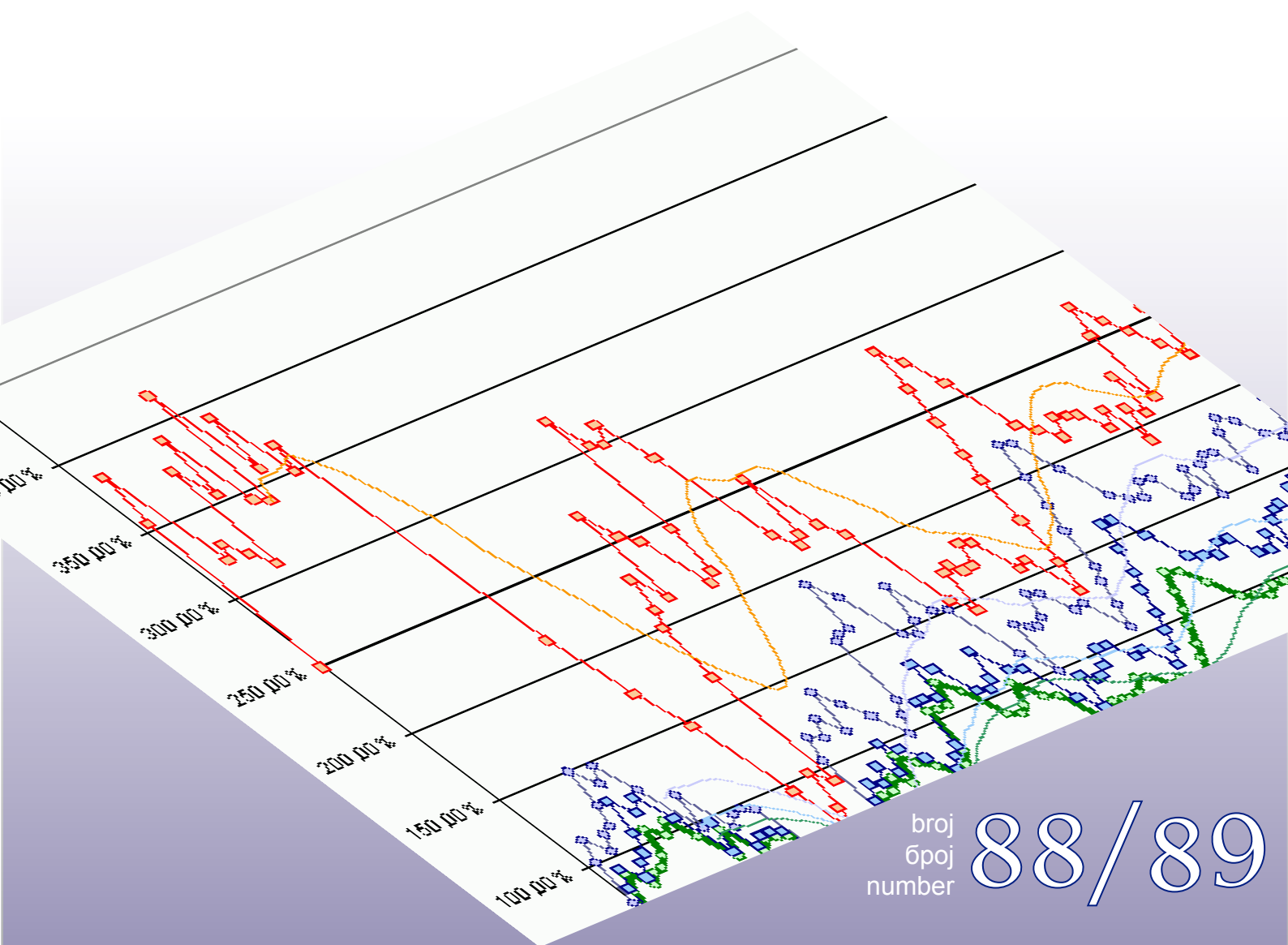




Macroeconomic Unit of the Governing Board of the Indirect Tax Authority

# *Oma Bilten*



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## With this issue

Croatian accession to the EU implies discontinuation of the duty free import of most goods provided under the CEFTA agreement and application of the provisions of the Stabilization and Association Agreement with the EU. Although the Agreement with the EU provided a five-year period of elimination of duties on imports of most goods originating from the EU, nevertheless, after that transition period (1<sup>st</sup> January 2013) the tariffs are retained on products that are vital to the economy of B&H. With accession of Croatia to the EU on 1<sup>st</sup> July 2013, these products imported from Croatia will be charged the rates that apply to all EU members, instead of zero rates.

Several variants of program scenario have been developed in the analysis of the effects of accession of Croatia. Increasing the tax burden on imports from Croatia due to the introduction of the customs can lead to different reactions from manufacturers / importers of goods from Croatia, as well as the consumers in the country. For this reason it was necessary to create variants of the scenarios that will be more adapted to the realistic situation. The scenario includes the assumption of a decline in consumption of goods from Croatia caused by the introduction of the customs. The effect of customs is not negligible, because it relates tobacco products that will be charged customs duties of 15%, as well as significant part of the agricultural products and processed products, which will be charged by an ad valorem customs duty of up to 10% and specific customs duty ranging up to 3,5 KM/kg. The assessment of tobacco products also took into account the reduction in consumption caused by the continuous increase in excise duties in the coming years. On the other hand, the introduction of customs duties on tobacco products causes an increase in ad valorem excise tax.

Under conservative scenario the minimal net effects which will be expressed in the 2013 are approximately 23,8 million KM of indirect taxes. Since the customs regime of imports of certain products from Croatia changes from 1<sup>st</sup> July 2013, the net effects are not spread to the entire 2013. The Unit expects that manufacturers / importers will search for various shifting measures to mitigate the initial shock on prices and sales of goods in B&H caused by the introduction of tariffs, which should reduce the effects in 2013. However, already from 2014 it could be expected the full expression of the effects of customs through the retail prices.

Dinka Antić, PhD  
Head of Unit

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## Projections of indirect tax revenues, 2012-2015

(prepared by: Aleksandra Regoje, Macroeconomist in the Unit)

Projections of revenues from indirect taxes are based on the following assumptions:

- Projections of relevant macroeconomic indicators prepared by Directorate for Economic Planning (DEP) for the mentioned period,
- Further implementation of the Stabilization and Association Agreement (SAA) in accordance with the dynamics of the reduction and elimination of tariffs on imports of goods originating in the EU,
- Application of article 21 of the Law on Excise, which implies adjustment of excise rates in B&H with the minimum standards in the EU,

The projections include the effects of increasing specific excise rate per package of cigarettes from 0,60 BAM to 0,75 BAM in 2013, as well as planned continuous increase of the same rate in the each following year of 0,15 BAM per package.

### Projections of the Directorate for Economic Planning

According to the projections of the Directorate for Economic Planning it is expected a real GDP growth of only 0,4% in 2012 and of 1,9% next year. Projected growth rates of these and other macroeconomic indicators are not sufficient to promise the significant improvements in the collection of indirect taxes in the future. Moreover, the September projections of indicators prepared by the Directorate for Economic Planning are less optimistic than those made in March this year. The projections of growth rates for 2012 of nominal and real gross domestic product (GDP) are reduced, as well as of consumption and particularly of nominal imports. The projections of all these indicators were also reduced for the next year (2013), except for the growth rate of nominal GDP (Table 1).

The differences between March and September projections of macroeconomic indicators, DEP in p.p.

	2012	2013	2014	2015
Nominal GDP	-0,6	0,7	0,3	0,0
Real GDP	-0,5	-0,2	0,1	-0,4
Consumption	-0,4	-0,3	-0,2	0,0
Import	-5,5	-1,7	-1,2	-0,1
Export	-7,1	0,0	-0,1	0,0

Table 1

### Current trend in collection

Monthly growth rates of indirect taxes varied considerably in the previous period of 2012, which makes the preparation of the projections difficult. Significant falling rates of revenues were recorded in February and June, while in April and August the collections were extremely high in comparison with the same months last year. The growth rate of cumulative collection in August was 0,9%, which was by 0,2 pp below the April projection rate of revenue growth for 2012 (1,1%). It should be borne in mind that this does not necessarily mean that the revenue collection in the period January-August 2012 was lower than projected, given the relatively lower base of comparison in the rest of the year because of slowing revenue growth in the second half of 2011 and of abolishing the customs registration in the fourth quarter of 2011. However, September 2012 brought again a sharp drop in net revenue collection from indirect taxes of 6%, which reduced a cumulative growth to only 0,05%. The collection in the first nine months of 2012 is only by 2 million KM above the one in the same period of 2011. Observed by type of revenue, the growth was recorded in net revenue from VAT of about 27 million KM, and in revenue from excise

duties of 22 million KM. The decline in revenue was recorded in customs (46 million KM) and revenue from road fee (3,9 million KM).

### VAT

Comparison by quarters indicates the growing trend in VAT collection. According to September preliminary ITA report, the cumulative growth rate of gross VAT revenues amounts 1,19%. However, since according to a preliminary report, 16 million KM of revenue which have been registered on 31<sup>st</sup> of September could not at that time be adjusted with returns of indirect taxes, the improvement in VAT trends could be expected after the publication of the final report for September 2012.

### Customs

Strong decline in customs revenue in 2012 was mainly the result of the abolition of customs registration since October last year, and, to a lesser extent, the implementation of the fifth phase of the reduction or abolition of customs duties on imports originating in the EU. Given that the abolition of customs registration occurred at the beginning of the fourth quarter of 2011, the stabilization of customs revenue has been expected as of October 2012.

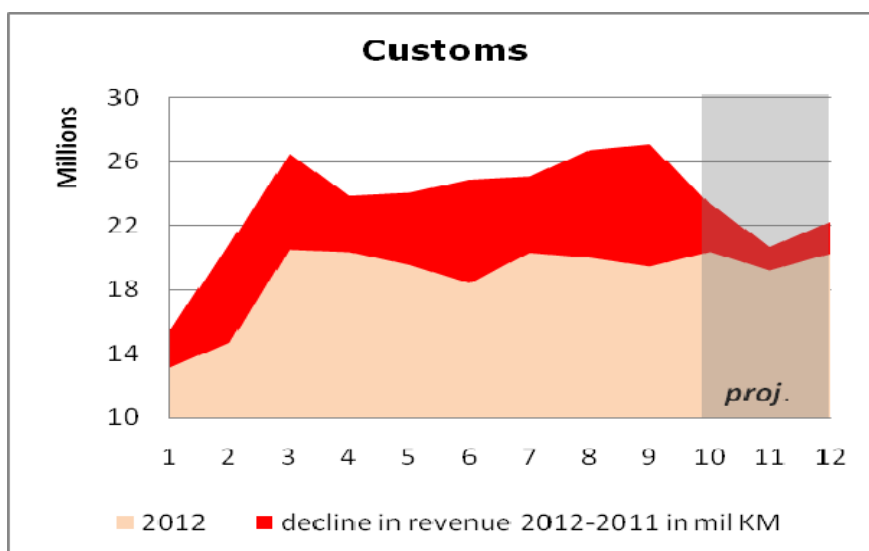


Chart 1

### Excise duties

The increase in revenue from excise duties in the period of January-September 2012 deviates significantly from the annual April projections of the Unit. The reason for this is a small increase in revenue from excises on cigarettes than expected and a significant decline in revenue from excises on imported oil products. The dynamics of these revenues has become highly unpredictable due to strong monthly fluctuations in the collection which are partially a result of existing legislation. Favorable taxation of heating oil created room for frauds, which ultimately led to significant changes in the structure of consumption of oil derivatives and the reduction of revenue from excise taxes and road fees

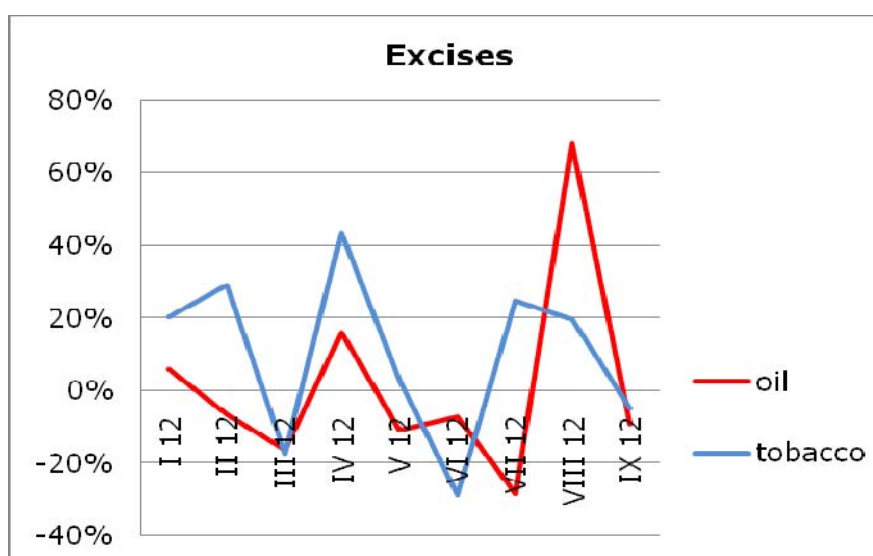


Chart 2

It is considered that the increase in excise duties on tobacco is below the April projection due to business policies of leading companies, and inconsistent legislation that favours fine-cut tobacco in relation to highly taxed cigarettes. As each phase of further harmonization of excise on cigarettes with EU standards deepens the gap between taxation of cigarettes and substitutes, the additional excise revenue growth will be less than the expected.

