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POLITIKA FISKALE DHE TRAJTIMI I SAJ NË KOSOVË

ФИСКАЛНАТА ПОЛИТИКА И НЕЈЗИНИОТ ТРЕТМАН ВО КОСОВО

FISCAL POLICY AND THEIR TREATMENT IN KOSOVO

Abstract

In Kosovo and in the new and consolidating countries the fiscal policy plays the primary role in the functioning of the state, its institutions and economic growth in general. In the lack of monetary policy instruments, fiscal policy remains the only means available to the Kosovo Government for promoting investments in the private sector. Therefore, sound and prudent fiscal policies is key to maintaining macroeconomic stability, particularly when considering that fiscal policy is the main instrument of economic policy in Kosovo. As two key instruments of economic policy of a country fiscal policy and partially monetary policy are used to achieve macroeconomic goals. In the study paper are treated some of the most sensitive issues affecting fiscal and tax policies, theoretical approaches, modern trends of fiscal policy and addressed some of the reforms in neighboring countries. Special emphases is given fiscal policies applied in Kosovo, its reforms, actions to be taken on the occasion of the policy-making reforms and finally are given appropriate recommendations.

Keywords: *Fiscal policy, fiscal reform, public revenues, government expenditures.*

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1. Introduction

The state and its institutions will not be able to exist and function without payment of tax obligations by citizens as well as enterprises, so the tax is part and parcel of the existence of the state and the payment of taxes is mandatory. The function of country and its economic development cannot be imagined and become reality without consistent and authentic fiscal policies and taxation systems which provide the same development path.

In this direction, fiscal policies set two fundamental questions and they consist in that:

a) It should be tax limit and what concrete fiscal instruments should be which do not harm business activity and economic development in general and

b) As will be government spending on the functioning of state institutions and public administration in general?

The answer to the first question in theory seems to be simple: the need of the public goods that the state performs determines the amount of the requested budget. However, it is more contradictory than is the size of government and the functions it performs.

So, the level of taxation in the state depends on the volume of public expenditure, and productive expenditure improve growth rate, while increasing taxes results in poor economic performance.²

Trying to give an answer to these questions it is useful to focus on the principles of "optimal tax", under which:

- (1) Tax system should be neutral as much possible;
- (2) It should provide more stable and optimal financing of public expenditure;
- (3) Should provide taxpayers can withstand load as;
- (4) Tax threshold should be distributed in a real way;
- (5) Should be as simple, understandable and free in application;
- (6) Tax system should be flexible and respond to changes in economic circumstances.

² Riinvest, 2005, fage 16.

2. Fiscal policy, objective's

The basic goal of fiscal policy is related to its economic goals of the state. They are: high employment rate, stable and low inflation, consistent position of the balance of payments and high growth and stable economy. The objective of the fiscal policy is to provide needed revenues by application of the fiscal instruments which can be covered public expenditures.³

Fiscal policy is related to actions undertaken by the government in changing the composition of revenue and public expenditure, aggregate demand management to maintain sustainable economic growth with relatively high employment without generating inflation and without increasing public debt and satisfactory balance of payments. Fiscal policy can have other goals as well: such as reducing economic inequality, reducing regional disparities, environmental progress and so on.

These goals are realized through adequate instruments which are implemented and reflected in public revenues, public expenditure, fiscal deficit and public debt.

Economic policy measures and fiscal policy aims to achieve the optimal rate of economic growth measured which will make use of production factors and other factors affecting the general social interests. To achieve this optimal rate of growth should have adequate fiscal policy and to exist an optimal taxation, which must adapt to economic trends.

One of the most influential factors in determining the macroeconomic indicators and calculating national income is the fiscal sector.

Its importance can be seen in the development of the real sector, financial sector as well as in improving the sector of foreign exchange. Depending on the degree of development of this sector directly affects and helps both, the real sector (employment, investment, prices, inflation, etc.) and development of the financial sector (banks, insurance companies and other microfinance institutions) and finally affects the improvement of the trade balance and payments to the outside world.

