b>	<b>3,3%</b>
Earmarked road tax (**)	-409,1	-391,6	-398,2	-409,0	-421,2	-4,3%	1,7%	2,7%	3,0%
<b>FUNDS FOR DISTRIBUTION</b>	<b>6.510,3</b>	<b>7.436,5</b>	<b>7.655,8</b>	<b>7.940,0</b>	<b>8.204,6</b>	<b>14,2%</b>	<b>2,9%</b>	<b>3,7%</b>	<b>3,3%</b>

Note:

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

\*\*) Until February 1, 2018, the earmarked road fee amounted to 0.10 BAM per liter of oil derivative, intended entirely for the construction of highways. As of February 1, 2018 it amounts to 0.25 BAM per liter of oil derivative (0.20 BAM/l for the construction of highways and 0.05 BAM/l for the construction and reconstruction of other roads).

Table 4. Baseline scenario of the projections of indirect tax revenues (in % of GDP), October, 2022

Type of revenue (net)	in % of GDP				
	Realization	Projection			
	2021	2022	2023	2024	2025
VAT	11,1%	11,6%	11,4%	11,1%	10,9%
Excises	3,7%	3,7%	3,4%	3,5%	3,4%
Customs	0,8%	1,0%	1,0%	1,0%	1,0%
Road fee	1,6%	1,4%	1,4%	1,3%	1,3%
Other	0,1%	0,1%	0,1%	0,1%	0,1%
<b>TOTAL</b>	<b>17,3%</b>	<b>17,8%</b>	<b>17,2%</b>	<b>16,9%</b>	<b>16,6%</b>
Earmarked road tax (**)	-1,0%	-0,9%	-0,9%	-0,8%	-0,8%
<b>FUNDS FOR DISTRIBUTION</b>	<b>16,3%</b>	<b>16,9%</b>	<b>16,4%</b>	<b>16,1%</b>	<b>15,8%</b>

Data source for GDP: BHAS, Expenditure approach, September 2022 and DEP's projections, September 2022

## 2.1. Projections for 2022

Preparation of revenue projections for 2022 cannot rely on seasonal revenue collection scheme from 2020 and 2021, as they dropped from all previous seasonal patterns due to the effects of coronavirus. The seasonal scheme was undermined for all revenues with a pronounced seasonal component (domestic VAT, VAT on imports, excise duties on non-alcoholic beverages, road fees and customs), and for total net revenues where the seasonal component is not so significant. The monthly dynamics of revenues in 2020 completely deviated from the so-called *pre-COVID-19* seasonal pattern. The range of monthly growth rates of net revenues (the difference between the maximum and minimum value) was 44.2 percentage points. Although it has partly returned to the old pattern, the collection of net revenues from indirect taxes in 2021 was also quite different from the old seasonal scheme.<sup>15</sup> The range of monthly growth rates of net indirect tax revenues was even higher in 2021 than in 2020 (54.1 percentage points), which was the result of: (1) disorders of the seasonal pattern in the base year 2020, and (2) characteristics of the seasonal pattern in 2021.

In the first nine months of 2022, the growth rate of net revenues from indirect taxes was 14.8% compared to the same period in 2021. According to DEP's projections, nominal GDP growth rate of 12.6% is expected in 2022. Bearing in mind that the revenue growth rate in the period January-September 2022 partly stems from the specificity of the statistical basis for comparison (low basis in the first part of 2021 due to strict restrictive measures in the fight against the coronavirus), and taking into account the huge unknowns about the events in Ukraine and the development of the epidemiological situation in the country and the surrounding area, **the projected growth rate of revenues from indirect taxes for 2022** is slightly lower than the nine-month growth rate and **amounts to 13.1%**.

### 2.1.1. VAT

After a drop in net VAT revenue in 2020 of 6.8%, which was a consequence of the coronavirus pandemic, a strong recovery was recorded in 2021. In 2021, a high growth rate of net VAT revenue of 18.2% was achieved compared to the previous year, with the collection exceeding the collected net revenues in the "pre-crisis" year of 2019 by over 400 million BAM. The analysis of net VAT collection trends in the current year indicates the continuation of positive trends from 2021. Based on the preliminary report, in the first nine months of 2022, net VAT revenue grew by 16.6%. The collection in the first nine months of 2022 was characterized by a very high growth rate of VAT on imports, a stable growth rate of revenues from domestic VAT and high refund payments (see section 1.3.2. Collection in the period January - September 2022). The projected amount of VAT revenue in 2022 is 5,087.1 million BAM, which is 14.8% more than in 2021. The projection is based on the historical seasonal collection pattern of individual VAT categories (which does not include specificities in the previous two years), and trends and projections of macroeconomic indicators.

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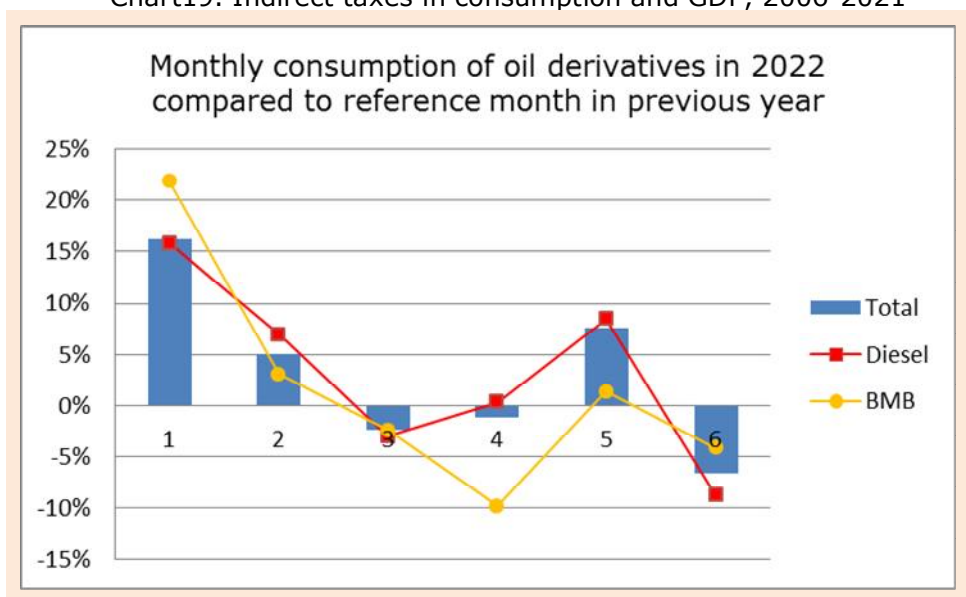
<sup>15</sup> Regoje, A. (2022). "The impact of the coronavirus pandemic on the dynamics of collection of revenues from indirect taxes in 2020 and 2021"; OMA Bulletin No. 201-202, March / April 2022; www.oma.uino.gov.ba. In the analysis, after calculating seasonal indices based on data from the period 2010-2019, regression models were estimated and the coefficients of determination of seasonal indices and actual shares of monthly amounts of individual types of revenue in the corresponding period were calculated, in order to show how well the seasonal indices fit into the real shares in the observed period. Coefficient of determination of seasonal indices and actual shares of monthly amounts of total net revenues from indirect taxes in the period 2010-2019 amounted to 77.5%. In 2020, it amounted to only 0.6%, while in 2021 it increased to 65.3%.

### 2.1.2. Excises and road fees

#### *Income from excises on oil derivatives*

In the first six months of 2022, the total consumption<sup>16</sup> of oil derivatives increased by 2.4%. The consumption of diesel fuel increased by 2.5%, gasoline by 0.7% and all other derivatives in total (fuel oil, kerosene, liquid petroleum gas) by 4.8%.

Chart19. Indirect taxes in consumption and GDP, 2006-2021



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

Chart 19 shows monthly consumption of derivatives in the first half of 2022. Based on the presentation, it can be concluded that, after the growth in the consumption of derivatives in January and February, the downward trend in consumption has begun in March with the outbreak of the war in Ukraine and the rise in prices on the world oil market, and lasted throughout the whole observed period with the exception of the month of May, when the achieved growth can be partly attributed to the effects of a low base of diesel fuel consumption in the same month of the previous year. Data on the consumption of derivatives for the third quarter were not available at the time of preparing the projections, but the 11.6% drop in collected excise revenues in that quarter indicates a further worsening of trends.

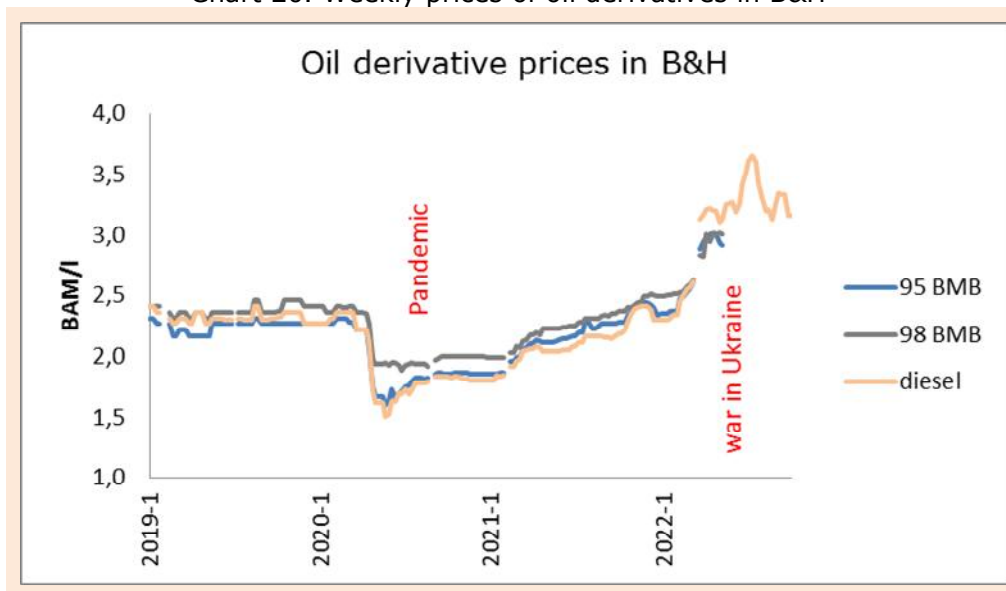
Chart 20 shows the weekly prices<sup>17</sup> of diesel fuel and gasoline on the B&H market from the beginning of 2019 until the latest data available on the website of the Foreign Trade Chamber of B&H. The prices of oil derivatives on the B&H market fell sharply in April and May 2020, as a result of the coronavirus pandemic (Chart 20). In the 21<sup>st</sup> week of 2020, the price of diesel fuel amounted to only 1.5 BAM/l, while the price of BMB-95 fuel was 1.6 BAM/l. From the 22<sup>nd</sup> week of 2020 (end of May), the prices of derivatives have recorded an upward trend. The events in Ukraine influenced the intensification of the price growth trend, so that, according to the latest available published data for gasoline, in the 19<sup>th</sup> week of 2022, the prices of BMB-95 fuel increased by 24.2% compared to the 1<sup>st</sup> week of 2022, reaching a high level of 2.92 BAM/l. The average prices of diesel fuel reached their maximum value of 3.66 BAM/l in the 28<sup>th</sup> week of 2022.

<sup>16</sup> The term "consumption" of derivatives includes the amount of imported oil derivatives according to ITA data.

<sup>17</sup> Weekly prices of oil derivatives on the B&H market are published on the website of the Foreign Trade Chamber of B&H (data from the International Road Transport Union). Source: <https://www.komorabih.ba/>

In the last week for which data is available, the 40<sup>th</sup> in a row in 2022, the average price of diesel fuel was 3.16 BAM/l.

Chart 20. Weekly prices of oil derivatives in B&H



Source: Presentation of the MAU based on data from the International Road Transport Union, taken from the website of the Foreign Trade Chamber of Bosnia and Herzegovina, <https://www.komorabih.ba/>

After positive trends in the first quarter, when gross revenues from excises on oil derivatives grew by 8.5%, in the second quarter there was a 3.0% drop in collection, and in the third an even higher drop of 11.6%. Taking into account all the above (consumption trends and prices of oil derivatives), as well as projections of macroeconomic indicators (DEP, September 2022), and estimates of the price elasticity of demand for oil derivatives in B&H (MAU), the projected amount of net revenues from excises on oil derivatives for 2022 is 502.9 million BAM, which is 4.1% less than in 2021.

#### Road fee

After the growth of gross revenues from road fees in the first quarter of 7.2%, in the second quarter there was a drop of 3.0% and in the third a drop of 12.2%. The projected amount of net revenue from road fee in 2022 is 626.5 million BAM, which is 4.4% less than in 2021. As in the case of excises on oil derivatives, the projection is based on current collection trends, historical seasonal collection pattern (which does not include data for years with specificities), forecasts of macroeconomic indicators, price movements of oil derivatives and estimates of the price elasticity of demand for oil derivatives in B&H (MAU).

#### Revenues from excises on tobacco

In the fourth quarter, a continuation of positive trends in the collection of excises on tobacco products can be expected. A slight increase in the average weighted price of cigarettes is expected, up to 0.5% on an annual basis, as a consequence of the increase in the retail prices of certain cigarette brands in mid-2022 and the restructuring of the cigarette supply towards more expensive brands. It is expected that the market will continue to grow in line with the trends in the third quarter of 2022. It is possible that tobacco companies before switching to a new way of paying excise duties on tobacco products will, to a certain extent, prolong the requirements for issuing excise stamps and thus postpone the payment of excises until the moment of import.



