

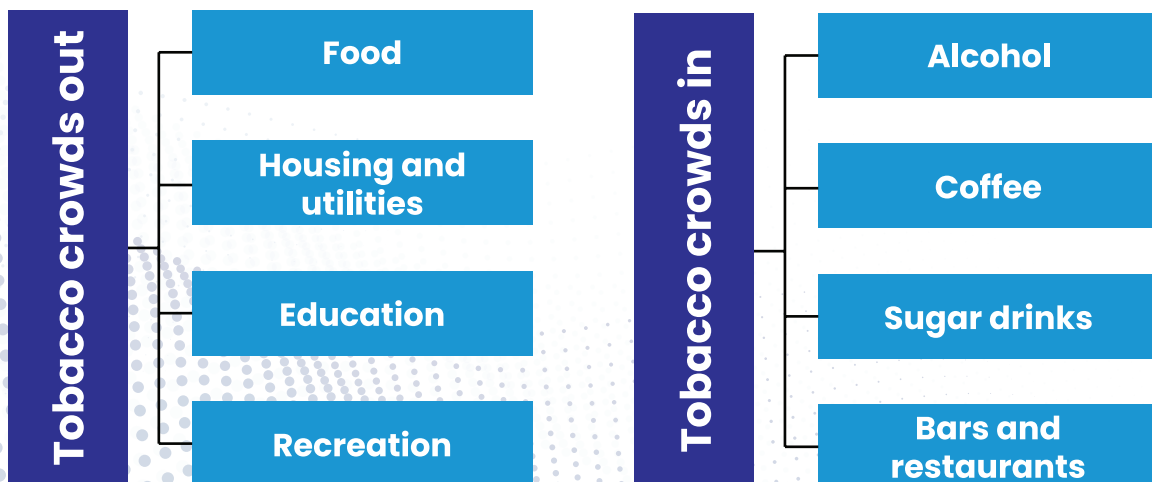
# IMPACT OF TOBACCO SPENDING ON INTRA-HOUSEHOLD RESOURCE ALLOCATION IN MONTENEGRO

REDUCING TOBACCO SPENDING WOULD INCREASE HOUSEHOLD CONSUMPTION OF BASIC NECESSITIES

## KEY POINTS

- ▶ The crowding-out effect of tobacco use negatively impacts the economy as a whole by reducing investment in human capital development.
- ▶ Tobacco spending crowds out household budget allocation for essential needs, such as nutritious foods (including cereals, dairy products, and fruits and vegetables). The impacts are greatest among the poorest households and affect all household members, especially children.
- ▶ At the expense of necessities, smoking households use more resources for other non-healthy consumption such as coffee, sugary drinks and spending at bars on alcohol.
- ▶ Smokers allocate fewer financial resources to education across all income groups, which negatively impacts future development and earning potential, particularly of the youngest household members.

Figure 1. Impact of tobacco spending on intra-household resource allocation



## HIGH RATES OF TOBACCO USE IN MONTENEGRO

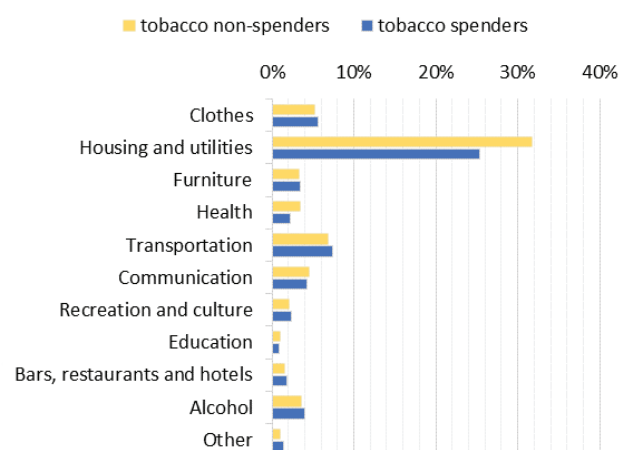
Global evidence suggests that tobacco spending comprises a sizable portion of household consumption expenditure, which consequently reduces the resources spent on other basic commodities. Especially with limited resources, spending on tobacco crowds out other spending, including on food, clothing, housing, education, furniture, and recreation. Therefore, tobacco spending can worsen a household's living standard and negatively impact the development of children and the future earning potential of household members. This is especially concerning for poorer households who already have insufficient resources to support basic spending needs.

