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GROSS DOMESTIC PRODUCT AS THE MAIN MACROECONOMIC INDICATOR: THE CASE OF THE REPUBLIC OF KOSOVO

Donjeta Rafuna Kadriu
Independent Researcher, Republic of Kosovo
rafunadonjeta@gmail.com

Hazbi Kadriu
University Universum, Republic of Kosovo
hazbi.kadriu@universum-ks.org

Abstract

The economy as a science has evolved in time along with the demands of industrial and human development. Economic theory has recognized and recognizes the Gross Domestic Production (GDP) continuously as a very important indicator of contemporary economy, an indicator that plays a major role in economic development worldwide so in our country. GDP as a major macroeconomic indicator depends on household consumption as well as on investments, government spending and net exports and in this way the growth of these influencing factors also has a positive effect on the macroeconomic level. In developed and developing economies, GDP has been a key factor both in short-term and long-term because it shows the measurement of a country's economic growth or the comparison of two or more countries. Kosovo as the country that is in the first steps in the market economy in full competition with domestic and international relations, gross domestic production is a key factor in economic development. Kosovo has potential for economic development and stability, but stagnation has been due to lack of production, lack of security of doing business through laws that provide domestic and international investors or the creation of technical infrastructure such as road, rail operation and improvement of power supply. Given the importance of gross domestic product as a key macroeconomic indicator, we will try through scientific literature and various research reports from local and international institutions to contribute to the conclusions and recommendations for gross domestic product as a scientific contribution to institutions relevant.

Keywords: Gross Domestic Product, Macroeconomic Indicators, Economic Growth, Kosovo

INTRODUCTION

Gross domestic product represents a very important macroeconomic indicator. In this paper we intend to explore gross domestic product in Kosovo and the impact of its composition in the growth or decrease of the gross domestic product in Kosovo. The main purpose of this research is to know with the structure and characteristics of gross domestic product in Kosovo. Today, per capita income in Kosovo is only two-thirds of a regional country, and as many as one-tenth of a country in the EU. The European Union has had a GDP level of 34,300 US $ (nominal) or 37,852 (PPP) in 2015. Based on Eurostat data, the largest GDP contributor to the EU is Germany (20%), Great Britain (17%), France (14%), Italy (11%), Spain (7%), Holland (4%), and all others together 27%). Kosovo today has a Gross domestic product of 5.4 billion euros, and per capita income of about 3.100 Euros. The average economic growth rate in Kosovo over the last decade stands at 4.03%, compared to 4.1% in Albania, 3.1% in Macedonia, 3.5% in Montenegro and 2% in Serbia. Furthermore, in the last three years the average economic growth is only about 2.93%, while the projections for the current year do not exceed the level of 3.3%.

GROSS DOMESTIC PRODUCT - THEORETICAL ASPECT

When judging whether the economy is going well or badly, it is natural to see the total income earning everyone in the economy. This is the duty of gross domestic production.
GDP measures two things at once: the total income of everyone in the economy and the total expenditure on the production of all goods and services of the economy.

Gross Domestic Product (GDP) is the market value of all finished goods and services produced within a country over a given period of time. This definition may seem simple. But in fact, many delicate issues arise when calculating the GDP of an economy. Thus, let us consider, with caution each phrase in this definition.

"GDP is the market value ..."

GDP brought together many different types of products in a single indicator of the value of economic activity and to achieve this uses market prices. Since market prices measure the amount people are willing to pay for different goods, they reflect the value of these goods.

"…Everything…"

GDP strives to be comprehensive and includes all items produced in the economy and sold legally in the markets. GDP measures the market value of many goods and services.

However, there are some products that GDP excludes, because measuring them is very difficult. GDP excludes most items illegally produced and sold, such as illegal drugs. It also excludes most of the items that are produced and consumed at home and thus never enter the market.

"... Goods and services ..."

GDP also includes tangible goods (food, clothing, cars), and intangible services (shear, house cleaning, doctor's visits). When you buy a favorite music CD, you buy a commodity and the purchase price is part of the GDP.

When you pay to hear a concert of the same group, you buy a service and the ticket price is also part of the GDP.