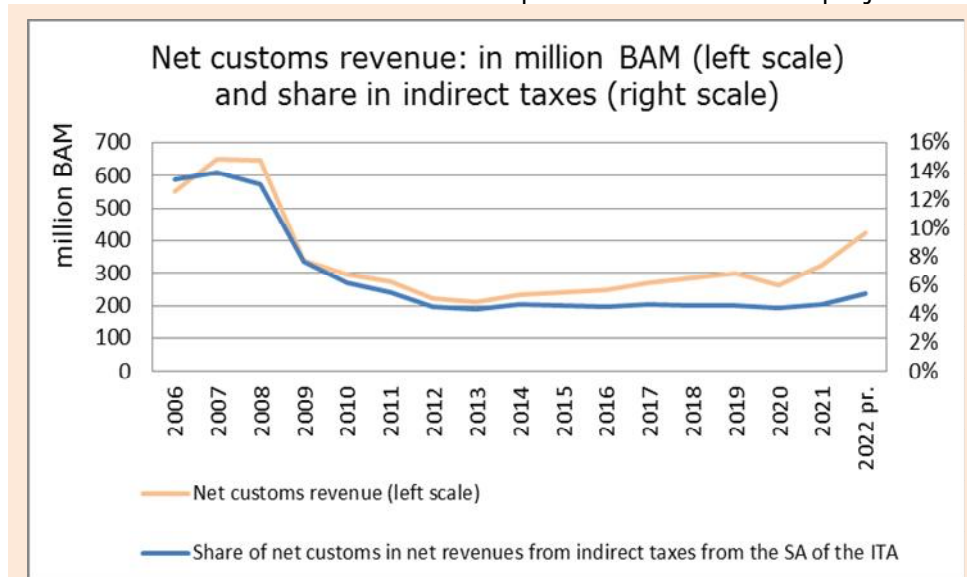
Bearing the above in mind, it is expected that the collection of excise duties on tobacco products in 2022 will be higher by 22.8% compared to the collection in 2021.

### 2.1.3. Customs

Liberalization of foreign trade led to a strong drop in customs revenues, both in absolute amounts and as a share in total net revenues from indirect taxes. From 650.4 million BAM in 2007, net revenues from customs fell to only 211 million BAM in 2013. Since 2014, a six-year trend of slight growth of these revenues has been recorded, reaching the level of 300.6 million BAM in 2019. In 2020, with the coronavirus pandemic, these revenues fell again to 262.2 million BAM, while in 2021 they recorded a recovery to 324.4 million BAM. The analysis of the share in total net revenues from indirect taxes shows a strong decline in the period from 2007 to 2013, from 14.0% to 4.3%. After that period (2014-2021), this share is relatively stable, ranging from 4.4% to 4.7%.

According to the data of the Agency for Statistics of B&H, in the period January-August 2022, the import of goods in B&H increased by 39.4% compared to the same period of the previous year. At the time of preparing the projections, ITA data were available, according to which a 32.2% growth in imports was achieved in September, which maintained the growth in imports for the period I-IX at a high 38.5%. Taking into account the trends in the collection of customs revenue, the dynamics of imports and DEP's projections, the net customs collection is projected in the amount of 423.2 million BAM for the year 2022, which is 30.5% more than the collection in the previous year. If the projection is realized, the share of net revenues from customs in the total net revenues from indirect taxes will increase to 5.4% in 2022 (Chart 21).

Chart 21. Net revenues from customs in the period 2006-2021 and projections for 2022

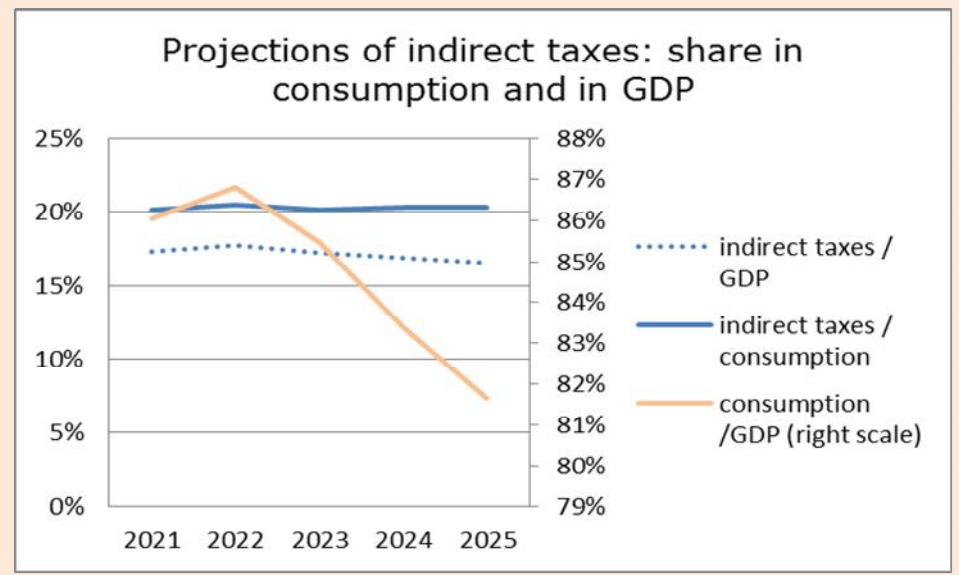


Source: Indirect Taxation Authority of B&H, calculation of the MAU and MAU projections for 2022

## 2.2. Projections for the period 2023-2025

The projected growth rates of net revenues from indirect taxes for 2023, 2024 and 2025 are 2.9%, 3.7% and 3.3%, respectively. The projection of revenues in the mentioned period is based on projected relevant macroeconomic indicators, historical seasonal collection pattern and projections of certain categories of revenues for the year 2022.

Chart 22. Projected share of indirect taxes in GDP and in total consumption

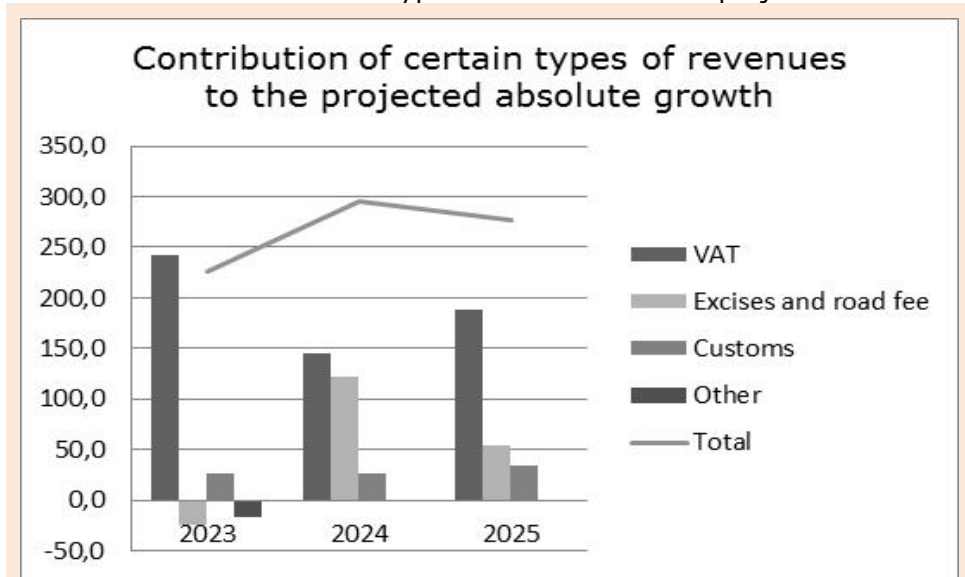


Source: Calculation of the MAU based on indirect tax revenue projections (MAU, October 2022) and projections of macroeconomic indicators (DEP, September 2022)

In contrast to the projected decline in indirect taxes in GDP in the period 2023-2025 (see Table 4, section 2. Projections of indirect tax revenues 2022-2025), the projected share of indirect tax revenues (MAU) in consumption (DEP) during this period is relatively stable in the range between 20.2% and 20.5%. The decline in the projected share of indirect taxes in GDP in the period 2022-2024 is a cumulative result of the stagnation of the projected share of indirect taxes in consumption and projected decline of consumption in GDP (Chart 22).

The largest generator of annual absolute growth of revenues from indirect taxes in this period is VAT, given its significant share in revenues and projected stable growth rates. In 2023, a decline in revenues from excises on tobacco and total excise taxes is projected, due to the inclusion of the negative effects of the change in the regime of collection of excises on imported tobacco products. Due to the fact that the mentioned effects are one-time, a high growth rate of excise revenue is expected in the next year 2024 (the effect of a low statistical base for comparison). Due to the high projected growth rates of imports (DEP, September 2022) and the increase in the share of customs in total indirect taxes, contribution of customs to the absolute growth of revenues is significant in the range of 25.8 to 34.3 million BAM.

Chart 23. Contribution of certain types of revenues to the projected absolute growth



Source: Calculation of the MAU based on indirect tax revenue projections (MAU, October 2022)

#### Revenues from excises on tobacco

Given that no change in the cigarette taxation policy is expected in 2023, the assumption is that tobacco companies, following the policy from 2022, and bearing in mind the uncertainty regarding the rise in the prices of energy sources and other inputs, will be forced to adjust the retail prices of cigarettes on average up to 1%. It has been shown that by varying the prices of cigarette brands within the assortment, it is possible to retain consumers with lower incomes, and at the same time, by correcting the prices of more expensive brands, to increase the consumption of consumers with higher incomes, especially of non-residents from the EU and other Western countries. Given that the cigarette taxation policy in B&H has been unchanged since 2019, and that neighbouring countries and EU member states are continuously increasing excise taxes on cigarettes, the price competitiveness of cigarettes in B&H is increasing every year, which encourages consumption of non-residents. An increase in the excise tax burden on smoking tobacco is expected in 2023, but this increase will be minimal, given the minimal increase in cigarette prices during the period used to calculate excise taxes on tobacco products according to the current methodology.<sup>18</sup>

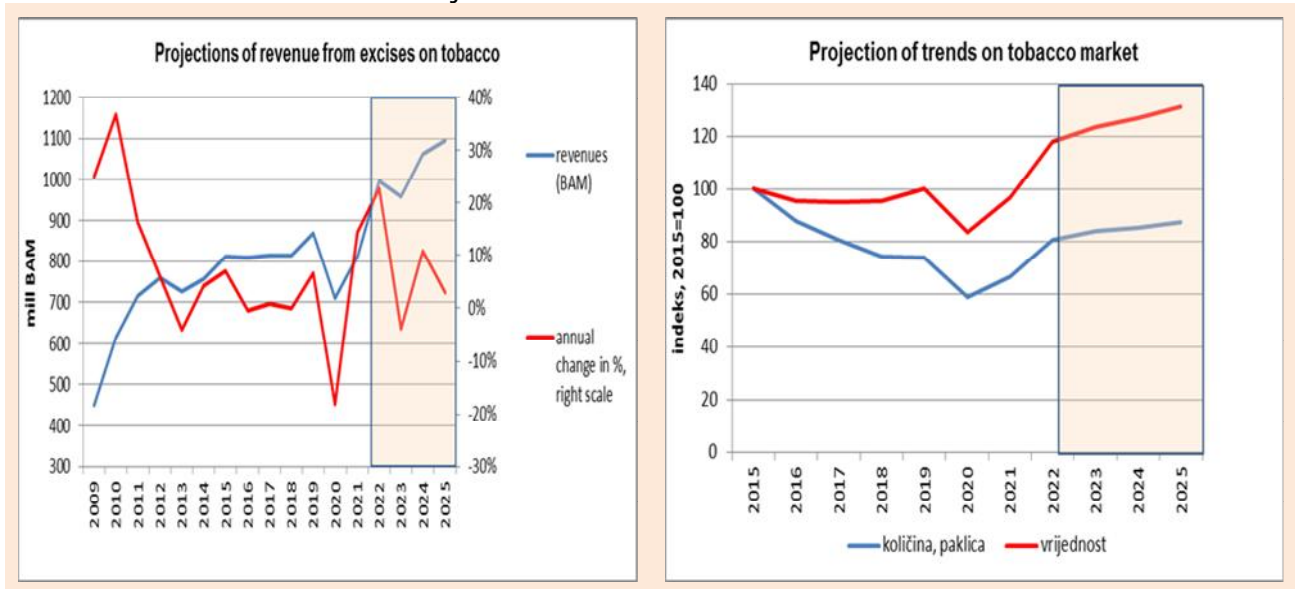
A negative factor in the collection of excises on cigarettes in 2023 is the change in the method of calculation and payment of excise duties on tobacco products. The new way of paying excise duty involves payment at the moment of importing cigarettes instead of at the moment of receiving excise stamps, as was the case until now. The change will initially produce a vacuum in the collection of excises of a month to a month and a half, depending on the earlier duration of the time gap between receiving stamps and importing cigarettes. Considering the complexity of the procedure for the adoption of regulations<sup>19</sup> and the necessary technical adjustments, and taking

<sup>18</sup> The Law on Excise Duties prescribes the methodology for calculating the specific excise tax on smoking tobacco, which is based on the weighted average price of cigarettes and the minimum excise tax on cigarettes. It is expected that the Governing Board of the ITA will soon make a decision on the specific excise tax on smoking tobacco for 2023. According to preliminary calculations, the specific excise duty on smoking tobacco in 2023 should be higher by only 0.6% compared to the specific excise duty on smoking tobacco in 2022.

