

IMPROVING TOBACCO TAX POLICY IN THE REPUBLIC OF MACEDONIA

INTRODUCTION

Macedonia ranks among the top ten countries worldwide based on smoking prevalence and average number of cigarettes smoked per smoker¹. Data from the Ministry of Finance shows an increasing trend in excise revenues during 2000-2017. Revenues have more than doubled since 2010. With an estimated share of 3%, Macedonia is positioned among the eight major tobacco producing countries of the world. However, even with subsidies from the Government, tobacco production has declined over the past years, which is in line with international trends. The land under tobacco currently occupies 3.4% of total arable land and over 70% of the total area planted with industrial crops².

The Republic of Macedonia is one of the 168 countries in the world that have ratified the World Health Organization Framework Convention on Tobacco Control (WHO FCTC). With regard to FCTC³ recommendations, a substantial body of global research

shows that significant increases in tobacco taxes and prices are the most effective way to reduce tobacco use and its devastating health consequences.⁴ Price and tax increases on tobacco can be effective in improving people's health, reducing healthcare costs, and at the same time increasing tax revenues.

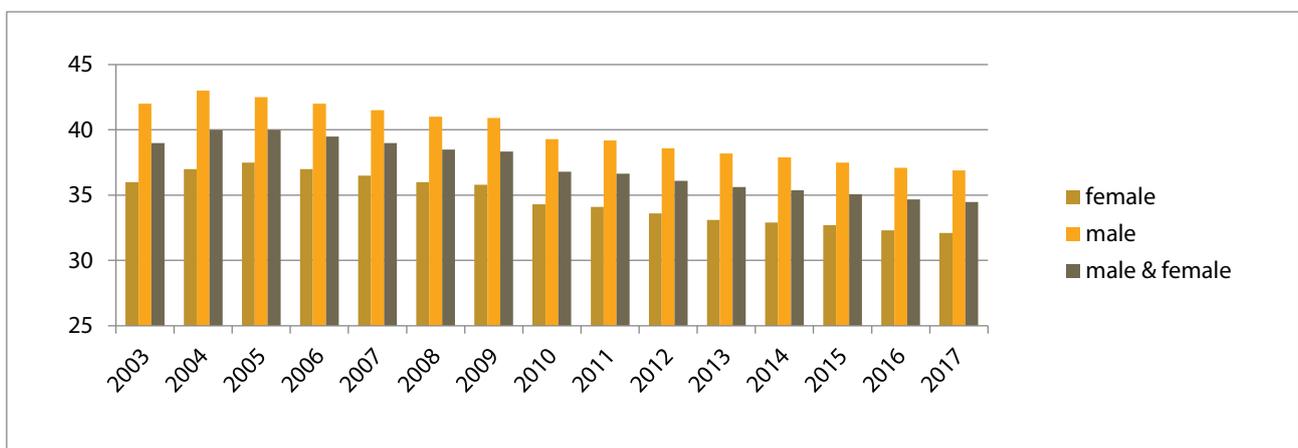
This research by Analytica—one of the first such studies in Macedonia—studied the price elasticity and other key determinants of demand for tobacco products. The study evaluated to what extent demand for tobacco, specifically cigarettes, could be controlled by price and other policy measures. The findings of this research study show that increasing the existing tobacco tax by 50% could reduce consumption of tobacco products by 19.2%, while increasing tobacco tax revenues by around EUR 100 million⁵.

USE OF TOBACCO PRODUCTS IN THE REPUBLIC OF MACEDONIA

Consumption of tobacco products has shown a declining trend since 2006 (Graph 1). In 2017, the average smoker in Macedonia smoked 21.3 cigarettes per day.⁶ With a total number of 571,000 smokers, smoking prevalence was at around 35% in 2017.⁷ Despite the moderate decline in smoking prevalence, according to Tobacco Atlas,⁸ Macedonia is still among the top 10 countries globally⁹, based on the smoking prevalence and consumption of cigarettes

per capita. Particularly worrying is the smoking prevalence among youth and minors (aged 13-17).¹⁰ According to the most recent European School Survey Project on Alcohol and Other Drugs (ESPAD) study¹¹ in 2015, the percentage of minors who have smoked at least once in their lifetime amounts to 38.4%, while those who answered that they smoked 1-2 times in their lifetime is 14.7%.

