

## POLICY BRIEF

### Fiscal Policies' Impacts on Albanian Household Economic Well-being

#### Highlights

Increasing tobacco excise taxes can lead to shifts in household spending that contribute positively to social and economic development. Higher excise rates drive down cigarette consumption, thereby lowering tobacco-related expenditures. With these additional funds, households consistently increase spending on housing, education, and clothing and decrease alcohol spending over time. More specifically, higher excise rates on cigarettes are forecasted to have the following effect on the Albanian economy, in terms of overall spending for Albanian households, by 2030:

- **Housing** spending increases by ALL 178 million at a 4-percent increase in excise tax, ALL 310 million at 5 percent, and ALL 442 million at 6 percent.
- **Education** spending increases by ALL 323 million at 4 percent, ALL 564 million at 5 percent, and ALL 803 million at 6 percent.
- **Clothing** spending rises moderately by ALL 118 million at 4 percent, ALL 206 million at 5 percent, and ALL 294 million at 6 percent.
- **Alcohol** spending declines by ALL 114 million at 4 percent, ALL 199 million at 5 percent, and ALL 283 million at 6 percent.

#### Background

Albania has a notably high prevalence of smoking, particularly among men, with 42 percent of males identifying as smokers, compared to just 7 percent of women. These rates significantly exceed global and OECD averages. The male smoking rate is also significantly higher than the European Union average. Smoking is especially prevalent among young men aged 25 to 34, with nearly half of this group engaging in regular tobacco use. For most smokers in Albania, regular smoking begins before the age of 18 (DSA, 2019).

Smoking is a major risk factor for numerous noncommunicable diseases, including cancers, cardiovascular diseases, and chronic respiratory conditions. It remains one of the leading preventable causes of premature death globally (in many countries, it is the leading cause), resulting in a significant health and economic burden in Albania. The country spends approximately ALL 223 million annually on smoking-related health care costs, primarily for drug treatments. Additionally, the public health system faces further financial strain, with an estimated ALL 11.2 billion in smoking-attributable hospitalization costs (Merkaj et al., 2023).

International research has highlighted the “crowding out” effect of tobacco spending, in which households reduce expenditures on essentials like clothing, housing, and food. In Albania, non-smoking households prioritize spending on housing and education, while smoking households—in addition to the obvious spending on tobacco—also allocate more to alcohol. These findings

suggest that smoking significantly influences household spending choices (Merkaj & Imami, 2024).

Given these insights, it is expected that increasing tobacco taxes would reduce smoking consumption and prevalence and generally shift household spending towards key areas like housing, education, and clothing and away from alcohol. This policy brief explores the potential impact of tobacco taxation on these spending patterns, assessing the overall spending effects.

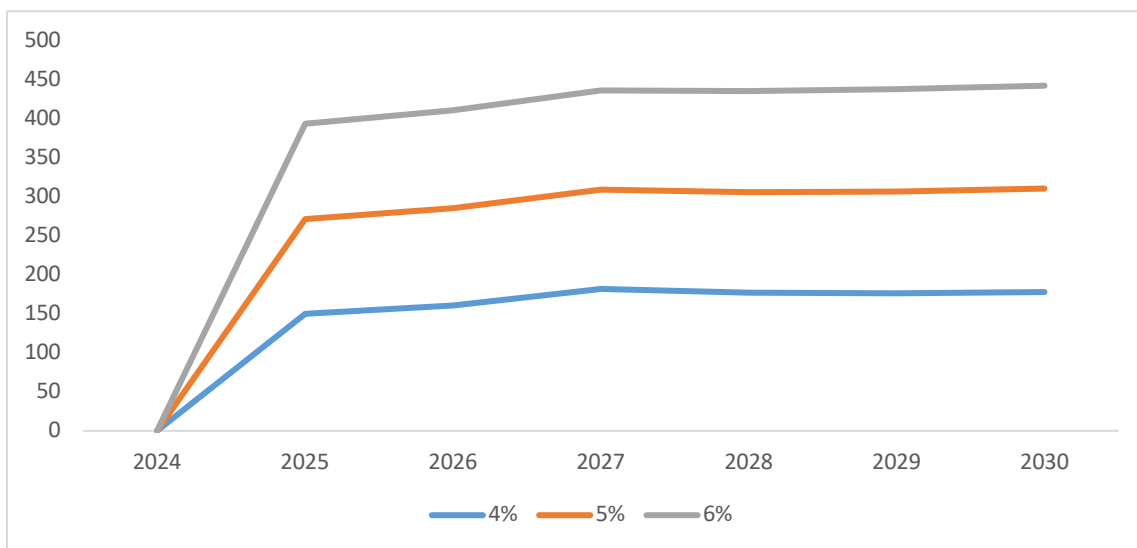
### Tobacco-related health costs in different fiscal policy scenarios

