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Cost-Benefit Analysis of Financial Legislation Changes in Kosovo: A Comparative Legal and Economic Approach

Abstract

This research provides a legal and empirical examination of changes to Kosovo's financial legislation utilizing a cost-benefit framework. Focusing on the consequences of legal reforms to VAT Law, CIT Law and banking regulations, it considers these changes from a broader macroeconomic and institutional perspective. Kosovo's ongoing process of integration and harmonization with the European Union (EU) financial legislation necessitates addressing the issue of how these new legislative changes will impact its national development in terms of social and economic effects. The originality of the research lies in the application of mixed methodology that incorporates quantitative economic analysis with a comparative legal analysis of the benefits and costs of legislative changes. Despite the research context being at a national level,

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it presents valuable information that can help inform better alignment with the EU directives. The analysis sill be useful for policymakers and stakeholders in Kosovo as well as in other developing countries dealing with similar legislative changes. The findings provide evidence-based analysis of financial legislation reforms that may meaningfully impact large-scale and long-term policy initiatives framed in the context of ongoing sustainable economic development.

KEYWORDS: financial legislation, cost-benefit analysis (CBA), DiD regression model, tax reform, mixed methods reseach

1 | Introduction

After two and a half decades of transition and reforms, Kosovo has achieved considerable progress and improvements in its fiscal and tax structure. This research evaluates the impacts of reforming the legal framework of financial legislation on the economic and social development of Kosovo, with a primary focus on legal provisions of changes relating to value-added tax (VAT), taxation of corporate income (CIT), and banking legislation. Employing a mixed methods approach of quantitative economic analysis and comparative legal analysis, the research aims to assess the costs and benefits of regulating and implementing financial legislation across various economic and institutional contexts. It emphasizes how changes to financial legislation contribute to market dynamics, free competition, economic growth, financial stability, employment growth, and foreign direct investments. The study also aims to enhance the base of information and expertise regarding the effectiveness of drafting and implementing financial legislation. It seeks to improve and orient public discourse on accelerating economic reforms in the country. Examining the institutional mechanisms will enhance the topic's engagement in establishing better market-based instruments relating to financial legislation consistent with the best practices of the European Union (EU) and beyond. The research considers the fact that the legal framework regulating the financial sector predominantly affects the socio-economic progress of any country. This is essential, particularly for a developing country such as Kosovo, where effective financial legislation can ensure necessary financial stability, contribute to sustainable economic growth, reduce income disparities through redistribution, and enhance overall economic welfare.

The effects of effective or ineffective implementation of financial legislation in Kosovo are not fully understood, primarily due to the lack of a comprehensive analysis in this area. Therefore, this research seeks to establish this basis of understanding, focused on the overall impacts of changes in financial legislation on economic processes. Harmonizing the financial legislation framework with various EU directives and standards is increasingly important for Kosovo to continue its efforts to the necessary reforms to support its integration path.[1] The research provides a systematic view of the costs and benefits associated with changes in financial legislation, identifying opportunities for legal improvements and better alignment with EU regulations. The practical implications reach beyond the development of academic knowledge. The findings will serve as a guide to decision-makers regarding the values of the legal reform process to promote effective policies that support socio-economic stability and development. It will also encourage discussion on implementing effective financial legislation and provide useful information for all aspects of socio-economic goals. On a broader scale, the findings may assist other developing countries and societies to review the effects and efficiency of implementing changes in financial legislation, while contributing to regional and global discussions about the effectiveness of financial regulatory systems. Recognizing the identified issue regarding the impact of changes in financial legislation on socio-economic development, the following research questions were raised:

RQ1: What impact have changes in value-added tax (VAT) legislation had on the economic sustainability of Kosovo?

RQ2: To what extent have Corporate Income Tax (CIT) reforms influenced investment decisions, and what are the long-term effects on Kosovo's economic growth?

RQ3: How effective have banking regulation reforms been in enhancing the financial stability of Kosovo's banking sector?

The study aims to influence the academic community and society in strengthening research capacities in financial legislation and its socio-economic impact by enriching the existing literature in this field. Policymakers

1 Fitore Gezim Morina, "The Legal Aspect of the Tax Competition in EU: Case of Kosovo" *Sriwijaya Law Review*, No. 1 (2019): 1-10.

can use the research findings to design effective and comprehensive financial regulations that promote socio-economic development. Moreover, the general public will gain insight into how financial legislation affects their daily lives, thereby promoting a greater understanding of the field and encouraging active citizenship. The rest of the paper is organized as follows: Section 2 reviews the existing literature. Section 3 offers a legal analysis of how legislative changes impact economic sustainability, investment decisions, and banking stability. Section 4 outlines the methodology employed and details the data collection process. Section 5 presents the research findings and discussion. The paper concludes with Section 6, which includes final remarks, addresses the study's limitations, and provides suggestions for future research.

2 Literature review

In reviewing the literature on the cost-benefit assessment (CBA) of financial legislation, there has been a principal concentration of studies focused on the implications of change of tax legislation around economic development and social welfare among various countries. These analyses have emphasized fiscal reforms, including changes in VAT, CIT, and other legal changes that directly impact public revenue, improve public infrastructure and services, and attract both domestic and foreign investments. It has been proven that lower corporate income tax rates foster the development of specific economic sectors by easing financial constraints placed on medium and large businesses, resulting in sustainable business development and thereby enhancing competitiveness. Changes in VAT rates and other types of taxes have an impact on the level of consumer prices and therefore the purchasing power of economic entities, especially in Kosovo where recent fiscal policies have been sensitive to inflationary pressures. Ensuring transparency and efficiency in the exercise of collecting and administrating public revenues is important to support a fair and sustainable tax system.

In his study, Andersson[2] emphasize that while the cost-benefit analysis (CBA) of financial legislation began in Europe, the first practical applications

2 Henrik Andersson, "Application of BCA in Europe – Experiences and Challenges" *Journal of Benefit-Cost Analysis*, No. 1 (2018): 84-96.

were in the United States. There is increasing demand for economic assessments of European sectoral policies, although their implementation is slower compared to the US. Early examples include the economic analysis of chemicals regulation in the EU and investments in Sweden's transport sector, highlighting the importance of assessing the economic effects of financial legislation globally. Posner and Weyl[3] introduce a new approach to applying CBA in US financial market regulation, focusing on the Dodd-Frank reform. They argue that calls for CBA reveal a lack of research on allocative efficiency in financial markets. They propose three principles: quantifying the costs of financial crises by balancing risks with loss of economic growth and assessing the social value of price arbitrage to determine its socio-economic worth. Conversely, a study by Ben-Shahar and Schneider[4] questions the effectiveness of CBA for financial disclosure regulations. They argue that real-world outcomes may fall short even if a CBA suggests low costs and benefits theoretically. Their analysis in "More Than You Wanted to Know" highlights that financial disclosure laws often do not meet expectations. It is further illustrated by the Consumer Financial Protection Bureau's investigation into mortgage disclosure regulations, emphasizing the need for more critical assessments of regulatory effectivene. Cochrane[5] discusses the challenges of implementing CBA in financial regulations to prevent crises and regulate specific markets and institutions. He remarks that while health and environmental regulations focus on measurable actions, financial regulation requires a broader assessment of economic behaviors and overall policy. Revesz[6] discusses the ss challenges of implementing CBA in financial regulations. His study highlights inefficiencies in regulatory analyses and the need for institutional reforms and better interagency collaboration, advocating for advanced methodologies to address these challenges. On the other hand, Coates[7]

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3 Eric Posner, E. Glen Weyl, "Benefit-Cost Analysis for Financial Regulation" *American Economic Review*, No. 3 (2013): 393-397.