Graph 1: Smoking Prevalence (ages 15-64) male and female 2000 – 2017 (% of adults)

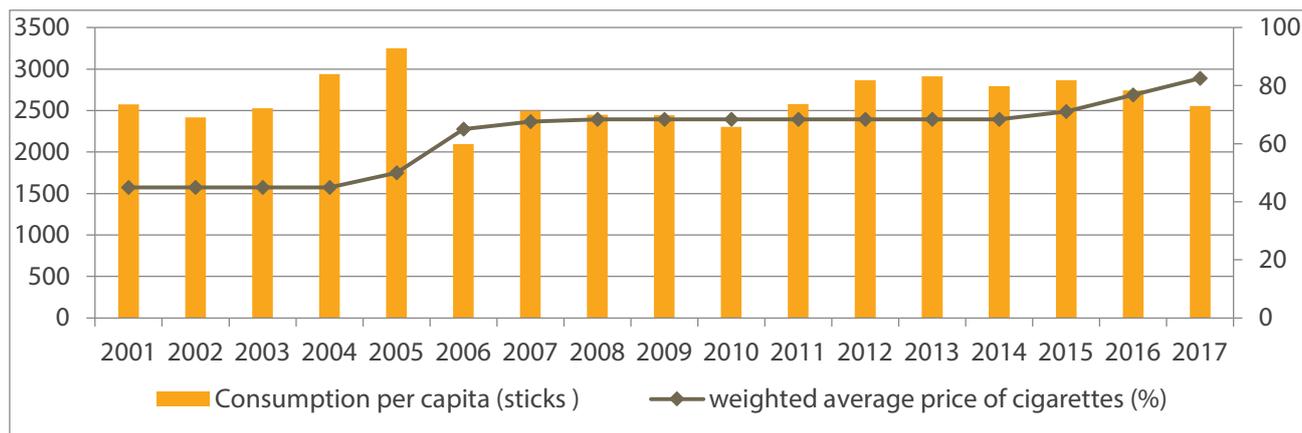


Source: Author calculations based on sources on data from Institute for Public Health of Macedonia, WHO estimates, IMEX DATA dooel Skopje estimates and Global Journal of Medicine and Public Health.

WHO estimates show that increasing the portion of excise taxes in the cigarette price from its current level of 58.8% to 75%, would reduce smoking prevalence by 17.9% in 15 years and also reduce youth smoking.¹² Additionally, with a stronger set of policies consistent with the WHO FCTC¹³, smoking prevalence could be reduced by 29% within 5 years, by 37% within 15 years and by 45% within 40 years. Almost 139,000 deaths could be averted in the long term.¹⁴

The period between 2000 and 2005 was characterized by annual increases in the consumption of cigarettes (Graph 2). In January 2006, there was an increase of 21.6% in the price of cigarettes which followed an increase in excise tax on cigarettes by 10% (in January 2006), in line with the European Union (EU) Directives. As a consequence of this sharp increase in the price of cigarettes, by the end of 2006, there was a sharp decline in the consumption. Similarly, from 2014 to 2017, there was a decline in consumption of cigarettes annually due to the new excise tax rates which had been applied in 2013 and 2014.

Graph 2: Weighted average price and consumption of cigarettes



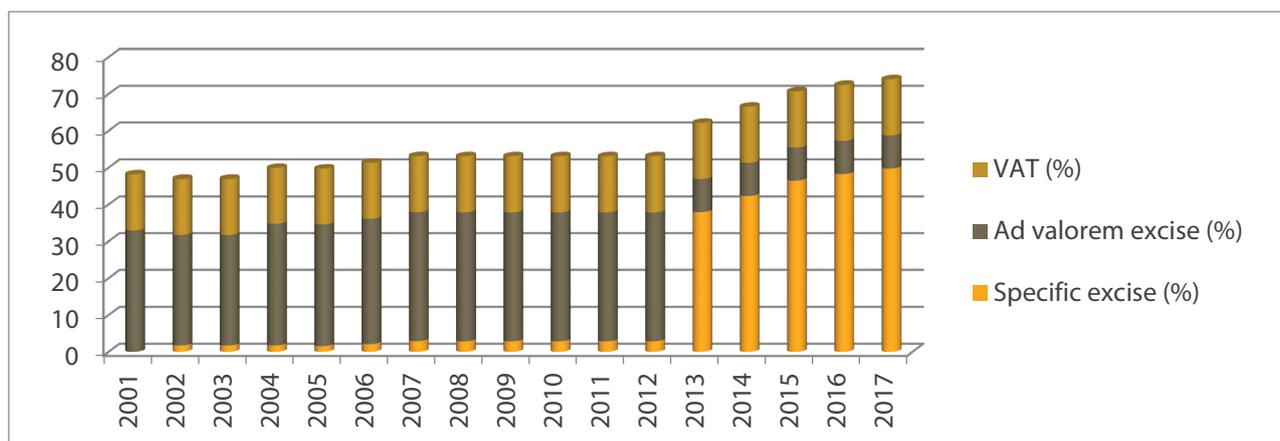
Sources: Ministry of Finance of the Republic of Macedonia; State Statistical Office of Macedonia

