FISCAL SYSTEM AND ITS EFFECT IN THE COMPETITIVENESS OF THE ENTERPRISES

Skender Hasani[1],Merita Berisha[2]

[1]Privatisation Agency of Kosovo , Pristina , Kosovo

skender.hasani@pak-ks.org

[2]University College Vision for Education , Ferizaj , Kosovo

arb_rini@hotmail.com

Abstract

Each individual country aims to design its fiscal policies in such a way that in addition to their purpose for creating budgetary stability and smaller deficit they have to be designed in such a way as to enable the development of the domestic business in order for these business to become competitive not only with business from surrounding countries but with business globally. In other words these policies should enable these businesses to play an important role in the economical development of a country. The purpose of these policies is intended to help these businesses to increase the domestic production, increase the investments in different areas of production and create new jobs by using the latest technical and technological achievements, by stimulating and increasing the exports which would have a direct effect in improving the countries trade balance.

Many countries and among them Kosovo too must implement a number of tax incentives in some areas in order to allow these business to increase their competitiveness compared to business in other countries and large business in general.

The purpose of this paper is that through an empirical evidence to compare the fiscal policies that are applied in countries in the region and those applied in Kosovo and based on these data to draw conclusions where Kosovo stands compared to the countries in the region what kind of policies and measures should be taken in order to create a favorable environment for doing business in Kosovo. Based on the analysis of real cases of Kosovar tax laws and their impact on particular businesses, the paper will demonstrate how tax policies applied in Kosovo have given less attention to the need of economic development, which should have been reflected through promoting development of domestic production, reduction of unemployment, reduction of the high trade deficit.

Key words: fiscal Policies, economical development ,domestic production , competitively

INTRODUCTION

Fiscal policies in the simplest sense may be defined as the provisions which a state undertakes, in order to establish a sustainable connection between public revenues and expenditures. A modern state, through the provisions undertaken and fiscal policy instruments has an interest in almost all areas of social life and economy. Fiscal policy, as one of the main instruments of economic policies, has the role of national redistribution, reallocation of income and economic resources, stabilizing the economic system and economic development of the country.

So based on this we can say that one of the main functions of public finance policy is to stabilize macroeconomic conditions and mitigate business cycles. In this way, the state by affecting aggregate demand and supply tries to create conditions of full employment.

Public sector through public expenditure accomplishes numerous goals and objectives, including public investments, economic and social transfers, which are the main forms of state involvement in social reproduction.

The influence of state on contemporary economics is irrefutable, however this intervention isn't always easy and predictable and may be accompanied by difficulties and their effects are usually noticeable after a certain period of time respectively at least after three months, which also gives the effect of the states intervention in fiscal policies.

The steps that the state undertakes are very important because the economic and fiscal policies sometimes may cause more damage then good to the economic system and of the whole country, even if intended for good purposes.

Functioning of Fiscal Policies

Fiscal policies which are applied differ depending on economic schools which suggest whether or not the state should be involved in economic cycles. However one of the theories which is believed to have an important role in providing knowledge on theories about fiscal policies and specially in terms of depression in the economy is based on the theories of British economist John Maynard Keynes, which also is known as Keynesian economics, this theory basically states that governments can influence macroeconomic productivity levels, increasing or reducing the level of taxes and public expenditures..

This effect, on the other hand, inhibits inflation (generally is considered to be good when it's on a levels between 2-3%), it increases employment and maintain a wholesome amount of money. However, the idea is to find a balance in achieving these impacts so that it may not have a negative effect in the economic development because if these interventions have large inflationary effects, then the results of these interventions may be unsuccessful and insignificant for economy and the business.

Analyses based on Keynist are three main aggregates which according to him these aggregate are: offer, full employment and effective demand, and the main factor of social reproduction is general domain.

Basic functions of fiscal policy can be formulated as follows:

• The stabilizer function that means fiscal policy instruments which are considered as retention of economic stability as basis for the accomplishment of economic activity

•The function of allocative fiscal policy and its instruments and policies of public revenue and expenditure decisions that affect businesses in the distribution of limited resources in a variety of activities
•Redistributive function of fiscal policy, ensures uninterrupted supply of public goods, the distribution of public expenditure and fund transfers to the population in need

Objectives of Fiscal Policies

Among the most important objectives of fiscal policies are:

- The impact on the level of gross domestic product for the purpose of economic growth
- The impact on employment levels
- Achieving an acceptable social equality in the distribution of incomes and wealth in the community in question;
- Control of inflation.

