

REVIEW

for the acquisition of the scientific degree "Doctor of Science"

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Reason for submitting the review: participation in the scientific jury, approved by Order No. 124 of 27.02.2026 of the Director of the Institute for Economic Research at the Bulgarian Academy of Sciences (BAS) and decision of the first meeting of the scientific jury, held on 04.03.2026.

Author of the dissertation: Prof. Viktor Ivanov Yotsov, PhD

Topic of the dissertation: Between effectiveness and equity: Evaluating the effects of the flat tax in the countries of Central and Eastern Europe

This review has been prepared in accordance with the requirements of the Act on the Development of Academic Staff in the Republic of Bulgaria, the Regulations for the Implementation of the Act on the Development of Academic Staff in the Republic of Bulgaria and the Regulations for the Acquisition of Scientific Degrees and Holding Academic Positions at the Institute for Economic Research at the BAS.

I. General presentation of the dissertation work

The presented dissertation is 301 pages long and includes:

- introduction (13 pages);
- exposition (six chapters – 223 pages);
- conclusion and recommendations (14 pages);
- bibliography (119 literary sources);
- appendices (5).

Within *the introduction*, Prof. Yotsov justifies the relevance of the research, defines the economic context of the post-socialist transformation, formulates his research questions (and hypotheses), presents the research methodology and the structure of the dissertation.

In *chapter one*, the author sets the theoretical foundations of the study and reviews the empirical literature:

- a conceptual framework for assessing alternative income tax regimes;
- a systematization of empirical evidence on the effects of introducing a flat tax in Central and Eastern European (CEE) countries and beyond.

The presentation is in the context of the classic compromise (choice) between efficiency and equity. The main conclusions of the analysis can be systematized as follows:

- The “smoothing” of the tax scale is not just a change in technical design, but an institutional choice with serious systemic consequences.
- The massive introduction of a flat tax in post-socialist economies cannot be explained solely by abstract-theoretical models. “The reasons are related to the dynamics of the transition, tax competition, the legitimization of a “pro-market” course, the role of

external actors and internal coalitions, as well as the expectations of a “signal” to investors.” (p. 37)

- “... the available empirical evidence does not support universal conclusions, but emphasizes the contextual dependence – on the initial tax base and collection rate, on the accompanying changes (social security contributions, indirect taxes, reliefs), on the quality of institutions and on the strength of redistributive mechanisms.” (p. 37)

Chapter two is dedicated to the idea of a flat tax and its materialization in the CEE countries:

- development, determinants and consequences of the introduction and abolition of the flat tax (1990 – 2024);
- comparative analysis by country;
- synthesis of the main trends and comparison of the achieved economic results between different groups of countries and periods, with a focus on indicators of economic growth, investment, tax revenues, inequality and the labor market.
- presentation of the data sources and indicators used.

On this basis, Prof. Yotsov makes the following more important conclusions:

- The main motives for introducing the flat tax are similar in most countries.
- The empirical results of the introduction of the flat tax are mixed and contradictory. Some countries (the Baltic states and Slovakia) achieve impressive rates of economic growth and attract significant foreign investment, others (Hungary and Romania) realize relatively modest positive effects at the cost of budgetary difficulties.
- In most countries that introduce a flat tax, personal income tax revenues decline as a share of GDP, at least in the short and medium term.
- The flat tax increases inequality in the distribution of disposable income (albeit moderately).
- The positive effect of the flat tax on labor supply and employment is weak.

Chapter three constructs the empirical “skeleton” of the research. In this chapter, the dissertationist moves from the descriptive and institutional picture to a causal analysis.

The author's main conclusion is that the given empirical architecture (panel models with fixed effects, DiD/event-study and modern sustainable estimators, supplemented by a rich series of robust tests) is adequate to the research goal – to estimate the average effect of the flat tax on growth, fiscal indicators, inequality and investment under maximally transparent assumptions.

The “keynote” of the dissertation is *chapter four* – the empirical analysis. Here the author examines the economic and social consequences of the introduction of the flat tax in the CEE countries and, more specifically, the effects of the flat tax on:

- economic growth;
- the labor market;
- direct foreign investment (DFI);
- income inequality;
- public debt;
- automatic fiscal stabilizers.

Based on the analysis, Prof. Yotsov establishes:

- a positive and statistically significant effect on economic growth (which works predominantly through the investment channel);
- lack of convincing evidence for a stable relationship between the flat tax and employment;
- a negative association with DFI in panel estimates;
- a moderate but statistically significant increase in inequality (about +1 Gini point);
- negative pressure on budget revenues/expenditures;
- a significant weakening of automatic stabilizers (a particularly relevant effect for small open economies with limited alternatives for macrostabilization).

Chapter five is a natural continuation of the empirical analysis – Focus on Bulgaria: Was it worth introducing a flat tax? Structurally, this chapter includes:

- Operationalization of the question: from “positive effects” to normative assessment;
- Counterfactual simulation for Bulgaria /Synthetic Control Method (SCM) and Difference-in-Differences (DiD); seven outcome variables – economic growth, DFI, tax revenues, budget deficit, public debt, Gini coefficient and unemployment/;
- Counterfactual picture for Bulgaria: 2024 without a flat tax;
- Policy options and possible scenarios.

Was it worth introducing a flat tax in Bulgaria? According to the dissertation, the answer to this question depends on the public choice between efficiency and equity (p. 216).

