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Effects of the legislative change to the tobacco excise tax in Ukraine

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Abstract

This study assesses Ukraine's 2025 reform of tobacco excise taxation and evaluates its effects on public finances, consumer behaviour and the illicit tobacco market. The shift from fixed hryvnia-based rates to euro-denominated excises aimed to stabilise revenues, support EU alignment, and curb smoking by reducing affordability. Findings indicate strong revenue growth in early 2025 and a continued but gradual decline in illicit trade, which remains sustained by weak enforcement and high profitability. Overall smoking prevalence is not declining – and is even gaining in popularity among women and youth – partly due to the availability of cheaper illicit products and lower-taxed heated tobacco products. The study concludes that further progress requires harmonising taxation across all product categories, strengthening enforcement and monitoring systems (e.g. 'Track&Trace'), and expanding public-awareness and prevention efforts to reduce smoking.

Keywords: Smoking, tobacco consumption, excise revenues, illegal market, tax advantage

JEL classification: H20, I18, D12

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Executive summary

In 2017, Ukraine launched a policy of gradually increasing excise duties on tobacco products to align with European standards. This process gained fresh momentum in 2025, when excise rates were denominated in euros. This reform made the system more stable, protected against inflation and currency depreciation risks, and had a positive effect on budget revenues. The change sets Ukraine on track to reach the minimum taxation level of EUR 90 per 1,000 cigarettes by 2028, which aligns with the current EU requirements outlined in Directive 2011/64/EU. However, if the new proposed EU minimum is adopted, Ukraine's rate will remain less than half of that of its EU counterparts (European Commission 2025).

Our analysis shows:

- › **Fiscal impact:** In the first half of 2025, excise revenues recorded strong growth, with a 34.7% increase in Q2 2025 compared to Q2 2024 in nominal terms.
- › **Consumer behaviour:** Despite regular increases in excise rates, the overall prevalence of smoking – including traditional cigarettes – is not declining and is particularly rising among women and young people. This is driven by the availability of cheaper products and the persistence of the illicit market.
- › **Illicit segment:** Illicit trade volumes remain high (at around 20%). In 2025, following the excise hikes and the switch to euro-denominated rates, the illicit market did not expand but continued a gradual downward trend. However, low penalties, poor enforcement and high profitability still sustain significant demand for illegal products.
- › **Novel products:** Heated tobacco products (HTPs) are taxed at lower rates and will remain about 20% cheaper than cigarettes until 2028. This asymmetry undermines the principle of tax equality and could negatively affect public health.
- › **Market trends:** Legal consumption has dropped by 30% since 2017, while companies are increasingly focusing on exports and expanding production of novel products.

Recommendations:

1. Equalise excise rates for cigarettes and HTPs to prevent incentives for switching to lower-taxed products.
2. Implement online monitoring and a 'Track&Trace' system to strengthen control over tobacco circulation.
3. Increase liability for illegal production and trade by making fines and criminal sanctions genuinely deterrent.
4. Incorporate the social dimension of excise policy by supporting public-awareness campaigns to reduce smoking, especially among women and youth.

1. Introduction

Raising excise rates on tobacco products has become an important element of Ukraine's tax policy in recent years. It combines several objectives: strengthening fiscal stability, meeting international obligations in the process of EU approximation, and reducing the prevalence of smoking by limiting the affordability of tobacco products.

After the start of the Russia's full-scale military invasion of Ukraine in 2022, the system of fixed rates in Ukrainian hryvnia (UAH) lost its effectiveness, as inflation and currency depreciation eroded their real value. This also reduced predictability for both the state and businesses. The adoption in March 2025 of a law linking excise rates to the euro marked an important stage of reform. This decision reduces the impact of macroeconomic fluctuations and ensures Ukraine's gradual alignment with the current EU minimum taxation standard.

At the same time, the debate on excise policy goes beyond fiscal matters and extends to issues of illicit market development, regulation of novel tobacco products, and the social consequences of smoking. This study provides a comprehensive assessment of the new excise policy in terms of its impact on public finances, the legal and illegal markets, and consumer behaviour.

The research is based on a combination of statistical analysis, official data, and the critical evaluation of sociological and industry surveys. To obtain official figures on revenues and excise stamp circulation, requests were sent to the State Tax Service. The size of the illicit market was assessed using the results of several parallel studies – by Kantar Ukraine, KPMG and the Economic Expert Platform (EEP) – which apply different methodologies and involve potential conflicts of interest, as some of these studies are funded by tobacco companies. To reduce the risk of distortions, a comparative approach and averaged values were used.

We also considered the methodology of surveys on smoking prevalence and structural changes in consumption. Their limitations were taken into account, recognising that the high profitability of illicit production in Ukraine coincides with institutional challenges for agencies responsible for combating economic crimes. At the same time, reducing the illicit segment is a shared interest of both the state and legitimate businesses, since fair competition creates conditions for market development.

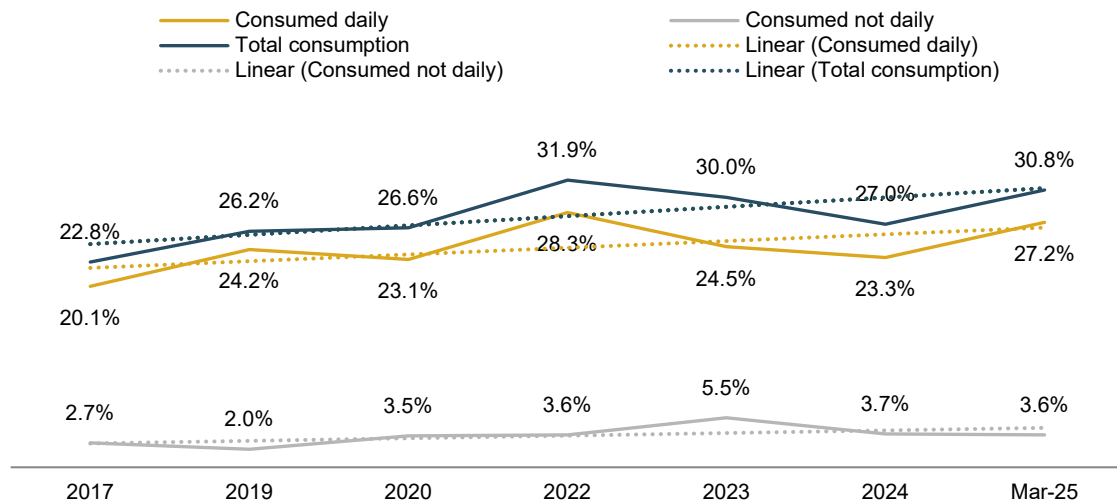
International experience shows that the illicit tobacco market is not a uniquely Ukrainian phenomenon. Even in EU countries – notably, France and Ireland – smuggling and tax evasion remain pressing issues. Therefore, Ukraine's tobacco control policy should be considered within a broader European context and requires a comprehensive approach that combines fiscal, law-enforcement and public-information measures.

2. Impact of rate changes on tobacco consumption

2.1. THE PREVALENCE OF SMOKING IS INCREASING AMONG WOMEN AND YOUTH

Since 2017, the prevalence of smoking has been growing in both daily and non-daily consumption.

Figure 1 / The prevalence of smoking by the frequency of consumption, 2017-March 2025, %



Source: KIIS (2025)

Women and youth are the main drivers of the general increase in the consumption of tobacco products. First, the frequency of smoking among women has increased by 118% since 2017 (Ministry of Health of Ukraine et al. 2017), reaching 19.2% in March 2025. Meanwhile, the prevalence of smoking among men has remained between 40% and 50% since 2017.

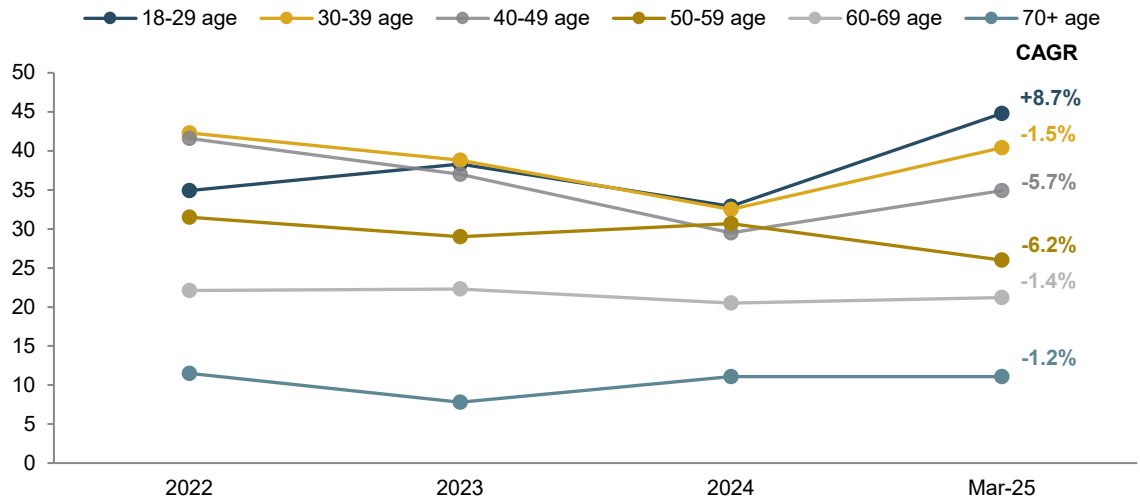
Table 1 / The prevalence of smoking by gender, 2017-March 2025, %

	2017	2018	2019	2020	2021	2022	2023	2024	Mar. 2025	2017-2025 growth rate	CAGR
Men	39.7	N/A	45	42.3	N/A	49.8	42.5	39.5	44.6	+12.3%	+1.5%
Women	8.8	N/A	10.7	13.7	N/A	17.1	19.7	16.7	19.2	+118.2%	+10.2%

Source: Annual survey conducted by KIIS; CES calculations.

