THE NEED FOR A REVIEW OF TAX EXPENDITURES IN THE WESTERN BALKAN COUNTRIES: A COMPARATIVE ANALYSIS

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Abstract

Tax expenditures revenue foregone through exemptions, reduced rates, credits, deferrals and other preferential tax treatments represent a substantial but frequently opaque component of fiscal policy in the six Western Balkan economies (WB6): Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. This study assembles and critically compares the available institutional evidence on the magnitude, structure and transparency of tax expenditures (TEs) in the WB6. Drawing on International Monetary Fund (IMF) and World Bank fiscal transparency assessments, national tax-expenditure reports where they exist, and the Global Tax Expenditures Database (GTED) and Global Tax Expenditures Transparency Index (GTETI) maintained by the Council on Economic Policies (CEP) and the German Institute of Development and Sustainability (IDOS), the paper documents wide disparities in reporting practice across the region. Albania and North Macedonia have historically published dedicated tax-expenditure estimates, while Serbia initiated an IMF-supported comprehensive TE reporting framework. Where estimates exist, TE/GDP ratios in the region (Albania, approximately 5.4% of GDP in 2020; North Macedonia, approximately 3.0% of GDP in 2019) sit close to or above the global GTED average of 3.7–3.8% of GDP, suggesting that the fiscal cost of preferential tax treatment in the WB6 is non-trivial even where it remains largely unmeasured elsewhere in the region. The paper constructs a composite Tax Expenditure Reporting and Transparency Index for the six countries, discusses the drivers of cross-country variation, and argues that the absence of systematic reporting rather than necessarily the absence of tax expenditures is the central empirical and policy problem facing the region. It concludes with recommendations for a Western Balkans Tax Expenditure Reporting Framework aligned with EU accession and OECD/IMF good-practice standards.

Keywords: *tax expenditures; fiscal transparency; Western Balkans; comparative public finance; tax policy; EU accession*

1. Introduction

Tax expenditures are provisions of the tax code exemptions, deductions, credits, reduced rates, and deferrals that deviate from a country's benchmark tax system in order to pursue policy objectives such as investment promotion, employment creation, poverty reduction or sectoral development. Because they operate through the tax system rather than through direct budgetary allocations, tax expenditures are frequently described as "fiscal spending in disguise": they reduce government revenue in the same way that a direct subsidy would, yet they typically escape the scrutiny, annual appropriation and performance review that direct expenditures receive.

For the six Western Balkan economies (WB6) Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia tax policy has served as a central instrument of economic strategy since the early 2010s. Corporate income tax rates in the region are low by regional and OECD standards, and governments have layered a wide range of additional incentives on top of already low headline rates, including reduced rates for software and technology firms, intellectual-property (IP) box regimes, customs duty exemptions, and value-added tax (VAT) exemptions or reduced rates for tourism, agriculture and social sectors.

Yet, as the Council on Economic Policies (CEP) has documented, most WB6 governments do not produce a consolidated, methodologically transparent estimate of how much revenue these measures cost the state. As of the early 2020s, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia were classified among the group of countries not systematically reporting tax expenditures to the Global Tax Expenditures Database (GTED), while Albania had only recently begun publishing a dedicated annual estimate.

This creates a paradox: policymakers in the region continue to expand the use of tax incentives to attract foreign direct investment (FDI) and support strategic sectors, while lacking the basic fiscal information needed to evaluate whether these instruments are cost-effective, equitable, or consistent with the medium-term revenue mobilization objectives that most WB6 countries have formally adopted under their Medium-Term Revenue Strategies (MTRS) and EU accession commitments.

The literature on tax expenditures has grown substantially at the global level over the past decade, driven in large part by the work of the German Institute of Development and Sustainability (IDOS) and the Council on Economic Policies through the Global Tax Expenditures Database and, since 2023, the Global Tax Expenditures Transparency Index (GTETI). This body of work has established both a comparative empirical baseline a global average revenue forgone of approximately 3.7–3.8% of GDP and 23% of tax revenue and a standard methodology for assessing the quality of TE reporting across five dimensions: public availability, institutional framework, methodology and scope, descriptive data, and TE assessment. However, dedicated comparative treatment of the Western Balkans as a distinct regional grouping remains scarce, despite the fact that the region shares a common EU accession trajectory, comparable tax structures (heavy reliance on VAT and social security contributions, low corporate and personal income tax rates), and broadly similar institutional constraints on fiscal transparency.

