



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

Market overview

Date: 28 October 2025

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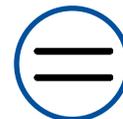
We are an independent **economic** policy **think tank** established in 2015



Our work includes research on taxation and **excise policy**, particularly in the **tobacco sector**



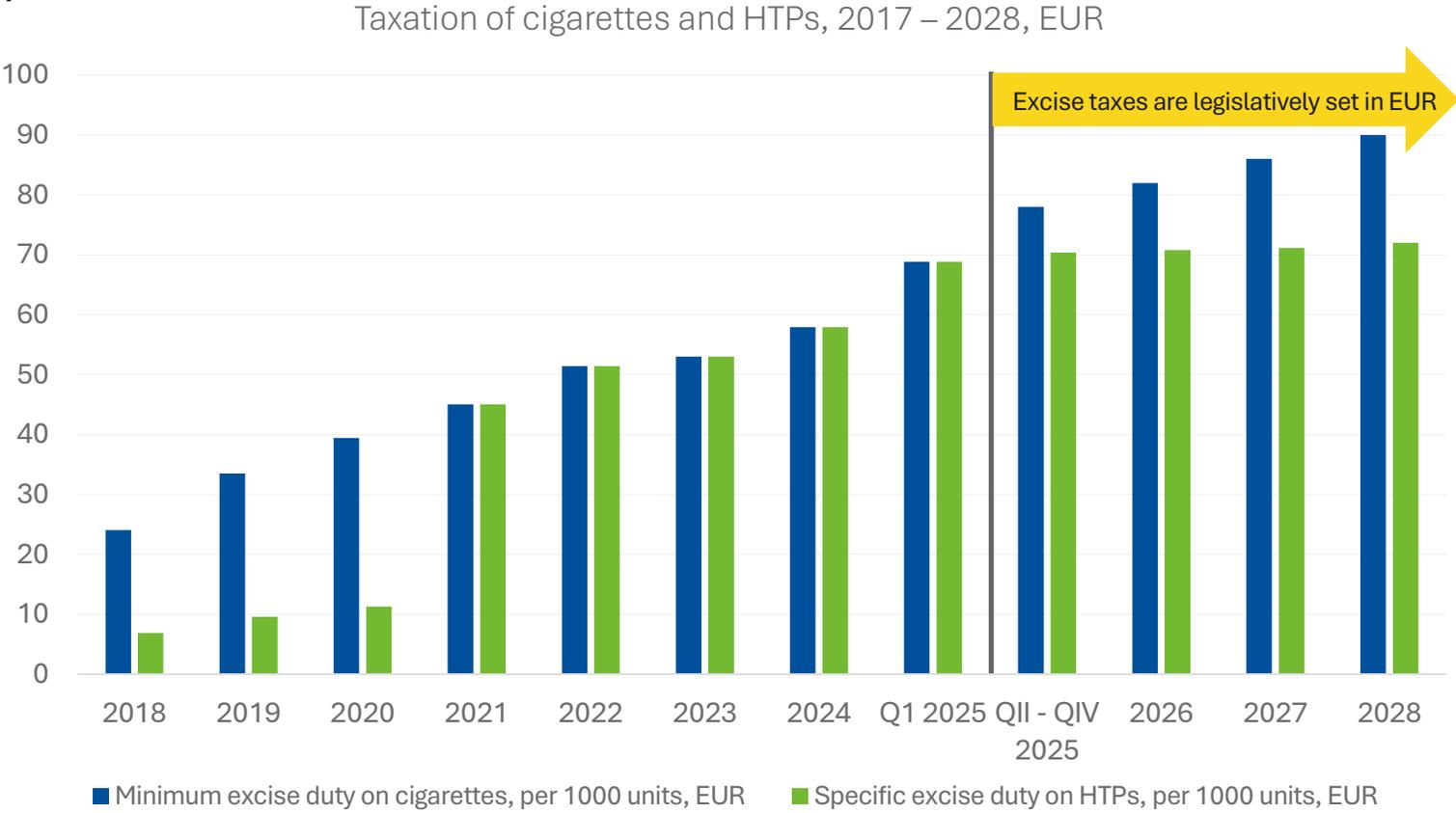
We **analyze** how **excise taxation** influences consumption, prices, budget revenues, and the illicit market



We support **equal taxation for all tobacco products** – without fiscal advantages for any category – and advocate for a fair, transparent, and effective excise system amid a rapidly evolving market.

This study provides a comprehensive assessment of the new excise policy, which came into effect in Q2 2025

Ukraine steadily and continuously raises excise rates on tobacco products



Key **objectives of excise rates** on tobacco products **increase:**

- Boosting **fiscal revenues;**
- Fulfillment of **Eurointegration obligations;**
- Reduction of the **prevalence of smoking.**

Sources: Law 2245-VIII, Law 466-IX, Law 11090, Tax Code of Ukraine, CES calculations.

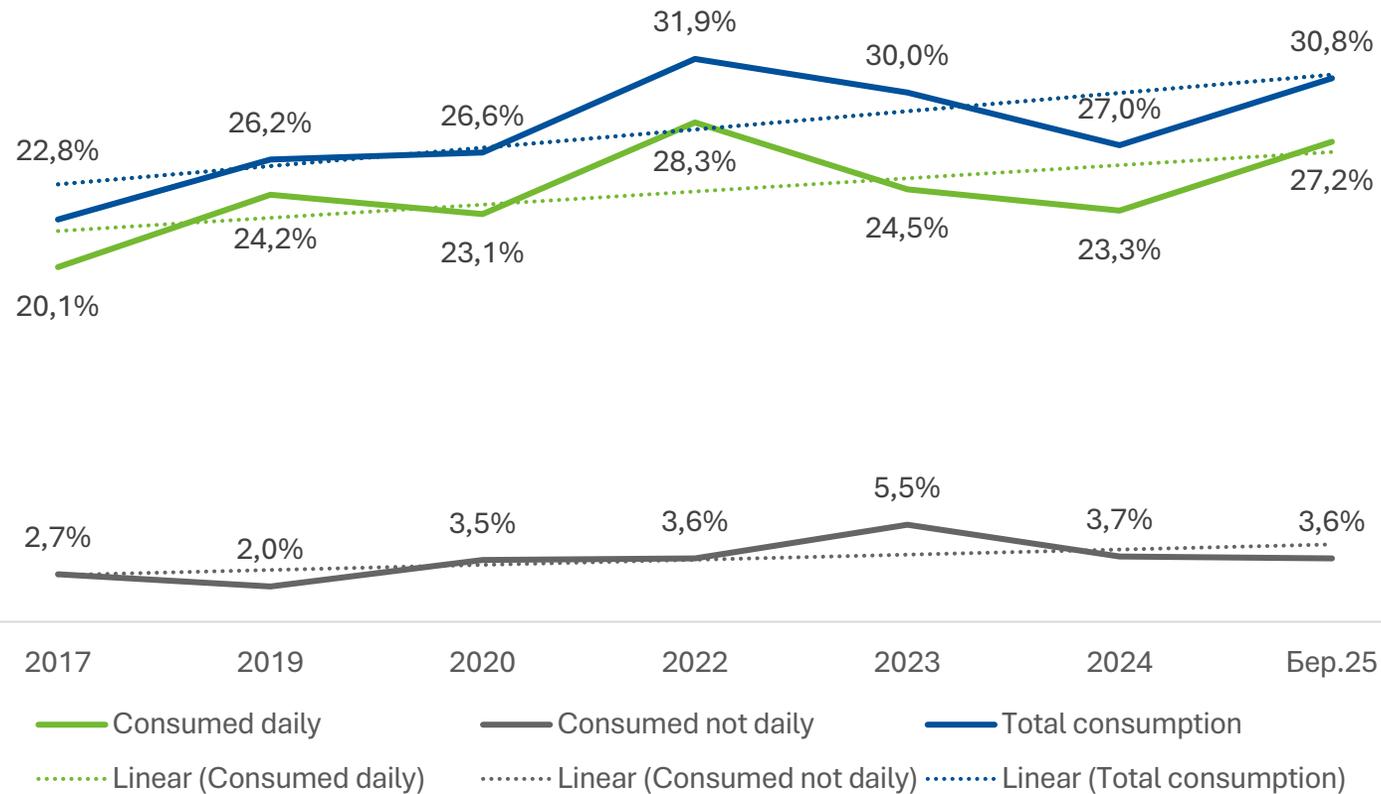


Impact of rate changes on tobacco consumption

Despite growing excise duties, the prevalence of smoking is steadily increasing over the years

