AN IN-DEPTH ANALYSIS OF ECONOMIC INFLUENCES ON FISCAL OUTCOMES

1st: Muhammad Ali Abrar
School of Economics, University of the Punjab , Lahore, Pakistan
abraralieco@gmail.com

2nd:Muhammad Azmat Hayat
School of Economics, University of the Punjab, Lahore, Pakistan
azmathayat.eco@pu.edu.pk

Abstract

Tax revenue is playing a vital part in determining an economy's structure in modern era. The primary goal of this research is to estimate the impact of economic determinants on the tax revenue. Economic determinants include inflation, Agricultural sector's share in national output, industrial sector's share in national output and service sector's share in national output. The sample of the study is consists of 74 developing countries. The study used Ordinary Least Squares (OLS) model for estimation and employed the cross-sectional data for 2021. Using cross-sectional data is very important for the study this is because of several prominent reasons which make the study unique and rare. Worldwide when there is a big structural break happens during the pandemic, the economic relationships between the variables change dynamically which becomes the hot-cake for the economists to the check the strength of relationship between economic variables. So that, the policy makers make adjustments in the policy formulation process as well as reformations of policies which are made earlier to the structure break. The study found Inflation, agriculture share in Gross Domestic Product (GDP), industrial share in GDP and services share in GDP are significant negatively impacting tax revenue generation during the period. 1 percent increase in inflation decline revenue performance by 0.953 percent. The impact of inflation on revenue performance is significant at the 1% level with a negative coefficient. The theoretical reason behind it during the study period inflation rise all over the world while economic activity slow down due to massive structural break and its impacts on global economy. Unadjusted tax brackets and variations in purchasing power are also the same reason for warm up to inflation during the study period. Agriculture sectoral share in GDP contributing negatively and significantly in the performance of revenue generation for government. The composition of its negative effect is classified into direct and indirect tax revenue. The crux of the empirical analysis is composed by numerous factors. As the agriculture sector is non-formal and there are also very inadequate taxpayers with limited income and profits due to most of the agricultural sector belongs to small- scale. Due to high consumption rate, significant portion of production become the part of consumption. There is a large part of production which is even not marketed. Traded agricultural products are largely exempt from indirect taxes. 1 percent increase in industrial share in GDP decline revenue performance by 0.531 percent and is significant at the 1% level with a negative coefficient. During the pandemic, many industrial sectors faced disruptions in production due to lockdowns, supply chain interruptions, and decreased consumer demand. As industrial output decreases, tax revenue generated from these sectors could also decline, reflecting reduced taxable profits or sales. 1 percent increase in services share in GDP decline revenue performance by 0.416 percent and is significant at the 1% level with a negative coefficient. Services sector revenue performance depends upon the nature of Services: Services encompass a wide range of economic activities. Digital Economy: Often operate across borders, posing challenges for tax authorities in terms of identifying taxable transactions and enforcing compliance.

Keywords: Inflation, agriculture, industry, GDP & Tax Revenue.

Jel classification: H2, E31, Q15, O14

Introduction

Nowadays fiscal space becomes very important factor for every type of economy either it is developed, developing or under developed. Every economy wants to grow its size and to make development in its structure for its smooth running (Kaldor, 1963; IMF, 2011). New types of tax policies are reforming by the concerned authorities to improve the tax revenue either in ways of collection or to improve its capacity. It has several types of impact on the different sectors of the economy. Other sources to finance It creates a question for the researcher and policy makers that which sector has the capacity to pay the tax more and which less. Furthermore, what should be the frequency of the tax collection?

From the many decades, one of the core issues facing developing countries is low fiscal space. There are several reasons but one of the most prominent rising rates of expenditure with the declining rate of revenue generation. Most of the developing countries which lacks in terms of natural resources and net exports. Pakistan also is an example of this critical points from the series of developing countries. These deficiencies make Pakistan, a struggling country to balance its budget in long term. The level of taxation in Pakistan, in particular in Central Asia, is very low compared with other regions in the world.

