Fiscal policy and its progress in Albania

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Abstract

In this modest paper, the author has tried to present the progress of the Albanian economic system over the years and its connection with the fiscal system and beyond.
Throughout this paper, the authors have tried, through secondary statistical data provided by institutions such as the World Bank and the Institute of Statistics in Albania, to present not only the progress and trends of the economy as a whole but also the connections and influence of indicators such as public debt, income from taxes and government spending in GDP.
Based on the results achieved after processing the data, the author gives their recommendations and suggestions regarding the trends and the impact of these macro indicators in relation to the topic addressed in this paper.

Keywords: (GDP), Fiscal Policy, Government Expenditure, Public Debt, Tax Revenues.

I. Introduction

Albania is a small country located in the Southwest Balkans. Our country is characterized by various social and economic developments which have influenced the progress and economic progress over the years.
The transition from a centralized economy to a free economy in the early 90s required the implementation of efficient government policies, especially fiscal ones, in order to enable sustainable economic development.
The government has played during this period a primary and irreplaceable role in creating new jobs, in improving the standard of living, in balancing the price level and in maintaining the equilibrium of the balance of payments.
Government policies that create a direct effect on the elements mentioned above have to do with the notion of fiscal policies.
The purpose of this modest paper by the author, is to provide a theoretical and empirical explanation of the impact of fiscal policy on economic growth in Albania.
Objectives of the work. To realize a theoretical explanation of the main notions about fiscal policy and the impact it creates on economic growth in Albania. Empirically analyze the relationship created between Government Expenditures, Public Debt, Tax Revenue and Gross Domestic Product. To reach valid conclusions based on the empirical results of the paper.
The hypothesis of the work:
Basic hypothesis:
"Fiscal Policy (Government Expenditure, Public Debt, Tax Revenue) has no impact on economic growth (GDP) in Albania".
Alternative hypothesis:
Fiscal Policy (Government Expenditure, Public Debt, Tax Revenue) has an impact on

economic growth (GDP) in Albania.

Paper research questions

Does the fiscal policy affect the amount of Buto Domestic Product in Albania?

Is economic performance affected as a result of implementing inappropriate fiscal policies?

Fiscal policy refers to the application of tax policies in function of the impact on economic conditions, especially macroeconomic conditions.

Types of fiscal policies:

1) Expansionary Policy.
2) Contracting Policy.

The main objectives of the fiscal policy

a) Optimal allocation of economic resources.
b) Fiscal policy can aim at the fair distribution of wealth and income.
c) Another important objective of fiscal policy is maintaining price stability.
d) The most important objective of fiscal policy is the promotion and maintenance of full employment because through it all other objectives are automatically achieved.

Progress of Fiscal Policy during the years 1990-2020 in Albania

From the end of the 1990s and during the last decade, Albanian economic policies aim at maintaining macroeconomic stability, enabling poverty-reducing and non-inflationary economic growth policies and achieving fiscal consolidation through the reduction of the budget deficit and public debt. The budget deficit in 2010 was gradually reduced to 3.2 percent of GDP from 9.6 percent in 1998, mainly through cuts in government subsidies, personnel costs and interest payments for debt service. However, the rise in the budget deficit and public debt during the period 2007-2009 reflected both the actions of automatic stabilizers in reduced form through increased wages and capital expenditures.

The main sources of income during the period 1998-2010

Indirect taxes such as customs duties, VAT and excise are among the main indicators of the country's economic activity movements and make major contributions to tax revenues, reaching about 50 percent of the total level. Profit and personal income tax are the main contributors to the direct tax pool, accounting for about 13.8 percent of total revenue in 2010 from just 8 percent in 1998, although they are applicable to some income categories and are affected by tax evasion and non-declaration.

Implementation of the new fiscal strategy 2022-2026 in Albania

The implementation of the new fiscal strategy 2022-2026 aims to increase income and reduce the amount of informality. The reform aims to ensure an increase in budget revenues to the extent of 2.55% of the Gross Domestic Product during the 5-year period as a result of the change in tax policies and to the extent of 1.24% of the Gross Domestic Product as a result of the improvement of the elements of tax administration and customs. It is intended that the provided incomes cover the budget expenses in the amount of 32% of the Gross Domestic Product.

II. Methodology

In this modest work, the author has used secondary data which have been provided

by the statistics published on the official website of the World Bank.

Work variables used in this article:

Dependent variable (Y)	**GDP (economic growth) (Y)**
Independent variable (X1)	Government Expenditure (X1)
Independent variable (X2)	Public Debt (X2)
Independent variable (X3)	Tax Revenue (X3)

The data are in the form of time series. The data were analyzed by the author through the EVIEWS statistical program over a 15-year period, which belongs to the period 2006-2020.
The sample size in this work consists of 15 observations in total.

III. Data analysis

Stationarity test for the time series "GDP economic growth"
Ho: The "GDP" series has a (non-stationary) unit root.
Ha: The "GDP" series is stationary.

Null Hypothesis: D(GDP) has a unit root				
Exogenous: Constant				
Lag Length: 0 (Automatic based on SIC, MAXLAG=3)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-4.886981	0.0038
Test critical values:	1% level		-4.057910	
	5% level		-3.119910	
	10% level		-2.701103	

Source: Data processing by the author with EVIEWS (GDP).

Stationarity test for the time series "Government Expenditure"
Ho: The "Government Expenditure" series has a (non-stationary) unit root.
Ha: The "Government Expenditure" series is stationary.

Null Hypothesis: D (Government Expenditure) has a unit root				
Exogenous: Constant				
Lag Length: 1 (Automatic based on SIC, MAXLAG=3)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-4.150063	0.0096
Test critical values:	1% level		-4.121990	

	5% level		-3.144920	
	10% level		-2.713751	

Source: Data processing by the author with EVIEWS (Government Expenditure).