An increase in the prevalence of smoking among women is one of the key drivers

The prevalence of smoking, 2017 – March 2025, %



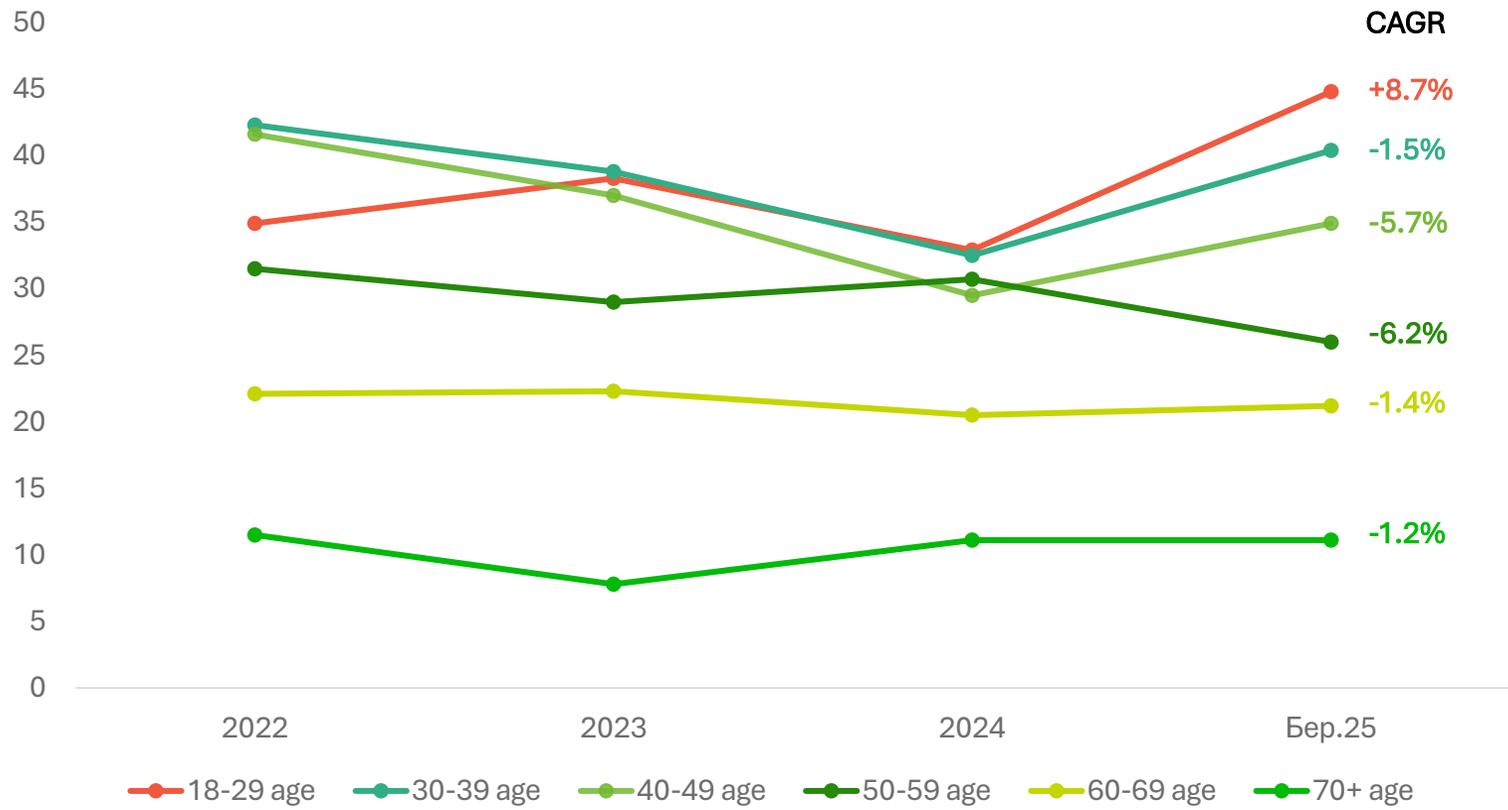
- The prevalence of smoking among women increased from **8.8% in 2017** to **19.2% in March 2025**;
- Over the last 8 years, the frequency of smoking among women has increased by **118% since 2017**;
- Meanwhile, the prevalence of smoking among men has remained within **40%-50%** since 2017.

Sources: Kyiv International Institute of Sociology.

All age groups above 30 years old demonstrate a decline in consumption, except the youth (18-29)

The second driver of the prevalence of smoking is youth

The prevalence of smoking among age groups, 2022 – March 2025, %



- The most popular tobacco products among youth are **cigarettes (57%), e-cigarettes (39%), HTPs (37%), and hookah (24.2%)**;
- **Novel tobacco products are the most popular among youth (18 – 29 years old)**;
- **45% of smokers in the age group 18-29 years old practice multiple tobacco product use** (23% consume two types of products, and 22% use three).

Sources: Kyiv International Institute of Sociology.

