FISCAL POLICY AND FINANCIAL CRISIS

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In this paper I will try to analyze the fiscal policy and to suggest fiscal policy measures as very crucial instrument to market economy during the global financial crisis. Decision makers of monetary and financial policy in Kosovo currently are not undertaking significant measures to promote growth and development. Public spending is excessive; the public debt is constantly growing, current account deficit also. In addition unemployment is high, capital investments in public and private sectors are insufficient, as well as investments in science and education. Market infrastructure in Kosovo is not functional and market laws are not enforced. The central government in Kosovo is facing trade of between market liberalization and challenges with public spending. Therefore fiscal policy measures are insufficient and cannot stimulate economic growth.

Key words: fiscal policy, fiscal incentives, competitiveness, financial crisis, fiscal consolidation, European Union

1. Introduction

The role of the fiscal system respectively fiscal policy in the EU, whose integration segments comprise the monetary union and the single market, is permanently changing. Currently the EU should is trying to create and build such fiscal relations in which the EU member states could retain a high degree of political, constituent and economic sovereignty, on the other hand not jeopardize the existence of the single market, which should be free and fair. In this context, also Kosovo and Albania should undertake a fiscal policy measures should be formulated and harmonized with EU regulations, and therefore create an economic sustainability and increase the regional competitiveness.

Sharp slowdown of the economic activity, rising unemployment, debt crisis and the other social problems it is quite certain that Kosovo need to reformulate the fiscal policy and address the economic challenges. In addressing the economic and financial crisis, the duration of which one cannot predict with certainty and that everyone agrees that it will not be short, not to lose sight of the internal problems in Kosovo. Kosovo's economic challenges are primarily structural in nature, chronic such as: deficit trade balance, excessive and constantly rising unemployment, a drop in foreign investment, corruption, slow reforms, excessive public spending, technological backwardness and low level of competitiveness.

According to Alkinson and J. Stiglitz, two fundamental functioning economic institutions, the market and the state, cannot be considered without coordination, since they affect each other and are in constant interaction. The market is irreplaceable in its allocated function, but does not ensure fairness; it produces inequality in the distribution of income and wealth.

In order to ensure the market efficiency, it is necessary to involve the state intervention through the system of public finances, which are just to correct its specific market imperfections in its work. Fiscal and monetary policies of many states with foreign policy seek to regulate the fluctuations in the economy of the country. Often these fluctuations are called economic cycle. Economic cycle mode appears as the periods of expansion and recession economy, (A. Blinder i S. Fisher, 1980). In other words, the central bank uses its instruments, primarily the reduction of required reserves, as well as other measures "put" significant amounts of money to improve liquidity, and the government begins to spend more in order to boost production in the country.

It should be noted that this remedy recommended by Keynesian and he once gave good results in restoring the American economy in the thirties of the twentieth century, during the Great Depression (1929.-1933). It should be noted that the intervention of the state in promoting economic growth, may be different in character. Monetary or fiscal policy, usually, the state corrects the state of the economy in the economic cycle. There are cases that the state measures harming its economy, but these are certainly minority cases, as seen through the history of the world. Public choice theory makes it clear that the state has an important role in the activities of the economy. The role of government is indispensable; the only question is what will it take shape. Restrictive or expansionary, fiscal policy, the government gives the seal of the economy of a country. Reducing tax rates will boost economic activity, an increase in the inflation rate to behave. It will also increase government spending to increase social transfers of the population, but will also limit the investment activities in the economy. Furthermore, the instruments of fiscal policy of the country despite the positive effects could impose also negative spillover effects.

The question is which side will prevail. According to Curierman there are three major target areas of fiscal policy: allocation, shipment and stabilization.

The concept of stability is associated with the notion of economic equilibrium. Economic development must be balanced. Important factor of economic equilibrium is considered to be compatibility between the economic plans of all businesses. If this compatibility is exercised, then there shall be no undertaking to changing their plans (Leijonhufvud, 1983).

Significant budget deficit, as it is known, discourage investment because if the funds are used to repay debt for consumption, it is a challenging transfer from the sphere of investment in the sphere of consumption, which discourages economic growth. In the contrary the budget deficit could create a powerful incentive for the injection of the economy if the right target and if in moving them in a situation u balance will budget and full employment.

