Policy Brief

PRICE RESPONSIVENESS AND BRAND SWITCHING IN MONTENEGRO'S CIGARETTE MARKET

KEY FINDINGS

- **Cigarette price increases significantly reduce consumption in Montenegro**. A 10-percent increase in cigarette prices reduces overall consumption by 6.1 percent to 6.6 percent, depending on the precise estimation method, demonstrating significant price sensitivity in Montenegro's cigarette market.

- **Lower-priced cigarette segments are the most responsive to price changes**. The mid-price and economy cigarette segments are the most price-sensitive, with consumption dropping by 8.2 percent and 7.1 percent, respectively, for a 10-percent price increase, compared to 6.3 percent for premium brands.

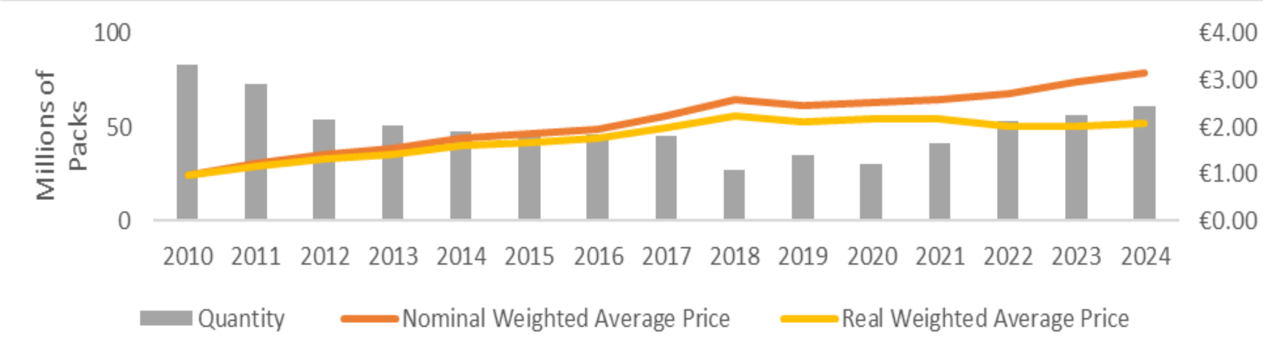
- **Some consumers switch to cheaper brands when prices rise.** A 10-percent price increase in mid-price brands leads to a 2.1-percent rise in demand for economy brands, and a 10-percent premium price increase boosts mid-price demand by 4.2 percent.

BACKGROUND INFORMATION

Montenegro's tobacco market has experienced significant changes in consumption and pricing from 2010 to 2024, driven by increases in excise taxes and other economic factors (Table 1). Cigarette consumption steadily declined from 2010 to 2018 as cigarette prices increased, but consumption has risen again since 2021 due to rapid income growth, including a nearly doubled minimum wage in 2022, which made cigarettes more affordable.

Nominal prices increased consistently, with the weighted average rising from €0.9 per pack in 2010 to €3.1 in 2024. However, real prices, adjusted for inflation, have stayed almost flat since 2019, which has contributed to the rebound in consumption (Figure 1). Although policy measures helped reduce smoking prevalence from 40.7 percent in 2019 to 38 percent in 2022, the increase in affordability, along with a significant decrease in illicit trade (from 51 percent in 2019 to 22.1–26 percent in 2022), has partly offset the effects of tax hikes on consumption. Notably, tax increases and the reduction of illicit trade led to a more than 160-percent increase in government revenues between 2020 and 2024.

Figure 1. Annual cigarettes sold per pack and average price



Source: Ministry of Finance, CPI obtained from Statistical Office of Montenegro (Monstat)

Table 1. Montenegro tobacco market facts (2010–2024)

Indicator	Details
Market structure	Oligopoly with a declining number of brand variants (from 164 in 2012 to 83 in 2024). The cheapest brands account for 25% of the overall tobacco expenditure share, mid-priced brands 47%, and premium brands 28%.
Excise tax increase	The specific excise tax increased from €5 per 1,000 cigarettes in 2010 to €53.50 in 2025. The ad valorem rate decreased from 37% in 2011 to 24.5% from 2023–2025. The minimum requirements set by the EU Tobacco Products Directive have been met.
Smoking prevalence	Decreased from 40.7% in 2019 to 38% in 2022, but smoking remains socially accepted, and there is a concerning trend of high youth initiation, with 20% starting before the age of 15.
Illicit trade	Significantly reduced from 51% in 2019 to 22.1–26% in 2022
Nominal price changes (2010–2024)	Cheapest brands: €0.40 to €2.60; most-sold: €0.70 to €3.10; premium: €1.70 to €3.90. Despite these increases in nominal prices, they still remain low compared to the EU average.
Daily consumption	Averages nearly 20 cigarettes per smoker, among the highest in Europe