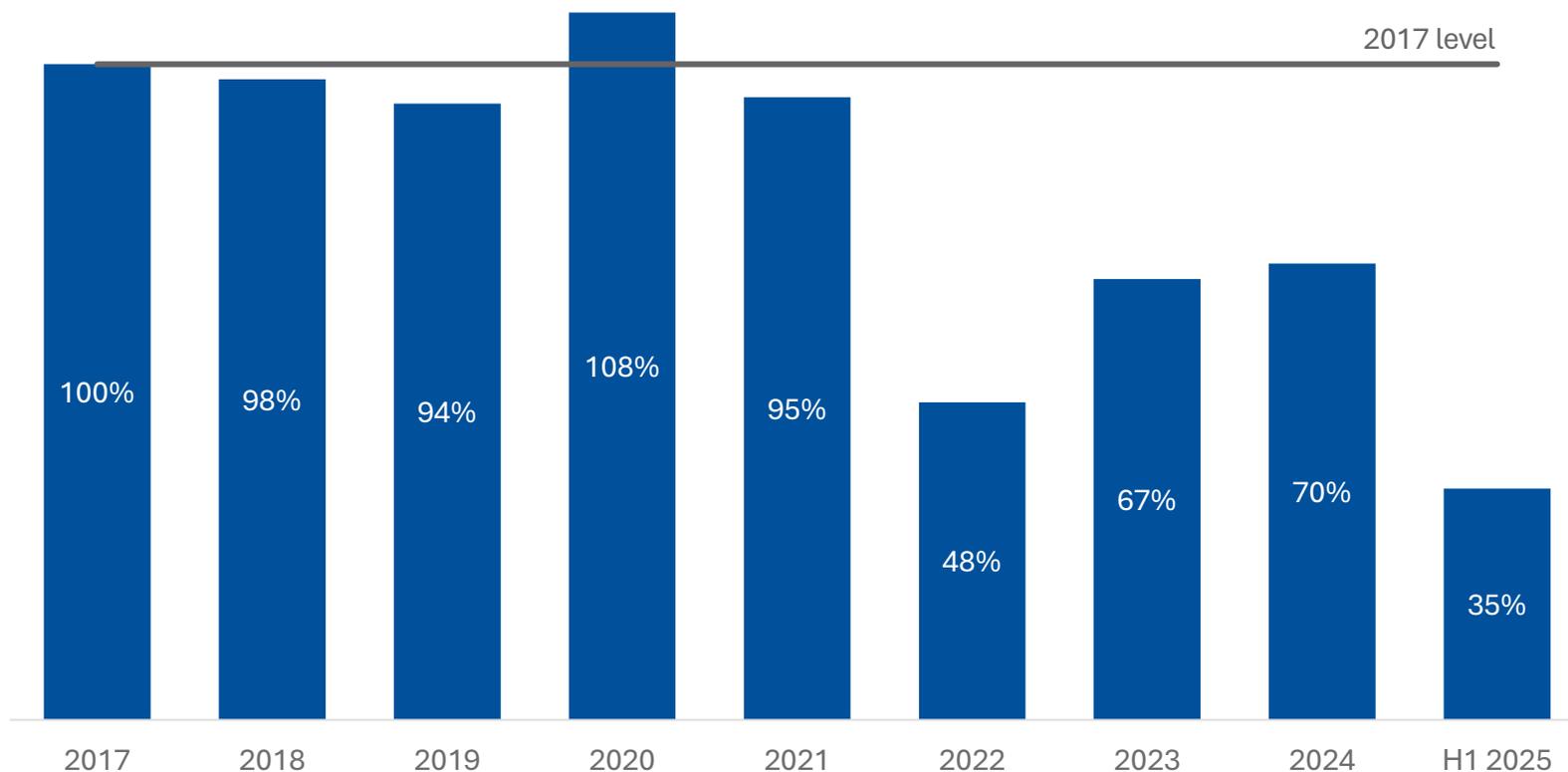


Impact of rate changes on the legal market

Despite an increase in excise duties, domestic consumption remains stable

Since 2022, the market has stabilized

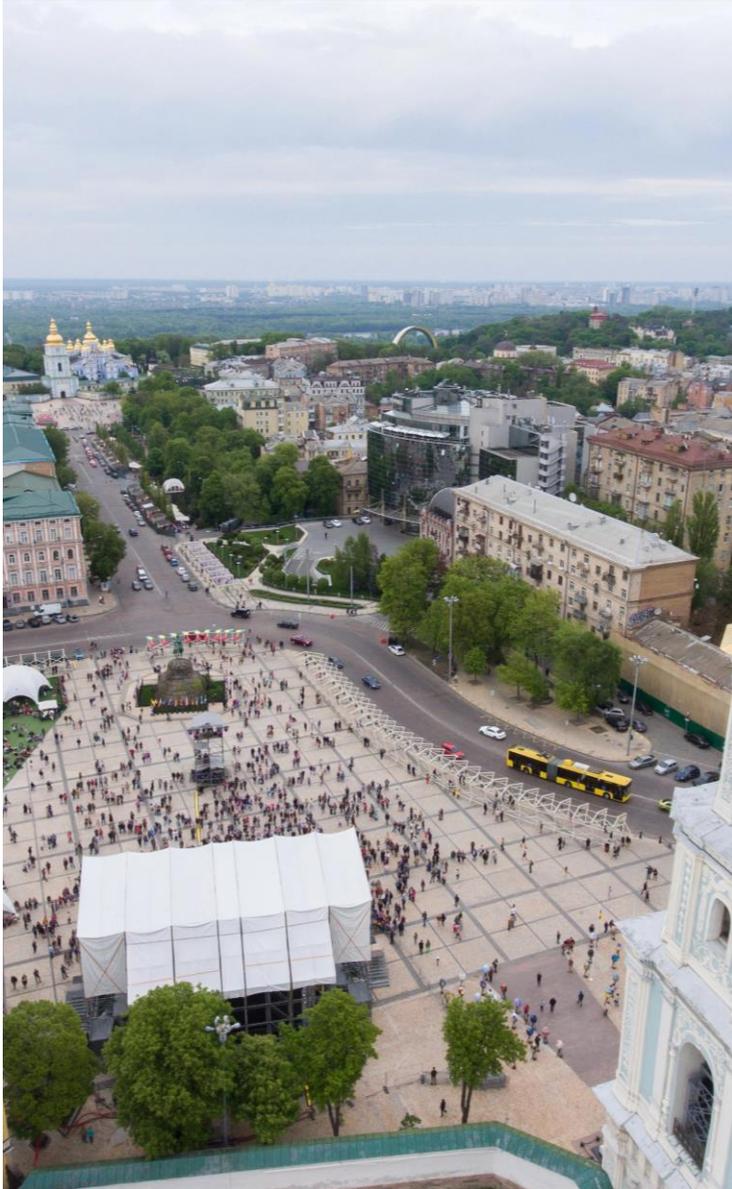
Total legal domestic consumption in real values (2017 = 100%), %, 2017 – H1 2025



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

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

- The market currently reflects the fact that approximately 30% of the country's population in 2021 lives abroad;
- Tobacco producers are currently increasing their capacity and expanding exporting activities.



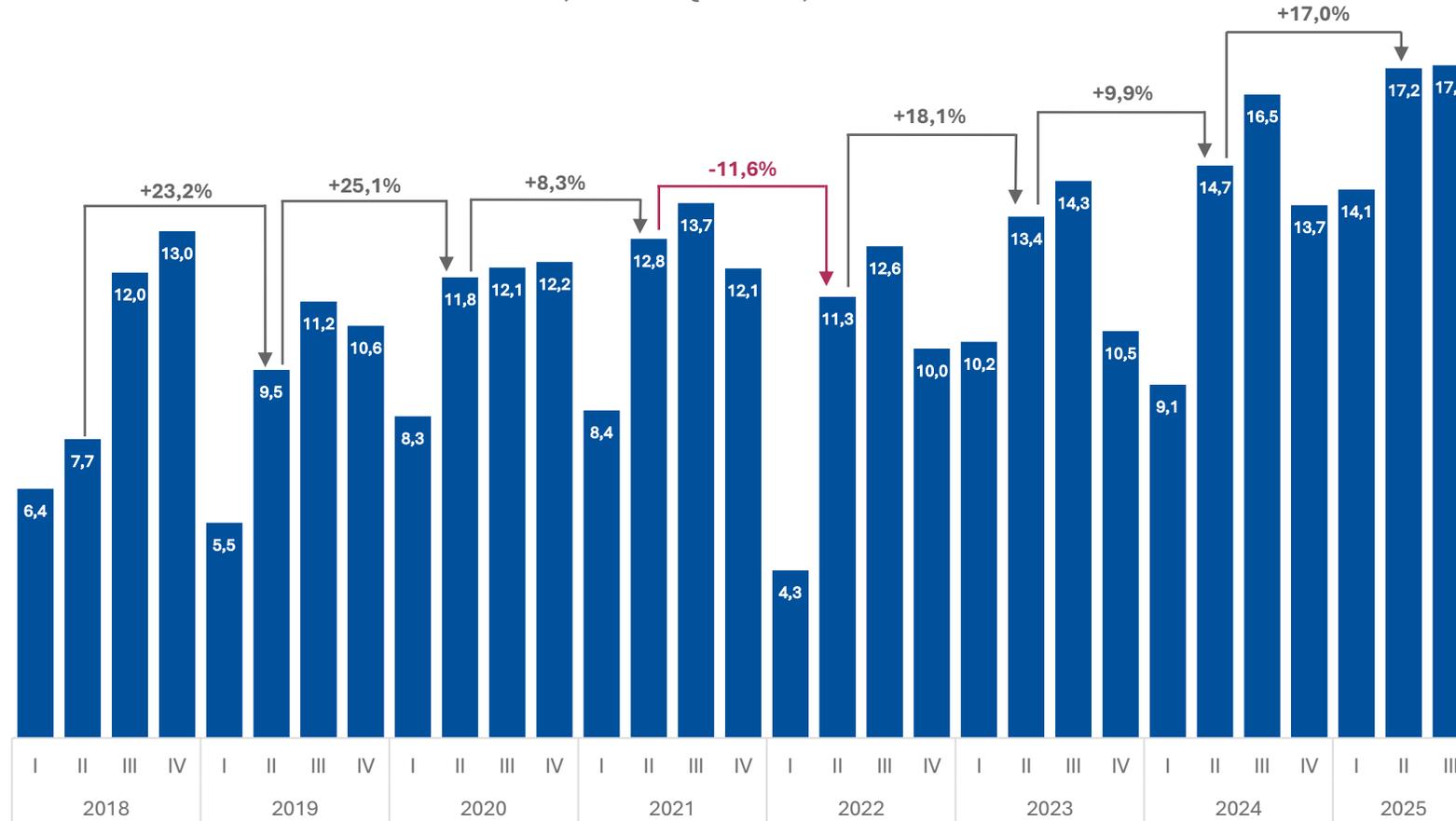
Impact of rate changes on the illegal market



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

Excise revenues to the consolidated budget of Ukraine in real values in prices of 2017, 2018– Q3 2025, UAH billions



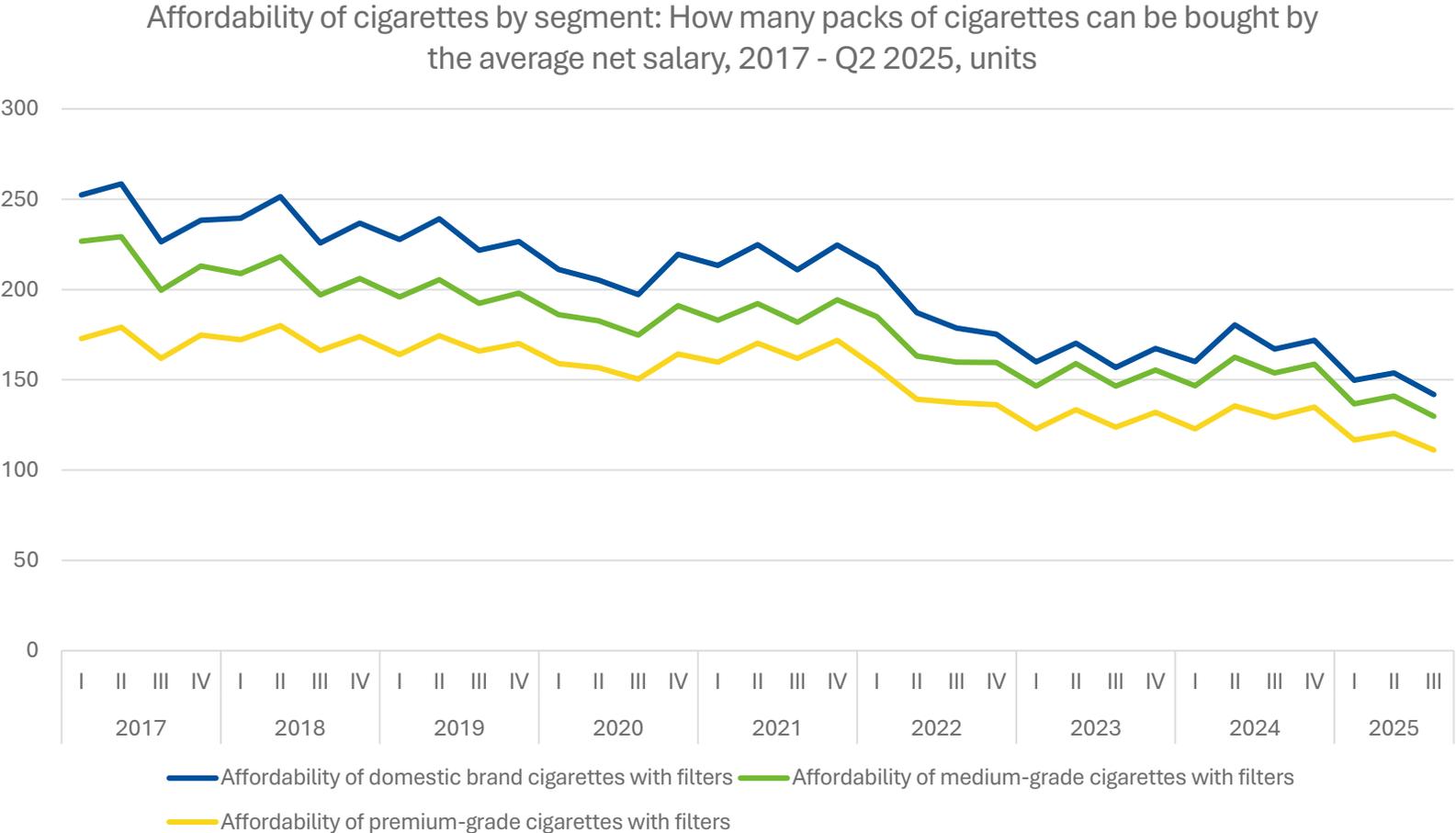
Due to the **failure to sign the bill** increasing tobacco excise rates during Q1 2025, **forestalling activities increased**, which will have **adverse fiscal effects**.