Second, the prevalence of smoking among youth (18-29 years old) significantly increased over the past three years, reaching an annual growth rate of 8.7%. Other age groups demonstrated a decline in tobacco consumption (KIIS 2022, 2025).

Figure 2 / The prevalence of smoking among age groups, 2022-March 2025, %

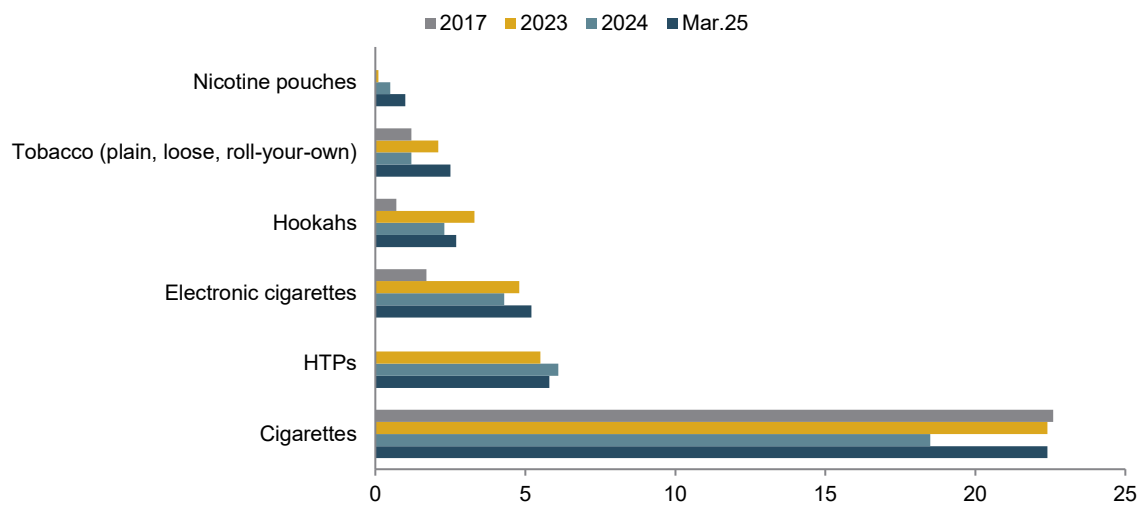


Source: KIIS (2025), CES calculations

2.2. THE POPULARITY OF HTPS AND E-CIGARETTES HAS PLATEAUED

Despite the continued efforts of the tobacco industry to promote novel products, e-cigarettes and HTPs remain at approximately the same (high) level of consumption. However, the use of nicotine pouches has drastically increased (by 900%), and they are currently consumed by 1% of the total population.

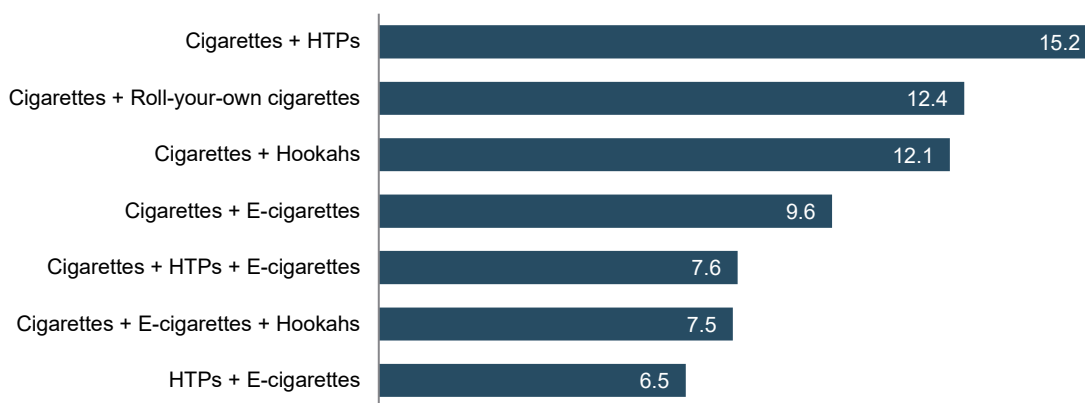
Figure 3 / Structure of tobacco product consumption among the Ukrainian population (regardless of whether they currently consume tobacco or nicotine products), 2017-March 2025, %



Source: KIIS (2025)

Cigarettes remain the most widely consumed tobacco product in general as well as among both genders. The second-most-popular tobacco product among males is HTPs, while it is e-cigarettes among females. Furthermore, 21% of current consumers of tobacco and nicotine products use two or three types of products. Multiple tobacco product use is the most popular among youth (18-29 years old), and it is practiced by 45% of the smokers in this age group. The most prevalent combination of tobacco products is cigarettes with HTPs, which is practiced by 15.2% of consumers of multiple tobacco products (KIIS 2025).

Figure 4 / Top 7 combinations of multiple tobacco product consumption, March 2025, %



Source: KIIS (2025)

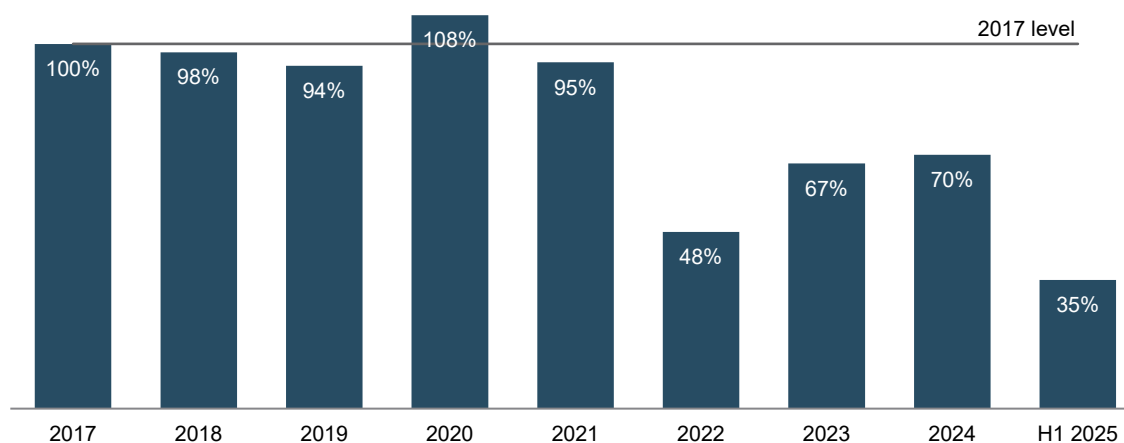
Despite regular increases in excise duties over the last seven years, the prevalence of smoking has been gradually growing. Considering the decline in the affordability of cigarettes and the rise of illicit trade, we assume that the growing prevalence of smoking was made possible by switching to cheaper alternatives and consuming illicit products.

3. Impact of rate changes on the legal market

3.1. UKRAINE'S DOMESTIC LEGAL CONSUMPTION HAS DROPPED BY 30% SINCE 2021

During the 2017-2021 period, consumption varied by less than 8% per year. In 2022, it sharply declined due to a tobacco plant's closure (PMI 2022) and emigration from the country. In the past two years, the market has stabilised and currently reflects the fact that 5.8 million Ukrainians live abroad due to the full-scale war with Russia (ODP n.d.), which corresponds to about 13% of the country's population in 2021 (World Bank Group n.d.).

Figure 5 / Total legal domestic consumption in real values (2017 = 100%), %, 2017-H1 2025



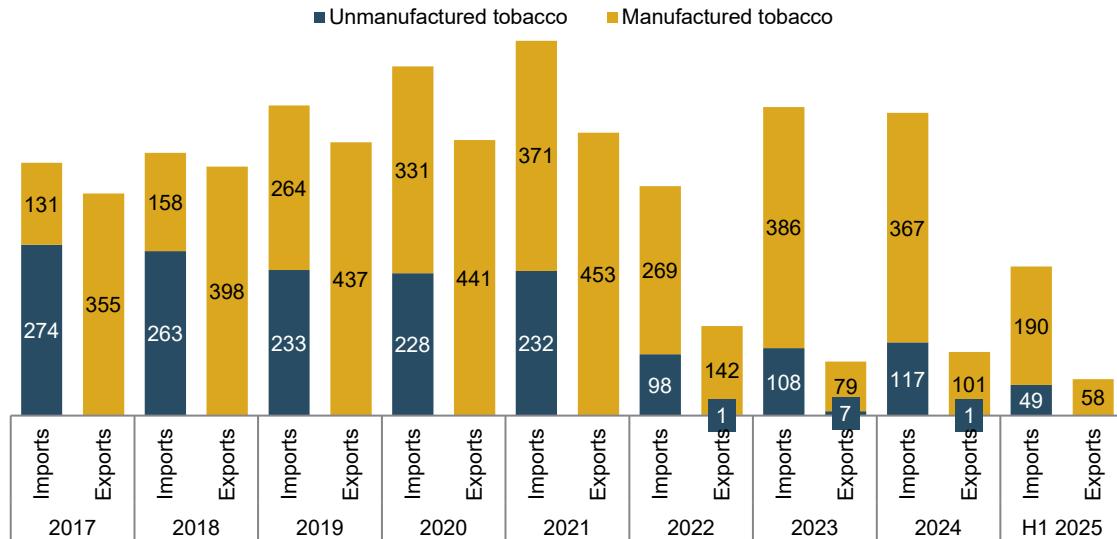
Note: The H1 2025 value reflects half-year data and is not annualised.

