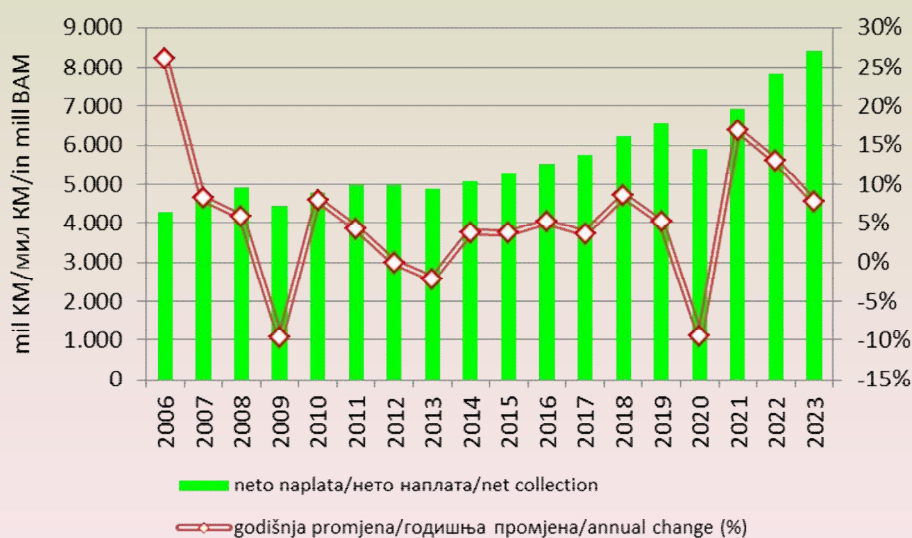




Macroeconomic Unit of the Governing Board of the Indirect Taxation Authority

ОМЈА Билтен



Broj
Број
Number **233/234**

novembar/decembar 2024 – studeni/prosinac 2024 – новембар/децембар 2024 – November/December 2024

With this issue

When preparing the revised projections of revenues from indirect taxes for the period 2024-2027, which we publish in this Bulletin, and which were submitted to the fiscal authorities of B&H in mid-October 2024, analytical data on the foreign trade exchange of B&H was available only for eight months of 2024. In contrast from monthly analyses, which indicate strong fluctuations in imports, quarterly comparisons, which are possible based on the latest data on imports for the period January - September 2024, enable an overview of trends. Collection of customs revenues depends on the import of goods from third countries and part of the goods from the EU that remained under the customs regime. There was a slowdown in imports from the EU in the third quarter of 2024 in absolute terms, while imports from third countries were at the level of imports in the second quarter (Chart 1).

Chart 1

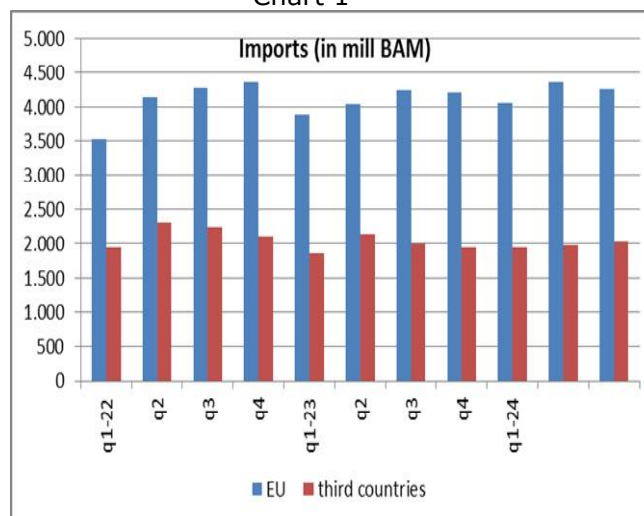
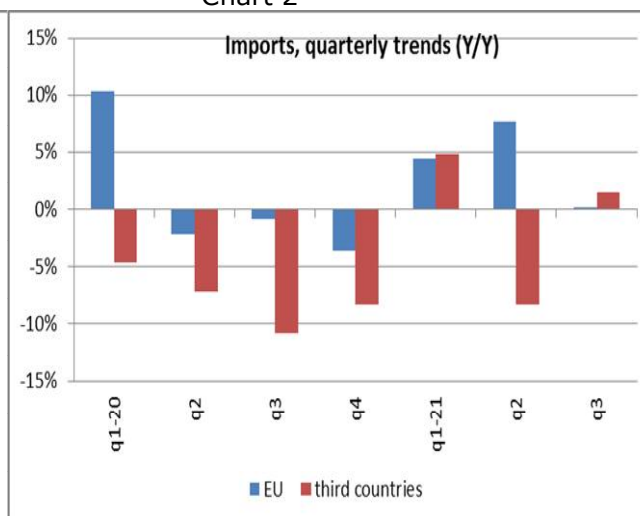


Chart 2



However, a comparison of imports with the same quarter of the previous year (YoY) shows a strong slowdown in imports from the EU. After the growth of 7.8% in the second quarter, in the third quarter of 2024, the growth was only 0.2%. On the other hand, the recovery of imports from third countries is evident, which, after a drop of 8.3% in the second quarter, increased by 1.4% in the third quarter of 2024 (Chart 2).

Dinka Antić, PhD
Head of Unit

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Technical design: Sulejman Hasanović, IT expert

Reader/translator: Darija Komlenović, professor

REVISED PROJECTIONS OF REVENUES FROM INDIRECT TAXES FOR THE PERIOD 2024-2027

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Summary

Projections of macroeconomic indicators

According to data of the Agency for Statistics of B&H for the year 2023, nominal GDP growth of 11.7% was recorded in Bosnia and Herzegovina compared to the previous year. The projection of the Directorate for Economic Planning (September 2024) for nominal GDP growth in Bosnia and Herzegovina in 2024 amounts to 5.1%. According to the same projection, economic growth of 5.1% in 2025, 5.3% in 2026, and 5.2% in 2027 is expected.

Trends in revenue collection from indirect taxes 2006-2023

In 2006, 4.12 billion BAM of net revenues from indirect taxes were collected on the Single Account (SA) of the ITA. In almost all years since the establishment of the ITA, there has been an increase in revenues collected at the ITA SA. The exceptions were: the "crisis" year of 2009, when there was a 9.9% drop in revenue, stagnation and a milder drop in revenues in 2012 and 2013, and a drop in 2020 of 9.3% as a result of the effects of the virus corona. In all other years, the growth of these revenues was recorded, and the highest was achieved in 2021, at a rate of 16.7%. In 2023, the annual growth of revenues from indirect taxes of 7.8% and a record nominal collection since the establishment of the ITA in the amount of 8,43 billion BAM has been achieved. Finally, the increase in collection in 2023 compared to 2006 was a high 104.6%.

Trends in revenue collection from indirect taxes in the period I-IX 2024

In the period January - September 2024, there was an increase in the gross collection of revenues from indirect taxes of 8%, while refund payments were lower by 92.3 million BAM. The net effect of collecting indirect taxes in the period January-September 2024 was 721.5 million KM, which represents an increase of 11.5%.

Projections of revenues from indirect taxes

The projected growth rate of revenues from indirect taxes for 2024 is 0.5 p.p. lower than the nine-month growth rate and amounts to 11%. The projected growth rates of net revenues from indirect taxes for 2025, 2026 and 2027 are 3.9%, 4% and 4.1%, respectively. The projection of revenues in the mentioned period is based on projected relevant macroeconomic indicators, historical seasonal collection pattern and projections of certain categories of revenues for the year 2024.

Risks

There are significant risks for the realization of projections of revenues from indirect taxes. The achievement of the projected level of revenues from indirect taxes in the period 2024-2027 is subject to the following risks: all risks for the achievement of projected macroeconomic indicators (DEP) and risks related to the collection of revenues from indirect taxes and the fight against grey economy.

I BASIS AND ASSUMPTIONS OF THE REVISED PROJECTIONS OF REVENUES FROM INDIRECT TAXES

Projections of revenues from indirect taxes are based on the projections of macroeconomic indicators of the DEP from September 2024, and take into account trends in the collection of indirect taxes, and the current government policy in the field of indirect taxation (baseline scenario).

1. Projections of macroeconomic indicators, DEP

1.1. Projections, DEP, September 2024

Table 1 presents the latest projections of the Directorate for Economic Planning of B&H (DEP, September 2024) of nominal and real GDP growth for the period 2024-2027.

Table 1. GDP growth projection, DEP, September 2024

	Official data		Projections			
	2022	2023	2024	2025	2026	2027
Nominal growth	13,6	11,7	5,1	5,1	5,3	5,2
Real growth	3,7	1,9	2,4	2,8	3,1	3,3

Source: DEP, September 2024

1.1.1. Economic trends in 2023

According to the published data of the Agency for Statistics of B&H, the gross domestic product according to the expenditure approach was estimated at 50,932 million BAM for the year 2023, representing a nominal growth of 11.7% and a real growth of 1.9%, compared to 2022.¹ Expenditures for total final consumption amounted to 43,658 million BAM, representing a nominal growth of 11.1% compared to the previous year, while expenditures for final consumption of households and NPISH amounted to 34,111 million BAM (nominal growth of 10.9% and real growth of 1.1% compared to the previous year). Government final consumption expenditures amounted to 9,548 million BAM in 2023 (nominal growth of 12.2% and real growth of 2.1%, compared to the previous year). Gross fixed capital formation in 2023 amounted to 11,519 million BAM (nominal growth of 14.3% and real growth of 12.1%, compared to 2022). The export of goods and services in 2023 compared to 2022 achieved a nominal decrease of 0.5%, while the import of goods and services recorded a nominal decrease of 1.6%

1.1.2. Projections for the period 2024-2027

In DEP's projections of macroeconomic indicators, it is stated that the assessment of economic trends in Bosnia and Herzegovina for the year 2024 is based on currently available domestic and international statistical data and their calculations based on the available econometric models. They state that, despite unfavorable trends in the external environment, domestic demand (final consumption and investments) should represent the main pillar of achieving economic growth by the end of the year, thanks to the expected increase in the number of employees, a certain increase in wages and pensions, and the growth of money inflows from abroad and credit growth within the population sector. According to DEP's projections, gross domestic product in the amount of 53,519 million BAM is expected in B&H in 2024, representing a nominal growth of 5.1% and a real growth of 2.4%, compared to the previous year.

¹ "Gross domestic product for Bosnia and Herzegovina in 2023; Expenditure approach, first results", Agency for Statistics of B&H, 30 September 2024.

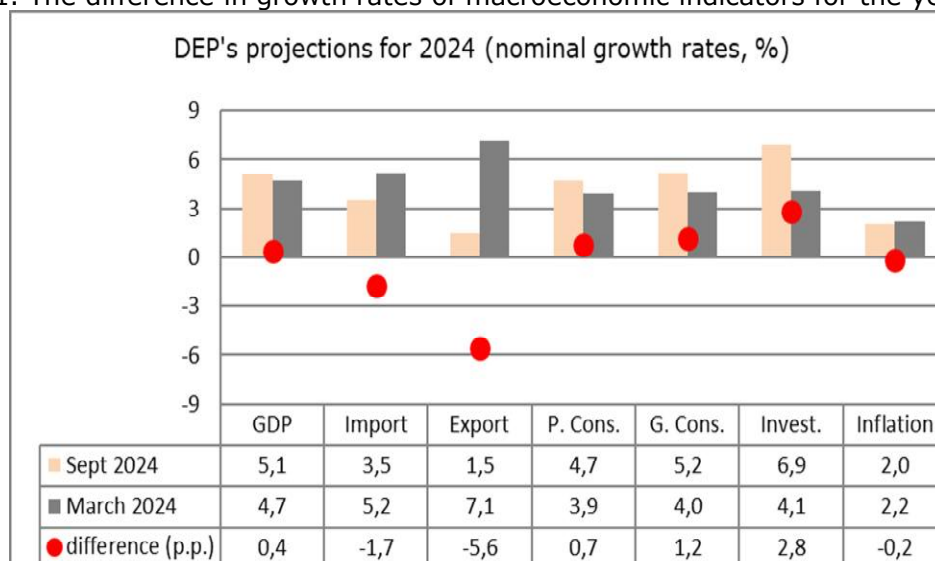
For the period 2025-2027, it is emphasized that, in addition to internal dynamics, economic trends in the external environment, especially in EU-27 countries, represent an important structural determinant of economic trends in B&H. They especially point out that in the past period the world economy was marked by major challenges, such as the global pandemic, conflicts in Ukraine, etc., and that the negative economic consequences of these events are manifested through trade, financial and price shocks in Bosnia and Herzegovina. They also state that, in addition to external dynamics, a very important factor for economic growth in the country is the institutional capacity of the country in the implementation of structural reforms. According to DEP's projections, real economic growth rates of 2.8% in 2025, 3.1% in 2026 and 3.3% in 2027 are expected in B&H (Table 1).

1.2. DEP, revision of projections of macroeconomic indicators for BiH

1.2.1. Revision of projections of macroeconomic indicators for 2024

Based on Chart 1, DEP's latest projections (September 2024) of the growth rates of GDP for 2024 and its components can be compared with the previous ones (March 2024). The nominal GDP growth rate was revised by +0.4 p.p., from 4.7% to 5.1%. Import and export growth rates were revised downwards (-1.7 p.p. and -5.6 p.p.). Growth rates of private and government consumption were revised upwards, by +0.7 p.p. and +1.2 p.p., respectively. The investment growth rate was revised upwards by +2.8 p.p., while the inflation rate was slightly revised downwards (-0.2 p.p.).

Chart 1. The difference in growth rates of macroeconomic indicators for the year 2024



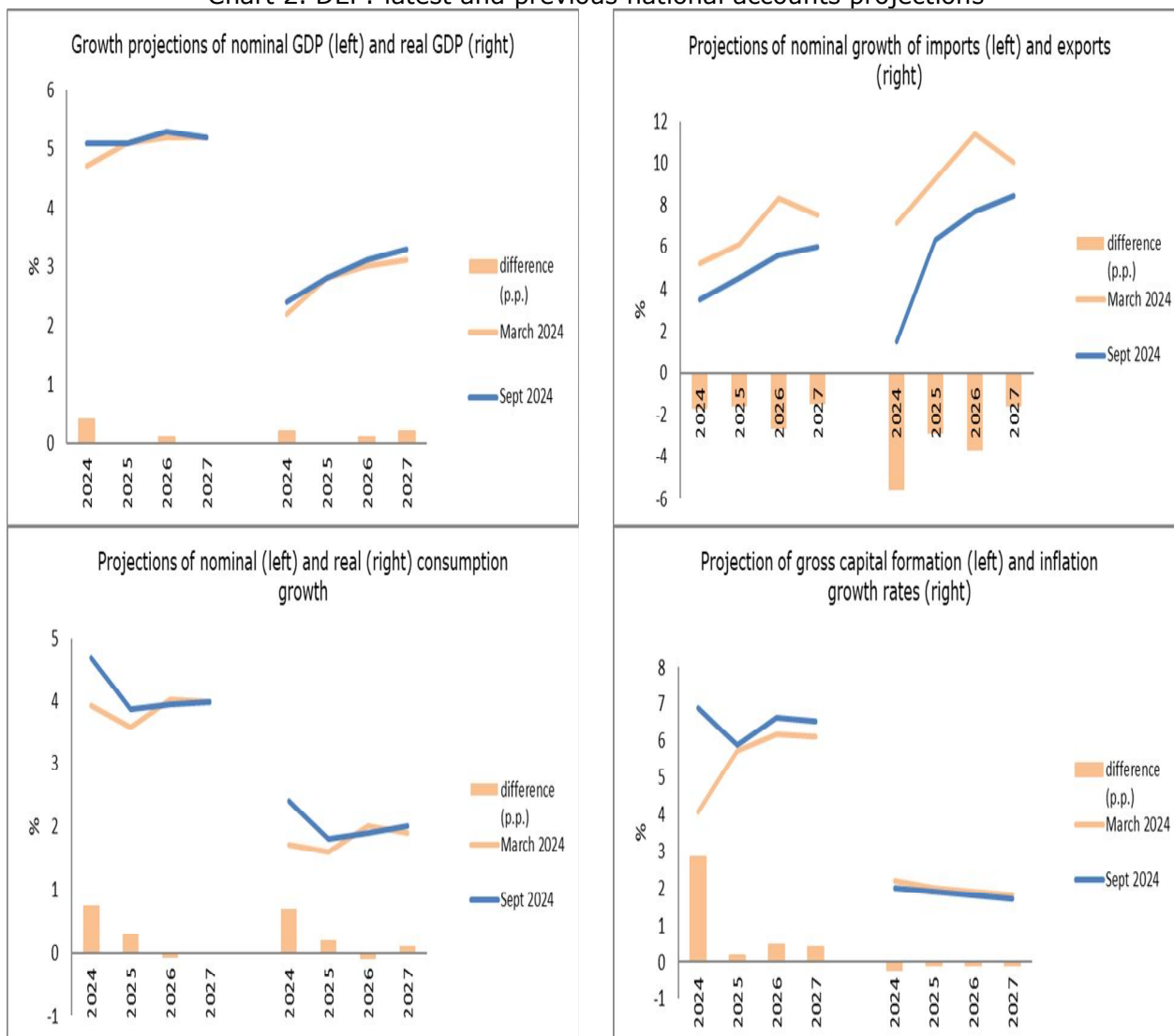
Source: Calculation and presentation of the MAU based on DEP's projections from September and March 2024

1.2.2. Revision of projections of macroeconomic indicators for 2025-2027

Compared to the previous March projections, DEP's projections from September 2024 have not been significantly revised when it comes to GDP growth rates for the period 2025-2027, both nominal and real. As for nominal GDP growth rates, only a slight correction was made for the year 2026 (+0.1 p.p.), while a slight upward correction was made for real GDP growth rates, namely: +0.1 p.p. for 2026 and +0.2 p.p. for the year 2027 (Chart 2, top, left).

Projections of nominal growth of imports and exports, on the other hand, have been significantly revised downwards (see Chart 2, top, right). Projections of nominal growth of private consumption (Chart 2, bottom, left) have not been significantly revised (+0.3 p.p. for 2025 and -0.1 p.p. for 2026), as well as projections of gross capital formation growth (Chart 2, bottom, right; correction +0.2 p.p., +0.5 p.p. and +0.4 p.p. for 2025, 2026 and 2027, respectively).

Chart 2. DEP: latest and previous national accounts projections



Source: Calculation and presentation of the MAU based on DEP's projections from March 2024 and September 2024.

2. Current policies in the field of indirect taxation

VAT obligations and payment system are regulated by the Law on Value Added Tax ("Official Gazette of B&H", No. 9/05, 35/05, 100/08 and 33/17). Excise policy is regulated by the Law on Excises in Bosnia and Herzegovina ("Official Gazette of B&H", No. 49/09, 49/14, 60/14, 91/17 and 50/22)². The policy of excises on tobacco in 2024 is regulated by the Law on Excises and Decision³

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

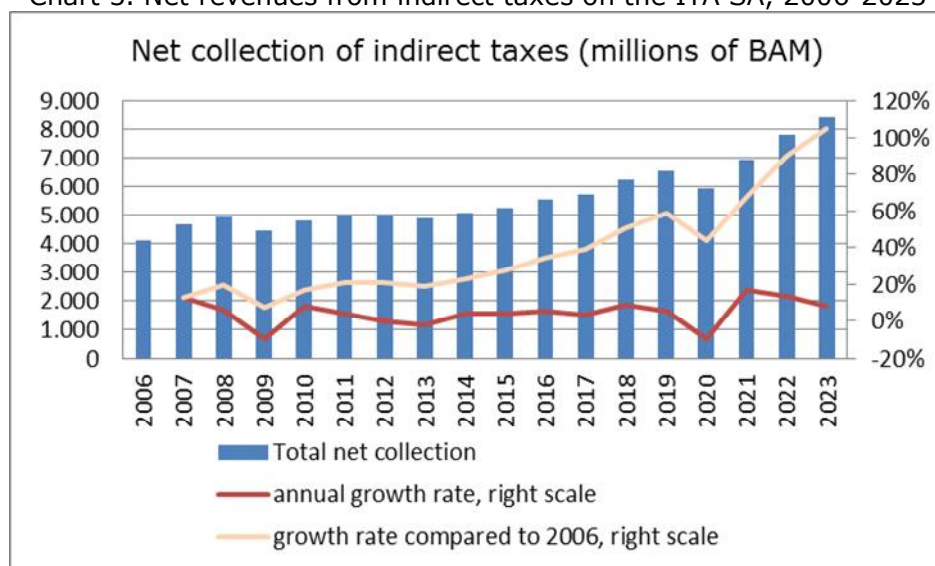
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Sarajevo: Zmaja od Bosne 47b, 71 000 Sarajevo, Tel:+387 33 246 081, Fax:+387 033 246 080, Web: www.oma.uino.gov.ba

of the ITA Governing Board. As the legally prescribed ceiling of the total excise tax on cigarettes of 176 BAM / 1000 cigarettes was reached for all price categories of cigarettes in 2019, the harmonization with EU standards in the field of cigarette taxation was completed, while the taxation of cut tobacco is regulated according to the amendments to the Law (in force since 2014).⁴ The Law⁵ on Customs Policy in Bosnia and Herzegovina regulates the basic elements of customs policy and general rules and procedures that apply to goods brought into and out of the customs territory of Bosnia and Herzegovina.

3. Indirect tax collection trends (2006-2023)

In 2006, 4.12 billion BAM of net revenues from indirect taxes were collected on the Single Account (SA) of the ITA. In almost all years since the establishment of the ITA, there has been an increase in revenues collected at the ITA SA. The exceptions were: the "crisis" year of 2009, when there was a 9.9% drop in revenue, stagnation and a milder drop in revenues in 2012 and 2013, and a drop in 2020 of 9.3% as a result of the effects of the virus corona. In all other years, the growth of these revenues was recorded, and the highest was achieved in 2021, at a rate of 16.7%. In 2023, the annual growth of revenues from indirect taxes of 7.8% and a record nominal collection since the establishment of the ITA in the amount of 8,43 billion BAM has been achieved. Finally, the increase in collection in 2023 compared to 2006 was a high 104.6%.

Chart 3. Net revenues from indirect taxes on the ITA SA, 2006-2023



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

The share of indirect taxes from the ITA Single Account (SA) in GDP has varied significantly in recent years (Table 2). Since the introduction of VAT (2006), the range of this indicator has ranged from 16.6% (minimum value, 2009 and 2023) to 19.2% (maximum value, 2007). In 2023, it amounted to 16.6%, repeating its minimum value from 2009. The dynamics of indirect taxes in GDP has depended on a number of factors: trends in tax rates and the tax base, efficiency of tax collection, trends in consumption, but also on other categories of the gross domestic product

³ Decision on Determination of the Specific and Minimum Excise Duty for Cigarettes and the Amount of the Excise Duty on Smoking Tobacco for 2024 („Official Gazette of B&H" No. 87/23)

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

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

(investments, imports and exports), which, in addition to consumption, affect the level of the denominator of this indicator.