3. Global trends, international experience in tax reform,

Tax reforms are constant processes, taking place from state to state and all over the world. In general, governments undertake tax reform for two reasons:

- a) To improve the revenues and

³ P. Jurkovic, 1991, 32-40.

b) To improve and to promote the most sustainable economic environment.⁴

Tax reforms in general includes: replacement of functional tax policy, modernization of tax administration and increase tax audits and the recognition of new taxes, especially the VAT. Also, they are oriented at improving economic environment and usually include steps that simplify the tax system, at the same time eliminating the numerous taxes of which give low performance and in the elimination of unproductive taxes.⁵

In the world tax reforms are to focus on:

- a) To increase the confidence in VAT as a tax on consumption;
- b) By increasing foreign investments through tax 'support';
- c) Reduction of tax rates in the personal income tax;
- d) Reducing tax rates for tax on profit on corporate.

From the lessons learned from successful reforms in tax systems and operating practices taken around the world, it can be concluded that:

- a) The tax base should be much more extensive that it is possible;
- b) Tax rates should be lowering as much as possible;
- c) In the most of the cases tax stimulations do not provide their efficacy, and when they function normally do not provide the expected results;
- d) Tax appeals should be as simple and mostly free; and
- f) The administration of taxes and strengthening the administration usually require modernization.

4. Tax burden and share of taxes in Kosovo's GDP

Kosovo after 1999 begin to build the tax policy-oriented market economy, which includes the development and implementation of modern concepts of taxation. The taxation system is in full compliance with European Union regulations and advanced international standards. Initially, Kosovo has achieved to close the emergency phase based on the International aid and international donations (the time period 2000-2004), stage of creating institutions and now the stage of sustainable economic development and its integration with other certainly, the establishment of completely new institutions and their completion with

⁴ Mark Gallagher and Ante Babić, ESP ,Croatia, Tax simplification for Jobs and Growth, page 20-24

⁵ M. Gallagher & A. Babić, 2004, 20-24.

appropriate legislation, who had the time and knowledge, especially in complex issues which was that of building of fiscal policy which will have two roles: that of collecting revenues as well as the economic development. Since the end of the 2003 Kosovo with her revenues it was capable of financing essential needs of its public administration and social transfers, with the ongoing trend of increasing budget revenues and financing of projects according to priorities.

Kosovo has built and continues to build a simple, tax system the application of low tax rates and with a free mode of trade (barriers and customs restrictions), is among the liberal countries in the region, which enables connection to the fast integrations This policy would need to impose more rapid preparation of businesses to access free competition with other economies be more competitive and also to increase the productivity of labor.

To be an effective fiscal policy it must have adequate fiscal system. The fiscal system to us is relatively new, a system that is based on direct and indirect taxes. The capacity building has started since 1999 with the Regulation on customs, then in 2001 begin to apply and other taxes as tax untried (May 2000), VAT (May 2001), income tax (1 April 2002), property tax (June 2003), corporation tax (December 2004) on the road tax (March 2005) in royalties taxes and steadily and the application of other non-tax revenues.⁶ Despite the lack of sufficient official statistics, based on estimates and analyzes of local foreign institutions we can draw some conclusions acceptable that affect economic development, its level and future fiscal projections.⁷ In General, the assessments made of the movements of the main macroeconomic indicators in the period 2002- 2014 shows a trend of continuous symbolic improvement of these indicators.⁸

It is important to consider that how fiscal policy affects economic growth, as the economy is burdened with the taxes, share in GDP, share of income and expenditure in GDP, what is the share of tax types in total revenues, experience in other countries that are in a higher stage of development, and finally on the basis of these data are seen next steps of action. There is a need to improve the database of macroeconomic

⁷ IMF, World Bank, MF, CBK, and the other NSO. The Tax Administration of Kosovo, Handbook on Taxes in Kosovo, January 2007, Page 87.