Sources: State Statistics Service of Ukraine, ITC Trade Map; CES calculations

3.2. TOBACCO MANUFACTURERS ARE INCREASING THEIR EXPORT CAPACITY, FOCUSING ON NEW INTERNATIONAL PARTNERS

Following the beginning of Russia's full-scale invasion of Ukraine in 2022, some manufacturing facilities were shut down because of their proximity to the frontline (PMI 2022), and some were hit during air attacks (Shapoval 2023). At present, industry leaders are increasing their capacity and expanding exporting activities. While Japan Tobacco International (JTI) is investing \$60 million in the production of HTPs in Ukraine (Interfax Ukraine 2024), Philip Morris International (PMI) has opened a new production facility in Western Ukraine and is considering exporting to neighbouring countries (PMI 2024; Interfax Ukraine 2025).

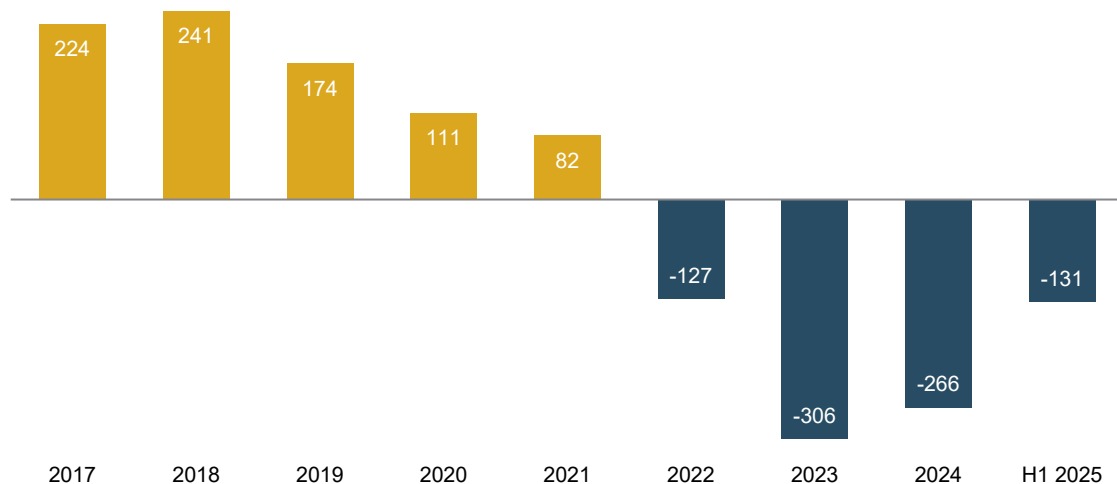
Figure 6 / Ukraine’s international trade volume of tobacco products, 2017-H1 2025, USD m



Source: ITC Trade Map; CES calculations

However, the trade balance of manufactured tobacco products has been negative, and it began declining in 2019. This is associated with Ukraine starting to import more products other than cigarettes/cigars (HS 2403). After the beginning of the full-scale invasion, the trade balance turned negative because companies started covering national demand with imports due to their inability to produce the needed amount domestically. The domestic tobacco industry would have to increase production volumes and invest in the production of novel tobacco products to re-establish a positive trade balance of manufactured tobacco products.

Figure 7 / Trade balance of manufactured tobacco products, 2017-H1 2025, USD m

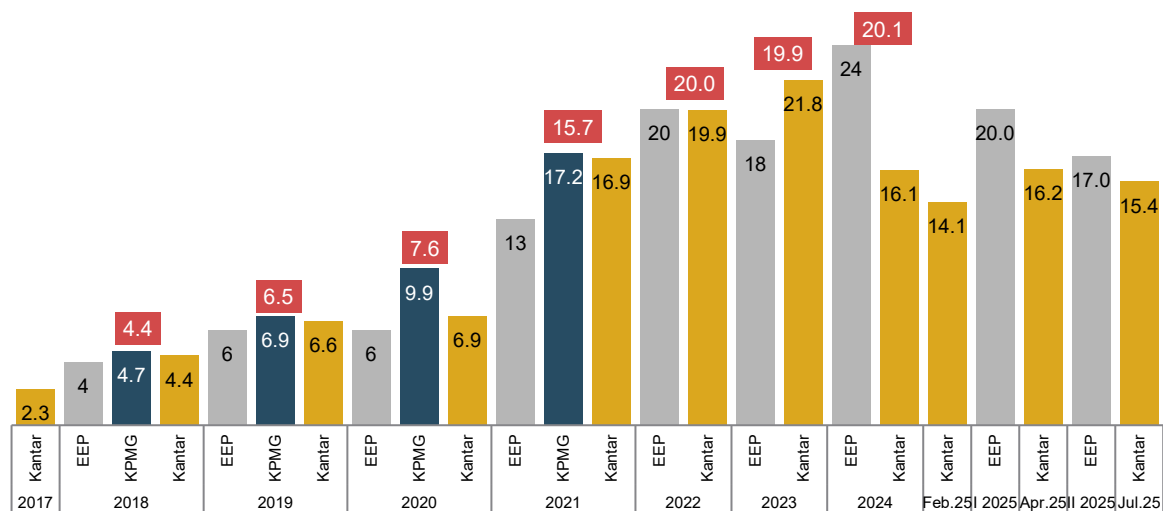


Source: ITC Trade Map; CES calculations

4. Impact of rate changes on the illegal market

For the purposes of this research, we picked three organisations that study the illicit trade of tobacco products in Ukraine. Each of them applies a different approach to measuring the domestic illegal market. Kantar uses empty-pack surveys, KPMG utilises a combination of legal domestic sales (LDS) and empty-pack approaches, and the Economic Expert Platform (EEP) – an association of think tanks, civil society organisations and experts – applies in its quarterly reports the gap analysis method, which estimates the illegal tobacco market by comparing the level of consumption with the level of legal sales and treating the difference as illegal sales. Although each of the approaches has its limitations (and some companies may be incentivised to distort results, as their research projects are funded by the tobacco industry), we believe that the average levels (highlighted in red in Figure 8) provide some indication of illicit trade in the country.

Figure 8 / The volume of Ukraine's illicit domestic trade of tobacco products, 2017-July 2025, % of total consumption



Sources: EEP (n.d.), KPMG (2023),¹ Kantar Ukraine²

The Economic Security Bureau of Ukraine (ESBU) confiscated 29 cigarette production lines in 2024 (ESBU 2024) and has continued to seize such lines in 2025. As a result, illicit trade decreased by 5.7% in 2024. On the other hand, a lower price for illicit tobacco products and insufficient punishment for the illegal circulation of excisable goods continue to support high rates of the illicit tobacco market. The

¹ Since 2022, KPMG has been using Kantar's survey results in its reports.

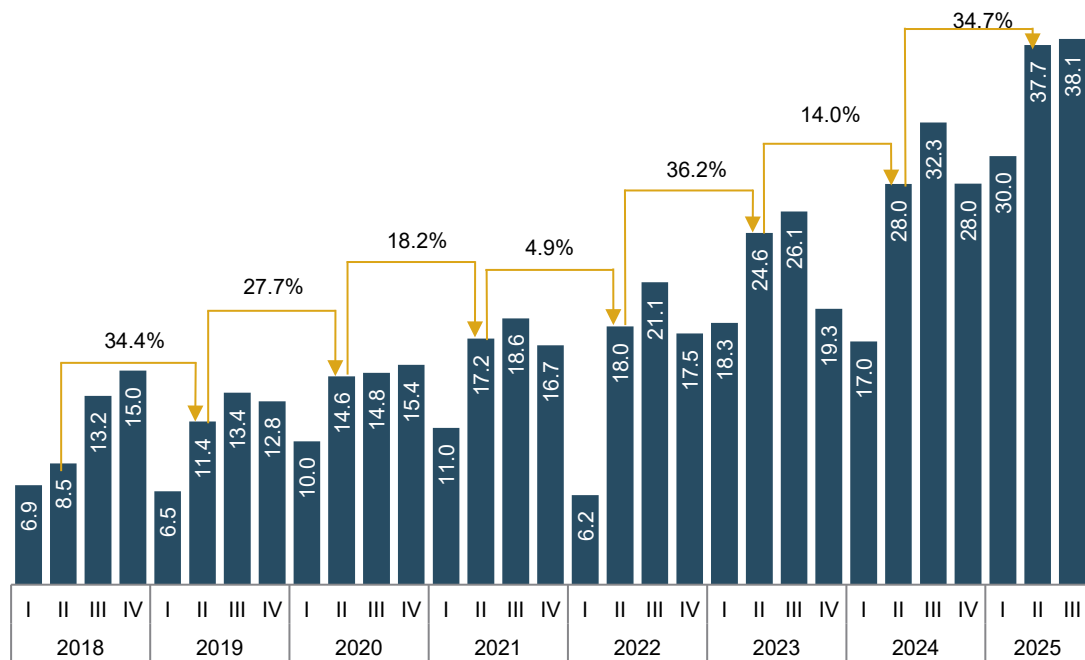
² Kantar Ukraine is a commercial entity that implements the project 'Monitoring of Illegal Trade in Tobacco Products in Ukraine' on behalf of leading Ukrainian tobacco manufacturers. Since the research methodology is only partially disclosed publicly, we filed an information request. Kantar Ukraine responded to our information request, revealing that: the survey methodology (face-to-face interviews, route-quota method of respondent selection) has not been changed since 2017; the sample is quota-weighted by gender, age, region and type of urban settlement; the survey is based on a sample of 3,000 interviews; and the statistical margin of error is $\pm 1.43\%$.

government aims to tackle this issue by introducing a national 'Track&Trace' system for tobacco products (Koshchuk and Pasichnyy 2025). This will move Ukraine towards European practices, boost visibility across the supply chain, and enables customers to identify whether a tobacco product is legal or illegal (eExcise Project n.d.). Illicit trade grew the most during a period of slower, mostly annual excise increases (except in 2019, when the excise duty was raised twice), but it has recently declined even as the pace of tax hikes has accelerated (in 2025, the tobacco excise increased three times during the first four months). Thanks to state authorities' efforts to actively combat the manufacture and distribution of illegal tobacco products, the increase in excise duty on tobacco products has not led to an increase in the illegal market.

