ECONOMIC GROWTH AND TAXATION IN CENTRAL AND EASTERN EUROPE

Cristina BOROVINA (COJOCARU)

Bucharest University of Economic Studies, Romania, c_borovina@hotmail.com

Abstract: *In the context of the economic crisis that started in the United States in 2007, economic growth has become of great importance for the countries affected by the crisis further to their confrontation with lower growth rates of GDP per capita. At national level, governments are searching for that mix of optimal economic policies that would revive economies on the upward and also sustainable trend. One of the key policies in this regard, especially for the countries in Central and Eastern Europe which intend to adopt the euro currency, is the tax policy. Its main instruments are taxes. In this paper, we pay special attention to these instruments and to the connection that they have with the economic growth. This paper is divided into three parts. The first part presents a few ideas related to the importance of taxes at national level, the second part is an analysis in terms of taxation of the Central and Eastern Europe countries, while the third part consists of a panel-type assessment of the relation between economic growth and taxation level.*

Key words: economic growth, taxes, Central and Eastern Europe

JEL Classification: C23, E62, H30, F43

1. TAXES AND NATIONAL ECONOMY

Taxes are the instruments that are used by the tax policy in order to finance public expenditures. Taxes are also used as instruments in order to mitigate the gap between social classes and bring equity among the population. Their level must be set so that the taxpayers' compliance costs would be minimal, similarly the government administrative expenses; moreover, they must not encourage tax evasion. In addition to these possible effects, taxes also impact the saving process of the population, employment and investment in the human capital, the decision of the firms to produce, invest and innovate.

The effects of tax rate and of the structure of tax instruments are reflected in the change of the living standards of the economic operators. In recent years, in Romania but also in other Central and Eastern Europe (CEE) countries, reforms have been carried out in the tax system, in the attempt to stimulate the investment environment, entrepreneurship, saving and employment creation. Reforms in the latest years have strongly been affected by the economic crisis, each of the CEE group member countries trying to achieve economic stability by using tax levers. Sometimes, these reforms have not been among the most efficient ones for the business operators, as in some cases the investment environment as well as the living standards of the population being negatively affected. According to the studies performed by JG Gravelle and D.J. Marples (2014), the entities which have been affected the most in the short run by the tax decreases are the large companies or the population with high incomes, while the increases in government spending and transfers are more favourable to the rest of the population and companies.

The connection between taxes and economic growth is one of the most intensively debated subjects; however, in spite of the multitude of studies in this respect, one could not draw a clear link between them. From the efficiency point of view, taxes should yield the maximum income to the state budget, while from the tax equity point of view, the fiscal burden should be distributed among the contributors considering the personal situation of each, only that what is equitable has a reduced efficiency and often what is very efficient is not equitable.

Having so many implications on important national indicators, the researches regarding the effects of taxation on the economic growth have begun to make sense especially after the occurrence of the endogenous economic growth. There are numerous studies that analyse the relation between taxation and economic growth, and acknowledge the link between these two. Because taxes and transfers are considered to be automatic stabilizers of the economy, these indicators have an important role in the economy (Baunsgaard and Symansky, 2009). In the study of automatic stabilizers, the International Monetary Fund (2015) shows, with regard to the production volatility given by the tax policy instability, that tax stability is generally associated with a low volatility of production. Therefore, the fewer changes in the short and medium run in terms of taxation, the more predictable will the evolution of the total nation production be. In their analysis, Ramey and Ramey (1995) conclude that volatility can affect the long-term growth, especially in the developing countries. The study further focuses on the analysis in terms of taxation of the Central and Eastern Europe region and then on the relation between economic growth and taxation level for the 11 countries in the region: Bulgaria, Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia and Slovakia.