In this paper, I try to answer the question of whether attempts for consolidation of the state reducing public spending actually stimulate the economic development of Kosovo economy.

2. Fiscal policy

Fiscal policy and economic strategy in Kosovo is based on commitments made by the Kosovo authorities who took the stand - by arrangement and are reflected in the policy of public expenditure management and further reduction of internal and external debt. According to the recommendations of the IMF managing fiscal prudence requires limit and reduces the budget deficit for 2009 and 2010. The need of keeping the prudent fiscal policies aimed at limiting public spending stems, among other things, the negative effects of the economic crisis on the revenue side. These objectives will be achieved by taking certain reforms and measures in terms of income and consumption in particular.

The importance and role of fiscal policy is clear and possible to determine if fiscal policy is viewed in the context of economic policy J. C. Van Horne (1990). And that's the reason that economic policy determines fiscal policy objectives and that means the criteria for the evaluation of its effectiveness as well as the interdependence of objectives and instruments.

In the context of shaping the fiscal policy for the future raises several questions:

1. Degree of fiscal demand,
2. Size and scope of government spending,
3. Priorities in public spending and methods of rationalization of public expenditures,
4. Balance of public revenue and public expenditure, the way equalization possible imbalances namely the relation between monetary and fiscal pol

Observed, mainly in the economic level, the fiscal mechanism is tasked to achieve a balanced relationship between the three main goals:

1. Efficient allocation,
2. Redistribution of income in the steady unfolding of the process of reproduction, and
3. Finally, social and economic sustainability.

First, the efficient allocation respectively allocation neutrality means that the fiscal system and fiscal policy that arbitrarily not change relative prices of inputs and outputs formed on complementary market. In the tax system, it is, *inter alia*, for the avoidance of differentiated sectorial and branch taxation, narrowing the range of tax exemptions and reliefs, and on the expenditure side to abstain from politics of selective transfer. In order to achieve the same goal, fiscal policy should provide guidelines to simplify the tax system and cutting the costs of tax administration and also affects the expansion of the tax base and reducing marginal tax rates.

Second, in terms of re distributive fiscal functions is increasingly crystallized position on the necessity of social protection threshold of endurance rather than narrowing the range of household disposable income. This is accomplished by defining appropriate nontaxable minimum, combined with tax cuts and transfers for support of family members. In accordance with the Keyn's counter-revolution, the focus of economic policy moves with the global approach and short-term regulation of the volume and structure of demand on the structural aspects and the effects on the supply side. Abandons the concept Keyn's counter cyclical policy, whereby it remains the fact that I am a fiscal system (public sector) should not be a source of imbalance. In short, fiscal policy should not be selective at the sectoral and sectoral basis, and must refrain from tax exemptions and incentives that allow evasion of taxes and deepening social inequalities, but also taking a positive attitude towards those criterions - based stimulants that encourage and motivate work, savings, capital imports, economic structural adjustment, employment, etc.

The interaction of fiscal and monetary policy right is manifested through the institution of the public debt. Specifically, fiscal policy determines the size of the balance of revenue and expenditure of the public sector, and monetary policy is the manner of its financing (or collateral). Therefore, these two policies are interdependent and must be coordinated in order for each of them to be effective. In terms of their relative performance is usually considered that monetary policy is more effective in curbing inflation and maintaining optimal levels of the exchange rate, and fiscal policy in combating depression and maintaining internal economic balance. Therefore, the most common view is that the optimal combination of moderately restrictive fiscal and moderately expansionary monetary policy, because it is that combination that ensures optimal growth under stable economic conditions. Indicated no axiom and every specific policies, especially ours, finding an optimal combination of these two policies. Since the tax system is a constituent component of the fiscal system in the same sense in the global scale and tax policy determined ranges of fiscal policy, which means that the scale of financial activity, which is manifested by the number of individuals and legal entities directly or indirectly covered by this activity is largely opting and scope of tax policy. Tax policy is a set of measures and instruments by which the government adopts a policy of taxation, in order to achieve certain objectives: economic, political stabilization, development, etc.

2.1. Fiscal Policy and Economic Development

The structure and size of government spending is very crucial for an economic policy of the country. It is well known that the total demand and consumption in a country made up from four components: private consumption, investment, government spending and net exports. If one of the components is greater, it is clear that this will be to the detriment of other components. The main question is which of these components will be the highest and most effective affecting the growth of economy (Kindlberger, 2006).