Fiscal policy has its specific and global objectives.
Global fiscal policy objectives are:
The impact of economic growth and development through growth of domestic production
Economic-balance and stability of prices;
More fair distribution of income.

Specific goals of fiscal policy are:
Funding of various goods and public services;
More distribution of public social spending;
Stabilization function (through GDP growth, employment growth and stable prices);
Structural development function
Models of Fiscal Policies

Depending on the economic cycles in which it is the economy of a country applies fiscal policies which the state undertakes to achieve its macroeconomic goals. The state undertakes these policies to create a balance between public revenues and public spending in order to directly impact the unemployment, consumption and output from the difficulties faced by the economy of a country.
There are two known models of fiscal policies which may be applied by the state depending on the situations in which state is.

1. Expansionary Fiscal Policies Model
2. Restrictive Fiscal Policies Model

1. Expansionary Fiscal Policies Model

This model of expansionary fiscal policies applied mainly at times when the economy is in recession, the state acts through its expansionary fiscal policy in order to affect on the consumption growth which will give impetus as a result we will have increase in production and employment growth.

Fiscal policy is an important tool for managing the economy because of its ability to affect the total amount of output produced –that is gross domestic product. The first impact of a fiscal expansion is to raise the demand for goods and services. This greater demand leads to increase in both output and prices. The degree to which higher demand increases output and prices depends on the contraries business cycle. If the economy is in recession, with un-utilized production capacity and unemployed workers, then the increase in demand will lead mostly to more output without changing the price level. If the economy is at full employment by contrast, a fiscal expansion will have more effect on prices and less impact on total output.

2. Restrictive Fiscal Policy Model

Restrictive fiscal policies are applied in situations when the economy is facing inflationary pressures, aggregate demand should reduce the use of restrictive fiscal policies and high taxes and therefore reduction in public spending. This way, the total aggregate demand pressures should offer a discount, which will partially reduce inflationary effects.

Inflation is generally a very complex problem which can result in a lot of factors. It is a very complicated job to identify the main causes of inflation trends, which can cause difficulties in finding a solution to the problems. Therefore, fiscal policy is not generally concerned with the problems, but its main focus is to pull the economy out of recession, while inflation problems are a main concern for the Central Bank.

However, macroeconomic policies today must be a combination of measures in many segments of economic and monetary policy, fiscal policy, trade balance, income, prices, etc.

Regarding the fiscal policies and recent crisis that are present world wide nowadays, have come as a result of many factors.

The fact that a number of Western European countries and other countries are not able to reduce the budget deficit is as a result of public expenditure from early periods which enabled these countries to enjoy a great wellbeing; however the actual generation is forced to pay for the deficit created during those early periods.

Impact of fiscal policy – taxes on the Kosovo Economy

Fiscal policies that have been applied in Kosovo from 1999 until now had a main aim and that was to maintain a sustainable fiscal stability, influences the economic growth strengthen the economy and business in Kosovo. However, every year there has been a change in tax rates mostly in direct taxes which did not have a serious impact on the development of the private sector as the main driver of the economic development. Every country through fiscal policies that it applies intends to achieve an economic and fiscal sustainability and to create conditions that these policies lead to faster economic development, stronger local economy, gross domestic product growth, reducing unemployment, increasing export of local production and increase competition of these products to those countries in the region and beyond.

At the beginning Kosovo was governed by the United Nations Mission in Kosovo (UNMIK) the main objective of fiscal policies was to solve the urgent problems and in conjunction with donations coming from different countries, different taxes were applied in order to fulfil the basic budgetary needs for Kosovo Provisional Institutions and the general population in general which after the war head many urgent needs.