2. THE SITUATION OF THE TAXATION SYSTEM IN CENTRAL AND EASTERN EUROPE (CEE)

Being a group of developing countries preparing to adopt the euro currency, the tax policy tends to become one of the most important national policies together with its instruments: direct and indirect taxes, governmental expenditures. Taxes, irrespective of their nature, as we have seen above, can negatively affect most economic agents further to their growth. For this reason, in this paper we give them special attention by resorting to their study at the level of the Central and Eastern European perimeter, where there are several countries more vulnerable to the economic turmoil as compared to the developed ones. In order to provide an overview of the taxation system in the 11 countries of Central and Eastern Europe, we have resorted to the analysis of a set of indicators offered by institutions like the World Bank, the European Commission, OECD, Heritage Institute. The analysis begins with the study of direct and indirect taxes, and then examines the taxation system in terms of the business environment.

- **Direct taxes in the Central and Eastern Europe**

Direct taxes are divided into personal income taxes and corporate income taxes, as well as other direct taxes. Further to the data provided by Eurostat (see table no. 1), one can note that during 2004-2012 the share of the personal income taxes in GDP is higher than the share of the corporate income tax, reaching values of over 70% for countries such as Slovenia, Hungary, Lithuania, Latvia and Estonia. We can infer that individuals have a greater contribution to the state budget than companies with regard to direct taxes. In addition to the higher contribution to the state budget, the tax burden for them also is higher; this may translate into a negative impact on the economic growth, as the business operators are only left with a lower available income [1] that can be used for consumption, savings and investment. According to Keynes's theory, it is known that an increasing level of consumption leads to the stimulation of the economic activity. Also, if the saving process is not encouraged, then there may be financial problems in the banking system. And last but not least, an economy with a declining investment volume affects the economic

[1] The available income is calculated by deducting from the national taxation income and by adding transfers

growth in both the short and long term. The status of the direct taxes is presented in table no. 1 by analysing the minimum, maximum, and average values, as well as the standard deviation of the direct taxes share in GDP for the CEE group countries.

Table no.1 The status of the direct taxes in CEE as a share in GDP, 2004-2012

Years	2004	2005	2006	2007	2008	2009	2010	2011	2012
The direct taxes share in GDP for the CEE countries									
Minimum	5.96	4.92	5.18	6.17	6.49	5.52	4.67	4.39	4.88
Maximum	9.15	9.11	9.54	10.41	10.62	10.00	8.61	8.01	7.81
Average	7.43	7.28	7.66	8.32	8.20	7.16	6.62	6.41	6.56
Standard Deviation	1.29	1.54	1.53	1.27	1.38	1.25	1.21	1.07	1.03
The personal income taxes share in GDP for the CEE countries									
Minimum	2.67	2.29	2.51	2.55	2.74	2.43	2.30	2.51	2.62
Maximum	6.76	6.84	6.76	7.27	7.66	7.40	6.54	5.68	5.85
Average	4.73	4.52	4.65	4.89	4.96	4.50	4.31	4.12	4.26
Standard Deviation	1.58	1.62	1.62	1.55	1.70	1.46	1.42	1.11	1.15
The corporate income taxes share in GDP for the CEE countries									
Minimum	1.66	1.43	1.49	1.62	1.64	1.57	0.96	0.82	1.26
Maximum	4.39	4.33	4.58	4.67	4.21	3.52	3.36	3.37	3.31
Average	2.37	2.44	2.68	3.08	2.89	2.31	1.87	1.89	1.89
Standard Deviation	0.81	0.75	0.77	0.83	0.62	0.55	0.72	0.73	0.62

Source: Personal processing, data source - Eurostat 2016

As it can be seen from Table no.1, there are considerable differences among the 11 countries direct taxation level, while the maximum for the full amount of the direct taxation share is achieved by countries such as the Czech Republic (2004), Hungary (2005), Lithuania (2006), Hungary (2007-2010), Slovenia (2011-2012). The lowest share of direct taxes is recorded, during the studied interval, in three countries, namely Bulgaria (2004-2006), Slovakia (2007-2009) and Lithuania (2010-1012). Lithuania has had a positive evolution starting from a maximum in 2006 and reaching its minimum level of performance in 2010. This may also be due to the economic crisis and expansionary fiscal policies that lend themselves to recession periods, thus facilitating the consumption and investment process.

