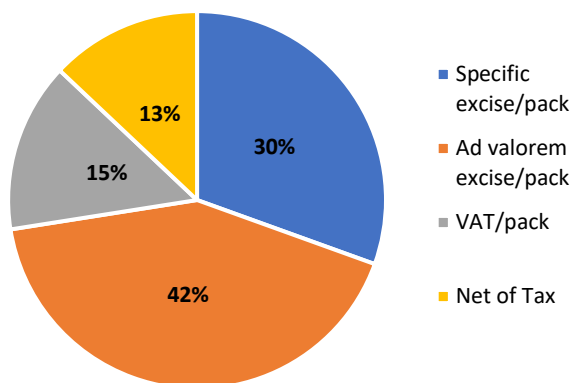


**Structure of the Retail Sales Price,
average 2023-2025 Net of tax**



Smoking prevalence. BiH ranks 11th globally among countries with the highest smoking prevalence. In 2019, 41 percent of adults were smokers, and 60 percent of those smokers began smoking daily between the ages of 18 and 24. Additionally, almost half of current daily smokers smoke more than 20 cigarettes per day.¹

Tax structure. Tobacco tax in BiH consists of an ad valorem tax (42 percent of the retail price) and a specific excise tax (0.84 EUR per pack of 20 cigarettes since 2019). After its introduction in 2009, the specific excise tax was increased by 0.077 EUR per year per pack until 2019. However, as of 2020, policy makers in BiH decided to stop the increase of the specific excise tax, arguing they reached the excise burden threshold of 90 EUR per 1000 sticks. In addition, the Law on Value-Added Tax in BiH has a standard tax rate of 17 percent.

Impacts of tobacco tax increases on tax revenues

Despite reaching the European Union’s (EU) excise burden threshold, the tax burden in BiH remains lower than the EU average. There is substantial room for improvement in the country’s tax policy, as cigarettes are significantly cheaper in BiH compared to the rest of Europe.

An annual increase of 15 percent in the specific excise for 2024 and 2025 is estimated to result in a total increase in excise revenue between **86 and 97 million BAM, on average, annually**. This would also lead to an increase in total tax revenue between 101 and 114 million BAM, on average, annually. As a result of the increased excise, there would be an estimated average annual price increase of 11.3–11.56 percent and the number of cigarette packs sold would decrease by 1.8–1.9 percent on average, annually.

