



Republika e Kosovës
Republika Kosova- Republic of Kosovo
Qeveria- Vlada- Govenrment

Ministria e Financave
Ministarstvo za Finansije
Ministry of Finance

Medium Term Expenditures Framework 2019-2021

April 2018

List of abbreviations

VET	Vocational Education and Training
KPCVA	Kosovo Property Comparison and Verification Agency
PAK	Privatisation Agency of Kosovo
KPA	Kosovo Property Agency
EARK	Employment Agency of the Republic of Kosovo
KAS	Kosovo Agency of Statistics
TAK	Tax Administration of Kosovo
GNIA	Gross National Income Available
WB	World Bank
EU	European Union
EBRD	European Bank for Reconstruction and Development
GDP	Gross Domestic Product
CBK	Central Bank of Kosovo
ERS	Energy Renewable Sources
ERA	European Reform Agenda
EUROPOL	European Union Agency for Law Enforcement Cooperation
KAF	Kosovo Armed Forces
IMF	International Monetary Fund
KSF	Kosovo Security Force
HEIs	Higher Education Institutions
CPI	Consumer Price Index
IFACCA	International Federation of Arts Councils and Culture Agencies
IFIs	International Financial Institutions
FDIs	Foreign Direct Investments
INTERPOL	International Police Organization
IPA	Instrument for Pre-Accession Assistance
NBIHS	Non-beneficiary Institutions for Household Services
MTEF	Medium Term Expenditures Framework
KfW	Kreditanstalt für Wiederaufbau
ODC	Other Depositing Corporations
LLGF	Law on Local Governance Finance
LPFMA	Law on Public Financial Management and Accountability
MEST	Ministry of Education, Science and Technology
MoF	Ministry of Finance
MKSF	Ministry of Kosovo Security Force
MLSW	Ministry of Labour and Social Welfare
SAA	Stabilisation and Association Agreement
MoH	Ministry of Health
NATO	North Atlantic Treaty Organization
PE	Public Enterprises
SMEs	Small and Medium-Sized Enterprises
NERP	National Economic Reform Programme
NPISAA	National Program for Implementation of Stabilisation and Association Agreement

ERP	Economic Reform Programme
SSSR	Strategic Security Sector Review
RTK	Radio Television of Kosovo
HIS	Health Information System
NDS	National Development Strategy
EMIS	Education Management Information System
CMIS	Case Management Information System
HUCSK	Hospital and University Clinic Services of Kosovo
IT	Information Technology
ICT	Information and Communication Technology
VAT	Value Added Tax
UNESCO	United Nations Educational, Scientific and Cultural Organisation
USAID	United States Agency for International Development
WEO	World Economic Outlook

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Introduction

The Medium Term Expenditure Framework 2019-2021 (MTEF 2019-2021) is the main document based on which the annual budget for 2019 is drafted. The main purpose of the MTEF is to provide an analysis based on the country's macroeconomic environment, thus setting the basis for budget planning for the coming years in line with the Government's strategic priorities.

Given the current economic structure of Kosovo and numerous obstacles to economic growth, undertaking economic reforms to free and strengthen the country's economic potential is required. The economic reform priorities for the medium term stem out from the National Development Strategy and Economic Reform Programme 2018-2020, stemming out the process of dialogue on economic governance between Kosovo and the EU.

The Government's main objective continues to be further strengthening of its fiscal position and accountable management of public finances. In this context, planning and execution will be carried out in line with the country's fiscal rule limiting the budget deficit to 2% of GDP. Given that this rule presents a limitation when considering Kosovo's needs for large development projects, the implementation of the 'Investment clause' allows the Government to finance capital projects of public interest over 2% deficit of GDP, provided that such projects are financed by International Financial Institutions and Development Agencies.

MTEF 2019-2021 summarizes these key government priorities in the Declaration of Medium Term Priorities and then in the relevant chapters, covering all budget sectors, describing the approach how funds will be provided for the implementation of the Budget of Kosovo and financial assistance or loans from development partners.

MTEF 2019-2021 is structured into four main parts. The first part contains the “**Statement of Medium Term Priorities**” which provides an extensive summary of the Government's priorities in line with the Government Programme and National Development Strategy, as well as Economic Reform Programme. The second part provides **the Macro-Fiscal Projections** based on general parameters of economic development. **Fiscal Projections** are presented in the third and fourth parts, which set forth the general expenditures ceilings based on which the central and municipal budget is later prepared.

FIRST PART

1. DECLARATION OF MEDIUM TERM PRIORITIES 2019-2021

The main objectives of the Government Programme 2017-2021 are to build up effective, competent and accountable governance towards a sustainable and inclusive economic growth, more strengthened social welfare, Euro-Atlantic integrations and sector development. In order for the economic development orientation to be based on specific priorities, the Government of Kosovo, in January 2016, adopted the National Development Strategy 2016-2021 (NDS). NDS sets forth 34 measures, broken down into four pillars which constitute the country's highest development priorities.

Economic growth remains one of the main objectives of the Government, in order to create new jobs, thus reducing the unemployment and increasing the standard of citizens' life. In line with this objective and given the current economic structure of Kosovo and challenges for a more rapid, sustainable and inclusive growth, economic reforms need to be taken to free and strengthen the economic potential of the country. Economic reform priorities elaborated below in this section, which aim at addressing challenges faced by economy of Kosovo, in particular the private sector, have been presented in the Economic Reform Programme 2018-2020 (ERP), which document derives from the process of economic governance dialogue between Kosovo and European Union (EU). The selection of 20 priority reform measures is mainly based on the NDS, but they also reflect the recommendations for economic policy dialogue between Kosovo and the EU.

Kosovo's association with the European Union is not only important for economic development, but also to improve the country's governance and institutions, as well as international recognition and security in the country. The Stabilization and Association Agreement (SAA) between the Republic of Kosovo and the European Union (EU) is a mandatory contractual framework for Kosovo's accession process into EU. In this regard, the National Program for the Implementation of the Stabilization and Association Agreement establishes a medium term planning framework for fulfilment of SAA obligations, whereas Economic Reform Agenda (ERA) establishes the key priorities for SAA implementation agreed between parties (Kosovo and EU) at the highest political level.

Medium Term Expenditure Framework 2019-2021 summarizes these key government priorities in the Declaration of Medium Term Priorities and then in the relevant chapters, covering all budget sectors, describing the approach how funds for the implementation of identified reforms will be provided through the budget process. These sources may be regular budget revenues, financial assistances or borrowings from development partners.

The first two chapters of the Declaration on the Mid-Term Priorities represent the overall fiscal framework for the next three years and the basic principles on which it is based. The third chapter presents an overview of the Government's priorities based on NDS and follows its structure of four pillars. Linkage between NDS and other key strategic documents (ERP, NPISAA and Sector Strategies) are highlighted for each pillar. Four of NDS pillars are complemented with a fifth priority column that focuses on international cooperation, European integration and national security.

These main priorities will guide all budget organizations in preparing their budget proposals for 2019 and assessments for next two years. According to these priorities, budget organizations may include proposals for the finalisation or rationalisation of the existing programs and depending on available funding sources, they may include proposals for new priority policies, which demonstrate a high impact on the potential achievement of the Government's objectives and priorities.

1.1 Overall fiscal framework

As mentioned above, the Government Programme 2017-2021, the National Development Strategy 2016-2021 and the Economic Reform Programme 2018-2021, as well as the Stabilisation and Association Agreement between Kosovo and the EU are the main documents that determine the orientation and development of government policies and provide the basis for setting policy priorities included in the Medium-Term Expenditure Framework 2019-2021.

The main strategic objective of the Government remains the macro-economic and fiscal stability, as a precondition for creating a more favourable climate for private sector development. The Government of Kosovo will be committed for the progress and strengthening of macro-fiscal stability by (i) providing the necessary balance between revenues and budget expenditures, (ii) ensuring that budget deficit is within the legal frameworks and increase of public debt as a derivative of this deficit is kept under control and at stable levels, and (iii) keeping a sufficient level of budget reserves to face external and internal fiscal risks.

In line with the dedication elaborated above, the main objectives of fiscal strategy for 2019-2021 are:

- ***Fiscal stability*¹**- The Government will be focused on fiscal stability, ensuring that budget deficit remains at accepted levels, budget structure is balanced between current and investment expenditures, and that the level of budget reserves remains adequate for the circumstances and needs of the country. During the process of preparing the Budget for 2019 and coming years, we will ensure that priorities identified in this framework will be implemented, and that with budget implementation we will contribute to the sustainable and inclusive growth. In order to maintain the fiscal stability, the Government will conduct a neutral review of annual budgets, in line with needs and legal requirements, addressing Government policy priorities. The Government is committed for full cooperation with the International Monetary Fund, including the information and consultation about all fiscal initiatives for assessing the risk to fiscal stability. The Government is committed for continuing the extension of maturity of public domestic and foreign debt, further developing domestic market of securities, and developing capital market. It will also build capacities for identification, negotiation and administration of projects to be funded through concessionary loans of International Financial Institutions with long-term maturity. Above all, borrowings will be made to fund feasible capital projects with high economic and social return.

¹ This objective is in line with the concretization of first group of principles "**Economy, Agriculture and Energy**" of programming principles, namely the principle that "*Macro-economic policies will be in view of promoting the economic development*" and generally the second group of principles "**Budget and Fiscal Policies**". With regards to ERP, it has a direct link with Measure No. 8 "efficient policy-making" and generally with fiscal objectives outlined in Chapter 3 of ERP. The proposal is necessary for implementing NDS measures.

- ***Rationalization of public expenditures²*** - The Government is committed for annual budget growth, in line with the general economic growth of the country, and ensuring additional resources from the narrowing of tax gap. However, the needs for financial budget support are great and the Government will set high criteria to ensure that limited sources are dedicated only to projects and policies that ensure higher economic and social return. In order to implement this reform, the following actions will be taken, among others:
 - High criteria will be set to prepare and select projects, and assess the budget allocations
 - Budgets of previous years will not be the basis for the budget of the coming year in both operations and capital investments. While we are dedicated in increasing the budget on annual basis, in line with the abovementioned principles, the allocations will be fully reviewed on annual basis, according to the Government strategic priorities and assessment of preliminary financial results
 - Improving the capital projects management, with a focus on the budgeting and implementing multi-year projects for improving the economic structure of the country
 - In view of further increasing the transparency and strengthening our governing capacities, the budgetary requests for successful implementation of the electronic procurement will be fully funded.
 - Strengthening the role of the internal audit for increasing performance and addressing the remarks of the National Audit Office for qualitative financial management
- ***Reviewing policies and increasing efficiency of tax and customs administration in supporting the private sector development³*** - This objective aims at supporting manufacturing and service businesses, which stimulate the export, improve trade balance and create new jobs. Moreover, we will continue the simplification of the tax-customs system and increase of efficiency of tax administration in supporting the private sector development, in order to promote the voluntary fulfilment of tax duties by all taxpayers. The main specific actions will be:
 - Complete reform of tax control system, in view of applying the risk-based approach,
 - Complete digitalization of taxpayer services by establishing and functionalizing the modern platform of information technology,
 - Tax return process will be significantly improved,
 - Full implementation of the chapter related to the free movement of goods, as provided for in SAA.
- ***Prioritization of Justice and Security, Health and Education for the distribution of operational budget⁴*** - As with the budget for 2018, through this framework and then through the budget for 2019 and onward, when allocating budget, we will pay a special attention to the sectors of high priority, as Justice and Security, Health and Education.

²This proposal is in line with the concretization of the second group of principles “**Budget and Fiscal Policies**”. With regards to ERP, it has a direct link with fiscal objectives outlined in Chapter 3 of ERP, and measure for electronic procurement (measure no.1). The proposal is necessary for implementing NDS measures and is directly related to the measures foreseen in ERA.

³ This proposal is in line with the concretization of principles of second group of principles “**Budget and Fiscal Policies**” and fully compliant with NDS, ERA and ERP.

⁴ The proposal is directly linked to the Pillar of Human Capital and Pillar of Rule of Law in NDS. With regards to ERP, it has a direct link to the Measure No. 10 and No. 14, strengthening the judicial system and cooperation of the labour sector with academy. It is also directly linked to Chapter 1 of ERA.

Implementation of reforms in these sectors will have effects with high impact on economic growth, welfare and strengthening the security of the country. Consequently, the budget allocations will be a reflection of the prioritization of these fields.

- ***Prioritization of large-scale investments for modern infrastructure in the capital budget⁵***
– Prioritization of public investments, namely capital projects, will be based on the level of the impact of these projects on transforming the economic structure in the country. Agricultural infrastructure, road transport and rail transport, water supply networks, irrigation network and waste water treatment will be priorities in budget distribution, while investments in energy are planned to take place with the involvement of private sector.

These elements treat all budgetary organizations equally; therefore, the advancement of cooperation at the level of Government is necessary in order to be able to follow the agenda of economic development of the country by maintaining the macro-fiscal stability.

1.2. Priority areas

The Strategic Planning Committee presents the following priorities declaration related to MTEF 2019-2021. Priorities have been specifically presented and derive from the National Development Strategy, paying attention also to all measures presented in the Economy Reform Programme 2018-2020, as well as National Program for Implementation of SAA. The priorities below are also based on other strategic sector documents, enabling Budget Organizations some flexibility to determine the most appropriate structure and most adequate levels of funding to achieve these objectives.

While preparing and submitting their 2019 budget requests with the medium term projections (2019-2021), Budget Organizations are expected to demonstrate how their budget plans respond to Government's priorities below. Budget Organizations are encouraged to improve the spending efficiency against the given priorities through reallocations within existing ceilings.

1.2.1 Education, Employment and Health

Budget Sector holder: **Education, Health**

With accompanying sectors: **Social Protection**

Economic development is largely based on the quality of human capital. Therefore, the Government of Kosovo has set the development of the field of education, employment and health as high priorities. In the context of addressing current and future challenges, the Government priorities for the next three years for these fields will be focused on the following:

To ***increase the attendance in pre-school and pre-primary education***, during the next medium term period the government policies will focus on improving infrastructure by constructing new public kindergartens, and licensing private institutions, improving the legal framework for licensing new preschool institutions and relicensing the existing institutions. Simultaneously, we will work to address the capacities of the teaching staff in preschool and pre-primary system and piloting of the Core Curriculum for early childhood education.⁶

⁵ This proposal is included in the Connectivity Agenda from EU and MTEF, ERP, NPISAA and NDS. It is related to the construction of the road Prishtina-Peja, Prishtina-Mitrovica, Lipjan-Hani i Elezit and Besi-Merdare. With regards to railways, it is related to the rehabilitation of the main route, which will provide quick access to European markets. The proposal is related to Measure No. 2 of ERP, and Pillar of Infrastructure of NDS.

⁶ Based on the Measure of 1 NDS.

Reforms in pre-university education, which aim at ***improving the quality of teaching in primary and secondary education*** as a prerequisite for a better performance of the education system and strengthening capacities of youth for the labour market, will be achieved by continuously developing, implementing and expanding the competence-based curriculum for all schools. Reforms in pre-university education will be focused on implementing the system of teacher professional development and teacher performance assessment by establishing the licensing and grading system for teachers based on competencies, determining the main competencies for each type of license in the existing scheme and their link to the payroll system, thus increasing the accountability in education. In view of increasing the accountability, we will also work in expanding and improving the inspection system in education. The Government will be focused on increasing the enrolment in pre-university education and supporting the vulnerable groups for inclusion in education.⁷

Quality and competitiveness of higher education is aimed to be increased by supplementing the legal framework on higher education, as well as supplementing the accreditation with a process of ranking programs and institutions according to the European Multidimensional Framework. This will help in improving the transparency in Higher Education Institutions (HEIs), further development of quality assurance mechanisms, more meaningful reporting for universities, as well as will provide objective information for the employers and thus improving the youth employability. In addition, the Government is committed towards full functionalization of the Higher Education Management Information System (HEMIS), which, together with the further development of other information systems, will enable the use of data contained in this system to ensure that study programs in higher education match with labour market needs. Funding for higher education programs and vocational education programs will increase by reviewing the current funding formula and reorienting spending from less priority fields to those with more priority. Finally, with regards to the link of the research work in universities with industry through the access to smart specialization and investments in research and development, the main focus will be on improving the legal framework for transferring the innovation and technology, as well as funding the scientific research activities.⁸

Better linkage between the education system and the labour market will be ensured through the process of developing professional standards and enhancing vocational education and training quality. To address the existing gap of labour force skills and link of labour market with vocational education and training, a detailed analysis of profiles provided in schools of Vocational Education and Training (VET) has been conducted. Therefore, drafting of professional standards as bridge between the labour market and professional education is a priority for the Government of Kosovo to further continue the review of curricula for vocational education and training and providing the conditions to implement these curricula so the current system can provide students with relevant skill required in the labour market. In addition, we aim at undertaking a pilot model of PPP by reviewing the legal framework for public-private partnership in order to find a model suitable for public schools system.⁹

⁷ Based on Measures 2, 4 and 5 of NDS, Measure 17 of ERP, Chapter 26 of NPISAA.

⁸ Based on measure 18 of ERP, chapters 25 and 26 of NPISAA.

⁹ Based on measure 3 of NDS, measure 16 of ERP, Chapter 26 of NPISAA.

To increase the employment level, in particular among youth and women, the Government will be focused on reform and modernization of public employment services by ensuring the full functionality of the Employment Agency of the Republic of Kosovo (EARK) and building its capacities for efficient planning, drafting, implementation and monitoring the active labour market measures. Also, as part of measures, the Action Plan for Addressing the Youth Unemployment will be implemented. The support will be provided even for interns, initiatives of voluntary work, self-employment and entrepreneurship. An increasing number of women will be involved in active labour market measures, as well as other vulnerable and minority groups.¹⁰

The Government has set as priority the improvement of the ***quality and access to health services***. This sector aims the protection of population health, promotion of healthy lifestyles and provision of qualitative and safe health services, with easy, equal and cost-effective access, with no financial risk. Firstly, the universal and mandatory health insurance will commence for all employees, based on the basic health package. The quality of health services will be improved by providing health services at home, health services at pre-school and school institutions, counselling services in primary health care and strengthening capacities for cardiology and cardiac surgery. Moreover, we will continue with the construction of functional health infrastructure and integration of information technology in all institutions.

Implementation of reforms in education, implementation of action plan for addressing the youth unemployment, and universal insurance, combined with the exceptions for social categories determined in Poverty Test will contribute to the social inclusiveness and reduction of poverty.¹¹

1.2.2 Good governance and the rule of law

Budget Sector holder: **Order, Law and Public Security**

with accompanying sectors: **General Public Governance**

The Government of the Republic of Kosovo is committed to establish a functioning market economy and this requires efficient public services for businesses and citizens, with high legal certainty and efficient law enforcement.

During the next three years, the priority of the Government will be the ***implementation of the strategic framework for public administration reform***. The implementation of this strategy will initially have a direct impact on the increase of the private sector productivity, increasing the service quality. Moreover, this implementation is part of the commitments for benefiting the direct budgetary support through the European Commission funds. In particular, the main focus will be on the modernization of public administration by adopting and implementing the legal framework for state administration, salaries and civil service, as well as rationalization of independent and governmental agencies. Policy development and coordination will be improved by applying the ex-ante assessment of legislation and policies, simplifying the legislation and regulatory system. Policy planning system will be better integrated with the financial planning and will be improved through the arrangements of reporting and monitoring to ensure efficient implementation.¹²

Public finance management reforms¹³ ***will increase the transparency of procedures and will reduce corruption***. Use of electronic procurement, including centralized procurements, will

¹⁰ Based on measure 19 of ERP Chapter 19 of NPISAA.

¹¹ Based on measure 20 of ERP.

¹² Based on measure 11 of NDS, measure 8 of ERP, Chapter 1.1.2 of NPISAA

¹³ Public Administration Reform Package, supported by sector budget support from EU and including, among others, the Strategy for Modernization of Public Administration, Better Regulation Strategy, Strategy for Improving the Policy Planning and Coordination and Public Finance Management Strategy.

become mandatory for all budget organizations. This will increase transparency and will ensure the better rationalization of public money spending.

In the light of ongoing reforms for the improvement of business environment, the main priority is *the further reduction of administrative burden*. To this end, a comprehensive program for reduction of administrative burden will be prepared and implemented; at least 10% of existing licenses and permits will be removed or merged together and the others will be reviewed and simplified. The simplification of administrative procedures related to cross-border trade will facilitate exports of Kosovo economy. A register of all services provided by the public administration will be completed and an increasing number of online services will be provided to citizens and businesses through a single point of contact.¹⁴

In view of increasing the efficiency of the judiciary and reducing the backlog, we will continue the support for the judiciary by building capacities and increasing competencies of courts and by implementing the Case Management Information System.¹⁵ In particular, the Government of Kosovo will be focused on implementing recommendations deriving from the *functional review of the sector of rule of law* which aims at assessing the functioning of the current judicial system and tries to provide a response in relation to the improvements or possible interventions to be made in the system in view of its better functioning.

Given the importance of the property for economic investments, personal property and gender equality, a specific priority in relation to the rule of law is also the *ensuring property rights by addressing informality in the immovable property sector*. A specific focus will be on ensuring and formalizing the property rights of women.¹⁶

To ensure the transparent market functioning and to reduce the non-loyal competition, the Government *will increase efforts to reduce informal economy*. General inspection reform will improve their coordination and effectiveness, establish an approach based on the assessment of the risk for inspections and will enable the exchange of information and joint inspections, while reducing the burden of unnecessary inspections for businesses working in compliance with the regulation. In addition, the efforts for reducing the informal economy will be intensified through the reviewed strategy and action plan, based on the risk assessment for sectors more prone to informality.¹⁷

1.2.3 Competitive Industries

Budget sector holder: **Economic issues**

In compliance with the aims to generate sustainable economic growth and to further strengthen the competitive position of Kosovo enterprises, the Government will continue to support the private sector development, fulfilment of quality standards for export, promotion and support of innovative projects, including the support of young entrepreneurs, advisory services provision, improving industrial policies and promoting foreign investments by benefiting from the implementation of the legal framework for strategic investments. During the medium term period, the main focus of government policies will be on:

The aim within the *development of competitiveness of private sector by supporting industrial SMEs* is to improve the competitiveness of SMEs by emphasizing the mechanisms that improve

¹⁴ Based on measures 8 and 9 of NDS, measures 8 and 14 of ERP, chapter 1.1.2 of NPISAA.

¹⁵ Based on measure 14 of NDS, measure 10 of ERP, chapter 23 of NPISAA.

¹⁶ Based on measure 13 of NDS, measure 9 of ERP, chapter 23 of NPISAA

¹⁷ Based on Measures 10 and 7 of NDS, Measure 11 of ERP, Chapter 2.1 of NPISAA

the cooperation between SMEs, increasing the networking with regional companies and EU companies; improving the dialogue between public and private sector, as well as identifying potentials for improving and developing value chains.

In order to ***improve quality of standards and move to activities with higher added value***, we will work on further developing the quality infrastructure by approximating the legislation with EU legislation and its implementation as a basis for strengthening the coordinated inter-institutional system¹⁸.

Promotion of foreign direct investments remains a high priority for the country, for which the main focus over the medium term will be on capacity building of Investment and Enterprise Support Agency, in advancing pre-investment, investment and after care services. ***Supporting and protecting investors from diaspora*** will also be a high priority, increasing cooperation with the diaspora business networks and including them within the current support schemes¹⁹.