The arithmetic average for CEE countries is below the EU-28 average which is ranging between 11.3 % and 12.3 % of GDP. As we know, since 2004 there have been 3 waves of enlargement to the European Union (EU) in the CEE: in 2004 (Poland, Czech Republic, Slovenia, Slovakia, Lithuania, Latvia, Hungary, and Estonia), in 2007 (Romania and Bulgaria) and Croatia in 2013. The lower taxation average of the CEE countries as compared to the EU-28 average can be explained precisely by the efforts of adopting a mix of tax, monetary, salary, etc. policies in a manner which would be as coordinated as possible in order to comply with the nominal and real convergence criteria for making the accession to the European Union possible. On an average, during the economic crisis period, the direct taxes have increased as a share in GDP. The explanation may not necessarily come from the increased taxation but can be explained by the GDP contraction, therefore at a constant taxation level, the GDP share may increase under the circumstances of contracting its volume.

The standard deviation from the average in the case of the direct taxes share in GDP is moderate. The standard deviation values show that the 11 countries do not form a very homogeneous group in terms of the taxation share in GDP, as the value recorded in 2012 was a minimum of 4.88 and a maximum of 7.81, a difference of 3 percentage points. The minimum recorded in the CEE is also the EU-28 minimum, but in terms of the maximum, this is owned by Denmark with a share of 30.6 % in GDP for 2012.

In the case of the share of personal income taxes, the minimum values are recorded throughout the analysed period by Slovakia, except for 2005 when the minimum value was held by Romania. For the maximum values, we also find the three countries here: Lithuania (2004-2006) and Slovenia (2011-2012), Hungary (2007-2010). Also in the case of this type of taxes, the average recorded by the 11 countries is about 3 percentage points below the EU-28 average value. The standard deviation values show that for this segment the share of personal taxation in GDP fluctuates more in relation to the average.

For direct taxation at the corporate level, the situation is different, as the share is lower as compared to the personal level. At the minimum level, values of 0.82 % in GDP are recorded, for example, by Lithuania in 2011. Minimum values for the period 2004-2012 are recorded by countries such as Estonia (2004-2008), Latvia (2009-2010), Lithuania (2011) and Slovenia (2012). In the case of firms, there can be an explanation for the lower direct taxes share in GDP as compared to the personal level. The main explanation is the corporate income tax rate, which is lower in these countries (see Table no.2). Another explanation may be the fact that, during the crisis, in each of the surveyed countries, except Poland, the corporate mortality has increased, therefore a lower number of firms leads to a lower contribution in GDP, even if the level of taxation may remain constant. In the case of individuals, this phenomenon can be translated by the increase of the unemployment level.

Table no.2 Corporate income tax rate in the CEE countries, 2014

	Corporate Income Tax for large companies %	Corporate Income Tax for SMEs %
Latvia	15	9
Lithuania	15	5
Estonia	20	20
Poland	19	19
Czech Republic	19	19
Slovakia	22	22
Hungary	19	16
Romania	16	16
Bulgaria	10	10
Slovenia	17	17
Croatia	20	20

Source: Personal processing, data source Eurostat, Taxation Trends in the European Union

- **Indirect taxes in Central and Eastern Europe**

In order to complete the image of the taxation system in Central and Eastern Europe, an analysis of the indirect consumption taxes for the 11 countries becomes necessary. The evolution of their share in GDP is shown in the table below.