### Projection of revenues

April projections of revenues from indirect taxes are revised based on the current trends in revenue collection and changes in projected rates of macroeconomic indicators (Table 2).

#### Projections of indirect tax revenues, 2012-2015, October 2012

##### Baseline scenario

Type of revenue- net	2011	2012	2013	2014	2015	2012	2013	2014	2015
VAT	3,147.4	3,186.1	3,268.7	3,409.8	3,587.4	1.2%	2.6%	4.3%	5.2%
Excises	1,262.7	1,307.7	1,344.0	1,383.5	1,419.7	3.6%	2.8%	2.9%	2.6%
Customs	274.1	221.4	199.7	216.4	237.6	-19.2%	-9.8%	8.4%	9.8%
Road fee	289.5	283.8	284.6	289.5	298.4	-2.0%	0.3%	1.7%	3.1%
Other	23.1	25.6	25.6	25.6	25.6	11.0%	0.0%	0.0%	0.0%
<b>TOTAL</b>	<b>4,996.8</b>	<b>5,024.5</b>	<b>5,122.7</b>	<b>5,324.9</b>	<b>5,568.8</b>	<b>0.6%</b>	<b>2.0%</b>	<b>3.9%</b>	<b>4.6%</b>
Road fee (0,10 KM/l)	-116.9	-113.5	-113.8	-115.8	-119.4	-2.9%	0.3%	1.7%	3.1%
Funds for allocation	4,879.9	4,911.0	5,008.8	5,209.1	5,449.4	0.6%	2.0%	4.0%	4.6%

Table 2

### 2012

It is estimated that by the end of the year it will be collected 5024,5 million KM of indirect taxes, which is 0,6% more than the previous year's collection. The projection is for 27,6 million KM below

those prepared in April 2012. Downward corrections were made on the revenue from excise taxes and road fees, while the VAT and customs duties were adjusted upwards (Table 3).

### 2013

The collection in 2013 is expected to grow by 98,1 million KM (2%). The biggest growth is expected in excise taxes (2.8%), primarily due to the increase of special excise tax on cigarettes, and then in the revenue from VAT (2.6%). It is projected the continuation of decline in customs revenue (-9.8%), which should be stopped in this year due to the expiration of transition period of liberalization of tariffs with the EU under the SAA.

The projection for 2013 is by 100,5 million KM below the projection from April this year. This is explained by the reduction in the projected basis for 2012, as well as by decrease in the projected rates of growth of consumption, real GDP and imports in 2013. Consequently, the decline was most pronounced in revenue from excise taxes and road fees (Table 3).

The comparison with April projections

	Type of revenue- net	2012	2013	2014	2015
I	VAT	12,77	-7,86	14,33	66,70
II	Excises	-37,49	-82,61	-126,40	-154,44
III	Customs	5,16	1,26	-1,02	-1,34
IV	Road fee	-8,50	-11,04	-13,46	-14,46
V	Other	0,50	-0,25	-1,03	-1,82
<b>VI</b>	<b>TOTAL</b>	<b>-27,55</b>	<b>-100,50</b>	<b>-127,58</b>	<b>-105,36</b>
VII	Road fee (0,10 KM/l)	3,40	4,41	5,39	5,78
<b>VIII</b>	<b>Funds for allocation</b>	<b>-24,16</b>	<b>-96,08</b>	<b>-122,19</b>	<b>-99,58</b>

Table 3

### Program scenario

Program scenario includes the effects of accession of Croatia to the EU on revenue from indirect taxes. The effects, primarily, refer to the increase in customs revenues, and to a lesser extent in excises and VAT.

Type of revenue- net	2011	2012	2013	2014	2015	2012	2013	2014	2015
VAT	3,147.4	3,186.1	3,271.0	3,420.0	3,598.1	1.2%	2.7%	4.6%	5.2%
Excises	1,262.7	1,307.7	1,345.7	1,392.8	1,429.0	3.6%	2.9%	3.5%	2.6%
Customs	274.1	221.4	219.6	270.2	294.2	-19.2%	-0.8%	23.0%	8.9%
Road fee	289.5	283.8	284.6	289.5	298.4	-2.0%	0.3%	1.7%	3.1%
Other	23.1	25.6	25.6	25.6	25.6	11.0%	0.0%	0.0%	0.0%
<b>TOTAL</b>	<b>4,996.8</b>	<b>5,024.5</b>	<b>5,146.5</b>	<b>5,398.1</b>	<b>5,645.4</b>	<b>0.6%</b>	<b>2.4%</b>	<b>4.9%</b>	<b>4.6%</b>
Road fee (0,10 KM/l)	-116.9	-113.5	-113.8	-115.8	-119.4	-2.9%	0.3%	1.7%	3.1%
Funds for allocation	4,879.9	4,911.0	5,032.7	5,282.3	5,526.0	0.6%	2.5%	5.0%	4.6%

Table 4

### The risks for projections

Given the basic assumptions of the projections of indirect taxes and overall economic conditions in B&H and world, the achievement of projected level of revenue from indirect taxes in the period 2012-2015 is subject to the following risks:

- (i) The projections of indirect tax revenues are tightly related to the projections of macroeconomic indicators prepared by DEP. Every deviation of these parameters from the projected values indicates the risk for revenue projection;
- (ii) Slowing the economic recovery of major export partners of B&H (EU, CEFTA countries) increases the level of risk to achieve macroeconomic projections, and therefore the projection of revenues from indirect taxes in general;
- (iii) The continuous increase in special excise in order to reach the minimum EU standards brings a revenue growth of excise taxes on cigarettes, but also an increased risk of illegal production and smuggling of cigarettes. The mismatch between tax treatment of tobacco and substitutes (fine-cut tobacco) creates the space for legal tax evasion. In order to stop further erosion of revenues from excise taxes, the taxation of tobacco products should be harmonized with new EU standards in all segments (calculation of minimum excise duty, excise duty structure, taxation of fine-cut tobacco<sup>1</sup>) as soon as possible;
- (iv) Possible changes in the area of indirect taxes:
  - Introduction of differentiated VAT rates, significant increase in standard rate, further differentiation of excise duties on oil derivatives ("blue diesel", etc.) could lead not only to fiscal losses and macroeconomic implications, but can also destabilize the existing VAT system and revenue collection, reduce the efficiency of the ITA, burden businesses and significantly increase the risk of fraud;
  - The abolition of the threshold for VAT registration, except for the questionable net fiscal effects due to burden of the ITA and losing focus in the controls, would further burden small businesses, resulting in the closure of stores and the loss of jobs.

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<sup>1</sup> The obligation to comply taxation of other tobacco products it is required by the new Law on Excise from 2009, Article 21, paragraph (8).



## Assessment of the effects of Croatia's accession to the EU on the revenue from indirect taxes

(Author: Dinka Antić, PhD)

### I. INTRODUCTION

In the past six years on B&H stage there was a process of accelerated liberalization of B&H imports. CEFTA Agreement<sup>2</sup> envisages the abolition of customs duties in mutual trade in goods between B&H and the Western Balkan countries. Since 2008 the Stabilization and Association Agreement<sup>3</sup> of B&H with the EU has been in force by which the import of most of goods from the EU was brought down to a duty-free basis for a period of five years. These two processes, along with a decrease in imports due to the economic crisis and the abolition of customs records in October 2011, led to a drastic reduction in customs revenue. Although the Agreement with the EU included the majority of imported products, however, after a five year transitional period, customs duties will be kept to the products that are important to the B&H economy. Joining the Republic of Croatia to the EU as of 1 of July 2013 instead of zero rates, rates that apply to all EU members will be applied on these products. Croatia's accession to the EU will bring significant changes in the customs regime for the import of goods from Croatia since the Agreement with the EU agreed on retention of customs duties on imports of certain goods in B&H from the EU. Despite the low share of customs in indirect taxes the assessment of the effects of introducing customs to the import of goods from Croatia can be significant in a fiscal sense. Fiscal authorities at all levels of government are, delaying expenditure reforms, more and more focused on the collection of public revenue. A complex fiscal structure in B&H in which all levels of government to a large extent depend on the collection of indirect taxes further increases the pressure of government in terms of overtaking of government levels from the ITA Single Account. In this situation, every, and even the smallest, increase in revenue from indirect taxes becomes significant not only for the restoration of fiscal bad debts, but also for the relaxation of intergovernmental fiscal relations within B&H.

### II. IMPORTANCE OF CUSTOMS REVENUE FOR FISCAL POSITION OF B&H

In the past ten years the importance of customs revenue is largely reduced. Customs revenues are from 675 million KM in 2002 reduced to 265 million KM in 2011 (Chart 1). This was mainly contributed by the simultaneous action of two processes: process of liberalization of foreign trade of B&H and reform of indirect taxes.

VAT was introduced by the reform of indirect tax system in 2006. VAT, which is much more generous tax in relation to sales tax, brought a reduction in the share of customs revenue in indirect taxes. The process of liberalization of trade, through the implementation of the Free Trade Agreement with Turkey, the CEFTA Agreement and later through the Agreement with the EU, brought a drastic decline in customs revenues, so that the share of customs revenues in the total revenues from indirect taxes dropped from 26% in 2002 to 6% in 2010. The share of customs in the revenue from indirect taxes was further reduced to 5,5% by the abolition of customs records of 1% to the imports from CEFTA members and third countries in the fourth quarter of 2011. A strong liberalization of imports has led to a drastic reduction of average customs rate from 9,8% in 2002 to 1,77% in 2011, while the customs burden, measured in % of GDP, fell from 5,26% to 0,93% of GDP. It is expected that the lowest share of customs will be reached in 2013, given that

<sup>2</sup> Foreign Trade Chamber of B&H, 'Agreement on Amendment of and Accession to the Central European Free Trade Agreement (CEFTA 2006), Sarajevo, April 2007. More: [www.cefta2006.com](http://www.cefta2006.com)

<sup>3</sup> 'The Stabilization and Association Agreement between European Communities and their Member States, on one side, and Bosnia and Herzegovina, on the other side', „Official Gazette of B&H – International Treaties“, No. 10, 13.11.2008.

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in this year the five-year abolition of customs duties to certain products originating in the EU is to be ended<sup>4</sup>. As of 2013 it is expected a slight increase in customs revenue in line with the growth of imports of goods on which customs duty is calculated (Chart 1).

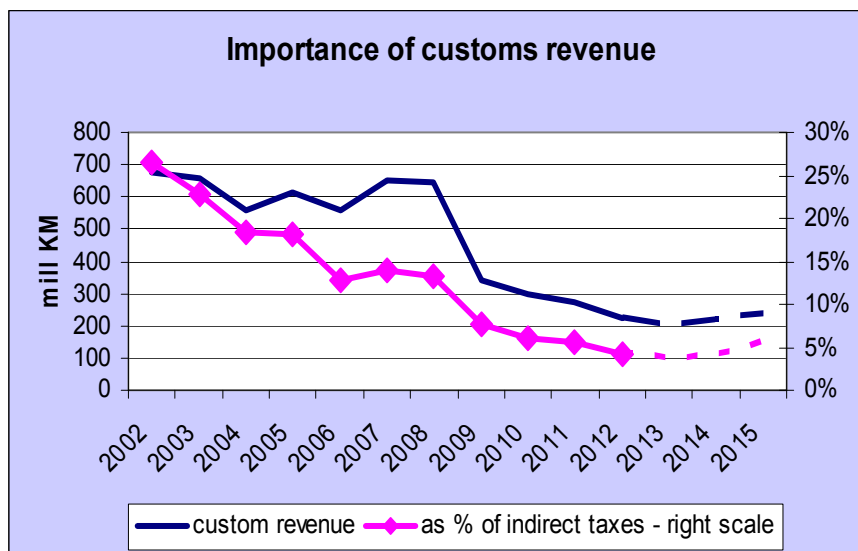


Chart 1

Croatia is one of the most important trading partners of B&H. Imports of products originating in Croatia make 14,3% of total imports of B&H. Nearly 30% of that will be subject to the change of customs regime from 1 July 2013. On the other hand, the process of import liberalization led to a reduction of Croatia's share in the customs revenue from 14% to 3%. However, at the same time the share of other income that is levied on import is increased, in the first place excise duty on cigarettes and derivatives, which has only slightly reduced Croatia's share in total revenue that is payable on import, despite the liberalization of customs regime, from 26,7% to 24,9% compared to 2007.

