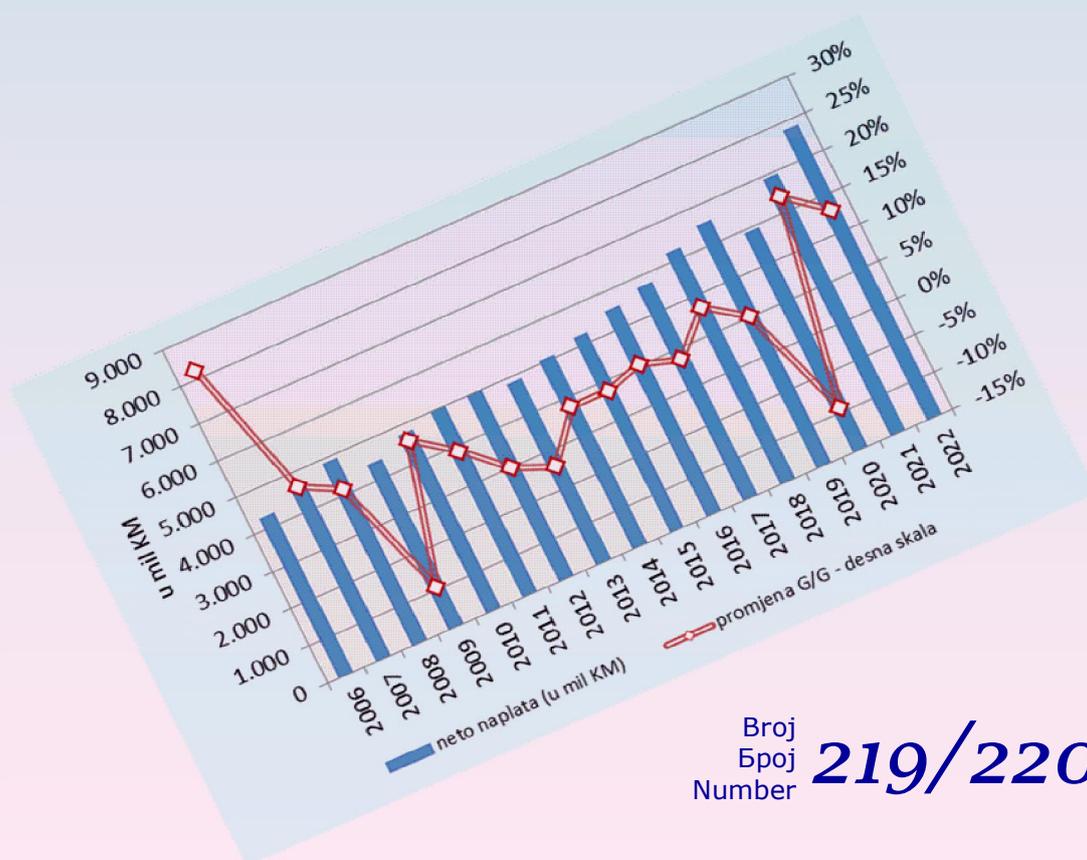




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

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According to the preliminary report of the ITA, in August 2023, the gross collection of indirect taxes was 979.2 million BAM, which was 73.2 million BAM more than in the same month of 2022. Refund payments were slightly lower, so that the net collection was ultimately higher by 77.2 million BAM (Chart 1), or by 10.7%. The high growth in the collection of indirect taxes in August 2023 had a positive influence on the cumulative effects at the level of eight months. Thus, in the period January - August 2023, gross collection growth of 7.7% was achieved compared to the same period in 2022, while refund payments were higher by 88.1 million BAM. In the end, the net absolute increase in the collection of indirect taxes in the period January-August 2023 was 407 million BAM (Chart 1), representing a growth of 8.7%.

Chart 1

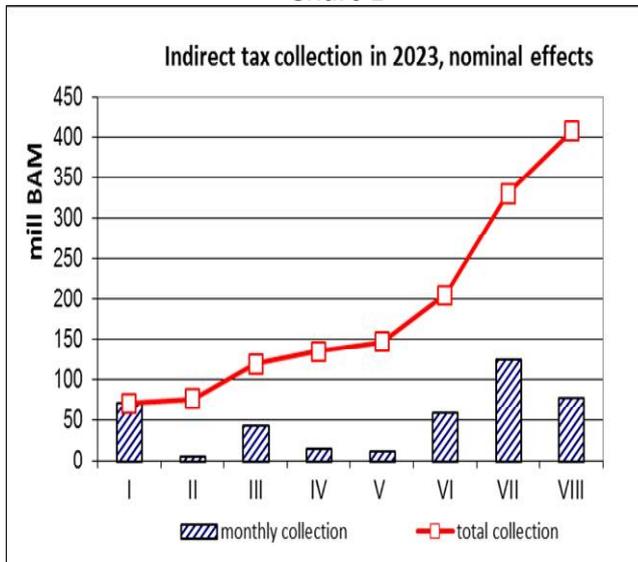
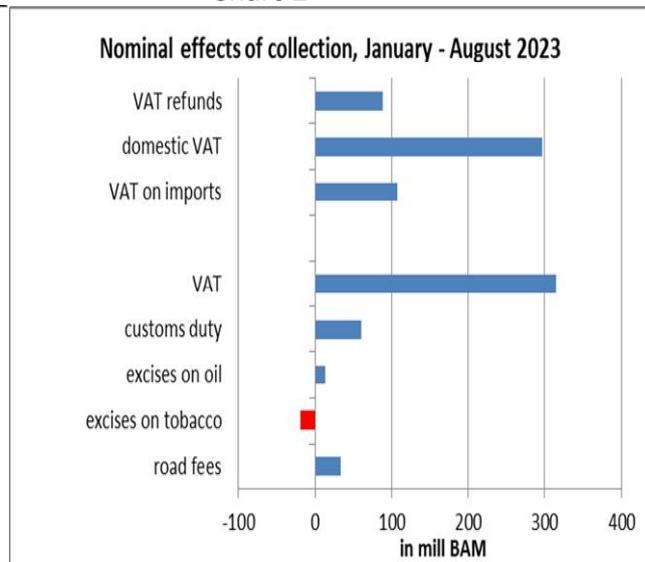


Chart 2



VAT revenues dominate in the structure of net absolute revenue increase, with most of the increase coming from domestic VAT, as a result of maintaining high prices in the country. Revenues from customs duties also have a significant weight, and in recent months, the collection of taxes on oil derivatives (excise duties and road tax) has come out of the negative growth zone. The only decrease in revenue was recorded in the case of excise taxes on tobacco products, as a result of the change in the excise duty payment regime in 2023.

Dinka Antić, PhD
Head of Unit

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Taxation of tobacco products in the period 2021-2022 and analysis of trends

(Prepared by: Dinka Antić, PhD)

INTRODUCTORY NOTES

The analysis of trends in the market of tobacco products and excise duty collection represents a continuation of the last analysis¹ published in 2021, which has been focused on years 2019 and 2020. The year 2020 was significant for the analysis due to the effects of the coronavirus pandemic on trends in the market of tobacco products and excise duty collection, but also due to the fact that, for the first time after ten years since the adoption of the new Law on Excise Taxes in B&H and the continuous increase of excise taxes, there was no increase in the specific excise tax on cigarettes.

The latest analysis refers to trends in 2021 and 2022. The results of the analysis are important for several reasons, as they indicate:

- (i) trends in the market and in the collection of excise taxes in the years of stable excise policy in the period 2019-2022 (i.e. four years without changes in the specific excise tax on cigarettes);
- (ii) effects of the post-pandemic recovery of consumption and the economy in 2021;
- (iii) extent of the impact of the war in Ukraine and energy crisis on trends in 2022.

Current trends in 2023 are not included in the analysis, as this is an annual trend analysis.

It should be emphasized that in 2022 the Parliamentary assembly of Bosnia and Herzegovina adopted the amendments to the Law on Excise Taxes, which abandon the excise duty payment regime at the time of receipt of excise stamps, as was in force for many years, and switch to the regime of collection of excises on tobacco products at the time of importation. Although the amendments to the Law were announced at the end of July 2022, due to the adoption of changes in the by-laws, as well as the adaptation of tobacco companies to the new rules for payment of excise duties upon importation, the new regime for the collection of excise duties on tobacco products began to be applied only in the spring of 2023, at a different pace, given that each of the tobacco companies operating on the B&H market had to make the necessary adjustments.

According to the Unit's projections², it was expected that the new excise tax collection regime on tobacco products would lead to a one-time loss of excise revenue in the amount of the average monthly collection of excise taxes on tobacco products in 2022. Nevertheless, the first analyses of the effects of the new excise duty payment regime indicate a greater revenue loss than expected.³ The application of the new excise duty collection rules has also led to a structural break in the time series of data on excise stamps, which are used as a basis for analyses of excise duty collection on tobacco products and the creation of medium-term projections. Analytical problems are manifested as a time discrepancy between the amount of excise duty, which is calculated when taking over stamps, and the amount of excise duty collected during importation. In order to overcome the problem, it is necessary to establish a new model for monitoring the collection of excises on tobacco products. Due to the above-mentioned reasons, the analysis of current trends in the market of tobacco products in 2023 and the effects of the application of the new excise tax collection regime on tobacco products will be the subject of subsequent analyses of current trends in the collection of indirect taxes in 2023.

¹ Antić, D. (2021). "Tobacco taxation policy in B&H in the period 2009-2021". MAU Bulletin No. 189/190, March/April 2021. www.oma.uino.gov.ba.

² See „Projections of revenues from indirect taxes for the period 2023-2026". MAU Bulletin No. 215/216, May/June 2023. www.oma.uino.gov.ba.

³ See the introduction of the MAU Bulletin No. 217/218, July/August 2023. www.oma.uino.gov.ba.

TAXATION POLICY OF TOBACCO PRODUCTS IN B&H

Evolution of taxation policy

The evolution of the policy of taxation of tobacco products in B&H took place in several stages.

The first stage refers to the period until the establishment Indirect Taxation Authority of B&H (ITA) from 1996 to 2004. In accordance with the constitutional competences, the policy of excise duty on tobacco products was entirely within the competences of the entities and Brčko District, as well as the administration and distribution of revenues from excise taxes. In this period, an important moment was the internal harmonization of indirect taxes⁴, which began in 2000, when both entities, and later in 2002 Brčko District, harmonized the taxation of tobacco products and abolished the differentiated taxation of imported and domestic tobacco products. Tobacco products were taxed with an *ad valorem* excise tax of 35% on the retail price excluding sales tax.

The second stage of evolution of policy of taxation of tobacco products lasted from 2005 to 2009. It began with the adoption of the single Law on Excise Taxes in B&H, which entered into force on January 1, 2005 as a segment of the broad reform of indirect taxes in B&H, which included the transfer of competences for sales tax, customs duties, excises and road taxes at the B&H level, the establishment of a single institution for the collection of indirect taxes (ITA) and the creator of a uniform policy of indirect taxes (Governing Board of the ITA), the establishment of a single system of collection and distribution of revenues from indirect taxes, and in the last phase introduction of VAT. The uniform law has brought an increase in the *ad valorem* excise tax rate from 35% to 49% of the retail price excluding sales tax on all tobacco products.

The third stage of evolution is characterized by the adoption of the new Law on Excise Taxes in B&H⁵ ("the Law"), which has been in force since July 1, 2009. In the segment of cigarette taxation, the Law introduces elements of the EU standards: the complex rate of cigarette taxation which involves application of the *ad valorem* excise duty in the amount of 42% of the retail price of cigarettes and specific excise duty per pack of cigarette⁶; minimum excise duty on all cigarettes since 2010, which is linked to the category of "most popular price of cigarettes"⁷, as a reference brand for the application of the minimum excise duty rate; harmonization of the minimum excise duty with the minimum excise duty in the EU in the amount of 64⁸ EUR or 126 BAM/1000 cigarettes. The process of harmonization was ensured by the continuous annual increase of the specific excise duty, ensuring that the increase must not be less than 0.15 BAM/package. Other tobacco products (cigars, cigarillos, smoking tobacco) are taxed only with an *ad valorem* excise tax in the amount of 42% of the retail price, including taxes.

The fourth stage of the evolution of the policy of taxation of tobacco products began with the adoption of amendments to the Law on August 1, 2014⁹ which eliminated the inconsistent policy of taxation of cigarettes and smoking tobacco as a substitute and, at the same time, redefined the excise policy and harmonized it with the EU standards that have been modified in the meantime. The new taxation policy of tobacco products includes the following: taxation of smoking tobacco by specific excise duty; linking the increase in the excise burden on smoking tobacco to the increase

⁴ More about the motives and results of the process of internal harmonization of indirect taxes in B&H can be found in the Bulletin no. 102, January 2014, www.oma.uino.gov.ba.

⁵ "Official Gazette of B&H" No. 49/09.

⁶ Although, at first glance, it can be concluded that there has been a nominal reduction of the excise rate, *de facto* there is no change in the rate, just a different calculation of excise duty which ultimately results in the same excise burden. The base for the calculation of excise duty until July 1, 2009 was the retail price without VAT, and from July 1, 2009 retail price including VAT.

⁷ The acronym for this category in the EU is MPPC – *Most Popular Price Category*

⁸ The standard was in force in the EU until December 31, 2013. As of January 1, 2014 the minimum excise duty on cigarettes in the EU is EUR 90.

⁹ "Official Gazette of B&H" No. 49/14.

in excise burden on cigarettes; determining the minimum excise duty on cigarettes according to the weighted average price of cigarettes and continuation of the process of harmonization of the excise burden on cigarettes with the new minimum EU standards (90 EUR per 1000 pcs or 176 BAM per 1000 pcs of cigarettes). It has been continued the process of increasing the specific excise duty every year by at least 0,15 BAM per package, until the total excise duty contained in the retail price of cigarettes with the lowest price reaches 176 BAM per 1000 pcs. The minimum excise duty on cigarettes is calculated as a percentage of weighted average retail price (WAP), with the legal minimum being 60% of WAP. Excise duty on smoking tobacco is determined as a percentage of the minimum excise duty on cigarettes expressed per 1000 cigarettes, with the legal minimum being 80% of the minimum excise duty on cigarettes.

The fifth stage of the evolution of excise policy has begun in 2019, when legally prescribed minimum excise duty on cigarettes of 176 BAM per 1000 pieces was reached. This ended the process of harmonization with the minimum excise duty in the EU, which in practice meant that as of 2020 there was no increase in the specific excise duty on cigarettes (i.e. the rate from 2019 is maintained), while the amount of excise duty on smoking tobacco depends on the dynamics of retail cigarette prices, according to the calculation methodology.

The sixth stage of the evolution of excise policy has started with the application of the latest amendments to the Law, which were adopted on 29 July 2022¹⁰, and which, due to the need to adjust the implementing regulations, have been applied from the spring of 2023, depending on whether the importers have fulfilled all the administrative requirements necessary for the payment of excise duties at import. The amendments refer to the change in the payment regime for excise duties on tobacco products, which, instead of payment when taking over excise stamps, have been paying upon importation of tobacco products from 2023. In essence, it is not a matter of changing the policy of excise taxation, but the effects of the new rules greatly affect the collection of excise duties.

Review of excise rates on tobacco products

The rate is consisted of *ad valorem* (proportional) excise duty and specific excise duty. Specific excise duty is applied to cigarettes (Table 1) and smoking tobacco (Table 3). *Ad valorem* excise duty amounts to 42% of the retail price (taxes included), and is applied to cigarettes, cigars and cigarillos.¹¹ Due to the calculation method, the minimum excise duty¹² (Table 2) essentially has no protective character in terms of collection of the guaranteed level of excise revenue.

Table 1: Specific excise tax on cigarettes (2009-2023)

| | 1.7.2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| BAM/box | 0,15 | 0,30 | 0,45 | 0,60 | 0,75 | 0,90 | 1,05 | 1,20 | 1,35 | 1,50 | 1,65 | 1,65 | 1,65 | 1,65 | 1,65 |
| BAM/1,000 pieces | 7,50 | 15,00 | 22,50 | 30,00 | 37,50 | 45,00 | 52,50 | 60,00 | 67,50 | 75,00 | 82,50 | 82,50 | 82,50 | 82,50 | 82,50 |

¹⁰ "Official Gazette of B&H" No. 50/23.

¹¹ The *ad valorem* excise duty, which was calculated on smoking tobacco in the amount of 42% of the retail price (taxes included), was abolished on August 1, 2014.

¹² There are several reasons why the minimum excise duty does not have a protective character. These are: the structure of the market where the cheaper categories of cigarettes have been dominating; *ex post* calculation method, which takes into account a set of data from two fiscal years (the second half of the previous year and the first half of the current year) and application in the next fiscal year.

Table2: Minimum excise tax on cigarettes

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| BAM/box | 0,80 | 1,08 | 1,65 | 1,82 | 2,09 | 2,00 | 2,23 | 2,42 | 2,60 | 2,86 | 3,04 | 3,25 | 3,33 | 3,35 |
| BAM/1,000 pieces | 40,00 | 54,00 | 82,50 | 91,00 | 104,50 | 100,00 | 111,50 | 121,00 | 130,00 | 143,00 | 152,00 | 162,50 | 166,50 | 167,50 |

Note: For the period 2010-2014, the minimum excise duty on cigarettes was determined according to the most popular price category of cigarettes.

Table 3: Excise duty on smoking tobacco

| | 1.8.2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--------|----------|-------|-------|-------|--------|--------|--------|--------|--------|--------|
| BAM/kg | 78,00 | 80,00 | 89,20 | 96,80 | 104,00 | 114,40 | 121,60 | 130,00 | 133,20 | 134,00 |

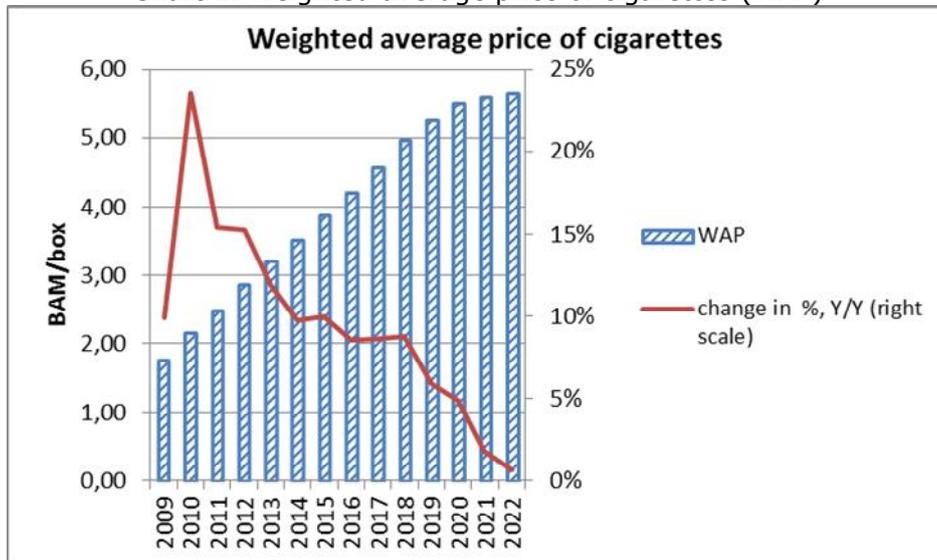
ANALYSIS OF THE MARKET OF TOBACCO PRODUCTS

Retail prices of cigarettes

Weighted average retail price

In the period from the adoption of the new Law (2009) to the end of the process of harmonization of excise taxes with the EU standards (2019), the retail prices of cigarettes have also increased due to the continuous increase in excise taxes on cigarettes. The biggest jump was recorded in 2010 due to the application of the new Law only in the second half of 2009, while later there was a slower growth, primarily due to the high base for comparison and the same amount of increase in the specific excise duty (Chart 1).

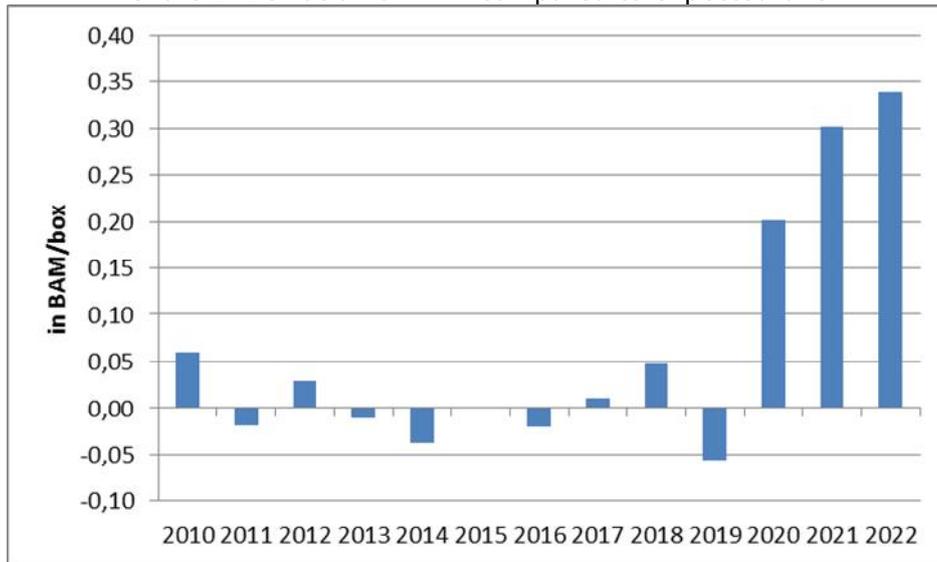
Chart 1. Weighted average price of cigarettes (WAP)



An important factor in price growth is the extent of the additional tax burden passed on to the customer, which depends on the elasticity of demand for goods. If we are talking about goods with inelastic demand, such as goods that cause addiction, like cigarettes, alcohol, etc., passing of an additional tax burden on sales prices generally does not lead to a significant decrease in the consumption of goods. The extent of the shift also depends on the possibility that part of the additional taxes will be shifted at the expense of profits, which can only be borne by financially strong companies or multinational companies that can compensate losses in one country by growing profits in other countries.

Chart 2 shows that, during the period of harmonization of excise taxes, companies from the tobacco industry used the inelastic demand for cigarettes on several occasions to increase the retail prices of cigarettes above the new tax burden.¹³ Before the amendment of the Law, this happened in 2010 and 2012, when the average retail price of cigarettes increased above the new tax burden. On the other hand, there have been more years in which tobacco companies have shifted a part of the new tax burden at the expense of their profits in order to amortize its impact on retail prices. It can be assumed that the reason for such a policy was the assessment of the risk of falling sales in the event that they shifted the total tax burden on sales prices.