4 Omri Ben-Shahar, Carl E. Schneider, "The Futility of Cost-Benefit Analysis in Financial Disclosure Regulation" *Journal of Legal Studies*, No. S2 (2014): 253-271.

5 John H. Cochrane, "Challenges for Cost-Benefit Analysis of Financial Regulation" *Journal of Legal Studies*, No. S2 (2014): 63-105.

6 Richard L. Revesz, "Cost-Benefit Analysis of Financial Regulation: An Institutional Perspective," [in:] *Administrative Law from the Inside Out: Essays on Themes in the Work of Jerry L. Mashaw*, ed. Nicholas R. Parrillo (Cambridge: Cambridge University Press, 2017), 1-50.

7 John C. Coates, "Cost-Benefit Analysis of Financial Regulation: Case Studies and Implications" *Yale Law Journal*, No. 4 (2014): 14-33.

points out the difficulties arising from the nature of financial data and the lack of sophisticated methods to assess legal impacts. He argues that while CBA is applicable for policy analysis, it often justifies regulators' discretionary choices rather than enhancing decision-making transparency.

In the context of the European Union, Renda et al.[8] provides a detailed analysis and a taxonomy of the regulatory costs and benefits of improving decision-making processes and policies in the EU. Their study offers guidance on how and when to apply cost-benefit analysis for evaluating proposals and policies, emphasizing the need to enhance analysis methods to more comprehensively measure regulatory impacts. Barbone et al.[9] provide an overview of the costs associated with implementing Value-Added Tax (VAT), focusing on administrative and compliance costs. The authors state that these costs can be considerable and vary by country and business size, with smaller businesses often facing higher costs. Additionally, Marchesi et al.[10] evaluate the costs and benefits of Basel III's minimum capital requirements through macroeconomic analysis, examining their impact on the likelihood of systemic banking crises in various EU member states. Using the SYMBOL model, they found that higher capital requirements significantly reduce the probability of such crises. However, the costs of these requirements may increase financing expenses for banks, which could lead to higher interest rates for individuals and businesses, potentially reducing investment and economic productivity. Yasuyuki[11] investigate the economic effects of VAT rate changes in Europe and their implications for Japan. His analysis finds modest fluctuations in Europe, as only part of a VAT increase affects consumer prices. In areas with high inflation or significant tax hikes (2% or more), price adjustments are more pronounced, especially for commonly consumed goods. This behavior allows businesses and consumers to adjust in anticipation of tax changes.

8 Andrea Renda, Lorna Schrefler, Giacomo Luchetta, Roberto Zavatta, *Assessing the Costs and Benefits of Regulation. CEPS Study Final Report to the European Commission*, 2013.

9 Luca Barbone, Richard M. Bird, Jaime Vázquez-Caro, "The Costs of VAT: A Review of the Literature" *Case Network Reports*, No. 1 (2012).

10 Massimo Marchesi, Marco P. Giudici, Jessica Cariboni, Stefano Zedda, and Francesca Campolongo. "Macroeconomic Cost-Benefit Analysis of Basel III Minimum Capital Requirements and of Introducing Deposit Guarantee Schemes and Resolution Funds" *Joint Research Centre – Scientific and Policy Reports*, (2012): 1-25.

11 Komaki Yasuyuki, "Economic Effects of Change in the Value-Added Tax Rate in Europe: Implications for the Japanese Economy" *Public Policy Review*, No. 2 (2021): 1-30.

In the regional context, Dimitrić[12] investigates the compliance costs for businesses facing personal and corporate income taxation in Croatia. Through interviews and surveys, it identifies administrative barriers to tax compliance and opportunities for system improvement. The findings reveal that the complexities and costs of VAT compliance and income taxes are significant challenges, particularly impacting smaller businesses. Taxpayers' express dissatisfaction with the high administrative burden and frequent legislative changes. Additionally, Sopek[13] analyze the efficiency of Croatia's VAT system, focusing on tax expenditures and their economic effects. It finds that tax expenditures accounted for less than 4% of GDP in 2010, lower than most new EU member states and the EU-27 average, indicating a relatively efficient VAT system. The analysis suggests Croatia has better VAT efficiency than other EU members and emphasizes the need to align with EU directives, which could raise public revenue by 0.4% to 0.8% of GDP by removing zero rates on certain products.

The reviewed literature provides an overview of the effects and challenges of implementing financial legislation. It serves as a guide for policymakers in enacting fiscal and economic reforms to address key socio-economic issues. The review highlights the difficulties of these implementations and suggests new directions for further research to deepen the understanding of the dynamics of tax and economic reforms in Kosovo and beyond.

3 | Legal Analysis of Changes in Kosovo' financial Legislation

In the last several years, Kosovo has made progress in reforming financial legislation to support economic growth and align with EU standards. Key changes to the VAT, CIT, dimensions of income taxation, corporate taxation, and tax administrative procedures, have influenced Kosovo's fiscal environment, brought about a degree of economic stability, and improved

12 Mira Dimitrić, "A Qualitative Analysis of the Costs of Tax Compliance in the Republic of Croatia" *Financial Theory and Practice – Institute of Public Finance*, No. 3 (2004): 355-376.

13 Petar Sopek, "Tax Expenditures and the Efficiency of Croatian Value Added Tax" *Financial Theory and Practice – Institute of Public Finance*, No. 3 (2012): 269-296.

the business climate for establishing formal enterprises. Reforms to the VAT were primarily aimed at improving tax collection revenues, restructuring the rates, and raising the VAT registration threshold, in the hopes of increasing compliance with Kosovar tax law and public revenues. Many corporate income tax dimensions were adjusted, in part, to facilitate and promote investments and/or legitimate businesses in the formal economy. This legal analysis examines these legislative reforms for their effects on Kosovo's socio-economic development, and EU alignment regarding fiscal reform processes.

3.1. Analysis of Legal Changes in Value-Added Tax (VAT)

Since establishing its tax system, Kosovo has sought to develop a tax framework in line with EU standards. This has resulted in multiple different revisions, often supported by donor assistance, that focus on the drafting of laws, developing policies, and improving capacity in revenue administration. A thorough examination of VAT law provides an assessment of its implications for the economy, businesses, social welfare and aspects of effective tax compliance with international standards. The focus of this examination is the influence of VAT on economic growth and competition, thus suggesting ways in which the regulations may improve tax policy. Table 1 presents the legislative changes to VAT from 2008 to 2015, including the approval dates, entry into force, applicable tax rates, and the criteria for VAT registration obligations. From 1999 to 2007, the United Nations Mission in Kosovo (UNMIK) was in charge of developing Kosovo's fiscal system and policies.

Kosovo adopted the VAT on 1 July 2001, via UNMIK Regulation No. 2001/11.[14] This regulation specified a VAT of 15% on the taxable value of imports and 0% on exports. This form of value-added taxation replaced Kosovo's sales tax and hotel tax, and, in all stages of its evolution and under UNMIK's administration, Kosovo's taxation policy largely performed a fiscal function – specifically, the raising of treasury revenues – rather than a function which served economic and social development.[15] During UNMIK's administration, public revenues from indirect taxes (including

14 United Nations Interim Administration Mission in Kosovo (UNMIK). Regulation No. 2001/11 on Value-Added Tax (VAT). Journal of Laws, 2001.

15 Morina, "The Legal Aspect of the Tax Competition in EU: Case of Kosovo)", 1-10.

VAT) constituted approximately 70-80% of total public revenues, further indicating a sufficiently systemic form of taxation, disadvantaging those from low-income communities.