### III. METHODOLOGICAL APPROACH

#### 3.1. Analytical approach

Goods originating in Croatia, whose customs regime changes from 1 of January 2013, in order to analyze the effects on the collection of indirect taxes, are divided into two groups: tobacco products and other goods. This division is necessary because of the different tax treatment of tobacco products in relation to other goods, which are also reflected in the methodology of calculating the effects of the introduction of customs duties. On the one hand, tobacco products are taxed by *ad valorem* customs duty and *ad valorem* and specific excise duty. Furthermore, unlike other goods, estimates of tobacco products must take into account the effects of changes in excise tax policy in the observed period 2013-2014. On the other hand, other goods can be taxed by both *ad valorem* and specific customs duty, and some of them are subject to quantitative restrictions on import. In the final phase a recapitulation of effects obtained for each group of products (tobacco, other) will be done. Applying the same scenario in both groups of products enables the collection of obtained results and the development of the uniform recapitulation of the effect evaluation.

<sup>4</sup> Projections of the Macroeconomic Analysis Unit of the ITA GB, April 2012.

### 3.2. Inputs

Analytical foundation for the analysis of implications of Croatia's accession to the EU on revenues from indirect taxes includes three sets of data:

- Tariff classifications and customs rates on imports of goods originating in the EU from 1 of January 2013;
- Data on issued excise stamps for cigarettes from the first half of 2012 are the reference data for tobacco products;
- Data on imports of goods from Croatia in 2011 are taken for other products<sup>5</sup>.

Data on imports of tobacco products from 2011 are not the reference for the analysis of tobacco products due to changes in excise policy in 2012 which led to a reduction in the amount of cigarettes on the market, as a result of increasing the tax burden. The analysis used data on imports of goods originating from Croatia whose customs treatment is changed after the release of Croatia from CEFTA Agreement and the EU accession. In this sense customs rates are taken for certain goods (*ad valorem* and specific), with an indication of the existence of quantitative import restrictions (quotes).

In terms of the choice of the year which should be the starting point for the analysis, the year of 2011 has been selected. There are three reasons. The first reason is of the methodological nature. Since the analysis of effects is to be done at the end of the third quarter of 2012, current available data on imports are insufficient to assess the effects. The second reason is related to the date of Croatia's accession to the EU, which also means the date of changes in customs regime of imports from Croatia. Changes of customs rates in the middle of the calendar year will be reflected in indirect tax revenues in the second part of 2013 so that the effects will be divided in two years, second half of 2013 and first half of 2014. For this reason it is necessary to have a valid set of data on imports for the second half of the year which will be the basis for the calculation of effects for 2013. Third, scope and structure of imports in 2012, especially in the first quarter of 2012, were influenced by special circumstances (snow storms in B&H), which made the data on imports as unrepresentative in relation to the normal structure of imports. Finally, data on imports of goods from 2011 can be used without the dynamic adjustment since the previous current trends in imports in 2012 show that the import for ten months of 2012 was only for 0,5% higher than imports in the same period of 2011.

### 3.3. Scenarios

The natural reaction of taxpayers when introducing a tax is attempting to eliminate or at least mitigate the new burden. Regarding the introduction of tariffs on certain goods from Croatia, the importers/manufacturers have several options. One option would be moving the production to B&H. The realization of this option would create new jobs and growth of employment in B&H, with an increase of tax (direct taxes and social contributions) and non-tax revenues. Any moving of the business, either by acquisition of existing companies or by establishment of new ones, requires a significant financial investment in equipment, infrastructure and training of workers, as well as time to start the production. On the other hand, reducing the production of particular goods in Croatia would have adverse consequences for Croatia, because of layoffs, but also for the company itself. Because of moving the production to Bosnia, usage of existing capacities in Croatia would be suboptimal, which would lead to the increase of the unit prices of products, due to fixed costs and financial expenses if the facilities are financed by the loan. Given that after joining the EU, Croatia will face strong competition from other states, the increase in prices of Croatian products would reduce their competitiveness on both the EU and the domestic market. The negative effects of this option are also increased by the fact that Croatian accession occurs at the

<sup>5</sup> The author thanks to Mr. Igor Gavran, adviser at the Foreign Trade Chamber of B&H, for the preparation of inputs for the analysis.

time of economic crisis, falling consumption and insolvency of companies. It can be concluded that the option of moving production has many negative consequences for the Croatian manufacturers, which still exceed the losses due to the introduction of customs duties, unless the company already has established operations in B&H in a certain extent. Since the moving the production from Croatia to B&H and other CEFTA countries could be an option for only a small number of producers from Croatia who have well-established business in B&H, it is necessary to consider other, more certain options. We have made two basic scenarios in several varieties.

**A. Scenario of shifting customs backwards** – refers to a situation that producers/importers of goods from Croatia bear customs duty on the burden of their own profit and margins or they shift it to their suppliers. This second option is possible for large companies (for example large manufacturers, large shopping centres) which have the ability to dictate the terms of procurement. In the situation when companies in both B&H and Croatia face problems in maintaining liquidity and a decline in purchasing power of citizens it is unlikely that the financing customs duties at the expense of profit and margin could be a longer-term business strategy of manufacturers/importers of goods from Croatia, but only an option for the first few months after 1 of July 2013 in order to retain the customers. This option becomes even more attractive if it is combined with the stockpiling of goods prior to 1 of July 2013. In this sense two varieties of this scenario are developed.

- **Variety „7+1+4“** means putting one-month additional supplies before 1 of July 2013 and one-month bearing customs duty at the expense of their own profit and margin. Full shifting customs duties and additional taxes on retail price are limited to the last third of 2013 i.e. first two thirds of 2014.
- **Variety „8+2+2“** means putting two-month additional supplies before 1 of July 2013 and bi-monthly bearing customs duties at the expense of their own profit and margin.

**B. Scenario of shifting customs duties to the customer** – is the situation of shifting customs duties and additional excise taxes and VAT on the retail price. Basic scenario „B“ means shifting customs duties to the customer from 1 of July 2013. Given the expected reaction of importers towards mitigating the initial impact of customs duties, two variants of this scenario are developed:

- **Variety „7+5“** means putting one-month additional supplies before 1 of July 2013 so that customs duties are applied on imports during last five months in 2013. Considering this fact, fiscal effects in 2014 spread out over the first seven months of 2014.
- **Variety „8+4“** means putting two-month additional supplies before 1 of July 2013 thus limiting the expressing of fiscal effects to the last third of 2013 i.e. first two thirds of 2014.

Table 1: Dynamics and intensity of spreading the fiscal effects of introducing customs duties in 2013

scenario	2013											
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
<b>A. shifting customs duty backwards</b>												
„7+1+4“												
„8+2+2“												
<b>B. shifting customs duty to customers</b>												
basic scenario												
„7+5“												
„8+4“												

Legend:



no effects



partial effects



full effects

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Table 2: Dynamics of spreading the fiscal effects of introducing customs duties in 2014

scenario	2014											
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
<b>A. shifting customs duty backwards</b>												
"7+1+4"												
"8+2+2"												
<b>B. shifting customs duty to customers</b>												
basic scenario												
"7+5"												
"8+4"												

## IV. TOBACCO PRODUCTS

### 4.1. Introduction

Tobacco products originating in Croatia have a significant share in B&H imports. In the structure of cigarette market, cigarettes from Croatia hold the share up to 30% in volume and value. Considering these facts, behaviour of manufacturers/importers of cigarettes from Croatia after Croatia joins the EU can be of great importance to the market trends and the shift in the structure of cigarettes in the market. The business policy of importers/manufacturers of cigarettes from Croatia will, on the one hand, to a large extent determine business policies of other market participants, major domestic and international tobacco companies, in the fight for the declining cigarette market in B&H. On the other hand, it will be reflected in the fiscal position of B&H, considering the growing importance of revenue from excise duties on cigarettes in the structure of tax revenue in B&H. In fact, in 2011 excise duties on cigarettes and related VAT accounted to 17% of revenue from indirect taxes and for 2012 it is expected the increase of share to 18,5%.

In the methodological part it was pointed out that the assessment of fiscal implications of joining the Republic of Croatia to the EU on the budget of B&H for tobacco products varies greatly from other imported goods. There are three reasons for different analytical procedures.

*Firstly*, given that the base *ad valorem* of excise duty includes customs duty as well, the assessment of effects of introducing customs duties on imports of tobacco products from Croatia should include the calculation of net effects of increasing *ad valorem* excise duty.

*Second*, changes in customs regime of imports of tobacco products from Croatia will take place during the continuous increase in special excise tax on cigarettes. In accordance with provisions of the Law on Excise Duties from 2009 B&H will each year increase the special excise tax of minimum 0,15 KM/ per package until the total excise burden reaches 126KM/per 1,000 cigarettes. According to estimates of the Macroeconomic Analysis Unit of the ITA Governing Board the statutory ceiling for the excise burden, if in the meantime the Law in this area does not change, will be reached in 2015. Announced amendments to the Law as part of set of measures which national fiscal authorities should implement as part of a new *stand-by* arrangement with the International Monetary Fund include the harmonization of excise burden ceiling with the new minimum excise tax in the European Union which is 90 EUR/1,000 cigarettes since 2014. It is estimated that alignment of the minimum excise tax in B&H with the EU standards, while maintaining the same rate of *ad valorem* excise duty and the same pace of increase in special excise tax of 0,15 KM/per package annually, will extend the period of harmonization of excise rates in B&H to 2019-2020.

*Third*, the current continuous increase of excise burden on four occasions (1 of July 2009, 1 of January 2010, 1 of January 2011 and 1 of January 2012) significantly changed the cigarette market in B&H. Policy of continuous increase of excise burden led to a strong increase in retail prices and to a moderate fall of cigarette consumption. In the period of 2008-2011 the value of cigarette market increased by 32%, the tax benefits (excise duty, VAT) increased by 82% and the price before taxation (including all costs, possibly customs duty and profit/margin) is reduced by 29%. The new excise policy, in the terms of continuous market contraction and a strong decrease in the share of taxpayer in the value of trade, requires a development of new business strategies and policies in the tobacco industry companies that hold the majority of cigarette market in B&H.

#### 4.2. Trends (2009-2012)

Past trends in cigarette consumption and average retail prices after four increases and despite strong oscillations as a result of positioning of companies from tobacco group in the market as a whole, have shown a stable price inelasticity of cigarette consumption. In the period 2008-2011 the amount of cigarettes measured by the number of excise stamps declined by 14%, while the weighted average retail price increased by 57%. At the same time revenues from excise taxes are almost doubled (97%). For ten months in 2012 there were strong fluctuations of issuing excise stamps, so in four months the increase of the number of issued stamps ranged up to 17% and in three months there was a significant decrease by over 40%.

Trends of the weighted average retail prices of cigarettes in the last three years confirm the proposed hypothesis that the possibilities for dumping prices have been exhausted. If the additional excise burden of 0,15 KM/pack (+VAT) was transferred entirely to the buyer, the total incidence should be 0,35 KM/pack for any price category. Any increase in the retail price that is below 0,35KM/pack points to the distribution of incidence between the taxpayer and consumer, while unchanged prices point bearing the incidence at the expense of profit. The sharpest struggle for the cigarette market was in 2010 when the average incidence was only 0,25KM/pack. In 2011 there was the exhaustion of possibilities of bearing the additional excise burden by the taxpayer, which led to the more significant increase in the weighted average retail price of cigarette in 2011.

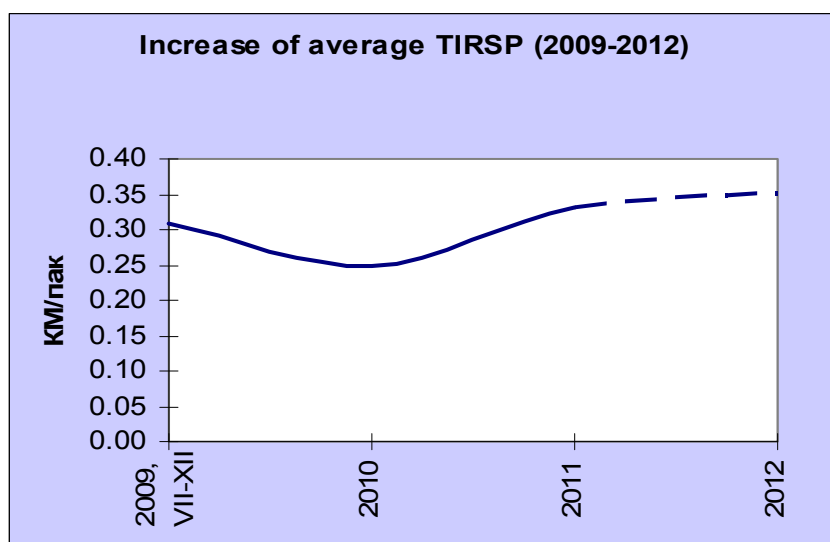


Chart 2

Chart 3 shows that tobacco companies bore the initial impact of excise burden from 1 of January 2012 at the expense of their own profit and/or commercial margins in order to retain customers,

and after that the business policy was directed to the increase of prices (May – July), even through the additional tax burden, sacrificing sales volume.

