

## The impact of tobacco tax increases on tobacco consumption, tax revenue, and premature deaths in Albania

### Background – why tobacco taxation matters both for population health and the governmental budget in Albania

Tobacco smoking prevalence in Albania is high: one in four adults are smokers. The latest available figures from the Survey on Tobacco Consumption in Southeastern European Countries (STC-SEE) in 2019 show that over 42 percent of men and 7 percent of women in Albania use tobacco. Although the prevalence has slightly declined recently, it remains much higher than the global average. This ongoing high smoking prevalence results in high economic and health costs for the Albanian population.

Smoking prevalence is affected by various factors, including tobacco taxation. Tobacco excise levels in Albania are the lowest compared to all Southeastern European (SEE) countries. Albania, similar to other countries in the Western Balkans, is in the process of European Union (EU) integration. In order to meet the EU target, the country will need to almost double the current excise rate to reach the required minimum of €90 euros per 1,000 cigarettes.

The increase in excise is expected to improve health and avoid premature deaths while also adding revenues to the state budget. Tobacco taxes account on average for 13 percent of total customs revenues. Therefore, it is important to have a sound and accurate quantitative assessment of the impact of

excise tax changes, especially considering the Covid-19 context, which is characterized by high public deficit and debt combined with a growing awareness of public health.

This policy brief is based on a study which provides evidence of the impact of future tobacco tax (excise) increases on cigarette prices and consumption, government revenues, and averted premature deaths.

### Tobacco taxation scenarios – fiscal and health implications

The study uses Albanian household-level data and elaborates two different scenarios of tax increases to meet EU requirements:

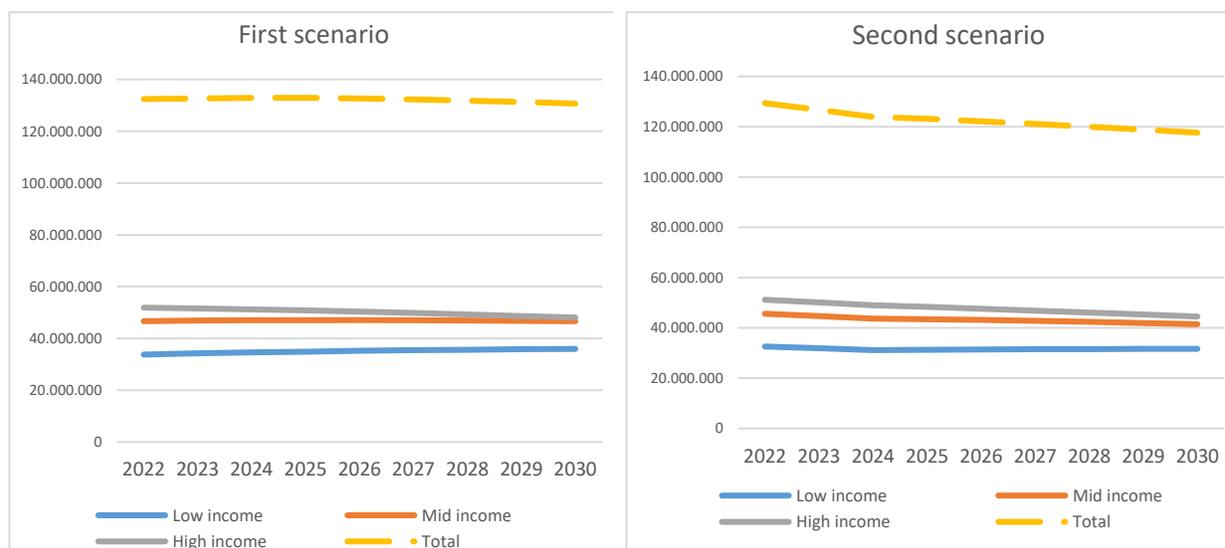
- **First scenario:** the “business-as-usual” scenario is based on the historical annual change of the excise in recent years in Albania (4 percent). In this scenario, Albania would achieve the EU requirements by 2035.
- **Second scenario:** following the guidance of the World Bank (2018)<sup>1</sup>, the second scenario is an accelerated plan of 8 percent increases from 2022 to 2024 followed by 5 percent increases in the period 2025-2030. In this scenario, Albania would achieve the EU requirements in 10 years (2030).

<sup>1</sup> World Bank (2018). Increasing tobacco taxes - A win-win for health and economy. Available at <https://www.worldbank.org/en/topic/tobacco/brief/ta>

## Results

The results from the first (“business as usual”) scenario, predict a stable level of consumption while the higher excise rates of the second scenario are expected to significantly reduce cigarette consumption.

