Albánska fiškálna politika: Dobrý príklad pre perspektívu Eú

Albania's Fiscal Governance: A Good Example In EU Perspective

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Štúdia sa venuje preskúmaniu dynamiky rozpočtovej bilancie a verejného dlhu v Albánsku pre obdobie 2005-2014. Dynamika oboch veličín je predpovedaná a nastavená až do roku 2020. Dané albánske hodnoty týchto premenných sú taktiež popísané v porovnaní s priemernými hodnotami pre EÚ-28. Pozornosť je venovaná prepojeniu medzi rozpočtovými deficitmi a deficitmi bežného účtu. Pomery rozpočtového deficitu a verejného dlhu sú v rámci zdravého intervalo sledovaného obdobia. Štatistické prognózy naznačujú udržanie postupného nárastu oboch veličín, ale v rámci zdravých a udržateľných hraníc. Toto je dobré svedectvo o verejných financiách Albánska v tomto ranom štádiu na ceste členstva v EÚ.
Kľúčové slová: rozpočtový deficit, verejný dlh, fiškálne právo, prognóza

The paper is intended to explore the dynamics of budgetary balance and public debt in Albania for the period 2005-2014. The dynamics of both variables are forecasted up to 2020. The place of the Albanian values of those variables will also be described in comparison with the mean values for the EU-28. Attention is paid on the link between budgetary deficits and current account deficits. The ratios of budgetary deficit and public debt are within healthy intervals in the studied period. The statistical forecasts suggest maintaining a gradual increase of both variables but not exceeding the healthy bounders. This is a good testimonial for the public finance of Albania at this early stage of the road to EU membership.
Key words: budgetary deficit, public debt, fiscal rule, forecasts.
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1 INTRODUCTION

Fiscal policy of Albania was significantly improved since the beginning of 1990s. Along with important political and economic changes in this decade, the economy attained its sustainable dynamics and sufficient results. This tendency became more apparent after 2000, which results directly from improved macroeconomic policy.

The macroeconomic stabilization and the years of economic growth additionally facilitated a better and efficient fiscal governance after 2000. The governments of this period had unprecedented success in making use of the favour conditions for maintaining low deficits and reducing the levels of government debt. Albania thus enjoyed longest period of rapid development of the economy in all history of the country. It made possible the moving towards the broader political goals of the overall governance. As a result of the good macroeconomic and political governance and the success of the reforms, in 2010 the European Commission recommended beginning of negotiations for membership and in 2014 Albania got a status of an applicant.

Taking into account the importance of stable public finance for a growth-friendly economic policy, the needs of catching-up development will challenge the quality and efficiency of the fiscal governance of Albania. Thus, the paper is focused on the fiscal governance of Albania on the road to EU membership. The main purpose of the paper is to study the dynamics of budgetary balance and government debt for the period 2005-2014. The developments of both variables will be forecasted up to 2020. The place of the Albanian values of those variables will also be described in comparison with the mean values for the EU-28.

2 BUDGETARY BALANCE: DYNAMICS AND SPECIFICS

Fiscal policy, of course, is a part of the complex macroeconomic policy. Budgetary deficit got up to its peak in 1997 on the background of the crash of the financial pyramids and Kosovo crisis. In this time, the huge deficits were financed mostly by domestic bank loans. Nevertheless, the deficits began gradually decreasing after 1998 and were dragged down below 5 percent of GDP. (See Ministry of Finance of Albania)

After a significant decrease at the beginning of 2000, the volume of government spending remains relatively unchanged and floats around 30 percent of GDP. Another important trend appearing after this year is to improved revenue collection. The last trend, combined with spending discipline, contributes to a strong reduction of the budgetary deficits between 1998 and 2009. The deficits were reduced with more than 6 percent of GDP. The improved work of the tax administration and

simplifying of the tax system were major causes for a better situation of total government revenue.

The fiscal program performance maintains a weak positive tendency over the period of interest. Sharp increases are seen in the deficit in 2008 and 2009. The peak of course was in 2009 when the deficit reached 7 percent of GDP. This situation shows the results of the Global Crisis on the public finance. After this year, the budgetary balance comes back to its usual values. It is due to the gradual economic recovery begun since 2000. The preliminary data on 2014 show a significant decrease in the budgetary deficit which downs to below 2 percent of GDP. The dynamics of budgetary balance is shown on Graph 1. The annual values of this variable are expressed as ratio to GDP.

