



Healthier and wealthier

Why taxing tobacco is important not only for health but
also for the economy?

Development Solutions Associates

Bloomberg Initiative to Reduce Tobacco Use

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Content of presentation



Context of Albania



Data and Descriptive Statistics



Two Part Model (TPM)

Prevalence Elasticity

Conditional Elasticity

Total Price and Income Elasticity



Price Elasticity by income group



Impact of price increase on consumption and government budget

Context of Albania (1/2)

- Albania has one of the highest smoking prevalence rates in the Western Balkans and Europe - every second male smokes, whereas female rates of smoking prevalence are smaller than high-HDI countries.
- More specifically, smoking prevalence rate is 29.2% for both genders in 2018 (Tobacco Atlas)
 - 51.2% among males compared to 44% in high-HDI countries
 - 7.6% for female compared to 26% in high-HDI countries
- Smoking is already the cause of many deaths, serious diseases and other health-related problems.
- The yearly costs of tobacco consumption to the Albanian economy are estimated at 270 million Euros.
- Household spending on cigarettes is also high: average monthly expenditures on cigarettes as percentage of monthly GDP per capita is over 1.8%.

Context of Albania (2/2)

- Only specific tax of 49 Euro per 1000 cigarettes (no ad-valorem tax), below the minimum average required by the EU of 90 Euro per 1000 cigarettes.
- The total tax burden on cigarettes stands around 66 percent of the retail selling price of a pack of 20 cigarettes. The excise burden is 35.8 percent (as of 2018).
- Low cigarette price (due to low taxation) 1 cigarette pack =1.37 Euro
- More than 15 years to reach this standard

Tobacco Tax Revenues over years

Figure 1: Tobacco tax revenue 2014-2018 (% of total tax revenues & GDP)

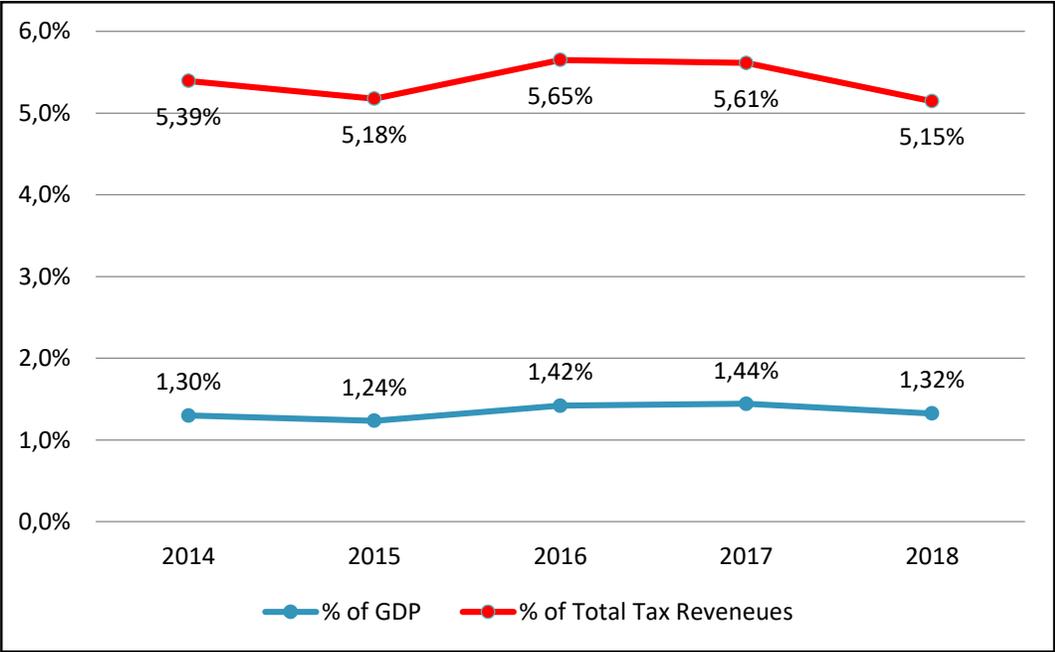
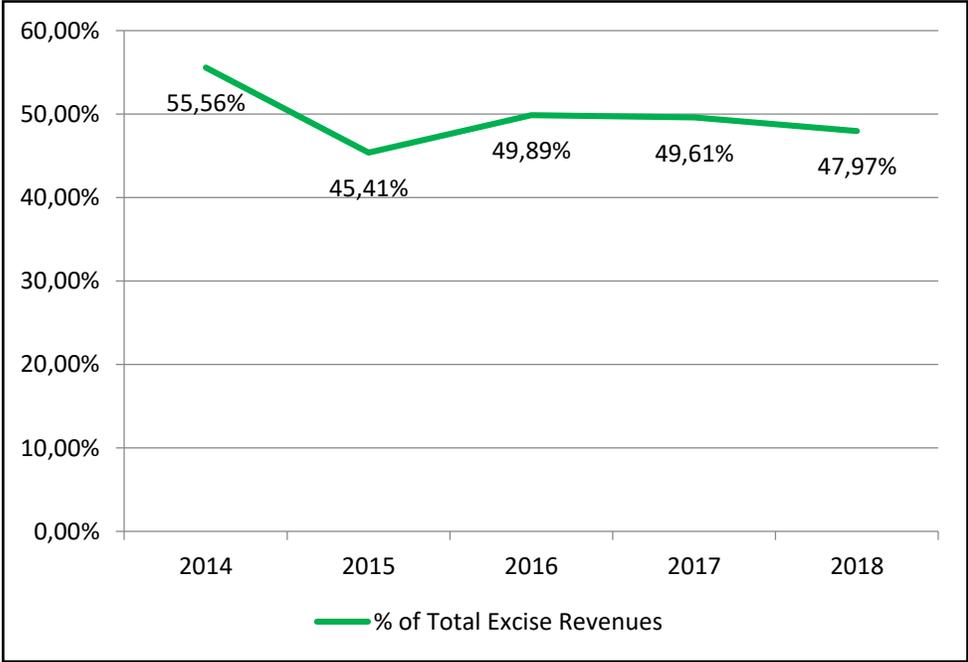