Assuming that the economy is under recession and high unemployment, declining output, or GDP, therefore the aggregate supply curve is very laid almost horizontal. This means that the supply curve is inelastic; the change in aggregate demand is strongly influenced by a change in production, without causing changes in the general price level. This situation is possible only with high unemployment and availability of factors of production (labor, capital). It is assumed that the cost of short-term fixed inputs (labor cost contract is fixed for a short time between employers and trade unions), which is the basic premise of Keynesian theory. In such a state of economic demand creates its own supply. Specifically, an increase in some of the components of aggregate consumption will have a multiplicative effect on the increase in production.

What about Kosovo?

Information about the budget deficit Kosovo, regions and municipalities suggest that the scale of fiscal expansion and public spending in Kosovo (entities, municipalities) in comparison with other countries in transition is much higher as evidenced by the analysis of the World Bank. This analysis showed that public spending in Kosovo increased by 50 - 60 % higher than in neighboring countries. Public spending in Kosovo is around 45% of GDP, while about 40% in Albania, which is a consequence of the organizational structure of the entity. Excessive expansion of public spending in each country results in macroeconomic instability, slowing production, decrease productivity, debt, structural unemployment and lack of economic growth. The structure of public expenditure, as well as in other countries in transition, characterized by poor planning, inconsistency in defining priorities in line with the real possibilities and revenue forecasts and macroeconomic aggregates.

2.2. Public spending in the OECD, EU, Kosovo and Albania

The level of consumption is different in different states. As a measure of government spending is taken and share of consumption in GDP (gross domestic product). The scope of the consumer depends on a number of factors, the development of the country, population structure, social policy, political stability and the like. Kosovo suffers the consequences of the previous war, which have a very negative impact on the overall public spending.

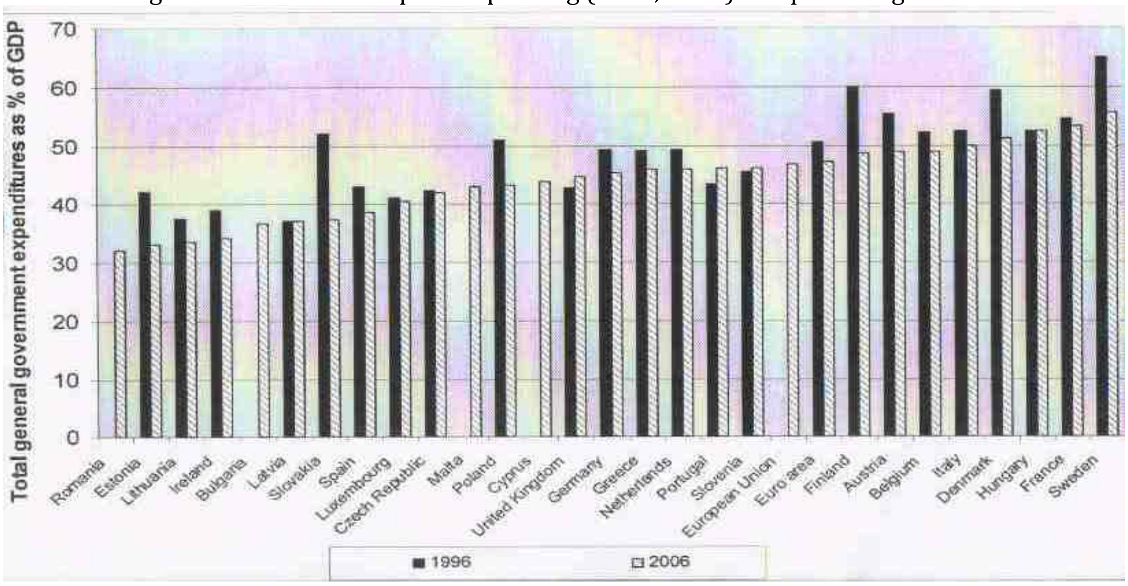
Government spending or public sector of the economy is defined as a state spending in order to meet public needs and the needs of which all citizen's benefit. Specifically, the state performs three functions because there is no other entity that would be performed. The private sector has no interest in such matters, for several reasons: it does not bring profit, limited collection of products or services, legal restrictions, etc.