In view of increasing the competitiveness in the agriculture sector, we will work on ***resolving the issue of fragmented agricultural land or agricultural land consolidation***, the Government will continue the support of enterprises in the agriculture sector, increase of productivity and employment in this sector. These policies are expected to result in the increase of replacement of imported agricultural products with domestic products, where in particular we will work in advancing agricultural activities, namely introduction of new crops that may be priority and have competitive abilities.

The Government of Kosovo remains committed to ensure that the use of mineral resources ensures the maximisation of benefits for the country, in the conditions of a free, open and transparent market. Rapid and sustainable economic and social development of Kosovo will significantly depend on the implementation of appropriate economic and structural policies and reforms that enable the most rational use of natural and human resources. In this context, ***exploitation of the country's mineral potential*** in view of economic development will be addressed through the establishment of institutional modalities to support the new strategic projects in the mining sector.²⁰ Moreover, it is aimed the increase of effectiveness and contribution of state-owned enterprises in the economy, increasing their value and increasing revenues to the state budget. This priority mainly involves the development of risk analysis processes of state-owned enterprises in the budget and state economy, including the introduction of the system of management according to objectives in the performance assessments of steering bodies of publicly-owned enterprises.²¹

Promotion of ***Innovation and Technology Development*** is one of the most important priorities of the country, for which the main focus during the medium term period will be on the advancement of strategic and legal framework, as well as strengthening of institutional mechanisms for coordination of activities in the field of innovation and technology development. In this context, initiatives will be taken to promote innovation, build capacities in the public and private sector through training programmes and consultancies, support innovative ideas, build and equip innovation and entrepreneurship centres, where businesses (mainly youth) through start-up projects may translate their new ideas into value added for our economy.²²

¹⁸ Measure 18 of NDS, Measure 6 of ERP, Chapter 20 of NPISAA

¹⁹ Based on Measure 19 of NDS, Chapter 20 of NPISAA

²⁰ Based on measure 21 of NDS.

²¹ Based on measure 24 of NDS,

²² Measure 30 e NDS, measure 12 and 13 of ERP, Chapter 10 of NPISAA.

1.2.4 Infrastructure and Environment

Budget Sector holder: **Economic Issues**

With accompanying sectors: **Environmental Protection**

The government is committed to provide public infrastructure needed for creating a better business environment. Sustainable supply with energy and water, as well as transport linking regional corridors with European ones will create a better environment for the private sector. Technological infrastructure is essential for modern businesses to increase productivity and reduce operating costs. This also applies to the agricultural sector which needs associated infrastructure, such as the irrigation. But all this must be done in harmony with and using natural resources in a more rational way, by balancing immediate economic needs and environmental sustainability.

Security in electricity supply will be addressed by commencing the construction of TPP Kosova e Re after the financial closure of the agreement with the private investor and rehabilitating outdated capacities of Kosova B, whereas decommissioning of TPP Kosova A will be phased until the functionalization of TPP Kosova e Re. This also requires the implementation of structural reforms in KEK, which is the legal separation of generation from mining activities and opening of new coal mines to increase the security of supply with capacities of coal production.

At the same time, the security of electricity supply will be increased by establishing an open and competitive market of electricity, which requires the finalization of the regulatory framework and integration to regional market, including the functioning of 400 kV transmission line between Kosovo and Albania, in compliance with commitments deriving from the Berlin Process and EU Directives in the single energy market.²³

Reduction of energy consumption through efficiency measures will continue to be supported by investments on energy efficiency in the public sector and implementation of district heating networks in Kosovo cities, thus reducing the energy consumption in residential buildings for the purpose of heating. The regulatory framework for standards and requirements of energy performance will be improved. The new Law on Energy Efficiency will determine the framework for implementing the funding mechanisms (Energy Efficiency Fund) for energy efficiency measures in the private and residential sector and promoting the inclusive use of existing initiatives, as the Regional Energy Efficiency Programme, in order to achieve the objective of 9%²⁴ of energy saving by the end of 2018.

Rational use of renewable energy sources will be promoted through the regulations on feed-in tariffs for all types of renewable sources and ongoing private investments in solar, wind energy and small hydropower plants. Private investments will be facilitated through establishment of one-stop-shop for energy renewable sources, in order to improve services for this sector.²⁵

The Government of the Republic of Kosovo remains committed to further improve **road and rail infrastructure**, focusing on the completion of main international axes to enable faster and cheaper movement of people and goods, decreasing costs and distances of transport of people and goods inside and outside Kosovo. This will facilitate the placement of business goods in local and

²³ Measures 25 and 26 of NDS, Measure 3 e PRE-se, Chapter 15 of NPISAA.

²⁴ Measure 27 of NDS, Measure 2 of ERP, Chapter 15 of NPISAA.

²⁵ Measure 28 of NDS, Measure 2 of ERP, Chapter 15 of NPISAA

international markets, and the modernization of international rail network will help the sector of mineral and agricultural commodities export.²⁶

With regards to ICT development, the Government of Kosovo will ensure the coordination of different stakeholders of information technology in order to ensure the widest possible expansion and use of ICT in processes of businesses, public institutions and educational institutions necessary for developing the competitiveness and creating jobs.²⁷

Improving agricultural infrastructure in view of agribusiness will focus on continuing support to the expansion of coverage for irrigation system. Also, the activities for expansion of farms will be further supported by providing direct financial aid (subsidy), as well as we will support the building of processing capacities for food industry, investment on agro-processing enterprises, namely the expansion of processing capacities and introduction of new production lines, investments in hygiene and quality standards. All these measures are in view of increasing the productivity, increasing domestic production, increasing the employment in farms and replacement of imports.²⁸

Rational use and building capacities of water resources, intended to be supported through investments in water supply network in all regional water companies, addressing technical and commercial losses in regional water supply companies. It is important to highlight that for preserving water resources and their rational use, we will initially work on realizing feasibility studies for possible locations for the construction of surface water accumulation. By implementing this policy, the Government aims at increasing the level of efficiency in using water and increasing the level of control and report on the quantity of used/consumed water.²⁹

With the priority ***ensuring the sustainable use of Kosovo forests***, the Government of Kosovo aims at stopping the pace of Kosovo forest afforestation and commencing their regeneration and sustainable use by consumers and industrial sectors. Improving efficiency in better forest management will support the wood processing industry, ensuring a fair price and sustainable supply with raw material.³⁰

During the medium term period, the Government aims at implementing the reform in the ***sustainable management of waste***, which means conferring additional competencies to municipalities with regards to the waste management, in compliance with the Law on Local Self Government and Law on Waste, and enabling the consolidation of public waste collection companies, as well as outsourcing economic operators through public-private partnerships for waste management. In principle, the aims for policy implementation are focused on reduction of waste quantity and lowering the risk from them, support of initiatives for waste re-use or recycling, while generating employment and reduction of costs for production industries.³¹

²⁶ Measure 29 of NDS, Chapter 14 of NPISAA

²⁷ Measure 30 of NDS, measure 13 of ERP, Chapter 10 of NPISAA

²⁸ Measure 31 of NDS, measure 4 of ERP, Chapter 11 of NPISAA

²⁹ Measure 32 of NDS.

³⁰ Measure 33 of NDS, Chapter 27 of NPISAA

³¹ Measure 34 e NDS, Chapter 27 of NPISAA

1.2.5 European integration, foreign policy and security issues

Budget Sector holder: **General Governance**

with accompanying sectors: **Defence and Order, Law and Public Security**

Fulfilment of obligations deriving from the European Integration process, strengthening the international subjectivity of Kosovo, with a special mission for achieving new recognitions, full membership in international and regional organizations and bringing new foreign direct investments in Kosovo, remain some of the key priorities.

The Government of Kosovo will invest on strengthening and deepening the special partnership with United States of America, as the most important partner of Kosovo and its people. The strategic cooperation with friend countries will be increased and strengthened. Also, the strategic partnership will be deepened with Albania in view of close political, economic and cultural development.

The basic principle in the field of regional cooperation is the good and constructive neighbourhood through bilateral and regional relations. Thus, the Government of Kosovo aims at building friend relations even with Serbia. Based on the determination of time frame and development of internal political and citizen consensus, we will successfully conclude the dialogue process with Serbia.

Kosovo, without any dilemma, aims the membership in NATO. Also, the ongoing presence of NATO in Kosovo constitutes security and additional opportunities for Kosovo state and citizens. The Government, in close cooperation with NATO, will transform KSF into KAF, thus ensuring the continuation of the full support in professionalization of our armed forces in compliance with NATO standard.

In the field of European Integration, the Government of Kosovo remains committed to soon fulfil the remaining criteria for visa liberalization and will fully implement the Stabilisation and Association Agreement (SAA) within the deadlines agreed with the European Commission. In this regard, the budget organizations identify as priority in particular action within SAA, which include important short-term and medium term engagements (2018-2020) included within the pillars of the National Development Strategy, European Reform Agenda, Economic Reform Programme, National Program for Implementation of Stabilisation and Association Agreement (NPISAA) and actions aiming the maximisation of use of EU funds as part of the Instrument of Pre-Accession (IPA), budget support from EU Western Balkans Investment Framework, as well as other developmental partners.

Therefore, the implementation of SAA and other obligations deriving from the European Integration process constitutes one of the pillars of Government Programme 2017-2021. The fulfilment of obligations deriving from SAA requires the implementation of a large number of deep legal, political, economic and institutional reforms.

PART TWO

2.1. MACROECONOMIC FRAMEWORK

Introduction

The Medium-Term Expenditure Framework 2019-2021 is built on a macroeconomic scenario that foresees accelerated economic growth in the country, and coincides with higher optimism for growth compared to most of the economies with which Kosovo is interdependent. Within the medium term, real economic growth is expected to accelerate from the historic trend of 4%, to a new growth path of 5%.

Economic growth is based on a combination of rising domestic and external demand. Higher investments are expected in response to better loan conditions and improvements in the business environment. Furthermore, a high public investment package financed by the budget and external borrowings, is expected to stimulate a higher economic growth. This increase in investment activity, coupled with a lower cost of lending, are expected to further support private consumption growth. On the other hand, the accelerated growth in Europe and Kosovo's other trading partners, will support external inflow growth, a higher demand for Kosovo exports, and an increase in FDI. After a 3-year slowdown in price fluctuations, inflationary pressures - as a result of international developments - are expected to be higher in the medium term, with an average consumer price change of 1.7%. The overall price change (deflator) is expected to reach an average of 1.2% over the medium term.

On these macroeconomic forecasts, the fiscal framework foresees that budget revenues will benefit from 27% of GDP. A slight fall in revenue as a result of the continued implementation of the Stabilization and Association Agreement, tax incentives for production, and the very conservative planning of non-tax revenues, is expected to be compensated by fiscal benefits as a result of measures to reduce the informal economy.

With revenues of 27% of GDP, MTEF 2019-2021 foresees spending capabilities of an annual average of 31.6% of GDP per year. While the budget deficit, limited to the fiscal rule at 2% of GDP, it is expected to increase slightly from 1.8% of GDP in 2018, to 2% by 2021. Additional capital investment in excess of 2% of GDP is expected to be financed by long-term concessional borrowing, and the use of funds from the liquidation of socially-owned enterprises. Over the medium term, current expenditures are expected to follow the trend of nominal GDP growth, with a share of around 20% of GDP. Capital expenditures, on the other hand, are projected to be in excess of 10% of GDP over the medium term.

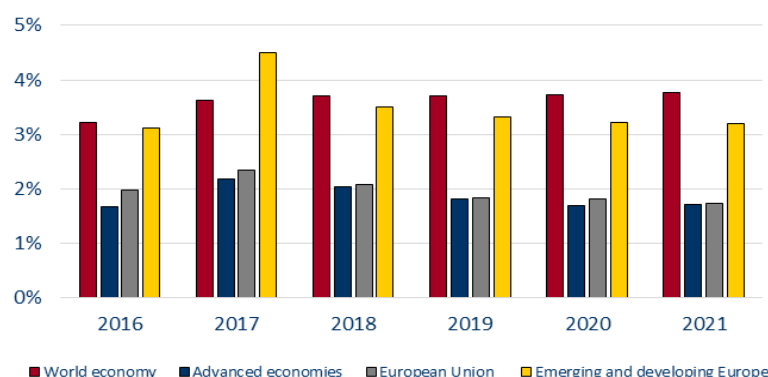
2.1.1. External Economic Environment

The IMF World Economic Outlook update of October 2017 forecasts the global growth to increase from 3.2% in 2016 to 3.6% in 2017 and 3.7% in 2018.³² This growth momentum is expected to continue with an average growth of 3.8% in the medium term 2019-2021.

³² IMF database at WEO, October 2017

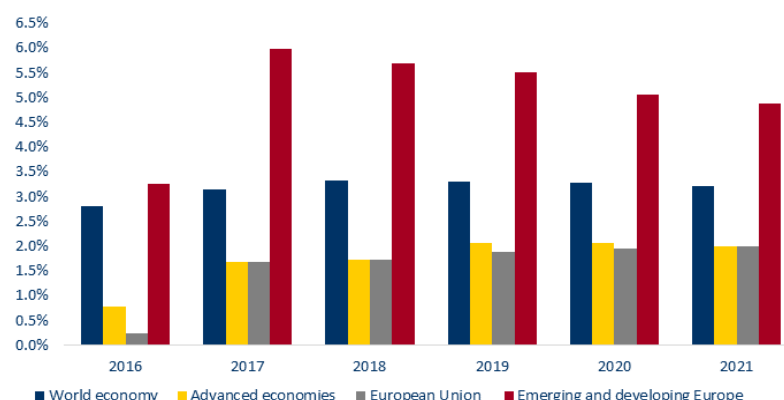
Compared to the estimates of April 2017, the real GDP growth forecasts for EU economies have been revised high, from 0.3% for 2017 and 0.3% for 2018 to 2.3% and 2.1%, respectively. On the other hand, the emerging European economies, including most CEFTA member states as well as Turkey, are expected to grow by an average of 4.5% in 2017 (from 3% as predicted in April), and 3.5% in 2018.

Figure 1. Global growth



Strengthening of key economic variables both in developed and developing countries has also affected the positive revision of the world trade volume expectations, from a 2.4% increase in 2016, to an average acceleration forecast of 4.1% in 2017 and 2018.

Figure 2. Inflation



The positive impact on Kosovo's economy is expected to continue through a higher demand for exports of goods and services, higher remittances, and a persistence of low lending costs.

According to the IMF, the international prices of primary commodities are estimated to have risen by 12.7% in 2017, mainly as a result of price increase in commodities, metals, and petroleum.³³ Nevertheless, the IMF and the World Bank predict the prices of these commodities to remain relatively stable over the medium term. According to the IMF, the average consumption inflation in the European Union countries is projected to be 1.7% in 2018. Within the Eurozone, this rate is anticipated to be 1.4% in 2018, while the same is expected to reach the European Central Bank's target of 2% by 2020.

2.1.2. Recent Economic Developments in Kosovo

According to the preliminary quarterly estimates by the Kosovo Agency of Statistics (KAS), the nominal GDP increased by more than 3.7% in 2017 compared to the previous year. Based on

³³IMF report WEO, October 2017

historical data, annual assessments are generally higher than the quarterly ones, therefore, the final growth assessment is expected to be even higher.

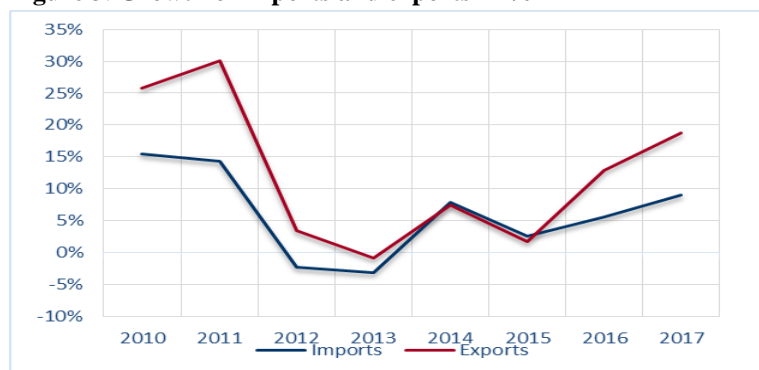
The economic indicators show that year 2017 is followed by growth and change in the growth pattern, focusing on increasing exports of goods and services as well as investments. Forecasts from the World Bank, the International Monetary Fund, and the Ministry of Finance, have all set expectations higher than 4% for 2017 ³⁴.

According to KAS, despite a moderate inflation of 1.5% in consumer prices, and 4% in import prices in 2017, the fall in investment and export costs have led to a deflation of 0.2% at GDP level in 2017.

According to the preliminary assessments, the aggregate consumption remained the same in 2017 compared to 2016. However, data on value added tax, show an increase of 9%, by clearly indicating a growth in consumption. Distribution between private and public consumption has remained the same.

While the total import volume has increased, the real import prices have increased (4% compared to 2016). The increase in volume is mainly driven by the general increase of investments. As a result, the rise in the import price has partly affected the domestic consumption as well.

Figure 3. Growth of imports and exports in %



Exports recorded a real increase of 23.7% compared to 2016. During 2017, the export of goods was 23.1% higher compared to the previous year, while export of services 23.9% higher³⁵. Real imports are 5.5% higher. The export growth of goods is largely a result of the rise in global prices for nickel and lead. As a result of prices, the production of base

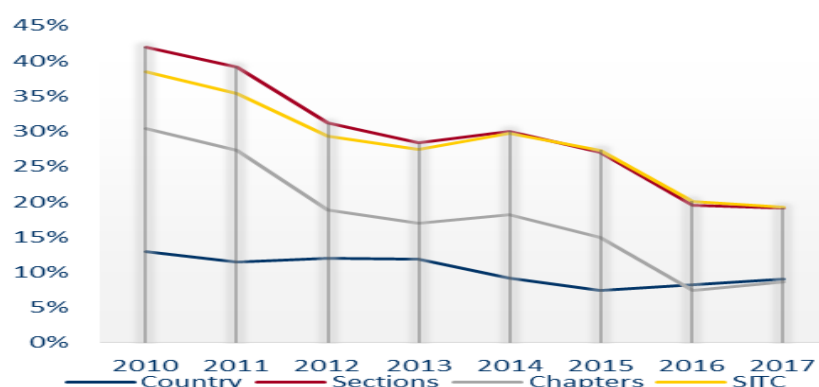
metals and mineral products that stimulate exports made these two categories constitute 55% of total exports of goods.

The agriculture sector is a significant export sector with a steady growth, particularly the export of plant products, with a growth of 39.3% in 2017. The growth of this sector was mainly driven by the growth of favorable trade agreements with trading partners, especially EU countries.

³⁴Western Balkans Report / Regular Economic Report No.13, Exposure to Defects Slows Economic Growth, World Bank, in April 2018, Kosovo's economy is estimated to have increased by 4.4% in 2017, while GDP at regional level is expected to increase around 2.4 %.

³⁵The ASK nominal data for the national and international expatriate population with the Bank of Albania's balance of payments

Figure 4. Export diversification



General diversification of export structure continues with a significant improvement from the previous year, as can be seen from the continued decline in the concentration of exports to certain products in the chart above. The most significant export growth has come from CEFTA member countries, mainly Albania and

Montenegro.

The coverage of import from export of goods is 14% in 2017, slightly higher than the previous year (11.7%). In 2017, the share of imported mineral products in Kosovo accounted for about 17% of the total imports (a significant increase, after the fall of 11.7% in the previous year). The category of imported goods (high level of diversification of imported products) remain the same as the total import of goods compared to the previous year.

Import of goods from EU countries is more or less the same in the whole group (around 42-43% of total imports), with 28.8% of EU imports coming from Germany. On the other hand, imports from CEFTA member countries make up about 28% of total imports, mainly from Serbia, Macedonia and Albania. 47.4% of the imported goods, were intermediate goods, 35.1% consumption goods, 9.8% capital goods and 7.7% other goods.³⁶

The balance of services during 2017 has increased by 38% compared to 2016. Travel services dominate with a share of about 81% of total exported services. This category has increased by 19.5% compared to the previous year, while the import of travel services has increased by 2.7%.

Investments - In 2017, investments are valued to have been 29% of GDP, of which total private investment in 2017 has increased by 15.6% in real terms. The growth of private investments mainly comes from the reinvestment of foreign investors' income on a regular basis as well as the continued tendency of Kosovo diaspora to invest in real estate in the country.

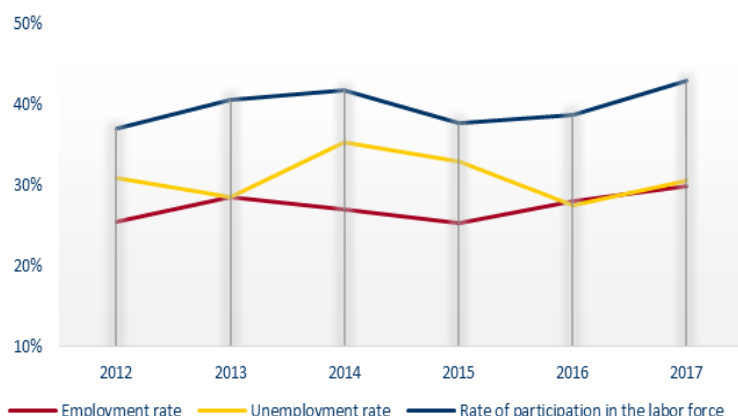
New investments are being driven mainly by the fact that Kosovo is emerging as the best investment environment as a result of structural reforms. In addition, interest rates on commercial loans are steadily decreasing, where commercial banks' interest rates on loans are currently down to 6.7% at the end of 2017, compared to 7.2% in 2016.

Remittances increased by 9.9% compared to 2016. Remittances coming from Germany and Switzerland remain high at about 60% of total remittances. Foreign direct investments have increased by 30.8% compared to 2016, reaching the value of 287.8 million euros, from 220 million in 2016. Within FDI, financial services showed the largest increase of 36m euros, followed by real estate, leasing and residential activities, which had an increase of 19.6m euros. Over 35% of the total FDI was from Germany and United Kingdom, which increased compared to last year.

³⁶Import of goods by Broad Economic Categories (BEC)

Employment and unemployment - the latest data indicate that the employment rate at the end of 2017 was 29.8%, compared to 28% at the end of 2016. The labor force participation rate increased to 42.8%, from 38.7%, as was in 2016.

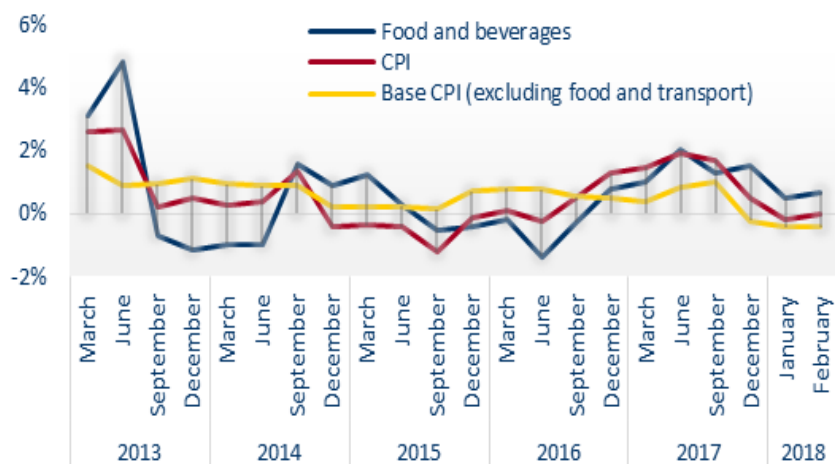
Figure 5. Employment and unemployment rate



As a result of increased labor force participation, despite a significant increase in employment, the unemployment rate increased to 30.5%, from 27.5% as was at the end of 2016. However, this is a positive indicator showing that many working age citizens have begun to actively seek employment, while they had been previously discouraged.

