

ALCOHOL TAX CHANGES IN MONTENEGRO: SOCIOECONOMIC IMPACTS AND FISCAL GAINS

BACKGROUND: TAX INCREASES NEEDED TO CURB HIGH ALCOHOL CONSUMPTION

Alcohol consumption in Montenegro is widespread and significantly exceeds both global and European averages, with consumption among adults at 10.34 liters of pure alcohol on average annually.¹ This high level of consumption is particularly alarming among youth, where binge drinking and high prevalence rates are a growing concern.² Additionally, there is a risk that the increasing affordability of alcoholic beverages will further undermine the effectiveness of existing tax measures.

Table 1. Alcohol excise taxes

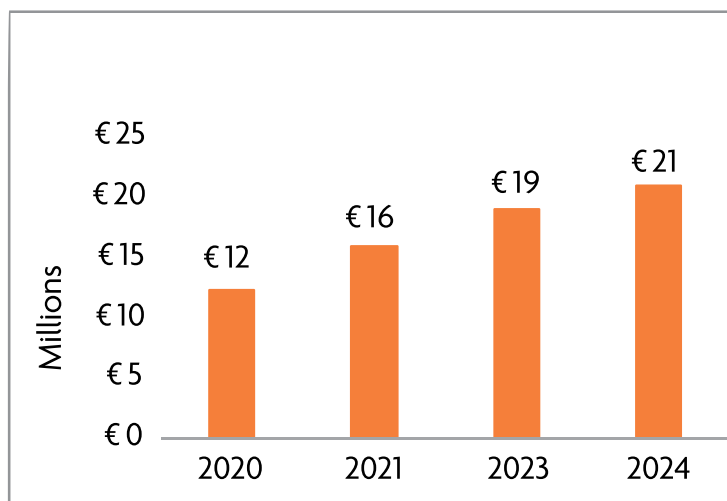
Alcohol-content-based specific excise tax (per hectoliters of pure alcohol)	
Spirits	€ 1,250
Beer	€ 5
Volume-based specific excise tax (per hectoliter)	
Sparkling wine	€ 35
Still wine	€ 25

1) WHO. (2019). Alcohol, total per capita (15+) consumption (in liters of pure alcohol) (SDG Indicator 3.5.2). [https://www.who.int/data/gho/data/indicators/indicator-details/GHO/total-\(recorded-unrecorded\)-alcohol-per-capita-\(15-\)-consumption](https://www.who.int/data/gho/data/indicators/indicator-details/GHO/total-(recorded-unrecorded)-alcohol-per-capita-(15-)-consumption)

2) Institute for Public Health. (2017). Izvještaj o kvalitetu života, životnim stilovima i rizicima. Institut za javno zdravlje Crne Gore. <https://www.ijzcg.me/me/izvjestaji/izvjestaj-o-kvalitetu-zivota-zivotnim-stilovima-i-rizicima>