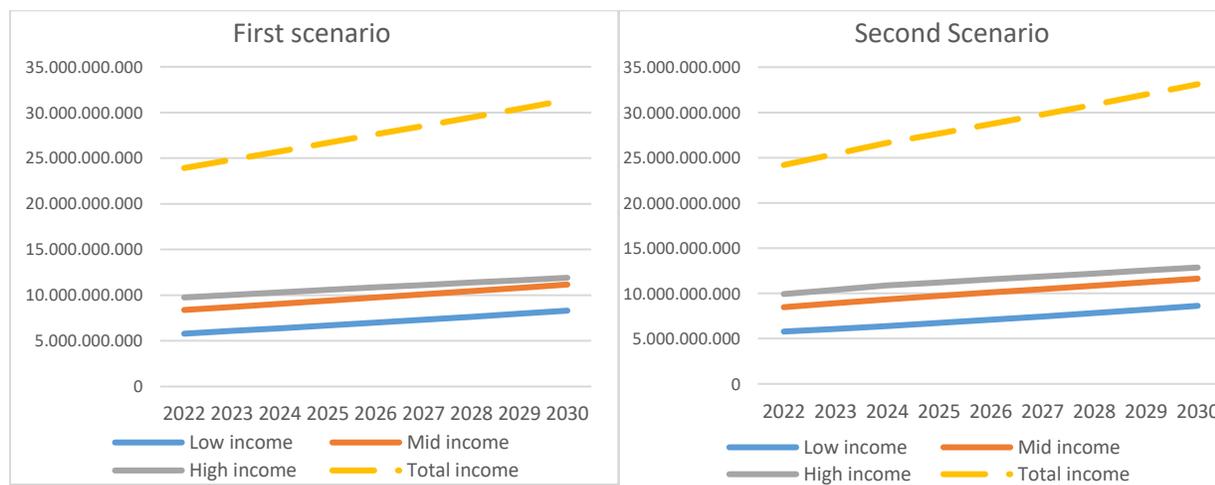
*Figure 1. Cigarette consumption (packs) by income categories of tobacco consumers<sup>2</sup>*



*Source: Tax simulator results*

In terms of budget implications, **the second scenario is expected to generate higher income**, since the positive effect of the increased excise offsets and even exceeds the negative effect resulting from reduced consumption. More specifically, during 2022-2030 revenues collected in the second scenario are projected to be around 5 percent or €77 Million more when compared to the first scenario.

*Figure 2. Tax revenues by income categories of tobacco consumers*

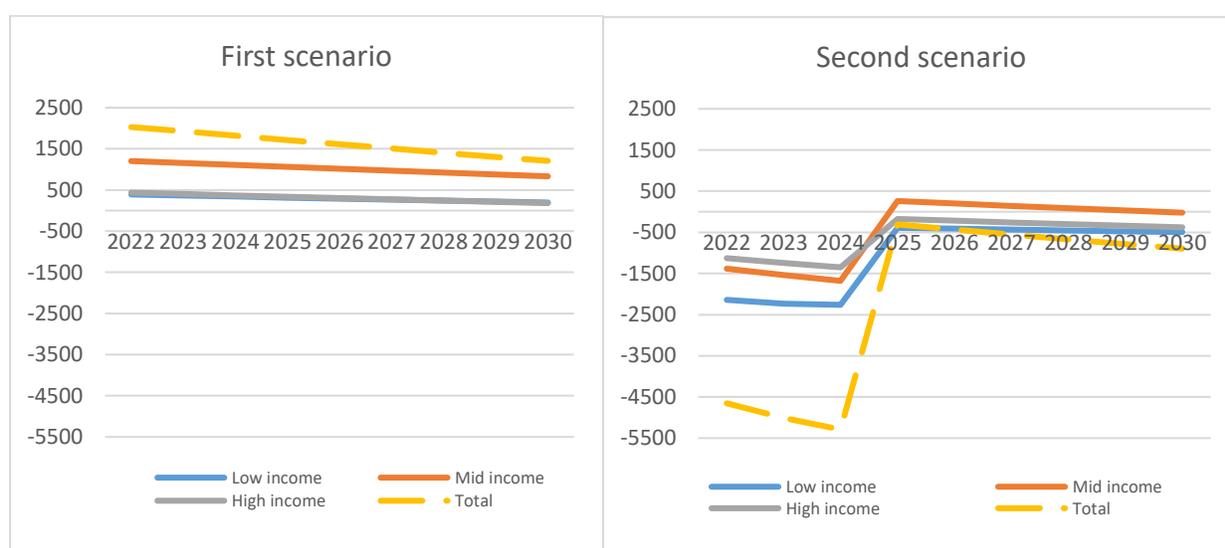


*Source: Tax simulator results*

<sup>2</sup> Note: for the sake of comparison, illustration graphs describe the period 2022-2030 for both scenarios.

