



GROWFORD

for Global Research on Optimal Ways for Development
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Policy paper

ASSESSMENT OF THE PROSPECTS OF HIGHER EXCISE TAX RATES ON TOBACCO PRODUCTS IN MOLDOVA



Fiscal policy of tobacco products in Moldova

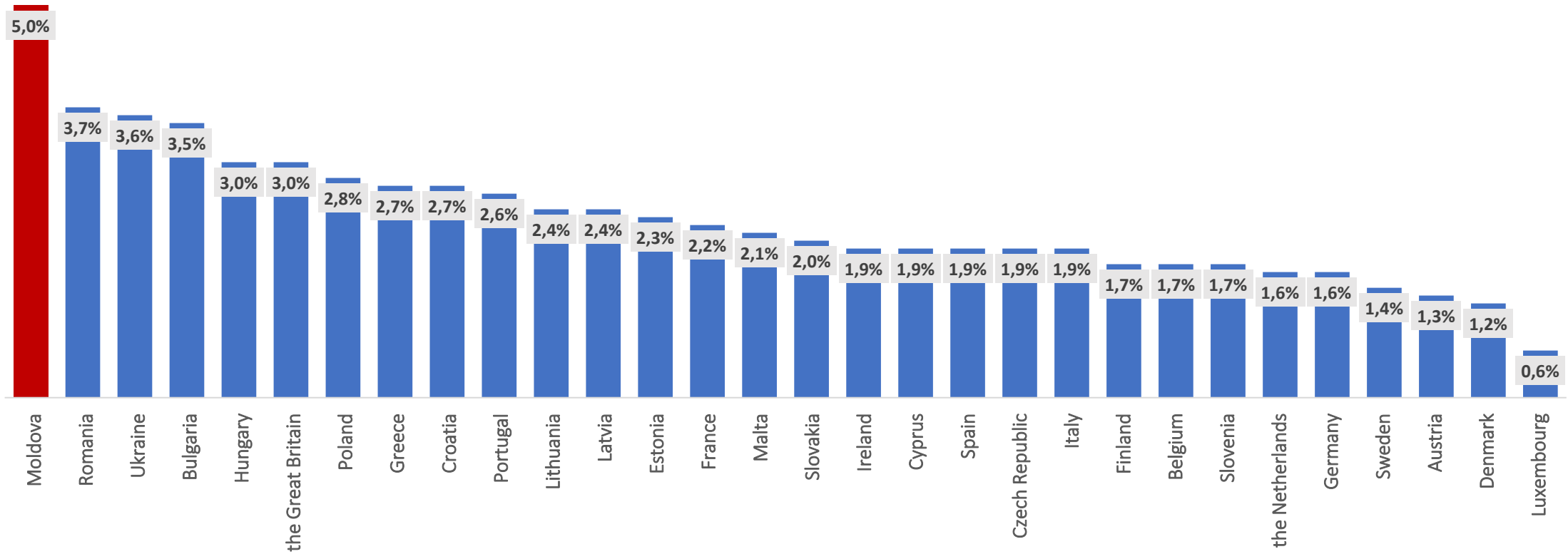
General characteristics and features

- Like in other transition economies, taxes and fees provide most of the revenues of the consolidated budget of Moldova, **tobacco industry gives 8% of tax revenues**
- Due to a balanced structure of excise taxes on cigarettes, the annual increase in the minimum effective rate, unification of rates on filtered and unfiltered cigarettes, elimination of tax advantages for roll-ups, as well as a minimum retail price, **the growth rate of excise revenues to the budget for 2018-2020 exceeded inflation by an average of 1.5 times**
- Owing to the annual increase in excise rates at **rates exceeding inflation by an average of 3.8 times, the cigarette affordability index in Moldova has significantly decreased, and the volume of the legal tobacco market products reduced by 20.7% for 2018-2020**
- **Challenges in 2022:** 1) ensuring the growth of budget revenues from excise taxes on tobacco products under a significant imbalance between the growth rate of excise tax and the rate of increase in population income; 2) preventing smokers from switching to other more affordable segments or types of products



Cigarette affordability

Among European countries, the ratio of costs for the purchase of 2,000 cigarettes of the most best-selling brand to GDP per capita in Moldova is the highest



Cigarette affordability

The percentage of average income for buying cigarettes in Moldova is significantly higher than in advanced countries