It is important to note, the Albanian budgetary deficits of the last few years are close to the mean deficits in the EU-28. A better budgetary balance than the average one for EU-28 is registered in 2009, 2010, and 2011. The deficits in these years were respectively 6.8, 6.5, and 4.4 percent of GDP. (See more: Eurostat) As evident, those budgetary deficits are determined by the peak of the crisis the EU members entered in 2008 as well as the Euro area debt crisis. Both the crises challenged the public finance of the member states in this period.

The Albanian budgetary deficits are not different from these of Croatia and Slovenia – Western Balkan countries which already have EU membership. What is more, the Albanian budgetary deficit in 2010 equals that of Bulgaria, which is a country maintaining one of the lowest deficits in the whole European Union. (See Eurostat) Then the Albanian deficit reached 3.1 percent of GDP. The database of Eurostat shows that excluding the Croatian deficit, these of the mentioned countries do increase after 2012. It is curious that the Albanian deficit after this year moves in synchron with that of Bulgaria. All that things show that the economic and financial development and integration of Albania must not be considered separately from those of the countries of the Balkan region. The main difference is related to the speed of the reforms and integration.

The developments of the budgetary balance are also forecasted up to 2020 on Graph 1. The annual data on the deficits are presented as ratio to GDP. As seen, maintaining the actual tend in dynamics of this variable imply a gradual increase until 2020. The forecasts show that the deficit will float between 4.2 and 4.8 percent of GDP. It means the increase in spending will outstrip the increase in revenue. Therefore, this disparity will make challenges for the stability of Albania's public finance in the next few years. It is important to note, the forecasts for the last two years are covered with the forecasts of the International Monetary Fund. (See IMF database) However, the experts of IMF predict deficits exceeding five and six percent in most of the years of the period after 2014. As evident, the fiscal performance tends to be better than the forecasts because of the upward phase of the business cycle entered not just by Albania

but also by the EU-28. In this context, there are needs for reforms in the work of tax administration not to be missed opportunities for rising tax revenues and fiscal consolidation in this phase of economic upswing. Despite the unbiased achievements, such measures need to be taken in the preaccession period as a whole. (Manoku – Kalia 2013)

In spite of the fact that these values of deficits are consisted with the objective of catching-up development, they are not reliable indications of stability of Albania's public finance. They do not give significant positive signals to foreign investors. Therefore, the governments have to keep maintaining small budgetary deficits (up to 3 percent of GDP). Fiscal consolidation should be attained as a result of increased tax revenues. The government has to succeed to tax the new GDP increased and in this way to transmit the positive economic effects to the public finance health. As implied above, these line of behavior and direction of the reforms would be an efficient preparation for the future challenges of the EU membership.

Graph 1: Budgetary Balance in Albania for the period 2005-2020 (% of GDP)
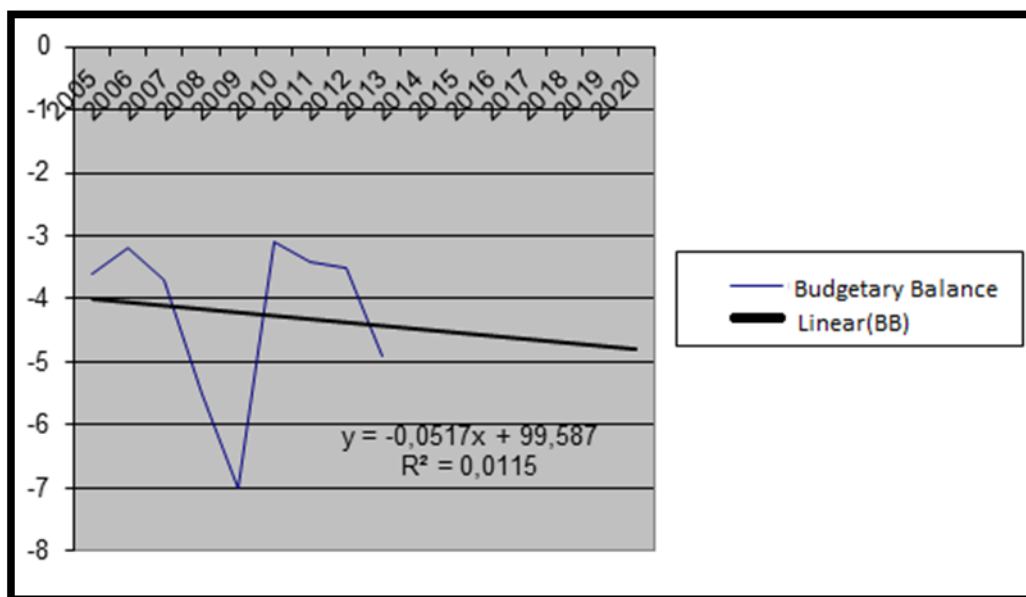
Source: Ministry of Finance of Albania, Central Bank of Albania