⁸ Kosovo authorities and IMF, Kosovo Gearing Policies Toward; Growth and Development

and fiscal indicators. We still do not have reliable macroeconomic indicators and these indicators have changed over the researched period 2000-2013. Until the estimates made for the period 2000-2006 appears that GDP growth is extremely low 3%, which of course followed with the participation of taxes, which in that period has not passed tax burden the economy with over 30% while government spending were something higher to 35% in the period 2008-2010 shows that the load is reduced to a much lower degree of domestic taxes that revolves around 21-22% of GDP, as well as with a low government spending close to 25-26%.

It is important to note that during this period are dominating border taxes (excise, customs duty and VAT collected at the border), with participation up to 68%- 70% of revenues overall budget (with a tendency to decrease that slow them especially after 2010) and an increase of symbolic collection of domestic revenues and those of non-tax revenues.⁹ At the same time, focused on retaining macrofiscal sustainability and increasing the efficiency of public spending measured with the planning of social demands, public sector wages and spending on goods and services.¹⁰

⁹ Raportet vjetore te Thesarit per vitin 2005-2014, Ministria e Financave, Kosove

¹⁰ Medium Term Expenditures Framework 2016-2018, Ministry of Finance, Kosovo

Table 1. Key Macroeconomic aggregates

Description	2013	2014 Value	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
Real growth norms (percentage)						
GDP	3.4%	3.3%	3.8%	4.1%	4.5%	4.4%
GDP per capita	1.9%	1.7%	2.2%	2.5%	2.9%	2.8%
Consumption	2.2%	4.0%	2.6%	3.3%	3.6%	4.2%
Investments	-0.3%	0.2%	6.8%	6.8%	7.5%	5.7%
Export	2.5%	16.4%	6.6%	3.0%	4.1%	4.2%
Import	-1.5%	7.7%	4.0%	3.5%	4.0%	4.7%
Price fluctuations (percentage)						
PCI	1.8%	0.4%	0.2%	0.5%	0.3%	0.6%
Deflator	1.9%	1.4%	1.0%	0.7%	0.7%	1.5%
Import Prices	-0.2%	-0.6%	-0.4%	0.3%	0.1%	0.5%
Government Budget (in percentage of GDP)						
Revenues	24.9%	24.1%	27.1%	25.9%	24.9%	23.8%
<i>Out of which : tax revenues</i>	20.7%	20.5%	23.1%	20.6%	20.0%	19.3%
Primary expenditures	27.8%	26.4%	29.0%	28.2%	27.0%	25.7%
<i>Out of which: capital expenditures</i>	9.9%	7.4%	7.8%	7.5%	7.3%	7.0%
Current Balance	7.2%	5.2%	6.3%	5.5%	5.5%	5.3%
Primary Balance	-2.8%	-2.3%	-1.8%	-2.3%	-2.1%	-1.9%
Payment of interest	-0.2%	-0.2%	-0.3%	-0.4%	-0.4%	-0.3%
Balance of saving/investments (in % of GDP)						
Domestic savings	-3.9%	-3.7%	-2.5%	-1.6%	-0.4%	0.7%
Remittances from diaspora	12.4%	12.9%	12.5%	12.0%	11.8%	11.9%
Revenues from abroad, net	1.9%	2.2%	2.3%	2.4%	2.4%	2.5%
National savings	10.5%	11.4%	12.2%	12.8%	13.8%	15.0%
Investments	26.6%	27.1%	27.6%	28.2%	29.0%	28.9%
Current account	-7.9%	-6.7%	-7.1%	-7.1%	-7.5%	-7.2%
Key aggregates (in millions of euros)						
GDP	5,327	5,579	5,849	6,132	6,450	6,834
GDP per capita (in euro)	2,865	2,955	3,050	3,148	3,261	3,402
GNIA per capita (in euro)	3,264	3,379	3,510	3,613	3,732	3,884
Remittances from diaspora, net	621	694	752	764	775	805
Population (in thousands)	1,859	1,888	1,918	1,948	1,978	2,009

