



## HEALTHIER AND WEALTHIER – WHY TAXING TOBACCO IS IMPORTANT NOT ONLY FOR HEALTH BUT ALSO FOR THE ECONOMY

Albania has one of the highest smoking prevalence rates in the Western Balkans and Europe. In Albania, every second male smokes, while female rates of smoking prevalence are higher than most developed countries (according to Human Development Index (HDI) ranking). In addition, tobacco consumption is a major problem among youth.<sup>1,2</sup>

Smoking is already the cause of many deaths, serious diseases and other health-related problems.<sup>3</sup> In addition to health problems, smoking incurs considerable economic costs not only on individual households, but also on the society as a whole in terms of budgetary health expenditures and productivity losses. The yearly costs of tobacco consumption to the Albanian economy (including direct costs related to healthcare expenditures and

indirect costs related to lost productivity due to early mortality and morbidity) are estimated at 270 million euros.<sup>4</sup> Household spending on cigarettes is also high: average monthly expenditures on cigarettes as percentage of monthly GDP per capita is over 1.8 percent.

Taxation is considered the most effective policy instrument for reducing tobacco consumption, besides contributing to government revenue.<sup>5,6</sup> Efficient fiscal policies aiming to reduce smoking prevalence need to be based on solid evidence. For this purpose, a study has been carried out by Development Solutions Associates (DSA), which confirms that an increase in excise taxes on tobacco products could reduce tobacco consumption and increase government revenue considerably.

### Tobacco Use in Albania

Smoking prevalence<sup>7</sup> and smoking intensity<sup>8</sup> of households varies by income group. As shown in *Figure 1*, low-income households have the lowest smoking prevalence and intensity when compared with the other two groups. In addition to income

and prices, also law enforcement (related to smoking in bars and restaurants, which took place in (late) 2015, and which was largely enforced in bigger towns such as Tirana) appears to have had an effect through 2015 and 2016.

<sup>1</sup> Tobacco Atlas. Tobacco Atlas Fact Sheet, Albania. 2018.

<sup>2</sup> WHO. WHO Report on the Global Tobacco Epidemic 2017; World Health Organization: Geneva, Switzerland, 2017

<sup>3</sup> Muller, D. C.; Murphy, N.; Johansson, M.; Ferrari, P.; Tsilidis, K. K.; Boutron-Ruault, M. C. & Weikert, C. No Title. BMC Med. 2016, 14 (1), 87–87.

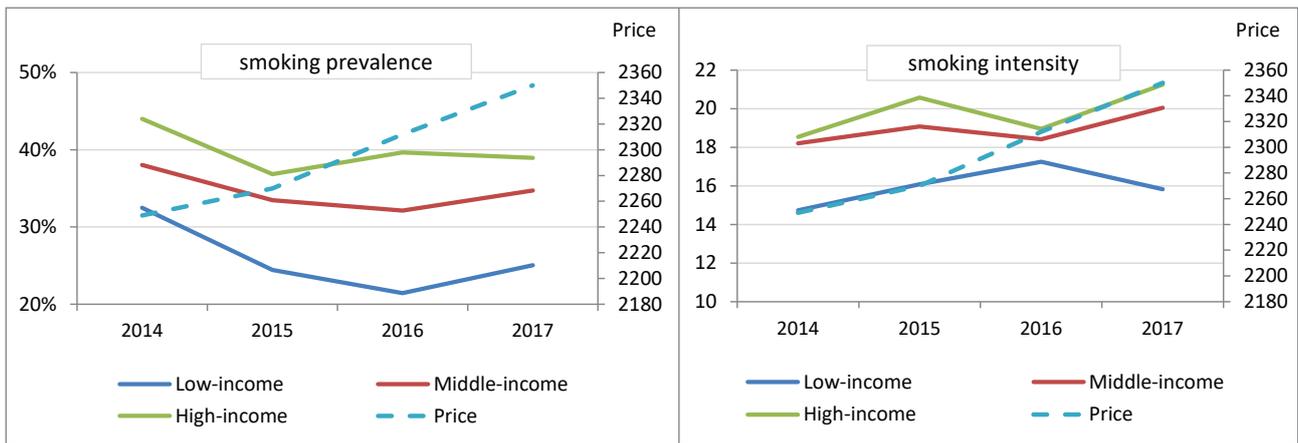
<sup>4</sup> WHO. WHO Report on the Global Tobacco Epidemic 2017; World Health Organization: Geneva, Switzerland, 2017