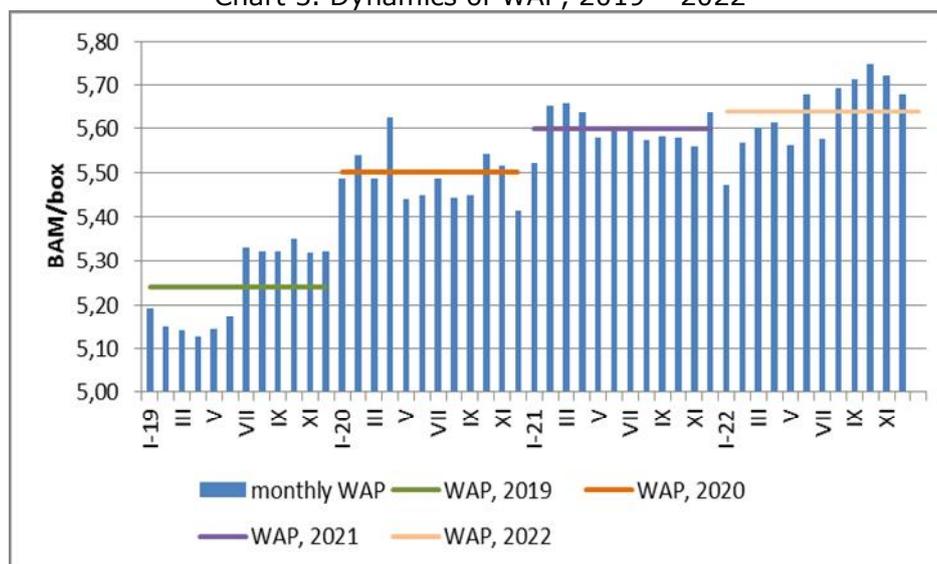
Chart 2. Deviation of WAP compared to expected one



It is obvious that domestic companies were not financially strong enough to take over the increase in taxes at the expense of profits, which resulted in an increase in the retail prices of cigarettes. In the ten-year period of harmonization of excise taxes on cigarettes, the weighted average price of cigarettes increased by as much as 231%. It is indicative that the retail price of cigarettes grew by 4.9% on average in 2020 as well, although in that year there was no increase in the specific excise duty due to the end of harmonization with the EU, and a catastrophic drop in sales due to the onset of the coronavirus pandemic was also recorded. Unlike the previous ten years, in 2020 there was no external reason for the increase in the retail prices of cigarettes. However, at the beginning of 2020, companies significantly increased the retail prices of cigarettes, so that in April 2020, the weighted average price of cigarettes was 0.30 BAM/ pack higher than in December 2019 (Chart 3). On average, cigarette prices in 2020 increased by 0.20 BAM per pack (see Chart 3).

¹³ The new tax burden includes an increase in specific excise duty (0.15 BAM/package per year) and an increase in *ad valorem* excise duty and VAT, caused by increase in specific excise duty, due to the fact that specific excise duty is included in the base for calculating *ad valorem* excise duty and VAT.

Chart 3. Dynamics of WAP, 2019 – 2022



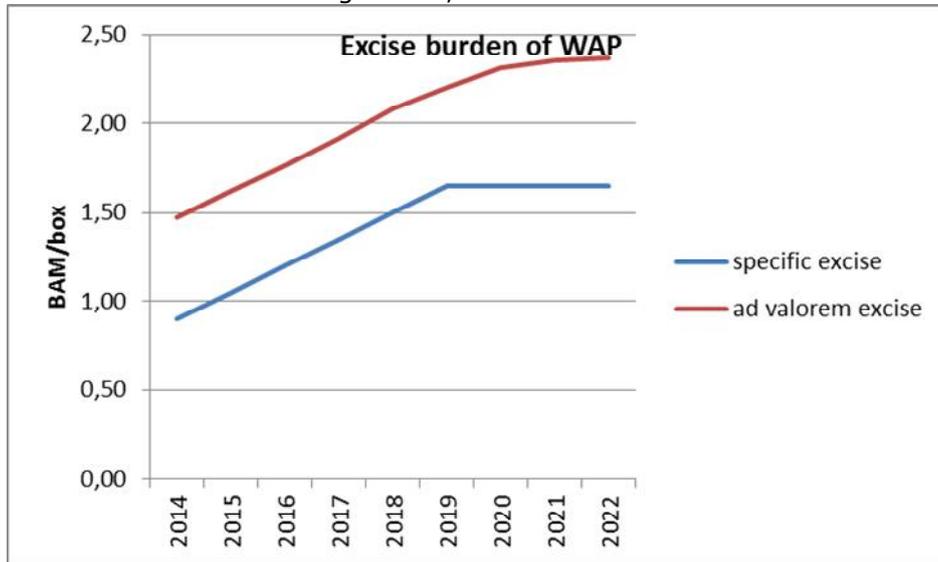
Even after it was clear that the coronavirus was not a transient phenomenon, the companies still did not make significant price corrections, regardless of the fact that the demand of local consumers for cigarettes was drastically reduced due to the pandemic, and the consumption of non-residents was reduced to a minimum. An even bigger surprise in the company's pricing policy was the pricing policy in 2021. Although there was no increase in excise duty on cigarettes in 2021 either, the weighted average price of cigarettes in January 2021 was 0.10 BAM higher than in December 2020, i.e. 0.20 BAM higher than in December 2019 (Chart 5). However, during the year 2021, there was a strong drop in WAP, so that at the level of 2021, the growth of WAP amounted to only 1.8%. The policy of moderate growth in cigarette prices have also continued in 2022, when a growth of only 0.7% compared to 2021 was achieved, representing a minimal growth in the conditions of high growth in prices of energy sources, raw materials, other goods and services triggered by the outbreak of war in Ukraine.

Tax burden

As of July 1, 2009 a specific excise tax on cigarettes was introduced in the amount of 0.15 BAM/package with the new Law on Excise Taxes in Bosnia and Herzegovina. It has been supposed to increase continuously, from year to year, until the achievement of the total excise burden of 126 BAM per 1000 cigarettes. The Law has prescribed a minimum annual increase in the specific excise duty of 0.15 BAM/package. The introduction of specific excise duty and its continuous increase has brought an increase in the tax burden on tobacco products, which consists of three components: specific excise duty, *ad valorem* excise duty and VAT. Although tobacco companies tried to mitigate the tax increase in the retail price structure by shifting the additional tax at the expense of profits, this was not possible for all brands, especially cheaper domestic cigarette brands that had a low pre-tax price, which includes the cost price and profit/margin. With the amendments to the Law in 2014, the ceiling of the excise duty on cigarettes was increased to 176 BAM per 1000 cigarettes, which initiated a further increase in the specific excise duty and, consequently, in the retail prices of cigarettes.

The need for harmonization with EU standards was finished in 2019, by reaching the new legal minimum of excise taxation, which has stabilized the specific excise duty. However, this is not the case with *ad valorem* excise duty, which is being calculated on the retail price with which tobacco companies position themselves on the market (Chart 4).

Chart 4: WAP of cigarettes, structure of the excise burden



The growth of retail prices not only increases the *ad valorem* excise tax, but also VAT, that is, the total tax burden (Chart 5). Therefore, despite the completion of harmonization with minimum standards, due to the increase in retail prices, the tax burden on cigarettes has also been increasing in absolute amount. However, the share of taxes in the WAP structure has been slowly decreasing after 2019 due to unchanged specific excise duty and slower growth of the *ad valorem* component (*ad valorem* excise duty and VAT) in the structure of the total tax burden (Chart 6).

Chart 5: WAP of cigarettes, structure of the tax burden

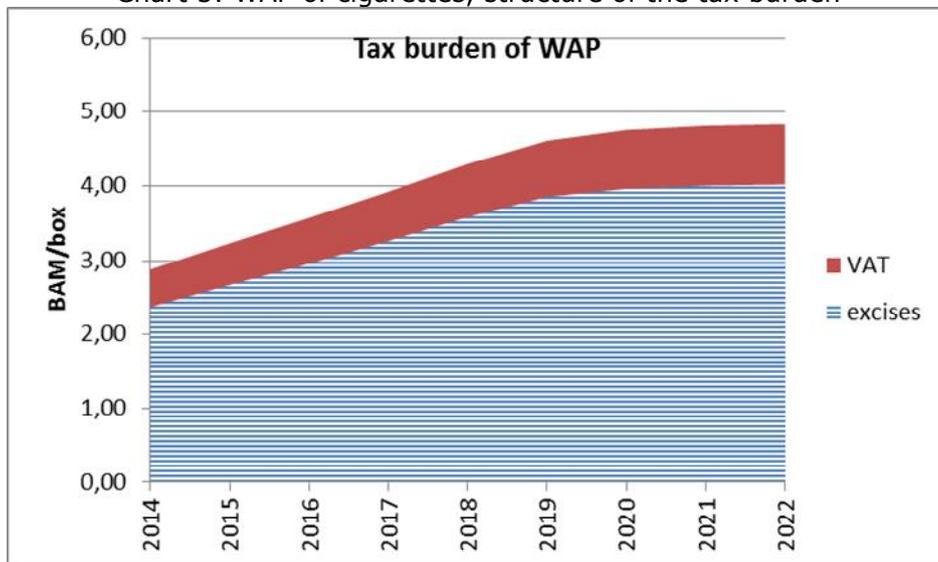
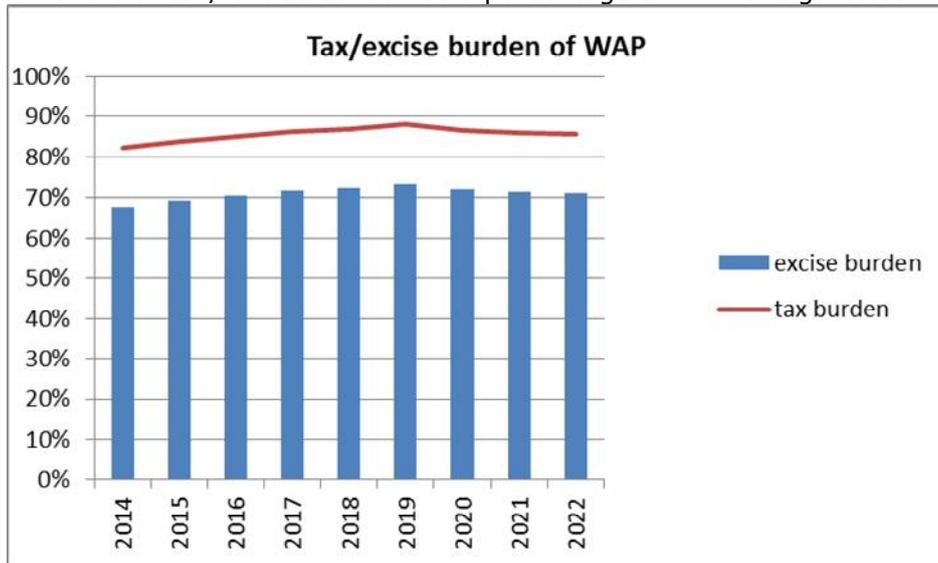


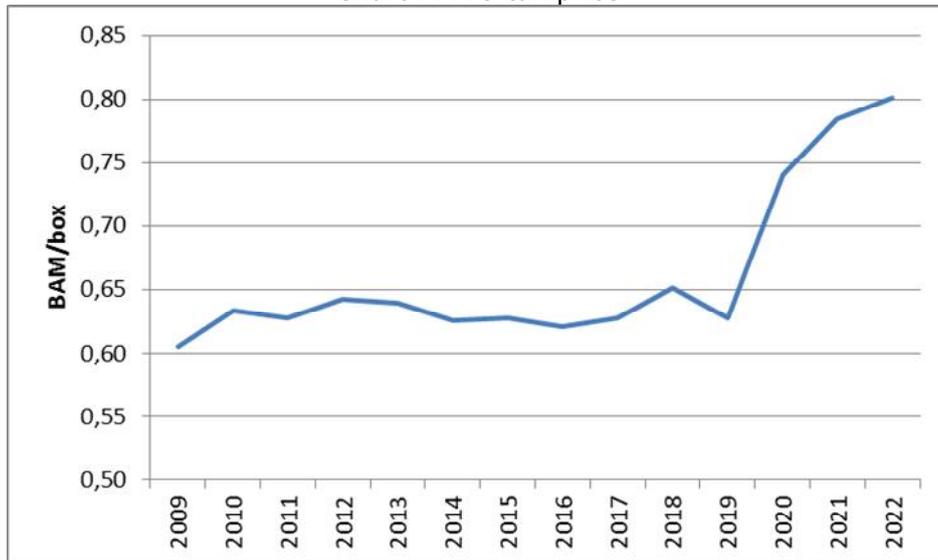
Chart 6: tax/ excise burden as a percentage of WAP of cigarettes



Pre-tax price

The structure analysis of the WAP of cigarettes points to the conclusion that the pre-tax price, which contains the cost price and profit/margin, has varied only slightly during the period of excise duty harmonization, regardless of the change in circumstances since 2019, i.e. the unchanged excise policy. However, the high growth in cigarette prices in 2020 resulted in a significant increase in the pre-tax price in the structure of the WAP, by an average of 18% compared to 2019 (Chart 7).

Chart 7. Pre-tax price

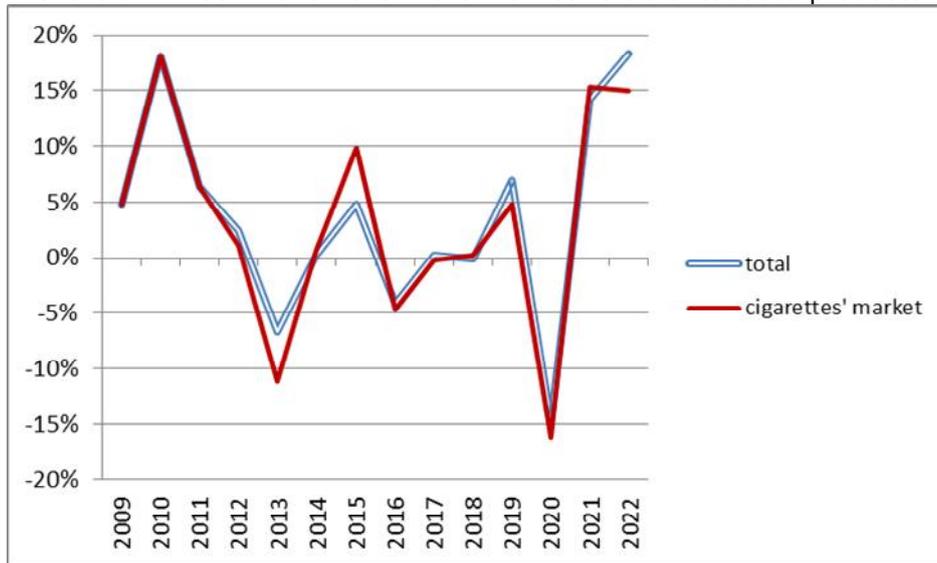


The high percentage of pre-tax price growth in the structure of WAP in 2020 was the cumulative result of the increase in cigarette prices and the fact that the specific excise tax on cigarettes remained at the level of 2019. However, the amount of the pre-tax price increase was lower than the WAP increase, because it indirectly caused an increase in the tax burden in the WAP structure in 2020. Namely, the increase in the pre-tax price also entails an increase in *ad valorem* excise duty and VAT in the WAP structure, whose basis for calculation includes the pre-tax price, as well. Since we are dealing with two successive fiscal years (2019/2020), it is unlikely that the cause of such a sudden increase in the pre-tax price was entirely the increase in input prices (raw materials - tobacco, labor, transport, energy, etc.), but that it was also about the effort to increase profit/margin. In the next two years, the increase in pre-tax price was minimal, 0.04 BAM in 2021 compared to 2020, and 0.02 BAM in 2022 compared to 2021. Bearing in mind, on the one hand, the increase in input prices that reduce profit, and, on the other hand, the high growth in the value of the cigarette market and the quantities of cigarettes in the last two years, it is obvious that tobacco companies have based their pricing and sales policy on the economy of scale, which enables variable costs to be covered, greater capacity utilization and declining participation fixed costs in the cost price, and, ultimately, profit growth.

The value of the market of tobacco products

Changes in the excise policy applied as of August 1, 2014 have led to a significant reduction of the black market, resulting in the growth of the legal cigarette market and the growth of excise revenues. The growth of the tobacco products market can be explained by the cumulative effects of three factors: the measures of the new excise policy, the operational measures of the ITA and other state and entity institutions to combat smuggling and the illegal production and sale of cigarettes, and the growth of aggregate consumption as part of the B&H recovery after the global economic crisis. However, the effects of the new excise policy measures wore off already in 2016. After stagnation in 2017 and 2018, growth of 6.9% was achieved in 2019, with the cigarette market growing at a rate of 4.8%, while the smoking tobacco component achieved a growth of as much as 133%. This indicates a shift of tobacco companies to the smoking tobacco, in order to attract the lower-income population from the tobacco black market. The emergence of the COVID-19 virus pandemic did not have a serious impact on the marketing policies of tobacco companies, as if the expectations were that it would be a passing phenomenon. Thus, in the four months of 2020, growth was achieved in both market segments, cigarettes by 13.5%, and smoking tobacco by 35.3%. However, the restrictive measures introduced in B&H regarding the movement of citizens and the functioning of the economy, as well as the locking of EU member states, had a negative impact on the consumption of the resident population and the consumption of non-residents (diaspora, tourists, cross-border traffic). Tobacco companies have drastically reduced placements on the market, resulting in a strong contraction of the market for tobacco products. Although a certain relaxation of measures was expected in the summer season, this did not happen, but, on the contrary, Europe was faced with a new, even bigger, wave of the pandemic in the fall of 2020. Similarly, Bosnia and Herzegovina has also lifted the restrictions on entering the country very late, resulting in a smaller arrival of non-residents at the end of the year. The value of the tobacco products market in 2020 decreased by 14.8% compared to 2019 (Chart 8).

Chart 8. Annual movement in the market value of tobacco products



The policy of a moderate increase in cigarette prices, combined with the relaxation of restrictive anti-COVID measures, has led to a strong increase in demand on the market for tobacco products. As a result, in 2021 the cigarette market grew at a rate of 15.3%, partly due to the low base in 2020. However, the further growth of the cigarette market of 14.9% in 2022 was surprising, considering the economic crisis caused by the war in Ukraine, reduced employment, strong growth in energy prices and consumer goods. At the same time, the value of the smoking tobacco market has doubled, so that the growth of the market of tobacco products in 2022 amounted to as much as 18.3% (Chart 9). The growth of the regular tobacco market indicates a turnaround in the business policies of large international tobacco companies. In the years when tax evasion increased (2013, 2014), the domestic tobacco industry made a turn towards greater placements on the market of tobacco, and now, after the reduction of domestic capacities, importers have taken over the same policy.

The growth of the cigarette market after the amendments to the Law has brought an improvement in the structure of the selling price, in terms of the growth of the pre-tax price (which, in addition to the cost price, also includes profit/margin), notwithstanding the increase in the share of tax payments (Chart 10). However, already in the next few years there was a drop in the pre-tax price in absolute amount to the level from the period before the changes to the Law, and then to stagnation and a drop in 2019 (-9.6%) and 2020 (-2.3%). However, the change in the placement policy of companies and the relaxation of anti-COVID measures brought the growth in pre-tax price of 15.3% in 2021 and 16.7% in 2022 (Chart 10). Expressed in absolute terms, tobacco companies have approximately 45 million BAM more left after paying taxes in 2022 than in 2019, which had been a historical maximum until then. At the same time, the state collected 91 million BAM more of revenues from excise taxes and VAT.

Chart 9. Structure of the market value by type of tobacco products

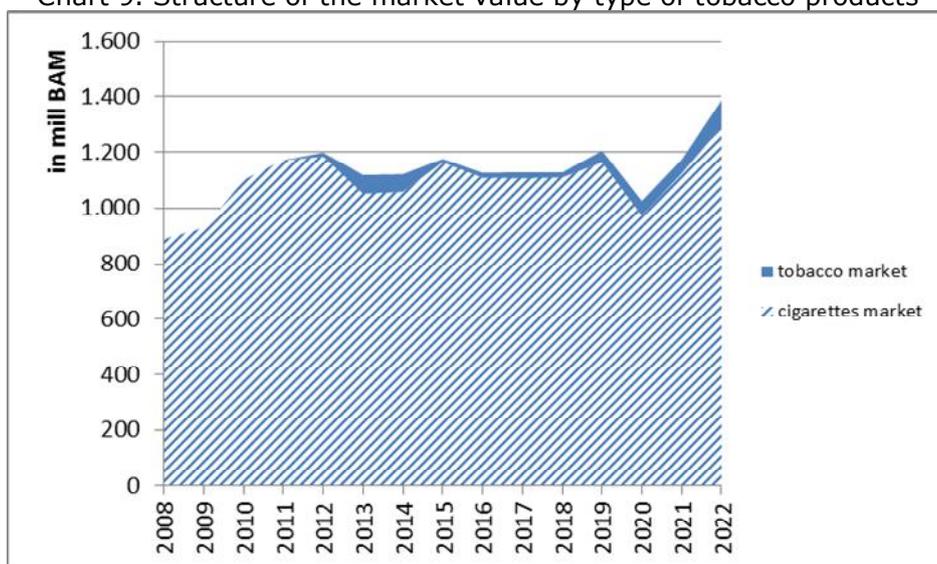


Chart 10. Structure of the tobacco products market value

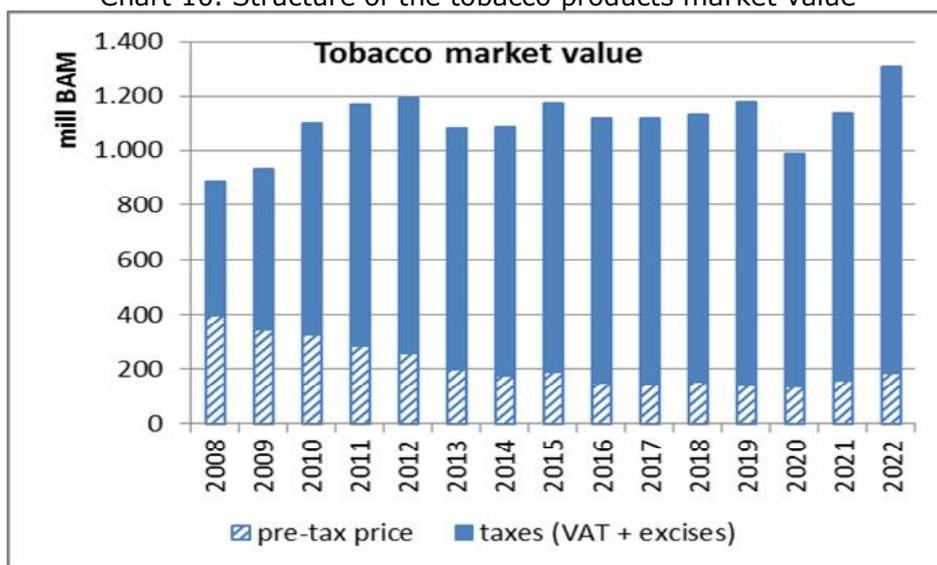
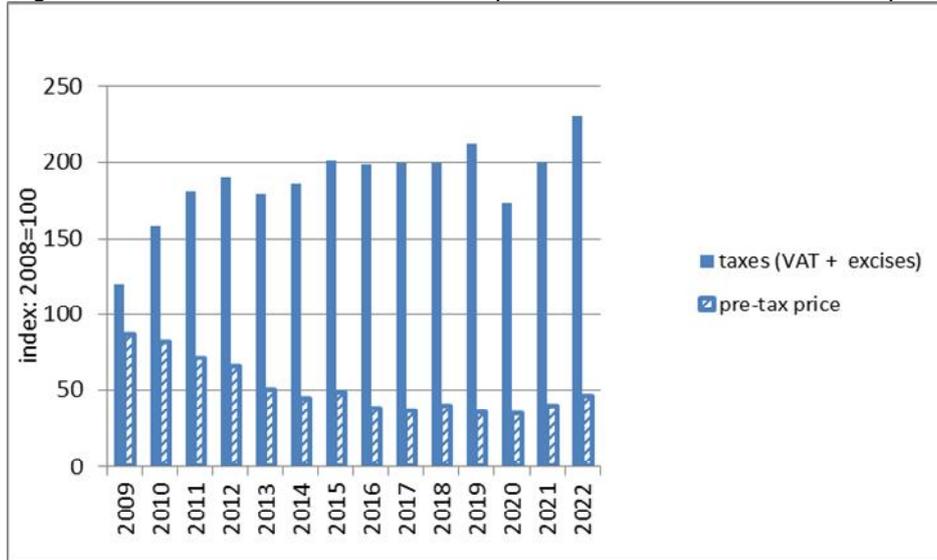


Chart 11. Changes in the structure of the tobacco products market value in comparison with 2008



However, despite the positive trends, a comparison with 2008 (the last year before the reform of the policy of taxation of tobacco products and harmonization with EU standards) shows that the revenues of tobacco companies (pre-tax price) in 2022 amounted to only 46% of revenues from 2008, while taxes in the market value structure were higher by 131% (Chart 11).