According to data for the fourth quarter of 2017. The business confidence index shows that the main trend of the **business climate** is positive for this period, as are the expectations for the upcoming period.

Figure 6. Inflation rate

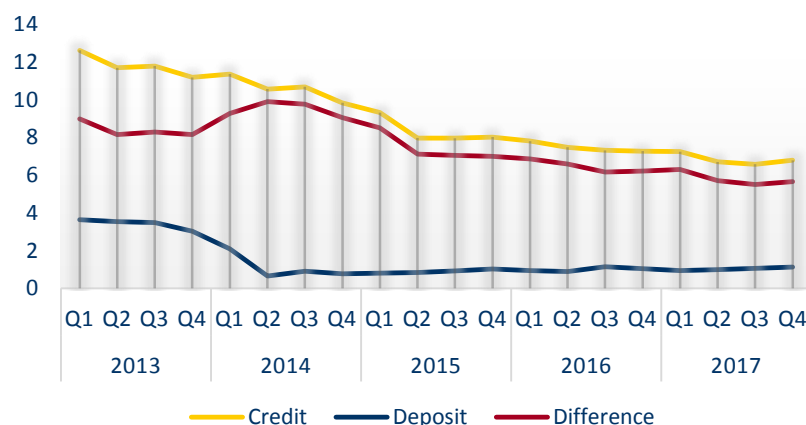


Inflation - marked an increase of 1.5% in consumer prices during 2017, mainly driven by fluctuations in commodity prices in international markets. Inflation mainly reflects the rise in commodity prices, which affects import prices for food and non-alcoholic beverages.

During 2017, the **current account deficit** was about 7% of the GDP, and 7.9% in 2016. Trade balance for 2017 is around -25% of GDP ³⁷.

³⁷See footnote 3 of CBK and KAS remarks

Figure 7. Trend on interest rates, deposits and differences between them on new loans



Bank sector continued to record accelerated growth in lending. In December 2017, the stock of loans reached 2.5 billion Euro (2,486 million), marking an increase of 11.4% compared to the same period of the previous year. This growth also marks the highest growth rate in the last six years. Compared to the

previous year, individual loans have recorded a greater increase in this period than the growth of enterprise loans by 12.7% and 10.7% respectively.

In December 2017, the total amount of deposits reached 3 billion Euro (3,092 million), marking an annual growth of 6.6%. Similar to last year, the growth of business deposits continues to be dominant in relation to the growth of individual deposits by 13.8% and 2.1% respectively

Even this year, the share of individual deposits continues to account for most of the deposit portfolio with 70.1% (2,167 million); followed by business deposits of 24.6% (762 million).

Figure 8. Interest rate on loans



Credit interest rates have been characterized by a significant decline in the first three quarters of 2017, continuing with a rise in the last three months. However, 2017 concludes with an average credit rate of 6.83% or 0.64 percentage points lower than last year.

On the other hand, the deposit rate remains relatively the same and on average is characterized by an increase of 0.03 percentage points. The average rate in 2017 was 1.04%, further expanding the gap between loans and deposits (from 5.58 percentage points to 5.81).

2.1.3. Macroeconomic Forecast 2018-2021

For the period 2018-2021, based on the data published for all indicators, as well as on the projections published so far by international organizations, the Ministry of Finance does not find any evidence to change the forecasts so far, respectively the projections published in the Economic Reform Plan 2018-2020.

However, as a result of the base change for 2017, the expected economic growth structure varies in comparison to the previous projections. Economic growth will continue to be driven mainly by the same impetus (private consumption, exports), but public and private investments are expected to play a more pronounced role in GDP growth. For the period 2018-2021, the real average growth is projected to be 5.0%, starting with a 4.6% assessment for 2018, 4.9% for 2019, and exceeding the 5.1% rate from 2020 onwards.

Forecasts are based on favorable economic developments in the country as well as international ones, and are a continuation of positive expectations for expenditures and investments by businesses and consumers. While the contribution of consumption is expected to remain roughly constant, the continued growth of exports and investments is expected to accelerate the trend. Above all, a public investment package of 3 billion euros for the period 2018-2021 (where 25% of this stimulus is expected to be financed by resources other than the regular budget resources), is estimated to be the main driver for accelerating the economic growth trend.

The high level of consumption in GDP is mainly from the private one, supported by remittances and favorable terms of consumer credits. Improving credit conditions (both cost and access) are expected to affect the growth of consumer credit, thus making private consumption an important factor of economic growth during 2018-2021.

However, private investments are expected to grow moderately, based on the current trend, which together with public investments will lead to a real increase of 8.1% of the total investment over the medium term.

On the supply side, the Government is making continuous efforts to help domestic producers expand production lines to stimulate exports, especially given that the following period is of particular importance as a result of the opening of new markets after implementation of the SAA.³⁸ In this regard, the tax incentives from the Ministry of Finance are expected to have an impact on the expansion of domestic production activity.

Negative trade balance continues to be a challenge for the Kosovo's economy. Given that metals account for about 35% of all exports, the importance of higher diversification of Kosovo's export goods has increased. The Government is continuously striving to, enable lower costs for manufacturing businesses. 2018-2021 will continue to show an increase of exports, mainly in line with the rise in foreign demand, according to the forecasts of international institutions.

On average, exports of goods are expected to increase by 5.4% in nominal terms (or 3.7% real) from 2018-2021, with a significant structural improvement. This projection is consistent with the growth forecast for demand from abroad, but also as a result of an increase in Kosovo's export competitiveness due to the reduction of production costs as well as the increase of margins as a result of rising international prices.

Import of goods continues with the current trend, it is projected to increase by approximately 4.6% in real terms, or above 7.1% in nominal terms, for the medium term.

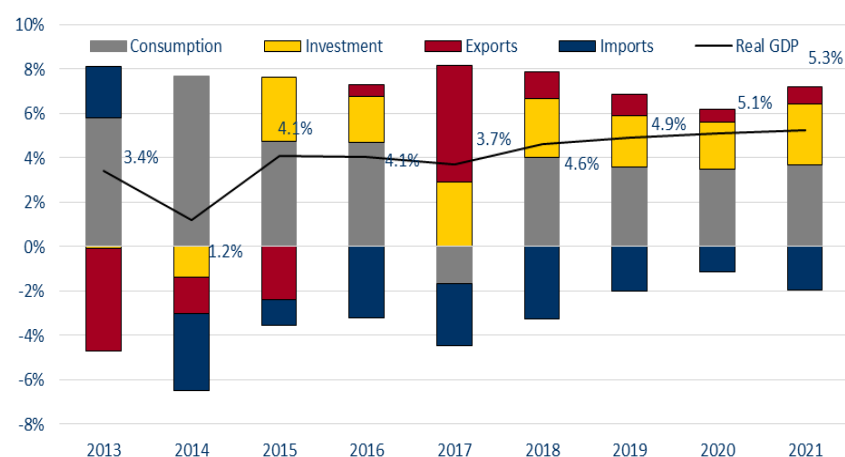
The balance of services is expected to remain positive with a real export growth of 3.2% in average for the period 2018-2021.

The current account balance deficit will remain almost the same in 2018-2021 (about -9.4% of GDP) driven mainly by (planned) public infrastructure projects. The trade balance for the period

³⁸ 'Stabilization and Association Agreement', one of the aims of which is the reduction / removal of trade barriers (customs duty) in order to create a common market with the EU

2019-2021 is estimated to reach around -27.4% of GDP (trade balance of goods only is estimated to be -40.9% of GDP), at a similar level to 2018, despite the steady rise in imports as a result of increased infrastructure investments

Figure 9. Participation of components in GDP growth



Consumption and Investments are also expected to be supported by other components of the balance of payments, largely determined by exogenous movements in the global economy.

Considering the first months of 2018 as well as the forecasts for global inflation, and particularly for the EU

inflation, the consumer inflation is expected to reach an annual average of 1.7% in the medium term. Import prices are expected to grow by an average of 2.5%, while the overall GDP deflator is expected to mark an average growth of 1.2% per year.

As a result of increased disposable incomes and improved lending conditions, in countries where Kosovo's diaspora is concentrated, remittances are expected to continue increasing by 3% per year, while foreign direct investments by about 10% over the 2018-2021 period.

2.2. FISCAL FRAMEWORK 2019-2021

The Kosovo government continues to pursue conservative strategies in macroeconomic policy by targeting low budget deficit levels that provide sufficient cash buffers and avoid excessive accumulation of public debt. This aims to maintain a sustainable macro-fiscal environment that favors an economic growth driven by the private sector.

The MTEF document is consistently based on maintaining and further developing the fiscal framework based on very important fiscal rules, including rules that require:

- Budgetary revisions with a neutral impact on the deficit
- Budget deficit limitation to 2% of GDP
- Maintaining the ratio of cash reserves to 4.5% of GDP
- Request for public payroll to have a constant participation in relation to nominal GDP, and
- The debt limit of 40% or respectively 30% of GDP for the exclusion of capital investments from the deficit rule, according to the "investment clause"

Exemption from deficit limitation on capital projects funded through long-term and concessional lending of donors or those funded by the liquidation of Socially Owned Enterprises assets provides sufficient space to address these deficiencies within a prudent and sound fiscal framework.

In this strategic context, the medium term fiscal objectives of the Government are based on the following principles:

- Maintain a high level of **capital investments** as part of general expenditures to address structural barriers and increase competition through **improved public infrastructure**
- Rationalize the operating costs and create space to increase the financing and effectiveness of judicial, health and educational institutions
- Define the concessional financing of external debt for strategic capital investment projects.
- **Improve the effectiveness of social expenditures and agricultural subsidies through** better targeting and testing opportunities within the framework of current expenses. Revenue mobilization by expanding the tax base instead of increasing statutory tax rates.
- **Promote exports and substitute imports** through indirect tax exemptions for local producers
- **Streamline administrative fees and reduction of regulatory burden.**

Based on the objectives of the above-mentioned fiscal policies, MTEF 2019-2021 proceeds to the fiscal strategy started with the 2018 budget by distributing the marginal fiscal space stemming from the projected increase in revenues to: a) higher operating costs for improving the provision of public services in the priority sectors; and b) increase capital expenditure to improve public services in sectors with priority.

However, one of the main fiscal challenges for achieving these objectives, as highlighted in the alternative scenarios analysis for this program, remains the difficulty of maintaining social spending pressures and the effective implementing of social protection schemes.

Much of the revenue losses from the implementation of the Stabilization and Association Agreement (SAA) have already been absorbed, while the remainder is fully accounted for in the medium term. Limited losses from production incentive schemes - through the elimination of customs duties and excise duties on production inputs, spare parts, and IT equipment - are also estimated in the mid-term scenario. The only increase in statutory norms is planned for tobacco excise duties. This increase is in line with a multi-year transparent plan.

2.2.2. GOVERNMENT REVENUES AND EXPENDITURES

2.2.2.1. Revenue forecast for the period 2019-2021

Medium-term budget projections are in line with the foreseeable increase of the relevant tax bases at the macroeconomic level, under the assumption of the constant effective tax rate. Forecasts also include conservative assumptions regarding incomes from higher compliance as a result of improved tax administration. For the latter, the Government has made a joint assessment with the IMF's technical assistance and has identified measures to improve the voluntary compliance and effectiveness of risk-based audit.

In general, **total budget revenues** are expected to grow by 5.85% in the first year of the framework, from 1.817 million euros in 2018 to 1.923 million in 2019. Revenues are projected to reach 2.160 million in 2021. The ratio of direct tax participation to the total tax collection is

projected to increase from 16.6% in 2018 to 17.1% in 2021. VAT and excise duties are expected to be the main contributors in value, holding a share of over 80% in total tax receivable.

Direct tax revenues are projected to grow at an annual average of 7.6%. On the other hand, nominal national income growth (GDP and remittances) is estimated to grow by 8.2% over the medium term, thus being a key driver to the direct tax revenue growth.

Table 1. Tax revenues projections

Description	2016	2017	2018 Budget	2019 Forecast	2020 Forecast	2021 Forecast
1. TOTAL REVENUE	1,596.5	1,681.6	1,816.9	1,923.3	2,032.7	2,159.6
1.1 TAX REVENUE	1,421.1	1,495.7	1,607.4	1,710.1	1,818.3	1,941.1
Direct taxes	232.1	238.0	267.0	283.9	306.9	332.5
Tax debts	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on corporate income	80.8	75.3	84.2	91.0	98.3	106.1
Taxes on personal income	124.0	136.9	145.8	158.9	171.6	185.4
Property tax	25.1	22.4	33.0	30.0	33.0	37.0
Other direct taxes	2.2	3.4	4.0	4.0	4.0	4.0
Indirect taxes	1,227.4	1,315.2	1,378.4	1,471.2	1,559.4	1,664.6
Tax debts	0.0	0.0	5.0	5.0	5.0	0.0
Value added Tax (VAT)	693.8	756.1	819.4	883.0	944.8	1,013.4
Domestic collection:	179.2	198.3	203.5	228.0	244.0	263.5
Border collection:	514.6	557.6	615.9	655.0	700.9	749.9
Customs duties	130.0	126.0	111.0	108.0	100.0	97.0
Excise tax	403.3	432.3	446.0	478.2	512.6	549.5
Other indirect taxes	0.4	0.8	2.0	2.0	2.0	4.7
One-off revenues from the collection of tax debt	0.0	0.0	4.0	5.0	4.0	2.0
One-off revenue from POE debt	0.0	0.0	4.0	3.0	4.0	2.0
Tax refunds	-38.4	-57.6	-46.0	-53.0	-56.0	-60.0
1.2 NON-TAX REVENUE	175.3	185.9	202.5	208.2	209.4	213.5
Fees, charges, and other from Central Level BO-s	92.4	103.4	100.0	103.0	103.2	105.2
Fees, charges, and other from Local Level BO-s	44.7	43.3	55.0	57.0	57.0	57.0
<i>of which: the revenues related to waste tax</i>	0.0	0.0	0.0	7.0	7.0	7.0
Concessionary fees	7.7	8.5	10.0	11.0	12.0	14.1
Mineral royalty fees	30.6	30.6	33.0	33.0	33.0	33.0
Revenue from mobile network license fees	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Income from interest (Loans to POEs)	0.0	0.0	4.5	4.2	4.2	4.2

However, direct taxes collected in the country have followed a steady growth trend as a percentage of GDP reflecting the gains from increasing compliance level above the growth level of macroeconomic determinants.

Other drivers expected to increase the direct taxes in the medium term embrace implementation of land tax, as part of the property tax legislation, declaration of a higher profit due to the government exemptions from customs duties and excise duties on inputs, increase of public wages (according to economic growth), improved transfer pricing management, and the definite administration improvements to promote the declaration of income from rents.

The project "Further Support to Kosovo Institutions in Combating Crime, Corruption and Violent Extremism", estimates that, despite improvements, there is still a significant gap in direct tax collection, however, the compliance measures will aim to reduce this gap by at least 50% in the medium term.

Revenues from indirect taxes are projected to grow at an annual average of 6.5% over the medium term. The key contribution of the increase of indirect revenues is expected to come from VAT, with an average increase of 7.3% over the forecast period. The latter is expected to be driven by

an average nominal import growth of about 6.2%, an average growth of 5.8% in private consumption and an average growth of about 4.8% in government purchases of goods and services.

Exports of travel services, which usually represent the non-refundable consumption of emigrants during their stay in Kosovo, will also contribute to increasing VAT revenues. In addition, the benefits of compliance in VAT administration are expected to accelerate revenue growth by 4.2 percentage points annually in the medium term. The measures include improved import ratings, increased risk-based-audit selection, and improved VAT threshold management monitoring.

Excise tax revenues are also expected to grow at an average of 7.2%, largely following the real growth rate of GDP, which is estimated to increase from 4.9% in 2019 to 5.3% by 2021. The increase in tobacco excise duty, which is expected to generate marginal revenues from 6 to 8 million euros a year, is another growth driver.

On the other hand, public and private added investment is projected to increase fuel demand, thus increasing the share of excise goods imports and accelerating excise revenues beyond aggregate GDP volume dynamics. The exemption of production inputs that pay excise tax is assessed as a slight negative impact. A significant part of the excises paid for these inputs have already been refunded through the previous scheme and is already accrued in the tax collection trend.

The increase in VAT and excise is expected to offset the foreseeable downward trend from collection of **customs duties**. The marginal loss of revenues from further reductions in SAA tariffs for 2018 is estimated at 9 million euros, while the input exemption is expected to lead to a loss of revenues of about 2 to 4 million euros per year, assuming an increase of over 30% of the requirements for exceptions over the medium term. Against a nominal import increase of 6.2%, revenues from customs duties are expected to fall by an average of 4.4% in the medium term.

Non-tax revenues are predicted to have a drop in GDP per capita from 2.9% to 2.7%. The forecast reflects the Government policy stance to avoid supporting non-tax revenues and to create incentives for reorganizing administrative fees in accordance with the principle of cost-based service bases and in accordance with the legislation reforms on permits and licenses. However, this prediction is very conservative, and bypasses considerable potentials. A more dynamic implementation of the legalization process for illegal constructions, the further auctions for telecommunication frequency spectrum, the improved vehicle registration performance and the increased demand for sand and gravel extraction licenses following the intensified public infrastructure investment might contribute to receiving higher revenues than those foreseen for collecting non-tax revenues.

2.2.2.2.Expenditure forecast for the period 2019-2021

Due to a prudent implementation of fiscal policies and the continued consolidation of public spending, current expenditures are projected to maintain a share of about 20.5% of GDP in average over the period 2019-2021. Whereas, the capital expenditures will account for about 11.1% of GDP during the medium term, increasing from 10% in 2018

Additional space (excluded from the limit of 2% of GDP) to increase the capital expenditure to accommodate the development needs of the Kosovar economy, enables the government to finance projects of public interest that affect the reduction of development (infrastructural) constraints of the country.

Table 2. Expenditures Structure

Description	2016	2017	2018	2019	2020	2021
			Budget	Forecast	Forecast	Forecast
2. TOTAL EXPENDITURE	1,657.6	1,740.5	2,080.4	2,261.0	2,390.2	2,482.6
2.1 RECURRENT EXPENDITURE	1,221.2	1,282.4	1,386.1	1,478.5	1,536.9	1,613.2
Wages and Salaries	543.7	550.0	590.1	610.9	641.6	673.3
Goods and services	202.8	226.0	265.2	299.4	314.2	351.0
Subsidies and transfers	474.7	506.3	526.0	563.4	576.4	584.1
Recurrent reserves	0.0	0.0	4.8	4.8	4.8	4.8
2.2 CAPITAL EXPENDITURE	443.6	467.5	694.3	782.5	853.3	869.4
off which financing from:						
Regular budget	443.6	467.5	546.0	559.8	608.2	693.1
Capital reserves	0.0	0.0	0.0	2.0	2.0	2.0
"Investment clause"	0.0	0.0	62.0	120.7	173.1	174.3
SOE liquidation proceeds	0.0	0.0	86.3	100.0	70.0	0.0
2.3 NET LENDING FOR POEs	-7.2	-9.4	0.0	0.0	0.0	0.0
of which: credits to POEs	0.0	0.0	0.0	0.0	0.0	0.0
of which: returns from POEs	-7.2	-9.4	0.0	0.0	0.0	0.0

Expenditures for the period 2019-2021 are expected to grow consistently in substantive fashion, reaching 2,483 million in 2021, an increase of 6.1% on average. It should be highlighted that this increase is mainly due to the increase in capital expenditures, which are expected to increase to an average of 7.9% over the next medium term period. The rule on public sector wages, approved by the Assembly in early 2016 by amending the Law on Public Finance Management and Accountability and careful management of public sector employment, are measures that are expected to contribute to the reduction of current expenditures and successful fiscal consolidation. Such amendments shall serve as a guarantee of discipline which provides macro-fiscal stability, without jeopardizing adequate provision of public services and adequate financial support for social issues.

Based on these pillars of prudent planning, overall government expenditures are projected to be around 31.6% of GDP at the end of the planning period. As it can be seen from the table of expenditures, despite a significant increase in overall government expenditures moving towards the end of the period, it should be highlighted that current expenditures show a restrained trend of growth (from 5.2% on average).

However, social support has been expanded and greater financial support is provided for the social categories. Through rationalization of expenditures (mainly allowances, transfers, etc.) as well as increasingly better performance in revenue collection and improvements in public finance management, the implementation of an additional set of measures was made possible in improving social welfare.

The previous table shows the general structure of government spending over the medium term which is planned as follows:

Wages and Salaries- The category of expenditures for wages and salaries is expected to gradually increase and in line with economic growth (with two years of difference in time), The increase in this category of expenditures is planned to maintain an average of around 5% over the medium term, while the overall share of this category in GDP is projected to be on average of 8.5% at the end of the reporting period.

Goods and Services- In the period 2019-2021 it is foreseen that these expenditures will increase by an average of 9.85%, as a result of the implementation of legal amendment that entailed

additional costs.. Despite this growth, the expenditures of goods and services will continue to maintain a similar share of GDP in previous years with a slight increase, on average by 4.3%.

Subsidies and transfers – as the second highest share in the category of current expenditures, this component is planned to demonstrate a more pronounced increase in the first year of the mid-term period and in the last two years of the reporting period to have a lower level compared with the previous periods . Consequently, expenditures for this category are planned to reach 584.1 million euros at the end of 2021, a figure which represents an increase of around 11.1% if compared to 2018, with an average share of 7.6% of GDP. It should be stressed that support for public enterprises is planned to gradually decrease during the planning period.

Capital Expenditures- are planned to constitute a significant portion of overall government expenditure in relation to the past. Capital expenditures over the medium term are expected to represent around 35.1% of total expenditures or an average of 11.1% of GDP for the period 2019-2021. During the coming medium term, it is important to implement capital projects based on a priority list containing projects that influence on the improvement of the transportation network, improving the electricity network and investments in utility infrastructure for improving conditions in education, social system and health. Growth in average for the next three years is quite restrained with a rate of around 7.9%. Funding priority will be given to ongoing projects as well as those that are in full compliance with government priorities. The list of priorities, which is presented in the recent assessment made in the Economic Reform Program includes:

Box 1. Investment Clause

As part of the program at that time with the International Monetary Fund (IMF), the Assembly approved the amendment of LPFMR, including the fiscal rule that provides for the exemptions from the capital project deficit limit funded by concessional lending donors - the so-called " investment clause ".