Figure 1. Alcohol excise tax revenue

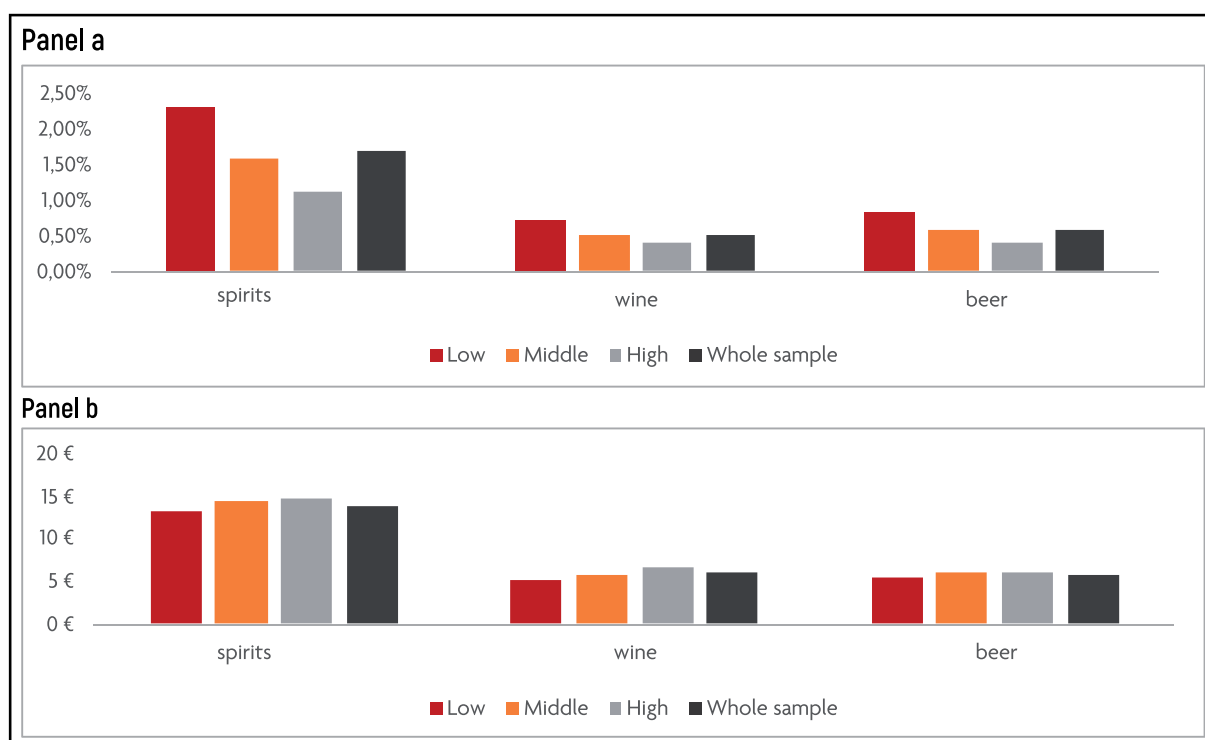
While Montenegro's excise rates on alcoholic beverages exceed the European Union's (EU) minimum requirements, they remain low compared to most EU countries, underscoring the need for further reform.³ Raising excise taxes further would not only help reduce consumption but also provide an opportunity to generate additional revenue for public health and other initiatives.



PATTERNS OF CONSUMPTION AND RISING AFFORDABILITY

Analysis of Montenegro's alcohol consumption patterns, using household budget survey (HBS) data, reveals significant disparities across income groups. Lower-income households allocate a disproportionate share of their budget to alcohol, especially spirits, making them more vulnerable to alcohol-related harms and sensitive to price changes. Higher-income households consume more expensive products and spend more in absolute terms. Beer is the most consumed alcoholic beverage in all three income groups, while spirits account for the highest budget share due to their higher cost.

Figure 2. Budget share (**Panel a**) and real expenditure (**Panel b**) of alcoholic beverages monthly per household by income groups



Between 2020 and 2023, alcohol affordability rose sharply as income growth outpaced price increases. The affordability of spirits increased by 16.24 percent, and beer affordability grew by

³ European Commissions. (2023). Taxes in Europe Database v3. https://ec.europa.eu/taxation_customs/tedb/taxSearch.html

745 percent. These trends illustrate how the current taxation framework has to be adjusted to keep pace with economic conditions, underscoring the need at the very least for indexed tax adjustments to counteract affordability gains.

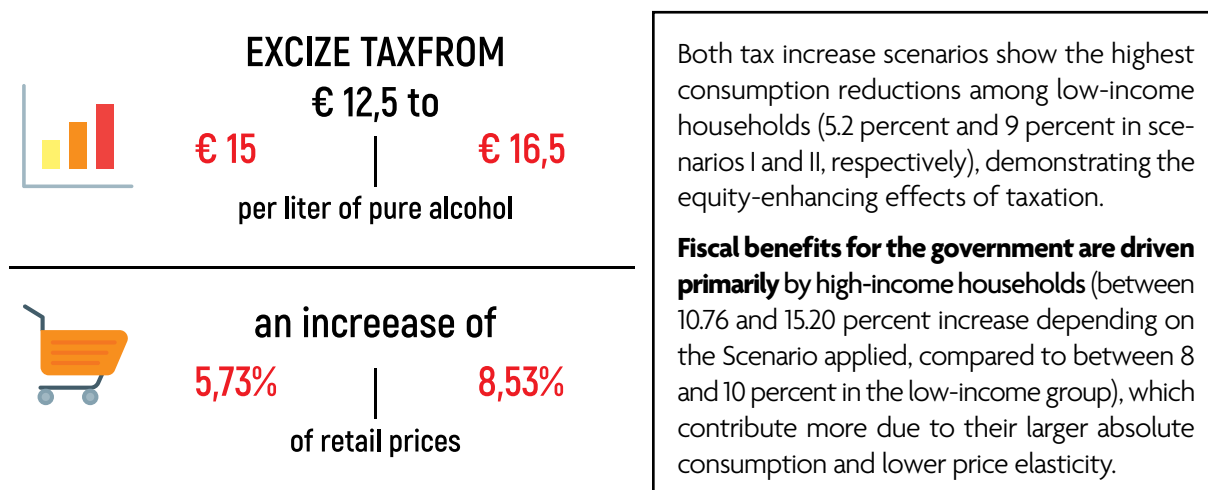
ELASTICITY OF ALCOHOL DEMAND: WHO IS MOST AFFECTED BY PRICE CHANGES?

