

## Fiscal Policies as Boost of the Economic Development of Kosovo

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### Abstract

Knowing that in a world where everything seems to be changing, doing all you can to build a proper Fiscal policy as boost of the economic development, presents a new and very often daunting challenges for most of the countries in the region and particularly for the Kosovo as a transition country. This research study will include first of all the role of public sector in the economy of Kosovo, through the analysis of the economic and fiscal policies and drafting the strategic development plans for stimulating measures for creating new workplaces and employment growth rate, undertaken by the government of Kosovo in comparison with some other regional countries. According to many publications and analyses, the economy of Kosovo will not be disqualified by external developments and it is necessary for the government to take adequate measures to create gently calming effect of the situation. It is well known that Fiscal Policy affects the materialization of the economic policy aiming first of all, price stability, level of employment, solvent balance of payments, and economic growth rate, through collecting the public income and public expenditure realization, which creates effects on macroeconomic aggregate performance and its behavior of economic entities in Kosovo. Fiscal policy in interaction with other government policies has a special importance in the national economy which would help in the formulation of financial strategy and strategic development objectives, as well as the analysis mainly of the private sector which continually has to play the leading role in the development of the national economy. So, the special focus of this paper will be on fiscal policy, which has an impact on budget revenues due to the possible decrease of imports and trying to increase exports – as a result of financial supporting of Kosovo manufacturing private business for creating the lower overall demand for imported products and services, having in mind that the current main source of budget revenues of Kosovo are the border customs and the tax revenues. This may have a reflection in public spending with periodically negative impacts on economic activities of the Kosovo, with one good appearance on long term development orientation. From other side the reducing economic activities also have a strong effect on level of savings in Kosovo which could be proved declining the level of deposits. Finally in concluding part of this research paper will be given suggestions for improvement and overcoming problems is facing the economy of Kosovo.

**Keywords:** fiscal policy, economic policy, public debt, investment, unemployment, tax reforms.

### 1. Introduction

The transition process has including Kosovo as one of the last countries in Europe to have started the application of the market economy. In Kosovo a long time dominated the economic and financial system and the socialist centralized country which has led to a limited degree and experience of private economic initiative.

Knowing that in a world where everything seems to be changing, doing all that you can to build a proper fiscal policy to boost economic development, presents a new challenge and very often not safe for most countries in the region and in particular the Kosovo as a country in transition.

Since in Kosovo during the post-war period marked a symbolic character growth, mainly thanks to remittances that constitute a major contribution to the welfare of households, society and economy of Kosovo (slightly over 23% of Kosovo population in the diaspora, with approximately 500 million euro on annual contributions as remittances), investment in infrastructure and privatization. Investments that have been made, despite slower growth and continued deemed insufficient to boost the production of local general. Such an increase has not been able to meet the development needs

of Kosovo and failed to dismantle the better standard of living for citizens considering that unemployment or poverty are not reduced. The essential argument is that the ability of the post war Kosovo economy to generate revenues to economic development and improving the social welfare remains highly limited.

However, Kosovo needs to significantly accelerate its growth to reach regional income levels. According to World Bank calculations, Kosovo's economy should have been growing about 10 percent a year for more than a decade in order to reach the level of income of Albania provided that Albania's economy continues to increase 5.5 percent on an annual basis during exactly the same period of time, while a little bit will be offered other countries in the region (World Bank, 2012).

## 2. The Meaning and Importance of Fiscal Policy

It is known that economic policy is part of a general national policy, by means of which economic entities and other entities aim to achieve set goals, whether operational or long-term. Therefore, fiscal policy, together with monetary policy are two substantial component of national economic policy that affect its materialization and used for macroeconomic purposes, aiming first and foremost, general stability of prices, employment growth, the stability of the balance of payments, and the pace of economic growth. The whole process is realized through public revenue collection and public expenditure performance, which creates effects on aggregate macroeconomic performance and proper conduct of the economic entities. In the context of economic policy, fiscal policy is one of the most important components for each national economy (Limani, M.2010).

Through economic policy defines the principles under which any action should be guided, and means for achieving certain goals. Economic policy examines the economic processes and instruments, actions and decisions of the government of the Republic of Kosovo to realize its goals.