The share of indirect taxes collected on the ITA SA in total consumption has also varied, and from 2014 to 2019 it had a continuous growth trend. In 2019, it was 19.9%, while in 2020 it dropped to 18.4%. In 2021, it rose again to 20.2%, which is the maximum since the introduction of VAT. In 2022, it amounted to 19.9%, and it is estimated that it amounted to 19.3% in 2023.

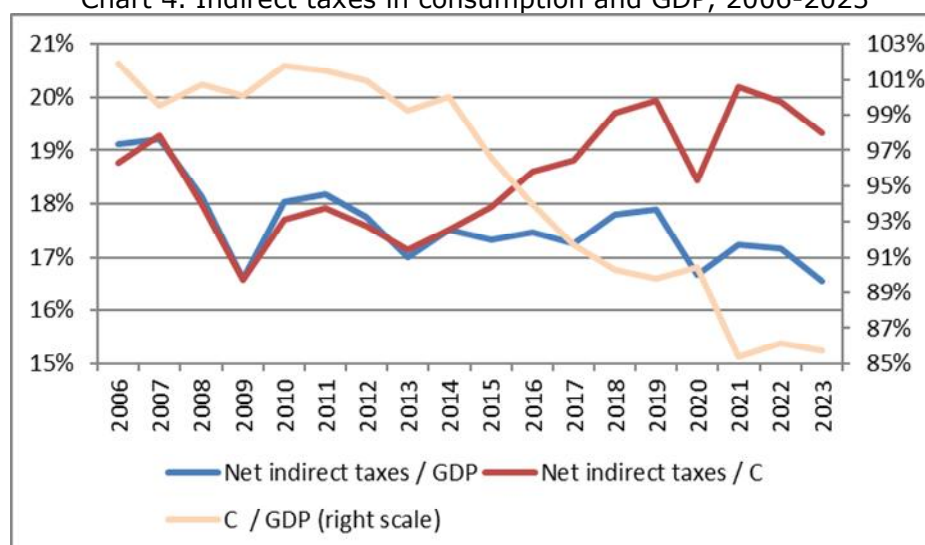
Table 2. Share of revenues from indirect taxes from ITA SA in GDP and total consumption (C)

in %	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Indirect taxes / GDP	19,1	19,2	18,1	16,6	18,0	18,2	17,8	17,0	17,5	17,3	17,5	17,3	17,8	17,9	16,7	17,2	17,2	16,6
Indirect taxes / C	18,8	19,3	18,0	16,6	17,7	17,9	17,6	17,1	17,5	17,9	18,6	18,8	19,7	19,9	18,4	20,2	19,9	19,3

Source: Calculation based on ITA and BHAS data⁶

In Chart 2, the share of indirect taxes in GDP of B&H in the period 2008-2023 is broken down into product components, in accordance with the methodology from the OECD analysis⁷ : (1) share of indirect tax revenues in total consumption and (2) share of total consumption in GDP. It can be concluded from the Chart 2 that the share of indirect taxes in GDP and consumption was at approximately the same level until 2015, when the share of consumption in GDP was around 100%. As of 2015, there has been a downward trend in the share of consumption in GDP (with the exception of a slight increase in 2020 and 2022), and in 2023 it amounted to 85.7%. With the decline in the share of consumption in GDP, since 2015, the line of the share of indirect taxes in consumption has been above the line of their share in GDP.

Chart 4. Indirect taxes in consumption and GDP, 2006-2023



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

The share of indirect taxes in GDP decreased by 0.61 p.p. in 2023 compared to the level from the previous year and was 16.6%. Analyzed according to the components from the OECD equation,

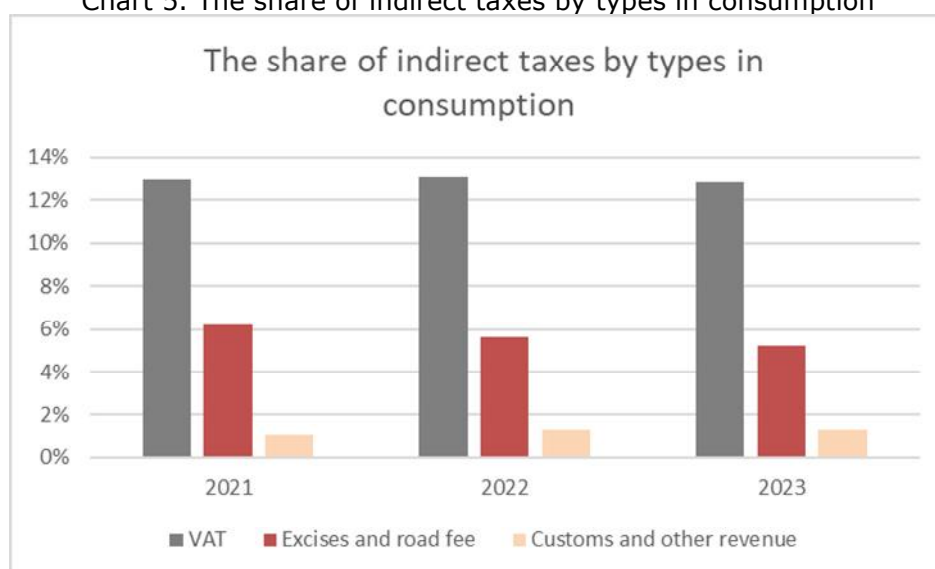
⁶ B&H Statistics Agency: Gross domestic product for BiH 2023, expenditure approach - first results; 30 september 2024. (for data 2019-2023); Gross domestic product by production, income and expenditure approach in 2022, published on December 29, 2023 (for 2015-2018 data); Gross domestic product - extraordinary announcement, 19 July 2021 (for data up to 2014).

⁷ Simon, H. and M. Harding (2020), "What drives consumption tax revenues?: Disentangling policy and macroeconomic drivers" *OECD Taxation Working Papers*.

the decline in indirect taxes in GDP in 2023 is the cumulative result of the annual decline in the share of indirect taxes in consumption by 0.6 p.p., and the decline in the share of consumption in GDP by 0.44 p.p.

Observed by type of revenue, decline in the share of indirect taxes in consumption in the last two years was mainly the result of the decline in the share of excise taxes in consumption, which is understandable, given that these are specific taxes levied on product quantities (with the exception of the portion of excise taxes on tobacco that is charged *ad valorem*), while the basis for comparison (total consumption) was affected by price increases. Compared to 2021, when the share of collected indirect taxes in consumption was the highest, the share of VAT revenue in consumption decreased by 0.13 p.p., the share of excise taxes and road fee (together) by 0.99 p.p., while the share of other revenues (customs, etc.) increased by 0.25 p.p. (see Chart 5).

Chart 5. The share of indirect taxes by types in consumption



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

II REVISED PROJECTIONS OF REVENUES FROM INDIRECT TAXES 2024-2027 (baseline scenario)

1. Presentation of revised revenue projections (2024-2027)

Table 3. Baseline scenario of revised projections of revenue from indirect taxes (2024-2027), October 2024.

Type of revenue (net)	In million BAM						Projected growth rate			
	Realization	Projection					2024	2025	2026	2027
	2023	2024	2025	2026	2027					
VAT	5.586,6	6.204,1	6.444,3	6.698,0	6.964,0		11,1%	3,9%	3,9%	4,0%
Excises	1.604,0	1.807,5	1.886,3	1.969,4	2.057,3		12,7%	4,4%	4,4%	4,5%
Customs	506,7	574,9	600,8	634,4	672,5		13,5%	4,5%	5,6%	6,0%
Road fee	677,7	729,5	749,9	773,2	798,7		7,7%	2,8%	3,1%	3,3%
Other	59,5	49,7	51,7	51,7	51,7		-16,5%	4,0%	0,0%	0,0%
TOTAL	8.434,5	9.365,8	9.733,0	10.126,7	10.544,2		11,0%	3,9%	4,0%	4,1%
Earmarked road tax *)	-423,5	-455,9	-468,7	-483,2	-499,2		7,7%	2,8%	3,1%	3,3%
Funds for distribution	8.011,0	8.909,8	9.264,3	9.643,5	10.045,0		11,2%	4,0%	4,1%	4,2%

Note:

In order to ensure comparability of projected and collected indirect tax revenues, indirect tax revenue projections are presented on a cash basis in accordance with the ITA reports on collection by types of revenues.

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

The category "Other" includes other revenues that are collected at Single Account of the ITA (revenues from terminals, rents, etc.) and unadjusted revenues (revenues that remain unadjusted after the final adjustment of revenue collection with applications and declarations in the ITA IT system), netted with other refunds that are not directly related to types of revenue.

Table 4. Baseline scenario of revised projections of revenue from indirect taxes in % of GDP (2024-2027), October 2024.

Type of revenue (net)	in % of GDP				
	Realization	Projection			
	2023	2024	2025	2026	2027
VAT	11,0%	11,6%	11,5%	11,3%	11,2%
Excises	3,1%	3,4%	3,4%	3,3%	3,3%
Customs	1,0%	1,1%	1,1%	1,1%	1,1%
Road fee	1,3%	1,4%	1,3%	1,3%	1,3%
Other	0,1%	0,1%	0,1%	0,1%	0,1%
TOTAL	16,6%	17,5%	17,3%	17,1%	16,9%
Earmarked road tax	-0,8%	-0,9%	-0,8%	-0,8%	-0,8%
Funds for distribution	15,7%	16,6%	16,5%	16,3%	16,1%

Data source for GDP: BHAS, Gross domestic product for B&H 2023, expenditure approach - first results; 30 Sept 2024; DEP, Macroeconomic projections, September 2024

2. MAU, revision of projections of revenues from indirect taxes

2.1. Differences between projections for 2024 compared to April 2024 projections

Compared to the Unit's previous projections (April 2024), indirect tax revenue projections for 2024 were corrected upwards by 113.5 million BAM, while the projected rate of their growth was increased by 1.3 p.p. The highest correction refers to net VAT revenues (+57.2 million BAM), followed by customs duties (+32.6 million BAM) and excise taxes (+25.2 million BAM). Small upward corrections were made to the projections of road fee revenues (+3.7 million BAM), and downwards to the projections of other revenues (-5.2 million BAM). Projections of VAT and excise revenues have been increased due to better collection trends than those projected in April which is in line with the slight upward revision of consumption and GDP projections (see part 1.2.1. Revision of projections of macroeconomic indicators for 2024). On the other hand, the projections of customs revenues have also been revised upwards despite a reduction in the projected import growth rate by the DEP, compared to their previous projections. This can be explained by the latest trends of a much higher growth of customs revenues in relation to the realized growth rates of imports, than was assumed in April.

2.2. Differences in revenue projections for the period 2025-2027 compared to the October projections

The differences between the revenue projections for the period 2025-2027 compared to the projections from April 2024 are presented in Table 5. Compared to the previous projections, the revenue projections for 2025, 2026 and 2027 have been revised by +143.2 million BAM, +141.1 million BAM and +152.0 million BAM, respectively.

Table 5. Differences in revenue projections compared to projections from April 2024

Type of revenue (net)	2025	2026	2027
VAT	77,4	75,4	77,3
Excises	39,8	53,0	68,9
Customs	25,4	11,3	2,6
Road fee	3,8	4,6	6,3
Other	-3,2	-3,2	-3,2
TOTAL	143,2	141,1	152,0

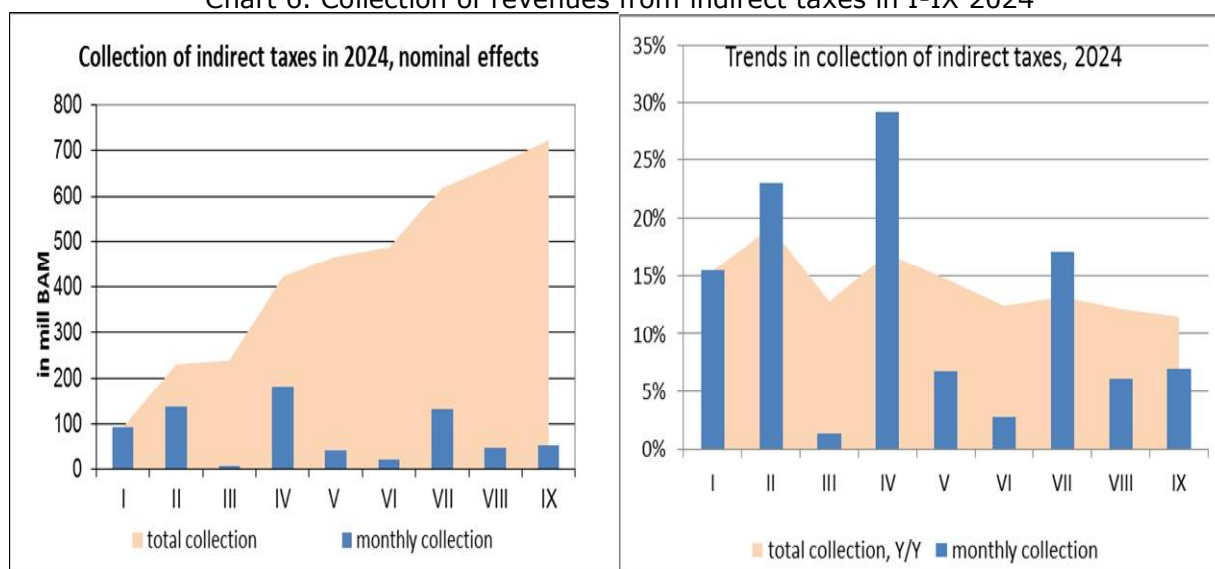
Compared to the previous, March projections, DEP's projections of growth rates from September 2024 for the period 2025-2027 have not been significantly revised when it comes to the growth rates of GDP, consumption and investments. Projections of import and export growth, on the other hand, have been significantly revised downwards (see section 1.2.2. Revision of projections of macroeconomic indicators for 2025-2027). We can conclude that the revision of VAT and excise tax projections is primarily the result of an increase in the statistical base (projections for 2024) and a slight upward revision of private consumption growth projections for 2025. Customs revenue projections have also been revised upwards throughout the 2025-2027 period, but with decreasing amounts. The revision is the cumulative result of the growth of the statistical base (projections for 2024) and the downward revision of import growth projections.

3. Projection of total revenues from indirect taxes

3.1. Projections for 2024

According to the preliminary report, the ITA collected 990 million BAM of gross revenues from indirect taxes on the SA in September 2024, which was 57.2 million BAM more than in the same month of 2023. Refund payments were higher by 3.3 million BAM, so that the net collection was ultimately higher by 53.9 million BAM, or by 7%. The growth of collection in September increased the cumulative absolute increase accumulated in the previous eight months. Thus, in the period January - September 2024, an increase in gross collection of 8% was achieved, while refund payments were lower by 92.3 million BAM. Ultimately, the net effect of collecting indirect taxes in the period January-September 2024 was 721.5 million BAM (Chart 6, left, "cumulative"), representing an increase of 11.5% (Chart 6, right, "cumulative").

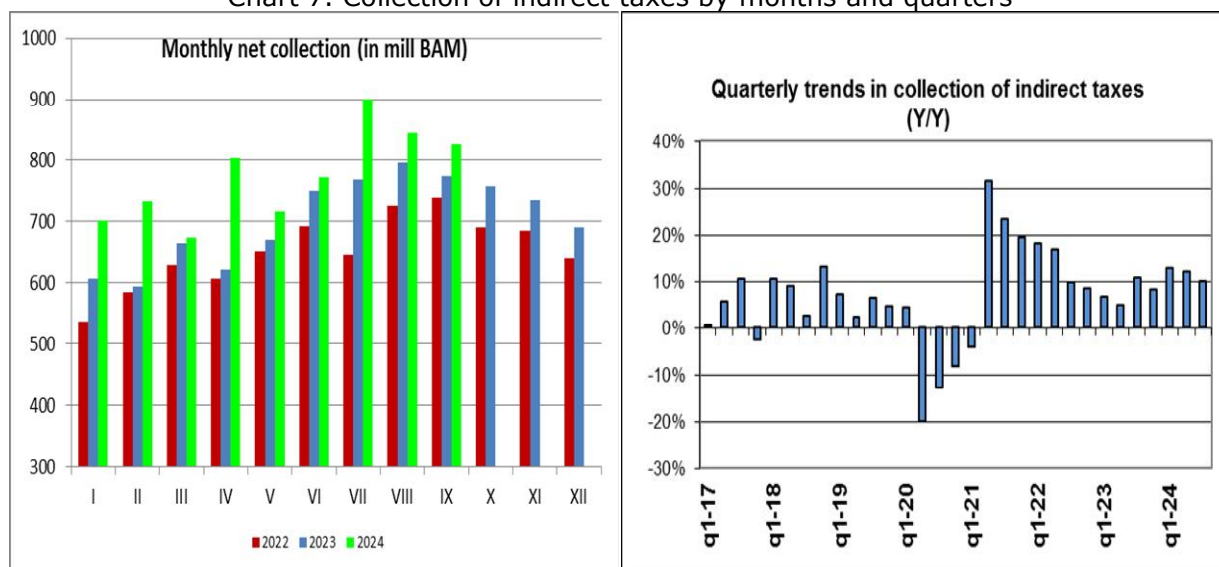
Chart 6. Collection of revenues from indirect taxes in I-IX 2024



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

The analysis of the cash flow collection for the nine months of 2024 points to several conclusions. The first conclusion refers to the sudden drop in the cumulative growth rate, which is 1.7 p.p. lower in nine months compared to the growth rate for seven months (Chart 6, right). Although the trend of positive growth in the collection of indirect taxes has continued in September, a slowdown in the growth of cumulative effects in terms of the amount of additional net revenue can be seen (Chart 6, left). Second, positive revenue growth rates have been achieved in all months so far, which was largely the result of reduced refund payments. Third, strong monthly oscillations in the collection of indirect taxes were noticeable. Monthly growth rates fluctuated in a wide range of 27.9 p.p. The lowest growth rate of 1.4% was achieved in March 2024, and the highest of 29.2% in April. High growth rates in the first four months of 2024 were partly the result of the so-called base effect. Namely, in the first five months of 2023, a significantly lower collection of revenue from indirect taxes was recorded, as a result of high VAT refund payments and the transition to a new excise tax payment regime on tobacco products. The lower statistical base results in higher monthly growth rates in the first part of 2024. In the following months, a significant recovery of indirect tax revenue collection was recorded, especially in July, when a record net collection of indirect taxes was achieved, exceeding the level of 900 million BAM for the first time since the establishment of the ITA (Chart 7, left).

Chart 7. Collection of indirect taxes by months and quarters



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

The effect of the base is also reflected in the quarterly trends. The positive quarterly growth of revenue from indirect taxes has been continuous since 2021, when recovery began after the revenue drop caused by the corona virus pandemic (Chart 7, right). However, the war in Ukraine and the energy crisis have led to a reduction in growth rates. Although the increase in prices of food, raw materials and other goods resulted in increased collection of revenues from *ad valorem* taxes (VAT, customs), the decline in energy consumption led to a decline in revenues from excise and road fees, significantly reducing the growth of the total collection of indirect taxes. Although the prices on the world market of energy and other commodity markets have stabilized, in the first half of 2023, a lower growth in revenues from indirect taxes was achieved due to the increase in VAT refund payments and the loss of revenues from excise taxes on tobacco products after the transition to the new payment regime. The establishment of a new excise tax collection pattern on tobacco products in the second part of 2023, and a significant slowdown in VAT refund payments resulted in higher growth rates in the third and fourth quarters of 2023. The effect of the lower base from the first half of 2023 resulted in higher growth rates in the first and second quarters of 2024, when the rates amounted to 12.8% and 12.2%. The expected slowdown in revenue collection in the second part of 2024, given the higher base from 2023, brought a growth rate of 10% in the third quarter of 2024 (Chart 7, right).

According to DEP's projections, nominal GDP growth of 5.1% is expected in 2024, and private consumption growth of 4.7%. The projected inflation rate is 2%.⁸ Bearing in mind that the growth rate of revenue in the first three quarters of 2024 partly stems from the specificity of the statistical basis for comparison, the projected growth rate of revenues from indirect taxes for 2024 is slightly lower than the nine-month revenue growth rate and amounts to 11%.

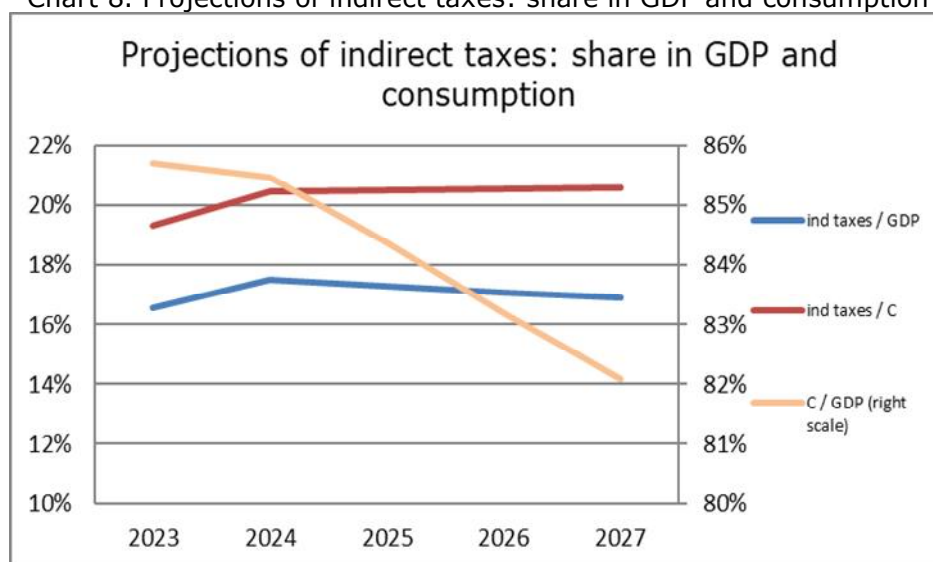
3.2. Projection for the period 2025-2027

The projected growth rates of net revenues from indirect taxes for 2025, 2026 and 2027 are 3.9%, 4% and 4.1% respectively. The projections in the mentioned period are based on projected relevant macroeconomic indicators, historical seasonal collection pattern and projections of certain categories of revenue for the year 2024.

⁸ Inflation measured by the consumer price index, DEP, September 2024

In contrast to the projected decline of indirect taxes in GDP in the period 2024-2027 (Table 4, Chart 8), the projected share of revenues from indirect taxes (MAU) in consumption (DEP) in the mentioned period is growing quite slightly from 20.5% in 2024 to 20.6% in 2027. The decline in the projected share of indirect taxes in GDP in the period 2024-2027 is the cumulative result of a slight increase in indirect taxes in consumption and the decline in the projected share of consumption in GDP (Chart 8).