Fact that the weighted average retail price for the observed period of 2012 amounted to 2,86 KM/pack indicates that the business policy of B&H tobacco industry companies in the market was directed not only to compensate for the loss of profit of tobacco companies from the beginning of 2012 but also to achieve the extra profit of 0,03 KM/pack, all in the conditions of fierce fighting for the reduced market.

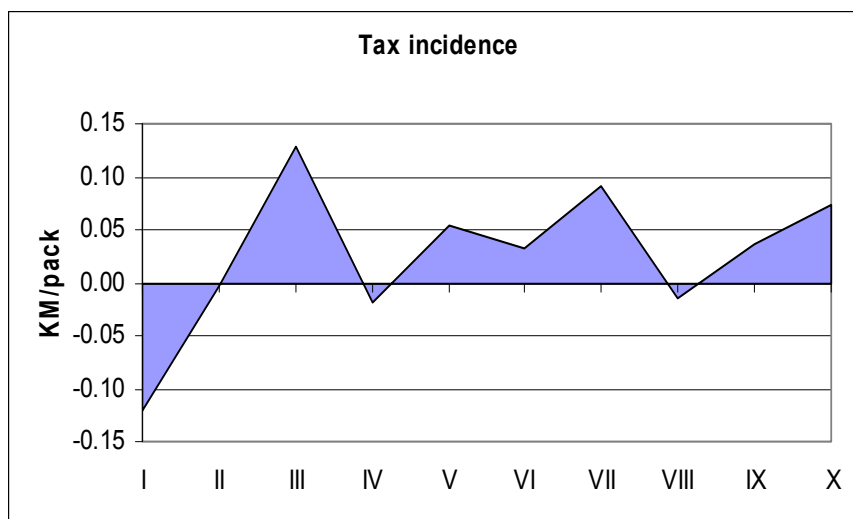


Chart 3

### 4.3. Effect assessment for 2013

#### 4.3.1. Assumptions

Given the projected increase in special excise duty of 0,15KM/pack per year and reducing the maneuver space of the tobacco industry for conducting stricter pricing policy in B&H, it is expected a slowdown in the increase of the average retail prices by 2015 and a slowdown in the fall in cigarette consumption based on the following assumptions:

- We assume that after several consecutive increases in retail prices of cigarettes classes of citizens who have irregular incomes have dropped the cigarette consumption and only those who have sustained and stable incomes remained;
- Process of harmonization of excise duties on cigarettes with the EU standards in the countries of region significantly reduced the risks of increasing the black market and cigarettes smuggling in B&H, although there is a threat because of the slowing down the harmonization process of excise duties in Serbia;
- A gradual recovery of B&H economy is expected by 2015, which would bring higher income and it should be reflected in the increase of cigarette consumption.

Based on the above-mentioned assumptions according to conservative scenario, we expect the further reduction in cigarette consumption by a moderate pace of 5% per year as well as shifting the entire tax incidence to the retail price of cigarettes. Estimates of the effects of introducing customs taxes on imports from Croatia for 2013 and 2014 require unchanged excise tax policy by

2015. Tobacco companies, manufacturers/importers of cigarettes from Croatia can try to mitigate the initial impact of introducing customs duties in two ways:

- By stockpiling the cigarettes prior to 1 of July 2013
- By bearing customs duty of first month or two at the expense of their own profit or margin.

In the long run companies have the ability with selective approach depending on the elasticity of the consumption of individual brands to perform so called sideward shifting, i.e. to shift customs duty backwards in whole or in part at the expense of their own profit or margin with cheap cigarettes and to shift customs duty on the retail price at the expense of buyers of more expensive cigarettes.

Previous experiences with increasing excise burden indicate that companies from tobacco industry used all three forms of behaviour. First they increased the amount of cigarettes in the month prior to the increase in excise tax rate (for example, in June 2009, in December 2009, 2010 and 2011, see Chart 4) in order to increase sales in the current year, but then after increases in excise rate they came out with dumping prices bearing partly the burden of additional excise tax and VAT. Positioning of large companies by conducting the policy of dumping prices was of limited range for two reasons:

- Low level of prices before taxation leaves little room for long-term dumping pricing policy,
- Most of major importers do not have much room for dumping pricing policy in B&H at the expense of profit earned in other markets as they had to adjust the pricing policy in the EU market after the member states from 1 of January 2011 began with the gradual harmonization of excise tax rates on cigarettes in line with the new minimum excise tax in the EU.

The third are, however, confident in price inelasticity of consumption of their brands, increased retail prices by amounts that exceeded the required increase of excise tax and part of VAT, compensating for losses of profits with brands with elastic consumption (usually cheaper brands).

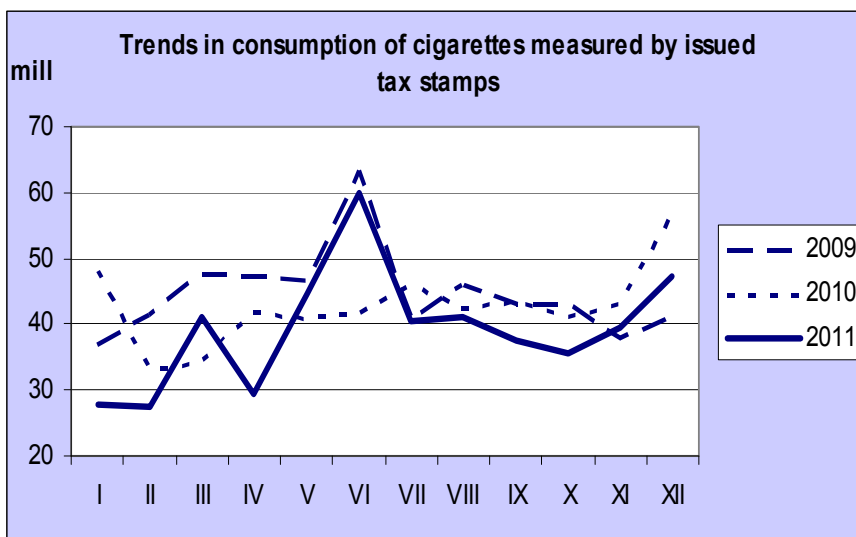


Chart 4

It is realistic to expect that manufacturers/importers of tobacco products from Croatia will apply similar business tactics immediately before Croatia's accession to the EU. The option of bearing customs duty is more cost effective than the option of stockpiling because the total financial outlay (denial of profit) is less than the amount of excise liabilities on accumulated inventories. Although



stockpiling may be initiated by the customer before the announcement of price increases prior to Croatia's joining to the EU, accumulation of cigarette supplies prior to the 'D' day has its limits given that the total excise duty must be paid within 5 days from the day of taking over excise stamps which in the case of imported cigarettes includes allocating significant funds month or more before the placement of cigarettes in the market. From 2008 until 2011 the share of excise duty in the structure of cigarette market value has increased from 40% to 61% and for eight months of 2012 to 65% of the turnover value. With the new increase of special excise duty as of 1 of January 2013 this share will be increased to 70%. Increasing the special excise duty to 0,75 KM/pack, with the expected reduction in consumption of 5%, manufacturers/importers of cigarettes from Croatia will be obliged to pay approximately 25 million KM of indirect taxes more than in 2012. Therefore, further straining of companies regarding the insurance of cash for paying in advance excises duties will be difficult to finance. In such a situation imports of exceed supplies of cigarettes from Croatia before 1 of July 2013 may be an option only for the short term, unless the costs of hiring additional cash or interest expenses, in the case that excise duties are financed by short-term loans, were significantly less than the amount of customs duty (+ excise tax and VAT on that amount).

In the given circumstances, considering previous behaviours of companies and the market response, there were evident certain short-term moves in the form of stockpiling or transferring the customs duties on imports of tobacco products from Croatia at the expense of profit of manufacturers/importers in only a few critical transitional months (June-August) to retain the market. But after that, especially with the new increases in special excise tax from 1 of January 2014, it can be expected a full shifting of customs duty and additional burden to customers.

#### 4.3.2. Calculation of the effects

In addition to the above outlined assumptions based on past trends and assumptions that are common to both groups of concerned products, which are pointed out in the methodological approach chapter, to calculate the effects of introducing customs duties on tobacco products from Croatia we start from the following specific assumptions:

- static assumptions – keeping the same structure of brands, i.e. consumption of cigarettes
- dynamic assumptions:
  - a decrease in cigarette consumption by 5% annually
  - an increase of special excise tax on cigarettes, as follows: 0,75 KM/pack from 1 of January 2012 and 0,90 KM/pack from 1 of January 2014.

Above mentioned static and dynamic assumptions are included in both scenarios (A and B) and in all their variants.

##### *i. Scenario A – shifting customs duty backwards*

The net effects of shifting backward customs duty calculation implies the recalculation at the rate of 13,04% to the average monthly customs base for one or two months of imports. Month-borne shifting would manufacturers/importers of cigarettes from Croatia 'cost' 0,8 million KM. Two variants of scenario A implies shifting to customers in the rest of the year, the last four months of 2013 (variant "7+1+4"), i.e. the last two months (variant "8+2+2"). The calculation of the net effects of these months includes the calculation of customs duty at the rate of 15%, calculation of additional *ad valorem* excise tax at the increased base and additional VAT. In addition to these net effects caused by the introduction of customs duty on imports of tobacco products there will be the effects of changing the excise policy due to the regular increase in special excise taxes that are reflected in the calculation of *ad valorem* excise duty and VAT.

Table 3: Calculation of net effects according to scenario A (in mil KM)

Variants of scenario	Customs duty at the expense of taxpayers	Customs duty at the expense of customers	Additional <i>ad valorem</i> excise tax	Additional VAT	Total additional taxes
"7+1+4"	0.832	3.374	3.260	1.128	8.594
"8+2+2"	1.664	1.687	1.630	0.564	5.545

ii. *Scenario B – shifting customs duty to customers*

The calculation of the net effects implies the calculation of customs duty at the rate of 15%, the calculation of additional *ad valorem* excise tax due to the inclusion of customs duty in the calculation of the base of this excise tax, and the calculation of additional VAT on the amount of customs duty and additional *ad valorem* excise tax. In addition to these net effects caused by the introduction of customs duty on imports of tobacco products there will be effects of changing the excise policy due to the regular increase in special excise taxes that are reflected in the calculation of *ad valorem* excise tax and VAT.

Table 4: Calculation of net effects according to scenario B (in mil KM)

scenario	Customs duty	Additional <i>Ad valorem</i> excise tax	Additional VAT	Total additional taxes
basic scenario B	5.061	4.890	1.692	11.643
"7+5"	4.218	4.075	1.410	9.702
"8+4"	3.374	3.260	1.128	7.762

#### 4.3.3. Recapitulation

Previous analysis of scenarios and previous practice of companies in the tobacco industry while increasing excise tax burden indicate sustainability of three variants of mentioned scenarios. Possible policy of performance in the market of cigarettes in B&H in the conditions of the changed customs regime include stockpiling of cigarettes prior to 1 of July 2013, at least to the extent to meet increased customer demand before the price increase of the products, and selective pricing policy towards certain brands. Shifting customs duty backward at the expense of the own profit and margin will be the certain business tactic for the cheaper price cigarette groups. We can conclude that the companies that have more brands in different price groups are prone to lateral shifting of new tax levies charged to more expensive brands with inelastic consumption, i.e. customers with higher incomes. Therefore, it is likely that the net effects of introducing customs duty on cigarettes from Croatia in 2013 on the revenue from indirect taxes will range between 7 and 10 million KM in that year. Given the current changes in the excise tax policy it means that companies importing cigarettes from Croatia in 2013 will pay total between 32 and 35 million KM of additional tax liabilities for indirect taxes.

#### 4.4. Estimate of the net effects in 2014

Estimates of the net fiscal effects of introducing customs duties on cigarettes from Croatia in 2014 are based on the decrease of cigarette consumption by 5% in that year and increase in special excise tax of 0,90 KM/pack. Increasing the excise burden in such conditions will require about 22 million KM of additional revenue from indirect taxes on imported cigarettes from Croatia. All this leads to the belief that in this year all possibilities for shifting customs duty and additional tax burden at the expense of importers would be exhausted. In addition, long-term increase of special

excise tax on cigarettes gradually leads to the elimination of poor quality and the cheapest brands from the market and narrowing the price range between the cheapest and the most expensive cigarettes. For example, prior the entry of the new Law on Excise Duties into force the price range of leading brands of cheap and expensive cigarettes was 1,20 : 3,10 KM, and in 2012 this range was 2,50 : 3,50 KM. Narrowing of the price range differences in the brand prices are becoming less relevant for consumers.

