

HIGHER TOBACCO TAXES FOR BETTER HEALTH AND REVENUE OUTCOMES IN KOSOVO

Tobacco use causes 8 million deaths every year around the globe¹ and spending on tobacco products diverts household resources from other needs such as education and healthcare.² Kosovo has adopted several laws to control and reduce tobacco consumption including the Law on Excise on Tobacco Products,³ the Law on Production⁴, Collection, Processing and Trading of Tobacco, and most recently, the Law on Tobacco Control⁵. The latter is in line with Article 5 of the World Health Organization Framework Convention on Tobacco Control⁶ which suggests multiple strategies to control tobacco consumption.

Smoking prevalence in Kosovo is very high.

Data on smoking prevalence in Kosovo shows a different picture depending on the source. While the Kosovo Statistics Agency reports smoking prevalence of 16 percent for 2015-2017,⁷ data from STEPS survey in 2011 reported smoking prevalence of 19.7 percent for people 15-64 years old, and 28.4 percent for the overall population.⁸ However, the Household Budget Surveys from 2007-2017 report that on average, more than 40 percent of households consume cigarettes (Figure 1).

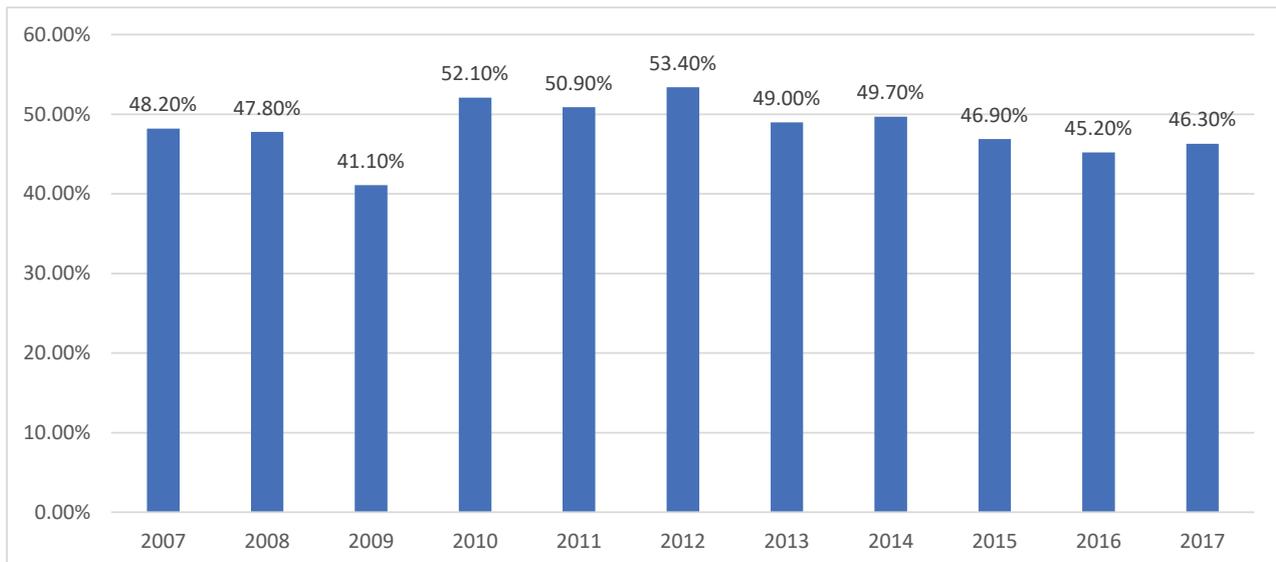


Figure 1. Smoking prevalence among households by year

Source: Authors' calculations from HBS data (Kosovo Agency of Statistics) 2007-2017

¹ World Health Organization. (2019, July 26). Tobacco. Retrieved November 8, 2019, from <http://bit.ly/2JYPs1W>

² Chaloupka FJ and Blecher E. Tobacco & Poverty: Tobacco Use Makes the Poor Poorer; Tobacco Tax Increases Can Change That. A Tobaccconomics Policy Brief. Chicago, IL: Tobaccconomics, Health Policy Center, Institute for Health Research and Policy, University of Illinois at Chicago, 2018. www.tobaccconomics.org

