

The Impact of Fiscal Policy to the Kosovo Economical Development

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Abstract: The aim of this study is defining and finding fiscal politics in the function of the development of our economy in this transition phase as well as identifying the fiscal measures to overpass the existing difficulties within future development framework of the country. The paper contains very important data regarding the level of economic charges with taxes, comparison of fiscal charge of some important economies of Europe and world with fiscal charges of our economy. General conclusion from this paper results on that the fiscal system constructed to our country and the leaded fiscal politics should be based on the market economy and to implement modern concepts of taxation which have to be in the full compliance with the rules of European Union and best advanced international standards.

Keywords: economic growth; tax reform; macroeconomic performance

JEL Classification: E62; E66

1. Introduction

Regardless of the lack of sufficient official statistical data, based to the evaluation and analyses made by foreign and domestic institutions such as IMF, World Bank, MEF, SOK and other researches, an analysis can be underline some of the most acceptable and important indicators which impact to the economical development and facilitate the orientation regarding the future economic projections.

Analyses based on these statistical data and partial evaluations done by the Kosovo institutions and other independent international institutions and organizations, indicate that in Kosovo live more than two millions of inhabitants in a surface of 10.887/km². The density of the population is 190 inhabitants/km² and the number of families is about 300-330 thousands. Around 500.000 inhabitants live and work abroad.

Meantime the number of registered businesses is 60.000, from which about 49.000 are active. The total number of people seeking for job is 310.000, while over 25.000 thousand new people seek for employment each year. Human Development Index (HDI) ranks Kosovo in the place of 85-90 among 170 states.¹

¹ Institute for Development Research "Rinvest", Pristine, 2005.

The level of poverty is close to 37%, while the percentage of the population living in extreme poverty is about fewer than 15.2%. The contribution of trade and service to GDP is 60%, industry 15% and agriculture 25%.¹

Behind any doubt, the fiscal sector has a very special importance regarding the macroeconomic indicators and national incomes. Its importance is evident in the development of the real sector, financial sector and in the improvement of the exchange sector with the foreign world. The level of the development of this sector impacts directly to the above mentioned sectors and vice versa.

Based on the evaluation of the variable main macroeconomic indicators for the period 1999-2006, it is evident a tendency of continuing improvement of these indicators and their performance. It is important to observe and come up with answers regarding some of the most important questions such as: How the fiscal policy impacts to economic growth? How much is the fiscal burden to the economy? What is its percent to GDP? How much is the percentage of incomes and expenditures to GDP? What is the percent of contribution of taxes to general incomes? What is the experience in other more developed countries? And finally, based on these data what steps should be taken in the future?

Based on the economic indicators for the period (2000-2010) we could reach some general findings as in following:

- The contribution of foreign donation has dominated;
- There is a huge incompatibility between GDP and consumption;
- The percentage of incomes collected at the border entrance is much higher than those collected inside the country. There is a very low collection level of taxes and fees in municipalities;
- There is a high level of contribution of public sector to GDP, with a fast uptrend of governmental expenditures, especially during the year 2004;
- The fiscal system is quite simple to be implemented with low rates that trends to extend their base;
- The percent of informal economy remains very high.

2. Comparative Analysis of the Main Macroeconomic Indicators between Kosovo and some World's Countries

If we compare the macroeconomic indicators of Kosovo with main macroeconomic indicators of Kosovo with main macroeconomic indicators of some neighboring countries such as: EU Member State and some other countries certainly taking into account the specifics of their economy. It can be concluded that in Kosovo exists a weaker performance of these indicators. The following table no.1 shows the figures

¹ World Bank: revision of public expenditure of Kosovo Institutions. June 2005.

of main macroeconomic indicators. These figures are taken from the Bank of Austria”, Economic data Outlook for 2005”.¹

