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1 THE LIQUIDITY RISK AND THE ALBANIAN BANKING SYSTEM

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Abstract
Liquidity risk is considered as the lack of cash for repay debts and the commitments when they mature. Liquidity Risk is the one of the main financial risks facing any financial institution. The activity of banks, obtained in the study, is characterized from a tense interweaving, of the current cash inflows and outflows, and from the need for harmonization in order to favor the entrances flow in a timely manner and in an economic mean of payment, in order to cope with the burden of liabilities. The banks have determined many ways to measure and manage the liquidity risk, such as: (a) required reserve, which includes the minimum reserve in cash that is a request from the Central Bank, the deposits in the Central Bank, insurances that are used as a collateral in the monetary operations in Central Bank. (b) Liquidity ratios, the level of reliabilityofcash flowforecast, at the entranceandat theexit. (c) The quality ofthe funds diversification, meansthe prediction of astructurepaymentsover aspecifiedtime horizon. (d) The assessmentof thestructureof the bankassetsfordeterminingtheir levelofliquidity.As any business firm, the bank aims to maximizing the profit. The features of its activity put in front of the prediction of a fundamental dilemma that should be resolve, the liquidity dilemma towards the profit.The bank solves this dilemma through the banking management, that includes four main components which are: the liquidity management, the management of assets, the management of liabilities, the management of interest risk rate As statedabove, the basichypothesis ofthis paperis: The good management of liquidity risk is crucial to the survival of the financial system, and more specifically, the banking one.
Key Words: Banks, Liquidity, Risk, Market.

I. Introduction on the liquidity risk

The liquidity risk is considered a lack of cash for the debts and commitments, when they mature. It arises as a consequence of the policy of fund administration and administration of position.The liquidity risk is theone of themainfinancialrisksfacinganyfinancial institution. It is definedindifferent ways: asthe extremelackofliquidity, the lackofcurrent assetsto covershort-termliabilities, as wellasdifficultiesin findingfunds.All thefinancialrisks: creditrisk, interestrate risk, marketrisk, foreign exchangerisk, couldthreatenthe solvency offinancialinstitutions, butmorethreateningis the liquidity risk,which will belargelytreatedinthis paper.

This paper is important because it addresses some important current issues such as: the liquidity crises are always just one step away from the bankruptcy crisis; the bank bankruptcies and the liquidity crises have done the bankers more vigilant for the need of liquidity, the liquidity is a good choice which the banks use it to survive, the liquidity is always primary for the banks etc..The banks need to have liquidity to meet the clients' demands for liquidity. Since the banking operations, as withdrawals and borrowings are daily, banks should be prepared for the daily liquidity demand.The liquidity requirements comes from these main resources: customers that withdraw their deposits, customers who wish to borrow, customers who want to renew the existing agreements or loans or they start using the approved lines of credit; discrepancies between assets and liabilities; the causes that can be associated with the reputation of the bank etc..Other sources of the liquidity requirement are related with the payment of obligations that come from bank borrowings, from the Central Bank or other banks of the second level.

II. The treatment of liquidity from the banks of the second level

By looking, at how quickly the market liquidity conditions could change and how long it takes to the market to cover the demolition of the liquidity conditions, for the banks and the regulators becomes necessary to look carefully to the liquidity risk management. The deposits as a banking services are less important in the 21st century, but the liquidity of funds from the credit lines and loans is done most important.The risk managementhasanelement ofpriceandaquantitycomponent.

- *The price factor* or the interest rate risk, is focused on the price with which the assets can be sold and with the rate at which obligations can be provided.
- *The quantity factor* is focused on the existence or not of the assets that will be sold and if it can be provided or not in money market the funds at any cost.

If the assets can be sold with their nominal value, in that case the price of risk that accompanies collected liquidity is negative. If the the assets are sold with losses, then the price of liquidity risk will depend on the price of the concession, which itself depends on the size of the interest rate of assets when they are sold. The liquidity risk can be defined in two ways:

- *The liquidity risk of the product (market)* caused when a transaction can not be performed due of the insufficient activity of market. This may be a problem for the forward contracts (ALL / Valutë), with the aim of protecting the open position. The assessment of liquidity risk is difficult and varies with the changing conditions of the market, the temporal part of the unsystematic risk can be managed with of the assets side of the diversification in time and diversity.
- *The liquidity risk of funds (cash flow)* is the possibility that the banks do not have liquid funds to realize the payments that deriving from the liabilities it has.

This lack of liquidity may be is caused by the discrepancy in value and time of the maturity of the assets with liabilities, that is known as the "maturity gap" or the sudden rise to a demand to realize liquidity. As every business firm, the bank aims maximizing the profit. The special characteristics of its activity, set it in front of a fundamental dilemma that should be solve - the liquidity dilemma versus the profit. The axis on which it relies this dilemma lies on one hand by the needs of the bank in providing liquidity to confront the depositors pressure and on the other hand by the insurance of the profit with few reserves but accompanied with more loans that brings interes. In case that the banks does not handling the requirements for withdrawal, it can be converted in a banking panic, that consequently may lead the bank into bankruptcy. The bank can solves this dilemma between the banking management including four main components, as follows:

II.1The main techniques of management and risk are:

- Keeping a portion of the assets in form of primary reserves, that can be obligatory and excessive.
- The reduction of loans (the non renewal of short term loans in maturity, so this effects the increasing of its primary reserves). This technique on one hand provides the necessary additional liquidity, and on the other

hand is accompanied by the cost of the loss of interest and the possible loss of clientele.

- The sale of existing loans. Providing additional resources from the sale with discount of the non mature loans to other banks. Generally, this sale is accompanied with higher discount from the lack of information from the banks that buy, which represents loss for the bank that sells.
- The holding of the liquid assets in the form of secondary reserve. The sale of these liquid assets in the secondary market may fullfill the need for additional reserves.
- The loans with discount, that are taken from the Central Bank. The costs will increase anew by the fact that the Central Bank is prudent in granting these loans.
- Interbank loans. The banks that have surplus, withdraw the liquidity in the market and it is very costly because the interest rates paid for the obtained loans vary according to the market conditions.

The resultant from each method based on the difference between the potential nonpayment of the interest that stems from the application of these methods with the cost represented by the interests of a rejected loan.

III. The risk management of interest rate.

The interest rate risk represents the changes in the bank's earnings due to the changing in the interest rate. This risk comes as a consequence of the fact that the assets and liabilities have different structure of the maturity period. The change of the interest rate in the long run becomes more slowly than at the short term, so the impact of these rules on bank liquidity and profit are realized through the changing in difference between the current assets to short term liabilities. The degree of interest rate risk is measured through these analysis:

The gap - The sensitivity of the bank profits from interest rates measured as the difference between current assets with short-term liabilities.

The duration-thereactiondegreeof assetsandliabilitiesbetween the changeofthe interest rate.

IV. The risk management techniques to the interest rate.

1.The bank aims to integrate the assets and liabilities by making the optimal portfolio choice, so that the specific weight of the current assets to approach as much as to the specific weight in short term liabilities, therefore to have a right proportion between the different maturity terms in active and passive . But, given that the bank may have a very good experience from a structure in a given maturity, it will have a cost in the short term period, so it can be used other techniques that leave the intact the structure of assets and liabilities.

2. *One of the most popular techniques* is the one of the exchange of the direct expenses or revenues between banks that have different terms (the opposite) maturities, known as the technical SWAP. In order to avoid the risk of loss, two banks make an agreement to share the short-term expenses with the long term liabilities. Thus enabling the sharing of profit and loss between them.

IV.1 The sources of the risk of interest rate :

The risk of profitability rate;

The risk ofover appreciation;

The basis risk (the possibility to lose as a result of setting different prices of equivalent instruments);

The risk of the optional effect.

V. The liquidity forecasting

The forecast of liquidity of the banking system is a key element in the management of liquidity by the Central Bank. With the term "liquidity" in view of the Central Bank will recognize the level of reserves that the second level banks have in the Bank of Albania.The level ofreservesdoes notmean onlytheexcessof reserves, butis a summaryofinvestments inrepo(including allmaturities) in overnightdepositsandthe excessivereserves.The main aim to produce a forecast for the liquidity of the banking system is to provide a basic information for the monetary operations, that are carried out to create sustainable liquidity conditions in the market. In these conditions, the forecast of liquidity of the banking system performs two main functions:

- consolidatesthe informationforthestate ofliquidityexpectations;
- helpsthe central banktoavoidlargevolatilityofliquidity.

The horizon of the liquidity forecastshould be atleastequal to the periodof holdingrequired reserves, butthenecessaryintervalis the timebetweentwosuccessiveinterventionsin the money market.As the main instrument of the Bank of Albania is the repurchase agreement with one - week maturity period, the efforts to build a forecasting system are initially done with a one-week maturity. By definition, the change in excess reserves (ΔR) of the banks with the central bank reflects the changes in net foreign assets (ΔNFA), in the net position of the government (ΔNPG), in the cash (ΔC), in the operations of central bank (ΔOCB) and in "other" neto (ΔON). Specifically:

$\Delta R = \Delta NFA + \Delta NPG + \Delta C + \Delta OCB + \Delta ON$

VI. Prevention or forecast?

In accordance with the frequent tensions of the market, the question arises about how can be ensure from the liquidity shocks in the future or at least how can it be covered? The proposals arising in the symposium of the bank of France have included two extensive attacks First, the centralbanksshouldbe includedin theimpuritycreatedduringtheliquiditycrisis. According to Andre Crockett, the centralbanksneedto extendthelimitof collateralacceptedwhenthey provideliquidityfor thecommercial banks.

This will facilitate the pressures on the money market, will also improve the liquidity of the market for the appropriate assets as security for the central banks, as well as the acquisition of overall financial stability. Second: This proposal relates to the strengthening of severity of the bank liquidity rules. Maintaining a low level of the yield of liquid assets, it will be cost to the bank. Theydo not wanttowithdraw themselvesfromtheprofitablelending, onlyto protectthemselves fromtheremotechangestoliquidity,especiallyinconditionsofcrisiswithin whichthe centralbanksget helpwithextraliquidity.For these reasons the banks should be encouraged to manage seriously their cash, in the same line with the risk of non-payment of liabilities. Their concern is related to the fact that a liberal regime can shift to the collateral private markets and their disciplines.The proposal of of liquidity insurance may influence the price of the affected assets in the private sector, may also discourage private sources by the keeping of the liquidity, ensuring less satisfactory use of them.

Conclusions

- The unsettlement ofa bank'sliabilitiesinthe interbankmarkettooneor morebanks in the systemcancausetheinsolvency ofother banksinthe formofadomino effect, causing the collapse of theentire financial system.
- The analysis of liquidity risk and the appropriate measures are important because of its crises are one step away from bankruptcy banks.
- The liquidity risk in the banking sector, also is considered moderate. As before, the deposits constitute the main source of funding in the banking sector and they are increased rapidly.The borrowing by non-residents has been declining but remains controlled. The liquid assets of the sector, in domestic currency and in the main

currencies, are well above the minimum levels required by the regulatory framework. The ratio "loan / deposit", is at optimum levels.

- Albania is preparing to soon have greater access to the global financial markets, and therefore should hurry developments in international finance, because soon they will become more important, because our markets will become more vulnerable to external shocks due to further integration and the deepening of them.
- In Albania the loan portfolio consists mainly in new loans, which have evolved a lot in the last two years in the presence of high demand for loans from the private sector, and the high willingness of the banks to satisfy this requirement. Currently, we have a slower credit growth.

Recommendations

- For the long term periods, the liquidity needs are related to tendencies of the market in which banks operates and economic development. For countries with fast developing, the liquidity risk is more threatening because the pace of credit growth is higher than the growth of deposits, which may be associated with liquidity problems. As for the stable countries in terms of economic growth, the deposits tend to grow and the loans tend to maintain at a certain level.
- Banksshouldpossessadministrativeproceduresandinternal controlsthatallowmonitoringtheliquidity risk. Theycanuseseveral techniquesto manage thesources of fundsin order to reducethe liquidity risk. Regarding tothe sources of funds, bankscan:

    Requirestabledeposits;
    To raiseits own funds;
    To promote theproductsforlong termperiods;
    Tomaintainitscredibility.

  About their use the banks may:

    Provides credit maturities correlated with the deposits collected;
    Checks carefully the other risks associated with banking activities;
    Diversifies its loan portfolio.

- The improvement of the liquidity forecast in the banking system will come from the institutionalization of the information disclosure for the expected movements of the banks fund of the second level.

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2 Albania, Internal Control and Internal Audit at Local Levels within the frameworkof EU integration.

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Abstract:

In this paper we analyze the role of internal control in public financial management practice and specify the necessary steps in establishing contemporary internal control and audit systems in local government in Albania.
Internal control and audit functions should be established and aligned with broader governance reforms such as strategic planning, accounting, budgeting, medium-term expenditure framework, procurement, reporting, external audit, public debt, and asset management. A contemporary internal control framework accompanied by an effective internal audit process could both aid the external audit process and assist central governments in their monitoring efforts over local governments with regard to effectiveness, corruption, waste, and misuse. The challenge for local government in Albania is rooted in a still larger problem: the government sector as a whole has lost the trust of the people and has to build it up again.Critical to successful decentralization is the success of local governments in taking over their roles as the front line responsible for delivering the most essential services to their citizens – not just delivering the service, but ensuring that it is the right service, and that it is effective.

In Albania, Croatia, Macedonia, Romania and Serbia, Ministries of Finance have established central harmonization units to integrate the procedures and standards of internal audit throughout the public sector, and organize associated training.

As in most of the countries of the former Soviet bloc, Albania's transition is undergoing a simultaneous process of democratization and fiscal decentralization, both of which imply the devolution of authority and decision-making powers to local governments.
One of the key rewards of decentralization can be to provide local government with the means to provide services that are more in tune with citizen needs and demands.

Key Terms:

Internal Control, Internal Audit, External Audit, Public Debt, Efficiency, Effectiveness
Paper presentation:
In thispaperwe arefocused onthe following issues:

1.Internal control and audit at the local level in Albania:
With the implementation of a decentralization program, the legal and political authority to plan projects, make decisions and manage public functions is transferred from the central government and its agencies to local governments in order to improve the quality of public services and the effectiveness of the public administration system.
Service improvement is particularly important because service levels are in general very poor. But local governments have little experience both with citizen outreach and with the freedom to take action to improve the way in which a service is carried out.
Income redistribution at the local level in Albania is primarily a central responsibility; social benefits tend to be centrally controlled. On the other hand, social needs differ dramatically across local governments and some flexibility can help ensure that the assistance goes where it is most needed, as well as encouraging local innovation.
2.Contemporary Internal Control Systems:
Internal control is about establishing a system where all actions are monitored proactively, irregularities are corrected, and deficiencies are reported to the top management.
The term of "Control" has been viewed as a system of (*Ex Ante)* financial and compliance controls that generally are operated by a central government agency, usually the Ministry of Finance (MoF).
Lately, the control paradigm in the public sector has shift from classic *ex ante or* expenditure checks to contemporary financial and non-financial internal controls.
Contemporary internal control is a management tool to ensure that an institution's leadership is:

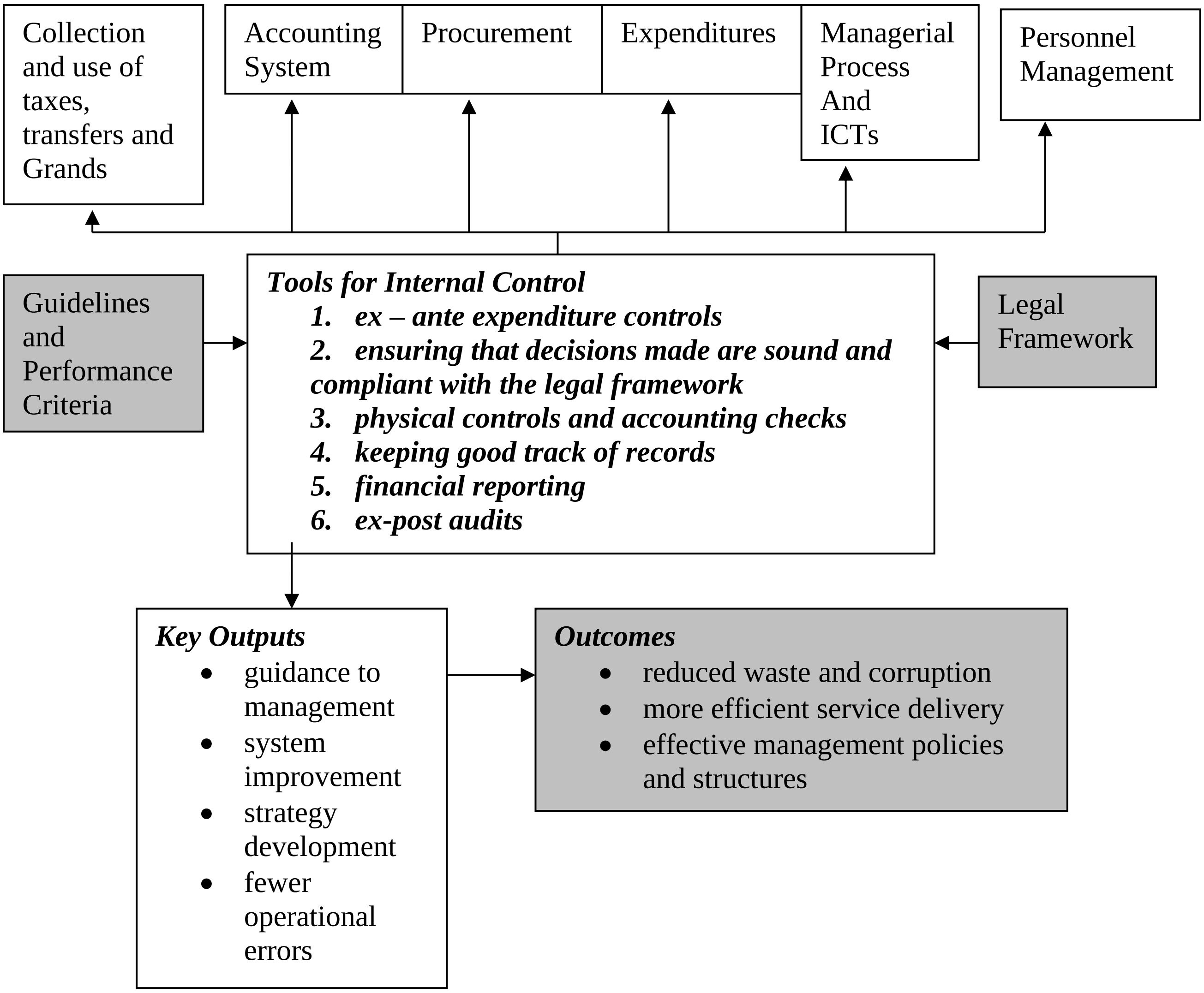
- ✓ Functioning in accordance with stated policies and procedures
- ✓ Delivering services efficiently and effectively
- ✓ Protecting assets and properties from improper use
- ✓ Keeping timely and precise accounts
- ✓ Producing fiscal and non-fiscal information accurately

Evolution Role of Internal Audit:
Tradition → *Modern*
Police → *Partners in the organization*
Financial Focus → *Governance Focus*
Focus on tangible assets → *Focus also on intangible assets*
Compliance → *Proactive*

Ex-ante → *Ex-post*
The goal of a contemporary internal control framework is to ensure that resources are managed properly and accountability is maintained.

Schedule.1

The goal of a contemporary internal control framework is to ensure that resources are managed properly and accountability is maintained.



Contemporary control activities include a wide range of activities like approvals, verifications, and reviews of operating performance.
Controllers report perceived irregularities to the MoF rather than to the public institution in question.
These control activities can be organized as:
- *Accounting Controls* -that are aimed at covering the procedures and documentation concerned with safeguarding assets and the reliability of financial records. A strong internal control system with coherent *accounting checks* enables the accountants and managers to check for errors and misuse of public resources.