Source: MF, Treasury and Macroeconomic Unit projections

Table 2: budget revenues and their share in GDP, in million euros

Description	2013	2014	2015 Budget	2016 Proj.	2017 Proj.	2018 Proj.
Total revenues	1,329	1,345	1,587	1,588	1,607	1,625
as % of GDP	24.9	24.1	27.1	25.9	24.9	23.8
Tax revenues	1,105	1,141	1,397	1,263	1,289	1,318
as % of GDP	20.7	20.5	23.8	20.6	20.0	19.4
Non-tax revenues and OSR	168.4	176.7	195.0	206.8	209.8	213.2
as % of GDP	3.2	3.2	3.3	3.4	3.3	3.1
One-off revenues and donors support	43.0	15.0	30.6	105.8	95.6	80.6
as % of GDP	0.8	0.3	0.5	1.7	1.5	1.2

Source: MF, Treasury and Macroeconomic Unit projections

5. Questions to be answered before undertaking of fiscal reform

As we mentioned earlier the fiscal reform are ongoing processes, there is no perfect tax system, always are created the conditions and rise new demands linked to the economic policies within the state, region beyond which the system of taxation and fiscal policy should be complemented with these.¹¹

During the change of fiscal policy it is important to be answered in several important questions which are related to each other and complementing each other:

- a) Is it fiscal policy that prevents economic development?
- b) If so what to change and in what proportions?
- c) Which will be the goal that must be achieved?
- d) What would be the time frame of their realization?
- e) How much is willing the institutional capacity for such changes?
- f) What results would be expected in the future in the economy of the country and the region?
- g) Who will be the implementation and control mechanism?

¹¹ G. Asllani, "The impact of fiscal policy on economic development", G 2014, 14-16.

Also should be taken into consideration the negative aspects which may have changes in fiscal policy, some of the most important are:

- a) Frequent changes may cause difficulties in securing budget revenues;
- b) Such changes could create problems in the functioning of the tax system and its deregulation;
- c) Frequent changes may affect the loss of importance of the tax system.

These mentioned issues or of great importance for decision makers and in any case they should be taken into consideration when they make reforms either full or partial reforms in the tax system.

During the drafting of the tax system reform, the fundamental issue is analyze of the economic and financial implications that may have such changes, then analyses of the current situation, it should be seen of trends of the fiscal changes in the neighboring countries and at the end the proposal of adequate measures.

6. Future orientations of fiscal policy in Kosovo

Fiscal policy in our country must be continued in its orientation to the creation of such policies which are in line with EU standards limits and also to take into account the specificity of the economy in which we are.

From the analyses of the trend in collection of tax and non-tax incomes we can notice that we have a poor collection of the incomes.¹² Mostly dominate border taxes (excise, customs fees, VAT) with tendency to fall down slowly and beside this a symbolic increase of internal taxes.

The intention of government policy should be oriented in the collection of the taxes inside the country not to be collected at the border.

Certainly to achieve the objective in collection of the incomes within the economy the country, needs time and to build institutional and economic capacities. Also, at the local level should be done more not only in the most incredibly completion in the field of harmonization of legislation but should increase the efficiency even in cases of collection of funds and also should be done the fiscal decentralization.

¹² Ministry of Finance of Kosovo, the annual reports 2002 - 2014.

Another important component is the issue of government spending, as those costs burden the budget and where they are oriented.¹³

Another important issue is creation a good climate for new businesses and sustainable economic development.

The experience of other developed countries show that countries with open and competitive economy without different restrictions have moved forward in economic development than the countries which have restrictions.

7. Conclusion

Fiscal policy and construction of the tax system in our country has found and continues to find support in scientific approaches and meet modern requirements submitted now-days before the taxation as an application of the low tax rates and broaden the tax base, orientation in those taxes bringing high performance in consumption tax, low cost of administration and simplification of the tax system. Of course there is still need for improvement and advancement both in terms of management and the simplification of legal procedures, in order to reach the optimal tax system.

We have entered the phase of fiscal policy reforms and these reforms should be continued with great carefulness. This liberalization of the market will obligate Kosovo businesses to be oriented in those activities where we have a comparative advantage and increase the productivity of labor. It is extremely great importance involvement of Kosovo in the EU and in the benefits of its structural funds.

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¹³ Public Expenditure and Financial Accountability, PEFA, 2008.

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