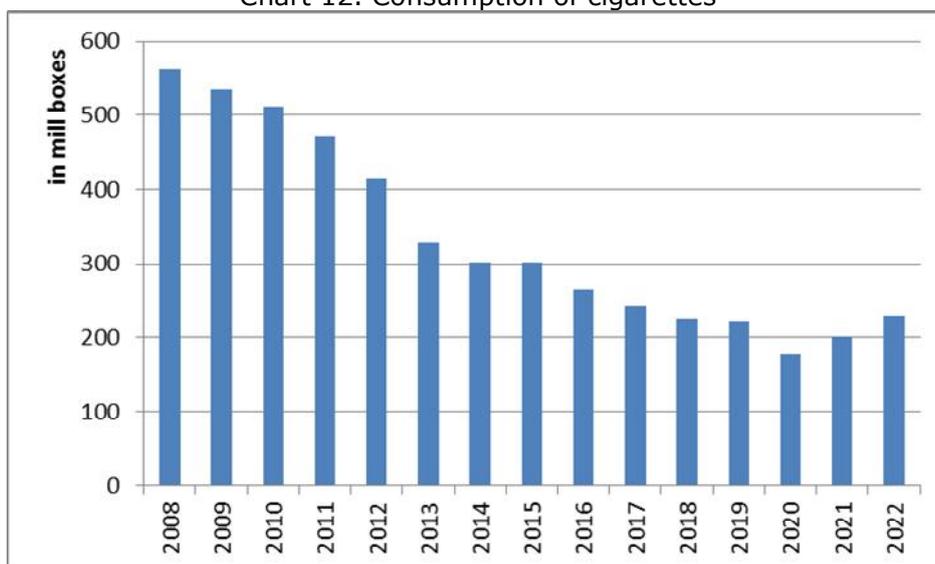
Consumption of tobacco products

Trends

The continuous growth of retail cigarette prices in B&H since 2009, as a consequence of the harmonization of excise taxes with minimum EU standards, has resulted in a sharp decline in legal cigarette consumption¹⁴ (Chart 12). The measures of the new excise policy stabilized the decline in cigarette consumption in just five months of application in 2014, and then stopped it in 2015. However, the continuation of harmonization of the excise tax rate with EU standards has brought a sharp decline in cigarette consumption over the next two years. The larger drop in consumption in 2018 was mitigated by the growth of consumption by non-residents (diaspora, tourists), and cross-border and transit traffic of cigarettes and other goods in the summer season, stimulated by lower prices of oil derivatives compared to neighboring countries. The segment of cigarette consumption by non-residents is gaining more and more importance from every year, so that the consumption of cigarettes has stabilized again in 2019, regardless of the growth in retail prices due to the increase in the specific excise tax on cigarettes. In 2020, a sharp drop in cigarette consumption of 20.1% was recorded, as a result of the cumulative effect of two factors: an increase in retail prices, although the specific excise tax on cigarettes was not increased, and the negative impact of restrictive measures to combat the COVID-19 virus pandemic in B&H and the EU on cigarette consumption by residents and non-residents.

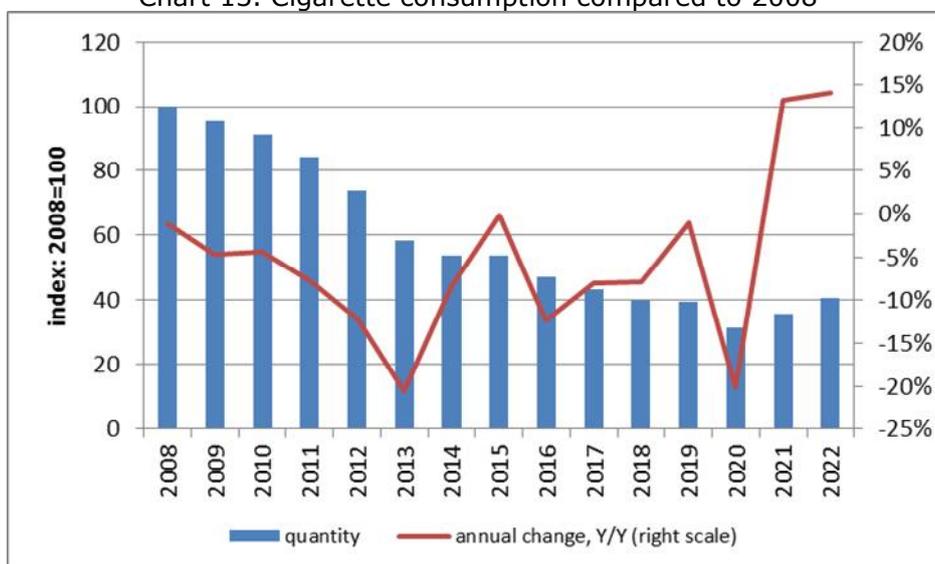
¹⁴ For the purpose of analysis, cigarette consumption is measured by the amount and structure of issued excise stamps.

Chart 12. Consumption of cigarettes



Weakening of anti-COVID measures has relaxed the domestic consumption of cigarettes, while lifting of restrictions on entering the country has contributed to the renewed growth of cigarette consumption by non-residents. In 2021, the growth of cigarette consumption of 13.3% was achieved, as measured by the number of issued excise stamps. The growth trend of legal cigarette consumption has continued in 2022, when an increase of 14.1% was recorded, regardless of the economic crisis caused by the rising prices of energy, other goods and services due to the war in Ukraine. Thus, the amount of cigarette consumption has reached its level from 2018.

Chart 13. Cigarette consumption compared to 2008



Despite the recovery of the legal consumption of cigarettes, the growth was insufficient to reach the consumption before the application of the new Law. Based on a comparison with the amount that was taxed in 2008, i.e. before the start of the harmonization process of excise duties in B&H, it can be concluded that in 2022, the consumption of branded cigarettes on the legal market amounted to only 41% of the consumption in 2008. In 2020, a historical minimum of only 32% of consumption from 2008 was achieved (Chart 13).

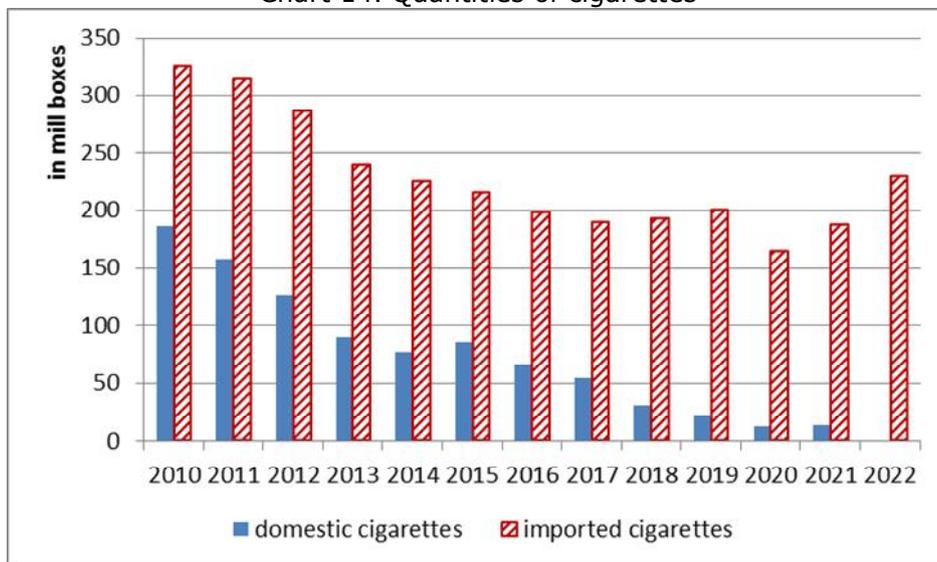
Structure of the market

The continuous increase in excise taxes on cigarettes has resulted in the substitution of cigarettes with smoking tobacco, whether legal or illegal, from the black market. The illegal substitution of cigarettes with smoking tobacco escalated in 2013 due to the growing gap in the taxation of cigarettes in relation to taxes on smoking tobacco, which were not included in the harmonization with EU standards. The new excise tax policy for smoking tobacco from 2014 has brought a drastic initial increase in excise taxes on smoking tobacco, and continuous harmonization with excise taxes on cigarettes in the following years. The draconian increase in taxes on smoking tobacco resulted in a large drop in the consumption of taxed smoking tobacco in 2015 by 89.4% compared to 2014. It is clear that the large increase in retail prices of smoking tobacco and measures to suppress the illegal production and sale of cigarettes have discouraged consumers to buy legal smoking tobacco, and they turned to cigarette consumption.

In the years that followed, due to the increase in cigarette prices, there was a resurgence of substitution of cigarettes with smoking tobacco, in which the consumption of imported branded smoking tobacco was leading, especially after the shutdown of domestic production. After the end of the privatization of the domestic tobacco industry, the structure of the amount of cigarettes and tobacco placed on the B&H market has changed drastically, to the detriment of the domestic industry, whose production was first completely marginalized¹⁵, and then shut down¹⁶.

Chart 14 shows the structure of cigarettes placed on the market since 2010. There is a noticeable drop in quantities. However, the drop in quantities of imported cigarettes is smaller both in absolute and relative terms, than that of domestic cigarettes. In the end, imported cigarettes have completely absorbed the domestic cigarette production.

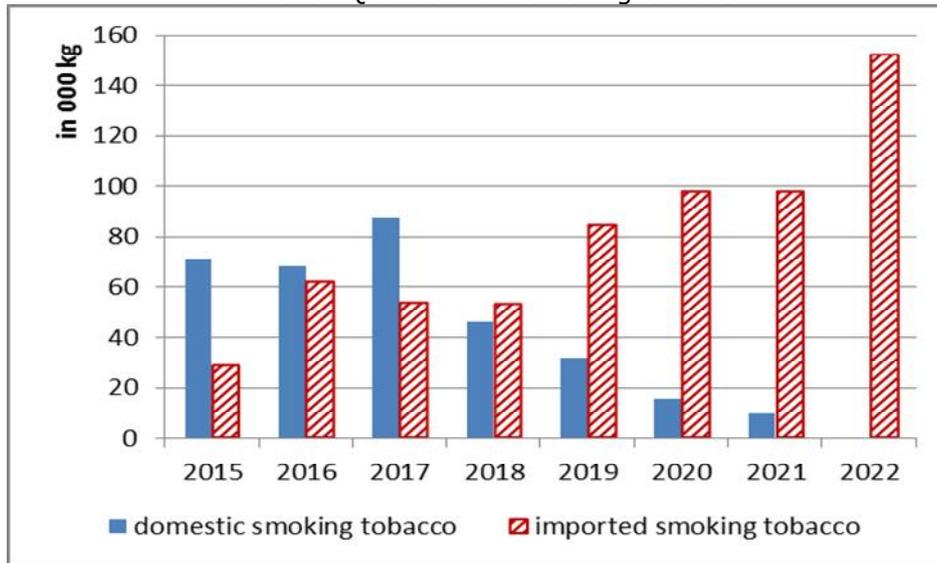
Chart 14. Quantities of cigarettes



¹⁵ Sarajevo Tobacco Factory

¹⁶ Banja Luka Tobacco Factory and Sarajevo Tobacco Factory

Chart 15. Quantities of smoking tobacco

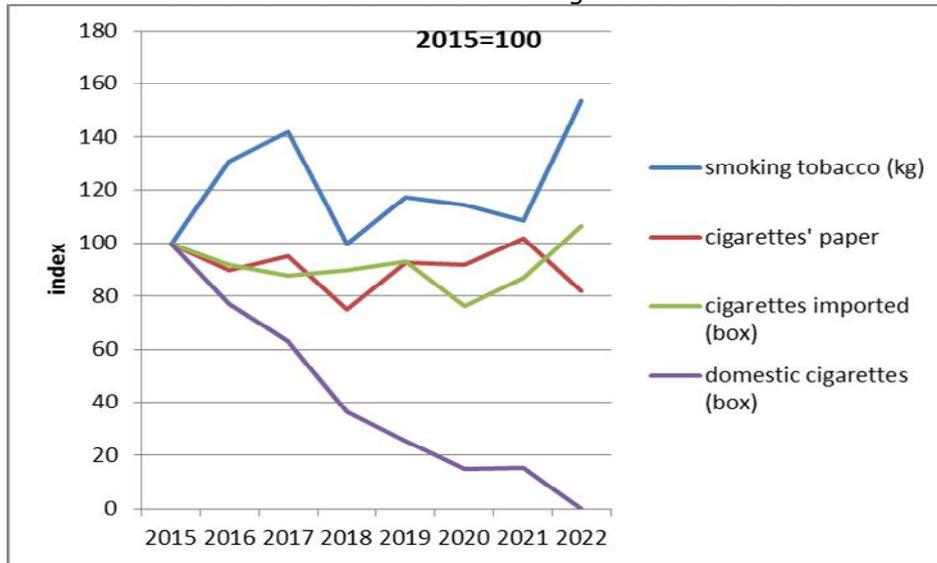


Similar trends were recorded in the structure of smoking tobacco (Chart 15). At the time of strong tax evasion, before the changes to the Law, the domestic industry focused on the sale of smoking tobacco, although the sale of products with a lower added value brings less profit. With the shutting down domestic production, the consumption of domestic tobacco was compensated by imported tobacco. After a strong growth of tobacco consumption in 2019 of 17.1%, especially of imported tobacco, a decline in consumption was recorded in the following two years. However, in 2022, the recovery of this market segment was achieved and growth of as much as 41.5% was recorded. The reason for the consumption of smoking tobacco may be the substitution of cigarettes with smoking tobacco due to the growth of retail prices of cigarettes in the segment of the cheapest cigarettes, which in 2022 was reduced to only 6.9% of the total assortment of cigarettes (see Table 4). In any case, changes in the structure of the market of tobacco products, which imply the growth of the smoking tobacco segment, result in lower revenue collection from excise duties and, consequently, the associated VAT due to a lower tax burden compared to cigarettes, while the migration to the black tobacco market implies a complete loss of excise revenues and the associated VAT.

For the analysis of growth of black market, data on the import of cigarette paper, which is used for rolling cigarettes, is also important. Cigarette rolling papers, according to their way of packaging (in the form of rolls, booklets and tubes), can be used both for machine production of cigarettes and for manual rolling.

Chart 16 shows that after the amendment of the Law, the import of cigarette paper has decreased, which can be connected to the decrease in the production of domestic cigarettes. However, in 2020 and 2021, the import of cigarette paper increased again, even above the initial year for the analysis (2015), although the domestic production has been completely shut down, while the sale of legal smoking tobacco significantly decreased. However, in 2022, the import of cigarette paper was significantly reduced, as much as 16.9% compared to 2021, or 20 index points compared to 2015. At the same time, the import of cigarettes and smoking tobacco increased strongly. The aforementioned trends could be explained by the reduction of the tobacco black market, in terms of more difficult smuggling due to the operational activities of the ITA and other state and entity institutions.

Chart 16. Trends in the smoking tobacco market

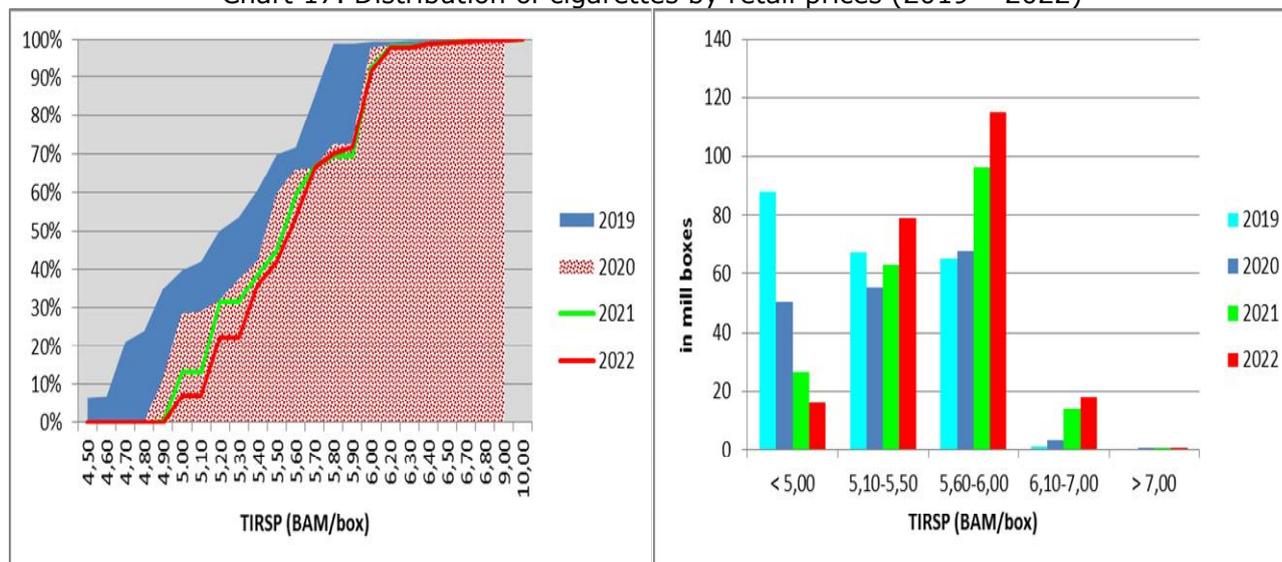


It should be emphasized that the increase in imports of cigarette paper does not only indicate a large volume of substitution with hand-rolled cigarettes, but also strong illegal domestic production of untaxed cigarettes, which compensates for the decrease in legal cigarette sales. It is indicative that the import of cigarette paper has grown, regardless of the large decline in domestic cigarette production, until complete shutdown of the production. The apparent discrepancy between the stable trend in the import of cigarette paper and decreasing needs of the domestic tobacco industry for the import of paper cigarettes, until complete termination of the procurement, indicates not only the purchase of paper cigarettes by natural persons, but also the illegal production of cigarettes in B&H.

Structure of cigarette brands

Due to the large increase in cigarette prices, caused primarily by the increase in specific excise tax, there have been major changes in the structure of cigarettes. The number of brands was reduced; the production of cheaper domestic brands was discontinued, while the price range between the cheapest and most expensive cigarettes decreased. From the above analysis, one can conclude the importance of the price policy of tobacco companies, both for their business and for public revenues. It is surprising that companies already increased retail prices in the first year after the harmonization of excise taxes, when there was no increase in specific excise duty, even though for years this was the reason for the drop in legal demand for cigarettes. An even bigger surprise is that it was done with the cheapest brands. Therefore, the group of legal consumers with the lowest incomes was encouraged to switch to buying tobacco and cigarettes on the black market. The analysis of the distribution of cigarettes by retail prices shows that in 2020 there was a restructuring in favor of more expensive brands (Chart 17, left). The production / import of the cheapest brands has been abandoned. Due to the slower price growth in 2021 and 2022, the distribution by retail prices has not changed significantly, that is, the changes, in the form of price growth of the cheapest brand and upward movement of the prices of brands within the assortment of medium and high-class cigarettes, were slower and smaller in scope (Chart 17, left).

Chart 17. Distribution of cigarettes by retail prices (2019 – 2022)



Ultimately, in four years, the number of cigarette packs in the lowest price group (up to 5.00 BAM) has decreased by 82%, while the number of packs of more expensive cigarettes (over 6.00 BAM) has increased by an enormous 1155% (Graph 17, right). The smallest changes were in the number of lower-middle-class cigarettes (5.10-5.50 BAM), where growth of only 18% was achieved, while the number of upper-middle-class cigarettes (5.60-6.00 BAM) increased by 77%.

The shift in consumption in accordance with price movements and consumer preferences was reflected in the structure of cigarettes placed on the B&H market in the last four years (Table 4).

Table 4: The structure of placing cigarettes on the market by retail prices

| MPC (BAM) | 2019 | 2020 | 2021 | 2022 |
|-----------|--------|--------|--------|--------|
| < 5,00 | 39,7% | 28,4% | 13,2% | 6,9% |
| 5,10-5,50 | 30,3% | 31,3% | 31,5% | 34,6% |
| 5,60-6,00 | 29,4% | 38,2% | 48,1% | 50,2% |
| 6,10-7,00 | 0,6% | 1,8% | 6,9% | 7,9% |
| > 7,00 | 0,1% | 0,3% | 0,4% | 0,4% |
| | 100,0% | 100,0% | 100,0% | 100,0% |

In contrast to 2019, when 70% of placements were brands with a price of less than 5.50 BAM/pack, in 2022 that share was only 41.5%, while the dominant share of 50.2% was made up of brands with prices from 5.60 to 6.00 BAM.

