

FISCAL POLICY

Anastas Angjeli
Minister of Finance

**DEVELOPMENT OF PUBLIC FINANCE AND HARMONIZATION OF
LEGISLATION IN THE FRAMEWORK OF THE EUROPEAN INTEGRATION**

Respected participants,

The conference we are having today coincides with the 10-th Anniversary of the membership of Albania in the two most prestigious financial International institutions, the International Monetary Fund and the World Bank, created from Bretton Woods's agreement in July 1944, on the eve of the end of World War II which was heading off to the victory of the countries of the Anglo- Soviet –American Alliance against the Nazi- fascism.

Ten years of not an easy transition, ten years of toil and efforts for the establishment of bases of trade economy through the implementation of a framework of important reforms.

Hence in this conference we can not help casting a look at the state of our country in December 1991 from the political, economic, financial and social point of view; within the framework of the democratic transformations, economic and structural reforms as well as the economic and social achievements and in particular the achievements in the field of the public finance we had during these ten years, due to the help and the precious contribution of the two International Institutions in which Albania has been a member since 1991.

The year 1992 marked the signing of the Stand -By Agreement, which constitutes the first big step for the political institutionalization of the democratic pluralist state, of the transition into the trade economy, of the establishment of a State of Law and of the measures for the macroeconomic stability of the country.

This was at a time when the state of the economy and the public finance were in a deep crisis.

The year 1992 marked an economic decrease of 35 %, as compared to that of 1990, the budgetary debt was in very high levels, the annual inflation had reached to 237 % and the foreign currency reserves covered only some days import.

The inflation decrease weighed heavily in a sensitive way and ruined the greatest part of the population, whose real income worsened every passing day due to the continuous growth of the level of prices. Just to underline that in December 1992, the index of the consume prices, which measures the inflation rate as compared to that of December 1990, was 689.9, which means that general level of retail prices was 7 times as much as that of 1990, consequences these of the dictatorial system, of the centralized leadership of the economy and the hermetic closure for 45 years in succession.

THE COUNTOURS OF THE FISCAL REFORM

Along with the democratic changes in the political, social, legal and institutional field which were brought about right after the collapse of dictatorial regime as well as its system oriented towards a centralized and planned economy, reforms were

were undertaken, as it is already known, for transition into the trade economy.

Unseparate and important part of these reforms were the first attempts to design a fiscal reform, the starting point of which was the packet of laws that started its implementation since January 1, 1992.

The design of a fiscal reform was not an easy and simple task, on the contrary, it was an undertaking that I consider and evaluate as both difficult and complex, especially if we consider the conditions of our country at that time such as:

- The state of crisis in the economy and finance in the years 1991 – 1992.
- The cultivated psychology for decades in succession that Albania was the only country without taxes and tariffs in the world.
- The limited knowledge that the local body officers had both in the theoretical and professional level in the field of the trade economy.
- Lack of required adequate and deep knowledge by the foreign experts, of the concrete conditions of our country, both in mentality and psychological aspect of the Albanian people as well as in the economic and financial aspect.
- Finally, lack of adequate legal framework..

Yet, despite these difficulties, no one can deny that due to the help, experience and dedication of IMF and World Bank experts, among whom I can not help pointing out the first precious help of Mr. Mario Blayer, during the first phase of transition in trade economy, when in our country a packet of laws was approved, among which I would like to underline:

- The law on "taxation on profit" in January 1992, which was modified

And improved in March 1993, which consancted the way of taxation according to the system and the tariffs with proportional percentage which, as it is known theoretically and practically, intends to support, encourage and develop the free private economic activity.

At the same time this law proclaimed as well the equality between physical and juridical foreign persons and natives in respect to the tariffs.

- The law on "taxation on circulation", as a one phase indirect taxation that was implemented for the final products sold to the third parties subject of which were physical or juridical persons, natives or foreign, that produced or imported goods or carried out services in the territory of the Republic of Albania.
- The law for the budget approved in 1992 which changed in concept the old way for the composition, implementation and budget classification, based on the fundamental transformations in economy, as well as to better respond to the role and functions of the pluralist democratic state. Actually we have passed into a process which ensures the forecast of the sources and expenditures for a 3 year period.
- The law for foreign investments, approved in November 1993, allowed and treated the foreign investments in an equal and impartial way with the natives, and assured them for profitable treat not less than that ensured by the norms generally accepted by the international right.