"…Final…"

When a paper company sells a paper to a postcard company, the letter is called a middle goods and the postcard is called a final goods. GDP only includes the value of final goods. The reason is that the value of intermediate goods is already included in the prices of the final goods. An important exception to this principle arises when an intermediate goods is produced and, instead of being used, is added to the inventory of a company's goods for use or to be sold at a later date. In this case, the intermediate goods is considered to be "final" at the moment and its value as an investment in inventory is increased to GDP. When the inventory of intermediate goods is used or sold later, the firm's investment in investment is negative and the GDP for the later period is reduced accordingly.

"... Produced ..."

GDP contains goods and services currently produced. It does not contain transactions involving items produced in the past.

"... Within a country ..."

GDP measures the value of production within the geographic boundaries of a country. When an Australian citizen works temporarily in the United Kingdom, his income is part of the United Kingdom's GDP. So, the items are included in a country's GDP, unless they are produced within it, regardless of the manufacturer's nationality. (Mankiw , Taylor, 2012, pp. 50 , 51, 52)

"... In a given period of time ..."

GDP measures the output value that happens within a specific time interval.

Usually this interval is a year or a quarter. GDP measures the circulation of income and expenditure to economy during this interval. When the government reports GDP for a quarter, it usually represents GDP "at an annual rate"

Other revenue measures

Gross Domestic Product should not be confused with the Gross National Product which represents the value at market prices of all goods and services produced from the sources of labor and property of residents of a state within or outside that State for a specified period.

Production is the activity of transformation and the combination of material and human factors that end its cycle as a supply of goods or service presentation. (Mankiw , Taylor, 2012, pp. 80 , 81).

• National gross production (GDP) is the total income earned by permanent residents of a country. It differs from GDP because it includes income earned by UK citizens abroad and excludes income earned by foreigners in the United Kingdom. Economists argue that a steady growth in real GDP should be either due to an increase in the amount of capital and labor used in the production process or because of a more efficient use of these production resources (for example, , technical and organizational progress). (Gilpin, 2000, p. 25)

• National net production (NPN) is the total income of a resident of a country (GDP) less depreciation losses. Depreciation is the consumption and depreciation of the stock of equipment and economic structures such as rusty wagons and computers with old technology.

• National Income (NI) is the sum of the factual income received by the owners of labor, capital and land. (Polovina , Mediq, 2009, p. 33)They are distinguished by net national production because they exclude indirect business taxes (such as sales taxes) and include business subsidies. National net production are also distinguished by national revenues due to a "statistical mismatch" that arises from data collection problems.

• Personal Income is the income that households and non-corporations receive. Other than the national income, they exclude retained earnings, which are the proceeds that corporations have earned, but have not distributed them to their owners. It also deducts corporate income taxes and social security contributions. In addition, personal income includes the interest income that households receive from their government debt bonds and the income that households receive from government transfer programs, such as social assistance and social security payments.

• Personal disposable income is the income that households and non-corporate businesses have left behind meeting their obligations to the government. They are equal to personal income minus personal taxes and some non-tax payments (such as parking tickets) (Cama, 2006, p. 56).

Although the different measurements of income differ as far as the details are concerned, they almost always show the same story about economic conditions. When GDP grows rapidly, even these other measurements of income usually increase rapidly and when GDP is reduced, other measures are also reduced. GDP represents a measure of the product that produced in the economy. This product corresponds to the income earned by the holders of production factors - labor, capital and land, which are used to produce the product (Dornbusch, Makroekonomia, 2000, pp. 212 , 213). The production process is not seen by Say as a process of creating a material product, but a process of transformation and shaping of material factors in various forms, based on people's needs. In this sense, production factors offer their service, and they are not the ones that materialize in the product. From here comes their reward and their reward based on the productivity they offer in this transformation process. (Dornbusch, 2000, p. 121).

Calculation of GDP

GDP can be calculated in three ways, which should in principle give the same result.

They are:

1. Calculation by production,
2. Calculation by income and
3. Calculation by Expenditure.

Components of GDP

Expenditures in the economy can take many forms. To understand how the economy is using its scarce resources economists are often interested in studying the composition of GDP despite different types of spending. To do this, GDP (which we mark with Y) is divided into four components: consumption (C), investment (I), government spending (G) and net exports (NX):

$Y = C + I + G + NX$

This equation is an indicture, so an equation that must be true in the way that the variables are defined in this equation.

Consumption

Consumption is the expense for goods and services by households. `Goods` includes households' expense for durable goods, such as cars and household appliances, such as washing machines and refrigerators, and non-durable goods such as food and clothing.