Many economists pay a special on the relationship between budgetary deficits and the deficit of the current account of the balance of payments. In economic literature this correlation is popular as twin deficit and has many macroeconomic and policy implications. This phenomenon has two conceptual explanations – via

Keynesian approach and via the relation of savings and investments. (Varol Iyidogan 2013, p.36)

Under the Keynesian approach, the expansionist fiscal policy worsens the state of the current account of the balance of payments as a result of increased income (Varol Iyidogan, 2013, p.36). Thus, the more the expansion, the less pure work of the market mechanism is. (Patonov 2013, p.315)

A set of empirical studies test the twin deficit hypothesis. As pointed out, if the twin deficit hypothesis is true under an automatic link between the balance of payments and domestic money supply, policymakers can control both the balance of payments and money supply via the fiscal position. (Ganchev et. al. 2012, p.2) Regression evidence is often found on small open economies. Albanian also has a small open emerging-market economy. An empirical study on the sample of Central and Eastern European countries confirmed the twin deficit hypothesis for all the countries, excluding Bulgaria and Estonia. (Ganchev et. al. 2012) Albanian conditions are closer to those of the CEE countries rather than those of Bulgaria and Estonia because of the lack of fixed exchange rate. Therefore, it is possible an econometric study to confirm the twin deficit hypothesis for Albania.

Graph 2: Current Account of Albania's Balance of Payments (percent of GDP)
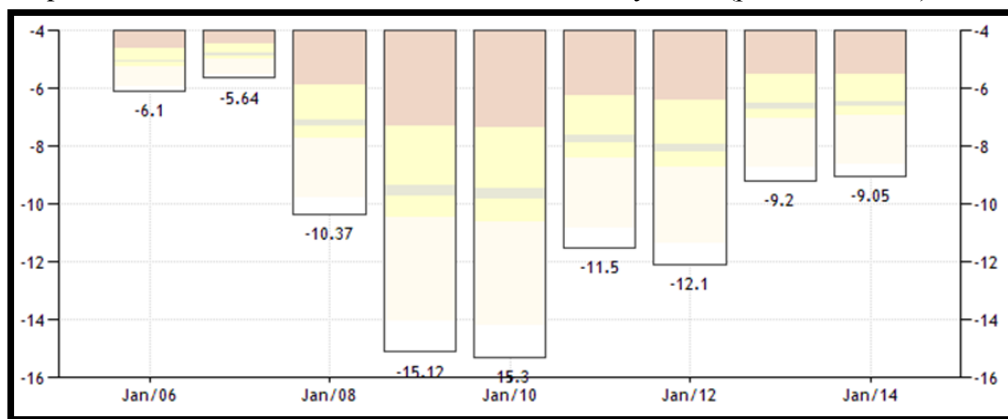
Source: Tradingeconomics

Similar suspicions are being suggested by the data on the current account of Albania's balance of payments in Graph 2. As seen, there are deficits of the current account from 2006 to 2014. The highest values of negative balance have been registered in 2008, 2009, and 2010 with a peak in 2009. Graph 1 showed the budgetary deficits also are highest in these years as the peak is in 2009 too. Therefore, we could agree that the twin deficit hypothesis was confirmed in Albania, which creates favorable conditions for an eventual fixed exchange rate. The last solution would be a good preparation for adopting the common currency of the European Union at a further

stage. However, this conclusions are not definitive because it was not supported by an econometric methodology.

