

FISCAL AND OTHER MEASURES UNDERTAKEN BY THE GOVERNMENT OF KOSOVO FOR ECONOMIC DEVELOPMENT

Skender Hasani

University College "Vision for education", Ahmet Kaqiku, Kosovo,
skender_hasani@yahoo.com

Abstract

For a sustainable economic development needs to undertake a series of measures by the Government with the aim of creating conditions that will increase economy will creating conditions for foreign investment and will affect the growth of employment as a very important fact to increase the country's economic welfare in the one side and social welfare of the population on the other side.

Measures undertaken from the government from 2008 to the first half of 2015 have consistently taken several measures of fiscal and other economic measures which is the aim of stimulating economic growth, improving the conditions of doing businesses not only for local businesses but to all businesses that intend to invest their capital in Kosovo in which the growth of local production intended which would be reduction of import and domestic production growth which is very significant for economic growth.

All these measures are aimed at increasing the competitiveness of Kosovo businesses with businesses from outside in order to enable these businesses to provide services and products that are comparable on businesses from the region and beyond, not only in prices but also with design, and other quality comparisons which are a prerequisite for sustainable development.

So the aim of this paper has been that through some empirical analysis to compare the effects of these measures and these measures have given the overall economic development and the development of businesses as the primary condition for the economic development. With this paper we therefore wish to emphasize steps undertaken until now and steps that must be undertaken in the future to create a favorable and competitive environment for Kosovo businesses.

Keywords: businesses, fiscal policies, competitiveness, reforms, economy

1. INTRODUCTION

Fiscal policies applied by the state are connected with the actions of the government in changing the composition of income and public expenditure in order to provide for management of aggregate demand to maintain sustainable economic growth with relatively high employment, without generating inflation, without increasing the public debt and satisfactory payment balance. Considering the fact that Kosovo does not have the possibility to apply monetary policy since it is not part of the Eurozone, the possibility of intervening in economy is focusing on fiscal policies which only increases its importance and at the same time renders it

the only instrument in creating development policies in Kosovo.

The main goal of fiscal policies applied in our country especially after the war, were two basic elements: “generate sufficient budget income and allocation of budget resources to provision of public services. Consequently, three other goals important to fiscal policy were avoided: support to economic growth, economic stability and mitigation of social inequality.

In this case, the high unemployment rate, poverty, lack of domestic production and extreme trade deficit between import and export made Kosovo a country that spends most in foreign consumption products whereas local production remains weak and non-competitive. Kosovo is the country with the lowest direct foreign investment rate in Europe. Therefore, changing this current course with a structural reform while incentivizing strengthening business, their expansion and transformation in the context of economic structure through macrofiscal incentives, direct intervention with subsidies, organisational support, protectionism and other facilitations favouring business development, are only some of the policies that must be established in order to provide conditions to increase competitive edge of Kosovo businesses, not only with business in the region but wider as well.

Every country with the fiscal policies it applies aims reaching fiscal and economic sustainability and conditions for these policies to allow for a rapid economic development, strengthening domestic economy, increase gross domestic production, decrease unemployment, increase export of domestic products and increase competitiveness of such products with the countries in the region and wider.

With this paper and based on the analysis of various factors, analyzing fiscal policies applied in the countries neighbouring Kosovo, comparing employees in different sectors including especially production sector, we wanted to draft a paper that would be based not only on theoretical data, but also comparisons of theoretical data to those in the field and provide a contribution on the effect of fiscal policies in Kosovo but especially attempt that based on the comparison of the data discover the changes of fiscal policies necessary to be implemented in Kosovo in order to provide for the competitiveness of Kosovo businesses with the businesses in the region and based on the comparison of such policies provide the contribution to change the import and export structure and the possibility for local businesses especially production to increase their capacities, quality, competitiveness of their products with the quality and prices with the products outside Kosovo and this business growth effect several levels of social life in Kosovo.

2. PURPOSE AND THE OBJECTIVES OF THE STUDY

Since there are different ideas if fiscal policies applied in Kosovo during 2000 until 2013 have been effective or not, influenced economic growth or their aim was to enrich state treasury with the purpose of providing for its normal functioning; or if they influenced the business development and by that the employment; or if they had effects in the overall wellbeing of citizens – these are some of the issues that we addressed in this paper in order to analyze policies applied to date and the possibilities to change these policies that would have significant effect in the overall economic development and increase domestic economy.