Table 1. Legislative Changes in VAT during the period 2008-2015

Name of Law	Law No.	Approved in Parliament	Effective Date	Tax Rates	Registration Obligation
Law on Value-Added Tax	03/L-114	December 18, 2008	1 January 2009	16%, 0%	€50,000
Law on Value-Added Tax	03/L-146	December 29, 2009	1 July 2010	16%, Reduced rate not lower than 5%. Temporary increased rate not higher than 21%.	€50,000
Law on Value-Added Tax	05/L-037	July 22, 2015	1 September 2015	18%, 8%	€30,000

Source: Author's elaboration

Following Kosovo's declaration of independence on 17 February 2008 and the subsequent approval of the Constitution of the Republic of Kosovo by the Kosovo Assembly, the country's fiscal system and fiscal policies were established within a legal and institutional framework.[16] It outlines when VAT is to be imposed, sets appropriate VAT rates, lays down the procedures for registering taxpayers, and stipulates their obligations to declare VAT. It also establishes the rights and obligations of tax institutions.[17] The intended VAT effects under Article 1 of Law No. 05/L-037 were designed to serve the purpose of increasing economic activity and increasing social welfare in Kosovo.[18] In the long term, tax incentives of any sort in tax legislation are expected to benefit the private sector, especially in the manufacturing industry. Benefits are anticipated in terms of improvements in attracting foreign direct investments, increased budget revenues, raising the level of gross domestic product, and jobs created. The revised provisions of Law No. 05/L-037 on VAT as a procedural tax in 2015 provide for several important changes. Some of the broad changes in the articles of

16 Law No. 03/L-114 on Value-Added Tax (VAT). Official Gazette of the Republic of Kosovo, 2008.

17 Law No. 03/L-146 on Value-Added Tax (VAT). Official Gazette of the Republic of Kosovo, 2010.

18 Law No. 05/L-037 on Value-Added Tax (VAT). Official Gazette of the Republic of Kosovo, 2015.

the law include the redefining of a "taxable person," a reduced value added tax registration threshold from €50,000 to €30,000, a method for a tax-free pass on provisions entering via customs and increases in certain VAT rates. There are also provisions regarding de-registration and processing of VAT reimbursement. Instructions about importing and exporting, including any exemptions related to VAT on bad debts have also been addressed.

We will analyze the impact of the major changes to VAT law, beginning with the reduction of the VAT threshold. The threshold has been decreased from 50,000 euros to 30,000 euros, as stated in Article 6 of the Law on VAT.[19] This translates to a reduction of 20,000 euros. Consequently, any business with annual revenues exceeding 30,000 euros must register for VAT and pay tax on the amount that exceeds this threshold. Due to the lower threshold, more businesses will need to pay VAT, which will benefit the Kosovo government's budget from this fiscal policy. On the other hand, this fiscal measure may result in increased administrative burdens and costs for new and smaller firms requiring support and capacity to create jobs. Although reducing the VAT registration threshold to €30,000 is intended to increase VAT registrations, this may lead some new businesses to declare less than their actual income for VAT to protect their income, which may subsequently affect their quarterly payments. While a reduced VAT registration threshold for businesses may help to address smuggling, Article 29 of the VAT Law provides for exceptions that may undermine the reduction in VAT registration threshold by exempting some products from VAT altogether, such as production lines, machinery, raw materials, and information tech equipment.[20] This fiscal strategy, which includes import exemptions, aims to increase business liquidity and encourage investment in production.[21] While the exemption of customs duties on production lines is favorable, many of these lines from CEFTA member countries have already enjoyed similar exemptions. This VAT increase is expected to impact consumer costs and public revenues. The recently adopted VAT Law includes substantial changes, including the elimination of the VAT certificate for imports and exports to the Tax Administration

19 Ibidem.

20 Law No. 05/L-037 on Value-Added Tax (VAT). Official Gazette of the Republic of Kosovo, 2015.

21 Tax Administration of Kosovo (TAK). Annual Report, 2014. https://www.atk-ks.org/publikime/raportet-vjetore/. [accessed: 15.11.2024].

of Kosovo (TAK).[22] Article 26 outlines the VAT rates, which are a standard rate of 18% and a reduced rate of 8%. This VAT increase is expected to have a cost impact on consumers and public revenues.

Although this has contributed to the growth in budgetary revenues, it has also affected prices, with the final consumer bearing the entire burden. Despite changes to the VAT law, the number of products with exemption from VAT is relatively few while many products have increased in price. As a result, these changes have had the opposite effect on the fiscal package's expected outcomes, which included VAT adjustments. The goal of these changes was essentially to improve citizen welfare without placing a burden on consumers or hindering the country's economic development. The tax system is complicated due to its legislative and institutional framework, along with lengthy procedures in the judicial system. Despite these issues, there has been no negative impact on attracting foreign direct investment or the country's economic and social development.

3.2. Analysis of legal changes in Corporate Income Tax (CIT)

Since the establishment of its public finance framework, Kosovo has mainly relied on three key categories of taxes: the Value-Added Tax (VAT), Personal Income Tax (PIT), and Corporate Income Tax (CIT). Corporate income taxes account for approximately 20% of Kosovo's total revenue. This indicates how meaningful the CIT is as a major source of public revenue as it is crucial to financing education, health, and infrastructure services. It is necessary to provide a proper legal framework by issuing, amending, or supplementing the Corporate Income Tax Law. An appropriate law will encourage a favorable environment for business, formalize the economy, generate new jobs and reduce unemployment, guarantee economic stability, stimulate investment, regulate competition, and create conditions for innovation.[23] Table 2 below outlines the legislative changes to the regulation and laws that govern Corporate Income Tax in Kosovo between 2005 and 2019.

22 Tax Administration of Kosovo (TAK). Annual Report, 2021. https://www.atk-ks.org/publikime/raportet-vjetore/raporti-i-punes-janar-dhjetor-2021/. [accessed: 15.11.2024].

23 World Bank (WB). "Unemployment Data 2000-2022." https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=MA. [accessed: 15.11.2024].

Table 2. Legislative changes in regulation and laws on CIT during the period 2005-2019

Name of Law	Law No.	Approved in Parliament	Effective Date	Tax Rates
UNMIK Regulation on Corporate Income Tax	2004/51		1 January 2005	20%
Law on Corporate Income Tax	03/L-162	29 December 2009	1 January 2010	10%
Law on Corporate Income Tax	05/L-029	22 July 2015	1 September 2015	10% of taxable income; 5% of gross premiums for life, property, or high-risk insurance or reinsurance companies.
Law on Corporate Income Tax	06/L-105	12 July 2019	27 July 2019	10%

Source: author's elaboration

Kosovo has undergone political changes that have required reforms in many areas. It has struggled to develop since being under long-term high tax pressures. After the end of the war and the establishment of UNMIK, new tax foundations were applied. The next major reform took place after Kosovo's independence when the government implemented two tax reforms: one in 2009 and another in 2015.[24] The high tax rates during the UNMIK period failed to generate the expected revenues, leading to a reduction in tax rates during the first reform. This reform encouraged taxpayers to move to the formal economy and better plan fiscal revenues and expenditures for the upcoming fiscal year. Furthermore, reducing tax rates aimed to establish a competitive tax system, particularly in relation to other Western Balkan countries, with the goal of attracting foreign investments. This reform marked the initial steps toward the EU membership process. The second tax reform, introduced in 2015, brought about several changes. This reform revised the laws related to CIT, VAT, and PIT. As a result, the corporate income tax rate has undergone two significant changes: a) the initial rate set by UNMIK was 20%; b) following the 2009 reform, this rate was revised to 10%. Table 2 below outlines the legislative changes to the regulations and laws governing Corporate Income Tax in Kosovo from 2005 to 2019.

24 Tax Administration of Kosovo (TAK). Annual Report, 2021. https://www.atk-ks.org/publikime/raportet-vjetore/raporti-i-punes-janar-dhjetor-2021/. [accessed: 15.11.2024].