Therefore, the government can spend on security issues, administration, the various social benefits, which are collectively referred to as transfers or negative taxes. Likewise, the government can spend on investment in the public sector, such as education and health facilities development centers, public enterprises, where such expenditure is commonly referred to as capital expenditures.

As I stated above, the structure and size of government spending is very crucial for an economic policy of the country. The increase in some of the components of aggregate consumption will have a multiplicative effect on the increase in production. In other words, if the aggregate consumption increases by one unit, GDP can be increased by two or three units.

Excessive expansion of public spending in each country results in macroeconomic instability, slowed production and a drop in productivity, inflation and debt, structural unemployment and lack of economic growth (Kumalić, J.2004).

Figure no.1 The level of public spending (1996, 2006) as a percentage of GDP



Source: Analytical Data-bank, OECD.

In the long run the steady increase is visible almost of public spending both in absolute terms, and to share in the GDP. The share of state - of public spending in GDP has increased almost four times over the last century. The level of government spending in antiquity and later in the Middle Ages was low by today's standards. A large number of well-known economies and societies of various empires collapsed as a result of an increase in government spending over a certain level and height, as a result of low productivity growth the then society could not tolerate a high proportion of government expenditure share in income. During the twentieth century the growth and expansion of public expenditure and public expenditure in most of the countries in the world was higher. For example, in the U.S. a greater increase public expenditure recorded for and after I and World War II since public spending is growing continuously. A similar situation is developing in most OECD countries. Government spending as the Great Depression (1929-1033) rarely crossed the level of 10 % of GDP, while after World War II dramatically increased.

Since 1960, 23 OECD countries and several of them have been spending below 20 % of GDP, the highest level of public spending (between 30-36 % of GDP) were Austria, Great Britain, Netherlands, Denmark and Sweden. The late eighties and early 90s of the last century government spending increased significantly, nearly tripled, and the percentages of the '60s and '70s are really minimal. In 1997 the lowest share of public spending among OECD member countries were the U.S., Japan, Switzerland and Austria, and recorders in public spending were Denmark, Sweden and Finland with the share in GDP of over 60%.

Since 1995, the public expenditure of the consolidated general government expressed as a percentage of GDP in the EU shows a downward trend from 51.5 % to 48.4% in 2003. Total public expenditure in the EU amounted in 2003 with 48.4% of GDP. On the other hand, total public revenues amounted to 45.6 % of GDP, while the deficit was 2.6 % of GDP. The largest share of public spending in GDP is Denmark, Sweden, accounting for 56.1 % and 58 %, and the smallest is Ireland having 35.2 %.

Table no.1: Total tax revenue as % of GDP

Selected year	OECD	EU 19	Kosovo
1965.	25,5	27,6	N/a
1975.	29,4	32,1	N/a
1985.	32,6	37,5	N/a
1990.	33,7	38,1	N/a
1995.	34,7	38,9	N/a
2000.	36,0	39,4	42.6
2006.	35,8	38,6	40,2
2007.	35,8	38,8	39,8

Source: European Commission, spring 2009 Forecast, 2009.

Neighboring countries during the end of 2009 have a share of foreign debt to GDP in Serbia is 74.1% or 22.8 billion €, Croatia 98.5% or EUR 44.6 billion and Slovenia 111.4%, or 39.0 billion.

Table no.2 Selected fiscal indicators, 2007-2009 (in percent of GDP)

Country	General government bale			The structure of the budget 2008		Public debt 2008
	2007	2008	2009	revenu e	expenditure	
Czech Republic	- 0,6	-1,5	-4,3	40,9	42,4	29,8
Hungary	- 4,9	-3,4	-3,4	46,5	49,9	73,0
Poland	-1,9	-3,9	-6,6	39,2	43,1	47,1
Slovakia	-1,9	-2,2	-4,7	32,7	34,9	27,6
Slovenia	0,5	-0,9	-5,5	42,7	43,6	22,8
Estonia	2,7	-3,0	-3,0	37,0	40,9	4,8
Latvia	-0,4	-4,0	-11,1	35,5	39,5	19,5
Lithuania	-1,0	-3,2	-5,4	34,0	37,2	15,6
Bulgaria	0,1	1,5	-0,5	38,9	37,4	14,1
Croatia	-1,6	-1,3	-1,4	45,0	46,3	35,6
Romania	-2,5	-5,4	-5,1	33,1	38,5	15,2
Turkey	-1,0	-2,1	-4,6	21,4	23,5	39,5
Albania	-3,8	-5,2	-3,9	27,5	32,7	52,6
Bosna	-0,1	-1,9	-3,1	47,8	49,7	34,3
Macedonia	0,6	-1,0	-3,5	35,6	36,6	21,4
Montenegro	-6,4	1,5	-6,2	44,4	42,9	32,3
Serbia	-1,9	-2,3	-1,8	42,0	45,2	33,8
Eurozone	-0,6	-1,9	-5,3	44,7	46	69,6