Sources: Openbudget, CES calculations.



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

The affordability of cigarettes is declining over the years, demonstrating the effectiveness of the tobacco excise policy



- Ukraine’s **tobacco excise policy** shows its **effectiveness**, as the affordability index of all cigarette segments has declined over the years;
- The index increased in Q2 2025 among all segments, which is explained by the fact that the salary growth rate in Q2 2025 outperformed the growth rate of the price of cigarettes. A lower growth rate of the price of a pack of cigarettes occurred due to **forestalling activities**.

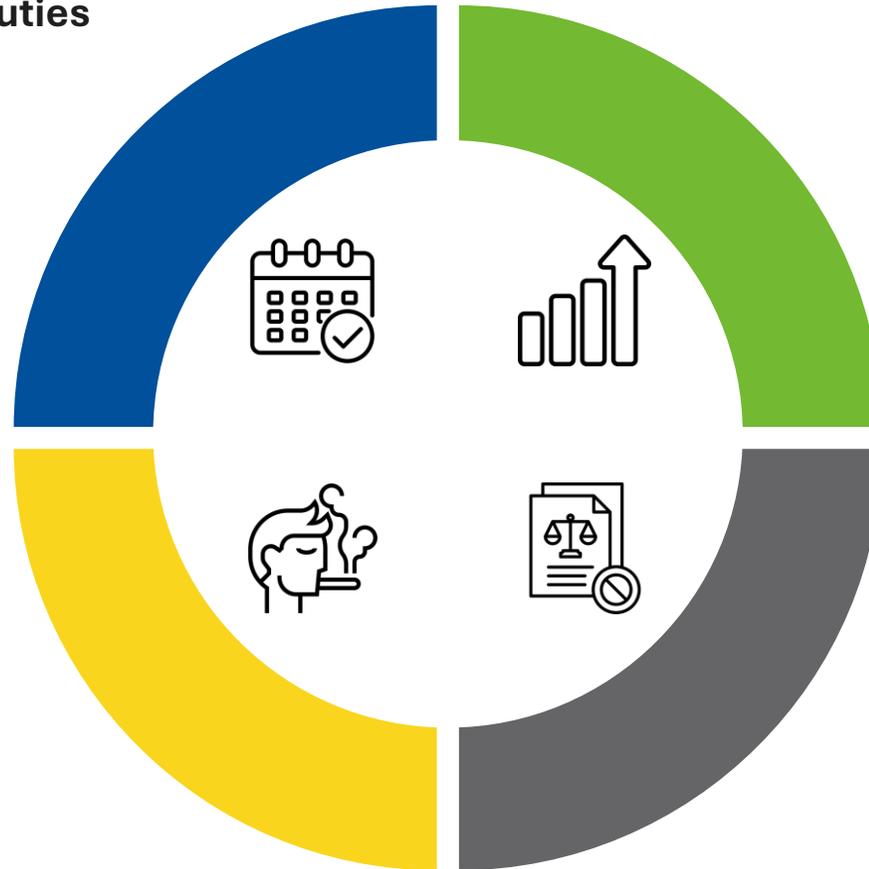
Sources: State Statistics Service of Ukraine, Pension Fund of Ukraine, CES calculations.

Ukraine is on track to reach the EU's current minimum tobacco excise duties

- Reaching the **minimum level** by **2028**
- Tobacco excise duty is legislatively **set in Euros**

The overall prevalence of smoking is increasing

- Key **drivers** are **women** and **youth**
- Primary **reasons** include the **availability of cheaper products** and the **persistence of the illicit market**



The new excise policy demonstrates a positive fiscal effect

- **34.7%** increase in nominal terms in Q2 2025, compared to Q2 2024
- **17%** increase in real terms in Q2 2025, compared to Q2 2024

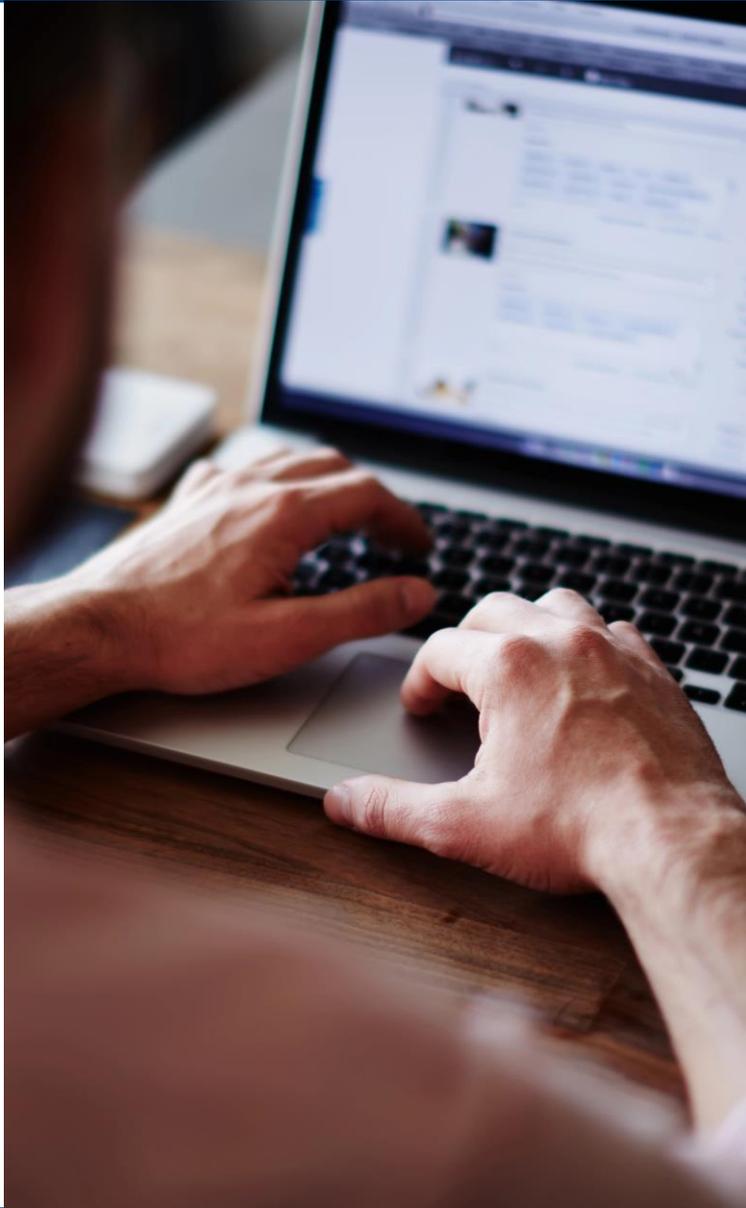
Despite the recent decline, the illicit segment remains high

- Key **reasons** are low penalties, poor enforcement, and high profitability

- 1 | The impact of the EU's new tobacco excise policy on Ukraine. How can we reach the EU's minimum without harm?
- 2 | Research on the experience of countries that have completely banned electronic cigarettes. Best practices for Ukraine
- 3 | The impact of tax benefits for HTPs, compared to cigarettes, in the EU on Ukraine