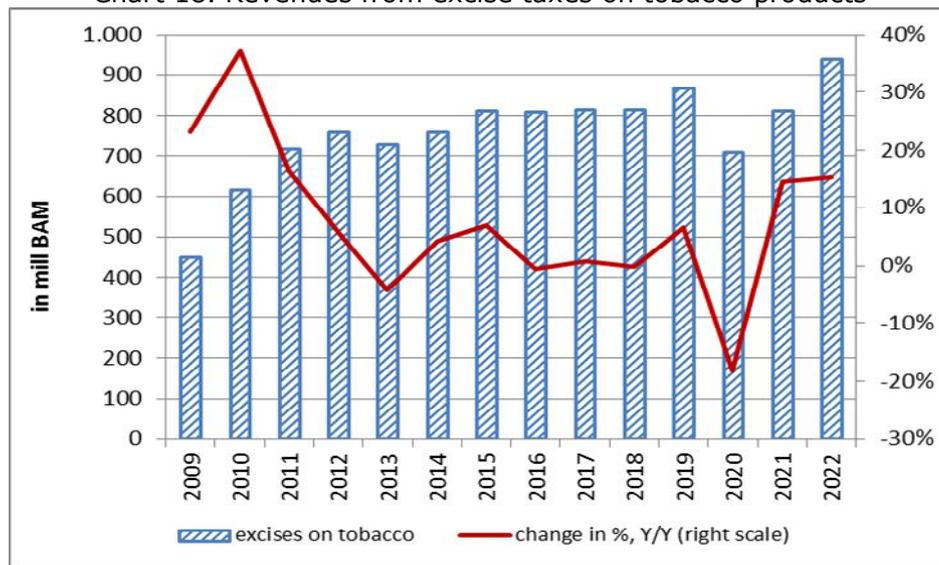
The results of the analysis confirm the conclusions of previous analyzes that the elasticity of cigarette consumption is not a homogeneous category. The consumption of cheaper brands reacts more to the rise in prices, while the consumption of more expensive brands is inelastic, because the rise in prices did not lead to a drop in consumption. It led to an increase.

ANALYSIS OF EXCISE REVENUES

Trends

The higher-than-expected erosion of cigarette consumption was also reflected in excise revenues. After a strong increase in revenues in the first few years of harmonization of excise duties with EU standards, in 2013 a decline was recorded for the first time. This was a signal for a change in excise policy, which should reduce the gap between more taxed cigarettes and less taxed smoking tobacco. The new excise tax policy led to an increase in excise tax revenues in 2015, but in the following three years, revenues stagnated (Chart 18).

Chart 18. Revenues from excise taxes on tobacco products



Under the pressure of increase in the specific excise tax on cigarettes, and in the conditions of slow growth of the economy and aggregate consumption, the strengthening of the black market of tobacco and cigarettes had negative consequences for revenues from excise taxes, profitability of the tobacco industry and stability of the market for tobacco products. It is only in 2019 when the growth of excise revenue of 6.5% was achieved which until then the nominal collection represented the historical maximum. The increase in revenues in that year was partly the result of an increase in consumption by non-residents (diaspora, tourists, cross-border consumption), which can be seen from the seasonal excise collection pattern in which summer months dominate, and partly from the issuing of a larger number of excise stamps at the end of that year due to the announced increase in retail prices of cigarettes as of January 1, 2020, although the harmonization of excise duties was completed in 2019. Bearing in mind such a business policy, a weak excise duty collection at the beginning of 2020 had been expected, while the trends have deteriorated due to non-adjustment to new business circumstances and introduced restrictions for the entry of non-residents and the movement of the population within B&H during the COVID-19 pandemic. Continuation of the pandemic and the drop in demand have forced companies to correct their business plans, resulting in a drastic reduction in the number of issued excise stamps and a drop in excise revenue in the second half of 2020 (Chart 19). Even the announcement of the next increase in the retail prices of certain cigarette brands as of January 1, 2021 could not encourage the accumulation of stocks by consumers, which was the practice in previous years. Ultimately, the collection of excise duties on tobacco products in 2020 was 18.2% lower compared to 2019. The loss of revenues was enormous, as much as 157.4 million BAM (Chart 20).

Chart 19. Monthly collection of excise duties on tobacco products

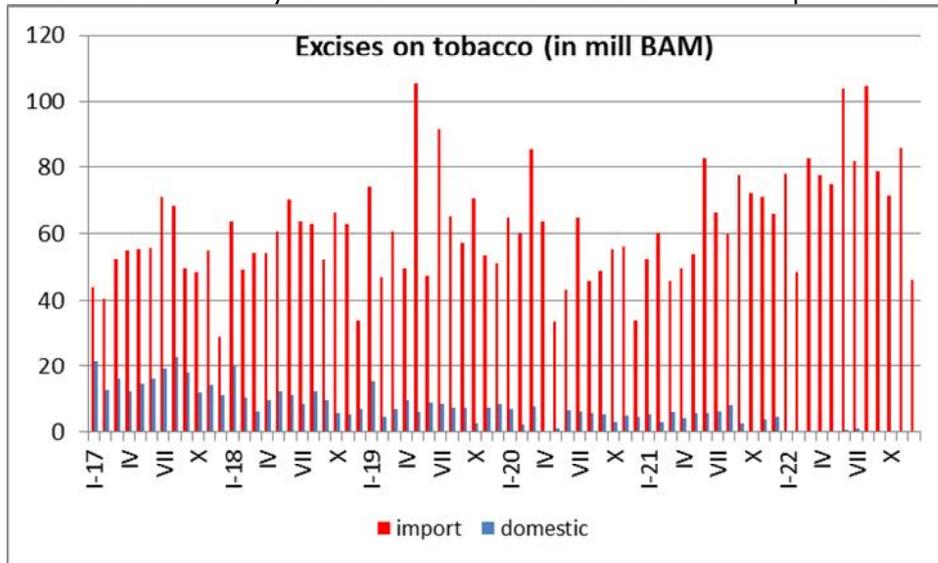
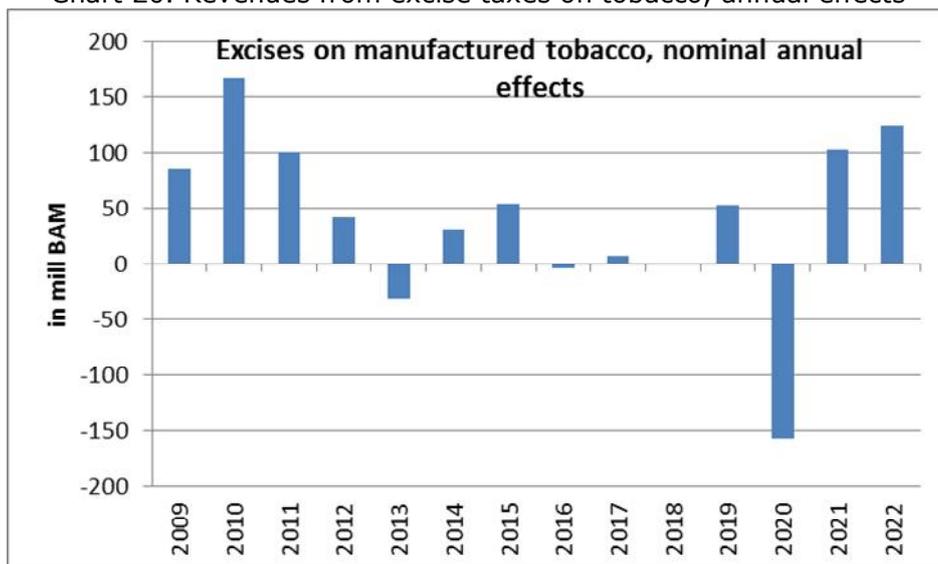


Chart 20. Revenues from excise taxes on tobacco, annual effects



The easing of anti-COVID measures has contributed to the recovery of consumption by non-residents, which was also reflected in the collection of revenues from excises on tobacco products in 2021. Although an absolute increase of excise revenue of 102 million BAM was achieved compared to 2020 (Chart 20), the historical maximum from 2019 was not reached. Greater recovery of consumption by non-residents (diaspora, tourists, B&H citizens on temporary work abroad) could not be achieved, and therefore, the revenues from 2019 were not even reached (Chart 18). The reason was the retention of restrictive measures on the return of EU citizens (quarantines, etc.), but also other factors that negatively affect the consumption of tobacco products from B&H, such as the limitation of the amount of cigarettes that can be brought into the EU and restrictions on border traffic with Croatia. Finally, it is obvious that a certain part of cigarette consumption has been permanently lost due to the departure of a large number of B&H citizens in recent years.

Collection of revenues from excise taxes on tobacco products exceeded the record collection from 2019 only in 2022, when a growth rates of 15.4% compared to 2021 and 8% compared to 2019 were achieved (Chart 18). The economy of scale policy, which was led by the two leading multinational tobacco corporations in Bosnia and Herzegovina, along with a moderate price increase, brought the additional revenue to the tobacco industry, and revenues from excise duties and related VAT. An important factor that at the end of 2022 determined the overall rate of growth of excise revenue in that year was the moment of change in the excise collection regime. Amendments to the Law on Excise Taxes, which entered into force on August 6, 2022 with delayed implementation due to the need for changes to implementing regulations, entailed a change in the method of payment of excise taxes. Instead in the moment of taking over excise stamps, excise duties should be paid upon importation, in accordance with the customs debt payment deadlines. The aforementioned change initially creates a vacuum in the collection of excise duties of at least one month, depending on the time gap between the taking over the stamps and the import of cigarettes. Given the complexity of the procedure for adopting implementing regulations¹⁷, when revising the projections of revenues from indirect taxes in October 2022, the Unit assumed that the new excise duty collection regime would apply as of 2023, which was ultimately confirmed. In anticipation of the application of the new regime, at the end of 2022, tobacco companies changed the usual dynamics of taking over excise stamps, by reducing the number of tranches and extending the time interval between them. It can be assumed that the companies internally redistributed the available stocks of cigarettes in the retail trade, shifting them from places with lower demand to places with higher demand, enabling the continuity of sales. All this resulted in a lower collection of excise duties in December 2022, so that part of the expected losses of excise duties, which were planned in January 2023, spilled over into 2022, reducing the total growth of excise duties on tobacco products in 2022.

Structure of excise revenue

Structure of excise revenue can be observed based on three criteria. The first criterion is the way in which the basis is expressed (*ad valorem* vs specific), the second according to the type of tobacco products (cigarettes vs smoking tobacco), and the third is according to the origin of the tobacco products, i.e. the place of production (imported vs domestic).

Structure of revenues from excise taxes according to base

Taxation of tobacco products with excise duty is specific in relation to other excise products, because they are taxed at a complex rate of excise duty, which consists of *ad valorem*¹⁸ and specific¹⁹ excise duty. It is possible to analyze the structure of excise revenue by separating the *ad valorem* component, which is calculated by applying the prescribed rate of 42% on the tax inclusive retail selling price, and the specific component, which was determined by the Law in 2009, and later by decisions of the Governing Board of the ITA, in monetary amount per pack of cigarettes (20 pcs) or per 1,000 cigarettes, which is the EU standard.

The specific excise tax on cigarettes was introduced on July 1, 2009 into the excise tax system, while smoking tobacco was introduced by amendments to the Law on August 1, 2014. The initial introduction of a specific excise tax, and then its continuous increase from 2010 of 0.15 BAM/pack per year, has led to an increase in revenues from excise taxes (Chart 21), but also in retail prices, causing a drop in cigarette consumption. After several years of revenue growth, the decline in

¹⁷ In order to implement changes to the Excise Law ("Official Gazette of B&H" No. 50/2022), it was necessary to amend several rulebooks in a complex procedure that entails public consultations, adoption by the Governing Board of the ITA and publication in the Official Gazette of B&H.

¹⁸ *Ad valorem* taxes are taxes where the base is expressed in monetary units. They are based on the value. Since the tax liability is determined as a percentage of the base expressed in monetary units, *ad valorem* taxes are also called proportional taxes, although rate scales can also be applied to a certain amount of the base (progressive taxation).

¹⁹ Specific taxes are taxes where the tax base is expressed in units of measurement (in kilograms, pieces, liters, degree of alcohol, etc.). The tax rate is actually an absolute amount per unit of measure.

cigarette consumption has neutralized the increase in specific excise duty. Therefore, the growth of the tax burden not only failed to bring additional revenue, but in 2013, excise revenue decreased- both overall and revenue from specific excise duty (Chart 22). In the period after the amendments to the Law until the pandemic in 2020, the effects of the increase in excise duty rate compensated for the effects of the decline in consumption on the collection of specific excise duty. However, since there was no increase in the specific excise duty rate in that year, the collection of the specific component solely depended on the trend in cigarette consumption, so a large drop in consumption brought a drop in revenue from specific excise duty of as much as 20% (Chart 22). In the last two years, with the recovery of consumption, revenues from specific excise duty increased and exceeded the amount collected in the, until then, record year 2019 by 12.2%, as a result of economies of scale with moderate price growth. Given that there are no external incentives from the EU to increase the specific excise duty, in the future the growth of consumption, due to the expected growth of the economy and income, should lead to the growth of the specific component of excise revenue.

Chart 21. The structure of excise revenue according to the base

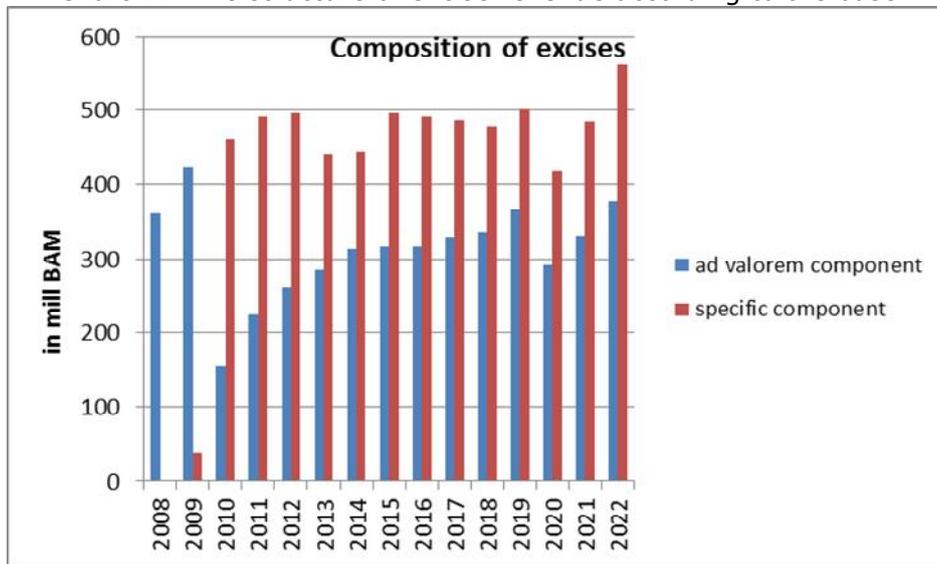
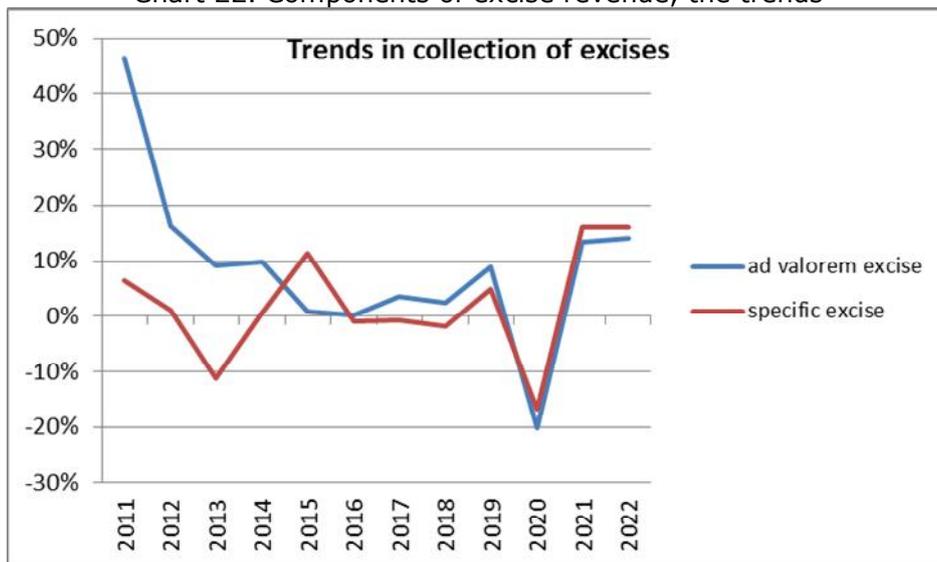
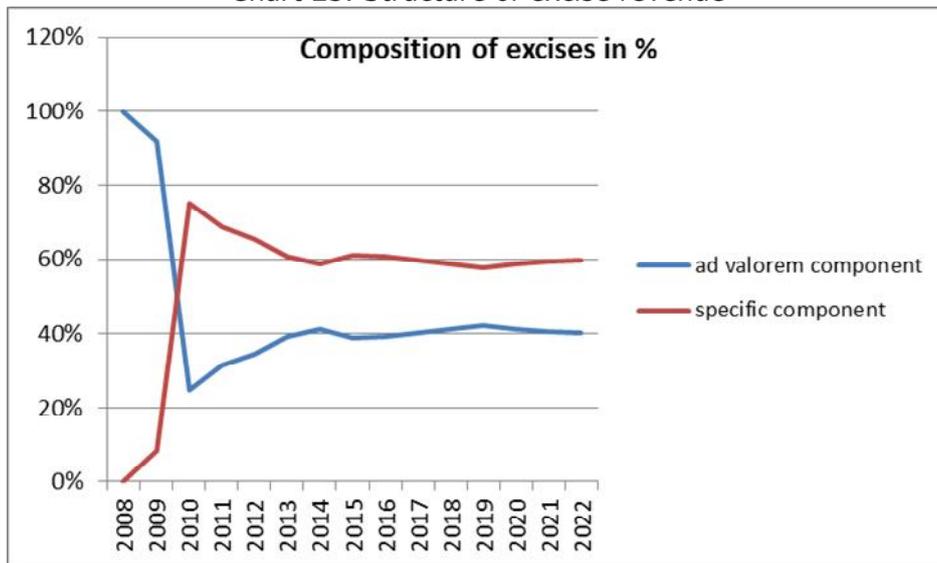


Chart 22. Components of excise revenue, the trends



On the other hand, the movement of *ad valorem* excise revenue is determined by the growth in the value of cigarette market, that is, by the trends in retail prices of cigarettes and consumption. In the first years of excise duty harmonization, the growth of the *ad valorem* component of excise revenue followed the growth of the specific component, and it can be concluded that the decline in consumption did not threaten the collection of *ad valorem* excise duty despite the increase in retail prices (Chart 21). However, due to the escalation of the black market in 2013, the decline in cigarette consumption reduced the effects of the increase in retail prices, which led to a slowdown in the growth rate of *ad valorem* excise revenue until zero growth in 2016 (Chart 22). After the amendments to the Law and combating the black market trade, the consumption of cigarettes recovered, which, in addition to price growth, also brought about an increase in the *ad valorem* component of excise tax revenue until 2019. However, the onset of the pandemic greatly affected the demand for cigarettes, which, along with the increase in retail prices, led to a large drop in the collection of *ad valorem* excise duty. Nevertheless, the recovery of cigarette sales in the last two years, even with a modest increase in retail prices, was enough for the level of *ad valorem* revenues from excise taxes to exceed the record collection in 2019 by 3.2%. The unchanged *ad valorem* excise rates, moderate growth in retail prices and growth in cigarette consumption, due to the expected growth of the economy and income, should lead to an increase in the *ad valorem* component of excise revenue in the future.

Chart 23. Structure of excise revenue

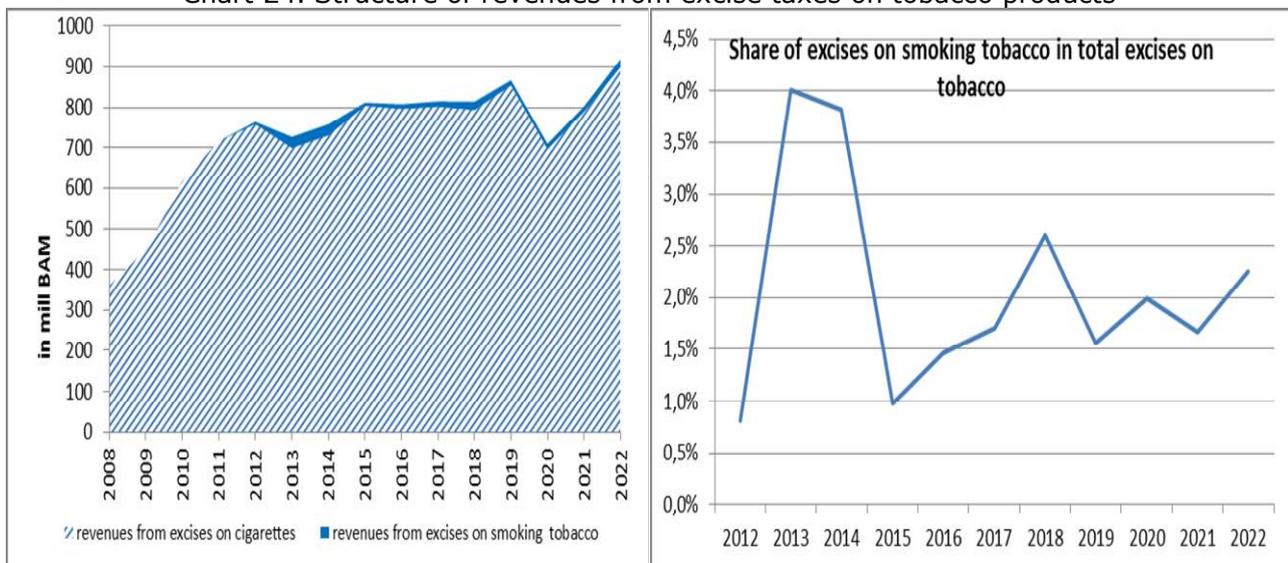


The structure of excise revenues (Chart 23) shows the dominance of a specific component at the level of around 60% of total revenues from excise taxes on tobacco products. Before the entry into force of the new Law, tobacco products (cigarettes, smoking tobacco, cigars and cigarillos) were taxed only with an *ad valorem* excise tax (see Chart 21, 2008). For this reason, in the beginning, the share of *ad valorem* excise tax in the structure of revenues from excise taxes on tobacco products was 100%. Due to the continuous increase in the specific excise duty, which is identical for both cheap and the most expensive cigarettes, the growth of retail prices of cheaper brands was much higher than the growth of more expensive cigarettes. As a result of the specific excise tax, cheaper cigarette brands were eliminated and the price range has narrowed between the cheapest and most expensive cigarettes, especially after the shutdown of domestic production, whose brands were generally cheaper than imported ones. From the point of view of the health policy, the elimination of cheaper cigarette brands is a positive result of excise policy, since lower quality tobacco is used for cheaper cigarettes. However, the negative side of the specific component of excise tax revenue is the loss of the real revenue value in times of inflation, as was the case in 2022, unlike the *ad valorem* component of excise tax that follows nominal trends in the economy.