Chart 8. Projections of indirect taxes: share in GDP and consumption



Source: Data of the ITA and projections of the MAU

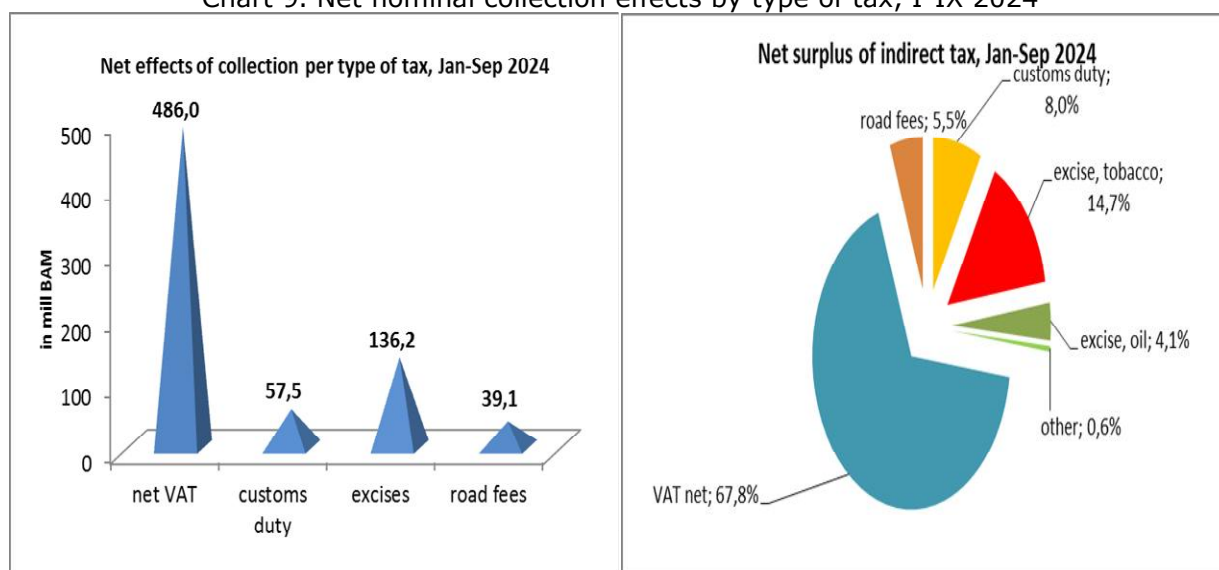
Box 1: Projections of revenues from indirect taxes

	2023	2024	2025	2026	2027
Projections, BAM	8.434,5	9.365,8	9.733,0	10.126,7	10.544,2
Projections, growth rate		11,0%	3,9%	4,0%	4,1%
Projections, % GDP	16,6%	17,5%	17,3%	17,1%	16,9%

III ANALYSIS OF REVISED PROJECTIONS OF REVENUES FROM INDIRECT TAXES BY TYPE

Observed by revenue type, the highest growth in revenues in the period January - September 2024 was recorded in customs duties, VAT and excise duties. On the other hand, the largest increase in absolute amount for the nine months of 2024 compared to the same period in 2023 was realized in the collection of VAT in the amount of 486 million BAM, and excise duty of 136.2 million BAM (Chart 9, left). VAT revenues dominate in the structure of net absolute increase for nine months of 2024 with a share of 67.8%. The net absolute increase of 721 million BAM was also significantly contributed by revenues from excise taxes on tobacco products, which have a share of 14.7% (Chart 9, right).

Chart 9. Net nominal collection effects by type of tax, I-IX 2024



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

Since during the preparation of the preliminary report, approximately 35.7 million BAM of revenue remained unadjusted after the final adjustment of revenue collection with applications and declarations in the IT system of the ITA, a smaller increase in the effects, first of all, of VAT revenue can be expected.

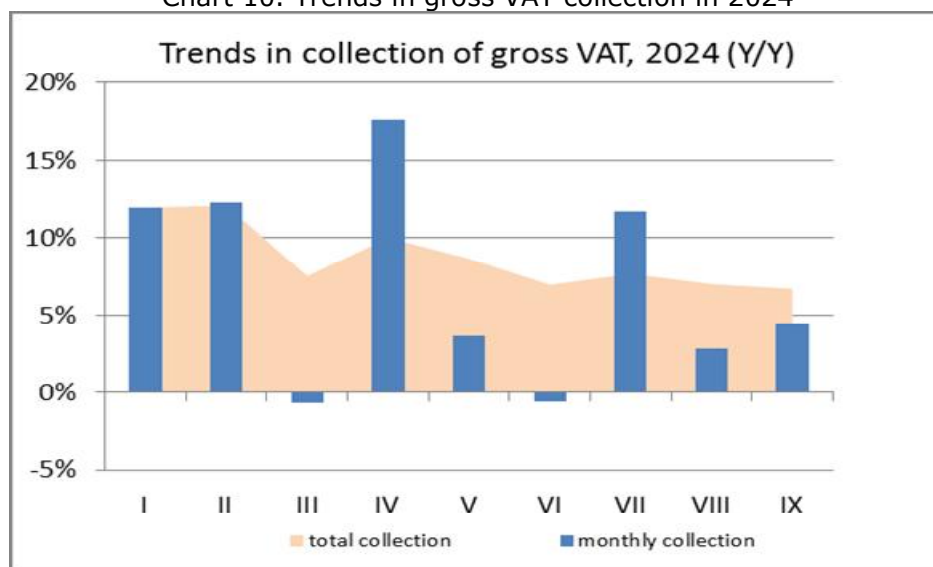
1. VAT

1.1. Projections of VAT revenue for 2024

Gross VAT

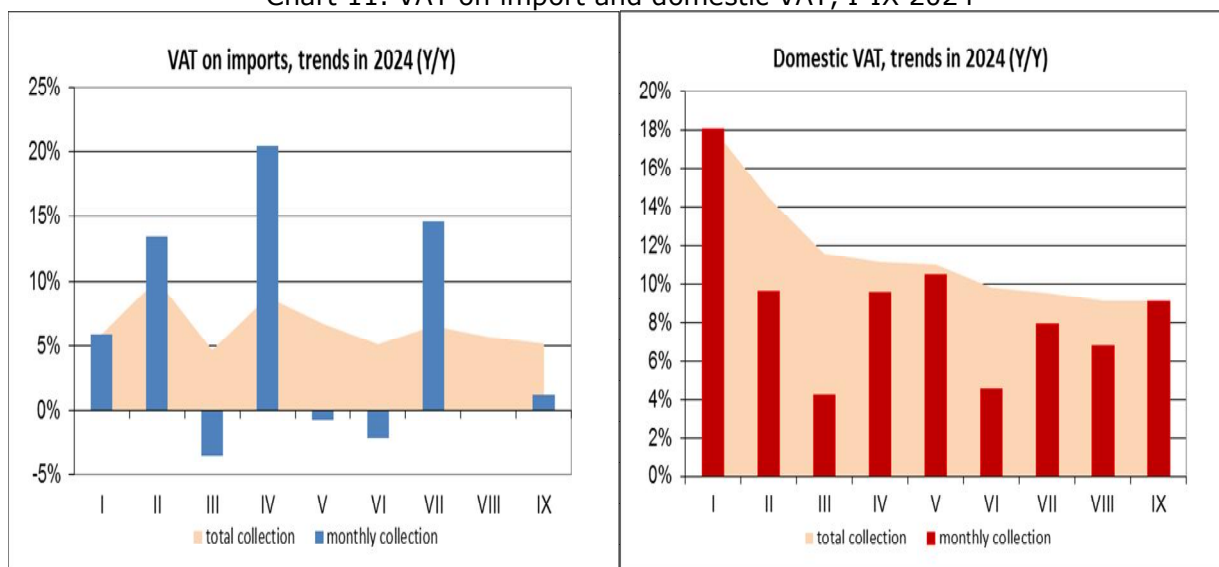
After the slowdown in growth rates at the end of 2023, at the beginning of 2024, high growth rates of gross VAT collection were again achieved, around 12% (Chart 10, "monthly collection"). However, strong fluctuations in monthly gross collection have been recorded since March, from negative growth in March and June to high growth rates in April and July. In August and September, growth rates were only 2.9% and 4.5%, respectively. Strong fluctuations in collection during the year have resulted in a continuous downward trend in the cumulative growth rate, which, from high rates at the beginning of the year, fell to 6.7% in September (Chart 10, "cumulative").

Chart 10. Trends in gross VAT collection in 2024



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

Chart 11. VAT on import and domestic VAT, I-IX 2024



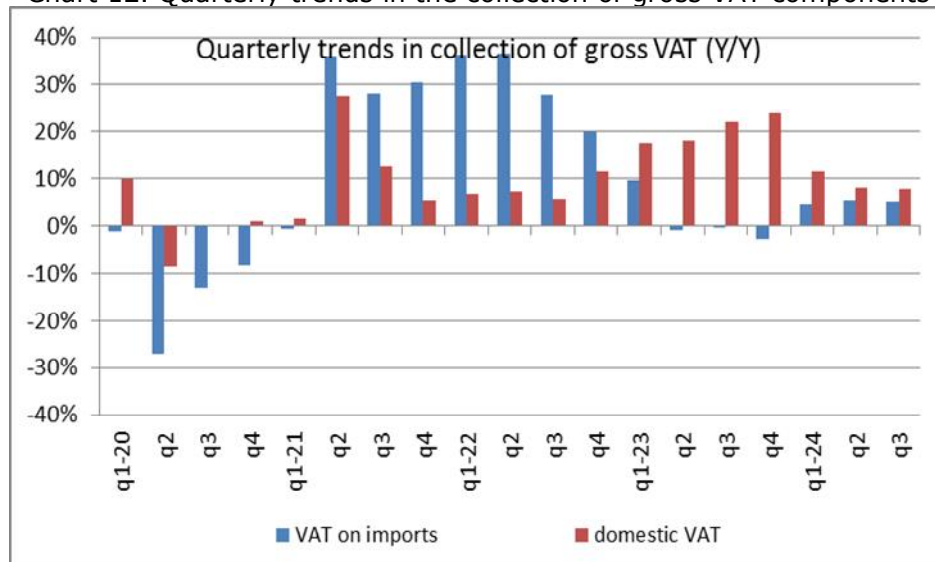
Source: Indirect Taxation Authority of B&H, calculation and presentation of the MAU

Strong monthly fluctuations were also recorded in the collection of domestic VAT, but the monthly rates were constantly in the positive growth zone (Chart 11, right). The oscillations ranged from 4.4% to 18.1% in the first months of the year, and from April the growth rates have fluctuated in a much narrower range. Due to such trends, the cumulative growth rate, after the initial high rates, has continuously declined during the following months, and remained at the level of 9% in the last four months (Chart 11, right, "cumulative").

Monthly fluctuations of VAT collection on imports did not have a significant impact on the quarterly growth rates. In the first quarter of 2024, a growth rate of 4.7% was achieved, in the second 5.5%, and in the third 5.3% (Chart 12, "VAT on imports"). On the other hand, the slowdown in domestic VAT growth rates and the downward trend in the last five months have resulted in a

downward trend in quarterly growth rates. Thus, in the first quarter there was a growth of 11.6%, in the second 8%, and in the third 7.9% (Chart 12, "domestic VAT").

Chart 12. Quarterly trends in the collection of gross VAT components



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

Given that approximately 35.7 million BAM of unadjusted revenues were recorded in September, a larger increase in domestic VAT can be expected, bearing in mind that the majority of unadjusted revenues are regularly related to VAT payments.

VAT refunds

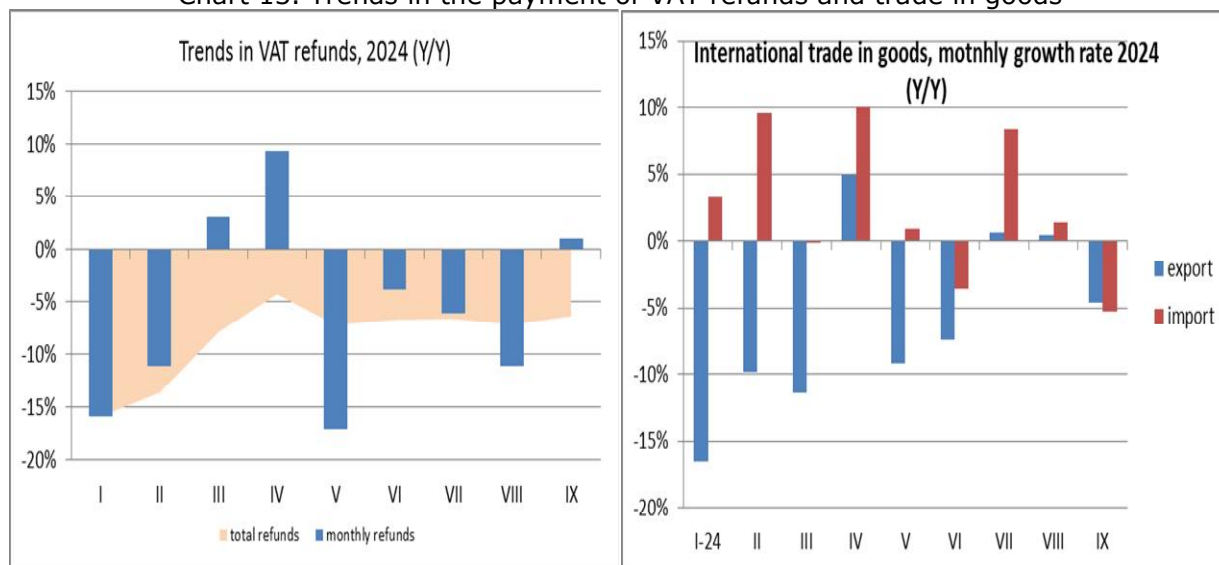
In the first half of the year, refund payments fluctuated strongly, while in the rest of the year there was a trend of reduced payments (Chart 13, left). In most of the year, VAT refund payments were significantly lower than payments in the same period in 2023, in May even 17% less compared to the same month in 2023. In the last four months, the trend of negative monthly growth rates of refund payments has continued, with the trend of more decreasing payments, except in September. However, the increase in refunds in September was not the result of increased refunds to taxpayers, but significant refund payments based on international projects. Continuous trends have contributed to stable negative growth that oscillated in a narrow range between -6% and -7% (Chart 13, left, "cumulative").

This is a continuation of the positive trends regarding refund payments that have been ongoing since May 2023. The reduced refund payments were connected to the drop in imports and, especially, to the drop in exports of B&H. In the period January - September 2024, exports fell by 6%, while imports were higher by 2.6%⁹ (Chart 13, right). The trends in refund payments at the end of 2023 and the beginning of 2024 are also related to developments in large companies.¹⁰

⁹ Source: preliminary data of the Indirect Taxation Authority of B&H

¹⁰ The company Arcelor Mittal has suspended production from November 2023 to January 2024 due to unfavorable conditions on the world market regarding steel prices. It is a company that has a share of 3.4% in annual VAT refund payments. The suspension of the work of Arcelor Mittal, as a large exporter, resulted in lower VAT refund payments at the beginning of 2024. On the other hand, in March, VAT refund payments were increased by 2.9%, as a result of a one-time payment of VAT refunds on the basis of the suspension of investments in Tuzla Thermal Power Plant. This was as much as 18.4% of the total VAT refunds in March 2024.

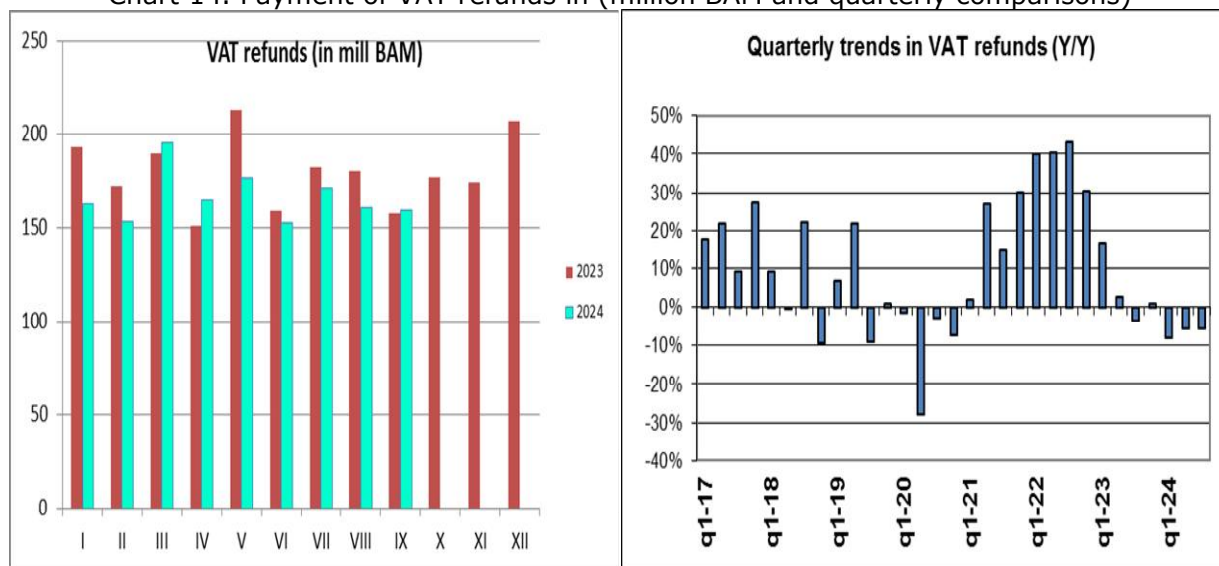
Chart 13. Trends in the payment of VAT refunds and trade in goods



Source: Agency for Statistics of Bosnia and Herzegovina for the period January - August 2024 and the Indirect Taxation Authority of B&H for September 2024; calculation and presentation of the MAU

One of the factors that influenced fluctuations in the growth rate of VAT refunds is the base effect. Analyses of trends in VAT collection in 2023 showed two periods with opposite trends (Chart 14, left). In the period January - May 2023, high refund payments dominated, resulting in a larger decline in VAT refunds in the same period in 2024.

Chart 14. Payment of VAT refunds in (million BAM and quarterly comparisons)



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

Reduced VAT refund payments in the first half of 2024 were also reflected in the quarterly trends. In the first quarter of 2024, an 8% drop in VAT refunds was recorded, which is the biggest drop since the time of the pandemic in 2020. A 5.5% drop was recorded in the second quarter, and a 5.7% drop in the third (Chart 14, right).

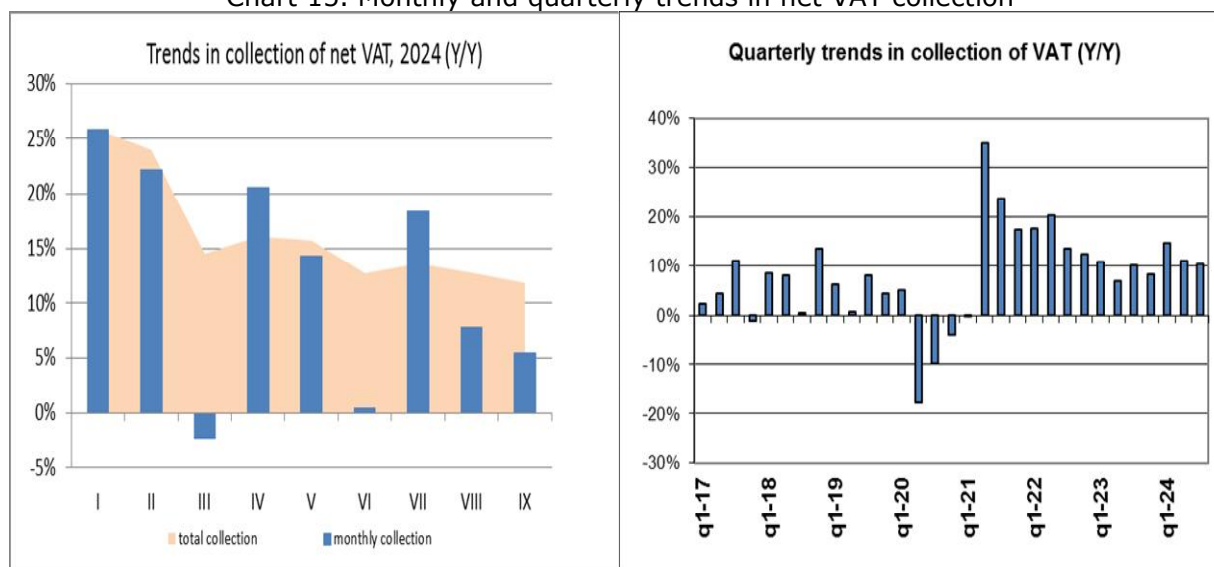
Regarding the structure of refund payments for the nine months of 2024, taxpayers were paid 87.2 million BAM in VAT refunds less than in the same period in 2023, while refund payments to international projects were 14.3 million BAM lower.

Due to the sudden slowdown in payments, the share of cumulative VAT refunds in the cumulative gross VAT for the nine months of 2024 was 4.5 pp lower compared to the share in the same period in 2023.

Net VAT

Oscillations in gross VAT collection and refund payments had an even stronger impact on the dynamics of monthly net VAT rates (Chart 15, left). The rates ranged between -2.3% and +25.8%. The coincidence of the growth of gross collection and the fall of VAT refunds in five months produced a cumulative positive effect in the form of extremely high collection growth rates of net VAT. However, the zero growth rate in June and the poor growth rates in August and September have contributed to the downward trend of the cumulative growth rate, which for nine months amounted to 11.8% (Chart 15, left, "cumulative").

Chart 15. Monthly and quarterly trends in net VAT collection



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

The slowdown in the growth rate of net VAT is best reflected in the quarterly trends. At the level of the first quarter of 2024, a growth of 14.5% was achieved, which is the highest rate since the second quarter of 2022. In the second quarter the growth was 11%, and in the third quarter 10.3% (Chart 15, right). After the adjustment of unadjusted revenues, a slightly higher growth rate can be expected, because the greater part of unadjusted revenues regularly relates to VAT payments. These are still very high growth rates, bearing in mind the consumption projections, but also the dominant importance of VAT revenue in the structure of revenues from indirect taxes.

