

TOBACCO TAX EVASION IN BOSNIA AND HERZEGOVINA (2025)

Illicit trade in tobacco in Bosnia and Herzegovina (BiH) has declined markedly since 2019, creating room to raise excise taxes and strengthen targeted enforcement without triggering a surge in the black market. Overall, illicit products now represent approximately 8.4 percent of total tobacco consumption—a sharp decline from 32.3 percent in 2019. A recent household survey of 2,000 respondents (April–May 2025) found:

- **Overall tax evasion:** 8.4 percent of smokers
- **By product type:**
 - Manufactured cigarettes (MC): 7.3 percent
 - Hand-rolled/cut tobacco (HR): 81.6 percent

The 2025 survey also included increasingly popular heated tobacco products (HTP), however, there were no signs of tobacco tax evasion in this market. These findings indicate substantial progress in addressing the illicit tobacco trade in BiH, reinforcing the imperative for local authorities to strengthen anti-evasion measures.

CONTEXT

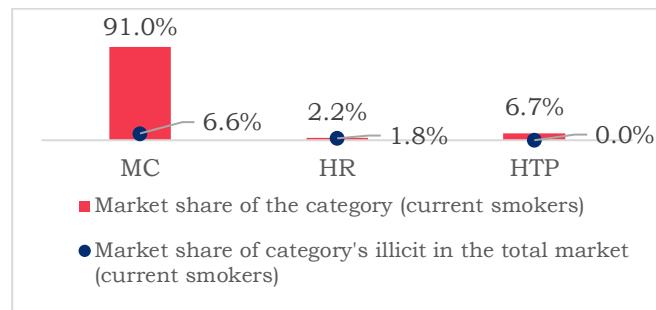
After the 2019 freeze in specific excise, cigarette prices grew more slowly than overall inflation and real incomes, making smoking relatively more affordable.¹ There is an opportunity to re-establish a clear multi-year excise tax trajectory, while directing regulatory enforcement toward the areas and segments that pose the highest risks. BiH has not yet ratified the WHO Protocol to Eliminate Illicit Trade in Tobacco Products, though doing so would improve cross-border and inter-agency cooperation and potentially help facilitate an installment of a modern track-and-trace system.

KEY FINDINGS AND TRENDS

Total household smoking prevalence in BiH is 43 percent, marking an increase from 2019. Among current smokers, approximately 91 percent use MC, 2.2 percent use HR, and 6.8 percent use HTP (Figure 1). For MC, the share of smokers who buy illicit cigarettes fell from 18.1 percent to 7.3 percent; for HR, it decreased from 95.4 percent to 81.63 percent.

Because MC make up more than 91 percent of total consumption, the contribution of illicit MC to the total cigarette market is 6.6 percent. Therefore, even a smaller illicit share in this segment carries material fiscal and health implications.

Figure 1. Market share and illicit market share of products in the total market (current smokers)



Illegal points of sale remain a key channel for illicit purchases (Figure 2). In the last-purchase measure for MC, street and open-air markets account for about 6.3 percent. Illicit purchasing is more common among older and heavier smokers (Figure 3) and those with lower incomes. Additionally, women are more likely to evade than men when it comes to manufactured cigarettes.

Figure 2. Tax evasion by criteria (MC and HR, percentage of total consumers)

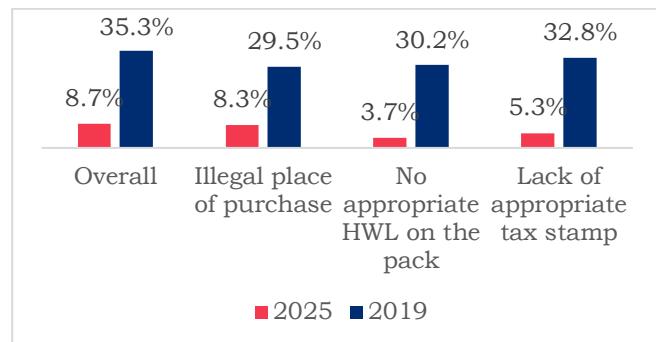
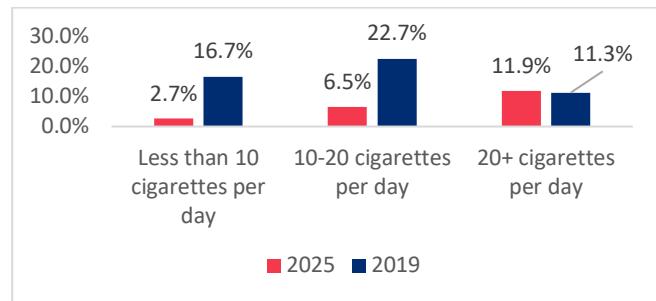


Figure 3. Tobacco tax evasion by smoking intensity (MC smokers)



Geographically, the Brčko District stands out with the highest prevalence, and the likelihood of tax evasion is significantly higher in this district. Living in a border municipality with Serbia is also a strong positive predictor of evasion, while the difference between the Republic of Srpska and the Federation of BiH is not significant.

POLICY RECOMMENDATIONS

BiH has made measurable progress in reducing illicit trade while lagging in adopting pro-health tobacco tax policy. Policymakers should substantially increase tobacco excise taxes while monitoring illicit trade and enforcing compliance with excise tax law.

BiH should also:

- **Pursue a pro-health excise tax policy** by reintroducing a multi-year specific excise tax escalator with annual increases higher than the combination of inflation and real income growth to curb down-trading (substitution) and rising affordability.
- **Ratify and implement the WHO Protocol to Eliminate Illicit Trade in Tobacco Products**, including licensing, due diligence of actors in the supply chain, compelling proper commercial record-keeping, and, ultimately, implementing a track-and-trace system.
- **Tighten existing supply-chain controls** and sanctions, with mandatory tax stamps and health warnings on HR packs and firm action against distribution of tobacco via open-air markets.
- **Intensify border and in-country inspections**, prioritizing street vending and hotspot municipalities near the Serbia and Montenegro borders, with coordinated, risk-based operations.

Zoran Borovic at the University of Banja Luka based on a working paper.²

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