Usually for achieving the objectives of economic policy instruments used with the help of which goals are realized. This economic policy instrumented usually directed at (Étienne Sad, Kirschen, 1999):

- Instruments of public finance group,
- Monetary credit instruments,
- Exchange rate instruments,
- Instruments of direct control,
- System reforms

We can freely say that this separation of instruments for the implementation of economic policy and to this day are stable, normally with a slight adjustment conform market economy and transitional situation.

Use of public financial instruments i.e. Public revenues and public expenditures usually meant for realization of economic policy goals. Therefore, fiscal policy is very important instrument of economic policy in Kosovo.

Fiscal policy in Kosovo after the war (CFA, 1999) is based on revenues and government spending for achieving the goals of economic and social, and to influence macroeconomic indicators is for the implementation of economic policy. Fiscal policy in this regard should be the purpose of development and economic growth, with high employment and protected from inflation. UNMIK mission in Kosovo after the war is defined in providing donations in order to meet emergency needs for finance and public administration activation, rehabilitation of infrastructure and public services.

In September 1999 the Civil Administration of the United Nations, has established the Kosovo Central Fiscal Authority (CFA) to build fiscal policy (Komoni, S.2008). Fiscal policy in the specific conditions of Kosovo was compelled to mobilize funds to cover public needs, bypassing the development of Kosovo.

Early in Kosovo have been operating these types of taxes:

- Presumptive Tax,
- Tax on sale,
- Tax services
- Customs duty.

These taxes have served to providing cash to the budget revenues.

Thus they began to apply in this regard Kosovo fiscal instruments to add even one form of taxation which were concentrated on providing public revenues (budget) through:

- presumptive tax,
- sales tax,
- tax on services,
- customs and

- Excise.

Taxes and customs tariffs have not stimulated linear products that are intended for the development of production as raw material, equipment etc. In the beginning were the bulk of businesses which covered over 95% of budget revenues through taxation and customs, that businesses were dissatisfied. Tax reforms later and later application of new types of taxes such as VAT, profit tax, property tax, income tax, the tax burden is reduced for businesses and part is passed on to citizens.

Lack of adequate strategy development, policy and strategic development plans in Kosovo proper, and the lack of statistical data on the macro-economic indicators, malfunctioning banking system of payment, are performed The bulk of cash transactions etc. are some of the reasons that hinder the construction of a sustainable fiscal policy. It is worth mentioning that the new tax administration with tax staff training is faced with various problems of transition as tax evasion, economic crimes, corruption, illegal economy etc.

So, since 1999, it has begun construction of the new tax system, which was based solely on the business tax. Therefore, fiscal policy in Kosovo, on the one hand has shown positive effects in terms of creating budget own revenues, on the other hand has shown developmental effects of economic growth.

Fiscal policy objectives are focused on Kosovo based on three traditional functions of intervention, the state makes in the economic sphere:

- The distribution function of the financial resources needed for the production of those goods and services that the free market is unable to supply effectively, including public goods.
- Re-distribution function, aimed at changing the distribution of income and wealth through changes in income taxes of taxpayers;
- Regulatory function of economic activity through changes in the level of establishing taxes or with control word macroeconomic aggregates.

In a way the state function more and more is being done as a mediator in economic development, which should take care to create the general conditions for maintaining and growing speed of economic development.

Rather than establish a development priorities towards production sector substantially quality products that will be good for you to be "European Brands" Made in Kosovo, Kosovo is dealing with realization of basic infrastructure, it has started with the support of productive activity agriculture and it recently, maintaining equitable regional development policy and the progress of science and education as an important factor of development that bring increased competitiveness of the economy in the international market at the time integrated in the time of globalization .

Fiscal policy, including monetary policy, consists of a set of instruments aimed at changing the status of macroeconomic indicators. Fiscal policy is expressed and supported in the relevant financial laws in force in Kosovo including government intervention to meet the expenses of the state through the administration of public revenue collected through the tax system.

Fiscal revenues constitute the main source of income in the Republic of Kosovo. Fiscal policy aims to guarantee minimal budget revenues. But from the moment that the state financial continuity is guaranteed, the state set other objectives of fiscal policy.

Usually they encounter two distinct positions in the field of fiscal policy, which, dependent on political systems and each has its limitations, starting from scratch to rely on fairly high fiscal burden on large incomes, thus favoring a new - alike income in society; but also it exists the negative side of this approach for paying quite a lot of "rich" cannot spend more on investment, and therefore, by restricting normal economic growth. Second watched the other hand, have a uniform fiscal obligation that preserves investments, but with possible negative consequences on consumption, is, the middle classes and the poor, which constitute the vast majority of consumers in Kosovo.

