

## **POLICY BRIEF**

### **The Impact of Tobacco Consumption on Household Spending Behaviour and Well-being in Albania**

#### **Highlights**

- Albania has very high smoking prevalence and faces relatively high levels of poverty and material deprivation.
- Spending on tobacco is making poverty worse in Albania.
- Spending on tobacco crowds out spending on essential goods and services such as health, education, housing, and clothing, threatening sustainable development.
- Tobacco spending is also associated with higher spending on alcohol, which amplifies its negative effects.
- Stronger policies—and especially higher excise taxes on tobacco products—are necessary to protect the most vulnerable in Albania (e.g., youth and those with low incomes).

#### **Background**

Tobacco use is a major preventable risk factor for premature death and noncommunicable diseases such as cancers,

lung and cardiovascular diseases, and diabetes. It also imposes significant economic burdens on households, particularly in low- and middle-income families, where tobacco spending often “crowds out” essentials like food, education, and housing. This phenomenon can lead to “secondary poverty,” in which households fall below the poverty line after accounting for tobacco expenses.

In Albania, smoking rates are alarmingly high—exceeding global and European Union (EU) averages—with 25 percent of adults smoking, including 43 percent of men and 7 percent of women (Gjika et al., 2020). Smoking is also the leading cause of disease and premature death, accounting for 25 percent of male and 9.1 percent of female deaths annually, totaling more than 4,000 deaths. It is one of three main contributors to Albania’s disease burden (Burazeri, 2020), which implies a high associated economic cost. This is particularly problematic for Albania, as it is among the poorest countries in Europe.

In Albania, annual out-of-pocket health care costs related to smoking total approximately ALL 223 million (USD 26 million), primarily

for drug expenses. Additionally, smoking-attributable costs within the Mandatory Health Insurance Fund (FSDKSH) amount to ALL 11.2 billion (USD 120 million) annually (Merkaj et al., 2023a). Studies also show that tobacco consumption pushes nearly 13,000 families, including 10,000 children, below the poverty line, deepening poverty for already vulnerable households (Merkaj et al., 2023b).

Research from other countries highlights the crowding out effect of tobacco spending, which reduces expenditures on essentials like clothing, housing, and nutritious food. Additionally, previous research in other countries shows that tobacco consumption is often positively associated with alcohol use, as the two are frequently consumed together.

### Study Approach and Objectives

This study is the first to analyze the crowding-out effects of tobacco consumption in Albania.

The crowding-out impact is assessed by estimating a system of Engel curves using a three-stage least squares method with instrumental variables. The analysis relies on nationally representative Household Budget Survey (HBS) data, conducted annually by the Statistical Office of Albania (INSTAT).

### Results

The findings in Table 1 highlight significant differences in spending patterns between smoking and non-smoking households. Non-smoking households allocate more to housing

and education, reflecting prioritization of essential needs and long-term investments. Conversely, smoking households spend significantly more on clothing and transport, possibly reflecting lifestyle-related choices.

Another pronounced disparity lies in alcohol spending, with smoking households allocating considerably more, indicating a potential correlation between smoking and higher alcohol consumption. These results reveal the substantial influence of smoking on household expenditure priorities.

**Table 1. Budget share of smoking and non-smoking households, HBS 2017**

Category	Non-smoking households	Smoking households
Food	50.4	49.8
Health	3.6	3.7
Education	1.9	1.4
Housing	13.8	11.9
Clothes	3.8	4.2
Entertainment	2.3	2.6
Transport	5.0	6.1
Durables	5.0	5.3
Other	5.7	5.9
Communication	4.0	3.7
Restaurants	3.6	3.8
Alcohol	0.8	1.5

Source: Authors' calculations based on HBS (2017)

The overall crowding-out effects are largely driven by the middle-income group. In this group, tobacco expenditures reduce spending on health, housing, education, and clothes, reinforcing the trend seen in the overall sample. For the middle-income group,

tobacco spending is positively associated with spending on food, alcohol, and entertainment.

In summary, tobacco expenditures generally crowd out essential spending, particularly for middle-income households, while increasing (or “crowding in”) the share of spending on food, alcohol, and entertainment across all income levels. In other countries with more detailed data, the crowding in of food spending is typically for more highly processed and less healthy food items. Though such data are not available yet in Albania, future research should examine this.

### **Policy Implications**

This study is the first to explore the crowding-out effects of tobacco spending in Albania, a country where around one-third of the population faces severe material deprivation. In such a context, tobacco consumption exacerbates economic strain by diverting household resources from essential goods and services. Our findings demonstrate that tobacco spending significantly reduces expenditure on critical areas like health, education, housing, and clothing, which are key to maintaining well-being and promoting long-term development.

Beyond the direct financial impacts, tobacco use is linked to other health-related behaviors. The study affirms a positive association between tobacco and alcohol consumption, a relationship that has been observed in previous research. This suggests that tobacco use might be part of a broader pattern of unhealthy behaviors, further amplifying its negative economic and social effects.

From a policy perspective, these findings emphasize the urgent need for stronger tobacco control measures. Tobacco use disproportionately affects children by limiting access to education and essential household needs.

Policy makers should implement targeted interventions to reduce smoking rates and ease the economic burden on households. A key strategy is a substantial increase in tobacco excise taxes, which has proven effective in reducing smoking initiation and overall prevalence, particularly among youth. As shown by Merkaj et al. (2024), raising excise taxes on tobacco products can deter youth smoking and encourage adult cessation. Additionally, higher tobacco taxes are linked to reduced teenage smoking and drinking, offering dual public health benefits.

## References

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