Sources: EC, Spring 2009 Forecast, May 2009, IMF and reports for countries

During autumn of 2008, it should be recalled, the focus of fiscal measures shifted to ensuring the stability of banks by increasing guarantees on bank deposits. Fiscal policy in Kosovo and Albania provides only limited support for monetary policy in the current challenging conditions. In the future the fiscal policy should be coordinated and supportive to monetary policy by focusing on consolidation rather than expansion. In countries such as Kosovo and Albania to stimulate the economy fiscal expansion is limited primarily the way in which foreign and local investors look to fiscal solvency CEE countries. This perception is seriously undermined during the last round of the crisis and is unlikely to be repaired soon.

3. Fiscal policy and competitiveness

Competitiveness is a complex concept that is not easy to define, especially for the transition countries such as Kosovo and Albania. International competitiveness is a condition in which a country can, under free and fair market, produce goods and services that meet the demands of the world market, while maintaining or increasing the real income of its citizens.

The international competitiveness of a country cannot be identified with the competitiveness of its PCD or sector. Although essentially the same thing, that's one aspect of the goods or services that the seller (country, company) that good or service provides a competitive advantage over its competitors, a state-owned enterprise can be competitive on the world market and that does not affect to increase national competitiveness. According to Krugman, 2002 this happens at multinational companies that most of its competitive advantages achieved and abroad. Therefore, it is important to invest in a local company as a significant impact on domestic production of new technologically advanced and profitable products. One of the easiest and most effective ways of achieving this goal is to encourage foreign companies to invest in domestic production.

In the sectorial structure of the policy commonly used instruments such as subsidies, special financial assistance, tax credits, special write-offs, credit facilities, guarantees, etc. Among the main instruments in this case are public expenditures. These components should give impetus to the development of branches and sectors which are outside the influence of the general economic development. These branches and sectors to adapt the general trends in real income, which is to say that over time should reduce the amount of transfer payments. Gradually reducing the need for certain forms of financial aid can be used as an indicator of the effectiveness of structural policy. Previously it was mentioned that one of the easiest and most effective ways of building competitiveness to encourage foreign companies to invest in domestic production. This is accomplished by investment incentives, innovation and other synonyms for increasing competitiveness. Apart from the legal and logistical assistance, most of these incentives is a financial nature, which means that the state requires the provision of financial support, or vice versa, a waiver of future revenues through tax cuts. These are mostly measures within the fiscal system. But other than instruments of public expenditures (transfers) and public revenues (tax rates, tax credits),fiscal system operates through its legal segment (tax law), and macroeconomic segment, which includes the issue of fiscal consolidation (public debt and deficit) In building the competitiveness the role of the fiscal system and fiscal policy is important but not decisive. On building the most effective competitive structure is achieved by structural (industrial) policy. Fiscal policy measures it is possible to enhance the competitiveness of industry and the overall economy. The fiscal system and fiscal policy is not negligible in building competitiveness of the view of the EU's state aid to enterprises, as well as on all the stronger initiative to prevent harmful tax competition.

3.1. Fiscal incentives

Fiscal incentives for building competitiveness generally recognized as incentives to attract investment, innovation and exports. The different countries in the world employ a number of different incentives that can have different effects on building competitiveness. There are a few general questions related to incentives is important to consider in order to determine the effectiveness of certain incentives.