The calculation of the net effects depends on the policy of companies that import cigarettes from Croatia and their strategy of performance in the B&H market in 2013 at the time of Croatia's accession to the EU. The amount of the net effects in 2014 is influenced by factors such as the amount of import of cigarettes on which customs duty has not been paid and the amount of cigarettes for which customs duty has been shifted backward at the expense of profit or margin. Every major movement in relation to the standard pattern of imports and stockpiling of cigarettes prior to 1 of July 2013 increases asymmetry of effects in 2014 in favour of the collection of revenue from indirect taxes in that year. Shifting customs duty backward has the same effect. The larger the quantity of cigarettes for which customs duty has been shifted backward in 2013, the higher the fiscal effects in 2014 will be. According to estimates it can be expected that the net effects of introducing customs duty on the revenue from indirect taxes in 2014 will amount between 12 and 14 million KM.

## V. OTHER PRODUCTS

### 5.1. Static analysis of the effects

Static analysis of the effects of introducing customs duty on other products is based on the assumption of maintaining the same volume of imports after 1 of July 2013. According to Annex III (d) of the Agreement with the EU customs duties remain on imports of certain products originating in the EU belonging to tariff numbers 01-24. The share in the amount, measured by kilograms, and the share in customs value are shown in Table 5. Customs burden of products of particular tariff numbers, depending on the height of *ad valorem* rates and specific customs duty will exceed 50%.

Table 5: Static estimate of the annual effects of customs duty per tariff numbers

Customs tariff heading	% value	% amount	Customs burden
1. Live animals	4.49%	3.36%	33.48%
2. Meat and edible meat offal.	2.40%	0.94%	51.03%
3. Fish and crustaceans, molluscs and other aquatic invertebrates	0.18%	0.11%	34.10%
4. Dairy produce; birds' eggs; natural honey; edible products of animal origin	12.84%	9.13%	17.39%
6. Live trees and other plants; bulbs	0.00%	0.00%	9.03%
7. Edible vegetables	0.55%	2.02%	29.32%
8. Edible fruits and nuts; peel of citrus fruit	0.23%	0.55%	18.06%
16. Preparations of meat, fish, crustaceans, molluscs or other aquatic invertebrates	2.24%	3.51%	54.24%

17. Sugars and sugar confectionery	10.70%	2.42%	9.03%
18. Cocoa and cocoa preparations	4.52%	2.39%	4.34%
19. Preparations of cereals, flour, starch or milk; pastry cooks'	1.02%	2.24%	24.45%
20. Preparations of vegetables, fruit, nuts or other parts of plants	6.16%	0.59%	19.44%
21. Miscellaneous edible preparations	40.86%	1.72%	2.48%
22. Beverages, spirits and vinegar	100.00%	71.02%	15.27%

Two scenarios are possible when assessing static effects. The first scenario involves shifting additional customs duty entirely backward at the expense of importers, i.e. of the previous phases in the supply chain. The second scenario means shifting customs duty and additional VAT entirely to retail prices, i.e. to customers. Summary of the calculated effects of both scenarios on the customs duty base from 2011 is given in Table 6.

Table 6.: Static estimate of the annual effects (mil KM)

Scenario	<i>Ad valorem</i> customs duty	Specific customs duty	Total customs duty	VAT	Total effects
A. Shifting backwards	12.979	43.999	56.978		56.978
B. Shifting to customers	17.740	43.999	61.739	10.4956	72.235

## 5.2. Dynamic analysis of the effects for 2013

Static effects can serve not only as a landmark on the scale of introducing customs duty, but also as a basis for creating scenarios that will be adapted to the real situation. *First*, given that customs regime of imports of certain products from Croatia is to be changed as of 1 of July 2013, the effects are not spread throughout the year but partly in 2013 and partly in 2014. *Second*, it is necessary to take into account the possible business policies of importers of products from Croatia and reactions of consumers in B&H. *Third*, dynamic scenarios involve the assumption of decrease in consumption of goods from Croatia caused by the introduction of customs duties. We estimate that the fall in consumption of goods from Croatia would amount to 10%. The assumption on the fall in consumption of goods from Croatia is based on the fact that customs rates imposed are high on most of goods. *Ad valorem* customs duty ranges up to 10% (excluding tobacco products where the rate is 15%) and specific rate up to 3,5 KM/kg. For this reason, it is unlikely that the enterprises in the conditions of the harsh economic crisis and illiquidity could bear most of customs duty at their own expense on the long term. Shifting customs duty backward at the expense of profit or predecessor in the chain (supplier) is not insignificant in financial terms. Calculations show that in this case the additional customs duty will amount to 21% of the current customs value. Due to the high share of revenues from specific customs duty, which according to statistical estimate amounts to even 77%, it is possible that domestic buyers will turn to domestic producers if they are more competitive than the Croatian. In addition, it is necessary to calculate a certain drop in consumption due to the substitution of goods from Croatia with goods from other CEFTA countries (Serbia, in the first place) that are under the duty free regime.

On the other hand, there are factors that could mitigate the decline in imports from Croatia. First factor is a structure of imports on which the customs duty will be paid. Since the range of goods that will be under the customs regime is limited to food goods that belong to local goods that are price-inelastic, the price increase could be absorbed by the customer. This is also confirmed by the cases of rising prices of raw materials, energy and food products at disorders in the world market

in 2008 and the rise in energy products price in 2012 which spilled over to retail prices. Similarly, a five-year reduction of customs duties on products from the EU brought no reduction in retail prices in the country, which once again confirms the assumption of inelastic local goods. It is a well known fact that large portion of goods imported from Croatia have their regular customers in B&H. These are trusted brands of manufacturers from Croatia with a long tradition dating back to the time of Yugoslavia and even before that time. Given that many customers prefer brand in relation to price, the consumption of goods from Croatia can be largely price inelastic, so an increase in retail prices following the introduction of customs duties should not be an incentive to reduce consumption. Besides the tradition, propensity of B&H citizens for consumption of goods from Croatia has also been determined geographically given that certain regions in B&H inclined to gravitate towards consumption of goods from Croatia. We should not neglect the impact of political factors on the choice of consumer goods. According to data of the Agency for Statistics of B&H and Agencies for Statistics of Entities the share of Federation B&H in total imports of B&H amounts 69%, but in imports of goods originating in Croatia this share amounts to almost 87%. Therefore, it can be expected that the effect of substitution of imports from Croatia by imports from other CEFTA members (primarily Serbia) will not be drastic in the FB&H, and in RS if imports from Croatia reduced in half, the total decline in consumption of goods from Croatia in B&H should not exceed the projected 10% due to the low weight of imports of RS.

As with the assessment of effects of tobacco products, two basic dynamic scenarios are developed as well as several variants within them. The scenarios are based on limited shifting of customs duty backward and stockpiling the products prior to 1 of July 2013. In the rest of the year the shifting is done to the customer. Decline in consumption of 10% is only limited to imports in the months in which the shifting of customs duty is performed to customers. The above assumptions are included in both scenarios (A and B) and all their variants.

*i. Scenario A – shifting customs duty backward*

The calculation of the net effects of shifting customs duty backward of products that will be burdened only by *ad valorem* excise tax implies the calculation of customs duty by the recalculated customs rate on an average monthly customs base for one i.e. two months of imports. The calculation of the effects of shifting customs duty backward with products that will be burdened by both *ad valorem* and specific customs duties is complex because it needs to include the effects of both customs duties. Scenario A is developed in two variants. Variant „7+1+4“ means increasing imports in the first six months of 2013 for additional one-month supplies, and one-month shifting backwards. Variant „8+2+2“ means increasing imports in the first six months of 2013 for additional two-month supplies, and two-month shifting customs duty backwards. Two variants of scenario A include shifting to customers in the rest of the year, in the last four months of 2013 (variant „7+1+4“), i.e. in the last two months (variant „8+2+2“). The calculation of the net effects for these months includes the calculation of certain *ad valorem* customs duty, the calculation of specific customs duty and additional VAT on duties to be shifted to the customer.

Table 7: Calculation of net effects according to scenario A (in mil KM)

Variations of scenario	<i>Ad valorem</i> customs duty backwards	<i>Ad valorem</i> customs duty to customers	Specific customs duty backwards	Specific customs duty to customers	Total customs duty	VAT	Total effects
„7+1+4“	1,137	5,750	1,210	14,331	22,430	3,413	25,844
„8+2+2“	2,274	3,021	7,413	7,289	19,998	1,752	21,751

*ii. Scenario B – shifting customs duty to customers*

The net effects calculation implies a reduction of the amount imported, i.e. customs basis, due to the consumption decline, then the calculation of customs duties (*ad valorem* and specific) prescribed by the Customs Tariff for import from the EU for each product at the reduced base except for tobacco products for which a separate effect calculation has been previously made. The basic scenario corresponds to the semi-annual static evaluation according to scenario B, i.e. in the case of the year 2013 it includes six months of imports by the current regime and six months of shifting to the customer. Calculated effects include additional VAT on the effects of customs duties to be shifted to the customer.

Table 8: Calculation of net effects according to scenario B (in mil KM)

Variations of scenario	<i>Ad valorem</i> customs duty to customers	Specific customs duty to customers	Total customs duty	VAT	Total effects
Basic scenario B	9,534	23,885	33,420	33,420	33,420
"7+5"	7,065	17,761	24,827	24,827	24,827
"8+4"	5,751	14,332	20,083	20,083	20,083

According to surveys of the effects by the above scenarios, the net effect of introducing customs duty on indirect tax revenues in 2013 could be in the range of 20 to 33 million KM.

### 5.3. Dynamic analysis of the effects of 2014

Estimates of the net fiscal effects of introducing customs duty on other products from Croatia in 2014 are based on the assumption that, due to the present economic crisis, the business policies of importers/manufacturers of products from Croatia which include measures to mitigate the effects of introducing customs duty (stockpiling prior to 1 of July 2013, shifting customs duty backwards) will be exhausted in 2013 and that in 2014 it will come to shifting customs duty entirely to buyers. It is assumed that the import volume will be lower in 2014 by 10% compared to 2011. The net effects of introducing customs duty in 2014 are obtained in a way that static annual estimates are reduced by the effects manifested in the second half of 2013. The net effect calculation depends on scenario of events in 2013. Every major movement in relation to the standard pattern of imports and stockpiling prior to 1 of July 2013 increases the asymmetry of effects in 2014 in favour of the collection of indirect tax revenues in that year. The same effect has the shifting customs duty backwards. The larger the quantity of goods on which customs duty is shifted back in 2013 is, the higher the fiscal effects in 2014 are going to be. Rejecting extreme scenarios, it can be expected that the net effects of introducing customs duty on revenue from indirect taxes in 2014 will amount between 21 and 34 million KM (Chart 5).



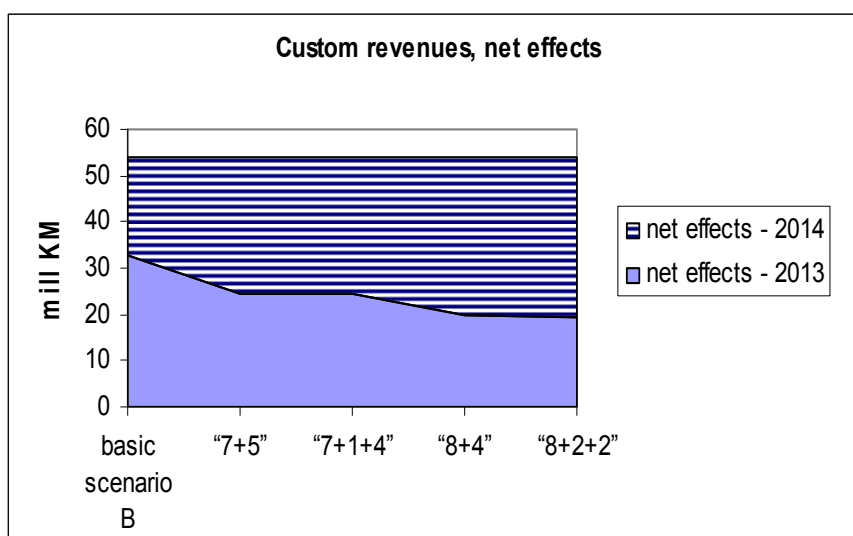


Chart 5

## VI. RECAPITULATION OF NET EFFECTS

Table 9 (in mil KM)

scenario	customs	excise	VAT	total
<b>2013</b>				
<b>Shifting backwards</b>				
"7+1+4"	28,658	3,260	4,477	36,396
"8+2+2"	22,960	1,630	2,283	26,873
<b>Shifting to customers</b>				
<b>Basic scenario B</b>	37,839	4,890	7,264	49,993
"7+5"	28,578	4,075	5,551	38,203
"8+4"	23,078	3,260	4,477	30,815

Table 10 (in mil KM)

<b>2014</b>				
<b>Shifting backwards</b>				
"7+1+4"	35,759	6,031	7,104	48,894
"8+2+2"	42,288	7,661	8,491	58,440
<b>Shifting to customers</b>				
<b>Basic scenario B</b>	25,747	2,953	4,624	33,324
"7+5"	35,007	3,768	6,337	45,112
"8+4"	40,507	4,583	7,410	52,500



## VII. MID-TERM FISCAL SCENARIO (2013-2015)

It should be noted that the calculated effects for 2014 (Table 10) represent the net effects of the current year compared to the previous one ( $G_t/G_{t-1}$ ). However, the projections for revenue from indirect taxes for 2014 require a different approach. Given that the basic scenario of projections for revenue from indirect taxes (see Chart 1) does not include changes to the customs policy towards Croatia for the purpose of drafting the program scenario for 2014, it is necessary to take the total annual effects in 2014 that for customs duties amount to 63 million KM.