TAXATION OF TOBACCO PRODUCTS

Tobacco products taxation includes excise (specific and ad-valorem excise) and value added tax (VAT) amounting to 15.25% of the retail price. Macedonia's Excise Law regulates taxation of tobacco products and has prescribed gradual increase in specific excise rates over a 10 year period starting from 2013 to 2023 (rates of the specific and minimum excise tax on cigarettes shall be increased by 4 MKD [0.065 EUR]¹⁵ per pack annually). Ad-valorem excise has been set at 9% of the retail price.

The overall excise burden currently amounts to 39.4 EUR per 1000 cigarettes (0.78 EUR per pack) or 58.8% of the weighted average retail price. This is far below the WHO benchmark of 70%. As shown in the Graph 3, the process of adjusting with EU regulations is slow and will have to follow a significant excise increase in order to achieve the minimum prescribed amount of the excise duty of 90 EUR per 1000 cigarettes (1.8 EUR per pack of 20 cigarettes).

Graph3: Cigarettes tax structure (% of the retail price)



Source: Ministry of Finance of the Republic of Macedonia

Current taxation policy results in a relatively modest impact on the increase in the retail price of cigarettes. Coupled with relatively weak implementation of the national tobacco control legislation, as noted by the last EU Progress Report¹⁶, this has

EVIDENCE BASED RESEARCH RESULTS

Analytica conducted research based on annual time-series data on consumption, income, prices and tobacco control policies for the period 2002-2017. The results show a price elasticity of demand for cigarettes of around -0.4, implying that a 10% increase in prices would reduce consumption by about 4%. Similarly, a 50% increase in prices of cigarettes would lead to a decline in consumption of cigarettes by around 19.2%.

At the same time, the income elasticity was estimated to be -0.16, which is unusual for a middle-income country like Macedonia, but the result may be driven by a lack of long-term data. This result implies that a 20% increase in income would lead to a decline in consumption of cigarettes by 3.2%. This suggests that an increase in income would not reduce the impact higher taxes have on consumption.

Based on Analytica's data analysis, an increase in the price of cigarettes would have beneficial effects in both reducing

CONCLUSIONS & RECOMMENDATIONS

The Republic of Macedonia is a unique example of having dual tobacco control policies: it restricts smoking in public places in accordance with EU regulations and at the same time provides high agricultural subsidies that are aimed at stimulating tobacco production; this should be subject of further investigation.¹⁷ In the Republic of Macedonia, tobacco control data are not regularly collected, although Macedonia ranks among the top ten countries in reported smoking rates, including a 40% smoking rate among health professionals.¹⁸ At the same time there is insufficient inclusion and coordination across various institutions in tobacco control. The Ministry for Health, the Institute for Public Health and other relevant institutions have practically no power in creating the excise policy. Gradual increases in excise taxes have relatively low impact in lowering consumption of tobacco products.

The critical issues in Macedonia's existing tobacco control policies are:

- Tobacco taxation policy is not based on the research results that clearly point to the necessity for higher taxes as an effective way to reduce consumption and related health system savings.

proven to be ineffective in making significant reductions in consumption. Therefore, the new strategy for tobacco control, to be adopted in 2020, should strictly follow the EU regulation.

consumption and generating new excise revenues. A tax increase of 19.8% that raises the prices by 10% would increase revenues by 13.7%. Moreover, a tax increase of 94.8% that raises the prices by 50%, would provide the government with EUR 100 million of additional excise revenues (55.9% increase).

Additionally, our research results show that adoption of the 2010 law prohibiting smoking in all public indoor areas decreased the demand for cigarettes, assuming that all other factors remained the same. This shows that tobacco control policies can be important in reducing tobacco consumption.