Increasing tobacco excise taxes significantly influences household spending patterns, as higher taxes lead to reduced smoking consumption and prevalence. This shift results in reallocation of household budgets towards other needs and priorities. Simulation scenarios provide insights into these effects across various spending categories.

#### Housing

Higher tobacco excise taxes drive increased spending on housing, reflecting the resources freed up as individuals quit or reduce smoking. If the excise rate on tobacco increases by 4 percent annually, housing expenditures would rise moderately, reaching ALL 178 million (yearly) by 2030. A 5-percent excise increase would result in a larger expenditure increase, reaching ALL 310 million, while a 6-percent excise increase would lead to the highest growth, at ALL 442 million. These trends illustrate how higher excise rates consistently promote greater spending on housing over time.

**Figure 1.** Spending on housing, by excise increase scenario (million ALL/year)

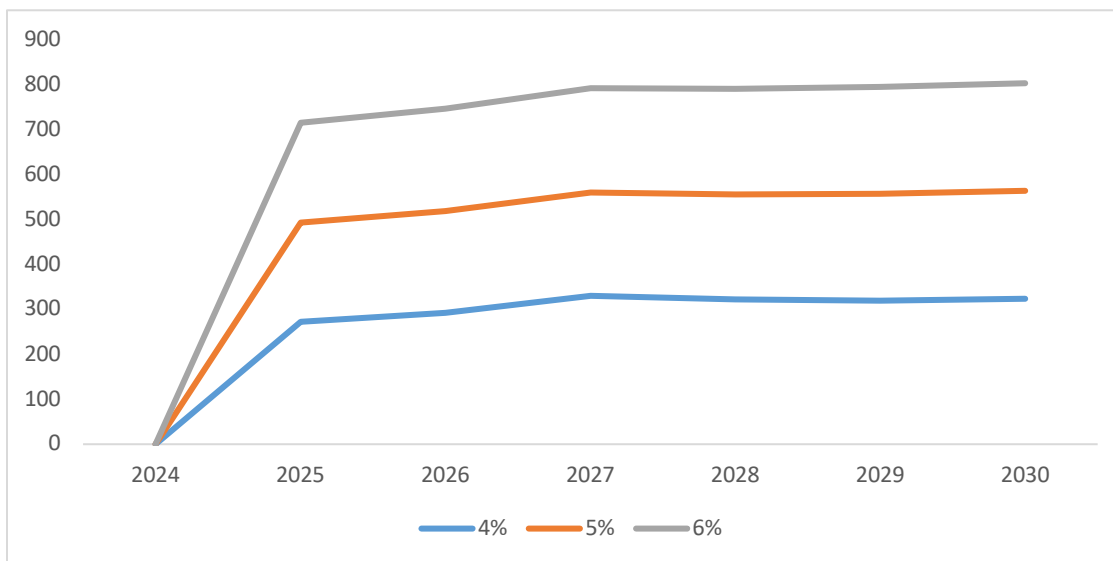


Source: Authors' calculations

## Education

Spending on education also increases with higher tobacco excise rates, as households reallocate funds from smoking to long-term priorities like education. A 4-percent excise increase would lead to a moderate rise, reaching ALL 323 million of total yearly spending by 2030. With a 5-percent excise increase, total yearly spending on education spending would increase more significantly, reaching ALL 564 million. The 6-percent excise increase would generate the largest impact, driving total yearly education expenditures to ALL 803 million by 2030.