Through the Investment Clause, so far, 13 capital projects have been incorporated for negotiation, whereas the rest are in the phase of conceptualization:

1. The Railway Rehabilitation Project 10 - the implementing institution for this project is the Public Company 'Infrakos', Prishtina. The total value of the project is estimated to be 195.4 million euros. The European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the European Union (EU) will finance the execution of this project. Financial agreements with EBRD and EIB have been signed and ratified and are expected to be implemented in three phases. Works for this project are expected to begin later this year.
2. The Iber-Lepenc Canal Rehabilitation Project - the implementing institution for this project is the Public Enterprise "IberLepenci" and the estimates for the total project cost are 22 million euros. The financial agreement has been ratified during 2017 and as far as implementation is concerned, it is expected to start in 2018.
3. The Regional Rehabilitation Project - the implementing institution for this project is the Ministry of Infrastructure. The financial agreement has been signed with the EBRD and has been ratified by the Kosovo Assembly and has reached the value of 29 million euros. The works are expected to start in 2018.

4. Construction of Main Road N9 Prishtina - Peja (SEETO Route 6 A) part from Kijeve - Kline up to Zahaq - the implementing institution for this project is the Ministry of Infrastructure and the project reaches a value of 193 million Euros. The loan agreement with the EBRD was signed in 2017, while the loan agreement with the EIB is expected to be signed in the second quarter of 2018. Work is expected to begin in 2018.
5. Competitiveness and Readiness for Export - the main implementing institution for this project is the Ministry of Trade and Industry (MTI) and can be included as a representative by the Office of the Prime Minister and the Ministry of Finance. The project is funded by the World Bank and reaches value around 14.3 million euros. Its implementation is expected to begin in 2018.
6. Wastewater Treatment in Prishtina (Construction of sewage treatment plant in Prishtina) - Ministry of Environment and Spatial Planning is the implementing institution for this project. Project funding is made through the Framework Cooperation Agreement between the Government of Kosovo and the French Government, ratified in 2017. Based on this agreement, the project is estimated at 86m euros.
7. Public Transport Project, Municipality of Prishtina - Implementing institution for this project is Prishtina Public Enterprise 'Urban Traffic'. The project is funded by the European Bank for Reconstruction and Development (EBRD) and the total cost value is 10 million euros. The implementation of this project has started in late 2016.
8. Improvement of Transmission Network, Phase VI-VII. The implementing institution for this project is Public Enterprise 'KOSTT - System Operator, Transmission and Market Operator'. The anticipated assessment of the total cost is 25.5 million Euro (Onlending from the Government to KOSTT) and financier is KfW. Its implementation is expected by the end of 2018.
9. Construction of the Main Wastewater Collector in the Municipality of Podujeva - This project will be implemented by the Municipality of Podujeva while the financier is the Austrian Government through the Soft Loan Framework Agreement. The entire value of the project amounts to 5.3 million EUR and is expected to begin by the end of 2018.
10. Construction of a water supply network for the town of Gracanica and the villages Llapnasellë, Kishnica, Badovce and Shushicë. The implementing institution for this project is the Municipality of Gracanica, while the potential financier is the Austrian Government through the Soft Loan Framework Agreement. The entire project reaches a total value of 5.115 million EUR and is expected to start in early 2019.
11. Water supply scheme in the Municipality of Ferizaj. This project will be implemented by the Municipality of Ferizaj and the potential financier is the Austrian Government through the Soft Loan Framework Agreement. The project has a total cost value of 5.125 million EUR and is expected to start in 2019.
12. Digital Economy in Kosovo (KODE) - where the Ministry of Economic Development is the implementing institution while the potential financier is the World Bank. The total estimated value of the project reaches \$ 25 million and is expected to begin in the second quarter of 2019.
13. Project of Real Estate Cadaster and Geospatial Infrastructure, a project which will be implemented by Kosovo Agency of Kosovo. The potential financier of this project is the World Bank and its value is \$ 16.5 million. The implementation of this project is estimated to start at third quarter of 2019.

2.2.2.3. Budget Deficit and Fiscal Rule

The overall medium-term deficit, as provided in the fiscal framework, is planned to be financed by domestic borrowing, external borrowing and one-off revenues including exempted revenues from the liquidation of socially-owned enterprises. External debt is planned for the purpose of financing projects that are already included in the existing budget framework and lending project to organizations for which the government acts as guarantor.

Going towards the end of the planning period, the financing table includes the payment of principal debt (most of which relates to debt repayment to the IMF), as it is detailed in the table 3 shown below. The need of the Government for funding is made on the basis of a regular planning for internal and external debt, maintaining them to reasonable levels (given that Kosovo continues to maintain a relatively low level of debt).

The banking balance is maintained above 4.5% of nominal GDP on average, according to LPFMA criteria for the use of PAK assets. The deficit is also held at the levels set by the fiscal rule; below 2% of GDP.

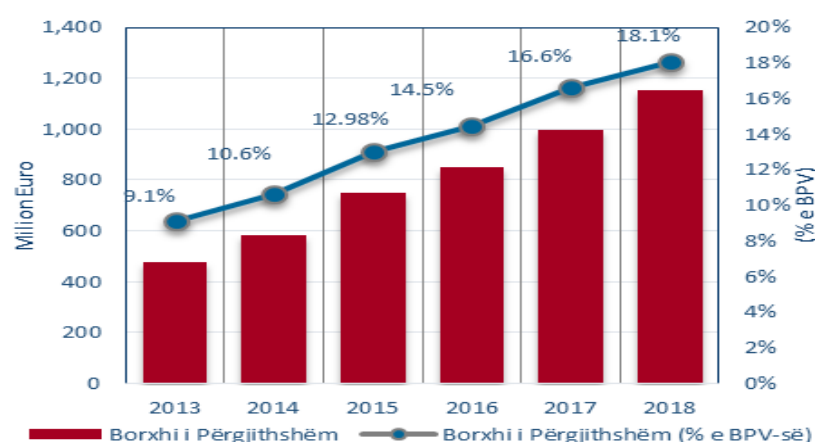
Table 3. General budget deficit

Description	2016	2017	2018 Budget	2019 Forecast	2020 Forecast	2021 Forecast
PRIMARY BUDGET BALANCE	-61.1	-59.0	-264.0	-333.0	-357.5	-323.1
Interest payments	-19.2	-16.4	-23.6	-21.7	-19.9	-19.1
OVERALL BUDGET BALANCE	-80.3	-75.3	-287.2	-354.3	-309.6	-228.8
Net financing from external sources for the year	8.1	77.6	87.3	149.1	153.6	135.1
Net financing from domestic sources for the year	81.8	77.0	227.0	207.8	242.4	152.0
CHANGES IN THE BANKING BALANCE (Delayed)	9.6	79.2	27.7	-2.5	18.6	23.4
Net changes in bank balance	212.3	291.6	319.3	316.8	335.4	280.3
of which: ELA	46.0	46.0	46.0	46.0	46.0	47.0
Net changes in bank balance (% of GDP)	3.5%	4.6%	4.8%	4.5%	4.4%	3.5%
Expenditure excluded from the calculation of the fiscal rule:	26.4	27.0	165.3	224.7	248.1	180.3
Expenditure from designated revenue	9.0	9.4	11.0	2.0	2.0	2.0
Expenditure from carried-over OSR	17.4	17.5	6.0	2.0	3.0	4.0
Expenditure financed through the Investment clause and liquidation proc.	0.0	0.0	148.3	220.7	243.1	174.3
OVERALL BUDGET BALANCE AS PER THE FISCAL RULE (5+6)	-53.9	-48.4	-121.8	-128.0	-129.3	-25.0
BANK BALANCE AT END OF YEAR (GROSS)	270.8	357.2	377.0	367.5	379.0	316.9
Additional notes						
GDP (nominal)	6,070	6,282	6,673	7,066	7,539	8,006
Deficit % of GDP (as per the fiscal rule)	-0.9%	-0.8%	-1.8%	-1.9%	-1.7%	-2.0%
FUNDS WITH SPECIFIC GOALS	58.4	65.7	57.7	50.7	43.7	36.7
Defined by donors	7.3	6.8	6.8	6.8	6.8	6.8
Own transferred revenues	27.2	32.9	26.9	20.9	14.9	8.9
Development fund	10.1	10.3	8.3	7.3	6.3	5.3
Dedicated Revenues	0.8	0.8	0.8	0.8	0.8	0.8
Other	13.1	14.8	14.8	14.8	14.8	14.8

The level of public debt, developments and perspectives in coming years

Historically, the level of overall Debt of the Government of Kosovo has been relatively low. As it can be seen from the graph below, Kosovo's debt has shown a gradual rising trend. From the following data, we can see that the highest increase in overall debt is expected to be recorded during the current year (2018). This will be mainly due to domestic market borrowings through the Securities and Disbursements of Funds through the Investment Clause.

Figure 10. General Debt stock and as a percentage of GDP



Overall Debt at the end of 2018 is estimated to be 1,154 million euros or 18.05% of GDP. So far, with the support of the Ministry of Finance (MF), only one municipal debt agreement has been signed, which amounts to 2.5 million Euros. In the process of negotiation, there are loan agreements whose funds are planned to be used by municipalities to fulfill different projects. Furthermore,

Kosovo's state debt portfolio contains three state guarantees worth 44 million euros issued in 2014, 2016 and 2017.

For the first time in the debt portfolio history, the amount of Securities (S) issued in the domestic market as a percentage of total debt has surpassed credit borrowings from external creditors by 0.44% at the end of December 2015. Such an upward trend in favor of domestic debt continued in the following years, where at end-2017 the internal debt / total debt ratio was 58%. This part of Kosovo's debt portfolio consists of debt instruments with a maturity of 6 months to 7 years. MoF since the beginning of the emission of securities (2012) focused on the budget financing mainly from the domestic market, contributing to market development. Through securities, the Government has borrowed funds on favorable terms and has contributed to the development of Securities Market. By the end of 2018, the internal debt is expected to reach 679 million or 10.2% of GDP. The remainder of Kosovo's public debt is external debt which consists of programs with the International Monetary Fund (IMF) loans from the World Bank (WB), the German Development Bank (KfW), European Bank for Reconstruction and Development (EBRD) and other small share of creditors. Excluding programs with the IMF, all other loans are linked to the financing of specific projects in different sectors. By the end of 2018, the external debt stock is expected to reach 575 million euro or 7.2% of Gross Domestic Product (GDP).

Due to favorable borrowing conditions, in the medium term, the Government aims to focus towards international borrowing. In this regard, cooperation and communication with international financial institutions will be increased, in particular with developmental ones, to introduce the priority projects for the country's economy and, therefore in financing these projects through preferential loans from these institutions.

Moreover, the Ministry of Finance aims to further develop Kosovo's domestic market of Government Securities by stimulating and supporting the expansion of the base of investors. The expansion of the base of investors is planned to be carried by issuing new debt instruments which in some cases will target new market groups with great investment potential.

Kosovo's budget deficit financing will become fully consistent with the present level of deficit in the Budget Law and the need to finance the bank balance. In any case, the MoF will ensure that the amount lent to the needs of the Government will be the lowest cost possible and always within the acceptable limits of exposure to market risks. To ensure proper management and debt strategy, MoF prepares annually State Debt Medium Term Program which will be attached to the Medium Term Expenditure Framework.

2.3. MEDIUM TERM POTENTIALS AND RISKS 2019-2021

The baseline framework presented in the MTEF is followed, as every year, with **potentials** and **risks** which may affect the macro fiscal overview positively or negatively, depending on the probability of materialization and the intensity of the execution of those potentials and risks. For the sake of prudent planning and transparency, these considerations will be part of the Macro Fiscal Framework, details of which are provided below. Given that the MTEF is compiled on a yearly basis, there are no major changes in this list from year to year (when dealing with inherited structural barriers or unless things are improved or deteriorated), whereas if new ones are identified they are added to this list.

Similar to last year, an assessment of development potentials and fiscal risks in the medium term period through alternative scenarios was developed in January 2018 as part of the Economic Reform Program 2018-2020, which remains the base for any aspect of risks presented.

Differently from the last year, this year we have a better base in terms of assumptions from the baseline alternative scenario, through which are generated potential risks that have been rated with a potential decline taking as a basis – as the probability of the construction of new power plant and the implementation of further doing business reforms, which is much higher than the previous ERPs.

2.3.1. Development Potentials

Developing New Energy Manufacturing Capacities- After the signing of the Commercial Agreement by the Government of the Republic of Kosovo with the private operator - the US company Contour Global for the construction of the new thermo power plant "Kosova e Re", significantly investments are expected on the medium term period. Based on ERP 2018-2020 data and analyzes made with a view of positive risks, it turns out that this construction of the new thermo power plant would result with a contribution of the private sector investment component by 1 percentage point compared to base GDP projection in 2019, and 1.5 percentage points in 2020.

Increased Private Sector Investment as a Result of new Institutional and Fiscal Reforms - Kosovo's ranking in the World Bank's Doing Business Report improved significantly in 2018, where Kosovo has advanced 40 countries in the overall ranking (20 places higher than Doing Business 2017). The Government of Kosovo has adopted an ambitious reform agenda to remove obstacles to private sector development, including trade facilitation measures, efficient tax administration procedures, improved contract enforcement, a more efficient system of building permits, and a more efficient legislative system to address insolvency. Meanwhile, the implementation of the second fiscal reform package has started in 2018 and will continue with other applications which will provide tax incentives for manufacturers reducing the cost of production (exemption of customs duty on all products that come as raw material for production, IT products and other semi-products that enter the production process) and will increase their competitiveness. The positive impact of these reforms is a key positive risk factor which has the potential to boost private sector investment and competitiveness, what would shift upward the base line projected mid-term growth.

Regarding the results presented by the analysis made in the last ERP, the implementation of institutional reforms and the second package of fiscal reforms will promote private investment and exports respectively by 0.7 and 2 percentage points compared to the projected GDP for 2018 and 1.5 and 3 percentage points respectively for each year 2019 and 2020.

2.3.2. Fiscal Risks

Systematic (macro-economic) risks

Dependence on Remittances: Kosovo still receives a sizable inflow of migrants' remittances which mainly affect household consumption. A macroeconomic shock on the two main economies that employ the Kosovo's diaspora - Germany and Switzerland - can be transferred to the Kosovo economy through reduction the level of remittances, which consequently reduces household consumption.

However, such a shock is unlikely, as the experience with the 2008 financial crisis has shown that such shocks have little effect on remittances flow to Kosovo. This phenomenon is due to the employment characteristics of the Kosovo's migrants who are engaged in economic sectors that require low or medium skills and are not affected by business cycles. Another factor that may contribute to this relationship can be savings of diaspora mitigating effect on the flow of remittances sent to households in Kosovo.

Base metal prices impact on exports – The composition of Kosovo's exports is mainly characterized by the export of basic metals (although gradually decreasing) and highly related to the value of total export. Over the last few years the extraction, processing and export of base metals is closely related to basic metal prices (nickel prices). Therefore, a drop in metal prices is considered a negative risk to the value of exports and economic activity.

As a result of the assumption, lower goods export growth rate, from the baseline average of 5.4% to 2%, as a result of lower base metal prices and base metals exports.

Fragile Capacities of Domestic Energy Production – The baseline scenario assumes that the current structure of domestic energy production will be maintained in the medium term. This means that there will be no need for additional Government subsidies to the energy sector and that the ratio between imported energy and electricity produced in the country will remain in line with historical trends. However, the current energy production capacities in Kosovo are amortized (especially Kosovo A) are depreciated and prone to malfunctions which may ultimately lead to financing needs for the energy sector and energy import patterns different from the assumptions of the baseline scenario, leading to an increase in energy prices.

This results in the Electricity imports that are higher due to the lower domestic energy production.

Specific Risks

Under-execution of capital spending - An increase in public capital spending to address structural bottlenecks is a pillar of the Government's strategy to support a growth-friendly economic environment. In recent years, despite improvements, under-execution of capital spending exceeded 5% of the total budgeted amounts. As a result, under-execution of capital projects is accounted as a potential downside risk to baseline growth projections. This because of the execution of capital projects financed by concessionary debt, after the signing of financial agreements, still remains a challenge for budget organizations.

Further pressure for spending on transfers – even during 2018, it has continued an increase of a fiscal pressure from the adoption of new transfer schemes. Increased pressure on the use of public money as reallocation, especially when such reallocation does not target poverty but is granted based on the other criteria; it presents fiscal risk for a fiscal strategy targeting socio-economic development.

Accumulation of debt and legal costs – fiscal framework always is prepared with the available data, and consequently the fiscal projections are based on the information provided by budgetary organizations. The latter are responsible for the quality of information. The trend of debt accumulation, and legal costs are element of uncertainty that in case of incomplete information, they limit the effectiveness of the fiscal strategy introduced in this framework.

2.3.2.1. Out of Budget Fiscal Risks

Weakening Performance of Publically Owned Enterprises (POEs) – The ownership of POEs, which are mainly designated for the provision of public goods and may operate under natural monopolies, exposes the Government of Kosovo to significant risks either through the need to guarantee the sustainable provision of public goods. The Government of the Republic of Kosovo in 2017 owned 16 public enterprises. According to the data, the financial condition/situation of public enterprises owned by the Government of the Republic of Kosovo is as in the table below.

Table 4. Public Enterprise financial statements

Recap of Public Enterprise financial statements (in thousands Euro)	2015	2016
Assets	1,015,488	1,217,721
Equity	501,963	615,587
Liabilities	504,852	602,134
General income	307,437	330,207

From this we can see that there is an increase in total revenues by 7.4% in 2016 compared to 2015. If we analyze it by sectors where corporations operate, potential indirectly risk is posed by corporations in the field of post and telecommunications that have a downward trend of revenues and an increase in the negative financial result, as far as corporations for water supply, the trend of revenues is increasing.

Whereas, the corporations operating in transport have recorded downward revenue sales, while the financial result has deepened. In the medium term, the risk is related to their lack of liquidity and the need for a shareholder contribution to working capital (subsidies) despite long-term financing through loans.

In general, better focus on sustainability itself of these corporates owned by Central Government through proper management would avoid the risks that the Republic of Kosovo's budget could face in securing corporate working capital.

Annex 1. Macroeconomic Indicators

Main aggregates

Description	2010	2011	2012	2013	2014 ¹	2015 ²	2016 ³	2017 ⁴	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
GDP	3.2%	4.5%	2.5%	3.4%	1.2%	4.1%	4.1%	3.7%	4.6%	4.9%	5.1%	5.3%
GDP per capita	1.6%	2.9%	0.9%	1.9%	3.0%	6.1%	2.8%	4.2%	4.2%	4.5%	4.7%	4.9%
Consumption	1.9%	1.9%	1.9%	2.2%	7.7%	4.6%	4.7%	-1.6%	4.1%	3.7%	3.6%	3.8%
Investment	12.3%	11.3%	-10.9%	-0.3%	-5.0%	11.3%	7.5%	10.6%	9.2%	7.6%	6.8%	8.7%
Exports	13.0%	10.1%	-0.9%	2.5%	-7.4%	-10.7%	2.4%	23.7%	4.4%	3.6%	2.3%	3.1%
Imports	8.6%	5.3%	7.2%	-1.5%	7.0%	2.2%	6.4%	5.5%	6.0%	3.6%	2.1%	3.6%
Price changes (in percent)												
CPI (annual monthly average)	3.5%	7.4%	2%	2%	0.4%	-0.5%	0.3%	1.5%	1.7%	1.7%	1.7%	1.8%
GDP deflator	3.9%	6.8%	1%	2%	3.3%	0.2%	0.5%	-0.2%	1.5%	0.9%	1.5%	0.9%
Import prices	6.3%	9.3%	5%	0%	-0.6%	-1.0%	-1.6%	5.1%	2.4%	2.4%	2.5%	2.5%
General government budget (in percent of GDP)												
Revenue	26.3%	27.0%	26%	25%	23.9%	25.1%	26.3%	26.8%	27.2%	27.2%	27.0%	27.0%
<i>of which:</i>	0.0%	0.0%	0%	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tax revenue	20.6%	22.3%	22%	21%	20.9%	21.8%	23.4%	23.8%	24.1%	24.2%	24.1%	24.2%
Non-tax revenue	5.0%	4.3%	4%	4%	3.1%	3.2%	2.9%	3.0%	3.0%	2.9%	2.8%	2.7%
Expenditure	27.3%	28.0%	28%	28%	26.4%	26.7%	27.3%	27.7%	31.2%	32.0%	31.7%	31.0%
<i>of which:</i>	0.0%	0.0%	0%	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recurrent spending	17.0%	17.0%	17%	18%	19.0%	19.8%	20.1%	20.4%	20.8%	20.9%	20.4%	20.2%
Capital and net lending	10.3%	11.0%	11%	10%	7.4%	7.0%	7.3%	7.4%	10.4%	11.1%	11.3%	10.9%
Interest payments	0.1%	0.1%	0%	0%	-0.2%	-0.3%	-0.3%	-0.3%	-0.4%	-0.3%	-0.3%	-0.2%
Overall balance	-1.1%	-1.1%	-2%	-3%	-2.7%	-1.9%	-1.3%	-1.2%	-4.3%	-5.1%	-5.0%	-4.3%
Overall balance (fiscal rule definition)	-1.1%	-1.1%	-2%	-3%	-2.7%	-1.9%	-0.9%	-0.8%	-1.8%	-1.9%	-1.7%	-2.0%
Savings/investment balances (in percent of GDP)												
Net primary income from abroad	2.3%	3.0%	2.3%	2.3%	2.1%	1.6%	1.2%	1.4%	1.5%	1.6%	1.6%	1.8%
Net secondary income from abroad	22.3%	19.3%	21.8%	22.1%	19.8%	18.3%	18.1%	18.5%	17.8%	17.3%	16.6%	16.0%
<i>of which: remittances</i>	10.2%	10.2%	10.8%	10.8%	11.2%	11.5%	11.4%	12.1%	11.8%	11.5%	11.2%	10.9%
Investment	33.9%	29.0%	27.6%	27.6%	25.8%	27.6%	27.2%	29.0%	30.0%	30.9%	31.3%	32.5%
Current account balance	-12.7%	-5.8%	-3.4%	-3.4%	-6.9%	-8.6%	-8.3%	-7.0%	-8.5%	-9.4%	-9.4%	-10.3%
Trade balance	-42.5%	-40.5%	-37.5%	-37.5%	-37.0%	-36.3%	-37.7%	-39.2%	-40.9%	-41.3%	-40.5%	-40.9%
Gross national savings	7.6%	11.1%	8.3%	13.7%	18.9%	19.0%	18.0%	22.0%	21.6%	21.5%	21.9%	22.2%
Private savings	-1.6%	-3.5%	-2.3%	0.3%	-2.1%	-1.2%	-2.6%	1.2%	0.3%	0.4%	0.9%	1.1%
Main aggregates (in millions of euros)												
GDP	4,402	4,815	5,059	5,327	5,567	5,808	6,070	6,282	6,674	7,066	7,539	8,007
GNDI	4,851	5,379	5,590	6,069	6,782	6,963	7,240	7,529	7,965	8,401	8,915	9,436
GDP per capita (in euros)	2,418	2,650	2,686	2,865	3,084	3,278	3,386	3,522	3,727	3,931	4,180	4,425
GNDI per capita (in euros)	2,696	2,922	2,969	3,264	3,493	3,706	3,813	3,996	4,222	4,447	4,715	4,986
Workers remittances	584	493	516	573	622	665	691	759	786	813	842	871
Private disposable income	4,448	4,678	5,053	5,357	5,617	5,791	5,987	6,221	6,543	6,913	7,329	7,747
Population (in thousands)	1,775	1,802	1,831	1,859	1,805	1,772	1,792	1,784	1,791	1,797	1,804	1,809