Using a two-part model, the study estimates the own-price and income elasticities of alcohol demand across three income groups:

- **Spirits:** Lower-income households exhibit the highest sensitivity to price changes, with a total price elasticity of -1.10 compared to -0.94 and -0.68 for middle and high-income households, respectively. Thus, a 10-percent price increase would reduce spirits consumption by approximately 11 percent among lower-income households and 6.8 percent among higher-income groups.
- **Wine and beer:** Price increases will lead to a reduction in the quantity of wine and beer consumed only among low-income households, highlighting the progressive impact of taxation on this demographic.

These findings affirm the progressive nature of alcohol taxation, as lower-income groups, which bear the greatest burden of alcohol-related harm, would reduce consumption most in response to price increases.

Simulating Tax Scenarios: Impact of spirits tax increase on consumption and government revenues



Income group	Change in Consumption (%)	Change in Total Government Revenue (%)	Change in Consumption (%)	Change in Total Government Revenue (%)
	↓	↑	↓	↑
Low	-5,20	7,95	-8,96	10,00
Middle	-4,69	8,53	-7,35	11,93
High	-2,73	10,76	-4,65	15,20
Total	-4,18	9,12	-6,92	12,46

ALCOHOL INDUSTRY COUNTERARGUMENTS

The alcohol industry often argues that raising alcohol taxes is regressive, disproportionately impacting lower-income groups. However, evidence clearly demonstrates the opposite: lower-income groups benefit most from reduced consumption due to higher price sensitivity. A progressive tax system can improve health outcomes, particularly among the most vulnerable populations.

Furthermore, the claim that tax increases would reduce government revenue is not supported by empirical data from Montenegro or other countries, which show that higher excise taxes can both raise revenue while simultaneously reducing consumption.

RECOMMENDATIONS FOR POLICY MAKERS

- 1. Increase and index excise taxes:** Increase excise taxes on alcoholic beverages, particularly spirits, and index them to inflation and income growth to prevent affordability gains over time. Even better, the index above the combination of inflation and income growth to make these harmful products less affordable.
- 2. Allocate revenues for public health:** Dedicate a portion of alcohol tax revenues to prevention and treatment programs focusing on youth cessation support for low-income populations.
- 3. Complement taxation with non-price measures:** Enforce stricter regulations on alcohol advertising, access, and availability (such as age restrictions and limited retail hours), alongside public awareness campaigns highlighting the risks of alcohol use.
- 4. Target youth consumption:** Launch educational initiatives aimed at deterring early alcohol use, reducing binge drinking, and promoting healthier behaviors among young people.
- 5. Address unrecorded alcohol:** Strengthen enforcement mechanisms against unregistered production and cross-border smuggling, which undermine tax policy effectiveness and public health goals.
- 6. Monitor and evaluate policy impact:** Establish systems to assess the outcomes of alcohol tax policies on consumption, health, and revenue, ensuring their continued relevance and effectiveness.

CONCLUSION

By aligning alcohol taxation with public health and fiscal objectives, Montenegro can address the dual challenges of excessive alcohol consumption and rising affordability. Progressive tax reforms would not only reduce consumption and associated harms among the most vulnerable populations but also generate sustainable revenues to fund essential public services such as prevention, treatment, and cessation-support programs. These measures would be an important contribution to a healthier and more equitable society for all.

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