It also literally expressed that "the foreign investments will not be privatized by the state and will not be disowned, neither directly nor indirectly".

The implementation of this packet served to secure some achievements as:

Building an adequate structure of income and budget expenditures where the volume and specific weight of the taxes and taxation from the population, are evident, the reduction of the budget deficit in relative expression (in report with PPB), opening up the way for foreign and native investors, with no right for any discriminations towards the foreigners, gradually raising the awareness of the the population and the business and their fiscal education with the concept that :the state can not stand and function without the total contribution of all the citizens in direct report with their income realized from their economic and financial activity, thus without paying taxes and taxation, which constitute a "necessary bad thing" for covering the total needs of the society and those of the collective, in the form of the budget expenses for

order, national security, education, health service, art, culture and science, without which no State may exist.

By the end of the year 1995 and 1996, as compared to the year 1992, the budget structure and expenditures had come now to a new form and content, which up to now has been ameliorated and will continue to be ameliorated so that it may become functional, adaptable to the developments of the trade economy, to the new resources for assuring the budget income, as well as the functional destination and sectorial expenditures. Meanwhile, the inflation by the end of the year 1995 came to 6 % as compared to that of 16 % of the previous year.

These were the first results achieved by implementing the recommendations of IMF and the World Bank, through the Stand – by Agreement, signed in August 26,1992 and which forecasted a preliminary packet of measures for the macroeconomic stabilization of the country and which included the reduction of the budget debit, breaking up the inflation ,liberalization of the prices, abolishment of the state monopoly over the exterior trade, functioning of the free trade, reduction of the economic role of the state, reforming of bank system in both levels ,the inner convertibility of the coin etc.

THE FURTHER PERFECTION OF THE REFORM IN THE PUBLIC FINANCE SYSTEM IN GENERAL AND IN THE FISCAL SYSTEM IN PARTICULAR (1998-2001)

The coalition government The Alliance for the State that came to power after the collapse of the pyramidal system and the riots of March 1997,in the conditions created, started immediately to think and prepare a packet of fiscal measures in the level of a reform lead by some principals and recommendations of IMF and the World Bank as well as a number of conclusions and projects worked out by the International Center for Economic development in San Francisco, aiming at the further perfection of the fiscal reform and that of the budget, implemented in our country from the year 1993 till 1996.

Based on this framework, I will mention some of the main principles we have been referring to considering as well the experience we gained during these years as well as the specific conditions of our country:

1. Abiding by the program and the philosophy of our new democratic government, as a main principle has served that of building a new system and a new "neutral" fiscal policy, facing the accumulation and the distribution of the capital, intending, on one side, on opening the way for the development of the free private initiative, development of production, business and investments and on the other side to enable the reduction of the state budget deficit and ensuring within the existing possibilities the financial balance.

That is, in the core we have tried to build, for the conditions of our country, a fiscal system which not only will not block the agricultural and industrial product, but within our capabilities to include elements that encourage the production in general and in particular, the production of those goods and traditional branches of industry, so that to the condition of the compared advantages, formulated by D. Ricardo, could become rentable and why not competitive. At the same time we bore in mind that our fiscal system may contain the needed "automatic flexibility" that is, to have the ability for "procuring", with many public entrances, serving the financial consolidation of the country.

2. In the reformation of the fiscal system we have been lead also from the theoretical known principle of the universality of the taxations, according to which, any subject that realizes profits from an economic and financial efficiency has to contribute in covering the total state expenditures, in proportion with the profits secured to assist in covering the general needs of the society such as education, health service, administration, order and national security.

3. We kept in mind also the principle that the system and our financial budget may not oppose the ever growth of the national savings and the foreign and native investments, but stimulate them in coordination and with the monetary and crediting policy.

4. We also considered the lesson learned and historical experience of other countries in the world, according to every democratic fiscal system when characterized by a strict financial discipline, in the field budget expenditures as well as that of

income collecting (from tariffs and taxations), fully, within the time-limits, rigorously respecting the law dispositions, intending the reduction of the fiscal evasion, smuggling and corruption, without allowing ourselves action of arbitrary and subjective harming the business or any taxpayer.

