

# *Albania: The impact of economic and fiscal policy in the agricultural sector* \_\_\_\_\_

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## **Abstract**

*The development of the agricultural and rural sector is and has been throughout the history of the Albanian governments of importance for the economy, employment, but also well-being for Albania, given that this large sector currently contributes 18.4% of the country's Gross Domestic Product and in the labor, market has a share of 36.1% of total employees. Investments in technology and innovative cultivation methods have significantly improved productivity rates over the 30-year period, as well as added value per worker. Growing exports, mainly to the European Union market are constantly increasing and new trade opportunities are emerging for the organized units of the sector. This could make the sector even more attractive for foreign investment. Given the problems that have accompanied the economic model and doing business in the agricultural sector, one of the major challenges for quality development remains the reform of the real estate regime, including agricultural land. This reform process, starting from law 20/2020, which aims*

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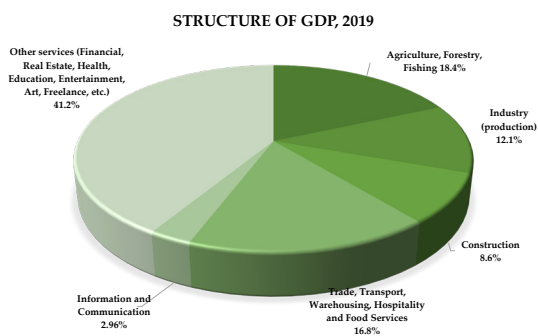
to consolidate the property rights over agricultural land, is foreseen to be finalized at the end of 2028. Tax policy affects agricultural competitiveness through its impact on the levels and variability of farm incomes, agricultural workers, land investments and technology, on labor value and other activities related to the sector. Taxes on income, property and land, and capital transfers may affect structural changes, while differential tax rates on specific activities, resources, or use of inputs may affect sustainability. In this regard, in addition to tax policy, regulatory policies have a parallel impact, related to the adoption of farm regulatory practices. Given the great impact it has agriculture on the economy and the sustainability of the rural population, central government and local government stay focused in encouraging agricultural production through interventions towards higher levels of productivity and quality, as well as regulatory and tax policies.

**Keywords:** Fiscal Policy, Agricultural Sector, Economic Growth.

## 1. The Albanian agricultural sector with its size in the economy

Agriculture, as one of the most dominant sectors of the economy with a high contributing potential to the national economy compared to other sectors, together with agro-tourism that has received a growing development in the last decade may not only develop economies of the regions of the country, but also to influence a better harmonization of supply and demand in order to increase quality.

Aquatic crops and products have also seen rapid growth turning year after year into a promising subsector. For instance, during 2019, about 5,300 tons of fish were cultivated in various special reserves and tubs, about 2% more than in 2018.



*The value of agricultural exports (2016-2020) has increased by 55% (more ALL 12.6 billion).*

Dairy, eggs, honey (+1.4 times), Fruits and live plants (+1.9 times), canned vegetables and fruits (+2 times), vegetables (+ 66%), tea and spices have the highest growth (+3.4 times).

The volume of agricultural exports (2016-2020) has increased by 44% (more 85.8 thousand tons). The highest growth is maintained by dairy, eggs, honey (+2.4 times), Fruits and live plants (+2 times), canned vegetables and fruits (+1.6 times), vegetables (+ 41%), fruits (+ 36%).

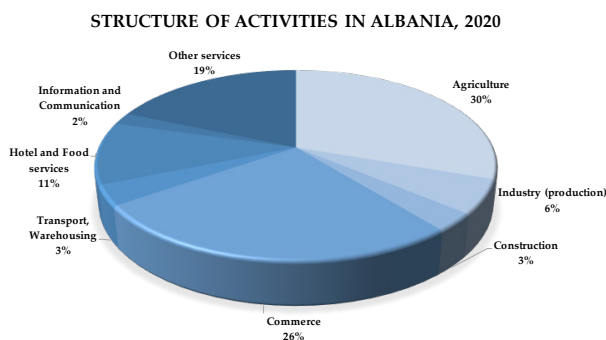
The comparison between growth in value versus volume for the last 5 years, where the value growth is 11 percentage points higher than volume growth shows, both for the change of the conjuncture of product prices, but also for a moderate increase of the value of them after processing.

If we mention the size of the agricultural sector in the early 90s, the statistics of the time present facts of the creation of 400,000 small private farms with an area ranging from 0.6 - 3 ha per household, which accounted for 100% of the market, in stark contrast to the market situation until the last of '80, when public sector activities covered 80% of the total agricultural sector (Bank of Albania, 2000)

According to Instat (2021) after 30 years, at the end of 2020 in the sector of agriculture, fisheries and forests operate 50,411 businesses (8 times less).

In the structure of activities in the Albanian economy, according to the situation we see in the graph below, it seems that agriculture (according to the type of licensing)<sup>2</sup> holds the largest share of the number of businesses in the economy, which is 30% of the total number. This fact is an indicator of a dominant potential in relation to other sectors.