**Figure 2.** Spending on education, by excise increase scenario (million ALL/year)

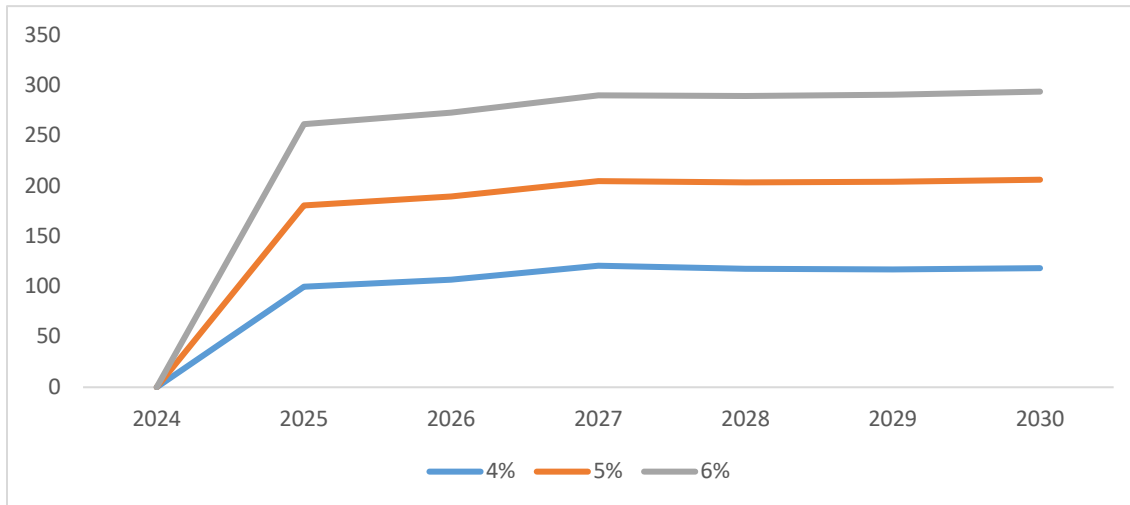


Source: Authors' calculations

## Clothing

Tobacco excise taxes also lead to higher spending on clothes, another area benefiting from reduced smoking prevalence. At a 4-percent excise rate increase, clothing expenditures would grow moderately, reaching a total of ALL 118 million (yearly) by 2030. A 5-percent excise increase would result in a greater increase, at ALL 206 million, while a 6-percent excise increase would drive the largest rise, reaching ALL 294 million.