Another conclusion is in favor of the strict fiscal discipline. The permanent negative balance of the current account of the balance of payments means that every increase in government spending will buy more imports. Therefore, domestic resource will flow out and the effects of the fiscal expansion will tend to minimum. In practice, the Albanian government expenditure has urged forward a worsening of the current account balance because the domestic supply is insufficient and not competitive to the imports. Such conclusions has been attained by (Muir – Weber 2013) studying the effects of the fiscal policy in Bulgaria. Consequently, these conclusions are valid not only for Albania and Bulgaria, but also for Eastern European emerging-market economies in general. Thus, fiscal expansion and higher budgetary deficits would be an acceptable way for countries which have stronger economies.

3 ALBANIA'S DEBT MANAGEMENT: DYNAMICS AND APPROACHES

In most of the economies, the taxes are used to soften fundamental shortcomings of overall fiscal policy, budgetary deficits, and cycle-friendliness. It is important to note, the importance of tax revenue as a policy instrument is increased in terms of small open economy because revenue multiplier is stronger than the spending one. (Muir – Weber, 2013)The last circumstance is caused by the general weakness of the economy and permanent current account deficits.

The practice of many countries has proven fiscal rules can improve the fiscal performance. (Debrun, et. al. 2007) However, these rules do not change the fundamental political engagement of the governments to abide fiscal discipline. (Wyplosz 2005)

It is important to note Albania's fiscal policy of last decade is very prudent. It could be seen from the overall reduction of the ratio of government debt to GDP before 2008. (See Ministry of Finance of Albania 2013, p.24) However, the growth in the borrowings of the government to finance large infrastructure projects and slowing down of the economic growth break the good tendency after this year. The ratio of the debt to GDP is expected to keep high values, (World Bank 2014, p.37) that makes Albania vulnerable for negative shocks. Thus, maintaining of acceptable of the ratio must be a prior fiscal goal.

The governments are limited to implement the last recommendation because of the difficulties in finding an optimal ratio of debt to GDP. The Maastricht criterion for debt of 60 percent could be accepted as a starting point. Empirical studies put an emphasis on the impact of the debt on economic growth. They found debt of 60-90 percent of GDP leads to a weak slowing down of the growth and there is an apparent slowing down after 90 percent of GDP. (Reinhart – Rogoff 2010, p.576) The slowing down debt of 60-90 percent effect is more apparent in terms of emerging markets. At

first glance, accepting 90 percent as a healthy above boundary of public indebtedness is the most appropriate policy recommendation for the Albanian governments.

Possible solution would be laying down a spending rule. In such a case, the rule should be combined with a mechanism of reverse link. Thus the unfavorable tendencies could be corrected, if weak revenue collection. (Ljungman 2008) Taking into account the low amount of tax revenues in European context, poor infrastructure, the high share of population in poverty, the need of catching-up development, rule implying an expenditure reduction or constraining the increase in spending would not be a good choice for Albania.

As a whole, there are fully technical reasons which make the fiscal rules to be not good solution for Albania's government debt. Many countries lay down fiscal rules in constitution or a special law. For example, Poland's constitution of 1998 introduced a maximum threshold of government debt. (60 percent of GDP) In 2013, Bulgaria imposed fiscal rules with the Law on Public Finance. (Zakon za publichnite finansi 2013) Other governments have initiated to inspire changes in the constitutions incorporating the rules – the case of Germany and Spain. These attempts for promoting fiscal stability are determinated by both crises the European Union entered – the global financial crisis and the Euro area debt crisis.

Albania was not stringly hitted by the crisis from 2008 and is still far from the effects of the European debt crisis. Along with the lack of problems related to the government debt, the country currently needs an institutional framework for elaborating and using fiscal rules. In this regard, difficulties could be expected in attaining political consensus regarding rules. Therefore, initially the levels of public indebtedness should have a form of political engagements being incorporated in the annual budget laws. Possible shortcoming of such an agreement could be the lack of succession. The political engagement for stable public finance is a fundamental precondition for successful fiscal governance.

