

Raising Tobacco Taxes in FY 2026-2027: Protecting Health and Financing Government Reform

Raising tobacco taxes would:



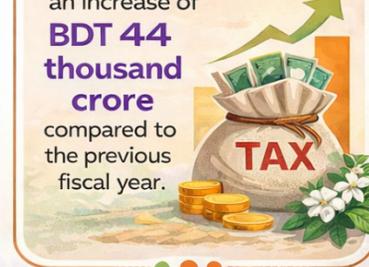
Encourage nearly
0.5 million adults
to quit smoking and deter
more than **372,000**
from starting.



Save
371,700 lives
including
185,408 current adults
and **185,335 youths**
from premature deaths



Generate over
BDT 85 thousand crore
in tax revenue,
an increase of
**BDT 44
thousand
crore**
compared to
the previous
fiscal year.

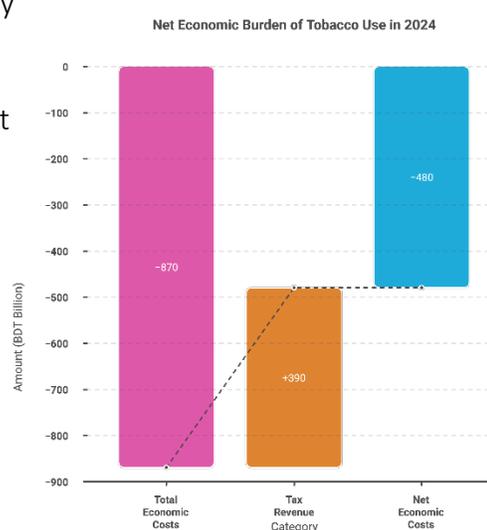


Raising Tobacco Taxes in FY 2026-2027: Protecting Health and Financing Government Reform

- Bangladesh is one of the largest tobacco consuming countries in the world.
- The prevalence of tobacco use in Bangladesh is the highest among South Asian countries, with a rate of 35.3%, compared to 28.6% in India and 19.1% in Pakistan (GATS, 2017) and 18% currently smoke tobacco (GATS, 2017).

Tobacco use in Bangladesh is deadly and costly.^{i, ii}

- In 2024, tobacco use was responsible for an estimated 199.15 thousand deaths, which is about 18.27% of total deaths¹.
 - Of tobacco-related deaths, approximately 79.1% were due to smoking, and 20.9% were due to second-hand smoke².
- The total economic cost of tobacco use from lost productivity and direct healthcare costs of smoking related illnesses and environmental costs was estimated at BDT 870 billion (87 thousand crore) in 2024, while tobacco tax revenues from the Supplementary Duty and VAT were less than BDT 400 billion (40 thousand crore) in the same year³. In other words, the health and environmental costs of tobacco were more than 115% greater than the tax revenue collected.
- If Smokeless Tobacco (SLT) is included in the calculation, the total economic cost would be much higher than 87 thousand crore.



The current tobacco tax structure in Bangladesh is complex,ⁱⁱⁱ and is inadequate to discourage tobacco use,^{iv} and does not optimize revenue collection.

- The current tobacco tax structure is a complex multi-tiered ad-valorem excise tax with large variations in prices. The tax rates are based on:
 - the type of tobacco product (cigarettes, *bidis*, and smokeless tobacco);
 - the product characteristics (filter or without filter); and
 - the cigarette price band (low, medium, high and premium priced brands).
- The multi-tiered tax system for cigarettes has resulted in:

¹ <https://tobaccoatlas.org/factsheets/bangladesh/>

² <https://www.healthdata.org/research-analysis/health-by-location/profiles/bangladesh>

³ Shimul, S. N., Kibria, A., Nowshin, F., Drope, J., Malik, S. (2026). The Economic Costs of Tobacco Use in Bangladesh: An Updated Estimate Including Health and Environmental Damages (Economics for Health Working Paper No. 26/3/1). IHE & EFH. www.economicsforhealth.org/research/the-economic-costs-of-tobacco-use-in-bangladesh-an-updated-estimate-including-health-and-environmental-damages/

- Affordable cigarettes remaining readily available to consumers, especially youth and lower-income tobacco users;
- mostly stable cigarette sales per adult in recent years, but with some increases in low and medium tiers recently; and
- less than optimal increases in government revenues.

The most effective way to reduce tobacco use is to raise the prices of all tobacco products through tax increases that lower their affordability.