³ Official Gazette LAW NO. 04/L-021 ON EXCISE ON TOBACCO PRODUCTS. Retrieved November 21, 2019, from <http://bit.ly/33dCioN>

⁴ Official Gazette LAW NO. 04/L-041 ON PRODUCTION, COLLECTION, PROCESSING AND TRADING OF TOBACCO. Retrieved November 21, 2019, from <http://bit.ly/339QPSi>

⁵ Official Gazette LAW No. 04/L-156 ON TOBACCO CONTROL. Retrieved November 21, 2019, from <http://bit.ly/33emnqg>

⁶ WHO Framework Convention on Tobacco Control <http://bit.ly/Worldhofc>

⁷ Kosovo Agency of Statistics: Results from the Household Budget Survey, 2017, p. 12, at: <https://bit.ly/2V9OTGa>

⁸ Gashi. Sanije, et al.: Smoking behaviours in Kosova: Results of Steps Survey, 2016, at: <https://bit.ly/2VbLEOC>

Higher prices reduce cigarette consumption in Kosovo.

According to the results in this research, smoking prevalence, or the decision to smoke cigarettes or not, does not seem to be impacted by price in Kosovo. However, smoking intensity, or the amount of cigarettes consumed, does respond to price changes. A 10 percent price increase would, on average, result in 3.9 percent lower consumption of cigarettes. At the same time, a 10 percent increase in income would, on average increase consumption by 7.8 percent, as 2.1 of people who currently do

not smoke would start smoking, and those who do smoke would increase their consumption of cigarettes by 5.7 percent.

While the average price of cigarettes has been increasing, it is still very low.

In year 2007 the average price per one pack of cigarettes was EUR 1.04, while in 2017 it increased to only EUR 1.53 per pack. With such low prices it is not surprising that smoking prevalence has not declined during this period.

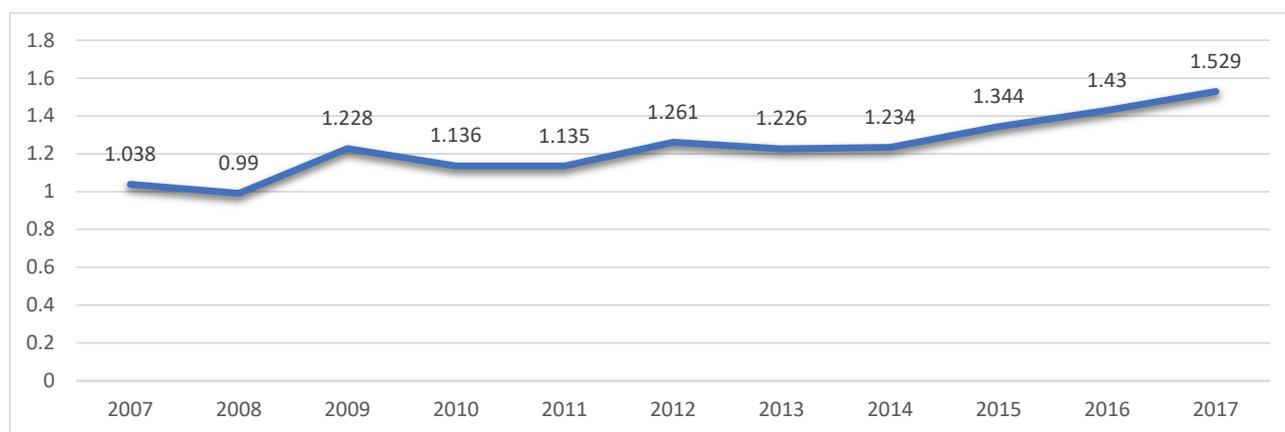


Figure 2. Average price of cigarettes¹ in EUR

¹ Deflated by CPI to 2007 values; Proxied with unit value (ratio of household cigarette expenditures over the cigarette quantity)
Source: Authors' calculations from HBS data (Kosovo Agency of Statistics) 2007-2017

Low- and middle-income households are very responsive to changes in price and could, therefore, benefit significantly from higher prices.