5. Impact of tax rate changes on tax revenues

The new excise policy has shown its efficiency by generating the highest revenues in nominal and real values in Q2 2025. Nominal excise revenues in Q2 2025 increased by 34.7% compared to Q2 2024, which is the second-highest growth rate since 2018. The highest growth rate occurred in Q2 2023, which is associated with a low growth rate in 2022 and a high inflation rate after the beginning of the full-scale invasion.

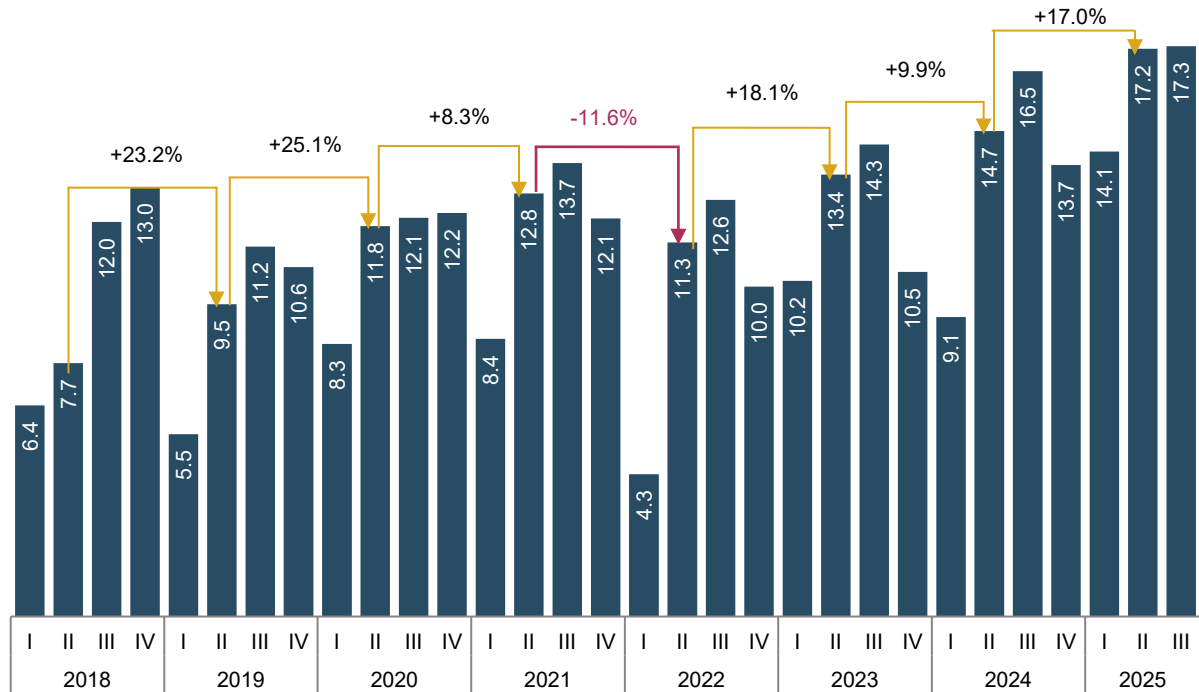
Figure 9 / Nominal excise revenues to the consolidated budget of Ukraine, 2018-Q3 2025, UAH bn



Source: Openbudget (<https://openbudget.gov.ua/en/national-budget/incomes>); CES calculations

The new excise policy is expected to outperform analysts' forecasts. During the first three quarters of 2025, nominal tobacco excise revenue reached 87.1% of the predictions of the Vienna Institute for International Economic Studies (Jovanovikj et al. 2024).

Figure 10 / Excise revenues to the consolidated budget of Ukraine in real values (in 2017 prices), 2018-Q3 2025, UAH bn



Source: Openbudget (<https://openbudget.gov.ua/en/national-budget/incomes>); CES calculations

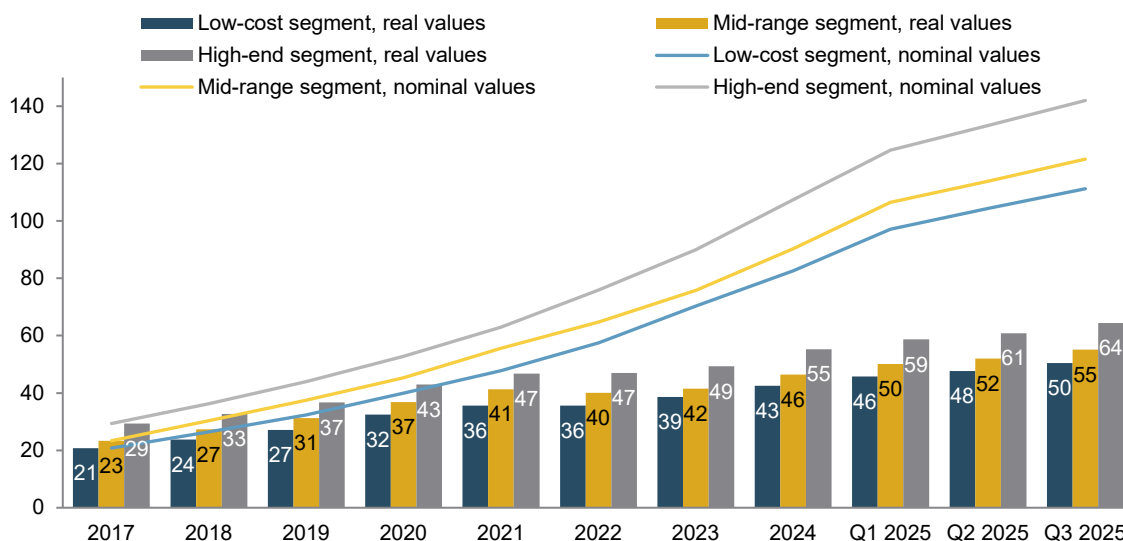
However, since the bill increasing tobacco excise rates failed to be signed during Q1 2025, forestalling activities increased, with companies purchasing excise stamps in large quantities at a lower price before the excise tax increase. During the first quarter of 2025, an average of 96.89 million tobacco excise stamps was purchased each month; however, in April, this figure fell to 67.36 million (Koshchuk 2025). After the first quarter of its implementation, the new excise policy has demonstrated its financial effectiveness, but forestalling activities at the beginning of the year will nevertheless have adverse fiscal effects.

6. Impact of rate changes on retail prices and product affordability: cigarettes

6.1. UKRAINIAN TOBACCO EXCISE POLICY SHOWS ITS EFFECTIVENESS IN TERMS OF CONTINUOUS PRICE INCREASES

Analysis shows a continuous increase in the price of cigarettes since 2017, with the exception of 2022, when real values remained at the same level or decreased due to high inflation.

Figure 11 / Price development of three segments of cigarettes, 2017-Q3 2025, UAH



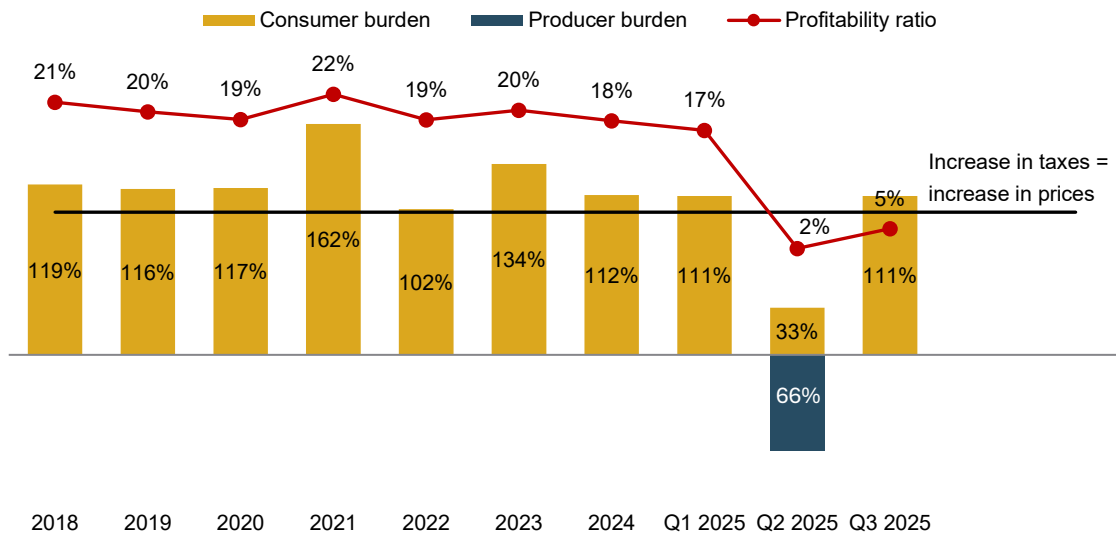
Source: State Statistics Service of Ukraine; CES calculations

6.2. LOWER PRICES ON EXCISE STAMPS AT THE BEGINNING OF THE YEAR PREVENTED A SHARP INCREASE IN RETAIL PRICES

Our analysis shows that producers covered two thirds of the increase in tobacco taxes in Q2 2025. However, things may be different.