If we put together all the natures of services in the country, then they equate to the agricultural sector showing that the weight of service activities is very widespread in today's economy. The third sector of the economy, which has more active businesses is wholesale and retail trade (as much as 26% of the total number).



<sup>2</sup> Any natural or legal person, local or foreign, can conduct business in the agricultural sector in Albania through the establishment and registration in the National Business Center. A business registered with the status of Farmer is obliged for the purposes of the benefits of the given regime. The farmer is an agricultural producer, self-employed, who carries out the activity with his labor force and with the available tools, in the activity of agricultural production, forestry and fishing. Farmers who sell their products to entrepreneurs (traders) are required to register and obtain a NIPT certificate. Other licenses in the Agriculture Sector are a) "Production, processing and wholesale distribution of food", with code II.1.Ab) "Wholesale of food of animal origin (for humans)", with code II.1 .B.

Agricultural production in the last 5 years (2016-2020) has increased 14.4% (1.27 million tons more vegetables, forage, fruits). The production of forage and vegetables increased by 14.9% (1.2 million tons more), while the production of fruits increased by 8% (488 thousand tons more fruits), (Instat, 2020)

The structure of vegetable and forage production includes 75.6% by forage, 16.6% by vegetables and 7.8% by industrial and medicinal plants. The structure of fruit production includes 41.9% by fruit trees, 20.1% by olives, 7.5% by citrus and 30.5% by grapes.

## 2. The size of the agriculture in the Western Balkans

To see comparatively the productivity of the sector, but also the model of the Albanian economy at a comparative horizontal level with the Western Balkans region<sup>3</sup>, we have observed that the share of the agricultural sector in Albania is at least 2 times to 3.3 times higher than in rest of Western Balkans.

When we consider the above economic structure, it can be said that economic growth originating from agriculture can have a particularly strong impact on reducing poverty and increasing the supply of fresh produce in the local market. Increasing employment and income in agriculture stimulates demand for non-agricultural goods and services, providing an incentive for non-agricultural rural income as well. However, in conditions when the dependence between agriculture and industry is detached/has big problems, then the raw material from agricultural products does not perform its function of increasing economic productivity in a closed cycle and in order to add value to the economy and to supply the local market chain and for export. On the contrary and in the conditions of an expanded agricultural economic sector in the Albanian economic structure the lack of low-cost industrial products/services, which can be achieved from domestic production (pesticides, chemicals, etc.) for agriculture does not show that the policy economic has followed the appropriate vision to manage the optimization of the productivity of the sector.

In these circumstances, when the factors that determine productivity levels do not act synchronously with each other, such as the supply of raw materials available to industry, land maintenance, the guarantee of low cost of industrial products for the agricultural sector, capital investments and mechanical equipment of different types accompanied by increased skills of people capacities to be prepared for the use of advanced technology, then the whole policy for the qualitative growth of the sector together with fiscal and financial incentives fail to contribute to achieving the goal for which they apply. All these elements, if not linked in the supply chain process, then probably lead to a *fiasco* of the whole sector.

<sup>3</sup> <http://zacekorinapred.mk/2018/10/10/analize-e-detajuar-ne-fushen-e-bujqesise/?lang=sq>

## Agricultural Indicators in Western Balkans, 2020

Agricultural Indicators	ALB	KOS	N.MK	MNG	SRB	BiH
Agriculture, Value added	18.4%	9.5%	8.5%	6.7%	6.3%	5.9%
Employment in Agriculture sector	36.4%	6.1%	13.9%	7.2%	15.6%	18.0%
Arable Land (ha)	611,346	583,000	418,000	9,200	2,583,000	1,029,000
Crop production index (years 2004 - 2006 = 100%)	95.9%	na	91.6%	86.2%	98.8%	83.5%
Livestock production index (years 2004 - 2006 = 100%)	98.4%	na	101.4%	98.7%	100.5%	99.3%
Food production index (years 2004 - 2006 = 100%)	96.9%	na	93.1%	93.4%	99.3%	88.9%
Rural population (% of total population)	38.8%	61.9%	41.8%	32.9%	43.7%	51.4%
The share of agricultural exports to the EU / Total exports to the EU	15.6%	29.6%	9.4%	17.5%	9.1%	15.0%
The share of agricultural imports to the EU / Total imports to the EU	6.3%	18.2%	6.7%	13.9%	13.8%	4.2%
Annual rate of change of exports from 2010 - 2020	3.8%	10.0%	3.8%	3.2%	10.2%	1.6%
Annual rate of change of imports from 2010 - 2020	13.3%	8.7%	5.3%	0.0%	7.3%	-0.6%