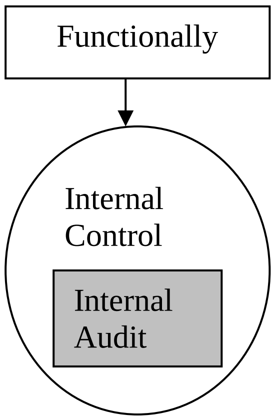
- *Administrative Controls* – that are applied in covering the procedures and records concerning the decision-making processes that lead employees to carry out authorized activities in achieving the organization's objectives.
-*Management Controls* - that are used to cover all the plans, policies, procedures, and practices needed for employees to achieve the entity's objectives. These controls help to build a bottom-

to-top trust with functioning communication among managerial levels while it diminishes the opportunity for corruption and misuse.

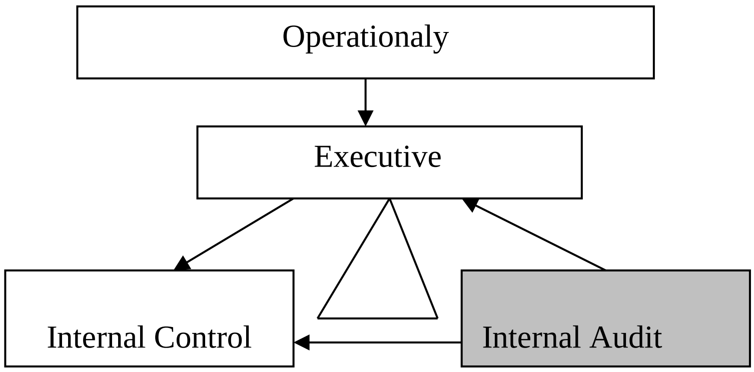
2. *Differencesbetweeninternal auditandinternal control:*

Internal auditors usually communicate with the administration at two points:
first, when handing over the audit reviews, and second, when discussing the audit results.
External auditors independently, and usually on behalf of a legislative body, inspect public institutions for their financial and non-financial activities.
In assessing the effectiveness of an institution’s control framework, the external auditor may use the work of internal auditors, who are a part of the internal control system and provide guidance on the system in place.

Schedule.2



Schedule.3



There are three types of audit:

1. ***Compliance audit*** - points to the checks carried out to evaluate how well the organization complies with and adhere to relevant policies, laws, directions, plans, and procedures.

The compliance emerges as the basic element of conducting an audit.

2. *Financial audit* – is relevant to assessing the internal control systems that ensure the quality of accounting information and financial reporting. Financial audits include financial statement, accounting and other financial related issues. Financial statement audits provide reasonable assurance about whether the financial statements of an audited entity present fairly the financial position, results of operations and cash flows in conformity with accounting standards.
3. *Performance Audit* – aims to review whether a particular activity is completed in a way that has produced effective, efficient and economic results.

Conclusions:

- ✓ Efficient financial control and auditing functions are indispensable to ensure that governance objectives are met, and may also be powerful tools to enhance efficiency and effectiveness in the use of resources.
- ✓ The most important issue that needs to be resolved is the lack of clarity in the division of roles and responsibilities.

- ✓ The distinction between internal auditing (within the local government) and external auditing is unclear, as some of the audits performed by central government institutions are also regarded as internal audits.
- ✓ Traditionally, auditing focuses on legality rather than efficiency. Local government focuses on financial compliance and accounting rules, ignoring the need for recommendations to management or value-for-money assessments. However, such modern concepts are increasingly being introduced and accepted in the public sector, which is gradually moving on to performance budgeting and therefore more efficient auditing practices.

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3 FOREIGN TRADE EXPORT AND IMPORT FLOWS IN KOSOVO

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Abstract

The data on foreign trade in Kosovo, including the flow of exports and imports. The purpose of this paper is to analyze the export and import flow based on statistical procedures in order to see if the trade deficit is lower, and when it is higher from month to month for 2012 month and until November 2013. By this paper we aim to analyze the flow of external trade export and import in Kosovo for two years,in value and percentage.
Keywords: export, imports, index, month

Introduction

The export in economy means the transport of goods or materials from one place to another legitimately under the rules and standards of the countries participating in the exchange of goods.

The Import in economy is known as transportation (entrance) of goods, products from one country to another country in a legitimate manner and under defined economic policy of countries participating in Retail.

Data on foreign trade in Kosovo show the flow of exports and imports in Kosovo when the trade deficit is lower and when it is higher by month per month for 2012 to November 2013

1.Foreign trade, export and import flows in Kosovo

1.1Exports and Imports for the month of January 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of January 2012 was of 19,166, while exports for the month of January 2013 is 21,500, where the index shows that there is an increase from year to year, from 112.18

Data on foreign trade in Kosovo show that imports for the month of January 2012 was of 132.267, while imports for the month of January 2013 is 132, 979, where the index shows that there is an increase from year to year, from 100.54

Table 1: Exports and Imports for the month of January 2012 to 2013

Statistical Procedures		Total Exports	Exports normal	Exports after inward	After outward	Exports that are not	Total Imports	Imports normal	Imports after inward	Imports after outward	Imports that are not
2012	Value	19,166	7,502	11,572	92	0	132,267	125,209	7,038	20	0
January	%	100	39.14	60.38	0.48	0	100	94.66	5.32	0.02	0
2013	Value	21,500	9,523	11,977	0	0	132,979	126,498	6,481	0	0
January	%	100	44.29	55.71	0.00	0	100	95.13	4.87	0.00	0
2013/2012	Indices	112.18	126.94	103.50	0.00	0.00	100.54	101.03	92.09	0.00	0.00

Sources: Statistical Office of Kosovo[1]

1.2. Exports and Imports for the month of February 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of February 2012 was of 15,331, while exports for the month of February 2013 is 22,692, where the index shows that there is an increase from year to year, from 148.01

Data on foreign trade in Kosovo show that imports for the month of February 2012 was of 125,270, while imports for the month of February 2013 is 156,357, where the index shows that there is an increase from year to year, from 124.82

Table 1: Exports and Imports for the month of February 2012 to 2013

Statistical Procedures		Total Exports	Exports normal	Exports after	After outward	Exports that are not	Total Imports	Imports normal	Imports after	Imports after	Imports that are not
2012	Value	15,331	4,884	10,375	72	0	125,270	121,435	3,693	142	0
February	%	100	31.86	67.67	0.47	0	100	96.94	2.95	0.11	0
2013	Value	22,692	16,217	6,475	0	0	156,357	151,535	4,822	0	0
February	%	100	71.47	28.53	0.00	0	100	96.92	3.08	0.00	0
2013/2012	Indices	148.01	332.04	62.41	0.00	0.00	124.82	124.79	130.57	0.00	0.00

Sources: Statistical Office of Kosovo[2]

1.3. Exports and Imports for the month of March 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of March 2012 was of 23,898, while exports for the month of March 2013 is 23,110, where the index shows that there is a decrease from year to year, from 96.70

[1]Statistical Office of Kosovo,foreign trade exports and imports for the month of January 2012 to 2013
[2]Office of Kosovo,foreign trade exports and imports for the month of February 2012 to 2013

Data on foreign trade in Kosovo show that imports for the month of March 2012 was of 200,245, while imports for the month of March 2013 is 195,264, where the index shows that there is a decrease from year to year, from 97.51

Table 3: Exports and Imports for the month of March 2012 to 2013

Statistical Procedures		Total Exports	Exports normal	Exports after	After outward	Exports that are	Total Imports	Imports normal	Imports after	Imports after outward	Imports that are
2012	Value	23,898	11,969	11,820	109	0	200,245	191,723	8,432	90	0
March	%	100	50.08	49.46	0.46	0	100	95.74	4.21	0.04	0
2013	Value	23,110	16,866	5,862	382	0	195,264	189,061	5,043	1160	0
March	%	100	72.98	25.37	1.65	0	100	96.82	2.58	0.59	0
2013/2012	Indices	96.70	140.91	49.59	350.46	0.00	97.51	98.61	59.81	1288.89	0.00

Sources: Statistical Office of Kosovo[3]

1.4. Exports and Imports for the month of April 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of April 2012 was of 20,746, while exports for the month of April 2013 is 27,820, where the index shows that there is an increase from year to year, from 134.10

Data on foreign trade in Kosovo show that imports for the month of April 2012 was of 125,167, while imports for the month of April 2013 is 205,808, where the index shows that there is a decrease from year to year, from 95.65

Table 4: Exports and Imports for the month of April 2012 to 2013

Statistical Procedures		Total Exports	Exports normal	Exports after	After outward	Exports that are	Total Imports	Imports normal	Imports after	Imports after	Imports that are
2012	Value	20,746	11,028	9,611	107	0	215,167	206,021	9,059	87	0
April	%	100	53.16	46.33	0.52	0	100	95.75	4.21	0.04	0
2013	Value	27,820	19,669	8,151	0	0	205,808	197,264	8,544	0	0
April	%	100	70.70	29.30	0.00	0	100	95.85	4.15	0.00	0
2013/2012	Indices	134.10	178.36	84.81	0.00	0.00	95.65	95.75	94.32	0.00	0.00

Sources: Statistical Office of Kosovo[4]

1.5. Exports and Imports for the month of May 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of May 2012 was of 25,134, while exports for the month of May 2013 is 27,264, where the index shows that there is an increase from year to year, from 108.47

[3]Statistical Office of Kosovo,foreign trade exports and imports for the month of March 2012 to 2013
[4]Statistical Office of Kosovo,foreign trade exports and imports for the month of April 2012 to 2013

Data on foreign trade in Kosovo show that imports for the month of May 2012 was of 231,670, while imports for the month of May 2013 is 213,742, where the index shows that there is a decrease from year to year, from 92.26

Table 5: Exports and Imports for the month of May 2012 to 2013

Statistical Procedures		Total Exports	Exports normal	Exports after	After outward	Exports that are not	Total Imports	Imports normal	Imports after	Imports after	Imports that are not
2012	Value	25,134	16,102	8,551	481	0	231,670	221,594	10,055	21	0
May	%	100	64.06	34.02	1.91	0	100	95.65	4.34	0.01	0
2013	Value	27,264	20,593	6,671	0	0	213,742	207,372	6,370	0	0
May	%	100	75.53	24.47	0.00	0	100	97.02	2.98	0.00	0
2013/2012	Indices	108.47	127.89	78.01	0.00	0.00	92.26	93.58	63.35	0.00	0.00

Sources: Statistical Office of Kosovo[5]

1.6. Exports and Imports for the month of June 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of June 2012 was of 30,212, while exports for the month of June 2013 is 26,387, where the index shows that there is a decrease from year to year, from 87.34

Data on foreign trade in Kosovo show that imports for the month of June 2012 was of 217,942, while imports for the month of June 2013 is 222,408, where the index shows that there is an increase from year to year, from 102.05

Table 6: Exports and Imports for the month of June 2012 to 2013

Statistical Procedures		Total Exports	Exports normal	Exports after inward	After outward	Exports that are not	Total Imports	Imports normal	Imports after inward	Imports after outward	Imports that are not
2012	Value	30,212	18,076	12,076	60	0	217,942	212,677	5,248	17	0
June	%	100	59.83	39.97	0.20	0	100	97.58	2.41	0.01	0
2013	Value	26,387	19,602	6,772	13	0	222,408	216,573	5,831	4	0
June	%	100	74.29	25.66	0.05	0	100	97.38	2.62	0.00	0
2013/2012	Indices	87.34	108.44	56.08	21.67	0.00	102.05	101.83	111.11	23.53	0.00

Sources: Statistical Office of Kosovo[6]

1.7. Exports and Imports for the month of July 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of July 2012 was of 25,800, while exports for the month of July 2013 is 27,138, where the index shows that there is an increase from year to year, from 105.19

[5]Statistical Office of Kosovo,foreign trade exports and imports for the month of May 2012 to 2013
[6]Statistical Office of Kosovo,foreign trade exports and imports for the month of June 2012 to 2013

Data on foreign trade in Kosovo show that imports for the month of July 2012 was of 234,393, while imports for the month of July 2013 is 229,680, where the index shows that there is a decrease from year to year, from 97.99

Table 7: Exports and Imports for the month of July 2012 to 2013

Statistical Procedures		Total Exports	Exports normal	Exports after inward	After outward	Exports that not are	Total Imports	Imports normal	Imports after inward	Imports after	Imports that not are
2012	Value	25,800	8,446	12,132	5222	0	234,393	229,821	4,464	108	0
July	%	100	32.74	47.02	20.24	0	100	98.05	1.90	0.05	0
2013	Value	27,138	20,032	7,106	0	0	229,680	224,571	5,109	0	0
July	%	100	73.82	26.18	0.00	0	100	97.78	2.22	0.00	0
2013/2012	Indices	105.19	237.18	58.57	0.00	0.00	97.99	97.72	114.45	0.00	0.00

Sources: Statistical Office of Kosovo[7]

1.8. Exports and Imports for the month of August 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of August 2012 was of 20,901, while exports for the month of August 2013 is 23,228, where the index shows that there is an increase from year to year, from 111.13

Data on foreign trade in Kosovo show that imports for the month of August 2012 was of 239,945, while imports for the month of August 2013 is 228,174, where the index shows that there is a decrease from year to year, from 95.09

Table 8: Exports and Imports for the month of August 2012 to 2013

Statistical Procedures		Total Exports	Exports normal	Exports after	After outward	Exports that are	Total Imports	Imports normal	Imports after	Imports after	Imports that are
2012	Value	20,901	8,777	11,996	128	0	239,945	233,133	5,963	849	0
August	%	100	41.99	57.39	0.61	0	100	97.16	2.49	0.35	0
2013	Value	23,228	15,708	7,520	0	0	228,174	222,973	5,201	0	0
August	%	100	67.63	32.37	0.00	0	100	97.72	2.28	0.00	0
2013/2012	Indices	111.13	178.97	62.69	0.00	0.00	95.09	95.64	87.22	0.00	0.00

Sources: Statistical Office of Kosovo[8]

1.9. Exports and Imports for the month of September 2012 to 2013

[7]StatisticalOffice of Kosovo,foreign trade exports and imports for the month of July 2012 to 2013

[8]Statistical Office of Kosovo,foreign trade exports and imports for the month of August 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of September 2012 was of 22,678, while exports for the month of September 2013 is 24,897, where the index shows that there is an increase from year to year, from 109.78

Data on foreign trade in Kosovo show that imports for the month of September 2012 was of 257,619, while imports for the month of September 2013 is 210,447, where the index shows that there is a decrease from year to year, from 81.69

Table 9: Exports and Imports for the month of September 2012 to 2013

Statistical Procedures		Total Exports	Exports normal	Exports after inward	After outward	Exports that are	Total Imports	Imports normal	Imports after	Imports after	Imports that are
2012	Value	22,678	16,819	380	5468	11	257,619	241,365	9,817	6099	338
September	%	100	74.16	1.68	24.11	0	100	93.69	3.81	2.37	0
2013	Value	24,897	17,358	7,539	0	0	210,447	205,800	4,647	0	0
September	%	100	69.72	30.28	0.00	0	100	97.79	2.21	0.00	0
2013/2012	Indices	109.78	103.20	1983.95	0.00	0.00	81.69	85.27	47.34	0.00	0.00

Sources: Statistical Office of Kosovo[9]

1.10. Exports and Imports for the month of October 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of October 2012 was of 25,584, while exports for the month of October 2013 is 26,198, where the index shows that there is an increase from year to year, from 102.40

Data on foreign trade in Kosovo show that imports for the month of October 2012 was of 222,478, while imports for the month of October 2013 is 218,821, where the index shows that there is a decrease from year to year, from 98.36

Table 10: Exports and Imports for the month of October 2012 to 2013

Statistical Procedures		Total Exports	Exports normal	Exports after	After outward	Exports that are	Total Imports	Imports normal	Imports after inward	Imports after	Imports that are
2012	Value	25,584	17,757	7,827	0	0	222,478	213,665	4,566	4247	0
October	%	100	69.41	30.59	0.00	0	100	96.04	2.05	1.91	0
2013	Value	26,198	20,149	6,010	39	0	218,821	213,827	4,977	17	0
October	%	100	76.91	22.94	0.15	0	100	97.72	2.27	0.01	0
2013/2012	Indices	102.40	113.47	76.79	0	0.00	98.36	100.08	109.00	0.40	0.00

Sources: Statistical Office of Kosovo[10]

1.11. Exports and Imports for the month of November 2012 to 2013

[9] Statistical Office of Kosovo,foreign trade exports and imports for the month of September 2012 to 2013

[10] Statistical Office of Kosovo,foreign trade exports and imports for the month of October 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of November 2012 was of 24,467, while exports for the month of November 2013 is 21,825, where the index shows that there is a decrease from year to year, from 89.20

Data on foreign trade in Kosovo show that imports for the month of November 2012 was of 212,627, while imports for the month of November 2013 is 206,056, where the index shows that there is a decrease from year to year, from 96.91

Table 11: Exports and Imports for the month of November 2012 to 2013

Statistical Procedures		Total Exports	Exports normal	Exports after	After outward	Exports that are not	Total Imports	Imports normal	Imports after	Imports after	Imports that are
2012	Value	24,467	17,552	6,915	0	0	212,627	206,107	6,520	0	0
November	%	100	71.74	28.26	0.00	0	100	96.93	3.07	0.00	0
2013	Value	21,825	14,409	7,416	0	0	206,056	200,147	5,909	0	0
November	%	100	66.02	33.98	0.00	0	100	97.13	2.87	0.00	0
2013/2012	Indices	89.20	82.09	107.25	0.00	0.00	96.91	97.11	90.63	0.00	0.00

Sources: Statistical Office of Kosovo[11]

1.12. Exports and Imports for the month of December 2012 to 2013

Data on foreign trade in Kosovo show that exports for the month of November 2012 was of 20,535,

Data on foreign trade in Kosovo show that imports for the month of November 2012 was of 211,860,

Table 12: Exports and Imports for the month of December 2012

Statistical Procedures		Total Exports	Exports normal	Exports after inward	After outward	Exports that are	Total Imports	Imports normal	Imports after	Imports after	Imports that are
2012	Value	20,535	11,412	0	8700	423	211,860	205,051	0	6108	701
December	%	98	55.57	0.00	42.37	0	100	96.79	0.00	2.88	0
2013	Value	0	0	0	0	0	0	0	0	0	0
December	%	0	0.00	0.00	0.00	0	0	0.00	0.00	0.00	0
2013/2012	Indices	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Sources: Statistical Office of Kosovo[12]

1.13. Total exports and imports for 2012 to November 2013

Data on foreign trade in Kosovo, show total exports for 2012, which is 274,452, and total exports for the 11 months of 2013 which is 272,059, which shows that the index has decrease from year to year, from 99.13Data on foreign trade in Kosovo, show total imports for 2012, which is 2,501,483, and total imports for the 11 months of 2013 which is 2,219,736, which shows that the index has decrease from year to year, from 88.74

Table 13. Exports and imports for 2012 to November 2013

[11]Statistical Office of Kosovo,foreign trade exports and imports for the month of November 2012 to 2013
[12]Statistical Office of Kosovo,foreign trade exports and imports for the month of December 2012 to 2013

Statistical Procedu		Total Exports	Exports normal	Exports after	After outward	Exports	Total Imports	Imports normal	Imports after	Imports after	Imports that are
2012	Valuta	274,452	150,324	103,255	20,439	434	2,501,483	2,407,801	74,855	17,788	1,039
12	%	100	54.77	37.62	7.45	0	100	96.25	2.99	0.71	0
2013	Value	272,059	190,126	81,499	434	0	2,219,736	2,155,621	62,934	1,181	0
11	%	100	69.88	29.96	0.16	0	100	97.11	2.84	0.05	0
2013/2012	Indices	99.13	126.48	78.93	2.12	0.00	88.74	89.53	84.07	6.64	0.00

Sources: Statistical Office of Kosovo

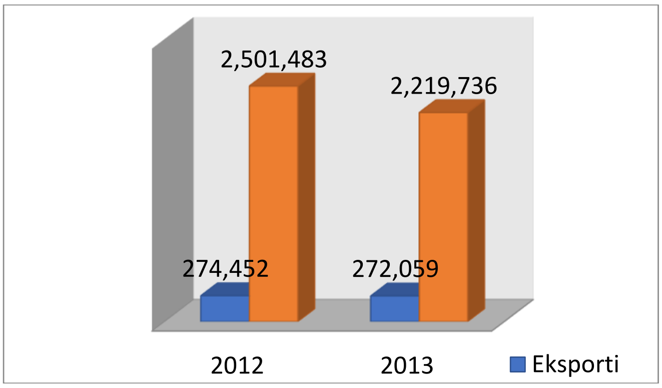

Fig.1. Total export and import for 2012 to November 2013[13]

CONCLUSION

The outcome of this paper will provide a basic document for foreign trade data in Kosovo and also it indicates when a trade deficit is lower and when it is higher in the course of export and import value including the percentage for 2012 until November 2013. Obviously, my thesis is focused on the flow of exports and imports in order to tell which month deficit trade is lower and when it is higher. In the conclusion of this paper it is seen the import from month to month increasing to a higher percentage compared with export.From the data that we looked and saw discussed above that the level of imports is higher than the export, this is due to small production in Kosovo

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4 Models of fiscal policy harmonization of SEE countries to the European Union

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Abstract

The main premise of this paper is SEE countries fiscal policy harmonization to EU standards. We address to this issue in critical manner identifying key challenges SEE countries have to deal with, in their journey towards EU. For this purpose empirical data and the most recent literature review regarding EU and SEE countries fiscal policy is used. Due to harmonization of fiscal policy to EU legislation, it is expected that SEE countries would face difficulties in terms revenue collection because ofnew indirect taxation foreseen by EU fiscal regulations policy in terms of customs and excise duties. Moreover, in compliance to SGP regulations budget deficit level is limited to 3% of GDP, as well as public debt to the level of 60% of GDP. In order to deal with those challenges in an adequate manner, SEE countries need to undertake adequate fiscal reforms, promote fiscal transparency, establish credible institutions and take decisive action to tackle informal economy and tax evasion. The latter would mitigate short or midterm fiscal distortions during this transition period, and compensate the revenue potential loss.
Key words: Fiscal harmonization, SEE countries, EU countries, fiscal policy.