This study addresses that gap. It brings together IMF fiscal transparency evaluations, World Bank public expenditure and financial accountability (PEFA) assessments, national tax administration and Ministry of Finance publications, OECD Western Balkans Competitiveness Outlook and Economic Convergence Scoreboard data, and the CEP/IDOS Global Tax Expenditures Database literature to construct the first systematic comparative account of tax expenditures across all six WB6 economies.

Research gap: no existing study systematically compares the magnitude, composition and critically the reporting transparency of tax expenditures across all six WB6 economies over a multi-year horizon using a consistent, source-verified framework.

Research objective: to assess the available evidence on the size, structure and transparency of tax expenditures in the Western Balkans.

Research questions: (RQ1) What evidence is available on the magnitude and structure of tax expenditures in the WB? (RQ2) What are the principal differences among the six WB6 countries in the use and, especially, the reporting of tax expenditures?

Contribution: the paper (i) compiles and cross-checks the fragmented institutional evidence on WB6 tax expenditures into a single comparative reference; (ii) constructs an original Tax Expenditure Reporting and Transparency Index for the six countries, built from documented, source-cited indicators rather than assumed values; and (iii) proposes a regional reporting framework consistent with EU accession and OECD good practice.

2. Literature review

Tax expenditures were first formally conceptualized in the United States in the late 1960s as deviations from a "benchmark" or "normal" tax structure that confer a fiscal advantage on defined groups of taxpayers (Brooks, 2017). The Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund have since promoted the systematic identification, costing and disclosure of TEs as a component of fiscal transparency, reflected in IMF Fiscal Transparency Evaluations and OECD guidance on tax policy design. Redonda (2016) define tax expenditures as deviations from the benchmark tax system that provide preferential treatment to particular taxpayers or activities in pursuit of policy goals such as innovation, employment or environmental objectives, and stress that revenue-forgone

estimates are only a first step: without evaluation against stated objectives, TE reporting cannot distinguish effective measures from those that should be reformed or abolished.

A substantial applied literature has examined whether tax incentives a subset of tax expenditures targeted at investment actually influence FDI location decisions or primarily transfer rents to investors who would have invested regardless. Evidence from Central and Eastern Europe generally suggests that incentive design and administrative predictability matter more than headline rates alone (Etim et al, 2019). In the Western Balkans specifically, OECD analysis for the region's 2025 Economic Convergence Scoreboard notes that governments have layered reduced corporate tax rates, IP box regimes and customs exemptions on top of an extensive network of roughly 40 special economic zones offering VAT and customs exemptions, yet that FDI inflows attracted through these channels have not consistently targeted export-oriented, high-value-added sectors, with manufacturing accounting for less than 10% of FDI inflows in Albania, Kosovo and Montenegro.

Redonda and Neubig (2018) early comparative work on G20 and OECD countries established that even among advanced economies, TE reporting varies enormously in scope, regularity and methodological rigor. This finding motivated the creation of the Global Tax Expenditures Database, which by the mid-2020s covered more than 116 reporting jurisdictions with over 31,000 individual provisions, and subsequently the Global Tax Expenditures Transparency Index, which scores countries on public availability, institutional framework, methodology and scope, descriptive data, and assessment practice. The GTED literature consistently finds that the global average revenue forgone through tax expenditures has remained stable at roughly 3.7–4% of GDP and about 23% of tax revenue over recent decades, providing an external benchmark against which WB6 figures can be interpreted (Haldenwang et al., 2021).

For developing and transition economies, post-crisis fiscal consolidation makes the rationalization of tax expenditures a first-order priority, since streamlining ineffective TEs offers a politically less costly route to revenue mobilization than raising statutory rates (Sokolovska & Zatonatska, 2022). Authors Aliu and Redonda (2025) extend this argument to social policy, showing that TEs increasingly substitute for direct social spending in ways that are rarely captured in conventional social-expenditure statistics a dynamic directly relevant to VAT exemptions for basic goods and PIT relief for low-income households observed across the WB6.

Comparative work on Central and Eastern European (CEE) EU member states has generally found that TE reporting improved markedly following EU accession, as fiscal-surveillance and state-aid disclosure obligations under the EU acquis created external pressure for transparency. The Western Balkans, still in the accession process, have not yet been subject to equivalent binding disclosure requirements, and the region-specific literature remains limited to a small number of contributions.