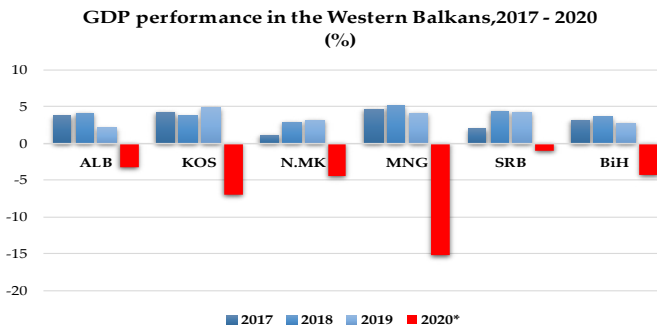
Source: World Bank, 2020

The table above shows that Albania has the highest level of employment in the agricultural sector, and the highest level of contribution to GDP in Western Balkans. In this horizontal comparison for these two indicators it is worth mentioning that the contribution to GDP in the case of 2020, which was the year that conditioned the cessation of the economy dependent on social distance, for Albania case has another impact from agriculture. In this difficult year, agricultural exports increased but with a slightly small impact on total Albanian exports, which explain the necessity of efficacy of total sector processes for an increase of value added in economy.

However, based on the statistical data, the level of Albanian exports is 2.5 times higher compared to imports from EU countries. This indicates an expansion of the market of Albanian agricultural products, with the necessity for high efficiency of the workforce as it is considered that the level of utilization of available resources is still far from optimization.

In the last quarter of 2020, the average gross monthly salary in agriculture was about 32 thousand ALL, or 40% lower than the national average salary. This fact explains one of the problems related to the low remuneration of labor value, which affect the material interest of the workforce for this sector. According to a FAO study, most farms in the country (with an area under 1 hectare), are inefficient and produce only for domestic consumption, giving a low impact on value added, as part of consumption.

However, challenges that affect and maintain a still low level of productivity include the unresolved issue of land titles, parcellation, informality of the economy, low use of new technologies, poor crop quality and non-compliance with standards, as well as higher costs of industrial inputs (those from imports) creating poor competitiveness for the same products as countries in the region. A functioning land market and formalization in a large part of the activities is critical for farmers to have access to sources of financing, as well as to grow in business dimension and invest in competitive technologies.



Source: World Bank, 2020  
\* estimation

In the performance of GDP, for at least the last 4 years the added value in the Balkan economies has come mostly from the optimization of available resources, but also from the way they have activated natural resources to increase the economy. In a year-on-year GDP calculation, it turns out that Kosovo and Montenegro have a higher share of agricultural exports in their total exports to the EU. This comes from the higher volume of agricultural products, which mainly come from investments in processed forestry products, fruits, and medicinal plants, but not only from that. The optimization of resources and harmonization of supply chain has the important impact in this efficacy of their agriculture outcome.

### 3. Capital investments in agriculture

An efficient rural financial market plays an important role in developing and increasing productivity in agriculture.

If we look at the main sources of investment it is noticed that capital investments with domestic funds are the most important source.

Government budgets for each of the years in the period 2010-2020, present that the share of capital investments for the agricultural sector is on average 0.3% of

GDP, where the overall state budget for the agricultural sector is on average between 0.5 % - 0.7% of GDP. Given the fact that private sector investment has increased in the last decade, with the same average annual level of representation (0.2% of GDP), as well as including funds invested by EU funding program (IPARD with 0.1% of GDP) it is seen that the level of capitalization (assets) compared to EU countries is about 1.5 times lower, which is explained by a poor contribution that will naturally increase with the increase in investment, technology and education and innovation skills in the sector.

A serious problem in terms of increasing and strengthening productivity remains the agricultural policy, which is burdened with a large number of measures with complicated procedures, in conditions when most agricultural holdings cultivate less than one hectare of agricultural land, while many farmers are with a low level of education.

Considering the farms, that are specialized in agricultural activities of specific crops, where generally they have lower incomes than farms that aim to have agriculture as a non-core economic activity, then it is necessary that capital investments be oriented towards other interesting forms of organization of their agricultural activity. This means they should focus better with market needs and fill the gaps of supply chain in the sector.

On the other hand, specialization needs significant non-agricultural income that can be used for daily agricultural and household expenses. Problems derived also from lack of financial stock exchange market and lack of credit facilities pushes individual farmers towards combining agricultural business with tourism businesses, Agri processing, as well as oriented towards the supply base with livestock for the food services. But they always continue to lack the right capital investment for the right time and for the right decision-making, including also all the elements mentioned above.

#### **4. Agricultural taxation model in the EU**

In most EU countries, agricultural activities are run by family farms. There are around 12 million farms in the European Union with an average size of 14.2 hectares. Most of these farms are family farms which are operated as family-run businesses in which the farm is passed down from generation to generation, and personal income tax is their dominant tax. Current solutions confirm equal treatment of farmers and other taxpayers in fiscal matters.