The first form of legal regulation of corporate income tax was Regulation No. 2004/51, which came into effect on January 1, 2005.[25] This regulation was subsequently replaced by Law No. 03/L-162 on Corporate Income Tax, effective January 2010.[26] In 2012, this law was amended and supplemented by Law No. 04/L-103.[27] In 2015, a new law, Law No. 05/L-029 on Corporate Income Tax, was enacted and implemented starting 1 September 2015.[28] It remained in effect until it was repealed by Law No. 06/L-105 on Corporate Income Tax in July 2019.[29] Changes to tax structure, rates, and collection procedures represent a critical stage in the process of achieving fiscal sustainability and economic stability. Reforms would include decreased tax rates, tax reliefs, certain deductions, and tax collection methods.[30] These reforms intend to facilitate a better environment for taxpayers and the Kosovo Tax Administration (KTA), the institution responsible for tax collection.

Tax relief measures have had a favorable impact on revenue declarations and on ensuring that tax payments are made promptly. This is illustrated by revenue increases after the 2015 reform, excluding 2020, which was negatively affected by the COVID-19 pandemic. The 2015 reform included additional allowable expenses for any business and allowed deductible contributions of up to 10% of taxable income for contributions made for the public interest. Attracting foreign investments is of great importance to a country's economy. Before 2008, more than half of the foreign direct investments occurred through privatizations. However, in 2008 the investments stagnated, as the privatizations were stopped. This stagnation proceeded into 2009, when the tax system was reformed and tax rates were reduced, including the corporate income tax rate which was reduced from 20% to 10%.[31]

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25 United Nations Interim Administration Mission in Kosovo (UNMIK). Regulation No. 2004/51 on Corporate Income Tax (CIT). Journal of Laws, 2004.

26 Law No. 03/L-162 on Corporate Income Tax (CIT). Official Gazette of the Republic of Kosovo, 2010.

27 Law No. 04/L-103 on amending and supplementing the laws related to the mandate of the European Union Rule of Law Mission in the Republic of Kosovo, Official Gazette of the Republic of Kosovo, 2016.

28 Law No. 05/L-029 on Corporate Income Tax (CIT). Official Gazette of the Republic of Kosovo, 2015.

29 Law No. 06/L-105 on Corporate Income Tax (CIT). Official Gazette of the Republic of Kosovo, 2019.

30 Kosovo Customs (KC). Annual Report, 2022. https://dogana.rks-gov.net/publications. [accessed: 15.11.2024].

31 Law No. 06/L-105 on Corporate Income Tax (CIT). Official Gazette of the Republic of Kosovo, 2019.

As a newly independent country, Kosovo has faced numerous challenges reflecting long-standing issues within European society. One of the primary obstacles to establishing a stable investment environment is the low level of trust in Kosovo's institutions, mainly due to widespread corruption. The judicial system has been inefficient, resulting in delays in resolving disputes and unequal treatment of parties. This indicates that simply reducing the tax rate will not be sufficient to attract investments, particularly from foreign investors. In 2015, a sub-legal act was intended to allow for tax holidays and special reliefs for new businesses. This provision remained unchanged by the new law that came into effect in 2019. However, to date, this sub-legal act has not been implemented. In addition to the reforms implemented in 2009, a new Law on Corporate Income Tax came into effect in 2015. This law maintained the existing tax rate but introduced a new 5% tax bracket on the gross premiums collected during the tax period for life, property, and other risk insurance or reinsurance companies.[32]

In taxation reform legislation from 2019, the withholding tax on certain categories, such as non-business taxpayers, farmers, recyclable materials collectors, mountain fruits, and medicinal plants was reduced from 3% to 1%.[33] This policy reform was designed to encourage farmers to become registered taxpayers and thus qualify for a suite of new subsidies. In this analysis are a few conclusions regarding the overall effectiveness of the policies implemented. The CIT rate reduction from 20% to 10% has effectively attracted foreign investments and enhanced Kosovo's regional competitiveness.[34] After the 10% tax policy entered into effect, Kosovo experienced a boom in new business formation that indicated a tax-friendly policy that promotes economic development.[35] Although investments peaked in 2011, their values fluctuated, indicating that tax reductions alone are insufficient to foster sustainable economic growth. This suggests that, alongside tax reductions, other factors such as political stability, the rule of law, advanced infrastructure, and a qualified workforce are equally important for attracting long-term investments. Nevertheless, these tax

32 Law No. 05/L-029 on Corporate Income Tax (CIT). Official Gazette of the Republic of Kosovo, 2015.

33 Law No. 06/L-105 on Corporate Income Tax (CIT). Official Gazette of the Republic of Kosovo, 2019.

34 Central Bank of Kosovo (CBK). Annual Report, 2018. https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/. [accessed: 15.11.2024].

35 Kosovo Agency of Statistics (KAS). Annual Report, 2023. https://ask.rks-gov.net/publication. [accessed: 15.11.2024].

reforms have not effectively addressed Kosovo's structural issues. Most investments are directed towards non-producing sectors, which do not contribute to economic growth, while favorable conditions have been established for other sectors, such as finance and insurance.[36]

3.3. Analysis of legal changes in banking regulations

There have been numerous legislative changes in the banking sector in Kosovo since its independence, with the aim of improving financial stability, access to finance and public confidence in the financial system. This analysis will look at the principal laws and regulations which have impacted the banking sector: Law No. 03/L-209 on the Central Bank of the Republic of Kosovo[37], Law No. 03/L-216 on the Establishment of the Deposit Insurance System[38], and Law No.5/L-057 on the Establishment of the Kosovo Credit Guarantee Fund[39].

Aftefr the war period and transition to a market economy, Kosovo began a new chapter in the history of its banking system. In November 1999, the Kosovo Banking and Payment Authority (KBPA) was established under UNMIK Regulation 1999/20.[40] This regulation authorized the KBPA with the responsibility to license, regulate, and supervise financial institutions. Thereafter, in August 2006, the Central Banking Authority of Kosovo (CBAK) was created as the first central banking institution in the country. Later, in July 2010, the Central Bank of the Republic of Kosovo (CBK) will be established through the Law on the Central Bank. After the post-war banking system was established, regulations were put in place to manage the use of currency. The first commercial bank in Kosovo, originally known as Micro Enterprise Bank (MEB) and currently called Procredit Bank, was established in December 1999 with five branches. From 2001 to 2004, the number

36 Ibidem.

37 Law No. 03/L-209 on Central Bank of The Republic of Kosovo (CBK). Official Gazette of the Republic of Kosovo, 2010.

38 Law No. 03/L-216 on the Establishment of a Deposit Insurance System for Financial Institutions in Kosovo. Official Gazette of the Republic of Kosovo, 2010.

39 Kosovo Credit Guarantee Fund (KCGF). Annual Report, 2022. https://fondikgk.org/publikime/. [accessed: 15.11.2024].

40 United Nations Interim Administration Mission in Kosovo (UNMIK). Regulation No. 1999/20 on the Banking and Payments Authority in Kosovo. Journal of Laws, 1999.

of commercial banks grew significantly, reaching a total of 207 bank branches. This expansion continued with the introduction of TEB and BKT in 2008, followed by Ziraat and Isbank in 2012, and Credins Bank Kosova in 2019.[41] By 2022, the launch of PriBank brought the total number of commercial banks to eleven, with 85.9% of them backed by foreign capital.[42] In 2010, Kosovo had 303 bank branches, along with an increasing number of ATMs and POS systems. Currently, 217 bank branches in total employ 3,322 people.[43] The banking sector has successfully regained public trust, marking a significant achievement for the country's post-war economy.