Table no.3 The status of the indirect taxes as a share in GDP in CEE, 2004-2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012
The share in GDP of the indirect taxes									
Minimum	11.19	11.34	10.85	11.12	10.77	10.66	10.43	10.85	10.21
Maximum	18.84	18.64	18.60	18.31	18.04	17.11	18.00	17.38	18.45
Average	13.73	14.10	14.01	14.01	13.61	13.36	13.65	13.72	13.91
Standard Deviation	2.60	2.32	2.46	2.39	2.70	2.43	2.45	2.15	2.64
The share in GDP of VAT									
Minimum	6.44	6.90	6.37	6.34	6.72	5.99	6.35	6.77	6.09
Maximum	12.05	12.11	12.15	12.00	11.94	11.28	11.72	11.43	12.31
Average	8.09	8.50	8.56	8.51	8.31	7.88	8.17	8.25	8.35
Standard Deviation	1.67	1.49	1.62	1.56	1.66	1.49	1.49	1.28	1.66
The share in GDP of excises and other consumption taxes									
Minimum	3.02	2.92	2.89	2.87	2.69	2.81	2.93	2.90	2.78
Maximum	4.80	4.72	4.85	5.78	5.95	5.45	5.05	5.14	5.15
Average	3.68	3.67	3.53	3.66	3.54	3.82	3.78	3.75	3.77
Standard Deviation	0.53	0.51	0.57	0.82	0.93	0.78	0.62	0.67	0.75

Source: Personal processing, data source - Eurostat 2016

Further to the calculation of minimum, maximum, average and standard deviation indicators, it can be found that the average level of taxation for the 11 countries, as compared to the direct taxes, is above the EU-28 average, even though not by much, which leads to the idea that the consumption level is subject to a higher tax than the income in CEE, which means that a larger share of the income remains available to the businesses operators. We also notice that their share is higher in GDP than in the case of direct taxation. The minimum values have a share of over 10% in GDP. The countries in which the indirect taxes have minimum contributions to GDP are: Lithuania (2004-2005), Czech Republic (2007-2008), Slovakia (2009-2012). The CEE countries hold the minimum value at the EU level for the period 2010-2012 which has been held by Slovakia. In the case of the maximum value, this can no longer be found among the CEE countries but is held by Sweden which holds the largest share of indirect taxes in the last 4 years of the studied period. The maximum values are approximately 8 percentage points higher than the minimum ones, and here the highest level of collected indirect taxes is held by Croatia for the entire analysed period. Although income taxes in this country seem to have the lowest level in Europe (the lowest labour tax in the EU), it compensates the state budget with a higher share of consumption taxes. During the crisis period, the share of consumption taxes decreased due to the contraction of aggregate demand, specifically of its component – private consumption – which is also reflected in this respect. Although there was a period of economic crisis, certain countries in the CEE group have resorted to measures meant to increase the consumption taxes; an example in this respect would be the VAT level increase in Romania. The standard deviation from the average is moderate, which shows that among the 11 countries there are very significant differences in terms of the share in GDP of the indirect taxes.

Distinguishing among the types of consumption taxes, the situation regarding VAT varies in terms of excises and other consumption taxes, as VAT holds an almost double share in GDP as compared to the share of excises and other taxes. VAT records an average value of the share in GDP which is higher than the EU-28 average by about 0.5 percentage points. Croatia tops the classification also in this case with the highest share of VAT for the period 2004-2012.

The minimum values are recorded mainly in the Czech Republic (2005-2008) and Slovakia (2010-2012).

The excises status shows their lower share in GDP. Also in this case, the average values of the excises share of the CEE group countries are by approximately 0.5 percentage points higher than the EU-28 average. The excise volume leader in terms of GDP share for the period 2004-2012 is Bulgaria. Although it is known at European level as having one of the lowest income taxes, i.e. 10%, it seems that, in terms of the vice tax, it has the highest share of it in GDP. It also gives the maximum value at European level for this indicator for the whole period studied. The minimum value of the excise share is recorded by Lithuania (2004-2007) and Slovakia (2008-2012) for the CEE countries but this status is not maintained at European level, as the minimum value is mainly given by Belgium at European level.