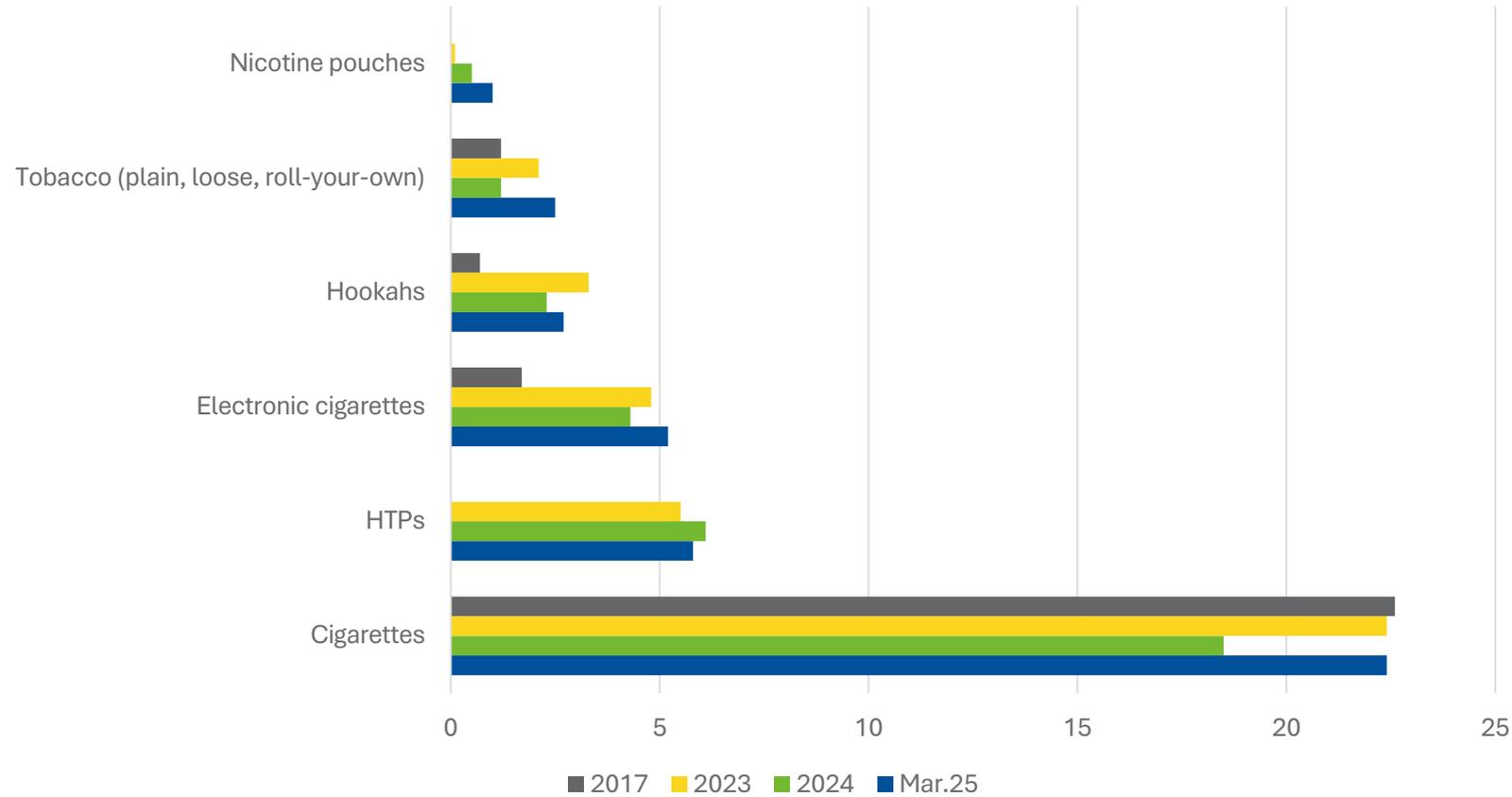
Thank you.



Annex

HTPs and e-cigarettes have plateaued in popularity. Cigarettes remain the most widely consumed tobacco product

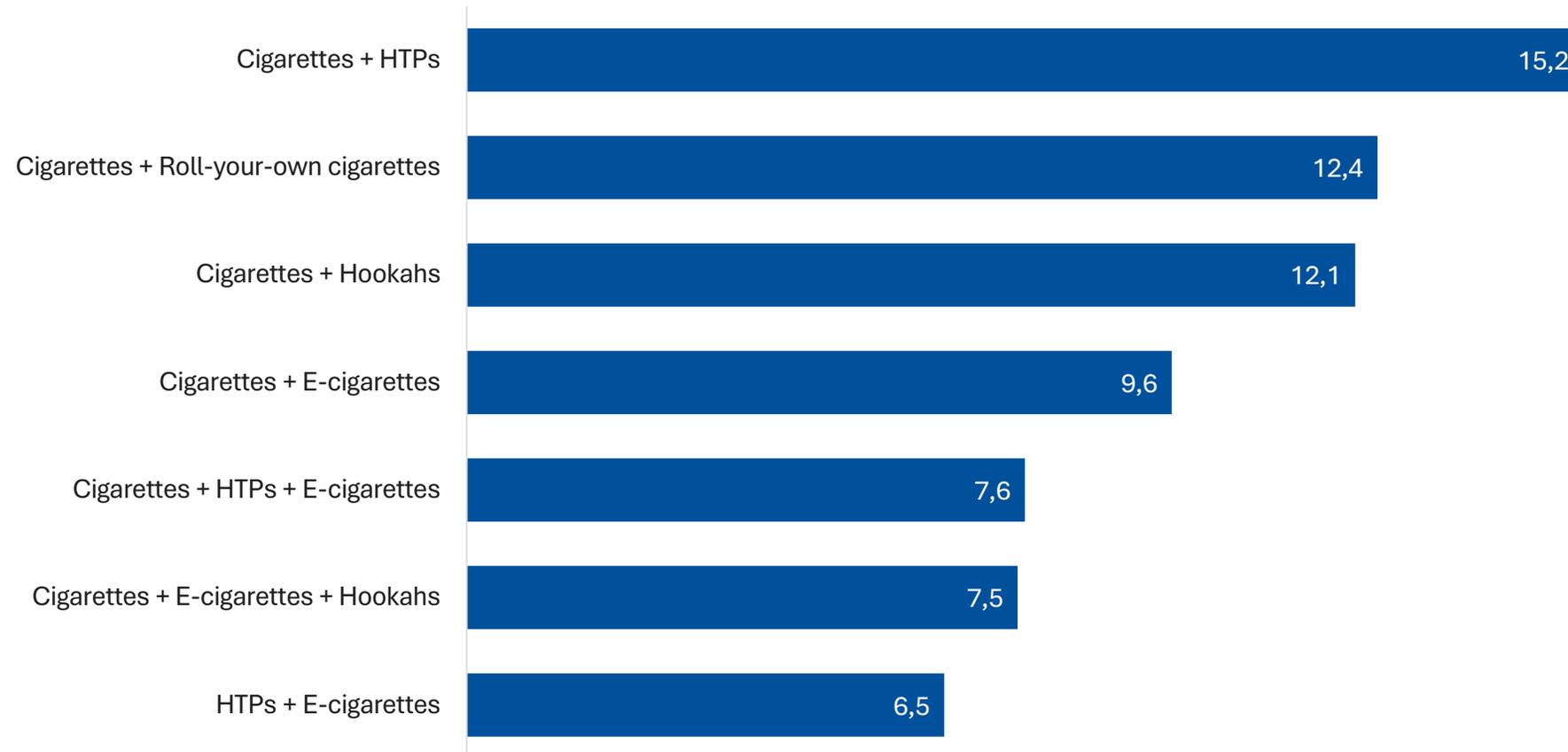
Structure of tobacco product consumption among population (regardless of whether or not they currently consume tobacco or nicotine products), 2017 - March 2025, %



Source: Kyiv International Institute of Sociology.