The management of the aggregation of debt is an alternative approach. Increase in the debt is expected in middle and long term because of the process of catching up. Thus the ratio of the debt to GDP could be reduced without a nominal reduction of the debt. The ratio could be lowered if the nominal growth of the debt is lower than the nominal growth of GDP. (Macdonald 2003) This approach is more appropriate for Albania's conditions because it makes the governments more flexible in debt management and entails less requirements to primary balance.

As seen from Graph 3, the Albanian ratio of the debt to GDP did not exceed the healthy bounder of the Maastricht criterion over the period of 2005-2014. There is a small increase in this ratio registered in 2013 and 2014. This is a positive feature of macroeconomic governance as well as unused potential for increase in the public indebtedness. Maintaining those ratios and even a little increase is consistent with the objective of catching-up development. Therefore, the governments can finance large

infrastructure projects without endangering overall public finance stability and economic growth exceeding 90 percent of GDP.

The expectations for a gradual growth of the government debt are a usual continuity of the current developments of the debt. As seen from graph 3, the simple statistical forecasts on the dynamics of the debt confirmed the growth expected up to 2020. Thus, the public indebtedness will follow the already formed tendency to increase. However, the increase is forecasted to overcome the healthy bounder of 60 percent towards the last years of the period but far less than 90 percent.

Graph 3: Public Debt of Albania for the period 2005-2020 (% of GDP)
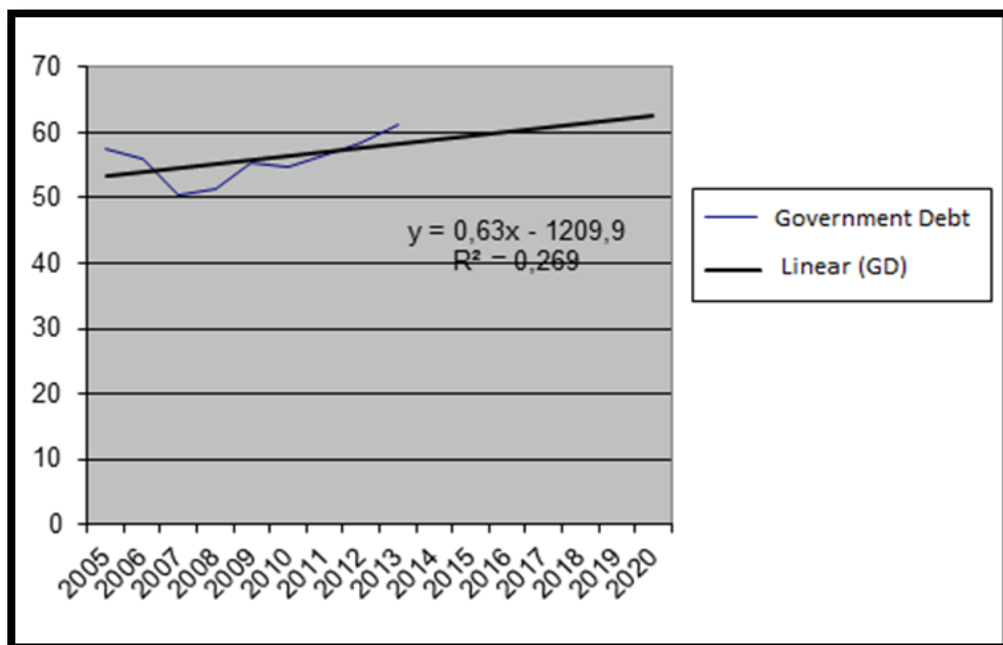
Source: Ministry of Finance of Albania, Central Bank of Albania

4 CONCLUSIONS

In conclusion we can point out that fiscal rules are not necessarily best choice for Albania's fiscal governance. The mananing of the mass of the debt is more appropriate approach in catching-up development's point of view.

Yet there are difficulties in achieving fiscal balans but the ratios of budgetary deficit and public debt are within healthy intervals in the studied period. The statistical forecasts suggest maintaining a gradual increase of both variables but not exceeding the healthy bounders. Along with everything, there are favorable conditions to confirm the twin deficit hypothesis.

Notwithstanding, these findings are a good testimonial for the public finance of Albania at this early stage of the road of Albania to EU membership.

Subjects of further research will be econometric estimation on the budgetary balance and current account deficits for Albania as well as an estimation of the impact of Albanian's government debt on the economic growth.

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