The first such question is whether the result of discretionary fiscal stimulus measures in charge of fiscal policy (state, district) or act as embedded or so automatic instruments. Discretionary incentives are ad hoc interventions in charge of fiscal policy which those interventions on the side of public revenue and / or public expenditure affect economic trends. Effects of embedded instruments in turn endogenous nature and their implementation is achieved without any intervention bearer of economic policy. Specifically, the built incentives are available every economic entity if it meets certain objective criteria such as the size and type of investment, location and investment companies, the profitability of the project, etc. In general, preference is given to incorporating incentives for reducing the uncertainty associated with the investment, reducing the time investment planning, reduces the opportunities for corruption and favoritism less effective projects, and reduces the cost of administration.

Another important issue is to determine the distinction between temporary and permanent fiscal stimulus. In the case of temporary stimulus, which only last a certain period of time, the primary effect could be a change of time when the economic operator started in Invested instead of changes in equity. On the other hand, temporary incentives can have a positive impact on the future success of a company, particularly regarding discriminatory practices and capital market imperfections to small and newly established companies.

The third important issue is whether fiscal stimulus general or selective. Similar to the built-in incentives, selective incentives exist in the case of setting specific criteria that can be sectorial, ownership or location. According to EU general incentives are actually horizontal support that is intended for all companies, not the selected sectors and regions. On the other hand, selective subsidies are considered sectorial aid and regional aid. Specifically, sectorial aid is awarded only to some companies and those more generally distort competition and their goal is to correct market failures. They usually could delay structural changes necessary in sectors whose business is characterized by shopping failures, therefore because of this support can be useful only if they are temporary. However, regional aid is usually used to avoid as concentration of production and to facilitate the economic development of less developed regions. They are generally considered to be less bad than sectorial. Without whatever the relationship between the EU towards selective incentives in recent years, many studies call into question the overall effectiveness of selective support. Also, take note of how the capital markets open to the rest of the world capital could freely enter and leave the country. Specifically, countries in transition as well as Bosnia and Herzegovina are very much dependent on the import of foreign capital and foreign investment. The tax treatment of capital in transition countries as importing capital significantly affects investment by foreign companies. On the other hand, foreign companies are often faced with tax obligations in their home countries and have the opportunity to invest in alternative locations. With time, the interaction between the tax systems of the two countries is an important determinant of the effectiveness of certain investment incentives. For example, in the system of withholding tax paid abroad, when foreign investors with their tax obligations in the country reduced by the amount of tax paid in the country of investment, the country of the foreign investor can for the amount of fiscal incentives to reduce land investment tax credit. In this case, such incentives would not have any impact on building the competitiveness of certain countries in transition. There is a wide range of instruments within the fiscal system which may affect the competitiveness of the construction. Incentives can take the form of grants, subsidies, interest-free loans and are often used together with tax subsidies. The first such instrument or fiscal stimulus is to use preferential tax rates. Preferential tax rates are the simplest instrument for the level of incentives does not vary with the amount of investment. Therefore, the effectiveness of this instrument is minimal in cases of low marginal tax rates. Preferential tax rates are typically used by companies that are just starting to work, and there may be a distinction for individual sectors and geographies companies. An extreme example is the so-called; tax holiday which provides for a period of exemption from payment of income tax / tax. Another important instrument is the method of subsidizing capital assets through a tax deduction on investments. In this case the deduction is granted on the basis of the investment costs, which affect to increase profit after tax as a tax deduction reduces tax liability for the cost.

Another important instrument that is necessary in this context to mention is the state or budgetary support. Budget support means loss of budget revenues and financial benefit to the recipient. According to the EU state aid can be divided into: subsidies and tax exemptions. (European Commission 2006).

This group is divided into two subgroups depending on whether it is a revenue side (taxes and contributions) or the expenditure side of the budget (subsidies).Besides those previously mentioned tax incentives in this group include: the subsidies, the reduction of social security contributions, the sale of assets below market prices, etc.

As with other incentives, with equity participation is essential to determine whether the financial transfer real help or form of participation of the public sector in market activities under normal market conditions. In support of this group include: the investment in the non-profit companies, conversion of debt into equity shares, the sale of state property under favorable conditions, etc.

Cheap loans are those countries directly or through its agencies awarded companies with favorable conditions. Tax debt is providing opportunities to individual companies to their tax liabilities are settled outside the legally set deadline by which such companies are placed in a convenient location.

Warranties are the last group of state subsidies according to the EU. These include government guarantees for insurance (in) commercial risks in nominal terms. Using them certain companies get loans with more favorable terms than those in the financial markets. Finally, guarantees are not direct financial assistance, but make potential cost or debt.