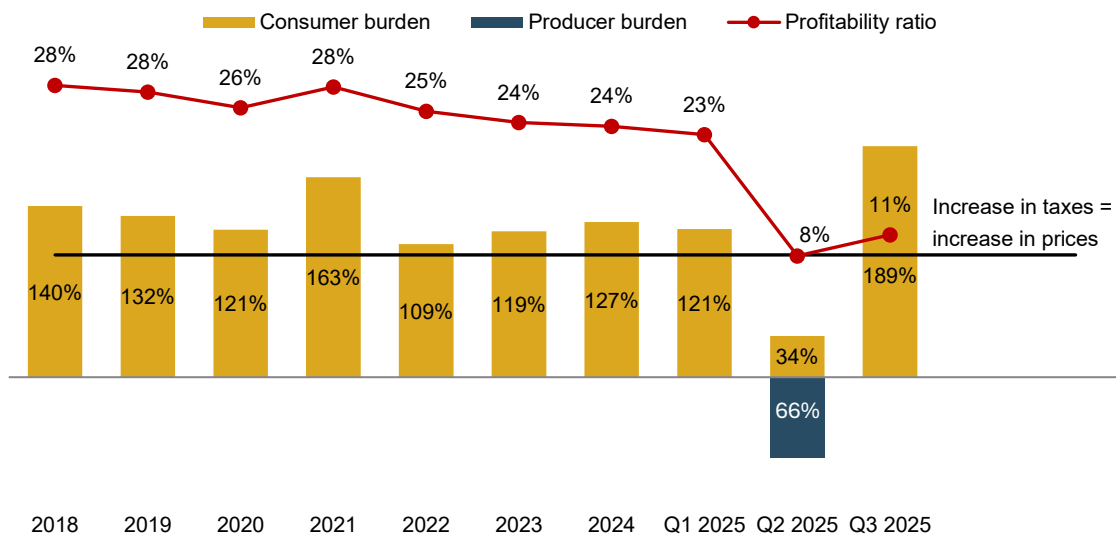
Because the bill increasing tobacco excise duties was delayed at the beginning of 2025, businesses had a chance to procure excise stamps at a lower price. Therefore, we assume that producers were selling tobacco products at a lower tax burden than it was actually supposed to be in Q2 2025.

Figure 12 / Customer and producer burdens in the low-cost segment of cigarettes due to the increased tobacco excise duties, 2018-Q3 2025, %



Source: State Statistics Service of Ukraine; CES calculations

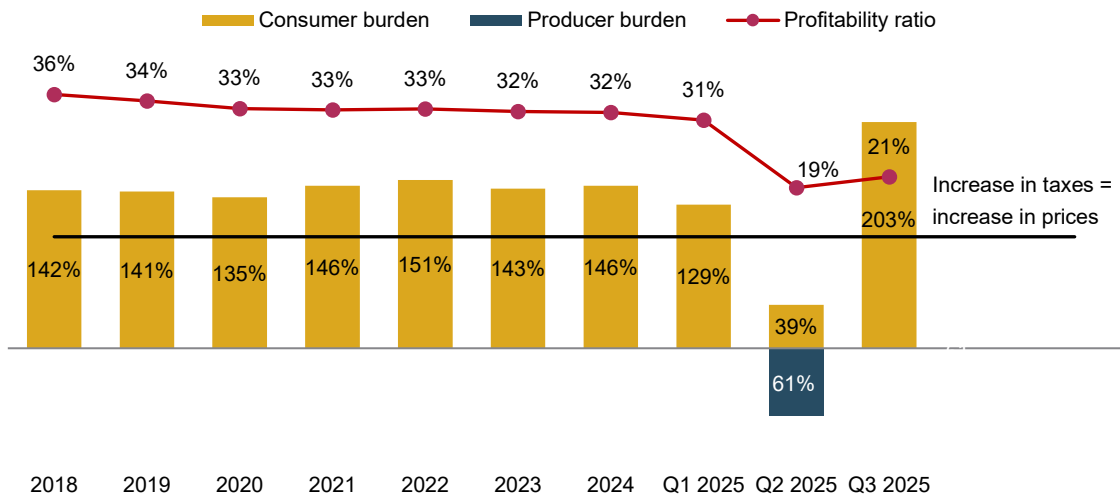
Figure 13 / Customer and producer burdens in the mid-range segment of cigarettes due to the increased tobacco excise duties, 2018-Q3 2025, %



Source: State Statistics Service of Ukraine; CES calculations

In Q3 2025, as the taxation burden per cigarette pack began to increase due to the depletion of cheaper excise stamps, producers shifted the tax-increase burden onto consumers, as Figures 12-14 demonstrate. Moreover, our analysis shows that producers are gradually increasing their margins across all segments.

Figure 14 / Customer and producer burdens in the high-end segment of cigarettes due to the increased tobacco excise duties, 2018-Q3 2025, %

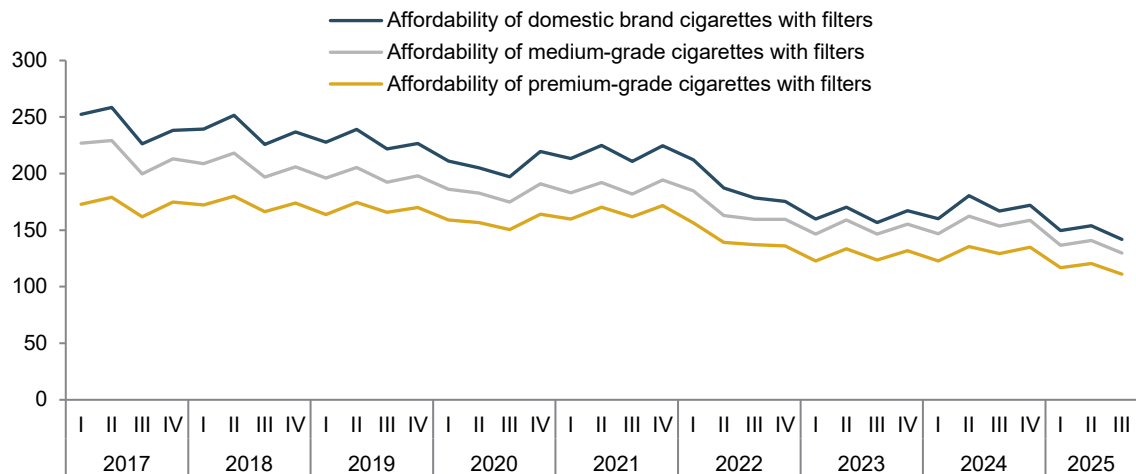


Source: State Statistics Service of Ukraine; CES calculations

6.3. THE AFFORDABILITY INDEX DEMONSTRATES A POSITIVE TREND IN THE LONG RUN

Ukraine’s tobacco excise policy has proven to be effective, as the affordability index of all cigarette segments has declined over the years. However, the index rose in Q2 2025, raising questions about the efficiency of the new excise policy. This trend is explained by the fact that the salary growth rate in Q2 2025 outperformed the growth rate of the price of a pack of cigarettes. A lower growth rate of the price of a pack of cigarettes occurred due to the forestalling activities described above.