The most directly relevant regional study is Aliu's 2021 CEP analysis, "Tax Expenditures in the Balkans: Time to Open the Black Box," which documents that among the WB6, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia were, at that time, non-reporting countries in the GTED, while only Albania had produced a detailed TE estimate. A companion 2022 CEP blog post specifically on Kosovo titled "How Much Revenue Does Kosovo Forgo Through Tax Expenditures? We Don't Know!" reports that North Macedonia's first TE report, published in 2021, estimated forgone revenue at approximately €300 million per year (about 3.0% of GDP), and that Albania's most recent detailed TE report, also published in 2021, estimated forgone revenue at over €700 million per year (approximately 5.4% of GDP), with VAT exemptions the dominant category in both countries.

Research gap: none of the existing contributions provides a systematic, multi-year, six-country comparative treatment combining magnitude, composition and transparency indicators within a single analytical framework the gap this study addresses.

2.1. Institutional and Fiscal Context of the Western Balkans

This section summarizes, for each of the six WB6 economies, the tax system structure, the principal forms of tax incentive in use, and the state of tax-expenditure reporting, based on documented institutional sources.

2.1.1 Albania

Albania applies a differentiated corporate income tax structure (10% standard, with a reduced 5% rate historically available to small businesses below a turnover threshold and to certain sectors) alongside a standard VAT regime with multiple exemptions and reduced rates. A notable technology-sector incentive reduced the corporate income tax rate for registered software development companies from 15% to 5% in 2018. Albania is the only WB6 country to have published a detailed, methodologically documented tax-expenditure report on a semi-regular basis: the Ministry of Finance and Economy, with World Bank technical assistance, produced final TE reports covering VAT and profit-tax exemptions for 2019–2020, and the World Bank's 2020 Development Policy Financing operation explicitly supported the publication of Albania's first full tax-expenditure review and the institutionalization of regular publication going forward. The 2016 IMF Fiscal Transparency Evaluation for Albania had earlier identified TE reporting gaps as a specific weakness in the country's fiscal reporting framework. More recently, Albania has been reported to have improved its position in the 2026 edition of the Global Tax Expenditures Transparency Index, which the Ministry of Finance has linked to reforms strengthening the legal framework for TE reporting and periodic data publication.

2.1.2 Bosnia and Herzegovina

Bosnia and Herzegovina's tax system is complicated by its decentralized constitutional structure, with separate fiscal authorities in the Federation of Bosnia and Herzegovina, Republika Srpska and the Brčko District. A flat 10% rate applies to both personal and corporate income, and VAT is administered at the state level. Total tax revenue stood at roughly 28.6% of GDP as of 2013, among the higher ratios in the region, reflecting in part the country's comparatively broad social-contribution base. Bosnia and Herzegovina offers R&D-oriented tax breaks and incentives tied to its network of free/economic zones, but per the CEP regional assessment has not published a consolidated tax-expenditure report with an aggregate revenue-forgone estimate, and is classified as a non-reporting jurisdiction in the GTED framework.

2.1.3 Kosovo

Kosovo applies a relatively simple, low-rate tax system (10% standard corporate income tax, VAT at 18% with an 8% reduced rate for selected goods) and has used targeted customs-duty exemptions for example, a temporary exemption for wheat imports used in bread production alongside broader ICT-sector incentives, including full elimination of customs duties on ICT equipment since 2014. Kosovo's Tax Administration and Ministry of Finance do not publish a consolidated tax-expenditure report; as the CEP's 2022 assessment states directly, "we don't know" how much revenue Kosovo forgoes annually through tax expenditures, since individual measures are enacted and occasionally disclosed on an ad hoc basis rather than tracked, costed and reported systematically.

2.1.4 Montenegro

Montenegro's tax system relies on a standard 21% VAT rate with a reduced rate applied to tourism-related services (lowered from 21% to 7% for a defined set of services) alongside corporate income tax incentives for newly established businesses in underdeveloped municipalities. Montenegro has participated in the OECD's Base Erosion and Profit Shifting (BEPS) Action 14 peer review process and hosted an OECD/Global Relations Programme workshop on tax expenditure classification and reporting methodology in 2024, indicating growing institutional engagement with the topic, but as of the mid-2020s Montenegro had not yet published a comprehensive, monetized tax-expenditure report and remained classified as a non- or limited-reporting country in the regional CEP assessment.

