

Cigarette Tax Scorecard: Spotlight on Southeastern Europe

Key Messages

- In the third edition of the Tobacconomics Cigarette Tax Scorecard, the average score in Albania, Bosnia and Herzegovina, Bulgaria, Montenegro, North Macedonia, Romania, and Serbia was 2.84 out of 5 possible points in 2022. Although this was higher than the global average of 1.99, the high adult prevalence of tobacco smoking in the region at around 33 percent requires further action to strengthen cigarette tax policies.
- Of the four components used to calculate the overall score in the Scorecard, these countries in Southeastern Europe performed very well on tax structure, with an average score of 4.14 points.
- At the same time, cigarettes are still relatively affordable. These countries would benefit from reducing the affordability of cigarettes as the average score in the change in affordability component was just 0.43 points out of 5.
- Of the selected countries, North Macedonia scored the highest with an overall score of 3.63, while Serbia scored the lowest with 2.5 points out of 5.

Introduction

The Tobacconomics Cigarette Tax Scorecard evaluates countries' cigarette tax systems based on a five-point rating system that incorporates international guidance and best practices in tobacco taxation. The five-point index uses data from the World Health Organization to score countries on the following four components: cigarette price, changes in the affordability of cigarettes over time, the share of taxes in retail cigarette prices, and the structure of cigarette taxes. The total score reflects an average of the four component scores.

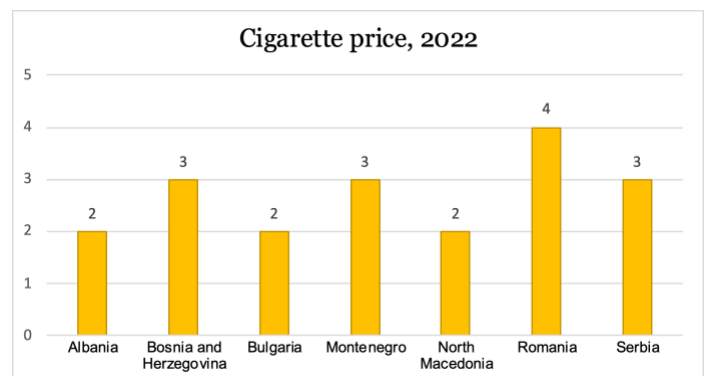
Although these seven countries in Southeastern Europe scored relatively high compared to other regions in 2022, smoking prevalence remains high at around 33 percent. Improving cigarette tax policies would decrease prevalence, while raising additional tax revenues for governments.

Country Findings

Cigarette Price

Price is a key determinant of cigarette use—as the price increases, demand decreases. Countries with cigarette prices of at least \$Int'l 10 received the highest score of 5.

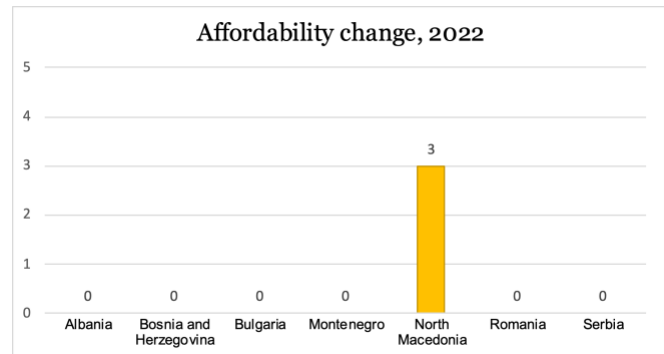
In 2022, the average score in the countries for this component is 2.71 points out of 5. Romania scored the highest, while Albania, Bulgaria and North Macedonia lagged behind their neighboring countries.



Change in Cigarette Affordability

To reduce demand, cigarettes must become less affordable. As cigarettes become less affordable, consumers buy fewer and many stop buying them altogether. As part of this effort, at a minimum, cigarette taxes must be updated for inflation and income growth, but better still, tax increases should outpace inflation and growth.

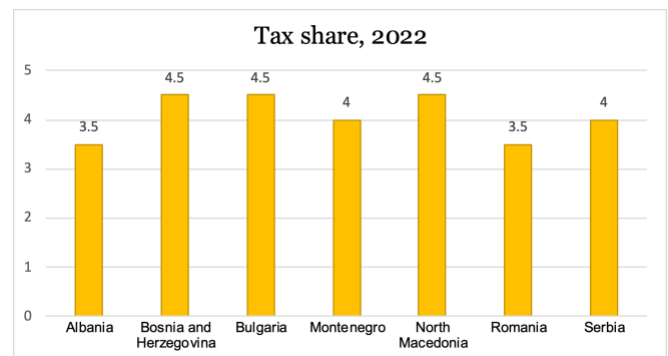
The average score of these SEE countries was only 0.43 out of 5 in this component. North Macedonia scored the highest with 3 points, while the rest of the countries in the region received scores of 0 out of 5.



Tax Share

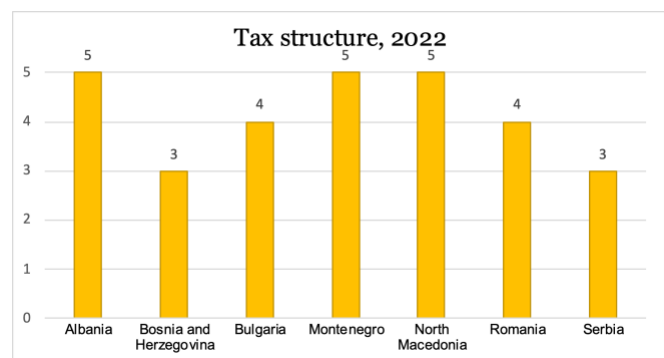
High tax share of price is a strong indicator of effective tobacco taxation and is essential to raise government tax revenues from cigarettes.