**Figure 3.** Spending on clothing, by excise increase scenario (million ALL/year)

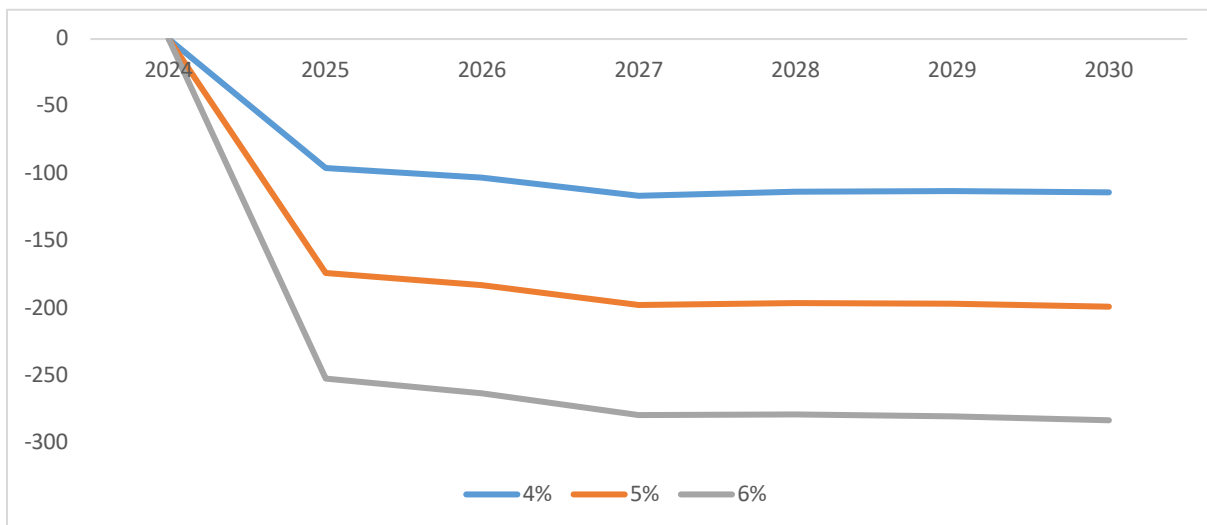


Source: Authors' calculations

### Alcohol

In contrast, tobacco excise increases lead to reduced spending on alcohol, reflecting broader behavioral shifts as smoking declines. At a 4-percent excise increase, alcohol spending would decrease moderately, by ALL 114 million by 2030. A 5-percent excise increase would produce a larger reduction of ALL 199 million, while a 6-percent excise increase would result in the most significant drop of ALL 283 million. These patterns underscore the potential of excise taxes to influence broader lifestyle changes and health.

**Figure 4.** Spending on alcohol, by excise increase scenario (million ALL/year)



Source: Authors' calculations

## **Conclusion and policy implications**

Raising excise duties on tobacco is a widely recognized global strategy to reduce tobacco consumption and mitigate its associated harms, such as smoking-related diseases and premature deaths. This policy is particularly important in countries like Albania, where smoking rates remain high and the associated public health burden is substantial. A significant increase in tobacco excise taxes is expected to drive a meaningful reduction in tobacco use, leading to a decline in premature deaths annually. It would also lower overall health care expenditures, as fewer individuals will require treatment for tobacco-related diseases, easing the financial strain on the health care system.

The impact of increasing tobacco excise taxes is not limited to health outcomes alone. Economic behavior also shifts, with higher taxes driving an increase in household spending on items like housing, education, and clothing. As the excise rate rises, so does spending on these beneficial non-tobacco goods. This shift is particularly notable as households adjust their budgets to account for higher tobacco prices, reallocating resources towards other essential or discretionary items. For instance, at a higher excise rate, individuals may reduce their tobacco consumption and instead spend on housing improvements, education for their children, or personal items like clothing. At the same time, the increase in tobacco prices leads to a notable decrease in spending on alcohol, with the reduction becoming more pronounced at higher tax rates. The overall effect is a substantial redistribution of consumer spending away from tobacco and alcohol towards areas deemed more productive or health-promoting, such as education and housing.

A reduction in tobacco consumption among lower-income households implies a decrease in poverty. Consequently, households with lower incomes stand to gain the most significant benefits from a reduction in tobacco consumption, given Albania's status as one of the poorest countries in Europe (Gjika et al., 2020; Merkaj et al., 2023).

Research consistently shows that the tobacco and alcohol sectors are generally more capital intensive and employ proportionately fewer people compared to many sectors. In contrast, health and education are particularly labor-intensive sectors, so shifts in spending from tobacco and alcohol to these other sectors typically lead to increases in employment. Furthermore, education and health tend to have large multiplier effects because they engender economic and social development broadly, ultimately creating more wealth and employment in this way as well (DEPOCEN & Tobacconomics, 2024; Sabir et al., 2021).

Importantly, consistent evidence demonstrates that tobacco excise taxes are particularly effective in reducing smoking among youth, a group that is especially sensitive to price changes. Higher taxes, which increase cigarette prices, make smoking less affordable for young people who are at an earlier stage in their smoking habits and usually less financially stable. This is especially important, given that youth generally spend a higher proportion of their limited income on tobacco compared to adults. The higher responsiveness of young people to price increases is linked to their limited disposable income and the fact that their smoking habits are less entrenched. Unlike adults, who may have developed strong nicotine dependence over time, youth tend to have lower addiction levels due to their shorter histories of smoking. As a result, they are more likely to reduce or quit smoking altogether in response to price hikes, making tobacco taxation a powerful tool in preventing long-term addiction (Merkaj et al., 2022). From another key public health perspective, the older an individual tries/starts smoking, the less likely they will be a lifelong user, making it critical to use interventions like taxes that are extremely effectively among young people.

## References

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