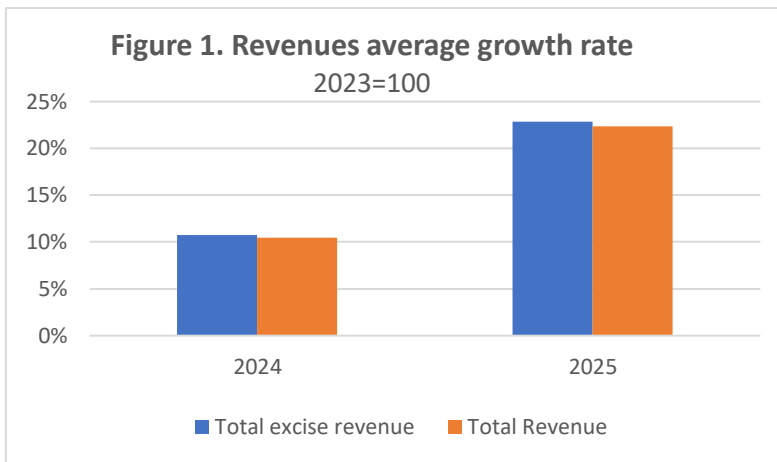


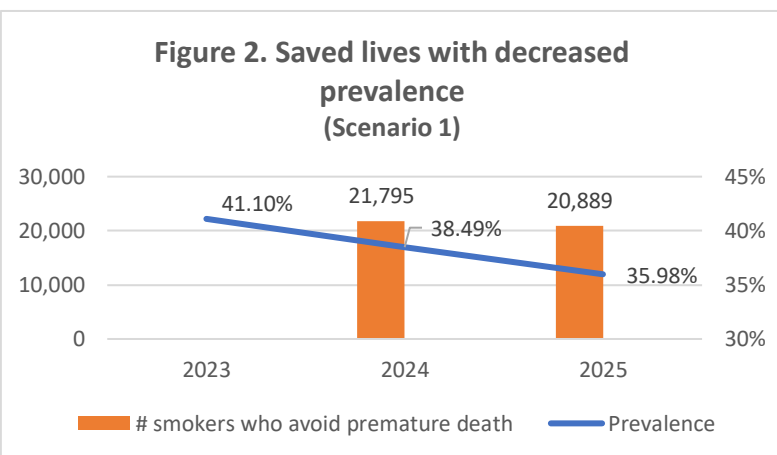
Table 1. Average annual growth rate

	Total excise revenue	Total revenue	Quantities of packs sold	Prices
2024	10.74%	10.48%	-1.85%	11.30%
2025	10.94%	10.71%	-1.82%	11.56%

Source: Borović, Z., Mičić, Lj., Gligorić, D., & Preradović Kulovac, D. (2022). *Bosnia and Herzegovina tobacco excise tax modeling*. Banja Luka: University of Banja Luka.

Impacts of tobacco tax increases on health

By 2025, the overall prevalence rate for adult smokers would drop from the current 41.1 percent to an average of 37.4 percent as a result of the specific excise 15-percent annual increase. In addition, a sizable number of smokers would avoid premature death, saving between 10,748 and 21,342 lives per year on average, depending on the scenario considered for the particular excise tax increase.



WHY IS IT IMPORTANT TO ESTIMATE THE IMPACTS OF TOBACCO TAX INCREASES ON TAX REVENUES AND ON PUBLIC HEALTH?

The University of Banja Luka's study² provides comprehensive estimations of the impacts of tobacco tax increases on tax revenues and on public health. The main reason for stopping future increases in the specific excise, as stated by policy makers in BiH, was that they had achieved the EU excise burden threshold of 90 EUR per 1000 sticks. Nonetheless, cigarettes in BiH are much cheaper than in the EU. The main reason was the fear that policy makers may have that the further tax increases would lead to a decrease in government revenues from indirect taxes. The analysis provides important support for evidence-based tax policy making. The results of the study show that an increase in the specific excise would lead to an increase in government revenues from indirect taxes, as well as a decrease in smoking prevalence, which would also lead to an increase in the number of smokers who avoid premature death.

STUDY METHODOLOGY

Based on existing data on legal cigarette sales and the tax structure, the study uses tobacco tax simulation modeling to estimate revenue changes and impacts on public health. The baseline year for the analysis is 2023, with forecasts for the period 2024–2025. Estimations of the increased excise tax's impacts on government revenues are conducted by applying different scenarios regarding price and income elasticities on different price segments. The study analyzes the impacts of the increased prices on public health through the decreases in prevalence, number of smokers, and premature deaths.

POLICY RECOMMENDATIONS

Based on the findings of this research, the following recommendations are offered:

- The government should stop viewing the tobacco excise tax as only a source of revenue and but also use it to decrease tobacco use. **Some of the revenues collected should be directed towards public health initiatives, including tobacco control.**
- An annual increase of the tobacco excise tax would decrease consumption of tobacco and exposure to secondhand smoke, encourage smoking cessation, and discourage smoking initiation.
- The government should **enhance the implementation of other tobacco control measures**, such as enforcing smoke-free areas in public spaces, utilizing the influence of mass media and social platforms to warn about the harms of tobacco use, and expanding the use of visual health warnings.
- The government should **mandate the recording of smoking status in the health file of every patient**, so the relationship between smoking and premature death and its harmful influence can become more clear.
- The government should work towards further increasing the tobacco excise tax to decrease the prevalence of smoking, leading to a **reduction in premature deaths** among smokers.

Acknowledgments

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¹ Mičić, Lj., Vukojević, B., Pepić, A., Preradović, D., & Gligorić, D. (2020). *Tobacco consumption in Bosnia and Herzegovina, 2019*. Banja Luka: University of Banja Luka

² Borović, Z., Mičić, Lj., Gligorić, D., & Preradović Kulovac, D. (2023). *Bosnia and Herzegovina tobacco excise tax modeling*. Banja Luka: University of Banja Luka.