Today even the most developed European and world countries review their fiscal policies with the sole purpose of finding the comprehensive policies with the effect in many fields such as mitigation of budget deficit and provide for the possibility for a sustainable development by increasing domestic economy and creating favourable conditions to attract direct foreign investments that would serve as the drive for business development, increase competitiveness and that would have multiplication effect throughout the country not only in the economic aspect but social, cultural and other.

The purpose of the study is to analyze application of fiscal policies in Kosovo from 2009 to 2013 and their comparison with those of the region whereby with this paper we wanted to provide scientific contribution not only to compare the effects of those policies in the past and changes that must take place in the future, but we also tried with empirical comparison of various policies applied in other countries, empirical analysis of different enterprises conducting their business in Kosovo to offer our suggestions regarding the influence that might have in the future the application of fiscal policies that proved fruitful in other countries but also the application of autonomous fiscal policies that would yield results and could be implemented in Kosovo.

That Kosovo needs fundamental changes of fiscal policies shows the fact that largest portion of income in Kosovo is collected in customs and the following tables show comparison between tax income in the country and those in the customs when importing goods.

Therefore, just like in many other surrounding countries, in Kosovo too tax fees reduced and were approximately the same with the corporate tax applied in Albania, Serbia, Montenegro and Macedonia

whereas VAT varied since some countries had a standard fee while some other applied a standard VAT fee and a lower fee for wide consumption products with substantial influence in the overall life of the population since they are largely consumed products or services. Below is the table with three types of taxes applied in these countries that mainly partake in the creation of tax revenues at the vast portion of these counties and corporate revenue tax, personal income tax as two direct taxes and VAT as an indirect tax that is calculated in the consumption and bears largest participation in the tax income in the most countries it is applied.

Table Nr.1 - Tax Rates in diferent Countries from CEFTA-s after 2009

STATE	Corporate profit tax	Tax in salary	VAT
Kosovo	10%	0/4/8/10%	16%
Albania	10%	10%	20%
Serbia	10%	14%	8 & 18 %
Montenegro	9%	15%	17%
Bosna and Hercegovine	30%	15/25%	7 & 17 %
Croatia	20%	15-45%	22%
Macedonia	12%	12%	5 & 18 %
Moldova	15%	10-22%	5,8,20%

Source: Author, Comperation of tax rates in different countries

If we compare VAT threshold with the region and OECD countries, Kosovo has the highest threshold approaching that of Great Britain, Japan, Ireland and Poland and it does not have a scalable VAT while this tax is considered as a tax with the most influence in the fight against informal economy whose percentage in Kosovo is rather concerning and exceeding 40%.¹ Therefore, it is right to say that poor fiscal policies and the economy progress based on donor and remittances present problems that do not provide a sustainable economic strategy.

Table Nr. 2 - Domestic Income from taxes

Taxes/ Year	2009	2010	2011	2012	2013
Aproximative tax	2,722,463	443,427	875,347	409,839	70,831
Profit tax	7,731,182	466,612	1,805,885	117,480	163,273
Vat	83,198,697	113,046,863	122,327,310	131,394,869	149,184,989
Salary taxes	36,356,966	33,710,926	56,075,975	60,752,691	61,962,028
Taxes for Individuals bussineses	24,680,746	25,762,265	23,689,318	26,202,558	28,309,705
Tax in interes, rent	15,715,532	11,741,417	1,385,580	1,648,728	1,650,280
Corporata tax	36,275,987	36,414,344	54,963,748	63,372,768	64,110,827
Total	206,681,573	221,585,852	261,123,163	283,898,932	305,451,932

Source; TAK, Report for year 2010 page 8; Work report for year 2013 page 9

The data presented in the preceding table shows that every year there was an increase of domestic income and from 2009 when it reached 206,681,573.00 Euro and in 2013 it increased to 305,932,000.00 Euro or expressed in monetary values from 99,250,427.00 Euro or expressed in percentage 48.02 %.

¹ Scope and prevention of illegal economy and money laundering in Kosovo, EU project 2010

Largest amount of tax income is from VAT which in 2013 was 149,184,899.00 and compared to the year 83,198,697.00, there is an increase of 65,986,202.00 or expressed in percentage 79.31%.

If we compare the increase of tax income in the country with the comparable period which was 48.02 % and compared to the production increase in the country of 16.5%, there is an increase of 2.89 times.

However, in spite of this increase, the largest portion of income is generated inside border crossings and customs reports in the following table show the income flow from 2009 until 2013 in the customs and border excise and in the country.