In addition, it is necessary to bear in mind that the basic scenario of projections also includes customs duties that are charged on a limited range of goods within the CEFTA. In this sense, in drafting program scenario for projections for 2014, the total annual effects of introducing customs duties on imports from Croatia are needed to be reduced for the amount of revenue lost due to the discontinuation of the CEFTA Agreement on imports from Croatia (Chart 6).

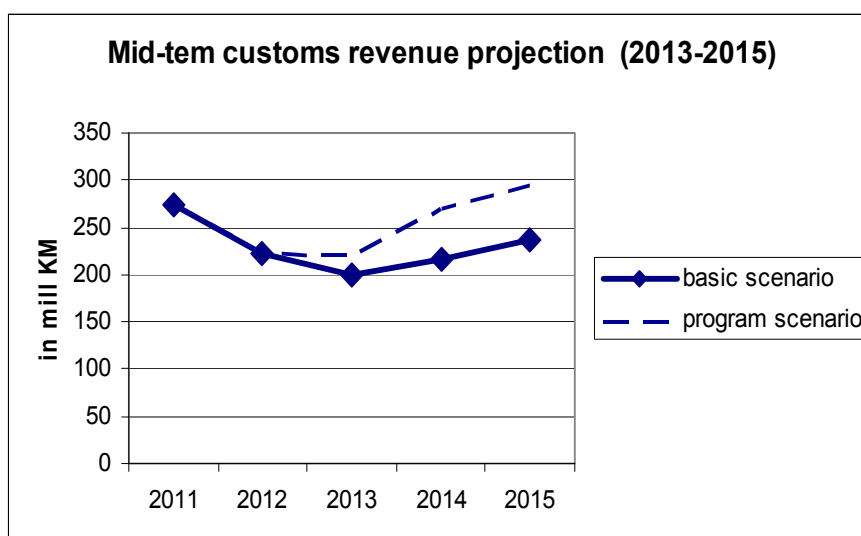


Chart 6

**Note:**

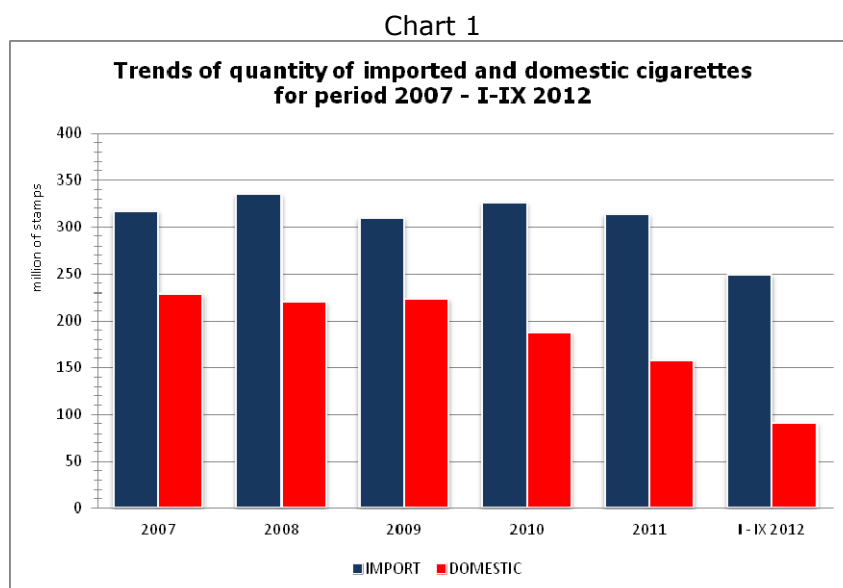
The article is available from: [http://www.oma.uino.gov.ba/publikacije/Assessment\\_en.pdf](http://www.oma.uino.gov.ba/publikacije/Assessment_en.pdf)

## Cigarette market analysis in BiH for period 2007 – 2012

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### Introduction

Cigarette market is at a very dynamic stage. Over the past few years, massive changes have taken place both on the manufacturers`/traders` and consumers` side, as well as on the regulator`s side. On the side of registered traders it seems that there was a certain pre-composition giving the fact that domestic producers are slowly losing the race with foreign competition. This can best be seen on Chart 1 – Tendencies of quantities of domestic and imported cigarettes for the period 2007 - I-IX 2012.



Source: Indirect Taxation Authority in BiH

The fact is that the amount of withdrawn stamps has been falling down both by importers and by domestic manufacturers, but by domestic manufacturers the decrease is significantly intensified. The size of this decline was almost equal in 2010 and in 2011 and it amounted to about 17% compared to the previous year while the number of stamps withdrawn by the importer first rose at 5% in 2010 and then has declined by about 4% in 2011. When comparing the first nine months of the current year compared to the same period of last year, we have that the number of stamps withdrawn by domestic producers fell by another 15%. It remains to be seen whether the position of domestic producers will be improved in the future.

### Overview of the distribution of cigarettes by price groups/categories

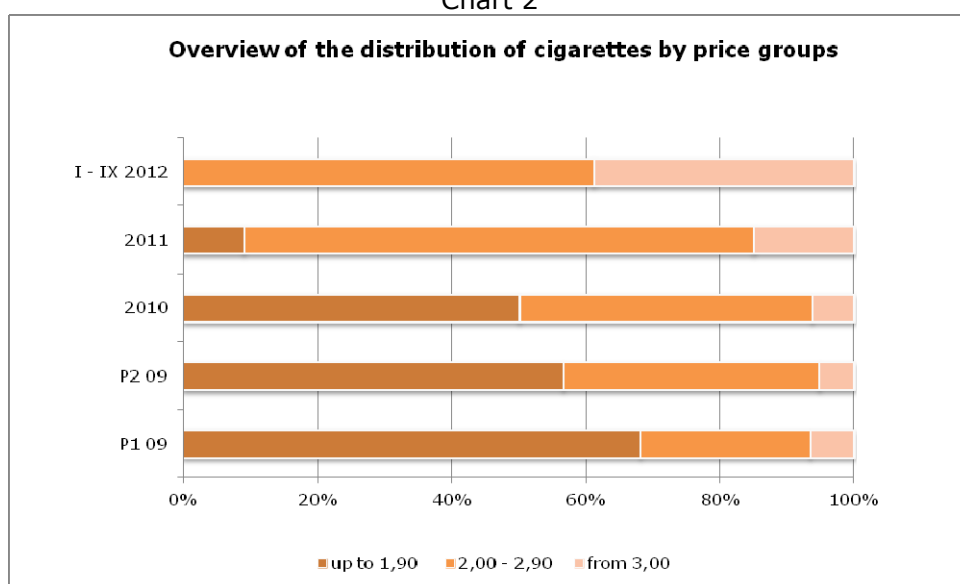
Consumers` behavior has also undergone a real revolution. Although the impact of conducted public campaigns that stressed the harmful effects of smoking on human health and whose ultimate goal was to reduce the consumption of cigarettes should not be underestimated, it seems that the major role played the pricing policies of producers and traders induced by the decisions of regulators. It is well known that with the entry into force of the Law on Excise in BiH at the beginning of the second half of 2009 it led to a regular, continuous increase of the specific component of excise duty by 0.15 KM per pack of 20 cigarettes. Although the respective provision of the Law defines a regular annual increase of specific excise duty of at least 0.15 KM per pack,

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the Governing Board of ITA determined to follow a minimum increase in the excise burden thus far in order to reach the ultimate goal by the mid of this decade so the total excise duty should be in line with minimum standard of the European Union at the when the Law was introduced. Thus cigarette taxation policies created with predictable incremental increase of excise duties was greeted by a good part of the business community and by the general public too.

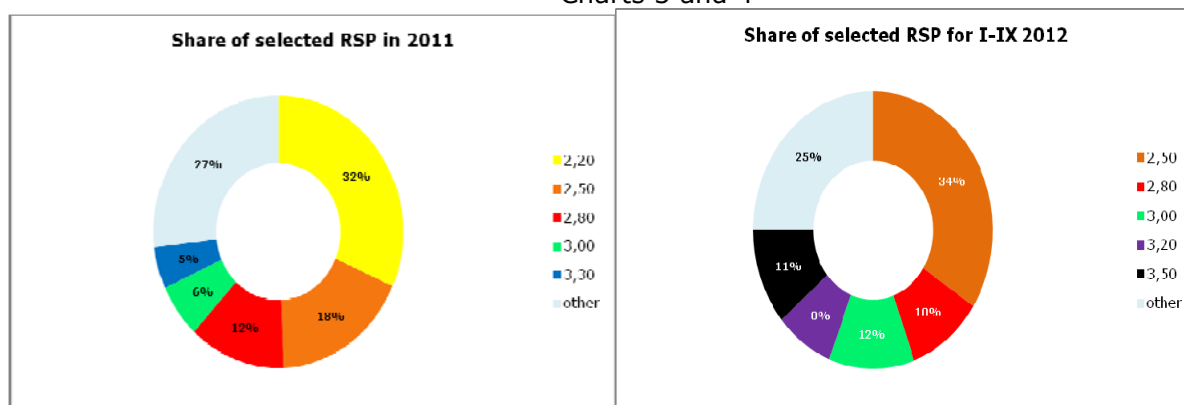
Manufacturers and traders have been defining the retail selling price so that in some moments, they were overtaking on themselves a part of a new tax load to relieve the retail price, but more often have been completely shifted the burden of increasing excise duties on customers. Customers react and make decisions according to their preferences and in accordance with their capabilities. Sublimation of these actions can be best seen on the below Chart 2 - Overview of the distribution of cigarettes by price groups and on Charts 3 and 4.

Chart 2



Source: Indirect Taxation Authority in BiH

Charts 3 and 4



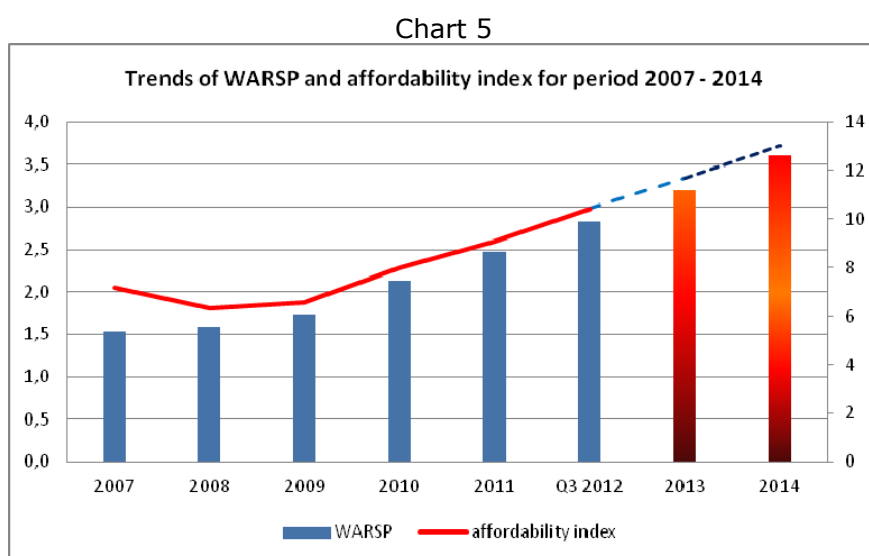
Source: Indirect Taxation Authority in BiH

And while Chart 2 clearly shows that the price group of up to 1.90 KM was dominant with a share of over 50%, starting from last year things started to change rapidly which expectedly resulted in the complete disappearance of this price group during the 2012. In the first nine months of this year it came to an abrupt increase of 3 KM price group share which amounted at about 40%. The

fact that the manufacturers of some of the brands that have very loyal consumers crossed the threshold of 3 KM determining the retail price as the most important part of the market strategy played an important part and contributed to this.

On Charts 4 and 5 it is shown relation between particular retail selling prices in overall issued tax stamps for that period. In both analyzed periods 6 most important price categories participate with about 75% which tells us about heterogeneity of cigarette market. Every market player intends to differ from the competition even price-wise.

Resultant of regular annual decision of the regulatory body and pricing policies of each trader can best be seen on Chart 5. The blue bars on the Chart represent the actual level of the weighted average retail selling price (WARSP) for a specified period of time (left scale). We see that it has been moving so far in equal jumps which give us the right to assume that the expressed pattern will not change rapidly if the relevant policies would be kept at approximately the same position.