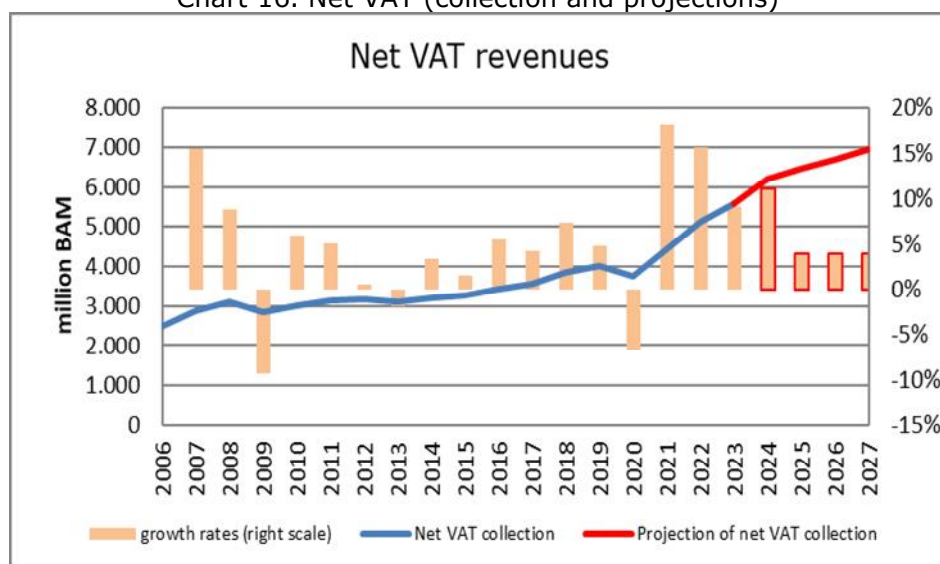
The projected amount of net VAT revenue in 2024 is 6,204.1 million BAM, which is 11.1% more than the realization in 2023 (Chart 16). The projection is based on the historical seasonal collection pattern of certain categories of VAT (which does not include years with specifics), as well as movements and projections of macroeconomic indicators.

1.2. Projections of VAT revenue for the period 2025-2027

The biggest generator of the annual absolute growth of revenues from indirect taxes in the period 2025-2027 is VAT.¹¹ Revenues from VAT in the specified period are projected in accordance with long-term collection trends, historical seasonal pattern and projections of relevant macroeconomic indicators.

The analysis of collection trends indicates a long-term growth of VAT revenues. In the year of VAT introduction (2006), 2,483.8 million BAM of net VAT revenue was collected. In all subsequent years, with the exception of 2009 and 2020,¹² the growth of these revenues was recorded. High growth rates were particularly pronounced in the year after the introduction of VAT (2007), and in the years following the outbreak of the corona virus pandemic (2021 and 2022). Finally, in 2023, 3,102.8 million BAM more net revenue from VAT was collected than in 2006, representing a growth of a high 124.9%. After the projected growth rate of 11.1% in 2024, stable growth rates are planned in the next years in accordance with the projected growth rates of consumption (Chart 16 and Box 2).

Chart 16. Net VAT (collection and projections)



Source: Data of the ITA and projections of the MAU

Box 2: Projections of VAT revenue

	2023	2024	2025	2026	2027
Projections, BAM	5.586,6	6.204,1	6.444,3	6.698,0	6.964,0
Projections, growth rate		11,1%	3,9%	3,9%	4,0%
Projections, % GDP	11,0%	11,6%	11,5%	11,3%	11,2%

¹¹ Over 66% of the absolute revenue growth in all years refers to VAT revenues.

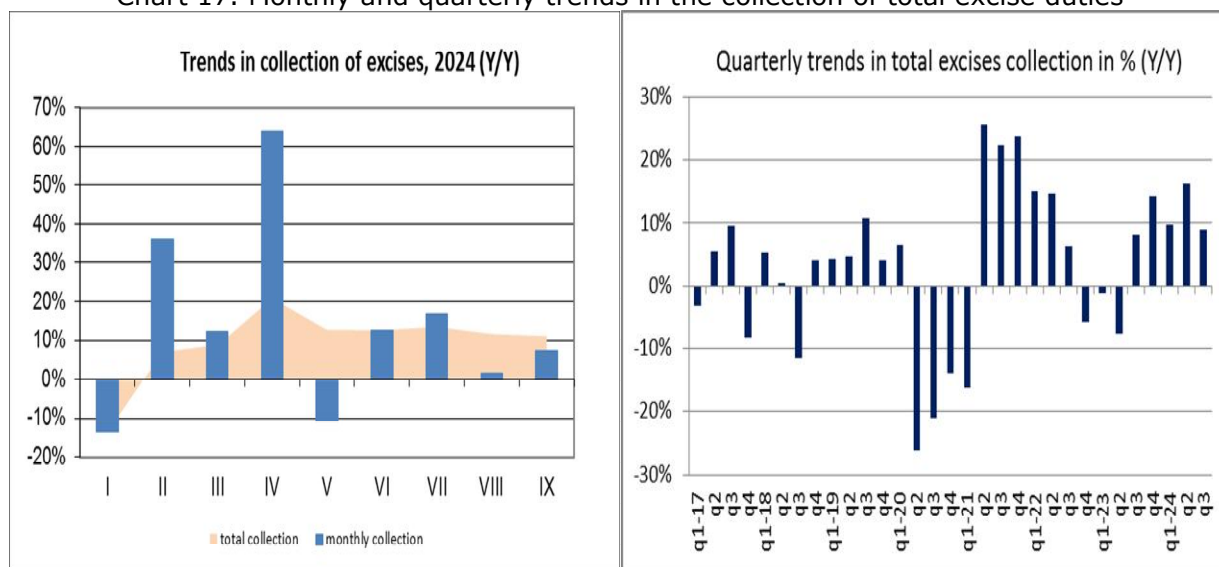
¹² The years in which the effects of the global financial crisis (2009) and the emergence of the corona virus pandemic (2020) were manifested.

2. Excise duties and road fees

2.1. Total excise duties

The beginning of the year was marked by a worse collection of excise revenues, but the recovery started already in February, while in April an enormous growth of excise duty collection of as much as 63.7% was recorded.¹³ Oscillations have continued in the following four months, but in a milder form. The cumulative growth rate grew until April, but the drop in excise duty collection in May and the lower growth rates in the following months have stabilized it in a narrow range of 12% to 14% (Chart 17, left, "cumulative").

Chart 17. Monthly and quarterly trends in the collection of total excise duties



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

It can be concluded that the trend of positive growth rates from the second half of 2023 has been continued, with the fact that monthly fluctuations in excise duty collection were also reflected in quarterly trends. In the last five quarters, high and moderate growth rates have alternated (Chart 17, right). In the third and fourth quarters of 2023, growth rates of 8.2% and 14.4% were achieved, while in the first, second and third quarters of 2024, there were excise revenue growth rates of 9.8%, 16.3% and 9%, respectively (Chart 17, right).

Box 3: Excise revenue projections

	2023	2024	2025	2026	2027
Projections, BAM	1.604,0	1.807,5	1.886,3	1.969,4	2.057,3
Projections, growth rate		12,7%	4,4%	4,4%	4,5%
Projections, % GDP	3,1%	3,4%	3,4%	3,3%	3,3%

¹³ It is a gross collection, since at the beginning of 2024, as well as at the end of 2023, there were significant refunds of excise duties in connection with the transition to the new payment regime for excise duties on tobacco products. Given that these were non-standard refund payments, which do not have a regular cash flow, the analysis is based on the gross collection data of total excise duties and the gross collection of excise duties on tobacco products.

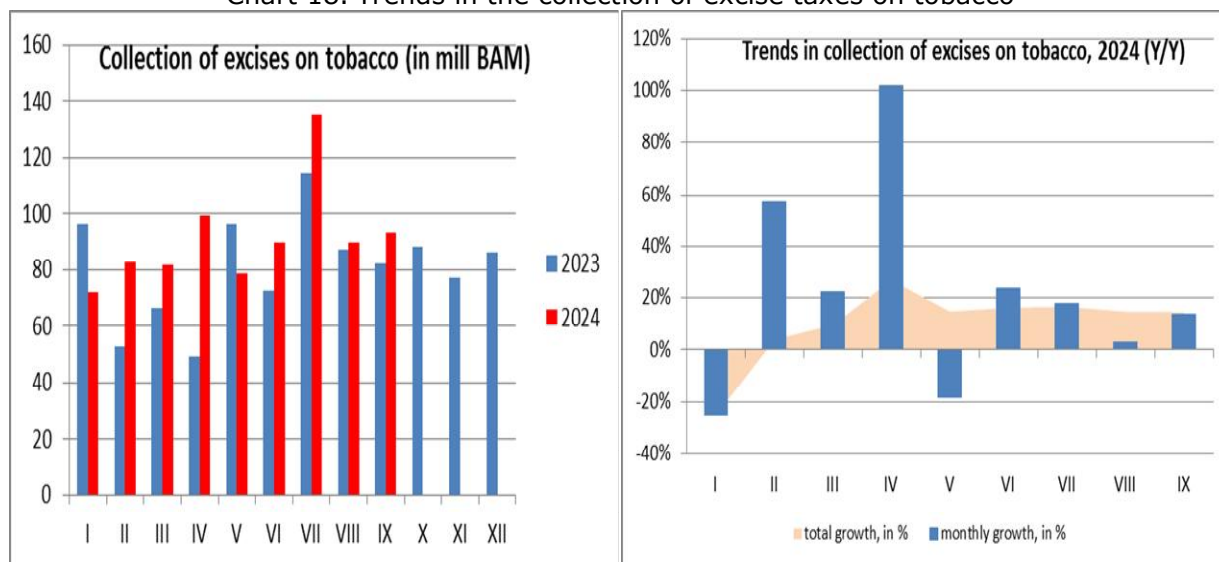
2.2. Excise taxes on tobacco products

Projections of excise taxes on tobacco products for 2024

Collection of revenues from excise taxes on tobacco products has been increasing, in terms of collected amounts, but still with strong monthly oscillations. Oscillations in the collection of excise taxes on tobacco products are common, given that the collection depends on the sales policies of two multinational tobacco corporations. However, in 2024, fluctuations in excise duty collection were further aggravated due to the application of a new excise duty payment regime that changed the excise duty payment scheme.¹⁴ In the first few months of 2023 (Chart 18, "2023"), due to the change in the payment regime, there was a loss of revenue from excise taxes, which reduced the basis for comparing the collection of excise taxes on tobacco products in 2024 and, consequently, led to higher growth rates in 2024. The range of monthly growth rates of excise taxes on tobacco products in the first five months was as much as 127 p.p., from -25.1% in January to +101.8% in April 2024 (Chart 18, right). It can be concluded that the large fluctuations in monthly growth rates in the first four months of 2024 are to a greater extent a consequence of the base effect and less to the collection of excise duties in absolute amount. In contrast to the turbulent trends in the greater part of the year, in August, the growth rate of revenues from excise taxes on tobacco products was a modest 2.9%, and in September, after the recovery of collection, it was 13.6% (Chart 18, right).

At the level of nine months, a growth of 14.6% was achieved in the collection of revenues from excise taxes on tobacco products (Chart 18, right, "cumulative"). At first glance, one could conclude that this is a very high growth, which results in the high absolute revenue increase due to the high base. However, it is necessary to keep in mind that in 2023, due to the new excise duty payment regime, at least one month of collection was lost. By adding lost revenues to the base from 2023, the cumulative growth rate of excise duty collection for nine months amounts to only 3.1%. Furthermore, the sale of cigarettes and the collection of excise taxes were negatively affected by increases in the retail prices of cigarettes on two occasions in the period January - September 2024.¹⁵

Chart 18. Trends in the collection of excise taxes on tobacco



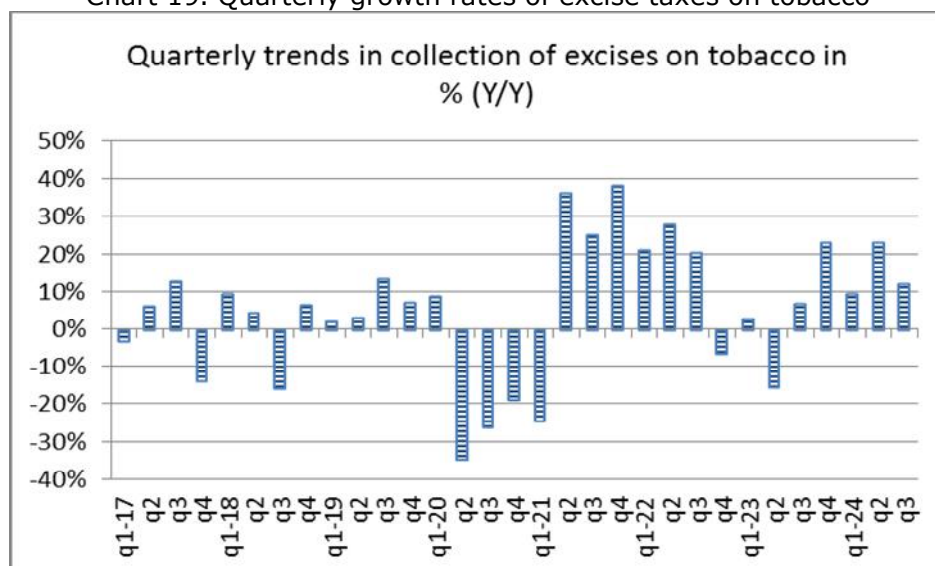
Source: Indirect Taxation Authority of B&H, calculation and presentation of the MAU

¹⁴ Changes to the Law on Excises ("Official Gazette of B&H" No. 50/2023).

¹⁵ The first increase in the retail prices of a part of cigarette brands was on February 19, 2024, and for other brands on March 1, 2024. The second increase in the retail prices of a part of cigarette brands was on July 1, 2024, and for other brands on July 15, 2024.

Quarterly trends are positive and stable, with high growth rates. In the first quarter, growth of 9.6% was achieved, in the second as much as 23%, and in the third 12.1% (Chart 19). It should be borne in mind that the growth rates of excise taxes on tobacco products in the first and second quarters are partly higher due to the base effect and the revenue loss due to the change in the payment regime in the first months of 2023.

Chart 19. Quarterly growth rates of excise taxes on tobacco



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

Due to the change in the method of payment of excise duties on tobacco products in 2023, a time vacuum was created in the collection of excises, resulting in the loss of excise duty revenue at least in the amount of one average monthly collection. Another consequence is appearance of a structural break in the series of data on collected excises. As of 2023, the data on collected excise stamps has not been longer fully correlated with revenue collection, since after shifting the obligation of paying excise taxes from the moment of taking over excise stamps to the moment of importation, a discrepancy arose between the calculated excise tax on the amount of received excise stamps and the collected excises. For the above reasons, the basic starting point for the projections of revenues from excises on tobacco products for 2024 are the current trends in the collection of excise taxes on tobacco products in the period January - September 2024, which are characterized by large oscillations. Data on taken over excise stamps for cigarettes and tobacco that will be imported in the coming period indicate an increase in the quantity and value of cigarettes and other tobacco products, which is positive from the point of view of future collection. Bearing in mind the effect of the lower base from 2023, and assuming that the positive trends from the previous months will continue in the fourth quarter, it is expected that in 2024 the revenue from excise taxes on tobacco products will grow by 13.7%. The high projected growth rate is a consequence of the low base effect from 2023.¹⁶

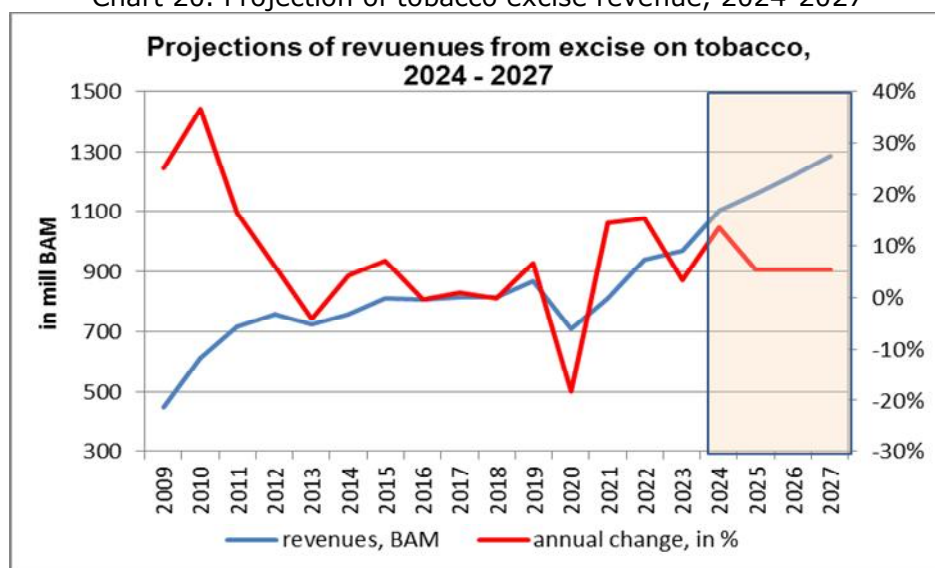
Projections of excise taxes on tobacco products for the period 2025-2027

An important factor in the realization of excise tax collection projections is the unchanged excise policy and the continuous fight against the black market of cigarettes and tobacco in Bosnia and Herzegovina. In the next three years, stabilization of the political situation in the world and stabilization of commodity exchanges and prices on the world market, recovery and growth of the economy, income and consumption in accordance with macroeconomic projections are expected.

¹⁶ After including the lost revenue from excise taxes in the base year 2023, the projected growth rate of revenue from excise taxes on tobacco products would amount to 5%.

It is also expected that the dynamics of cigarette imports and excise duty collection will stabilize under the new payment regime. The growth of the market of tobacco products should follow macroeconomic projections of GDP and consumption, which, along with the growth of the weighted average price of cigarettes in accordance with inflation projections, should lead to further growth in the value of cigarette sales and taxed amounts of cigarettes. Under the mentioned assumptions, in 2025, 2026, and 2027, revenue from excise taxes on tobacco products can be expected to grow by 5.2%, 5.4%, and 5.3% (Chart 20).

Chart 20. Projection of tobacco excise revenue, 2024-2027



Source: Data of the ITA and projections of the MAU

2.3. Excise duties on oil derivatives and road tax

Projections of excise taxes on oil derivatives cannot be separated from projections of road fee revenues¹⁷, due to the basis on which they are levied, which is made up of oil derivatives. There were certain differences in the achieved growth rates of these two types of revenues in the past period, which were especially pronounced in 2023. They originate from: 1. different inclusion of derivatives in the bases for calculating excise taxes and road fees; 2. exemptions from road fee payments for mines, railways and thermal power plants (applied until 2023, see footnote no. 17); 3. differentiated excise duty rates on derivatives and changes in structure of the base for excise duties in the past period (change in the base structure in favor of diesel fuel, which is taxed at a lower excise rate compared to gasoline).

The base for the road fee calculation is slightly different from the base for excise duties on oil derivatives because it does not include the consumption of kerosene and heating oil, but includes the consumption of liquid petroleum gas, and due to the existence of benefits, in the form of exemption from paying road fees, for mines, thermal power plants and railways. However, due to the decision of the State Aid Council of B&H, the release of road fee payments for the mentioned categories of taxpayers was suspended in 2023

¹⁷ The base for the road fee calculation is slightly different from the base for excise duties on oil derivatives because it does not include the consumption of kerosene and heating oil, but includes the consumption of liquid petroleum gas, and due to the existence of benefits, in the form of exemption from paying road fees, for mines, thermal power plants and railways. However, due to the Decision of the State Aid Council of B&H ("Official Gazette of B&H" 49/23 and "Official Gazette of B&H" 63/23), the release of road fee payments for the mentioned categories of taxpayers was suspended in 2023, except for railways.

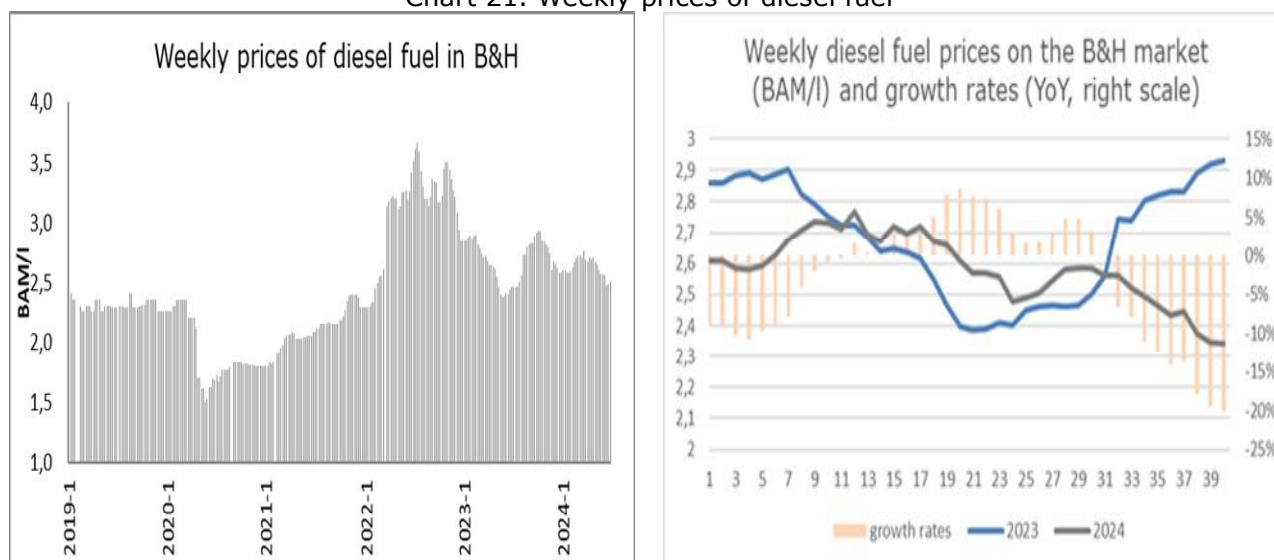
Although the consumption of oil derivatives is price inelastic, strong price turbulences in the past period, together with the movements of relevant macroeconomic indicators, have determined the consumption of oil derivatives on the B&H market, and thus the collected revenues on excise duties, road fees and associated VAT, which have a significant share in total revenues from indirect taxes. The factors determining the prices of derivatives on the B&H market are primarily crude oil prices, trade margins and tax rates. Crude oil prices¹⁸ were relatively stable in 2019, ranging from 59.0 to 71.3 dollars per barrel. In the period from 2019-2022, huge fluctuations were recorded, at first as a result of the effects of the coronavirus pandemic, and later due to the war in Ukraine. In April 2020, crude oil prices fell to only 18.4 dollars per barrel, which was the lowest value since 1999. After that, there was a growth trend, and in June 2022, the maximum price in the observed period was recorded in the amount of a high 122.7 dollars per barrel. From July 2022, the downward trend of crude oil prices started again, and at the end of 2022 they amounted to 80.9 dollars per barrel. Compared to the previous period, in 2023, prices were relatively stable, ranging from 80.1 to 93.7 dollars per barrel. In the first nine months of 2024, they varied between 74 (September) and 89.9 dollars per barrel (April).

The average weekly prices of diesel fuel on the B&H market, a derivative that has the highest weight in the total consumption of oil derivatives, also had enormous turbulences in the previous period. Prices were extremely low in 2020, and extremely high in 2022. After the recorded maximum in the week in mid-July 2022 of 3.7 BAM/l, there was a downward trend in the weekly prices of diesel fuel until mid-May 2023, when they amounted to 2.4 BAM /l. After that, there was a period in which there was no such great turbulence. By the end of the analyzed period (September 2024), the average weekly prices of diesel fuel were in the range of 2.3-2.9 BAM/l. Maximum average weekly prices of diesel fuel were recorded in the week at the beginning of October 2023 (2.9 BAM/l), and in the middle of March 2024 (2.8 BAM/l). After March 2024, prices mostly fell until the end of September 2024, when they amounted to 2.3 BAM/l.