Abreviations: SEE (South East European), EU (European Countries), SGP (Stability and Growth Pact),

1.Introduction

Fiscal policy along side with monetary policy is one of the economic issues with the highest attention amongst the national governments, international political and economic unions, and also amongst the scholars. It represents a set of means, methods, instruments, institutions, etc, used to collect tax, and other forms of financial resources in order to cover the public expenditures. By this definition the fiscal policy is something wider than tax collection, and it also includes other forms of financial instruments and phenomenon's such as budget deficit, public debt, voluntary financing, and alike. In terms of EU, the issues regarding fiscal and monetary policy of the EU members, as well as of the countries with aspiration to join the union in the near future, are of a significant interest. Amongst other political and economic issues, the harmonization of fiscal policy to the standards of Euro zone is a very important factor SEE countries need to address in their journey towards EU. On the same time the fiscal harmonization is also a goal of most powerful EU member states in order to reach the objective of a single market, and through the economic integration to reach also a significant *political unification. Garcia, Parsdorf and Ramirez (2013) analyzing the issues of fiscal harmonizatio*n within EU claim that there are two main strategies of such a harmonization: 1. Competitive

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strategy, based on market competition, and 2. Institutional strategy, based on formal agreements of the member states.

Except UK and Denmark there is a common currency as well as a joint monetary policy within the majority of EU members states, whereas the other new members states are obliged to join the Euro zone as soon as the standards are met, whereas regarding fiscal issues there is a quit wide level of autonomy among member states in conducting their fiscal policies. The integration process to the EU is the top political agenda of all SEE countries. Numerous legislative reforms have been adopted in order to meet the EU accession criteria. However, the most important ones
are yet to be accomplished. In regard of fiscal harmonization to the EU standards SEE countries need to focus to the indirect tax since there is common indirect taxation policy within EU, whereas direct taxation is a competency of each member state. However, the latter conclusion doesn't mean that SEE countries shouldn't take further efforts to adopt its direct taxation policy to the EU standards, because the harmonization of fiscal policy doesn't constitute an end in itself, but it is an instrument which helps to consolidate the common EU market as well as to attain EU macroeconomic goals.

Another fiscal issue to be addressby the SEE countries aspiring to join EU is budget deficit and the public debt, as well as fiscal issues related to transparency and the rule of law which are a key foundation of EU. Some other interesting issues in regard of SEE countries with aspiration to join EU are the budgetary consequences of EU accession, because the latter countries would have to give up some customs and excise revenues which are excluded as customs or excise subjects by the EU regulations.

The rest of the paper is structured as follows: The next section provides brief overview of EU institutions and the principles of EU fiscal policy. In the third section the most recent literature review is provided. Fourth sections provides a critical analysis regarding SEE countries accession to EU and fiscal policy harmonization, followed by conclusion provided in fifth last section.

2.Short overview of EU institutions and basements of fiscal policy

In order to ensure participation and transparency amongst the member's states, EU doesn't have an independent single institution in charge of economic policy. The main institutions leading the process of economic policy are as follows:

1. The European Council
2. The council of the EU
3. "Eurogroup"
4. The members states
5. European Commission
6. The European Central Bank
7. The European Parliament

There is a common monetary policy within EU, whereas regarding fiscal issues there is a quit wide level of autonomy among member states. Euro zone member states have to adopt their policies in accordance to the Stability and Growth Pact (SGP). SGP is the basic framework of the EU member's states for coordination of fiscal policies. European Commission publications regarding economic and financial affairs provide sufficient information about the role of SGP, claiming that SGP plays two roles, as follows: 1. Preventive role, and 2. Corrective role.

The preventive role of SGP is to ensure that fiscal policy is conducted in a sustainable manner, and take corrective actions in case of excessive deficit. The corrective role is defined on May

2004 in the Article 121 and 126 of the Treaty of the functioning of EU (TFEU), which obliges the member countries to correct their budget deficits if it exceeds the level of 3% of GDP, as well as to keepthe public debt to the 60% of GDP limit.

3.Literature review

The issue of fiscal policy in general and of the fiscal policy harmonization to the EU standards in particular remains to be one of the topics of recent academic research. Because of the dynamic economic developments and extremely volatile financial environment of EU (e.g. recent financial crisis, external shocks, and alike) the literature review of this paper is focused on most recent academic publications. According to Lucian and Alexandru (2011, p. 649) in European Union countries, fiscal policy is far from winning everybody's consensus, because nocountry is willing to give up national sovereignty, the right to collect taxes from its citizens and to planbudget spending. Moreover, Stoian and Campeanu (2010) claim that fiscal policies of individual members can lead to adverse effects and harm other county members as well. Afonso (2000) states that before the Stability and Growth Pact (SGP) was adopted, fiscal policy was not sustainablein most European Monetary Union countries, with the possible exceptionsof Germany, Austria, and the Netherlands (cited in Stoian and Campeanu, 2010, p. 501). In addition, Dabrowski (2013) claims that the historical evidence shows that adaption of common monetary standards in EU was not followed by fiscal and political integration. In addition the same author in his article "Fiscal or bailout union: Where is the EU/EMU's fiscal integration heading?, claims, "More fiscal centralization will require the introduction of European taxes, and the increasing political power of the European Parliament, at the cost of individual member states, whose veto power in EU budget process will have to be reduced" (p. 27). The idea of Dabrowski is that common monetary system requires centralization of fiscal policy and a kind of political federalism. However, the author is skeptical whether the EU members are ready to give up their fiscal and political sovereignty.

Llorca and Redzepagic (2008) states thatEU new member states are expected to comply with the Stability and Growth Pact (SGP) limits for the government budget deficit of 3% of GDP and government debt of 60% of GDP. According to Miyazaki (2012) both political and financial factors influence the level of budget deficit reduction during the time of fiscal adjustments. In regard of political factors according to Ihori and Itaya (2001), fragmented government which may be a coalition of numbers due to political conjunctures, accompanied with weak institutions, tends to be influenced by interest groups; hence, it is expected not to be successful in the attempt of deficit reduction (cited in Miyazaki, 2012.). In addition, Muinelo and Roca (2013) claim that the most adequate fiscal policy strategy in a context of fiscal consolidation is to cut non distributive expenditure, since this could increase GDP growth while reducing income inequality. Compared to the pre-EMU situation, fiscal policy now plays an extended role in the smoothing of output shocks, particularly demand shocks (Mencinger, Aristovnik, 2013). In addition, the same authors in a research about cyclicality of fiscal policies in the European countries before joining euro zone found that "most of the economies promoted a restrictive and pro-cyclical fiscal policy before they entered the euro zone. Most countries on average registered a negative output gap in this period, accounting for 0.8% on average, which should be supported with an expansive fiscal policy characterized by a decrease in the structural balance. However, in the considered period of four years before the entrance to the EMU we notice an average increase in the cyclically adjusted balance of around 0.6 %, which implies restrictive measures in the fiscal policy conducted in this period in Germany, Italy, Greece, Spain and Belgium where a restrictive fiscal policy prevails. This trend of fiscal policy was influenced by the application of

Maastricht Treaty rules, which the member states had to take into account before launching the EMU" (Mencinger and Aristovnik, 2013, p. 55). This came as e result of compliance to the Euro zone rules during the time those countries were just steep behind joining Euro zone. As a result in order to consolidate their public finance the countries joining Euro zone had undertaken spending cuts and interest rate reduction. Hence, although facing a situation of economic stagnation, those countries used pro cyclical restrictive fiscal policy at the very time before joining Euro zone. Political developments were also a significant factor on the fiscal policy of the member's states preparing to join the Euro zone. As stated by Buti and Van den Nord (2004b) the fiscal rules applied in the EMU were impeded by politico-economic motives which prevented automatic stabilizers from working symmetrically throughout the cycle. They argue that various political incentives played a crucial role in the different fiscal behavior before and after entering the EMU because of the expansionary bias due to the election cycle. These findings are consistent with Buti and Van den Nord (2004a) and Von Hagen (2003) who confirm loose fiscal policy behavior for years preceding elections. This could help explaining the more expansionary fiscal policy seen after joining the EMU (cited in Mencinger and Aristovnik, 2013). We found the findings of Mencinger and Aristovnik (2013), and Buti and Van den Nord (2004) as very important empirical evidence that could be used as a lesson to the SEE countries expecting to join the EU in the near future.

4.Critical analysis of SEE countries accession to EU and fiscal policy harmonization

Given that historical, economic, political, cultural, financial, and social heritage of SEE countries differs compare to the EU developed countries, the adaptation of EU regulations in general, and harmonization of fiscal policies in particular is a difficult and painful process. However, the positive effects of joining EU are multilateral. EU is one o the most developed economic region in the world, participating in the world GDP with 20%. The countries joining EU will benefit in terms of free trade and tariff barriers removal, what would help in cost reduction and lover prices for consumers. Some other benefits are free movement of trade and capital. Other benefits are related to social rights, environmental issues, etc. The new member's states will also benefit from the regional development programs, such as European Regional Development Fund designated to narrow the development gap amongst the regions within EU, as well as from social and other financial funds.

Despite its positive effects, SEE countries would have to face difficult challenges in their journey towards EU. In terms of fiscal policy harmonization, the first challenge would be fiscal budgetary deficit, since they would have to adopt new indirect fiscal rules, which in practical terms may be translated in giving up of some of the revenues generated from customs and excise duties, due to the adaptation of EU standards on indirect taxation. Kosovo for example depends heavily from the revenues collected by traditional fiscal instruments, such as customs and excise duties. For example in Kosovo soft drinks produced destinated to be sold in domestic – Kosovo market are an object of excise duty in amount of 0.0045 per liter. This is only one example of differences between some of the SEE countries and EU in regard of fiscal rules. Another issue to be addressed is customs duty.Customs duties on imports from countries outside the EU would also be reduced due to the obligation of contributing to the EU budget with 75% of the amount collected. Only 25% of the amount of revenues collected by Customs from the goods outside EU is to be allocated on member's state budget, which is foreseen to cover the cost of revenue collection. Therefore, the result of fiscal policy harmonization, respectively harmonization of indirect taxation to the EU standards, would be collection of less money for the consolidated budget, what would result in decrease of public spending.

In order to mitigate such a decline of revenues, the governments of SEE countries need to take serious measures especially in tackling informal economy, promoting transparency and legitimate competition, what would have positive effects towards generation of new business activities. New business activities will generate alternative ways of tax collection which would compensate the potential fiscal deficit due to the harmonization of domestic fiscal policy to the EU standards. These steps should be accompanied with serious efforts in tackling tax evasion. Fighting tax evasion will enhance the tax collection, tackle informal economy, and promote competition. Another important issue to be addressed by SEE countries is budget deficit and public debt. Most of the SEE countries run relatively high public debt in order to cover the public spending. As mentioned earlier in this paper the EU criteria regarding these fiscal instruments in compliance to SGP oblige EU country members to keep the budget deficit at 3% of GDP, and a public debt at a level of 60% of GDP. Higher levels are not acceptable based on SGP standards. Serbia as a candidate country to join EU according to the IMF publications of 2013 has an 8% budget deficit, whereas the level of public debt is higher than 65%. Montenegro as another candidate country according to European Commission Progress Report of 2013 runs 5.6% budget deficit, whereas public debt although within acceptable margins has shown signs of increase reaching the level of 54% of GDP on 2013. However, the data of Montenegro Central Bank (2013) show a public around 50.03% of GDP. Albania has shown signs of increase of the of budget deficit from 3.6% of GDP in 2011 to 6% of GDP, whereas public debt level exceeded 70% of GDP in 2013. Public debt of Macedonia remains stable at the level of 36% of GDP, whereas budget deficit has increased from 2.5% of GDP in 2011 to 4.0% of GDP in 2013 (The Vienna institute for international economic studies, 2013). Kosovo as the newest country although remaining behind in terms of EU integration runs a symbolic public debt at levels of 6% of GDP, and a budget deficit around 6% of GDP(The Vienna institute for international economic studies, 2013). As we can see from the figures above the level of public debt of SEE countries except Albania and Serbia is in an acceptable level, although with a trend of increase. The question SEE countries should answer is! Are we going to rapidly decrease the level of public debt, or is there going to be a planned decrease? The issue of public debt is not a simple issue. Moreover, the opinions of scholars are different regarding this issue, however, the idea of keeping public debt in acceptable levels prevails compare to the idea of scholars who support expansionary public debt policy. Barro (1979) claims that the role of public debt is to smooth tax distortions over time (cited inDesbonnet and Weitzenblum, 2012, p. 905).

Interestingly, Desbonnet and Weitzenblum (2012) claim that public debt increase has a positive effect and generates welfare in short and mid terms, even if the debt is higher than its optimal level. We found this conclusion of latter authors very important in terms of our following argument regarding public debt of SEE countries which still are considered as developing countries. As mentioned earlier SEE countries may be considered as developing countries. Developing countries need desperately to launch investments project in order to close the development gap compare to the rest of Europe, Therefore, found itself with a lack of financial resources SEE countries are forced to increase the public debt in order to finance the investments projects. However, the public debt can lead to the collapse of an economy if it exceeds the projected levels, especially if the money is not spent on investment projects which would generate jobs and incomes in the future. It is our opinion that SEE countries should adopt carefully designed plans in order to meet the SGP standards regarding public debt levels, and achieve those in a mid or long term periods. Any other action designed to achieve those standards in quick and emotive manner would have serious negative effects to SEE countries. In order to have a successful fiscal policy harmonization and mitigate potential negative effects of the fiscal transition process, SEE countries need to undertake adequate fiscal reforms, promote fiscal transparency, establish credible institutions and take decisive action to tackle informal economy and tax evasion

Conclusions

This paper analyzed the issue of SEE countries fiscal harmonization to the EU standards. Empirical evidence shows that the issue of fiscal harmonization amongst the EU member's states is a long and continuing process. In addition this process should be considered as a dynamic one since the development of the economy, new political developments, occurrence of financial crises, economic and financial innovations, and alike, require adequate fiscal policy. It was found that this process even though to a great interest for SEE countries is accompanied by institutional and economic difficulties. Because of restrictive EU tax policy in terms of excise and customs duties compare to the fiscal policy of most of the SEE countries, the process of harmonization may generate short and midterm shocks in terms of causing decrease in the revenue collection. In addition, the harmonization of fiscal policy of SEE countries to the EU standards requires keeping the budget deficit and public debt at adequate levels, making the process more challenging. However, the empirical evidence show that apart Albania and Serbia other SEE countries aspiring to join EU, do not run high levels of public debt, even though the trend shows signs of increase. It is recommended to SEE countries that in case of running high public debt, should direct the indebted financial assets towards projects which will generate positive return on investment, what would make able to settle the creditor's demands in the future. Moreover, the public debt shouldn't be run in a long term, but to be used only for smoothing potential fiscal distortions over the time. Another issue elaborated in the paper was tax evasion and informal economy. It was recommended that these negative phenomenon's should be treated in the best manner by agencies of rule of law. Harmonization of fiscal regulations is only one aspect of integration process SEE countries need to undertake in order to join EU. Finally, the process of fiscal harmonization to EU standards, in order to generate structural comprehensive positive effects should be coordinated with other integration processes, accompanied by the establishment of adequate fiscal institutions, and transparency promotion.

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5 Fiscal policy management and fiscal sustainability management in Albania during 2000 - 2013, compare with European countries

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Abstract

<u>Problem Statement</u>
Albanian has entered the path towards trade economy without any experience from the past, especially on tax issues. One of the main issues of trade economy is wealth of the nation and wealth of members of the society and for a better wealth of citizens, a distribution and redistribution incomes policy is needed, where fiscal policy and fiscal sustainability are two main important elements.
<u>Research Objectives</u>
Main objective of the research has been defining fiscal policy, how fiscal policy works, how it must be monitored and managed and how its implementation may affect different people in an economy, issues on achieving a fiscal sustainability management and application of fiscal policy and fiscal sustainability under Albanian conditions, analyzing flat and progressive tax and their impact on Albanian economy too, compared with Europan countries.
<u>Methods</u>
Defining the issue, gathering information, data and figures mainly from primary resources, organizing data, figure and information, finding common issues on fiscal policy and fiscal sustainability, flat and progressive tax models, writing the discussion, drawing conclusions and from them describing recommendations.
<u>Results</u>
The tax models, tax levels and its applications are attributes of specialists of the economics, while politics just should learn and listen from/to them.
<u>Main Conclusions</u>
<u>Fiscal policy</u> should be directed in the light of its impact on the economy, and the budget should be managed accordingly, that is, 'balance' is not important in itself.

<u>Key words:</u> fiscal policy, fiscal sustainability, Albanian economy, flat tax, progressive tax

INTRODUCTION

Tax collection had been a serious problem in the Albanian-populated lands at least since the Ottoman Empire extended its rule over the region and probably since Roman times. The government eliminated personal income taxes in 1967 and all personal taxes in 1970. For the next twenty years, central and local governments collected revenues primarily through turnover taxes and revenue deductions from state and collective enterprises. In 1984 these collections accounted for a record 96 percent of government revenue. Chaos overtook Albania's fiscal and taxation systems in 1990, revenues dried up, and the government had to issue unbacked currency to continue operations. In 1991 the government announced that the country's fiscal system had to be strengthened because "no market economy exists without taxes." The People's Assembly set to work on a battery of revenue measures, including a tax on profits, a sales tax, a business registration tax, a motor vehicle tax, and excise taxes on cigarettes, alcoholic beverages, and oil products. Predictably, talk of taxes fueled resentment among neophyte entrepreneurs.

The law on taxation of profits, which the government hoped to implement in early 1992, appeared to offer significant incentives to private enterprise and foreign investment. It required payment of a 30 percent tax on yearly profits but exempted private persons from payment for three years from the time they began business activities. Joint ventures and foreign-owned firms were required to pay a 30 percent profit tax. Upon completing ten years of business activity in Albania, a joint venture or foreign firm would receive tax reductions. Foreign enterprises and persons who reinvested profits in Albania received a 40 percent tax reduction on the amount reinvested. The proposed measure, however, would require all joint ventures and foreign-owned enterprises engaged in mining and energy production to pay a 50 percent profits tax. Foreign persons were required to pay a 10 percent tax on all repatriated profits.