**The impact on premature deaths differs dramatically between both scenarios.** The number of premature deaths (that is, smokers averted from premature death) in the second scenario is expected to decrease by approximately 19 thousand from 2020 to 2030, or **33 thousand deaths less** compared to the first scenario (in which approximately 15 thousand more smokers are expected to die prematurely from 2022 to 2030<sup>3</sup>) (Figure 3). Moreover, the excise increase in **the second scenario has a pro-poor effect, since 50 percent of the averted deaths occur among lower-income smokers.** This implies lower health costs for lower-income Albanians, who are more likely to suffer relatively higher vulnerabilities from outstanding health costs from treatment of tobacco-attributable illnesses.

*Figure 3: Number of premature deaths*



*Source: Tax simulator results*

## Conclusions and Recommendations

The findings indicate that applying a higher yearly excise growth rate than the historical increase is instrumental to achieve policy goals, namely: increasing tax revenues, reducing tobacco-related premature deaths and disease and the associated expenditures, while enabling a faster harmonization with EU policies/requirements (Chapter 16 on Taxation).

Based on these findings, the Ministry of Economy and Finance **can save more lives and raise more tax revenue by applying a multiyear schedule based on a more rapidly increasing specific excise level** (yearly increase of 8 percent for the first 3 years (2022-2024) and 5 percent for the remaining years (2025-2030)). Although these excise increases (corresponding to the second scenario) are higher than the current excise calendar, they are still relatively modest by international standards. By using the excise simulation tool prepared by the authors of this study, it is possible to have a quantified impact on budget and averted premature deaths of alternative scenarios.

<sup>3</sup> In the second scenario, although there is a decrease in the number of smokers due to the increase in excise, still the number of those who quit smoking due to higher income or age is higher than the number of those who quit.

Figure 2. Visualization of tax simulator scenarios results

	First scenario	Second scenario
	<ul style="list-style-type: none"> <li>• Business-as-usual scenario</li> <li>• 4% yearly increase of excise level</li> </ul>	<ul style="list-style-type: none"> <li>• WB advised scenario</li> <li>• 8% increase in the first 3 years and 5% afterwards</li> </ul>
Time to meet EU requirements	15 years (2020-2035)	10 years (2020-2030)
Consumption	Almost constant (-0.2% yearly change)	Slightly decrease (-1.2% yearly change)
Government revenues	Slightly increase (3.5% yearly increase)	Slightly increase (4% yearly increase)
Premature deaths	High (14,525 <b>more</b> premature deaths caused from 2022-30)	Low (18,598 <b>fewer</b> premature deaths averted from 2022-30)

Note: For comparable reason, number of deaths are presented until 2030.

Considering the illicit trade concerns, enhanced (fiscal) law enforcement related to tobacco control is crucial particularly in the case of higher excise scenarios. On the other hand, to further address social and health costs of tobacco, more efforts should be taken toward implementing tobacco control policies, namely, tobacco marketing restrictions and enforcement of completely smoke free environments, in accordance with EU requirements and the WHO FCTC.

### Acknowledgments

Development Solutions Associates (DSA) is working in cooperation with the University of Illinois at Chicago's (UIC) Institute for Health Research and Policy to conduct economic research on tobacco taxation in Albania. UIC is a partner of the Bloomberg Initiative to Reduce Tobacco Use. The views expressed in this document cannot be attributed to, nor do they represent, the views of UIC, the Institute for Health Research and Policy, or Bloomberg Philanthropies. Authors of this report are thankful to Dr. Aida Gjika and Dr. Michal Stoklosa, and to the UIC team, particularly to Dr. Jeffrey Drope and Ms. Erika Siu for the valuable support.

### Suggested citation

Imami, D., Zhllima, E., Merkaj, E. & Gjika I. (2021). *The impact of tobacco tax increases on tobacco consumption, tax revenue and deaths in Albania*. Development Solutions Associates.