It turns out that the reduction of disposable income affects not only the reduction of demand and supply in the market, but also in reducing production, investments on economic growth itself.

Lastly the Tax Regime in Kosovo, in order to have a more EU-compatible set of fiscal policies and legislation, Kosovo has developed a fiscal system based on the best experiences and policies of the EU. This applies to both tax and customs policies including direct and indirect taxes (Corporate Income Tax, Personal Income Tax, Value Added Tax, Customs Duty, Excise, etc.).

The tax system in Kosovo consists of a package of tax laws and administrative instructions.

This document covers the following (Tax Brochure, 2013):

- Corporate Income Tax (CIT)
- Personal Income Tax (PIT)
- Value Added Tax (VAT)

- Customs Duty
- Excise
- Avoidance of double taxation

It is important to mention that Kosovo currently has agreements on avoidance of double taxation with the Former Yugoslav Republic of Macedonia and Turkey. Agreements with Slovenia, Hungary and the Czech Republic are signed but not yet in force. Agreement on avoidance of double taxation with many other countries is being negotiated.

At the same time there are other taxes explaining that payers of interest, dividends, royalties, and lottery and game of chance winnings are required to withhold 10% upon payment of each of these sources of income, unless the payer is an individual not engaged in economic activity. An individual who receives income only from interest, dividends, royalties, or lottery and game of chance winnings is not required to submit an annual return to the tax administration (Tax Brochure, 2013).

In Kosovo fiscal system are not included bulk of the business because of the black economy and tax evasion are developed enough and there is a typical problem of the countries in transition, which presents an obstacle and challenge with which the government is facing every day. These estimates come from a survey done by the Institute "Roundtables, on the level of tax evasion and informality in the labor force (Roundtables, 2013 survey 600 businesses). By analysing the data of the study, many of the managers and owners of private businesses in Kosovo, we believe that on average businesses in their industry reported 65.6 percent of sales, which means that 34.4 percent of sales are not declared. But the stressful is the fact that over 60 percent of businesses surveyed believes that if they decide to escape taxes they can do it very easily, and without being caught by the authorities.

Trends evasion is more expressed the small and medium, rather than big business. But another phenomenon that Offences disturbing she or informal workers with workers.

Data show that only 63 percent of workers are notifying and working with papers while 37 percent of the workforce is informed not competent bodies, which represents Ney reduction in state revenues but the worst is that they are not secure and working with overtime, dangerous work and vulnerable in legal terms.

Yes fiscal hope that invasion will not be increased, otherwise Kosovo will enter into a vicious circle and no way out.

By analyzing the current situation in Kosovo and published data may be noted that the informality and evasion of burdening financial stability, social and economic because as developed that is tax evasion means:

First with less state revenue, secondly presented destructive motives for not developing businesses, the third inability of the state of Kosovo to fulfill the necessary social obligations and fourthly impossibility of economic growth and social welfare establishment.

But the tendency of improving and mitigating recent tax evasion is in good development trend when compared to revenues collected to tail public since the years are increasing especially tax revenues indicating that the functioning is one of the best, the process with reflective regarding the return of part of the informal economy into the formal economy (Ministry of Finance, 2013). In one way it represents a quality indicator relationship between the private sector, government and society. Being connected to form a chain of addressing these issues deserves the right to improve the business climate in Kosovo.

After a period of fragile business from the global recession, as a group of six countries of Southeast Europe (SEE) - Kosovo, Macedonia, Albania, Montenegro, Bosnia and Herzegovina and Serbia - have experienced a double recession.

Continued growth of unemployment, deterioration of external conditions, severe impact on economic activity, and a steady increase in unemployment had a negative effect on consumption, investment and exports. As a result, the environment, inside and outside the region, it has become more difficult to manage, and the benefits of the economic policies necessary to stabilize economies and revive growth are tougher, and did not give effect nor credit system in Kosovo and beyond.

It is worth mentioning that starting from 2013 the global scene in the "fiscal cliff " of the US , the Eurozone 's faltering recovery and the high prices of raw materials - have threatened the economy of the SEE countries . But also worth mentioning as very worrying phenomenon for the population of Kosovo, another very high risk of a new strike price of food , knowing that the food which constitute the majority of the value of consumer basket of the people of Kosovo that could deepen further poverty as the people so poor and unemployed in Kosovo.