45% of smokers in the age group 18-29 years old practice multiple tobacco product use

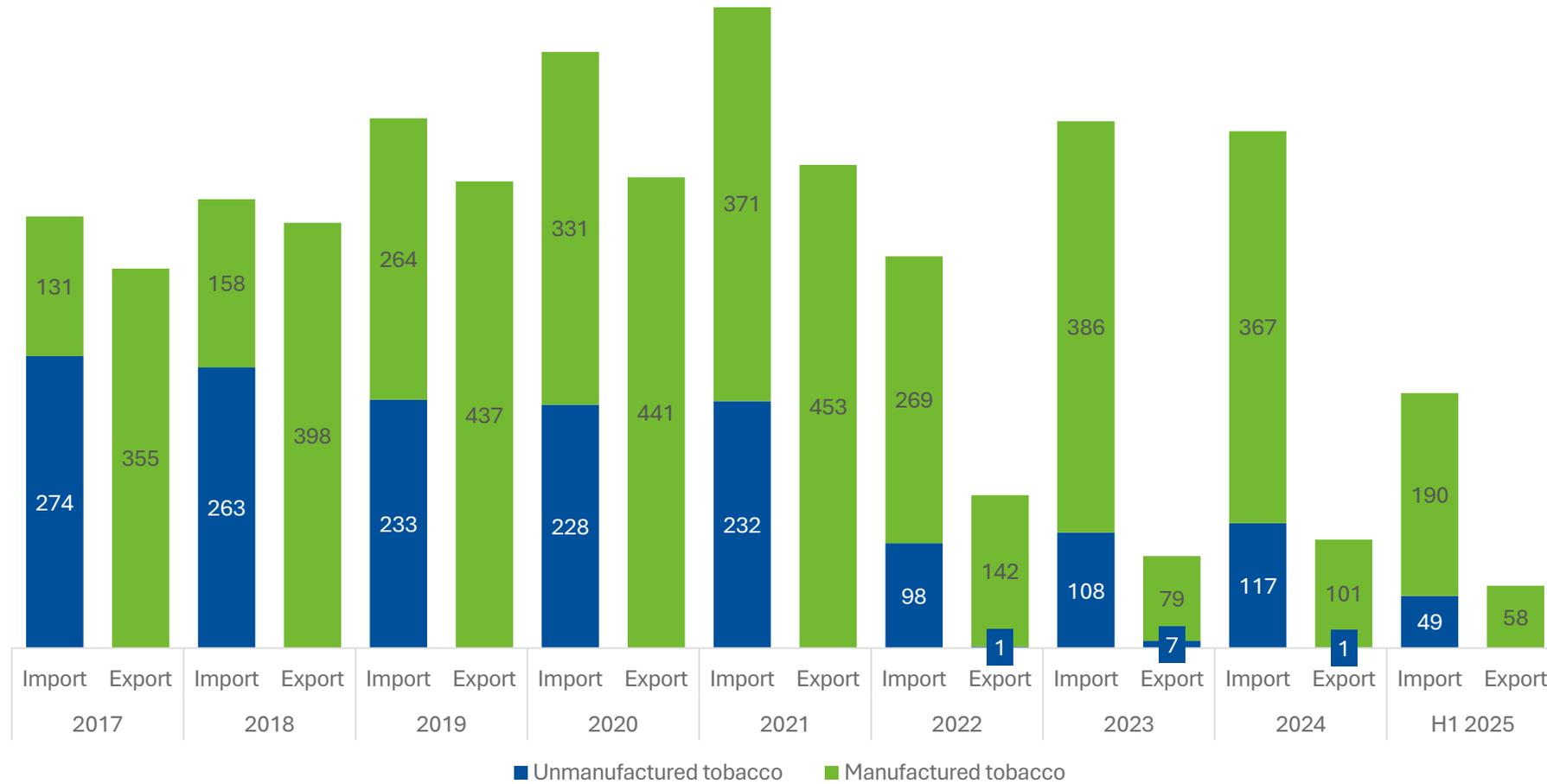
Top 7 combinations of multiple tobacco product consumption, March 2025, %



Sources: Kyiv International Institute of Sociology.

Producers are currently increasing their capacity and expanding exporting activities

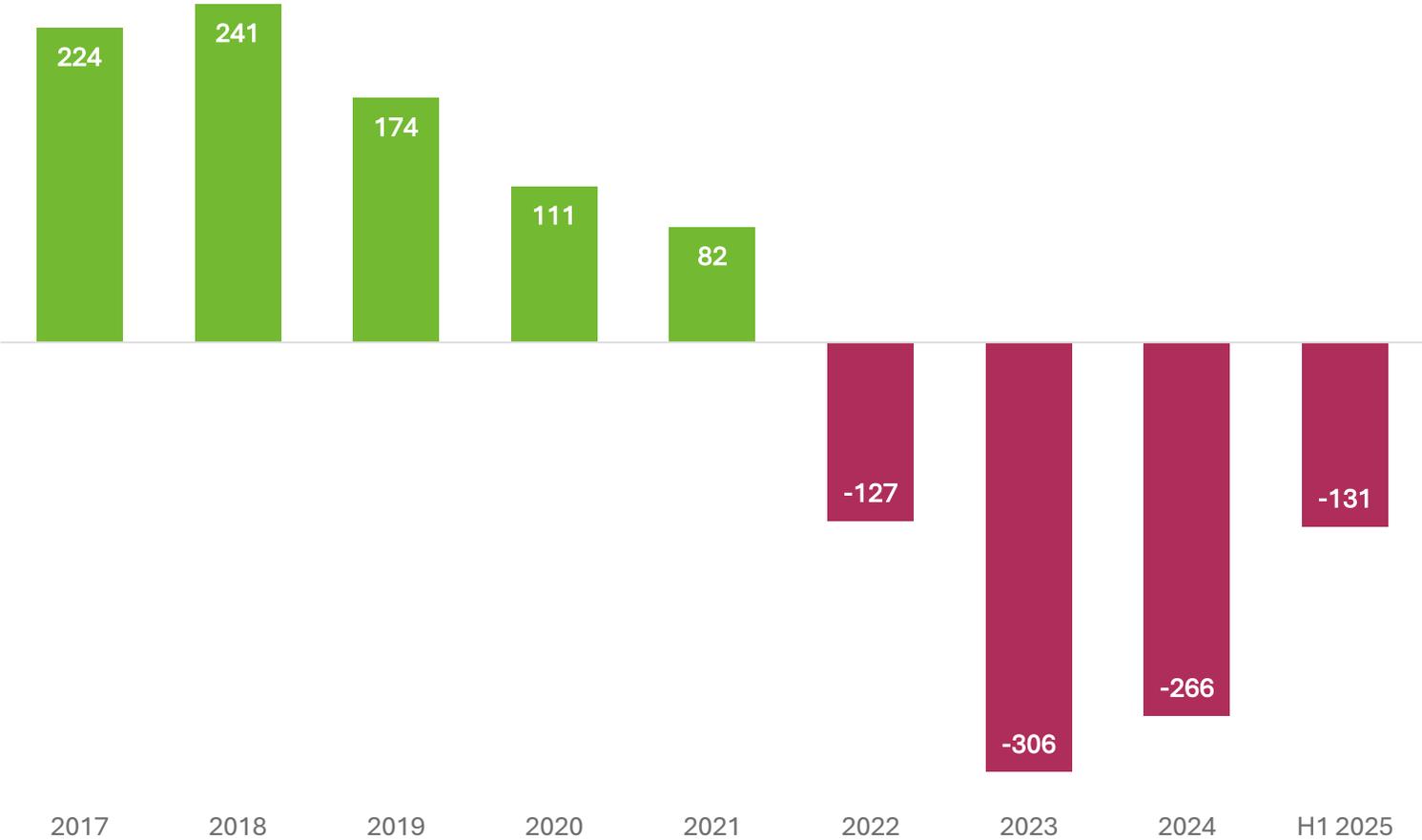
Ukraine's international trade volume of tobacco products, 2017 – H1 2025, USD million



Sources: ITC Trade Map, CES calculations.

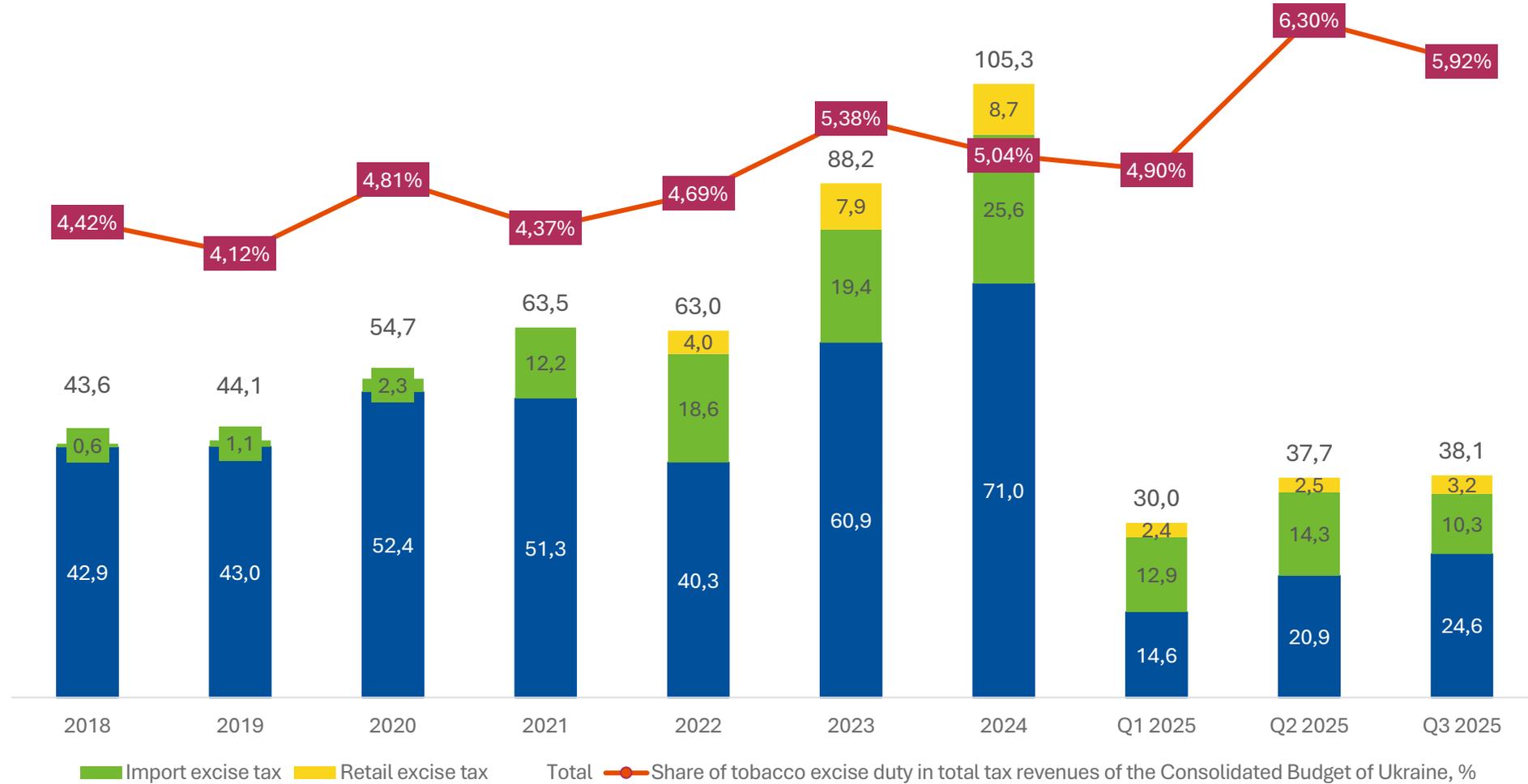
Production increase and investments in novel tobacco products are needed to re-establish a positive trade balance