Given the specific nature of agricultural production and its dependence on natural and climatic conditions, tax systems have preferential tax regimes/ rules, such as the right to deduct the value of losses incurred or capital expenditures from taxable income.

The simplified form of accounting is the most widely used form in the EU tax systems. According to the EU tax structures, support for agriculture is not limited to tax exemptions, but consists of the introduction of certain reliefs and improvements that motivate taxpayers in order, among other things, to increase their economic activity.

While tax policies related to agriculture can take different forms depending on the country, they can generally be classified according to the following typology into:

- income taxes, which include income tax and withholding tax on capital gains.
- personal income tax, which includes payroll tax and labor force related to farm operators as employers.
- property taxes (including property transfer taxes).
- taxes on goods and services (VAT).
- social security contributions (which are a mixture of tax, liability, and insurance).

While the sector has certainly is affected by the establishment of various tax reliefs and exemptions in different EU countries<sup>4</sup>, it nevertheless benefits in relation to other sectors through direct and indirect easing policies through the granting of tax rate reductions, mainly VAT.

## **5. Albanian Taxation and tax benefits in the agricultural sector**

The taxation model of the agricultural sector is applicable in principle, in the same way as for other sectors of the economy, with some exceptions and reduction of tax rates according to specific product and product regimes.

The activities of the agricultural sector are subject to direct and indirect taxes, including certain categories of national fishery taxes. This sector is also subject to local taxes, where exemptions and reductions of tax rates apply as well.

The agricultural sector is taxed in the same way between agricultural activities. Agricultural activities registered in National Business Center office (according NACE). The registration of agricultural businesses for fiscal purposes is done through the online portal e-albania.al. The types of businesses that can be selected to carry out the activity are based on the law on companies and traders. Agricultural businesses are obliged to hold accounts like other traders for tax calculations. The tax year is twelve months and lasts from January 1 to December 31. Farmers have

<sup>4</sup> A certain tax measure is a “tax relief” for agriculture if it results in differential treatment of the sector in such a way that agriculture is favored, resulting in some less tax revenue compared to other sectors.



the right to pay taxes similarly to others, as well as to claim a refund according to the same criteria as for other businesses.

For national taxes and fees, the only authority is the General Directorate of Taxes with branches. For local taxes and fees, the only authority is the Tax Directorate under the authority of Municipality where the agricultural business has jurisdiction. For duty and Customs fees, the only authority is the General Directorate of Customs with branches.

In the national taxes and fees applicable to the agricultural sector are:

- value added tax, with some reliefs that will see below.
- income tax (includes profit tax, personal income) with some reliefs will see below.
- withholding tax on individual income (included non-registered traders, tax residents and non-residents).
- excises on goods and products defined in specific agricultural products (wine, cigarettes, etc.).
- national fishery tax.
- The local taxes and fees applicable to the agricultural sector are:
- tax on buildings and tax on agricultural land (excluded as defined below).
- agricultural tax.
- tax on the transfer of the right on immovable property.
- infrastructure impact tax (excluding agritourism).
- advertisement tax (billboards, etc.).
- fee for occupying public space.
- fee for cleaning and disposal of waste.
- temporary fees.

Employees engaged in the agricultural sector pay social and health insurance on the gross salary of employees and employers in the same way and rates as for other sectors of economy.

Below are presented all taxes, exempt for the agricultural sector, as well as reliefs from standard tax rates.

### *Fiscal and investment incentives*

In general, the agricultural sector benefits from fiscal and investment (financial) incentives according to the Law and sub law acts for the “Strategic Sectors”, according to the status of “Strategic Investment”. The legislation in these specific cases provides additional incentives from which the investor can benefit in an investment project in the agriculture sector.

The investor status has a specific package of fiscal facilities, the current tax system has adopted for the agricultural sector in particular a category of fiscal facilities affecting various taxes.

### *Fiscal holidays*

Fiscal holidays are divided in this presentation into (a) the category of tax exemptions, as well as (b) the category of reduced tax rates in relation to standard tax rates.

#### **A. Exemptions from taxes and fees**

##### **a. Value Added Tax (VAT)**

- According to the changes in the law on Value Added Tax, the supplies of agricultural inputs are excluded from the VAT scheme, such as: chemical fertilizers, pesticides, seeds, and seedlings. This exception is defined in article 51, letter “nj.”, of law no. 92/2014, dated 24.07.2014 “On Value Added Tax in the Republic of Albania”, as amended. The exemption from VAT of agricultural inputs creates opportunities for companies importing and trading them to reduce selling prices to farmers to the same extent.
- Another exemption from VAT is applied for the supply of fuel and other necessary supplies of fishing vessels for offshore cruising and international transport of passengers for reward or used for trade, etc.
- Another exemption is for VAT on animal feed and equipment needed during the transport of animals.
- According to DCM 953/2014, there are exemptions in the import of machinery and equipment that are directly related to the investment made by taxable persons who import machinery and equipment in order to implement investment contracts in the agribusiness sector, regardless of the value of the investment.