Table Nr.3 – Income from customs duties

Taxes/ year	2009	2010	2011	2012	2013
Customs tax	98,312,002	104,090,000	121,100,000	117,200,000	120,100,000
Aciza	206,917,391	232,500,000	284,500,000	302,900,000	300,900,000
VAT	252,464,425	419,500,000	361,300,000	417,800,000	412,200,000
Other income	2,147,175	2,200,000	2,200,000	4,600,000	3,700,000
Total income	635,038,300	700,030,000	827,100.000	844,800,000	838,400,000

Source: Custom report for year 2009, page14; year 2011 page 6; year 2014 page 5

3. RESEARCH QUESTION - METHODOLOGY OF TREATMENT

Methodology utilized in this doctoral paper is based on primary and secondary data and depending on this we used the research method.

We have applied analytical method where we analyzed data on fiscal policies applied throughout period and the effects they had in overall economic development.

We have also applied the comparison method in cases where we compared fiscal policy data and their results through different periods. We have also applied this method upon comparing fiscal policies applied in different countries to see differences and effects they produced in these countries whereby including it not only in tax elements that influence income generation, but also the distribution of this income with special emphasis on distributions in the form of grants of subsidies for different economic activities.

With regard to processing data extracted from the questionnaire and from the field, we have used the regression and deductive method to reach desired result and the purpose of this paper.

4. ANALYSES – INTERPRETATION OF DATA

We have sent questionnaires to 100 large enterprises to obtain their ideas regarding some issues they find important and helpful in their economic activity. We received replies from 86 enterprises whereby they answered in number from 1 to 5 where 1=very large obstacle, 2=large obstacle, 3=obstacle, 4=minor obstacle, 5 = no obstacle

Name	1	2	3	4	5	Total
High level of taxes	6	14	49	13	4	86
The work of tax administration (bureaucracy)	2	12	25	16	31	86
Inadequate and insufficient applicable laws	6	11	45	16	8	86
Tough/strong competition	4	28	39	11	4	86
Corruption	2	15	38	11	20	86
Tax evasion	8	27	37	5	9	86

Informal/black economy	14	24	39	6	3	86
Crime,thefts	4	14	48	6	14	86
Loan access	42	24	16	3	1	86
Your managerial skills			10	14	62	86
Business permits and licences	13	22	31	16	4	86
Inadequate skill level of employees			14	22	50	86
Power supply	36	11	11	12	16	86
Material, machinery and equipment supply	4	13	19	32	18	86
Delayed payments and debt collection	13	24	12	19	18	86
Other (specify)						

The data analyzed shows that 86 of the interviewees consider as a difficulty the third level of high taxes, ineffective application of the law, tough competition, corruption, tax evasion, tough and black economy as well as crimes.

As a particular difficulty they consider to be loans and to a certain extent power supply whereas the least difficulty in their business are their managerial skills and skills of the workers they have hired.

A difficulty they consider to have a certain impact but is not average difficulty in their activity is ineffectiveness of TAK, the machinery they use and obstacles in collecting debts.

5. CONCLUSION- RECOMMENDATION

From analyzing secondary source data and primary data from the field we can conclude that the government of Kosovo undertook some measures of fiscal or non-fiscal nature whose aim was to improve business climate and the overall business climate that would impact the economic growth, direct foreign investments, create new workplaces, increase domestic production, increase competitiveness of local businesses, improve trade balance today characterized with a rather unfavourable report where the difference between export and import of goods is 10/9 in favour of the import.

Changes made in fiscal policies were mainly changes in tax fees and were implemented since 2009 and there were no essential changes later that would have significant influence in the increase of competitiveness of enterprises in the domestic and foreign market.

During 2012 and onwards some other changes took place that were non-fiscal but that improved the business climate mainly with new businesses where business registration procedures were reduced, obtaining the business and environment licence which were a rather large obstacle not only for old businesses but especially for new ones from inside and outside which oftentimes as a result of these bureaucratic measures decided not to invest their capital in Kosovo but had it transferred elsewhere in the region due to terms offered by other countries.

With this in mind, there is an urgent need that Government of Kosovo through its departments undertake the following in order to increase macroeconomic parameters:

1. Exempt from customs and VAT payment the raw material imported not only from CEFTA countries
2. Application of differentiated norms of direct tax in corporate revenue tax and individual business tax whereby one would apply to production enterprises and other for trade and service provision enterprises
3. Discount respectively differentiated norms of direct tax for new enterprises depending from the number of employees they hire
4. VAT scale by incentivizing consumption within population with low and medium income
5. Application of the law on strategic investments where preferential fiscal conditions could be offered and others for enterprises with interest for domestic economy.

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