If we compare weekly prices of diesel fuel in 2024 with the prices from the same week of the previous year, we can conclude that they had been falling until the 11th week of 2024 (mid-March). The transition of the growth rate of weekly diesel fuel prices to the positive zone, i.e. "above the X axis" of Chart 21 (right), occurred in the 12th week of 2024. It is interesting that in that week the maximum of weekly prices in 2024 was recorded, and after that, there was a downward trend in prices in 2024, but the transition to a positive growth zone compared to the previous year was the result of a downward trend in prices in the same period in 2023. Weekly growth rates had remained in the positive zone until the 31st week (end of July), when they were equal in 2024 compared to 2023. After that, as a result of falling prices in 2024 and strong growth in the same period of the previous year, negative growth rates of weekly prices have occurred, with an increasing rate of decline, which in the last week of September amounted to a high -20% (Chart 21, right).

¹⁸ Data source: U.S. Energy Information Administration, www.eia.gov

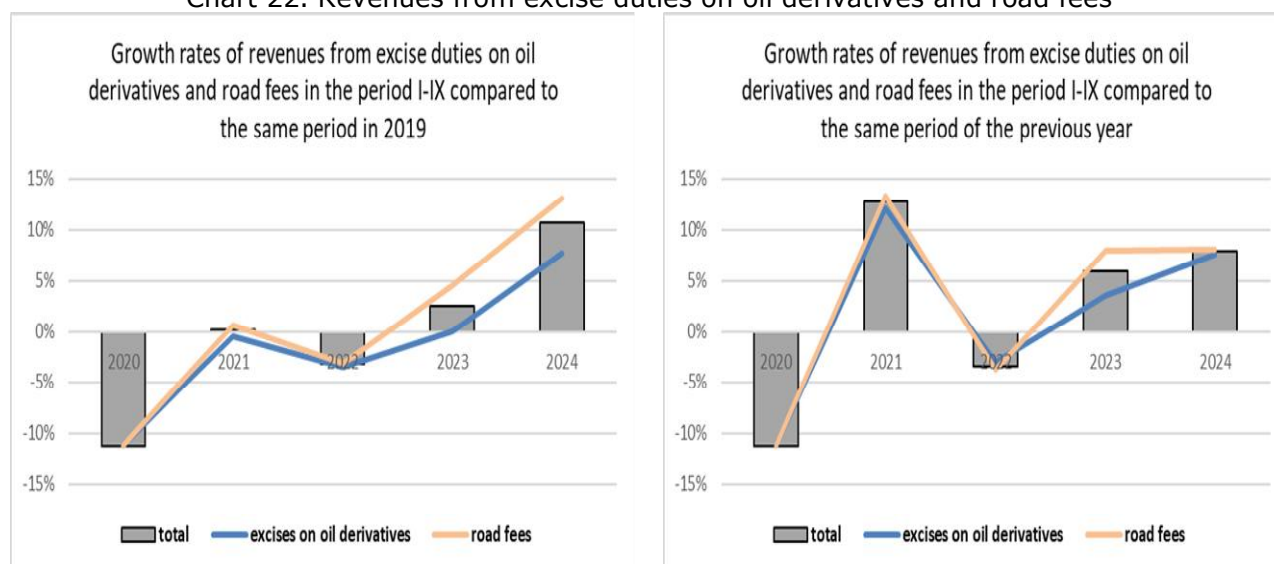
Chart 21. Weekly prices of diesel fuel



Projections of excise duties on oil derivatives and road fees for 2024

In the first nine months of 2024, the consumption of total oil derivatives¹⁹ increased by 7.7% compared to the same period of the previous year, with the consumption of diesel fuel increasing by 8.6% and the consumption of gasoline by 7.7%. Compared to the same period in 2019, in I-IX 2024, the consumption of total oil derivatives was higher by 7.9%. At the same time, diesel consumption increased by 13.4%, while gasoline consumption decreased by 3.7%.

Chart 22. Revenues from excise duties on oil derivatives and road fees



¹⁹ The term "consumption of derivatives" in this chapter implies quantities calculated by the author, and they include the amount of imported oil derivatives and the amount of domestic oil derivatives placed in the market. The last year in which domestic derivatives were placed in the market was 2019, due to the suspension of production at the Oil Refinery Brod after the accident that occurred in October 2018.

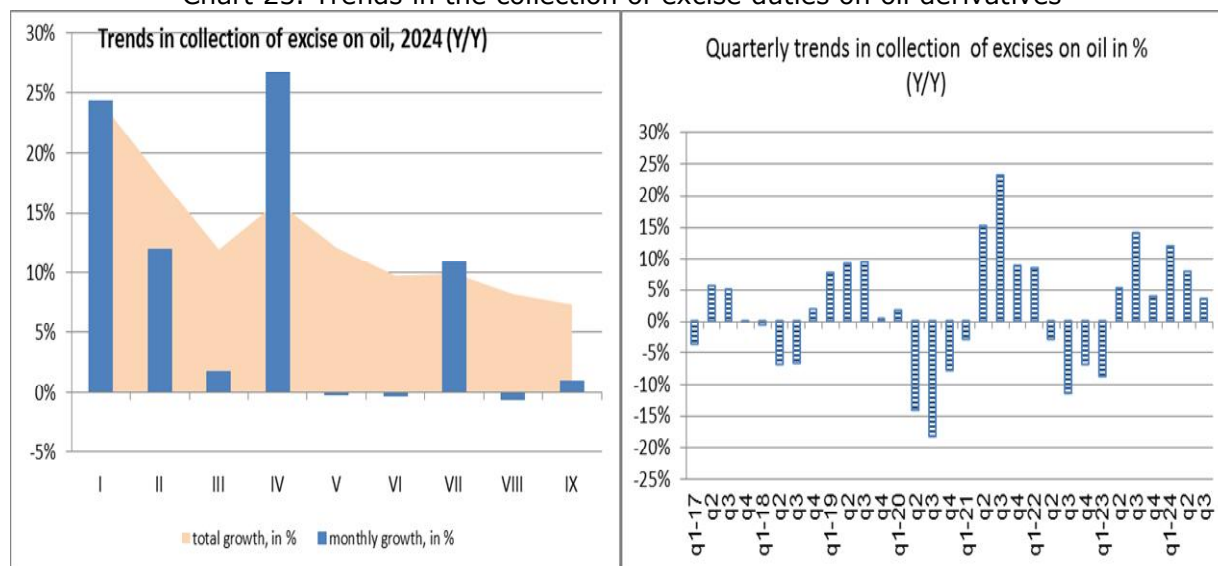
Total revenues from excise duties on oil derivatives and road fees in the period I-IX of 2024 exceeded the amount collected from the corresponding pre-crisis period in 2019 by 10.7%, with excise revenues increasing by 7.7% and road fees by 13.1% (Chart 22, left). On the other hand, the total revenues from excise taxes and road fees in I-IX 2024 increased by 7.9% compared to the same period of the previous year, whereby revenues from excise taxes increased by 7.6%, and revenues from road fees by 8.1% (Chart 22, right).

The main reason for the greater differences in the growth rates of excise and road fee revenues (and their opposite sign) in the period I-IX 2023 compared to the same period of the previous year, as well as compared to the same period of the base year in 2019, is the absence of exemption from the payment of road fees for mines, thermal power plants and railways starting from 2023.²⁰ The same is the reason for the larger differences in the growth rates of excise taxes on oil derivatives and road fees in the period I-IX 2024 compared to the same period in 2019 (the effect of a different basis for comparison), while the growth rates of excise taxes and road fees in the period I-IX 2024 compared to the same period of the previous year are at an approximately equal level, due to the absence of exemptions in both mentioned years.

Excises on oil derivatives

The collection of excise duties on oil derivatives was in the positive growth zone in the first four months. In January and February, high growth rates of 24.3% and 12% were recorded, respectively, which is a consequence of the low statistical base from the same period in 2023. Then the consumption of derivatives was lower due to higher retail prices of derivatives, leading to lower excise duty collection. Worse trends in March and from May to September have largely reduced the effects of high excise duty collection in the first two months of 2024 (Chart 23, left). Due to the worse trends that started in May, the cumulative growth rate has been constantly falling. At the nine months' level, it fell to 7.6% (Chart 23, left, "cumulative").

Chart 23. Trends in the collection of excise duties on oil derivatives



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

The cumulative growth rate of 7.6% is significantly above consumption projections and to some extent blurs the downward trend in the collection of excise duties on oil derivatives. This is shown by quarterly comparisons. In the first quarter of 2024, a high 12% growth in revenue from excise duties on oil derivatives was recorded, in the second quarter of 2024, the growth rate was 7.9%, and in the third, only 3.6% (Chart 23, right).

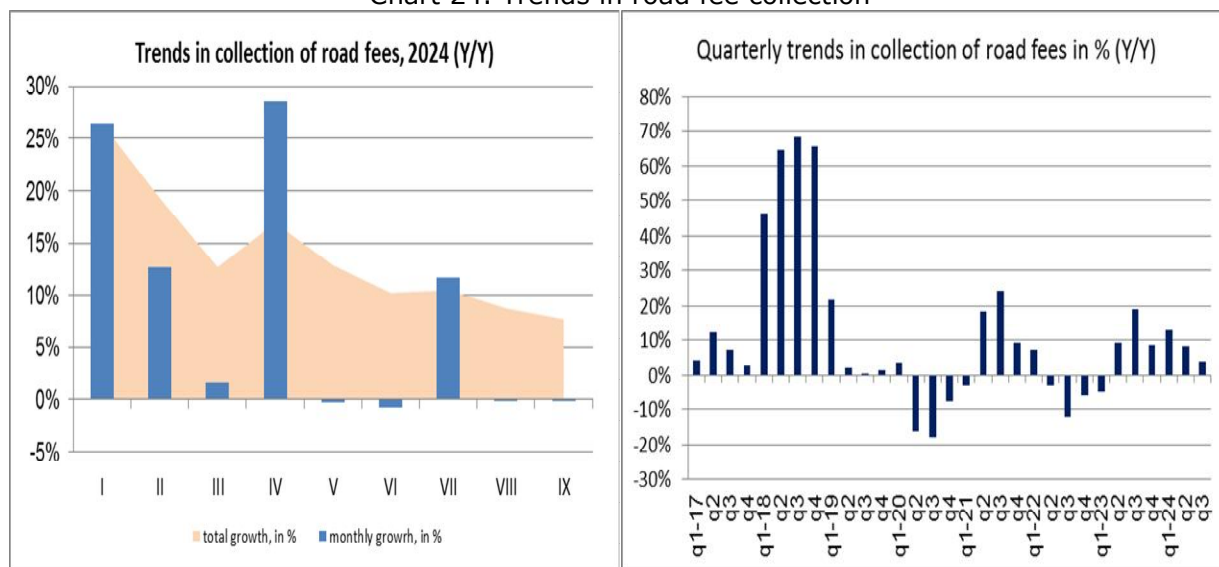
²⁰ See the Decision of the State Aid Council of B&H, "Official Gazette of B&H" 49/23

Bearing in mind all of the above, and based on projections of macroeconomic indicators, price trends on the world oil market and derivative prices on the B&H market, as well as the latest trends in excise duty collection and the seasonal collection pattern that does not include years with specifics, the projected growth rate of net excise revenue on oil derivatives for 2024 is 7.5%.

Road fee

The collection of road fee revenues follows the collection of excise duties on oil derivatives, with similar dynamics, including strong oscillations (Chart 24, left).

Chart 24. Trends in road fee collection



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

Bearing in mind the narrowing²¹ of the scope of exemptions from paying road fees, the differences between growth rates of excise duties on oil derivatives and road fees are getting smaller. Similar to the trends in the collection of excise duties on oil derivatives in the period May - September 2024, a positive growth rate was achieved only in July, and in the remaining four months of the period, the collection was at the same level of collection from the corresponding months in 2023.

Poor developments in the last five months led to a decrease in the net cumulative growth rate to 8.1% (Chart 24, left, "cumulative").

The downward trend in the growth of road fee revenues can best be seen on the basis of quarterly growth rates. The highest growth rate of road fee revenue of 13.1% was achieved in the first quarter of 2024, in the second quarter the growth rate was 8.2%, and in the third 3.7% (Chart 24, right).

The projected amount of net road fee collection in 2024 is 729.5 million BAM, which is 7.7% more than in the previous year. In accordance with the decisions of the State Aid Council, the road fee revenue projections imply road fee collection from all payers, except from railways.

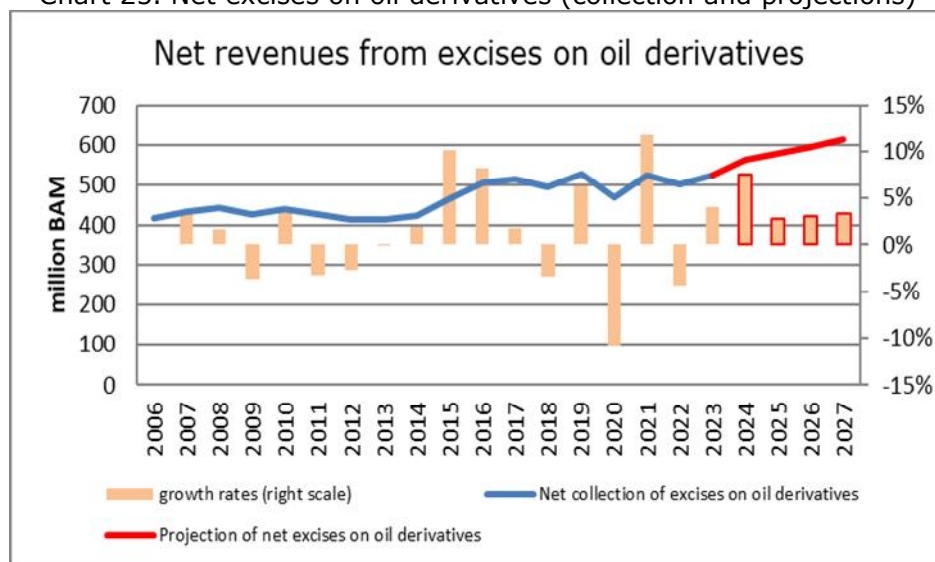
²¹ In accordance with the decisions of the State Aid Council, road fee exemptions for mines and thermal power plants were suspended, so that the scope of exemptions was reduced to only two taxpayers, entity railways.

Projections of excise duties on oil derivatives and road fees for the period 2025-2027

Excise duties on oil derivatives

Projections of excise duties on oil derivatives for the period 2025-2027 are in line with the projections of relevant macroeconomic indicators (Chart 25). In 2025, 2026 and 2027, stable growth rates of revenues from excises on oil derivatives are planned at rates of 2.8%, 3.1% and 3.3%, respectively.

Chart 25. Net excises on oil derivatives (collection and projections)



Source: Data of the ITA and projections of the MAU

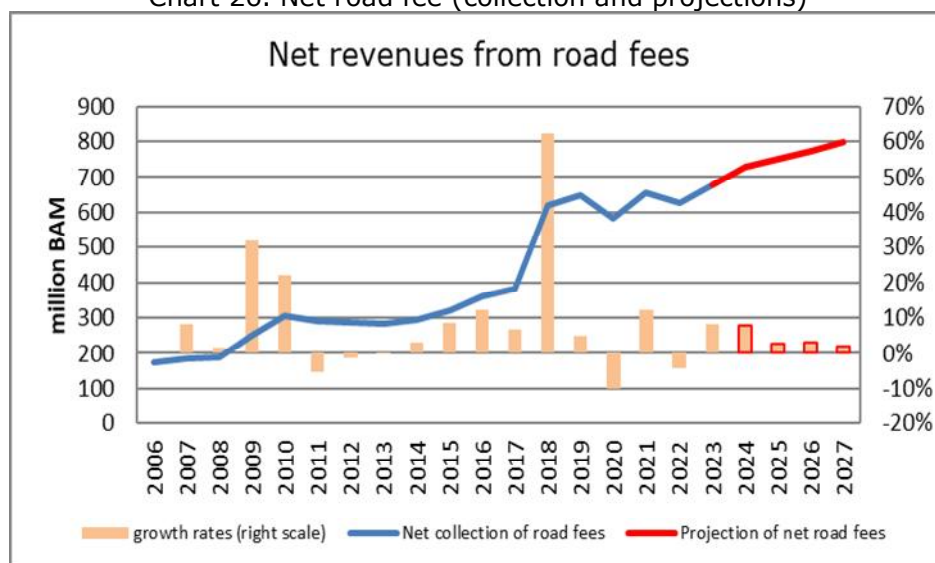
Road fees

The long-term dynamics of road fee revenues were most affected by changes in taxation rates. Until 2009, the share of road fee revenues was not significant in indirect tax revenues. With the increase in the earmarked road fee rate in the middle of 2009, road fee revenues have a more significant share in indirect taxes. Observed in absolute terms, in the period 2009-2014, road fee revenues were in the range between 250.2 and 307 million BAM (Chart 26). With the drop in oil prices on the world market and the prices of oil derivatives on the B&H market, in 2015 road fee revenues have been increasing. In the period 2015-2017, road fee revenues were in the range between 320.5 and 382.7 million BAM. In February 2018, the earmarked road fee rate increased again, and road fee revenues recorded a sharp jump in collection. In the period 2018-2023, they were in the range between 584 and 677.8 million BAM, and the significant fluctuation in this period was a consequence of restrictive measures in the fight against the corona virus, the war in Ukraine and the resulting huge differences in the prices of oil on the world market and oil derivatives on the B&H market. Road fee projections follow the projections of relevant macroeconomic indicators (Chart 26, Box 4). Bearing in mind the decisions of the State Aid Council of B&H, the projections of road fee revenues imply the collection of road fees for all payers, except for railways.

Box: 4: Road fee projections

	2023	2024	2025	2026	2027
Projections, BAM	677,7	729,5	749,9	773,2	798,7
Projections, growth rate		7,7%	2,8%	3,1%	3,3%
Projections, % GDP	1,3%	1,4%	1,3%	1,3%	1,3%

Chart 26. Net road fee (collection and projections)



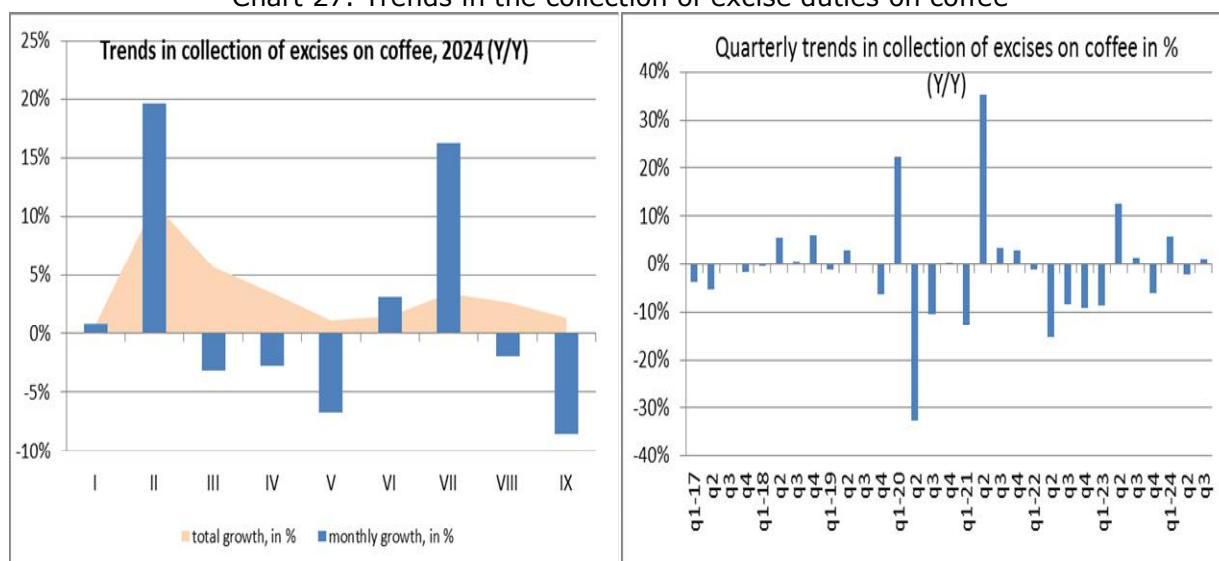
Source: Data of the ITA and projections of the MAU

2.4. Other

Excise duties on coffee

Oscillations in collection were also recorded in excises on coffee. During the period January - September 2024, there was a five-month decrease in revenues from excises on coffee. This was especially pronounced in September, when 8.5% less excise revenue was collected than in the same month of 2023. On the other hand, positive growth rates were recorded in four months, with a maximum in February (Chart 27, left), which, despite the negative trends in the last two months, was enough to achieve a positive cumulative growth rate of 1.4% (Chart 27, left, "cumulative").

Chart 27. Trends in the collection of excise duties on coffee



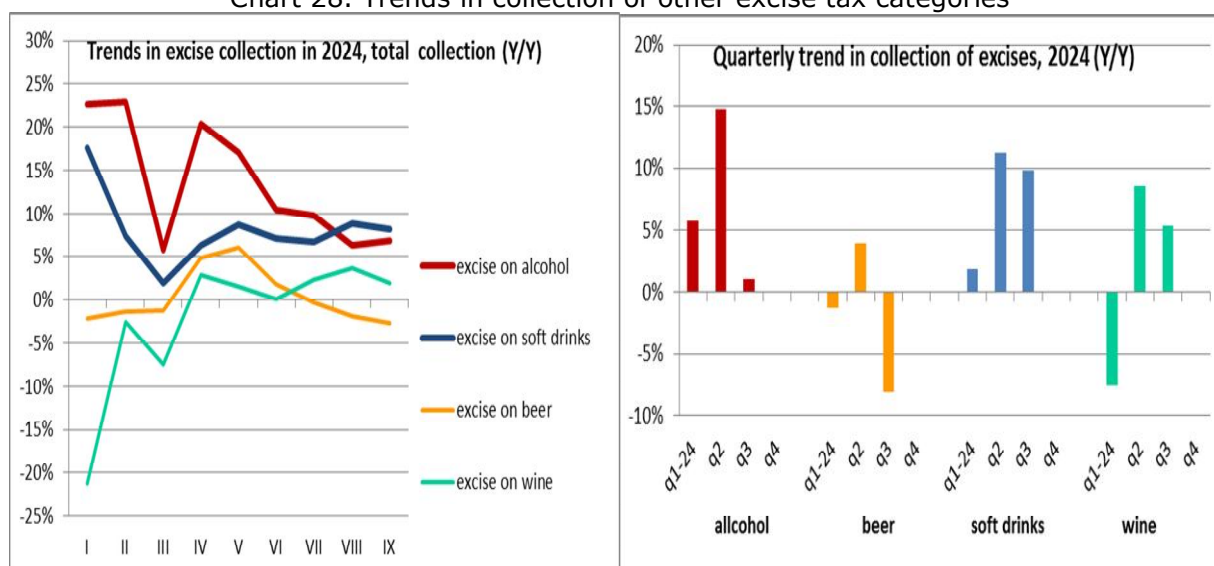
Source: Indirect Taxation Authority of B&H, calculation and presentation of the MAU

Quarterly comparisons nevertheless point to the conclusion that the worst collection of excise duties on coffee was in the second quarter of 2024, when a drop of 2.1% was recorded. The poor collection of excise duties on coffee in August and September could not neutralize the high growth of excise revenues in July, so a positive growth rate of excise duties on coffee of 1.1% was achieved in the third quarter (Chart 27, right).