With only limited capacity to generate tax revenues, the government emphasized reducing the overall budget deficit and public debt. Proceeds from the legitimate sale of international aid items were used to maintain essential government functions and the social safety net. Local government reform depended on the development of a new system of financing based on users' fees, local taxes, and central-government grants. Albania's local governments were in dire need of technical assistance to establish a local finance system and train government staff in planning and financial management.

Albanian has entered the path towards trade economy without any experience from the past. One of the main issues of trade economy is wealth of the nation and wealth of members of the society. For a better wealth of citizens, a distribution and redistribution policy is needed, where fiscal policy and fiscal sustainability are two main important elements.

Fiscal policy is the means by which a government adjusts its levels of spending in order to monitor and influence a nation's economy, a big issue for countries such Albania.

Fiscal sustainability, or public finance sustainability, is the ability of a government to sustain its current spending, tax and other policies in the long run without threatening government solvency or defaulting on some of its liabilities or promised expenditures, ability which is under a big question under current developments.

Besides that, the discussion on what income tax should be is taking territory currently not only between scholars in Albania. An income tax is a tax on money people earn (income), which is paid to the national government.

Various income tax systems exist, with varying degrees of tax incidence. Income taxation can be progressive, proportional, or regressive, while flat tax is a special condition of proportional tax. When the tax is levied on the income of companies, it is often called a corporate tax, corporate income tax, or profit tax. Various systems define income differently and often allow notional reductions of income (such as a reduction based on number of children supported).

ALBANIAN ECONOMY. GENERAL SITUATION

Albanian economy is a small one. Generally and current economic policies applied during last 20 years have had as a main objective guarding macroeconomic stability, poverty reduction, non inflationary economic growth, etc like this, generally accepted to be achieved, while objective of achieving fiscal consolidation through reducing budget deficit and public debt is under the discussion. Generally in last 10 years inflation has been kept under the control between 2 - 4%, unemployment has been freeze at about 13 - 14% and during 2012, budget debt has been reduced to about 3% of GDP, compare with about 10% of 1998, while public debt has been increased to about 68% during first half of 2013, compare with very low levels of this figure in early stages of Albanian's trade economy.

At the early stage of trade economy public finances have had dramatic transformations, aiming reducing government expenditures and incomes increase. After that, as a result of Free Trade

Agreements, Associations and Stabilization Agreements, Membership at World Trade Organization Agreement, CEFTA, etc incomes from customs used to be reduced and this was followed further from an increase of local tax level to fulfill the difference, this through introducing and increasing local taxes, excise duties, etc. Social insurance contributions has been reduced from about 42% in 2006 to about 17% in 2009, small business tax was reduced from 4% in 2005 to 1.5% in 2006, etc. Several changes have been introduced on application and level of VAT, applying flat tax of 10% in 2007, reducing profit tax on 10% in 2008, etc. Custom taxes, VAT and excise duties (indirect taxes) contribute to about 50% of total tax incomes, while profit tax and personal taxes (direct taxes) contribute to about 14% of total tax incomes.

Public expenditures as per GDP has been reduced from about 35% during 1998 to about 29% during 2010, with a slightly increase during last three years. Current expenditures has been reduced from about 28% during 1998 to about 24% during 2010 with a slightly increase during last three years, while they still remain on about 80% of total expenditures (main subjects of current expenditures are staff expenditures, interest payments, social insurance contributions, health insurance contributions). Capital investments have been generally on about 6% of GDP during last ten years, with an exception during 2008 - 2009 with about 8.5% of GDP. Mainly these expenditures have been maintain through financing with internal debt, which has contributed with more than 60%, while currently reached the figure of about 68%

FISCAL POLICY AND FISCAL SUSTAINABILITY

Defining fiscal policy, how fiscal policy works, how it must be monitored and how its implementation may affect different people in an economy, issues on achieving a fiscal sustainability and application of fiscal policy and fiscal sustainability are common issues for all countries towards the path of development and of course this can't be an exception for Albania and Albanian economy, thus, the research is focused under the Albanian conditions, analyzing flat and progressive tax and their impact on Albanian economy too.

In economics and political science, fiscal policy is the use of government revenue collection (taxation) and expenditure (spending) to influence the economy. The two main instruments of fiscal policy are changes in the level and composition of taxation and government spending in various sectors. These changes can affect the following variables in an economy:

- Aggregate demand and the level of economic activity;
- The distribution of income;
- The pattern of resource allocation within the government sector and relative to the private sector.

Fiscal policy refers to the use of the government budget to influence economic activity and this has been one of research objectives. About fiscal sustainability actually there is no consensus among economists on a precise operational definition for it, rather different studies use their own, often similar, definitions. Many countries and research institutes and have published reports which assess the sustainability of fiscal policies based on long-run projections of country's public finances. These assessments attempt to determine whether an adjustment to current fiscal policies that is required to reconcile projected revenues with projected expenditures. The size of the required adjustment is given with measures such as the Fiscal gap, while in Albania there is still a huge debate about the issue. A progressive tax is a tax in which the tax rate increases as the taxable base amount increases.

"Progressive" describes a distribution effect on income or expenditure, referring to the way the rate progresses from low to high, where the average tax rate is less than the marginal tax rate. It can be applied to individual taxes or to a tax system as a whole; a year, multi-year, or lifetime. Progressive taxes attempt to reduce the tax incidence of people with a lower ability-to-pay, as they shift the incidence increasingly to those with a higher ability-to-pay. The term is frequently applied in reference to personal income taxes, where people with more income pay a higher percentage of that income in tax than do those with less income. It can also apply to adjustment of the tax base by using tax exemptions, tax credits, or selective taxation that creates progressive distribution effects. For example, a sales tax on luxury goods or the exemption of basic necessities may be described as having progressive effects as it increases a tax burden on high end consumption or decreases a tax burden on low end consumption respectively.

A proportional tax is a tax imposed so that the tax rate is fixed, with no change as the taxable base amount increases or decreases. The amount of the tax is in proportion to the amount subject to taxation. "Proportional" describes a distribution effect on income or expenditure, referring to the way the rate remains consistent (does not progress from "low to high" or "high to low" as income or consumption changes), where the marginal tax rate is equal to the average tax rate.

It can be applied to individual taxes or to a tax system as a whole; a year, multi-year, or lifetime. Proportional taxes maintain equal tax incidence regardless of the ability-to-pay and do not shift the incidence disproportionately to those with a higher or lower economic well-being.

A flat tax (short for flat tax rate) is a tax system with a constant marginal rate, usually applied to individual or corporate income. A flat tax falls under proportional tax as they allow certain deductions. There are various tax systems that are labeled "flat tax" even though they are significantly different. They are easy to collect and understandable from main subjects involved.

A regressive tax is a tax imposed in such a manner that the tax rate decreases as the amount subject to taxation increases. "Regressive" describes a distribution effect on income or expenditure, referring to the way the rate progresses from high to low, where the average tax rate exceeds the marginal tax rate. In terms of individual income and wealth, a regressive tax imposes a greater burden (relative to resources) on the poor than on the rich — there is an inverse relationship between the tax rate and the taxpayer's ability to pay as measured by assets, consumption, or income.

It can be applied to individual taxes or to a tax system as a whole; a year, multi-year, or lifetime. Regressive taxes tend to reduce the tax incidence of people with higher ability to pay, as they shift the incidence disproportionately to those with lower ability to pay. The opposite of a regressive tax is a progressive tax, in which the average tax rate increases as the amount subject to taxation increases. In between is a flat or proportional tax, where the tax rate is fixed as the amount subject to taxation increases.

In economics, tax incidence is the analysis of the effect of a particular tax on the distribution of economic welfare. Tax incidence is said to "fall" upon the group that ultimately bears the burden of, or ultimately has to pay, the tax. The key concept is that the tax incidence or tax burden does not depend on where the revenue is collected, but on the price elasticity of demand and price elasticity of supply, for which there is a big confusion recently in Albania.

TAX SYSTEM IN ALBANIA

Tax revenues in Albania are grouped into three main categories: (a) indirect taxes (VAT, excise, gambling and other indirect taxes), direct taxes (income tax, personal income taxes, taxes on capital); (b) local taxes, and (c) social and health security contributions. National Taxes, administered by the CTA and Customs Administration include: - Indirect taxes a. Value added tax; b. Excise; c. Taxes on gambling, casinos and hippodromes; - Direct taxes a. Income tax; b. National taxes; c. Other taxes, which are defined as such by special law, and d. Customs taxes. - Social and health security contributions, as defined in the social insurances law

Local taxes and tariffs administered by LTA include: a. Local tax on small business; b. Tax on immovable property, which includes tax on buildings and agricultural land; c. Tax on hotel accommodation; d. Tax on impact of new constructions upon infrastructure; e. Tax on transfer of ownership right on real estate; f. Annual tax for vehicle registration; g. Tax for occupation of public space; h. Board tax; i. Temporary taxes j. Registration tariff for various activities; k. Cleaning and waste disposal tariff; l. Vehicle parking tariff; m. Tariff for services

Local Tax Administration is composed of a network of tax administrations, as part of local government organization. Organization of LTA includes: General Directorate of Taxes and Tariffs in Municipality of Tirana, Local Tax Departments for main Municipalities and Tax Revenue Sections in small municipalities and communes. LTA is a very important component in the structure of Municipalities and Communes, as the institution which ensures mutual cooperation between the local business community administered by respective local tax structures and local leaders on a variety of necessary services for citizens. In this administration, the local business community operating in the administrative unit can pay local tax liabilities. This administration is the structure responsible for collecting local taxes and tariffs specified in the laws and decisions of City Council. This administration also pursues relations with Tax Agents responsible for local taxes and tariffs. You can find more information about the organization of local government in www.moi.gov.al or for each major municipality you can search the internet by typing the words Municipality (name of municipality) e.g. Municipality of Tirana.

One of the important initiatives undertaken in the last three years by the government is the reform of business registration procedures through establishment of National Registration Center (NRC). This means that now, after three years of NRC activity, we have managed to reduce registration time for new businesses to one day and to combine into one single procedure all registration steps for new businesses, including registration for tax purposes. This institution also conducts commercial registry services for corporations, except nonprofit organizations, which are obliged to register as such in the Tirana District Court, despite the administrative unit where they are located.

Starting from the moment of application for registration and afterwards, every citizen should be acquainted with legislation requirements included in tax legislation. The main laws to be acquainted with at the time of application are: - Law "On traders and commercial companies"; - Law "On tax procedures in the Republic of Albania"; - Law "On VAT" - Law "On income tax"; - Law "On national taxes"; - Law "On gambling, casinos and hippodromes - Law "On local taxes"; - Law “On local tax system"; - Law "On social and health insurances contributions ".

Knowledge of basic requirements of these laws is the beginning of taxpayers’ acquaintance with their rights and obligations to the tax administration which they must observe in the course of their commercial activity. Tax liability arises when persons raise incomes, become a property owner or make payments, which are subject to tax, according to tax legislation.

Tax liability also arises when persons derive incomes illegally, make payments or become owners of something illegally. When persons become owners of an item in an illegal way, this obligation is calculated for the entire period in which the person has enjoyed the fruits of such property. Tax liability includes tax, interest on arrears, and fines. Tax liabilities are calculated and paid in national currency, unless otherwise provided by law. Depending on the type of tax they have registered for, taxpayers are required to make tax declaration and payment, which they are obliged to self-calculate and pay in due time.

Data on accounting and financial information are stored by taxpayers for at least 5 years, starting from the end of the tax year, which the documents belong to. Records, books and financial information are documents containing chronologic and systematic information on taxpayers’ trading operations, which are kept to determine the amount of taxes for these taxpayers.

Taxpayers conducting flow of goods and services, for which payment is not made through banks, are obliged to introduce and use the fiscal system through the use of fiscal devices in order to record cash payments and issue tax receipts. Taxpayers, private individuals or legal entities and traders cannot perform purchase or sales transactions in cash among them if the value of transaction is higher than 300.000 ALL.

The minimum registration threshold for VAT is determined by the Council of Ministers (the threshold). For 2010 this threshold is 8 million.

Registered taxable persons are obliged to request deregistration no later than 15 days from the last day they made taxable supplies as part of their economic activity. Taxable persons, who want to deregister, are subject to procedures stipulated in the law "On tax procedures in the Republic of Albania".

Each individual, who is a partner in a commercial company, is responsible for the company's tax liabilities to the tax administration, according to provisions in the company charter. According to commercial registry, over 95 percent of companies are limited liability companies. The remainder is joint stock companies, partnerships and less than 0.5 percent is limited partnerships.

At the moment a company is created and starts its economic activity, it is responsible for:

Calculation of VAT and timely declaration and payment;

Payment of advance tax installments for profit tax to pay every month;

Calculation, timely declaration and payment of tax on incomes from employment for employers and employees;

Calculation, timely declaration and payment of social and health insurances contributions;

Monthly payment of advance income tax installments in time;

Withholding and payment of withheld tax, under obligation from the Law "On Income tax";

Calculation, timely declaration and payment of taxes according to specific activity "for gambling, casinos and hippodromes";

Calculation, timely declaration and payment of excise under specific law "On Excises";

Calculation, timely declaration and payment of national taxes and local taxes.

In order to calculate taxes, taxpayers who are subject to VAT or profit tax keep registers, accounting records, books and financial information and issue tax receipt or tax coupon, in accordance with relevant laws and regulations pursuant to them.

Taxpayers keep their accounts in accordance with provisions of the law "On accounting and financial statements" and act pursuant to that law in accordance with IFRS principles. In order to register economic transactions related to taxes, taxpayers can also use books, records or documents specified in specific tax laws and respective regulation provisions. Taxpayers are required to use basic documentation, including tax invoice, in accordance with tax legislation and relevant legal provisions.

In order to calculate their tax liabilities taxpayers, who are subject to the law "On local tax on small business", keep records, books and other documents, and issue simple tax receipts or tax vouchers, in accordance with provisions in the law "On local tax system" and provisions in the Law "On income tax". In order to calculate their tax liabilities taxpayers keep records, books and other documents, and issue simple tax receipts, tax certificates and tax vouchers, in accordance with the law of the field and regulations issued pursuant to that law. Also, taxpayers keep tax records as required by tax procedures law, specific tax laws and provisions and regulations adopted pursuant to them.

Tax legislation has excluded public and private non-profit organizations from income tax and VAT (if NGOs meet criteria for public status). Meanwhile, managers and employees in such organizations are subject to tax like all other employees. Public institutions are exempted from calculation, declaration and payment of profit tax, based on their public status.

COMPARING ALBANIAN FISCAL POLICY AND FISCAL SUSTAINABILITY MANAGEMENT WITH EUROPEAN COUNTRIES

Albanian fiscal policy and fiscal sustainability management has been floating very often compare with other European countries.

Tax system has been changed about 60 times / year in last 10 years, creating problems and difficulties for local and foreign business community operating in Albania, compare with other European countries where tax system is a stable one.

Total revenues / PBB ratio in last 10 years in Albania has been about 24 - 25%, compare with European countries that has this figure in terms of about 38 - 44%.

On tax burden, in the "Paying taxes 2010-2011" World Bank report Albania was listed in 92-nd place between 183 economies. Businesses in Albania pay about 40.6% of total profits for taxes. Taking into the account procedures and costs for business payments, Albania has been ranked in place 149 between 183 economies. All other countries of the region has been classified in a better position compare with Albania, especially Macedonia in 33 place, Croatia 42, Montenegro 138.

Tax payments in Albania are about 42, compare with a smaller number for other European countries.

Conclusions & Recommendations

The tax models, tax levels and its applications are attributes of specialists of the economics, while politics just should learn and listen from / to them.

Functional finance is an economic theory based on effective demand principle. It states that government should finance itself to meet explicit goals, such as taming the business cycle, achieving full employment, ensuring growth, and low inflation.

The principal ideas behind functional finance can be summarized as:

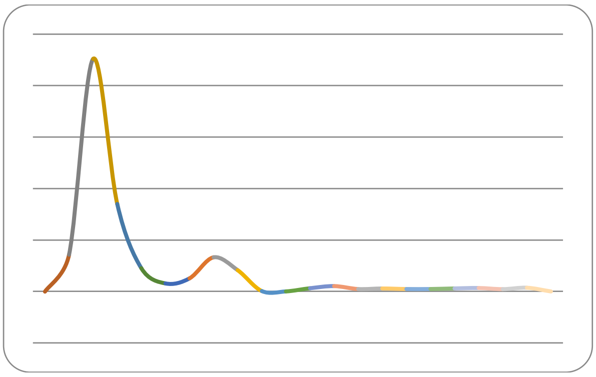
- Governments have to intervene; the economy is not self-regulating.
- The principal economic objective of the state should be to ensure a prosperous economy.
- Money is a creature of the state; it has to be managed.
- Fiscal policy should be directed in the light of its impact on the economy, and the budget should be managed accordingly, that is, 'balance' is not important in itself.
- The amount and pace of government spending should be set in the light of the desired level of activity, and taxes should be levied for their economic impact, rather than to raise revenue.
- Principles of 'sound finance' apply to individuals. They make sense for households and businesses, but do not apply to the governments of sovereign states, capable of issuing money.

The government's fiscal policy should be governed by three rules:

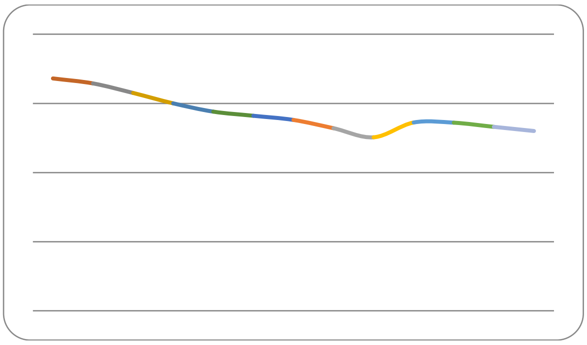
- There government shall maintain a reasonable level of demand at all times. If there is too little spending and, thus, excessive unemployment, the government shall reduce taxes or increase its own spending. If there is too much spending, the government shall prevent inflation by reducing its own expenditures or by increasing taxes.
- By borrowing money when it wishes to raise the rate of interest and by lending money or repaying debt when it wishes to lower the rate of interest, the government shall maintain that rate of interest that induces the optimum amount of investment.
- If either of the first two rules conflicts with principles of 'sound finance' or of balancing the budget, or of limiting the national debt, so much the worse for these principles. The government press shall print any money that may be needed to carry out rules 1 and 2.