##### **b. Excise, as well as national taxes (turnover tax and environmental impact tax)**

From 2021 tax year, the supply of oil fuel to farmers was exempt from excise tax (37 ALL/liter), turnover tax (27 ALL/liter) and environmental impact tax (ALL 3/liter). The relief from the fiscal burden of oil fuel used for agriculture, actually is applying to the 47,600 farmers, who currently have the NUIS (taxation identification number), automatically benefiting from the exemption scheme, while the rest is expected to be formalized during 2021 and next years.

### **c. Personal Income Tax**

All those farmers, who transfer of ownership of agricultural land from a registered farmer to another farmer or a natural or legal person carrying out agricultural activity, are exempted from income tax.

### **d. Infrastructure impact tax (local tax)**

The exception is applied for investments of businesses that carry out hosting activities certified as agritourism<sup>5</sup>.

### **e. Agricultural tax (local tax)**

Exception is made for all owners of agricultural land from the payment of real estate tax for 5 years, when the agricultural land is planted with fruit trees and vineyards.

## **B. Tax rate reduction**

### **a. Profit tax (corporate income tax)**

- For entities that perform certified hosting activities such as “Agrotourism”, (according to the terms in legislation in force in the field of tourism), the profit tax rate is 5% (standard rate 15%). The maximum duration of this tax incentive is 5 years.
- For businesses that carry out activities certified as “agritourism” is applied from 2019 the profit tax rate of 5% for a period of 10 years
- From 2019, the reduction of profit tax from 15% to 5% is applied for agricultural cooperation companies, which operate according to law no. 38/2012.

### **b. VAT**

- For the structures, which carry out reception activities certified as “agritourism”, the reduced rate of value added tax of 6 percent is applied for the supply of accommodation and restaurant services, except for beverages. The taxable person, who applies the reduced rate of value added tax 6 percent, is the person registered with NUIS, only for the development of the host activity certified as “agritourism”.
- The VAT compensation rate for agricultural producers is 6%.

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<sup>5</sup> Agritourism is classified as an activity, which can be developed in (a) agricultural farms, which must have at least 1 ha of land planted with agricultural crops or, at least, 0.5 hectares of greenhouses, (b) livestock farms, which must give care, minimally, 10 head of cattle or 100 head of sheep / goat or 200 head of poultry (stalls are also classified), (c) fishing farms / aquaculture.

### Investment incentive schemes

The investment incentive scheme in the country is oriented in two directions as follows:

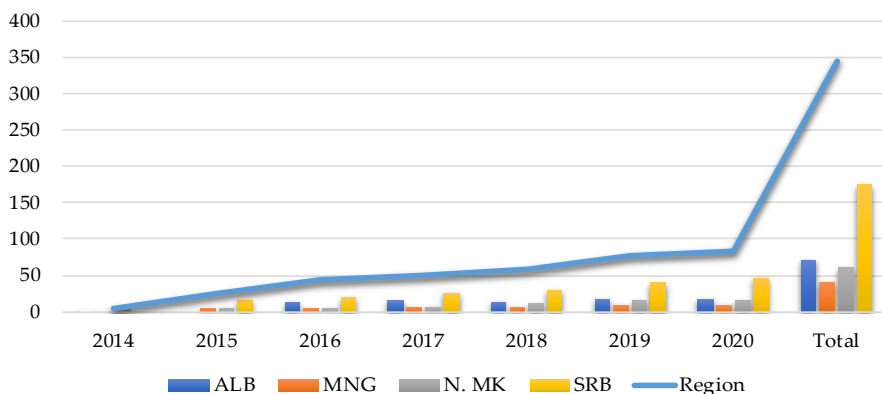
#### National Agricultural Support Scheme

The National Agricultural Support Scheme 2020 is an investment incentive fund, as a modest financial policy to tackle some of problems in supply chain in agriculture. This scheme addresses a fund of ALL 7 billion from the state budget in support of farmers, which will be used to: (a) increase the competitiveness of livestock products, agricultural products in protected areas and reduce production costs, through the payment of registered animals and plastic price subsidies, (b) increase of areas planted with medicinal and aromatic plants, (c) certification of agricultural products and organic farms, (d) support for the diversification of economic activities in rural areas.

#### EU funding mechanism with IPARD program

Albania has received the right to access IPARD grants, a program initiated in December 2018 with a funding value of about 17 million Euros per year (including the contribution of the Albanian Government). The intensity of grants for the agricultural sector ranges from 50-70% of the project contracted by the Agricultural and Rural Development Agency. This grant financial support for each public call consists of 75% funding provided by the instrument for assistance to the pre-accession of rural development in the European Union and 25% funding provided by the budget of the Republic of Albania, as part of the agreement of SAA (Albanian Agribusiness Support Facility)

**Funds benefited from IPARD,  
Western Balkans, 2014-2020**



Source: EU

The maximum contribution of the EU for Albanian farmers in the last 5 years reaches absolute figure of 71 million Euros, where capital investments reach 57.9 million Euros (as much as 0.45% of GDP). With the opening of pre-accession negotiations for EU accession, a 10-fold increase in these financial resources is expected. Meanwhile, Northern Macedonia has received 60 million Euros, Serbia 175 million Euros and Montenegro 39 million Euros.