Stationarity test for the "Public Debt" time series
Ho: "Public Debt" series has unit root (non-stationary)
Ha: The "Public Debt" series is stationary.

Null Hypothesis: D (Public Debt) has a unit root				
Exogenous: Constant				
Lag Length: 0 (Automatic based on SIC, MAXLAG=3)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-5.799032	0.0006
Test critical values:	1% level		-4.057910	
	5% level		-3.119910	
	10% level		-2.701103	

Source: Data processing by the author with EVIEWS (Public Debt).

Stationarity test for the time series "Tax Revenue"
Ho: The "Tax Revenue" series has a (non-stationary) unit root
Ha: The "Tax Revenue" series is stationary.

Null Hypothesis: D (Tax Revenue) has a unit root				
Exogenous: Constant				
Lag Length: 1 (Automatic based on SIC, MAXLAG=3)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-3.913816	0.0141
Test critical values:	1% level		-4.121990	
	5% level		-3.144920	
	10% level		-2.713751	

Source: Data processing by the author with EVIEWS (Tax Revenue).

Work output.
Multiple linear regression model:
+ 0.099341

Dependent Variable: **GDP**				
Method: Least Squares				
Date: 11/12/22 Time: 17:48				
Sample: 2006 2020				
Included observations: 15				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.214045	0.863481	7.196508	0.0000
Government Expenditure	0.556327	0.158667	3.506258	0.0049
Public Debt	0.099341	0.046260	2.147444	0.0549
Tax Revenue	0.033163	0.015016	2.208556	0.0493
R-squared	0.680976	Mean dependent var		10.07880
Adjusted R-squared	0.593970	S.D. dependent var		0.074290
S.E. of regression	0.047338	Akaike info criterion		-3.039826
Sum squared resid	0.024650	Schwarz criterion		-2.851013
Log likelihood	26.79870	Hannan-Quinn criter.		-3.041838
F-statistic	7.826739	Durbin-Watson stat		1.295895
Prob(F-statistic)	0.004499			

Source: Data processing by the author with EVIEWS.

P = 0.004499, is less than 0.05 which shows that "Fiscal Policy (Government Expenditure, Public Debt, Tax Revenue) has an impact on economic growth (GDP) in Albania".

Graphic representation between Gross Domestic Product, government spending,

public debt and tax revenue.

Source: World Bank Database (2022).
The data show that from 2006-2009 economic growth is positive.
From the time interval 2010-2020, economic growth has been fluctuating, accompanied by ups and downs, as well as government spending. Throughout this period, the amount of public debt has been increasing and tax revenues have been unstable accompanied by ups and downs throughout this time interval.

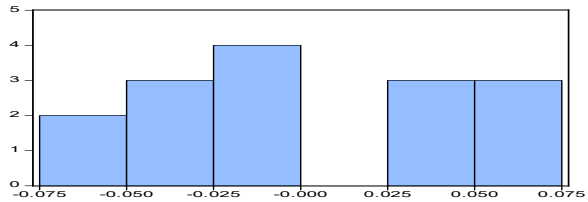
Econometric Testing for Heteroscedasticity:
The Breusch-Pagan-GodFrey hypotheses.
H0: ui have constant variance.
H1: ui do not have constant variance.

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.886401	Prob. F(3,11)	0.4782
Obs*R-squared	2.920233	Prob. Chi-Square(3)	0.4041
Scaled explained SS	0.654082	Prob. Chi-Square(3)	0.8839

Source: Data processing by the author with EVIEWS. (Heteroskedasticity Test: Breusch-Pagan-Godfrey.)

Criteria for making the decision:
If $p > \alpha$, the basic hypothesis cannot be rejected.
If $p \leq \alpha$, the basic hypothesis is rejected.

Jarque-Bera normality assumption.
The hypotheses for the test are:
Ho: Residuals have normal distribution.
Ha: The residuals do not have a normal distribution.



Source: Data processing by the author with EVIEWS. (Jarque-Bera normality assumption.)

Criteria for making the decision:
If $p > \alpha$, the basic hypothesis cannot be rejected.
If $p \leq \alpha$, the basic hypothesis is rejected.

IV. Conclusions and recommendations

1) Mensure the application of sound fiscal policies, the government must be careful to effectively implement them in accordance with the country's economic needs. The macroeconomic situation in the country has experienced fluctuations especially during the financial and economic crisis of 2009, the pandemic of COVID-19 and the earthquake of 2019.
2) It is considered necessary that in the face of financial shocks, healthy fiscal policies should be implemented in order to mitigate the participatory consequences in the economy. The stabilization of public expenditures and the achievement of a budget deficit at stable levels encourages economic development and progress.
Mainly, public spending should be a function of economic growth, being applied to the sectors that are most in need of financing.
3) Referring to the theoretical literature and econometric results, we come to the conclusion that the tax reforms that are intended to be applied in the economy must be carefully analyzed in order not to increase the amount of problems in the economy. An efficient economic growth can be achieved through a careful design and implementation of fiscal policies.
4) Fiscal experts must continuously carry out effective research and continuous analysis about the identification of factors that influence the increase in the phenomenon of fiscal evasion. In order to apply the appropriate fiscal policies in time to mitigate the corrosive effect on the economy.
5) It is considered necessary by the government to carry out continuous controls in order to reduce the abusive actions created in the economy.
6) It is important that fiscal experts implement efficient policies in order to attract foreign investors. In order to generate financial liquidity in the economy in order to satisfy consumer needs.
7) The government must play a primary role in civic education by providing the conviction that the realization of income declaration actions in a legal and fair manner serves better the economic performance of a developing country.

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