

## Mitigating illicit trade – success in Montenegro and Bosnia and Herzegovina

Illicit trade in tobacco products undermines public health, weakens tax policy, and deprives governments of critical revenues needed for health and social spending. Global findings consistently show that illicit trade is primarily a governance and enforcement challenge, not mainly a consequence of higher tax rates alone.<sup>1</sup> In the Western Balkans, illicit tobacco trade has historically been driven by weak supply-chain oversight, large cross-border price differentials, and the misuse/abuse of free-trade zones.<sup>2,3</sup> Recent evidence from Montenegro and Bosnia and Herzegovina (BiH) shows that decisive policy action—combining sound excise tax design with strong supply-chain control and enforcement—can substantially reduce illicit tobacco markets.

- **Montenegro stands out as a regional success story.** The share of illicit cigarettes in the total cigarette consumption fell sharply from around 50% in 2019 to roughly one quarter by 2022.<sup>3</sup> This reduction was accompanied by an expansion of the legal tobacco market with smokers switching to licit cigarettes, more than doubling tobacco excise revenues compared with 2020 levels. These outcomes demonstrate that declines in consumption from higher cigarette taxes/prices and increased excise tax revenues can be achieved simultaneously.
- **Bosnia and Herzegovina has also made notable recent progress.** The latest Economics for Health–supported survey evidence indicates that tobacco tax evasion and illicit consumption have declined significantly compared with pre-2020 levels, with the illicit share falling to below 10% by 2025.<sup>4</sup> While challenges remain, particularly in the market for fine-cut tobacco, the downward trend signals improving effectiveness of tax administration and enforcement of measures to secure the supply chain for cigarettes.
- **Decreases in the Montenegrin illicit market very likely also negatively affected the overall supply of illicit cigarettes in Bosnia and Herzegovina,** and potentially other countries in the region.

### Tackling illicit trade in Montenegro

Montenegro has become a leader in the fight against illicit cigarette trade in recent years. Until 2019, Montenegro had one of the highest estimated shares of

illicit cigarette consumption in Europe.<sup>2</sup> In response, the government implemented a coordinated package of reforms:<sup>3</sup>

- **Supply-chain controls:** Restrictions on the storage and transit of tobacco products in free-trade zones, including the Port of Bar, closed long-standing smuggling loopholes.
- **Stronger enforcement:** Customs and law-enforcement agencies were strengthened through better coordination, targeted operations, and improved risk analysis.
- **International alignment:** Policies were aligned with the WHO Framework Convention on Tobacco Control (FCTC) and the Protocol to Eliminate Illicit Trade in Tobacco Products.
- **Predictable excise policy:** By design, the government increased excise taxes steadily, with legislation passed in late 2025 that introduces another substantial, semi-annual increase in cigarette excise taxation in the period 2026-2028. In the first year of implementation, the calendar will lead to a notable increase in the specific excise tax, with the rate rising by around 21% by the end of 2026 compared to the current rate. Over the full implementation period, the specific excise tax will increase by almost 61%, reflecting a significant strengthening of tobacco taxation policy. The ad valorem rate remains unchanged at 24.5%. In parallel, the Law defines the evolution of the minimum excise burden per 1,000 cigarettes, which will reach EUR 105.16 by the end of 2026 and EUR 130.26 by mid-2028.

As a result of these measures, the illicit share of the cigarette market in Montenegro declined substantially, legal sales expanded, and excise revenues increased sharply (Table 1). These gains improved fiscal space and reinforced tobacco control objectives by also reducing supply of and access to cheap illicit cigarettes.

### Shrinking illicit market in Bosnia and Herzegovina

Bosnia and Herzegovina has long faced high levels of illicit tobacco consumption, particularly for hand-rolled and fine-cut tobacco. Estimates from 2019 suggested that illicit products accounted for roughly one third of total consumption.<sup>5</sup> Recent Economics for Health-supported survey data indicate a marked improvement.<sup>4</sup> By 2025, illicit cigarette consumption is estimated to have fallen to below 10% of total consumption. This represents a significant structural shift compared with the pre-2020 period. Contributing factors include:

- Improved excise stamp management.