Structure of excise revenue by type of tobacco products

For the analysis of the effects of measures of the new excise policy, the analysis of structure of excise revenue by type of tobacco products is also important (Chart 24, left). These are excise taxes that are levied on cigarettes and on smoking tobacco as a substitute. The maximum share of revenue from excise taxes on smoking tobacco was achieved in 2013, when there was a strong migration of cigarette consumers to the smoking tobacco segment. The measures of the new excise policy have led to a reduction in revenues from excises on smoking tobacco to only 1% of the total collected revenues. The increase in the excise tax burden on cigarettes in the next two years has encouraged the consuming of smoking tobacco, despite the fact that year after year, according to the new policy, the excise burden of that grouping of tobacco products also increased, and thus the share in the total excise collected, but with a slower growth trend. With the recovery in the tobacco market after the pandemic, the segment of smoking tobacco has strengthened again, but, basically, it is about a low share that cannot determine the overall trends in the collection of excise duties on tobacco products (Chart 24, right).

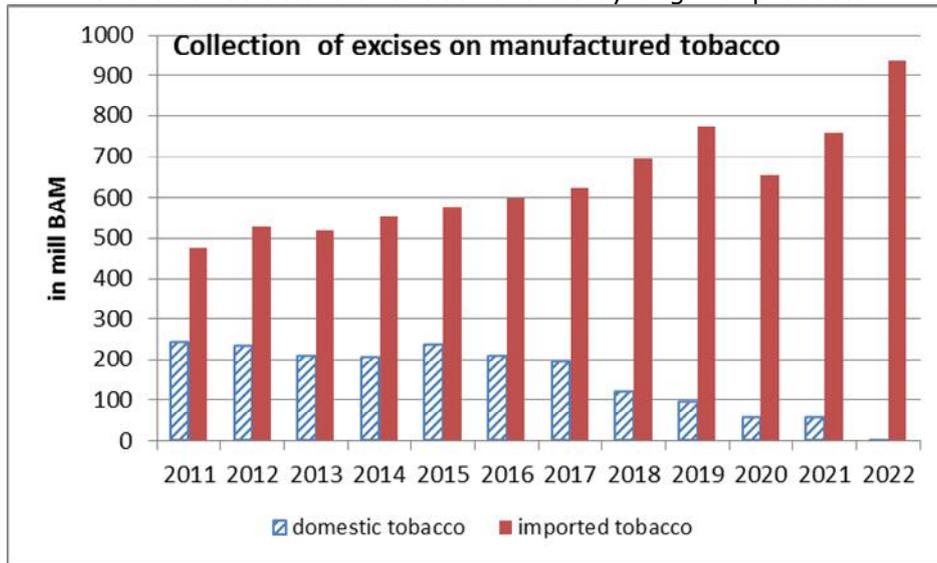
Chart 24. Structure of revenues from excise taxes on tobacco products



Structure of excise revenue by origin of tobacco products

The third approach to the analysis of the structure of revenues from excise taxes on tobacco products involves distinguishing the excise tax charged on imported tobacco products from the income from excise taxes charged on domestic tobacco products. The analysis of the structure of collected excise tax revenues indicates a growing trend in collected excise taxes on imported products, and a decline in collected revenues on domestic tobacco products, until the complete disappearance of domestic production of cigarettes and smoking tobacco (Chart 25). Importers did their market expansion in B&H at the expense of the domestic tobacco industry. However, restructuring within the market has its limits, which correspond to the complete shutdown of domestic production.

Chart 25. Structure of excise revenue by origin of products

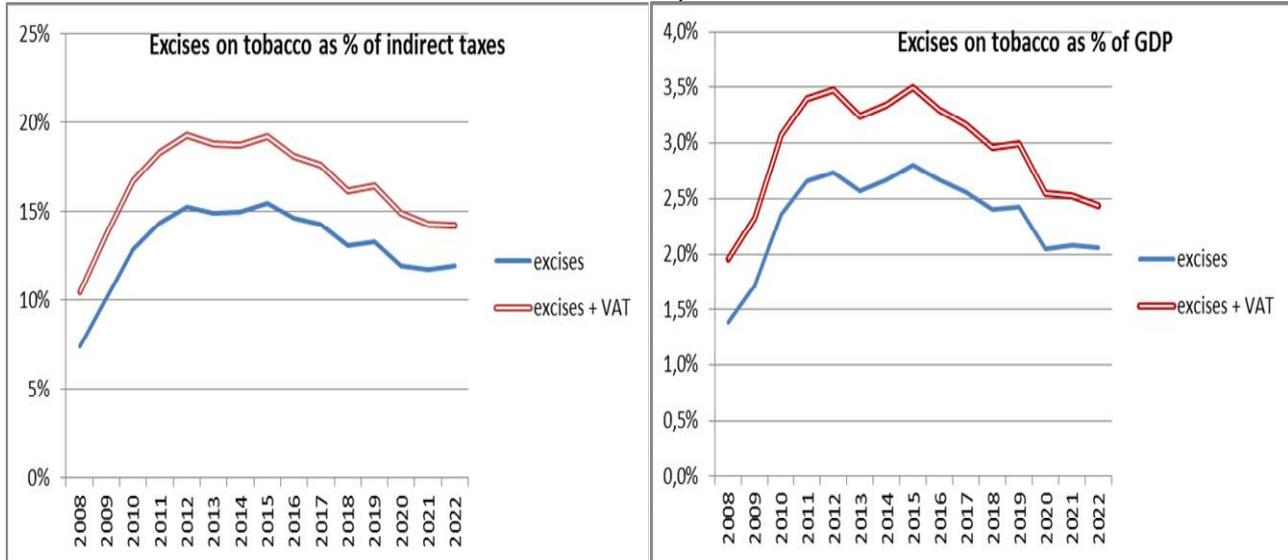


Significance of excise revenue

Revenues from excise taxes on tobacco products represent a generous source of budget revenue in all economies. In Bosnia and Herzegovina, revenues from excise taxes on tobacco accounted for 7%-8% of total indirect taxes until the application of the new Law. The beginning of harmonization with EU standards led to an increase in the collection of excise revenue, and thus to an increase in the importance of revenues from excise taxes on tobacco.

The growth of revenues from excise taxes on tobacco products in the first years of harmonization with EU standards increased its share in indirect taxes to a maximum of 15.4% in 2015. In 2019, in which the largest amount of revenues was collected so far, the share was 13.3%. It can be concluded that revenues from indirect taxes have grown faster than the collection of excise taxes on tobacco products in recent years, and the main reason was the increase in the earmarked road tax rate as of February 1, 2018. In 2021, the share of revenue from excise taxes on tobacco products fell to only 11.7% (Chart 26, left). The share of revenues from excises on tobacco depends not only on the collection of excise duties, but also on the rate of growth of other revenues, first and foremost VAT, which increases the basis for comparison. If the related VAT revenues which are collected on tobacco products are included, the share of revenues collected from cigarette and tobacco consumers in B&H in the period 2011-2016 amounted to about 19% of indirect tax revenues, but in the last three years fell below 15% (Chart 26, left, "excises + VAT").

Chart 26. Revenues from excise taxes on tobacco products as % of indirect taxes and % of GDP



Source: Data on GDP - Agency for Statistics of B&H

Measured as a % of GDP, the excise burden on tobacco products increased from 1.4% of GDP in 2008 to a maximum of 2.8% of GDP in the period 2012-2015. In 2019, the excise tax burden was 2.4% of GDP, and in the last three years it was around 2% of GDP (Chart 26, right). The total share of taxes on tobacco products (excises + VAT) in the tax structure, measured as a % of GDP, ranged from a maximum of 3.5% of GDP in 2012, and, after a constant decline, in 2022 it amounted to 2.4% of GDP (Chart 26, right, "excises + VAT").

FACTORS AFFECTING THE COLLECTION OF REVENUES FROM EXCISES ON TOBACCO PRODUCTS

In the previous analysis for the period 2009-2020, the factors that affected the collection of excise duties on tobacco products at the time of harmonization of excise duties with minimum EU standards were listed. Some of them affected the collection in the past two years as well.

In the last few years, a high dependence of the collection of excise taxes on tobacco products on the consumption of non-residents has been noticeable. These are people belonging to the diaspora, who visit relatives in Bosnia and Herzegovina most often in the summer and during religious and New Year holidays, tourists in all categories of tourism (religious, winter/summer tourism, rafting, etc.), tourists in transit to the Adriatic Sea, people who live in the border area with Croatia, and local-border consumption of people living right next to the border with Bosnia and Herzegovina. It should be borne in mind that a significant part of domestic consumption of tobacco products has been financed indirectly from remittances from abroad.

Another factor is population emigration, which continues unabated after the end of the coronavirus pandemic. In the previous analysis, based on the data on residence permits issued in the EU for persons from Bosnia and Herzegovina, a loss of 18 million BAM of revenue per year (excises + associated VAT) was estimated, assuming that at least 10% of persons who left Bosnia and Herzegovina were smokers. Given that these are work and residence permits issued for the first time, the losses are much greater and increase every year, because the cumulative number of people who extend their stay is constantly growing.

The COVID-19 pandemic has left lasting consequences for the health of a large number of people, among whom a significant number were smokers. There are no estimates of the growth of

respiratory diseases caused by the coronavirus. In any case, giving up smoking brings a loss of revenue from excise taxes and the associated VAT.

In the previous analysis, the importance of external restrictions on cigarette consumption was highlighted, as a factor that will negatively affect the collection of excise revenue and the associated VAT in the future. The restrictions imposed by the EU from 2021 (import of only two packs of cigarettes per person without payment of VAT and excise duty) significantly reduce the intake of cigarettes purchased in B&H by the diaspora and tourists returning to the country of residence, tourists in transit, citizens of B&H on work in the EU and other non-residents leaving B&H. With Croatia's entry into Schengen, border controls have been tightened on the southern border of Bosnia and Herzegovina with Croatia, which further worsens the consumption of cigarettes by non-residents in Bosnia and Herzegovina, and thus endangers the collection of excise duties.

CONCLUSIONS

Analysis of policy, market trends and revenue from taxation of tobacco products in the period 2021-2022 led to the following conclusions:

- After a large drop in cigarette consumption in the pandemic year 2020, and, consequently, a large decrease in excise revenue collection, the tobacco products market has recovered in all segments in 2021 and 2022;
- The growth of retail prices of cigarettes in the previous two years was very modest compared to the growth of prices of other goods and services. This is especially the case in 2022, in which, despite the high price growth of energy products and other inputs due to the war in Ukraine, the growth of the weighted average retail price was only 0.7%. This favored the realization of the effects of the economy of scale - sales growth and profit increase;
- The structure of cigarette sales in Bosnia and Herzegovina depends to a large extent on the external demand of non-residents, which during the pandemic proved to be a weak point in the collection of excise duties and total indirect taxes;
- The emigration from B&H of the working-age population and family members negatively affects both the collection of excise taxes on cigarettes and the total collection of indirect taxes, because revenues from excise taxes and VAT are permanently lost;
- External consumption restrictions imposed by neighboring countries and EU member states regarding the amount of cigarettes that can be imported into the EU have a negative impact on the sale of cigarettes in B&H and the collection of excises and VAT revenues.

Chart 27. Trends

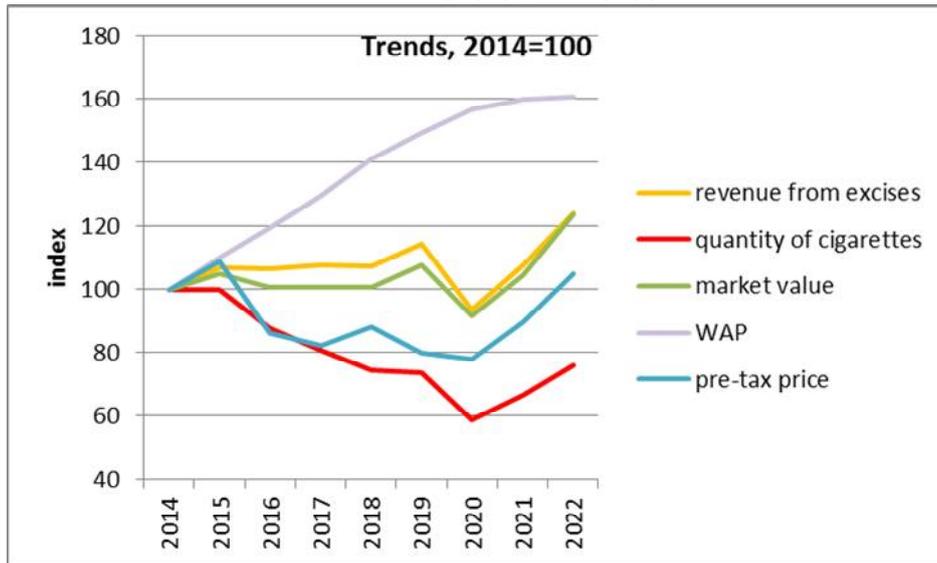


Chart 27 shows the effects of the moderate price policy of tobacco companies during the unchanged specific excise tax in the last two years. Moderate growth in retail prices during the *post-COVID* recovery of the economy produced the effects of economies of scale: growth in cigarette consumption and even greater growth in the value of the cigarette market. The pre-tax price, which covers the costs of tobacco companies and ensures profit/margin, also increased by more than 20 index points and has been approaching the level of 2015. Finally, a record increase in excise revenue was achieved. All this points to the conclusion that, basically, the collection of at least 1.12 billion excise taxes and the corresponding VAT, as collected in 2022, depends on the business policies of the two multinational tobacco corporations. It has been shown that a stable taxation policy is not of decisive importance for the stability of the collection of revenues from excise taxes on tobacco products, and thus indirect taxes, precisely because of the unpredictable policies of companies. **The analysis showed that the strong oscillations of collection during the time of unchanged excise policy in Bosnia and Herzegovina, regardless of the effect of external factors (pandemic, war in Ukraine), are largely the product of tobacco corporations' business policies and their adaptation to challenges from the environment.**

Consumption of oil derivatives in the period January - June 2023

Prepared by: Aleksandra Regoje (expert advisor - macroeconomist)

Introduction

In the first half of 2023, an almost identical amount of revenues from excises on oil derivatives and road tax together was collected as in the first half of the previous year. In the same period, excise collection fell by 2.3%, while road tax collection increased by 1.8%. It is interesting that in the first quarter there was a decrease in these revenues (excises on oil derivatives + road tax) of 6.8%, and in the second quarter there was an increase at approximately the same rate (+6.6%), compared to the corresponding quarters of the previous year.

Although the consumption of oil derivatives is price inelastic²⁰, strong price turbulences in the past period, together with the movements of relevant macroeconomic indicators, have determined the consumption of oil derivatives on the B&H market, and thus the collected revenues from excises, road tax and associated VAT, which have a significant share in the total revenues from indirect taxes. The factors that determine the prices of derivatives on the B&H market are primarily crude oil prices, trade margins and tax rates. Tax rates on oil derivatives have not changed since February 2018, and trade margins are limited by decisions of entity governments from April 2021. What determined the turbulence in the prices of oil derivatives in B&H was definitely the turbulence on the crude oil market.

In the continuation of the text we will see that in the period from January to the end of June 2023, the weekly prices of diesel fuel on the B&H market dropped by about 0.4 BAM/l. Although this is a high price range that certainly had effects on the consumption of oil derivatives, it should be emphasized that it is still significantly lower compared to the fluctuations in the same period of the previous year, when the difference between the maximum and minimum weekly price of diesel fuel amounted to a high of 1.3 BAM/l. In this article, it is explained which factors, apart from the trend of falling prices in the first half of 2023, led to the opposite signs of growth rates of excise and road tax revenue collection in the first and second quarters of the current year.

The first part of the article presents the price dynamics of diesel fuel in B&H, as well as the factors that determined it (crude oil prices and import prices in B&H). The second part shows the consumption of oil derivatives by type, observed by half-years, and the third part by quarters. In the fourth part, collected revenues from excises on oil derivatives and road tax on the Single Account of the Indirect Tax Administration (ITA) in the first half of 2023 were analyzed.

I Prices of oil derivatives on the B&H market

Crude oil prices

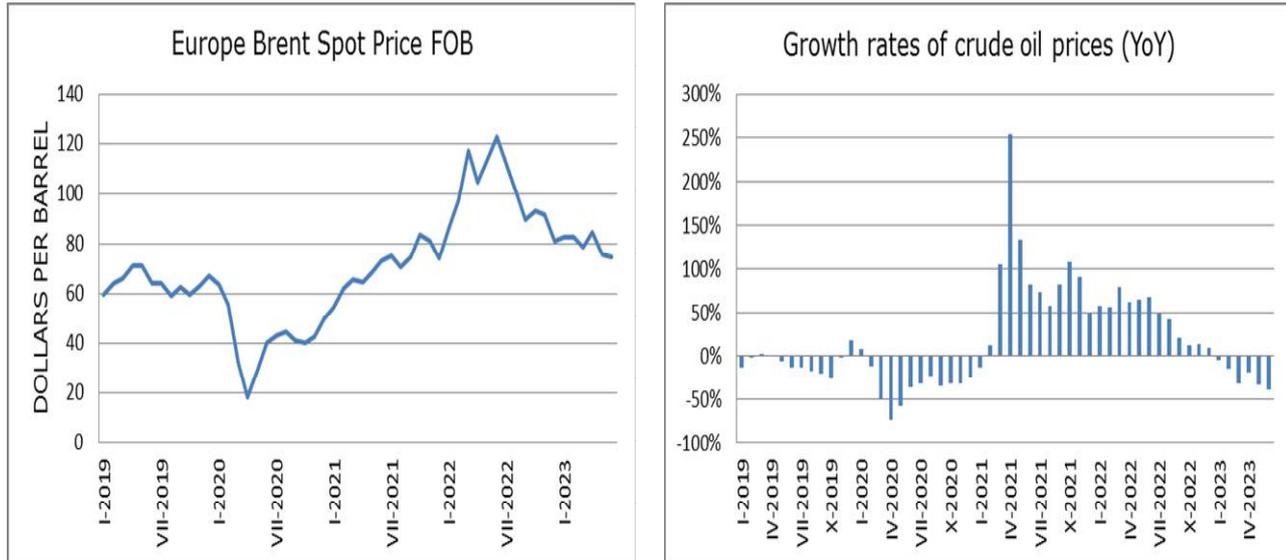
Based on data from the U.S. Energy Information Administration, Chart 1 (left) shows the monthly prices of Brent crude oil²¹ in the period from I-2019 to VI-2023. Crude oil prices were relatively stable in 2019, ranging from 59.0 to 71.3 dollars per barrel. In the period after 2019, they have varied significantly. In 2020, there were huge fluctuations due to the effects of the corona virus pandemic. In January 2020, they amounted to 63.7 dollars per barrel, which was the highest price in the year, while in April of the same year they fell to only 18.4 dollars per barrel, reaching the lowest value since 1999. By December 2020, they had risen again to 50.0 dollars per barrel. The growth trend continued until October 2021, when crude oil prices reached 83.5 dollars per barrel,

²⁰ In the analysis presented in MAU Bulletin No. 205-206, based on the multiple regression model and the formula for calculating elasticity, it was concluded that the average elasticity of demand for oil derivatives (diesel and gasoline) in B&H in the period 2005-2021 was about -0.2469%. This means that a 10% increase in prices would lead to a drop in the consumption of diesel fuel and gasoline by about 2.469%, with other unchanged factors (the same level of GDP).

²¹ Europe Brent Spot Price FOB

while in November and December 2021 they fell slightly. In 2022, there was a significant increase in crude oil prices, as a consequence of the war in Ukraine. In June, the maximum price in the observed period 2019-2022 was recorded, in the amount of 122.7 dollars per barrel, which is also the highest price in the period after March 2012. From July 2022, the trend of falling crude oil prices has started again. The downward trend continued, with minor exceptions, until the end of 2022 and throughout the first half of 2023. In June 2023, the price of crude oil amounted to 74.8 dollars per barrel, which roughly corresponds to the recorded level before the price escalation at the end of 2021.

Chart 1



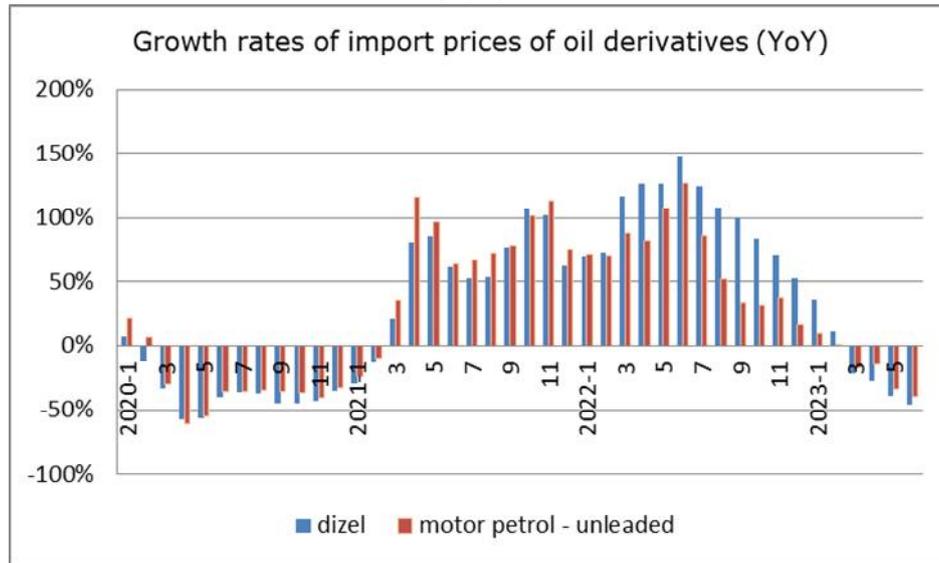
Source: Author's presentation based on the U.S. Energy Information Administration data, www.eia.gov

Based on the monthly growth rates shown in Chart 1 (right), strong turbulences in crude oil prices can also be seen in the observed period. Since we are dealing with comparisons of price levels in a certain month in relation to the same month of the previous year, the growth rates depend not only on price movements in a given year, but also on their dynamics in the previous year, which serves as a basis for comparison. The highest rate of decline in crude oil prices in the observed period was recorded in April 2020, as a result of the drop in prices due to the emergence of the corona virus. As a result of such a low basis for comparison, but also the onset of a price growth trend from that month, in April of the following year, 2021, a growth rate of the price of crude oil of enormous 252.6% was recorded. High crude oil prices and a low base in the previous year were the causes of high growth rates in the rest of 2021. In the period from May to December 2021, monthly growth rates ranged between a high of 48.4% (December) and 133.3% (May). In 2022, positive growth rates of crude oil prices were recorded in all months, in the range between 9.1% (December) and 67.7% (June), which resulted from the high prices because of war events in Ukraine. In 2023, the decline in crude oil prices and negative monthly growth rates began. As a consequence of the high base from the previous year and the trend of falling prices in 2023, by the end of June the rates ranged between -39.0% (June) and -4.6% (January).