Figure 15 / Affordability of cigarettes by segment: How many packs of cigarettes can be bought by the average net salary, 2017-Q3 2025, units

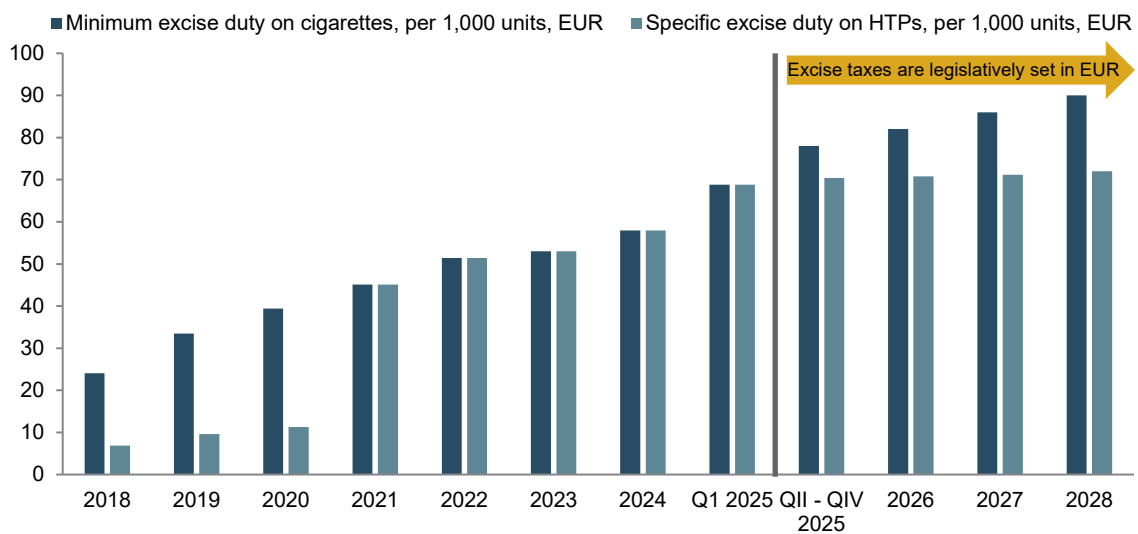


Sources: State Statistics Service of Ukraine, Pension Fund of Ukraine (<https://www.pfu.gov.ua/statystyka/pokazniki-serednoyi-zarobitnoyi-plat/>); CES calculations

7. Impact of rate changes on retail prices and product affordability: HTPs

In 2021, HTPs were separated into a separate tobacco products category, and their specific excise duty was equalised with the minimum excise duty on cigarettes. This decision increased tax revenues from the excise tax on HTPs by a factor of six in just one year (Advocacy Center ‘Life’ 2021a, b). In March 2025, the president of Ukraine signed a bill that set tobacco excise taxes in euros and grants a tax advantage for HTPs. Advocacy Center ‘Life’ assesses budget losses at UAH 18.6 billion over the 2025-2028 period and UAH 7 billion for each subsequent year if the excise duty is not equalised with cigarettes (Kupyra 2024).

Figure 16 / Taxation of cigarettes and HTPs, 2018-2028, EUR



Sources: Law 2245-VIII, Law 466-IX, Law 11090; CES calculations

8. Future trends: the tobacco excise duty in 2026

On 1 January 2025, a regulation came into effect that mandates a total excise tax liability in the weighted average retail price of cigarettes to be at least 60% (Paragraph 221.6 of Article 221 of the Tax Code of Ukraine; VRU n.d.). If this level is not achieved, the coefficient of 1.1 applies to the minimum excise duty from April to December. Since this figure reached 55.8% in 2024 (State Tax Service of Ukraine 2025), the minimum excise duty applied to tobacco products in Q2-Q4 2025 was set at EUR 85.8, which resulted in higher excise revenues.

In Q1-Q3 2025, the average level of excise duty for a pack of cigarettes across the three segments was 64% (see Figures A8-A10 in the Annex for the retail price structure for all three segments). This means that this regulation will most likely not come into effect in 2026, resulting in a decrease in the minimum excise duty applied in euros. On the other hand, the excise duty in the national currency will continue to increase. According to Article 39 of the Ukrainian Tax Code, the official exchange rate of the hryvnia to the euro, established by the National Bank of Ukraine (and effective at 00:00 on the first day of the calendar half-year before the half-year in which the excise stamps are purchased), shall apply to determine the excise duty in the national currency (VRU n.d.).

In the second half of 2025, the excise duty applied in the national currency equalled UAH 3,748.22 (EUR 1 = UAH 43.6855), while during the first half of 2026, it will be UAH 4,016.82 hryvnias (EUR 1 = UAH 48.9856).

9. Conclusion

This study presents a comprehensive overview of Ukraine's tobacco market, showing that the increases in tobacco excise duties have not led to growth in the illicit market. This is a crucial finding, as it challenges the tobacco industry's claim that higher excise duties drive illicit tobacco trade. Additionally, the analysis reveals that the forestalling activities that occurred in Q1 2025 had negative fiscal effects. This aspect is essential to the research, as analysing its implications is crucial if similar occurrences are to be prevented in the future. Furthermore, this paper assesses the new tobacco excise policy as fiscally efficient, as it generated the highest revenues in both nominal and real terms in Q2 2025, the first quarter following its adoption.

Key points to consider for the future:

- › The EU is in the process of reviewing its tobacco excise policy, which is expected to result in a substantial increase in the minimum excise duty. Under its Eurointegration obligations, Ukraine will need to harmonise its tobacco excise policy with the updated EU standards. Further analysis is needed to quantify the associated health, fiscal and socioeconomic implications.
- › Having the responsible state authorities actively fight against contraband sales, cross-border smuggling, and illegal manufacturing and distribution is the most effective way to tackle the illicit tobacco market. Strengthening their capacities – through increased funding, personnel and other resources – is essential to combating the illicit tobacco market.
- › Regular studies – and, specifically, ones conducted by non-industry funded entities – of the illicit market across all major tobacco products (including cigarettes, HTPs, e-cigarettes and nicotine pouches) are necessary to better monitor market trends.
- › A detailed study is needed to identify the most effective regulatory approach towards e-cigarettes. This issue is particularly timely for several reasons. First, Kantar Ukraine (2025b) reported in October 2025 that the share of the illicit market for electronic cigarettes surpassed 93%, highlighting substantial weaknesses either in enforcement capacity or in the existing policy framework. Second, 39% of smokers in Ukraine aged 18-29 use e-cigarettes (KIIS 2025), and there is growing consensus that these products are especially popular among minors. These statistics reveal significant market challenges that must be addressed through a revised policy. In this context, examining the experience of countries with more advanced policies on controlling e-cigarettes may provide valuable insights and help to identify best practices for Ukraine.

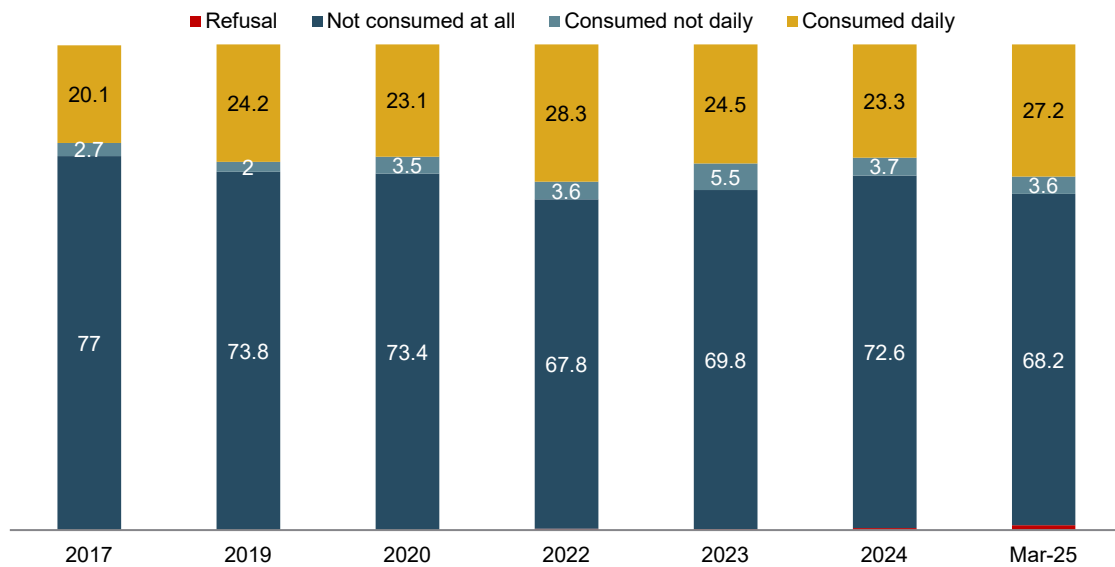
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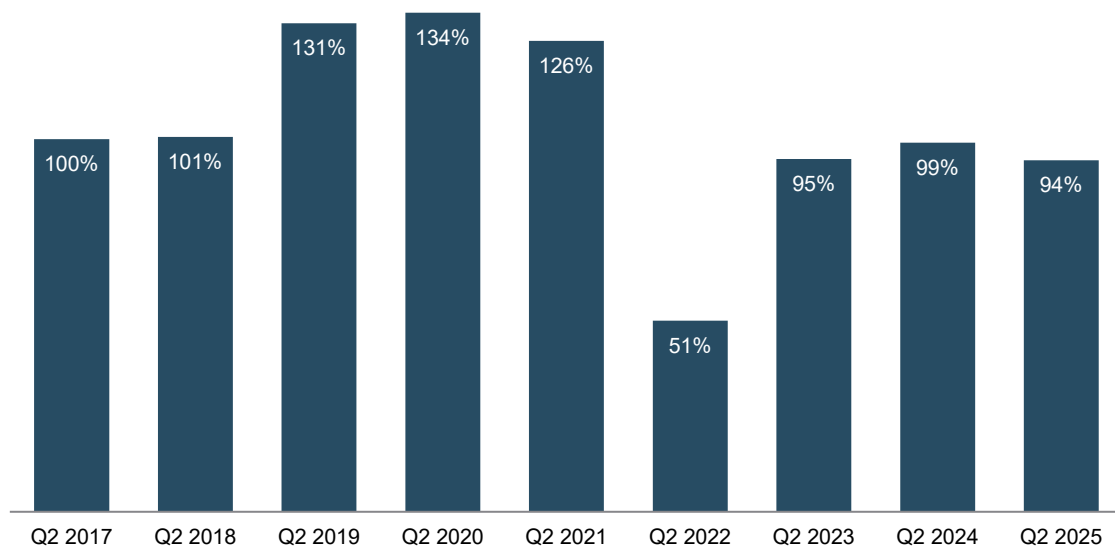
Annex