- Increased inspections and enforcement at the retail level.
- Gradual strengthening of tax administration.

Despite ongoing governance and coordination challenges, the recent decline suggests that continued investment in enforcement and monitoring can yield substantial returns in reducing the illicit cigarette trade (Table 1).

**Table 1. Illicit trade and relevant indicators**

Indicator	Montenegro	Bosnia & Herzegovina
Illicit cigarette share (peak vs recent)	~51% (2019) → ~22–26% (2022)	~32.3% (2019) → ~8.4% (2025)
Excise revenue trend	Increasing: 46.3 million euros in 2019 to 119.2 million euros in 2024	Increasing: 443.39 million euros in 2019 to 583.35 million euros in 2024
Policy shift	Since 2021, the production, storage, trading, and transit of all tobacco and tobacco products have been fully prohibited (the rules concerning transit were additionally incorporated into the Free Trade Zone Law in 2026); introduction of tracking system in 2026	Tax/administrative reforms, enforcement efforts
International frameworks used	Ratified WHO FCTC in 2006; Ratified Protocol to eliminate the Illicit Trade in Tobacco Products in 2017	Ratified WHO FCTC in 2009; in 2025 started the process of ratification of Protocol to eliminate Illicit trade in Tobacco Products

### Relevance for the EU Tobacco Taxation Directive discussions

The experiences of Montenegro and Bosnia and Herzegovina are particularly relevant in the context of the ongoing negotiations on the revision of the EU Tobacco Taxation Directive (TTD). In policy debates surrounding tobacco tax increases, illicit trade is frequently cited as a potential risk and used as an argument against stronger excise taxation. However, the evidence from the Western Balkans demonstrates that illicit trade is primarily driven by

weaknesses in governance, enforcement, and supply-chain control rather than by tax levels alone. Both Montenegro and Bosnia and Herzegovina achieved significant reductions in illicit cigarette markets while simultaneously strengthening excise policies and increasing tobacco tax revenues. These cases illustrate that well-designed tax policy, combined with robust enforcement and supply-chain oversight, can reduce illicit trade and improve public health outcomes. As EU Member States discuss the calibration of minimum excise rates under the TTD, these experiences reinforce the importance of focusing on effective implementation and enforcement rather than limiting the ambition of tobacco tax reforms due to concerns about illicit trade.

### Key Takeaways

The experiences of Montenegro and Bosnia and Herzegovina offer several clear lessons:

1. **Cigarette excise tax policy and supply chain control work together:** When implemented alongside strong tax policy enforcement and cigarette supply-chain controls, tax increases are associated with declining illicit market shares and higher government revenues. The decline in cigarette consumption—though substantial—is proportionally less than the size of the cigarette tax increase, driving up revenues. At the same time, some users of illicit cigarettes substitute to licit cigarettes, which also increases excise tax revenues.
2. **High impact of stronger governance and corresponding support for sound policies:** Investments in customs capacity, enforcement, and supply-chain control can rapidly reduce illicit trade.
3. **Revenue and health gains go together:** Reduced illicit trade increases excise revenues while strengthening public health outcomes through lower consumption.
4. **Importance of sustainability:** Strong domestic revenue mobilization from tobacco taxes reduces long-term reliance on external financing for health systems.
5. **Regional relevance in illicit markets:** Given cross-border trade dynamics, support for regional cooperation amplifies national efforts.

## References

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## Suggested Citation

Economics for Health & Smoke-Free Partnership. (2026). Mitigating illicit trade – success in Montenegro and Bosnia and Herzegovina. [www.economicsforhealth.org/research/mitigating-illicit-trade-success-in-montenegro-and-bosnia-and-herzegovina/](http://www.economicsforhealth.org/research/mitigating-illicit-trade-success-in-montenegro-and-bosnia-and-herzegovina/)

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