Affordability trend	Increased by 13%, 14%, and 7% annually (2020–2023) due to rapid income growth. The overall tax policy score fell from 3.88 in 2018 to 3 in 2022, primarily due to higher affordability, in the **Tobacconomics Tax Scorecard**.
Industry strategy	Industry absorbs taxes on cheaper brands (under-shifting) and over-shifts on premium brands. Share of slim cigarettes in the economy segment rose from 30% (2018) to 84% (2024), targeting women and youth.
Excise revenue	Increased from €45.6 million (2020) to €119.15 million (2024)

Note: Tobacconomics Tax Scorecard: https://www.economicsforhealth.org/files/research/919/tobacco-scorecard-report-3rd-ed-eng-v5.0.pdf

RESULTS

Overall Own-Price Elasticity

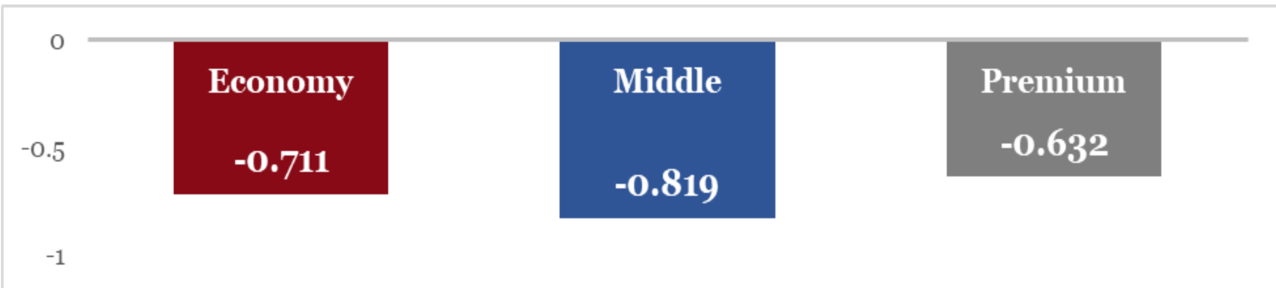
Cigarette consumption in Montenegro is highly responsive to price changes, with an overall price elasticity of -0.61 to -0.66, meaning a 10-percent price increase reduces consumption by 6.1 percent to 6.6 percent.

Segment-Level Own-Price Elasticities

Price sensitivity varies across market segments (Figure 2). Smokers of mid-priced brands (-0.819) and economy brands (-0.711) are the most responsive to price increases, whereas smokers of premium brands (-0.632) are less sensitive. These results suggest that low- and middle-income smokers, who typically buy cheaper brands, are more likely to reduce smoking when prices rise.

Rising wages have a positive impact on cigarette demand across all segments, partially offsetting the effects of higher prices on decreasing consumption. Clear seasonal patterns are also observed, with consumption increasing during peak periods such as the tourist season.

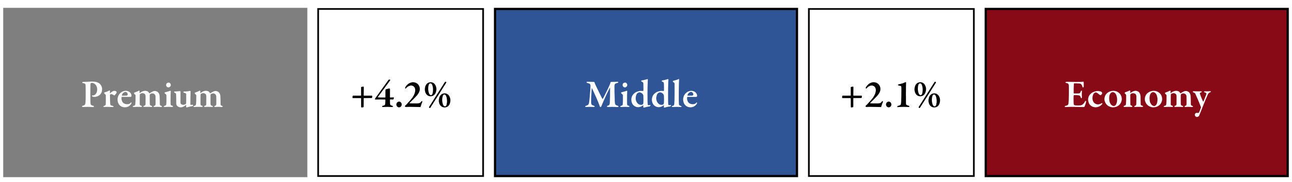
Figure 2. Own-price elasticities by cigarette market segments (economy, middle, premium)



Cross-Price Elasticities and Brand Switching

The study shows evidence of brand switching when prices increase in a specific segment. A 10-percent price increase in mid-priced brands increases demand for economy brands by 2.1 percent, while a 10-percent increase in premium prices increases demand for mid-priced brands by 4.2 percent (Figure 3).

Figure 3. Substitution pathways between segments – impact of a 10% price increase on consumption



RECOMMENDATIONS

Government should:

- **Sustain consistent and impactful excise tax increases**: Ensure excise tax increases are large and regular to outpace income growth and inflation, reducing affordability and discouraging consumption across all market segments.
- **Consider setting minimum price floors:** Consider establishing a minimum retail price for all tobacco products to prevent down-trading to cheaper brands, thereby ensuring tax increases effectively reduce consumption rather than shift brand preferences.
- **Monitor and audit industry pricing behavior:** Empower tax authorities to track how the industry responds to tax changes and adjustments. Transparency in cigarette pricing and cost structure can help identify under-shifting and enforce compliance.
- **Continue with anti-illicit trade measures:** Sustain and expand enforcement and monitoring measures to maintain the strong decline in illicit cigarette trade, preventing access to cheap, untaxed products that undermine tax policies.
- **Promote public awareness campaigns**: Launch campaigns to educate consumers, especially youth and low-income groups, about the risks of smoking, encouraging cessation over brand switching in response to price increases.

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