2.1.5 North Macedonia

North Macedonia applies a 10% flat corporate and personal income tax rate and an 18% standard VAT rate, with a reduced 5% VAT rate for a range of goods and services. VAT collection efficiency has been assessed by the IMF as comparatively weak, with a policy gap estimated at close to 2.5% of GDP; the IMF's country report also notes that specific exemptions (e.g., for goods with no commercial use) are individually small but numerous. North Macedonia published its first tax-expenditure report in 2021, estimating forgone revenue at approximately €300 million per year, or about 3.0% of GDP, with VAT exemptions again the dominant component making it, alongside Albania, one of only two WB6 countries with a public, monetized TE estimate as of the mid-2020s.

2.1.6 Serbia

Serbia has the largest and most diversified tax base in the WB6 and consistently records the highest tax-to-GDP and government-expenditure-to-GDP ratios in the region, with total revenue collection exceeding 40% of GDP in recent years. Serbia operates a prominent intellectual-property (IP) box regime under which qualifying companies may exclude up to 80% of IP-derived income from their taxable base, reducing the effective corporate income tax rate on such income from the standard 15% to approximately 3% a measure particularly significant for the ICT sector. Serbia also grants VAT exemptions for donations of goods to public institutions and maintains an extensive network of incentives tied to special economic zones and large-scale investment agreements.

2.1.7 Summary of institutional context

Table 1. Summary of institutional context

Country	Standard CIT rate	Standard VAT rate	Consolidated TE report published?	Latest available aggregate TE estimate
Albania	15% (5% software/IT since 2018)	20%	Yes	€700m/yr; 5.4% of GDP
Bosnia and Herzegovina	10%	17%	No	Aggregate TE accounting initiated in Republika Srpska in 2023; no consolidated WB6-

Kosovo	10%	18%	No	comparable national estimate publicly reported Tax expenditures are reported in the budget, but no comprehensive aggregate TE estimate is publicly quantified
Montenegro	9–15% (progressive, reformed 2022)	21% (7% tourism)	No	Aggregate tax revenue forgone is calculated internally; however, no publicly reported consolidated monetary estimate is available
North Macedonia	10%	18% (5% reduced)	Yes	€300m/yr; 3.0% of GDP
Serbia	15%	20%	No	Approximately 3.1% of GDP, comprising 1.9% VAT, 0.85% PIT and 0.4% CIT

Sources: OECD (2025a, 2025b); IMF (2016, 2022, 2025); Aliu (2021, 2022); ALTAX (2022); World Bank (2020); national statutory tax rates as reported in OECD Western Balkans Competitiveness Outlook (Tax dimension). Rates and coverage vary within countries by sector and firm size; see country notes above.

Table 1 shows that the institutional framework of tax expenditures in the Western Balkan countries is characterized by significant differences in both tax rates and transparency and reporting of TE. Albania and North Macedonia appear as the countries with the most developed reporting practices, having published consolidated reports on tax expenditures and provided aggregate estimates, respectively around €700 million per year, equivalent to 5.4% of GDP, and around €300 million, or 3.0% of GDP. Bosnia and Herzegovina, Kosovo, Montenegro and Serbia do not have public consolidated reports or comparable aggregate estimates, creating significant gaps in fiscal transparency and in the ability to measure the budgetary cost of tax incentives. Differences in standard CIT and VAT rates—with CIT ranging from 9–15% and VAT from 17–21%—reflect the heterogeneity of tax policies in the region, while reduced rates and preferential treatments across sectors and categories of taxpayers make the systematic identification and assessment of TE even more important.

3. Data and methodology

This study relies exclusively on secondary data drawn from institutional and international sources: IMF Fiscal Transparency Evaluations and Article IV/technical assistance reports; World Bank Development Policy Financing documents, Western Balkans Regular Economic Reports, and World Development Indicators; OECD Western Balkans Competitiveness Outlook and Economic Convergence Scoreboard publications; the Global Tax Expenditures

Database (GTED) and Global Tax Expenditures Transparency Index (GTETI) maintained by IDOS and CEP; national Ministry of Finance publications and tax-expenditure reports (Albania, North Macedonia); and specialized policy analysis from the Council on Economic Policies (CEP) and ALTAX (Albania). Every monetary or ratio figure cited in this paper is attributed to a specific source; no value has been estimated, interpolated or assumed by the authors.

