

# ACCELERATING PROGRESS ON EFFECTIVE TOBACCO TAX POLICIES IN KOSOVO

## INTRODUCTION

The implementation of an effective tobacco taxation policy in Kosovo is, to a large extent, limited by a lack of available and reliable empirical evidence on the socio-economic impact of taxation, which is driven by data availability. The research evidence presented in this brief represents the first empirical evidence on the impacts of tobacco taxation policy on tobacco consumption in Kosovo.

Kosovo is a country with a high smoking prevalence. The Government of Kosovo has adopted tobacco control-related laws in line with the World Health Organization Framework Convention on Tobacco Control (WHO FCTC) and the EU regulations and directives. However, there is a lack of implementation of the laws and monitoring mechanisms, and this is a systemic problem that needs to be addressed. The

primary institutions in charge of tobacco-related policy making and implementation in Kosovo are the Ministry of Health and the Ministry of Finance. The Ministry of Finance drafts policies and other regulations related to tobacco taxations, while the Ministry of Health focuses on policies with the aim of the public health protection from tobacco use.

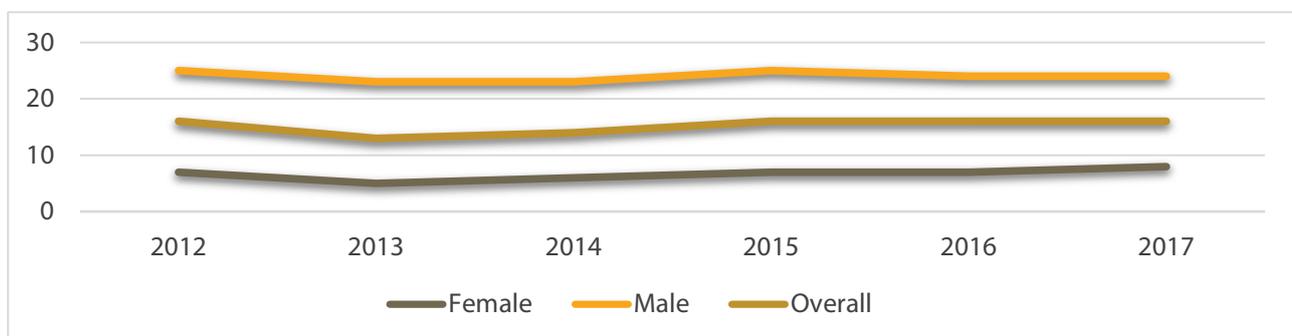
The research conducted by the Center for Political Courage (CPC) confirms that revising the current taxation policy could bring numerous positive effects resulting from a reduction in tobacco consumption. CPC estimates that a 10% increase in the cigarette retail price – from an increased excise tax– shall be followed by a 6.9% decrease in consumption in the long run and 3.3% in the short run, while increasing excise revenues between 6.1% and 6.7%.

## USE OF TOBACCO PRODUCTS IN KOSOVO

According to official data from the Kosovo Agency of Statistics, smoking prevalence has been relatively stable over the years (2012-2017), ranging from 13 to 16%. Prevalence is significantly

higher among men (25% on average), than among women (7% on average) (Graph 1).