<sup>19</sup> According to the amendments to the Law on Excise Duties ("Official Gazette of B&H" No. 50/2022), the Governing Board of the ITA is obliged within 60 days from the date of entry into force to adopt amendments to the Book of Rules on the Application of the Law on Excises in order to prescribe the rules for implementing the changes to the Law ("Book of

into account the changes in other rules related to excise taxation<sup>20</sup>, it is highly likely that the new rules will be applied as of 2023. The loss of revenues from excises at the time of the shift to the new excise duty payment regime is a one-time event, as it occurs only when the shift to the new excise duty payment regime is made and only affects the collection of excises in 2023. The loss of revenues from excises is estimated at the amount of the average monthly collection of excises on tobacco products in 2022, which, together with the corresponding VAT, amounts to 0.2% of GDP.

Chart 24. Projection of revenues from excises on tobacco



Source: Calculation of MAU based on ITA data and projection of revenues from indirect taxes (MAU, October, 2022)

Under the above-mentioned assumptions and including the one-time effects of the change in payment regime, a 3.7% drop in tobacco excise collection is expected in 2023.

In 2024 and 2025, a new payment pattern of excise taxes on tobacco will be established, which will be neutral to the collection of excise revenue. An important factor in the realization of excise tax collection projections is the unchanged excise policy and the continuous fight against the black market of cigarettes and tobacco in B&H. In the mentioned two years, the stabilization of the political situation in the world and the stabilization of commodity exchanges and prices on the world market, recovery and growth of the economy and consumption are expected in accordance with macroeconomic projections. Market growth should follow macroeconomic projections of consumption, which, along with a minimal increase in the weighted average price of cigarettes, should lead to an increase in cigarette turnover to the level of 2015 (Chart 24, right side) and to the growth in revenues from excise taxes on tobacco products in 2024 of 10.8%, and in 2025 of 3% (Chart 24, left side). The higher growth rate of excise tax revenue in 2024 is a consequence of the lower statistical base from 2023, due to the one-time loss of revenue during the shift to the new excise tax payment regime.

Rules"). The Governing Board of the ITA, at the session held on September 30, 2022 adopted the draft amendments to the Book of Rules, which the ITA, in accordance with the procedure, should submit to public consultations (so-called e-consultations) and obtain the opinions of competent institutions. After consultations, it is necessary for the Governing Board the ITA to adopt the final proposal for changes to the Book of Rules, and it takes certain time for the changes to enter into force.

<sup>20</sup> It is about the provisions related to the introduction of e-excise returns for all excise payers as of January 1<sup>st</sup>, 2023. The amendments are an integral part of the amendments to the Book of Rules together with the provisions regarding the payment of excise duty on tobacco products.

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

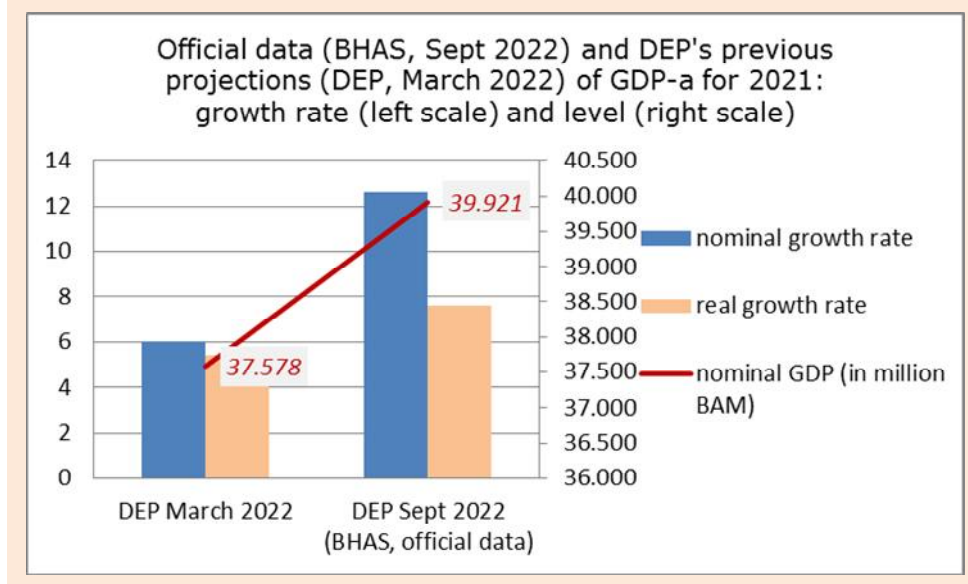
Projections of indirect tax revenues are closely related to the DEP's projections of GDP and its components. Any deviation of these parameters from the projected value represents the risk for revenue projection.

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

##### 3.1.1. Revision of projections for 2021

Chart 25 shows the official levels (BHAS, September 30, 2022) and previous projections (DEP, March 2022) of nominal GDP for 2021, as well as the corresponding nominal and real growth rates. It can be concluded that all of the above has been revised upwards. The official level of nominal GDP is higher by 2,343 million BAM than the March projection, while the realised nominal and real growth rates are higher by 6.6 pp. and 2.2 pp., respectively.

Chart 25. GDP in 2021, the official data and DEP's projections from March 2022

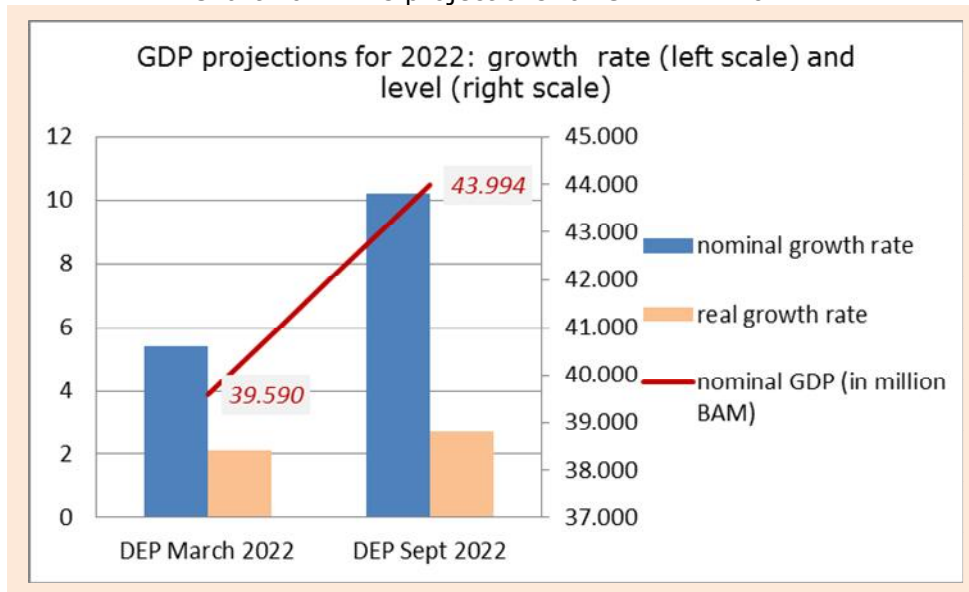


Source: Presentation of the MAU based on DEP's projections

##### 3.1.2. Revision of projections for 2022

Compared to the previous DEP's projections (March 2022), nominal GDP projections for 2022 were revised by +4,404 million BAM. Nominal GDP growth rate was revised by 4.8 pp., while the projection of real GDP growth rate was revised by 0.6 pp. (Chart 26). Projected inflation rate has been strongly revised from 6% to 13.1%.

Chart 26. DEP's projections for GDP in in 2022

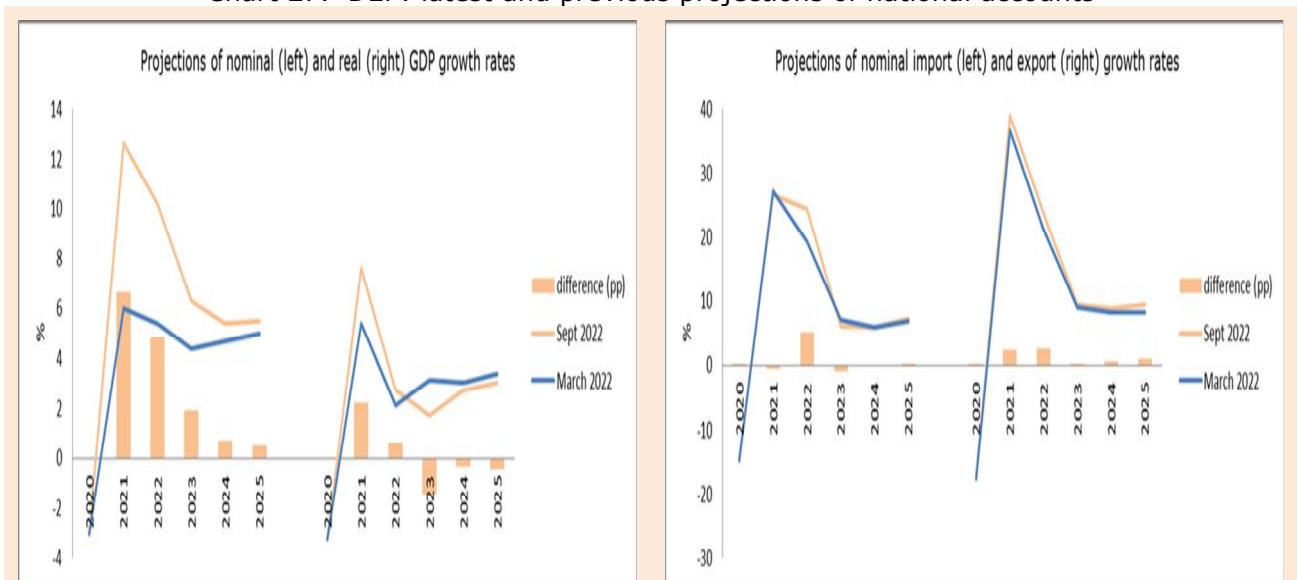


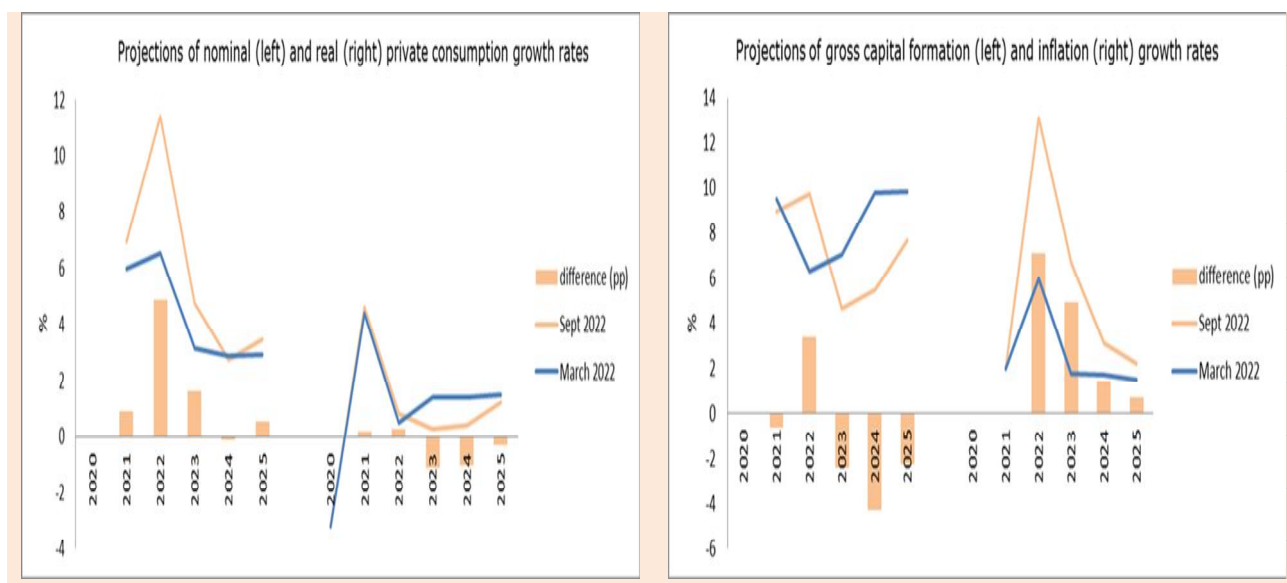
Source: Presentation of the MAU based on DEP's projections

3.1.3. Revision of projections for the period 2023 - 2025

Chart 27 shows the September projections of GDP and its components for the period 2021-2025 compared to the previous DEP projections (March 2022). Compared to the previous projections, nominal GDP growth projections were revised by +1.9 pp., +0.7 pp. and +0.5 pp., for 2023, 2024 and 2025, respectively, while the projections of real GDP growth for the specified years were revised downwards by -1.4 pp., -0.3 pp. and -0.4 pp. Chart 27 also shows the revision of individual components of GDP and the inflation rate

Chart 27. DEP: latest and previous projections of national accounts





Source: Presentation of the MAU based on DEP's projections from September 2021 and March 2022

### 3.2. MAU, revision of projections of revenues from indirect taxes

#### 3.2.1. Differences in revenue projections for 2022 compared to projections from April 2022.

The projection of revenues from indirect taxes for the year 2022 is higher by 277.6 million BAM compared to the projections from April 2022. The highest revision was performed on VAT revenues in the amount of +171.8 million BAM. The excise tax revenue projection was revised by +74.7 million BAM, where the projections of excises on tobacco were revised by +110.7 million BAM, the projection of excises on oil derivatives by -30.5 million BAM, and all other revenue categories from excises by -5.5 million BAM.

