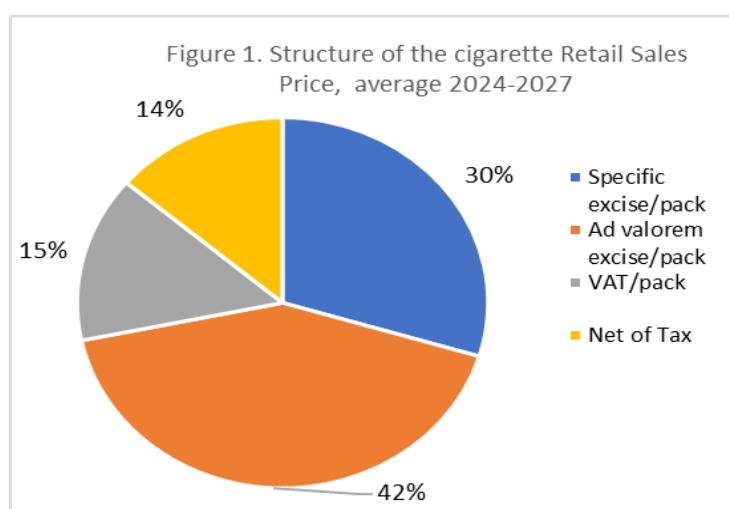


- ❖ The planned increase in the minimum cigarette excise duty—from BAM 3.46 in 2024 to BAM 5.00 in 2025, followed by annual increases of BAM 1.00—represents a substantial strengthening of tobacco taxation policy.
- ❖ The reform is projected to result in significant cigarette price increases (15.6% in 2025 and 17.1% in 2026), while leading to a moderate and declining reduction in cigarette consumption, with sales volumes falling from -5.1% in 2025 to -2.0% by 2027.
- ❖ Fiscal outcomes remain strongly positive: excise revenues are expected to grow by 12.4%–16.6% annually, contributing to overall government revenue increases of 12.0%–16.1%, despite lower sales volumes.

TAX STRUCTURE

In the period 2009–2019, the specific excise tax in BiH was increased annually by 0.077 EUR per pack of cigarettes. The last adjustment of the specific excise tax was in 2019. In the subsequent period, only the minimum excise was increased, but not enough to have a significant effect on consumption.



As there was no significant change in taxation or in the tax structure, the share of tax in the retail sale price remained almost the same. The tax structure consists of an ad valorem tax (42 percent of retail sale price), a specific excise tax (0.84 EUR per 20-cigarette pack since 2019), and a unique standard value-added tax rate of 17 percent. Figure 1 shows the average tax burden on cigarettes in BiH for 2024–2027, calculated as the mean of projected values over the period, based on the study's underlying assumptions. Compared to our previous estimations, the average tax burden in BiH on cigarettes dropped by one percentage point.

Source: Authors' calculation based on Indirect Taxation Authority (2024)

This decrease is not attributable to changes in excise taxes or VAT, which remained unchanged, but rather to a one-percentage point increase in the net-of-tax price. Cigarette prices in BiH are lower than those in the surrounding countries and in the EU. Combined with average incomes, this makes cigarettes in BiH more affordable than most countries in Europe. It also means that there is much room for improvement in BiH tobacco tax policy, which is also an opportunity to generate new tax revenues and improve public health.

STUDY METHODOLOGY AND FINDINGS

The tobacco tax simulation model uses most recent data from 2024 on issued excise stamps and covers 2025–2027 with different scenarios regarding price, income, and cross-price elasticities, combined with different price segments. The analysis is based on the assumption that the minimum excise is increased from BAM 3.46 in the base year (2024) to BAM 5.00 in 2025, followed by annual increases of BAM 1.00 in each subsequent year. We build our analysis on the share of the illicit manufactured cigarettes (MC) market obtained in our household survey conducted in 2025, which amounts to 7.3% of the market¹. The simulation results, summarized in Table 1, indicate that the increase in the minimum excise will drive annual cigarette price increases of 15–

¹ Gligorić, D., Vidović, N., Ritan, V., & Borović, Z. (2025). Size and Characteristics of Tobacco Tax Evasion in Bosnia and Herzegovina 2025 (Economics for Health Working Paper No.#). University of Banja Luka. <https://www.economicsforhealth.org/research/size-and-characteristics-of-tobacco-tax-evasion-in-bosnia-and-herzegovina/>

17 percent, while the corresponding decline in sales volumes remains moderate, ranging from –5.1 percent in 2025 to –2.0 percent in 2027. Consequently, both excise tax revenues and total tax revenues are projected to grow each year across all simulated scenarios.

Table 1 Average annual growth rate

Year	Total excise revenue	Total revenue	Quantities of packs sold	Prices
2025	12.43%	11.96%	–5.08%	15.60%
2026	16.59%	16.11%	–2.84%	17.13%
2027	14.40%	14.06%	–1.95%	14.63%

Source: Authors' calculation based on Indirect Taxation Authority (2024)

Impacts of tobacco tax increases on health and youth smoking initiation

According to our simulations, the increase in the minimum excise tax would, on average, reduce adult smoking prevalence from 41.1 percent to 37.5 percent by 2025. Depending on the price increase applied by tobacco sellers, reduction of smoking prevalence would prevent between 9,200 and 18,165 premature adult deaths.

The smoking initiation of adolescents is a pressing public health matter, since more than 15 percent of young adolescents (aged 13–15) have already consumed cigarettes in BiH. An increase in the minimum excise tax would affect adolescents directly by decreasing the probability of youth smoking initiation because young people are typically more sensitive to price compared to older people. There are also significant indirect effects of increased minimum excise taxes. Adolescents are particularly vulnerable to peer pressure and to emulating behaviors of others around them. Higher cigarette prices deter smoking in both parents and classmates—the two largest influences on young people. The number of youths who would be deterred from smoking as a result of the price increase is between 3,185 and 3,217, which would save in the future between 1,274 and 1,286 youth lives, depending on the price increase applied.

POLICY RECOMMENDATIONS

Based on the findings of this research, the following recommendations would help to improve tobacco tax policies:

- ❖ Tobacco tax policy should be revised and incorporate regular annual increases in the taxes and minimum excise that raise cigarette prices faster than the combination of inflation and real income growth, thereby reducing affordability and overall tobacco use.
- ❖ Tobacco excise taxation should be treated as a public health policy tool, not merely a revenue source. Its primary objective is to reduce tobacco consumption, with a portion of new revenues reinvested in tobacco control and public health initiatives.
- ❖ These tax measures should be complemented by stronger tobacco control enforcement, including smoke-free public spaces, sustained mass-media campaigns, and more prominent health warnings on tobacco products.
- ❖ Considering the high smoking prevalence among youth, the government should develop a comprehensive strategy to decrease the smoking pandemic among this most vulnerable population. It should consider all aspects that could affect their propensity to initiate smoking, such as school environment, parents' and peer impacts, awareness of the adverse effects of smoking, and accessibility of cigarettes near schools.

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