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<sup>5</sup> Jha, P.; Chaloupka, F. Tobacco Control in Developing Countries; Oxford University Press, 2000.

<sup>6</sup> Smoking prevalence is defined as the share of the households with positive tobacco consumption.

<sup>7</sup> Smoking intensity represents the number of cigarettes packs a household with positive expenditures on cigarettes smokes per month.



**Figure 1.** Smoking prevalence and smoking intensity trends by income group

Source: Albania Household Budget Survey (HBS) 2014-2017

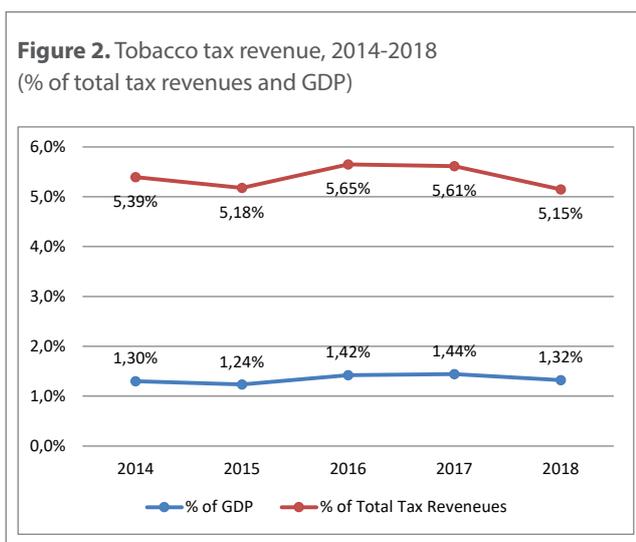
Note: Cigarette prices are expressed in real terms and defined as the average of the ratio between total expenditure and quantity per municipality/year.

## Structure of Taxes on Tobacco Products

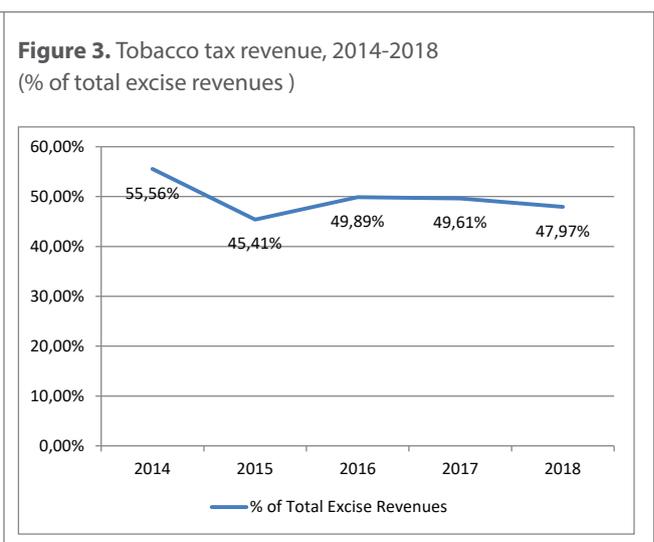
Albania has the lowest tax burden on tobacco among the Western Balkans countries. The total tax burden on cigarettes stands around 66 percent of the retail selling price of a pack of 20 cigarettes of the most sold brand. The total tax burden includes the specific excise tax, VAT and customs duties. The excise tax burden was 35.8 percent in 2018.