25%

*of average income
for purchasing cigarettes*



25%



15%

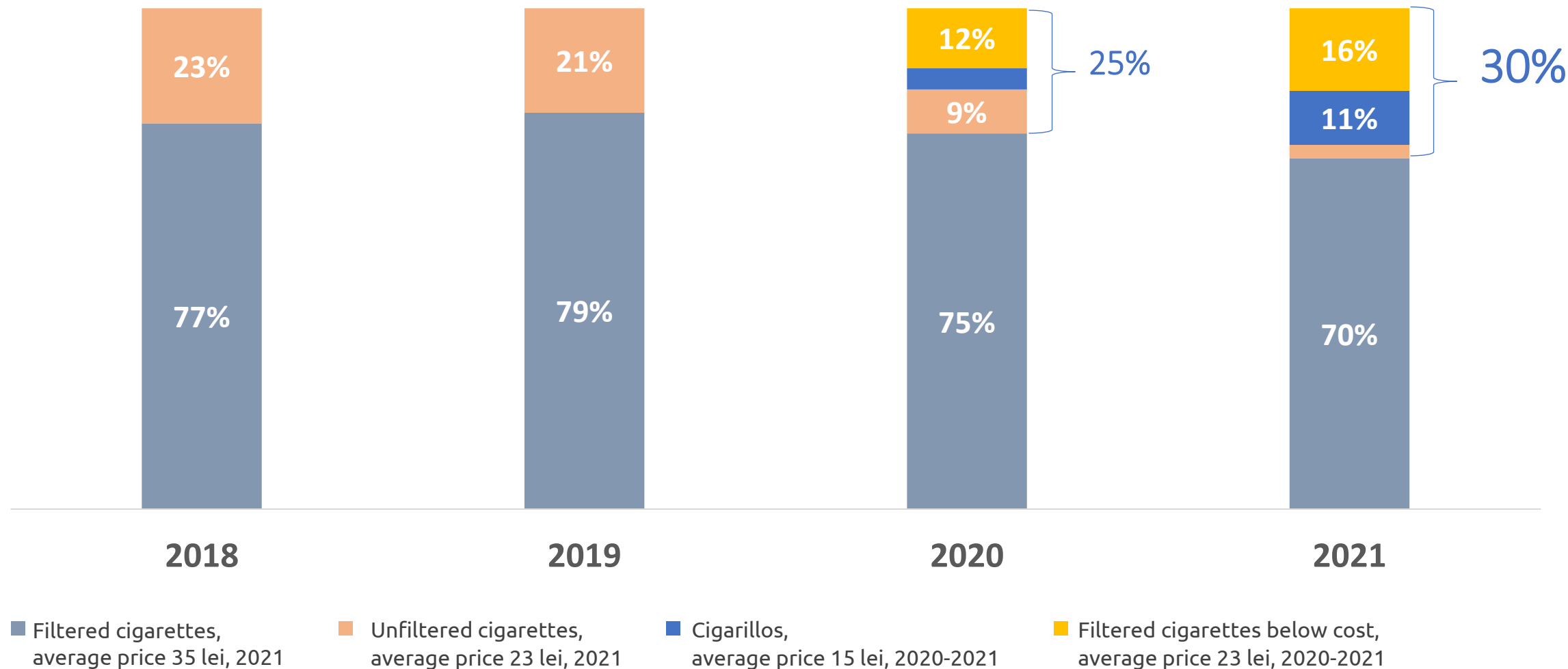


when the indicator exceeds 15% of income *, it stimulates the illegal market growth or the substitution effect – the flow of smokers to other more affordable segments or types of products

*Kan Ming-yue. Investigating cigarette affordability in 60 cities using the cigarette price-daily income ratio. *Tobacco Control*. 2007 Dec. 16(6). P. 429–432. URL: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2807202/>