Table 3. Legislative Changes in the Law for the Central Bank of the Republic of Kosovo (CBK) and Banking Sector Regulation

Name of Law	Law No.	Approved in Parliament	Effective Date	Substantial Changes
Law on the Central Bank of the Republic of Kosovo	03/L-209	22 July 2010	27 July 2010	Transformed the foundational document from a regulation to a formal law. Shifted the entity from the Central Banking Authority to the Central Bank of Kosovo. Updated and expanded the Central Bank's responsibilities and objectives.
Law on Amendments and Supplements to Law No. 03/L-209 on the Central Bank of the Republic of Kosovo	05/L-150	10 March 2017	23 March 2017	Introduced new definitions and clarified the legal framework, particularly aligning with the Kosovo Constitution. Enhanced operational flexibility, including provisions for new offices. Expanded financial operations, such as currency issuance and management.
Law on Establishing the Deposit Insurance System for Financial Institutions in Kosovo	03/L-216	7 October 2010	1 November 2010	Formally established a deposit insurance system, reinforcing financial security and stability.

41 Central Bank of Kosovo (CBK). Annual Report, 2018. https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/. [accessed: 15.11.2024].
42 Central Bank of Kosovo (CBK). Annual Report, 2022. https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/. [accessed: 15.11.2024].
43 Ibidem.

Name of Law	Law No.	Approved in Parliament	Effective Date	Substantial Changes
Law on Amendments and Supplements to the Deposit Insurance System for Financial Institutions in Kosovo	04/L-133	13 December 2012	10 January 2013	Enhanced and fortified the deposit insurance system to better protect depositor interests and improve financial stability.
Law on Establishing the Kosovo Credit Guarantee Fund	05/L-057	14 December 2015	29 December 2015	Established a credit guarantee fund to improve SME finance access, set guarantee percentages, and defined operational charges. Increased the scope and effectiveness of credit guarantees, boosting economic engagement and stability.
Law on Amendments and Supplements to the Kosovo Credit Guarantee Fund	08/L-138	27 July 2022	2 September 2022	Modified fee calculations and applications to optimize financial guarantees and coverage. Increased the guarantee percentage from 50% to 80% of the unpaid loan principal.

Source: author's elaboration

The first legal framework for Kosovo's banking sector following the war was established by the UNMIK Regulation on currency use, which aimed to stabilize the monetary situation. It designated the Deutsche mark (DM) as the official currency, and with the introduction of the euro in 2002, Kosovo unilaterally adopted the euro as its currency and became part of the eurozone. UNMIK Regulation No. 2006/47 created the Kosovo Banking and Payment Authority (KBPA) as a precursor to the Central Bank of Kosovo, outlining its duties and responsibilities.[44] Additionally, the 1999 Regulation on Licensing, Supervision, and Regulation laid the foundation for Kosovo's banking market. Banks in Kosovo are organized as joint-stock companies with limited liability, which provided them with legal, operational, financial, and administrative autonomy. Each bank is required to have a governing board, an audit committee, and a credit risk management

44 United Nations Interim Administration Mission in Kosovo (UNMIK). Regulation No. 2006/47 on the Central Banking Authority of Kosovo. Journal of Laws, 2006.

committee. Table 3 presents the legislative changes for the Central Bank of the Republic of Kosovo (CBK) and related banking regulations.

The Law on the Central Bank of Kosovo (CBK) is a major step forward in banking regulation which defined its operations and empowered to supervise the banking market. After this, there were several other new laws that have been introduced for the regulaton of banks, microfinance institutions, non-bank financial institutions, payment systems, deposit insurance, and legislation to prevent money launder and terrorism financing. Law No. 03/L-209 on the CBK established a functional and independent financial system. It improved the structure of the CBK, protected it from outside political influence; later, it gave the bank more powers to license and supervise financial institutions in Kosovo.[45] The law also outlines CBK responsibilities, including the management of currency reserves, oversight of the banking system, and maintaining price stability in the country.

The Kosovo Deposit Insurance Fund (KDIF) has been operating since 2011.[46] It has continuously improved its regulations and procedures to achieve its objectives. Funded by international donors such as KfW and the German Government, the KDIF is overseen by a five-member management board and a managing director. The fund provides deposit insurance for both individuals and legal entities in member institutions, currently covering up to €5,000, with plans to gradually increase this amount. In the event of a member bank's liquidation, the KDIF compensates insured depositors within 30 days, as directed by the CBK.

Each financial institution that is a member of the KDIF is required to pay insurance premiums that finance the deposit insurance scheme, thus providing protection of depositors in the event of a financial institution failure. Insurance premiums consist of both a one-time contribution and continuing (ongoing) premiums. The KDIF invests premiums in low-risk and liquid financial instruments. The primary investment focus continues to be on securities and bonds issued by EU member states, as well as other government institutions' issuances. The KDIF's work does not occur in isolation; it coordinates with the CBK and collaborates with other financial institutions to promote a sustainable financial system. The KDIF seeks to enhance public knowledge with respect to the benefits and limitations of

45 Law No. 03/L-209 on Central Bank of The Republic of Kosovo (CBK). Official Gazette of the Republic of Kosovo, 2010.

46 Law No. 03/L-216 on the Establishment of a Deposit Insurance System for Financial Institutions in Kosovo. Official Gazette of the Republic of Kosovo, 2010.

deposit insurance product offerings through the development of consumer information and facilitation of consumer awareness initiatives related to deposit insurance. The limit for insured deposits is anticipated to rise from €2,000 to €5,000 by 2018.[47]

In times of a financial crisis, the KDIF serves an important function to avert a bank run that could cause a systemic banking collapse. They reassure depositors with the knowledge that they will be compensated timely if the financial institution fails. This security motivates both individuals and businesses to save more, thus in turn increasing bank deposits which allows banks to lend more to support the country's economic development. The KDIF is essential for maintaining financial stability by safeguarding a significant portion of bank deposits. Cost-benefit analysis shows that while there are significant upfront and ongoing costs, the benefits that include building confidence in the banking system and protecting against bank runs, exceed those costs. The KDIF has played an important role in ensuring a more secure banking environment for depositors and improving financial stability in Kosovo. The KDIF currently insures deposits of €1.2 billion, which protects 99.9% of depositors. Nonetheless, the limit of €5,000 for the country is low and will create difficulty for the future development of the institution.

4 | Research methodology

This research examines the effects of legislative reforms on Kosovo's economy, over a period from 2008-2022, including consideration for main financial laws, such as the VAT Law, CIT Law, and banking regulations. The study employs a mixed methods approach by utilizing quantitative economic analysis and comparative legal analysis, to estimate the effect that changes on the legal framework have on tax revenue, economic growth, financial stability and foreign investments. Legal analysis evaluates the structure and content of the financial legislation framework and helps identify issues related to impacts on economic performance and compliance with EU standards. Quantitative economic analysis uses the Difference-in-Differences (DiD) regression model to assess how economic variables have changed by

[47] Central Bank of Kosovo (CBK). Annual Report, 2022. https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/. [accessed: 15.11.2024].

the implementation of legislative reforms during the study period. Comparative analysis seeks to reveal distinctions and propose adjustments for better harmonization of national laws with EU tax and regulation directives concerning Kosovo's financial integration. The analysis reviews implications on public revenues, price stability and employment, and provides interpretations and recommendations to improve future policy dimensions. It will also assist policymakers in establishing sound legal and regulatory frameworks that support sustainable economic developmen.