### **The impact of taxes on agriculture**

The general analysis of the tax system presents the wide range of tax rates and the diversity of tax incentives in agriculture. It also points to the types of taxes where benefits are most common. An analysis of the impact of tax policy on the agricultural sector is complicated by the fact that some of the tax relief and exemption measures need to be seen in fiscal terms of how informality has not yet been clarified by the government as to what extent it exists by introducing and direct and indirect effect. Whether they are specific to agriculture or not, these tax incentives may have implications for the productivity and sustainability not only of the agricultural sector, but with potential effects and alternative impacts in meeting the tax policy objectives for the economy.

The impact *we first analyze* on the consequences of tax revenues is that related to state accounts. From the calculations of tax exemptions for VAT, profit tax, excise, turnover tax, carbon tax, as well as other facilities for the agricultural sector, all together reach an impact on budget revenues up to ALL 3.2 billion. Whereas the burden of taxes and fees of this sector does not exceed more than 20% of tax revenues. In fact, the burden is affected also due to the numerous exemptions and facilities, which differ from other sectors in the number of exemptions (10 central and local taxes exempt and two central taxes with tax rate reductions).

<b>Macroeconomic Indicators, ALB</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020*</b>
GDP growth	3.8	4.1	2.2	-3.3
Consume	2.1	3.1	2.5	-3
Investments	1.5	0.7	-0.9	-0.7
Net Export	0.2	0.2	0.6	0.5
Inflation rate	2	2.1	1.4	1.6
Tax Revenues (% GDP)	25.7	25.6	25.4	25
Employment rate	58.3	59.4	60.4	59.5
Unemployment rate	13.7	12.3	11.5	11.7

Source: World Bank, MoFE

\* estimations

The *second impact* is related to the benefits of the sector, which in addition to the benefits it has received from tax exemptions also has the benefits it benefits from the policy that is generally made for taxpayers.

Considering the changes in fiscal policies have occurred, at least in the last 4 years, if we look at the table of macroeconomic indicators at the national level, the consumption has fluctuations. All tax exemptions, at least for the part that belongs directly to the agricultural sector, do not turn out to have a valid medium-term impact on problem solving and investment recovery, although their impact would be valid for approximately 1/5 of the economy. Meanwhile, in the growth of exports, of course, in addition to increasing exports of energy products, the export of agricultural products has a significant positive impact. Whereas, when we analyze the share of the labor force of the sector that exceeds over 1/3 of the total employment in the country, the tendency and connection of the economy, newly opened business units, as well as the level of increase of exports, naturally all these indicators reflect an impact on increasing the employment indicator of this sector.

It is also clear that progressive tax instrument on labor value and income tax relief facilities for agriculture improve the income situation of farm households (low and middle incomes), thus reducing the frequency of low incomes. But the poverty that comes from low-income farms, however, can be addressed more effectively using the overall social support system. This would require all a family's current income to be formal, however, many farmers are outside the tax system. Moreover, it is generally observed that households supplement farm incomes with incomes from other sources. This is another argument for the actual income from all activities recorded through the tax system. Another argument against using tax policies to reduce poverty is that these reliefs are not able to reach the poor families of farms with income levels below the tax threshold.

At the same time, the review of tax policies needs to be done annually, to analyze the effects and impacts of the exclusion policy on the economy and possible imbalances with other sectors. Each of these exceptions is ostensibly set with a clear policy goal in mind (in many cases years ago), but with the exception of policies in the area of sustainability, there is extremely little evidence available to the public that the facilities have achieved their objectives. targeted. But the downside of incentive and facilitation policies is clearly, that once launched, their removal is extremely difficult in the political sense.

Moreover, these policies have real costs in terms of the income of other groups and to the detriment of tax morality. As such, it is entirely possible that even if a policy were to be effective in achieving its objective, the cost-effectiveness of the scheme may be unknown — that is, it remains to be seen whether the same objective can have been achieved more freely using different policy instruments.

These policies undoubtedly have different effects, which remain almost completely unexplored. Related effects include: (a) pollution of the environment by relatively cheaper fuel for agricultural activities, (b) increased use of pesticides and fertilizers due to the reduction of value added tax, (c) capitalization of land tax credits, and (d) incentives to purchase agricultural land for inheritance planning or tax evasion purposes.