- At a minimum, price growth in each tobacco product must outpace the combination of real income growth and inflation.
- Higher prices discourage youth from initiating tobacco use and encourage current users to quit.

Recommendations for cigarette tax system⁴

Recommendation for 2026-2027: Merge the low- and medium tiers and set the Maximum Retail Price (MRP) to BDT 100; for the premium tier, set the MRP to BDT 200 (Table 1); and impose a uniform BDT 4 specific tax per pack for all tiers.

Table 1: Tobacco Tax Policy Proposal for FY 2026–27

Cigarette type	2025– 26		2026-27 (Proposed)		
	Final Price	Excise tax (%)	Final Price	Excise tax (%)	Specific Tax (per pack of 10 sticks) BDT
PREMIUM	185	67.0	200+	67.0	4
HIGH	140	67.0	150	67.0	4
MEDIUM	80	67.0	100	67.0	4
LOW	60	67.0			

If the Government of Bangladesh reforms the current cigarette tax system following these recommendations in FY 2026-2027, it would achieve the following:

- Encourage nearly 0.5 million adults to quit smoking and prevent more than 372,000 youths from initiating tobacco use.
- Save over 371,700 lives in the long term, including 185,408 current adults and 185,335 youths, by preventing premature tobacco-related deaths.
- Reduce the tobacco prevalence by about 0.5 percentage points.
- Generate more than BDT 85 thousand crore in tobacco tax revenue, representing an additional BDT 44 thousand crore compared with the previous fiscal year.

Bangladesh has committed to achieve tobacco-related targets under the Global Action Plan for the Prevention and Control of NCDs and the Sustainable Development Goals (SDGs)^{v viii}. The proposed cigarette tax reform not only promotes public health by fostering a healthier population but also serves as a powerful tool to generate substantial additional revenue. This revenue can be directed toward financing Bangladesh's health and development priorities and programs while simultaneously enhancing the sustainability and efficiency of the tax system.

⁴ See Shimul, S. N., Hussain, A. G., & Nargis, N. (2022). The Bangladesh Cigarette Tax Simulation Model (BDTaXSiM): A practitioner's guide for detailed explanation of the process available at <https://tobacconomics.org/files/research/813/bangladesh-taxsim-model-technical-note.pdf>

ECONOMIC JUSTIFICATIONS OF CURRENT PROPOSAL

Merger of Low and Medium Tiers Enhances Efficiency

The proposed merger reduces the complexity of the tax system—a benefit for administration—and prevents smokers from substituting between closely priced low- and medium-tier products. With a uniform MRP of BDT 100, the policy targets the most consumed cigarette segment, which dominates the market.

Alignment with National Priorities of the Tax-GDP Ratio and the Need to Reach Budget Goals

The proposed increase in cigarette taxes offers a significant opportunity to enhance government revenue and improve the tax-to-GDP ratio. Bangladesh's government has been grappling with fiscal challenges, including a low tax-to-GDP ratio by global standards. By implementing this proposal, the government can generate additional revenue while addressing its budgetary challenges. For example, this additional revenue can be used to improve universal health coverage or to support other priorities of the new government.

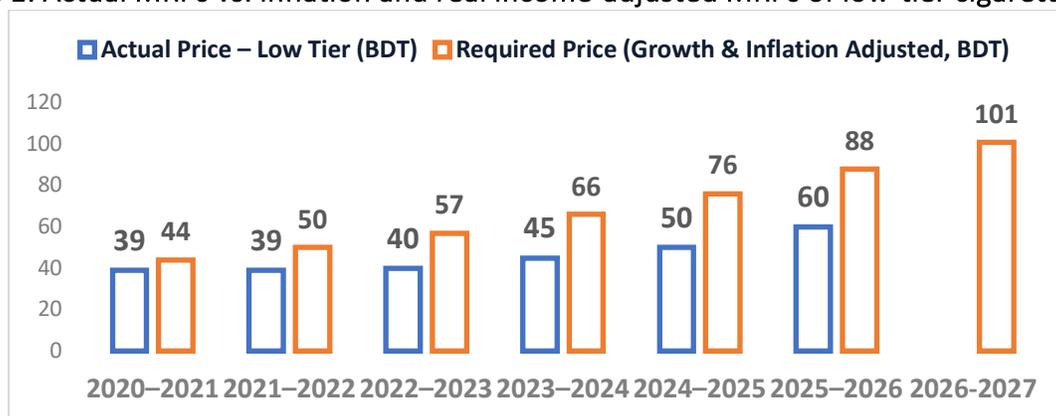
Financing Health Sector Reform

The proposed tobacco tax reform would generate a substantial BDT 44 thousand crore in additional revenue, creating a strong opportunity to strengthen Bangladesh's health sector. Public health spending remains low, while tobacco use continues to drive preventable healthcare costs and productivity losses. By taxing tobacco more effectively, the government can both reduce future disease burden and mobilize sustainable financing for health system reforms—such as strengthening primary healthcare, expanding services to address non-communicable diseases, and reducing out-of-pocket spending. This approach delivers a clear double dividend: improved public health outcomes and enhanced fiscal space to support health sector reform without burdening essential goods or productive sectors.

