



DEMOCRACYPLUS

Higher tobacco taxes for better health and revenue outcomes in Kosovo

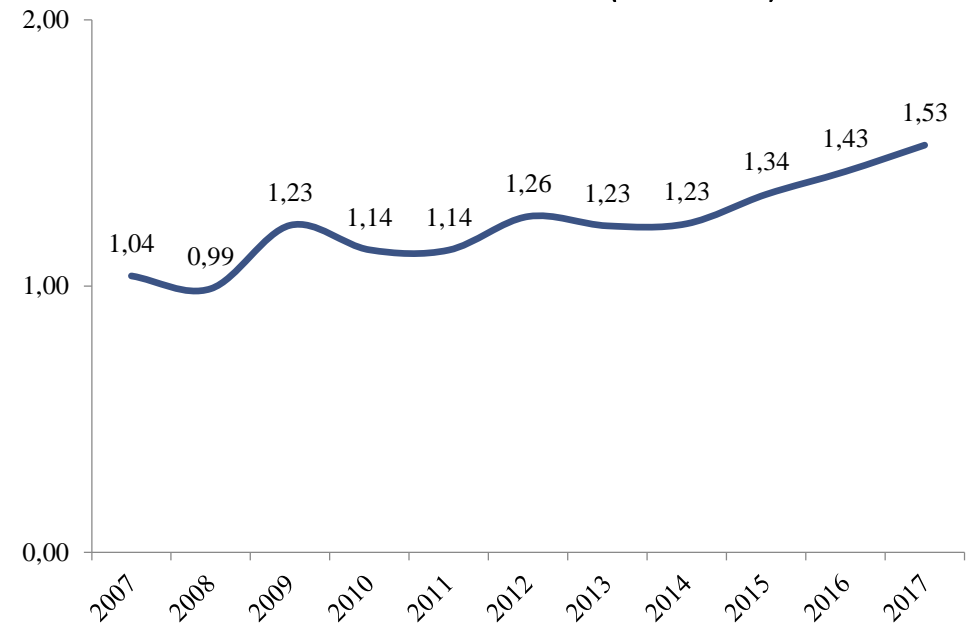
Authors: Besnik Prekazi and Erëza Pula

Descriptive Statistics

Smoking prevalence (% of households)

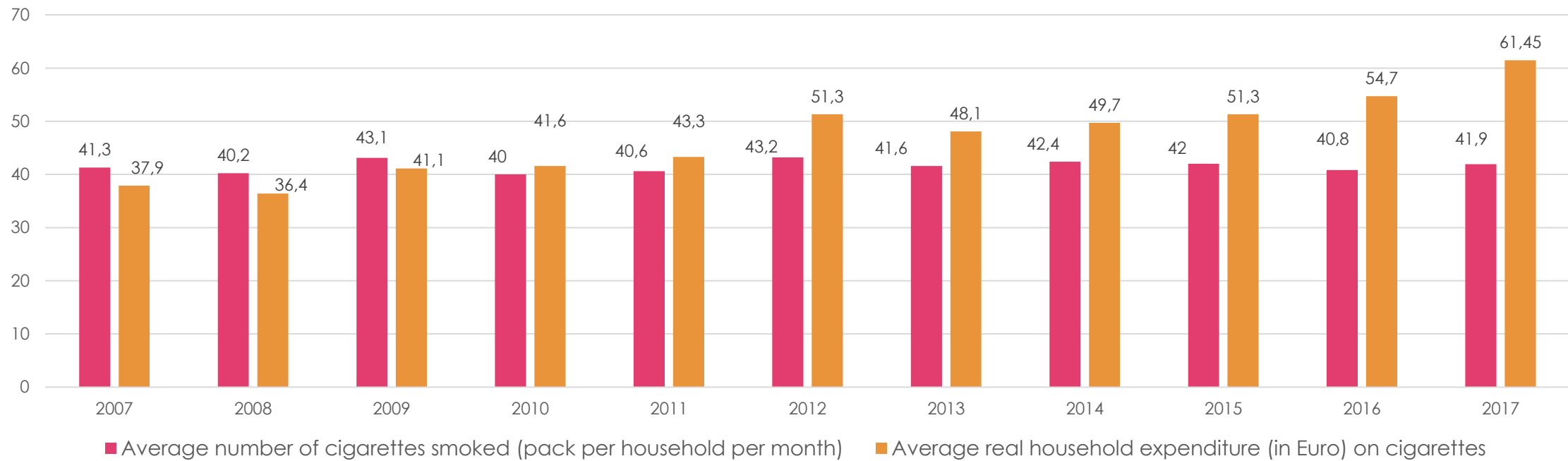


Price in EURO (2007=100)