4.1. Data collection and analysis

The research employs a data collection strategy based on secondary sources to provide a reliable assessment. The documents analyzed include key work reports issued by various institutions in Kosovo and regulatory documentation, using aggregated statistical records from annual reports, along with public documents produced by public institutions such as the Kosovo Tax Administration (ATA)[48] and the Central Bank of Kosovo (BQK)[49], Kosovo Customs (KC)[50], the Kosovo Agency of Statistics (KAS)[51], and other respective government agencies. Additionally, research on the implications of financial legislation and comparisons with EU standards were reviewed. An extensive literature review identified trends in international financial legislation relevant to Kosovo, while also analyzing prior studies on legislative changes in the financial system. Using secondary data allows comparisons to be made to verify the evidence base, thereby increasing confidence that the research findings are based on an adequate understanding of financial developments in Kosovo. Based on this analysis, recommendations will be made to key decision-makers in the financial sector and government to strengthen financial law and regulatory practices.

48 Tax Administration of Kosovo (TAK). Annual Report, 2021. https://www.atk-ks.org/publikime/raportet-vjetore/raporti-i-punes-janar-dhjetor-2021/. [accessed:: 15.11.2024].

49 Central Bank of Kosovo (CBK). Annual Report, 2022. https://bqk-kos.org/publikimet/raporti-vjetor-i-bqk-se/. [accessed:: 15.11.2024].

50 Kosovo Customs (KC). Annual Report, 2022. https://dogana.rks-gov.net/publications. [accessed:: 15.11.2024].

51 Kosovo Agency of Statistics (KAS). Annual Report, 2023. https://ask.rks-gov.net/publication. [accessed:: 15.11.2024].

The research involves selected variables to investigate how changes to financial legislation impact on Kosovo's economic performance, thus allowing a clear demonstration of the effects of economic policies. The research involves selected variables to investigate how changes to financial legislation impact on Kosovo's economic performance, thus allowing a clear demonstration of the effects of economic policies. Table 4 outlines the selected study variables and their data sources.

Table 4. Definition of Study Variables and Data Source

Variable Name	Definition	Data Source
VAT Revenues (VAT)	Annual revenues from Value-Added Tax.	Annual reports of the Kosovo Tax Administration (KTA), Annual reports of the Ministry of Finance, Published laws.
VAT Legislative Changes (VATLCh)	Changes in VAT rates and regulations.	
Corporate Income Tax Revenues (CIT)	Annual revenues from Corporate Income Tax.	
CIT Legislative Changes (CITLCh)	Changes in CIT rates and regulations.	
Financial Stability (FS)	Measured through two indicators: Non-Performing Loans (NPLs) Capital Adequacy Ratio (CAR)	Annual reports of the Central Bank of Kosovo (CBK), Published laws.
Banking Regulatory Changes (BRLCh)	Changes in banking regulations, deposit insurance, and credit guarantee rules.	
Gross Domestic Product per Capita (GDPC)	GDPC per year.	Annual reports of the Central Bank of Kosovo (CBK), Annual reports of the Kosovo Agency of Statistics (KAS), Annual reports of the Ministry of Finance.
Inflation (INF)	Annual inflation rate.	
Unemployment (UNP)	Annual unemployment rate.	
Foreign Direct Investments (FDI)	Volume of foreign investments.	

Table 5 summarizes descriptive statistics for the variables in the study, detailing the mean, median, maximum, minimum, standard deviation, skewness, kurtosis and Jarque-Bera test values and probabilities with number of observations. The skewness coefficients describe the movements of the data around the mean; however, the Jarque-Bera test indicates those same data is varied from its normality in most instances due to low probability distributions. This knowledge is important for further statistical analysis and interpretation of the impacts of any changes in the variables on the country's economic performance.

Table 5. Descriptive statistics of study variables

Statistikat	VAT	VATLCh	CIT	CITLCh	NPL	CAR	GDPC	INF	UNP	FDI
Mean	175.6351	17.06667	78.6553	11.33333	4.62171	17.14667	3286.221	2.872281	31.91333	325.3315
Median	153.8779	18.00000	67.8936	10.00000	5.10921	17.20215	3278.075	1.767324	30.55641	287.4098
Maximum	346.5602	18.00000	160.5323	20.00000	8.133199	19.01052	5021.11	12.1011	47.51698	732.0187
Minimum	58.4650	16.00000	51.9458	10.00000	1.93257	15.07455	1987.07	-2.4105	12.61132	151.1817
Std. Dev.	79.8503	1.03279	28.7018	3.518658	2.177004	1.191558	836.3441	3.907122	9.608394	133.4661
Skewness	0.564825	-0.13363	1.660028	2.157277	0.168427	-0.08309	0.342502	1.11387	0.024264	1.871296
Kurtosis	2.690735	1.017857	5.44422	5.653846	1.74307	2.130669	2.578592	3.438629	2.649619	6.909808
Jarque-Bera	0.857347	2.500199	10.62311	16.03643	1.05834	0.489597	0.404261	3.222016	0.078201	18.3085
Probabiliteti	0.001372	0.001476	0.001934	0.000329	0.009094	0.000862	0.000988	0.000686	0.001654	0.000106
Observations	640	640	640	640	640	640	640	640	640	640

Source: author's calculations

Table 6. Correlation matrix between study variables

Variablat	Variance	VIF	VAT	VATLCh	CIT	CITLCh	NPL	CAR	GDPC	INF	UNP	FDI
VAT	4.217	1.391	1									
VATLCh	2.930	1.574	0.785	1								
CIT	1.432	1.552	0.920	0.679	1							
CITLCh	5.260	1.353	-0.547	-0.419	-0.262	1						
NPL	2.290	1.086	-0.723	-0.794	-0.729	0.099	1					
CAR	1.420	1.771	-0.456	-0.009	-0.491	0.052	0.204	1				
GDPC	4.201	1.885	0.990	0.811	0.898	-0.596	-0.697	-0.398	1			
INF	1.290	4.334	0.248	-0.082	0.487	0.062	-0.218	-0.445	0.242	1		
UNP	1.408	2.846	-0.949	-0.723	-0.849	0.633	0.535	0.483	-0.948	-0.210	1	
FDI	1.002	4.128	0.519	0.214	0.729	0.010	-0.457	-0.382	0.481	0.764	-0.409	1

Source: author's calculations

Table 6 displays a correlation matrix identifying the interconnectedness of study variables to facilitate the examination of legislative impacts. VAT revenues and GDP per capita are positively correlated (0.990), suggesting that with an increase in VAT revenues there would be economic growth. On the contrary, VAT revenues and unemployment are negatively correlated (-0.949) demonstrating that generally, an increase in VAT revenues means a decrease in unemployment, promoting the expansion of job creation. Corporate income tax (CIT) revenues and GDP per capita display a high positive correlation (0.898) which can be interpreted to consider the extent to which corporate performance is associated with the welfare of the economy. Foreign direct investments (FDIs) and inflation report a significant positive correlation (0.764) suggesting the value of an increase in FDI results in inflationary pressures. These variables expose trends and support policy design that would encourage sustainable economic development.

5 Model specification

Difference-in-Differences (DiD) is a performance evaluation method commonly used in practice to examine the impacts of public policy interventions and amendments to legislative policies. This is methodologically specific because it permits comparison of changes in outcomes in terms of the treated study variables under the influence of changes in legislative policy. In Kosovo the evaluation of the economic costs and benefits of changes to financial legislation adopted the DiD method to empirically measure the effects of changes to laws concerning VAT, CIT, and banking regulation. The DiD method aligns with the structure of the data generated in the study and allows for a precise analysis of the changes in effects before and after the legislative changes while minimizing the influence of external factors in the analysis. This proves important to interpret how legislative changes affecting VAT, CIT, and banking regulation on economic growth, investment, inflation, and unemployment in Kosovo.