Structure of the tobacco products market

The share of the low price segment has been increasing since 2020





Dynamics of prices for tobacco products 2018-2021

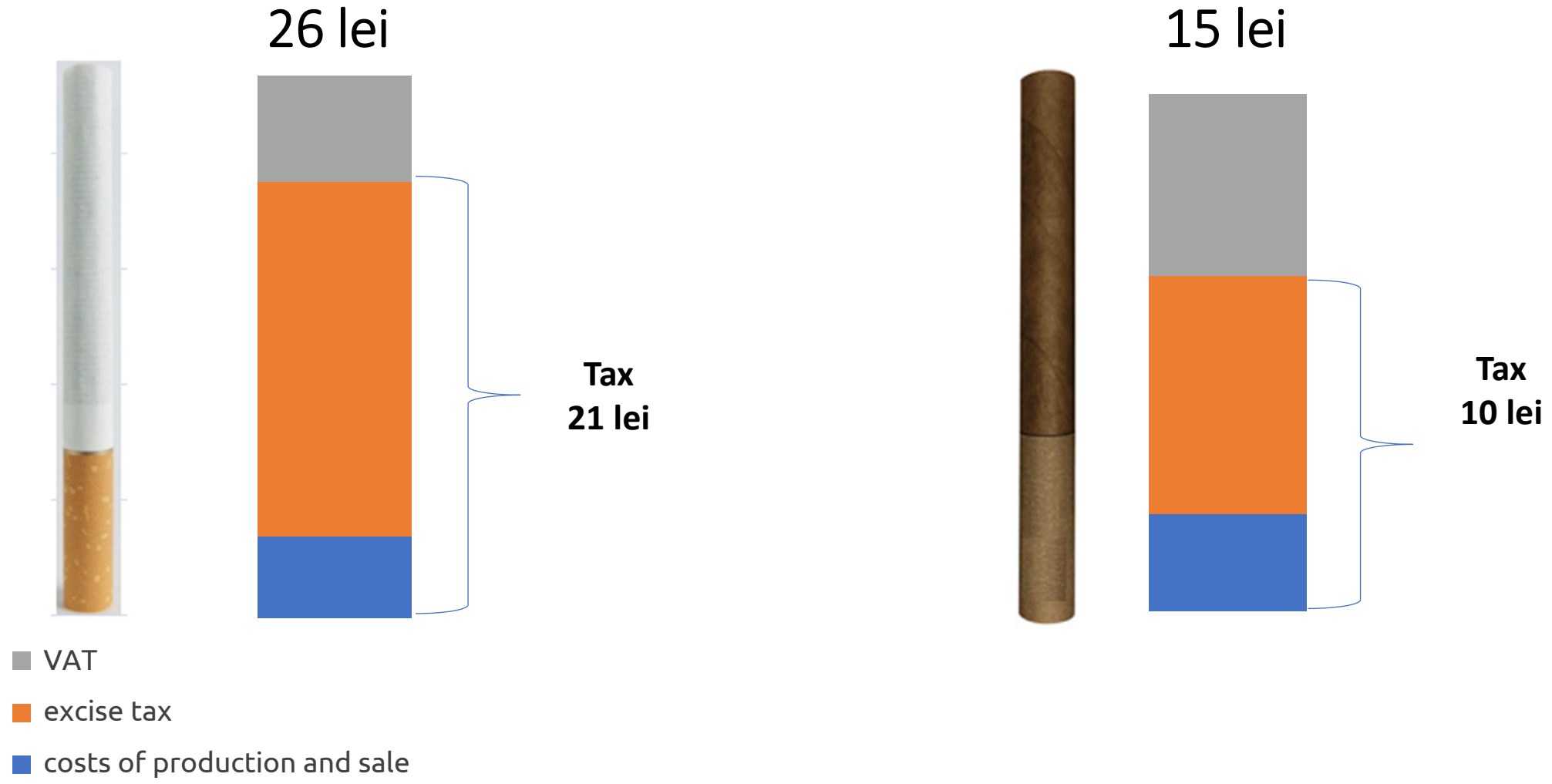
Since 2020, there have been cigarillos and cigarettes below cost on the market

Weighted average price, lei per pack	2018	2019	2020	2021
Filtered cigarettes	23	27	31	35
Unfiltered cigarettes	14	19	20	23
Cigarillos			15	15
Filtered cigarillos below cost*			23	23
The cheapest offer	14	19	12	12
*price per pack including excise tax, VAT, costs of production and sale	20	22	24	26



Price structure of tobacco products

Cigarillos have a significant tax advantage





Analysis of the fiscal policy of tobacco products 2022

Planned increase in cigarette rates, elimination of tax incentives for some positions

Strengths

- Increased excise tax on filtered and unfiltered cigarettes by 15%, twice the inflation rate
- Introduction of excise tax on electronic cigarettes
- Introduction of the minimum effective rate (MER) of excise tax on cigarillos, at the level of cigarettes
- MER guarantees minimum income to the budget and fulfillment of a significant part of collecting excise
- Annual indexation of MER to the inflation rate and higher corresponds to the goals of public health

Weaknesses

- The growth rate of excise tax rates is much higher than the growth rates of population incomes, which causes the substitution effect on the market – the transition of smokers to the low price segment
- Despite the annual increase in excise tax, prices for low price segment products do not change, which does not correspond to the goals of public health
- Absence of a minimum retail price for cigarettes and cigarillos is VAT and income tax loss



Analysis of the fiscal policy of tobacco products 2022

Planned increase in cigarette rates, elimination of tax incentives for some positions

Opportunities

- Introduction of a minimum retail price for cigarettes and cigarillos
- Reducing the possibility of illegal movement of tobacco and nicotine-containing products in border countries
- Strengthening state control over turnover of illegal products on the territory of the state

Threats

- Replacement of demand for cigarettes with roll-ups, possibly substandard roll-ups
- Further distribution of products below cost on the market
- Increase in the share of the low price segment, which does not correspond to the goals of public health and facilitates the illegal movement of cigarettes to neighbouring countries



Fiscal policy of the tobacco products

Conclusions

- A balanced structure of excise taxes for filtered and unfiltered cigarettes with a minimum effective rate ensures the fulfillment of a significant part of the task of collecting excise taxes
- An annual increase in excise rates at a rate exceeding the rate of inflation should meet the goals of public health. However, because of a significant imbalance between the excise tax increase and the growth of population incomes in Moldova, a substitution effect is observed – the flow of smokers into the low price segment of cigarillos and filtered cigarettes below cost
- The introduction of a minimum effective rate of excise tax on cigarillos at the cigarette level, as well as an excise tax on electronic cigarettes eliminate tax breaks for these products and should provide additional fees to the state budget
- In addition, the introduction of minimum retail prices for cigarettes and cigarillos could facilitate higher fiscal revenues from VAT and income tax, as well as provide an annual price increase and a decrease in the availability of all categories of tobacco products in line with the goals of public health