Graph 1: Smoking prevalence rates (in %) 2012-2017

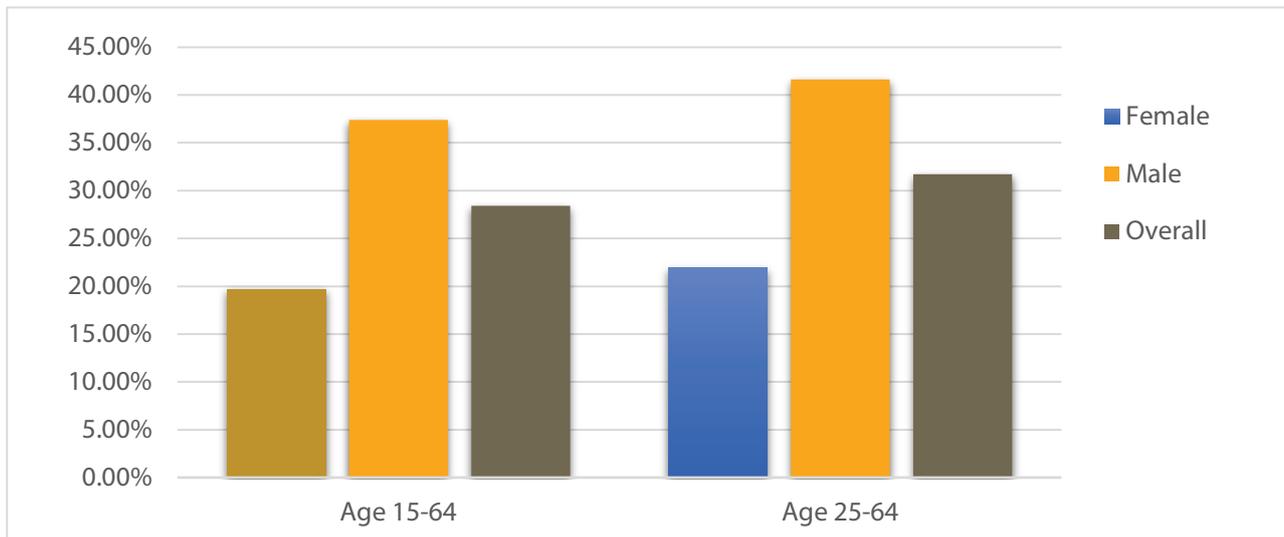


Source: Kosovo Agency of Statistics, Household Budget Survey

Results of the study “Smoking Behaviors in Kosovo: Results of Steps Survey”(Graph 2) are dramatically different, stating the smoking prevalence in Kosovo to be around 28.4% among adults aged 15 to 64. The survey also finds that the prevalence is higher among men (37.4%) than among women (19.7%).

Smoking prevalence among young adults (15 - 24 years of age) is estimated at around 16.0%, while that among 25 to 34-year olds it is around 31.9%. Smoking prevalence is higher in households with lower education.

**Graph 2:** Smoking prevalence by gender and age group



Source: Data generated from Sanije Gashi, et al. (2016): Smoking behaviours in Kosovo: Results of Steps Survey

While the retail price of a pack of cigarettes in Kosovo has increased in the past, it remains quite low and among the lowest compared to other Western Balkan (WB) countries. Indeed, according to the data provided by the IES (2018) , the price for a pack of Marlboro Red is cheaper only in Macedonia

(2.2€ compared to 2.5€ in Kosovo), while in other countries such as Albania, Bosnia and Herzegovina, and Serbia the prices are relatively higher (2.6€, 2.6€, 2.7€, respectively). The WB countries with the highest prices of a pack of Marlboro Red are Montenegro and Croatia with 3.0€ and 3.8€, respectively.

