

POLICY BRIEF

Low Tobacco Taxation in Times of High Inflation: Why tobacco has become more affordable in Albania

Background

Albania has a high smoking prevalence with almost half of men using tobacco. The smoking prevalence rate in Albania is higher than global averages and especially higher compared to average rates for countries in the Organisation for Economic Co-operation and Development (OECD). The prevalence is even higher among **young men aged 25 to 34 (about half of them smoke)**, and moreover, most smokers started smoking regularly before the age of 18 (DSA, 2019).

Smoking is a major risk factor for most major noncommunicable diseases (including various cancers, cardiovascular diseases, diabetes, and lung diseases) and is the main preventable cause of premature death all over the world, including Albania. **Thousands of Albanians die every year due to smoking.**

Tobacco smoking places a substantial economic burden on society, impacting both smokers and non-smokers exposed to second-hand smoke. The illnesses arising from smoking contribute to elevated utilization of health care services and associated costs. Additionally, smoking-related problems result in the loss of productive time for individuals. In Albania, it is estimated that the annual out-of-pocket health care expenditure related to smoking amounts to approximately 223 million Albanian Lek (ALL) (around USD 26 million), with the majority allocated to drug-related expenses. Additionally, overall smoking-attributable costs within the publicly funded Mandatory Health Insurance Fund (FSDKSH) are estimated to be ALL 11.2 billion (about USD 120 million) annually (Merkaj et al., 2023b).

Tobacco use reduces the share of income available to meet essential household needs such as health care and education, especially for low-income households. In Albania, studies show that tobacco consumption has pushed almost 13,000 families with 60,000 members, including more than 10,000 children below the poverty line; while, for those families that are already poor (below the poverty line or close to it), smoking leads to deepening poverty (Merkaj et al., 2023b).

In this context, reducing tobacco smoking should be considered a top policy priority to ensure better health standards and economic situations for the affected households and society as whole. **Fiscal policies—especially higher excise taxes on tobacco products—are widely considered to be the most effective policies to curb tobacco consumption.** If tax rates on tobacco fail to keep pace with the current higher levels of inflation, the effects of these taxes start to erode as tobacco products become more affordable compared to other goods and the government starts to lose revenue because the real value of it declines.

Smoking determinants

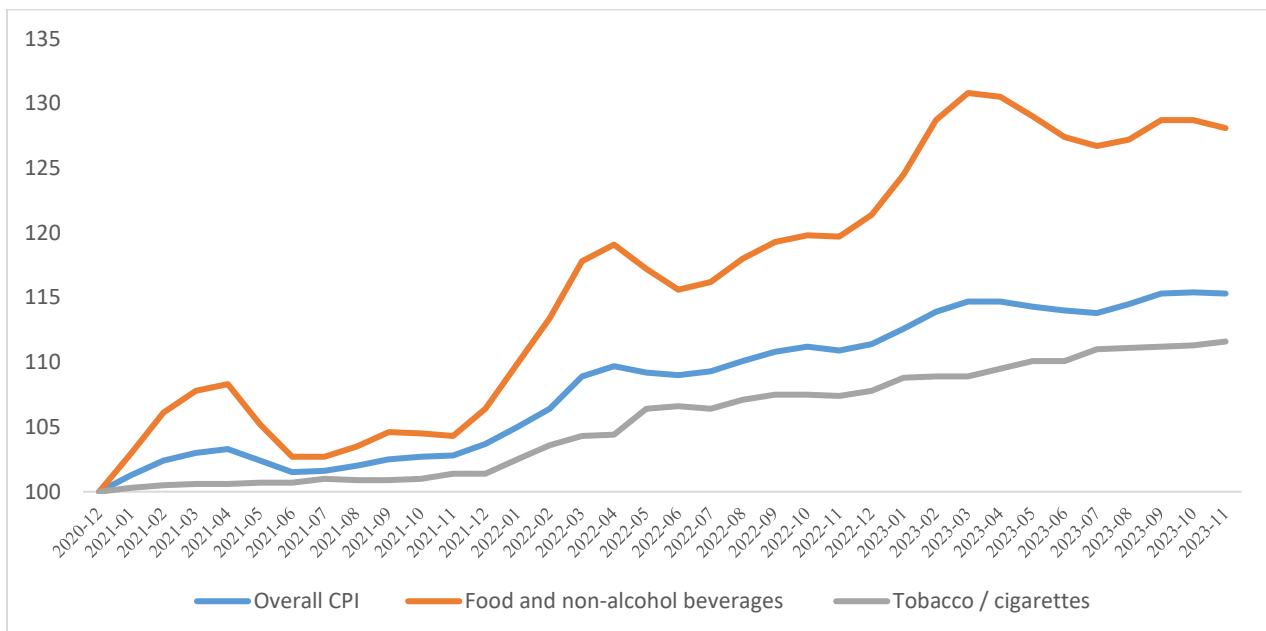
One of the reasons behind Albania’s relatively high rates of tobacco consumption is its relatively **low cigarette prices**. Prices of cigarettes are relatively low in Albania partly due to the country’s low excise taxes on tobacco products, which are much lower than in other countries in Southeastern Europe and the minimum set by the European Union.

Previous studies in Albania show that **price has a large influence on the decision to start smoking as well as the decision to quit**. A 10-percent increase in price reduces the likelihood of starting smoking in Albania by more than five percent (Gjika et al., 2020). **Price has been shown to have a particularly strong impact on the decision to initiate smoking among teenagers in Albania** (Merkaj et al., 2023a). Thus, increases in taxation which are reflected in increasing cigarette prices contribute to decreases in consumption (and initiation) of tobacco. Raising taxes can be even more effective when combined with increasing awareness and improving and enforcing legislation related to non-fiscal tobacco control such as forbidding smoking in public places and placing prominent graphic warnings on packages.

