

Fiscal rules as a challenge of the Republic of Kosovo towards the European integration

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Abstract

In modern and functional democracies there are different and numerous parameters for a stable and sustainable state; however we must also pay special attention to the way that a country breathes in a fiscal sense. Therefore the treatment of financial rules with special care and applied-theoretical skills indicates the possession of those financial rules that create a financial and fiscal stability in the country in order to maintain stable governance and to affect the development of all the other areas as well. Fiscal rules direct fiscal policies about the best options and procedures that must be pursued in order to develop finances as good as possibly toward the accomplishment of the revenue and budget expenditures. However, only the creation and the functionality of those rules is not enough, therefore they must also be monitored and communicated in front of the public since it is considered to be a very significant aspect in the life of modern democracies. Particularly, we must pay special attention to those fiscal rules that deal with public debt, budget deficit and budget expenditures.

Keywords: Fiscal rules, European integration, financial and fiscal stability, fiscal policy, budget expenditures.

Introduction

The journey of Kosovo in the European Integration is a journey that contains a lot of challenging elements, starting from those political, legal, living standards, social, cultural, sports among them and continuing with the fiscal rules that have a special place and importance in the state hierarchy of the stability of the country. Although, as a society we are integrated in the EU in most of the areas, such as those of document standardization and institutional elements, however a lot of work has remained to be done in order to perfect the components and characteristics of the EU and implement them. Even though, Kosovo doesn't stand bad in fiscal terms, since there is a fiscal and financial stability, however the negative aspect is that we do not have enough economic progress. The implementation of law and the drafting of practical laws and regulations for life generally, and fiscal and financial life particularly is of great importance for the economic development and financial stability of the country considering that this area is also connected with the operation of the state on the whole.

Two very important issues are reflected in this paper:

- **Scientific and theoretical aspect** - What the fiscal rules are and their division?
- **Institutional and practical aspect** - How fiscal rules are implemented from the institutions that are responsible for this?

Scientific and theoretical aspect: this aspect is not very developed in Kosovo, there

isn't a sufficient and adequate treatment for this, therefore it should be intervened as soon as possible if Kosovo wants the younger generations to contribute in the treatment of this issue in scientific-theoretical terms.

Institutional and practical aspect: it is very deficient too, in terms of functionality and appearance of the problems and their implementation in practice, because Kosovo is in the stage of overall stability, respectively in the maintenance of the existing fiscal and financial stability, but contributing to the economic development and the increase of the living standards.

In this sense this paper aims to raise the institutional awareness for the importance of fiscal rules and to contribute in the enrichment of the literature in this field, since there is a deficiency of treating this fiscal phenomenon in our country.

What are fiscal rules?

Fiscal stability and sustainability require a lot of dedication and professionalism in the establishment of the rules and criteria that have to be based and extended on the development of public finances on the whole, and the establishment of particular rules on public spending, specifically. The establishment of these rules is depended on the definition and the setting of the macroeconomic policies in the development of the country, so that they can have an impact in the decrease of the budget deficit and the reduction of public debt.

The most consistent definition regarding the fiscal rules in contemporary theory is the definition of the well-known theoreticians in the fiscal field Kopits and Symnaski, who define fiscal rules "As a permanent obligation of the fiscal policies through the simple numerical borders in the budget aggregates".¹ According to the definition of these authors and experts of fiscal field seems that fiscal rules take part within the fiscal policies as significant factors and at the same time they represent successful mechanisms in the creation of the fiscal policies and fiscal stability of the country. According to them a fiscal rule has a numerical target with a permanent character and obligation of fiscal policies.

Fiscal rules are mechanisms of the state to establish fiscal stability in the country, except having fiscal and financial content, they also have a legal effect because the state has given them the force of law and regulations in democratic governments through legal mechanisms. Fiscal rules are presented in different laws as measures that must be respected in order to avoid procedural and fiscal abuses, and they are also introduced in a lot of subsidiary documents and laws that regulate the procedures of fiscal rules. For instance, a fiscal rule is implied when the state decides how much the maximum public deficit should be – less than 3%, or public debt less than 60% of GDP that is almost possessed by the vast majority of the countries with fiscal and financial stability.