Montenegro experienced a rise in smoking prevalence in recent years, by 5.3 percentage points between 2017 (35.4 percent)<sup>1</sup> and 2019 (40.7 percent).<sup>2</sup> According to the Montenegro Household Budget Survey (HBS), spending on tobacco in households with smokers accounted for, on average, between 3.7 percent and 5.4 percent of their budget during 2005–2017. In 2020, 22.6 percent of the total population in Montenegro was at risk of poverty, 13.5 percent of the population lived in households that could not afford at least four out of nine material deprivation items, and the child poverty rate was 10 percentage points higher than the national poverty rate.<sup>3</sup> Given the high prevalence of smoking in Montenegro and the large population in or at risk of poverty, tobacco is a commodity that likely influences expenditure decisions in a large number of households.

## SMOKING HOUSEHOLDS SPEND LESS ON NECESSITIES THAN NON-SMOKING HOUSEHOLDS

Comparing budget allocation on different commodity groups for households with zero versus households with positive tobacco expenditures (Figure 1) shows that households with smokers spend slightly higher shares of their budgets on clothes, transportation, bars, restaurants and hotels, alcohol, and sugary drinks. At the same time, they spend lower shares of their budgets on necessities including housing and utilities, health, total dairy products, fruits and vegetables, and oils and fats. The statistically significant difference in expenditures between the two types of households suggests differences in taste and preferences, which likely means that tobacco spending has a tangible effect on household expenditure.

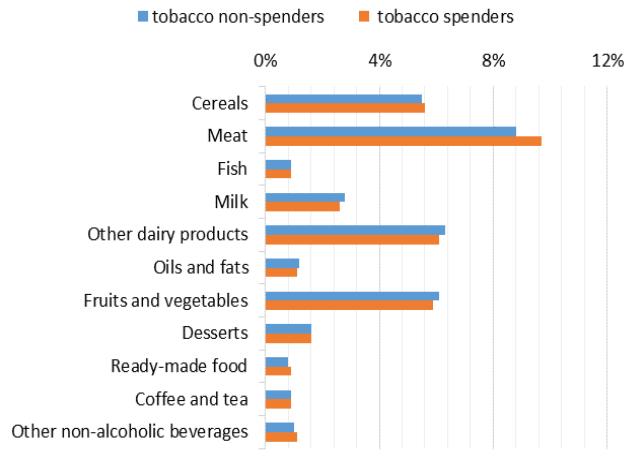
**Figure 2.** Budget shares spent on different groups of products by smoking and non-smoking households



1 Institute of Public Health. (2017). Study of quality of life, life styles and health risks in Montenegro.

2 Mugosa, A., Lakovic, T., Kovacevic, M., Cizmovic, M. & Popovic, M. Adult Tobacco Use in Montenegro. <https://tobacconomics.org/research/adult-tobacco-use-in-montenegro-report/> (2020).

3 MONSTAT. (2021). Survey on Income and Living Conditions (EU-SILC) 2020. Podgorica, Montenegro: Montenegro Statistical Office, Report No.: 169. [https://www.monstat.org/uploads/files/SILC/2020/RELEASE\\_Survey\\_on\\_Income\\_and\\_Living\\_Conditions\\_EU-SILC\\_2020.pdf](https://www.monstat.org/uploads/files/SILC/2020/RELEASE_Survey_on_Income_and_Living_Conditions_EU-SILC_2020.pdf)