In this study, we propose three (3) DiD models, each targeting a specific law, and a fourth (4) model combining all variables to evaluate the overall legal changes effects:

$$Y_{it} = \alpha + \beta_1 Post_{it} + \beta_2 VAT\_Change_{it} + \beta_3 (Post_{it} \times VAT\_Change_{it}) + \gamma X_{it} + \epsilon_{it} \quad (1)$$

$$Y_{it} = \alpha + \beta_1 Post_{it} + \beta_2 CIT\_Change_{it} + \beta_3 (Post_{it} \times CIT\_Change_{it}) + \gamma X_{it} + \epsilon_{it} \quad (2)$$

$$Y_{it} = \alpha + \beta_1 Post_{it} + \beta_2 Bank\_Reg\_Change_{it} + \beta_3 (Post_{it} \times Bank\_Reg\_Change_{it}) + \\ + \gamma X_{it} + \epsilon_{it} \quad (3)$$

$$Y_{it} = \alpha + \beta_1 Post_{it} + \beta_2 ALL\_Change_{it} + \beta_3 (Post_{it} \times ALL\_Change_{it}) + \gamma X_{it} + \epsilon_{it} \quad (4)$$

Where: Y_{it} – VAT revenues for entity i in year t; $Post_{it}$ – Binary variable that takes the value 1 after legislative changes (after the year of change) and 0 before the legislative changes; VAT_Change_{it} – Changes in the Value-Added Tax (VAT) law; CIT_Change_{it} – Changes in the Corporate Income Tax (CIT) law; $Bank\_Reg\_Change_{it}$ – Changes in banking regulation; $ALL\_Changes_{it}$ – All legislative changes (VAT, CIT, Banking Regulation); γX_{it} – Vector of control variables such as GDP per capita, inflation, unemployment, and foreign direct investment; ϵ_{it} – Standard error of the distribution in the model equation.

6 Research results and discussions

This research measures the impacts of VAT law, CIT law, and banking legislation reforms on public revenue, social welfare, and the environment for foreign investment. The results will be used to identify and summarize trends, challenges, and opportunities in light of the legislative changes. Although the analysis will focus on the effects of VAT law changes on many important factors in the economy, the research intends to emphasize factors that influence the improvement of tax revenue collection and achieving public policy goals. The analysis suggests that all reductions in VAT rates increased public revenues and improved social welfare by reducing the cost of living and expanding access to essential goods. Tax incentives also helped to create a more favorable investment environment, as suggested by the rising levels of FDI. Although many positive outcomes exist as a result of changes to legislation, some changes have led to unintended consequences nonetheless, such as higher consumer prices. Ongoing issues include the effective enforcement of the laws issued and tax evasion. Tax policy changes should continue to be based on thorough analyses of the economic impact and communication with stakeholders.

Table 7 provides a detailed evaluation of the regression model (DiD) of the effects of changed legislation around VAT, CIT, and banking regulations related to public revenues, social welfare (measured by GDP per capita, inflation, and unemployment), and foreign direct investment. These results offer a foundation for public policy recommendations to maximize those positive effects and/or reduce the negative effects of future legislative changes. In line with the findings of Model (1), we observe that prior to the legislative changes, the effect of VAT was positive, suggesting that increases in VAT rates had a beneficial effect on the growth of VAT revenues. After the legislative modifications, the effect of VAT remained positive, and became even stronger. Therefore, it is clear that the legislative changes were appropriate, and that VAT has indeed become a more efficient mechanism for collecting public revenues.

The increase in efficiency indicates that the policy changes were successful in incentivizing economic growth and enhancing public revenues. This tax reform has introduced greater economic activity, and the growth in fiscal revenues aligns with the government's goal to enhance Kosovo's tax system to comply with the EU. The increase in effect, following the policy changes which resulted in increased efficiency indicates that purpose was achieved. The increase in efficiency in the VAT collection process also signifies that the more efficient work is due to an increase in the number of taxpayers and that more businesses are now contributing to the growth of public revenues. The increase in VAT collection is important to sustaining economic growth in Kosovo. VAT is an important source of revenues and increasing its collection leads to more investment in infrastructure programs that are needed along with social and educational capital considerations as well as health-related economic variables. A well-governed tax system ensures that there is a good fiscal base to provide public service revenues and stimulate economic growth.

Table 7. Results of the Regression Analysis for Difference-in-Differences (DiD) Models

Variables	Model (1)		Model (2)		Model (3)		Model (4)	
	Before	After	Before	After	Before	After	Before	After
Dependent Variable:	VAT Legislative Changes		CIT Legislative Changes		Banking Regulations Legislative Changes		*All Legislative Changes*	
Independent Variables:								
VAT	1.06205* (0.0159)	1.40122* (0.0497)					1.26021* (0.0035)	0.84509* (0.0255)
CIT			0.87071* (0.0253)	0.95021* (0.0381)			0.19708* (0.0455)	0.44608* (0.04953)
NPL					0.41236 (0.0987)	0.55127* (0.0284)	0.37511 (0.4059)	0.32864 (0.3223)
CAR					0.36275 (0.0643)	0.48164* (0.0495)	0.48307 (0.0829)	0.20315 (0.0587)
Control Variables:								
GDPC	0.85056* (0.0414)	1.11163* (0.0437)	0.26281* (0.0449)	0.25716* (0.0435)	0.20221 (0.3986)	0.19808 (0.5541)	0.33254* (0.0254)	0.01052* (0.0335)
INF	1.35136* (0.0338)	1.56161* (0.0422)	-0.33998* (0.0407)	-0.12414* (0.0237)	0.67406 (0.5966)	-0.05548 (0.8415)	0.16921 (0.2324)	-0.16382 (0.3575)

Variables	Model (1)		Model (2)		Model (3)		Model (4)	
	Before	After	Before	After	Before	After	Before	After
Dependent Variable:	**VAT Legislative Changes**		**CIT Legislative Changes**		**Banking Regulations Legislative Changes**		***All Legislative Changes***	
UNP	-0.59143 (0.7074)	2.36145 (0.4279)	-0.79839 (0.0701)	0.63615 (0.2924)	-0.34589 (0.9766)	-0.06732 (0.7443)	-0.0897 (0.5011)	0.82117 (0.0918)
FDI	1.14218 (0.5762)	0.98652 (0.0992)	1.90084 (0.0799)	2.20238* (0.0455)	-0.37709 (0.5907)	0.55109 (0.4232)	0.48409 (0.2007)	0.08795 (0.0591)
(Constant)	0.26182 (0.0001)	0.18654 (0.0001)	0.28105 (0.0001)	0.10844 (0.0001)	0.86497 (0.0001)	0.32843 (0.0001)	0.16787 (0.0001)	0.15659 (0.0001)
Adjusted R^2	0.32261	0.39146	0.18926	0.23402	0.15734	0.16049	0.24487	0.28496
F-statistics	2.88979	2.11946	3.12848	2.56797	5.49685	3.68608	2.46706	5.39969
Significance	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001	0.00001
No. of observations	640	640	640	640	640	640	640	640

Source: author's calculations; *Significant at 5% level, **Significant at 1% level. The study variables are defined as follows: VAT Revenues (VAT), CIT Revenues (CIT), Non-Performing Loans (NPL), Capital Adequacy Ratio (CAR), GDP per capita (GDPC), Inflation (INF), Unemployment (UNP), and Foreign Direct Investment (FDI).

The results from Model (2) provide a positive perspective on the impact of legislative changes to the Corporate Income Tax (CIT). The increase in the regression coefficient shows that these changes have improved the efficiency of CIT collection and enhanced the business climate in Kosovo. Although this improvement is modest, the government has created a more favorable environment for businesses through tax reforms responsive to the private sector's needs. Another positive aspect of this increase is that it reflects stability and improvement in fiscal administration, which may result from increased business confidence in the tax system. Although this growth may not be as substantial as that experienced through VAT, it does reflect the fact that changes to CIT have improved the situation and established a more stable business environment in Kosovo, which is important for sustaining long-term economic growth.

