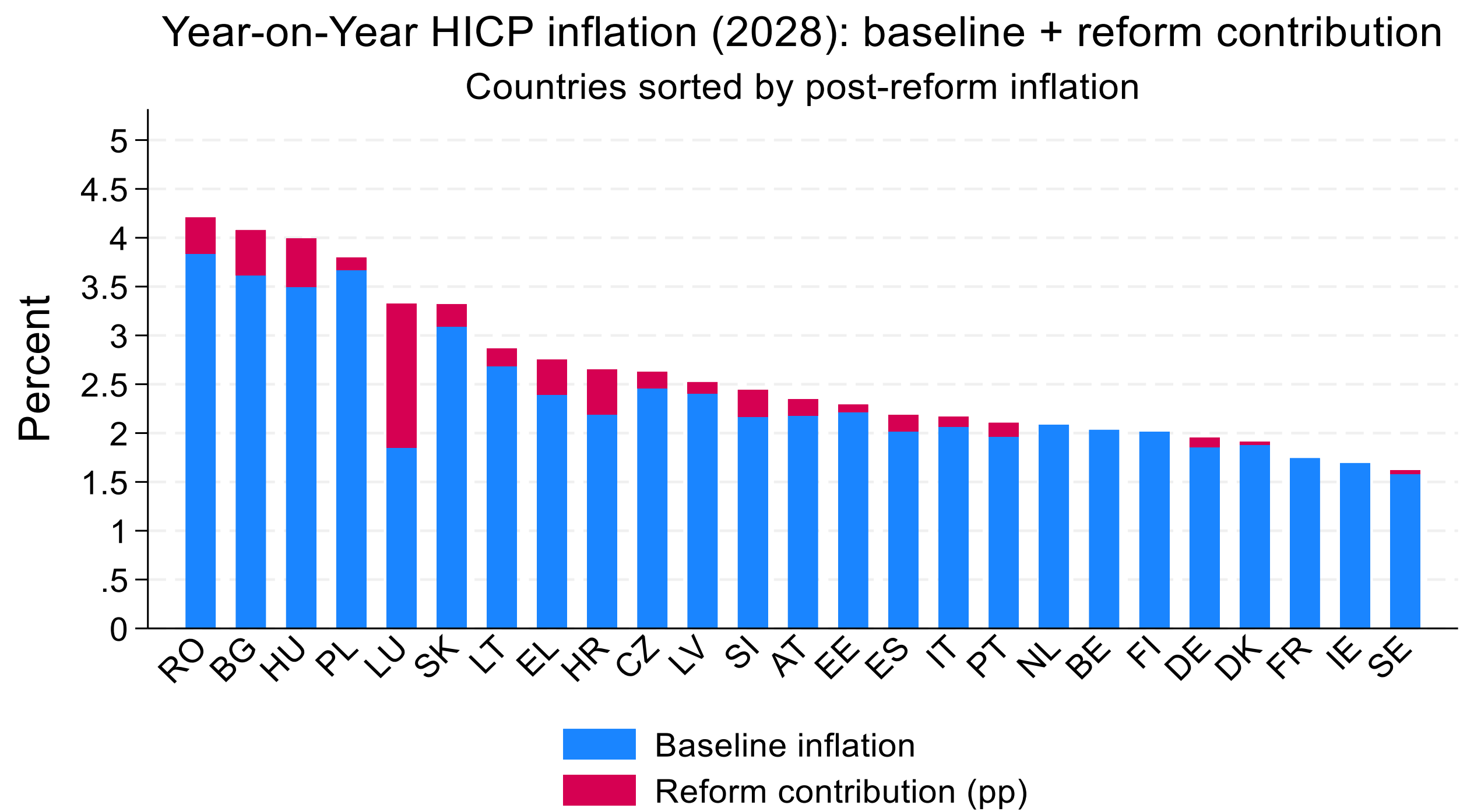




# The Tobacco Tax Directive Reform and Inflation: A Modest and Temporary Effect

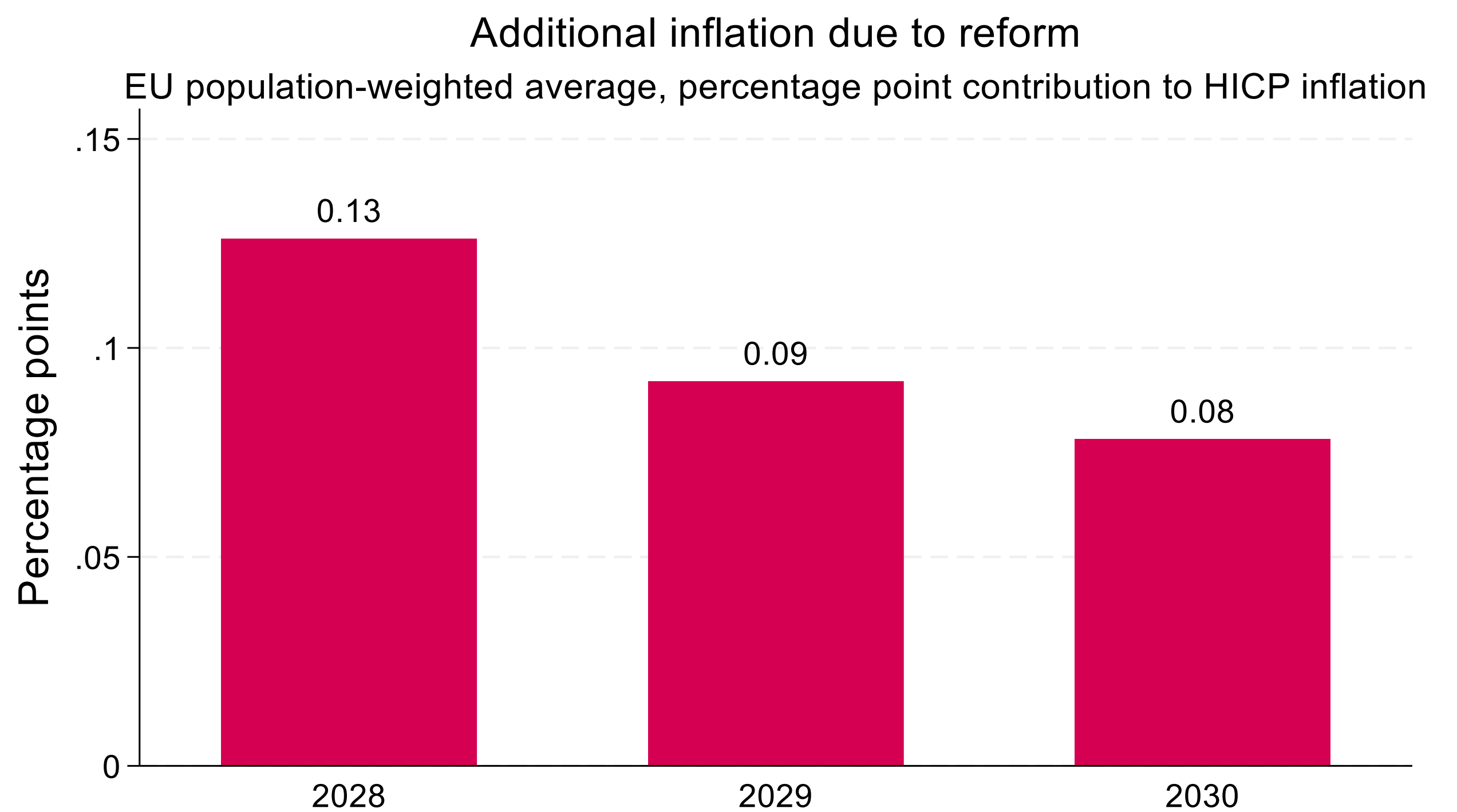
## Cross Country Effects in 2028

- The reform increases inflation modestly across Member States
- Effects remain well below 1 percentage point in almost all countries
- Luxembourg stands out due to low starting tax rates and the outsized weight of tobacco expenditure caused by sales to non-residents



## EU Average Effect

- Peak annual impact of around 0.13 pp in 2028
- Effect declines as taxes are passed through to prices gradually
- Total price level increases by about 0.3 pp over 2028-2030
- Impact is small relative to normal inflation fluctuations



These effects reflect a one-off adjustment in an expenditure category with a very small weight in consumers' baskets

## Policy implications

- The reform does not generate significant or persistent inflationary pressures
- Concerns about inflation should be assessed in proportion to their magnitude
- Clear communication is needed to avoid misinterpretation of price effects

## Acknowledgements

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