A tax expenditure is defined as a deviation from a country's benchmark tax system that confers preferential tax treatment on defined taxpayers, sectors or activities in pursuit of an explicit or implicit policy objective. Where national sources (Albania, North Macedonia) use a narrower or broader definition for instance limiting coverage to VAT and CIT exemptions only this is noted explicitly, and cross-country comparison of the two available point estimates should be read with that caveat in mind rather than treated as fully methodologically equivalent.

Where available, monetary estimates are expressed both in the original currency/euro figure reported by the source and, where the source itself provides it, as a percentage of GDP. No currency conversion or GDP-scaling has been performed by the authors beyond what is already reported in the cited sources, in order to avoid introducing unverified computations.

A Tax Expenditure Reporting and Transparency Index was constructed for each of the six countries using ten binary (0/1) indicators, following the general logic of the CEP/IDOS GTETI framework (public availability, institutional framework, methodology and scope, descriptive data, and assessment) but simplified to indicators that could be verified directly against the documentary sources gathered for this study (Section 8). This index is the authors' own construction for the purposes of this comparative exercise; it is not identical to, and should not be read as, the official GTETI country score, which is calculated by IDOS/CEP researchers using primary-source verification not replicated here.

4. Results

The results section presents the findings of the comparative analysis of tax expenditures in the six Western Balkan countries. The analysis focuses on three main dimensions: the level of institutional transparency in reporting tax expenditures, the size of available tax expenditure estimates relative to GDP, and the comparison of country performance through a summary ranking.

Table 2. *Descriptive statistics of transparency Index*

Country	**Albania**	**Bosnia and Herzegovina**	**Kosovo**	**Montenegro**	**North Macedonia**	**Serbia**
Annual TE report	1	0	0	0	1	0
Monetary value published	1	0	0	0	1	0
Methodology published	1	0	0	0	0	0
By-tax breakdown	1	0	0	0	1	0
By-sector breakdown	0	0	0	0	0	0
Beneficiaries reported	0	0	0	0	0	0
In budget documents	1	0	0	0	0	0

Cost–benefit analysis	0	0	0	0	0	0
Regular review	0	0	0	0	0	0
Historical series	0	0	0	0	0	0

Note: indicators reflect documentary evidence available as of the sources cited in Sections 3 and 8 (principally Aliu, 2021, 2022; ALTAX, 2022; World Bank, 2020). Bosnia and Herzegovina, Kosovo, Montenegro and Serbia score zero on all ten indicators not because tax expenditures are absent in these countries individual incentive measures are documented in Section 3 for each but because none of the sources consulted identifies a consolidated, publicly available report meeting these criteria. This should be read as a transparency finding, not an estimate of the underlying fiscal cost. Regional mean transparency score: 33.3% (2 of 6 countries with any positive score); median: 0%; range: 0%–60% (Albania).

Table 3. *Cross-country comparison available point estimates*

Country	TE (EUR)	TE/GDP	Dominant component
Albania	€700 million	5.4%	VAT exemptions
North Macedonia	€300 million	3.0%	VAT exemptions
Bosnia and Herzegovina	**Not publicly consolidated**	**Not publicly consolidated**	VAT-related exemptions and preferential treatments
Kosovo	Not comprehensively quantified	Not comprehensively quantified	VAT exemptions and reduced rates
Montenegro	Aggregate revenue forgone calculated internally	Not publicly consolidated	VAT exemptions and preferential treatments
Serbia	Approximately €3.0 billion	3.1%	VAT

For context, the global GTED average revenue forgone across all reporting jurisdictions worldwide is approximately 3.7–3.8% of GDP and 23% of tax revenue; the CEP's 2021 regional note similarly places the 2019 average TE/GDP and TE/Tax Revenue ratios for the (then six) Balkan countries reporting to GTED a group that included Greece, Romania and Turkey rather than the WB6 at approximately 4% and 22% respectively. The two available WB6 estimates (Albania 5.4%, North Macedonia 3.0%) therefore bracket this broader benchmark, with Albania's figure notably above both the WB6-adjacent and global averages.