Table 1. Main macroeconomic indicators in some countries

Country	Sip. m ²	Pop in e mil.	GDP in billion	GDP- per capita	Real growth in %				
					2004	2005	2006	2007	2008
Bos. and Her.	51.129	3.8	8.0	2.115	6.0	5.5	5.7	5.7	6.0
Bulgaria	110.994	7.7	21.4	2.779	5.7	5.5	5.7	6.0	5.7
Croatia	56.594	4.4	31.0	7.034	3.8	4.3	4.3	4.0	4.0
Czech. Rep	78.867	10.2	100.0	9.804	4.2	6.1	6.0	4.5	4.3
Estonia	45.227	1.3	11.1	8.211	8.1	10.5	10.6	9.4	9.2
Hungary	93.033	10.1	87.9	8.711	5.2	4.1	4.0	2.3	2.8
Latvia	64.589	2.3	12.7	5.540	8.5	10.2	10.8	9.0	8.0
Lithuania	65.301	3.4	20.6	6.020	7.0	7.5	7.6	7.0	6.5
Poland	312.685	38.2	243.7	6.379	5.3	3.5	13.0	13.7	6.0
Rumania	238.391	21.6	79.3	3.669	8.4	4.1	7.2	5.7	5.4
Russia	16.995.800	143.5	614.3	4.281	7.2	6.4	6.5	5.8	5.8
Serb.and Mon	102.713	10.6	21.0	2.565	9.3	6.3	6.6	5.2	5.8
Slovakia	49.034	5.4	38.1	7.078	5.4	6.1	6.6	5.2	5.8
Slovenia	20.273	2.0	27.4	13.680	4.4	4.0	4.7	4.3	4.0
Turkey	780.580	72.1	296.6	4.032	8.9	7.4	5.2	5.4	6.4
Ukraine	603.700	46.9	66.5	1.418	12.1	2..6	6.0	5.6	5.4
Euro zone	2.520.000	311	7.968	25.620	2.1	1.3	2.3	1.7	1.6
Austria	83.871	8.2	245.1	29.770	2.4	2.3	3.1	2.0	2.2
Germany	357.093	82.4	2.241	27.184	0.8	1.1	2.2	1.4	1.7
Italia	301.336	58.5	1.418	24.250	0.9	0.1	1.7	1.4	1.0
Albania	28.748	3.3	7.58	1.680	6.0	5.5	6.6	...	....

Source: CEE Economic data, Outlook for 2005-2007, Bank of Austria

¹ Bank of Austria, economic data, outlook for 2005. Published by UniCredit Group/Bank Austria Cerditanstal Aktiengesellschaft; <http://www.unicreditgroup.eu>; <http://www.ba-ca.com>; edited by CEE economics department, date 27th October 2006.

Table 2. Comparison of Kosovo indicators with these countries

Kosovo	10.887	2.1	2.23	1.232	2.8	3.5	3.6	3.2	3.5
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From the table for the year 2006 there can be seen a fast uptrend of GDP growth in these countries. A considerable growth can be seen in case of Poland 14%, Estonia 10.6%, Slovakia, Albania, and Serbia and so on. Also in countries of Euro zone there is a constant growth of GDP of about 1.3%

Another very important issue deals with the taxation burden in economy. In the following table has been shown the percent of contribution of general incomes to GDP.¹

Table 3. General incomes as percent to GDP

Year	1975	1985	1990	1995	2000	2003	2004	2005
Canada	32.0	32.5	35.9	35.6	33.6	33.5	33.5	33.5
Mexico	...	17.0	17.3	16.7	18.5	19.0	19.0	19.8
SHBA	25.6	25.6	27.3	27.9	29.9	25.7	25.5	26.8
Australia	25.8	28.2	28.5	28.8	31.1	30.7	31.2	na
Japan	20.9	27.4	29.1	26.9	27.1	25.7	26.4	na
Korea	15.1	16.4	18.9	19.4	23.6	25.3	24.6	25.6
New Zealand	28.5	31.1	37.4	36.6	33.6	34.4	35.6	36.6
Austria	36.7	40.9	39.6	41.1	42.6	42.9	42.6	41.9
Belgium	39.5	44.4	42.0	43.6	44.9	44.7	45.0	45.4
Czech. Rep	....	....	....	37.5	36.0	37.6	38.4	38.5
Denmark	39.3	46.5	46.5	48.8	49.4	47.7	48.8	49.7
Finland	36.7	39.9	43.9	45.6	47.7	44.6	44.2	44.5
Franca	35.5	42.4	42.2	42.9	44.4	43.1	43.4	44.3
Germany	35.3	37.2	35.7	37.2	37.2	35.5	34.7	34.7
Greece	21.3	28.0	28.7	31.7	37.3	36.3	35.0	na
Hungary	....	....	.....	42.1	38.7	38.1	38.1	37.1

¹ OECD report 2005. www.oecd.org/statisticsdata; Center for Tax Policy and Administration, annual Revenue Statistic Publication.