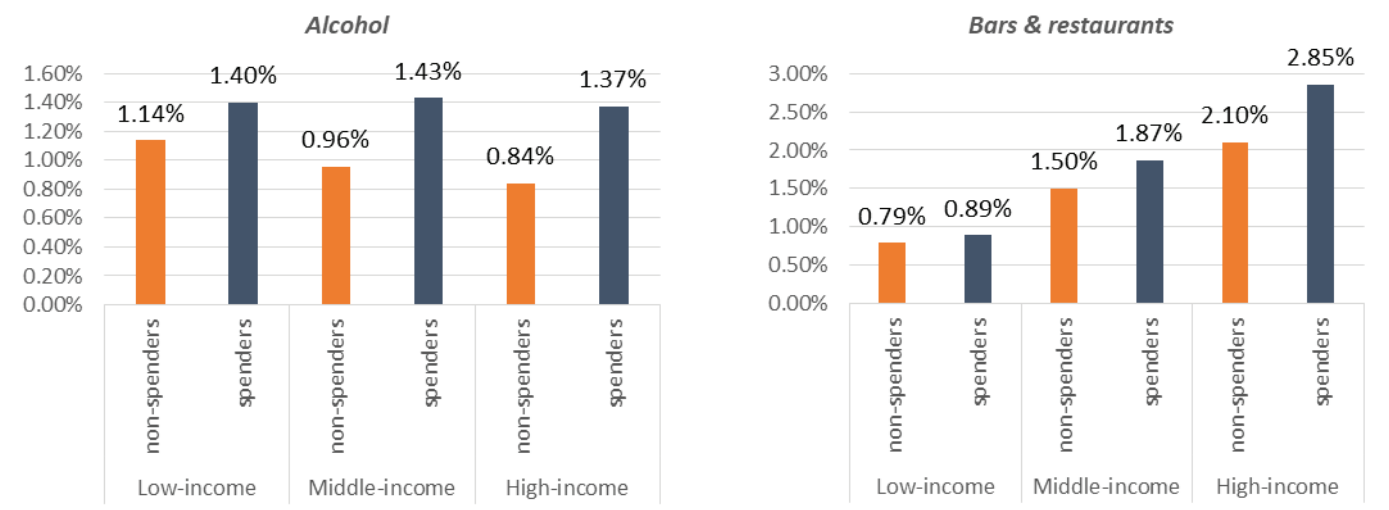
Source: Statistical Office of Montenegro, MONSTAT

Among households with smokers, those with low incomes spend the largest share of their budget on food (47.7 percent) in comparison to the other two income groups (34.5 percent for middle- and 27.0 percent high-income households with smokers), but they still spend less than low-income households without smokers (52 percent). The wealthiest smoking households allocate the largest share of their budget to housing and utilities (30.0 percent), compared to their poorest counterparts who allocate only 19.5 percent of their budget to this category.

## TOBACCO USE IS POSITIVELY CORRELATED WITH NON-HEALTHY CONSUMPTION

Tobacco use contributes to higher consumption of non-productive commodities, also known as a crowding-in effect. Across all income groups, smoking households allocate relatively larger shares of their budgets to alcohol and bars than non-smoking households (Figure 2). Tobacco expenditure also has a positive effect on spending on coffee and sugary drinks, which generates negative impacts on nutrition and healthy lifestyles, consistent with previous research findings.

Figure 3. Household expenditures on alcohol and bars and restaurants, tobacco spenders vs. non-spenders



Source: Statistical Office of Montenegro, MONSTAT

## POLICY RECOMMENDATIONS

- ▶ Strengthen the implementation of tobacco control policies to reduce tobacco use. These reductions would enhance household- and population-level well-being, especially for the most economically vulnerable groups of society.
- ▶ Significantly increase tobacco excise taxes in order to raise prices, which is the single most effective and most cost-effective measure for reducing tobacco use.
- ▶ Allocate tobacco tax revenues to programs that encourage human capital development, such as health care (including smoking cessation) and education on the harms of tobacco use.

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