Figure A1 / Consumption of tobacco or nicotine products in Ukraine, 2017-March 2025, %



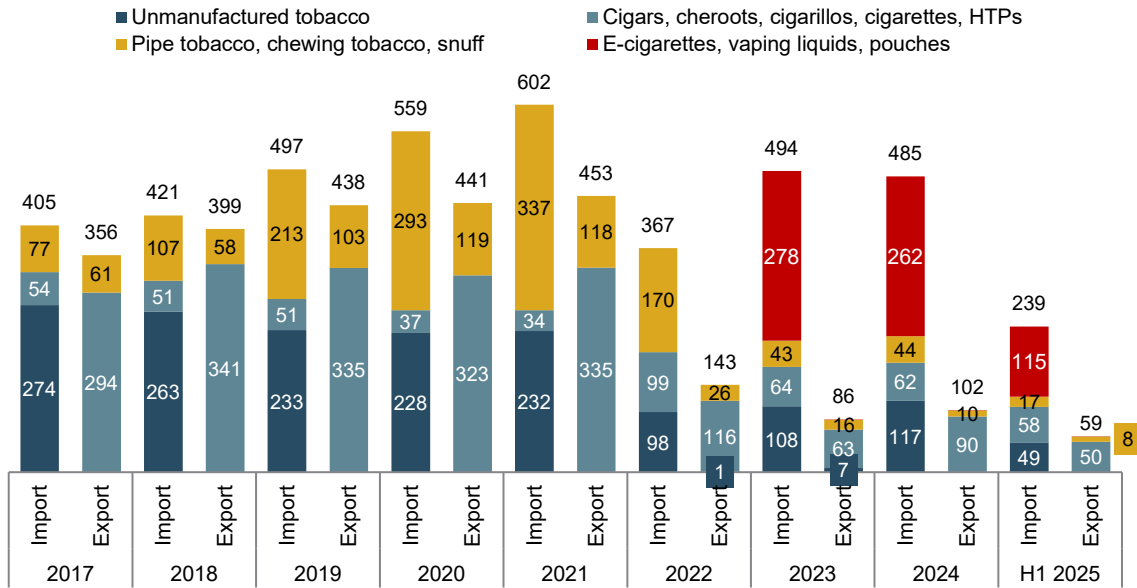
Source: KIIS (2025)

Figure A2 / Total legal domestic consumption in Q2 of each year, Q2 2017 = 100%, %



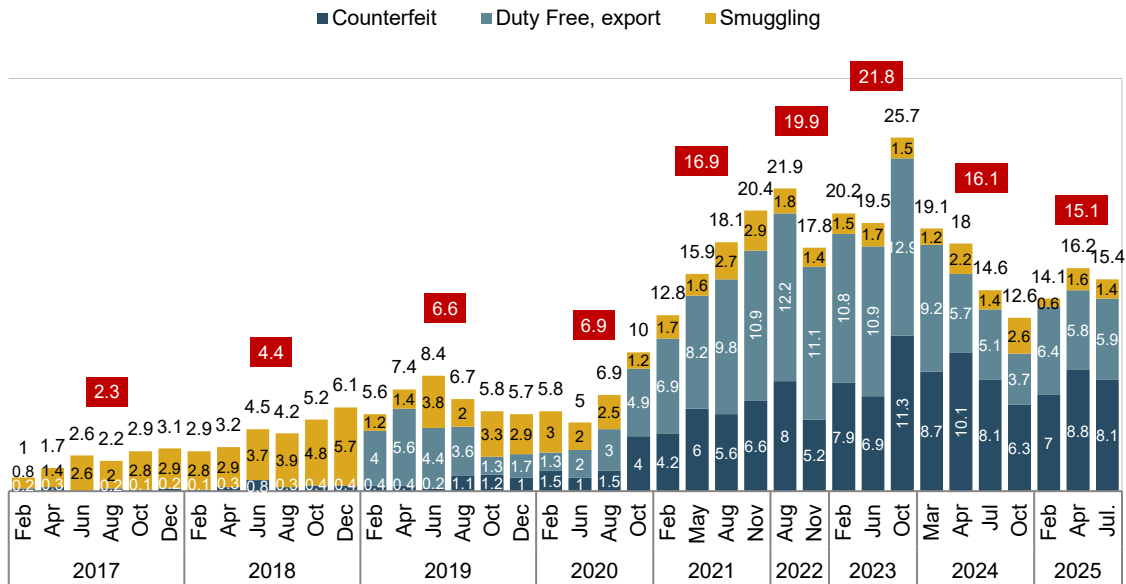
Source: Openbudget; CES calculations

Figure A3 / Ukraine's international trade of tobacco products, 2017-H1 2025, USD m



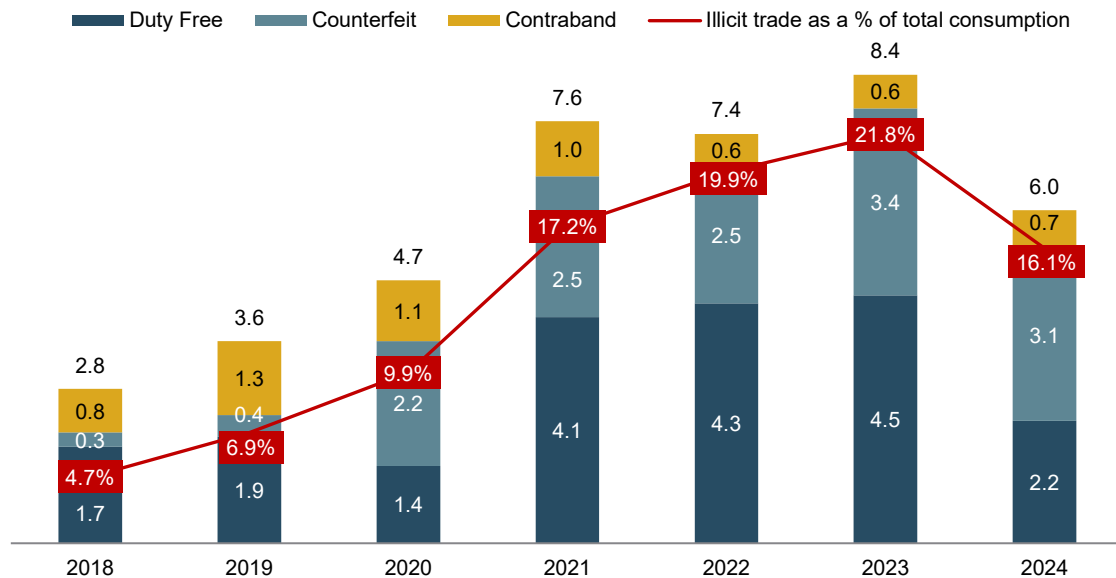
Source: ITC Trade Map; CES calculations

Figure A4 / Illicit trade of tobacco products in Ukraine based on the Kantar Ukraine survey, 2017-July 2025, %



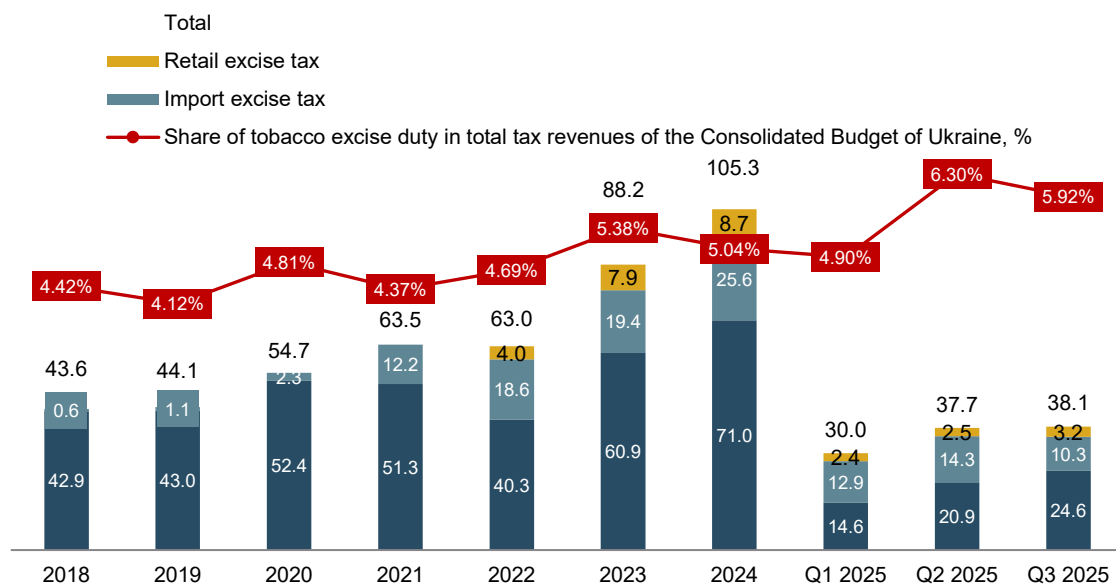
Source: Kantar Ukraine (2025a)

Figure A5 / Illicit trade of tobacco products in Ukraine based on the KPMG survey, 2018-2024, %