Trade balance of manufactured tobacco products, 2017 – H1 2025, USD million



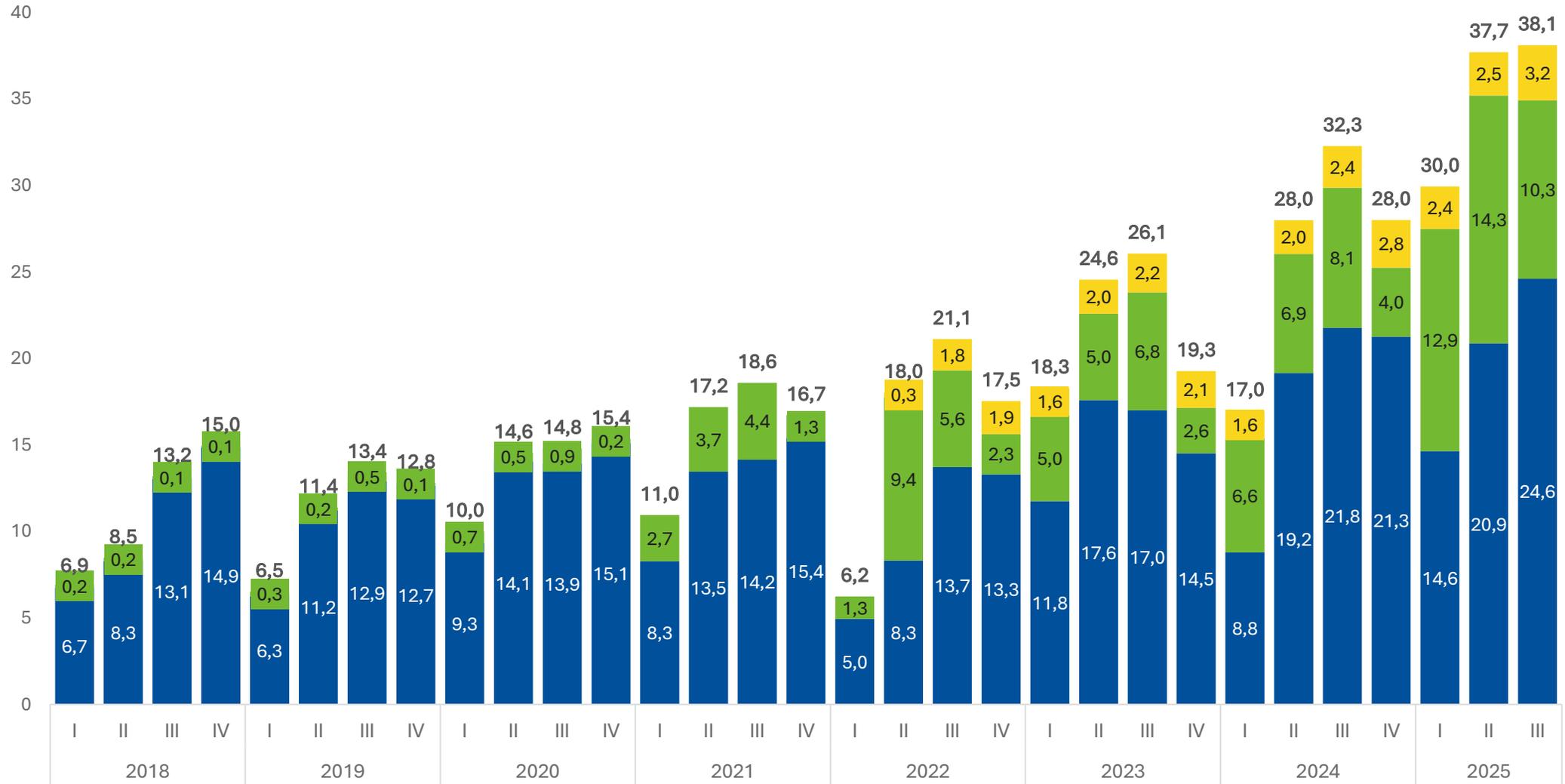
Sources: ITC Trade Map, CES calculations.

Excise revenues to the consolidated budget of Ukraine on an annual basis, 2018 – Q3 2025, UAH billion



Sources: Openbudget, CES calculations.

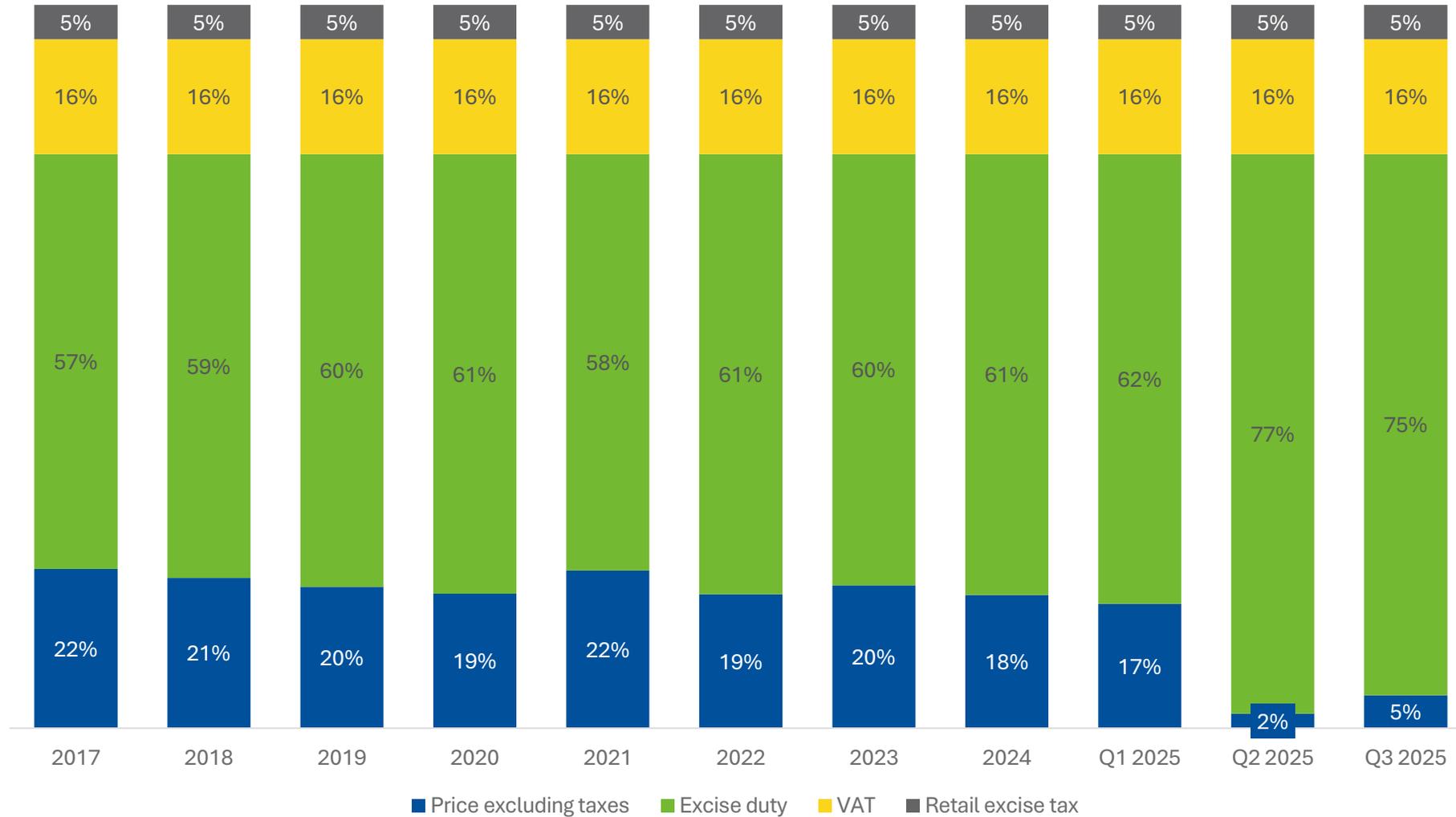
Excise revenues to the consolidated budget of Ukraine on a quarterly basis, 2018 – Q3 2025, UAH billion



Sources: Openbudget, CES calculations.