Types of fiscal rules

Fiscal rules may have some special points in which they may be more aligned and special attention is devoted in order to eliminate possible disadvantages and gaps of the fiscal system in a country.

¹ Kopits, G. and S. Symnasky (1998), Fiscal Rules, IMF Occasional Paper, 162.

Fiscal rules are more emphasized in the following points:

- Prohibition of the public deficit increase;
- Reduction of public debt;
- Concentration on the public budget expenditures.

The prohibition of the public deficit increase - as a principle and as a fiscal rule is installed in the majority of states, and it is a real challenge for each state mechanism since the possibility and the tendency to make restrictions for not allowing the growth of public deficit is very difficult and a legal sacrifice. What we should emphasize is that most of the countries are prone to the expense of public money much more than the available and allowed funds for those categories of expense, however when we have similar situations when the amount of the spent money exceeds the available funds we are talking about a state deficit. In the previous years the state deficit has been much rarer, but after the 90-s of the last century the phenomenon of the increase of state deficit was more supported and was raised constantly. In the countries of the European Union exists the basic thought that the main only purpose of the existence of fiscal rules is the prevention and the correction of the so-called "*deficit bias of fiscal policy*"². This means that the concentration of fiscal policy in EU countries is much more focused in the restriction of the possibility of the EU countries to increase the state deficit since it represents a very serious problem in the financial functioning of a country and its fiscal stability. During the 90s of the last century, in order to avoid this phenomenon that was always in progress, the EU issued a document in 1997 in the form of a pact which is called "*Growth and stability pact*" for member states of the EU and at the same time within this pact are also introduced the sanctions for those countries that do not demonstrate fiscal power for the prevention of the increase of the state deficit above 3 % of GDP.

The reduction of public debt – is a sort of fiscal rule that provides many instruments and documents on how not to accept the increase and the justification of Public debt. Public debt has a lot of effects in the normal functioning of the modern state in financial terms, therefore, the dedication and commitment of taking care of the public debt is of particular importance, because with this fiscal discipline is maintained the modern state and society. According to Wenzel, Lackenbaur and Brosamle, public debt has a lot of effects that influence the fiscal functionality of the country and which is particularly emphasized on the issue of the difference of revenue distribution in general and personal income in particular. "If there are any specific distributive impacts of the public debt, then those effects should be sought at the difference of the distribution of incomes, consequently in the difference of personal income distribution (Wenzel, Lackenbaur and Brosamle, 2004). These two authors were completely right when they issued their analysis about the effects of public debt implying that there are two areas affected by this category: income distribution in general, where there are many differences that affect the bringing of incomes because public debt affects these incomes, especially it affects citizens' personal incomes of the country. The essential difference in causing public debt effects among incomes in general and personal incomes particularly is caused in time aspect, i.e. if we have

² The legal study on the possibility of adopting fiscal rules in Albania, Bank of Albania, Department of Law, Tirana 2010.

a spending which we want to achieve by raising local taxes then it directly affects personal incomes and also vary in terms of functional state revenues because we have immediate or noticeable differences, while if we want to cover certain costs through a public debt, then we have no direct impact on personal incomes in the short term, but we have a change in state revenues in the long run.

Public spending - as a category of fiscal rules have regulatory character and meaning in the treatment of the fiscal budget and state goods in general. The primary goal of public expenditures category is the destination of public money towards coverage of public spending that are generally considered as public services. Spending of public money as a financial rule in Republic of Kosovo is regulated directly by a bylaw that has the nature of an administrative directive (Financial Rule no. 01/2013 - The spending of public money) which regulates by setting rules and principles on how public money should be spent by the state institutions that function from the state budget. Under this bylaw the issue of spending public money is defined in this way: "This financial rule for spending public money represents the essential elements of spending public money, which are: appropriation, allocation, commitment, procurement, obligation and payment. Each of these elements is further elaborated in other parts of this rule"³. By this bylaw Kosovo institutions have certain rules and principles on how the spending of public money should be done in terms of appropriation, allocation, commitment, procurement, obligation and payment.