Import prices of oil derivatives and prices on the B&H market

With a smaller time lag, similar dynamics of monthly growth rates (YoY) of the import prices of oil derivatives calculated on the basis of ITA data (Chart 2, left) as well as weekly prices of diesel fuel on the B&H market (Chart 2, right) were recorded. Import diesel and gasoline prices had high monthly growth rates compared to the previous year throughout 2022, culminating in the second and third quarters. Lower growth rates were recorded in January and February 2023, with a downward trend starting in March (Chart 2).

Chart 2

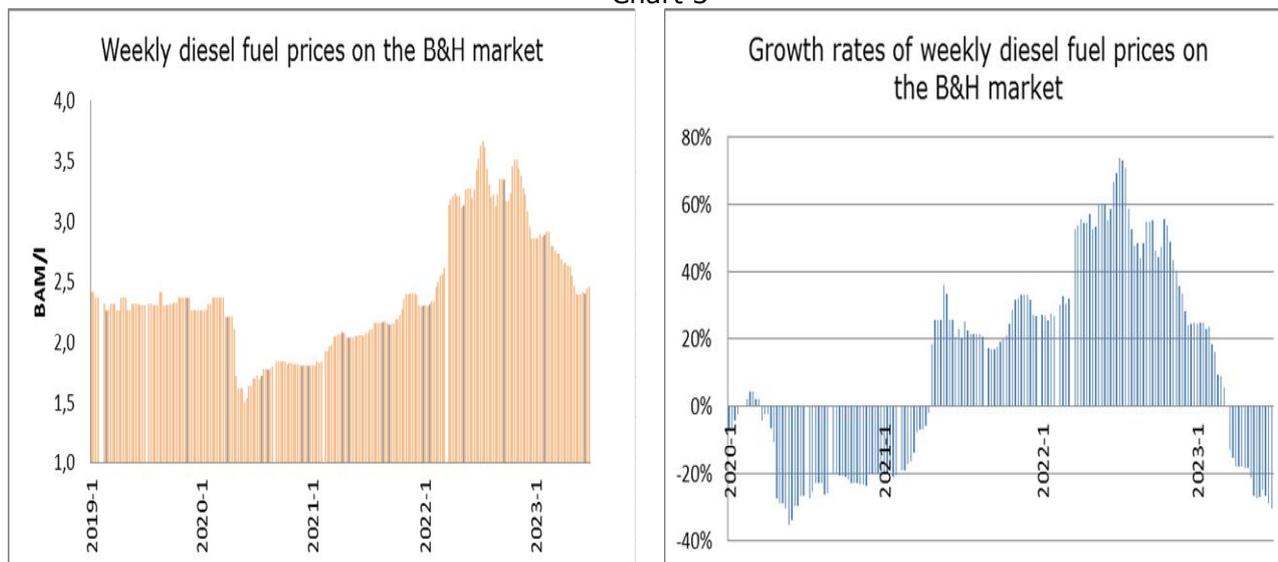


Source: Author's presentation based on the ITA data

Chart 3 shows the weekly prices of diesel fuel²² in Bosnia and Herzegovina in the period from 2019 to the middle of 2023, which follow the dynamics of crude oil prices and import prices of derivatives. The prices are formed on the basis of all the factors mentioned above. After a period of extremely stable prices in 2019, the prices of oil derivatives on the B&H market fell sharply in the spring of 2020, as a result of the coronavirus pandemic. In the 21st week of 2020, the price of diesel fuel amounted to only 1.5 BAM/l. From the 22nd week of 2020 (end of May), the prices of derivatives have recorded a stable growth trend, which has been maintained throughout the entire 2021. At the end of 2021, the average weekly price of diesel fuel was 2.3 BAM/l. The events in Ukraine influenced the intensification of the price growth trend in 2022. The average price of diesel fuel reached its maximum of 3.7 BAM/l in the 28th week of 2022. After that, the trend of falling prices of diesel fuel has begun, and in the last week of the first half of 2023 (week 26), they amounted to 2.5 BAM/l.

²² Only data for diesel fuel are shown because, after the 19th week of 2022, price reporting for fuel 95 BMB and 98 BMB on the website of the Foreign Trade Chamber of B&H according to data from the International Road Transport Union was discontinued. Only data on the most common fuel prices for individual companies in Bosnia and Herzegovina are available.

Chart 3



Source: Author's presentation based on the International Road Transport Union data, taken from the website of the Foreign Trade Chamber of B&H

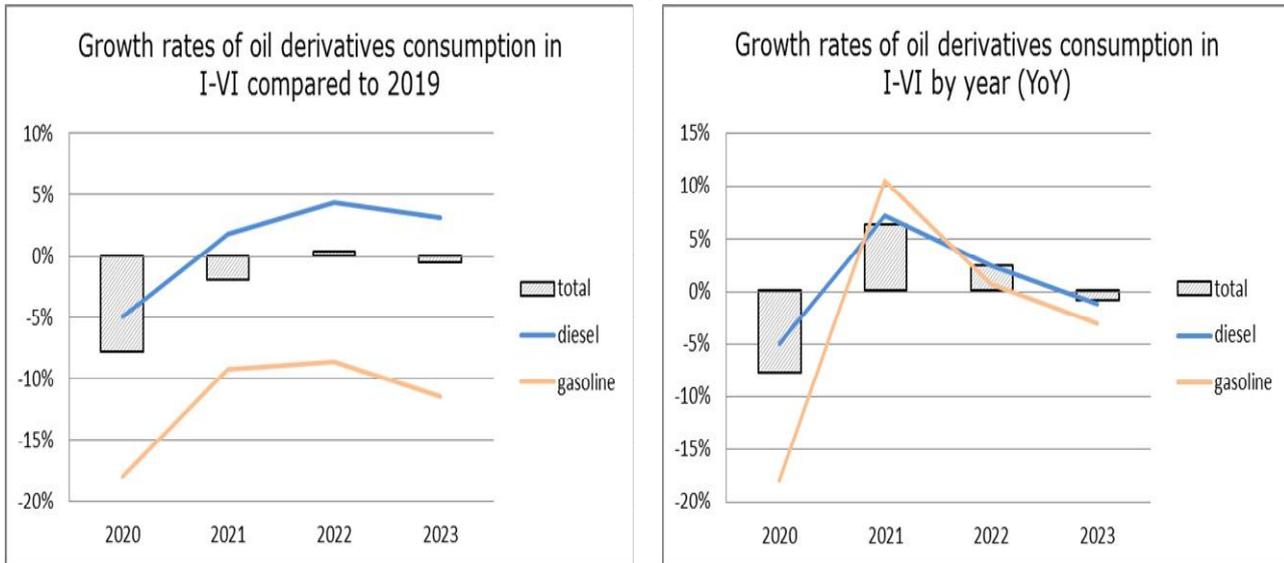
If we compare weekly prices of diesel fuel with the prices from the same week of the previous year, it can be concluded that they grew throughout 2022, with a culmination in the middle of the year. At the beginning of 2023, positive growth rates of weekly diesel fuel prices were maintained, with a downward trend. From the 12th week of 2023 (end of March), a downward trend in weekly prices has begun, at increasing rates, from -12,9% in the 12th week to -30.1% in the 26th week (end of June).

II Consumption of oil derivatives in I-VI in the period 2020-2023

A comparison of the consumption of oil derivatives²³ in the first half of the year from 2019 to 2023 is presented in this section. The left side of Chart 4 shows the consumption of oil derivatives compared to the base year 2019. We see that, after the decline in 2020 and 2021, the consumption of total oil derivatives reached the consumption of I-VI 2019 only in I-VI 2022 (growth +0.4%), with a slightly lower level of consumption in the first half of 2023 (a decrease of -0.5% compared to the same period in 2019). At the same time, the consumption of diesel fuel in the first half of 2023 compared to the same period in 2019 increased by 3.2%, while the consumption of gasoline decreased by 11.5%.

²³ It should be noted that the term "consumption of derivatives" in this article means the quantities calculated by the author, and that they include the amount of imported oil derivatives and the amount of domestic oil derivatives placed on the market. Quantities of domestic derivatives from excise declarations were taken with a time lag of $m-1$, so that the base would be correctly presented in accordance with the provisions of the Law on Excises Duties in B&H, referring to the occurrence of the obligation to calculate and pay excise duty. The last year in which domestic derivatives were placed on the market was 2019, due to the suspension of production in the Oil Refinery Brod after the crash in October 2018.

Chart 4



Source: Author's presentation based on the ITA data

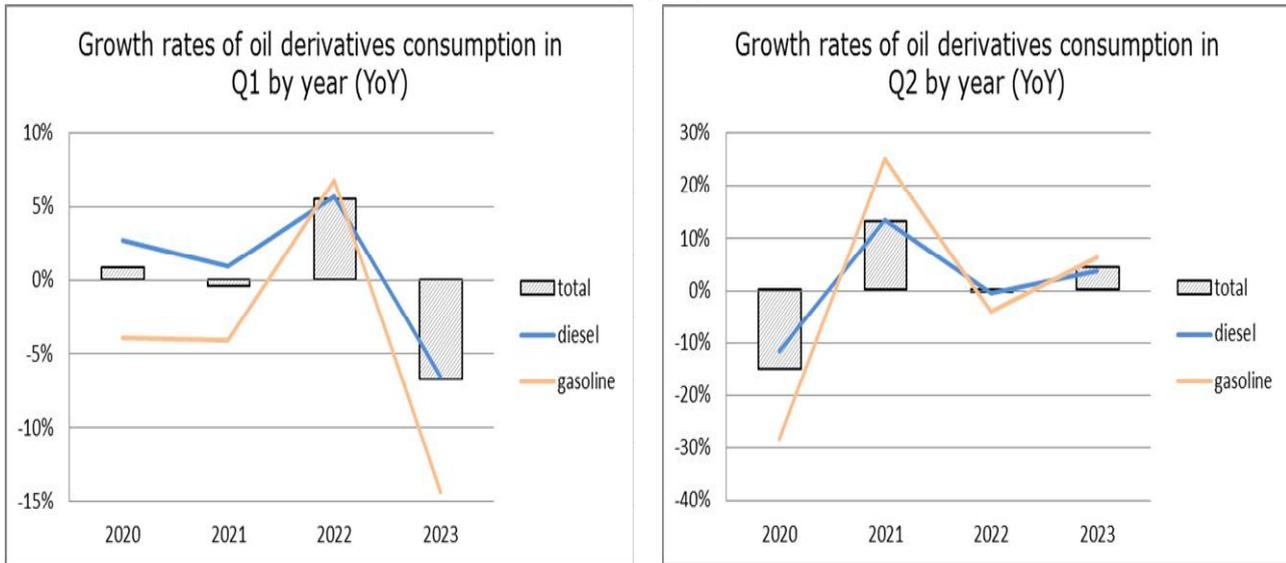
If we look at the growth rates in the first half of a year compared to the same period of the previous year (Chart 4, right), it can be concluded that in 2020 negative rates were achieved, both in total consumption and by category (diesel and gasoline). In the following two years, the opposite, positive trends were recorded, and in 2023, again negative. In the first half of 2023, the consumption of total oil derivatives decreased by 0.9% compared to the same period of the previous year, whereby the consumption of diesel fuel decreased by 1.2%, and the consumption of gasoline also decreased by 3.1%.

III Consumption of oil derivatives in Q1 and Q2 in the period 2020-2023

In order to properly analyze the consumption of derivatives by half-year, it is necessary to analyze it separated into the first and second quarters, given that the significant effects of two phenomena, the corona virus and the war in Ukraine, manifested themselves approximately in the month of March, in 2020 and 2022, respectively, causing the opposite movements in prices and consumption by quarters.

Therefore, in this part, a comparison of the consumption of oil derivatives in the first and second quarter in the period from 2020 to 2023 was made. Chart 5 shows a comparison of consumption in Q1 (left side) and Q2 (right side) of a given year with the same quarter of the previous year. It can be concluded that in each of the years of the observed period 2020-2023, the growth rates with the opposite sign in Q1 compared to Q2 were achieved. In Q1 of 2020 and 2022, there was an increase in the consumption of total oil derivatives, while in the second quarter of those years there was a decrease in consumption, compared to the corresponding quarters of the previous year. In 2021 and 2023, the opposite trends were realized, a decrease in the total consumption of oil derivatives in Q1 and an increase in Q2 (Table 1).

Chart 5



Source: Author's presentation based on the ITA data

Table 1. Growth rates of the consumption of total oil derivatives

| | 2020 | 2021 | 2022 | 2023 |
|----|------|------|------|------|
| Q1 | + | - | + | - |
| Q2 | - | + | - | + |

Source: Author's presentation based on the ITA data

The opposite trends in Q1 and Q2 of 2020 are explained by the onset of the corona virus pandemic, which, despite a significant drop in prices, as a result of lockdown measures, led to a drop in the total consumption of derivatives since April. In the second quarter of 2020, due to the permanently lost consumption of oil derivatives, it fell by a high of 15% (Chart 5, right side). Consumption in the first two quarters of 2021 was approximately at the corresponding level of consumption in 2019, before the onset of the corona virus.²⁴ The negative growth rate of consumption of derivatives in Q1-2021 and the positive growth rate in Q2-2021 compared to the same quarters of the previous year are primarily explained by the characteristics of the statistical base for comparison (low base in the second part of 2020). The amount of lost consumption in Q2 2020, due to the implemented measures to combat the corona virus, is particularly indicated by the fact that the growth rate of consumption of oil derivatives in the second quarter of 2021 of 13.1% was achieved despite the trend of positive monthly growth rates of import prices of oil derivatives, compared to the previous year, which started from March 2021 (Chart 2), and the growth rates of these prices were particularly high in the second quarter.

The opposite trends in the consumption of oil derivatives in Q1 and Q2 2022 are explained by the outbreak of war in Ukraine from the end of February 2022 and the consequent strong growth in the prices of crude oil, the import price of oil derivatives and therefore the prices on the B&H market. The price growth was particularly pronounced in the second quarter of 2022. After recovery of the consumption of oil derivatives and the recorded growth rate of 5.5% in Q1, a slight decrease in consumption of 0.4% was recorded in Q2.

In 2023, the downward trend of monthly crude oil prices (YoY comparison) has begun (Chart 1), which was especially pronounced in the second quarter. The downward trend in import monthly prices (YoY) of oil derivatives (diesel and motor petrol - unleaded) has started with a smaller time

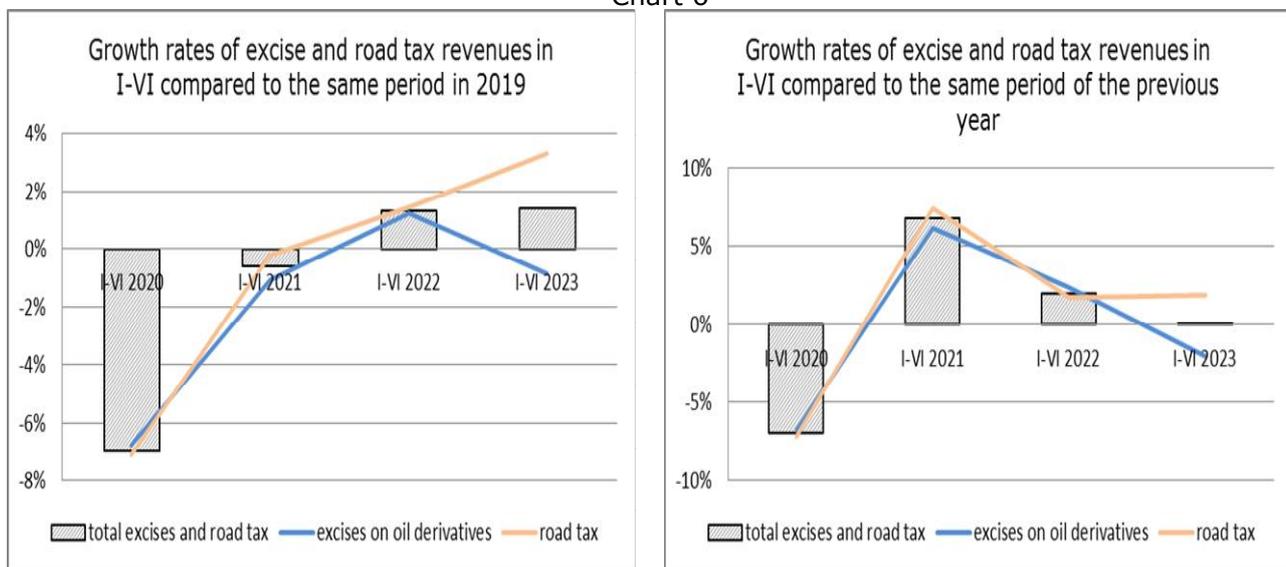
²⁴The total consumption of derivatives increased by 0.4% in Q1-2021 and decreased by 3.8% in Q2-2021 compared to the same quarters of 2019.

lag, in March 2023, and was more pronounced in the second quarter (Chart 2). In Q1 2023, the consumption of oil derivatives was lower by 6.8% compared to the same quarter of the previous year due to relatively high prices and a high statistical basis for comparison, while in the second quarter, with lower prices of oil derivatives, it recovered and reached growth rate of 4.5%.

IV Revenues collected at the Single Account of the ITA based on oil derivatives

Total revenues from excises and road taxes in I-VI 2023 exceeded the amount collected in the corresponding period in 2019 by 1.4%, where revenues from excises decreased by 0.9% and from road tax increased by 3.3% (Chart 6, left). On the other hand, total revenues from excises and road tax in I-VI 2023 were at approximately the same level as in the same period of previous year (growth of 0.1%), where the revenues from excises decreased by 2.1%, and revenues from road tax increased by 1.8% (Chart 6, right).

Chart 6



Source: Author's presentation based on the ITA data

In contrast to 2023, in previous years the growth rates of road tax and excise revenues were at approximately the same level and with the same sign. The differences in the growth rates of revenues from excises on oil derivatives and road tax originate from:

1. exemption from paying road tax for mines, railways and thermal power plants;
2. the different content of derivatives in the excise and road tax base (unlike the excise base, the road tax base does not include kerosene and heating oil);
3. differentiated excise duty rates on derivatives and changes in the structure for excise base in the observed period (change in structure of the base in favor of diesel fuel, which is taxed at a lower excise rate compared to gasoline, see Chart 4, left).

The main reason for the greater differences in the growth rates of excise and road tax revenues (and their opposite sign) in the period I-VI 2023 compared to the same period of the previous year (as well as compared to the same period in 2019) is the absence of exemptions from road tax payments for mines, railways and thermal power plants in 2023.²⁵ If for the same period (I-VI 2023/ I-VI 2022) the road tax base is compared, excluding the realized amount of exemptions in the statistical base for comparison (first half of 2022), then its growth rate would also be negative, as in the case of excises.

²⁵ See the Decision of the State Aid Council of B&H, "Official Gazette of B&H" No. 49/23

Conclusions

1. The average prices of diesel fuel, the derivative with the highest weight in the total consumption of oil derivatives, were extremely high in 2022, and in mid-July they reached their maximum of 3.7 BAM/l. After that, there was a downward trend in diesel fuel prices, and in the last week of the first half of 2023, they amounted to 2.5 BAM/l. In the period from January to the end of June 2023, the weekly prices of diesel fuel on the B&H market fell by about 0.4 BAM/l.
2. In the first half of 2023, the consumption of total oil derivatives decreased by 0.9% compared to the same period of the previous year, where the consumption of diesel fuel decreased by 1.2%, and the consumption of gasoline also decreased by 3.1%. The consumption of total oil derivatives was 0.5% below the consumption in the same period of 2019. At the same time, the consumption of diesel fuel in the first half of 2023 compared to the same period in 2019 increased by 3.2%, while the consumption of gasoline decreased by 11.5%.
3. The consumption of oil derivatives in the first quarter of 2023 was lower by 6.8% compared to the same quarter of the previous year, due to relatively high prices and a high statistical basis for comparison. In the second quarter of 2023, consumption has recovered with lower prices of derivatives, and reached a growth of 4.5% compared to the second quarter of the previous year.
4. In the period I-VI, the same amount of revenues from excises and road taxes was collected together as in the first half of the previous year (growth of 0.1%), where excise collection in the same period fell by 2.3%, and road tax collection increased by 1.8%. Compared to the same period in 2019, 1.4% more revenues from excises and road taxes were collected, where revenues from excises decreased by 0.9%, and revenues from road taxes increased by 3.3%.

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

(Author: Mirjana Popović, expert advisor - macroeconomist)

Summary

This analysis²⁶ is focused on:

- *Annual collection of total revenues from excise duties on alcohol, alcoholic beverages and natural fruit brandy (hereinafter: alcoholic beverages), annual collection of revenues from excise duties on alcoholic beverages separated by components - revenues from excise duties on imported alcoholic beverages and revenues from excise duties on domestic alcoholic beverages in BiH²⁷ in 2022²⁸ compared to the previous year, 2021²⁹.*
- *Quarterly collection of total revenues from excise duties on alcoholic beverages and quarterly collection of revenues from excise duties on alcoholic beverages separated by components - revenues from excise duties on imported alcoholic beverages and revenues from excise duties on domestic alcoholic beverages in BiH. It is for the period from the first quarter (Q1) of 2021 to the second quarter (Q2) of 2023³⁰.*
- *Monthly collection of total revenues from excise duties on alcoholic beverages and monthly collection of revenues from excise duties on alcoholic beverages separated by components - revenues from excise duties on imported alcoholic beverages and revenues from excise duties on domestic alcoholic beverages in BiH for the period January 2021 - June 2023³¹.*

1. Annual movement of revenues from excise duties on alcoholic beverages

Total revenues from excise duties have a significant share in total revenues from indirect taxes, while the share of total revenues from excise duties on alcoholic beverages, which are revenues from excise duties on imported and domestic alcoholic beverages, is 2.0% of total revenues from excise duties at the annual level in the last two years.

Chart 1 shows the annual collection of revenues from excise duties on alcoholic beverages for 2021 and 2022, in millions of BAM. The annual collection of total revenues from excise duties on alcoholic beverages in the observed period and the annual collection of revenues from excise duties on alcoholic beverages separated by components - revenues from excise duties on imported alcoholic beverages and revenues from excise duties on domestic alcoholic beverages are shown.