Recent fiscal incentives may lead farmers, especially those with other off-farm incomes, to have annual farm losses to reduce their income tax and amass wealth from rising land values while benefiting from the lowest profits of untapped capital. Thus, farm tax incentives can reduce incentives to optimize productive use of farm assets, leading to reduced sectoral productivity and reduced production, reduced demand for farm inputs and services, and reduced rural employment.

## **6. Economic impact of COVID-19 on agriculture**

The agricultural sector, in 2020, when the Covid-19 pandemic blocked most of the activities in the country did not interrupt the continuity of the supply chain for the market. But the difficulties and delays in exports were like other economic sectors, due to the blockage of foreign transport.

Imports of some agricultural and industrial raw materials, such as seeds, seedlings, chemical fertilizers, machinery and equipment managed to enter from imports, giving a partial impact (due to high cost by reducing profit margin) on product activity agricultural, secured by imports which were not interrupted. The livestock sub-sector was also partially affected, which was blocked in almost half of the volume of the supply chain for food services in the country.

Meanwhile, blockages and difficulties in liquidity were also created for businesses that export aromatic and medicinal plants, due to the blockade of the global economy and trading partners.

The main negative impact of the pandemic was observed in small and medium-sized businesses, with a turnover of up to ALL 14 million. However, overall, the annual turnover of the activities of the agricultural sector had a decrease in turnover by 20–60% of them and this was accompanied by the results with losses in the financial balance sheets of 2020. According to the survey of Investment Council (2021), the decrease of customers, shortages, and cuts in liquidities, as well as the increase of direct costs are among the biggest elements with an impact on the negative balance sheet of 2020.

Wages of “war” has been the most profitable instrument by businesses in the country, but agriculture is found according to the survey as above that it has not benefited from this financial measure of the government. But agricultural

businesses seem to have partially utilized the financial mechanism of using the sovereign guarantee to avail low-interest loans. Meanwhile, the savings from their activity has been part of the response to the pandemic, as well as the reduction of employees to a moderate extent.

*For example, informality (lack of NUIS) has limited the movements of farmers and rural entrepreneurs by physically affecting the inability to perform all necessary work operations in a timely and effective manner. According to official data only 15% of farms are equipped with farmer NUIS, which has prevented farmers and entrepreneurs from moving freely in times of restrictions.*

*One problem that came to light was the fact that rural areas have low access to social protection programs due to land ownership, when at the same time the population is characterized by low incomes, unsustainable, mostly informal employment. These facts were not considered in time to enable the expansion of groups covered by social protection programs to alleviate poverty and social exclusion, as a positive response to the effects of Covid-19.*

*New ventures in the sector are also the first to experience the impact of the pandemic, as they are not eligible entities for funding from national agricultural schemes, but also failed to be part of the coverage of the government financial package under Covid -19.*

*Among the reactions of the agricultural sector is the use of new innovative ideas to increase the range of new products, aiming in this case to use the new market space in the border areas with our country, but also with new agreements in European markets.*

*However, in the quarterly economic performance of 2020, it was noted that the contribution of the agricultural sector to the real GDP growth rate was 0.7%. In the third and fourth quarter of 2020, the contribution of the sector was respectively 0.01% and - 0.49%.*

*The first quarter of 2021 resulted in an impact of 0.01%, which in their continuation reflect all the problems of the sector, emphasizing the fact of responsibility in addressing the problems that are under the responsibility of the government, but also aimed at a policy of cloud in support of the post-pandemic change effects on the economy as a whole.*

## **7. Conclusions & Recommendations**

### *Conclusions*

This analysis aims to examine the impact of fiscal and economic policy on agricultural sector. If we can see the facts/arguments of such an analysis, it can be ascertained that agriculture is beneficial from economic policies and plays a significant role in the GDP, and looks that agriculture will continue to contribute to the important part of the Gross Domestic Product, for many years to come.



Temporary surtaxes, tax amnesties, sales of public assets, and other measures may give the sector some short-term relief but will do nothing to reduce its underlying deficit. Similarly, postponing essential reforms or politically motivated wage increase will be of only temporary value and may do more harm than good over the medium term. Albania should choose measures that are likely to be durable over the longer term, that do not diminish the efficiency of investments, and that have the least costly effects on growth in the rest of the economy.

Therefore, increasing budgetary allocation to agricultural sector infrastructure to enhance the speed at which the sector grows as well as managing the tax system effectively will take a long time in the development process of Albanian economy. Public investment in physical infrastructural activities has been associated with strong externality effects. Some public consumption expenditures, however, may also have a similar growth-promoting impact, such as spending on elementary education and vocational training to enhance human capital, on infrastructure operations and maintenance, and on targeted research and development activities.

Public expenditure on education has a positive impact on growth and that social protection spending has a significantly adverse impact.

Fiscal policy may have important effects on an economy's long-run growth performance. The degree of fiscal adjustment required depends on the quality of the specific measures chosen for its implementation.

The quality of fiscal measures can significantly shape the process of macroeconomic regulation, economic growth rates and capacity utilization and the account position of agricultural exports.