Table 5. Differences in revenue projections for 2022 compared to projections from April 2022

Projection for 2022	VAT	Excises	Customs	Road fee	Other	Total
April 2022	4.915,3	1.565,7	363,5	669,0	36,9	7.550,4
October 2022	5.087,1	1.640,4	423,2	626,5	50,8	7.828,1
Difference	171,8	74,7	59,7	-42,5	14,0	277,6

Source: Calculation of MAU based on projection of revenues from indirect taxes (MAU, October, 2022)

The upward revision of the projections of VAT and customs revenues for 2022 is the result of strong revisions of DEP's projections of macroeconomic indicators from September 2022 compared to their projections from March 2022, which served as the basis for the April projections of revenues from indirect taxes (see section 3.1.2. Revision of projections of macroeconomic indicators for 2022). Nominal GDP growth rate for 2022 was revised by 4.8 pp. and inflation by 7.1 pp. Projections of consumption, import, export and investment growth rates for 2022 have been revised upwards (Chart 27). On the other hand, the downward revision of revenue projections from excises on oil derivatives and road fees is the result of the increase in the prices of oil derivatives and the consequent decrease in their consumption.

The starting point for the April projections of revenues from excises on tobacco products for 2022 were the trends in the market of tobacco products and the collection of revenues from excises in 2021, macroeconomic projections of consumption and current trends in the first quarter of 2022.

The projections were necessarily conservative given the significant limitations and risks at the time of their preparation (the war in Ukraine, the energy crisis and the general trend of rising prices on the domestic market, along with supply and distribution difficulties, rising input costs of the tobacco industry). Anti-COVID restrictive measures were also active, which negatively affected the consumption of cigarettes in B&H by non-residents. In the second quarter, the measures in the EU and other countries were eased or abolished, which had a positive effect on the consumption of non-residents in all segments (diaspora, tourism, transit, cross-border consumption), especially in the summer season. In this way, the consumption of cigarettes, which has been permanently lost due to the continuation of the trend of the outflow of the working-age population from B&H, was compensated. The value of the cigarette market for the eight months of 2022 has increased by 27% compared to the same period in 2021, which is far above the macroeconomic projections of consumption. Despite the increase in input costs, the retail prices of cigarettes were increased only from July 2022, and the weighted average retail price of cigarettes for the eight months of 2022 remained at the level of 2021. The aforementioned trends, along with the unchanged excise policy, led to an increase in the turnover of cigarettes by 27%<sup>21</sup> compared to the same period in 2021, so the amounts from the same period in 2019 were *de facto* exceeded. The sudden recovery of cigarette sales, along with effective measures to suppress the black market of cigarettes and tobacco, undertaken by the ITA and other agencies, resulted in the growth of excise revenue above the expected and projected.

### 3.2.2. Differences in revenue projections for 2023-2024 compared to projections from April 2022.

The differences between the revenue projections for the period 2023-2025 compared to the projections from April 2022 are presented in Table 6. The revenue projections for 2023, 2024 and 2025 have been revised by +262 .8 million BAM, +332.3 million BAM and +366.2 million BAM, respectively, compared to the projections from April 2021. The revision is the cumulative result of corrections in the base (revenue projection for the previous year:  $y-1$ ) and the revision of the growth rates of macroeconomic indicators for the current year (Chart 28) and the one-time effects of the application of the new regime of paying excise taxes on tobacco products at the beginning of 2023.

Table 6. Differences in revenue projections for the period 2023-2025 compared to the projections from April 2022.

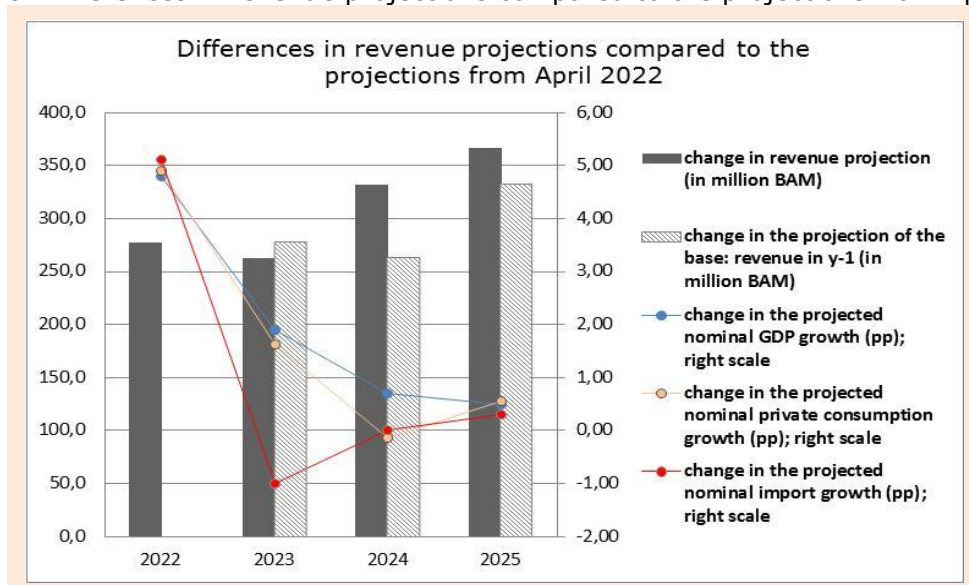
Type of revenue (net)	2022	2023	2024	2025
VAT	171,8	259,9	260,0	297,6
Excises	74,7	-1,4	68,0	63,0
Customs	59,7	59,7	63,3	69,1
Road fee	-42,5	-52,6	-56,1	-60,7
Other	14,0	-2,8	-2,8	-2,8
TOTAL	277,6	262,8	332,3	366,2

Source: Calculation of MAU based on projection of revenues from indirect taxes (MAU, October, 2022)

<sup>21</sup> Measured by the number of issued excise stamps.



Chart 28. Differences in revenue projections compared to the projections from April 2022



Source: Calculation of MAU based on projection of revenues from indirect taxes (MAU) and projection of macroeconomic indicators (DEP)

#### 4. Risks

Considering the huge unknowns at the time of preparing the projections about the severity of the shock caused by the coronavirus pandemic, the further development of the situation on the international level related to the events in Ukraine and the assumptions used (DEP, macroeconomic projections), **we point out that there are significant risks for the realization of projections of indirect tax revenues, where the risks of worse outcome predominate.** Given the basic assumptions of indirect tax projections and the overall economic conditions in B&H and in the world, the realization of the projected level of revenues from indirect taxes in the period 2022-2025 is subject to the following risks: (1) all risks for the realization of projected macroeconomic indicators (DEP) and (2) risks related to the collection of revenues from indirect taxes and fight against the grey economy.

Projections of indirect tax revenues are closely related to the projections of macroeconomic indicators of DEP. All risks mentioned by DEP in their projections automatically represent risks for the projections of indirect taxes, since any deviation of the realization of DEP parameters from their projected values inevitably leads to deviations from the projected indirect tax revenues. The September 2022 DEP projections state that the risks to their projections can be classified into two groups: external and internal. The same document states the following: *„...At the time of preparation of this report, it seems that external risks are much more pronounced and represent a greater risk for the realization of economic growth projections from the baseline scenario, compared to internal ones. Namely, after the stabilization of the epidemiological situation related to COVID19, at the beginning of 2022, there was an escalation of the conflict between Ukraine and Russia, which will undoubtedly have negative economic consequences for the global economy and, therefore, for Bosnia and Herzegovina. Further escalation of the Ukrainian crisis, as well as strengthening inflationary pressures both globally and in Bosnia and Herzegovina would certainly have a negative impact on consumption, investment, foreign trade and thus on the economic growth projections in the baseline scenario.“<sup>22</sup>*

Risks that may jeopardize the realization of indirect tax revenue projections in the area of policy and administration of indirect taxes include the following:

- The weakening of the measures to combat black market of tobacco products after completion of the harmonization of tax burden on cigarettes in B&H with the EU standards;
- Weakening of the fight against VAT fraud, especially in the field of refunds, which, in a situation of falling employment and illiquidity of taxpayers become attractive for fraud;
- Proposed changes in the policy of indirect taxation, such as: differentiated VAT rates; temporary abolition of excise duties on oil derivatives. These changes in legislation could lead to a significant decline in indirect tax revenues.

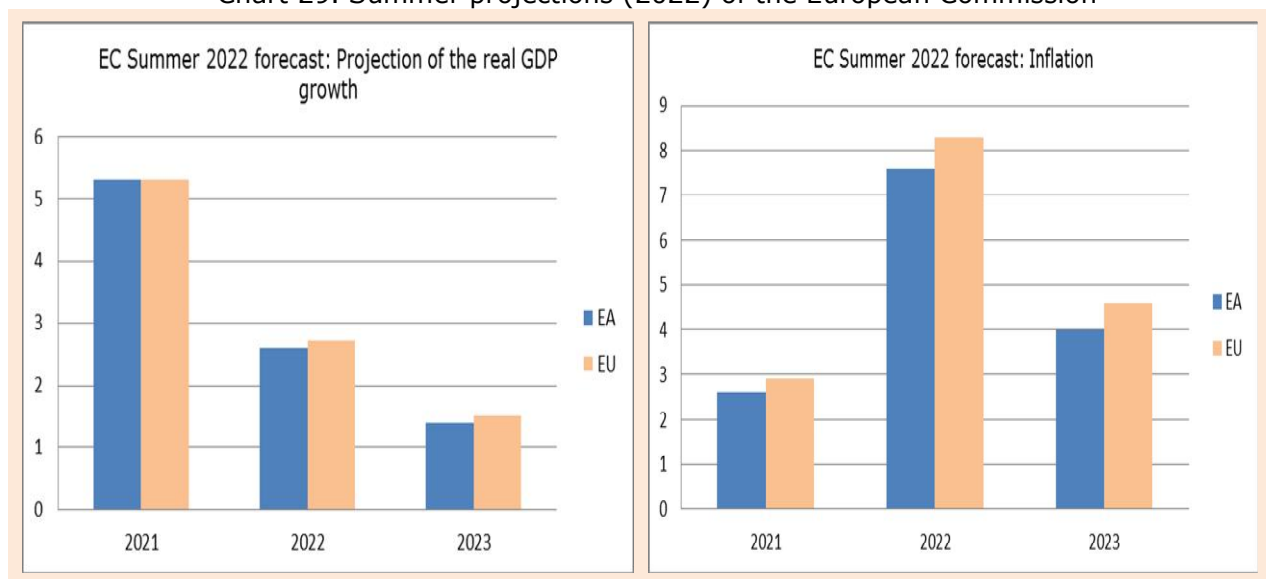
<sup>22</sup> DEP, Macroeconomic projections 2023-2025, September 2022

## Appendix: Latest projections of international institutions

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

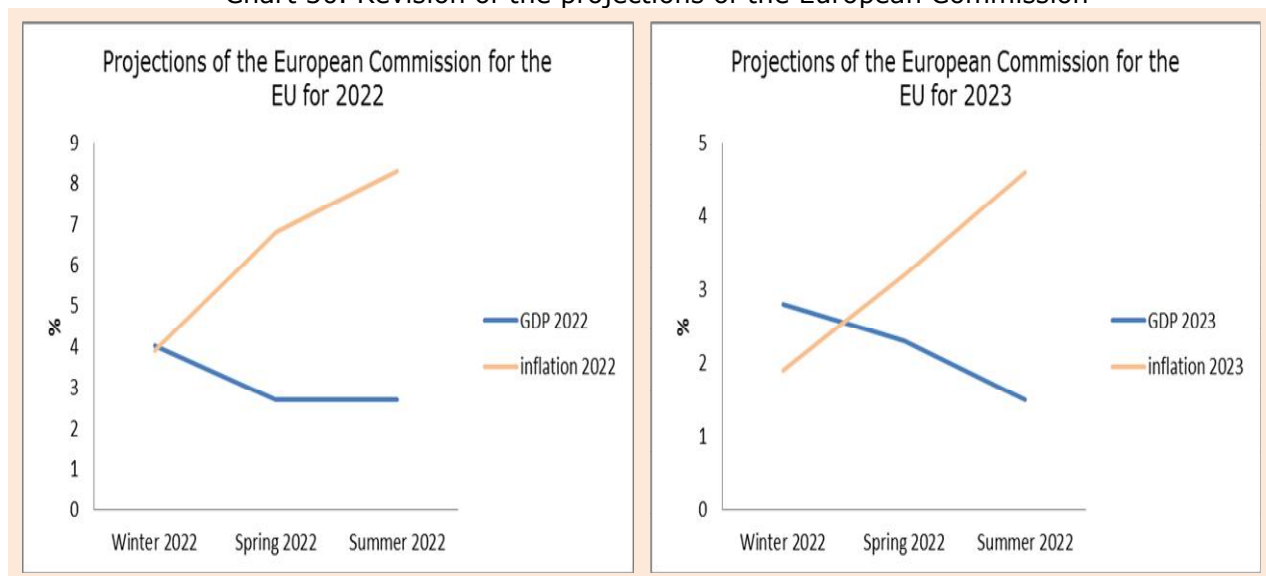
Chart 29 shows the latest, summer, projections of the EC<sup>23</sup> of real GDP growth and inflation for the period from 2021 to 2023, which take into account the consequences of the war in Ukraine. The following is stated in the document: "The shocks unleashed by the war are hitting the EU economy both directly and indirectly, setting it on a path of lower growth and higher inflation."