Excise duties on beer, wine, alcohol, alcoholic and non-alcoholic beverages

Oscillatory trends in collection during 2024 were also recorded for excise duties on beer, wine, alcohol, alcoholic and non-alcoholic beverages. In the first few months, there was an increase in revenues from excise duties on alcohol, alcoholic and non-alcoholic beverages, while excise collection on beer and wine was lower than in the same period in 2023. In the following months, excise collection on beer went from a negative to a positive growth zone, but since July it has been in the negative growth zone again. Excise duty collection on other products from the group has been stable with positive cumulative growth rates at the end of the period January - September 2024 (Chart 28, left).

Chart 28. Trends in collection of other excise tax categories



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

Quarterly comparisons show a strong slowdown in the collection of excises on alcohol and a large drop in the collection of excise duties on beer in the third quarter. On the other hand, the quarterly growth rates of excise taxes on non-alcoholic beverages and wine indicate stable positive trends (Graph 28, right).

Revenues from other excise tax categories (alcohol and alcoholic beverages, beer, wine, non-alcoholic beverages and coffee) do not have a significant share in total excise revenues.²² They are designed in accordance with current collection trends, historical seasonal patterns and projections of relevant macroeconomic indicators.

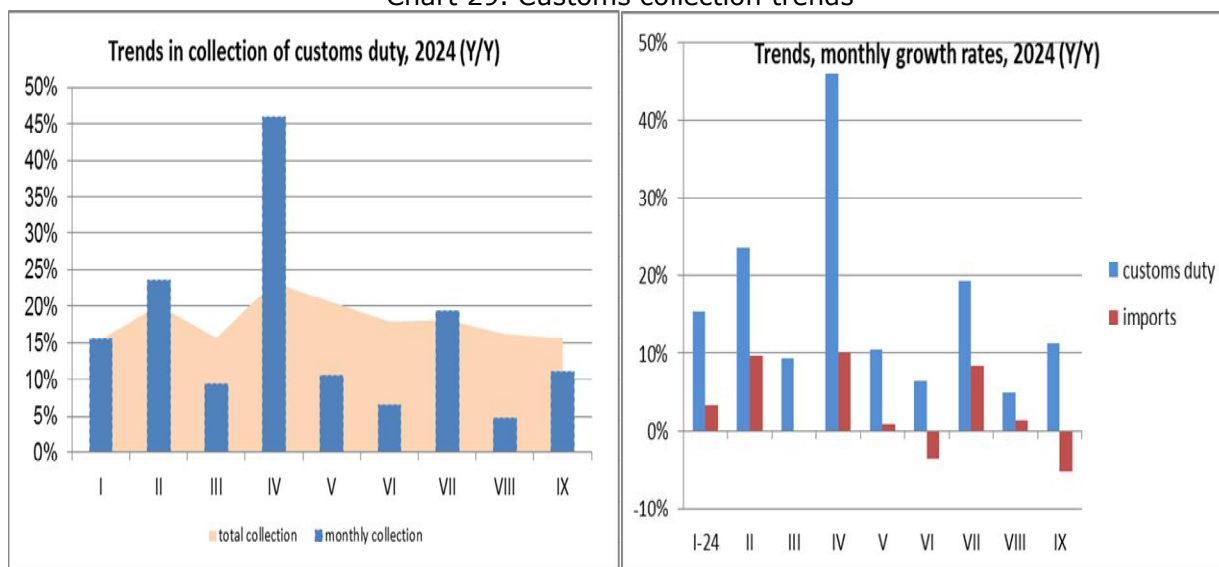
²² Gross revenues from all listed types of excise taxes accounted for only 9.2% of gross revenues from excise taxes in 2023.

3. Customs duties

3.1. Projections of customs revenue for 2024

Customs revenue collection has been continuously in the positive growth zone, with the maximum monthly growth rate of 45.9%, which was achieved in April (Chart 29, left). In the following months, more moderate growth rates were recorded. The rate of 6%, which was recorded in June, represents the lowest monthly growth rate in 2024. In September, customs revenues grew at a rate of 11.2%, but this could not stop the downward trend of the cumulative growth rate, which fell from a maximum of 23.3% in April to 15.6% in nine months (Chart 29, left, "cumulative").

Chart 29. Customs collection trends



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

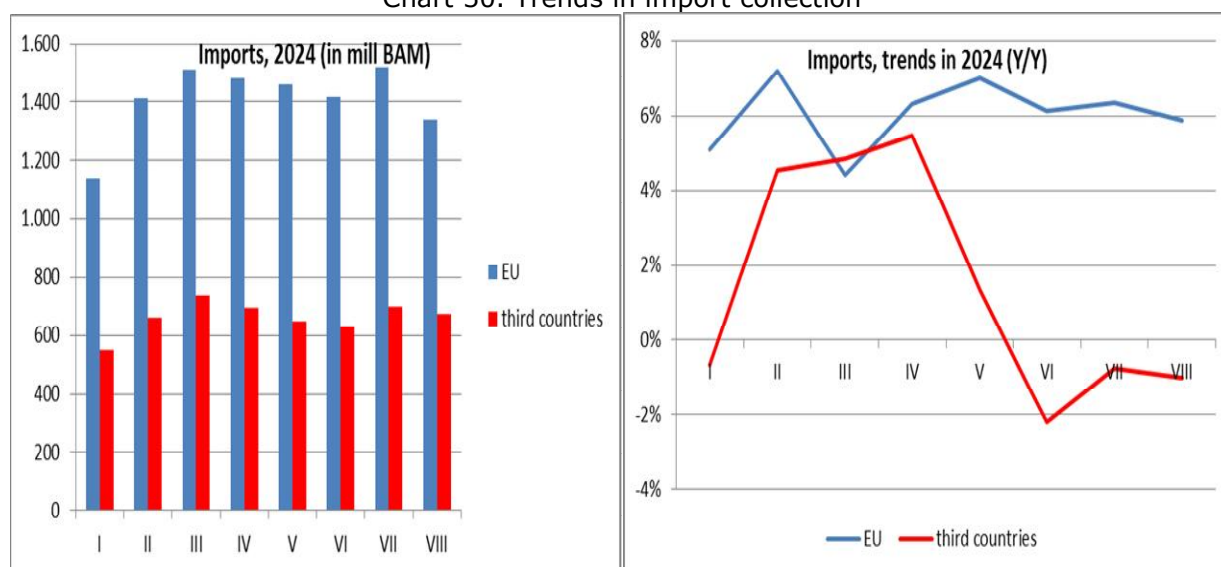
The growth of customs revenues should be correlated with the growth of imports because the largest part of customs revenues is *ad valorem*, that is, it is calculated as a percentage of the tax base. Differences between import growth rates and customs revenues are possible because it depends on the structure of the base, which, for the purpose of analysis, consists of two categories of goods - goods that are subject to customs duties and other goods on which customs duties are levied, that is, on the movement of imports of each of the above category. However, a comparison of the growth rates of customs revenues and statistical²³ data on the movement of imports for the nine months of 2024 indicate an unusually large discrepancy in favor of the growth of customs revenues, especially in April (Chart 29, right). The other situation refers to June and September, when a drop in imports and an increase in customs revenues were recorded.

Given that in all months the rate of growth of customs revenues is higher than the growth rate of imports, it can be concluded that in the structure of the import of goods, a faster growth of the import of goods on which duties are paid has been achieved. Part of the EU goods and the import of goods from the third countries are under the customs regime. The value of imports in the first months of the year is traditionally the lowest, but the presentation of the trend of imports by the main groups of countries relevant for the collection of customs revenue shows the growth of imports from the EU and from third countries, expressed in absolute amounts in the first three months, and the decreasing trend in the second quarter. However, in July, imports increased

²³ Source: Agency for Statistics of Bosnia and Herzegovina for the period January - August 2024 and the Indirect Taxation Authority for September 2024.

again to the level of March, but in August, imports from the EU were significantly lower compared to most months in 2024 (Chart 30, left). A comparison with imports in 2023 indicates strong oscillations in the cumulative growth rate of imports from the third countries, while trends in imports from the EU are more stable, but still with a slight decline. In the first eight months of 2024, imports from the EU increased by 5.9%, while imports from the third countries decreased by 1% compared to the same period in 2023 (Chart 30, right).

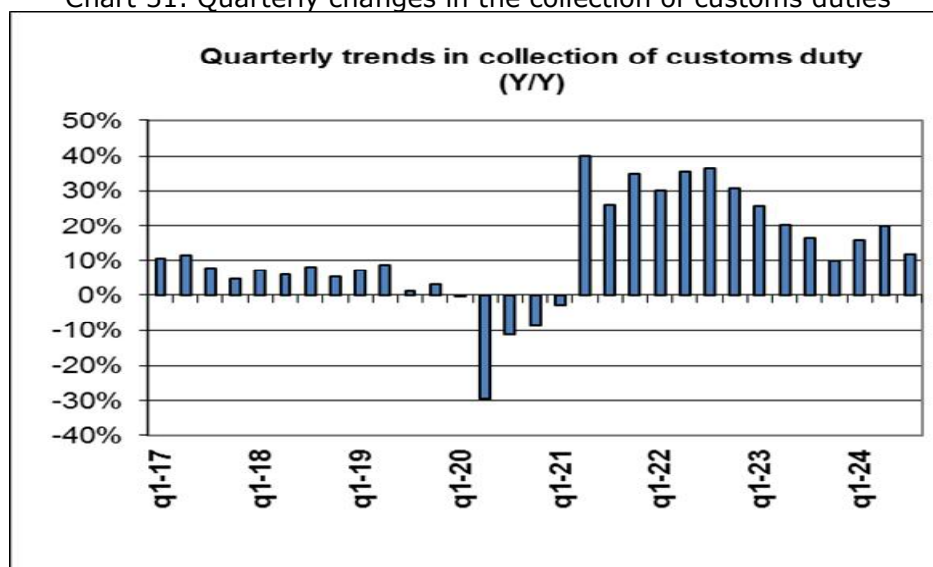
Chart 30. Trends in import collection



Source: Agency for Statistics of Bosnia and Herzegovina for the period January - August 2024 and the Indirect Taxation Authority for September 2024, calculation and presentation of the MAU

An overview of the quarterly trends in customs revenue collection indicates a recovery in revenue collection, so that in the first quarter of 2024, a growth of 15.7% was recorded, and in the second even 19.8%. The slowdown in customs revenue collection in the last three months was also reflected in the quarterly growth rate, which in the third quarter of 2024 was 11.6% (Chart 31).

Chart 31. Quarterly changes in the collection of customs duties



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

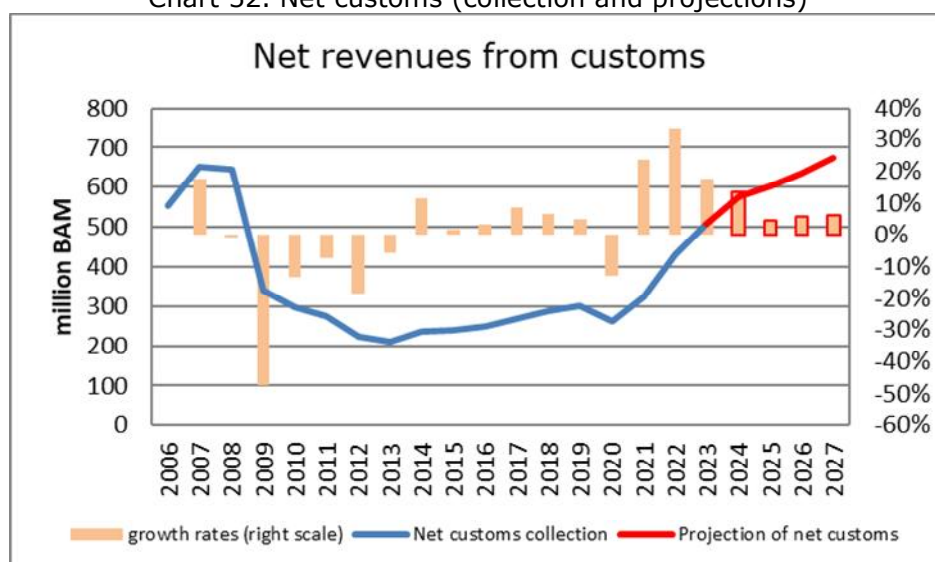
According to ITA data, in the period I-IX 2024, the growth rate of imports was 2.6% compared to the same period of the previous year. According to DEP's projections, a slightly higher import growth rate of 3.5% will be achieved at the level of the year. Bearing in mind the trends in the collection of customs revenues, the movement of imports and DEP's projections, for the year 2024 the net customs collection is projected in the amount of 574.9 million KM, which is 13.5% more than the collection in the previous year (Chart 32, red line).

3.2. Projections of customs revenue for the period 2025-2027

Liberalization of foreign trade has led to a strong drop in customs revenues. From 650.4 million BAM in 2007, net revenues from customs fell to only 211 million BAM in 2013. Since 2014, a six-year trend of slight growth of these revenues has been recorded, reaching the level of 300.6 million BAM in 2019. In 2020, with the coronavirus pandemic, these revenues fell again to 262.2 million BAM, while in the period 2021-2023 they recorded a strong recovery, amounting to 506.7 million BAM in 2023 (Chart 32, blue line).

Customs revenue projections are based on collection trends, and are in line with import projections (Chart 32 and Box 5).

Chart 32. Net customs (collection and projections)



Source: Data of the ITA and projections of the MAU

Box 5: Customs revenue projections

	2023	2024	2025	2026	2027
Projections, BAM	506,7	574,9	600,8	634,4	672,5
Projections, growth rate		13,5%	4,5%	5,6%	6,0%
Projections, % GDP	1,0%	1,1%	1,1%	1,1%	1,1%

IV RISKS

Considering the huge unknowns at the time of preparing the projections about the further development of the situation on the international level related to the events in Ukraine and the assumptions used (DEP, macroeconomic projections), we point out that there are significant risks for the realization of projections of indirect tax revenues. Given the basic assumptions of indirect tax projections and the overall economic conditions in B&H and in the world, the realization of the projected level of revenues from indirect taxes in the period 2024-2027 is subject to the following risks: (1) all risks for the realization of projected macroeconomic indicators (DEP) and (2) risks related to the collection of revenues from indirect taxes and fight against the grey economy.

Projections of indirect tax revenues are closely related to the projections of macroeconomic indicators of DEP. All risks mentioned by DEP in their projections automatically represent risks for the projections of indirect taxes, since any deviation of the realization of DEP parameters from their projected values inevitably leads to deviations from the projected indirect tax revenues.

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

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

The decisions of the State Aid Council of B&H regarding exemptions of road fee for mines and thermal power plants carry certain risks for the collection of indirect taxes. Bearing in mind the decisions of the Council, the projections of road fee revenues for the period 2024-2027 imply the collection of road fee for all payers, except for railways. A different outcome of the possible legal proceedings of the users of the tax relief would imply a lower road fee collection compared to the projections. On the other hand, the return of the relief would have a positive effect on the collection of road revenues. Bearing in mind the unknowns regarding the dynamics of refund collection and the duration of possible legal proceedings in this regard, the refund of the relief is not included as one-time additional revenue in the revenue projections for the period 2024-2027.

Appendix: Latest projections of international institutions

i. Projections of the European Commission (EC)

Based on Table 6, projections of real GDP growth and inflation for the period from 2023 to 2025 can be seen from the latest EC projections.²⁴ For 2023, it was estimated that real GDP growth of 0.4% was achieved in the EU, while growth rates of 1% and 1.6% are projected for 2024 and 2025, respectively. As for the inflation rate in the EU, it is estimated that it will fall from 6.4% in 2023 to 2.7% in 2024, and to 2.2% in 2025.

Table 6. EC projections, spring 2024

Projection	Real GDP growth				Inflation		
	2023	2024	2025		2023	2024	2025
Euro Area	0,4	1,0	1,6		6,4	2,7	2,2
EU	0,4	0,8	1,4		5,4	2,5	2,1

Source: European Economic Forecast, Spring 2024

ii. Projections of the International Monetary Fund (IMF)

The latest IMF projections date from July 2024.²⁵ According to the source, it is projected that global growth in 2024 will amount to 3.2%, and that the growth rate will increase slightly in 2025 to 3.3%.

In addition to the projections for the World economy, Table 7 presents the IMF's projections for the Euro Area.

Table 7. Real GDP growth projections, IMF, July 2024

		Projection		Difference compared to WEO from April 2024	
	2023	2024	2025	2024	2025
World	3,3	3,2	3,3	0,0	0,1
Euro Area	0.5	0.9	1.5	0.1	0.0

Source: IMF, World Economic Outlook Update, July 2024.

iii. Projections of the European Central Bank (ECB)

In the ECB projections from September 2024, it is expected that the average annual growth of real GDP in the Euro Area will amount to 0.8% in 2024, and that it will strengthen to 1.3% in 2025 and to 1.5% in 2026.

Table 8. ECB GDP growth and inflation projections for the Eurozone, September 2024.

	2023	2024	2025	2026
Real GDP growth	0,5	0,8	1,3	1,5
HICP inflation	5,4	2,5	2,2	1,9

Source: ECB projections from September 2024; www.ecb.europa.eu

²⁴ European Economic Forecast, Spring 2024, May 2024

²⁵ IMF, World Economic Outlook Update, July 2024

Consumption of oil derivatives in the period I-VI 2024

Prepared by: Aleksandra Regoje (Expert Advisor – Macroeconomist)

Introduction

In the first half of 2024, the collection from excise duties on oil derivatives and road fees together was 10.1% higher than in the first half of the previous year. The collection of excises on oil derivatives in the same period increased by 9.8%, while the collection of road fees increased by 10.4%. It is interesting that the monthly growth rates have varied strongly, from extremely high in the initial months of the first and second quarter, to slightly negative in the last two months of the second quarter.

Although the consumption of oil derivatives is price inelastic²⁶, 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 on excise duties, road fees and associated VAT, which have a significant share in total revenues from indirect taxes. The factors determining 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 have been limited by decisions of entity governments as of April 2021. Therefore, the turbulences in the crude oil market have determined the dynamics in the prices of oil derivatives in B&H

In the following, we will see that in the first half of 2024, the average weekly prices of diesel fuel on the B&H market were relatively stable. Their price range (2.5-2.8 BAM/l) is significantly lower compared to the pronounced fluctuations in the analyzed period from the beginning of 2019 to the end of June 2024.

The first part of this article shows the price dynamics of diesel fuel in Bosnia and Herzegovina, as well as factors that determined it (crude oil prices). The second part shows the consumption of oil derivatives by types, observed by six-month periods. The third part presents an analysis of collected revenues from excise duties on oil derivatives and road fees of the Indirect Tax Administration of B&H (ITA) in the first half of 2024, compared to the previous year and compared to the pre-crisis year 2019.

I Prices of oil derivatives on the B&H market

Crude oil prices

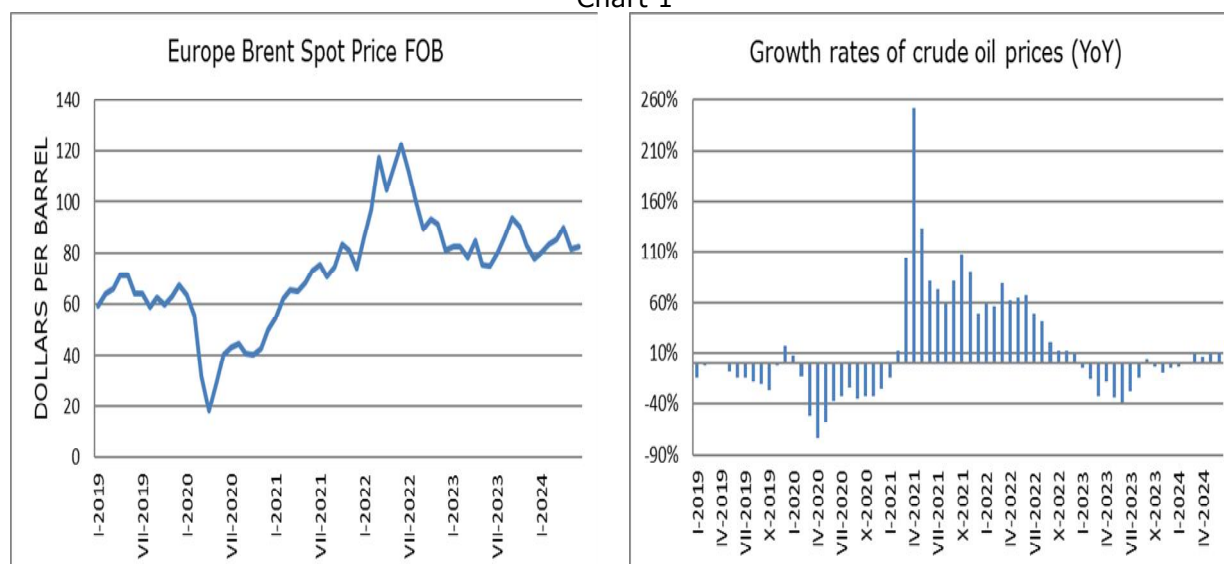
Based on data from the U.S. Energy Information Administration, Chart 1 (left) shows the monthly prices of Brent crude oil prices²⁷ in the period from I-2019 to VI-2024. Crude oil prices were relatively stable in 2019, ranging from 59 to 71.3 dollars per barrel. In the period from 2019 to 2022, huge fluctuations were recorded, at first as a result of the effects of the coronavirus pandemic, and later due to the war in Ukraine. In April 2020, crude oil prices fell to only 18.4 dollars per barrel, representing the lowest value since 1999. After that, there was a growth trend,

²⁶ In the analysis presented in MAU Bulletin No. 205-206, based on the multiple regression model and the formula for calculating demand 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 factors unchanged (the same level of GDP).

²⁷ Europe Brent Spot Price FOB

and in June 2022, the maximum price in the observed period was recorded in the amount of a high 122.7 dollars per barrel. From July 2022, the downward trend of crude oil prices has started again, and at the end of 2022 they amounted to 80.9 dollars per barrel. Compared to the previous period, in 2023, prices were relatively stable, ranging from 80.1 to 93.7 dollars per barrel. In the first half of 2024, prices were also stable, with a minimum value in January (80.1 dollars per barrel) and a maximum value in April (89.9 dollars per barrel).