This is worry in given that an insufficient fiscal space. Because it makes very tough for a government to make sufficient funds to meet the basic needs for the inhabitants of the country as well as public services, security, health and education. It is also necessary for heathy economic growth and ultimately it form the development agenda which make structural transformation in the economy better. Low fiscal revenues are in many countries a main cause of poor public services and infrastructure as well an important constraint on social expenditure. Thus, it is of great importance to determine the effective factors on tax revenues. This study aims at such an attempt, modestly. This is very crucial to make focus on the effectiveness of factors for revenue generation for government. The primary goal of this research is to estimate the impact of economic determinants on the tax revenue. Economic determinants include inflation, Agricultural sector's share in national output, industrial sector's share in national output and service sector's share in national output. The sample of the study is consists of 74 developing countries. The study used Ordinary Least Squares (OLS) model for estimation and employed the cross-sectional data for 2021.

In the complex needlepoint of a nation's fiscal landscape, the determinants of tax revenue weave together a complex narrative shaped by economic, political and demographic forces. The fiscal health of a country is profoundly influenced by the interplay of these factors, each contributing its unique thread to the fabric of revenue generation. This study aims to delve into the dynamic relationship between economic dynamics, political decisions, and demographic shifts as they collectively mold the contours of tax revenue.

Economic determinants form the bedrock of this exploration, as the financial pulse of a nation is intricately tied to its economic vitality. The ebbs and flows of economic activities, ranging from GDP growth to employment rates and inflation, exert a profound impact on the government's ability to collect revenue. A nuanced understanding of these economic undercurrents is essential to decipher the intricate dance between fiscal policies and revenue outcomes.

Inflation, agriculture share in GDP, industrial share in GDP and services share in in GDP have very complex theoretical relationship with the tax revenue. Inflation can push individuals into higher tax brackets if tax brackets are not adjusted for inflation. As people's incomes rise due to inflation, they may move into higher tax brackets, leading to increased tax revenue. This phenomenon is known as "bracket creep" (Musviba, N., 2023). It can affect the overall level of

economic activity. If inflation is high and unstable, it can lead to economic uncertainty, reduced consumer spending, and decreased business investment. This can have a negative impact on tax revenue since tax collections, such as sales taxes or corporate income taxes, are often tied to economic activity. Lower economic activity can result in reduced tax revenue. (Adaramola, A. O., & Dada, O., 2020). Inflation affects the purchasing power of money, and therefore, it is important to distinguish between nominal tax revenue (not adjusted for inflation) and real tax revenue (adjusted for inflation). While inflation may lead to an increase in nominal tax revenue due to factors like bracket creep or increased economic activity, the real value of that revenue may not necessarily increase if the inflation rate outpaces the growth in tax revenue. (Beer, S., Griffiths, M., & Klemm, A., 2023). Inflation is often shaped by the monetary policy actions formed by central banks. Central banks use tools such as interest rates and money supply to manage inflation. If inflation is high, central banks may raise interest rates to reduce it. Higher interest rates can impact borrowing costs for individuals and businesses, potentially affecting spending and investment decisions, which in turn can impact tax revenue. (Schwartz, A. J., 2003) As this study embark on this exploration of the economic drivers of tax revenue, it is with the recognition that these factors are not isolated entities but rather interconnected elements in a complex system. Unraveling the intricate threads that bind them offers not only insights into the past but also a roadmap for navigating the future challenges of sustaining and optimizing tax revenue in a rapidly changing global landscape. The economic landscape is intricate and dynamic, shaped by a multitude of factors that influence the generation of tax revenue. This study delves into the theoretical underpinnings of the economic determinants of tax revenue, seeking to unravel the complexities that define their interrelationships. By comprehensively understanding these determinants, we aim to contribute valuable insights to policymakers, researchers, and practitioners involved in crafting effective fiscal policies.

The research is organized into six distinct parts. It begins with an introductory section, followed by a literature review. The third section describes the methodology and model employed in the analysis. The fourth section contains the empirical estimations, with the fifth devoted to discussing the findings. The sixth and final section offers the conclusion.

Literature Review

Tax revenue mobilization remains a cornerstone of sustainable fiscal policy, particularly in developing and transitional economies striving to achieve inclusive growth and reduce dependency on external financing. A substantial body of empirical literature has investigated the economic, structural, and institutional drivers of tax revenue across various regions and time periods using cross-sectional and panel data methodologies. Studies such as those by Gupta (2007), Piancastelli (2021), and Chettri et al. (2023) have examined how factors like GDP per capita, trade openness, government effectiveness, and demographic indicators contribute to tax collection efficiency and capacity. In contrast, variables such as corruption, high inflation, and the predominance of agriculture in GDP have frequently been identified as impediments to robust tax performance. These analyses collectively shed light on the complex and dynamic interplay between macroeconomic conditions, policy choices, and revenue outcomes.