Total debt outstanding				
	2012	2013	2014	TM1 2015
International debt	336.60	323.76	326.35	328.55
Central level	336.46	321.73	316.54	318.55
Sub-borrowings	0.14	2.03	9.81	9.84
Municipalities	0.00	0.00	0.00	0.00
The internal debt	73.31	152.51	256.52	293.61
Central level	73.31	152.51	256.52	293.61
Municipalities	0.00	0.00	0.00	0.00
Overall total debt	409.92	476.27	582.87	622.15
State guarantees	0.00	0.00	0.00	0.00
Overall total debt (% e BPV-se)	8.44	9.10	10.63	10.75

Note: international debt varies across years and quarters as a result of foreign exchange rate change. Amounts are in million euros.

The table shows that most of the debt is owed majority international and is also part of the internal debt and that of the center.

In such situations, Kosovo must continue to improve the investment climate which will affect the reduction of fiscal deficits and public debt reduction and at the same time have to continue with school reforms preparing staff for the market economy and reforming labor markets and public sector.

Statement of total debt expressed in euros and percentage of growth				TM1/ year
Years	2012	2013	2014	2015/TM1
Total Debt General	409.92	476.27	582.87	622.15
Total Debt General (% e BPV-se)	8.44%	9.10%	10.63%	10.75%
% Of total debt growth	0	16%	22%	7%

Source: Ministry of Finance, Debt Overall , quarter 2015 , Pristina , 2015

The above data show that overall debt is increasing from year to year and that starting from 2013, as the growth of the debt is for 16%, followed by an increase of 22% in 2014 and first applied quarter of the year 2015 growth is about 7% and if this continue growth trend until the end of 2015 the growth will be 28% more than in 2014 or expressed in euros somewhere over 746 million. Currently General of the Kosovo debt is over 622 million euros or 10.75% of GDP districts of Kosovo, but Kosovo compared to the budget for 2015 which is around one billion of six hundred million is relatively high value.

Consequently, revenue shortfalls and tight flow of money has enabled the presentation of outstanding payments overdue payments. In-the extreme cases, arrears can lead to a total collapse of discipline of payments and their impact can be the dangers of financial discipline, liquidity and economic activity.

Delays in government payments have a direct negative effect on consumption, employment and investment, because people who perform the supply of goods and services did not receive the funds they need to pay bills and to continue their businesses. The economic situation makes it even more difficult because businesses cannot borrow to get the money needed to pay their salaries and suppliers.

Unpaid bills also affect their willingness and ability to invest in growth and business expansion, and it is vital that the Kosovo government to act quickly to address overdue payments when they are still manageable.

This indicates that the fiscal policy which Kosovo is expansive fiscal policy. Government expenditures are too high and the budget deficit is not small. The state budget allocated to different areas in the country where the main subject of years now is the infrastructure that is a prerequisite but not enough development. Kosovo has not paid attention to the growth of public debt-which has far-reaching consequences and could lead to state bankruptcy

### 3. When Asked Whether Fiscal Policy Can Soften Unemployment?

Numerous researchers this is taken by classical economist's issue that you think not, while others say they are. Fiscal policy can alleviate but not solve the unemployment problem. If we do not take into account potential problems of the Kosovo economy sin are not expansionary fiscal policy the economy expanding by reducing taxes and government

spending can increase GDP, creating jobs, economic prosperity and social welfare.

In all Balkan countries, debt payments in the public sector represent a particular challenge to fiscal management and private sector, while there are other structural reforms still pending, fiscal consolidation and structural reforms, which should continue, even risk that Kosovo be introduced into a vicious circle that reinforces the long-term tightening cycle, low growth or even negative, high debt, and even higher risks of social unrest.

Therefore observed that external demand is minimal, and exports are not only low, but they are not supported enough, and not somehow made a quick engine of economic growth and social. However, additional funding for growth and jobs can only be effective if accompanied by fiscal reforms and structural intensified.

### 3.1 *Fiscal policy and installing fiscal equipment of TAK*

Tax Administration of Kosovo has made further steps towards finding Fume's for elimination of the informal economy and fiscal evasion and fiscal cash registers are only one of many elements that help fight against tax evasion. Above all he is a human factor that determines the spread or stops this phenomenon. If the Tax Administration analysed regarding tax inspectors per capita in all of Europe is the last (TAK staff, 2013). The same paid much less than their counterparts in the region and more so towards the power of businesses.

