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Changes in rates of excise duties - the growth factor of price categories of the CPI

Technical box extracted from:

Inflation Report no.3, August 2015 [1]

The increase of prices for consumer goods and services is determined both by market factors and administrative factors, such as changes in some taxes and fees that have the primary responsibility to ensure the accumulation of revenues in the state budget.

Excise duty is a general state tax set for some consumer goods. Given the fact that its shares are reviewed periodically, usually at the beginning of each year and the products subject to excise duty are contained in the CPI structure, dynamics of excise duty rates is a necessary and important for inflation analysis and forecasting. Or, the delimitation of the impact of administrative factors on inflation, among other factors that may be related to supply, from those that affect the aggregate demand is imperative in the process of establishing correct and timely monetary policy actions.

According to Article 122 of the Tax Code of the Republic of Moldova, the excise duty rates are set:
a) in absolute amount of the commodity unit of measurement;
b) ad valorem in percent of the value of goods, without taking into account the excise duty and VAT, or the customs value of imported goods, taking into account taxes and fees to be paid at import, without taking into account the excise duty and VAT.

Among the main components of the CPI subject to excise duty are the **alcoholic beverages, cigarettes, fuel and transport**. As a result, their prices for the final consumer will also include the respective excise duty rate. The share of the above-mentioned components in the CPI is about 9.0 percent. In this way, the periodic review of excise duty rates, usually upwardly, causes a noticeable impact on the growth of the general price level.

Other goods on which excise duties are applied, such as jewellery, perfumes, furs, some electronics and chemicals etc. have a minor share in the structure of the CPI, so the changes in their rates do not influence substantially the increase of prices.

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The period of reflection of the increase of excise duty rates in rising prices, established by the statistical authority, is largely determined by the specific of the product on which the excise duty is applied. In this regard, in case of goods, which large stocks storage is problematic and implies significant costs, such as fuel, the changes in excise duties will be felt relatively quickly by the final consumer, so their direct impact

will be easier to estimate. At the same time, in case of goods, which large stocks storage does not imply high costs, such as cigarettes, the impact of increase in excise duty impact will be felt over a longer period of time as the old stock will deplete. This implies difficulties in predicting the consequences of higher excise duties on inflation.

For some categories of goods, the increase of excise duty rates was insignificant, while for others, such as those on fuel and cigarettes, was considerable. The upward trend of excise duty rate on fuel and cigarettes from the CPI may be seen in the table below.

	Unit of measurement	2009	2010	2011	2012	2013	2014	2015
Petrol	*MDL/tonne*	1 800	2 700	2 700	2 885	3200	3500	3714
Diesel fuel	*MDL/tonne*	750	1125	1125	1200	1330	1455	1544
Liquefied gas	*MDL/tonne*	0	0	0	1800	1995	2180	2313
Filter cigarettes (ad valorem)	*% of the value in MDL*	12%	12%	18%	24%	30% - 24% (August)	24%	18%
Filter cigarettes (fix)	*MDL/1000 pcs*	6.6	6.6	10	20	MDL 30 - MDL 45 (August)	75	200

The fuel excise duties have increased by 50 percent in 2010. Later, in 2012, 2013 and 2014, the increases were significant, but less pronounced. In 2014, the share of petrol and diesel fuel excise duty rate amounted to MDL 3500 per tonne and MDL 1445 per tonne, increasing by 9.4 percent compared with 2013. According to estimates, this increase resulted in an increase of about 1.0 percent of the fuel component of the CPI. Similarly, the rate of excise duty on liquefied gas increased by approximately 9.3 percent, up to MDL 2180 per tonne, which led to an increase of this component in the CPI by about 1.1 percent in early 2014.

The impact of higher excise duties for cigarettes is more difficult to estimate, because there are two components and a large diversity of the types of cigarettes. The excise duty rate increased for both fixed and ad valorem part. Thus, the ad valorem part reached 24.0 percent in 2014 compared to 12.0 percent in 2009, and the fixed part was MDL 75 compared to MDL 6.6 in 2009.

Similar to previous years, the fiscal policy for 2015 provides for an increase in excise duty. Fiscal and Budgetary Policy for 2015 provides for an increase in excise duty to MDL 200.0 for 1000 cigarettes. The second component of this duty, related to the shelf value, decreased from 24.0 percent to 18.0 percent. Another increase refers to fuel excise duty. For one tonne of petrol, the excise duty increased by over MDL 200 and by about MDL 100.0 for diesel fuel. The excise duty per tonne of gas was also increased.

However, given that fiscal and budgetary policy was adopted late, some of the increases in excise duties have already had an impact in the second quarter, for instance on the fuel. In the case of cigarettes, the impact will be felt in the second half of the year.

The aforementioned increases were made to adjust gradually the excise duty to the level of the countries in

the region, including European standards, which will allow the accumulation of new financial resources to the budget and the reduction of tobacco consumption that have a negative influence on health and society development.

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