- **Total taxes and business environment in the Central and Eastern Europe**

Another relevant issue for the analysis of taxation in Central and Eastern Europe is its analysis from the business environment perspective. This type of indicators can be found in the analyses carried out by the World Bank by means of Doing Business. According to the Doing Business Report 2016, in the Central and Eastern Europe region, in terms of taxation and variables affecting the business environment, there are certain positive developments. These are mainly recorded by countries such as Poland (which has the best performance in this respect), Croatia, Lithuania and Romania. Poland has recorded a high performance in terms of the number of days required to enforce a contract, succeeding in decreasing the number of days from 1,000 in 2004 to 685 days in 2015.

In addition to this performance, there were positive changes regarding the taxation system, as collection has become easier by introducing an online system for VAT collection and transport tax. Croatia also succeeded in facilitating the enforcement of contracts by setting up an electronic system that manages the public sales of movables, and on the labour market, in the case of Croatia, they have eliminated the regulation according to which the employees cannot be fired before finding redistribution solutions for other activities. From the point of view of tax collection, Lithuania has made progress in this regard by introducing an online VAT system; moreover, it has reduced the electricity connection time and has strengthened the protection of minority investors. Also regarding taxation, Romania has recorded performances by lowering the tax burden on companies by reducing the social security contribution rate of the companies from 20.8% to 15.8% and the rate of contribution to the accidents risk fund. Also a plus for the Romanian business environment has been decreasing the number of days for enforcing a contract, and improving the insolvency legislation. Strictly related to taxation, the 11 countries surveyed have made progress, as shown in the table below:

Table no.4 The evolution of the indicators regarding taxation and business environment for the CEE countries in 2016 as compared to 2015

Countries	Business facilitation indicator	Classification regarding the payment of taxes	Payments (number per year)	Time (hours per year)	Total rate of taxation (percentage of profit)
Bulgaria	38 - Stagnation	88 - increase	14 - increase	423 - decrease	27.0 - stagnation
Czech Republic	36 - increase from 44	122 – decrease from 119	8 - Stagnation	405 - decrease from 413	50.4 – increase from 48.5

Croatia	40 – increase from position 65	38 - decrease from 36	19 - Stagnation	206 - decrease by 2 days	20.0 - increase from 18.8
Estonia	16 – increase from 17	30 - decrease from 28	8 – increase from 7	58 - decrease from 81	49.4 - increase from 49.3
Hungary	42 increase from 54	95 - decrease from 88	11 - Stagnation	277	48.4 - increase from 48.0
Latvia	22 - increase from 23	27 – decrease from 24	7 - Stagnation	193 - Stagnation	35.9 – increase from 35.0
Lithuania	20 – increase from 24	49 – decrease from 44	11 - Stagnation	171 – decrease from 175	42.6 - Stagnation
Poland	25 – increase from 32	58 – increase from 87	7 – decrease from 18	271 – decrease from 286	40.3 increase from 38.7
Romania	37 - increase from 48	55 – decrease from 52	14 - Stagnation	159 - Stagnation	42.0 decrease from 43.2
Slovenia	29 increase from 51	35 – increase from 42	10 – decrease from 11	245 – decrease from 260	31.0 – decrease from 32.0
Slovakia	29 – increase from 37	73 – increase from 100	10 – decrease from 20	188 – decrease from 207	51.2 – increase from 48.6

Source: Doing Business Report 2016, 2015

Among all the CEE countries, the best position in terms of the business environment facilitating indicator is held by Estonia (16th position) but the best progress in 2016 as compared to 2015 is recorded by Croatia who has climbed 25 positions, followed by Slovenia which has climbed 22 positions (29th position) and then Romania which has climbed 21 positions (37th position). The lowest rank is held by Hungary which maintains its position, also in the case of tax payment (95th position). The best position in the tax payment ranking is held by Latvia, although it has fallen 3 positions, and not having the lowest rate of taxation. The highest rate of taxation as a percentage of profit is held by Slovakia, i.e. 51.2%, while the opposite is Croatia with a total taxation rate of 20%. The largest variation, of 1.9 percentage points, has been held by the Czech Republic, increasing to 50.4%.