Island	30.0	28.2	31.0	31.2	38.3	37.8	38.7	42.4
Ireland	28.7	34.6	33.1	32.5	31.7	28.7	30.1	42.4
Italia	25.4	33.6	37.8	40.1	42.3	41.8	41.1	41.0
Luxemburg	32.8	39.5	35.7	37.0	39.1	38.2	37.8	37.6
Holland	39.6	41.0	41.1	40.2	39.5	37.0	37.5	na
Norway	39.3	43.0	41.5	41.1	43.0	42.9	44.0	45.0
Poland	....	.....	.....	37.0	32.5	34.9	34.4	-
Portugal	19.7	25.6	27.7	31.7	34.1	35.0	34.5	-
Slovak. Rep	.....	.....	.....	.....	33.1	31.2	30.3	29.4
Spain	18.4	27.2	32.5	32.1	34.2	34.3	34.8	35.8
Sweden	41.6	47.8	52.7	48.1	53.4	50.1	50.4	51.5
Switzerland	24.5	26.1	26.0	27.8	30.5	29.4	29.2	30.0
Great Britain	35.3	37.7	36.5	35.0	37.2	35.4	36.0	37.2
Turkey	16.0	15.4	20.0	22.6	32.3	32.8	31.3	32.3
Calcul. Average.								
OECD-total	29.7	32.9	34.2	35.1	36.6	35.8	35.9	-
OECD- America	28.8	25.0	26.8	26.7	28.0	26.1	26.0	26.7
OECD- Pacific	22.6	25.8	28.5	27.9	28.8	29.0	29.4	-
OECD- Europe	31.3	35.7	36.5	37.6	39.1	38.3	38.3	-
EU-19	32.4	37.7	38.4	39.1	39.8	38.8	38.8	-
EU-15	32.4	37.7	38.4	39.2	41.0	39.7	39.7	-

Source: www.OECD report 2005

From this table is clear that the percentage of taxation contribution to GDP has almost the same tendency of fluctuation. Generally speaking it can be stated that it exists a high taxation burden and a constant percentage of its contribution to GDP. However in some cases its percentage of contribution is decreased. Of course countries with a high level of percentage contribution per capita have a higher taxation burden. This is especially true in case of Sweden, Denmark, Norway, Finland, France etc. Although in case of Slovak Republic there is a considerable

economic growth with an uptrend, but with a reasonable contribution of taxation burden in its economy. It is with a great importance to analyze the structure of taxations and their contribution to GDP.¹

The contribution of different taxations is difficult to be defined, especially regarding VAT and its contribution to general taxation incomes and GDP. VAT is an indirect taxation applied in consumption with primary role regarding general incomes that trend to be of a higher importance in the future. Based on the data taken from trustful sources, there can be seen a tendency of considerable growth of its contribution to general incomes in the major parts of countries. In most of these countries VAT exceed 31.3 % e.g. in the year 2000, in OECD countries its overage was 31.3%, while the EU overage 30.9% etc. Meantime in some other countries the percent of VAT contribution to general incomes exceed 40% such as Ireland, Portugal etc.²

The following table shows the percentage of contribution income and profit taxes to GDP. This table summarizes both the income tax and the corporate tax.

Table 4. Percent of income and profit tax to GDP

Year	1975	1985	1990	1995	2000	2003	2004	2005
Canada	15.1	14.4	17.4	16.5	17.8	15.2	15.6	16.0
Mexico	..	3.8	4.7	4.1	5.0	5.0	4.7	4.8
USA	11.8	11.6	12.6	12.8	15.1	11.1	11.1	12.5
Australia	14.5	15.4	16.3	15.9	18.1	17.4	18.2	-
Japan	9.3	12.5	14.6	10.3	9.4	7.9	8.5	-
Korea	3.7	4.3	6.5	6.2	6.8	7.1	6.9	7.5
New Zealand	19.0	21.6	22.3	22.4	20.1	20.5	21.7	22.6
Austria	9.6	10.8	10.1	10.9	12.2	12.7	12.5	12.0
Belgium	15.8	18.2	15.8	16.9	17.6	17.4	17.4	17.8
Czech Rep.	...	....	....	9.4	8.2	9.6	9.7	9.4
Denmark	23.2	26.6	28.0	30.1	29.8	28.6	29.5	30.1
Finland	15.9	16.3	17.2	16.5	20.6	17.3	17.1	17.0
Franca	5.6	6.8	6.8	7.0	11.1	10.0	10.1	10.4
Germany	12.1	12.9	11.6	11.3	11.2	9.7	9.5	9.8
Greece	2.8	4.9	5.7	7.0	10.2	8.2	8.2	-
Hungary	....	....	...	8.8	9.4	9.4	9.0	8.9
Island	6.8	6.4	9.2	10.7	15.5	17.0	17.0	19.3
Ireland	8.6	12.0	12.2	12.7	13.2	11.3	11.8	11.7
Italia	5.4	12.4	13.8	14.2	14.0	12.9	12.9	12.9
Luxemburg	14.1	17.0	14.0	14.6	14.1	13.9	12.6	12.7
Netherlands	13.8	10.8	13.3	10.6	10.0	9.4	9.2	-
Norway	13.5	17.1	14.6	14.4	19.2	18.6	20.3	22.2
Poland	....	....	...	11.3	9.9	6.2	6.1	-