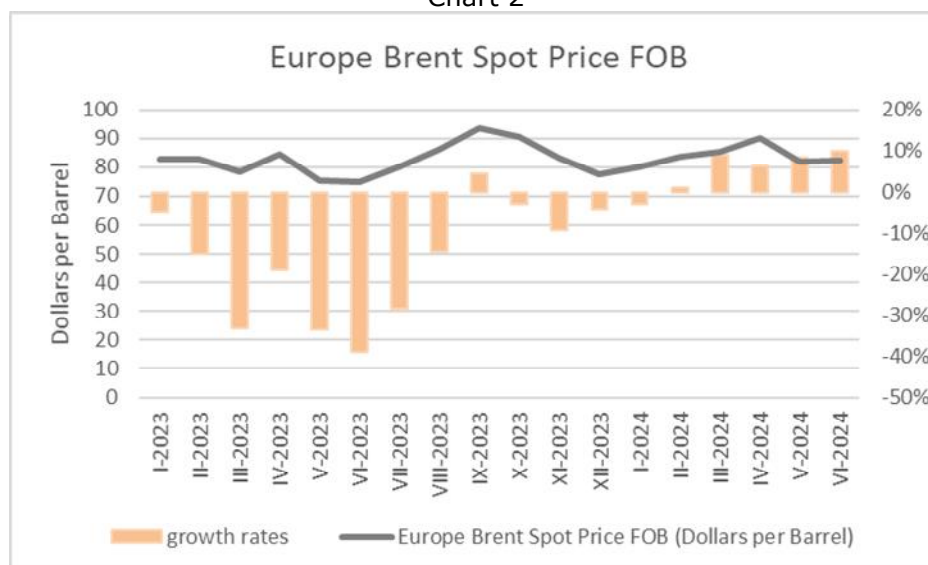
Chart 1



Source: Author's presentation based on data from the U.S. Energy Information Administration, 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 compared to the same month of the previous year, 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 statistical 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 statistical base 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 huge 252.6% was recorded. High crude oil prices and a low base in the previous year are the cause 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 was the result of high prices caused by war events in Ukraine.

Chart 2



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

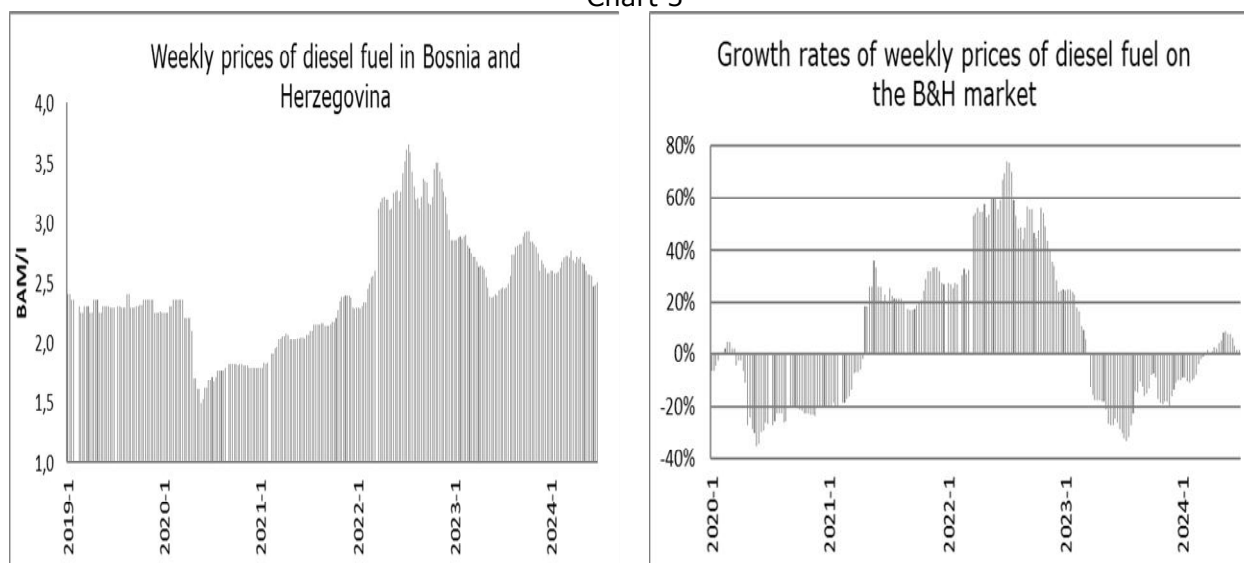
In 2023, there was a drop in crude oil prices and negative monthly growth rates (Chart 2). As a consequence of the high base from the previous year and the trend of falling prices, in all months of 2023, except for September, negative growth rates of crude oil prices were recorded. Due to the high statistical base for comparison, particularly high rates of decline were expressed in the months of March, May, June and July 2023. In January 2024, a drop in crude oil prices of 2.9% was recorded compared to the same month of the previous year, while in the continuation of the first half of 2024, positive growth rates were achieved, up to +10%

Prices of oil derivatives on the B&H market

Chart 3 shows weekly prices of diesel fuel²⁸ in Bosnia and Herzegovina in the period from 2019 to the middle of 2024, which follow the dynamics of crude oil prices. 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 corona virus pandemic. In the 21st week of 2020, the price of diesel fuel was 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 was maintained throughout 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 prices of diesel fuel reached their maximum of a high 3.7 BAM/l in the 28th week of 2022 (mid-July). After that, there was a downward trend in diesel fuel prices until the 21st week of 2023, when they amounted to 2.4 BAM/l. Then the trend of rising prices of diesel fuel began, and lasted until the 41st week of 2023 (2.9 BAM/l). Then the downward trend arose again, lasting until the end of the year (2.6 BAM/l in the last week of 2023). From the beginning of 2024, the weekly prices of diesel fuel have generally increased until the 12th week (March 18-24) when they reached the amount of 2.8 BAM/l, and then in almost all weeks they fall until the end of June when they amounted to 2,5 BAM/l.

²⁸ Only data for diesel fuel is shown because after the 19th week of 2022, the reporting of prices for fuel 95 BMB and 98 BMB on the website of the Foreign Trade Chamber of B&H with data from the International Road Transport Union was discontinued.

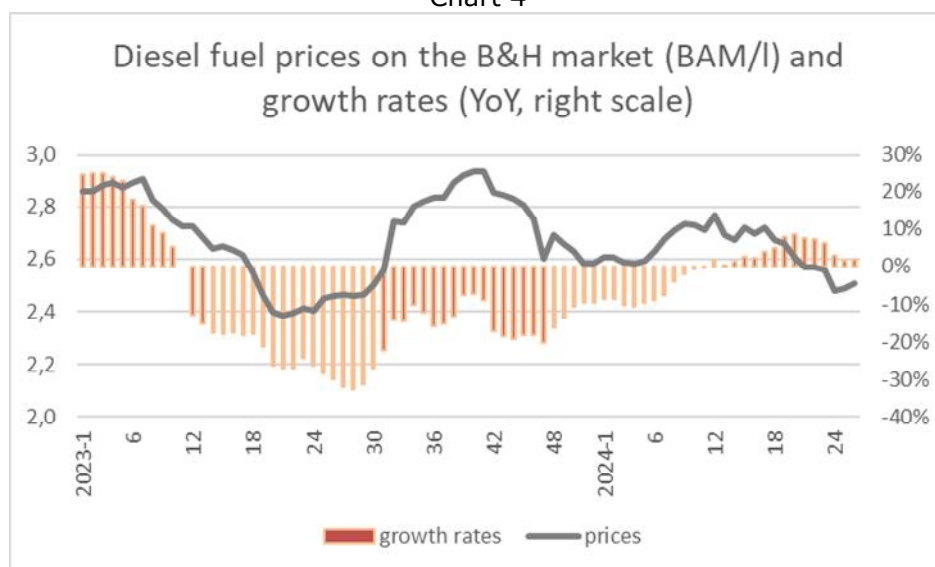
Chart 3



Source: Author's presentation based on the data from International Road Transport Union downloaded from the website of the Foreign Trade Chamber of Bosnia and Herzegovina

If we compare the weekly prices of diesel fuel with the prices from the same week of the previous year, it can be concluded that they were increasing during the entire year 2022, were falling during the entire year 2023 until the 11th week of 2024. The transition of the growth rate of weekly diesel fuel prices to the positive zone, i.e. "above the X axis" of Chart 3 (right), occurred from the 12th week of 2024. It is interesting that in that week the maximum of weekly prices in the year 2024 was recorded, and that after that week there was a downward trend in prices in the year 2024, but the transition to a positive growth zone compared to the previous year was the result of a downward trend in prices in the same period in 2023 (Chart 4).

Chart 4



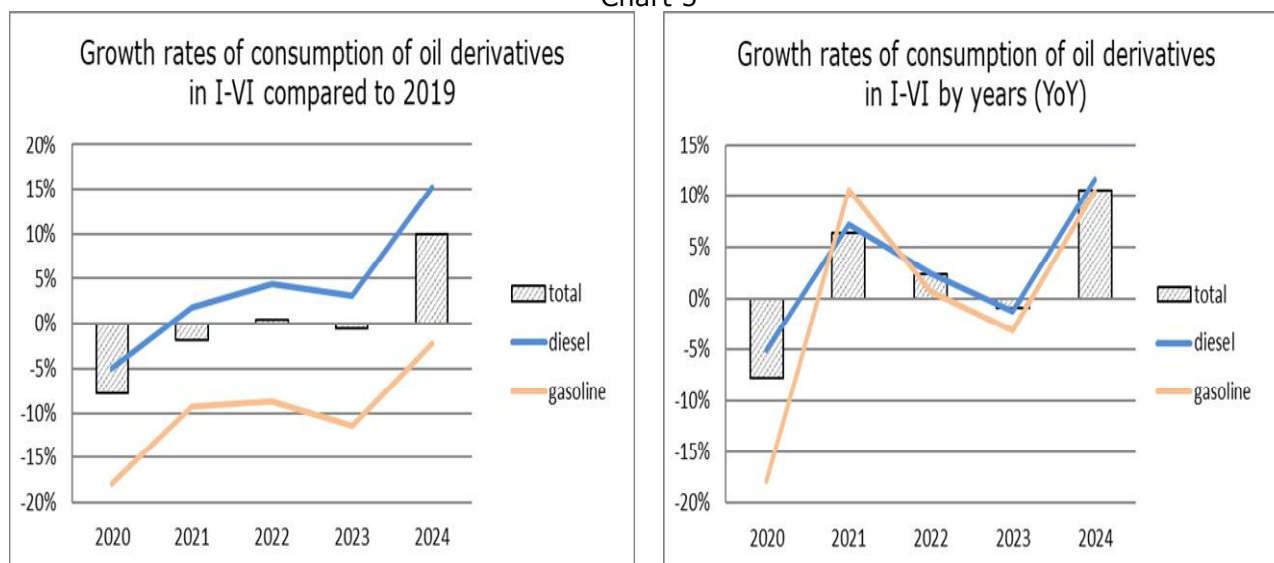
Source: Author's report based on the International Road Transport Union taken from the website of the Foreign Trade Chamber of Bosnia and Herzegovina

II Consumption of oil derivatives in the first six months in the period 2020-2024

In this part, a comparison was made of the consumption of oil derivatives²⁹ in the first half of the year for the period 2019-2024. Based on the left side of Chart 5, the consumption of oil derivatives can be analyzed in relation to the base year, 2019. We can see that after the decline in 2020 and 2021, the consumption of total oil derivatives reached the consumption from I-VI 2019 only in I-VI 2022 (+0.4% growth), with a slightly lower level of consumption in the first half of 2023 (drop -0.5% compared to the same period in 2019). **In the first half of 2024, the consumption of total oil derivatives was 9.9% higher compared to the same period in 2019. The consumption of diesel fuel in the first half of 2024 compared to the same period in 2019 increased by 15.2%, while the consumption of gasoline decreased by 2.2%.**

If we look at the growth rates in the first half of the year compared to the same period of the previous year (Chart 5, right), we can conclude that negative rates were achieved in 2020, both in total consumption and by category (diesel and gasoline). In the next two years, the opposite, positive trends were recorded, and in 2023, negative again. **In the first half of 2024, the consumption of total oil derivatives increased by 10.5% compared to the same period of the previous year, with the consumption of diesel fuel increasing by 11.7% and the consumption of gasoline by 10.5%.**

Chart 5



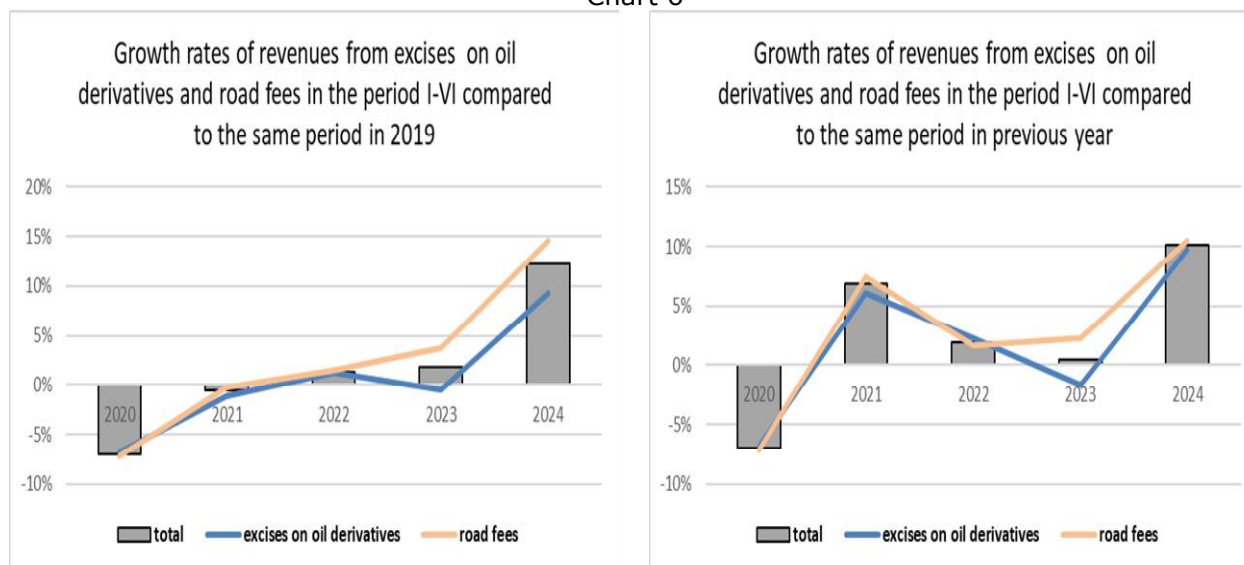
Source: Author's presentation based on the ITA data
Consumption of total oil derivatives includes: diesel fuel, gasoline, heating oil, kerosene, LPG.

²⁹ The term "consumption of derivatives" in this article implies quantities calculated by the author, and they include the amount of imported oil derivatives and the amount of domestic oil derivatives placed in the market. Amounts from excise declarations were taken with the time lag $m-1$, in order for the base to be correctly presented in accordance with the provisions of the Law on excises regarding the occurrence of the obligation and payment of excise duties. The last year in which domestic derivatives were placed in the market was 2019, due to the suspension of production at the Oil Refinery Brod after the accident that occurred in October 2018.

III Revenues collected at the ITA Single Account based on oil derivatives

The total revenues from excise duties on oil derivatives and road fees in I-VI 2024 exceeded the amount collected from the corresponding pre-crisis period in 2019 by 12.2%, with excise revenues increasing by 9.3% and from road fees by 14.6% (Chart 6, left). On the other hand, total revenues from excise taxes and road fees in I-VI 2024 increased by 10.1% compared to the same period of the previous year, where revenues from excise taxes increased by 9.8%, and revenues from road fees by 10.4% (Chart 6, right).

Chart 6



Source: Author's presentation based on the ITA data

Differences in growth rates of revenues from excises on oil derivatives and road fees originate from:

1. exemptions from road fee payments for mines, railways and thermal power plants (applied until 2023)
2. different inclusion of derivatives in the bases for calculating excise taxes and road fees (unlike the excise base, the road fee base does not include kerosene and heating oil);
3. differentiated excise duty rates on derivatives and changes in structure of the base for excise duties in the past period (change in the base structure in favor of diesel fuel, which is taxed at a lower excise rate compared to gasoline, see Chart 5, left).

The main reason for the greater differences in the growth rates of excise and road fee 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 the base year - 2019, is the absence of exemption from the payment of road fee for mines, railways and thermal power plants starting from 2023.³⁰ The same is the reason for the larger differences in the growth rates of excise taxes on petroleum derivatives and road fees in the period I-VI 2024 compared to the same period in 2019 (the effect of different bases for comparison), while the growth rates of excises and road fees in the period I-VI 2024 compared to the same period of the previous year at an approximately equal level, due to the absence of exemptions in both mentioned years.

³⁰ Decision of the State Aid Council of B&H, "Official Gazette of BiH" 49/23

Findings

1. The average weekly prices of diesel fuel (the derivative with the highest weight in the total consumption of oil derivatives) had the enormous turbulences in the previous period. Prices were extremely low in 2020, and extremely high in 2022. After the recorded maximum in the week in mid-July 2022 of 3.7 BAM/l, there was a downward trend in the weekly prices of diesel fuel until mid-May 2023, when they amounted to 2.4 BAM/l. After that, there was a period without such great turbulences. By the end of the analyzed period (June 2024), the average weekly prices of diesel fuel were in the range of 2.4-2.9 BAM/l. Maximum average weekly prices of diesel fuel were recorded in the week at the beginning of October 2023 (2.9 BAM/l), and in the middle of March 2024 (2.8 BAM/l). After the month of March, the prices have mostly been falling until the end of June 2024, when they amounted to 2.5 BAM/l.
2. In the first half of 2024, the consumption of total oil derivatives increased by 10.5% compared to the same period of the previous year, with the consumption of diesel fuel increasing by 11.7% and the consumption of gasoline by 10.5%. Compared to the same period in 2019, in the first half of 2024, the consumption of total oil derivatives was 9.9% higher. At the same time, diesel consumption increased by 15.2%, while gasoline consumption decreased by 2.2%.
3. Total revenues from excise taxes and road fees in I-VI 2024 increased by 10.1% compared to the same period of the previous year, with excise revenues increasing by 9.7% and road fee revenues by 10.4%. Total revenues from excise duties on oil derivatives and road fees in the first to sixth months of 2024 exceeded the collected amount from the corresponding period of the base year 2019 by 12.2%, with excise revenues increasing by 9.3%, and from road fees by 14.6%.

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Analysis of revenues from excise duties on coffee

(Author: Mirjana Popović, Expert Advisor - Macroeconomist)

Summary

The analysis of revenues from excise duties on coffee in Bosnia and Herzegovina (hereinafter: BiH) is a continuation of the analysis published in the previous issues of the Unit's bulletin³¹ the focus of which is:

- *Annual collection of revenues from excise duties on coffee in the period 2021³²-2023³³ and the annual growth rate of these revenues for 2022 and 2023.*
- *Annual movement of coffee imports in the period 2021-2023³⁴ and the annual growth rate of coffee imports for 2022 and 2023.*
- *Quarterly collection of revenues from excise duties on coffee for the period first quarter (Q1) 2021-third quarter (Q2) 2024³⁵ and the quarterly growth rate of these revenues for the period first quarter (Q1) 2022-third quarter (Q2) 2024.*
- *Monthly collection of revenues from excise duties on coffee for the period January 2021-September 2024³⁶ and the monthly growth rate of these revenues for the period January 2022-September 2024.*
- *Monthly movement of the average price of ground coffee in BiH in the period January 2021-September 2024³⁷ and the monthly growth rate for the period January 2022-September 2024.*

1. Annual movement of revenues from excise duties on coffee

Total revenues from excise duties have a large share in total revenues from indirect taxes, while the share of revenues from excise duties on coffee in these revenues in the observed last three years ranges between 1.9% and 2.3%.

Chart one shows the movement of the annual collection of revenues from excise duties on coffee for the period 2021-2023, in millions of BAM.

³¹ About the coffee taxation policy and collection of coffee excise revenue more in: Popović, M. (2022). "Analysis of revenue collection from excise duties on coffee"; MAU bulletin no. 207/208. More about the trends in the collection of these revenues and current trends in: Popović M. (2023) "Analysis of revenue collection from excise duties on coffee". MAU bulletin no. 221/222

³² Due to the outbreak of the Covid-19 pandemic, the 2020 is not relevant year for comparison

³³ Latest available annual data

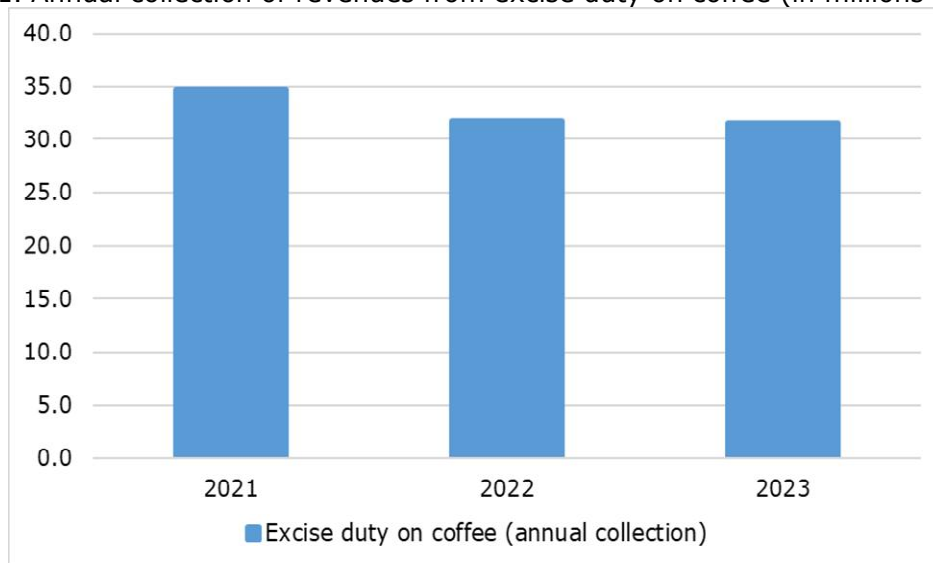
³⁴ Latest available annual data

³⁵ Latest available quarterly data

³⁶ Latest available monthly data

³⁷ Latest available monthly data

Chart 1. Annual collection of revenues from excise duty on coffee (in millions of BAM)

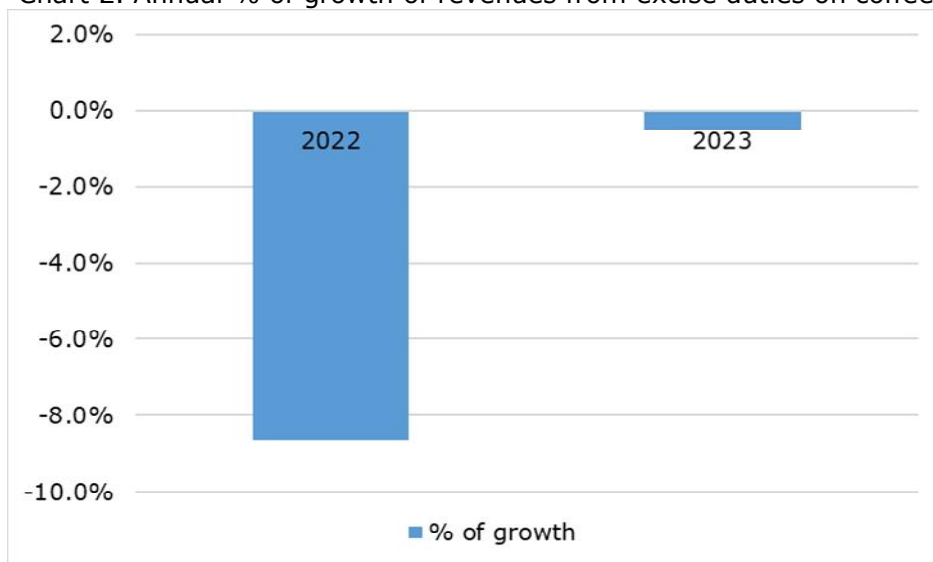


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

From the previous chart, it can be concluded that the revenues from excise duties on coffee in the observed period are the highest in 2021, after which the collection of these revenues in 2022 decreased by 8.7%. A stagnant growth rate, more precisely a slight decrease by 0.5% was recorded in 2023 compared to the previous year (Chart 2).