Economic Context and Adjusted Affordability

The proposed increases in tobacco taxes are moderate when inflation and income growth are considered. From 2016 to 2022, Bangladesh experienced a substantial 103% increase in average monthly household income, with a corresponding 93% increase in per capita income. In recent years, annual inflation surged to more than 10%. Notably, cigarette prices, particularly in the low-tier cigarette segment, have not kept pace with these economic changes, making these products significantly more affordable (Figure 1).

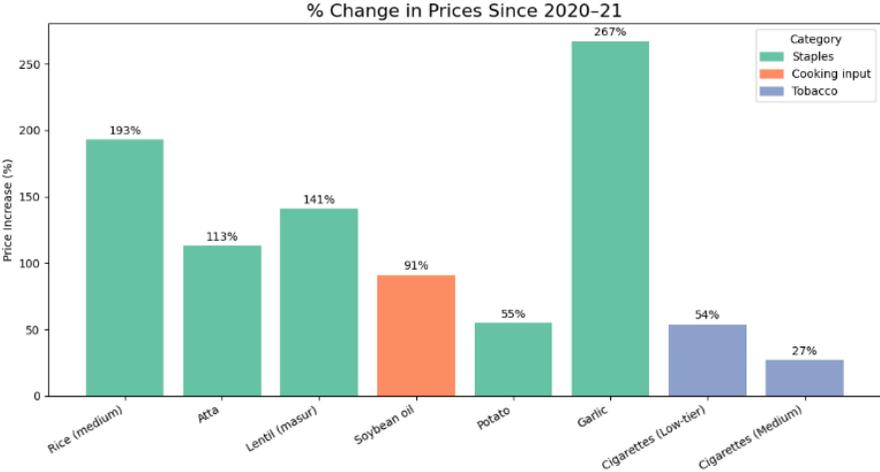
Figure 1: Actual MRPs vs. inflation and real income-adjusted MRPs of low-tier cigarettes



These low prices have helped sustain high consumption and undermine the public health objectives of tobacco tax policy. Moreover, despite experiencing limited income growth due to worsening inequality, low-income individuals faced higher inflation for other goods, particularly food. As a result, cigarettes became even more affordable compared to daily necessities.

In real terms, this proposal likely does not go far enough to address this crisis of affordability. If the government wishes to return to the same level of affordability as in the pre-COVID period, the MRP of low-tier cigarettes should be set at about BDT 101, which is similar to the currently proposed MRP. Figure 1 compares the actual MRPs in the low segment over time (blue bar) to what the price needed to be (orange bar) after adjusting for real income growth and inflation to ensure that cigarettes do not become more affordable. Therefore, the proposed price is not excessively high as it might initially seem without careful consideration. In addition, while the prices of essential goods almost doubled or tripled since 2020/21, there has been only 20-30% increase in cigarette prices of low and medium tiers (Figure 2)⁵.

Figure 2: Comparison of Price Increases in Essential Goods and Cigarettes, 2020/21–2024/25

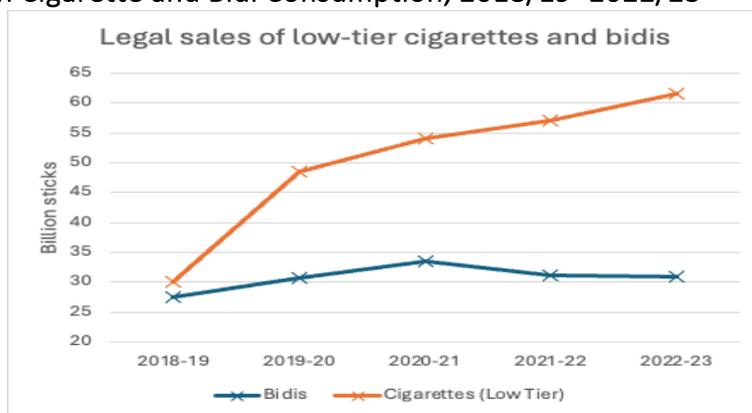


Note: Affordability-adjusted price means both real income growth and inflation are taken into account. Source: Bangladesh Economic Review, Ministry of Finance, Government of Bangladesh (various years).