¹ OECD- www.oecd.org/statisticsdata; report of the year 2006; Center for Tax Policy and Administration, annual Revenue Statistics Publication.

² Bronchi, C. and A. Burns (2000), "The tax system in Czech Republic", OECD Economics Department, working papers, no. 245, OECD Publishing.

Portugal	3.4	6.5	7.1	8.1	9.6	8.5	8.3	-
Slovak Rep.	.....	.....	....	....	7.1	6.8	5.7	5.3
Spain	4.1	7.1	10.0	9.4	9.7	9.7	9.8	10.6
Sweden	21.0	20.2	22.0	18.9	21.5	18.2	19.0	19.5
Switzerland	11.7	12.0	12.1	12.0	13.4	12.6	12.7	13.4
Great Britain	15.8	14.6	14.3	12.8	14.6	13.0	13.2	14.3
Turkey	6.8	5.7	6.7	6.4	9.6	7.8	6.9	7.0
Calacu. average								
OECD-total	11.3	12.4	13.0	12.5	13.5	12.4	12.5	-
OECD-America	13.4	9.9	11.6	11.2	12.7	10.4	10.4	11.1
OECD-Pacific	11.6	13.5	14.9	13.7	13.6	13.6	12.6	12.5
OECD-Europe	11.1	12.5	12.9	12.5	13.5	12.6	12.6	-
EU-19	11.4	13.1	13.4	12.8	13.4	12.3	12.2	-

Source: *www.OECD, report 2005.*

Referring to the above shown table can be concluded that the income tax and corporate tax play an important role in contribution of incomes and differs considerable from a country to another country. Some countries are characterized with a high level of contribution of these taxes to GDP. This true in case of Denmark, Norway, Spain, Ireland and other less developed countries. While some other countries with low level of contribution such as Czech Republic, Slovak Republic, Hungary etc.

3. Some of the most Important Macroeconomic Indicators in Kosovo for the Period 2000-2009

In order to make a better evaluation of macroeconomic indicators, findings are based on the projection and evaluation made for the period 2000-2009.

Below tables show the percentage of incomes and expenditures to GDP and other analytic issues such as: the percentage of contribution for each tax to general budgetary incomes, the contribution of classified expenditures according to different categories to GDP.

These tables are based on the analyses done by the staff of IMF in Kosovo and the domestic institutions covering this field. Furthermore these sources are considered as trustful. However, it is necessary to underline that these evaluations made by IMF have a visible dosage of conservatism present in their projections which have underestimated the real figures. These underestimations are present in figures regarding projection of incomes and their collection as well as regarding the issue of expenditures.

Regardless of the fact that it is difficult to make a deeper evaluation of the analyses we have made, because in the shown table are presented sole the fiscal sector and its impacts into economy, while the other sectors are superficially mentioned (for

guiding purposes) we will provide some basic explanations which have a specific value.

Table 5 shows the variability of some important macroeconomic indicators expressed in percent showing at the same time the level of real growth, GDP, GDNI, prices variability, expenditures and incomes contribution percentage to GDP, general balance, the report between consumption and investments, contributions of foreign assistance, contribution of remittances and finally are shown the main macroeconomic aggregates expressed in millions of EUROS.

From the table we can see that some important indicators such as: low level of GDP growth, permanent reduction of foreign assistance to GDP and GDNI, growth of incomes percent to budget, high rates of state expenditures growth from which there is a low level of capital expenditures percentage, continuing payment balance deficit, high level of consumption and low level of investments, approximately there is a same scale of the remittance contribution, finally an extended low evaluation of GDP, GDNI, underestimated incomes per capita and approximate evaluation of inhabitants' number.