Tax system in Albania changes very often and tax burden is higher compare with other European countries, which creates problems and difficulties for local and foreign business operating in Albania

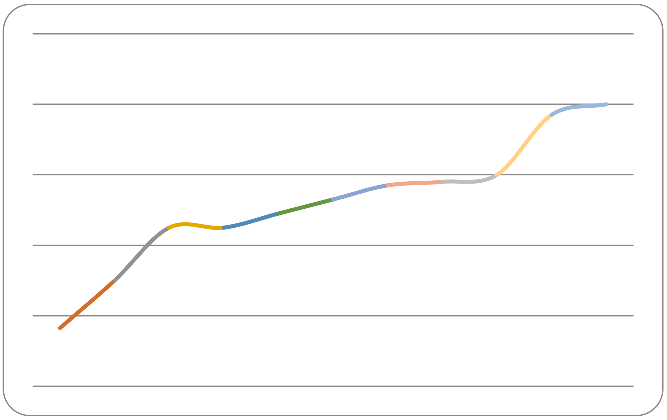
APPENDIXES



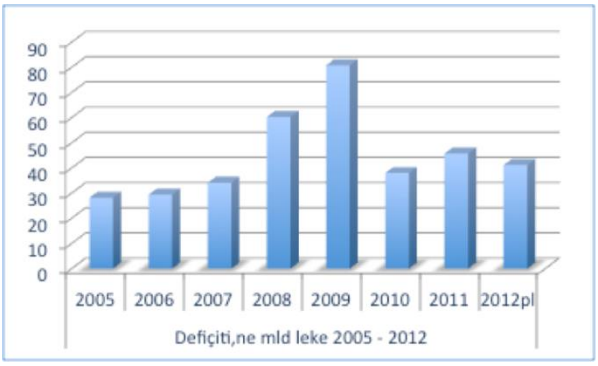
Graphic 1. Inflation rate 1990 - 2012 (INSTAT)



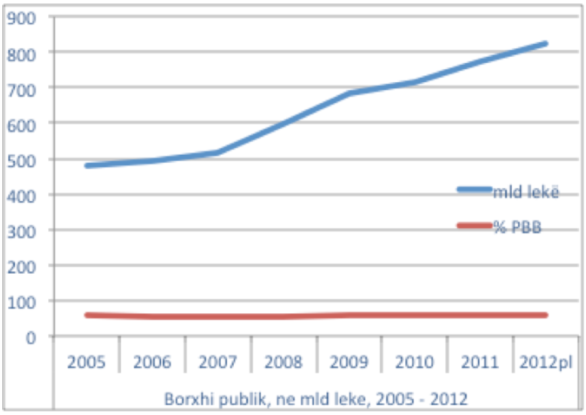
Graphic 2. Unemployment rate 2000 - 2012 (INSTAT)



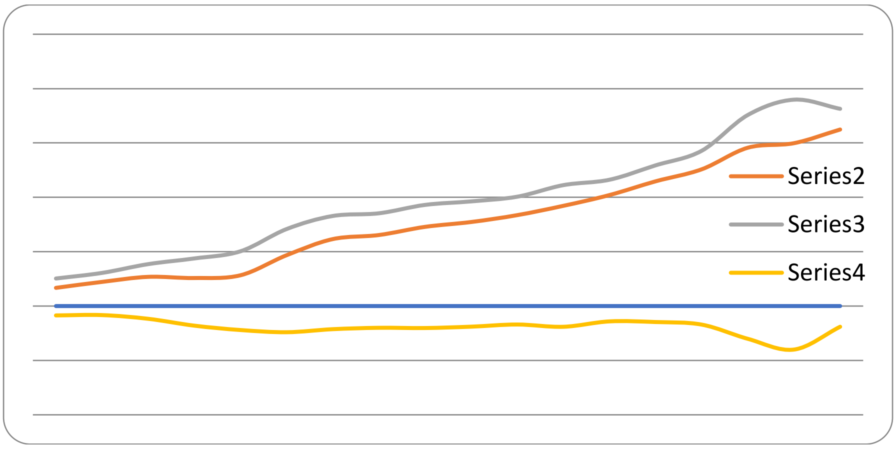
Graphic 3. GDP / Head1990 - 2010 (INSTAT)



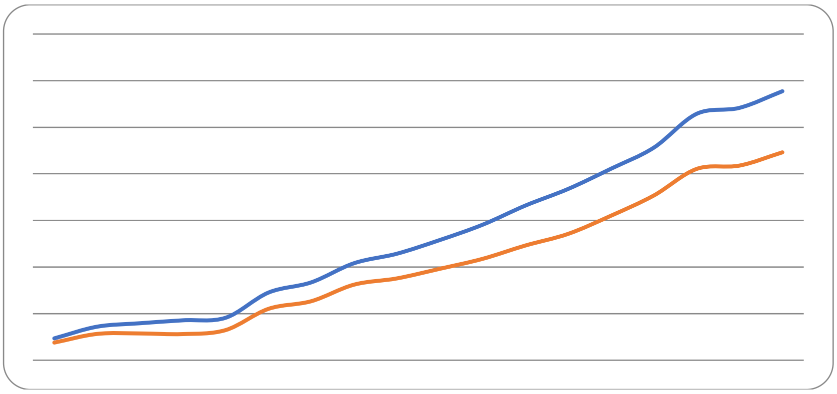
Graphic 4. Budget deficit 2005 - 2012 (http://www.shtetiweb.org)



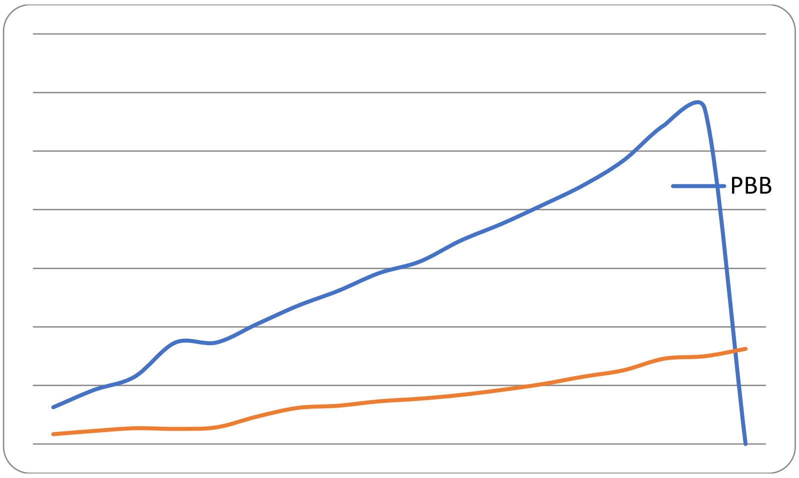
Graphic 5. Public debt 2005 - 2012 (http://www.shtetiweb.org)



Graphic 6. State budget revenues and expenditures 2007 - 2011



Graphic 7. Fiscal revenues and revenues from taxes and customs (INSTAT)



Graphic 8. PPB and total revenues

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6 THE POSSIBILITIES FOR INVESTMENTS IN SPECIAL SECTORS OF THE ECONOMY

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Abstract

Kosova is still a country in development and has enough capacities in resources and individuals. But as any other business is not enough to have a good product but also is needed a good promotion of the product. We possess many resources for which many investors will be ready to invest and bring bilateral profits. To do this chain function we must know the strong points and find the effective way to point out the key points and turn them in economic advantages.

In this paper are listed some of important sectors that can attract investments for foreign investors.

The incomes generated by the foreign investments in a country can be used to contribute in income taxes of corporations. FDIs help in opening of new work places, salary increasing etc. The foreign direct investments usually play an important role in the development of productive sector for hosting country. The foreign direct investments play a crucial role in the context of the productivity of hosting country. In the case of these countries the companies have the possibility to explore the foreign markets and in this way generate more incomes and profits.

Key word: Foreign Direct Investments, development, benefit, economy sector, country growth

Introduction

Although it may seem natural to argue that foreign direct investment (FDI) can convey great advantages to host countries, this paper shows that the benefits of FDI vary greatly across sectors by examining the effect of foreign direct investment on growth in the primary, manufacturing, and services sectors. An empirical analysis using cross-country data for the period 1981-1999 suggests that total FDI exerts an ambiguous effect on growth. Foreign direct investments in the primary sector, however, tend to have a negative effect on growth, while investment in manufacturing a positive one. Evidence from the service sector is ambiguous[15].

The foreign investments, despite some limitations for the host economy (as the imports of intermediary goods, repayment of interests to lenders…etc until the neglect of environmental problems) provide assistance in debt payment, stimulating export, enhancing foreign income etc. In a particular way the FDI depends on concrete conditions of the invested country, economic environment and regulatory system, the government seriousness, correctness and honesty of the administrate, the concrete sector where is invested etc. Also, through FDI can be stimulated market opening in new sectors, variety and diversity of products through the inclusion of capital, especially in new businesses.

1.Business services

To improve the efficiency and the productivity, the multinational companies benefit big advantages by consolidating their activities and their services in a certain place and standardizing in the entire world. This is creating new possibilities for foreign direct

[15] Alfaro Laura, Foreign Direct Investment and Growth: Does the Sector Matter? , Harward Business School, 2003

investments for developing countries that have greater costs advantages then the developed countries.

The preferred method for this consolidation from the companies is to trust these activities/services to other companies (outsourcing). In this Kosova have big opportunities to attract foreign direct investments oriented in exports: Costumer Support Centers, Data Processing, IT and Regional Headquarters. From the conducted studies results that in short term the best possibilities to attract foreign direct investments have the first two sectors[16] (Costumers Service Center and Data Processing). This thanks to some competitive advantages: qualified labor force, with knowledge of foreign languages, enough spaces for the market, developing telecommunication net, etc.

2.Agriculture and Agribussines

Kosova has considerable possibility to develop the agriculture due to a favorable climate and labor force in rural zones[17]. Because of using traditional methods of fruits production, vegetables, meat and milk products by using small artificial adds as pesticides and chemicals we can be well known in the biggest markets of the world as European and North America markets due to organic food produced in our country. The measures of a medium farm is about 1ha for campaign farm is calculated to be 1,3 ha and mountains farm 0,8 ha.

The Kosova agricultural potentials are considerable with abundant rain and appropriate for planting early and late products and medical plants as well. The Agro industry is also an important part of Kosovo economy. The agriculture and agro industry contributes in country's GDP with 25% and in employment in 40%. The agro industry is a continuous developing industry but the general level of production does not cover the consumer's needs.

The possibility to invest exists in some subsectors of this industry, but the most interested are the segments related to the export as: medical plants, season's vegetables etc. The government should encourage the development of viticulture and orchards and to provide assistance in funding for farmers.

3.Mining

Kosova has considerable mineral resources[18] including lignite, lead, zinc, silver, nickel, chrome, bauxite. Several indications of precious metals (gold and platinum) were detected in rivers and as accompanying metals in other ores (chromites and base metals).

A major objective of the donor agencies and the Institutions of the Republic of Kosovo is the development of Kosovo's private sector economy. Hereupon, the Kosovo Institutions have adopted a set of laws to ensure an investor-friendly environment including: regulations on foreign direct investment; repatriation of capital; the purchase of real estate; the registration of businesses and land; and the establishment of 99-year leaseholds for land that were property of social owned enterprises (SOE).

Regarding the investments in this sector below is presented the invitation that the Government of Kosova, respectively the Independent Commission for Mines and Minerals released for foreign investors:

The EU is supporting the Geological Survey and the Mining Authority, the Independent Commission for Mines and Minerals (ICMM), of Kosovo in their effort to re-evaluate and to promote the known minable resources of the country. In this context, a large-scale sediment survey has been carried out as well. This EU funded Project managed by the European Commission Liaison Office to Kosovo (ECLO) operates under the name "Support to ICMM".

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[16] Markusen. J. and A.J. Venables, "Foreign Direct Investment as a Catalyst for Industrial Development, 2002

[17] http://www.mbpzhr-ks.net/

[18] Report of Kosova Indipendent Commision for mines and minerals, 2013

The results of these activities will be presented to a select group of potential investors. As you might know, Kosovo had a well established mineral resource industry and was a leading producer of lead and zinc in the past. Nowadays, only the active lignite and nickel mines remind us of these prosperous times. This conference shall now introduce you to the new Kosovo. We will put you in touch with the persons in charge of matters concerning investment policy, taxation system, mining industry, etc. A detailed program will be forwarded to you in the course of the next month. We would very much appreciate it if you decide to support us in our intention to get the mining industry of Kosovo back on its feet.
Please indicate your intention to participate by filling out the attached form. This will allow us to organize the site visit to your benefit. We tend to limit the number of participants to 20 as a larger number of participants would not allow the direct contact to the persons in charge.

4.Tourism
According to the information[19] of KPMG, country's natural resources represent high quality tourism assets. Kosovo's potential in tourism is closely related to the country's geographical position. The mountainous south offers a great prospective for winter tourism. The existing winter resorts in Brezovica and a few other locations in the Sharri Mountains have historically attracted both locals and regional tourists but are in need of serious renovations and upgrading. Kosovo is generally rich with mountains, lakes and rivers thus offering prime possibilities for hunting and fishing. In addition, wellness tourism has a great potential for development.
The numerous thermal springs are renowned in the region for their healing effects. Foreign investors in this field will find strong demand in the regional market. There are also numerous religious and other sites of cultural and historical value providing good prospects to develop cultural tourism alongside the abovementioned forms of tourism.
5.The benefits of Foreign Direct Investments

5.1 Economical benefits

The foreign direct investments (FID) generally bring national economy benefits, contributing through invested capitals in Gross Domestic Products (GDP), in balance of payments and reducing unemployment. Ne general, the studies and practices of different countries of the world indicate this[20], even these studies show that there is a close connection between GDP and concrete flux of FDI. Here are excluded for example the first decade of transition in Central and southeast Europe where the increase of foreign investments is not associated with GDP growth.
The foreign investments, despite some limitations for the host economy (as the imports of intermediary goods, repayment of interests to lenders…etc until the neglect of environmental problems) provide assistance in debt payment, stimulating export, enhancing foreign income etc. In a particular way the FDI depends on concrete conditions of the invested country, economic environment and regulatory system, the government seriousness, correctness and honesty of the administrate, the concrete sector where is invested etc. Also, through FDI[21] can be stimulated market opening in new sectors, variety and diversity of products through the inclusion of capital, especially in new businesses.
But, the foreign investments require the insurance of human resources and normal infrastructure that are a problem in Kosova conditions, particularly in attracting serious investments.

[19] Kpmg, investments in Kosova, 2011
[20] Lall, S, FDI and development: policy and research issues in the emerging context, 2004
[21] Liang, G., New Competition: Foreign Direct Investment and Industrial Development, 2006

The investments in new sectors can stimulate the infrastructure and new technologies improvements of the host country as well as professional, managing and technical capacities. In not excluded when the foreign methodological – organizing techniques result not appropriate for hosting country needs, to activate the capital or influence negatively for local competitiveness, especially for small businesses for which is impossible to do the necessary adoptions.
Here are selected two types of foreign investments known as[22] “Crowding in” and “Crowding out”. In the first case we are dealing with the phenomenon in which the foreign companies can stimulate the economic growth, independently of non-sustainability, chaotic developments or up and down of local businesses.
While, “Crouding out” is the case when the company has opened different branches in the host country and tends to prevail the market in that country, by “fighting” the free competitiveness even the private enterprises.
One of the main reasons for the second case is political “trick” of authoritarian or arbitrary regulatory, in base of which the relevant executive “plays” in a non transparent and unfair way, by keeping low level of working and environmental standards to attract foreign investments, because with these low standards is possible the reduction of operative expenses for these businesses in the hosting countries.
This is valid for local businesses. For this reason, in the last recommendations of UE is emphasized the improvement of business environment. For this reason are given some other concrete recommendations as: “The implementation of the plan to reduce the administrative barriers for investments and simplifying of administrative procedures”. The definition of terms and clear procedures to enhance the registration and action of local and foreign companies according to EU standards. Guarantee non-discriminatory legislation for businesses and approve the common market legislation.
Is noted that countries with low incomes, as Kosova is, have difficulties to create a full economic environment or administrate and attract important of FDI. On the other side, the foreign investments aim to be in primary sectors as: agriculture, mining, tourism etc. while these sectors, in many cases, request high capitals to use the resources and on the other side are relatively slow to generate an economic effect of the type “spill over”. In this manner, as investments or economy with high incomes at last for the first period, have in their disposition less money or use their small capacities to avoid the environmental pollution.
This is noted also in Kosovo, in the case of privatization by the foreign companies. The lack of control and negligence of competent organs brings to environmental pollution and this is to expensive for the country. The FDIs are guided by many reasons. FDIs are to force the existing structures or to review the possibilities for new markets can be called also “market-seeking FDIs” or market search FDIs.
One of the FDIs advantages[23] is that it helps in economical development of the country where is invested. FDIs usually are implemented in development countries. In the 90’ the foreign investments were one of the main resources for the most of countries which have perspective for economic development. The foreign investments also helped many countries to afford the economic difficulties.
The foreign investments also permit the technologies transfer. This is made to assure the capital inputs. The countries which receive foreign direct investments can develop their human resources, by hiring new people in their special businesses. The incomes generated by the foreign investments in a country can be used to contribute in income taxes of corporations.

[22]‘Thomson Reuters, Crowding out and Crowding in: fact or fiction?, A research report for UNISON, London, 2012
[23] Training package: Economic and legal aspects of international investment agreements policy aspects of FDI in developing countries, 2008

FDIs help in opening of new work places, salary increasing etc. The foreign direct investments usually play an important role in the development of productive sector for hosting country. The foreign direct investments play a crucial role in the context of the productivity of hosting country. In the case of these countries the companies have the possibility to explore the foreign markets and in this way generate more incomes and profits.

Conclusion and recommandations

There is always place for improvements specially in dynamic economy that is changing day by day but the most important thing is to afford the problems and to improve the investment climate in Kosova and alleviate political and economical risk perceived by foreign investors. There is to much to do and to much to work, Kosova remains a place with to many possibilities to invest and a challenging country for investors who are ready to take into consideration the risk and difficulties.

Some of the recommendations to improve the situation:

- Create taxes that facilitate the foreign investments;
- Feasibility studding for reviewing the model of business registration in way to be more understandable without bureaucracy and more transparent.
- Institutional strengthening, in central and local level to support the foreign investments.

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7 THE LEVEL OF SOPHISTICATION OF E-TAX SERVICES IN THE SOUTHESTERN COUNTRIES IN COMPARISON TO THE EU MEMBER STATES

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Abstract
The electronic supply of government services was spreading dramatically in the past decade, all over the world. The governments in EU countries, as well as the governments in other developed countries had put much attention on offering different kind of e–services for the citizens and the companies. Although, the developing countries tried to follow the developed countries trend, they are still far below the level in developed countries. E–tax services are very important component of the e-government services. They are considered as one of the factors which determine the quality of investment climate, as they influence the time, the cost and the effort of accomplishing tax obligations. Although e-tax services are very important, very little literature has been dedicated on this issue, and the great part of the researches elaborate the availability of the e-government services as a whole, and only mention e-tax services.
The aim of this paper is to show the level of development of e-tax services in some of the SEE (South-East European) countries, compared to the EU countries. The main focus is put on the situation in the Republic of Macedonia. Namely, on the path to EU membership, SEE countries, including Republic of Macedonia, must meet some of the EU benchmarks connected with the fiscal policy, and e-tax services, as a part of it. As a consequence of that, the government in the Republic of Macedonia has introduced many measures, which made enormous improvement in the e-government services.
The analysis in the paper has shown that although the government in the Republic of Macedonia made great improvements in the e-tax services, the availability of these services in the country is below the level in the developed countries.
The results from this research can be very useful for the policy creators, and can be used as a path for the introduction of the future measures by which will be improved the quality of e-tax services.
Key word: E-tax, European Union, SEE countries, Republic of Macedonia

Introduction
Availability of e-services is growing very fast all over the world. The people and the companies prefer to get and pay services online, instead of spending time, effort and money, when they physically do the same work. The expansion of e-services is in all areas. E-commerce spread rapidly, and many companies made their good available online. Availability of the goods online became one of the major factors, which determine the success of the businesses.
E-services became very popular among the governments, as well. In the past decade has been made great improvements in the offering of the e-governments services. The governments in EU countries, as well as the governments in other developed countries have introduced many measures which were correlated with the quality and the availability of e-government services. Although, the SEE countries tried to follow the EU trend in offering e-government services, they are still far below their level.