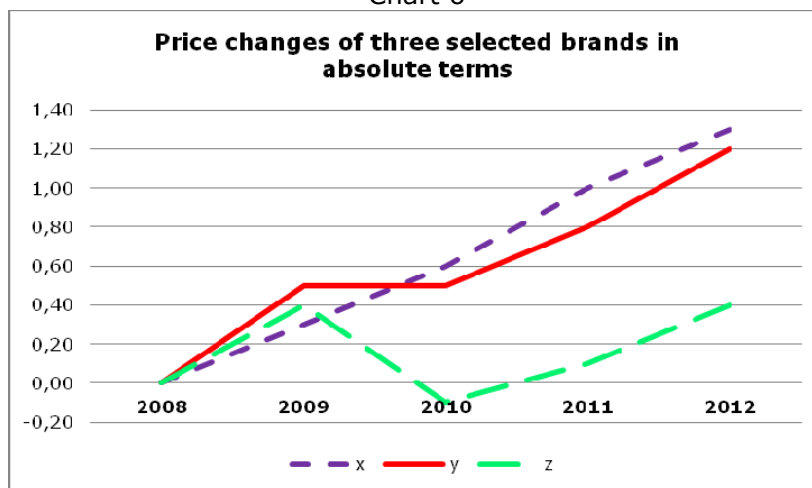
Source: Indirect Taxation Authority in BiH and Agency for statistics in BiH

The curve line on Chart 5 represents the affordability index which represents the ratio of the weighted average retail selling price and the average daily net earning in Bosnia and Herzegovina for a certain period (right scale). If both variables would be moved at the same pace, then there would have not been a change of the affordability index. But given that this is not the case i.e. taking into account the fact that the net earnings have not been significantly changed over the past few years, so we have the affordability index has increased due to the growth of weighted average retail selling price of cigarettes. The thing that many cigarette market analysts suggest is that if it (the index) breaks out the magic limit of 12, then we can expect a significant drop in cigarette consumption and shifting to substitution of cigarettes by other tobacco products including illicit production and trade of cigarettes.

On Charts 6 and 7 a mini-analysis of price trends of three randomly selected brands of cigarettes during the observed period 2008 – 2012 is represented. It should be noted that these are the actual data with the aim of testing the hypothesis that the producers/traders almost always transferred every new excise burden onto the final consumer. In order to gain a better insight, the calculation was done both in absolute and relative terms. On Chart 6 is presented price changes in relative terms and so that the retail selling price from 2008 (before the entry into force of the new Law on Excises in BiH) is taken as the base and based on it to calculate the index price changes in

future periods. As it was logical to assume, the brand with the lowest retail selling price had the largest relative change which in this case is brand X.

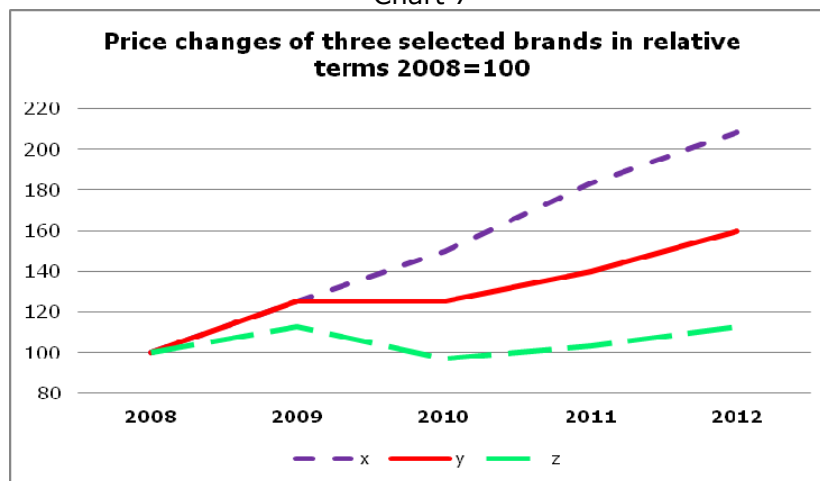
Chart 6



Source: Indirect Taxation Authority in BiH

In this case, it is particularly interesting price trends of brand Z, hence is given Chart 7 which represents the price changes of observed brands in the analyzed period. It can be seen that changes in the prices of brands X and Y converges in the long run, although there are some important differences if the analysis was conducted separately for each period.

Chart 7

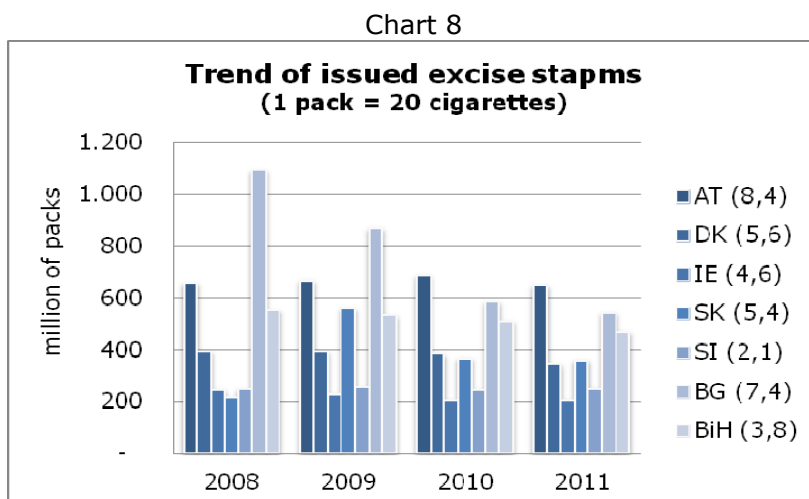


Source: Indirect Taxation Authority in BiH

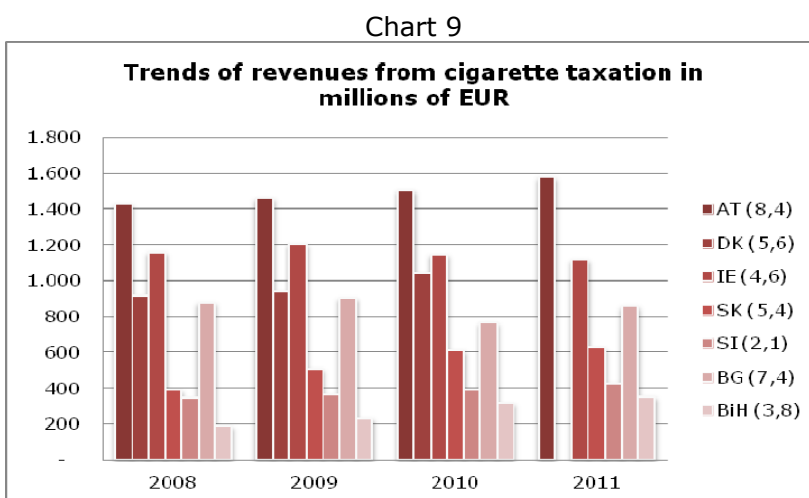
But what's more interesting is the movement of the price change of brand Z. Even after two increases of total excise duties, the retail selling price of brand Z is lower than at the beginning of the analyzed period. It is difficult to understand the logic of this behavior, which in any case is unsustainable in the long term. It is also necessary to emphasize that the analysis is done on the basis of retail selling prices that prevailed, although it is evident that the price changed over the observed period (year).

### Trend of issued stamps and revenues from excise duties on cigarettes in some countries of the EU and BiH

In order to make comparisons, it is necessary to have a high-quality statistics. Below, on Charts 8 and 9 it is shown a comparison of BiH with other selected European Union countries for the period 2008 - 2011. In parentheses next to the names of countries, there is an estimated population size FY 2011.



Source: ITA BiH, EUROSTAT and European Commission – *Excise Duty Tables*, July 1st 2012



Source: ITA BiH, EUROSTAT and European Commission – *Excise Duty Tables*, July 1st 2012

From the above Charts it can be seen that Bulgaria had the sharpest drop in the number of issued stamps for cigarettes in the analyzed period while Slovakia had sharp fluctuations occurred probably due to changes in excise policy during the period under observation. In terms of revenues from excise duties it can be seen that Austria leads compared to other analyzed countries and has a positive tendency in spite of reducing the number of stamps issued in 2011. As for Bosnia and Herzegovina, it is noticeable that it executes significantly less revenues from excise duties on cigarettes, although with the number of issued stamps is just behind Austria and Bulgaria.

In the Table 1 below two indicators are presented, one is related to the number of issued stamps per capita while the second represents the revenue from excise tax on cigarettes per capita. And here we see that Bosnia and Herzegovina is not lagging behind in terms of number of stamps per capita, while significantly lags behind other countries when revenue from excise duties on cigarettes per capita is considered.

Table 1

	Issued stamps <i>per capita</i>	Revenues from excise duties on cigarettes <i>per capita</i>
AT: Austria	77	188
DK: Denmark	62	193
IE: Ireland	45	242
SK: Slovakia	67	115
SI: Slovenia	120	203
BG: Bulgaria	74	116
BiH: Bosnia and Herzegovina	118	88

Source: ITA BiH, EUROSTAT and European Commission – *Excise Duty Tables*, July 1st 2012

## Conclusion

When summarizing all the above considerations, it can be concluded that the cigarette market in Bosnia and Herzegovina is in many ways different from the observed EU countries. Although in the last three and a half years the level of excise duties changed for four times (from January 1<sup>st</sup> 2013 it would be the fifth excise duty increase), yet the structure and total excise duty does not coincide with those in EU member states. As a good indicator could serve the level of excise duties per pack of cigarettes so in Austria it amounts to 2.4 EUR, in Denmark it is 3.2 EUR, in Slovenia it is 1,7 EUR while in Bosnia and Herzegovina is only 0.7 EUR.

The fact is that due to increase of retail selling prices the overall cigarette consumption decreased provided that the decrease is still modest in comparison with some of EU countries such as Bulgaria (52%), Germany (40%), Spain (32%), etc. At the same time, there has been a growing trend of consumption of fine cut tobacco so that the total tax revenue from these types of tobacco products in Belgium reaches almost 15% of total revenues from taxation of tobacco and tobacco products, including cigarettes. Only in Germany during the 2011 it was collected about 1.2 billion EUR from taxation of fine cut tobacco. In the period 2008 – 2011 additional consumption of fine cut tobacco in Bulgaria has increased by 7 times, in Slovakia by 4 times while in Slovenia has increased by 2.65 times.

Regulator in Bosnia and Herzegovina should examine the experiences of these countries and to harmonize i.e. to treat cigarettes and other tobacco products equally tax-wise in order to discourage price driven increased demand for fine cut tobacco. In the end, the EU and the World Health Organization strongly recommend this course of action.



## Consolidated reports

(Author: Aleksandra Regoje)

### Table 1 (Consolidated report: B&H institutions, entities, SA)

The preliminary consolidated report includes

- revenues from indirect taxes collected by the Indirect Tax Authority on the Single Account,
- transfers from the ITA Single Account,
- revenues and expenditures of the institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Republika Srpska.\*

Report doesn't include unadjusted revenues collected on ITA SA.

### Table 2 (Consolidated report: General Government)

Preliminary consolidated report includes:

- revenues and expenditures of the budget of Institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of Bosnia and Herzegovina, cantons, municipalities and funds,
- revenues and expenditures of the budget of the Republika Srpska\*, municipalities and funds,
- revenues and expenditures of the budget of Brčko District and funds.

### Table 3 (Consolidated report: Central Government)

Preliminary consolidated report includes:

- revenues and expenditures of the budget of Institutions of Bosnia and Herzegovina,
- revenues and expenditures of the budget of the Federation of B&H and cantons,
- revenues and expenditures of the budget of the Republika Srpska\*,
- revenues and expenditures of the budget of Brčko District.

### Table 4 (Consolidated report: Cantons)

The consolidated report includes.

- revenues and expenditures of the cantonal budgets,
- revenues and expenditures of the budgets of related municipalities

The report was prepared according to the method which was used before 2012, since data for its creation had been submitted on the old input forms.