Nominal GDP and its components

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<i>In millions of euros</i>												
Consumption	4,557	5,023	5,256	5,539	5,731	5,859	6,146	6,146	6,526	6,884	7,261	7,656
Private consumption	3,822	4,220	4,448	4,652	4,802	4,943	5,268	5,263	5,572	5,882	6,231	6,590
Public consumption	710	755	788	864	910	894	854	853	924	972	1,000	1,035
General government	483	528	571	659	724	772	730	732	807	859	889	928
Donors	227	227	217	205	187	122	124	121	117	114	110	107
NPISH	25	48	20	23	19	22	24	30	30	30	30	30
Investment	1,342	1,531	1,387	1,471	1,435	1,601	1,650	1,820	2,004	2,182	2,362	2,602
Private sector	887	1,003	837	942	1,023	1,197	1,207	1,352	1,413	1,535	1,703	1,862
General government investment	455	528	550	529	411	404	444	468	590	648	659	740
Net exports of goods and services	-1,608	-1,778	-1,727	-1,684	-1,599	-1,652	-1,726	-1,684	-1,856	-2,000	-2,083	-2,251
Exports	835	959	922	927	1,253	1,274	1,346	1,697	1,805	1,882	1,973	2,061
Exports of goods	305	325	287	305	324	322	308	379	401	421	448	468
Exports of services	530	634	635	622	929	952	1,038	1,318	1,404	1,461	1,524	1,593
Imports	2,443	2,737	2,649	2,611	2,852	2,926	3,072	3,381	3,661	3,882	4,056	4,312
Imports of goods	2,057	2,384	2,360	2,287	2,383	2,432	2,599	2,843	3,129	3,337	3,500	3,744
Imports of services	386	353	289	324	469	494	473	538	532	545	556	568
GDP	4,291	4,776	4,916	5,326	5,567	5,808	6,070	6,282	6,674	7,066	7,539	8,007
GNDI	4,851	5,379	5,590	6,069	6,782	6,963	7,240	7,529	7,965	8,401	8,915	9,436
Private sector disposable income (in million euros)	4,337	4,704	4,999	5,434	5,617	5,791	5,987	6,221	6,543	6,913	7,329	7,747
Private sector consumption per capita (in euros)	2,154	2,341	2,430	2,503	2,661	2,790	2,939	2,951	3,111	3,272	3,455	3,642
Private consumption to GDP ratio	89%	88%	90%	87%	86%	85%	87%	84%	83%	83%	83%	82%
Private Investment to GDP ratio	21%	21%	17%	18%	18%	21%	20%	22%	21%	22%	23%	23%
Exports to GDP ratio	19%	20%	18%	17%	23%	22%	22%	27%	27%	27%	26%	26%
Imports to GDP ratio	57%	57%	54%	49%	51%	50%	51%	54%	55%	55%	54%	54%

Table 1. Statement of government revenue and expenditure

Description	2014	2015	2016	2017	2018 Buxhet	2019 Proj.	2020 Proj.	2021 Proj.
Në miliona euro								
1. TOTAL REVENUE	1332.8	1456.8	1596	1682	1817	1923	2033	2160
1.1 TAX REVENUE	1161.6	1268.7	1421	1496	1607	1710	1818	1941
Direct taxes	189.9	197.8	232	238	267	284	307	332
Taxes on corporate income	55.1	67.7	81	75	84	91	98	106
Taxes on personal income	110.6	108.7	124	137	146	159	172	185
Property tax	20.4	19.8	25	22	33	30	33	37
Other direct taxes	3.8	1.7	2	3	4	4	4	4
Indirect taxes	1005.2	1106.6	1227	1315	1378	1471	1559	1665
Value added Tax (VAT)	560.0	611.3	694	756	819	883	945	1013
Domestic collection:	136.1	154.8	179	198	204	228	244	263
Border collection:	423.9	456.5	515	558	616	655	701	750
Customs duties	126.3	131.4	130	126	111	108	100	97
Excise tax	315.4	360.6	403	432	446	478	513	550
Other indirect taxes	3.4	3.3	0	1	2	2	2	5
One-off revenues from the collection of tax debt	0.0	0.0	0	0	4	5	4	2
One-off revenue from POE debt	0.0	0.0	0	0	4	3	4	2
Tax refunds	-33.5	-35.7	-38	-58	-46	-53	-56	-60
1.2 NON-TAX REVENUE	171.3	188.1	175	186	202	208	209	213
Fees, charges, and other from Central Level BO-s	92.4	84.0	92	103	100	103	103	105
Fees, charges, and other from Local Level BO-s	32.0	38.1	45	43	55	57	57	57
Concessionary fees	5.3	6.5	8	9	10	11	12	14
Mineral royalty fees	26.5	29.7	31	31	33	33	33	33
Revenue from mobile network license fees	0.0	14.8	0	0	0	0	0	0
Dividends	15.0	15.0	0	0	0	0	0	0
Income from interest (Loans to POEs)	0.0	0.0	0	0	4	4	4	4
1.3 BUDGET SUPPORT AND GRANTS	0.0	0.0	0	0	7	5	5	5
2. TOTAL EXPENDITURE	1468.9	1550.9	1658	1741	2080	2261	2390	2483
2.1 RECURRENT EXPENDITURE	1057.5	1148.5	1221	1282	1386	1478	1537	1613
Wages and Salaries	488.7	525.0	544	550	590	611	642	673
Goods and services	207.6	205.5	203	226	265	299	314	351
Subsidies and transfers	361.2	418.1	475	506	526	563	576	584
off which: capital grants to POEs				0	5	5	5	5
Recurrent reserves	0.0	0.0	0	0	5	5	5	5
2.2 CAPITAL EXPENDITURE	411.4	403.9	444	468	694	783	853	869
off which financing from:	411.4	403.9	444	468	546	560	608	693
Regular budget								
Capital reserves				0	0	2	2	2
"Investment clause"				0	62	121	173	174
SOE liquidation proceeds				0	86	100	70	0
Development contingency at MoF								
2.3 NET LENDING FOR POEs	0.0	-1.5	-7	-9	0	0	0	0
3. PRIMARY BUDGET BALANCE (1-2)	-136.1	-94.1	-61	-59	-263	-338	-357	-323
4. INTEREST PAYMENTS	-12.5	-17.3	-19	-16	-24	-22	-20	-19
5. OVERALL BUDGET BALANCE (3+4)	-148.5	-111.4	-80	-75	-287	-359	-377	-342
6. Expenditure excluded from the calculation of the fiscal rule:			26	27	165	225	248	180
Expenditure from designated revenue			9	9	11	2	2	2
Expenditure from carried-over OSR			17	18	6	2	3	4
Expenditure financed through the Investment clause and liquidation proc.			0	0	148	221	243	174
6. OVERALL BUDGET BALANCE AS PER THE FISCAL RULE (5+6)	-148.5	-111.4	-54	-48	-122	-135	-129	-162
6. FINANCING	-148.5	-111.4	-80	-75	-287	-359	-377	-342
6.2.1. Net changes in bank balance	-57.7	99.3	11	79	28	-3	19	-55
6. OVERALL BUDGET BALANCE AS PER THE FISCAL RULE (5+6)	101.6	200.9	212	292	319	317	336	280
Off which: ELA	46.0	46.0	46	46	46	46	46	46
Memorandum items:								
1.4 DESIGNATED DONOR GRANTS	14.4	14.7	12	9	12	12	12	12
2.4 DESIGNATED DONOR GRANTS	13.8	14.7	15	9	12	12	12	12
TAK revenue collections	303.7	332.8	386	414	446	490	526	563
Customs revenue collection	871.0	951.8	1048	1117	1175	1243	1315	1401
GDP (nominal)	5567.6	5807.0	6070	6282	6673	7066	7539	8006
Deficit % of GDP (as per the fiscal rule)	0.0	0.0	-0.9%	-0.8%	-1.8%	-1.9%	-1.7%	-2.0%
Net bank balance % of GDP	0.0	0.0	3.5%	4.6%	4.8%	4.5%	4.5%	3.5%

Tabela 1.1. Financing		2016	2017	2018	2019	2020	2021
		Aktual	Aktual	Budget	Proj.	Proj.	Proj.
FINANCING NEEDS		-80	-75	-287	-359	-377	-342
1.1. Net external financing		8	78	87	149	154	135
Inflows:		69	130	111	199	246	214
IMF		36	100	0	0	0	0
On-lending		24	21.7	19.0	24.1	21.0	17.4
			13.5	11	16	13	9
			8.2	8.2	8.2	8.1	7.9
		9	8	92	175	225	197
IFI financing as per the investment clause		0	0	62.0	121	173	174
IFI project-loans		9	7.9	30.4	54.3	51.5	22.8
Outflows:		61	52	24	50	92	79
Debt principal repayments		61	52	24	50	92	79
1.2 Net domestic financing		82	77	227	208	242	152
Inflows:		110	105	246	232	263	170
Domestic borrowing: new debt issuance		101	95	105	92	143	150
Loans to POEs (principal)		0	0	11	11	11	11
One-off financing (PAK)		0	0	111	120	100	0
		0	0	100	120	90	0
		0	0	11	0	0	0
Inflows from designated funds		9	9	19	9	9	9
		9	9.4	11	2	2	2
		0	0	8	7	7	7
Outflows:		28	28	19	24	21	18
Loans to POEs (principal)		0	0	0	0	0	1
On-lending		24	21.7	19.0	24.1	21.0	17.4
			8.2	8.2	8.2	8.1	7.9
			13.5	10.7	15.9	12.9	9.5
Outflows to designated funds:		4	6	0	0	0	0
CHANGES IN BANK BALANCE (Undesignated)		10	79	28	-3	19	-55
7. END-YEAR NET BANK BALANCE		212	292	319	317	336	280
off which : ELA		46	46	46	46	46	47
Designated Funds		58	66	58	51	44	37
Stock of donor designated grants		7.3	6.8	6.8	6.8	6.8	6.8
Stock of carried-over OSR		27.2	32.9	26.9	20.9	14.9	8.9
The development trust		10.1	10.3	8.3	7.3	6.3	5.3
Designated revenue		0.8	0.8	0.8	0.8	0.8	0.8
Other		13.1	14.8	14.8	14.8	14.8	14.8
7. END-YEAR GROSS BANK BALANCE		271	357	377	367	379	317
7. END-YEAR GROSS BANK BALANCE		14	357	377	367	379	317

	Description	Investment Clause	Development Partnership	Forecasted Implementation							
				2018		2019		2020		2021	
				04	06	04	06	04	06	04	06
Existing projects from the budgeting process 2018											
1	Regional Roads Rehabilitation	Yes	EBRD		10		15		3.5		0.5
2	Rehabilitation of the Railway Line 10	Yes	EIB		10		10		14		8
3	Construction of the waste treatment plant in Pristina	Yes	French Gov.		3	0.3	2.5	0.5	23.5	0.5	23.5
4	Competitiveness and Readiness Project for Export	Yes	WB			1.1	2	1.1	3	1.1	4
5	Water Security and Channel Protection	Yes	WB			0.275	2.5	0.25	3	0.1	0.3
6	Kieve-Zahaq Road	Yes	EBRD+EIB		37		45		45		24
7	Agriculture and Rural Development Project	Yes	WB	1.3		0.01					
8	Additional funding for Agriculture and Rural Development projects	No	WB	3.7	2.02	3.6	2.2	3.5	2.1	3.5	
9	Financing the Improvement Project of M2 Milloshevo - Mitrovica Road	No	OPEC, FS, BZHI	12		23		12.3			
10	Health Project	No	WB	3.6		7		11			
11	The Project on Energy Efficiency and Renewable Energy	No	WB	6.4		7.8		6.2		3	
12	Improvement Project for Education System	No	WB	3.4		3.6					
Sub-total:				30.4	62.02	46.683	79.2	34.85	94.1	8.2	60.3
NEW PROJECTS WITH DEVELOPMENT FROM MTEF 2019-2021											
1	Window of Municipal Investment	Yes	EBRD				7		23		24
2	Construction of the waste treatment plants - Ferizaj, Gjilan, Mitrovica	Yes	EIB				5		15		25
3	Drinking Water Plant-Ferizaj	Yes	Austrian Gov.				5				
4	Wastewater Treatment Plant - Istog, Gracanice	Yes	Austrian Gov.				10				
5	Wastewater Treatment Plant - Podujeva	Yes	Austrian Gov.				6				
6	Wastewater Treatment Plant - Shtime	Yes	Austrian Gov.						5		
7	Strengthening Financial Sector Project	No	WB			5	0.5	10	1	5	1
8	Digital Economy in Kosovo (CODE)	No	WB			2.3	0	6.3	0	9.3	0
9	Real Estate Cadastre Project and Geospatial Infrastructure	Yes	WB			0.3	2	0.3	3	0.3	6
10	Public Infrastructure Development Window	Yes	Hunagrian Gov.				3		5		5
11	Infrastructure Window for Wastewater Treatment	Yes	Hunagrian Gov.				3		7		8
12	Circular of Pristina	Yes	IFI						20		45
Sub-total:				0	0	7.6	41.5	16.6	79	14.6	114
	Total			30	62	54	121	51	173	23	174

THIRD PART

3. SECTORIAL EXPENDITURES FRAMEWORK 2018-2020 – CENTRAL GOVERNMENT

The third part introduces the current situation and objectives according to central level sectors. A total of 10³⁹ sectors have been presented, each sector has also the trend of financing 2017-2018 and budget assessments for the next three-year period 2019-2021. Each section presents Budget Organizations according to the respective sectors. The following tables present the projections for 2019-2021 for overall Budget of Kosovo, centrally and by sectors. The fourth part presents municipal funding.

Table 1: Trends of financing 2017- 2018 and assessments 2019-2020 for Overall Budget of Kosovo

Description	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	1,779,864,601	2,080,480,846	2,260,998,725	2,390,220,797	2,482,632,262
Number of employees	82,454	84,428	84,794	84,950	85,106
Wages and Salaries	554,342,173	590,077,304	610,863,089	641,568,228	673,287,759
Goods and Services	209,432,981	237,586,084	271,694,469	286,283,087	323,079,221
Utilities	25,178,356	27,653,240	27,749,945	27,868,085	27,917,585
Subsidies and Transfers	508,034,761	525,984,312	563,363,517	576,422,845	584,135,518
Capital Expenditures	482,876,331	694,379,907	782,527,706	853,278,552	869,412,180
Reserves	-	4,800,000	4,800,000	4,800,000	4,800,000
Financing Sources					
Government Grants	1,677,336,419	1,777,424,605	1,883,978,611	2,001,986,525	2,176,744,087
Own Source Revenues	94,798,471	102,389,570	103,051,435	106,311,989	109,588,175
Revenues from PAK	-	86,450,000	100,000,000	70,000,000	-
Financing from borrowing	7,729,712	114,016,671	173,968,679	211,922,283	196,300,000
Financing from budget deficit (2%) - 04	7,729,712	31,889,249	53,329,854	38,900,000	22,300,000
Financing from investment clause - 06	-	82,127,422	120,638,825	173,022,283	174,000,000
Donor Grants*	1,094,588	1,916,351	1,391,400	741,400	845,049

³⁹ MTEF 2018-2020 contains 12 sectors, whereas MTEF 2019-2021 contains 10 sectors according to the Classification of the Functions of Government (COFOG), drafted by the Organization for Economic Cooperation and Development (OECD).

Table 2: Trends of financing 2017-2018 and assessments 2019-2021 for central level

Central Level	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	1,339,633,735	1,589,198,073	1,745,821,997	1,862,666,489	1,936,283,339
Number of employees	38,583	40,550	40,736	40,892	41,048
Wages and Salaries	303,641,298	324,307,384	340,779,533	370,134,255	400,496,615
Goods and Services	169,178,315	179,055,641	201,839,122	217,427,740	255,223,874
Utilities	15,489,456	17,964,339	18,061,045	18,179,185	18,228,685
Subsidies and Transfers	499,286,453	517,236,004	554,528,564	567,587,892	575,300,564
Capital Expenditures	352,038,214	545,834,705	625,813,734	684,537,418	682,233,602
Reserves	-	4,800,000	4,800,000	4,800,000	4,800,000
Financing Sources					
Government Grants	1,316,419,043	1,372,019,109	1,460,600,894	1,564,432,217	1,723,395,164
Own Source Revenues	16,634,981	20,964,571	16,051,435	16,311,989	16,588,175
Revenues from PAK	-	86,450,000	100,000,000	70,000,000	-
Financing from borrowing	6,579,712	109,564,393	169,169,668	211,922,283	196,300,000
Financing from budget deficit (2%) - 04	6,579,712	27,436,971	48,530,843	38,900,000	22,300,000
Financing from investment clause - 06	-	82,127,422	120,638,825	173,022,283	174,000,000
Donor Grants*	1,094,588	1,916,351	1,391,400	741,400	845,049

3.1. GENERAL PUBLIC GOVERNANCE

This sector aims the continuous advancement in preparing and implementing the legislation to support the sustainable economic development and maintaining the macro-economic and fiscal stability, provision of better services for the citizens of the Republic of Kosovo, as well as attracting foreign investments.

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In the past years, a significant number of laws have been adopted and their implementation will significantly contribute to the process of integration of Kosovo in Euro-Atlantic processes. Moreover, actions aimed at ensuring new recognitions and memberships in different international organizations have been taken. A legal framework is in line with the European legislation and implementation of governing reforms positively contributes to the increase of accountability, rule of law, fight against corruption and general development to ensure a system of democratic values. A series of tax and budget reforms, which aim the support of private sector and maintenance of economic and fiscal stability, have been designed and implemented.

To increase the effectiveness of public administration, the Government is working in strengthening the system for implementing the principles of ethics and integrity in public administration by reviewing the Strategy for Modernization of Public Administration, as well as the drafting of the legal package for public administration is in process and includes civil service, organization of

public administration, as well as Law on Salaries for Employees of Public Sector. The Government signed the Contract for Sector Budget Support, which is an important instrument provided by the European Commission to assist in the processes of public administration reform, as part of the enlargement and good neighbourhood policy. The electronic procurement system is being implemented in view of increasing transparency and leaving no space for corruption practices in the public procurement system. Also, administrative mechanisms have been developed for monitoring the implementation of law, transparency, accountability and assessment of quality of provided services.

With regards to the local self-government, the orientation of policies is focused on fulfilling the priorities for local economic development, strengthening local law enforcement mechanisms, ensuring a good governance by municipalities, ongoing support of local administration by building capacities, orienting the financial support in projects that fulfil strategic objectives for local self-government, increase of transparency, promotion of policies and mechanisms for active citizens, as well as ensuring the fulfilment of joint obligations with municipalities deriving from the European Agenda.

For the medium term period covered by this framework, the main objectives within the sector of General Public Governance are:

- Guaranteeing the constitutional functioning of the institutions of the Republic of Kosovo and carrying out an efficient law-making process;
- Maintaining macro-fiscal stability;
- Establishing a modern European and accountable administration;
- Increasing effectiveness in public procurement system;
- Complete functionalization of local self-government system and advancing policies for local socio-economic development, stimulating the balanced regional development, as well as increasing inter-municipal and cross-border cooperation;
- Fulfilling criteria for the status of candidate country for membership in European Union;
- Attraction of strategic investments from diaspora;
- Protecting the public health and food safety, as well as protecting the health of animals and plants.

The objectives listed above will be implemented with concrete actions, as provided for in general strategic documents, as well as sector strategies, namely those of the level of budget organizations. In line with the principles elaborated above therein, the budget requests for funding will be assessed against their contribution in achieving these objectives.

Budget Organizations which belong to the Sector of the General Public Government are: the Assembly of Kosovo, the Office of Presidency, the Office of Prime Minister, Ministry of Finance, Ministry of Public Administration, Ministry of Local Government Administration, Ministry of Regional Development, Ministry of Foreign Affairs, Ministry of European Integration, Ministry of Diaspora and Strategic Investments, Public Procurement Regulatory Commission, Anti-Corruption Agency, Procurement Review Body, Election Complaints and Appeals, National

Agency for Protection of Personal Data, National Audit Office, Central Election Commission, Independent Oversight Board Civil Service of Kosovo and Unpredictable Expenditures.

Table 3: Historic trends of expenditures and assessments for the period 2019-2021

Sector of General Public Government	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	112,445,847	147,853,470	181,309,286	228,008,875	260,440,165
Number of employees	3,914	4,269	4,282	4,282	4,282
Wages and Salaries	40,009,481	43,369,709	52,713,684	79,374,254	106,606,125
Goods and Services	42,408,130	42,112,392	52,125,892	49,567,797	58,473,444
Utilities	3,695,284	4,615,096	4,670,956	4,674,596	4,674,596
Subsidies and Transfers	7,314,104	12,231,000	17,726,000	21,548,328	23,161,000
Capital Expenditures	19,018,849	40,725,273	49,272,754	68,043,900	62,725,000
Reserves	-	4,800,000	4,800,000	4,800,000	4,800,000
Financing Sources					
Government Grants	112,135,024	147,530,916	161,501,600	190,301,189	230,132,479
Own Source Revenues	310,823	322,554	307,686	307,686	307,686
Revenues from PAK	-	-	7,000,000	4,000,000	-
Financing from borrowing	-	-	12,500,000	33,400,000	30,000,000
Financing from budget deficit (2%) - 04			5,000,000	9,400,000	5,000,000
Financing from investment clause - 06			7,500,000	24,000,000	25,000,000
Donor Grants*	1,003,188	1,916,351	1,300,000	650,000	753,649

3.2. DEFENCE

This sector aims the design and implementation of state policies at the strategic level for the security of the country, as well as exercising the functions and competencies in compliance with the Constitution and laws of the Republic of Kosovo, Security Strategy of Kosovo and Strategy for Kosovo Security Force Development.

In line with the abovementioned aims, the defence sector is continuously building its capacities in all fields for the ensuring public order and security. Based on the recommendations deriving from the process of Strategic Security Sector Review (SSSR), which define the need for transformation of the Ministry for Kosovo Security Force (MKSF) into the Ministry of Defence and Kosovo Security Force (KSF) into Kosovo Armed Forces (KAF), MKSF and KSF, through the Commission for Implementation of SSSR Recommendations, continue the process of finalizing the strategic documents.

The defence sector will continuously engage in good and effective planning of capacities and operational skills for conducting operations for response to crisis, civil protection and support of civil authorities in managing crisis, as well as developing and advancing capacities and professional skills for participation in international operations. Also, in this sector the Government will prioritise the further deepening of international cooperation in the field of security and defence, aiming the membership in regional initiatives, integration in NATO, as well as expanding the range of cooperation agreements with our strategic partners.

In line with the achievement so far, the main objectives for the next period within the defence sector are:

- Finalization of the pre-preparatory process for the transformation of the Ministry for the Kosovo Security Force into Ministry of Defence and transformation of Kosovo Security Force into Kosovo Armed Forces, according to the SSSR Recommendations (following the decision for transformation);
- Development of capacities and operational skills of KSF for conducting operations for response to crisis, civil protection and civil authorities in managing crisis, as well as building capacities and professional skills for participation in international operations;
- Staff professional development, modernization of equipment and materials, logistics support and improvement of infrastructure;
- Continuous deepening of the international cooperation in the field of security and defence, aiming the membership in regional initiatives and integration in NATO.