The government in the Republic of Macedonia, as one of the SEE countries, has also made great improvement in offering e-services, in almost all areas. However, it is obvious that although the government puts great attention on this issue, there is still much progress to be done, in order to reduce the gap in offering e-services with EU countries.
One of the major parts of e-government services are e-tax services. The availability of e-tax services is crucial, since it reduces the time, the costs and the effort for accomplishing tax obligation. The benefits of e-tax are huge for the companies, since they influence on the time, cost, effort, security, errors, etc. The EU governments have introduced e-tax services, long before the government in the Republic of Macedonia, as well as the governments in other SEE countries did. The importance of e-tax services is so huge, that the rating agencies, as well as other international institutions, which rate the business climate in the countries, consider e-tax availability as very essential determinant.
Despite the progress made in promoting e-tax services in SEE countries, including in the Republic of Macedonia, the level is not satisfying, since they stand behind EU countries. Since SEE countries, which are not already EU member states, must meet EU benchmarks in many areas, including the fiscal policy, they have to make progress in this area in order to reduce the gap with EU countries.
The main objective of this paper is to show the level of availability of e-tax services in the SEE countries, compared with the availability of e-services in EU countries. The main focus of the analysis has been put on the availability of e–tax services in the Republic of Macedonia compared to the EU countries, as well as other SEE countries. The availability of e-tax services in the paper has been analyzed through the availability of e-tax filling system, as well as e-tax payment system. We have focused our research on Corporate Income Tax, Value Added Tax, Personal Income Tax and on Social Security Contributions.
In order to get authentic analysis we have used a broad range of data, from different sources. We used data from the e-government factsheet, which are obtained by EU Commission, as well as the data about tax from the Doing Business publication, which are obtained by the World Bank. We have also used the data from the National Agencies of different countries, especially from the Ministry of Information Society and Administration in the Republic of Macedonia.

1.THE BENEFITS FROM THE E-TAX SERVICES

In the recent years the governments put much attention on promoting e-government services, which offer many benefits for the citizens, companies, and for the government itself. The possibility to fill and pay the tax online is spreading very rapidly. The main reasons for this rapid growth are the benefits from e-tax system. The greatest benefits from this system are:

- Speedier Processing of Taxpayers' Returns: The processing of taxpayers’ return is quicker when tax payers process their tax returns online.
- Getting refunds faster: The advantage of the online filling income tax return is getting refunds back faster. It should be noted that direct deposit of refunds also improves the timeliness of refunds. E-filling virtually eliminates the opportunity of returns getting lost, delayed, or accessed by someone else.
- More efficient tax administration: Tax Administrations, worldwide, are using the Internet as a way to distribute information to taxpayers and to provide improved, faster and more reliable services.
- Saving time and money: Since returns are filled electronically, the money and time are saved on filling, sorting, keying and processing paper documents.
- The system do the calculations instead of employee: Online forms are designed in such a way that computations are performed automatically. This will help in avoiding common errors, like using inappropriate rates, exceeding threshold values, and plain arithmetical mistakes.

- Avoiding errors in returns: On-line filling completely eliminates errors made by officers when capturing the returns.
- Checking account status online: Anyone could review its' tax current account statement, view the returns filled in previous years, view the details of the PAYE slips filled by employers and track refund while being processed.
- Keeping information secure and confidential: The unique user and password that taxpayers are provided with, together with the IRD's secure automated system, ensure that income tax information are safe and confidential.
- Getting immediate confirmation: Once electronic return is accepted by the IRD the user will receive immediate confirmation and the assurance that the IRD has its' return.
- Availability of publications, legal regulations, examples: Access to help programs which provide access to Tax Office publications, previous rulings, examples and help screens.
- Availability 24 hours a day, 7 days a week – workers can fill the returns any time, and are not limited with the working time of the Tax Office.

1. AVAILABILITY OF E-TAX SERVICES IN THE EU COUNTRIES

As we already mentioned, developed countries have made great progress in promoting e-government services in the past years. E-tax services are one of the areas in which the western countries have made the greatest progress. We also mentioned that there is a difference in the level of development in e-tax services between EU member countries, especially between the countries from the Western Europe and the new member states. In the table which follows, is shown the availability of e-tax services in the EU member states. We would like to insinuate that the availability of e-tax services is presented through the opportunity of processing tax returns online, as well as opportunity to pay taxes online. The presented data in the table were obtained from the Doing Business 2014, as well as from the EU Commission e-government factsheet, which are published periodically, for each country.

Table1. Availability of e-tax services in the EU member states

	Country	Opportunity to fill and pay VAT online	Opportunity to fill and pay corporate tax online	Opportunity to fill and pay personal income tax online	Opportunity to fill and pay social contributions online
1	Austria	Available	Available	Available (Since 2003)	Available
2	Belgium	Available	Available	Available	Available (Since 2003)
3	Bulgaria	Available	Available	Available	Available
4	Croatia	Available	Available	Only opportunity to download form	Available
5	Cyprus	Available	Available	Available	Available
6	Check Republic	Available	Available	Available	Available
7	Denmark	Available	Available	Available	There is not such tax in the Danish' tax system
8	Estonia	Available	Taxpayer can only see the account	Available	Available
9	Finland	Available	Available	Available	Available

10	France	Available	Available	Available	Available
11	Germany	Available	Available	Available	Available
12	Greece	Available (since 2000)	Available (since 2000)	Available (Since 2000)	Available (Since 2000)
13	Hungary	Available	Available	Available	Available
14	Ireland	Available	Available	Available	Available
15	Italy	Available	Available	Available	Available
17	Latvia	Available	Available	Available	Available
18	Lithuania	Available	Available	Available	Available (since 2009)
19	Luxembourg	Only information and forms to be downloaded	Not available	Not available	Available (since 2009)
20	Malta	Available	Available	Available	Available
21	Netherlands	Available	Available	Available	Available
22	Poland	Available (since 2008)	Available (since 2008)	Available (Since 2008)	Available (since 2008)
23	Portugal	Available	Available	Available	Available
24	Romania	Available	Available	Available in 50% of Romanian Municipalities	Available
25	Slovakia	Available	Available	Available	Available, only for limited uses
26	Slovenia	Available	Available (since 2004)	Available (since 2004)	Available
27	Spain	Available	Available	Available	Available
28	Sweden	Available	Available	Available	Available
29	Great Britain	Available	Available	Available	Available

Source:EUROPEAN UNION, Common List of Basic Public Services. http://ec.europa.eu/information_society/eeurope/2002/action_plan/pdf/basicpublicservices.pdf,
"Doing Business 2014", World Bank, Washington, 2013, http://www.doingbusiness.org/data/exploretopics/paying-taxes

As it is presented in the table 1, most of the EU member states offer the opportunity to submit and to pay VAT, corporate tax, personal income tax and social contributions online. However there are still some countries, which still have not introduces the possibility to submit and to pay some taxes online. Namely, in Croatia the individuals may only get information and download the form online, but they can't submit the form online. In Estonia the corporations can see their corporate tax account, but they can't submit the declarations online. In Luxembourg the companies can only see information and download VAT form online, and there are not available online services for submitting personal income tax as well as corporate tax. In Romania the online submission of personal tax is available only in the 50% of the municipalities, while in Slovakia submission of social contributions online is available only for limited users.

From all presented data we can say that e-tax services in EU member states are generally highly available. There are only a couple of countries in which e-tax services are under development, or are still not available. Our dynamic analysis has shown that in older member states the e-tax services were available earlier, while in the new member states the process of development of e-tax services was intensified in the last 10 years. Actually, in the majority of the new member states the opportunity for submission and paying taxes online, was promoted in the past 5 years. The only exception of this trend is Luxembourg, which is old member state, but in the same time is a country that is least developed concerning e-tax availability.

We would like to note that in majority of the EU member states processing tax returns electronically is not obligatory, and the companies, as well as the citizens may choose how will submit their tax returns.

2. AVAILABILITY OF E-TAX SERVICES IN SOUTHEASTERN EUROPEAN COUNTRIES

In southeast Europe countries are included Greece, Bulgaria, Albania, Macedonia, Kosovo, Serbia, Montenegro and Bosnia Herzegovina. Other countries less commonly considered, that belong to this region are Romania, Croatia, Slovenia, Cyprus and Turkey. The boundaries can vary wildly because of aspects and opinions on political, economical, historical, cultural and geographical features. In the part dedicated to southeastern European countries we will elaborate about Albania, Serbia, and Bosnia and Herzegovina, since other countries (except Turkey) were included in the analysis that was dedicated to EU member states. Special section will be dedicated to the availability of e-tax services in the Republic of Macedonia.

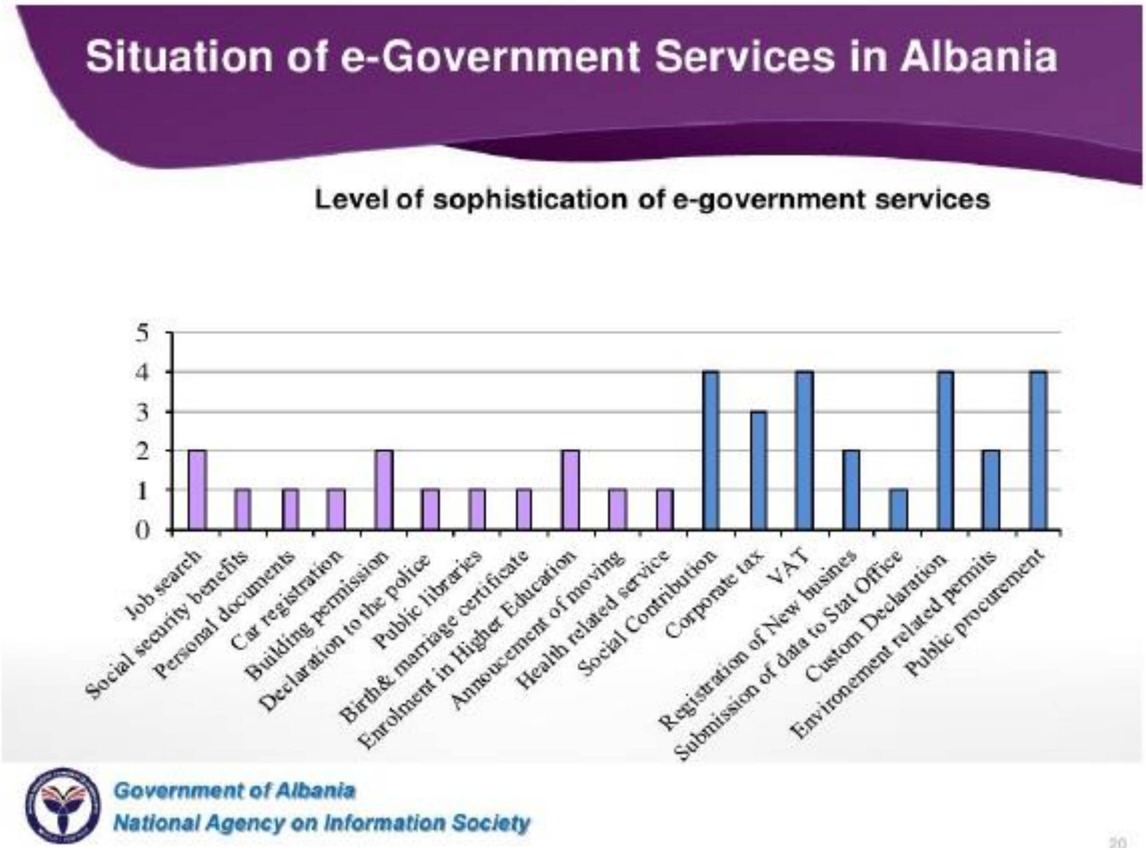
2.1 E-TAX SERVICES IN THE REPUBLIC OF ALBANIA

In order to get information about the availability of e-tax services in the Republic of Albania we communicated the data from different sources, including reports from the national tax office, data from the World Banks' Doing Business Publication, and many other sources. The information about the e-tax services in Albania refers that system for filling and paying taxes through Internet is available since 2007, and since 2010 the usage of e-tax system is obligatory, and the companies must process the tax returns solely through Internet. We would also like to note that Albania is still working on upgrading e-tax system, and in this respect has signed loan agreement with Austrian government in April 2013, for financing electronic taxation project. [24] Through the electronic tax system in Albania are processed all taxes, which are subject of analyze of this paper: corporate tax, personal income tax, VAT, social contributions. If we consider that e-tax system in Albania started in 2007, and became obligatory in 2010, we can easily conclude that Albanian government put much attention on improving e-tax system in the country, and is dedicated to following the path of the EU member states fiscal policy. We are agreeing with some authors who argue that e-government is considered as one of the crucial factors for achieving an advanced stage of development.[25]

Figure1. E-government services in Albania

[24] http://www.globalpost.com/dispatch/news/asianet/130410/albania-austria-sign-e-tax-accord

[25] F. Vela, et al, "Analyzing E-Government development in Albania: Problems and Conditions", Economic, Vol.9. No.4, 2013



Source: F. Vela, et al,“ Analyzing E-Government development in Albania: Problems and Conditions”, Economic, Vol.9. No.4, 2013

From the presented figure it is obvious that e-government services correlated with taxes are mostly sophisticated in Albania. While other e-government services are standing behind, the level of sophistication of VAT, corporate tax and social contribution is very high. Social contributions and VAT have reached level 4 (the highest level is 5), and corporate tax 3. This figure is another proof that e-tax is the area on which Albanian government has put much attention and focus in the past.

We would also like to note that although Albanian government offers advanced e-tax services, the total picture for easy of paying tax, as e determinant of investment climate in the country is very law. For instance in the World Banks’ publication Doing Business [26] Macedonia is ranked 26, Montenegro 86, and Albania 146. That refers that the government must make improvements in other areas as well, in order to improve the picture about the overall quality of the business climate in the country.

2.2 E-SERVICES IN SERBIA

In order to explore the possibility of submission tax returns in Serbia electronically, we have contacted the data from Tax office in Serbia, as well as the legal regulations about taxes. From the contacted data we can conclude that all taxes which were subject of this analysis can be submitted electronically. Processing of VAT form electronically started from April 2012, and at the beginning was not obligatory, but since January 2014 companies must submit VAT forms electronically. The tax returns for corporate tax, personal income tax, as well as social

[26]“Doing Business 2014: Country profile Bosnia and Herzegovina”, World bank, 2013

contributions must be sent electronically. The possibility and the obligation to submit the three mentioned taxes started from January 2014.
From the data which were elaborated about e-tax system in Serbia we can conclude that this system started to work later, compared to the most of the EU member states, and with Albania as well. However, the implementation of this system is spreading very fast, and staring from 2014 the companies and the citizens can and must process all analyzed tax return electronically. We would also like to note that even in the oldest European Union member processing e-tax return electronically is not obligatory, but in Serbia it is. That is a proof that although introduction of this system started later, there is a strong will to bridge the gap in correlation to the the developed countries from EU area.

2.3 E- TAX SEVICES IN BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina similarly to Albania is ranked very law concerning the preferences correlated with Doing Business[27] in the country. Namely its' rating is 135, from total 189 economies in the world. Although the country have introduced the measures for reducing income taxes, its' performances are still very poor. The main reason for that is the country's multi-tiered structure of government, which creates a confusing array of regulations, fees, tax systems and standards requirements that lack harmonization.[28]
What refers to e-tax services, according to the data presented in the Doing Business World Banks' publication, the country offers the possibility for online paying of social contributions. However e-tax system of the country is improving continuously and the country will very soon promote e-tax services for processing and paying of other taxes, as well.

4.E-TAX SERVICIES IN THE REPUBLIC OF MACEDONIA

Republic of Macedonia has made a great progress on tax issued. Its' rating defined by World Banks' Doing Business 2014 publication has grown enormously, and the country is ranged as 26 of total 189 countries. The country has improved in many areas concerning taxes, including reducing taxes, facilitating the process of paying taxes (reducing time, cost and effort for paying taxes). The government of the Republic of Macedonia has also made a big progress in promoting e-government services. E-government services are spreading in many areas, and the companies as well as the citizens can enjoy the possibilities of the new information technologies. One study has shown that in comparison to the EU member states, Macedonia has also growing trend and will reach the objectives set in EU states, but at least 5 years later.[29]
In the past years the government of the Republic of Macedonia has introduced many e-tax services. At the beginning the taxpayers were able to get some information and to download the form from the Tax Offices' website. In the mean time the software was upgraded and new services are now available for the taxpayers. The biggest steps in promoting e-tax were the following:

- E-filling and e-payment of social contributions, starting from 2009.
- Starting from January 2013 Macedonian government made paying taxes easier for companies by encouraging the use of electronic filling and payment systems for corporate income and value added taxes.
- Starting from January 2014 Macedonian government has introduced the possibility of paying personal income tax electronically.

As it is presented it is obvious that in the country it's available a system for e-filling and e-paying of corporate tax, personal income tax, VAT and social contributions. However, we can

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[27]Ibidem.
[28] "Doing Business in Bosnia and Herzegovina: A country commercial guide for US companies: 2012 Edition", US Foreign Commercial Services", 2012
[29] M.Gushev, et.al, "Growth of e-government services in Macedonia", Ss. Ciril and Methodius University, Skopje

conclude that just as the other developing countries from Southeast Europe, Macedonia has introduced this system in the past years, and is standing behind the most of the EU member states.

CONCLUSION

Introduction of e-government services is spreading very fast in the developed, as well as developing countries. Many governments have put much attention on promoting e-tax services in a function of improving the total quality of government services. However, the quality of government services' is very important, but what is more important for the countries from Southeast Europe which aspire to be a part of EU, is to harmonize its' fiscal policy with the policy of EU member states. EU member states have put much attention on promoting e-tax services in the past decade. Most of them are offering the opportunity for filling and paying taxes electronically for more than ten years. However the analysis made in this paper have shown that there are still EU member states which do not posses e-filling and e-payment tax system. The general conclusion about EU member states is that the older EU countries are more advanced in offering e-tax services, than newer member states. Actually the process of implementing and upgrading of e-tax services in all countries from Southeast Europe goes simultaneously. Namely, the quality of e-tax services in EU members and EU non-members states from this region is not very distinguish. In the paper we have analyzed the availability of e-tax services in Albania, Serbia, Bosnia and Herzegovina and Macedonia. On the basis on the presented data we can conclude that the level of e-tax sophistication between these four countries is similar, and that all started whit implementation of the e-filling and e-paying system in the same time. Republic of Macedonia is also making many improvements in the direction of promoting e-tax services. In the country the companies must submit forms and pay VAT, Corporate tax, as well as social contributions through Internet. E-tax services are also available for citizens. Namely they have the opportunity to submit Personal Income Form online. At the end we can make the final conclusion that the older EU member states are leader in promoting e-tax services. They were the first which implemented the system for e-filling and e-paying taxes. They are also continuously working on upgrading the system in order to make it more secure and more efficient. New EU member states are also working on introduction of e-tax system, but generally they are not much in front of the non EU member states from Southeast Europe.

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8 MANAGEMENT OF POLICY EFFECTIVENESS IN ECONOMIC STABILIZATION

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Abstract

The aim of this paper is to offer an overview of how public finances in the euro area countries and the euro area as a whole have been affected by the crisis, what risks to fiscal sustainability have emerged and what lessons may be drawn for the future for euro area fiscal policies. After this reflection, the focus is laid on current economic policy in Kosovo*, using official* statistical data. *Moreover*, comprehensive analysis of various factors with significant impact on economic stability *is conducted to be able* to propose an appropriate pattern that *would* ensures sustainable growth and economic stability.

Introduction

Fiscal policy remains one of the most intriguing fields of economic theory and policy. The economic theory, in particular, stresses that fiscal policy is better conducted within a framework of ex-ante defined rules. However, real world policy-makers still seem happy to ignore this conclusion and prefer discretion to rules. The EU countries run fiscal policy that is torn between (apparent) needs of the society still suffering from the transition-associated costs and used to high social transfers and rather rigid and demanding rules for fiscal policy within the EU. The new member states cope with these demands in strikingly different ways and with very uneven results.

On the other hand, whilst Kosovo aspires to deepen its EU integration, its economy has maintained a growth rate of 3-5% for about a decade up to 2011. The Kosovo Agency of Statistics (KAS) estimates that during the current three-year period (2013-2015), the economy will grow an average of 4.7%. Kosovo unilaterally adopted the Euro as its currency in 2002. However, it is not an official Eurozone member. Consequently, the Central Bank of Kosovo has only limited instruments and does not have the power to issue Euros. This restricts monetary policy and puts the responsibility for macroeconomic stability primarily on fiscal policy. The average inflation at the end of 2012 was estimated at 2.5%. It is projected that in 2013 it will remain lower than 2%.10 Interest rates for personal loans have increased from 10.8 to 12%; agricultural-related loans increased from 15 to 24%.11. Kosovo applies a 16% VAT and a 10% corporate profit tax. Personal income tax is progressive, and the maximum is 10 %. In order to facilitate exports, there is no tax on exports (Ministry of Finance, 2013).