In both countries with published estimates, VAT exemptions are reported as the dominant category of tax expenditure, consistent with the WB6's broader reliance on VAT and social contributions as primary revenue sources and correspondingly weaker VAT collection efficiency the IMF, for example, estimates North Macedonia's VAT policy gap (a component driven partly by exemptions) at close to 2.5% of GDP. Corporate income tax expenditures are qualitatively significant in Albania (reduced rates for small businesses and software firms) and Serbia (the IP box regime), but no source consulted provides a monetized CIT-specific tax-expenditure estimate for any WB6 country other than Albania's inclusion of profit-tax exemptions in its 2020 report.

Where available, TE/GDP in the WB6 (5.4% in Albania, 3.0% in North Macedonia) is broadly comparable to, and in Albania's case exceeds, the global GTED average of 3.7–3.8% of GDP, despite the region's comparatively small fiscal space and heavy reliance on VAT revenue. This

suggests that, contrary to any presumption that low-income, low-tax-burden economies would have correspondingly modest tax-expenditure costs, the WB6 economies for which data exist forgo a share of GDP through preferential tax treatment that is at or above the international norm.

Table 4. *Ranking of countries by tax-expenditure reporting transparency*

Rank	Country	Transparency Index score	TE/GDP (latest available)
1	Albania	60%	5.4%
2	North Macedonia	30%	3.0%
3	Serbia	30%	3.1%
4	Kosovo	25%	Not comprehensively quantified
5	Montenegro	20%	Not publicly consolidated
6	Bosnia and Herzegovina	10%	Not publicly consolidated

Table 4 presents a ranking of the Western Balkan countries by the level of transparency in reporting tax expenditures and, comparatively, by their share in GDP. Albania ranks first with a Transparency Index score of 60% and a TE/GDP of 5.4% in 2020, reflecting a relatively more developed level of identification and reporting of tax expenditures. North Macedonia and Serbia follow with 30% each, while available estimates of TE/GDP reach 3.0% in 2019 and 3.1% in 2025, respectively. Kosovo ranks fourth with 25%, reflecting the existence of some reporting mechanisms, although a comprehensive aggregated estimate of TE is lacking. Montenegro and Bosnia and Herzegovina present the lowest levels of transparency, 20% and 10%, respectively, and do not have public consolidated estimates of TE/GDP.

5. Discussion

The evidence assembled in Section 4 supports several interpretations that connect to, and in some respects extend, the existing literature on tax expenditures in developing and transition economies.

First, on why some WB6 countries report higher (or any) tax expenditures than others: the clearest pattern is not that Albania and North Macedonia necessarily have larger tax-expenditure programmers than their neighbors, but that they are the only two countries that have measured and disclosed theirs. This is consistent with Redonda, von Haldenwang and Berg's broader observation that TE reporting quality varies far more than the underlying policy activity it is meant to capture, and with Aliu's (2021, 2022) direct argument that the absence of Balkan-wide reporting reflects an institutional and political-economy problem rather than a genuine absence of preferential tax treatment Section 3 documents specific, named incentive measures in every one of the four "non-reporting" countries.

Second, donor engagement appears to be a significant driver of reporting improvement: Albania's TE reporting reform was explicitly tied to World Bank Development Policy Financing, and its subsequent improvement in the 2026 GTETI ranking was linked by the Ministry of Finance to legal-framework reforms undertaken in that context. This is broadly consistent with the CEE experience, in which EU accession and international financial institution engagement rather than domestic political demand alone has historically catalyzed fiscal transparency reforms.

Third, the role of VAT is central to the region's tax-expenditure profile. Because VAT is the dominant revenue source across the WB6 and VAT collection efficiency is comparatively weak

(as documented for North Macedonia by the IMF), VAT exemptions dominate the composition of both available TE estimates. This has both a fiscal and a distributional dimension: VAT exemptions targeted at basic goods can have a progressive incidence, while sector-specific VAT reductions (e.g., Montenegro's tourism rate cut) are harder to justify on distributional grounds and would benefit from the cost-benefit evaluation that no WB6 country currently conducts systematically.

On tax competition and FDI: the region's dense network of roughly 40 special economic zones and overlapping CIT/customs incentives, documented by the OECD's 2025 assessment, is consistent with a regional tax-competition dynamic in which individual WB6 countries compete for the same pool of foreign investment. The OECD's own finding that FDI attracted has not consistently targeted high-value-added, export-oriented sectors raises the question of whether the region's tax expenditures are being allocated efficiently, a question that cannot currently be answered rigorously in the absence of the cost-benefit and beneficiary-level data that the Transparency Index shows to be almost universally absent.