Among the main economic factors that determine a country's growth over the long term are the efficiency with which any existing stock of resources is utilized, the accumulation of productive resources over time, and technological progress. Each of these factors can be affected by the main instruments of fiscal policy.

*First*, taxation and economic growth are linked in several ways. Except the distortionary effect of taxes on economic behavior, by affecting capital accumulation, the structure of taxation may have important implications for growth. For a given tax level, a relative shift from income to consumption taxation reduces the disincentive to save, thus boosting capital accumulation. Furthermore, a heavy reliance on trade taxes can prevent an economy from absorbing or developing new technologies, hampering its growth prospects by reducing the exposure of domestic industries to international markets and competition.

*Second*, tax policy may also have a significant positive impact on both resource accumulation and technological progress if it provides tax incentives that promote investment and research and development activities. Without these incentives, such activities will be below optimal levels.

*Third*, uncertainty and change of rules about the tax regime can have adverse effects on growth, since uncertainty injects volatility into the returns from investment projects, reducing or postponing investment and impeding growth.

*Fourth*, a balanced budget may have growth effects that are separate from those related to either taxation or public expenditure. For instance, budget imbalances may trigger a behavioral response from the private sector. If the sector is affected by a fiscal policy to narrow the budget deficit, this could trigger a response to private sector savings, in which case national savings fall, hampering growth. Budget imbalances that affect stability may also affect growth. The non-stabilized tax policy is likely to have an adverse impact on growth in this post pandemic time, because the increased demand from export for agricultural products leads to inflation, because of lack of capacities to fulfill all the demand from local and external market.

This undesired situation can also affect growth. Although the relationship between inflation and growth is complex at the moments we talk, evidence from energy sector suggest that a significant negative correlation exists between high inflation and growth. Thus, there is a compelling case for believing that existing fiscal policy, that generates high rates of inflation will most likely retard growth in long term prospect.

Tax policy in agricultural sector is often used as a lever through which to affect behavior in the agricultural sector, impacting producer income, farmland transfer, investment, innovation, and sustainability outcomes. If we can see all the history of sector development and the contribute to GDP, the tax system is used to complement other policies in achieving economic goals. In other occasions , taxes or tax exemption have not accepted by the informal part of sector to incentive the economic growth of farms and sector that are contrary to the achievement of policy goals in other countries where the level of informality is lower than in Albanian agricultural sector.

Although many Balkan countries (also EU) include provisions in their tax policy designed to influence the agricultural sector, for most of the topics explored in this review, there remains only scant sector-specific analysis that can inform future policymaking efforts. The exception to this has been in tax exemptions, where new tax policies have been implemented alongside monitoring programmes, and analyses have been published. Further analysis is needed on existing tax exemptions that aim to facilitate land transfer, investments, export, costs of input to open the dialog based on transparency about policy recommendations in this sector.

Consequently, such tax and economic policy and measures should be implemented as part of a strategy to achieve medium-term fiscal viability.

## *Recommendations*

From the analyze of the impact of fiscal and economic policy on agricultural sector developments, the following recommendations are made based on the findings of the analysis and the references used to make the tailored presentation.

Fiscal policy should increase aggregate demand directly through an increase in government spending. Since agriculture is very important to the growth process of economy, government should increase the capital budgetary allocation to this sector in a consistent approach and also ensure the effective utilization of such funds so as to achieve the targeted aim of developing agricultural sector and the economy at large.

The government should ensure that the outcome of the agricultural sector is because of an appropriate structure based on functions of an improved supply chain management within the sector (product development, marketing, operations, distribution, finance, and customer service). Improvement in this regard will result in lower costs and a faster production cycle. This would serve as alternative source of revenue generation different from revenues generated by the agricultural sector (i.e. agritourism).

The comprehensive and structural tax reform measures can be viewed as supporting the objectives of macroeconomic adjustment, growth, and sustainable external should be addressed, as follows:

- removing distortions from the income tax system and lowering high marginal tax rates on labour taxes for research and development experts in agricultural sector.
- strengthening and expanding the VAT base.
- integrating the capacities of public agencies to confront the tax evasion and informality, accompanied by money laundering in big projects.
- implementing an elastic policy for import taxes on inputs and agriculture products similar with Albanian crops.
- reforming the tariff structure to reduce anti-export bias and neutralizing of the red tape and administrative costs (technical and customs fees).
- providing sufficient funds for infrastructure operations and maintenance.
- encouraging productive government investment, particularly when combined with policies to correct distortions in relative factors and prices.
- addressing of low productivity of government grants and national schemes.
- using more cost-effective expenditure policies to attain political goals/promises such as income distribution, external or internal security, and self-sufficiency.
- substituting specific tax exemptions for budget subsidies, to highlight

clearly the opportunity cost of government policy objectives and raise the consciousness of policymakers in setting national priorities, reducing government consumption outlays.

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