To achieve these objectives, as provided for in strategic documents of this sector, as well as action plans, the Government will take a series of specific actions covered by this framework, which will be implemented during the next three years. Some of these actions include the design and completion of the package of main legal acts and bylaws (Law on defence, Draft Law on amending and supplementing the laws related to KAF, design of the defence policy for National Security Strategy, General Military Doctrine, comprehensive plan for ten-year transformation, etc.), strengthening capacities and operational skills in view of engagements in potential humanitarian operations, expanding the bilateral cooperation with Armed Force of the United States of America, regional countries, NATO and European Union, etc.

Budget Organization which belongs to the Defence Sector is the Ministry for the Kosovo Security Force.

Table 4: Historic trends of expenditures and assessments for the period 2019-2021

Defence Sector	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	34,621,681	53,667,393	56,921,160	61,764,522	66,615,867
Number of employees	3,133	3,324	3,480	3,636	3,792
Wages and Salaries	20,886,612	22,195,048	23,559,849	24,931,473	26,732,818
Goods and Services	8,941,460	11,792,345	12,202,345	12,692,345	13,192,345
Utilities	814,849	950,000	950,000	950,000	1,000,000
Subsidies and Transfers					
Capital Expenditures	3,978,760	18,730,000	20,208,966	23,190,704	25,690,704
Reserves					
Financing Sources					
Government Grants	34,621,681	53,667,393	52,921,160	61,764,522	66,615,867
Own Source Revenues					
Revenues from PAK			4,000,000		-
Financing from borrowing					
Financing from budget deficit (2%) - 04					
Financing from investment clause - 06					
Donor Grants*					

3.3. ORDER, LAW AND PUBLIC SECURITY

This sector aims at developing and drafting the policies of legislation in the field of justice, establishment of an advanced legal system, unique, impartial and independent judicial and prosecutorial system, as well as ensuring, maintaining, supervising and increasing security for all citizens, supervising and ensuring the rule of law, protection of life, property and freedom of movement for all citizens of the Republic of Kosovo.

For achieving the aims of this sector, the Government foresees the implementation of numerous reforms by undertaking a series of comprehensive measures for increasing effectiveness, accountability in compliance with the needs and priorities of citizens in the field of rule of law.

Currently, the process of Functional Review of the Sector of Rule of Law has commenced, and constitutes the process of drafting an analysis and then of a comprehensive strategy which aims to produce the deepest reform in the field of rule of law in the Republic of Kosovo.

Within this sector, during 2017 a special attention has been paid to the handling of a large number of cases. In 2017, there have been a total of 804,940 cases, of which 528,676 cases inherited from previous years, whereas in 2017 a total of 276,264 new cases have been received. From this number, a total of 382,385 cases have been resolved and 422,555 cases have not been handled (transferred to 2018). According to these statistics, the number of cases transferred from year to year has been reduced for about 100,000.

The Public Security Sector carried out activities and was engaged towards fulfilling the mission and objectives by successfully implementing a series of reforms within the security and internal affairs, in compliance with the requirements of the National Program for Implementation of SAA, European Reform Agenda, Government Programme and sector strategies policies. In order to advance policies necessary for fulfilling objectives, the Government has drafted the National Strategy Against Organized Crime 2018-2022, National Strategy Against Narcotics 2018-2022 and National Strategy Against Terrorism 2018-2022. Also, this sector is continuing activities and efforts for membership in the International Police Organization (INTERPOL), as well as signing the cooperation agreement with European Union Agency for Law Enforcement Cooperation (EUROPOL).

In order to advance the legal framework and policies in the field of migration, during 2017, the Draft Law on Asylum, draft laws for amending and supplementing the Laws on Foreigners and State Border Control and Surveillance have been adopted by the Government. Also, the Migration Profile for 2016 has been adopted and the National Plan for Management of Potential Migrant Flow has been finalized. The Regulation for Reintegration of Repatriated Persons has been adopted and the New Strategy for Sustainable Reintegration of Repatriated Persons 2018-2022 has been finalized.

As a result of awareness-raising campaigns and operational measures in this sector, in order to prevent the irregular migration, the number of Kosovar asylum seekers in the countries of European Union and Schengen Area during 2017 marked a decrease to 6,920 asylum seekers, compared to 2016 when there were 11,965 asylum seekers. Number of readmitted persons during this year was 4,509, whereas 2,608 persons benefited from different schemes of the program for reintegration of repatriated persons. Moreover, in view of improving the infrastructure, four facilities of the Vehicle Registration Centres and Centres for Equipment with Documents in four

municipalities (Gjilan, Ferizaj, Novoborde and Shtime) have been renovated and the construction of facilities for the Vehicle Registration Centre and Centre for Equipment with Documents has been completed in Istog and Gjakove.

Despite the achievements listed above, there is still a lot to be done in the next period. In this context, the main objectives within the sector of order, law and public security are:

- Improving legal and institutional infrastructure of the justice system, as well as advancing the international legal cooperation;
- Fight against organized crime, corruption and terrorism, as well as efficient migration and border management;
- Maintaining public security and improving services for citizens;
- Independence of judicial and prosecutorial system, resolving backlog cases, as well as management of Case Management Information System (CMIS);
- Protection of human rights and freedoms, with a special focus on systematic issues that are more important for the interest and concerns of citizens;
- Provision of free legal aid, ensuring equal access to justice for all citizens of the Republic of Kosovo, in particular for marginalized groups.

In view of achieving the abovementioned objectives, the Government will continue the implementation of activities, namely concrete actions identified in many of strategic documents of this sector. We expect that a number of new actions will emerge from the Functional Review of the Sector of Rule of Law, and review or drafting of other strategic documents, during the next period.

Budget Organizations which belong to the Sector of Order, Law and Public Security are: Ministry of Justice, Ministry of Internal Affairs, Kosovo Judicial Council, Kosovo Prosecutorial Council, Kosovo Intelligence Agency, Kosovo Constitutional Court, Ombudsperson Institution and Agency for Free Legal Aid.

Table 5: Historic trends of expenditures and assessments for the period 2019-2021

Sector of Order, Law and Public Security	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	171,300,676	192,204,701	195,471,651	207,651,204	221,030,074
Number of employees	14,779	16,023	16,033	16,033	16,033
Wages and Salaries	114,385,964	123,322,031	125,148,132	125,773,872	126,402,742
Goods and Services	38,308,313	36,419,167	38,087,516	40,807,516	49,807,516
Utilities	3,065,509	3,755,099	3,774,099	3,888,099	3,888,099
Subsidies and Transfers	4,607,969	5,472,367	5,822,367	5,059,367	5,159,367
Capital Expenditures	10,932,921	23,236,037	22,639,537	32,122,350	35,772,350
Reserves					
Financing Sources					
Government Grants	170,028,214	189,679,514	190,161,964	203,126,017	218,504,887
Own Source Revenues	1,272,462	2,525,187	2,525,187	2,525,187	2,525,187
Revenues from PAK			2,784,500	2,000,000	-
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04					
Financing from investment clause - 06					
Donor Grants*					

3.4. ECONOMIC ISSUES

This sector aims at effectively using human, natural, physical and financial resources to ensure sustainable economic growth and citizen welfare.

While in the previous years there have been enough investments in infrastructure, energy, mines, technology, agriculture and doing business, there are still significant challenges to be addressed in order to ensure a more rapid and sustainable economic growth.

In recent years, significant results have been achieved in improving the road infrastructure, in particular the connection to international corridors. The investments made so far in developing the public infrastructure resulted in more rapid and safer transport of people and goods, thus reducing the cost of transport for people and goods. On the other hand, the railways as a mean of transport are not being used at the appropriate level for the transport of people and goods. In this regard, investments are expected to take place in the railway infrastructure, which will enable the modernization of rail network of Kosovo.

In the field of energy, we are still facing challenges. TPP Kosova A is working beyond the projected technical lifespan, whereas TPP Kosova B is in its last years of projected lifespan. As a consequence, the electricity production system urgently needs new investments, whether for revitalizations of existing capacities, or building new capacities, promoting more efficient use of energy and diversification of energy sources, in order to create conditions for safe, sustainable and high-quality supply.

With regards to the investments expected in building new generating capacities from coal, it is worth mentioning that on 20.12.2017 a Commercial Agreement has been signed between the Government of Kosovo and Company “Contour Global” for building new energy capacities and after its construction and functionalization, the energy supply is expected to be more stable.

The last two years are characterized with a significant development in the field of construction of power plants from Energy Renewable Sources (ERS), including water, solar and wind energy being carried out by the private sector, driven by effective supporting policies of the Government. A very important component related to the security of energy supply is the energy efficiency. The implementation of measures for energy efficiency within the Kosovo Action Plan for Energy Efficiency, whose objective is achievement of the target of 9% in energy saving, will contribute to the economic development and environmental protection. Currently, through the funding from the loan of the World Bank and Budget of the Republic of Kosovo, measures of energy efficiency are being implemented in the public sector buildings. A dynamic development is taking place even in the sector of thermal energy, which is one of the most important components that may contribute to the energy supply security. Sector of thermal energy in Kosovo consists of four systems: District Heating Company “Termokos” in Prishtina, District Heating “Gjakova” in Gjakova, District Heating in Mitrovica and Zvečan.

In the field of agriculture and forestry, despite the continuous funding through subsidies – supporting schemes, this sector continues to be characterized with low productivity, mainly due to: (i) fragmented properties, (ii) out-dated technologies in farms and lack of contemporary knowledge/skills in the field of agriculture among farmers and agro-processors, (iii) lack of diversification of agricultural products and (iv) lack of investments in irrigation.

With regards to the policies for supporting Small and Medium-Sized Enterprises (SMEs), the main challenge for Kosovo is the creation of favourable conditions for increasing internal productivity and competitiveness, whereas an instrument which has already started to give its effects, and which is expected to give even more in the future, is the facilitation of access to finance for SMEs through the Kosovo Credit Guarantee Fund.

In recent years, a lot has been done in the field of economy, but there are still challenges to be addressed in the coming years. Thus, in the next period, the main objectives within this sector for economic issues are:

- Construction and maintenance of the road transport infrastructure, enabling freer movement of people and goods, as well as easier access to the Pan-European Corridors;
- Increasing security level in traffic;
- Ensuring the stable energy supply by building new production capacities, rehabilitating the existing production capacities, improving and expanding the network system, improving energy efficiency, diversifying the energy sources, including the thermal energy, implementing the efficiency measures and diversifying the energy generating sources;
- Drafting strategic policies for sustainable development of mining sector by stimulating the research and sustainable use of mineral resources, in order to attract investments in this sector, opening new zones with special mineral interest through competitive procedures;
- Development of broadband infrastructure and human capital so the Information and Communication Technology (ICT) becomes the main driver for economic growth, employment and innovation, thus increasing the international competitiveness of the ICT industry of Kosovo based on the digital excellency;
- Increasing the production potential of farms, enabling the increase of domestic production and reduction of agricultural products import, ensuring the right level of agricultural producers incomes, as well as sustainable production of qualitative food and environmental protection;
- Improving the sustainable development of forests and all their ecological, economic and social functions, including the preservation of biodiversity;
- Developing SMEs competitiveness by improving the environment of doing business, encouraging investments and export, market surveillance and consumer protection.

There are a significant number of infrastructure projects under construction, or in process of commencing the works, whose implementation will significantly contribute to the achievement of abovementioned objectives. The Government will continue the implementation of new reforms related to the promotion of activity in private sector, with a special emphasis on agriculture and SMEs.

Budget Organizations which belong to the sector for economic issues are: Ministry of Economic Development, Ministry of Infrastructure, Ministry of Agriculture, Forestry and Rural Development, Ministry of Trade and Industry, Ministry of Innovation and Entrepreneurship, Privatization Agency of Kosovo, Regulatory Authority of Electronic and Postal Communication, Energy Regulatory Office, Kosovo Competition Authority, Railway Regulatory Authority, Civil Aviation Authority, Air Navigation Service Agency, Independent Commission for Mines and Minerals and Privatization Agency of Kosovo.

Table 6: Historic trends of expenditures and assessments for the period 2019-2021

Sector of Economic Issues	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	327,729,978	427,858,250	478,142,515	485,059,285	478,695,363
Number of employees	1,743	1,824	1,824	1,824	1,824
Wages and Salaries	15,857,877	17,656,352	18,144,675	18,235,399	18,326,576
Goods and Services	16,167,212	22,031,864	23,422,864	23,286,864	23,177,003
Utilities	561,232	982,278	983,278	983,278	982,278
Subsidies and Transfers	54,659,825	67,409,706	70,529,706	74,529,706	76,529,706
Capital Expenditures	240,483,832	319,778,050	365,061,992	368,024,038	359,679,800
Reserves					
Financing Sources					
Government Grants	311,838,400	241,153,033	291,545,634	313,733,892	368,316,067
Own Source Revenues	9,696,727	11,240,824	6,342,556	6,603,110	6,879,296
Revenues from PAK	-	72,300,000	57,715,500	40,000,000	-
Financing from borrowing	6,194,851	103,164,393	122,538,825	124,722,283	103,500,000
Financing from budget deficit (2%) - 04	6,194,851	24,036,971	37,900,000	29,200,000	17,000,000
Financing from investment clause - 06	-	79,127,422	84,638,825	95,522,283	86,500,000
Donor Grants*	-				

3.5. ENVIRONMENTAL PROTECTION

This sector aims the balanced and sustainable development by ensuring the environmental protection and developing the proper spatial planning through environmental monitoring, informing and reporting.

Since the post-war period, Kosovo has been facing problems with water, waste, air and soil pollution management. Other environmental problems are caused by unplanned spatial developments and illegal construction which damage the space and lower the opportunities for the future development of the country. While during the last period efforts have been made to address challenges related to these problems, there is still a lot to be done.

With regards to the next period, the Government aims at taking concrete actions to improve the current situation. The main objectives of the environment sector are:

- Completion of legal infrastructure in the field of environment and their alignment with EU legislation, and its implementation;
- Improving the state of environment and monitoring its state;
- Establishing an efficient administrative system for spatial planning, construction, housing, energy efficiency in buildings and cadastre;
- Better administration and management of water resources and rehabilitation of riverbeds and waste management;
- Expropriation.

The objectives listed above will be achieved by focusing on the implementation of concrete actions of the field, for instance initially drafting the primary and secondary legislation, preventing and reducing the environmental pollution and integrated approach for pollution control and monitoring the implementation of environmental permits, improving the monitoring and reporting on water quality, etc.

Budget Organizations which belong to the Environment Sector are: Ministry of Environment and Spatial Planning and Water Services Regulatory Authority.

Table 7: Historic trends of expenditures and assessments for the period 2019-2021

Environment Sector	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	39,548,295	53,285,005	74,417,598	99,520,545	105,533,234
Number of employees	356	364	364	364	364
Wages and Salaries	2,176,553	2,455,024	2,525,299	2,537,926	2,550,615
Goods and Services	907,361	1,552,576	1,552,576	1,552,576	1,552,576
Utilities	70,618	89,723	89,723	89,723	89,723
Subsidies and Transfers	-	-	-	-	-
Capital Expenditures	36,393,763	49,187,682	70,250,000	95,340,320	101,340,320
Reserves					
Financing Sources					
Government Grants	39,548,295	46,835,005	41,617,598	40,720,545	42,733,234
Own Source Revenues					
Revenues from PAK		3,150,000	4,000,000	5,000,000	-
Financing from borrowing	-	3,300,000	28,800,000	53,800,000	62,800,000
Financing from budget deficit (2%) - 04		300,000	300,000	300,000	300,000
Financing from investment clause - 06		3,000,000	28,500,000	53,500,000	62,500,000
Donor Grants*					

3.6. HOUSING AND COMMUNITY ISSUES

Within this sector, the Ministry for Communities and Returns aims at creating the conditions for sustainable return of displaced persons from Kosovo, as well as protecting, integrating and developing communities living in Kosovo. The Kosovo Property Comparison and Verification Agency is mandated to receive, compare, verify and decide over the property, resolution of discrepancies between the original pre June 1999 cadastral records removed from Kosovo by Serbian authorities and the present day cadastral records in Kosovo with respect to private property, private commercial property and private property of religious communities and inheriting the mandate of Kosovo Property Agency (KPA).

In 2017, the Ministry for Communities and Returns commenced the construction of buildings for displaced persons living in collective centres in the Municipality of Shterpce, while over the years, a series of actions have been taken to create adequate conditions for return of displaced persons

from Kosovo. In this regard, there have been achievements; however, there are still a series of challenges.

Kosovo Property Comparison and Verification Agency (KPCVA), as a result of discussions in Brussels between Kosovo and Serbia, concluded an agreement for returning cadastral records which have been taken by the Serbian authorities in 1999. Based on the agreement in June 2016, the Assembly of Kosovo adopted the law on KPCVA, with the mandate as described above. Property Claims Commission has decided over 42,116 claims, whereas 633 claims have been withdrawn by parties. 41,747 decisions have been submitted to the applicants and 40,361 decisions have been enforced. Currently, 12,641 properties are under administration, of which 4,396 properties are included in the rent scheme.

With regards to this sector, the main objectives for the next period are:

- Return and reintegration in Kosovo and construction of physical infrastructure;
- Stabilisation of communities and closure of collective centres in Kosovo;
- Receiving, comparing and resolution of discrepancies between cadastral records removed from Kosovo by Serbian authorities and the present day cadastral records in Kosovo with respect to private property and private property of religious communities;
- Enforcing decisions of the Kosovo Property Claims Commission and decisions of the Supreme Court, Appellate Panel of PAK and administration rent scheme.

These objectives will be achieved by taking concrete actions, as construction of houses for returnees and construction of collective residential buildings, construction of schools and health centres, construction of roads and water and waste water systems, etc.

Budget Organizations which belong to the sector for housing and communities issues are: Ministry for Communities and Returns and Kosovo Property Comparison and Verification Agency.

Table 8: Historic trends of expenditures and assessments for the period 2019-2021

Sector for Housing and Communities Issues	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	6,426,914	11,252,415	11,384,393	12,084,076	13,075,158
Number of employees	356	362	362	362	362
Wages and Salaries	1,912,240	2,026,441	2,036,573	2,046,756	2,056,990
Goods and Services	949,297	1,539,297	1,540,297	1,541,297	1,541,645
Utilities	101,677	104,677	105,523	106,023	106,523
Subsidies and Transfers	300,000	300,000	300,000	300,000	300,000
Capital Expenditures	3,163,700	7,282,000	7,402,000	8,090,000	9,070,000
Reserves					
Financing Sources					
Government Grants	6,426,914	11,252,415	11,384,393	12,084,076	13,075,158
Own Source Revenues					
Revenues from PAK					
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04					
Financing from investment clause - 06					
Donor Grants*					

3.7. HEALTH

This sector aims at protecting the population health, promoting healthy lifestyles and providing qualitative and safe health services, with an easy, equal and cost-effective access with no financial risk.

In the framework of implementation of substantial and comprehensive reform in the health sector, as well as in view of establishing a sustainable funding system, in 2017, the Ministry of Health continued with the process of supplementing and amending the legal framework and policies. Health sector continued activities of protecting and improving the health, improving the quality of provided health services, reorganization of health sector funding, creating conditions for providing accessible and equal health services, establishing the functional health infrastructure, functionalising the Health Insurance Fund and continuing efforts for developing the Health Information System (HIS). With regards to health protection and improving the quality of provided health services, the Ministry of Health intensified efforts to create infrastructural conditions for providing qualitative health services so health institutions are with citizens on time whenever they need, as well as it will impact the strengthening of emergent services within the Primary Health Care in Municipalities.

In view of building hospital capacities in the health system, we have continued the construction of the new building of Emergency Services within the Hospital and University Clinical Service of Kosovo (HUCCK), where works have been carried out in the amount of EUR 2.8 million. In the primary health care, we continued investments in the Main Family Medicine Centres in Gjilan and Gjakova, where in 2017 works have been carried out, as well as co-funding for the construction of the hospital in Graçanica. The Action Plan of the Health Sector Strategy 2017-2021 has been reviewed, and the Manual for Monitoring and Assessing the Health Sector Strategy has been adopted. With regards to the drafting of standard in the provision of health services, two (2) clinical guidelines have been adopted in the field of reproductive health.

In the health sector, we will continue the implementation of substantial reforms to achieve the main objectives of this sector, which are:

- Health protection and improvement of quality of provided health services;
- Ensuring sustainable healthcare financing;
- Reorganization of health sector.

In view of achieving these objectives, actions, such as provision and improvement of accessible and equal health services, implementation of the action plan for health education and promotion, mother and child health and reproductive health, implementation of the environmental impact assessment, full functionalization of the Health Insurance Fund, implementation of basic package of health services and outsourcing, etc., have been taken.

Budget Organizations which belong to this sector are: Ministry of Health and Hospital and University Clinical Service of Kosovo (HUCCK).

Table 9: Historic trends of expenditures and assessments for the period 2019-2021

Health Sector	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	132,345,294	146,442,363	154,727,955	163,603,334	173,810,341
Number of employees	8,386	8,386	8,386	8,386	8,386
Wages and Salaries	59,908,586	63,591,798	65,075,914	65,401,293	65,728,300
Goods and Services	43,904,969	46,224,796	48,734,272	60,734,272	74,734,272
Utilities	3,963,834	3,833,964	3,833,964	3,833,964	3,833,964
Subsidies and Transfers	14,413,805	7,913,805	7,913,805	8,913,805	7,913,805
Capital Expenditures	10,154,100	24,878,000	29,170,000	24,720,000	21,600,000
Reserves					
Financing Sources					
Government Grants	132,345,294	145,342,363	146,677,955	159,603,334	173,810,341
Own Source Revenues					
Revenues from PAK			6,000,000	4,000,000	
Financing from borrowing	-	1,100,000	2,050,000		
Financing from budget deficit (2%) - 04		1,100,000	2,050,000		
Financing from investment clause - 06					
Donor Grants*	91,400	-	91,400	91,400	91,400

3.8. RECREATION, CULTURE AND RELIGION

This sector aims at establishing and developing policies, environment and mechanisms appropriate for promoting and increasing sport, cultural and youth activities, recording, assessing and protecting the cultural heritage, as well as regulating, managing and supervising the spectrum of transmission frequencies.

In recent years, very good successes have been achieved in this sector. One important sector was the adoption of Program “Creative Europe” for Kosovo, membership in the International Federation of Arts Councils and Cultural Agencies (IFACCA), establishment of Regional Youth Cooperation Office in Prishtina from six countries of Western Balkans, establishment of the Cultural Heritage Inspectorate, etc.

During the previous year, Kosovo has participated in many numerous international cultural and sport events, as the 57th edition of Venice Biennale, participation in VIII edition of Francophone Games in Abidjan of Ivory Coast, etc. The Republic of Kosovo marked successes by winning two gold medals and one silver medal in judo, whereas in the field of photography, it was ranked in the fourth place for the best photography in Europe.