Legislative sphere in the field of fiscal rules in the Republic of Kosovo

The legal aspect of the fiscal field regulation in Republic of Kosovo is linked with a number of laws which have a binding character for local institutions and also represent a good parameter whether the fiscal life in our country is relatively harmonized with the standard life of EU countries in terms of fiscal policy.

The legal aspect of the fiscal field is connected with a number of laws and bylaws in the Republic of Kosovo: Kosovo Constitution, the Law on the annual budget, the Law on Public Financial Management, the Law on Local Government Finance, Law on Corporate Income Tax (CIT), the Law on Personal Income tax (PIT) Law on Value Added Tax (VAT), customs and excise Code, the Law on public debts, etc.

From this legal framework in Republic of Kosovo legal effects of fiscal policy are produced because all institutions operate simultaneously with these laws, in terms of fiscal policy, but great importance is given to the law on personal income tax and VAT law as it regulates a larger category of citizens (Haliti, 2014). According to this point of view, it appears that the fiscal rules are more important on issues dealing with personal income and on value added tax because it is an important segment and a source of collecting state revenues considering the fact that it affects or has a comprehensive impact in a majority of citizens.

In legal terms apart from these legal acts where there are indirectly provided some

³ Administrative Directive "Financial Rule no. 01/2013 / MF Expenditure of public money, of the government of Kosovo issued, on 28. 05. 2013 by the Ministry of Finance.

fiscal rules, there are some other fiscal rules set by secondary legislation issued by the Government of the Republic of Kosovo, specifically by the Ministry of Finance:

- Financial Rule No.01 / 2013 / MF - Expenditure of Public Money,
- Financial Rule No.02 / 2013 / MF - On reporting of unpaid obligations of budget organizations,
- Treasury Financial Rule 01 / 2010 - Financial Management and Control,
- Financial Rule No.10 / 2012 / MF - On the completion of the fiscal year,
- Financial Rule no. 11/2012 MF - On the beginning of the fiscal year,
- Financial Rule No. 09/2012 - On the management of trust funds - deposits of prisoners,
- Financial Rule 04/2011 - On reporting unpaid obligations of budget organizations,
- Financial Rule 05/2011 - On annual reporting of budget organizations,
- Financial Rule 07/2011 - On the financial statements of budget organizations,
- Financial Rule 08/2011 - On the beginning of the financial year,
- Treasury Financial Rule 03/2009, etc.

Fiscal rules in Kosovo are issued in the form of bylaws which represent a binding legal effect for the central and local institutions that have institutional public character and operate in financial and budgetary terms dependant on the central state budget. One of the fiscal rules that have a particular impact on the state financial stability is the financial rule that governs the form, the principles and the guidelines of the spending of public money, because we can be successful in terms of state revenue, but if we do not have an important document that shows a detailed view on how public money should be spent then this could pose a high risk to fiscal and financial stability of the country.

Conclusions

Fiscal rules in all modern countries that have fiscal stability and economic development pose significant and very sensitive challenges, since from the definition of such fiscal rules is directly depended on how well the state functions on fiscal and financial terms. Therefore, based on the many analyses on fiscal rules in the Republic of Kosovo we concluded that there should be influence or change in some very important points:

1. The fiscal rules should be introduced as a constitutional category in some key points regarding the principles of the public deficit, public debt and public budget expenditures as is regulated in Federal Republic of Germany and the reason that they should be included as a main category is because there is less possibility to be changed in the future since the change of the constitution is a more difficult procedure. This represents a kind of legal security that fiscal rules do not change frequently but have time, legal and fiscal consistency.
2. We must have a special law for fiscal rules where are foreseen and regulated in details issues of public deficit and public spending (There is the Law on public debt, no. 03/L - 175).
3. There should be created an independent fiscal agency from Kosovo Institutions associated with the implementation and supervision of all fiscal rules by the state

institutions.

4. Change the title of acts derived from the Ministry of Finance from "*Financial Rules*" to a more concrete and adequate naming "*Fiscal Rules*", because there is a big difference in theoretical meaning between these two expressions "financial and fiscal" and it is not an adequate term.
5. Sanctions should be provided for all those who fail to enforce fiscal rules and should be very well specified in strict order as not to allow the possibility for different interpretations, because this causes negligence and delay of work in general.

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