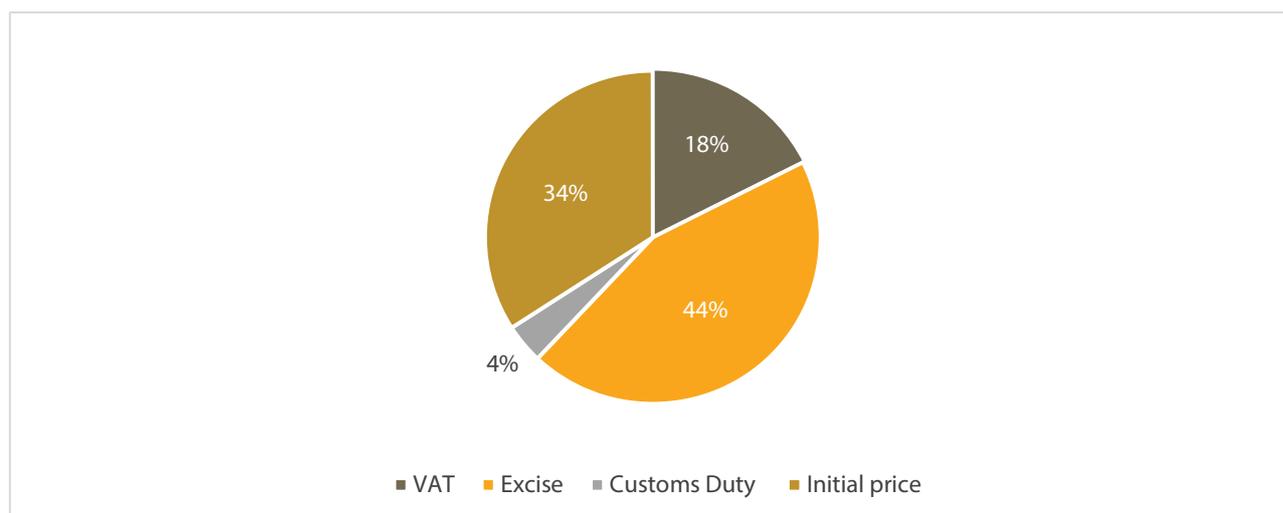
## TAXATION OF TOBACCO PRODUCTS

Tobacco products in Kosovo are subject to three kinds of taxes: Excise Tax (specific rate of 47€ per 1,000 cigarettes); Value Added Tax (18%); and Customs Duty. Standard customs duty is 10%, except for Serbia and Montenegro (0%) and Albania and Macedonia (1%).

Within the excise tax policy, Kosovo applies only specific excise taxes, which are gradually increasing in accordance with the Prime Minister’s decision related to the Excise on Tobacco Products. Excise on tobacco per unit (1,000 cigarettes) for

the period 2016-2019 will increase each year by 2€, currently amounting to 47€. As shown in the Graph 3, for the most sold brand of cigarettes, excise and the overall tax burden account for 44% and 66% of the retail price respectively. According to the WHO benchmark, 70% of the retail price of a pack of cigarettes should be excise taxes. That is much higher when compared to the excise currently applied in Kosovo, showing that there is significant space for a tax increase. Moreover, there is no road map for going forward after the expiration of the current regulation.

**Graph 3.** Proportion of taxes in the retail price of the most sold cigarette brand



Source: Estimated data from Harmonized Price Indices, Kosovo Agency of Statistics, and taking into consideration current applicable taxation on tobacco products as explained above.

## EVIDENCE BASED FINDINGS ON TOBACCO TAXATION IN KOSOVO

The Kosovo government's policy of gradually increasing the tobacco excise tax every year for 2€ per unit, has not resulted in a significant drop of consumption. Therefore, considerable further increases in tobacco taxes are needed to produce tangible effects, especially in the long run. Research conducted by the CPC suggests that although positive effects of the excise increase on both public finance and public health are evident, the estimated magnitude varies depending on the applied methodology, which is in line with the expectations and with the international evidence. Analysis conducted by using the Household Budget

Survey (HBS) data from 2007 to 2017 confirms favourable impact of the price increase on the government budget revenues. If prices increase by 10%, the demand for cigarettes would decrease by 2.8%. That would influence excise revenue to grow by 6.7%. Using the annual time-series data, the research results suggest that the price elasticity of -0.3 in the short run, and -0.7 in the long run, which means that a 10% increase in prices would reduce consumption by 3.3% in the short run and 6.9% in the long run.

## CONCLUSIONS AND RECOMMENDATIONS

Given the 2015 Decision from the Government of Kosovo to increase excise by 2€ per 1,000 cigarettes every year only until 2019, cigarette prices will not significantly change in the near future. Additionally, it is still not clear what the government's policy on excise after 2019 will be. If the tax policy is not changed, it is not reasonable to expect any decrease in consumption or have an increase in fiscal revenues.

The current share of the excise amounting to 44% of the most sold brand retail price is far below the EU and WHO recommendations. The research conducted by CPC shows

that there is room for a significant increase in prices through higher taxes, which would also be very effective in reducing consumption. Moreover, the improvement of monitoring and enforcing tax administration would further increase this impact. Additional revenue collected from the tax increases could be earmarked to healthcare spending focused on treating tobacco attributable diseases. It is important to note that effective policy making requires the availability of empirical evidence, which requires publicly available and reliable tobacco control data currently missing in Kosovo.

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