Chart 29. Summer projections (2022) of the European Commission



Source: Presentation of the MAU based on the European Commission projections

Chart 30. Revision of the projections of the European Commission



Source: Presentation of the MAU based on the European Commission projections

<sup>23</sup> European Economic Forecast, Summer 2022, Institutional paper 183, July 2022

In this regard, compared to the previous two editions of EC projections (Spring 2022, Winter 2022), GDP growth projections have been adjusted downwards, while inflation projections have been adjusted upwards. In case of the projections for the European Union (EU), the EC's latest projections (Summer 2022) of GDP growth for the year 2022 amount to 2.7% and inflation projections to a high of 8.3%. GDP growth and inflation rates of 1.5% and 4.6% are projected for 2023.

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

The latest IMF projections date from October 2022.<sup>24</sup> According to the aforementioned projections, the growth of the world economy is expected to slow down from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023. On the other hand, global inflation is expected to rise from 4.7% in 2021 to 8.8% in 2022. Global inflation rates of 6.5% and 4.1% are projected for 2023 and 2024, respectively.

In addition to the projections for the world economy, Table 7 presents the IMF's projections for the Euro Area and B&H.

Table 7. Real GDP growth projections, IMF, October 2022

	Projection			Difference compared to WEO from July 2022		The difference compared to the WEO from April 2022	
	2021	2022	2023	2022	2023	2022	2023
World Output	6,0	3,2	2,7	0,0	-0,2	-0,4	-0,9
Euro Area	5,2	3,1	0,5	0,5	-0,7	0,3	-1,8
B&H	7,5	2,4	2,0				

Source: IMF, World Economic Outlook, October 2022.

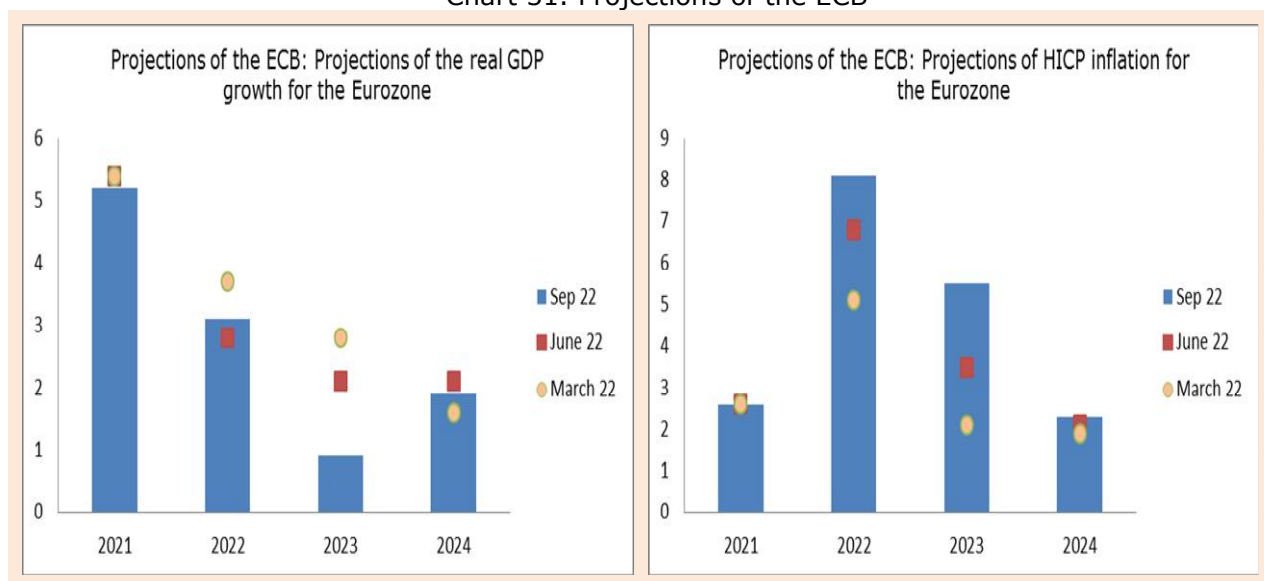
## iii. Projections of the European Central Bank (ECB)

The September 2022 projections state the following: "In spite of better than expected economic growth in the first half of 2022, related to the effects of the reopening of the economy and a strong rebound in tourism, the economic consequences of the war in Ukraine continue to unfold and darken the outlook for the euro area economy while pushing up inflationary pressures further." According to the September projections, average annual real GDP growth of 3.1% can be expected in 2022. For the next year, 2023, the ECB projects a slowdown in economic growth to 0.9% in 2023, and a recovery in 2024 with a GDP growth rate of 1.9%. The latest ECB projections of real GDP growth and inflation for the Eurozone are presented in Chart 31. Previous projections from March and June 2022 are also shown, so that corrections can be observed.<sup>25</sup>

<sup>24</sup> IMF, World Economic Outlook, October 2022.

<sup>25</sup>Four times a year, ECB staff (March and September) and Eurosystem staff (June and December) prepare macroeconomic projections for the euro area. June projections from the Chart 31 were prepared by the Eurosystem staff.

Chart 31. Projections of the ECB



Source: Presentation of the MAU based on the ECB projections

The projections emphasize a special level of uncertainty regarding inflation developments, which strongly depends on the movement of energy prices, especially in the case of wholesale prices of gas and electricity. The main risk for the projections is the possibility of more serious disruptions in energy supply in Europe, and that a cold winter could lead to a higher demand for heating. Therefore, a downside scenario was created that reflects these risks. According to it, inflation would average 8.4% in 2022, 6.9% in 2023 and 2.7% in 2024. Real GDP in the downside scenario grows by 2.8% in 2022, decreases by 0.9 % in 2023, and grows again by 1.9% in 2024.

## **Analysis of revenue collection from excise duties on alcohol, alcoholic beverages and fruit natural brandy**

(Author: Mirjana Popović, expert advisor - macroeconomist)

### **1. Introduction**

The main reasons for the introduction of excise duties are mainly fiscal effects, i.e. increasing public revenues of a country, although alcohol taxation generates social, health and economic effects. In addition to the fiscal effects, the goals of applying the excise duty on alcohol are to reduce the consumption of this excise product, which contributes to the reduction of potential harm from consumption, i.e. the reduction of all external and total social costs caused by the consumption of alcohol<sup>26</sup>.

Given the differences in the foundation of the taxation system, the differences in the excise duty rates applied by individual countries are large. Regardless of the advantages of introducing excise duties on alcohol, there are also aggravating circumstances for the efficient functioning of the internal market of a country. Large differences in the level of excise duty on alcohol and alcoholic beverages between countries affect legal and illegal cross-border trade, such as smuggling, which causes a large loss of tax revenue. In this way, countries with a high tax burden lose the most revenue.

The variety of alcoholic beverages, the level of the tax burden, and thus the price, are not a decisive factor in the consumption of a particular alcoholic beverage. The choice between different alcoholic beverages depends on many factors such as regional differences, traditions in the consumption and consumption of certain types of alcoholic beverages, cultural habits, production possibilities of certain areas and the price, which is affected by the amount of excise duty. The question of consumption depends significantly on the consumer's habits, so the question of addiction should not be neglected when it comes to alcohol consumption. Some of the individual and external costs arise precisely because of consumption from alcohol addiction, which gives the problem an additional dimension. Certain studies have shown that the price of alcohol negatively affects consumption, that is, the increase in the price of alcohol causes a negative decrease in the total consumption of this product. When taxing alcohol and alcoholic beverages, it is necessary to consider health policy objectives<sup>27</sup>.

The objectives of the analysis of gross revenue from excise duties on alcohol and alcoholic beverages are multiple. In addition to the impact of the pandemic and the impact of measures taken to contain the spread of the virus on the collection of these revenues, the goals of this analysis are to understand the current situation, consumer preferences, seasonal impact on consumption, and future expectations while maintaining existing policies.

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<sup>26</sup> External and total social costs can be all indirect costs caused by the consumption of alcohol and alcoholic beverages, such as medical treatment, car accidents caused by driving under the influence of alcohol, social implications due to violence in families caused by alcohol consumption, etc.

<sup>27</sup> The goal of health policy is to reduce the number of patients, because people who often consume alcohol suffer from other chronic diseases. Because of the Covid-19 pandemic, the taxation of alcohol and alcoholic beverages has become even more significant because the aforementioned health insurance beneficiaries are more likely to develop additional diseases and severe cases of Covid-19. The costs of treatment are largely financed from public funds which affects the tax system. Along with a number of negative associations with physical health, excessive alcohol consumption can lead to or exacerbate existing mental health problems, such as anxiety or depression, which may themselves increase during the Covid-19 pandemic.

## 2. Policy of taxation of alcohol, alcoholic beverages and fruit natural brandy in Bosnia and Herzegovina

Alcohol, alcoholic beverages and fruit natural brandy (hereinafter: alcohol and alcoholic beverages), i.e. the sale of these products in Bosnia and Herzegovina (hereinafter: B&H) is subject to value added tax and excise tax<sup>28</sup>. In terms of the Law on Excise Taxes in Bosnia and Herzegovina (hereinafter: Law)<sup>29</sup> which defines excise products and their taxation policy, alcohol is considered to be all types of alcohol, regardless of the raw material from which it is obtained and its method of obtaining. Alcoholic beverages are considered drinks that contain more than 2% alcohol. Also, in terms of the Law, natural fruit brandy is considered to be a product obtained by distillation of boiled juice, grapes or pomace of grapes or other fruit at less than 86% vol. of alcohol. This product must not smell and taste different from that resulting from the raw materials used, to which aromas or ethyl alcohol of agricultural origin, sugar and other carbohydrates must not be added. Revenues based on excise duties on these products are paid to the Single Account of the Indirect Taxation Authority, and their allocation is carried out in accordance with the Law on Payments to a Single Account and Revenue Allocation<sup>30</sup>.

An overview of the current excise products according to the Law is presented in Frame 1.

Frame 1.

Article 4. (Excise duties products)
a) petroleum products;
b) tobacco products;
c) non-alcoholic beverages;
<b>d) alcohol, alcoholic beverages and fruit natural brandy;</b>
e) beer and wine;
f) coffee;
g) biofuels and bioliquids.

Source: Law on Excise Duties in B&H

An overview of excise rates according to the current legislation is presented in Frame 2.

Frame 2.

Article 19. (Amounts of excise duties on alcohol and alcoholic beverages and fruit natural brandy)
For alcohol, alcoholic beverages and fruit natural brandy, excise duty is paid per liter of absolute alcohol, namely:
<b>a) alcohol 15,00 KM;</b>
<b>b) alcoholic beverages 15,00 KM;</b>
<b>c) fruit natural brandy 8,00 KM.</b>

Source: Law on Excise Duties in B&H

<sup>28</sup> There are certain tax exemptions from paying taxes, such as exemptions when exporting, when moving between the taxpayer's own warehouses, but also exemptions from paying taxes for alcohol used in pharmaceutical, cosmetic, food and similar productions.

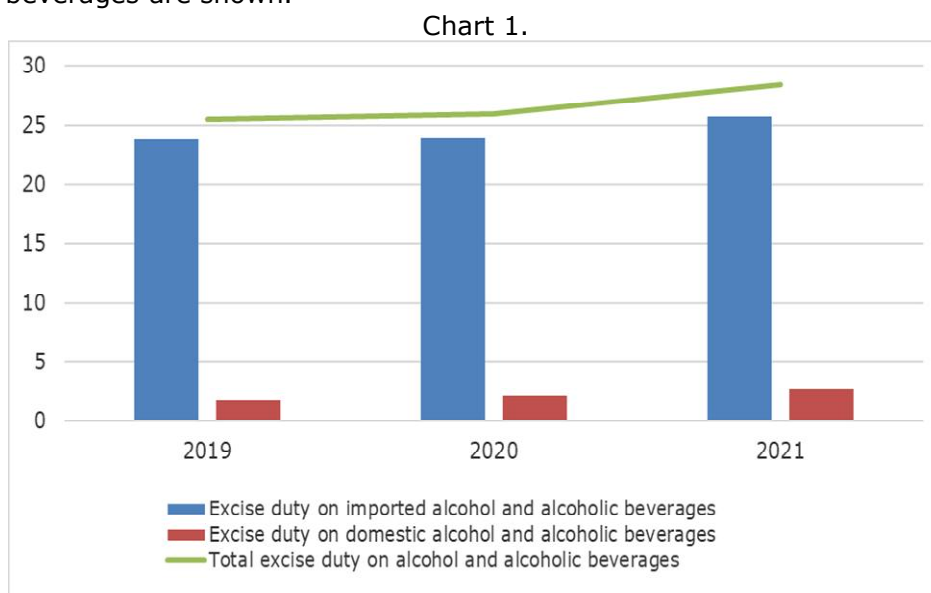
<sup>29</sup> "Official Gazette of B&H", no. 49/09, 49/14, 60/14, 91/17 and 50/22.

<sup>30</sup> "Official Gazette of B&H", no. 55/04, 34/07, 49/09 and 91/17.

### 3. Annual trends of gross revenue from excise duties on alcohol and alcoholic beverages

Excise duties on alcohol and alcoholic beverages do not have a high effect in terms of increasing revenues in B&H, and may result in negative economic benefits. Thus, in the three-year period 2019-2021, the total gross revenues from excise duties on alcohol and alcoholic beverages share from 1.7% to 1.9% in the total gross revenues from excise duties at the annual level, and from the point of view of increasing revenues, alcohol and alcoholic beverages are not an ideal excise product.