Descriptive Statistics

Consumption and Expenditure of/on cigarettes per household



Metodology

2PM Model

Angus Deaton

Different tests to check for the superiority of the models

Findings

- ▶ 2PM prevalence

MODEL 3		
Price	-0.123	(1.080)
Income	0.212***	(0.038)

- ▶ 2PM Intensity, level of consumption
- ▶ Model Deaton, intensity (superior model)

	Deaton model		Generalized Linear Model (GLM)	
			Model 3	
Price	-0.387***	(0.123)	-0.200**	(0.071)
Income	0.568***	(0.027)	0.195***	(0.019)

Analysis: three income groups

- ▶ The sample size divided in three groups: low, middle and high income
- ▶ Arguments pro & against tax increases
- ▶ Same methodology and models used: 2PM & Deaton
- ▶ Monthly average expenses and budget shares on cigarettes

Low income	Middle income	High Income
€466.5	€637.5	€806.9
8.9%	7.4%	6.6%

Smoking Prevalence



Smoking intensity



Findings: HH per income group

	Low income HH		Middle income HH		High income HH		Total Sample	
	Prevalence Elasticity							
Price	-0.658	(0.909)	0.004	(1.074)	0.467	(1.233)	-0.123	(1.080)
Income	0.097	(0.088)	0.266***	(0.318)	0.213***	(0.074)	0.212***	(0.038)
	Intensity Elasticity							
Price	-0.532**	(0.217)	-0.630**	(0.254)	-0.294	(0.486)	-0.387***	(0.123)
Income	0.668***	(0.090)	0.626***	(0.123)	0.405***	(0.056)	0.568***	(.0277)

Impact of price increase on consumption and government revenue



Total consumption of cigarettes according to the Kosovo Customs
(138.8 million packs)
VAT 18%,
Excise 43-euro per conventional unit (1000 cigarettes)
Weighted average price per pack of cigarettes (1.94 euro)
Consumption growth (1.8%)
Elasticity of price and income (from the analyses)



The effect of
price increase
of 25%, from
EUR 1.94 to EUR
2.42



Excise increase
from EUR 43 to
EUR 62.6 or
45.7% per
conventional
unit

Results

Income Group	CONSUMPTION (PACKS)			GOVT. REVENUES (EUR)		
	Baseline 2017	Scenario	Change	Baseline 2017	Scenario	Change
Low	46.0 mil	38.5 mil	-16.3%	€ 53.2 mil	€ 63.2 mil	18.9%
Middle	47.2 mil	38.5 mil	-18.4%	€ 54.5 mil	€ 63.2 mil	15.9%
High	45.5 mil	46.3 mil	1.7%	€ 52.7 mil	€ 86.1 mil	44.4%
TOTAL	138.8 mil	123.4 mil	-11.1%	€ 167.9 mil	€ 202.5 mil	26.2%

6 Key messages



Smoking prevalence in Kosovo is very high. HBS data show that more than 40 percent of households in Kosovo smoke cigarettes. During 2010-2012, the percentage of households that reported cigarette consumption was even more than 50 percent.



While the average price of cigarettes has been increasing, it is still very low. In 2007 the average price per pack of cigarettes was EUR 1.04, while by 2017 it had only increased to EUR 1.52 per pack. With such low prices it is not surprising that smoking prevalence has not declined during this period.



Higher prices of cigarettes could reduce consumption by reducing smoking intensity among people who smoke.

Although this study finds no evidence of an impact of a price change on smoking prevalence, a 10 percent increase in price would lead to a reduction of 3.9 percent in the quantity of cigarettes consumed by those who smoke.



Tobacco taxation policy is the most effective way to reduce tobacco consumption and should be considered as cornerstone in tobacco control. Until now, legislative policies and initiatives in Kosovo did not result in changes in demand for tobacco. However, the results of this study show that tax and price measures can be very effective in achieving both health and revenue objectives.



A price increase of 25 percent would not only reduce tobacco consumption but also bring additional government revenues. The simulation results suggest that an increase in the average market price per pack of cigarettes by 25 percent (from EUR 1.94 to EUR 2.42), which would result from a 47.8 percent specific excise tax increase, (from EUR 43 to EUR 63.6). This would reduce consumption by 11.1 percent and increase government revenues by around 26 percent, or additional revenues of approximately 42 million euros.



Low- and middle-income households would benefit the most, as a 25 percent price increase would reduce their cigarette consumption by 16.3 and 18.4 percent, respectively. Under the same assumptions going forward, the Kosovo Government should in 2020 increase specific excise to EUR 69.5 from EUR 47 in 2019.

Thank you!