It has been worked in protecting and preserving the cultural heritage in projects for conservation – restoration, rehabilitation of assets and memorial complexes. Also, researches, publications and promotions have taken place in this field. Projects for developing training programs in the field of entrepreneurship, grants and start-up equipment, as well as professional training for requalification and ensuring internship, have been supported. Around 200 young people have been certified for

professional training, the Project “Sallonet” has been implemented and 500 young people have benefited in 10 municipalities. Financial support has been provided to hundreds projects of representations in qualifying contests for European and World Championships. Investments have taken place in the physical, sport, cultural and youth infrastructure, in more than 50 projects and financial support in numerous activities of this field. Kosovo Archive stored 543 archival fonds and collections, with an amount of around 5,500 m linear length. Kosovo Archives stores also around 800,000 microfilmed documents, 202 long and short feature films and 1,500 photos.

Main objectives of the recreation, culture and religion sector are:

- Supporting the building of an independent culture and advancing the cultural diplomacy;
- Preserving, protecting and promoting the cultural and religious heritage as it is, and engagements for priorities of European Partnership and membership in UNESCO;
- Increasing youth participation in policy-making processes, decision-making and promotion of employment through training sessions and support of young entrepreneurs;
- Support, massivization, development of quality sports and the improvement of sports infrastructure;
- Regulation, management and oversight of the broadcasting frequency spectrum and RTK digitalisation.

These objectives will be achieved by implementing the action plans deriving from relevant strategies and Government Programme.

Budget Organizations which belong to the recreation, culture and religion sector are: Ministry of Culture, Youth and Sport, Kosovo Council for Cultural Heritage, Agency for Management of Memorial Complexes, Independent Media Commission and Radio Television of Kosovo.

Table 10: Historic trends of expenditures and assessments for the period 2019-2021

Recreation, Culture and Religion Sector	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	39,451,427	54,014,731	59,180,988	60,464,364	61,120,443
Number of employees	840	840	840	840	840
Wages and Salaries	4,639,436	5,014,858	5,189,747	5,215,695	5,241,774
Goods and Services	1,867,541	1,789,259	1,809,233	2,809,233	3,809,233
Utilities	401,710	465,458	465,458	465,458	465,458
Subsidies and Transfers	19,583,046	19,366,550	19,716,550	19,716,550	19,716,550
Capital Expenditures	12,959,693	27,378,606	32,000,000	32,257,428	31,887,428
Reserves					
Financing Sources					
Government Grants	39,399,173	46,744,228	46,110,485	50,393,861	61,049,940
Own Source Revenues	52,253	70,503	70,503	70,503	70,503
Revenues from PAK		7,000,000	13,000,000	10,000,000	-
Financing from borrowing					
Financing from budget deficit (2%) - 04					
Financing from investment clause - 06					
Donor Grants*					

3.9. EDUCATION

The education sector aims at developing society based on knowledge and competitive skills, which is integrated in European flows with equal opportunities for advancement of each individual to prepare and contribute to sustainable social and economic development in the country. As a democratic society, Kosovo provides equal opportunities for personal development of all citizens, where access to knowledge gaining, scientific researches, justice and acquiring skills are in view of accelerated development of our society and competitive skills inside and outside Kosovo, in line with international standards.

Education sector in the Republic of Kosovo is characterised with intensive reforming developments in all sub-sectors that have addressed numerous challenges towards improving education quality. We have worked in drafting and reviewing the legislation, and numerous legal acts and bylaws have been adopted. We have worked in constructing and renovating school buildings at all levels, kindergartens and physical education halls. 6 kindergartens are under the designing phase with the funding instrument IPA 2016. Also, school inventory has been provided to a total of 28 school buildings, and 7 physical education halls have been equipped with sport equipment.

We have worked in promoting scientific works, the annual conference “Science Week 2017” has been presented and a total of 158 articles have been presented in different fields. Also, 65 researches have been supported with budget by the short-term mobility grant, 8 research institutions have been supported by the small scientific project grant, 3 scientific publications and monographs, 9 scientific publications in journals with impact factor, and 4 beneficiaries of scholarship.

Ministry of Education, Science and Technology prepared the annual statistical report with education indicators 2016/17, established the web portal for generation of report from Education Management Information System (EMIS). Also, “Education Indicators Framework” has been reviewed and published. The University of Prishtina has signed 54 agreements with various international universities and institutions of higher education in view of increasing effectiveness of methodological, educational, research work, further building and developing professional and practice skills of students, as well as exchanging experiences between these higher education institutions.

Also, there have been significant achievements in the field of academy, where we have worked in a significant number of specific projects, as well as we continued cooperation with international, academic and scientific institutions.

Main objectives of the education sector for the next period are:

- Increase the inclusion and prevent pre-university education dropout,
- Qualitative and efficient management of education system based on transparency and accountability;
- Development of a functional system for quality assurance, in accordance with international standards;
- Building quality of teaching through sustainable system for professional preparation and development of teachers;
- Enhancing learning through qualitative teaching, by applying the curricula based on competences and using high quality learning methods;

- Education and professional training in accordance with requirements of labour market in the country and beyond;
- Increasing quality and competitiveness of higher education through stimulating refinement in teaching, scientific research, innovation and internationalism.

To achieve the abovementioned objectives, the governmental institutions will take concrete steps, as provided for in sector strategies and other strategic documents, including their action plans.

Budget Organizations which belong to the education sector are: Ministry of Education, Science and Technology, University of Prishtina, Kosovo Academy of Arts and Science and Justice Academy.

Table 11: Historic trends of expenditures and assessments for the period 2019-2021

Education Sector	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	74,804,999	93,878,153	98,724,989	104,311,006	110,732,181
Number of employees	4,226	4,303	4,310	4,310	4,310
Wages and Salaries	38,914,372	39,481,180	41,164,741	41,370,565	41,577,417
Goods and Services	13,609,240	13,821,407	20,519,876	22,519,876	27,019,876
Utilities	2,437,658	2,790,959	2,810,959	2,810,959	2,810,959
Subsidies and Transfers	5,661,849	6,140,929	6,340,929	6,340,929	6,340,929
Capital Expenditures	14,181,880	31,643,678	27,888,485	31,268,678	32,983,000
Reserves					
Financing Sources					
Government Grants	69,117,422	81,072,650	83,138,643	92,505,503	103,926,678
Own Source Revenues	5,302,716	6,805,503	6,805,503	6,805,503	6,805,503
Revenues from PAK	-	4,000,000	5,500,000	5,000,000	-
Financing from borrowing	384,861	2,000,000	3,280,843		
Financing from budget deficit (2%) - 04	384,861	2,000,000	3,280,843		
Financing from investment clause - 06					
Donor Grants*					

3.10. SOCIAL PROTECTION

This sector aims at developing, implementing and coordinating policies, laws and other instruments to ensure protection and social support, creation of infrastructure for employment and vocational training, skills and ability to provide services to the most marginalized groups of society.

Social protection sector continues the provision of support for social categories through social protection and pension schemes, reviewing the legal infrastructure enabling the greater support for categories in need. Social sector issues faces challenges from the country's economy, as high unemployment rate, low level of participation in the labour market and informal employment. Recent assessments report disproportions in structure with gender, geographical and age imbalances. An urgent issue to be addressed is the youth unemployment, where the unemployment rate is twice higher than the active population in general. In this respect, the analyses and surveys report that the level of labour force skills does not match to the labour market demands.

From April 2017, employment services and active labour market measures for unemployed and other jobseekers are provided by the Employment Agency of the Republic of Kosovo. In the field of employment and social policies, Kosovo has already established a basic legal framework, whereby governing the issues of labour and employment, safety and health at work, labour inspectorate, trade unions organizations, social dialogue, as well as inclusion and social protection aligned and approximated with European legislation.

Main objectives of the social protections sector are:

- Increase of employment, skills development and better functioning of labour market;
- Increase of social welfare through enlargement and increase of quality by providing social and family services, with special focus on groups in need and gender equality;
- Development of a sustainable pension system and institutional capacity building for exercising the rights to benefits and better services for pensioners;
- Improving work conditions and reducing the level of informal employment by strengthening the supervision mechanisms and strengthening the social dialogue.

Budget Organization that belongs to this sector is the Ministry of Labour and Social Welfare.

The abovementioned objectives will be achieved by implementing concrete reforms, which will have an impact on improving the social situation in the country.

Table 12: Historic trends of expenditures and assessments for the period 2019-2021

Social Protection Sector	2017 Expenditure	2018 Budgeted	2019 Assessed	2020 Assessed	2021 Assessed
Total	400,958,625	408,741,593	435,541,462	440,199,279	445,230,514
Number of employees	850	855	855	855	855
Wages and Salaries	4,950,177	5,194,944	5,220,919	5,247,023	5,273,258
Goods and Services	2,114,793	1,772,538	1,844,251	1,915,964	1,915,964
Utilities	377,085	377,085	377,085	377,085	377,085
Subsidies and Transfers	392,745,855	398,401,647	426,179,207	431,179,207	436,179,207
Capital Expenditures	770,715	2,995,379	1,920,000	1,480,000	1,485,000
Reserves					
Financing Sources					
Government Grants	400,958,625	408,741,593	435,541,462	440,199,279	445,230,514
Own Source Revenues					
Revenues from PAK-ja					
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04					
Financing from investment clause - 06					
Donor Grants*					

FOURTH PART

4. Municipal level

4.1 Introduction

This document defines government grants for financing municipalities for 2019 and orientations for 2020-2021, based on the Government's strategic priorities in the area of intergovernmental fiscal relations. Also, this document defines the level of municipal own source revenues for the fiscal year 2019 and the mid-term forecast 2020-2021.

The principles, criteria and formulas applied for allocation of government grants for financing municipalities for 2019 are based on the Law on Local Government Finance (LLGF) and Table 1 of macro-fiscal projections prepared by the Ministry of Finance as specified in the Law on Public Financial Management and Accountability (LPFMA).

The municipal budget process takes into account the following aspects:

- Budgeting at program and sub-program level, in accordance with the existing structure of the accounting plan,
- Improvements in performance and result-oriented budgeting approach,
- Implementation of the multi-year concept of capital project planning as well as
- Determining the structure of expenditures by spending categories.

Multi-year capital projects should be reported to the Public Investment Projects (PIP) system. Consequently, municipalities are required to develop a framework strategy based on results-oriented goals and objectives.

4.2. Municipal Financing Resources for 2019-2021

4.2.1. The General Grant

Based on Table 1, presented below, prepared by the Department of Economic, Public Policies and International Finance Cooperation of the Ministry of Finance in accordance with LLGF, the General Grant for Municipalities for 2019 was approved by the Grants Commission in the amount of 180.69 million euros.

This allocation is based on the formula set out in Article 24 of the LLGF. According to this article, 10% of the total budgeted revenues of the central government are allocated to municipalities, excluding the budget support and grants, property tax revenues, one-off revenues from debts, the dedicated revenues, interest income as well as taxes, charges and other from the local government.

As shown in the following table, based on estimates of the Department of Economic Policies, Public Policy and International Financial Cooperation, the total government revenues for 2019 are expected to be 1,920.3 million euros. Of this amount, the revenues are deducted as specified in Article 24 of the LLGF and we come to the general grant allocation base for municipalities, which grant for 2019 is in the amount of 180.69 million euros.

Table 1: Determining the value of the General Grant for Municipalities 2019-2021 (Euro Millions)

Description	2017	2018	2019	2020	2021
A. General Government Revenues	1,644.00	1,896.00	1,920.3	2,029.7	2,149.9
Subtracted:					
Dedicated Revenues	-45	-50	-9.2	-9.2	-9.2
Budget support and grants	-1	-5	-5	-5	-5
Property tax	-25	-30	-30	-33	-36
Dividend income	-15	-5			
Designated Donor Grants	-12	-12			
Taxes and other charges by Local Government	-54	-52	-57	-57	-57
One-off revenue from debts		-6	-8	-8	-4
Income from interest			-4.2	-4.2	-4.2
B. Basis for calculating the general grant for municipalities	1,492	1,736	1,806.9	1,913.3	2,034.5
C. General Grant for Municipalities (10% e B)	149.2	173.6	180.69	191.33	203.45

With the recent amendment to the LLGF, approved by the Assembly of Kosovo on July 14, 2016, the general grant formula has been corrected. The share of 2.7% of the total grant is allocated to 14 municipalities with a population of under 22,000 residents. Of this amount, half is allocated to these 14 municipalities based on the number of residents and the other half is allocated as the same fixed amount for each of these municipalities.

In order to level up the low capacity of the municipalities' own source revenues, based on the LLGF, each municipality will receive a fixed general amount of 140,000 euros annually, deducting 1 euro per capita or 0 euro for municipalities with a population equal to or greater than 140,000 inhabitants. Thereafter, the distribution made in municipalities is based on the general grant allocation formula in municipalities according to LLGF: (i) the number of population is calculated at eighty-nine percent (89%); (ii) the geographical size of the municipality by six percent (6%); (iii) number of minority population in the municipality (3%); (iv) municipalities where the majority of the population is comprised of national minorities with two percent (2%).

Table 2: General Grant Structure for 2019-2021 according to LLGF (Euro Million)

Factors	2017	2018	2019	2020	2021
	Estimate	Estimate	Estimate	Estimate	Estimate
General Grant	149.2	173.6	180.69	191.33	203.45
Contingency formula for correction (2.7%)	4	4.7	4.9		
Fixed Amount	3.6	3.6	3.6	3.6	3.6
Population (inhabitants)	1,780,021	1,780,021	1,780,021	1,780,021	1,780,021
Budget: 89% of aggregate amount	125.99	147.1	153.3	167.0	177.8
Communal area (km2)	10,901	10,901	10,901	10,901	10,901
Budget: 6% of aggregate amount	8.5	9.92	10.33	11.26	11.99
Minority communities in the municipality	107,926	107,926	107,926	107,926	107,926
Budget: 3% of aggregate amount	4.3	5.0	5.2	5.6	6.0
Population of minority municipalities	62,031	62,031	62,031	62,031	62,031
Budget: 2% of the aggregate amount	2.8	3.3	3.4	3.8	4.0

The following Table 3 shows the allocation of the General Grant to Municipalities according to the formula foreseen in the LLGF.

The Formula for allocation of General Grant for the year 2019-2021

Chetria			
	Year 2019	Year 2020	Year 2021
Revenues budgeted in the Kosovo Budget (€ m)	1,806.9	1,913.3	2,034.5
General Grant (10%)	10%	180,690,000	191,330,000
Contingency for the formula correction	2.7%	4,878,630	203,450,000
General Grant		175,811,370	191,330,000
Fixed amount	140,000	3,636,657	3,636,657
Total		172,174,713	199,813,343
Population	89%	153,235,485	167,047,075
Geographic size	6%	10,330,483	11,261,601
Minorities	3%	5,165,241	5,680,800
Municipalities with Minority Population	2%	3,443,494	3,753,867
			3,996,267

Municipalities	Criteria for General Grant allocation (according LUGF)										General Grant for 2019										Total General Grant for 2020	Total General Grant for 2021
	Population		Geographic size		Populish Pakticë		Kommuna me popullsi pakice		Contingency for Formula Correction	Contingency for Formula Correction			Fixed amount (140,000-1€)	Shuma për Popullsi (89%)	Amount for geographic size (6%)	Amount for minority populations in municipalities (3%)	Amount for Minority Population (2%)	General Grant for 2019				
	Population	89%	Geographic size	6%	Minority Population in Municipalities	3%	Municipalities with minority population	2%		Fixed amount for 14 municipalities	Proportionally according to the population for 14 municipalities	Total										
1)Dëgan	40109	2.25%	297	2.72%	551	0.51%	0.00%	0.00%	-	99,981	3,445,089	281,479	26,370	-	3,852,920	4,191,183	4,455,366					
2)Dragash	33,997	1.91%	430	3.94%	13,539	12.56%	0.00%	0.00%	-	106,003	2,926,677	407,523	648,922	-	4,089,125	4,448,136	4,728,522					
3)Ferizaj	108,610	6.10%	345	3.17%	4,193	3.89%	0.00%	0.00%	-	31,390	9,349,837	326,693	200,673	-	9,908,869	10,799,157	11,494,468					
4)Fshatë Kosovë	34,827	1.96%	83	0.76%	4,311	4.18%	0.00%	0.00%	-	105,173	2,998,129	78,782	215,892	-	3,397,977	3,694,767	3,926,559					
5)Gjakovë	94,536	5.31%	587	5.39%	6,679	6.19%	0.00%	0.00%	-	45,444	8,139,980	556,423	319,651	-	9,061,498	9,874,142	10,608,815					
6)Gjinë	901,78	5.07%	392	3.60%	2,264	2.10%	0.00%	0.00%	-	49,822	7,763,094	371,621	108,353	-	8,292,890	9,035,863	9,616,123					
7)Gllërvë	58,531	3.29%	276	2.53%	45	0.04%	0.00%	0.00%	-	81,469	5,038,720	261,688	21,54	-	5,384,431	5,861,967	6,235,233					
8)Hani i Elez	9,403	0.33%	83	0.76%	44	0.04%	0.00%	0.00%	-	130,597	809,470	78,782	2,106	-	1,394,122	1,101,206	1,165,881					
9)Isog	39,289	2.21%	454	4.17%	3,685	2.86%	0.00%	0.00%	-	100,711	3,382,246	430,379	147,645	-	4,060,981	4,417,933	4,696,710					
10)Junik	6,084	0.34%	74	0.68%	4	0.00%	0.00%	0.00%	-	133,916	523,249	70,253	191	-	1,031,060	781,666	823,494					
11)Kacanik	33,409	1.88%	211	1.94%	36	0.03%	0.00%	0.00%	-	106,591	2,876,699	200,088	1,723	-	3,184,460	3,461,878	3,678,540					
12)Kamenecë	36,085	2.03%	424	3.89%	1,864	1.73%	0.00%	0.00%	-	103,915	3,106,426	401,948	89,209	-	3,701,498	4,025,759	4,279,006					
13)Kine	38,496	2.16%	309	2.84%	1,241	1.15%	0.00%	0.00%	-	101,504	3,313,980	292,962	59,393	-	3,767,839	4,098,297	4,356,384					
14) Leposaviq	13,773	0.77%	539	4.95%	323	0.30%	13,773	22,20%	13,773	126,227	1,185,667	510,933	15,458	764,573	3,068,478	2,836,086	3,000,425					
15) Lipjan	57,605	3.24%	338	3.10%	3,107	2.88%	0.00%	0.00%	-	82,395	4,999,004	320,446	148,698	-	5,510,543	5,999,798	6,381,905					
16) Malishevë	54,613	3.07%	306	2.81%	54	0.05%	0.00%	0.00%	-	83,387	4,701,433	290,119	2,384	-	5,079,524	5,529,661	5,981,216					
17) Mamushë	5,507	0.31%	32	0.29%	379	0.35%	5,507	8,88%	5,507	174,237	116,506	290,143	134,493	305,707	1,233,609	1,037,530	1,095,842					
18) Mitrovicë	71,909	4.04%	331	3.04%	2,199	2.04%	0.00%	0.00%	-	66,091	6,190,383	313,812	105,242	-	6,677,528	7,273,256	7,738,518					
19) Novo Brdo	6,729	0.38%	204	1.87%	3,202	2.97%	0.00%	0.00%	-	142,399	316,596	133,271	579,275	-	1,375,841	1,432,706	1,207,888					
20) Obiliq	21,549	1.21%	105	0.96%	1,655	1.53%	0.00%	0.00%	-	118,451	1,855,075	99,632	79,207	-	2,782,493	2,478,861	2,978,607					
21) Pejë	96,450	5.42%	603	5.53%	8,334	7.72%	0.00%	0.00%	-	43,550	8,303,028	571,586	398,858	-	9,317,021	10,153,867	10,805,661					
22) Podujevë	88,499	4.97%	633	5.81%	849	0.79%	0.00%	0.00%	-	51,501	7,618,555	600,077	40,632	-	8,310,705	9,055,133	9,656,528					
23) Prishtinë	198,897	11.17%	514	4.72%	4,146	3.84%	0.00%	0.00%	-	171,222	315	487,241	198,424	-	17,807,980	19,413,067	20,666,635					
24) Prizren	177,731	9.99%	603	5.53%	31,682	29.36%	0.00%	0.00%	-	15,394	516	571,586	151,6272	-	17,392,374	18,960,001	20,184,313					
25) Radovcë	56,208	3.16%	278	2.55%	944	0.87%	0.00%	0.00%	-	83,792	4,838,741	263,584	43,179	-	5,231,296	5,695,236	6,057,607					
26) Shkup	69,49	0.39%	248	2.28%	3,182	2.95%	0.00%	0.00%	-	133,051	598,714	235,153	153,288	-	1,439,956	1,207,545	1,376,929					
27) Shkrel	27,324	1.59%	134	1.23%	858	0.79%	0.00%	0.00%	-	112,676	2,392,223	127,115	41,063	-	2,633,077	2,860,249	3,037,669					
28) Skenderaj	50,838	2.86%	374	3.43%	575	0.10%	0.00%	0.00%	-	80,278	4,378,179	354,563	5,217	-	4,827,101	5,254,147	5,587,669					
29) Shkrel	59,722	3.36%	361	3.31%	258	0.24%	0.00%	0.00%	-	92,013	4,044,939	286,002	12,348	-	4,591,288	4,608,012	4,675,952					
30) Viti	46,957	2.64%	270	2.48%	995	0.24%	0.00%	0.00%	-	70,130	601,453	327,080	43,945	-	4,066,302	4,795,071	5,099,699					
31) Vishti	69,870	3.93%	345	3.17%	960	0.89%	0.00%	0.00%	-	139,325	569,547	315,007	47,630	-	1,474,734	1,580,715	1,648,237					
32) Zhdan Ptoq	66,616	0.37%	333	3.06%	995	0.92%	6,616	10,67%	6,616	174,237	139,969	314,205	133,384	315,007	1,659,489	1,434,644	1,518,727					
33) Zveçan	7,481	0.42%	123	1.13%	386	0.36%	7,481	12,06%	7,481	174,237	188,268	332,505	132,519	644,012	2,329,064	2,091,195	2,217,879					
34) Grahovcë	106,75	0.60%	131	1.20%	3,423	3.17%	10,675	17,21%	10,675	174,237	225,841	400,078	129,425	918,972	2,354,383	2,206,993	2,464,018					
35) Kërka	2,556	0.14%	23	0.21%	1,193	1.11%	0.00%	0.00%	-	12,326	174,237	260,770	435,06	127,674	1061,100	4,862	41,494	2,354,383				
36) Mitrovica veriore	12,326	0.69%	5	0.05%	867	0.80%	12,326	19,87%	12,326	174,237	260,770	435,06	127,674	1061,100	4,862	41,494	2,354,383					
37) Prishtinë	1,787	0.10%	29	0.27%	2	0.00%	1,787	2,88%	1,787	174,237	37,806	138,213	153,536	27,66	96	99,201	630,995	444,236				
38) Rrahovë	3,866	0.22%	69	0.63%	168	0.16%	3,866	6,23%	3,866	174,237	81,789	256,026	136,134	332,30	65,514	8040	1,013,136	813,080				
TOTAL	1,780,021	100%	10,901	100%	107,926	100%	62,031	100%	115,301	2,439,315	2,439,315	4,878,630	3,636,657	153,235,495	10,330,483	5,165,241	3,443,494	180,690,000	191,330,000	203,450,000		

Table 3: Distribution of General Grant to Municipalities 2019-2021

Funding of social services as a competence transferred from MLSW to municipalities is included within the general grant of the municipality.