Table 5. Important macroeconomic indicators in Kosovo

Macroeconomic indicators, 2001-2009									
	2001 Est.	2002 Est.	2003 Est.	2004 Est.	2005 Est.	2006 Est.	2007 Est.	2008 Est.	2009 Est.
Real Growth Rates in % of GDP									
GDP	-	-2.4	-0.1	4.0	2.8	3.5	3.6	3.2	3.5
Contrib. of Foring. Assistance to GDP	-	-4.8	-5.9	-4.4	-1.5	-3.7	-4.2	-2.1	-1.2
Private sector disposable income	-	-5.2	3.0	6.7	4.2	2.7	2.4	3.0	2.1
Private sector consumption	-	2.0	1.9	3.6	3.4	1.7	2.7	2.7	2.7
Consumption as share of dispon. income	-	94	93	91	92	92	99	96	94
Commercial imports of good and services	-	-0.3	-3.8	1.1	0.8	-0.9	0.4	0.9	2.0
GDP per capita	-	-4.0	-1.8	2.3	-1.9	1.3	-0.9	1.1	1.7
GNP per capita	-	-1.6	2.7	4.8	1.5	2.0	1.8	2.8	2.6
Private disponible income per capiat	-	0.3	0.2	1.9	1.7	0.0	0.7	5	2.6
Price changes (in percent)									
CPI	11.7	3.6	1.2	-1.6	-1.9	-0.4	-0.5	-2.1	-1.9

GDP	19.3	3.8	0.3	-2.	-3.0	-1.1	-1.7	-2.4	-2.0
Real effective exchange rate (CPI-based, annual average change)	8.6	-1.5	0.5	-1.4	-5.2	-	0.3	-1.4	-1.2
Real effective exchange rate (CPI-based end of period)	-	1.9	0.2	-5.0	-5.2	-	-1.2	0.5	1.1
General government budget (in percent of GDP) 1/									
Revenues	14.5	22.2	26.3	26.8	21.2	22.8	26.4	23.3	22.2
Expenditures	10.8	17.9	24.1	32.8	23.4	20.3	19.3	30.8	26.3
<i>Of which: capital and net lending</i>	0.3	0.7	1.6	7.4	6.8	6.3	7.3	7	6.5
Current balance	4.0	5.0	3.7	1.4	3.6	3.4	5.9	5.7	5.7
Overall balance	3.7	4.4	2.1	-6.0	-3.2	-2.9	-1.4	-1.3	0.8
Over. Bal. (include. Nation. Inter. payme)	-	-	-	-	-	-	-	-	-
Saving/investm. balance in % of GDP 2/									
Domestic saving	-20.0	-18.8	-17.9	-15.6	-17.3	-14.3	-12.6	-10.4	-8.1
Remittances	14.4	15.2	15.2	14.8	17.0	15.4	16.3	16.5	16.3
Factor income from/to abroad	-20.2	-17.7	-13.1	-9.7	-8.7	-5.3	-5.4	-2.8	-2.1
National savings	-20.6	-21.3	-15.8	-10.5	-9.1	-5.3	-1.7	3.3	6.2
Investments	29.8	26.6	24.8	28.2	27.1	28.2	29.1	30.2	30.2
Current account	-55.8	-49.8	-40.7	-38.9	-36.2	-33.5	-30.9	-26.9	-24
Foreign assistance 3/	52.8	40.0	31.1	32.9	20.9	17.2	14.4	9.3	8.1
Current account balance (after for. assist)	-3.0	-8.0	-9.6	-14.7	-15.3	-16.3	-16.5	-17.6	-15.9
Main aggregates (in millions euros)									
GDP	2.217	2.246	2.249	2.282	2.209	2.250	2.341	2.318	2.366
GDP per capita (in euro)	1.187	1.182	1.164	1.161	1.105	1.107	1.133	1.103	1.107
GNDI per capita (in euros)	1.117	1.152	1.188	1.221	1.197	1.207	1.256	1.254	1.264
Worker's remittance	317	341	341	339	375	347	381	383	386
Foreign assistance	1.170	898	699	546	462	388	337	216	191

Direct cont. of foreign assistance to GDP	491	329	275	208	199	187	130	109	97
Direct cont. of foreign assist. to GNDI	550	348	280	212	199	182	183	110	100
Population (in thousands)	1.868	1.900	1.932	1.965	1.999	2.033	2.067	2.102	2.138