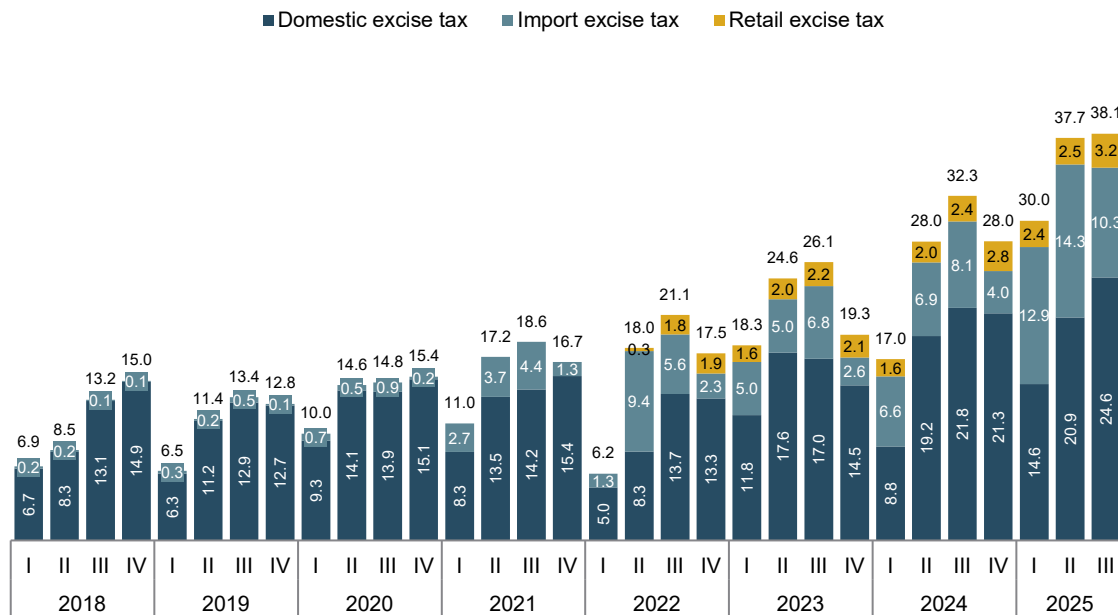
Source: KPMG (2025)

Figure A6 / Excise revenues to the consolidated budget of Ukraine on an annual basis, 2018-Q3 2025, UAH bn



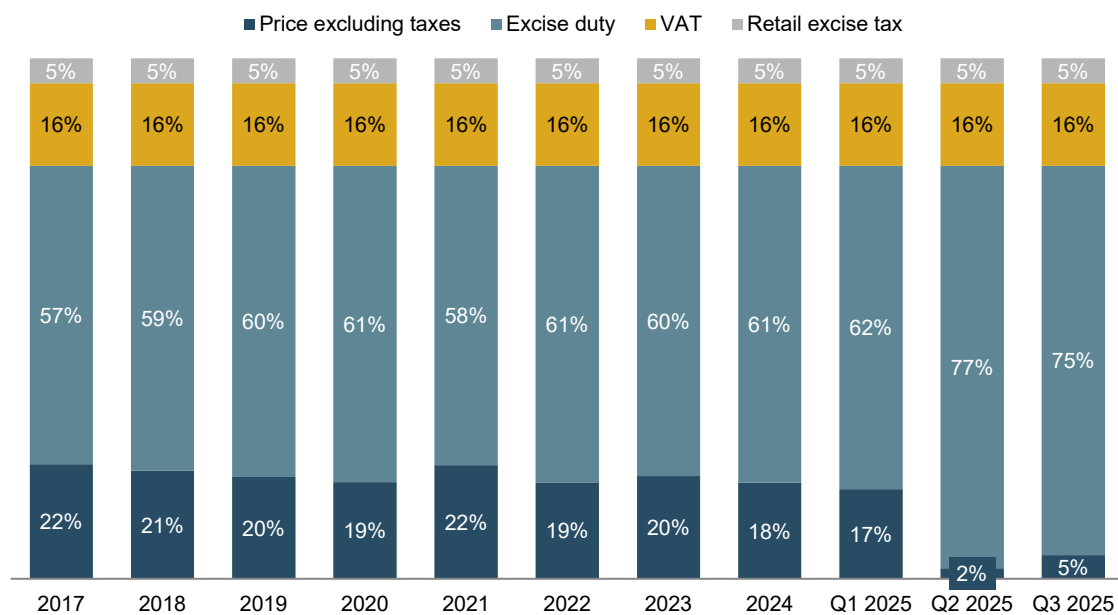
Source: Openbudget; CES calculations

Figure A7 / Excise revenues to the consolidated budget of Ukraine on a quarterly basis, 2018-Q3 2025, UAH bn



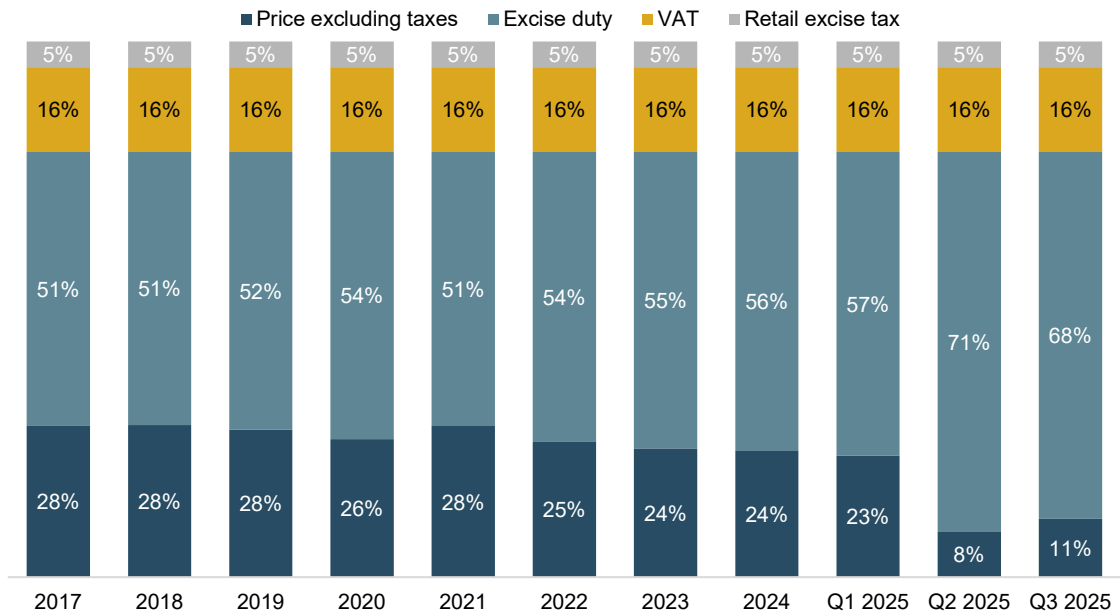
Source: Openbudget; CES calculations

Figure A8 / Retail price structure of the low-cost segment pack of cigarettes, 2017-Q3 2025, %



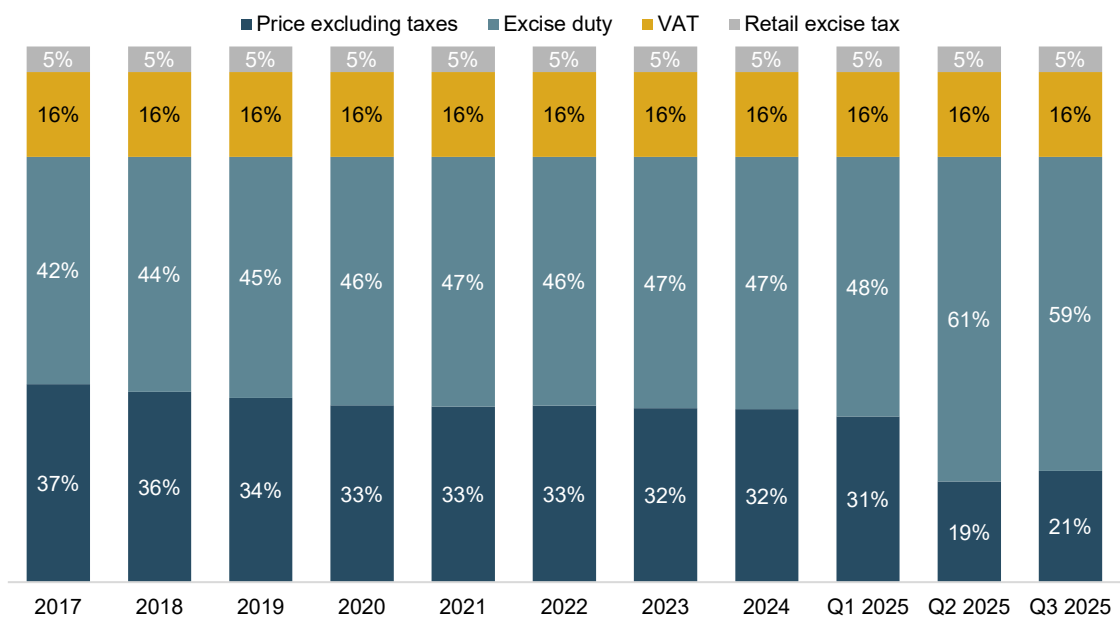
Source: State Statistics Service of Ukraine; CES calculations

Figure A9 / Retail price structure of the mid-range segment pack of cigarettes, 2017-Q3 2025, %



Source: State Statistics Service of Ukraine; CES calculations

Figure A10 / Retail price structure of the high-end segment pack of cigarettes, 2017-Q3 2025, %



Source: State Statistics Service of Ukraine; CES calculations

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