(Anastasiou, 2024) explore the determinants shaping the capacity to mobilize tax revenue for european countries for the period of 2015 to 2018 using panel data techniques. The study finds GDP per capita, public debt, government effectiveness index and degree of the efficiency of tax administration contributing positively and significantly to the tax revenue. While on the other hand, corruption plays a negative role for tax revenue significantly. (Chettri et al., 2023) estimate the indicators that impact the efficiency and volume of tax revenue for South Asian countries

during the time span of 2008 to 2017 using panel data techniques. This study finds trade openness and life expectancy impacting the tax revenue significantly and positively. In contrast, Infant mortality rate impacts the tax revenue significantly and negatively. (Minh Ha, 2022) estimate the factors affacting tax revenue in southeast Asian countries during the time span of 2000 to 2016, using panel data techniques. This study finds the degree of economic openness, inflows of foreign direct investment (FDI), the proportion of external debt relative to GDP, and the industrial sector's contribution to gross domestic product impacting the tax revenue significantly and positively. (Piancastelli, 2021) estimate the key drivers of government tax income for 59 developed and developing countries over the course of 1996 to 2015, using panel data techniques. The study finds GDP per capita, trade share in GDP, agriculture share in GDP, industrial share in GDP, services share in GDP, broad money share in GDP impacting tax revenue significantly and positively. (Kalas, 2020) estimate the determinants of tax revenue for European Union countries throughout the duration of 2006 to 2018, using panel data techniques. The study finds GDP per capita, government expenditure & gross investment and Population affecting the tax revenue significantly and positively. While on the other hand, inflation, unemployment & gross national savings affecting the tax revenue significantly and negatively. (Gnangnon, 2019) estimate the Factors influencing tax revenue generation for 95 developing countries for during the time span of 1981 to 2015. The study finds trade openness impacting the tax revenue significant positively. (Víctor, 2018) estimate the indicators that impact the efficiency and volume of tax revenue for 138 countries over the course of 1976 to 2015. The study finds urban population, quality of government, political stability impacting the tax revenue significant positively. While on the other hand Inflation affect the tax revenue significantly and negatively. (Profeta & Scabrosetti, 2010) estimate the key drivers of government tax income for 39 developing countries during the time span of 1990 to 2004. The study finds debt to GDP ratio and GDP per capita are insignificant in Asian countries while significant positively impacting tax revenue in Latin American countries. Similarly, agriculture share in GDP impacting the tax revenue negatively in Latin America but in Asia it is insignificant. (Gupta, 2007) estimate the determinants of tax revenue for 105 countries during the time span of 25 years. The study finds that GDP per capita, size of the economy, foreign aid, trade openness and economic and political stability measure by variety of proxies impacting the tax revenue significantly and positively. While in contrast, proxies for corruption and agriculture share in GDP impacting the tax revenue significant negatively. The study classified the countries in three sections on the base of income level. Low income, middle income and high-income countries. On the basis of this classification, it finds that foreign aid impacting the tax revenue significant positively in low-income countries while it is not the case for middle- and high-income countries. (Mahadavi, 2008) estimate the economic and structural variables affecting tax collection for 43 developing countries throughout the duration of 1973 to 2002. The study finds that per capita GDP, openness of economy and literacy rate impacting the tax revenue significant positively. The study also finds that political rights, agriculture share, civil liberties, economic volatility and female labore force participation are not significantly influencing the tax revenue. (Bird, R. M., & Zolt, E. M. 2004) estimate the economic and structural variables affecting tax collection for 110 developing countries for the period of 1990 to 1999. The study finds institutions quality impact the tax revenue significantly and positively. While on the other hand population growth, agriculture share, inequality and shadow economy affecting the tax revenue significantly and negatively. A part from conclusion, trade openness has insignificantly impact on tax revenue. (Piancastrelli, 2001) estimate the key drivers of government tax income for 75 Developed and developing countries throughout the duration of 1985 to 1995. The study finds that per capita GDP,

