



# Kolegji AAB

**Department of Economics**

Concentration: Financial markets and banks

Theme:

**BUDGET DEFICIT AND ITS IMPACT IN THE MACRO FISCAL  
STABILITY**

**- STUDY CASE OF KOSOVO (2008-2013)**

Student:

Ardita Selmani

Mentor:

Safet Merovci

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## **ABSTRACT**

This paper represents an analysis of the impact of the budget deficit in the macro fiscal stability in the study case of Kosovo in order to see what development level Kosovo is in, compared to region countries. It's clear that in the study case of Kosovo, the government ambitions to accommodate spending politics with the purpose of long term political profits caused that the increase of the budget deficit and as a result to influence in the level increase of the public budget. The implementation of the fiscal expansive politics has an impact on the increase of available revenues for family economics and businesses, which influences the increase of consumption and investments, which also affects the trade balance.

The budget deficit affects in the increase of budget's stock and consequently in the increase of norm's interest which has an impact on the increase of financing's cost. An increase of norm's interest influences the decrease of investments in economy, and as a consequence there's a slowdown of the economical increase that is reflected in budget revenues and also in available revenues for family and business economics. Considering the economical structure of Kosovo, it is essential that the implementation of government politics is done in harmony with economical development's trends and not within political points by going beyond real budget capacities.

## CONCLUSION

In this paper, we tried to do an analysis of the connectivity of the budget deficit in the macro fiscal stability for the period of 2008-2013 by using available annual data for the estimated period. By being limited in the stability of data which are only 5 years, it was impossible to establish a statistical model in order to evaluate statistically. However, the methodology which was used in this work, was the detailed description of the economical structure of Kosovo and its developments during the estimating period, emphasizing the analysis of the fiscal position, and also the model establishment for the stability evaluation of the public budget and scenarios for the stabilization of the public budget during the following years.

There were done several studies for the budget deficit and its effects in other economical parameters such as: the real sector, external sector and financial sector. Studies show that there's a strong connectivity between the budget deficit and available revenues for family and private economies, which means that an expansive fiscal politics increased the money amount in economics and otherwise a fiscal contraction politics decreases the money amount in economics. Considering that except the monetary politics, fiscal politics is a tool for the economical development's stimulation, not always the government politics of expenses are accurately designed to keep the macro fiscal stability and especially in developing countries.

Until the financial crisis that hit the international financial markets, economics in development had a convenience in the implementation of their investing politics as long as they had access in the financing of their projects with low financing cost. With the infliction of the financial crisis, there was a necessity shown for the intervention of governments in saving the banks from bankrupting and deposits insurances of depositors with the purpose of avoiding the factor of 'banking crisis.' Such action caused a financial crisis from the transition of the financial sector in the fiscal sector where now we're witnesses of crises in the fiscal sector because of big debts of some European countries and in other continents. This because that the government expenses scored drastic increase since the crisis period as long as the government revenues started decreasing as a result of the economical slowdown of working places. E.g. The case of Greece is one of the most typical examples that can be reviewed when we define spending politics. An economical country which is extremely low by the productivity level, many benefits for the pension stratum and civil servers made the country accumulate stocks of the public budget over 100% of BPV, which pushed the country to require financial aid from Euro zone to pay the debts. Such act caused the necessity of structural politics to generate revenues by cutting expenses and the same time by increasing taxes which set the country in unemployment increase and negative economical fall by increasing the level of the public budget.

In the study case of Kosovo, we deal with a more favorable situation compared to the region countries where Kosovo enjoyed a managing deficit and a low budget stock. However, the economical structure of Kosovo remains the same still influenced from investments and consumption of the public sector and from the revenues of remittances that mainly consist of

balance financing of payments. From the fiscal point of view, we see that the border revenues consist of over 50% of general revenues that shows that the local request is still fulfilled from imported products, meanwhile the local revenues consist around 30% of general revenues. In the other side, the structure of import remains well diversified compared to the exports which cause the trade balance to remain negative along years. In the other side, remittances and direct foreign investments have continued to play the main role in the financing of the current account which along years scored positive annual increase along the analysis years.

Kosovo has kept on scoring positive economical increase during 2008-2013 compared to country regions which even scored negative increase. This increase attributes to the necessity for investments in the road infrastructure where the capital category consists of around 28% of total expenses. Despite the component of investments, even the public consumption has contributed in the economical increase which was interpreted through the pay raise in the public sector, category of goods, services and of subventions. This caused the budget deficit get deeper by scoring annual medium increase from 6% during the period of 2008-2013. Based on the theory, there exists a strong connectivity between the budget deficit and public budget which in the continuity of increase has an impact on the increase of financing cost which stimulates the deficit deepening, and in this context stimulates the increase of interest's norm in economy.

Considering that even the capital market is developed, the risk level in the macro fiscal stability is in the performance of revenues and positive economical increase, which are the main contributors in low financing cost. However, based on the history, we see that the revenues of general level in the last two years were overrated and as a result had an impact on not processing secondary capital projects, a thing that influenced the economical rise. Pay raise for the public sector has caused inflation pressure by negatively influencing the Kosovan productivity compared to the potentials of economical output. In this context, this also influenced the private sector for pay raise in this sector.

With the purpose of keeping stability of the debt, first of all it is essential that the projections of the economical increase and general revenues to be realistic and not impacted by optimist measures. However, beginning from 2014, fiscal politics are connected to the fiscal rule which entered the law in 2014 and it foresees the roof for general expenses not to pass 2% of BPV , to maintain the level of the public budget under 30% of BPV and 4.5% banking balance of BPV. Capital expenses are excluded from the limitation of fiscal rule as long as they're financed from the revenues by the privatization of social enterprises and banking balance in case of limitation's excess from 4.5% of BPV.

To assure a realistic prediction, it is important that Kosovo establishes an independent fiscal council that would estimate the macro economical parameters. This would help to complete procedures in order to insure macro economical and realist independent budget predictions, which would insure that in the future, Kosovo strengthens the stability of public finances.