Chart 1 shows the annual collection of excise revenue on alcohol and alcoholic beverages during the period 2019-2021, in millions of BAM (left vertical scale). The annual collection of total gross revenues from excise duties on alcohol and alcoholic beverages in the observed period as well as the annual collection of these revenues separated by components - revenues from excise duties on imported alcohol and alcoholic beverages and revenues from excise duties on domestic alcohol and alcoholic beverages are shown.



Source: Data from the Indirect Taxation Authority of B&H, MAU overview

The annual trend in the collection of total gross revenue from excise duties on alcohol and alcoholic beverages in the presented three-year period was marked by the emergence of the Covid-19 pandemic at the global level and measures to combat the spread of the virus. Although in 2020 a decrease in income from excise duties on beer<sup>31</sup>, non-alcoholic beverages<sup>32</sup> and coffee<sup>33</sup> was recorded on an annual basis, collected revenues from excise duties on alcohol and alcoholic beverages are on the rise. The emergence of the Covid-19 pandemic presented a double challenge to the population: dealing with the risk of contracting the disease and dealing with the effects of strategies against the spread of the virus. Data on increased consumption of alcohol and alcoholic beverages provide evidence of changes in alcohol use during the Covid-19 pandemic.

After alcohol consumption in many countries around the world began to rise sharply during the pandemic, the World Health Organization has warned that alcohol use during the pandemic can

<sup>31</sup> MAU Bulletin 205/206

<sup>32</sup> MAU Bulletin 205/206

<sup>33</sup> MAU Bulletin 207/208

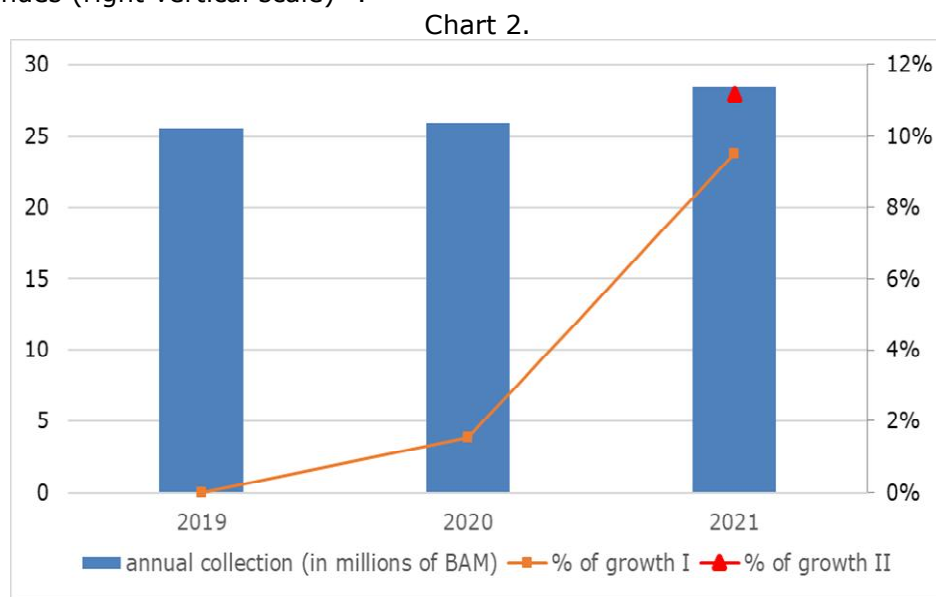


potentially worsen health problems and risky behavior<sup>34</sup>. Certain studies in the world have shown increased alcohol consumption due to Covid-19 pandemic in the USA<sup>35</sup>, Belgium<sup>36</sup>, France<sup>37</sup>, while in Australia there was a decrease in the consumption of alcohol and alcoholic beverages during that period<sup>38</sup>.

Considering the growth of the gross revenue of this excise product in the year of the pandemic in B&H, there is some concern regarding the behavior of consumers when consuming alcohol during the pandemic. There is almost no difference between alcohol consumption in bars and restaurants, that is, during social gatherings and at home. The results of increased revenue from this excise product during the pandemic may indicate an increase in household alcohol consumption during the period of isolation, which could potentially lead to an increase in adverse health outcomes related to alcohol and alcoholic beverages in the country. A more detailed analysis of the collection of gross revenue from excise duties on alcohol and alcoholic beverages in B&H, separated by components, is given below.

### 3.1. Annual trends of total gross revenues from excise duties on alcohol and alcoholic beverages

Chart 2 shows the trend of three-year collection of total gross revenues from excise duties on alcohol and alcoholic beverages, in millions of BAM (left vertical scale), and the annual growth rate of these revenues (right vertical scale)<sup>39</sup>.



Source: Data from the Indirect Taxation Authority of B&H, MAU overview

<sup>34</sup> World Health Organization. Alcohol does not protect against COVID-19; access should be restricted during lockdown; <https://www.euro.who.int/en/health-topics/disease-prevention/alcohol-use/news/news/2020/04/alcohol-does-not-protect-against-covid-19-access-should-be-restricted-during-lockdown>

<sup>35</sup> Pollard, M. S., Tucker, J. S., & Green, H. D. Jr. (2020). Changes in adult alcohol use and consequences during the Covid-19 pandemic in the USA; <https://doi.org/10.1001/jamanetworkopen.2020.22942>

<sup>36</sup> Vanderbruggen, N., Matthys, F. Van Laere, S. Zeeuws, D., Santermans, L., Van den Ameele, S., et al. (2020). Self-reported alcohol, tobacco, and cannabis use during Covid-19 lockdown measures: Results from a web-based survey; <https://doi.org/10.1159/000510822>

<sup>37</sup> Rolland, B. Heesebaert, F., Zante, E., Benyamina, A. Heesebaert, J. & Franck, N. (2020). Global changes and factors of increase in caloric/salty food intake, screen use and substance use during the early Covid-19 containment phase in the general population in France; <https://doi.org/10.2196/19630>

<sup>38</sup> Callinan, S., Smit, K., Mojica-Perez, Y., D'Aquino, S., Moore, D., & Kuntsche, E. (2021.) Shifts in alcohol consumption during the Covid-19 pandemic: Early indicators from Australia; <https://doi.org/10.1111/add.15275>

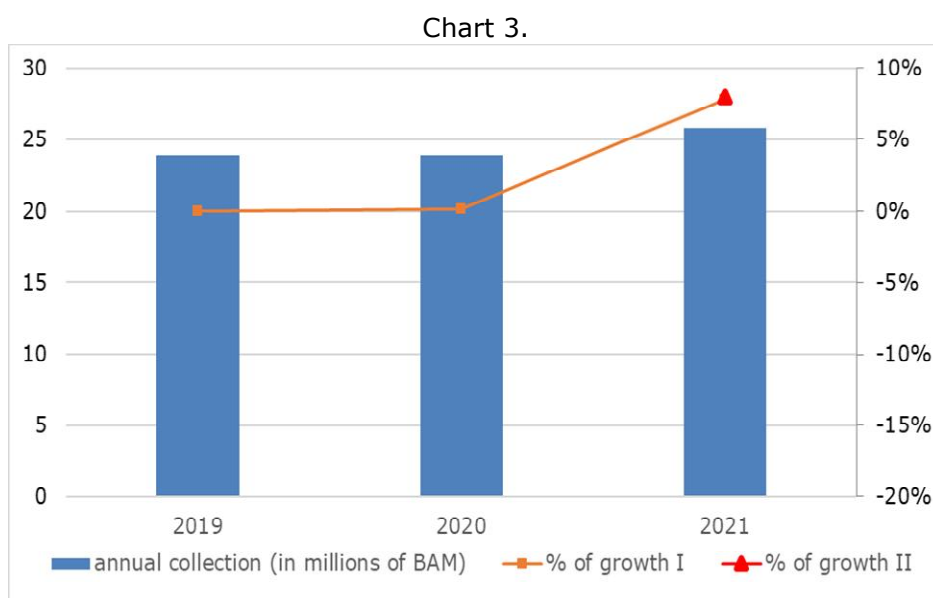
<sup>39</sup> 2019 was used as a base

In 2020, a slightly growth trend was recorded in the collection of total gross revenues from excise duties on alcohol and alcoholic beverages compared to 2019 by 1.5% (Chart 2, % of growth I), while a more significant increase in the collection of these revenues by 9.5% recorded in 2021 compared to 2020 (Chart 2, % of growth I). 11.2% increase in these revenues was recorded in 2021 compared to 2019 (Chart 2, % of growth II).

In addition to the trend in the collection of total gross revenue from excise duties on alcohol and alcoholic beverages in the three-year period, below is an analysis of the trend in the collection of these revenues by components - import and domestic excise, which provides a more detailed picture of consumer preferences and the influence of other external factors.

### 3.2. Annual trends of gross revenues from excise duties on imported alcohol and alcoholic beverages

Chart 3 shows the trend of the three-year collection of gross revenues from excise duties on imported alcohol and alcoholic beverages, in millions of BAM (left vertical scale), and the annual growth rate of these revenues (right vertical scale)<sup>40</sup>.



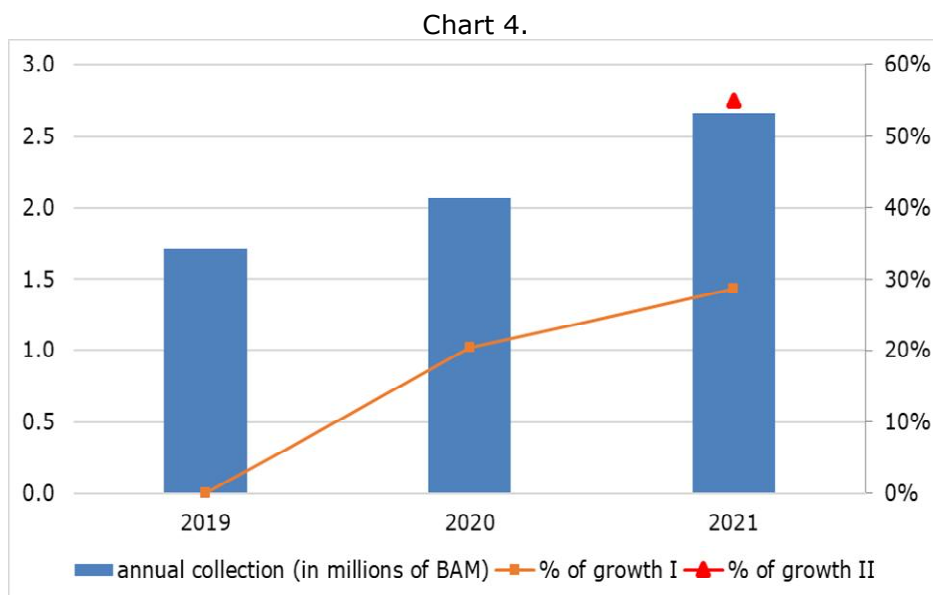
Source: Data from the Indirect Taxation Authority of B&H, MAU overview

The appearance of the corona virus, the uncertainty of an unknown virus, the hesitancy of spending, and the measures introduced to fight the spread of the virus did not lead to a drop in gross revenue from excise duties on imported alcohol and alcoholic beverages in 2020 on an annual basis. Thus, revenue from excise duties on imported alcohol and alcoholic beverages in 2020 remained at the level of the previous year 2019 (Chart 3, % of growth I). The loosening of measures and the opening of borders led to a historical maximum in the annual collection of these revenues in 2021, which is 7.8% higher compared to the previous year 2020 (Chart 3, % of growth I), and 8.0% higher compared to the year before the outbreak of the pandemic, i.e. 2019 (Chart 3, % of growth II).

<sup>40</sup> 2019 was used as a base

### 3.3. Annual trends of gross revenues from excise duties on domestic alcohol and alcoholic beverages

Chart 4 shows the trend of the three-year collection of gross revenues from excise duties on domestic alcohol and alcoholic beverages, in millions of BAM (left vertical scale), and the annual growth rate of these revenues (right vertical scale)<sup>41</sup>.



Thus, in 2021, the collection of gross revenue from excise duties on domestic alcohol and alcoholic beverages was higher by 28.7% compared to the 2020 (Chart 4, % of growth I), and higher by 54.9% compared to 2019 (Chart 4, % of growth II). In 2020, these revenues were higher by 20.4% compared to 2019 (Chart 4, % of growth I).

### 4. Quarterly trends of gross revenue from excise duties on alcohol and alcoholic beverages

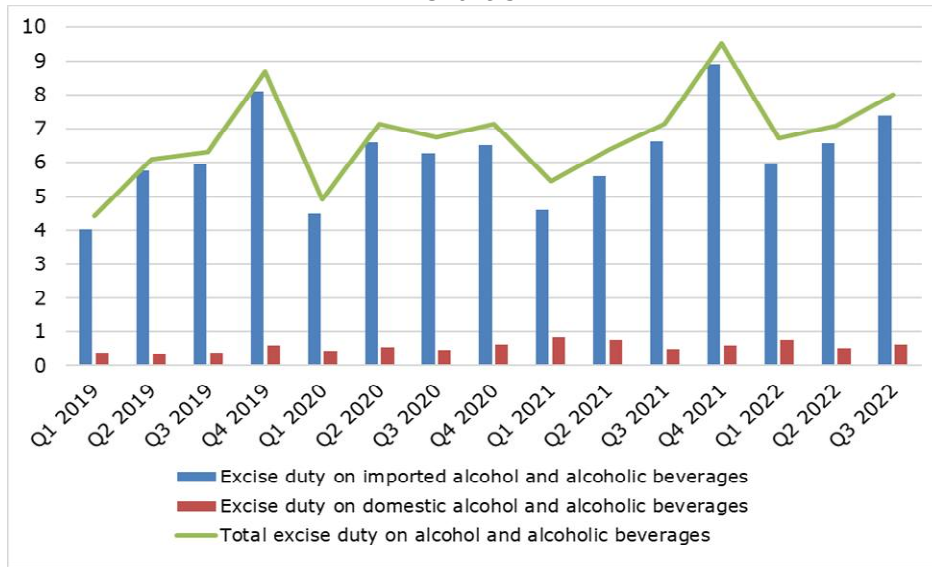
The quarterly analysis shows the trend in the collection of gross revenue from excise duties on alcohol and alcoholic beverages for the first three quarters of the current year, which was marked by the beginning of the war between Russia and Ukraine, and by galloping inflation at the global level.

