

PAKISTAN | Tobacco Fact Sheet 2022

Raising Tobacco Tax Rates to Promote Public Health and Increase Revenue: Policy Options for Budget 2022-23

Tobacco use has severe health and economic implications in Pakistan

- 31 million adults (age 15 +) or about 19.7% of adults currently use tobacco.¹
- Tobacco use is the leading cause of death due to non-communicable diseases (NCDs), such as cancer, chronic respiratory diseases, and cardiovascular disease.²
- Tobacco use killed an estimated 163,360 people in 2017.³
- Poor households in Pakistan spend a larger proportion of their budget on tobacco than rich households, resulting in less spending on basic needs.⁴

- Tobacco use is associated with more than 160,000 deaths every year in Pakistan.
- Cigarettes have become more affordable as tobacco taxes are low and have not increased since July 2019.
- Average excise tax rate is around 45% of the retail price against the widely accepted benchmark of 70%.
- Raising excise taxes on cigarettes by 30% would result in 200,000 fewer smokers and an increase of at least 25% in excise tax revenue.

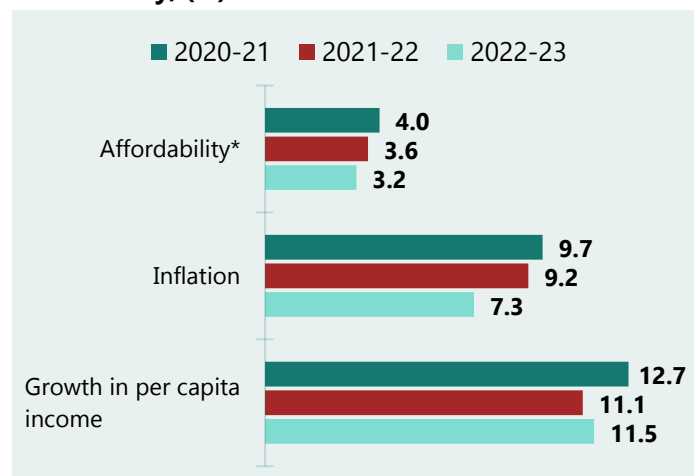
Cigarettes are becoming more affordable

According to the IMF Projections:

- Pakistan's nominal per capita income increased by 12.7% in 2020-21 and is expected to increase by more than 11% in 2021-22 and 2022-23.
- Concurrently, inflation was nearly 10% in 2020-21 and is expected to exceed the 9.2% target for the current fiscal year.
- However, the printed retail prices of cigarettes have remained constant since July 2019.⁵
- As a result, cigarettes will be more affordable in 2021-22, and even more in 2022-23, if excise tax rates remain constant.

According to SPDC estimates based on IMF projections, approximately 4% of per capita income was required to purchase 2000 cigarettes in 2020-21, which would decrease to 3.6% in 2021-22 and further decrease to 3.2% in 2022-23 if cigarette prices do not rise.

Pakistan's macroeconomic outlook and cigarette affordability, (%)



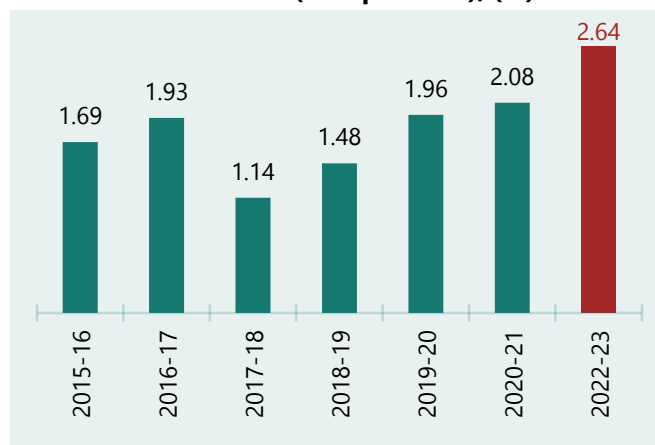
Source: Projections from IMF World Economic, Outlook October 2021
 *Affordability: Relative income price ratio, defined as the percentage of per capita GDP required to purchase 2000 sticks of cigarettes

Tobacco taxes in Pakistan remain low and stagnant

Cigarettes in Pakistan are taxed in two different price tiers: low-price and high-price. A specific excise tax (the Federal Excise Duty—FED) is levied on cigarettes sold in the country, which accounts for approximately 42.6% and 59.8% of the printed retail price of low-price and high-price brands, respectively, resulting in a significant excise tax burden difference between the two tiers. Because low-taxed cigarettes represent the majority of the market (about 88%), the average excise tax share is 44.7% of the retail price, which is significantly lower than the widely accepted benchmark of 70% of the retail price.⁶

- Even before July 2019, cigarette prices in Pakistan were among the lowest in the world.⁷ The stagnation in cigarette prices caused by the unchanged FED rate is likely to result in a large price disparity between domestic cigarettes and those sold in other regional countries.
- The unchanged printed retail prices since July 2019 resulted in an increase in the share of low-price brand cigarettes consumed in 2021-22, leading to a slight increase in the effective average excise tax rate on cigarettes.
- Due to unchanged and low tobacco taxes, Pakistan ranks among the worst-performing countries in the Tobacconomics Cigarette Tax Scorecard that evaluates the strength of tax systems, with an overall tax system score of less than one on a five-point scale.⁸
- According to SPDC estimates, more than 260,000 people will start smoking in Pakistan if tobacco taxes are not raised in 2022-23.⁹