1. SUSTAINABILITY OF EURO AREA PUBLIC FINANCES

This part discusses the risks to the sustainability of euro area public finances that are associated with the crisis. While there are several definitions of fiscal sustainability, it is generally understood as the ability of a government to service its debt obligations in the long term. For many euro area countries this ability has been impaired by the adverse developments in the primary budget balance, a rising burden of net interest payments, lower long-term output growth and the need to finance large capital injections in support of the financial sector. The threat to the solvency of governments is most clearly shown by the fact that their debt-to-GDP ratios are on a rising path and will continue rising if fiscal policies remain unchanged. After having declined from roughly 73% of GDP in 1998 to a trough of 66% of GDP in 2007, the euro area government debt-to-GDP ratio increased to 69.3% in 2008 and is projected to rise strongly to 88.2% in 2013. The surge in the euro area government debt ratio is a concern for various reasons.

First, rising budget deficits and debt may fuel inflation expectations and place an additional burden on the ECB's monetary policy for the euro area.

Second, if large government (re)financing needs drive up real interest rates, this may crowd out private demand in the recovery phase.

Third, rising government debt and higher sovereign bond yields imply higher interest expenditure. This either has to be covered by higher taxes, which are detrimental to potential growth, or by imposing constraints on other government spending items, including those promoting longer-term growth (e.g. infrastructure or education). Such constraints will become even tighter in the absence of reforms addressing the rising budgetary costs of an ageing society.

Fourth, investors are likely to discriminate increasingly against sovereign borrowers with higher (expected) debt levels relative to GDP, in particular in times of elevated risk aversion. The rise in government bond yields that these sovereign borrowers face may even spill over to other euro area countries (ECB, 2010).

1.1 Measuring fiscal sustainability

The sustainability of public finances requires as a minimum that the government debt-to-GDP ratio is stable over time. This notwithstanding, in accordance with the Treaty and the Stability and Growth Pact, the general government gross debt ratio must be below the reference value of 60% of GDP or "sufficiently diminishing and approaching the reference value at a satisfactory
pace", implying that in many euro area countries, debt ratios would need to be reduced substantially. From a theoretical perspective and for the purpose of defining fiscal sustainability, debt accumulation is driven by four main factors:

- the government's primary budget balance in each period,
- the interest payments on the outstanding stock of government debt,
- the nominal growth rate of the economy, which affects the debt-to-GDP ratio through a denominator effect and
- any stock-flow adjustments, i.e. those transactions or other factors that affect outstanding debt but do not affect the primary balance.

This can be formally expressed as:

$$\Delta d = \frac{i - g}{1 + g} d_{t-1} - p_t + sf_t \quad (1)$$

where Δd is the change in the debt-to-GDP ratio over the previous period, i is the implicit interest rate paid on the outstanding government debt, g is the nominal growth rate of the economy, dt – 1 is the debt-to-GDP ratio in the previous period, pt is the primary balance-to-GDP ratio and sft presents the stock-flow adjustments-to-GDP ratio. The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets, valuation changes as well as other residual effects. This term has assumed particular relevance during the recent crisis in light of the financial support provided by many euro area governments to ailing financial institutions. This support generally has consisted of capital injections and acquisitions of (impaired) financial assets. To the extent that these financial transactions were conducted at market prices or yield a sufficient return, they do not have an immediate impact on the primary balance, but will raise outstanding debt if governments need to borrow in order to finance them. The counterpart of this extra government debt is represented by the financial assets that the governments acquired during the crisis, which in the future may be sold at a loss or a profit. The explicit government guarantees that were provided in the context of the crisis represent contingent liabilities that are recorded off balance sheet. They would only affect the primary balance once a call on a guarantee is made, which will then usually result in a deficit-increasing government capital transfer. The fees, dividends or interest payments that the government receives from the banks as a result of its rescue operations are recorded as revenues and improve the overall budget balance. As argued by the IMF, a comprehensive view of the sovereign balance sheet is necessary to properly assess the risks to the creditworthiness of governments following their crisis-related interventions. (Grazia Attinasi, Leiner-Killinger and Slavik, 2011).

1.2 Primary balance and economic growth

The primary balance is a major determinant of fiscal sustainability. For all countries, given the new fiscal stimulus measures and the stronger than initially expected worsening of the macroeconomic environment, the deterioration in the primary balance is much stronger than anticipated one and a half years earlier. The main sources of risk for fiscal sustainability related to these adverse developments in the primary balance are the following:

First, even if the fiscal stimulus measures were to be quickly removed, this would in most euro area countries not suffice to return to debt-stabilising primary surpluses. Generally, a full assessment of the impact of fiscal activism on the sustainability of public finances requires consideration of the composition of fiscal stimulus measures, as well as their effectiveness in promoting growth both in the short and long run.

Second, the cyclical component of the primary deficits may become structural to the extent that the higher unemployment rate turns out to be structural and potential output settles at a lower level than before the crisis. A prolonged period of lower output and revenue growth would thus render existing spending growth trends, which are reflected in rising government expenditure to-GDP ratios, unsustainable. On top of this, the costs related to population ageing will increasingly take their toll on public finances by way of lower revenues from social security contributions and higher age-related expenditures

Third, further write-downs in the banking sector and losses in key industries may trigger additional government bailout operations involving guarantees. Expiring guarantees may be prolonged and further guarantees may be granted in the future. A non-negligible part of the government guarantees to financial and non-financial firms may be called, in which case they would burden the government budget. Also, the higher level of retail deposit insurance, even when the costs are expected to be covered by the banking sector, would ultimately imply a risk that the government might potentially have to step in to repay deposit-holders in case of a more widespread failure of banks. This is true in particular for those euro area countries where governments promised a more or less unlimited guarantee for all retail deposits.

As the crisis unfolded, output growth prospects over the short term deteriorated drastically, triggering rising government debt-to-GDP ratios across the euro area countries. At the same time, long-term developments in output growth, estimates of potential growth and thus government debt developments are associated with a high degree of uncertainty at the current juncture (ECB, 2010).

2. FISCAL CONSOLIDATION AND ECONOMIC GROWTH VARIOUS EVIDENCE

Conventional Keynesian theory suggests that fiscal consolidations can be harmful to output growth in the short run due to their negative impact on aggregate demand. This makes the decision when to start fiscal consolidation and how fast to proceed more complex. However, risks to short-term growth need to be weighed against possible adverse impacts on the credibility of governments' commitment to sound public finances that could result from un-ambitious consolidation. Eventually, there is a risk that failure to consolidate will undermine long-term fiscal sustainability. A number of considerations suggest that the downside effects of fiscal consolidation on growth need not dominate. In theory, expectation effects could even more than offset the contractionary impact on growth of fiscal consolidations, which are known as non-Keynesian fiscal effects.

For instance, a significant and sustained reduction of government expenditures may lead consumers to assume that this will create room in the medium term for a permanent tax reduction. In that case, an expected increase in permanent income may lead to a rise in private consumption, also generating a better environment for private investment. However, if the reduction in government spending is small and temporary, or not credible, private consumption may not respond positively to the fiscal cutback (Giavazzi and Pagano, 1990).

In addition, Blanchard (1990) and Sutherland (1997) argue that a fiscal consolidation that credibly attempts to reduce public sector borrowing may produce an induced positive wealth effect, leading to an increase in private consumption. Furthermore, the reduction of the government borrowing requirement diminishes the risk premium associated with government debt issuance, which reduces real interest rates and allows the crowding-in of private investment. The empirical evidence does not seem to fully convey whether observed expansionary effects following fiscal consolidations are driven by expectations about future disposable income or other factors, such as supply-side or structural reforms, monetary policy adjustments or exchange rate depreciation accompanying the fiscal consolidation (Briotti, 2005).

Afonso (2010) reports for the 15 "old" EU countries some evidence in favor of the existence of expansionary fiscal consolidations, for a few budgetary spending items (government final consumption and social transfers), depending on the specification and on the time span used. In addition, Giudice et al. (2007) argue that around half of the fiscal consolidations in the EU in the last 30 years have been followed by higher growth. Several other studies also find that fiscal consolidations have had only limited negative implications for real GDP growth in many instances, with diverse impacts of public spending shocks on output (Afonso and Sousa, 2009). In this regard, the quality of fiscal consolidation plans and structural reforms will play an important role with respect to the ensuing growth effect in the medium to longer run. Governments would thus be well advised to pursue fiscal reforms that enhance the efficiency of government expenditure and taxation systems, in combination with structural reforms in labour and product markets (Afonso and González Alegre, 2008).

3. ECONOMIC DEVELOPMENTS IN KOSOVO

From middle of 2011 until the end of 2013, Kosovo's economy has been managed well. Kosovo is one of only four countries in Europe that recorded positive growth rates in every year of the post-crisis period after 2008, averaging 3.4 % during 2009–13. The growth outlook over the medium term remains moderately buoyant, with 2014 growth forecasts slightly exceeding the average. The resilience of Kosovo's economy reflects:

- its limited integration into the global economy;
- the success of its diaspora, resulting in a steady influx of remittances;
- a generally pro-growth composition of the budget, reserving close to 40 % of public expenditures for public investments; and
- the steady inflow of donor support. In the absence of fiscal and monetary policy tools, key challenges continue to be reforms to increase "domestic productivity" in order to reduce the high rates of unemployment and poverty; strengthen public administration, institutions, and infrastructure; and reinforce the business climate. (work report 2013)

2.1 Fiscal Policies

In December 2013, Kosovo graduated from a 20-month, €107-million Stand-By Arrangement with the International Monetary Fund (IMF). Within the context of the IMF program, the Government had succeeded in addressing the fiscal imbalances resulting from general election promises of higher salaries in late 2010. In an attempt to prevent a recurrence of this kind of situation and maintain Kosovo's long-term fiscal stability, the Government sought to lock in the gains made under the IMF-supported program and asked Parliament to approve a fiscal rule as principal fiscal anchor. In general, Kosovo has agreed to a tight fiscal framework within which to prevent public debt from rising to unsustainable levels by having:

- adopted a Public Debt Law that sets the maximum public debt-to-GDP ratio at 40 %;
- stipulated in its Constitution that external borrowing by the Government—including for highly concessional International Development Association (IDA) credits—would require parliamentary ratification with a qualified majority;
- legislated in the Law on Public Financial Management and Accountability that any supplementary budget would have to be deficit neutral; and
- agreed with the IMF on the aforementioned fiscal rule to limit overall budgetary deficits, with few exceptions, to 2 % of GDP.

Already in 2012–13, Kosovo saw an increase in the stock of public debt by 75 % to (a still very modest level of) 9.6 % of GDP. This development reflected

- disbursements by the IMF under the Stand-By Arrangement in 2012 (2013 was treated in a precautionary manner); and
- the net emission of newly introduced treasury bills of €73 million in 2012 (1.5 % of GDP) and €79.2 million in 2013 (1.5 %). As a result, the stock of public debt increased

from €284 million at end-2011 (5.6 % of GDP) to €497 million at end-2013 (9.6 %). Kosovo has only negligible municipal debt and no state guarantees.

The start of a new political business cycle adds risks to otherwise healthy public finances. At end-2013, budgetary revenues stood at an estimated 25.8 % of GDP, whereas expenditures represented 28.8 %. The 3 % budget deficit exceeded the level of previous years (an average 2.4 % of GDP during 2009–12). The moderate relaxation in fiscal policies was due to exceptionally high rates of capital expenditures concentrated in the transport sector. With the adoption of the fiscal rule in 2013, Kosovo has limited overall budgetary deficits to 2 % of GDP, starting with the 2014 budget. However, the country's ability to adhere to the fiscal anchor(s) is being questioned due to pre-electoral decisions to introduce benefits to political prisoners and increase civil servants' salaries and pension benefits by 25 %, at an annualized cost of about 2.5 % of GDP (or about 10 % of total budgetary expenditure). To add to the challenges, Parliament has been discussing draft laws (in March 2014) that would introduce new benefits to war veterans and civilian victims of the war, with unspecified costs to the budget.

The additional spending obligations will crowd out alternative expenditures for growth-stimulating and/or productivity-enhancing purposes. In addition, if not properly managed, the across-the-board salary increases for public servants will

a) affect the implementation of the pay-and-grading reforms;
b) risk the accumulation of government arrears to suppliers, which would impact the country's growth potential; and
c) put pressure on ministries with particularly high wage bills, such as education and health. At the same time, these decisions unleash similar demands in the private sector for increases in (minimum) wages.

2.2 Public Financial Management

Improved Fiscal Framework and Public Financial Management will build the capacity of key institutions to implement good policy and financial management at both the central and local municipal levels. Foreign partner institutions (USAID, IMF, WB, ect) seem to be very keen to work with target institutions–mainly the Ministry of Finance and municipalities – to continue development of an effective institutional and policy framework in support of private sector growth. Public-private partnerships (PPPs) will be promoted for infrastructure and other public services (such as waste management, urban transport bus services, and public parking) not only to provide more space for private business expansion but also to decrease pressure on public budgets (USAID, 2014).

2.3 Reflection upon uncertainty and risks of policies

The risks from the uncertainties and volatility of Kosovo's fiscal policy are heightened for a number of reasons. For one, the fact that Kosovo uses the Euro as its currency limits its monetary policy and puts pressure on sustaining macroeconomic stability. Access to borrowing from abroad is restricted to the World Bank and the IMF, since Kosovo does not yet have a credit rating, and is generally perceived to have high political risk, primarily because of the situation in the north (World Bank, "International Development," 4, 2013).

According to the World Bank, the economic outlook is subject to substantial external and domestic risks. Economic troubles in Europe are transmitted to Kosovo via FDI, remittances, and exports. Kosovo's economic linkages are stronger with the better-performing countries (Germany and Switzerland) than with the troubled southern EU countries (Greece and Italy), but Kosovo still faces a contagion risk. Also, the economic outlook abroad will influence the success of planned privatizations in the telecom and energy sector. Further, falling demand for metals would reverse the positive trend of export growth in Kosovo. On the domestic front, political risks linked to hostilities in the north of the country and rising social tension could exert stronger pressures on government spending and slow down structural reforms if the focus moves from economic to political issues. Further political risks pertain to the lack of policy planning experience, although this is mitigated somewhat by recent efforts to conduct medium-term assessments prior to submitting laws to parliament.

Main remarks / conclusion

Achieving the economic development objective will depend on the Government of Kosovo continuing to maintain financial and political stability. In fact, the Government claims that is committed to preserving fiscal sustainability. The GOK has conducted fiscal impact assessments, worked within budget limitations, and incorporated economic incentive criteria in decision-making, and this DO will further support continued financial stability. Assuring political stability is of course closely linked to financial stability. Unemployment remains as the highest priority problem for the country, so the ability to increase economic growth and job opportunities will address an important political priority as well. In order to realize long-term stability, the will for reform among decision-makers must remain high.

Kosovo has largely had stable budget performance, although the budget deficit in 2011 widened to 4% of GDP. Tax collection improved by 4% during 2012, compared to the same period a year earlier. However, in 2012, Government of Kosovo expenditures exceeded revenues, resulting in a deficit of more than 2%, and the Ministry of Finance (MOF) estimates that spending will continue to exceed revenues over the next three years. This rapid increase in public expenditures is currently the major driving force behind growth in investment. Private investment has remained at 20-22% of GDP for the past five years, while public investment has increased from 5% to 12% of GDP.

Furthermore, of particular importance will be coordination with World Bank and International Finance Cooperation (IFC) projects aimed at improving and modernizing Kosovo's public sector, improving fiscal policy as well as financial management in line ministries, and other activities aimed at improving the business enabling environment in Kosovo, specifically in trade. Coordination and cooperation with the IMF will also be sought with regard to maintaining fiscal stability, and strengthening revenue generating institutions and systems.

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9 THEORETICAL VIEWS UPON THE ROLE AND IMPORTANCE OF THE MONETARY POLICY

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ABSTRACT

The problem linked to the monetary theory, especially the part which refers to the monetary policy, represents a complex field to research. This comes from the fact that each country separately conceit and conducts its own monetary policy according to its established priorities, in the frames of the possibilities and in the function of achievement of the goals of monetary, and with it of the macroeconomic policy. Having that in mind, any comparison of the monetary policy between two or more countries would be inappropriate. The reason is simple, each country separately, according to the level of the economic development, the phase of the economic cycle, the level of the monetarism, as well as the goals of the monetary policy and the macroeconomic policy, establishes monetary policy which is in the function of successful accomplishment of the established goals, in the way and under conditions which secure optimal utilization of the available resources.

Given the fact that the influence of the monetary policy (along with the fiscal and other separate policies) upon the total macroeconomic conditions and changes is of a primary importance, a great significance is given to the problem related to the monetary policy in the modern monetary theory. From those reasons, beside the different theoretical views, the role and the significance of the monetary policy on all economic trends according to the opinion of the largest number of modern economic theorist is the opinion that the monetary policy have a great importance in securing stabile macroeconomic ambience, ignition of economic growth, and with that securing conditions for more dynamic economic growth. Special attention in monetary theory is dedicated to the influence of the monetary policy in the development of the banking sector in the modernly organized states which existence and development is based on implementation of measures (policies) of the state and other public organs and institutions.

Theoretical views upon the role and importance of the monetary policy

Theoretical thought in regard to the question of the role and the importance of the monetary policy up to the present historical development is characterized by the evolutional development of the views and stands of the most important bearers of the scientific thought in the area of the monetary theory. Their views and stands on the most important monetary issues are not always the same or identical. Their differences in the scientific views and opinions are understandable, if you consider the actuality of that problem in its historical (time) dimension on one side, as well as in dependency on the value which is given to the monetary factors on the other side. From historical point of view, the evolutional path of development of the monetary theory is connected or conditioned by the development in the usage of money, as well as the increase of the functions of the money.

The most important issues in the area of monetary theory, for which the views and the opinions of the most significant barriers of scientific thought are equivalent, do diverge, and often have opposing opinions on the issues related to money, i.e. the amount of money in circulation, the value of money, the functions of money and the issue on the influence of money on the real economic trends. There are different, basically opposed views and opinions, regarding the mentioned issues in the monetary theory. According to ones, the development and changes of the real economic processes and trends are dependent on the factors of production, i.e. labor and the capital and the height of the interest rates, so the changes on the amount of money in circulation have no impact on real economic trends, neither on the amount of interest rates, consumption, investment etc. According to other theorists, money has a certain impact on the real economic trends, but only then, when the monetary balance is impaired, i.e. when the demand of money differ from the supply of money. In conditions of monetary balance, according to them, the monetary factors have no impact on the real economic trends. The reasons due to which the influence of the amount of money in circulation is relatively minor on the real economic trends are that the amount of money adjusts on its own, with the purpose to respond to the needs of trade, so the amount of money as a variable category gets down to the role of passive element in the development of the monetary cycle. If we agreed on the issue, that the role of the amount of money is passive, then it’s needed to identify some other variable which has an active role and impact on the changes (disorders) of the economic balance. According to the representatives of the third group of theorists, the money as a monetary instrument has a key role, or impact on the development and changes of the real economic trends. Every change of the amount of money in circulation in direction to its increase or decrease causes appropriate changes on the real economic trends. As arguments for confirmation of their views and opinions they point out that: the change of the amount of money in circulation can cause major oscillations in the economic activities; the relation of the money toward the rest of the assets of economic subjects is relatively stable, so the change of the amount of money can have relatively predictable effects on the economic trends; the amount of money in circulation is a monetary aggregate, and it can be controlled with a satisfactory accuracy with the measures of monetary policy.