All aspects discussed above confirm the importance of taxation and of the effects they may have on the businesses operators, economic activity and growth. In the third part of the paper, we analyse the existence of a dependency between taxes and economic growth and the direction of this connection.

3. ECONOMIC GROWTH AND TAXATION IN CENTRAL AND EASTERN EUROPE

One of the main preoccupations at macroeconomic level and hence at national level is the economic growth. Economic growth is wanted for a number of reasons; the main reason is that it favours the increase of the living standard at national level. There are a number of factors that stimulate economic growth, such as investment increase, productivity increase, competitiveness increase, but there are also a number of factors that may negatively affect it, and one of these factors may be the taxation level. As we saw above, there are studies that have resorted to the analysis of this relation. Among them, there are also those conducted by Furceri, D and Karras, G. (2008) who have studied the relation between the level of total taxation and the economic growth during the period 1965-2007 for a number of 26 OECD member countries. Further to their analysis, the authors have found that between the two indicators there is an inversely proportional relation.

Hereinafter, we have resorted to the analysis of the dependency between the economic growth measured by means of the gross domestic product per capita and the level of taxation for the Central and Eastern Europe countries. The countries in question are: Bulgaria, the Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia and Slovakia. The dependency analysis has been made using the panel technique, performed by means of the Eviews7 software. The dependent variable is the economic growth (CR_ec) whose values have been obtained via Eurostat database 2016, and the independent variable is the overall level of taxation (TOT_tax), a value obtained from the database provided by the World Bank. Both indicators have come in regression with logarithms because thus certain errors related to the linearity of the function are eliminated. The model equation is of the form:

$$CR\_Ec_{it} = \beta + \alpha_{i,t}\ TOT\_tax_{i,t} + \delta_{i,t} + \gamma_{i,t} + \varepsilon_{i,t},$$

where

CR_Ec_{it} – is the dependent variable and it shows the economic growth of country i at time t

$TOT\_tax_{i,t}$ – is the independent variable and it shows the total level of taxation of country i at time t

β - is the value of the free term

$\alpha_{i,t}$ - is the term of the explanatory variable

$\varepsilon_{i,t}$ - represents the errors

$\delta_{i,t}$ and $\gamma_{i,t}$ – are the cross-section values or of the specific effects (fixed or random)

i – represents the analysed country

t – represents the period of time (2007-2015)

The first time, they have tested whether the model is valid using test T and test F. Test T has been used in order to test whether the variables included in the model ate significant or not. If the probability is associated with low levels of relevance (1%, 5% or 10 %), then the null hypothesis is rejected, and the variable is considered statistically significant.

Then, they have resorted to the effects analysis (fixed or random) using the Hausman test which tests the difference between the estimations made with fixed effects and those with random effects, deciding which of them is best suited for the model. If the fixed effects method is chosen, they allow the variation among countries but not among periods of time; therefore, any observation of the variable is made within each country throughout the analysed time frame. If the random effects method is chosen, then the variation is made among countries and among periods of time.

In addition to these tests, they have resorted also to the R^2 coefficient of determination. The indicator shows which percentage of the independent variable variation is given by the variation of the independent variable. The closer the value is to 1, the stronger is the link between the two. In Table no.4, the results of the panel analysis are presented.

Table no.5 The relation between economic growth and the level of taxation in CEE

Variables	
C	11.13* (0.0000)
TOT_tax	-0.740* (0.0000)
R^2	0.933
F-statistic	111.83
Number of observations	99
Number of countries	11

Source: Personal processing
*Note: * relevance level of 1%*

The chosen method was the least squares method, and the data were introduced after their logarithms have been looked up, in order to eliminate errors. According to the Hausman test, the fixed effects method has been chosen. The independent variable is out of the regression with the expected sign, i.e. the negative sign. The T test shows that the level of significance is under 1%, which shows that between the chosen variable and the dependent variable there is a high degree of significance. The determination coefficient level is high, which indicates that the dependency relation between the two variables is high.