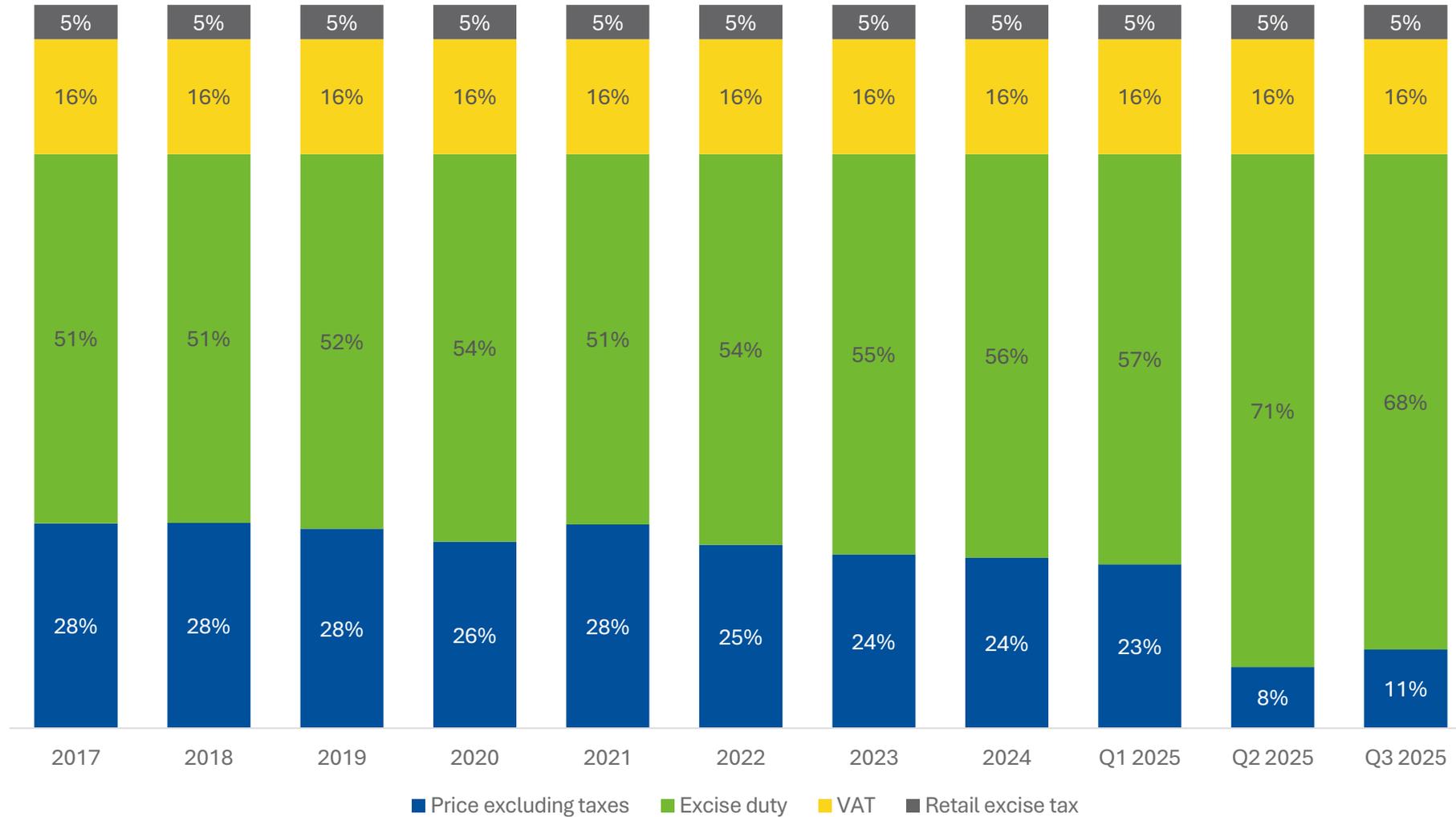
■ Domestic excise tax ■ Import excise tax ■ Retail excise tax

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



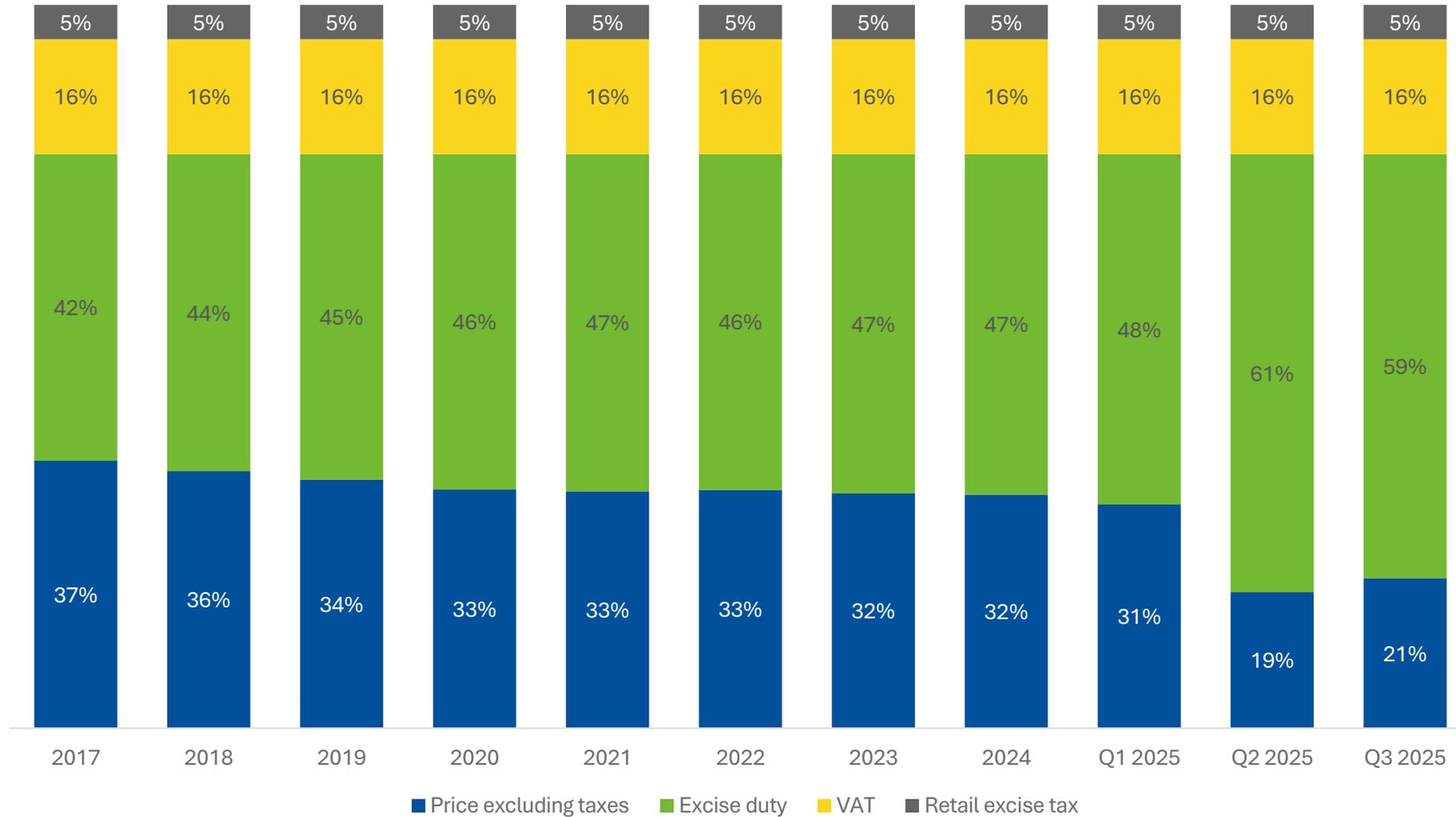
Sources: State Statistics Service of Ukraine, CES calculations.

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



Sources: State Statistics Service of Ukraine, CES calculations.

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



Sources: State Statistics Service of Ukraine, CES calculations.