The outcomes of Model (3) indicate that banking regulatory reforms positively impacted Kosovo's financial sector development. Following the legislative reforms, the increase of regression coefficients of non-performing loans (NPL) and capital adequacy ratio (CAR) suggests that the reforms did enhance financial systemic stability by reducing the banking risks which are key to stimulating investment and economic growth. The reduction of non-performing loans reflects banking stability and better credit risk management standards. The general improvement of the capital adequacy ratio indicates banks are now more resistant to potential economic shocks in the future and might potentially have a safe and stable banking environment. Model (4) focuses on the cumulative impacts of all legislation changes and presents a systems view of the effects on Kosovo's economy. Cumulative results support positive impacts overall but moderate impact. The reforms improved the overall economic and financial conditions but have the potential to improve further policy optimization. The regression coefficients remained similar from pre- to post-reform legislation indicating that they promote stability, and a stable and predictable environment required for economic and financial growth. The moderate overall impact implies that well-coordinated policies between the reforms would have been needed to mitigate the effects of slight differences in marginal policies. The analysis indicates improvements to Kosovo's economic and tax policies, and suggests that cooperative and coherent reforms would contribute to better policies for economic development and financial stability. Continuous monitoring and evaluation of legislative reform will help to ensure that outcomes align with the government's predefined economic goals.

Table 8. Comparative Analysis of the Impact of Legal Changes on DiD Models

Variables/Model	Before Legal Changes	After Legal Changes	Difference (DiD Model)	t-statistics
Model (1):				
VAT Revenues	1.06205	1.40122	0.33917	6.50
Model (2):				
CIT Revenues	0.87071	0.95021	0.07952	13.57
Model (3):				
Non-Performing Loans (NPL)	0.41236	0.55127	0.13891	0.13
Capital Adequacy Ratio (CAR)	0.36275	0.48164	0.11889	1.01
Model (4):				
GDP per capita (GDPC)	0.85056	1.11163	0.26107	4.34
Inflation (INF)	1.35136	1.56161	0.21025	3.89
Unemployment (UNP)	-0.59143	2.36145	1.77002	3.57
Foreign Direct Investment (FDI)	1.14215	0.98652	-0.15563	-0.27

Source: author's calculations

Table 8 presents a comparative analysis of the effects of legislative reforms on the main economic variables before and after the reforms, which are summarized from four DiD regression models. The comparison suggests that there were mostly positive effects related to the reforms on Kosovo's economy. The revenue-related economic indicators of higher VAT and CIT revenues (Models 1 and 2) had the most increases, and suggest more efficiency associated with revenues obtained from the public sector. The CAR and NPLs (Model 3) indicated an improvement in the economy through additional stability due to increased capital adequacy and a higher share of performing loans to facilitate improved risk management in banks. On the macroeconomic level, the increased GDP per capita and improved inflation stabilization situation indicate a healthier economy. A decrease in unemployment created positive social outcomes when related to the pre-reform situation. However, there are challenges to consider, especially in enhancing FDI and it will take more work to determine targeted solutions to achieve sustainable economic growth.

The robustness check of the results from the four Difference-in-Differences (DiD) regression models is presented in Table 9. The application of the DiD design analyzes the departure from the baseline in potential changes to relevant study variables over time (before and after the legal changes took place). The robustness check provided results that validated models as consistent and reliable. Model (1) examined VAT revenues and illustrates an increase in the explained variation from 32.26% before the legal changes to 39.15% after the legal change, a difference of 6.89%, indicating that there is a more efficient VAT revenue system following the legal changes. This positive change indicates improvement to the efficiency of the fiscal system post-reform and is consistent with the government's goal to simplify tax collection processes. Model (2) evaluates the impacts resulting from changes in the CIT, going from an explained variance measure of 18.92%, to an improved measure of 23.40%, which indicates an increase of 4.48%. This evaluation shows improvements in the CIT system with both a better tax system and business climate. In terms of economic growth, this reform has a positive impact on the economy by lowering firms' tax burden whilst providing a better environment for new firms to invest in.

Table 9. Robustness Check of the DiD Regression Models

Variables/Model	Before Legal Changes (%)	After Legal Changes (%)	Difference (%)	Robustness Check
Model (1):				
Contribution of legal changes to VAT variance	32.26%	39.15%	+6.89%	Stable Robustness
Model (2):				
Contribution of legal changes to CIT variance	18.92%	23.40%	+4.48%	Stable Robustness
Model (3):				
Contribution of legal changes to NPC and CAR variance	15.73%	16.05%	+0.32%	Moderate Robustness
Model (4):				
Contribution of legal changes to GDPC, INF, UNP and FDI variance	24.49%	28.50%	+4.01%	Stable Robustness

Source: author's calculations

Model (3) focuses on a banking industry component measuring the NPLs with the capital adequacy ratio (CAR). The measured changes for this model illustrate a very slight improvement, where an explained variance measure decreases from 16.05% to 15.73%, increasing by only .32%. While we would expect some positive changes, this small increase leads us to evaluate this model as moderately stable. Model (4) provides a comprehensive approach whereby evaluating the effects of the overall legal changes on GDP per capita, inflation, unemployment and foreign direct investment. Here, the explained variance changes are from 24.49% to 28.50%, representing a change of 4.01%, thus this finding shows that the legal changes helped stabilized the economy and provided better conditions for sustainable economic growth. The positive impact of having lower unemployment alongside an improved environment for investment are clear indicators that the legal changes have tangible impacts. The validity tests for these regression models provide some evidence for the positive effects of the legal changes on important macroeconomic indicators, providing a good basis for further economic development.

7 Conclusions

This research assesses the benefits and costs of legal changes to Kosovo's financial legislation, and their overall effect on socioeconomic development. The consequences of financial legislation reforms were evaluated in the short and medium term in order to identify areas for potential improvement and inform subsequent tax policy. A mixed methods approach combining legal and economic analyses was employed to examine changes in financial regulations. A difference-in-differences (DiD) regression model, combined with variance analysis methods, was used to analyse the impact of legal reforms to VAT, corporate income tax (CIT) and banking legislation, both before and after the amendments to financial legislation were implemented. The econometric model analysis results show that legal changes in general, and specifically those to VAT and CIT, had a positive effect on the growth of public revenues and improved the business environment in Kosovo. The positive effect of fiscal reforms on tax revenues, resulting from increased foreign direct investment and a more effective public revenue structure, has led to greater macroeconomic stability. The analysis also addressed concerns that some aspects of the legislative changes had not been fully or adequately implemented, suggesting that further evaluation and amendments to financial legislation will be necessary in the future. The findings suggest that ongoing legal reforms will lead to greater transparency and efficiency when implementing financial legislation. Furthermore, information sharing between institutions must be improved, and the capacity of the tax authority must be further developed to support and manage the implementation of future legal reforms. Additionally, the fiscal structure, particularly the VAT system, should be analysed to assess its performance in developing key economic sectors and equitably distributing the tax burden.

The results provide useful insights and pathways for further research that aim to build on the existing understanding of the implementation of legislative changes and their implications for economic policies. A comparative analysis of the effects of legislative changes in Kosovo, compared to regional countries, could provide information about the broader effectiveness of financial legislation reform policies. Investigating the impact of legislative changes on specific economic sectors, such as manufacturing, agriculture or technology, could help to identify the need for further legislative reform to facilitate the development of these targeted sectors. Furthermore, gauging the perceptions of businesses and individuals regarding legal changes could offer valuable insights into the effectiveness of tax and financial policies, potentially highlighting barriers to successful implementation. Similarly, examining the efficiency or impact of VAT refunds could help to refine such policies, improving their overall impact and stimulating investment. Using advanced methodologies to measure the effect of legislative changes on economic policies would improve the accuracy and reliability of policy implementation assessments.

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