trade openness and industrial share in GDP are significant positively impacting tax revenue. While on the other side, agriculture share in GDP is significant negatively influencing the tax revenue. (Lotz & Morss, 1967) estimate tax efforts for 72 developing and developed countries by comparing the actual ratio of tax with the predicted ratio derived from cross-sectional analysis in correspondence to imports and export share in GNP, the difference between predicted and actual ratios of tax is estimated as tax effort. Trade share and GNP per capita impact on tax effort is estimated one by one and combined, in both way it seems significant while it made difference in ranking on introducing trade share. (Shin, 1969) estimate the tax ratio of 47 developing and developed countries over the period from 1963-65 by adding three variables additionally to trade share and per capita GNP in giving the explanation for differences in tax ratio across the countries over the time. The ratio of agriculture income is used for the measurement of urban, commercial and industrial influence on tax ratio. The influence of inflation on the tax ratio becomes positive with the progressive tax system, when it pushes the individual income to higher brackets of tax. It also contributes to the profit level significant positively. It also included the population growth with the rate of change in prices. Increment in the dependency rate of population with population growth keep pace with high level of exemptions. Findings of the study dig out the significant impact of Population growth, ratio of agriculture and per capita GNP on tax ratio.

Overall, the existing literature presents a nuanced understanding of the determinants shaping tax revenue performance across different economic contexts. While certain variables—such as economic openness, institutional quality, and industrial development—are recurrently found to enhance tax mobilization, others—like corruption, inflation, and agricultural dependence—continue to constrain fiscal capacity. The diversity in findings across income groups and regional blocks also highlights the importance of localized analysis and policy tailoring. Building on these insights, the present study seeks to extend the discourse by examining tax revenue determinants, employing a cross-sectional data approach to generate updated and policy-relevant evidence for strengthening domestic resource mobilization.

Methodology

The study uses Ordinary Least Squares (OLS) model for estimation and employed the cross-sectional data for 2021 by selecting the 74 developing countries. The sample of countries is designed by removing outliers, similar economic structures and specifying middle income countries from high-income countries and low-income countries. Further the variables of the model are tax to GDP ratio, inflation, agriculture share in GDP, industrial share in GDP and service share in GDP. Tax to GDP ratio is independent variable while rest of the variables are dependent variable. All variables are measured using data is drawn from the world development indicators (WDI) database published by the World Bank for the year 2021. Using cross-sectional data is very important for the study this is because of several prominent reasons which make the study unique and rare. Worldwide when there is a big structural break happens during the pandemic, the economic relationships between the variables change dynamically which becomes the hot-cake for the economists to the check the strength of relationship between economic variables. So that, the policy makers make adjustments in the policy formulation process as well as reformations of policies which are made earlier to the structure break. (Bai, J., & Perron, P. 2003) discusses how these breaks can alter economic relationships. (Stock, J. H., & Watson, M. W. 1996) examines the instability arising from underlying economic structures relationships and its implications for economic modeling and policy analysis. Tax revenue is very important variable for every type of economy. So, when its dynamics change the corresponding economy shake in different pattern as per the economic condition, favorable or unfavorable. The cross-sections for the economies of post

structural break becomes very important because they contain lags effect of the relationships between the variable. (Imbs, J. 2005) discusses how structural changes can affect trade and finance and the importance of cross-sectional analysis to understand sectoral impacts. (Pesaran, M. H., & Smith, R. P. 1998) highlights the importance of considering heterogeneity across cross-sectional units when analyzing economic data post-structural change. (Imbs, J. 2005) discusses how structural changes can affect trade and finance and the importance of cross-sectional analysis to understand sectoral impacts. (Reinhart, C. M., & Rogoff, K. S. 2009) discusses the long-term impacts of financial crises and the need for cross-sectional analysis to understand their varying effects on different sectors and economies. (Blanchard, O., & Leigh, D. 2013) assesses the impact of fiscal policy changes, emphasizing the importance of cross-sectional data to understand the effects on different economic entities. (Bakas, D., & Mendieta-Muñoz, I. 2020) explore how financial crises (as structural breaks) impact potential output, with a focus on cross-sectional differences among countries.