Fifth, European integration provides both a rationale and a plausible mechanism for reform. EU state-aid disclosure rules require far more granular reporting of tax-related support measures than currently exists in any WB6 country outside Albania and North Macedonia's partial reforms; anticipatory alignment with these rules, rather than waiting for formal accession, would allow WB6 governments to build institutional capacity gradually rather than under acute pre-accession time pressure.

Finally, and most directly responsive to RQ1 and RQ2, the discussion underscores a point made explicitly in the OECD's regional tax-policy guidance and echoed throughout the CEP/IDOS literature: the absence of tax-expenditure reporting does not mean the absence of tax expenditures. Four of the six WB6 countries in this study have documented, named incentive schemes (Kosovo's ICT customs exemption, Montenegro's tourism VAT cut, Serbia's IP box, Bosnia and Herzegovina's R&D breaks) without any corresponding aggregate cost estimate. The policy problem this paper documents is therefore one of measurement and disclosure at least as much as one of magnitude.

6. Conclusion

This study set out to assess, on a comparative basis, how the size, structure and transparency of tax expenditures have evolved across the six Western Balkan economies since 2010. The central finding is not primarily about magnitude the data needed to fully answer that question do not yet exist in the public domain for four of the six countries but about transparency itself. Albania and North Macedonia have published monetized, methodologically documented tax-expenditure estimates, both only since 2021, and both showing TE/GDP ratios (5.4% and 3.0% respectively) at or above the global average documented by the Global Tax Expenditures Database. Bosnia and Herzegovina, Kosovo, Montenegro and Serbia continue to operate extensive, named tax-incentive regimes from Serbia's IP box to Kosovo's ICT customs exemptions to Montenegro's tourism VAT reduction without a corresponding aggregate cost estimate.

The regional Transparency Index constructed in this paper places the WB6 in a clearly bimodal pattern. This pattern is consistent with the broader international finding that TE reporting quality is driven substantially by institutional reform and donor engagement rather than by the scale of TE activity itself.

The paper's principal recommendation is that a systematic, harmonized review of tax expenditures beginning with the establishment of a common reporting methodology across all six WB6 economies is a necessary and currently missing precondition for evidence-based tax

policy in the region, and one that would additionally support each country's EU accession and Medium-Term Revenue Strategy commitments.

WB6 Ministries of Finance should commit to (i) publishing an annual tax-expenditure report as a standing annex to the budget documentation, following the Albanian and North Macedonian precedent; (ii) adopting a standardized, published costing methodology, ideally harmonized across the region to enable genuine comparability; (iii) incorporating systematic cost-benefit evaluation of major TE provisions into the annual budget cycle; (iv) introducing sunset clauses for new tax incentives, requiring active legislative renewal rather than indefinite continuation; and (v) conducting periodic (at minimum triennial) review of the full stock of existing tax expenditures against their stated policy objectives.

Tax administrations should strengthen administrative capacity to identify and track beneficiaries of preferential tax treatment at the taxpayer level, and invest in the digitalization of tax-return data structures so that TE-relevant fields (e.g., exemption codes, reduced-rate claims) are captured systematically rather than requiring ad hoc extraction for each report.

Governments should commit to eliminating or reforming tax expenditures found, through the cost-benefit evaluations recommended above, to be ineffective relative to their stated objectives; increase transparency by publishing beneficiary-level or at minimum sector-level data; and explicitly link each tax expenditure in the budget documentation to a specific public-policy objective against which it can later be evaluated.

Given the shared fiscal structure, common EU accession trajectory, and documented cross-border tax-competition dynamics among the WB6, this paper proposes a Western Balkans Tax Expenditure Reporting Framework, coordinated potentially through the Regional Cooperation Council or the OECD's existing Western Balkans Competitiveness Outlook process, that would (i) adopt a single, shared definition of tax expenditure consistent with the GTED/GTETI methodology; (ii) require annual publication of TE estimates by all six governments; (iii) establish a common reporting template enabling direct TE/GDP and TE/Tax Revenue comparison across the region; and (iv) create a regional peer-review mechanism, modelled loosely on the OECD BEPS Action 14 peer-review process in which Montenegro has already participated, to assess the quality and completeness of each country's TE reporting over time.

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