3.2. Tax competition and state aid in the EU

I have already pointed out that the state fiscal policy measures on the public revenue and public expenditure may affect the competitiveness of the construction, especially in the context of structural policy. Many fiscal policy measures have a specific effect shows activation of the EU and its institutions about such things as tax competition. To prevent such an occurrence EU tries to influence the formulation of various tax measures, and in particular state aid.

Tax competition within EU is a phenomenon created precisely with intention that through various fiscal measures lower the effective tax burden in order to attract capital and increasing competitiveness. Such a strategy was used by many Central and Eastern European countries and in old EU countries it considered unfair competition.

Therefore, harmful tax competition in particular is reflected in the area of corporate taxation. Specifically, tax competition is not just a problem in the EU. In the process of globalization, tax competition can be seen as an international issue that affects social and economic trends around the world. The model that the EU uses to combat harmful tax competition shaped the document Code of Conduct on business taxation (a Code of Conduct for Business Taxation).The Code is a document that EU countries Articles undertake not to adopt new systems of taxation which between them cause harmful tax competition. It should be noted that this document the EU Member States undertake to gradually remove old or existing systems that contain various forms of non-tax incentives and other instruments that cause tax match among EU member states. The Code focuses primarily on taxation, but also on other measures as various incentives and state aid that significantly lower effective tax

Besides being treated tax measures, the Code in its paragraph J extends to the side of the budget or state aid. According to the EU definition, namely Article 87 of the Treaty[29], "none of the support granted by a Member State or granted through State resources in any form whatsoever which distorts or threatens to distort competition by certain undertakings or the production of certain goods in a more favorable position, not in line with the common market insofar as it affect trade between member States."Within EU Framework EU member states will not respond or will not have a negative set by state intervention will be when fiscal incentives include the general economic policy measures. It should be noted that it is difficult to distinguish the line between fiscal stimulus and general economic policy measures that have been taken when not certain specific regions, sectors or categories,

- If the measure is determined on the basis of objective criteria and not on the discretion of the state,
- If the measure is limited in duration nor the designated earmarked appropriations.

Bearing in mind the interest of the EU in addressing these problems can be concluded that fiscal policy has a significant impact on building competitiveness and the development of the economy of a country.

4. Conclusions

The role of the fiscal policy in stimulating economic growth and development of a country is very important. The effectiveness of some fiscal policy measures depends on the context and the way it is used. The highest level of efficiency could be achieved if the fiscal policy measures are in line with the structural or industrial (economic) policy of the country.

If structural policies of the country are clearly formulated than, the country can influence the construction of the structure of the economy and its competition. The intervention of the state in promoting economic growth and development could have a different character. Monetary and fiscal policies of the government usually correct the condition of the economy in the economic cycle. Public choice theory clearly concludes that the state has a role in the activities of the economy of a country. Its role is indispensable in building a market economy conditions, the only question is how much it will have success. In fact, many economic theories argue that returns on government investments in science, education, research and development are much greater than the lost opportunity of return on private investment companies and that is what is needed to impact economic growth and development in Kosovo and Albania.

When using fiscal instruments to build competitiveness it is important that while using less *ad hoc* measures, that is, more difficult to build - fiscal incentives that are automatically activated if the meet objective criteria for their use. Also, the policy measures should be taken if the incentives are permanent or temporary, because the various conditions and one other form of fiscal incentives may be appropriate. Then, due to the efficiency of the incentives and EU legislation, fiscal incentives should be mostly general and not selective. This means that you should strive for horizontal aid, as opposed to sectorial and regional, which should be used only if the economic conditions specifically require.

The formulation of appropriate fiscal policy in Kosovo and Albania should definitely consider their Kosovo and Albania positions within the EU agenda versus fiscal instruments to encourage primarily competitiveness. In addition to the fiscal stimulus should be formulated so as to be in compliance with EU legislation in the segment of guidelines on the harmonization of taxation in the segment of state aid.

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[29] Against harmful tax competition, there are several initiatives on a global scale. The most famous models against such an occurrence are models of the Organization for Economic Cooperation and Development (OECD). Model OECD's wider character and includes countries not member of the organization, and we can say that the OECD model served as a basis for developing a European model of combating against harmful tax competition (note the author).

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