The model has the following form:

$$Log(CR\_ec)= -0.740*\log(TAX\_tot) +11.13+[Cx=F]$$

As it can be seen from table no. 4, the taxation level is out of regression with a negative sign, which proves a reversed relation between the economic growth and the taxation level. The econometric model shows that when the total taxation level decreases by 0.74 percentage points, at national level, this decrease shall be felt in an economic growth by one percentage point higher than at the initial time. The coefficient actually shows the elasticity of the economic growth upon taxation due to using a function whose logarithm has been looked up. Consequently, tax exemption has a positive effect on the economic growth and of the improvement of the low living standard characteristic to the developing countries in the Central and Eastern Europe group.

CONCLUSIONS

One of the conclusions of the analysis is that we must regard the taxation policy as one affecting the economic growth in the Central and Eastern Europe states. The tight link between the two indicators causes the tax changes to have an impact on several macroeconomic indicators (consumption, economies investments). The conclusion according to which the tax exemption in the Central and Eastern European countries, particularly the reduction of the consumption taxes, has positive effects on the economic growth, also complies with the latest conclusions of the International Monetary Fund.

For the analysed countries, one can note in time an increase of the taxation level share in GDP, which proves the importance of the GDP indicator per capita. The study of the data shows that the share of the consumption taxes has been higher than the share of the income taxes; consequently, the tax burden has been higher in terms of consumption, and these shares have also been increasing in time. This trend has been caused by the austerity policies implemented during the crisis in most of the Central and Eastern Europe countries which have aimed at the reduction of the budgetary deficits, but we now witness a tax exemption by the reduction of the indirect taxes.

As any other intervention of the state, tracking the efficiency objectives inevitably implies an equity sacrifice. The tax policy equity criterion is maybe equally important as the efficiency one during the preparation or reform process of the tax system. Therefore, the recommended tax exemption must consider the danger of the unwanted deepening of the income inequity.

Knowing that taxes are income sources for the state budget, in order to avoid future tax increases, the political decision-makers could focus on making the tax collection system more effective, as it is defective in the developing countries, and on the improvement of tax evasion and underground economy. These are sources of income for the state budget which would help the tax exemption and the pressures on the economic activity.

REFERENCES

1. Baunsgaard, T., and A. Symansky, *"Automatic Fiscal Stabilizers."* IMF Staff Position Note 09/23, International Monetary Fund, Washington. Engen, 2009
2. E.M, Skinner, J., *Taxation and Economic Growth,* NBER Working Paper No. 5826, Issued in November 1996
3. European Comission, *Taxation trends in the European Union*, Eurostat Statistical Book, ISSN 2476-0073, 2015
4. Gujarati, D.N. and Porter, D.C., *Basic Econometrics*, fifth edition, McGraw-Hill Education, 2009
5. International Monetary Fund, *Now Is the Time Fiscal Policies for Sustainable Growth*, April 2015
6. J.G. Gravelle și D.J. Marples), *Tax changes and economic growth: Empirical evidence for a panel of OECD countries*, http://www.ecb.europa.eu/events/pdf/conferences/ws_pubfinance/paper_Furceri.pdf?e6a4da69%205b59b4e8685dc92b037c6c3c, 2014
7. Johansson, A., Heady, C., Arnold, J., Brys, B., Vartia, L., *Taxation and economic growth*, Economics Department, Working paper No. 620, 2008
8. Myles, G, *Taxation and economic growth*, Fiscal Studies, vol. 21, no. 1, pp. 141–168, 2000
9. Ramey, G., and V. Ramey, "Cross-Country Evidence on the Link between Volatility and Growth." American Economic Review 85 (5): 1138–51, 1995
10. World Bank, *Doing Business report 2015*, http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB15-Full-Report.pdf
11. World Bank, *Doing Business report 2016*, http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf
12. World Bank, *Paying Taxes 2016: The Global Picture*, http://www.doingbusiness.org/reports/thematic-reports/paying-taxes