²⁶ More about the policy of taxation of alcoholic beverages and the collection of revenues from excise duties on alcoholic beverages in: Popović, M. (2022). "Analysis of revenue collection from excise duties on alcohol, alcoholic beverages and natural fruit brandy"; MAU bulletin no. 209/210

²⁷ Bosnia and Herzegovina

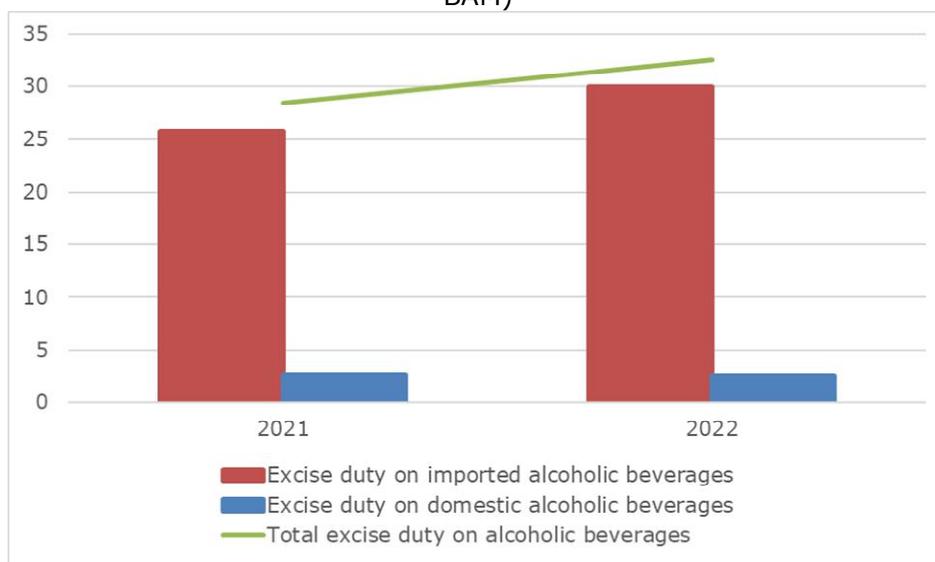
²⁸ Latest available annual data

²⁹ Due to the emergence of the Covid-19 pandemic as well as the measures introduced to combat the spread of the virus, the 2020 is not relevant for comparison. The analysis does not show a longer time series that would include this period.

³⁰ Latest available quarterly data

³¹ Latest available monthly data

Chart 1. Annual collection of revenues from excise duties on alcoholic beverages (in millions of BAM)



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

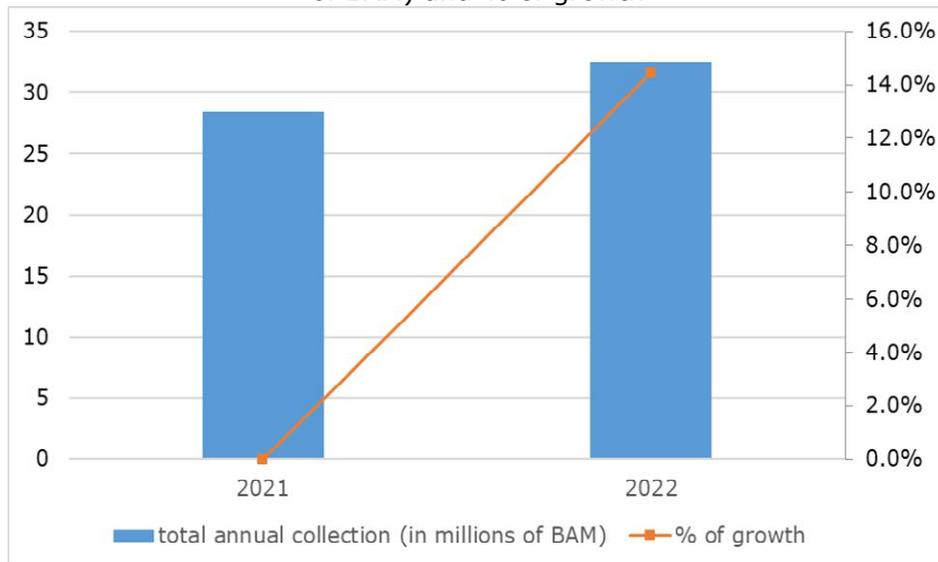
For the purpose of a more detailed analysis, below is presented the annual collection of total revenues from excise duties on alcoholic beverages, the annual collection of revenues from excise duties on imported and domestic alcoholic beverages, as well as the growth rate of these revenues.

1.1. Annual movement of total revenues from excise duties on alcoholic beverages

Chart 2 shows the annual collection of total revenues from excise duties on alcoholic beverages for 2021 and 2022, in millions of BAM (left vertical scale) and the annual growth rate of these revenues (right vertical scale)³².

³² the 2021 was used as a base

Chart 2. Annual collection of total revenues from excise duties on alcoholic beverages (in millions of BAM) and % of growth



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The collection of total revenues from excise duties on alcoholic beverages was increasing in 2022 compared to 2021, and in 2022 more of these revenues were collected by 14.4% compared to the previous year (Chart 2, % of growth).

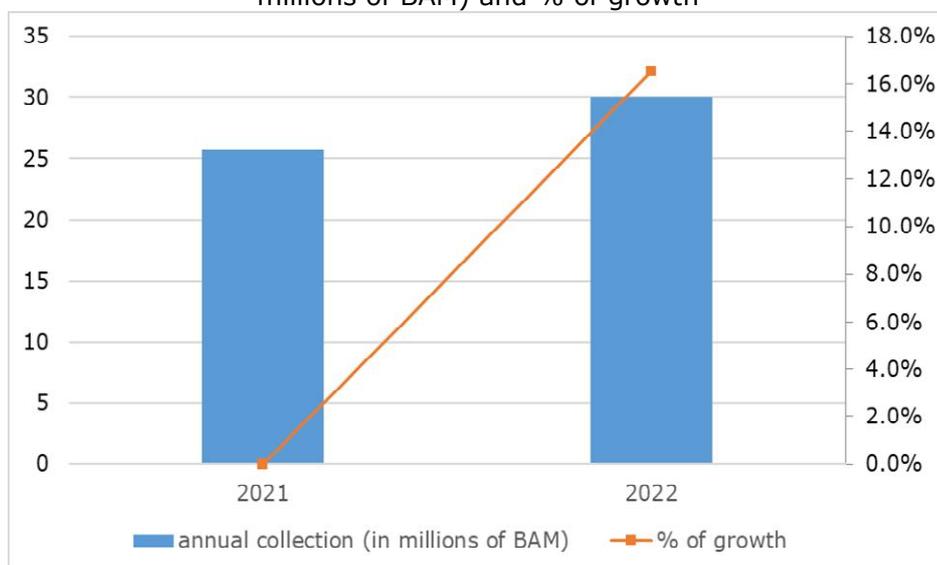
In addition to the annual collection of total revenues from excise duties on alcoholic beverages in 2021 and 2022, below is the collection of excise revenues on alcoholic beverages separated by components for the same period on an annual basis and the annual growth rate of these revenues. Analysis of revenue collection from excise duties on alcoholic beverages separated by components - import and domestic excise provides information that is more detailed. This information refers to consumer preferences and the influence of other external factors on the consumption of alcoholic beverages that are subject to excise taxation.

1.2. Annual movement of revenues from excise duties on imported alcoholic beverages

Chart 3 shows the annual collection of revenues from excise duties on imported alcoholic beverages for 2021 and 2022, in millions of BAM (left vertical scale) and the annual growth rate of these revenues (right vertical scale)³³.

³³ the 2021 was used as a base

Chart 3. Annual collection of revenues from excise duties on imported alcoholic beverages (in millions of BAM) and % of growth



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

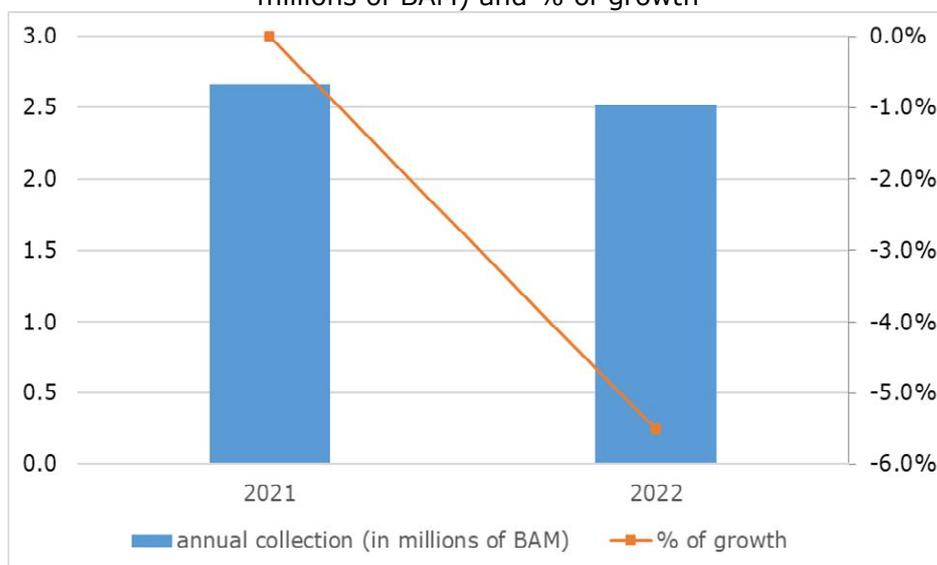
Looking at chart 3, it is noticeable that the annual collection of revenues from excise duties on imported alcoholic beverages in 2022 has increased by 16.5% compared to the year before. The increase in revenues from excise duties on imported alcoholic beverages is significantly higher than the increase in revenues from excise duties on domestic alcoholic beverages, on an annual basis. Accordingly, these revenues contribute the most to the increase in total revenues from excise duties on alcoholic beverages. This is largely the result of a larger supply of imported alcoholic beverages, consumer preferences, and the affordable prices of imported alcoholic beverages compared to domestic ones. The preference for imported alcoholic beverages is increasing also under the influence of marketing and promotion through increasingly popular online and offline channels.

1.3. Annual movement of revenues from excise duties on domestic alcoholic beverages

Chart 4 shows the annual collection of revenues from excise duties on domestic alcoholic beverages for 2021 and 2022, in millions of BAM (left vertical scale) and the annual growth rate of these revenues (right vertical scale)³⁴.

³⁴ the 2021 was used as a base

Chart 4. Annual collection of revenues from excise duties on domestic alcoholic beverages (in millions of BAM) and % of growth



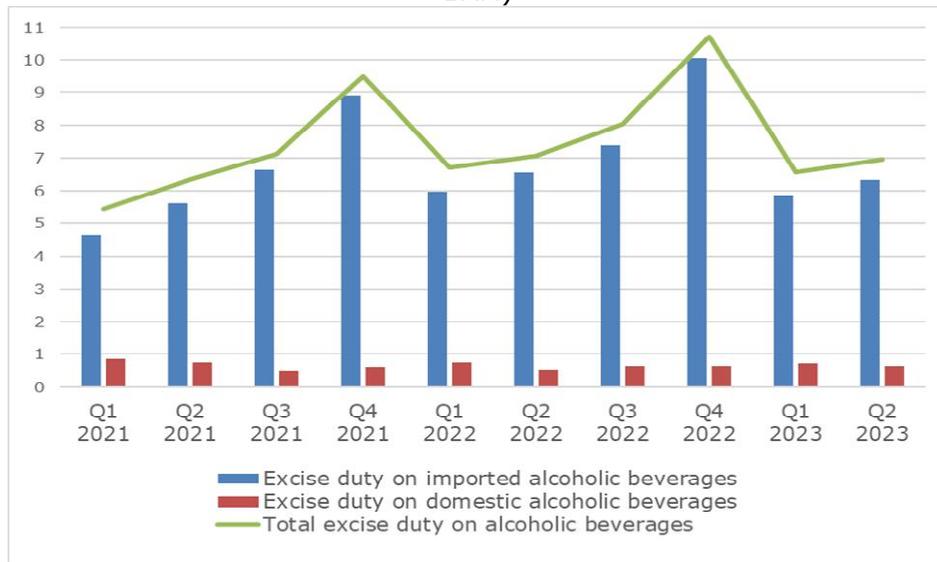
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

In contrast to revenues from excise duties on imported alcoholic beverages, which increased significantly in 2022 compared to the year before, collection of revenues from excise duties on domestic alcoholic beverages decreased by 5.5% (Chart 4, % of growth). A more diverse offer, consumer preferences and other previously mentioned factors are the biggest causes of the growing difference between the growth rate of excise duties on imported and domestic alcoholic beverages.

2. Quarterly movement of revenues from excise duties on alcoholic beverages

Chart 5 shows the quarterly collection of revenues from excise duties on alcoholic beverages for the period from the first quarter (Q1) of 2021 to the second quarter (Q2) of 2023, in millions of BAM. The chart shows the quarterly dynamics of total revenues from excise duties on alcoholic beverages, as well as revenues from excise duties on alcoholic beverages separated by components - revenues from excise duties on imported alcoholic beverages and revenues from excise duties on domestic alcoholic beverages.

Chart 5. Quarterly collection of revenues from excise duties on alcoholic beverages (in millions of BAM)



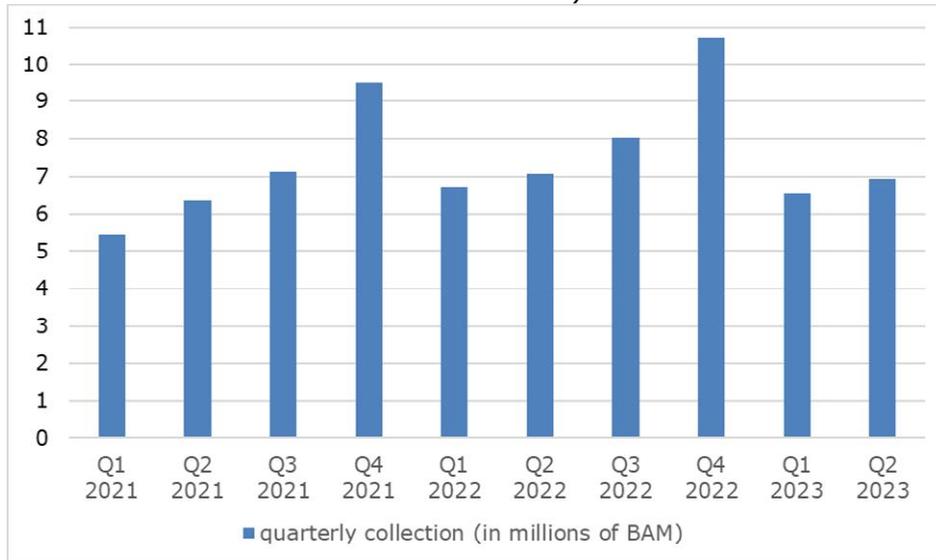
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The movement of the collection of quarterly revenues from excise duties on alcoholic beverages tends to increase on a quarterly basis. It is noticeable that the collection of these revenues in the first quarters shown is the smallest, after which it increases, and the largest collection was realized in the last quarters of 2021 and 2022. Considering that the end of the year is characterized by the organization of New Year's and Christmas celebrations, during which the procurement and consumption of alcoholic beverages increased, the fourth quarter was marked by an increased collection of total revenues from excise duties on this excise product.

2.1. Quarterly movement of total revenues from excise duties on alcoholic beverages

Chart 6 shows the quarterly collection of total revenues from excise duties on alcoholic beverages for the period Q1 2021 - Q2 2023, in millions of BAM.

Chart 6. Quarterly collection of total revenues from excise duties on alcoholic beverages (in millions of BAM)

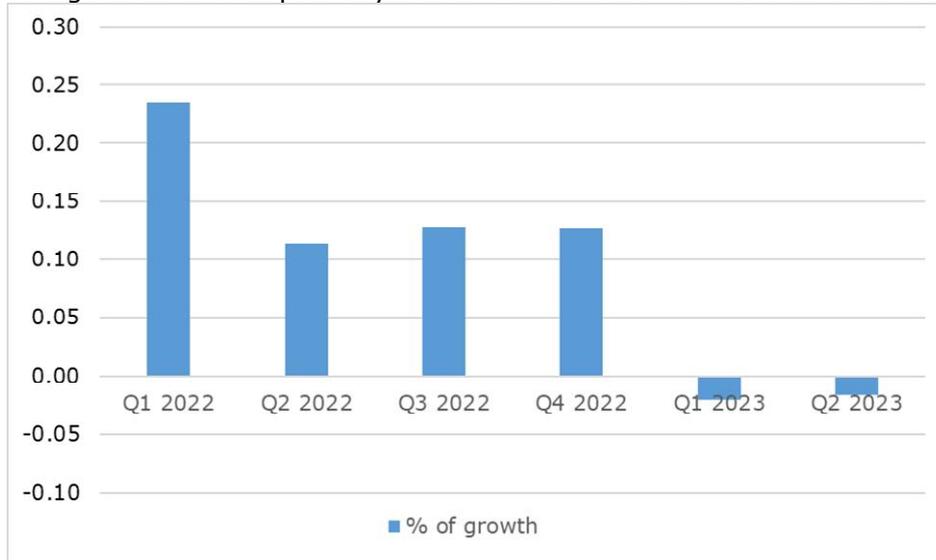


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The chart shows that the collection of these revenues in the observed period is the lowest in the first quarters, while it is the highest in the fourth quarters. The main reason for lower collected revenues in the first quarters is the large stocks of alcohol and alcoholic beverages with consumers from December, that is, from the fourth quarter of the previous year.

Chart 7 shows the quarterly growth rate of total revenues from excise duties on alcoholic beverages for the period Q1 2021 - Q2 2023.

Chart 7. % of growth of total quarterly revenues from excise duties on alcoholic beverages



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

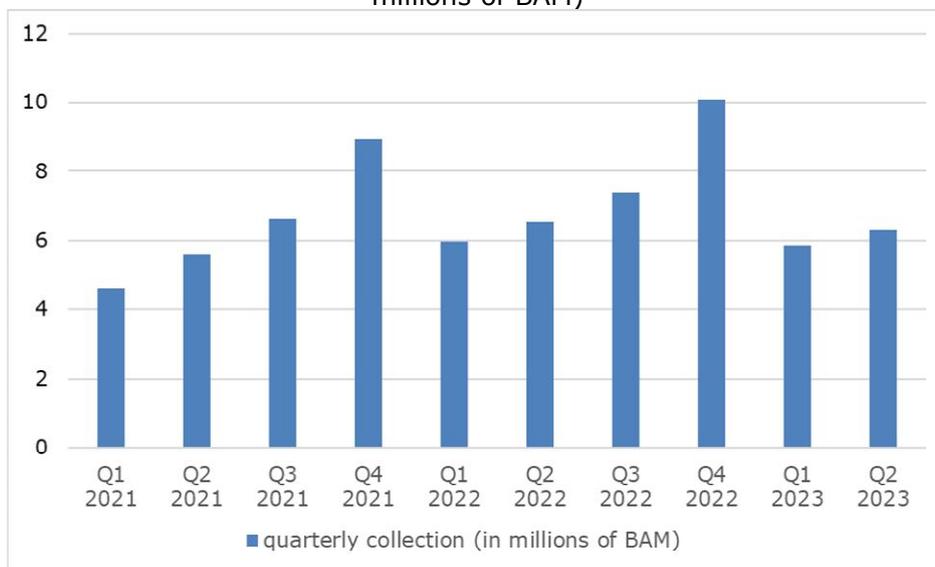
In the first quarters, the highest collection of total revenues from excise duties on alcoholic beverages was recorded in 2022, and compared to the first quarter of 2021 it is higher by 23.4%, while the collection of these revenues in the first quarter of 2023 is lower by 2.1% compared to the same quarter of 2022. In the second quarter of 2022, an increase in the collection of total

revenues from excise duties on alcoholic beverages was recorded by 11.4% compared to the second quarter of 2021. In the second quarter of the current year, a decrease in the collection of these revenues by 1.7% was recorded compared to the second quarter of the previous year. In the third and fourth quarters of 2022, the collection of total revenues from excise duties on alcoholic beverages is higher by 12.8% and 12.6%, respectively, compared to the same quarter of 2021.

2.2. Quarterly movement of revenues from excise duties on imported alcoholic beverages

Chart 8 shows the quarterly collection of revenues from excise duties on imported alcoholic beverages for the period Q1 2021 - Q2 2023, in millions of BAM.

Chart 8. Quarterly collection of revenues from excise duties on imported alcoholic beverages (in millions of BAM)

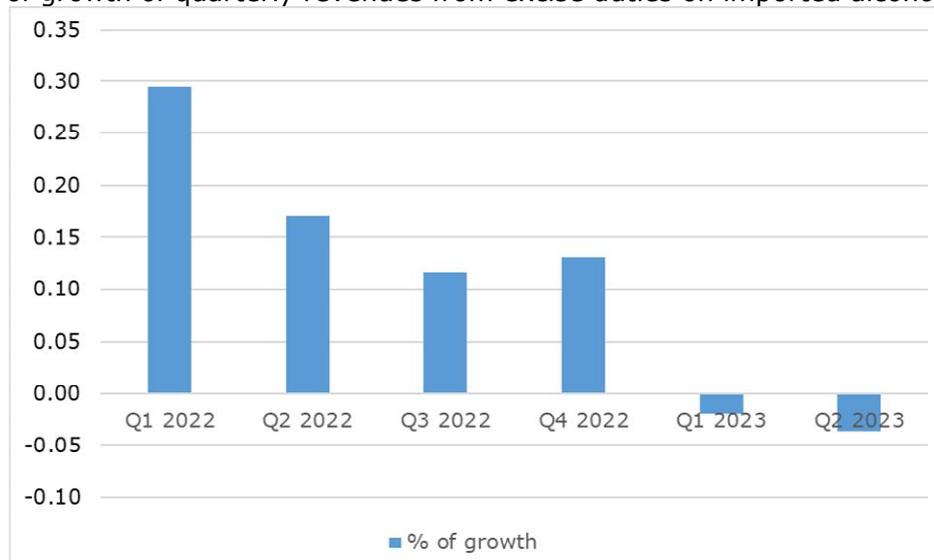


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Given the large share of revenues from excise duties on imported alcoholic beverages in total revenues from excise duties on alcoholic beverages, the tendency of these revenues does not differ from the tendency of total revenues from excise duties on alcoholic beverages on a quarterly basis. Accordingly, as with the quarterly collection of total revenues from excise duties on alcoholic beverages, the quarterly collection of revenues from excise duties on imported alcoholic beverages is also the highest in the fourth quarter of the observed period.

Chart 9 shows the quarterly growth rate of revenues from excise duties on imported alcoholic beverages for the period Q1 2021 - Q2 2023.