5. Having in mind the orientation for the decentralization of the local government and the self administration of the local organs , we have programmed the gradual widening of the financial sources belonging to the municipalities and the communes but with the intention of administering those sources with the discipline and rules as set by them.

6. We have taken into consideration as well the known principle that the fiscal system must be in the most possible way the simplest and the least expensive for the country.

Conscious of the fact that in order to be rational , efficient and productive at its best, a fiscal system must be accompanied by other instruments and adequate mechanisms , that is with some kind of tariff (direct or indirect),and with a policy, as mature as possible, we have mainly implemented the manner of taxation with proportional tariffs and have avoided in most possible maximum the taxation with progressive and regressive tariffs.

During this period we have mastered even the organic law of the budget with the updated principles contained in the enforced law of the year 1998, in harmony with the Constitution of the Republic of Albania. as well.

Starting from the year 2000 we have made another step forward passing from the principle of the annual budget in the forecasting of the sources and expenditures, that is a budget for a middle-term 3- year period, reached in full understanding with IMF. Actually, two important documents for strengthening the administration of the State budget and the economic development of the country, have been completed. The middle-term budget program 2002-2004 (MTEF) insists in the strengthening of the fiscal discipline by assuring the planning of the public expenditures within a realistic macroeconomic and fiscal framework which will enable the identification of the public expenditure priorities by interrelating clearly the government policy with the expenditure plans,will en. It will encourage a higher technical efficiency in the distribution and usage of budget sources and will bring as a result more forecasting possibilities. in the process of the compiling of the budget by

allowing the ministries to plan their middle -term expenditure programs.

While the Strategy of growth and reduction of poverty (GPRS) , aims at the preparation of a middle-Term development strategy by marking a new qualitative level in compiling of policies for the country's development and for the reduction of poverty. This document bears witness to the fact that Albania has come now out of the emergency state and has entered into a new phase, to that of the real development and growth of the economy. After portraying the principles and basic orientations where from we have been led by in the perfecting of the financial reform, allow me to expose before this honorable audience , some of the achievements in the years of our governing.

	1996	1998	1999	2000	2001 (Plan)
1. Budget income					
Total :	51572	93519	107506	120637	141777
Total taxation income	30174	56749	65402	84060	95500
From customs	16087	36042	36399	48019	52050
From taxation	12717	19987	28118	34726	41850
2. Budget expenditures					
Total :	87596	141628	165692	170620	196311
Out of which :					
Capital expenditures	16568	24215	34120	36274	44739
Current expenditures	62458	81521	96634	104774	127814
Expenditures per interests	8571	35892	34938	29572	23758
3. Budget deficit					
In % towards GDP	12.8	10.4	11.5	9.3	9.2
Financed from sources	9.9	6	5.3	3.3	2.6

The fiscal packet presented for approval to the Parliament, along with the Budget-project of the year 2002, rely on the fundamental principles upon which the reform of the years 1998-2002 has been based and perfected and at the same time intends:

- To treat business in the most righteous and most equal way.
- To avoid the procedures implemented until now of the "tariffs over over tariffs" that the country had so far, which had a limiting impact on the development of business.
- To implement the excise with fixed quotation per item of the "strong goods" that by law are obliged to pay excise, by softening to some extent the irrelevant use in some cases of the reference prices in the import of these goods.
- To reduce the dishonest competition

- To widen the taxation basis and to limit the actions with arbitrary and subjective caricature that have been identified in the process of implementation by some of our taxation or customs organs.

While in the social aspect, it is forecasted the growth of the untariffed minimum for the income from the salaries 10.000 lek to 14.000 lek per month.

These are the measures on the eve of the new agreement PRGF with IMF after the successful completion of the 3 year agreement ESAF-2.

HARMONIZATION OF THE FINANCIAL LEGISLATION IN THE FRAMEWORK OF THE ECONOMIC AND FINANCIAL INTEGRATION IN THE EUROPEAN UNION

We are aware of the fact that that today we live in a global community, where people and different countries in the world are interrelated with each other based on the natural, material and, social conditions of labour and production.

This reality conditions the international labor division and the specialization, that has brought and brings about the objective necessity for the development of free trade exchange as one of the factors for progress and for bringing closer together the people, countries and regions of the world what makes us conclude that the historic period during which we are living is a period of integration processes in Europe or elsewhere in America and Asia.