Furthermore, given that domestic producers hold only a minimal market share even within the low- and medium-tier segments, a larger price increase in these tiers would be unlikely to significantly affect domestic producers, despite frequent claims to the contrary.

⁵ Source: Department of Agricultural Marketing (DAM), Government of Bangladesh.

Figure 3: Trends in Cigarette and Bidi Consumption, 2018/19–2022/23



Revenue Implications of Historical Neglect

The lack of alignment between tobacco tax increases and broader economic changes has had tangible consequences for government revenue. The current tax structure fails to prioritize tobacco revenue growth, as MRP annual adjustments have lagged inflation and income growth. This policy inertia has limited the government’s ability to capture the full tax revenue potential of the tobacco market, representing a missed opportunity to fund essential health, social, and other development priorities.

Cigarette smokers will not switch to cheaper versions of tobacco, such as bidis, as often believed

Contrary to concerns, data from the past five years show that price increases in the low and medium tiers have not led to significant substitution to bidis. Despite continued increases (though small) in cigarette prices in the lower tier, we have not seen this substitution in sales. In fact, low tier cigarette sales have continued to increase while *bidis* sales have dropped (Figure 3). This evidence underscores that raising prices in these tiers will primarily reduce total tobacco consumption rather than encourage switching from cigarettes to *bidis*. A recent study^{vi} found no evidence of such substitution as *bidi* is now regarded by many as a symbol of low socio-economic status.

Alternative scenario

An alternative scenario that matches cigarette affordability at the pre-COVID levels could set the MRP at a higher level (e.g., BDT 110 for the merged tier). This scenario would generate an additional 5 thousand crore and larger health gains. Increasing the price of premium and high tiers to BDT 220 and BDT 160 respectively would make a smaller increase (approx. one thousand crore) in total revenue.

Further Tax Recommendations

Additional tax policy changes would further advance tobacco taxation policy which is necessary for Bangladesh to align with global best practices, reduce use and save lives, including:

- *Shifting from an ad valorem tax system to a uniform specific tax system that is regularly (i.e., at least annually) adjusted for inflation and real income growth.*
- Reducing the gap between tiers to start with the eventual goal of merging all tiers to create a uniform structure.

- Substantially increasing the tax and price of *bidis* to reduce the gap with the cheapest cigarettes.
- Substantially increasing the tax and price of smokeless tobacco products and improving the enforcement of tax policy on smokeless tobacco.

ⁱ Nargis N, Faruque GM, Ahmed M, Huq I, Parven R, Wadood SN, Hussain AG, Drope J. A comprehensive economic assessment of the health effects of tobacco use and implications for tobacco control in Bangladesh. *Tobacco Control*. Published Online First: 02 March 2021. doi: 10.1136/tobaccocontrol-2020-056175.

ⁱⁱ Hussain AKM Ghulam, Rouf ASS, Shimul SN, Nargis N, Kessaram TM, Huq SM, Kaur J, Sheikh MKA, Drope J. The economic cost of tobacco farming in Bangladesh. *International Journal of Environmental Research and Public Health*. 2020, 17, 9447; doi:10.3390/ijerph17249447.

ⁱⁱⁱ Budget documents of Government of Bangladesh 2011-2021.

^{iv} Nargis N, Hussain AKMG, Goodchild M, Quah ACK, Fong GT. A decade of cigarette taxation in Bangladesh: lessons learnt for tobacco control. *Bulletin of the World Health Organization*. Available online at: https://www.who.int/bulletin/online_first/18-216135.pdf?ua=1.

^v United Nations. *Transforming Our World: the 2030 Agenda for Sustainable Development*. New York, United National General Assembly; 2015.

^{viii} World Health Organization. *Health in 2015: From MDGs, Millennium Development Goals to SDGs, Sustainable Development Goals*. Geneva, World Health Organization; 2015.

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^{vi} Shimul, SN, Popova, L., Huang, J. Price Elasticity of Cigarette Demand in Bangladesh: Assessing the Impact of Tobacco Taxes and Graphic Warning Labels Using a Volumetric Choice Experiment. Presented at SRNT, Louisiana, USA, March 2025.