Net financing = loans received – repayment of debt

Net lending = lending-repayment of borrowing

*\*Includes: (A) Budget of the Republic and extra-budgetary funds recorded in Treasury General Ledger of the RS, (B) total foreign debt for the projects realized through municipalities and companies, and (C) Budget users who have their own bank accounts (including some foreign project implementation units established by ministries)*

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*To all our associates in Ministries of Finance of BiH, Federation, Republika Srpska, Brcko District, cantons, municipalities and extra budgetary funds, as well as to all readers, we wish happy and successful New 2013!*



\*\*\*

**Consolidated report: SA, B&H Institutions, entities, 2012**

	I	II	III	IV	V	VI	VII	VIII	IX	X	I-X
<b>Revenue</b>	<b>418,2</b>	<b>402,4</b>	<b>532,5</b>	<b>503,0</b>	<b>501,9</b>	<b>541,0</b>	<b>519,9</b>	<b>572,2</b>	<b>526,4</b>	<b>552,3</b>	<b>5069,9</b>
Taxes	382,4	357,6	455,6	440,0	460,7	441,2	484,6	508,9	457,5	496,6	4485,2
Direct taxes	23,4	27,8	58,3	40,5	34,4	28,9	29,0	29,0	26,1	30,7	328,2
Taxes on income, profits and capital gains	22,8	27,1	57,3	39,6	33,4	27,9	27,9	27,9	25,3	29,7	318,9
Taxes on property	0,6	0,7	1,0	0,9	1,0	1,0	1,1	1,1	0,9	1,0	9,3
Indirect taxes (net)	358,8	329,8	397,1	399,5	426,2	412,0	455,3	479,9	431,0	465,0	4154,6
VAT	217,9	210,1	264,0	252,3	267,4	260,0	282,4	300,0	284,6	306,2	2645,0
Excises	105,9	85,2	91,1	102,9	114,4	109,1	124,5	129,3	100,8	110,8	1074,0
Road fee	21,2	19,0	20,6	22,7	23,9	23,5	27,0	29,6	25,1	24,8	237,4
Customs	12,6	14,5	20,1	20,1	19,1	18,0	19,7	19,6	19,2	21,5	184,4
Other indirect taxes	1,2	1,0	1,3	1,5	1,4	1,4	1,6	1,4	1,3	1,7	13,8
Other taxes	0,2	0,1	0,1	0,0	0,1	0,3	0,3	0,0	0,3	0,8	2,3
Social security contributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Foreign grants	1,8	1,1	0,6	1,1	0,4	7,1	0,4	1,3	2,0	1,0	16,9
Other (non-tax) revenue	33,8	43,2	77,0	61,9	40,8	91,8	34,8	62,0	66,9	54,7	566,8
Transfers from other general government units	0,2	0,5	-0,7	0,1	0,0	0,9	0,0	0,0	0,0	0,0	1,1

	I	II	III	IV	V	VI	VII	VIII	IX	X	I-X
<b>Expenditure</b>	<b>421,0</b>	<b>386,8</b>	<b>457,0</b>	<b>480,2</b>	<b>456,3</b>	<b>484,7</b>	<b>504,2</b>	<b>534,5</b>	<b>513,9</b>	<b>533,9</b>	<b>4772,6</b>
Expense	<b>416,5</b>	<b>382,3</b>	<b>453,2</b>	<b>475,3</b>	<b>450,4</b>	<b>468,8</b>	<b>490,1</b>	<b>523,9</b>	<b>504,8</b>	<b>522,3</b>	<b>4687,6</b>
Compensation of employees	130,3	131,5	133,0	133,6	129,2	129,2	134,0	126,2	129,6	128,6	1305,3
Use of goods and services	13,3	17,2	26,2	29,4	27,6	31,8	24,0	26,5	36,6	27,2	259,8
Social benefits	51,5	52,7	65,1	55,1	45,3	57,9	58,8	57,5	57,9	59,7	561,5
Interest	5,0	5,8	19,2	8,5	14,3	27,6	5,0	9,5	17,3	10,7	123,0
Interest payments to non-residents	4,2	4,4	9,7	7,3	9,8	20,7	3,0	6,4	9,8	6,7	81,9
Interest payments to residents	0,8	1,4	9,6	1,2	4,5	6,9	2,0	3,2	7,5	4,1	41,1
Subsidies	2,2	2,4	4,0	13,8	6,1	8,4	17,8	15,7	43,7	19,0	133,2
Grants (to non-residents)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Transfers to other general government units	40,9	39,9	39,9	51,1	47,6	51,5	46,3	69,4	44,3	53,7	484,6
Transfers from SA (BD, cantons, municip, funds, road f.)	162,9	128,7	169,4	172,2	173,1	152,7	196,1	211,1	158,2	195,3	1719,6
Other expense	10,2	4,0	-3,6	11,7	7,2	9,7	8,0	7,9	17,3	28,2	100,5
Net acquisition of nonfinancial assets	<b>4,6</b>	<b>4,5</b>	<b>3,8</b>	<b>5,0</b>	<b>5,9</b>	<b>15,9</b>	<b>14,1</b>	<b>10,6</b>	<b>9,0</b>	<b>11,6</b>	<b>85,0</b>
Acquisition of nonfinancial assets	4,7	4,9	4,3	5,3	6,2	17,7	14,6	11,3	9,3	14,9	93,1
Disposal of nonfinancial assets	0,1	0,4	0,5	0,3	0,3	1,8	0,4	0,7	0,3	3,3	8,1
<b>Gross/Net operating balance (revenue minus expense)</b>	<b>1,8</b>	<b>20,1</b>	<b>79,3</b>	<b>27,8</b>	<b>51,5</b>	<b>72,2</b>	<b>29,8</b>	<b>48,3</b>	<b>21,5</b>	<b>30,1</b>	<b>382,3</b>
<b>Net lending /borrowing (revenue minus expenditures)</b>	<b>-2,8</b>	<b>15,6</b>	<b>75,5</b>	<b>22,8</b>	<b>45,6</b>	<b>56,3</b>	<b>15,7</b>	<b>37,7</b>	<b>12,5</b>	<b>18,4</b>	<b>297,3</b>
<b>Net financing = (Minus) Net lending /borrowing</b>	<b>2,8</b>	<b>-15,6</b>	<b>-75,5</b>	<b>-22,8</b>	<b>-45,6</b>	<b>-56,3</b>	<b>-15,7</b>	<b>-37,7</b>	<b>-12,5</b>	<b>-18,4</b>	<b>-297,3</b>

Table 1

**B&H: General Government 2012 (preliminary report)**

	Q1	Q2	Q3	Total
<b>Revenue</b>	<b>2.507,7</b>	<b>2.823,1</b>	<b>2.880,9</b>	<b>8.211,8</b>
Taxes	1.271,3	1.435,8	1.537,9	4.245,0
Direct taxes	233,2	242,4	210,6	686,2
Taxes on income, profits and capital gains	208,1	215,6	184,5	608,2
Taxes on payroll and workforce	2,6	5,3	3,5	11,3
Taxes on property	22,5	21,6	22,6	66,6
Indirect taxes	1.036,0	1.191,7	1.325,3	3.553,0
Other taxes	2,1	1,7	2,1	5,9
Social security contributions	931,3	1.020,6	1.001,0	2.952,8
Foreign grants	5,2	11,0	8,2	24,4
Other (non-tax) revenue	299,0	354,3	329,6	982,8
Transfers from other general government units	1,0	1,5	4,3	6,7
<b>Expenditure</b>	<b>2.523,1</b>	<b>2.741,2</b>	<b>2.863,4</b>	<b>8.127,7</b>
Expense	2.469,9	2.655,6	2.735,4	7.860,8
Compensation of employees	801,2	808,0	802,2	2.411,3
Use of goods and services	432,8	503,7	474,4	1.410,8
Social benefits	1.043,8	1.066,5	1.108,4	3.218,7
Interest	37,0	59,7	40,8	137,5
Interest payments to non-residents	19,3	39,5	20,4	79,1
Interest payments to residents	17,7	20,2	20,5	58,3
Subsidies	49,3	65,8	123,7	238,8
Grants	0,3	3,2	8,2	11,7
Transfers to other general government units	24,8	47,3	45,3	117,5
Other expense	80,7	101,4	132,5	314,6
Net acquisition of nonfinancial assets	53,2	85,7	128,0	266,9
Acquisition of nonfinancial assets	60,9	94,0	136,8	291,7
Disposal of nonfinancial assets	7,7	8,3	8,8	24,8
<b>Gross/Net operating balance (revenue minus expense)</b>	<b>37,9</b>	<b>167,6</b>	<b>145,5</b>	<b>350,9</b>
<b>Net lending /borrowing (revenue minus expenditures)</b>	<b>-15,3</b>	<b>81,9</b>	<b>17,5</b>	<b>84,1</b>
<b>Net financing = (Minus) Net lending /borrowing</b>	<b>15,3</b>	<b>-81,9</b>	<b>-17,5</b>	<b>-84,1</b>

Table 2

**B&H: Central Government 2012 (preliminary report)**

	Q1	Q2	Q3	Total
<b>Revenue</b>	<b>1.326,4</b>	<b>1.534,2</b>	<b>1.591,9</b>	<b>4.452,5</b>
Taxes	1.122,0	1.274,1	1.354,7	3.750,8
Direct taxes	189,1	194,6	164,7	548,3
Taxes on income, profits and capital gains	180,1	184,6	155,8	520,6
Taxes on payroll and workforce	2,4	4,5	3,3	10,2
Taxes on property	6,6	5,5	5,5	17,6
Indirect taxes	931,4	1.078,3	1.188,5	3.198,2
Other taxes	1,5	1,3	1,5	4,3
Social security contributions	0,0	0,0	0,0	0,0
Foreign grants	3,7	9,3	3,6	16,6
Other (non-tax) revenue	200,3	250,3	232,3	682,9
Transfers from other general government units	0,4	0,5	1,4	2,3
<b>Expenditure</b>	<b>1.242,6</b>	<b>1.417,4</b>	<b>1.503,7</b>	<b>4.163,7</b>
Expense	1.226,3	1.378,3	1.457,8	4.062,3
Compensation of employees	684,0	683,2	678,6	2.045,8
Use of goods and services	98,1	144,9	133,8	376,8
Social benefits	217,2	216,3	237,4	671,0
Interest	31,6	52,0	33,8	117,4
Interest payments to non-residents	18,8	38,6	19,7	77,1
Interest payments to residents	12,8	13,4	14,1	40,4
Subsidies	27,0	46,8	98,4	172,3
Grants	0,0	2,1	5,8	7,9
Transfers to other general government units	127,8	160,5	185,4	473,6
Other expense	40,5	72,5	84,6	197,6
Net acquisition of nonfinancial assets	16,3	39,1	45,9	101,4
Acquisition of nonfinancial assets	17,9	42,1	48,2	108,2
Disposal of nonfinancial assets	1,5	3,0	2,3	6,8
<b>Gross/Net operating balance (revenue minus expense)</b>	<b>100,2</b>	<b>156,0</b>	<b>134,1</b>	<b>390,2</b>
<b>Net lending /borrowing (revenue minus expenditures)</b>	<b>83,9</b>	<b>116,8</b>	<b>88,2</b>	<b>288,9</b>
<b>Net financing = (Minus) Net lending /borrowing</b>	<b>-83,9</b>	<b>-116,8</b>	<b>-88,2</b>	<b>-288,9</b>

Table 3

## West Herzegovina Canton 2012

		I	II	III	IV	V	VI	VII	VIII	IX	Total
1	Total revenues (11+12+13+14)	6.182.617	5.985.053	8.745.422	8.409.324	7.171.081	6.299.171	7.652.769	8.148.250	7.102.045	65.695.733
11	Tax revenues	4.895.990	4.850.889	7.130.808	7.128.032	5.854.306	4.985.245	6.521.018	6.960.270	5.656.689	53.983.248
	Income & profit tax	894.806	1.511.973	2.892.034	2.920.133	1.399.899	1.123.477	1.599.070	1.806.020	1.456.472	15.603.882
	Property tax	246.508	149.748	200.420	203.968	123.058	255.157	153.065	101.286	300.791	1.734.002
	Indirect taxes	3.732.868	3.171.572	4.012.251	3.985.852	4.311.979	3.590.690	4.740.280	5.033.336	3.880.740	36.459.570
	Other taxes	21.808	17.595	26.103	18.079	19.371	15.921	28.603	19.629	18.686	185.794
12	Non-tax revenues	1.094.090	1.049.239	1.552.580	1.056.807	1.430.740	1.120.012	1.113.288	1.146.803	1.070.090	10.633.650
13	Grants	192.537	70.841	62.034	125.856	-113.965	193.914	18.463	41.177	375.266	966.122
14	Other revenues	0	14.084	0	98.629	0	0	0	0	0	112.713
2	Total expenditures (21+22)	6.410.412	6.402.078	7.587.735	7.643.923	7.642.643	6.933.370	10.895.981	4.985.693	7.816.037	66.317.873
21	Current expenditures	6.410.412	6.402.078	7.587.735	7.643.923	7.642.643	6.933.370	10.895.981	4.985.693	7.816.037	66.317.873
	Gross wages and compensations	4.535.464	4.444.774	4.625.995	4.535.035	4.594.622	4.551.905	5.093.049	4.162.917	4.522.791	41.066.552
	Purchases of goods and services	894.277	713.141	777.539	910.814	807.789	694.503	1.000.430	644.657	1.128.229	7.571.377
	Grants	650.772	889.227	1.884.229	1.848.372	1.904.956	1.289.841	4.467.612	-207.550	1.720.829	14.448.288
	Interest	95.059	105.077	92.817	91.927	101.077	180.036	105.551	153.006	69.580	994.130
	Transfers to lower budget units	234.839	249.859	207.155	257.775	234.201	217.085	229.340	232.663	374.608	2.237.525
22	Net lending	0	0	0	0	0	0	0	0	0	0
3	Net acquisition of nonfinancial assets	51.348	11.162	-45.789	72.269	65.435	198.997	80.033	56.957	145.239	635.650
4	Government surplus/deficit (1-2-3)	-279.142	-428.187	1.203.476	693.132	-536.997	-833.196	-3.323.245	3.105.600	-859.231	-1.257.790
5	Net financing	-422.955	-293.188	-279.664	-316.748	-307.441	-253.513	4.684.337	-322.049	-261.004	2.227.774

Table 4