Besides human capital and the rule of law, business ethics, trust in institutions, government spending, corruption and various social norms are elements that determine business decision whether or not to meet fiscal obligations. In this area it is noteworthy for the good that women entrepreneurs tend to be less evasive than their counterparts.

Last days of notification that TAK has issued 01 April 2015, all clients / customers who testify making fiscal receipts will benefit first. Based on tax legislation, after each sale to the consumer shall be given testimony about the goods or services purchased / paid, so do not hesitate to ask the fiscal voucher (TAK fiscal coupon in April 2015).

#### 3.1.1 *The slogan is: Create general welfare, get Fiscal Receipt!*

According to Administrative Instruction no. 1/2015, for all clients / customers, who collect coupons such as fiscal and send them to the Tax Administration of Kosovo, will be applied refund taxable value of all fiscal receipts in the following month of each quarter, according to these criteria:

- Group I - Envelopes with more than 30 coupon and with a total value of 250 € up to 500 €, will be reimbursed in the amount € 10.
- Group II - Envelopes with more than 40 coupon and with a total value of € 501 to € 800, will be reimbursed in the amount € 15.
- Group III - Envelopes with more than 50 coupon and the total amount over € 800 will be reimbursed in the amount € 20.

Clients will send fiscal coupons nearest Region TAK, in a closed envelope with the personal necessary data. So, filing of polices closed fiscal receipts collected during April, May and June, will be sent to TAK, starting from 01/07/2015 until 07/31/2015 and will have the chance to seek reimbursement not only For this period but also other periods if I submit fiscal coupons for the relevant period or each quarter in a sealed envelope.

It remains to be seen direct and indirect effect of the collection, submission and reimbursement of the amount specified in order to stimulate customers through getting receipts to help in reduction of the informal business.

### 3.2 *Installing fiscal equipment*

E-Services are electronic services which offer the possibility of obtaining services through electronic forms. The concept of E-services (electronic service abbreviation) represents an application to exploit the use of information and communication technologies.

From the start of the application period so far these services are perfect and have already become a daily routine in the relationship between business and tax administration.

E-Services is designed and built in such a way as to be easily accessible to all regardless of differences in gender, age group or educational level. Deploy new server program that monitors fiscal equipment's.

Already 80 percent of the private sector in the country is endowed with fiscal, and the remainder is extended to remote areas of the country, although the signal data sending function best service through the mobile operator. Now the Ministry of Finance and Taxation in particular, the biggest challenge is the use of these devices, use the greater of the

business, thus increasing massively declared laps, and consequently in the state income taxes paid.

Installation of fiscal devices and their use is a very important process which aims, strengthening of the rules of free competition in the market, as well as the fight against tax evasion. Setting fiscal equipment is carried out in accordance with the Law "On Tax Procedures", and laws issued in its application. Tax Procedure Law of 1990 dated 19.05.2008; amended Article 55 clarifies the obligation to use fiscal equipment. (Certified devices: A.E.DISTRIBUTION, AE 88/1, NESSO ALPHA, AE02 AE02001491536136)

#### 4. Conclusions

Education reforms are required to improve the quality of secondary education and higher education, and their elaboration for market economy in accordance with market demand.

High unemployment and continued its growth especially among new groups, requires bold reforms of the labor market in Kosovo.

Reducing informality and tax evasion affects the creation of conditions for the improvement of social welfare.

Interaction between trade, business environment and competition with manufacturing field enables sustainable development and fiscal sustainability.

Stimulate active employment policies through subsidies and fiscal incentives for businesses that employ the largest number of workers.

Promoting activation policies towards employment categories social their long-term unemployment and temporary incentives to develop into a long-term dependency by growth incentives SOCIALI people from work.

Economic problems faced by the Eurozone and the economies of countries in the region, will be reflected in Kosovo.

Central Bank of Kosovo to carry out its functions entitlements stability the price, possibly to contribute to the reduction of interest on loans and raising interest in deposits as a basic prerequisite of lending by banks.

Analysis and results show that Kosovo's economy will not be immune to external developments, and it is necessary that the government take appropriate measures in conformity situation.

Stimulation of exports through fiscal measures generator development and creation of the image of products Made in Kosovo in the regional market and beyond.

To develop a program aimed at fiscal decentralization is lower levels such as municipalities assume greater powers in fiscal independence.

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