"Services" include such intangible items as sheaths and medical care. Family spending on education also includes the consumption of services (although one might argue that it would better match the following components).

Investment

Investing is buying goods that will be used in the future to produce more goods and services. It expresses the amount of purchases of capital equipment, inventories and structures. Investment in the facility includes new housing costs. By agreement, buying a new home is the only form of family spending, categorized as an investment rather than as a consumption.

When Aston Martin manufactures a car and instead adds it to the inventor, Aston Martin is assumed to have "bought" the car for himself. This means that national accountants treat the car as part of Aston Martin's investment spending. Inventories are treated in this way because a goal of GDP is to measure the value of production of the economy and the goods that are added to the inventory are part of the production of that period.

Government spending

Government spending includes spending on goods and services from local and national governments. These include state employees' salaries and public work expenses. Public sector spending accounts for one third of GDP, then we say that the government is a extraordinary economic force. (Rosen, 2016, p. 154)

The notion of 'government spending' requires a little clearance.. When the government pays the pay of an army general, salaries are part of government spending. But what happens when the government pays a social security benefit to an elder? Such government spending is called a government transfer because it is not done in the exchange of a commodity or service currently produced. Transfer payments vary in family income, but they do not reflect the production of the economy. (From a macroeconomic point of view transfer payments are like negative taxes). As the GDP is intended to measure revenue from the cost of producing goods and services, transfer payments are not counted as part of government purchases.

Net exports

Net exports are equal to purchases of domestically produced goods by foreigners (exports) minus purchases instead of foreign goods (imports). Selling a local firm to a buyer in another location, such as selling Aston Martin cars to US customers, boosted UK's net exports.

"Net" to "net exports" refers to the fact that imports are deducted from exports. The deduction is made because imports of goods and services are included in the other components of GDP.

In other words, net exports include goods and services produced abroad (with a minus sign). So when a domestic, a firm or a state buys a commodity or service from abroad, buying reduces net exports, but since it also increases consumption, investment, or state purchases, it does not affect GDP.

Analysis of the Influencing Components in Gross Domestic Product of Kosovo

Economic activity in the euro area has been characterized by accelerated dynamics throughout three months1 2017. In addition, the inflation rate in the Eurozone marked an increase of 1.8 percent, mainly driven by the easing monetary policy in the euro area and the rise in energy prices. Facilitating financing conditions as a result of the expansionist policies and the unconventional measures undertaken by the ECB, as well as the improvement of domestic demand, have supported economic activity in the euro area. Strengthening demand in the euro area is positively reflected in the economic developments of the countries in the Western Balkans, which were characterized by increased exports, investments and domestic consumption. The growth of economic activity in Kosovo during three months1 2017 is mainly driven by the strengthening of domestic demand, ie by the growth of consumption and investments. According to KAS estimates, during 2016 Kosovo's economy has been characterized by an average GDP growth of 3.4 percent, while for three months1 2017, KAS has estimated a real growth of 3.9 percent. During three months1 2017, the level of consumer prices in Kosovo has been characterized by a moderate inflation rate of 1.5 percent. Also, in this period, the import and production price index was characterized by an increase. (ASK, 2017, pp. 1-54).

The growth of economic activity in Kosovo during three months1 2017 is mainly driven by the strengthening of domestic demand, ie by the growth of consumption and investments. According to KAS estimates, during 2016 Kosovo's economy has been characterized by an average GDP growth of 3.4 percent, while for Q1 2017, KAS has estimated a real growth of 3.9 percent. During three months1 2017, the level of consumer prices in Kosovo has been characterized by a moderate inflation rate of 1.5 percent. Also, in this period, the import and production price index was characterized by an increase.

CONCLUSIONS

Yet the economies of our countries are oriented to government spending as in public sector wages, proving that the economies of the our countries is only publicly displayed as countries with a free-lance and free-trade economy but are still behaving with the logic of socialist orientation. One way of thinking leftist system that through wages is to keep citizens under control that in the long run this logic of thinking is deadly to the economy.

RECOMMENDATIONS

Based on the 17-year course of Kosovo's economic journey as well as various international and local reports, as well as based on professional literature we can highlight these recommendations:

- Creating the security of doing business through the laws that provide domestic and international investors;
- Creation of technical infrastructure such as road, railway operation and improvement of power supply;
- Taxes and favorable taxes by practicing tax holidays based on investment and job creation, timely tax exemption and tax rate level

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