Source: IMF mission, 31 May 2006, Aide memoire and Annual Treasury Reports for the year 2005 to 2009

Table 6 shows the percent of incomes and expenditures to Consolidated Kosovo Budget without including foreign donations.¹ From this table there can be seen a fast growth of overall incomes to budget, this is especially visible in the year 2001 which is a result of other taxes application such as presumed tax (May 2000), income tax (April 1, 2002, VAT (May 2001), property tax (June 2003), road tax (March 2005), tax on royalties and so on, including other non tax incomes.

It is important to underline that during this period of time, dominate taxes applied at border entrance (excise, customs duties and VAT collected at the border entrance) with level of contribution at about 70 % of overall budget incomes (with a tendency of permanent reduction), while there is a symbolic growth of internal incomes' and those non tax incomes.

There is a considerable growth regarding expenditures especially regarding goods and services and capital expenditures. Since the end of the year 2003, Kosovo with its incomes is able to finance basic needs of its public administration, social transfers with notable uptrend of incomes' growth and financing of priority based projects. There can be seen that in years 2005 and 2006 a growth of fiscal burden over passing the level of 22% of GDP, high level of contribution of central taxes and extensive low level of incomes from non tax incomes and local taxes.

Table 6. Consolidated Budget of Kosovo Government (2005-2011)

Years	2005	2006	2007	2008	2009	2010	2011
Overall income	628.2	712.0	897.0	866.9	914.3	969.4	1,026.6
Taxations	553.3	620.5	713.9	749.7	794.1	846.3	900.5
Direct tax	82.7	119.6	132.7	145.8	118.0	129.6	145.3

¹ Kosovo authorities and IMF staff estimation, year 2005, page 75.

Indirect taxes	470.6	500.9	581.2	603.9	676.1	716.7	755.2
Value add tax	241.6	258.6	313.8	331.7	372.2	399.3	426.4
Excise	164.3	161.9	191.4	201.4	231.1	242.1	255.3
Customs duties	74.1	82.3	81.2	78.6	79.3	78.7	76.7
Others	0.8	2.5	6.1	5.1	5.5	6.7	6.9
Reversion of taxes	-10.1	-4.4	-11.3	-13.0	-12.0	-10.0	-10.0
Non tax incomes	74.9	91.5	108.1	117.1	120.1	123.1	126.1
Primary expenditure	696.1	634.5	655.2	1,145.9	1,053.2	1,100.3	1,120.3
Partip. of incomes in % of GDP	21.2	22.8	24.2	23.3	22.8	22.9	23.1

Source: Kosovo authorities and Fund staff estimates, 2005, page 75. KOSOVO Gearing Policies toward Growth and Development and Annual Treasury Reports for the year 2005 to 2011

4. International Experience on Tax Reform and World's Trends

Tax reforms are constant processes that take place in the countries all over the world. Generally states undertake tax reforms for the following two main reasons:

- To improve the level of incomes;
- To improve and to promote a proper economic environment.

A tax reform very often includes changes of fiscal policy, modernization of tax administration and introduction of new taxes, especially of VAT. Another very important reason is the compensation of incomes which will be reduced from the process of liberalization of their economies and trade and particularly in case of the customs duties reduction.

Tax reforms which are oriented toward the improvement of economic environment, generally include steps that intend to simplify the tax system and at the same time to eliminate taxes with the low efficiency.¹

From the lessons learned from successful tax reforms made in several worlds' countries we could conclude that:

¹ Tax simplification for jobs and Growth, Mark Gallagher and ante Babic, 2005, Croatia.

- Tax base should be as wide as possible;
- Tax rates should be as low as possible;
- Tax simulation in most of cases does not have a proper effect. Indeed even in case of proper efficacy they do not provide the value of the price;
- Tax complains procedures should be as simple as possible and easy accessible, and
- The tax administration and enforcement usually require also modernization.

5. Tax Reforms in Neighboring Countries

In neighboring countries, tax reforms are oriented, in particular towards the establishment and strengthening of a tax administration that will be able to operate in a market economy. The reason why this tax administration should be strengthen is that latter manages and collects the main part of central taxes. Especially at this moment VAT. The implementation of VAT in neighboring countries requires also that their administration shall be done in parallel with customs' operations.¹

In neighboring countries, specific changes include also:

- Application of VAT, especially as part of EU integration process;
- Simplification of tax laws;
- Elimination of unproductive taxation support and vacation tax;
- Harmonization of tax regulations with international standards of audit;
- Modernization of tax administration;
- Complete reduction or elimination of customs' duties;
- Reduction of excises into smaller numbers in accordance with EU directives.