Figure 2: Tobacco tax revenue 2014-2018 (% of total excise revenues)



Source: Authors' own calculations based on data from Ministry of Finance and Economy (2018)

Objectives

- To estimate the price elasticity of demand for cigarettes and the effect of tax increases on the consumption of cigarettes and on tax revenue;
- Sociodemographic characteristics;
- Examine the effect of cigarette tax and price increases on: (1) smoking prevalence and (2) smoking intensity;
- Whether higher tobacco taxation, price, can significantly reduce consumption of cigarettes through reduced smoking prevalence and through lower smoking intensity of continued smokers;
- Two Part Model

Data and descriptive



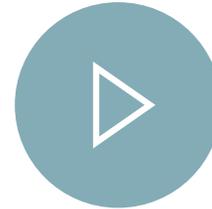
The Household Budget Survey as a pooled cross-sectional data from years 2014 to 2017.



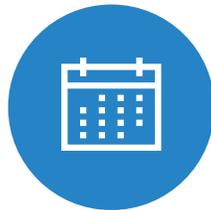
HBS is nationally representative (28,748 households over 4 years) – and covers urban and rural areas across the 12 prefectures of Albania.



Year 2014 with 6,542 observations



Year 2015 with 7,334 observations



Year 2016 with 7,353 observations



Year 2017 with 7,519 observations.

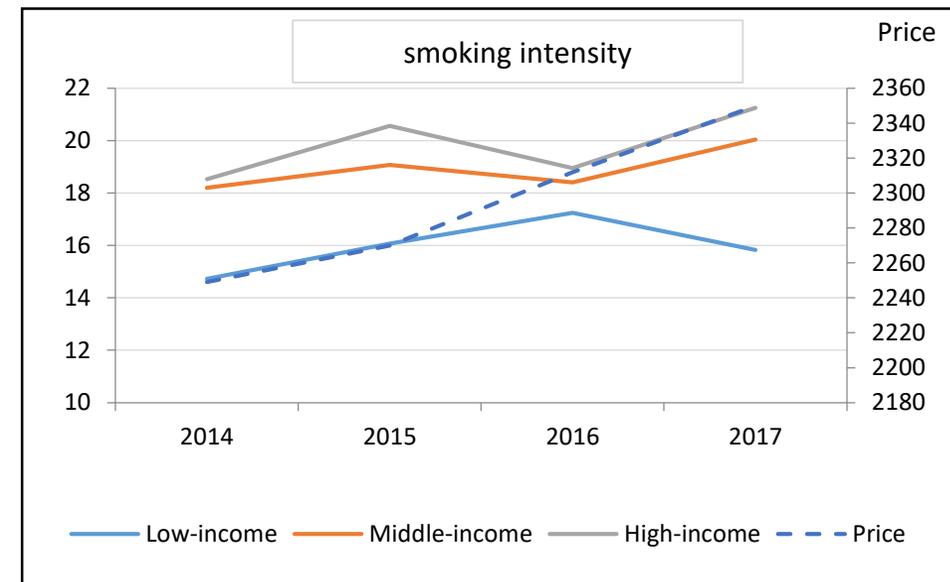
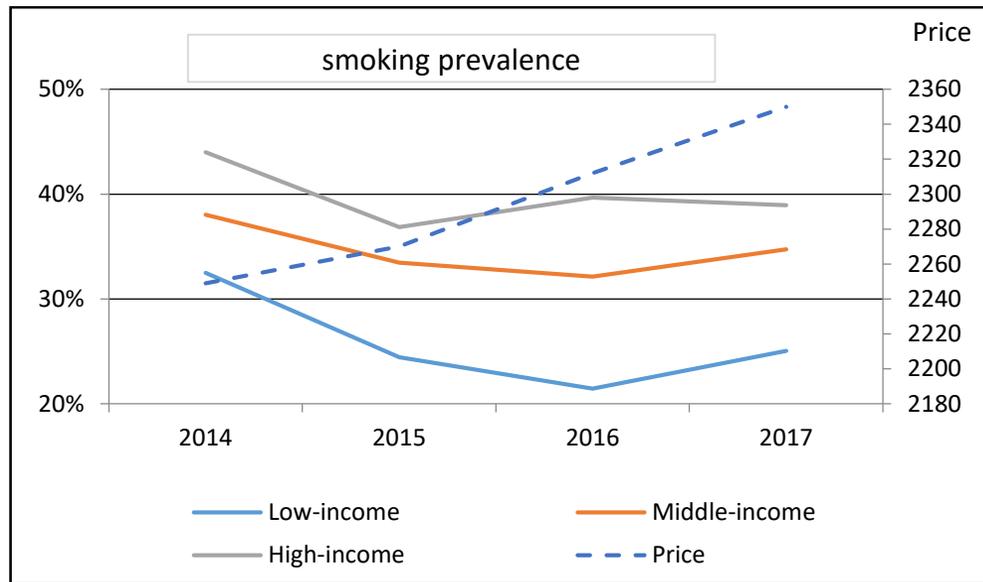
Cigarette consumption in Albania