Chart 9. % of growth of quarterly revenues from excise duties on imported alcoholic beverages



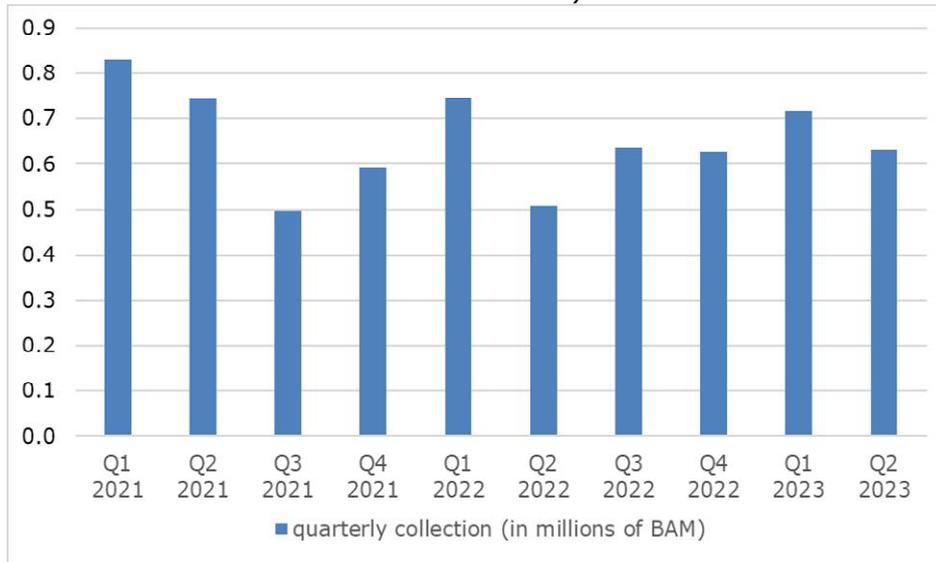
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The quarterly collection of revenues from excise duties on imported alcoholic beverages has a positive growth rate during 2022 compared to 2021. However, a negative growth rate was recorded in the first two quarters of the current year, i.e. a decrease in the collection of these revenues compared to the quarterly collection of the same in the previous year. In the first quarter of 2022, the collection of these revenues is higher by 29.5% compared to the same quarter of 2021, while in the first quarter of the current year it is lower by 1.9% compared to the same quarter of the previous year. In the second quarter of 2022, an increase in revenues from excise duties on imported alcoholic beverages was recorded by 17.1% compared to the second quarter of 2021, while in the same quarter of the current year, the collection of these revenues was 3.7% lower compared to the second quarter of the previous year. In the third and fourth quarters of 2022, an increase in the collection of these revenues was recorded by 11.6% and 13.1%, respectively, compared to the same quarter of 2021.

2.3. Quarterly movement of revenues from excise duties on domestic alcoholic beverages

Chart 10 shows the quarterly collection of revenues from excise duties on domestic alcoholic beverages for the period Q1 2021 - Q2 2023, in millions of BAM.

Chart 10. Quarterly collection of revenues from excise duties on domestic alcoholic beverages (in millions of BAM)

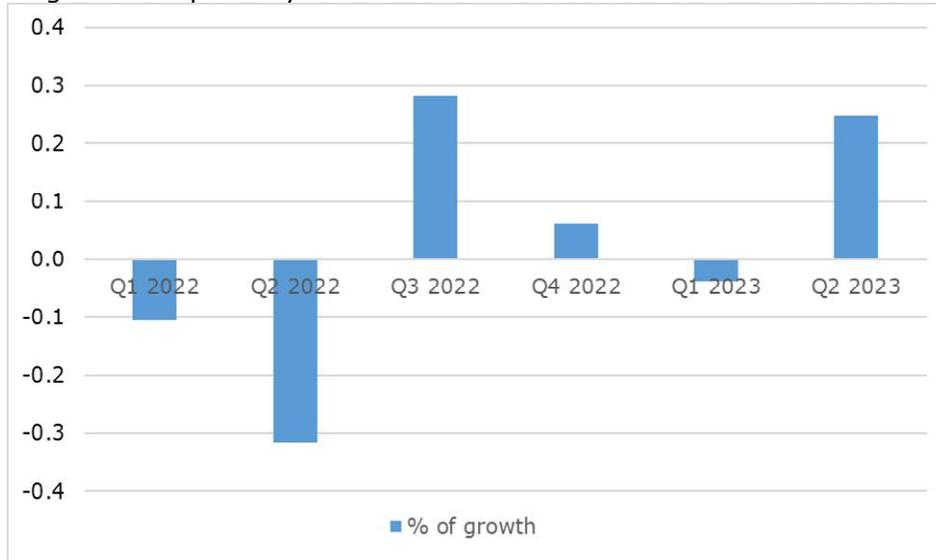


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

In contrast to the quarterly collection of total revenues from excise duties on alcoholic beverages and the quarterly collection of revenues from excise duties on imported alcoholic beverages, the highest quarterly collection of revenues from excise duties on domestic alcoholic beverages shown in the chart was recorded in the first quarters.

Chart 11 shows the quarterly growth rate of revenues from excise duties on domestic alcoholic beverages for the period Q1 2021 - Q2 2023.

Chart 11. % of growth of quarterly revenues from excise duties on domestic alcoholic beverages



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

A positive growth rate of revenues from excise duties on domestic alcoholic beverages was recorded in the third and fourth quarters of 2022 and in the second quarter of the current year, compared to the same quarter of the previous year. In the first quarter of 2022, these revenues are lower by 10.6% compared to the first quarter of 2021, while their collection in the first quarter

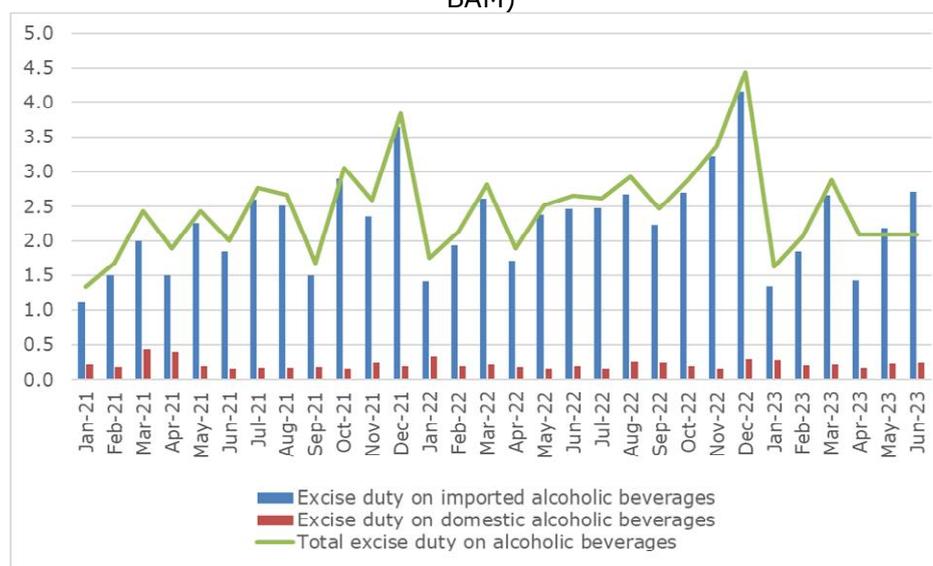
of the current year is lower by 3.8% compared to the first quarter of the previous year. In the second quarter of 2022, a decrease of 31.7% was recorded in these revenues compared to the same quarter of 2021, while in the second quarter of the current year their collection was higher by 24.7% compared to the second quarter of 2022. The collection of revenues from excise duties on domestic alcoholic beverages recorded in the third and fourth quarters of 2022 is higher by 28.3% and 6.1%, respectively, compared to the same quarter of 2021.

3. Monthly movement of revenues from excise duties on alcoholic beverages

The monthly dynamics of collection of revenues from excise duties on alcoholic beverages is shown for the period from January 2021 to June 2023. This presentation of the collection of these revenues provides detailed information on the dynamics of consumption of alcoholic beverages under the influence of various external factors.

Chart 12 shows the monthly collection of revenues from excise duties on alcoholic beverages for the period January 2021 - June 2023, in millions of BAM. The monthly movement of the total collection of revenues from excise duties on alcoholic beverages in the observed period as well as the monthly movement of collection of revenues from excise duties on alcoholic beverages separated by components - collection of revenues from excise duties on imported and domestic alcoholic beverages are shown.

Chart 12. Monthly collection of revenues from excise duties on alcoholic beverages (in millions of BAM)



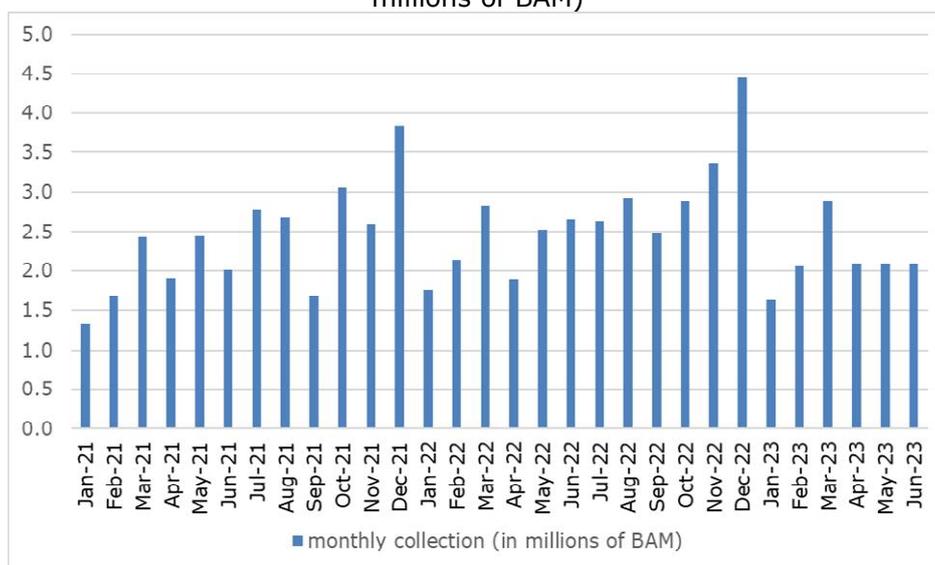
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The highest collection of total revenues from excise duties on alcoholic beverages on a monthly basis in the period shown in the chart was recorded in December 2022, then in December 2021. The main causes of the highest consumption of this excise product in the last month of the year are the increased consumption of alcoholic beverages during the Christmas and New Year holidays and the creation of stocks for the January holidays. A more detailed analysis of the movement of total monthly revenues from excise duties on alcoholic beverages, as well as revenues from excise duties on alcoholic beverages by component - imported and domestic alcoholic beverages on a monthly basis, is presented below.

3.1. Monthly movement of total revenues from excise duties on alcoholic beverages

Chart 13 shows the monthly collection of total revenues from excise duties on alcoholic beverages for the period January 2021 - June 2023, in millions of BAM.

Chart 13. Monthly collection of total revenues from excise duties on alcoholic beverages (in millions of BAM)

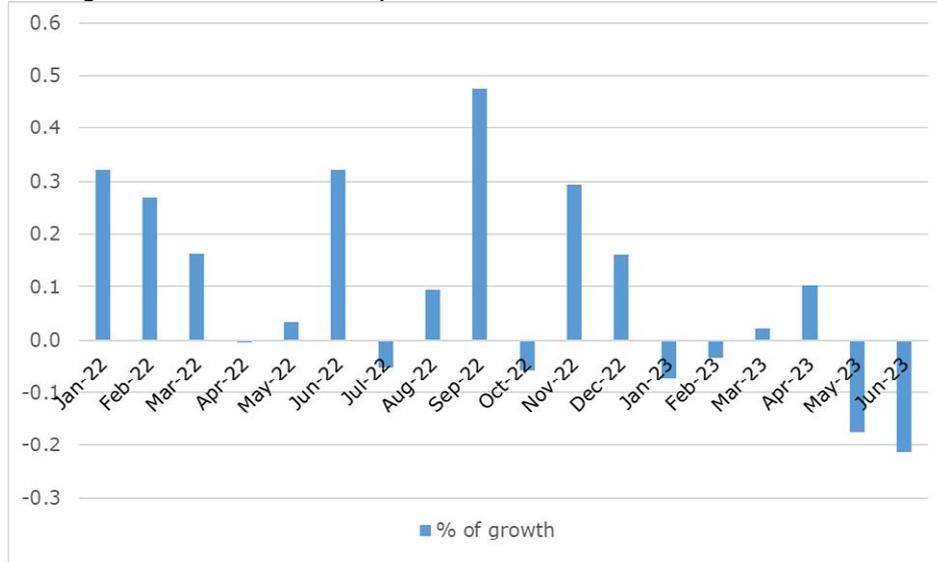


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

December 2022 is characterized by a record monthly collection of these revenues, which is 16.0% higher than the collection in the same month of 2021. The lowest monthly collection of total revenues from excise duties on alcoholic beverages in the observed period was recorded in January 2021, and compared to the same month in 2022 and 2023 it is lower by 24.3% and 18.4%, respectively.

Chart 14 shows the monthly growth rate of total revenues from excise duties on alcoholic beverages for the period January 2022 - June 2023, compared to the same month of the previous year.

Chart 14. % of growth of total monthly revenues from excise duties on alcoholic beverages



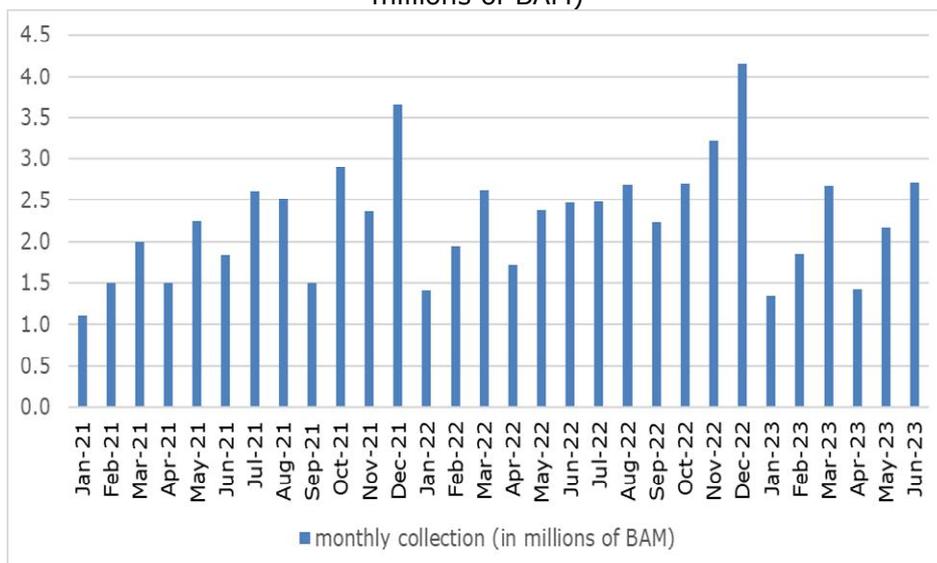
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

If the growth rate of total revenues from excise duties on alcoholic beverages is analyzed on a monthly basis, the highest growth rate was recorded in September 2022, 47.6% compared to the same month in 2021. In the first six months of the current year, the collection of these revenues has a positive growth rate only in March and April, while in June the highest negative growth rate in the presented period was recorded, amounting to 21.5%.

3.2. Monthly movement of revenues from excise duties on imported alcoholic beverages

Chart 15 shows the monthly collection of revenues from excise duties on imported alcoholic beverages for the period January 2021 - June 2023, in millions of BAM.

Chart 15. Monthly collection of revenues from excise duties on imported alcoholic beverages (in millions of BAM)

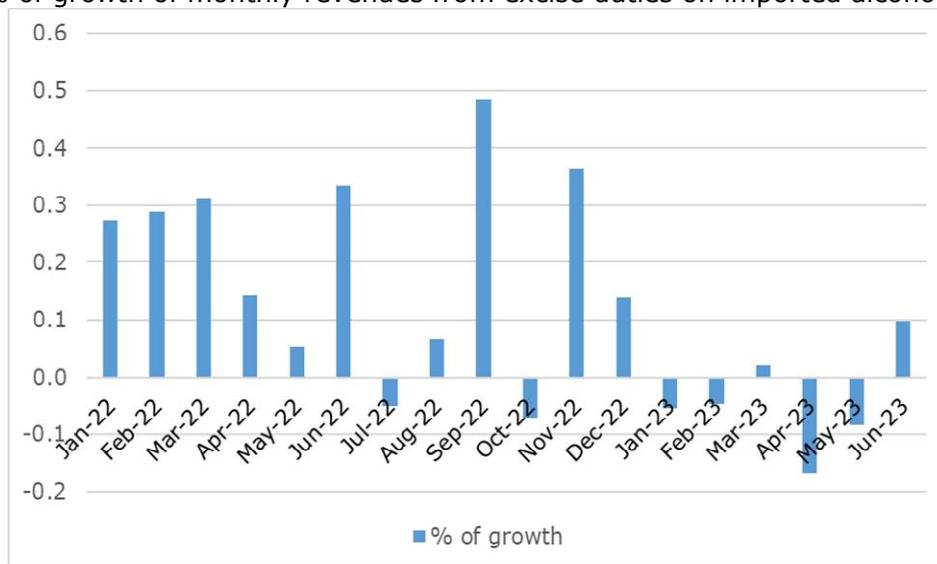


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

As with the total revenues from excise duties on alcoholic beverages shown on a monthly basis, the highest collection of revenues from excise duties on imported alcoholic beverages was also recorded at the end of the year. From the data shown in the chart, it can be seen that the highest collection of revenues from excise duties on imported alcoholic beverages on a monthly basis was recorded in December 2022, and compared to the same month in 2021, it is 13.9% higher. The lowest collection of these revenues in the observed period on a monthly basis was recorded in January 2021, compared to January 2022 it is 21.5% less, and compared to the same month of the current year it is 17.0% less.

Chart 16 shows the monthly growth rate of revenues from excise duties on imported alcoholic beverages for the period January 2022 - June 2023, compared to the same month of the previous year.

Chart 16. % of growth of monthly revenues from excise duties on imported alcoholic beverages



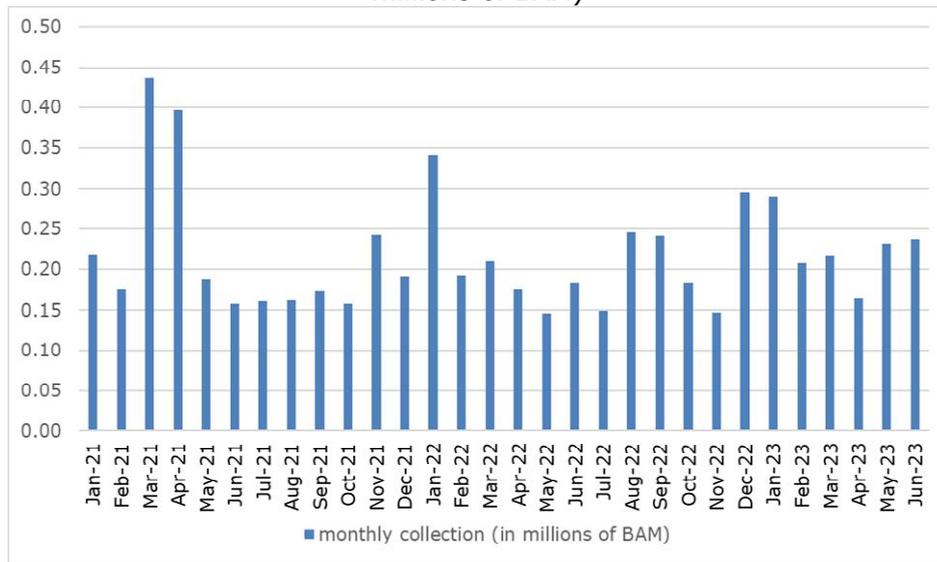
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The highest growth in collection of revenues from excise duties on imported alcoholic beverages on a monthly basis was recorded in September 2022, 48.5% compared to September 2021. A significant growth of these revenues on a monthly level was also recorded during a several months in 2022, while their decrease was mostly recorded in the current year. The largest decrease in the growth rate of revenues from excise duties on imported alcoholic beverages in the observed period was recorded in April of the current year by 16.7%, compared to the same month of the previous year.

3.3. Monthly movement of revenues from excise duties on domestic alcoholic beverages

Chart 17 shows the monthly collection of revenues from excise duties on domestic alcoholic beverages for the period January 2021 - June 2023, in millions of BAM.

Chart 17. Monthly collection of revenues from excise duties on domestic alcoholic beverages (in millions of BAM)

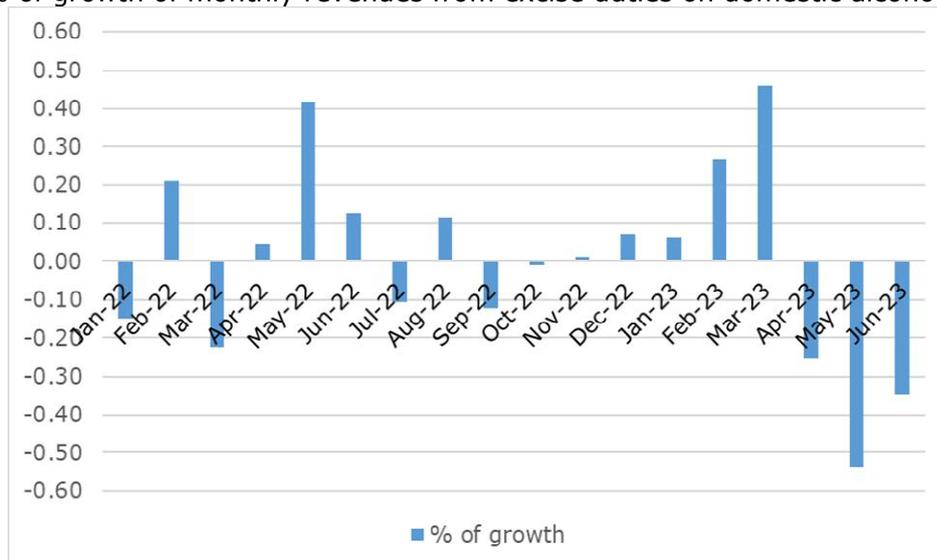


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

In contrast to the total revenues from excise duties on alcoholic beverages and revenues from excise duties on imported alcoholic beverages, whose collection in the observed period is the highest at the end of the year, the collection of revenues from excise duties on domestic alcoholic beverages in the observed period is the highest in March 2021. It is 108,5% higher compared to March 2022, i.e. 100.6% higher compared to March 2023. Significantly higher collection of these revenues was recorded in April 2021, January and December 2022, as well as in January 2023.

Chart 18 shows the monthly growth rate of revenues from excise duties on domestic alcoholic beverages for the period January 2022 - June 2023, compared to the same month of the previous year.

Chart 18. % of growth of monthly revenues from excise duties on domestic alcoholic beverages



Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The growth rate of revenues from excise duties on domestic alcoholic beverages recorded the highest growth of 46.1% in March of the current year compared to the same month of the previous year, as well as in May 2022, when a growth of 42.0% was recorded compared to May 2021. The highest negative growth rate of these revenues on a monthly basis was recorded in April 25.6%, May 53.8% and June 34.9% of the current year, compared to the same month of the previous year.

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