Even after the formal transfer of powers regarding the fiscal policies from UNMIK to Kosovo Government after declaration of Independence in 2008 there is no evident changes from passive orientation of fiscal policies as means to fill the states treasury (budget) in favour of active policies to stimulate economical development. Frequent interventions from International Civilian Office (ICO) with the pretext that they are lucking after maintaining the fiscal sustainability, very often it happened that the decisions taken were not in line with the local economical goals.

The main argument of this paper is that fiscal policies in Kosovo so far have been passive, they were not sufficiently stimulating the domestic production, but so far its primary purpose was to provide budgetary revenues and had very little effect on the development of local businesses that would have a direct impact in reducing unemployment and consequently reduce the large trade deficit that Kosovo has with all countries, not only in region but also beyond.

Empirical analysis of taxes in decision making for investments

Most Eastern European countries face many challenges with regards to creating a better environment for attracting foreign direct investments, which would have an effect on economic growth, reduce unemployment, increase consumption and finally more taxes paid to the states budget by those who decide to invest.
From the analysis of the various factors that makes Michael Wasilenko in his work, “Taxation and Economic Development’’ –‘’The state of the Economic Literature’’ he concluded that except various factors, investment security, energy, road infrastructure, how fast the goods are delivered from one location to another, another very important factor is the type of taxes paid and their relation to the taxes paid by the country from which these investments originate in order to eliminating double taxation where various multinational corporations seek such solutions that will enable increased profits with small investments compared to their countries of origin.
The investors want to know about fiscal variables and the type and quality of services provided by the state, the effect that taxes have on their economic activity, fiscal transparency and stability of these taxes for fiscal certain fiscal periods. According to Wasilenko it is very important that fiscal policies enable fiscal stimulates for certain

types of activities while compensating them with other fiscal burdens in other types of activities or even with economic growth by attracting these investments that will compensate the reduction of these tax revenues. According to this tax code the taxation for specific industries, the taxation by the country of origin and by the country where the make the investment, the rate of equipment depreciation as irrelevant as it may seem for decision-making are the factors that affect companies for the transfer of a part of the capital from the country of origin to the other countries.
Given that Kosovo and Albania are two countries that are working very hard on increasing foreign direct investments, which would have a significant impact on economic development, certain factors that are determinant for attracting foreign investments and the smaller factors which will impact the decision-making need to be considered rather significant. There are cases of several different companies who say that they were and are interested in investing in our countries but non-basic circumstances have affected them decide and transfer investments in other countries. Nowadays we face greater competition with all countries that are in one way or another moving out of recession and try only through foreign direct investment and fiscal reform to get out from unfavourable situations in which they find themselves. Kosovo and Albania has undertaken a series of fiscal reforms, but these reforms must be promoted in order to attract investment that may support the economic development and together with it the increase of trade balance with other countries which we have very unfavourable balance, especially in Kosovo

Fiscal provisions that should be taken in Albania and Kosovo for business performance growth

Kosovo and Albania, like nearly all other countries in the region have the lowest rates on direct taxes and this was done with the intention of attracting foreign investment, increasing domestic production and to alleviate unemployment. At a time when many European and Balkans' countries with low economic growth not say recession, Albania and Kosovo have managed to maintain economic stability and economic growth that ranges depending from year to year, from 3 to 6 percent, but that growth is not enough to have a good performance for businesses and increasing foreign investment, which would be some kind of motivation for further development and strengthening of competition of the economy of the two countries with the region and beyond.
Taxes are important elements that affects the public revenues of the state but an expansion of the tax base to all tax payers, a better fiscal discipline, a better control in the collection of tax revenues would affect not only our businesses to be competitive with those of the region and beyond, but it would be a motivation for other direct investments from abroad. Today we're witnesses that Kosovo and Albanian have done enough in defining legal framework and lowering the tax rates but both countries are facing many difficulties on implementing these fiscal rules were same cases are treated differently in field and this discourages foreign direct investments. There are small examples, but there are a few cases when business from Kosovo and Albania have transferred their capital outside of their respective countries because they head more favourable conditions for implementing their activity. Therefore, in order not to find ourselves in such situations