Chart two shows the annual growth rate of revenues from excise duties on coffee for the period 2022-2023.

Chart 2. Annual % of growth of revenues from excise duties on coffee



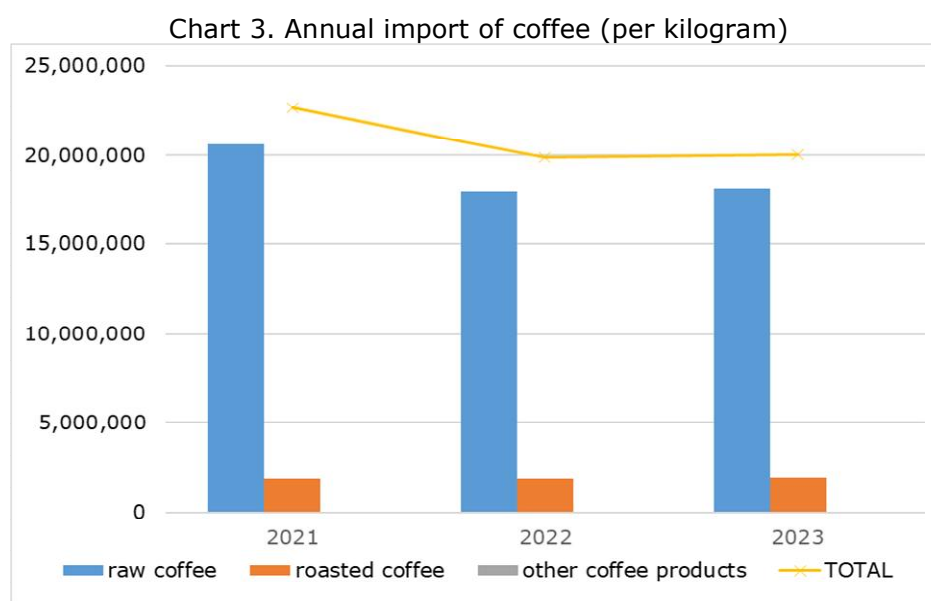
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The global coffee industry continues to deal with issues caused by the Covid-19 pandemic and the added difficulties of the high cost of living. After the period of Covid-19 and after the consequent global economic and social disruptions, the world consumption of coffee has decreased. Due to the impact of the high cost of living, falling disposable incomes and declining supplies, coffee

consumption does not follow a consistent pattern. Although the years 2022 and 2023 witness the recovery from the Covid-19 pandemic, high inflation and the global increase in prices on the world market affected the purchasing power of consumers and consequently the reduction of these revenues.

2. Annual import of coffee

Given that excise duty on coffee is paid per kilogram³⁸, upon importation in order to better understand the reduction in the collection of excise duties on coffee on an annual basis in the observed period in BiH, chart three shows the movement of coffee imports into the country on an annual basis for the analyzed period, i.e. for the period 2021-2023.



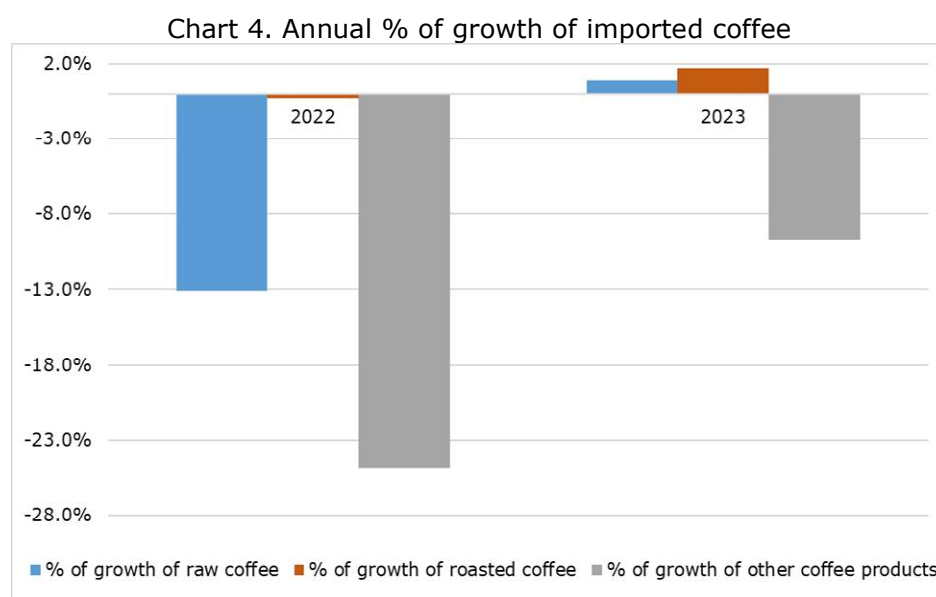
Source: Data from the Indirect Taxation Authority of BiH, MAU overview

The chart shows that the biggest decrease was recorded in the import of raw coffee, the imported quantity of which is significantly higher than roasted coffee and other coffee products that are subject to excise duty. From the chart, it can be concluded that the collection of revenues from excise duties on coffee moves in accordance with the movement of the total amount of imported coffee.

Chart four shows the annual growth rate of imports of raw coffee, roasted coffee and other coffee products that are subject to excise duty for the period 2022-2023.

³⁸ For:

- a) Raw coffee 1.50 BAM
- b) Roasted coffee (bean or ground) 3.00 BAM
- c) Roasted coffee husks and membranes and other coffee products 3.50 BAM



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

In 2022, a significant drop in the import of raw coffee by 13.1% and other coffee products by 24.9% was recorded, while the decrease in the imported amount of roasted coffee was 0.3%. The decreasing trend of other coffee products continued in 2023, when a 9.7% decrease in imports was recorded, while the import of raw and roasted coffee is on a slight increase.

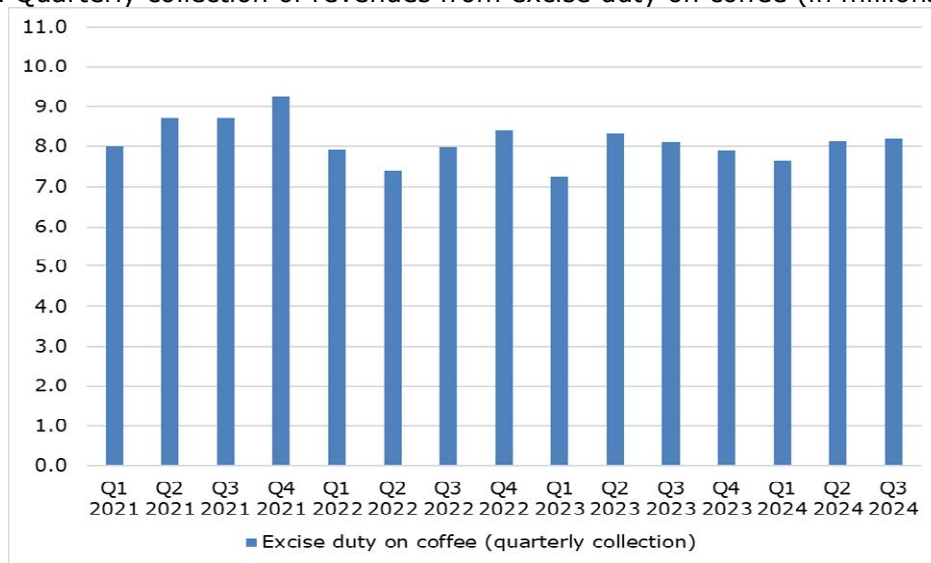
The Covid-19 pandemic has caused major problems, with the trend of coffee consumption decreasing in response to an external shock. Thus, in previous years, coffee consumption did not faithfully follow the established pattern due to the impact of high living costs, falling disposable incomes and falling stocks. Despite coffee being a relatively inelastic product, the challenging global economic environment has had a negative impact on its consumption. Global inflation caused a drop in inventories and a reduction in the need to buy on the international market, which resulted in lower global coffee consumption rates and thus lower domestic coffee consumption rates.

With the aim of a more detailed analysis of the collection of coffee excise revenues, the reasons for the decrease/increase of these revenues and the influence of other external factors on the collection, below is a quarterly and monthly analysis of the collection of these revenues and growth rates.

3. Quarterly movement of revenues from excise duties on coffee

Chart five shows the quarterly collection of excise duty on coffee for the period from the first quarter (Q1) of 2021 to the third quarter (Q3) of 2024, in millions of BAM.

Chart 5. Quarterly collection of revenues from excise duty on coffee (in millions of BAM)

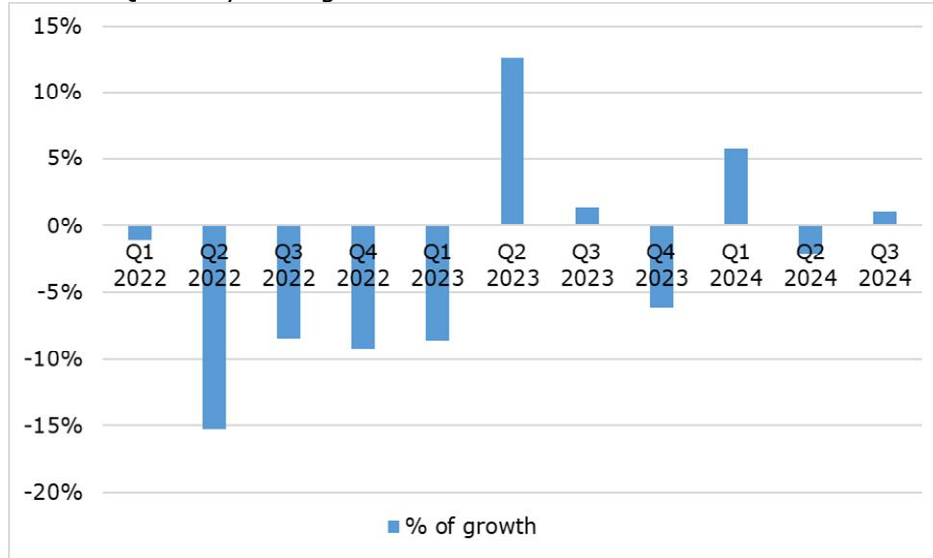


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

During the 2021, the quarterly collection of revenues from excise duties on coffee has a tendency to increase. Thus, the highest collection in the observed period was recorded precisely in the fourth quarter of the same year. The positive trend in the collection of these revenues did not continue in the first and second quarter of 2022, while the second half of the same year was characterized by a slight recovery in collection. The beginning of 2023 as well as the beginning of the current year, i.e. the first quarters of the last two years, are characterized by a lower collection of these revenues, while the second and third quarters of the current year are characterized by a slight recovery, i.e. an increase in collection. If the global economy continues to grow and if the industry responds to a large reduction in stocks, this could have a positive effect on coffee consumption and thus on an increase in imports and revenues from excise duties on coffee in the fourth quarter of the current year. However, if these answers do not come, and coffee prices continue to rise, coffee imports and coffee excise revenues could further decrease.

Chart six shows the quarterly growth rate of revenues from excise duties on coffee for the period Q1 2022 - Q3 2024, compared to the same quarter of the previous year.

Chart 6. Quarterly % of growth of revenues from excise duties on coffee



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

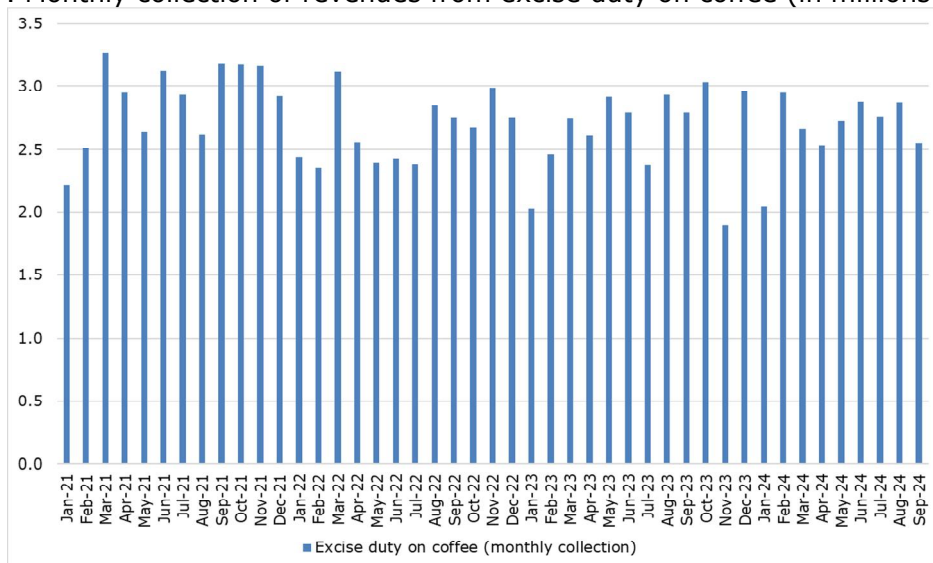
A decrease in the collection of revenues from excise duties on coffee was recorded throughout 2022, and the negative trend in the collection of these revenues continued in the first quarter of 2023. Given that the second quarter of 2022 recorded the largest decrease in the collection of these revenues by 15.3%, the second quarter of 2023 is characterized by the largest increase in the observed period of 12.6%. In the third quarter of 2023, the growth trend in the collection of excise revenue on coffee continued with a slight increase of 1.4%, while the fourth quarter of the same year was characterized by a decrease of these revenues by 6.2%. In the current year, the first and third quarters marked the growth of these revenues by 5.7% in the first and 1.1% in the third quarter, while in the second quarter there was a decrease in collection by 2.1%, compared to the collection in the same quarter of the previous year.

4. Monthly movement of revenues from excise duties on coffee

The monthly dynamics of collection of revenues from excise duties on coffee is shown for the period from January 2021 to September 2024. The monthly movement of the collection of these revenues provides detailed information on the dynamics of coffee consumption under the influence of various external factors.

Chart seven shows the monthly movement of revenues from excise duties on coffee for the period January 2021-September 2024, in millions of BAM.

Chart 7. Monthly collection of revenues from excise duty on coffee (in millions of BAM)

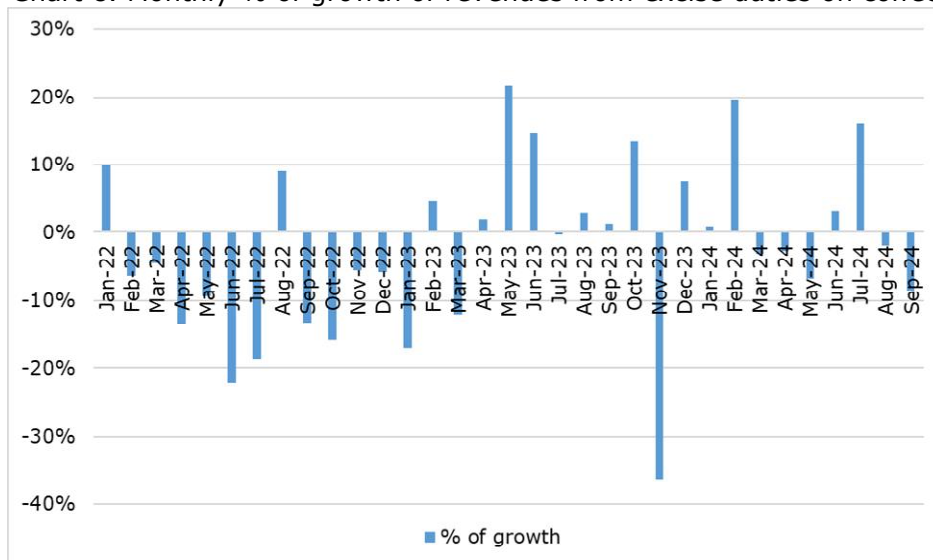


Source: Data from the Indirect Taxation Authority of BiH, MAU overview

Given that coffee is not a seasonal beverage like soft beverage, alcoholic beverage and beer, whose consumption is influenced by seasonal factors, fluctuations in coffee consumption cannot be tied to a certain period of the year. However, coffee consumption is affected by other factors such as disruptions in supply chains, the price of raw coffee on the world market, the cost of transportation, packaging, labor and other factors. The increase in price affects the decrease in demand, which leads to a decrease in imports, and the decrease in the amount of imported coffee affects the decrease in the collection of excise revenue on coffee.

Chart eight shows the monthly growth rate of revenues from excise duties on coffee for the period January 2022–September 2024, compared to the same month of the previous year.

Chart 8. Monthly % of growth of revenues from excise duties on coffee



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

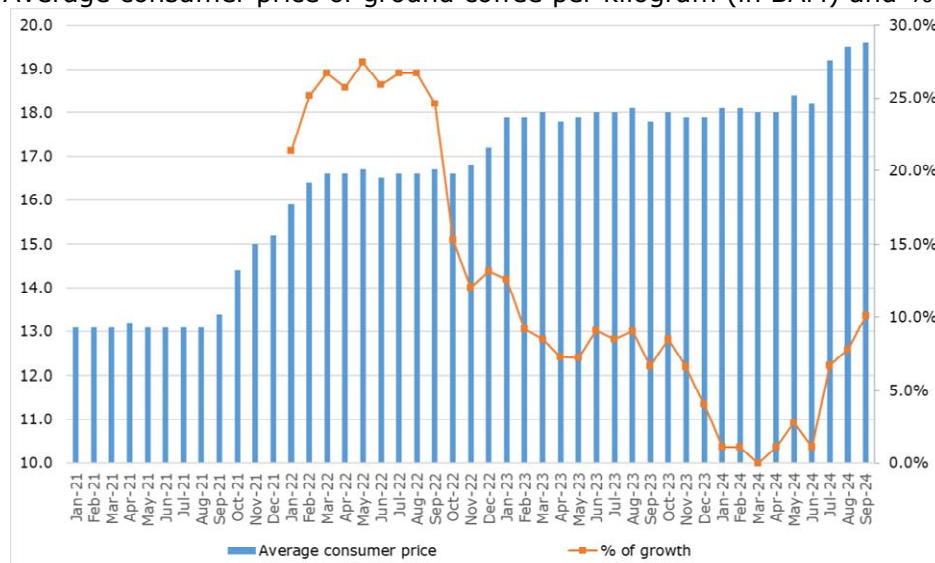
Observing these revenues on a monthly basis in the analyzed period, their collection in 2022 was reduced during all months except January and August, after which the negative trend continued in January 2023. During 2023, larger deviations were recorded in the collection of these revenues on a monthly level compared to the same month in 2022. Thus, the highest growth rate of coffee excise revenue was recorded in May 2023 by 21.7%, while the highest drop in collection was recorded in November of the same year by 36.4%. During most of the months in the current year, the growth rate of these revenues has stagnated, while February and July recorded growth by 19.6% and 16.2%.

5. Monthly movement of coffee prices

Climatic disasters, i.e. large droughts that affected the coffee crops of the world's largest coffee producers, Brazil and Vietnam, caused a shortage in the supply of coffee and an increase in the global price of coffee, which is constantly increasing and at its highest value in the last thirteen years³⁹. Also, due to disruptions on the world market and higher prices of raw materials, it is expected that the price of coffee will continue to rise in the coming period. Considering that the stock exchange prices of coffee have increased significantly in the last period, it is likely that the prices of raw materials will not decrease. The unstable situation in the Middle East causes an increase in the price of a barrel of oil, which additionally affects disruptions and difficulties in supply chains and increases the price of this excise product.

Chart nine shows the monthly movement of the average consumer price of ground coffee in BiH per kilogram for the period January 2021-September 2024, in BAM (left vertical scale) and the monthly growth rate of the average consumer price of coffee for the period January 2022-September 2024 (right vertical scale)⁴⁰.

Chart 9. Average consumer price of ground coffee per kilogram (in BAM) and % of growth



Source: Data of the Agency for Statistics of BiH⁴¹, MAU overview

The average consumer price of ground coffee in BiH per kilogram, shown monthly for the period January 2021-September 2024, has had a stagnant growth rate during the first eight months of 2021, after which the price of this product is growing constantly from September of the same year

³⁹ International Coffee Organization

⁴⁰ Latest available data of Agency for Statistics of Bosnia and Herzegovina

⁴¹ Monthly announcement: Average consumer prices in Bosnia and Herzegovina

until January 2023. During 2023 and in the first half of 2024, the price did not change significantly, after which it increased rapidly from July of the current year. Thus, the highest price of ground coffee in the observed period was recorded in September of the current year, and compared to the price in September of the previous year, it is higher by 10.1%.

In times of high prices, consumers may choose to drink coffee at home rather than in restaurants, or they may decide for instant instead of freshly ground coffee. Also, Arabica, which is more expensive and of better quality, can be replaced with Robusta coffee, which is cheaper and of lower quality. Although coffee is largely a need rather than a desire for consumers, with a wide range of substitutes available that reflect a range of prices, a comprehensive analysis suggests that the increase in coffee prices is the root cause of the decline in coffee consumption. Also, the increase in prices is the cause of the decrease in coffee imports and the decrease in revenues from excise duties on this excise product in the country.

Considering the fact that the coffee market in the world is unpredictable, and that the average consumer price of coffee in BiH is constantly increasing, concern about the price can be justified because a larger price increase can cause a larger decrease in coffee consumption. This can further affect an additional decrease in imports and a decrease in revenues from excise duty on this excise product. The authorities in the country cannot directly influence the movement of coffee prices on the world market, however, in crisis situations, such as the situation during the Covid-19 pandemic, they can limit margins. Stopping the growth of prices or further reducing the price of coffee affects the increase in consumption, which causes the need to increase the import of coffee and it can be the reason for an increase in revenues from excise duties on coffee in the country.