Economics of Tobacco in Hungary

Executive Summary

Since 1994, Hungary has witnessed a decline in total and per capita cigarette consumption, thanks to the increase of real cigarette price. This again proves that price measure is a very effective way to fight smoking. Currently, tax accounts for 61% of cigarette retail price in Hungary, lower than virtually all EU countries. There are still plenty of rooms for tax hikes and price increases for cigarettes, which would curb smoking epidemic in Hungary further.

Fighting smoking would not affect Hungary’s economy in the long run. In 1999, tax revenues from cigarettes only accounted for 3% of total government tax revenue, lower than most of its ECA counterparts. In terms of trade, Hungary is also a net tobacco product importer. Meanwhile, employment in the tobacco manufacturing industry is very small and is declining rapidly.

Cigarette Consumption & Spending

In 1999, Hungary accounted for about 2% of Europe and Central Asia (ECA) region’s cigarette consumption. Generally speaking, ECA region is a place with serious smoking problems. With about 8% of world’s population, ECA region consumed 16% of world cigarette consumption in 1999.

Source: USDA

Note: ECA countries include Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia,
In 1970, total cigarette consumption was 22,502 million pieces in Hungary. It increased to 28,579 million pieces in 1994. However, both total consumption and consumption per person 15+ declined sharply after 1994. In 1999, total cigarette consumption was 19,360 million pieces.

Compared with other major ECA countries, per capita cigarette consumption in Hungary is just in the middle range. In 1999, consumption per 15+ was 119 packs in Hungary.
In 1999, average spending on cigarettes was estimated to be 103 US dollars in Hungary, which was 1.7% of the average manufacturing worker’s annual salary. If a typical smoker quit smoking, he/she could save 287 US dollars in 1999, which could be then used to buy 0.3 kg pork, or 3.7 kg flour per day.

Source: USDA
Smoking Prevalence

Smoking is quite popular in Hungary. In 1998-1999, 44% of adult men and 27% of adult women were regular smokers in Hungary. Another survey in 1997 revealed that 9% young males and 6% of young females aged between 11 and 15 years smoked cigarettes.

Cigarette Prices and Taxes

The post-1994 decline in domestic cigarette consumption can be at least partially explained by the rising real cigarette price in Hungary during that period of time.
In 1999, tax accounted for 61% of cigarette retail price in Hungary. It is relatively high among ECA countries, only next to Turkey, and similar to Poland and Czech Republic.

Compared with EU countries, tax as percentage of retail price in Hungary is very low. Average retail price of cigarettes in Hungary is also much lower than in EU countries.
In 1999, the estimated tax revenue from cigarettes in Hungary was 522 million US dollars, accounting for 3% of total government tax revenue. Hungary’s tax dependence on cigarettes revenue is one of the lowest in the ECA region.
Health Issues

In 1999, 1361 men and 257 women died from lip, oral cavity and pharynx, 5797 men and 2086 women died from trachea, bronchus and lung diseases. In both cases, the percentage of deaths caused by smoking was lower for women than for men, partly due to lower smoking prevalence rate among women.

Source: The World Bank Estimates

Mortality from Smoking Related Diseases by Gender in Hungary, 1999

Not surprisingly, people in different age groups also have different mortality patterns regarding smoking-related deaths. In 1999, only 0.5% of all deaths for people aged 34 and less were caused by lip, oral cavity and pharynx, trachea, bronchus and lung diseases. However, among all deaths for people aged 35 and over, 6.8% were due to these smoking-related diseases.

Source: Statistical Yearbook of Hungary, 1999
Tobacco Control Measures

In January 2001, Hungarian Parliament passed a law to ban all tobacco advertising in printed materials from July 2001 and from all other media from January 2002. The new Government legislation is intended to follow a recent EU directive that requires a ban on all tobacco advertising by July 2001 among members, but with a special extension until 2006 to major sporting events which rely on tobacco sponsorship, which may or may not apply in Hungary.

Hungarian legislation contains provisions banning the advertising of tobacco products. Exceptions are made for advertising on international television channels and in publications in foreign languages. There are restrictions on smoking in health establishments and in public transport. According to 1993 legislation, tobacco must contain a special seal, and can only be sold in certain retail shops. This makes street selling illegal. Health warnings must be printed on tobacco packages, together with the tar and nicotine content.

The government approved a new anti-smoking law in 1999. The new legislation makes it illegal to sell tobacco products to anyone under 18, bans smoking in public buildings, and prescribes separate smoking areas in restaurants.

There are anti-smoking regulations in department stores, food markets, self-service restaurants and some other restaurants, canteens, and confectioners, as well as in general and secondary schools, health establishments and mass transport. MALEV, the Hungarian airline, prohibits smoking on all its short distance flights. A 1993 Labor Safety
Act stipulates that specific smoking areas must be designated in all workplaces, or other organizational measures taken to provide for the elimination of the harmful effects of passive smoking.

The first community anti-smoking programs were instituted in Hungary in the late 1960s. Since 1987, the National Health Promotion Council has been responsible for coordinating health promotion and education. This organization, along with the "Smoking or Health" Hungarian Foundation has developed a model for a smoking prevention project in kindergartens, which also provides information to teachers, parents, and the medical community. A nongovernmental organization, the National Smoke-free Association, has also been involved in anti-smoking activities, particularly through its volunteers. World No-Tobacco Day and a quitting day are actively promoted each year.

Production and Trade

The two biggest cigarettes manufacturers in Hungary are BAT, which has about 40% market share, and Phillip Morris, which holds around one third of the market. Cigarette production had been increasing steadily from 16,793 million pieces in 1961 to 29,556 in 1994. This rising trend, however, reversed after 1994. Production declined by 22% to 22,960 million pieces in 1999, mainly due to sagging domestic consumption demand.

![Cigarette Production in Hungary, 1961-1999](chart)

Source: USDA

The number of people employed in the tobacco manufacturing industry is dwindling rapidly. In 1999, only 2018 persons were employed in the tobacco manufacturing industry, about 0.3% of total number of employees in the manufacturing sectors, or 0.02% of Hungary’s 15+ population. Tobacco employment in 1999 was only 43% of that in 1990.
Number of Employees in the Tobacco Manufacturing Industry in Hungary, 1975-1999


Since late 1980s, domestic leaf production declined but domestic leaf consumption remained virtually unchanged. The shortfall was made up by increasing imports. Hungary imports oriental and burley tobacco and different cut tobacco mixes.

Tobacco Leaf Production, Export, Import and Domestic Production in Hungary, 1961-1998

Source: FAO

During the period of 1961-1998, Hungary has been a net importer of tobacco products with the only exception of the year 1996. The exceptionally high export recorded in 1996
was partly due to the sharp unexpected decline in domestic cigarette consumption in that year.

**Tobacco Trade in Hungary, 1961-1998**

Source: FAO