Chart 5 shows the quarterly trends of gross revenue from excise duties on alcohol and alcoholic beverages for the specified period in millions of BAM (left vertical scale). The quarterly dynamics of total gross revenues from excise duties on alcohol and alcoholic beverages, as well as gross revenues from excise duties on alcohol and alcoholic beverages by component - revenues from excise duties on imported and domestic alcohol and alcoholic beverages, is shown for the period from the first quarter (Q1) 2019 to the third quarter (Q3) <sup>42</sup> 2022.

<sup>41</sup> 2019 was used as a base

<sup>42</sup> Data on the collection of excise duties in September 2022 are preliminary

Chart 5.



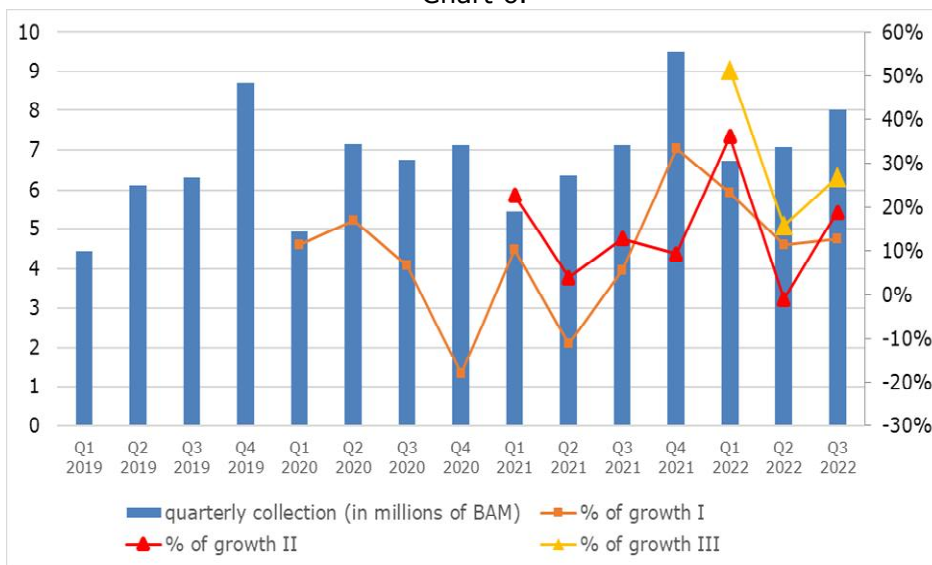
Source: Data from the Indirect Taxation Authority of B&H, MAU overview

The data give a picture of the impact of the seasonal trend in the collection of total gross revenue from excise duties on alcohol and alcoholic beverages, and the highest consumption of alcohol and alcoholic beverages was recorded in the fourth quarters of the previous three years. A detailed quarterly analysis of the collection of these revenues is given below.

**4.1. Quarterly trends of total gross revenues from excise duties on alcohol and alcoholic beverages**

Chart 6 shows the quarterly trend in the collection of total gross revenues from excise duties on alcohol and alcoholic beverages, in millions of BAM (left vertical scale), and the annual growth rate of these revenues (right vertical scale), for the period Q1 2019 - Q3 2022<sup>43</sup>.

Chart 6.



Source: Data from the Indirect Taxation Authority of B&H, MAU overview

<sup>43</sup> 2019 was used as a base

From the trends in the collection of total gross revenues from excise duties on alcohol and alcoholic beverages on a quarterly basis, the smallest collection of these revenues can be observed in the first quarters, and a gradual increase in the second and third quarters, while a significant increase in these revenues was recorded in the fourth quarters.

The main reason for lower collected revenues in the first quarters is the large stocks of alcohol and alcoholic beverages from December, that is, from the fourth quarter of the previous year. By analyzing the quarterly trends of total gross revenues from excise duties on alcohol and alcoholic beverages in the first quarters of the observed four years, the highest collection was recorded in the first quarter of the current year. Thus, the collection of these revenues in the first quarter of the current year is 23.4% higher compared to the first quarter of 2021 (Chart 6, % of growth I), by 36.1% higher compared to the first quarter of 2020 (Chart 6, % of growth II), and by 51.4% higher compared to the first quarter of 2019 (Chart 6, % of growth III).

By analyzing the second quarters in the observed four years, the highest collection of these revenues was recorded in the second quarter of 2020. Since the emergence of the corona virus in this period had a significant impact on the reduction of excise revenues on other excise products, this was not the case with this excise product, and the consumption of alcohol and alcoholic beverages in the second quarters of the observed four years reached its maximum in the second quarter of 2020. In the second quarter of the current year, the collection of total gross revenues from excise duties on alcohol and alcoholic beverages was 11.4% higher compared to the second quarter of 2021 (Chart 6, % of growth I). It was lower by 0.9% compared to the second quarter of 2020 (Chart 6, % of growth II), and higher by 15.8% compared to the second quarter of 2019 (Chart 6, % of growth III).

The consumption of alcohol and alcoholic beverages in the third quarters is constantly increasing. Thus, the collection of these revenues in the third quarters is the highest in the third quarter of the current year. Compared to the third quarter of the previous year it is higher by 12.6% (Chart 6, % of growth I), compared to the third quarter of 2020 it is higher by 18.9% (Chart 6, % of growth II), and compared to the third quarter of 2019, it is higher by 26.9% (Chart 6, % of growth III).

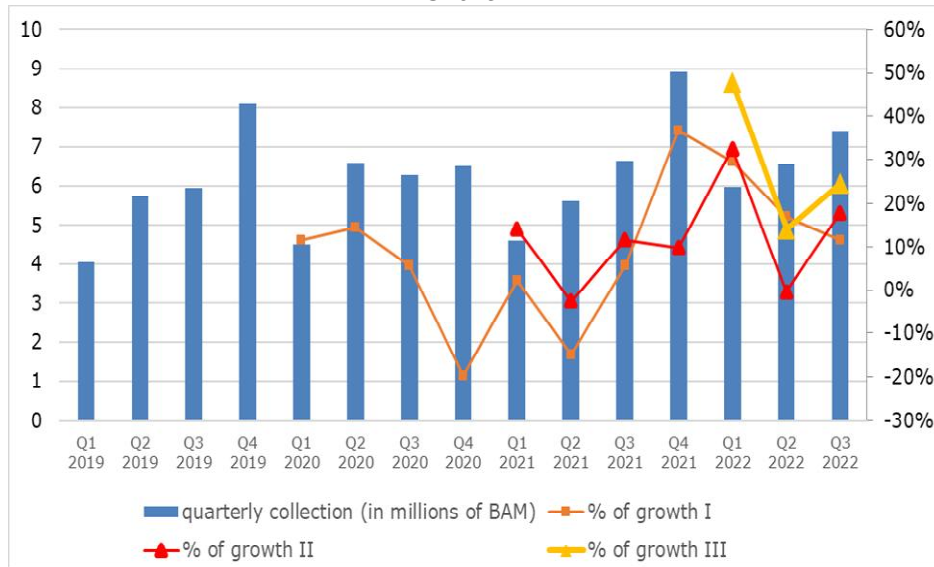
The consumption of alcohol and alcoholic beverages under the influence of the seasonal trend is the highest in the fourth quarters in the observed three years. Thus, the highest revenue from excise duties on total alcohol and alcoholic beverages was collected in the fourth quarter of 2021. It was by 33.3% higher compared to the fourth quarter of 2020 (Chart 6, % of growth I), and by 9.5% higher compared to the fourth quarter of 2019 (Chart 6, % of growth II).

#### ***4.2. Quarterly trends of gross revenues from excise duties on imported alcohol and alcoholic beverages***

Chart 7 shows the quarterly trend in the collection of gross revenues from excise duties on imported alcohol and alcoholic beverages, in millions of BAM (left vertical scale), and the annual growth rate of these revenues (right vertical scale), for the period Q1 2019 - Q3 2022<sup>44</sup>.

<sup>44</sup> 2019 was used as a base

Chart 7.



Source: Data from the Indirect Taxation Authority of B&H, MAU overview

The collected gross revenues from excise duties on imported alcohol and alcoholic beverages in the first quarters are the highest in 2022. They are 29.5% higher compared to the first quarter of 2021 (Chart 7, % of growth I), by 32.5 % higher compared to the first quarter of 2020 (Chart 7, % of growth II), and by 47.8% higher compared to the first quarter of 2019 (Chart 7, % of growth III).

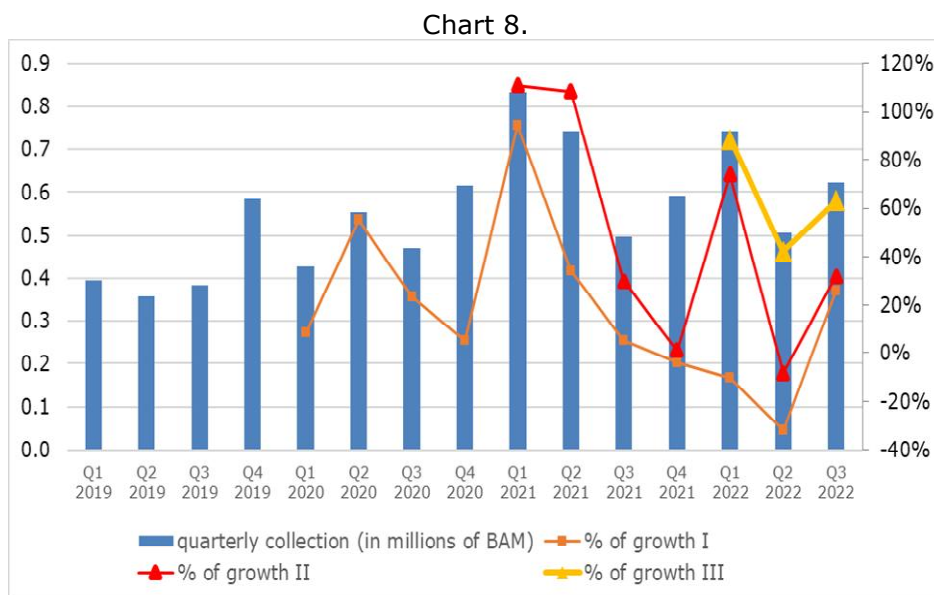
The shock caused by the appearance of the corona virus in the second quarter of 2020 did not affect the collection of gross revenue from excise duties on imported alcohol and alcoholic beverages, which are at the level of the second quarter of the current year (Chart 7, % of growth II). In the second quarter of the current year, 17.1% more of these revenues were collected compared to the second quarter of the previous year (Chart 7, % of growth I), while compared to the second quarter of 2019, the collection of these revenues is higher by 14.1% (Chart 7, % of growth III).

Analyzing the third quarters, these revenues have a constant tendency to grow in the observed period. Thus, the collection of these revenues in the third quarters is the highest in the third quarter of the current year. Compared to the third quarter of the previous year it is higher by 11.6% (Chart 7, % of growth I), compared to the third quarter of 2020 it is higher by 17.9% (Chart 7, % of growth II), and compared to the third quarter of 2019, it is higher by 24.6% (Chart 7, % of growth III).

The highest collection of gross revenues from excise duties on imported alcohol and alcoholic beverages in the fourth quarters was recorded in 2021. It is higher by 36.8% compared to the fourth quarter of 2020 (Chart 7, % of growth I), while compared to in the fourth quarter of 2019, it increased by 9.8% (Chart 7, % of growth II).

### 4.3. Quarterly trends of gross revenues from excise duties on domestic alcohol and alcoholic beverages

Chart 8 shows the quarterly trend in the collection of gross revenues from excise duties on domestic alcohol and alcoholic beverages, in millions of BAM (left vertical scale), and the annual growth rate of these revenues (right vertical scale), for the period Q1 2019 - Q3 2022<sup>45</sup>.



Source: Data from the Indirect Taxation Authority of B&H, MAU overview

The collection of these revenues in the first quarters is the highest in 2021. In the first quarter of the current year, 10.6% less of these revenues were collected compared to the same quarter of the previous year (Chart 8, % of growth I), 73.8% more compared to the same quarter of 2020 (Chart 8, % of growth II), and 88.5% more compared to the same quarter of 2019 (Chart 8, % of growth III).

Gross revenues from excise duties on domestic alcohol and alcoholic beverages collected in second quarters are also the highest in 2021. In the second quarter of the current year, these revenues are lower by 31.7% compared to the same quarter of the previous year (Chart 8, % of growth I). Compared to the same quarter of 2020 they are lower by 8.3% (Chart 8, % of growth II), and compared to the same quarter of 2019, they are higher by 42.3% (Chart 8, % of growth III).