we should establish a fiscal systems that is clear, understandable and identical for all businesses. If we don't make these adjustments we may not succeed in attracting foreign investments and local capital which has yet to be introduced into market, business will be quite difficult.
So these are some very important steps that have been made by respective Governments of both countries with the only purpose of increasing manufacturing enterprises competitiveness. The countries economy's that are facing huge disproportion between the import and export a huge trade deficit, therefore such tax exemptions should be of great importance for the distribution of local capital form the trade field into manufacturing field as a very important part with a huge multiplying effect in employment, increased of gross domestic products, the increase of the local consumption and with the increase of budgetary income. Our economies have a need for other fiscal reforms which are related to competitiveness which would enable business in Kosovo Albania to slowly increase the quality of their productions and which products would more easily be placed in the European market e beyond. The state should do its part in providing more favourable conditions, but businesses should seriously try to organise a business that produces qualitative products or at least comparable with the ones produced by other countries.
Just recently Kosovo and Albania have taken some fiscal steps that should affect the growth of competition of local enterprises and attract foreign investments, which should have a great impact starting from year 2013.
Lower direct tax rates in Albania and Kosovo now are accompanied by exemption from VAT on machinery in Albania while Kosovo has released the import of raw material from VAT. Such undertakings will make the products produced in these countries more competitive and cheaper.

Revenue collection control

Considering that the two countries have a similar economic structure Albania slightly more developed, whereas Kosovo still not structured very well, without a proper economic analysis on economic sectors that should be developed it faces different difficulties on implementation of tax legislation by the responsible bodies of both countries, which has a direct impact on attracting foreign investment.

Both countries need to strengthen their legal infrastructure for collection of taxes and other budgetary income in order to be carried out in accordance with the tax legislation of both countries, so that the local and foreign entrepreneurs who come to invest in our countries to fell free and have e felling that they are investing in a place where their investments are protected by the state, to feel they will have to pay their obligations in accordance with the legislation in force and have not bureaucratic or other which will give a negative perception to the investors.
Albania and Kosovo have numerous economic potential and need serious commitments for the use of these potentials that in these conditions of great competition from all countries for attracting investment are a major challenge for the two countries that need courage, commitment and clear respect to tax legislation and other accompanying so that

investors choose without hesitation our countries to transfer their capital. We must made an analysis of the fiscal capacity which means the overall economic and financial strength of the national economy, which serves as the basis for the collection of revenue and finance public needs in order to have a proportional distribution of the fiscal burden.

Conclusion

Albania and Kosovo should create and implement fiscal policies that will promote their economic development, help the development of entrepreneurship, development of scientific research, technological innovation distribution and development of different areas depending on comparative advantages that they compared to countries in the region. Inadequate fiscal policy can be an obstacle for the economic development of a country; but in contrary they can be an obstacle for local businesses and foreign investments.

Fiscal policy provisions are an essential instrument for achieving the main macroeconomic objectives. Based on a comparative analysis of the fiscal burden and basic tax forms in Kosovo and Albania and in the region we can conclude that the tax burden is at least equal if not the lowest in the region. Fiscal policy can stimulate economic activity, but recovery requires a comprehensive plan to maintain and strengthen the stability of the financial system and restore provisions for investments that have a direct impact on economic development.

Identification of key fiscal segments that protects and strengthens the local economy, increase of foreign direct investment, increase of industrial production and exports and employment should be some of the priorities of fiscal policies which thanks to some comparative advantages and priorities that both countries may have it would lead to increase in production and employment and in improving the trade balance with third countries.

References:

(1)Canto,V,Webb,R.I.The effect of state fiscal policy on state relative economic performance .Sothern EconomicJournal 54.(1987), 186 – 202

(2)Easterly,W.,Rebeco ,Fiscal Policy and economic growth :an empirical investigation .Journal of Monetary Economics32,(1993),417- 458

(3)Koester,R.B.,Kormendi,R.C., Taxation, aggregate activity and economic gowth :cross-country evidence on some supply-sidehypotheses. Economic Inquiry27,(1989),367-386

(4) Tax legislation in Kosovo

(5) Tax legislation in Albania

(6)Van Sinderen,J., Taxation and Economic Growth .Economic Modelling10,(1993),285 – 300.

(7)Wasylenko , Michael,, Taxation and economic development ,The state of the economic literature ,New
England Economic Review ,issue Mar,(1997), 37 – 52.