In *chapter six*, the author builds a kind of analytical “bridge” between the empirical results (panel estimates, DiD and event-study dynamics, counterfactuals for Bulgaria) and their normative-political reading. The discussion is structured around four interrelated tasks:

- positioning the results in relation to the existing academic literature;
- clarifying the mechanisms through which a flat tax can affect growth, employment, investment, inequality and fiscal sustainability;
- deriving ideas for economic policy (especially for Bulgaria), taking into account the conditional nature of the effects;
- clearly formulating the limitations of the study and the boundaries of interpretation.

Finally, *the conclusion*:

- condenses the empirical and conceptual results into clear answers to the research questions and articulates the scholarly contribution of the dissertation;
- translates the evidence into a package of policy ideas, emphasizing the contingent nature of some of the effects and the need for institutional context in interpretation.

II. Assessment of the form and content of the dissertation

The dissertation contains theoretical generalizations and solutions to a major scientific and applied problem that correspond to modern achievements and represent a significant and original contribution to science. It does not repeat the topic and content of the dissertation for the acquisition of the educational and scientific degree "doctor". Prof. Yotsov presents a dissertation that:

- has a clearly formulated economic problem, goals and objectives of the study;
- treats a significant scientific and applied economic problem;

- is precisely formulated, and the scientific research and the achieved results are presented in a comprehensible and consistent manner;
- shows that the dissertation candidate has a comprehensive knowledge of the theory and literature in the relevant scientific field; can systematize and critically analyze world achievements related to the dissertation problem; highlights unsolved or poorly solved scientific tasks, explicitly specifying which one(s) of them he is addressing;
- contains significant scientific and applied scientific contributions, presented in section III of this review.

Prof. Yotsov meets (and exceeds) the minimum requirements of the Institute for Economic Research at the Bulgarian Academy of Sciences for the acquisition of the scientific degree "Doctor of Sciences". With a minimum requirement of 350 points (total), he collects 740 points, including:

- for Group of indicators A – 50 points (with a minimum requirement of 50 points);
- for Group of indicators B – 100 points (with a minimum requirement of 100 points);
- for Group of indicators G – 210 points (with a minimum requirement of 100 points);
- for Group of indicators D – 380 points (with a minimum requirement of 100 points).

The author has complied with the rules of scientific ethics – originality of the scientific product, correct citation and reference, truthfulness of the information presented. The abstract (40 pages) accurately and sufficiently reflects the content of the dissertation.

III. Scientific and applied scientific contributions of the dissertation work

The main scientific and applied scientific contributions in the dissertation can be systematized as follows:

- Enriching the political economy of tax reforms (factors that explain the rise and fall of the flat tax in CEE).
- Empirical evidence on the effects of tax competition in the context of small open economies.
- Analysis of the specific challenges facing tax policy in the context of eurozone membership.
- A comprehensive empirical assessment of the effects of the flat tax in CEE.
- Quantitative estimates of the change in the balance between efficiency and equity that results from the use of a flat tax.
- Evidence of limited dynamic effects on budget revenues.
- Analysis of the heterogeneity of the effects of the flat tax in CEE.
- Application of the stacked DiD method in the context of tax reforms.
- Innovative methodology for counterfactual analysis.
- Detailed, empirically based recommendations for tax reform in Bulgaria.
- Lessons for other countries in the region.
- A balanced, empirically based perspective on the debate “for – against” the flat tax.

IV. Questions and notes on the dissertation

For the purposes of defense and fine-tuning the material, the following more important notes and recommendations can be made to the author:

- I recommend that the dissertation candidate explicitly define the object and subject of the scientific research.
- The term "solvency principle" (pp. 4 and 17) should be replaced with "ability to pay principle".
- The idea of smoothing out ("rolling out") the structure of (increasing) marginal tax rates belongs to the Nobel laureates in economics Friedrich von Hayek (1956) and Milton Friedman (1962). "The Flat Tax" of Robert Hall and Alvin Rabushka came later (1985). – p. 6 of the dissertation.
- In chapters one and two (mainly) Prof. Yotsov uses the terms "flat" and "proportional" (tax) as synonyms, which is incorrect. Behind the label "flat tax" lie various fiscal instruments. By definition, a flat tax is a tax with a single positive marginal rate. Depending on the specific design, it can be either proportional, progressive or regressive.
- I recommend that the author reconsider the use of the terms "effectiveness" and "efficiency". Effectiveness – a criterion for the degree of achievement of goals (transformation of the desired, formulated as goal/s/, into reality). Efficiency – a criterion for optimality (achieving the desired effect with the least cost / achieving the highest possible effect of used resources).
- On the title page of the dissertation "Doctor of Economic Sciences" should be replaced with "Doctor of Sciences".

V. Summary evaluation of the dissertation work and conclusion

The dissertation on the topic "Between Efficiency and Equity: Evaluating the Effects of the Flat Tax in the Countries of Central and Eastern Europe" is a serious study with clearly expressed scientific and scientific-applied contributions. The work meets the requirements of Art. 6, para. 3 of the Act on the Development of the Academic Staff in the Republic of Bulgaria, Art. 27 of the Regulations for the Implementation of the Act on the Development of the Academic Staff in the Republic of Bulgaria and the provisions of the Regulations for the Acquisition of Scientific Degrees and Holding Academic Positions at the Institute for Economic Research at the Bulgarian Academy of Sciences.

On this background, I give a **positive assessment** of the dissertation work of Prof. Viktor Ivanov Yotsov, PhD for the acquisition of the scientific degree "Doctor of Sciences".

Reviewer:

15.04.2026

(Prof. R. Brussarski, PhD)