Based on these results, government policy should focus on tax increases that also result in price increases, which can lead to decreases in the affordability of tobacco products and at the same time decreases of tobacco consumption.

- Tax policy is partly aligned with the EU and WHO recommendations, while other tobacco control measures have even deteriorated over the last year.

Policy makers should pay particular attention to the finding of this study that an increase in price of cigarettes by 50%, with all other factors remaining the same, would increase excise revenues by about EUR 100 million. Such a price increase would be followed by a decrease in consumption by 19.2%. This would cause additional savings in the health system which should be a subject of further research. Revision of the existing tax policy would therefore lead to an increase in tax revenues and have many other positive consequences related to lower consumption.

The new strategic framework should be in line with the WHO FCTC and should also contribute to alignment of the national legislation with the current EU legislation. Creating and implementing a new policy should involve all major institutions, like the Ministry of Finance, Ministry of Health, Customs Administration, Institute for Public Health and civil society groups. All data on tobacco control should be regularly collected and made publicly available to enable further applied research in this field.

Authors:

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¹ <http://www.gjmedph.com/uploads/03%20-Vo3No4.pdf>; <https://www.telegraph.co.uk/travel/maps-and-graphics/world-according-to-tobacco-consumption/>

² Cooperation Centre for Scientific Research Relative to Tobacco – Tobacco production in Macedonia (2016)

³ Law on ratification of the Framework Convention of Tobacco Control of the World Health Organization Official Gazette of the Republic of Macedonia No 68,2006, Art. 6 Price and tax measures to reduce the demand for tobacco products (page 7): “The Parties recognize that price and tax measures are an effective and important means of reducing tobacco consumption by various segments of the population, in particular young persons.”

⁴ Tobacco Taxation Can Reduce Tobacco Consumption and Help Achieve Sustainable Development Goals, Policy Brief, August 2018

⁵ Analytica (2018), Economics of Tobacco and Tobacco Taxation, National Study – MACEDONIA, Research performed within the project Accelerating Progress on Effective Tobacco Tax Policies in Low- and Middle-Income Countries

⁶ IMEX DATA dooel Skopje estimates, based on the sources, including the Institute for Public Health of Macedonia, WHO estimates; Global Journal of Medicine and Public Health; <http://www.gjmedph.com/uploads/03%20-Vo3No4.pdf>; <http://iph.mk/wp-content/uploads/2016/12/ESPAD-izvestaj-final-final.compressed.pdf>

⁷ IMEX DATA dooel Skopje estimates, based on sources, including Institute for Public Health of Macedonia, WHO estimates; http://www.healthdata.org/sites/default/files/files/research_articles/2014/JAMA_Smoking_prevalence_and_cigarette_consumption_in_187_countries_1980-2012.pdf

⁸ <https://tobaccoatlas.org/country/fyr-macedonia>, Tobacco Atlas report, sixth edition, 2018 American Cancer Society, Inc. and Vital Strategies

⁹ <http://www.gjmedph.com/uploads/03%20-Vo3No4.pdf>; <https://www.telegraph.co.uk/travel/maps-and-graphics/world-according-to-tobacco-consumption/>

¹⁰ <http://iph.mk/wp-content/uploads/2018/06/GYTS-publikacija-en-2016-finale.pdf>

¹¹ <http://iph.mk/wp-content/uploads/2016/12/ESPAD-izvestaj-final-final.compressed.pdf>

¹² Tobacco control sheet, The FYR Macedonia, Health impact of tobacco control policies in line with the WHO Framework Convention on Tobacco Control

¹³ WHO FCTC, Geneva: Convention Secretariat and World Health Organization; 2016 (<http://www.who.int/fctc/en/>)

¹⁴ Tobacco control sheet, The FYR Macedonia, Health impact of tobacco control policies in line with the WHO Framework Convention on Tobacco Control

¹⁵ Based on the 2018 exchange rate of 0.016 EUR/MKD

¹⁶ EU Progress Report of the Republic of Macedonia from 2018 - Section 28: “... With regard to tobacco control national legislation is partly aligned with the Acquis. The enforcement of tobacco control deteriorated over the reporting period and smoking in public areas is not penalized.

¹⁷ Social determinants of smoking in the population of the Republic of Macedonia – results from a nested case-control study Dance Gudeva Nikovska, Dragan Gjorgjev, Jovanka Karadzinska Bislimovska, Rozalinda Sjanovska, Fimka Tozija

¹⁸ *ibid*