Low- and middle-income households would reduce consumption of cigarettes by 5.3 and 6.3 percent, respectively, if prices increased by 10

percent, while high-income households do not seem to be responsive to change in price. At the same time, a 10 percent increase in income would increase consumption in the low-, middle-, and high-income group by 6.7, 8.9, and 6.2 percent, respectively (Table 1).

Table 1. Price and income elasticity by income groups

	Low-income Households		Middle-income households		High-income households	
Prevalence elasticity						
Price	-0.658	(0.909)	0.004	(1.074)	0.467	(1.233)
Income	0.097	(0.088)	0.266***	(0.318)	0.213***	(0.074)
Conditional demand						
Price	-0.532**	(0.217)	-0.630**	(0.254)	-0.294	(0.486)
Income	0.668***	(0.090)	0.626***	(0.123)	0.405***	(0.056)

Source: Author's calculation from HBS data

Higher prices of cigarettes would reduce consumption as well as generate significant additional government revenue.

Table 2 shows that a 25 percent price increase, through increasing excise tariffs per unit by around 48 percent, or from EUR 43 (baseline 2017) to EUR 63.6, would decrease cigarette consumption by 11.1 percent. Low- and middle-income households

would benefit the most from the price increase with 16.3 and 18.4 percent reduced consumption, respectively. At the same time, government would collect around 25 percent of additional revenues, or around 42 million euros.

Table 2. Projected impact of 25 percent price increase on consumption and government revenue

Income group	Consumption (packs)			Revenues (EUR)		
	Baseline ¹	Scenario ¹	Change	Baseline ²	Scenario ²	Change
Low	46.0	38.5	-16.3%	€ 53.2	€ 63.2	18.9%
Middle	47.2	38.5	-18.4%	€ 54.6	€ 63.2	15.9%
High	45.5	46.4	1.7%	€ 52.7	€ 76.1	44.4%
TOTAL	138.8	123.5	-11.1%	€ 160.5	€ 202.6	26.2%

¹ In million packs; ² In million euros

Source: Author's calculation from HBS data

Table 2 shows that a 25 percent increase in price, will decrease cigarette consumption in total by 11.1 percent. The table also shows the effect of a price increase on tobacco consumption among different income groups. The results indicate that the middle-income group benefits the most from the price increase, as the consumption drops by 18.4 percent. Consumption of cigarettes for low-income households also decreases by 16.3 percent, while high-income households react differently, as they increase their cigarette consumption by 1.7 percent.

The simulation also accounts for increases in government revenue, suggesting that an increase in price by 25.0 percent would increase total revenues by 26.2 percent or 42 million euros. The highest additional revenues would be collected from the high-income group (44.4 percent), suggesting that this policy change would increase progressivity of the tax system.

In general, the simulation illustrates the effectiveness and progressivity of a 25 percent price increase both overall and within the three income

groups because government revenues are increased and cigarette consumption is reduced among low- and middle-income households.

Conclusion and Policy recommendations

Increasing tobacco excise and prices remains the single most effective policy in reducing tobacco demand. The specific excise rate for year 2019 of 47 EUR per conventional unit is half of the European Union directive minimum rate for tobacco excise duty of 90 EUR per unit.⁹ Until now, legislative policies and initiatives in Kosovo have not resulted in changes in demand for cigarettes. Results show that increasing the price per pack of cigarettes has a direct impact on decreasing the demand for consumption of cigarettes and, as a result, increasing government revenues. Thus, the government of Kosovo could contribute to improved health and wellbeing of its citizens by increasing the specific excise tax on cigarettes for the year 2020 from EUR 47 to EUR 69.5 per 1000 sticks, and at the same time, generate significant and much needed additional budget revenues in a progressive manner.

⁹ European Union Commission, at: <https://bit.ly/2FOrDrY>

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About the project

Democracy Plus is working in cooperation with the Institute of Economic Sciences from Belgrade, which is coordinating a regional network of researchers in Southeastern Europe on tobacco taxation. The project is funded by the University of Illinois at Chicago's (UIC) Institute for Health Research and Policy to conduct economic research on tobacco taxation in Kosovo. 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.