Tobacco price trends and affordability

From December 2020 until November 2023, the price of cigarettes and tobacco rose by nearly 12 percent. During the same period overall inflation was 15 percent, and food costs surged by 28 percent. **Consequently, the increase in food prices has been more than double that of cigarette prices, rendering cigarettes considerably more affordable for Albanian consumers.**

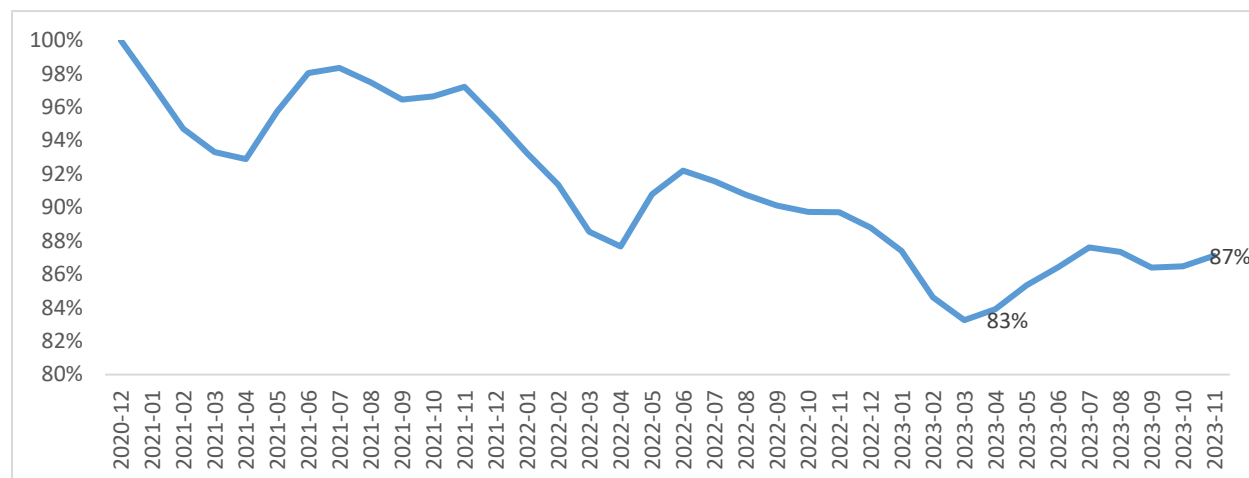
Figure 1. CPI and price indices by type of product category (percentage)



Source: Authors’ elaboration based on INSTAT (2023) data

If we calculate the ratio of the food price index with tobacco and cigarettes, tobacco and cigarettes have become **13–17 percent cheaper when compared to food** since December 2020.

Figure 2. Tobacco and cigarettes to food price ratio (percentage)



Source: Authors’ elaboration based on INSTAT (2023) data

Tobacco control policies and their effects can be best assessed if they are compared to similar countries over time. When exclusively examining cigarette costs between 2016 and 2022 in comparison to other countries in the Western Balkans, according to EUROSTAT (2023) data, **Albania has experienced a slow pace of cigarette price increases, which is indicative of lower taxation.**

Policy implications

Increasing the excise duty/taxation is among the most effective strategies for reducing tobacco consumption and its associated health and economic damages not only in Albania but worldwide. **The number of premature deaths in the event of a significant increase in tobacco excise duty in Albania is expected to decrease by thousands each year.** Also, the increase in the excise duty has a pro-poor effect, since lower-income households exhibit greater sensitivity to price changes and are consequently more likely to quit smoking—or not start—in response to elevated taxes and prices. **A reduction in tobacco consumption among lower-income households implies a decrease in poverty** as these households have more money to spend on health and education and other expenditures that promote economic productivity and prosperity. Consequently, households with lower incomes stand to gain the most significant benefits from a reduction in tobacco consumption. Particularly given Albania’s status as one of the poorest countries in Europe, this means a reduction in the ongoing health inequities caused by tobacco use (Gjika et al., 2020; Merkaj et al., 2023).

Furthermore, the evidence indicates that **higher taxes leading to increased cigarette prices are particularly effective in decreasing the likelihood of smoking among youth.** This effectiveness is attributed to the specific socioeconomic conditions of this age group. Youth consistently exhibit greater responsiveness to changes in cigarette prices compared to adults, mainly due to a higher proportion of tobacco expenditure in their overall expenses and typically lower levels of pocket money for spending. Additionally, youth tend to have lower smoking addiction levels, given their shorter smoking histories, further enhancing the effectiveness of raising excise taxes as a tobacco control strategy (Merkaj et al., 2022).

The study findings demonstrate the urgency of implementing policies aimed at reducing tobacco consumption by making tobacco less affordable. **Urgent measures should be taken to compensate for the recent trend of decreasing relative prices of tobacco—resulting from the fact that the excise does not reflect inflation trends—which becomes more notable in times of high inflation.**

Acknowledgments

Development Solutions Associates (DSA) has been working in cooperation with the Tobacconomics program now at Johns Hopkins University (JHU) (previously housed at the University of Illinois Chicago (UIC)) to conduct economic research on tobacco taxation in Albania. JHU 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 JHU, UIC, or Bloomberg Philanthropies. The authors of this policy brief are thankful to the DSA team, particularly Dr. Edvin Zhllima, Dr. Aurora Hoxha, and Ms. Alba Tema for their contributions, and to the UIC team, particularly to Dr. Jeffrey Drope, for the valuable support.

Suggested citation

Imami, D., & Merkaj, E. (2024). *Low tobacco taxation in times of high inflation: Why tobacco has become more affordable in Albania*. Development Solutions Associates.

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