These seven SEE countries scored well in the tax share component in 2022, with an average of 4.07 points out of 5. Albania and Romania need to increase taxes so their tax shares of price will catch up to the other countries in the region and increase government earnings.



Tax Structure

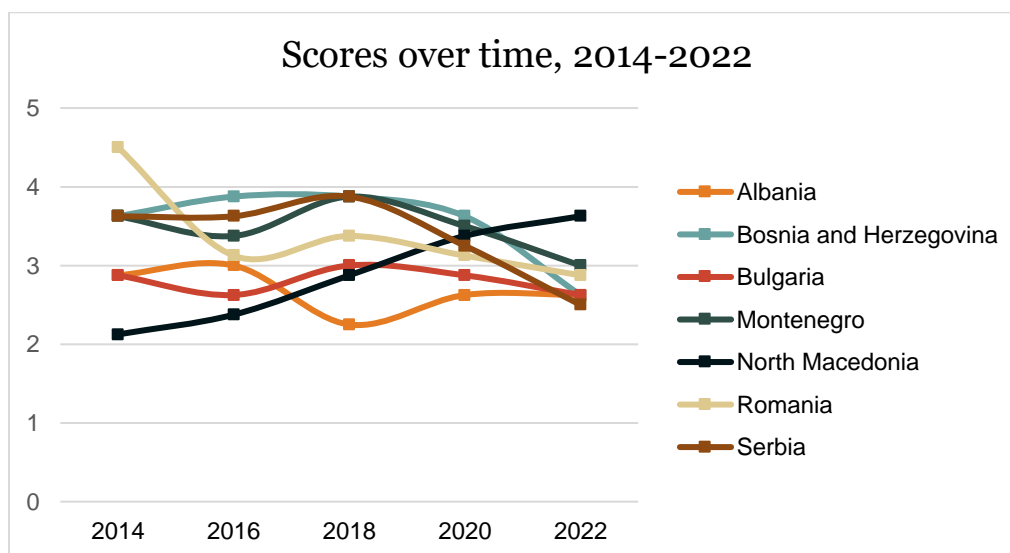
Tax structures vary in their effectiveness when it comes to reducing tobacco use and collecting tax revenues. Uniform specific excise tax systems that at least adjust annually for inflation are generally the most effective and easiest to administer. In addition, mixed excise taxes with a greater tax share for the specific component in addition to a minimum tax, an automatic adjustment to the specific tax component, and the use of the retail price as the base for the ad valorem tax component are also optimal.



The average score among these countries was 4.14 out of 5. Bosnia and Herzegovina, and Serbia continue to rely too heavily on ad valorem taxes. Bulgaria and Romania do not implement automatic adjustments to the specific tax component annually.

Scores Over Time

Between 2014 and 2022, the selected Southeastern European countries have experienced variation in the effectiveness of their cigarette tax policies. North Macedonia's score has consistently increased, while Albania modestly improved their score between 2018 and 2022. Bosnia and Herzegovina, Montenegro, Serbia, and Romania's scores decreased in 2020 and 2022, despite showing improvement between 2016 and 2018. This is largely due to stagnating progress in reducing the affordability of cigarettes, in addition to a reduction in tax share of price in Bulgaria and weakening of the tax structure in Bosnia and Herzegovina, and Serbia.



Policy Implications and Recommendations

In summary, the following cigarette tax policy improvements are recommended as concrete next steps to reduce the high smoking prevalence in these seven countries, while continuing to increase tax revenues for their governments:

- Albania should increase taxes to raise the price of cigarettes from the current average price of 270.00 ALL per pack to at least 414.71 ALL, which will help to increase the tax share of price and significantly reduce affordability.
- Bosnia and Herzegovina should raise their specific excise tax on cigarettes to increase the weight of the specific component in the tax structure. An initial goal would be to increase the specific excise tax enough to move the price of cigarettes to at least 7.27 BAM. This will help to reduce the affordability of cigarettes.

- Bulgaria should raise excise taxes enough to increase the price of cigarettes to at least 8.18 BGN per pack, significantly reducing the affordability of cigarettes. Automatic adjustments of the tax beyond inflation and income growth would reduce the affordability of cigarettes over time.
- Montenegro should raise taxes enough to increase the price of cigarettes to at least 3.69 EUR, which will help to increase the tax share of price and significantly reduce affordability.
- North Macedonia should raise excise taxes enough to significantly increase the price of cigarettes from the current average price of 115.79 MKD to at least 206.78 MKD, further reducing their affordability.
- Romania should increase excise taxes to raise the tax share of price and significantly reduce the affordability of cigarettes. Although Romania scored high in the cigarette price component with the average pack of cigarettes priced at 23.50 RON per pack, cigarettes are still very affordable mostly because of rapid income growth. Automatic adjustments of the tax beyond inflation and income growth would reduce the affordability of cigarettes over time.
- Serbia should raise their specific excise tax to increase the weight of the specific component in the tax structure and to help increase the price of cigarettes from the current average price of 320.00 RSD to at least 437.01 RSD. This will greatly reduce the affordability of cigarettes.