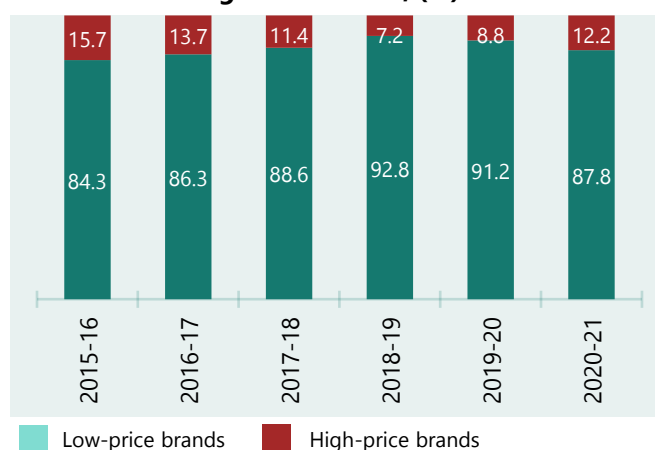
Effective excise tax rate (PKR per stick), (%)



As per the proposed excise rate for 2022-23

Source: Economic Survey of Pakistan, FBR Year Book

Market share of cigarette brands, (%)



Source: SPDC estimates based on data from Economic Survey of Pakistan and FBR Year Book

Raising taxes will save lives while increasing government revenue

Raising the price of tobacco products through excise tax increases is the most effective way to reduce tobacco use. Higher prices can discourage youth from initiating tobacco and encourage current users to quit.

Proposed tax rates (2022-23)

Price Tiers	Market Share	FED (PKR)		Price Tier (PKR)	Excise Tax Share*
		Current	Proposed		
Low	87.8%	33.00	42.90	< 119.2	48.2%
High	12.2%	104.00	135.20	≥ 119.2	64.2%
Weighted Average		41.66	54.16	-	52.1%

*Widely accepted benchmark is 70%.

Raising tobacco excise to Rs 43 on low-price cigarettes and Rs 135 on high-price cigarettes would result in:

200,000	Fewer smokers
1.2%	reduction in smoking prevalence among adults
1.23%	reduction in smoking intensity among adults
71,900	lives saved
PKR 27.4 billion	in additional total FED revenue—an increase of at least 25.1%

The way forward

This tobacco tax reform proposal will greatly help the Government of Pakistan in meeting its commitment to reduce tobacco use and its goal of reducing deaths from NCDs as part of its pledge to achieve the United Nations Sustainable Development Goals¹⁰ and align the country's tobacco tax policy with global best practices.

This reform would not only help reduce tobacco use in Pakistan, but would also generate additional revenue that could be used to protect public health and educate the most vulnerable populations about the risks of tobacco use. The tax proposal is a clear 'win-win' in terms of health and revenue for the government and the people of Pakistan.

The cigarette industry in Pakistan frequently claims that higher taxes encourage illicit or undocumented trade as smokers seek out non-tax-paid cigarettes because they are cheaper. However, research evidence demonstrates that increases in tobacco taxes typically have only limited impact on the illicit trade of cigarettes. The proposed tax rate and price increases would not produce a massive flight of consumers to cheaper illegal cigarettes because the resulting ratio of legal cigarette prices to personal income,

even of poorer people, will not be disruptive; it is just a readjustment of rates and prices to past inflation rates.¹¹ The tobacco industry usually argues that consumers switch to illegal brands when faced with tax increases. However, empirical evidence shows that this is not the case. In fact, the leading legal companies decrease their declared production after tax increases.

Beyond 2022-23, to fulfil its long-term commitment to using tax and price measures to reduce tobacco consumption, the government must continue reforming the tobacco tax system by:

- Implementing large excise tax increases in order to make cigarettes progressively more expensive and less affordable;
- Incorporating an automatic inflation adjustment mechanism in the tax policy;
- Moving to a uniform federal excise duty for all cigarette brands to simplify the tax system; and
- Harmonizing excise taxation across all tobacco products.

Notes:

1. SPDC estimates based on GATS 2014 and population projection and distribution for 2022.
2. Jafar TH et al. Non-communicable diseases and injuries in Pakistan: Strategic priorities. *The Lancet*. 2013 June 29;381: 2281-2290.
3. Institute of Health Metrics and Evaluation. Global Burden of Disease, GBD Compare. University of Washington, 2019.
4. Salim, Wasim and M. Asif Iqbal, The impact of tobacco use on household consumption in Pakistan. Research Report. Social Policy and Development Centre. 2020.
5. According to the monthly bulletins of the Pakistan Bureau of Statistics, the market price of cigarettes increased by 3.4% in rural areas and 4.4% in urban areas during 2019-20, but then remained relatively stable. Because printed retail prices are relevant from the standpoint of taxes, they are used in the analysis rather than market retail prices.
6. See, for example: a) Chaloupka, F., Drope, J., Siu, E., Vulovic, V., Mirza, M., Rodriguez-Iglesias, G., Ngo, A., Latenser, C., Lee, H., Dorokhina, M., & Smith, M. (2021). *Tobacconomics cigarette tax scorecard* (2nd ed.). Chicago: IL, Health Policy Center, Institute for Health Research and Policy, University of Illinois Chicago. www.tobacconomics.org; b) The Tobacco Atlas, <https://tobaccoatlas.org/country/pakistan/>
7. World Health Organization. Report on the Global Tobacco Epidemic 2019. Table 9.1. 2019.
8. <https://tobacconomics.org/research/cigarette-tax-scorecard/>
9. SPDC estimates for 2022-23.
10. Particularly SDG 3 (Ensure healthy lives and promote well-being for all at all ages) and Target 3.4 to reduce premature mortality from non-communicable diseases.
11. The tax model simulation results for 2022-23 show a marginal increase of 2.7 percentage points in illicit trade.

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