The opinions and views of the largest number of economic theorists for a long time are that is not an issue of acknowledgement or not of the role, importance and the impact of the amount of money on the real economic trends, but the crucial question is down to what manner and size is the impact of the change of the money in circulation on the real economic trends. More precisely, the issue is about how, when and how big is the impact of the change of the monetary factors in the real economic trends. According to another group of economic theorists, the issue of the role and the impact of money, i.e. the amount of money in circulation on the real economic trends are absolved for a long time, and as such is more of an experience rather than a theoretic issue. So, according to the worldly known English economist Charles Goodhart, there is little left unexplained and contentious on the theoretic plan on the issues which are related to the role and the significance of money, i.e. the influence of money on real economic trends, especially the way of functionality of transmission (process) mechanism of monetary policy. But, according to Goodhart, there is a major disagreement on the strength of the influence of money, as well as the time which is needed to achieve the desirable effects of the acts of the measures of monetary policy on the real economic trends. These disagreements and contradictory opinions have led to a further development of the scientific thought, while different views of the pointed problem have brought the creation of basics for occurrence of different monetary theories.

2. The development of the scientific thought (monetary theories)

In the previous period, the scientific thought in the area of monetary theory has developed accordingly to the changes of the socio – economic circumstances, as well as the observations about the evolution of money, of their role and importance, the value of money, their usage, i.e. functions of money as a monetary instrument and other similar issues. From historical point of view, the development of scientific thought in the area of monetary theory begins with the appearance of money in the function of exchange tool up until today. There are several phases which are characteristic of this area, with the creation of a number of monetary theories, like[30]:

a. Metal theory (covers the period of the usage of metal coins up until the appearance of so-called paper money);

[30] Tihomir Jovanovski – Economic faculty – Skopje, 1998, page 133.

b. Nominal theory (covers the period from the appearance of paper money up until the period of so-called full convertibility of the paper money);

c. Theory of production opportunities;

d. Psychological theory of money;

e. The period of classical and neoclassical theory (until the end of 30's of the last century);

f. The period of Keynesian theory (from the end of the 30's until the mid 50's of the last century);

g. The period of monetarist theory (the 50's of the last century);

h. The period of polarization between monetarists and non-monetarists (until the middle of the 50's of the last century);

i. The period of counterrevolution of the Keynesians (from the middle of 80's until the beginning of the 90's of the last century);

Basic issues, upon which exist differences between the representatives of the monetary theory are: the role and the importance of money, the amount of money in circulation, the value of money, the transmission mechanism of the monetary policy, and also the issue of the influence of money on the real economic trends. Different stands and views of the most important theorists in the area of monetary theory were formulated on the basis of the results obtained from the research of pointed problem. As a result, in the literature of monetary theory can be found completed theoretical conceptions about the most important issues related to the appearance of money, the value of money, the amount of money in circulation, the influence of money on real economic trends and other similar issues. These kind of completed theoretical researches related to money can be found in the works of Adam Smith, David Ricardo, Karl Marks, John Keynes, Paul Samuelson, Milton Friedman, A. Patinkin, J. Tobin and others.

The modern scientific thought does not deal with the problem of money and its influence on the economic trends, because these issues and dilemmas are considered absolved. The essential challenge for the modern scientific thought is the issue of the level of monetarism of separate economies, but not the issue whether one economy is monetary or not. The dominant opinion is that each economy in which exist money in modern shape is considered as monetary, while the level of monetarism is much larger in the developed market economies, rather than in the countries in development or non-developed countries.

2.1. Metal theory of money

Metal theory of money incurred in the period after the appearance of metal coins. The basis of this theory is the stand that the money as an exchange tool, but also as a measure of value, must have its own substantial value, which is inserted in the metal from which the metal coins are made. If the money does not contain own substantial value, then the same cannot serve as an exchange and payment tool, from the reason that they don't have its own equivalent value in relation to the goods with which they are exchanged. For these reasons, according to the metal theory, the metal coins of gold and silver with their material form present a value[31]. The views of metal theory of money present a base for profiling the stand of Mercantilist school, according to which, the gold and silver are the only forms of permanent wealth, and accordingly only the metal coins of gold and silver can be used as money in circulation, i.e. in the function of exchange and payment tool.

Although the beginnings of the metal theory of money can be found in the Roman time, yet to completion of the theory comes in the time of Mercantilism. The most famous representatives of mercantilist school which firmly stand on the positions of mercantilist theory are Stafford (XVI century) who thinks that the precious metals by nature are money, then Galliani (XVIII century) with his stand that the value of money need to be identified with the value of the substance itself of the money, then Knies (XIX century) and Morgan Webb with the work "The outlook for Gold" published in 1938, in which the author openly advocate to respect the basis of metal theory of money.

The essence of the metal theory consists in the matter that the value of money is directly connected to the value of the precious metals contained in the metal coins. Only the metal coins from precious metals are real, i.e. real money, while the value of the paper money according to them is taken out from the value of metal money, for which they can be exchanged in any time[32]. Abandonment of the so-called system of golden currency represents an end of metal theory, as a theoretic approach, but also as practice of leading a monetary policy. In the later period, especially during the economic crisis, when it usually comes to increase of disbelief toward monetary authority, it can be noticed at several economists a certain dose of bias and support of the concept of metal theory, as the safest approach to lead a monetary policy.

[31] Tihomir Jovanovski – Economic faculty – Skopje, 1998, page 133.
[32] Ljupcho Trpeski, Monetary economy, Skopje, 2010, page 124.

2.2. Nominal theory of money

A contrary to the metal theory of money, the concept of the nominal theory of money starts from the fact that the value of money (it refers to the paper money) depends on what is written on them (in denominations) as a nominal value. Therefore, in order money to be used as a payment and exchange tool, it doesn't have to have its own material (substantial) value but it's enough in the same to be written a certain number which marks the nominal value of the currency. But, in order this money (paper money) to be used as an equivalent of the goods in the process of exchange, a certain authority need to be upon them. This sort of authority in the past had the kings, great commanders, and later it was the institutions of the state, i.e. the monetary authorities.

As the most significant representatives of the nominal theory of money are James Tewart, John Lock, and George Knapp. According to Tewart, the money (it refers to the paper money) is an arbitrary measure with equal components and as such has nothing in common with the real equivalent. According to Lock, the money is a result of a general agreement between people, with which is given an imaginary value to silver. The silver is convenient to serve as money due to the characteristics of silver. The evolution of the views and opinions of the nominal theory on the issue of the authority who stands behind the nominal value of the money according to Knapp is that the money is a product of the legal order. Money made of gold and silver apply the function of money only because the state with its authority has given to it its function[33]. In his famous work "The basics of science about the money", Dr. Vjekoslav Mejhsner starts from the nominal positions while explaining the manner of determination of financial obligations, says[34]: the financial obligation once and for all is determined with the number of currencies, so the same don't have to be changed according to the oscillations of the purchasing power of the money. Supporters of the theory represent the stand that the obligation is completed when the nominal sum of the debt is paid, independently whether the money at that moment has the same or a smaller material value (example: The golden money with the same nominal value but with a smaller material value)[35].

As a weaker side of the nominal theory of the money is considered the opinion that the issue about the value of money is considered an absolved issue, for the reason itself that the

[33] Prof. Dr. Tihomir Jovanovski – Economic faculty – Skopje, 1998, page 135.
[34] .Prof. Dr. Vjekoslav Mejhsner, The basics of science about the money, Skopje, 1958, page 79.
[35] Prof. Dr. Ljupcho Trpeski, Monetary economy, Skopje, 2010, page 127.

amount of financial obligation of the debtor remains the same (unchanged) independently whether the material (substantial) value of the money or its purchasing power is changed. The concept of the nominal theory of the money was applicable at the time of the so-called golden rule, when coins of precious metals were applied, as well as in the time when there was a full convertibility of the paper money.

2.3.Theory of production opportunities

The theory of the production opportunities is considered as an old theory of money. According to the representatives of this theory of money (Petty, Cantillan, Senior, Smith, Ricardo Marx and others), the value of money is determined by the amount of the production costs of the financial matter (the value of the substance from which the money is made). The basics of this theory come from the theory of the classical school of political economy. According to them, the money is goods as any other goods; therefore in the process of exchange each side receives equivalent value. In the times of the golden rule standard, if the price of gold is fixed then there's no possibility to change the value of money because the price of the substance which is used to make the (coins) money is unchanged, independently of the amount of production costs of the certain producers of gold.

If the price of money is not fixed, i.e. it forms freely depending on the supply and demand of gold, than the producers of gold who have lower costs of production of the price of gold formed in the market, will continue to produce furthermore, while the other producers with higher costs of production will have to decide either to stop with the production of gold or to reduce the costs of production of gold. If the market price of the gold is lower than the production costs of gold, it comes to decrease of the amounts of producing gold (part of producers give up from a further production due to higher production costs) and with that a decrease of the amount of golden coins. As a consequence of a reduced supply of money, it comes to a state of deflation in the national economy due to the increase of the value of money and decrease of the prices of goods and services in the market.

The views and the stands of the theory of production costs are considered as exceeded, due to the reason that the value of money in the modern monetary systems is not connected to a certain determined standard, but behind its value stands an authority of the state, i.e. the monetary authority which has a task to secure conditions to maintain the stability of the purchasing power of the money. The maintenance of the stability of purchasing power of money from the monetary authority is one of its tasks which have public legal character as many other duties, like: the education, the judiciary, the defense and other similar duties of the state[36].

2.4.Psychological theory of the money

According to the representatives of the psychological theory of money, the value of money is determined by the influence of certain psychological factors. According to them, beside the relation between the supply and demand of money, the value of money also depends on certain psychological elements such are: the behavior, the mood, the predictions, expectations etc. So, Albert Aftalion (1874-1957) while explaining the income theory says that the variations of the incomes or the prices are primarily determined by the psychological factors, and not only by the growth or reduction of the amount of money[37]. According to Aftalion, the level of prices is a function of predictions, while the variations of the prices are dependable on the variations of the incomes, and not the amount of money in circulation. When their incomes grow, individuals are prone to spend more money on a unit of good, even when the prices go higher.

In terms of influence of the psychological factors on the value of money, the views and stands of the representatives of this theory evolve, depending on the importance which is given to the psychological factors on the changes of the value of money, while several theoretical directions of development of the psychological theory of money separate, like: quality and marginal theory of the value of money. A contrary to the other theoretical concepts, to which the psychological factors play an important role, to the representatives of the psychological theory, the psychological factors such are: the trust, the mood and the behavior of individuals as buyers or salesmen, as well as the expectations and predictions based on the subjective valuations of individuals or groups, present basic or primary factors which influence upon the prices, and therefore to the value, respectfully the purchasing power of money. Apart from the existence of certain differences between the representatives of the psychological theory of money, among them still prevails the stand that the psychological factors play a dominant role on determination of the value of money.

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[36]Prof. Dr. Vjekoslav Mejhsner, The basics of science about the money, Skopje, 1958, page 85-86.
[37] Tihomir Jovanovski, Ekonomski fakultat –Skopje, 1998, str. 142.

2.5.Classical quantitative theory of money

Quantitative theory of money is considered as one of the oldest, but at the same time as one of the most influential theory of the money. The basis of the classical quantitative theory of money comes from the so-called primitively formulated quantitative theory of money which main representatives are Jean Bodin (1530-1596) and B. Davanzati (1529-1606), and later David Hume (1711-1776). Different views can be found in the literature of monetary theory, often even opposed views on that, whether the appearance of the so-called primitively formulated quantitative theory of money is a reaction to the views and stands of the mercantilist theory or, according to the views of some other theorists, that the beginnings of the quantitative theory of money appear during the time of mercantilism or even before the appearance of the mercantilist theory.

While treating the problem of growth of the price, Bodin considered that the reasons for increase of the prices (expensiveness) need to be looked in: wealth of gold and silver, the monopoly of gold and silver as a monetary metal, as well as the satisfaction of kings and the great gentlemen who raise the prices of the items that they desire. Jean Bodin and B Davanzati consider that the main reason for increases (increase of the prices) in Europe is the bigger influx of gold and silver from America. The general level of money, according to them, depends on the amount of money in circulation and the amount of goods in the market.

$P = M / Q$

$M = PQ$

P – General level of prices

M –The amount of money in circulation

Q – The amount of goods in the market

According to David Hume, the amount of prices of the goods depends on the relation between the changes of the money supply in circulation and the changes of the goods in the market. According to him, the goods enter in the exchange process without prices, while the gold and silver without value. Then, the prices of the goods depend on the money supply in circulation. According to Hume, the changes of the amount of money in circulation have a proportional impact on the increase of the prices of the goods in the market. With his views and stands, especially on the issue of the way of determination of the prices of goods and the value of the money, as well as he never talks about the speed of the money in circulation in his researches, David Hume is rightfully among the group of representatives of the primitive quantitative theory of money.

The quantitative theory of money, since the primary so-called primitive quantitative theory has suffered evolutional changes, so some theorists rightfully represent the view that it's not about only one theory but for several quantitative theories of money. Major contribution to the development of this theory is given by Adam Smith (1723-1790), David Ricardo (1772-1823), Malthus, Says, Mill, Walras and others. Although Smith with his researches didn't give a complete theory about the money, still his researches in the area of the monetary theory, especially the issue related to the appearance of the money, value and the functions of the money, the relation between prices of the goods and the amount of money in circulation, the relation between the level of the interest rate and the profit, are of a great importance from a scientific point of view. The basics of his researches are down to the stands that[38]:

- the division of the labor in society has caused that each individual to be dependable on the other people, because he produces only one or few goods, while the surplus of the goods over the required ones has to be sold to others, and from them to buy the goods that he himself doesn't produce. Up until the appearance of the money, different kinds of goods have played the function of an exchange tool;

- the money has an exchange function. Emphasizing the exchange function of the money, essentially he didn't understood the essence of the money as a generally accepted good, through which is expressed the value of other goods. Although he knew the other functions of the money, like the exchange tool, measure of value, a payment tool and tool for wealth, he however puts them in one single exchange function as a primary function of the money;

- prices of the goods are a factor on which depends the required amount of money in circulation. According to Smith, through the required amount of money in circulation the surplus goes abroad, or is used in metal industrial purposes (he was thinking about metal coins);

- the level of the interest rate depends on the achieved profit, while the amount of profit depends on the growth, stagnation or decrease of the national wealth. As the interest rate in one country changes, the profit from the capital will also change, or more precisely, as the interest rate goes down or up, so the profit from the capital increase or decrease;

- the capital, according to Adam Smith is divided into fixed capital and the capital in circulation. The fixed capital is composed of the machines and other working tools, business buildings and other objects and acquired useful abilities of all the habitants in one

[38] Prof. Dr. Todor Todorov and Dr. Armen Kadroski, International economy, Skopje, 2006, pages 58-65.

society. The circulated capital is composed of the money, the stocks of nutrients, the reserve of raw materials and semi-fabricated products and the serve of the finished products.

A major contribution to the scientific thought in the area of monetary theory is also given by David Ricardo. Regarding the fact that Ricardo was a good knower of the monetary theory, as well as the fact that the issues related to the emission of paper money (banknotes) in the beginning of the XIX'th century in England have become very popular, he was encouraged to be dedicated to this problem. His first article published in 1809 with the title "The price of gold" has awaken major interest in the public due to his critical overview to the damage of the excessive emission of money. A year later he publishes his work with the title "The high price of bullion, a proof of the depreciation of banknotes" which has caused major attention in the scientific public at that time. Later on are published other significant works in this area, with which Ricardo takes his deserved place among the scientific thought of the English classical school. The basis characteristic of Ricardo's theory of money which basely is a further processing of Smith's theory of money is composed of the following[39]:

- As Smith before him, Ricardo also thinks that money is a goods as every other goods, and accordingly the value of money is determined as the value of every other goods, i.e. by the amount of labor needed for its production.
- According to Ricardo, the natural price of all goods is determined upon the value of goods and money. The changes in the value of goods causes change in direction of the rise of the prices of those goods; while the change of the money in direction of growth or fall will cause decrease or increase of the price of those goods. It can be concluded from this that if the amount and the value of the goods remains unchanged, then the required amount of money in circulation depends on the value of money;
- Same as Smith, Ricardo thinks that the money are goods as any other goods and as such it serves as an exchange tool, so the replacement of gold and silver coins with bank notes doesn't change anything. According to Ricardo, the bank notes can also conduct the exchange function same as the money made of precious metals;
- The prices of the goods are determined with the ratio of the amount of goods and the amount of money. When the amount of money in circulation is increased in the same volume of goods, then it comes to the rise of prices, and vice versa;
- The amount of money in circulation (gold and silver) is regulated automatically, but still differently, depending on that whether exists foreign trade or not.

[39] Dr. Todor Todorov, The economic theories and the economic thinkers, Economic faculty – Prilep, 2002.

Namely, the increase of the money in circulation over the required level leads to its decrease of value, but also to the rise of the prices. When there is a foreign trade, the increase of the money in circulation over the required level, leads to increase of import of goods up until the level which marks a balanced relation of the amount of money and goods. When there isn't a foreign trade, the increase of money in circulation over the required level leads to the decrease of production of money to the level which fits the needs of the exchange. A completely opposite effect is achieved when the amount of money in circulation is decreased under the required level of the exchange. According to Ricardo, the free market automatically regulates the amount of money in circulation in accordance with the needs of the exchange;

- according to Ricardo the interest rate is not regulated with the policy of the emission bank and the banking sector at all, but the interest rate depends on the profit rate. This implies that Ricardo had a negative opinion in relation to the role of the banks and the crediting in general.

Beside the great contribution of the representatives of the classical monetary theory in the development of the scientific thought, we consider that this theory is full of major disadvantages. The treatment of money as goods like any other goods, the negation of the influence of the amount of money in circulation upon the prices, then equation of the banknotes with the money made of precious metals in performing the role of the exchange tool, and other disadvantages[40] are considered as the main disadvantages of this theory. Due to these, basically wrong views and stands of the representatives of the classical monetary theory, other monetary theories appeared which, although incomplete, in each one of them new elements are embedded, so the same can be considered as variations of the classical theory of money.

Conclusion

In the modern market economies, the function of the monetary policy is to provide, before all, maintenance of the stability of the prices in long term, as well as the increase of the production to level, or approximately to the level which would mean a complete utilization of the available capacities in the economy. But, in order to achieve that, there is a need to identify the obstacles (variables) which stand on the way of success, which instruments should be used, how should be their dosing, and which are the measured categories (goals) to which we strive.

[40] Dr. Aleksandar Zhivkivic and Gradimir Kozhetinac, Monetary economy, Economic faculty – Belgrade, 2005, pages 362-365.

According to the views of the modern monetary economy, the money supply in circulation is the main lever of the monetary authority, whose proper regulation affects not only the movements of the other variables, but also the success in accomplishment of the goals of macroeconomic, and to monetary policy. If is accepted the opinion that the money supply is the main lever through which is regulated the movement of the other variables, then the question arises about how to determine the growth of the money supply, i.e. should the money supply in circulation vary in accordance with the needs to secure monetary stability in long term, or should the money supply in circulation be conditioned by the need for correction of the oscillations in the economic activity.

Several concepts on the growth of the money supply in circulation can be met in the literature of the monetary theory. According to the first one, the so-called neutral concept, the growth of the money supply in long term is neutral, if with such a growth of the money supply, the average level of the prices remains the same or approximately the same during several years, while the economy functions in the level of the potential GDP. According to the second concept, the expansive growth of the money supply exists when that growth is above the level of the neutral growth of the money supply. According to a third concept, the restrictive growth of the money supply exists when the growth of the mass is below the level of the neutral growth of the money supply.

As is already known, the real income, the interest rates and the prices remain under the impact of the change of money supply in circulation, and that is in direction of their increase or decrease. On short term, the measures of the monetary policy affects to all three abovementioned variables, while on long term, the impact of the change of money supply is only directed towards the prices, i.e. towards the change of the general level of prices. If the growth of the money supply is sufficient to answer to the growth of the real income and the prices, what will happen in the monetary authority decide to decrease the rate of the monetary growth? In the beginning it will be felt a shortage of money, and later this problem will be more acute. In order to secure the required liquid funds, they will start to sell the securities which they posses, or some other property, other subjects will reduce or prolong buying of goods and services. These changes are the so-called primary effects of the change of monetary policy. The decrease of the demand will cause a decrease of production, decrease of the prices and the salaries of the employees, as well as the inflation which will decrease as a reaction to the changes of the monetary policy. It is considered that the problem with inflation is overcome if the rate of inflation is below or to the level of the monetary growth.