The European Union, OECD, NAFTA, (North American Free Trade Agreement), ASEAN, in Asia are the best testimony of the integration process which the world has joined nowadays.

The economic development in the years that followed, the aspiration to join the European Union and the membership in WTO urged the adoption and approach of the Albanian Customs Legislation with the community one. To that purpose serves the compilation of the new Customs Code as well approved by the Albanian Parliament and came to power on the 15-th of May, 1999, as well as The Implementing

Dispositions approved by the Council of the Ministers which were processed in cooperation with the experts of EU and CAM –A mission, present in Albania since 1997.

After the presentation of the New Customs Code, the Customs administration was restructured and new structures for combating corruption and smuggling were created. In September 1998, the process for staff recruitment started by implementing a transparent system of employment and ranking based on open competition and testing, which constituted the first model used thereafter for all the Public Administration.

Now the Albanian Customs Administration has its "Development Strategy" compiled according to the standards identified by the European Commission for preliminary adherence in the framework of the opening of the negotiations for the Stability – Association Agreement

The approach to the European Legislation in the fiscal field and its modernization, has started since the year 1995 and onward. In July 1996, after an intensive work of one year and a half, the Law on the Tax of Added Value was implemented in our country followed by the start of the computerization implementation in two of the main districts of the country, which is considered as the first successful step towards the reform in the tariff administration as well as a precious contribution of IMF and the World Bank through projects financed by them.

The cycle for the modernization of the tariff legislation continued with the approval in December 1999 of the Law "For tariff procedures in the Republic of Albania", which sanctified in a clear way the rights and duties of the Tariff Administration as well as that of the tax-payers aiming at avoiding the appearance of arbitrariness and subjectivity.

Actually, with the new fiscal packet sent for approval in the parliament (which comes to power in January 2002) the above mentioned cycle has been further perfected by taking into consideration the proposals and suggestions of the local and foreign community investors.

The same can be said for the Law on Income Tariffs, that came to power in December 1998 compiled in cooperation with foreign experts (British experts), which from the point of view of its contents is of a community standard level..

The experience of concentrating the financial control on the High State Control and the abolition of structures of the internal

financial control of the Ministries and state institutions in the year 1992 did not give the required results. That's why taking into consideration the suggestions of the international institutions, we decided to set up independent structures of control, sanctified in the Declaration of Lima, aiming at the most righteous and most accurate identification of the material and financial responsibility to prevent administrative and legal violations in order to recuperate damages and to prevent expenditures still present, of the public funds at the disposal of the central institutions and the local government, where we have to admit that there are still many weaknesses and shortcomings concerning lack of a qualified work by auditing commissioners.

In order to stop and to prevent the phenomena of recycling of laundry money, earned in illegal and criminal ways, "the Law for prevention of cleaning laundry money" came into power in our country, in the year 2000.

This Law was compiled with the assistance of IMF. The contents of this Law as well as the setting up of the relevant Structures actually at the Ministry of Finance, named hereinafter as "The Directorate of coordination of the fight against laundry money cleaning" is another testimony of our attempts for the approach of our financial legislation with the European one, in the fight against terrorism and terrorist organizations that possess and use considerable financial capitals disseminated worldwide for criminal goals..

Being aware of the role and the importance of the State budget as an instrument for indirect intervention in economy, as well as the significance of the fiscal policy in the incomes of the budget and in the development of the economy of the country, an imperative task is imposed on us to further perfection the legislation in the sphere of Finance and the modernization of the Tariff Administration in particular, because, for Albania nothing can be spoken of a heavy fiscal burden. On the contrary, the fiscal burden in our country is among the lowest as compared to that of the countries of Central and Eastern Europe. It comes to 16 %-17% of PBB, while in Poland it is 41- 43 %, in Hungary 39-41 %, in the Czech Republic 40-41 % etc.

Our future challenge is the fiscal burden which is estimated rather high that is why for the year 2002 its reduction of 4- 5 % is forecasted.

PRIVATIZATION OF CAPITAL STATE BANKS

The reform of the bank system has been considered as an inseparable and important part of the whole economic reform of the country, which could not be understood without the privatization of the state capital banks and the development of the private bank sector in Albania.