Year	Smoking prevalence (% of households)	Average number of cigarettes smoked (pack per household) ¹	Average real household expenditure on cigarettes	Average price
2014	38.7	17.38	14,726.38	2,249.86
2015	31.6	18.95	13,843.73	2,270.08
2016	31.3	18.39	13,380.41	2,312.57
2017	31.7	19.46	15,212.12	2,350.65

Source: Institute of Statistics in Albania, HBS data, 2014-2017.

Note: Prices are expressed in old Albanian Leks, same as in HBS; 1 old Albanian Leks= 0.1 Albanian Leks. 1 Euro = 123 new ALL

Smoking prevalence and smoking intensity trends by income group



Law enforcement (which took place in (late) 2015, largely enforced in bigger towns such as Tirana) appears to have had an effect through 2015 and 2016.

The average monthly total household expenditure for the low-, middle-, and high-income group was is 4,920 ALL, 7,204 ALL, and 10,830 ALL, respectively.

The low-income group has the highest share of spending on cigarettes (7.6 percent), in comparison to middle- and high-income groups with 6.7 percent and 5.4 percent, respectively.

Elasticities by income groups

Low-income HH more price elastic than middle- and high-income HH

Low- income HH more income elastic than middle- and high-income HH

Determinants:

Higher smoking prevalence: larger households, households with larger shares of men, adults, and self-employed.

Lower: households in the south of the country and those with secondary education tend.

Indicators	Low-income Households	Middle-income households	High-income households	All households
Prevalence elasticity				
Price	-0.920***	-0.232	-0.352**	-0.165*
Income	1.070***	0.758***	0.307***	0.781***
Conditional demand (intensity) elasticity				
Price	-0.281**	-0.147	-0.358***	-0.267***
Income	0.651***	0.380***	0.209***	0.329***

Projected consumption and revenues-results from tax simulations

CATEGORY		CONSUMPTION			REVENUES		
Income group	Baseline (2018)*	Scenario (2019)*	Change (%)	Baseline (2018)**	Scenario (2019)**	Change (%)	
Low	35.8	26.1	-27.1%	41.9	42.3	1.1%	
Middle	50.1	47.7	-4.8%	58.6	77.3	32.1%	
High	57.0	47.6	-16.4%	66.7	77.2	15.9%	
Overall	142.9	121.4	-15.0%	167.2	196.7	17.9%	

Conclusions & Recommendations (1/2)

- Tobacco consumption in Albania is widely considered as one of the highest health concerns of the population, especially for low-income households.
- Low prices of cigarettes (low excise taxes), one of the reasons behind high smoking rates.
- Estimated elasticities suggest that tobacco taxation policy could be used as an effective way to reduce consumption cigarette and increase budget revenue.
 - **Win- Win:** lower the negative health effect of smoking & positive impact on budget revenue
- A price increase of 25 percent (resulting from a tax increase) would lead to a decrease in consumption by 15.0 percent, and an increase in government revenues by 17.9 percent or 29.7 million euros.
 - The Government of Albania should consider the option to increase the excise tariff from 49 euros (applied during 2018) to 70 euros per 1000 sticks in 2020.
 - The expected additional amount is more than one-third of the current revenue collected from the tobacco excises.

Conclusions & Recommendations (2/2)

- Low-income households spend a larger share of their household income on cigarettes (7.6 percent), which diverts resources away from potentially more beneficial spending, such as food, clothing, housing, etc.
- Considering the share of middle- and high-income groups is higher than the rest, a cost benefit analyses can be calculated considering both the health impact of smoking during the recent years as well as the positive contribution in the budget coming especially from these groups.
- The potential positive fiscal effects on tobacco reduction and budget revenues could be affected by the inability of the tax administration system to control tobacco production, imports and sales. The excise tax increase should be combined with improving administrative capacities for tax collection.



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Economic Research Informing Tobacco Taxation Policy

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Thank you!