Model

There are five variables in the model. Tax to GDP ratio is independent variable of the model while the independent variables are inflation, Agricultural sector's share in national output, industrial sector's share in national output and service sector's share in national output. Statistical formulation of the model is specified below.

$$tr = \beta_0 + \beta_1 inf_i + \beta_2 agri_i + \beta_3 ind_i + \beta_4 serv_i$$

tr = tax revenue as percentage in GDP
inf = inflation
agri = Agricultural sector's share in national output
ind = industrial sector's share in national output
serv = service sector's share in national output

Empirical Estimation

Table 1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
tr	74	18.143	5.052	8.206	26.381
inf	74	4.023	1.736	1.224	8.302
agri	74	6.993	6.71	.031	30.067
indust	74	25.251	7.567	10.721	48.818
serv	74	58.493	9.56	34.178	80.119

The descriptive statistics of variables show 74 observations for each variable. First variable in the table list is Tax Revenue to GDP ratio has mean value 18.143 with standard deviation 5.052, having minimum value 8.206 and maximum value 26.381. Second variable in the list is inflation has mean value 4.023 with standard deviation 1.736, having minimum value 1.224 and maximum value 8.302. Third variable in the list is agriculture share in GDP has mean value 6.993 with standard deviation 6.71, having minimum value 0.031 and maximum value 30.067. Fourth variable in the list is industrial share in GDP has mean value 25.251 with standard deviation 7.567, having minimum value 10.721 and maximum value 48.818. Lastly, services share in GDP has mean value 58.493 with standard deviation 9.56, having minimum value 34.178 and maximum value 80.119.

Table 2 Matrix of correlations

Variables	(1)	(2)	(3)	(4)	(5)
(1) tr	1.000				
(2) inf	-0.546	1.000			
(3) agri	-0.501	0.295	1.000		
(4) indust	-0.451	0.376	0.071	1.000	
(5) serv	0.520	-0.438	-0.699	-0.674	1.000

Table 2 represents matrix of correlation of variables. It gives the nature and magnitude of the association between variables. The value of correlation varies between +1 to -1. +1 shows the perfect correlation with positive association between variables while -1 represents the perfect correlation with negative association between a correlation coefficient of zero indicates that there is no linear relationship between the variables. There is moderate negative correlation -0.546 between inflation and tax to GDP ratio suggesting that higher the inflation associated with lower tax to GDP ratio implies lower tax revenue. There is also moderate negative correlation -0.501 between agriculture share in GDP and tax to GDP ratio suggesting that higher the agriculture share in GDP associated with lower tax to GDP ratio infers lower tax revenue.

Results and Discussions

Table 3 Linear regression

Variables	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
inf	-.953	.257	-3.71	0	-1.466	-.44	***
agri	-.676	.127	-5.31	0	-.931	-.422	***
indust	-.531	.11	-4.82	0	-.751	-.311	***
serv	-.416	.12	-3.47	.001	-.656	-.177	***
constant	64.477	10.317	6.25	0	43.894	85.06	***

Mean dependent var	18.143	SD dependent var	5.052
R-squared	0.578	Number of obs	74
F-test	23.584	Prob > F	0.000
Akaike crit. (AIC)	394.965	Bayesian crit. (BIC)	406.485

*** p<.01, ** p<.05, * p<.1

Table 3 represent the regression results of the model. Where a list of the selected variables is provided in the first column. Second column shows the regression coefficients of the corresponding variables. The third column reports the standard errors, the fourth presents the t-values, and the fifth displays the corresponding p-values, sixth and seventh column shows the confidence interval and finally eighth column shows the level of significance at 1%, 5% or 10%. 1 percent increase in inflation decline revenue performance by 0.953 percent. The impact of inflation on revenue performance is significant at the 1% level with a negative coefficient. The theoretical reason behind it during the study period inflation rise all over the world while economic activity slow down due to massive structural break and its impacts on global economy. Inflation reduces the real value of money, which can erode the real value of the tax base. If tax brackets and thresholds are not adjusted for inflation, the real value of collected taxes decreases. Reduced Purchasing Power: High inflation decreases consumers' purchasing power, leading to lower consumption and consequently lower VAT (Value Added Tax) and sales tax revenues Underground Economy: Inflation may drive economic activities into the informal sector, where transactions are less likely to be reported and taxed. Investment Uncertainty: High inflation creates