Revenues from tobacco taxation has increased since 2015, namely during 2016 and 2017 while in 2018, there was a marked slowdown when compared to

the pace of GDP and overall income from taxation growth, accounting for 5.15 percent of the total tax revenues, or around 1.32 percent of GDP, in 2018 (Figure 2). During recent years, the contribution of tobacco excises to overall tax revenues declined due to a relative increase of overall tax collection and GDP. Similarly, the overall contribution of tobacco excise revenues to overall excise revenues has been decreasing during the recent four years, not exceeding the level of 50 percent (Figure 3).



Source: Authors' own calculations based on data from Ministry of Finance and Economy (2018)



## Projected consumption and revenues-results from tax simulations

Albania levies a specific excise tax on tobacco at 49 euros per 1000 sticks (2019), far below the minimum excise tax required by EU regulation. Table 1 shows that a 25 percent price increase, resulting from a 43.6 percent increase in excise tax, would have a considerable impact on both reducing consumption and generating additional government revenues. As the simulation is done based on the 2017 realized

consumption, the baseline specific excise is the 2017 excise of 44 Euros per 1000 sticks. A price increase of 25 percent would lead to an overall decrease in consumption by 15.0 percent, and additional tax revenue collection of 17.9 percent (approximately 29.7 million euros). The expected additional amount is more than one-third of current revenue collected from tobacco excises.

**Table 1.** Impact of 25 percent cigarette price increase on consumption and government budget

Income group	Consumption			Revenues		
	Baseline (2018) <sup>1</sup>	Scenario (2019) <sup>1</sup>	Change (%)	Baseline (2018) <sup>2</sup>	Scenario (2019) <sup>2</sup>	Change (%)
Low	35.8	26.1	-27.1%	41.9	42.3	1.1%
Middle	50.1	47.7	-4.8%	58.6	77.3	32.1%
High	57.0	47.6	-16.4%	66.7	77.2	15.9%
Overall	142.9	121.4	-15.0%	167.2	196.7	17.9%

\* In million packs; \*\*In million euros

Source: Authors' own calculations based on data from Ministry of Finance and Economy (2018)

The results differ between the income groups. For the low-income group, using the estimated price elasticity of -1.19 and income elasticity of 1.73, a 25 percent price increase would lead to a sharp reduction of cigarette consumption by 27.1 percent. Despite such a significant decline in consumption, government revenues would still increase by 1.1 percent, or 0.5 million euros.

For the middle-income group, using the price elasticity of -0.23 and income elasticity of 1.14, a 25 percent price increase would reduce consumption by 4.8 percent and increase revenues by 32.1 percent (18.7 million euros). Finally, with the price elasticity of -0.7 and income elasticity of 0.52 for the high-income group, consumption would decrease by 16.4 percent, while government revenues would increase by 15.9 percent (10.6 million euros).

## Conclusions and Recommendations

Tobacco consumption in Albania is widely considered as one of the most significant health concerns of the population, especially for low-income households, which are more affected by tobacco consumption. Low-income households spend a larger share of their household income on cigarettes (7.6 percent), which diverts resources away from potentially more necessary spending, such as food, clothing, housing, etc. At the same

time, low-income households are highly responsive to price increases.

Despite the existing tobacco control policies combining fiscal and non-fiscal instruments, Albania has still one of the lowest tax levels on cigarettes compared to other Western Balkan and EU countries. Albania is among the countries that does not apply ad valorem tax on cigarettes.

Under the assumptions in the simulation above, the Government of Albania should to increase the excise tariff from 49 euros (applied during 2018) to 70 euros per 1000 sticks in 2020. The empirical results show that overall, a price increase of 25 percent (resulting from the excise tax increase) would lead to a decrease in cigarette consumption

by 15.0 percent and an increase in government revenues by 17.9 percent (29.7 million euros). This tax increase would result in both reduced smoking for a healthier society as well as additional government revenue and avoided economic costs from tobacco-related illness and productivity losses for a wealthier society.

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