Gross revenues from excise duties on domestic alcohol and alcoholic beverages in the third quarter of the current year increased by 25.6% compared to the third quarter of the previous year (Chart 8, % of growth I), by 32.1% compared to the same quarter of 2020 (Chart 8, % of growth II), and by 63.0% compared to the same quarter of 2019 (Chart 8, % of growth III).

In the fourth quarters of the observed period, the gross revenues from excise duties on domestic alcohol and alcoholic beverages are the highest in 2020. They are higher by 4.1% compared to the fourth quarter of 2021 and higher by 5.3% compared to fourth quarter of 2019 (Chart 8, % of growth I).

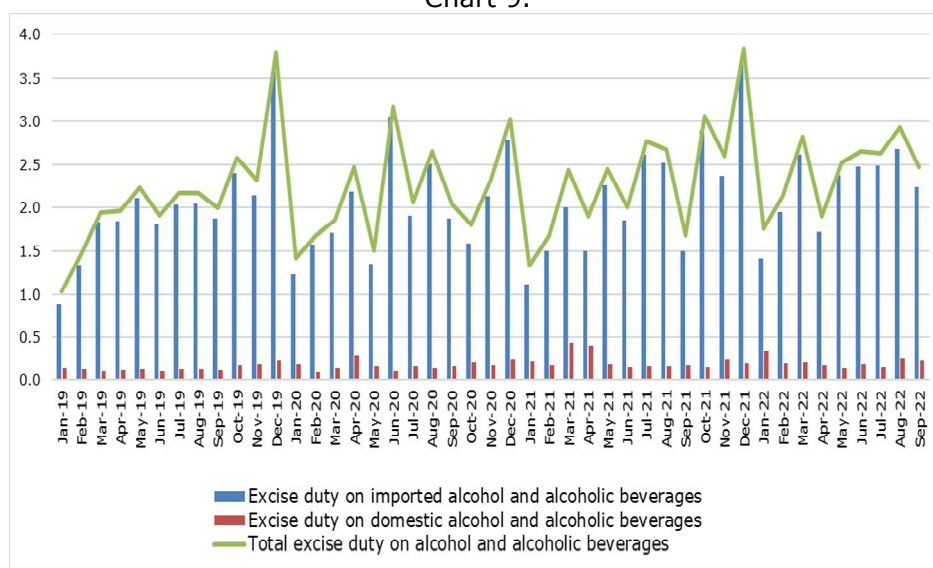
<sup>45</sup> 2019 was used as a base

## 5. Monthly trends of gross revenues from excise duties on alcohol and alcoholic beverages

The analysis presents the monthly trends of gross revenues from excise duties on alcohol and alcoholic beverages for the period before the onset of the Covid-19 pandemic, the period during the onset of the Covid-19 pandemic and the period after the onset of the Covid-19 pandemic. The analysis also includes the period of the crisis caused by the war in Ukraine, which began at the end of February of the current year, and the period of galloping inflation at the global level, which largely affected the domestic economy. The monthly dynamics of gross revenues from excise duties on alcohol and alcoholic beverages is shown for the period from January 2019 to September 2022<sup>46</sup>. The aim of the analysis is to understand the current situation, the seasonal impact on the consumption of alcohol and alcoholic beverages, consumer preferences, the impact of external factors such as the pandemic and measures to fight the pandemic, the war between Russia and Ukraine, and global inflation.

Chart 9 shows the monthly trends of gross revenue from excise duties on alcohol and alcoholic beverages for the specified period, in millions of BAM (left vertical scale). The monthly trends of the total collection of gross revenue from excise duties on alcohol and alcoholic beverages in the observed period is shown, as well as the monthly trends of the collection of gross revenue from excise duties on alcohol and alcoholic beverages separated by components - import and domestic excise duty.

Chart 9.



Source: Data from the Indirect Taxation Authority of B&H, MAU overview

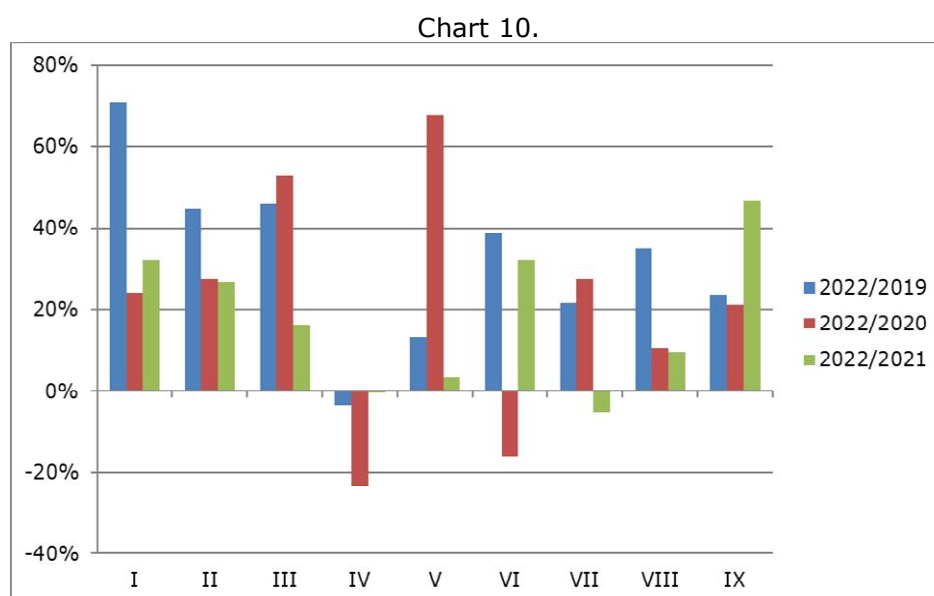
The chart shows that the highest collection of total gross revenues from excise duties on alcohol and alcoholic beverages on a monthly basis is at the end of the year. In December, the largest stocks are created for the New Year's Eve and Christmas holidays, as well as the largest number of celebrations and similar events are organized where consumption of alcohol and alcoholic beverages is the largest.

<sup>46</sup> Data on the collection of excise duties in September 2022 are preliminary



### 5.1. Monthly trends of total gross revenues from excise duties on alcohol and alcoholic beverages

The impact of this year's external factors on the collection of total gross revenues from excise duties on alcohol and alcoholic beverages in B&H is shown in chart 10. Chart shows the monthly growth rate of these revenues (left vertical scale) for the first nine months of the current year compared to the same monthly periods in the previous three years.



Source: Data from the Indirect Taxation Authority of B&H, MAU overview

The collected total gross revenues from excise duties on alcohol and alcoholic beverages on a monthly basis in the current year are mostly on the rise. However, in April of the current year, a decrease in the collection of total gross revenues from excise duties on alcohol and alcoholic beverages was recorded compared to the same month of the previous three years. The most significant decrease is compared to April 2020, which was the month of "lockdown", and in which an increase in the collection of these revenues was recorded. The increase in the collection of gross revenue on alcohol in this period can be attributed to certain measures and initiatives by the competent governments in the country to start the domestic production of cleaning and disinfection products. Given that disinfectants containing 70 percent alcohol have been in great deficit since the beginning of the pandemic, primarily in healthcare institutions, domestic production of alcohol for medical purposes was launched in April 2020, whose producers later exercised the right to a refund of excise duty. The increase in the collection of gross revenue on alcoholic beverages can be attributed to the increase in consumption. Unfortunately, certain researches in the world have shown that the use of alcohol tends to increase during stressful situations and forced social isolation<sup>47</sup>.

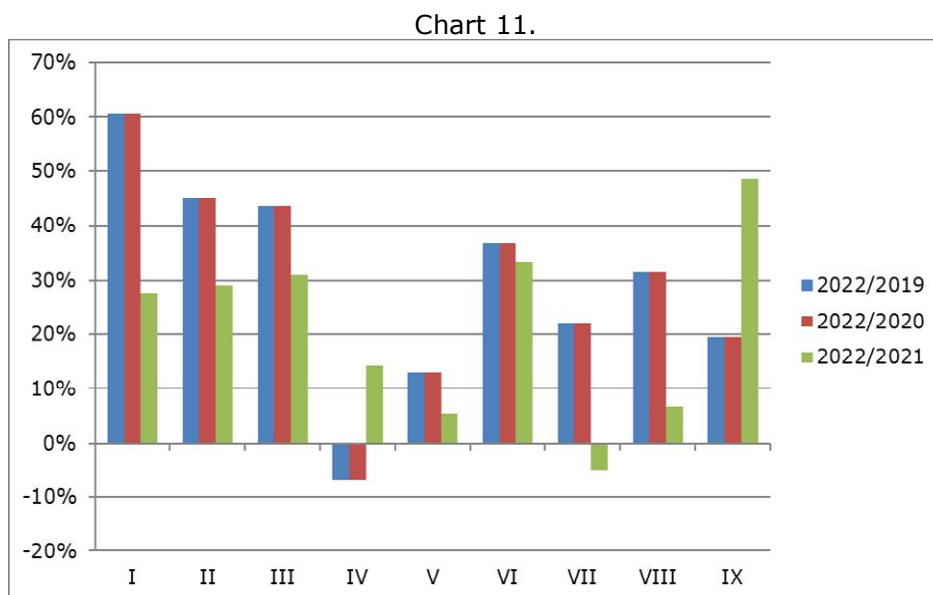
The outbreak of war between Russia and Ukraine has strongly affected global markets, causing inflation and disruptions in supply chains. Nevertheless, the total gross revenues from excise duties on alcohol and alcoholic beverages in the country are increasing due to the growth in consumption, regardless of the constant increase in the prices of alcohol and alcoholic beverages in the country caused by inflation<sup>48</sup>.

<sup>47</sup> Clay, J. M., & Parker, M. O. (2020); Alcohol use and misuse during the Covid-19 pandemic: A potential public health crisis; [https://doi.org/10.1016/s2468-2667\(20\)30088-8](https://doi.org/10.1016/s2468-2667(20)30088-8)

<sup>48</sup> Data from the Agency for Statistics of Bosnia and Herzegovina, Consumer Price Index (CPI); <https://bhas.gov.ba/>  
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### 5.2. Monthly trends of gross revenues from excise duties on imported alcohol and alcoholic beverages

Chart 11 shows the growth rate of gross revenues from excise duties on imported alcohol and alcoholic beverages (left vertical scale) for the first nine months of the current year compared to the same monthly period of the previous three years.



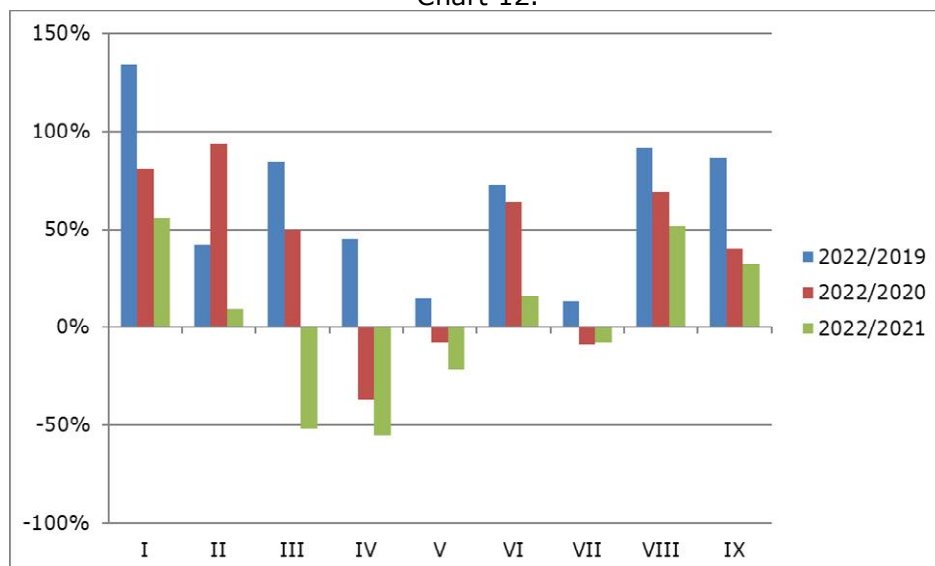
Source: Data from the Indirect Taxation Authority of B&H, MAU overview

The growth rate of gross revenues from excise duties on imported alcohol and alcoholic beverages on a monthly basis in the current year, compared to the same periods of the previous three years, does not differ much from the monthly growth rate of total gross revenues from excise duties on alcohol and alcoholic beverages. It is because of the significant share of imported alcohol in total revenues from excise duties on alcohol and alcoholic beverages. Thus, in April of the current year, a decrease in the collection of these revenues was recorded compared to the same month in 2019 and 2020. The emerging crisis at the global level did not affect the reduction in the consumption of imported alcohol and alcoholic beverages. On the contrary, monthly data on revenues from excise duties on imported alcohol and alcoholic beverages in B&H have a positive collection trend.

### 5.3. Monthly trends of gross revenues from excise duties on domestic alcohol and alcoholic beverages

Chart 12 shows the growth rate of gross revenues from excise duties on domestic alcohol and alcoholic beverages (left vertical scale) for the first nine months of the current year compared to the same monthly period of the previous three years.

Chart 12.



Source: Data from the Indirect Taxation Authority of B&H, MAU overview

Gross revenues for domestic alcohol and alcoholic beverages on a monthly basis in the current year compared to the same period of the previous three years have a fluctuating collection trend. Higher negative rates in the collection of these revenues were recorded in March of the current year compared to March of the previous year -52.0% and in April of the current year compared to April of the previous year -55.4%.