economic uncertainty, discouraging investment and economic activities that generate taxable income. Interest Rates: To combat inflation, central banks might raise interest rates, leading to reduced economic activity and lower tax revenues from corporate profits and personal incomes. Currency Depreciation: Inflation often leads to currency depreciation, which can affect international trade and tax revenues from import and export activities. 1 percent increase in agriculture in GDP decline revenue performance by 0.67 percent and is significant at the 1% level with a negative coefficient. Agriculture sectoral share in GDP contributing negatively and significantly in the performance of revenue generation for government. The composition of its negative effect is classified into direct and indirect tax revenue. The crux of the empirical analysis is composed by numerous factors. As the agriculture sector is non-formal and there is also very inadequate taxpayers with limited income and profits due to most of the agricultural sector belongs to small-scale. Due to high consumption rate, significant portion of production become the part of consumption. There is a large part of production which is even not marketed. Traded agricultural products are largely exempt from indirect taxes. 1 percent increase in industrial share in GDP decline revenue performance by 0.531 percent and is significant at the 1% level with a negative coefficient. During the pandemic, many industrial sectors faced disruptions in production due to lockdowns, supply chain interruptions, and decreased consumer demand. As industrial output decreases, tax revenue generated from these sectors could also decline, reflecting reduced taxable profits or sales. 1 percent increase in services share in GDP decline revenue performance by 0.416 percent. Services sector revenue performance depends upon the nature of Services: Services encompass a wide range of economic activities. Digital Economy: Often operate across borders, posing challenges for tax authorities in terms of identifying taxable transactions and enforcing compliance. Intangibility of Services: Services are often intangible and harder to value. Inadequate Frameworks: Many developing countries lack robust frameworks to effectively tax the growing digital economy. Further the Breusch–Pagan/Cook–Weisberg test for heteroscedasticity is conducted to check the heteroskedasticity in the model. Under the framework of the null hypothesis, it is believed that there is no heteroscedasticity in error term means that the error terms have constant variance. The value of Test Statistic (chi²) is 0.05 and the p-value (Prob > chi²): 0.8289. It is clearly shown that p-value = 0.8289 is greater than Test Statistic = 0.05 which suggests that the available evidence is insufficient to disprove the null hypothesis. So, we can conclude that there is no heteroscedasticity in model. In other words, it suggests that the variance of error term is constant. This assumption is fulfilled which confirms to go ahead with the regressional analysis without the concern of heteroscedasticity.

Variance inflation factor

	VIF	1/VIF
inf	3.418	.292
agri	4.672	.214
indust	4.441	.225
serv	1.273	.785
mean VIF	4.701	.

For checking multicollinearity, Variance Inflation Factor (VIF) is employed to know the severity of multicollinearity. All the variables in the study do not show any multicollinearity effect, as the value of VIF for all variable is less than 10. So, there is no any strong multicollinearity which can make problem in regression analysis. In service sector the value of VIF is 3.418 and similarly in agriculture sector, industrial sector and inflation the value of VIF respectively, 4.672, 4.441, 1.273 and 4.701, which are all variables having the value of VIF less than 10. Showing not any strong multicollinearity

Conclusion

To wrap up discussion, key insights from analysis reveal inflation, share of agriculture sector in GDP, share of industrial sector in GDP and share of service sector in GDP of 74 developing countries showing the negative significant relationship with the revenue performance for the year 2021 under cross-sectional analysis. The sample of developing countries is designed by specifying the middle-income countries from the high-income, middle-income and low-income countries. The impact of inflation on revenue performance is negative and significant at 1 percent level of significance. 1 percent increase in agriculture in GDP decline revenue performance by 0.67 percent. The theoretical reason behind it during the study period, inflation rise all over the world while economic activity slow down due to massive structural break and its impacts on global economy. Unadjusted tax brackets and variations in purchasing power are also the same reason for warm up to inflation during the study period. Agriculture sectoral share in GDP contributing negatively and significantly in the performance of revenue generation for government. The composition of its negative effect is classified into direct and indirect tax revenue. The crux of the empirical analysis is composed by numerous factors. As the agriculture sector is non-formal and there are also very inadequate taxpayers with limited income and profits due to most of the agricultural sector belongs to small-scale. Due to high consumption rate, significant portion of production become the part of consumption. There is a large part of production which is even not marketed. Traded agricultural products are largely exempt from indirect taxes. 1 percent increase in industrial share in GDP decline revenue performance by 0.531 percent. Due to the pandemic, many industrial sectors faced disruptions in production due to lockdowns, supply chain interruptions, and decreased consumer demand. As industrial output decreases, tax revenue generated from these sectors could also decline, reflecting reduced taxable profits or sales. 1 percent increase in services share in GDP decline revenue performance by 0.416 percent. Services sector revenue performance depends upon the nature of Services: Services encompass a wide range of economic activities. Digital Economy: Often operate across borders, posing challenges for tax authorities in terms of identifying taxable transactions and enforcing compliance.

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