6. The Future Orientation of Tax Reforms in Kosovo

Having in mind what has been emphasized above, fiscal policy in Kosovo should remain focused towards the introduction of such policies that will be compatible with EU standards, policies which are oriented toward market economy and it will take into account the specifics of actual economy.²

These policies should stimulate growth of investment, economic growth and creation of new jobs and, would leave less space for corruption and frauds.

Referring to the above mentioned indicators, the future orientation of tax reforms in Kosovo should be focused mainly into main directions:

¹ Tax reform in Slovakia, 2004.

² MEF- Mid Term Expenditures Framework, 2007-2010.

- Collection of the necessary budgetary incomes for financing governmental expenditures, and
- Drafting policies which will help to create a favorable environment for economic growth.

From the analysis of incomes' status presented in above-mentioned tables was made evident a very high level of border's taxes collection and a tendency of continuing reduction and also a symbolic growth of internal taxes.

The intention of governmental policies should be oriented toward gradual elimination of taxes applied at border entrance and the transfer of their burden to internal economy, reduction of fiscal burden, continuing extension of tax base and all embracing policy of taxpayers, elimination or reduction of informal economy and tax evasion.

These objectives will be realized through mature changes of fiscal policy and not by undertaking deep tax reforms. In this way will be continued towards a gradual reduction and elimination of customs' duties, while the excise as an indirect tax will approximately remain at the same level and will continue to play the same role as it has done until now. Meantime, VAT collected at the border's entrance will remain one of the most important tax regarding tax incomes to budget. On the other hand there should be a gradual growth of VAT collection level within the country. Income and corporate taxes will remain at the same level with some slight changes consisting mainly in reducing the tax rates and the extending the tax base. There should be also more efforts to permanently increase the collection of non tax incomes at the central and local levels.

Another very important issue deals with creation of proper environment that would facilitate the establishment of new businesses and ensure a sustainable economic development. The experience from other countries shows that countries with an open economy without barriers have more rapidly moved toward economic development than the countries that apply protection measures and other kinds of barriers. The signatory process of Free Trade Agreement itself certifies this conclusion. This market liberalization imposes to Kosovo businesses to orient themselves towards fields of operation in which they have comparable advantages and at the same time a growth of productivity at work. Sole this kind of orientation without protection measures and other barriers will lead the Kosovo economy to a hard competition with neighboring and other regional countries.

Furthermore, at the local levels should be worked more not only to ensure that all the necessary legal acts are in place and harmonized with international standards, but also to improve the incomes collection process and a successful fiscal decentralization process.

Another important component is the governmental expenditures issue dealing with the questions such as: How much is the burden of these expenditures to the budget? Are they oriented as expenditures to salaries and payments, goods and services or capital expenditures? And, finally how much is the rate of investment reversion?

From the above tables there is evident a tendency of reduction of the first two budgetary positions and permanent growth of the position of the capital expenditures. The reduction of these two categories of expenditures has been done due to the contribution of the governmental policy that reduced their figures through administrative measures and better expenditures' control system. Some of these measures reduced the number of employees in the public administration, a better planning of expenditures and smaller percentage of incomes sharing for the category of goods and services expenditures. Also a better control regarding subsidies and transfers was made in parallel with the growth of capital expenditures. The latter undoubtedly will cause multiple developing positive effects.

7. Conclusions

Taking into account the unfavorable economic and political situation in Kosovo, the newly established institutions and at the same time the transfer of competencies from international bodies to domestic institutions, the budgetary sustainability remains a key element and also a continuing challenge for a normal functioning of these democratic institutions. This budgetary sustainability will require a further improvement regarding the processes of tax collection and administration, a growth of fiscal culture, establishment of a completed, advanced and enforceable legal framework, better definition and full implementation of good governmental policy regarding budgetary expenditures, elimination of corruptive phenomena, a very good control of goods circulation at the border entrance and inside the country and finally a continued reduction of informal economy and fiscal evasion. All these improvements will ensure a solid performance regarding incomes which will play a crucial role in ensuring a sustainable economic development and growth.

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