We were conscious that the bank system, lead and supervised by the bank of Albania as a Central Bank would play a key role part in the macroeconomic stability and the development of our country's economy.

The process of privatization of the State Banks begun in the year 1995 with the approval of the law "For the transformation of the Trade State banks into Trade associations and permitting their privatisation: was later followed by many other legal acts and bylaws. The lack of efficiency of these banks, particularly in the indexes of credit reimbursement, witnessed that the initial steps for restructuring were not sufficient.

Initially, the Agrarian Trade Bank was liquidated. Part of the active of this Bank was transferred to other State banks, while the bad loans were transferred to the Agency of credit treatment. This process not only did not cause any trouble to the depositors, but it also influenced in the reducing accelerating the procedures for the other two Banks which based on legal framework started preparations for privatization.

The formula used in the privatization of the National Trade Bank and that of the Savings Bank aims at the growth of the bank efficiencies as well as the attraction of strategic investors thus spreading more widely ownership on capital and attraction of foreign capital. This is the reason why in the privatization of the Banks, priority was given and is still given to the institutional strategic investors who offer the purchase of more than one third of the actions with voting right up to the absolute majority of the bank actions

The privatization of the National Trade Bank is already completed. This was realized by the organization of an international open bid which actions were were bought by Kent Bank, 60% plus two actions, by BERZH and IFC which that bought 20% minus 1 action each.

The successful privatization of the NTB not only widened the space of The crediting of the country's economy but it also created a positive experience for the privatization of the Savings Bank.

To support this process, a number of laws and bylaws have been approved which deal with the approval of the program and of the strategy for bank privatization, the privatization formulae, recapitalisation of the bank and covering of the losses through the emitting the treasure bonuses as well as the approval of the decision for the procedures of the privatization of the Savings Bank.

It is worthwhile mentioning that for the first time during the last ten years, the Savings Bank resulted in profit in the year 1999 and successively has increased its profit, thus creating a solid foundation for the perspectives of the Bank in the future. The recapitalization of the bank as well, before the completion of the process of its privatization (as different from the National Trade Bank which was recapitalized in the moment of privatization), creates a superiority for the bank thus making it attractive for foreign buyers.

Through the privatization of the Savings Bank by the strategic investors, the growth of the efficiency and profit of the bank is intended with a simultaneous growth of competition in the bank system, technology will be sensibly improved and new services and products will be offered for the clients, according to contemporary practices which will increase the Bank reputation and trust in it.

Finally I can't help mentioning that due to the measures undertaken successively, particularly during these last three years of the governing of the socialist majority for the reformation of the economy and finance, the fiscal consolidation and the stability of the public finances is made possible, a concrete manifestation of which are:

- Reduction of the budget deficit in general and that which is financed by the internal sources, from 10.44 that was in 1998 in 8.4 for the year 2002, due to the increase of the income from customs and tariff administration and a better management of the expenditures.

- The decrease of internal loan accompanied by the the reduction of expenditures for the inetrests of debt from 8 % of PBB in the year 1988 to 3 % in the year 2002.
- The growth of the capital expenditures for investmths in the rate of 20 % in the year 2002 towards the expected one of the year 2001, reaching thus the sum of 51.5 bilion lek, which witnesses new steps ahead for the economic development of Albania.

Thank you .

REFERENCES

David D. Driseell, "Qu'est-ee que le Fonds Monetaire International", Washington, 1994.

Les cinquante ans de FMN, Madrid, 1974.

M. Michel Camdessus, "Quatre attentions", Les Madrid, 1994.

P.A. Samuelson, "L'Economique", Paris, 1972.

Prof. S. Hilmia, As.Prof. Dr. A. Angjeli, "Financat Publike", Tiranë, 1994.

B.Frizziolti, "Primi elementi di scienza delle finanze", Milano, 1930.

Centre International pour le Developpement Economique, "La reforme fiscale dans le Monde", San Francisko, 1972.

The Constitution of the Republic of Albania, Tirana, October 1998.
Tax

The Law no.7677, date 03.03.1993, "For tax on Profit ", modified in the 1995 and the 1996.

The Law No. 8070, date 15.02.1996, "For the add value tax", modified with the Law no. 8126, date 09.07.1996.

The Law No. 7786, date 27.01.1994, "For tax on the personal incoming".