Employees in the administration of the Municipal Directorates for Pre-University Education and Primary Health are funded from the general grant in the municipalities.

Also, specific grants for education and health will be covered by the general grant if necessary.

4.2.2. Specific Grant for Pre-University Education

The specific grant for pre-university education for 2019 was approved by the Grants Commission in the amount of 185 million euro, of which 183.5 million euros are a base grant and 1.5 million. € new policies. According to the LGGL, the Specific Education Grant is based on an open funding system, taking into account the criteria in the MEST pre-university education formula for 2019. The formula addresses the level of pre-primary, primary and secondary education, based on these criteria:

- a) Number of students registered in 2017/2018;
- b) Student-teacher ratio for primary and secondary education for the majority students 1: 21.3 (based on Administrative Instruction No. 22/23 of MEST);
- c) Student-teacher ratio for primary and secondary education for minority students 1: 14.2;
- d) Student-teacher ratio for preschool education 1:12;
- e) Student-teacher ratio for vocational secondary education for the majority students 1: 17.2, and for the minority students 1: 11.5;
- f) Student-teacher ratio for mountain areas 1: 14.2;
- g) Calculation for English language teaching staff for grades I and II;
- h) Calculation for administrative technical staff for 630 students 1 staff in primary and primary education;
- i) Calculation for administrative technical staff for 470 students 1 staff in secondary education
- j) Calculation for teaching staff members in maternity leave is foreseen at 3% (base teaching staff);
- k) Calculation of support staff for 170 students 1 staff (cleaner) and 1 staff for the school (guard);
- l) Professional service of 255 lecturers;
- m) Quality Coordinators;
- n) Salaries are calculated based on the average salary of each municipality and by the levels;
- o) Goods and services are calculated according to the student criteria (23 € for the majority student and 25 € for the minority student) and for the school (1,500 € for pre-primary and primary school and 3,250 € for high school).
- p) Capitals are calculated according to the criteria of € 7 per student.
- q) Calculation of three wages after retirement cost of € 1m.

The new policies are as follows:

- a) 100 assistants for children with special needs at a cost of € 456,750;
- b) Professional internships costing 1 mil. €.

According to MEST, 10,426 less students are in the pre-university education compared to the previous year. Based on the continuous decrease of the number of students from year to year and based on the current teaching / student parameters, the MEST recommends to the municipalities to not open new job positions when any of the teaching staff retires, but to systemize the teachers who do any norm or a full norm (full-time teaching).

All teachers of classes 1-5, who remain without any hour of teaching may be transferred to support teachers for the special needs students. This is also foreseen by the Law on Pre-University Education.

Table 4: Distribution of specific grants for pre-university education for 2019-2021

Nr Municipalities	Number of preschool and primary school students	Number of students in high schools	Total number of Students	Teachers staff													Staff professional, administrative and assistants				The total number of teachers, administrative staff and assistants
				Number of teachers in special education	Number of teachers in special education in risk area and minority	The number of preschool teachers	The number of teachers in primary and secondary education	Number of primary teachers	Number of teachers in preschool and primary education	Number of high school teachers	Number of teachers at Upper Secondary Center	Number of teachers in high schools in risk area and minority	Additional teachers for mountainous areas	Number of English teachers	Number of quality coordinators	Total number of teachers	Number of administrative staff for primary schools	Number of administrative staff for high schools	Professional Psychological Service	The number of support staff for students	
TOTAL	200,330	91,757	382,087	72	4	2,940	100	9,949	333	4,928	7	166	3,206	305	560	22,589	1,234	345	255	3,367	27,759
1)Bran	4,738	1,285	6,023	05	01	45	2	197	7	66		2	0	6	10	335	28	5	4	564	427
2)Dragost	4,348	-	4,348	-	00	34	1	-	0	0		0	278	7	5	324	19	1	3	616	408
3)Petroș	18,643	6,782	25,425	108	04	185	6	562	19	360		12	307	18	30	1,511	70	22	17	202,6	1,822
4)Haci Konev	7,425	1,676	9,101	-	00	89	3	301	10	88		3	0	5	13	512	23	7	6	69,5	617
5)Gahorv	14,237	4,555	18,792	86	03	153	5	553	19	244		8	39	15	35	1,079	65	16	13	166,5	1,339
6)Ghila	13,638	5,660	19,298	67	03	135	5	397	13	307		10	239	16	33	1,182	55	22	13	165,5	1,437
7)Cămpeni	10,030	3,108	13,138	18	01	99	3	279	9	166		6	208	10	25	802	47	9	9	111,3	977
8)Bani Dăbâ	1,572	335	1,907	-	00	13	1	60	2	16		1	10	1	4	107	5	2	1	18,2	134
9)Bog	6,336	1,546	7,882	21	01	72	2	208	7	79		3	77	6	10	466	26	5	5	76,4	579
10)Iordani	736	195	931	06	01	15	1	26	1	9		0	0	1	2	56	2	1	1	6,5	66
11)Kăpălnak	5,230	1,524	6,754	20	01	48	2	194	7	80		3	36	6	15	391	22	5	5	64,7	488
12)Kărnăuș	3,808	1,419	5,227	21	01	37	1	143	5	78		3	32	7	20	326	28	7	3	68,7	434
13)Kărnăuș	6,820	1,865	8,685	23	01	66	2	237	8	99		3	69	7	20	512	29	6	6	78,1	631
14)Leșeni	1,788	451	2,239	14	01	35	1	63	2	25		1	2	2	2	134	9	4	1	32,2	181
15)Ușgău	10,507	3,074	13,581	21	01	98	3	314	11	154		5	196	11	15	811	44	9	9	123,9	1,006
16)Mădăraș	10,548	3,179	13,727	22	01	100	3	324	11	162		5	171	12	15	805	54	10	9	119,7	998
17)Mămăiaș	773	221	994	06	01	6	0	34	1	10		0	0	1	3	57	3	1	1	7,8	70
18)Măruș	12,644	4,583	17,227	16	01	136	5	477	16	247		8	60	12	25	987	49	15	11	141,3	1,204
19)Novi Brăne	1,250	173	1,423	-	00	16	1	36	1	10		0	27	3	5	99	10	3	1	30,4	143
20)Oșani	4,070	954	5,024	24	01	38	1	134	5	56		2	68	4	10	321	17	6	3	49,6	397
21)Peș	14,789	5,083	19,872	20	01	141	5	599	20	285		10	40	14	25	1,138	54	17	13	156,9	1,379
22)Podgori	14,799	4,681	19,480	29	01	119	4	492	16	235		9	205	15	25	1,138	61	13	13	172,6	1,398
23)Preșină	35,514	11,139	46,653	48	02	428	14	1,375	46	592		20	68	29	40	2,616	108	38	31	340,4	3,134
24)Preșin	24,950	7,809	32,759	35	02	219	7	930	31	446		15	271	28	40	1,989	95	25	22	261,7	2,390
25)Rădăuș	8,952	1,889	10,841	20	01	78	3	314	11	95		3	96	10	25	636	44	9	7	100,8	797
26)Săpălești	1,879	560	2,439	-	00	14	1	50	2	26		1	46	4	5	148	12	4	2	27,3	193
27)Săuș	4,618	1,596	6,214	07	01	40	1	132	5	83		3	93	5	5	368	17	5	4	55,6	450
28)Scăruș	8,380	2,540	10,920	32	02	76	3	214	7	139		5	204	9	22	681	39	10	7	101,2	839
29)Săbăuș	9,541	3,079	12,620	15	01	86	3	266	8	164		6	230	10	20	765	44	10	8	116,1	942
30)Vișeu	6,982	2,342	9,324	17	01	70	2	268	9	120		4	30	9	15	529	30	8	6	92,8	666
31)Vădeni	11,779	3,648	15,427	13	01	109	4	434	15	199		7	99	12	20	898	58	12	10	143,7	1,121
32)Zămboni	1,007	270	1,277	-	00	2	0	49	2	16		1	0	1	2	72	6	4	1	12,5	94
33)Zărean	910	254	1,164	-	00	2	0	43	2	15		1	0	1	2	65	6	2	1	14,8	89
34)Zărean	466	151	617	-	00	4	0	23	1	9		0	0	1	3	40	6	1	0	8,6	56
35)Măntăuș	2,563	2,311	4,874	-	00	55	2	89	3	131		4	0	3	5	293	16	12	3	40,7	365
36)Pătrăș	633	371	1,004	02	01	5	0	27	1	21		1	0	1	2	58	5	7	1	10,9	81
37)Rădăuș	818	390	1,208	-	00	21	1	27	1	23		1	0	1	2	76	4	3	1	15,1	99
38)Gălbănești	3,009	1,039	4,048	07	01	56	2	110	4	59		2	0	4	5	242	16	10	3	35,8	306

Municipalities	Salaries and Wages										Total Salaries and Wages	Goods and Services	Capital Expenditure	New policies				Total Specific Grant for Pre-University Education for 2019	Total Specific Grant for Pre-University Education for 2020	Total Specific Grant for Pre-University Education for 2021
	Teacher salaries	Salaries of teachers at Lipjan Correctional Center	Salaries for teachers on sick leave and maternity	Salaries for teachers in mountainous areas	Salaries for Pedagogical/Psychological Personnel	Salary for English Language Classes I + II	Salaries for Quality Coordinators	Salaries for administrative staff	Salaries for assisting staff	Three salaries after retirement										
	114,202,484	52,352	1,291,391	20,357,536	1,520,812	1,930,384	3,910,706	12,447,788	13,090,558	951,048	169,755,059	11,112,404	2,674,609	183,542,072	456,750	1,000,048	1,456,798	184,998,870	185,865,429	186,736,511
Degjan	2,050,988	-	22,998	-	23,973	37,600	73,909	258,798	220,321	19,287	2,707,875	176,545	42,161	2,926,581	13,703	9,228	22,930	2,949,511	2,963,519	2,977,601
Dragash	214,378	-	2,641	1,779,630	17,306	42,310	35,434	162,756	242,724	6,318	2,503,498	163,638	30,436	2,697,572	4,568	-	4,568	2,702,139	2,715,125	2,728,180
Ferizaj	7,163,952	-	80,464	1,972,572	101,199	115,773	204,128	740,351	791,746	84,843	11,255,227	698,993	177,975	12,132,195	27,405	73,234	100,639	12,232,834	12,289,579	12,346,611
Fushë Kosovë	3,055,995	-	35,413	-	36,225	29,322	94,947	254,408	278,060	5,277	3,789,646	243,281	63,707	4,096,634	18,270	16,465	34,735	4,131,369	4,150,785	4,170,303
Gjakovë	6,275,591	-	69,413	255,664	74,797	94,990	254,926	641,437	645,213	53,960	8,365,992	546,604	131,544	9,044,141	27,405	53,043	80,448	9,124,587	9,166,885	9,209,400
Gjilan	5,577,425	-	61,663	1,671,554	76,811	101,827	239,132	614,431	654,888	46,045	9,043,737	562,968	135,086	9,741,791	22,838	63,615	86,453	9,828,244	9,873,931	9,919,851
Gllaveç	3,503,979	-	39,469	1,288,962	52,293	62,217	181,070	447,072	438,071	43,407	6,056,540	365,440	91,966	6,513,946	13,703	34,232	47,935	6,561,881	6,592,631	6,623,541
Hamit Elvizit	591,538	-	7,083	62,995	7,590	7,893	28,768	56,568	78,994	2,527	843,957	57,901	13,349	915,207	9,135	-	9,135	924,342	929,030	933,746
Isog	2,321,407	-	26,335	495,816	31,373	40,158	72,950	255,010	295,939	29,285	3,568,272	238,494	55,174	3,861,940	13,703	10,948	24,651	3,886,591	3,904,900	3,923,306
Junik	319,958	-	4,411	-	3,706	5,157	14,152	29,747	29,424	3,791	410,346	26,163	6,517	443,026	-	-	-	443,026	445,546	448,083
Kaçanak	2,097,207	-	23,516	238,299	26,883	36,939	103,918	222,686	263,882	19,510	3,032,840	200,368	47,278	3,280,486	13,703	14,291	27,994	3,308,479	3,324,111	3,339,827
Komandë	1,717,261	-	18,685	208,843	20,805	43,592	144,744	272,384	246,010	21,926	2,694,250	195,375	36,589	2,926,214	18,270	12,040	30,310	2,956,524	2,970,463	2,984,477
Kuhë	2,546,552	-	28,682	423,431	34,569	43,168	145,479	267,394	296,553	36,221	3,822,049	248,705	60,795	4,131,549	13,703	19,413	33,116	4,164,664	4,184,243	4,203,924
Leqanovë	709,696	-	8,611	9,733	8,912	12,669	12,726	105,088	115,488	1,264	984,188	96,295	15,673	1,096,156	-	7,194	7,194	1,103,350	1,108,739	1,114,160
Lipjan	3,393,441	52,352	39,742	1,121,211	54,056	66,068	92,813	419,564	510,455	51,433	5,801,136	411,922	95,067	6,308,125	13,703	24,027	37,729	6,345,854	6,375,328	6,404,954
Mallkaveç	3,704,555	-	41,568	1,083,010	54,637	73,262	100,812	490,416	454,441	25,383	6,028,086	388,841	96,089	6,513,916	13,703	21,368	35,071	6,548,086	6,578,695	6,609,461
Manastira	333,927	-	4,430	-	3,956	5,185	21,054	36,953	35,407	66,236	7,569,709	474,265	120,589	8,164,563	4,568	-	4,568	8,238,535	8,276,852	8,315,365
Matovë	5,651,054	-	63,441	386,223	68,568	74,321	181,494	529,429	548,944	66,236	7,569,709	474,265	120,589	8,164,563	18,270	55,702	73,972	8,238,535	8,276,852	8,315,365
Novo Bredë	373,110	-	4,550	163,481	5,664	15,759	31,545	106,083	114,767	66,236	814,960	76,661	9,961	901,582	4,568	3,382	7,950	909,531	914,074	918,644
Odhq	1,490,213	-	16,787	436,725	19,997	25,573	72,202	194,529	182,614	9,179	2,447,818	161,796	35,168	2,644,782	13,703	12,721	26,424	2,671,206	2,683,913	2,696,689
Pagë	6,812,955	-	76,377	256,976	79,096	93,666	175,747	587,370	623,975	66,222	8,772,383	539,196	139,104	9,450,683	27,405	67,119	94,524	9,545,207	9,589,537	9,634,094
Podujevë	5,482,621	-	62,614	1,267,778	77,536	94,947	167,159	620,231	672,389	33,521	8,478,796	553,804	136,360	9,168,960	18,270	57,321	75,591	9,244,550	9,287,412	9,330,494
Prishtinë	15,374,393	-	172,071	441,763	184,975	187,738	275,839	1,146,133	1,344,053	58,244	19,185,210	1,217,483	325,311	20,728,004	54,810	115,817	170,627	20,898,631	20,995,025	21,091,906
Prizren	9,858,273	-	113,674	1,650,320	130,390	168,304	258,628	967,710	989,342	64,999	14,201,640	924,725	229,313	15,355,678	22,838	92,103	114,940	15,470,618	15,542,094	15,613,932
Rahovec	3,164,705	-	35,562	627,905	43,150	65,512	177,859	440,224	387,705	22,967	4,965,589	324,035	75,887	5,365,511	4,568	10,401	14,968	5,380,479	5,405,775	5,431,203
Shegërçë	559,057	-	6,310	292,787	9,708	25,704	30,813	115,819	107,481	2,527	1,450,206	83,483	17,073	1,250,762	-	-	-	1,250,762	1,256,981	1,263,236
Shitë	1,686,106	-	19,033	597,048	24,733	32,212	35,883	178,732	214,054	15,386	2,803,186	180,556	43,498	3,027,240	4,568	14,232	18,800	3,046,040	3,060,524	3,075,085
Shkenderaj	2,803,129	-	31,500	1,312,073	43,465	59,107	159,362	392,696	391,661	43,421	5,236,413	325,460	76,440	5,638,313	13,703	33,802	47,504	5,685,817	5,712,467	5,739,256
Shkupë	3,220,968	-	35,646	1,500,482	49,435	66,564	144,871	423,172	453,673	48,684	5,953,494	366,444	86,940	6,406,878	22,838	34,349	57,187	6,464,065	6,494,300	6,524,692
Shkurti	2,877,720	-	33,283	186,239	37,112	53,263	102,080	313,883	362,314	34,451	4,000,344	282,102	65,688	4,347,714	9,135	17,048	26,183	4,373,897	4,394,367	4,414,944
Veshtri	4,868,690	-	55,068	626,015	61,404	77,465	148,173	564,841	588,968	34,736	7,022,359	451,051	107,989	7,584,399	13,703	43,905	57,607	7,642,006	7,677,601	7,713,379
Zahid Pirok	376,479	-	4,723	-	5,083	7,018	10,408	70,986	46,820	521,517	46,867	8,939	577,323	-	5,279	5,279	582,602	585,677	588,773	
Zecan	368,830	-	4,294	-	4,633	6,111	12,735	62,178	55,689	514,470	42,186	8,148	564,804	-	4,966	4,966	569,770	572,810	575,871	
Klobot veriore	220,373	-	2,637	-	2,456	4,966	19,088	52,204	28,938	330,662	25,207	4,319	360,188	-	2,952	2,952	363,140	365,261	367,398	
Partesh	309,872	-	3,407	-	3,996	7,473	11,420	62,653	34,968	433,789	50,092	7,028	490,909	-	5,787	5,787	496,696	499,333	501,988	
Rundë	377,406	-	4,452	-	4,808	6,313	12,670	56,937	41,052	503,637	46,284	8,456	558,377	-	7,625	7,625	566,001	568,988	571,994	
Gjergjariç	1,209,005	-	13,935	-	16,112	23,149	29,934	138,048	133,330	1,563,513	137,104	28,336	1,728,953	-	16,969	16,969	1,745,922	1,754,208	1,762,540	

4.2.3. Specific Primary Health Care Grant

The specific primary health grant for 2019 was approved by the Grants Commission in the amount of 53.4 million euros. The distribution of the specific health grant is based on an open system in accordance with the LGGL. The specific primary health grant for 2019 is prepared according to the per capita criterion and in accordance with the recommendations of the Grants Commission as outlined in the Annual Report on Assessing the Adequacy of the Municipal Financing System.

Table 5: Specific Grant for Primary Health Care for 2019-2021

Nr.	Municipalities	Population	The share of Population in %	Funding per capita	Specific Grant for Health for the year 2019	Specific Grant for Health for the year 2020	Specific Grant for Health for the year 2021
1	Deçan	40,019	2.25%	30.00	1,200,570	1,260,599	1,323,628
2	Dragash	33,997	1.91%	30.00	1,019,910	1,070,906	1,124,451
3	Ferizaj	108,610	6.10%	30.00	3,258,300	3,421,215	3,592,276
4	Fushë Kosovë	34,827	1.96%	30.00	1,044,810	1,097,051	1,151,903
5	Gjakovë	94,556	5.31%	30.00	2,836,680	2,978,514	3,127,440
6	Gjilan	90,178	5.07%	30.00	2,705,340	2,840,607	2,982,637
7	Gillogoc	58,531	3.29%	30.00	1,755,930	1,843,727	1,935,913
8	Hani i Elezit	9,403	0.53%	30.00	282,090	296,195	311,004
9	Istog	39,289	2.21%	30.00	1,178,670	1,237,604	1,299,484
10	Junik	6,084	0.34%	30.00	182,520	191,646	201,228
11	Kaçanik	33,409	1.88%	30.00	1,002,270	1,052,384	1,105,003
12	Kamenicë	36,085	2.03%	30.00	1,082,550	1,136,678	1,193,511
13	Klinë	38,496	2.16%	30.00	1,154,880	1,212,624	1,273,255
14	Leposavic	13,773	0.77%	30.00	413,190	433,850	455,542
15	Lipjan	57,605	3.24%	30.00	1,728,150	1,814,558	1,905,285
16	Malishevë	54,613	3.07%	30.00	1,638,390	1,720,310	1,806,325
17	Mamushë	5,507	0.31%	30.00	165,210	173,471	182,144
18	Mitrovicë	71,909	4.04%	30.00	2,157,270	2,265,134	2,378,390
19	Novobërdë	6,729	0.38%	30.00	201,870	211,964	222,562
20	Obiliq	21,549	1.21%	30.00	646,470	678,794	712,733
21	Pejë	96,450	5.42%	30.00	2,893,500	3,038,175	3,190,084
22	Podujevë	88,499	4.97%	30.00	2,654,970	2,787,719	2,927,104
23	Prishtinë	198,897	11.17%	30.00	5,966,910	6,265,256	6,578,518
24	Prizren	177,781	9.99%	30.00	5,333,430	5,600,102	5,880,107
25	Rahovec	56,208	3.16%	30.00	1,686,240	1,770,552	1,859,080
26	Shtërpçë	6,949	0.39%	30.00	208,470	218,894	229,838
27	Shtime	27,324	1.54%	30.00	819,720	860,706	903,741
28	Skenderaj	50,858	2.86%	30.00	1,525,740	1,602,027	1,682,128
29	Suharekë	59,722	3.36%	30.00	1,791,660	1,881,243	1,975,305
30	Viti	46,987	2.64%	30.00	1,409,610	1,480,091	1,554,095
31	Vushtrri	69,870	3.93%	30.00	2,096,100	2,200,905	2,310,950
32	Zubin Potok	6,616	0.37%	30.00	198,480	208,404	218,824
33	Zveçan	7,481	0.42%	30.00	224,430	235,652	247,434
34	Graçanicë	10,675	0.60%	30.00	320,250	336,263	353,076
35	Klllokot	2,556	0.14%	30.00	76,680	80,514	84,540
36	Mitrovica Veriore	12,326	0.69%	30.00	369,780	388,269	407,682
37	Partesh	1,787	0.10%	30.00	53,610	56,291	59,105
38	Ranillug	3,866	0.22%	30.00	115,980	121,779	127,868
Total		1,780,021	100.00%		53,400,630	56,070,662	58,874,195

4.3.Secondary Health Funding

Secondary health financing for 2019 is in the amount of € 2,603,077 according to the proposal of MoH and MTEF projections for the three minority municipalities, as follows:

- Municipality of Shterpca, in the amount of 522,371 euro,
- Municipality of North Mitrovica, in the amount of € 989,935, and
- Municipality of Gracanica, in the amount of € 1,090,771.

4.4.Financing for Residential Services

Financing of residential services for the communities' homes for 2019 was approved in the amount of 1,620,000 euros.

Table 6: Financing for residential services for 2019

No.	Municipalities	Wages and Salaries	Goods and Services	Utilities	Capital Expenditures	Total
1	Skenderaj	85,000	75,000	10,000	10,000	180,000
2	Graçanicë	140,000	130,000	20,000	10,000	300,000
3	Istog	85,000	75,000	10,000	10,000	180,000
4	Deçan	70,000	75,000	10,000	5,000	160,000
5	Ferizaj	70,000	75,000	10,000	5,000	160,000
6	Kamenicë	70,000	75,000	10,000	5,000	160,000
7	Vushtrri	70,000	75,000	10,000	5,000	160,000
8	Shtime	70,000	75,000	10,000	5,000	160,000
9	Lipjan	70,000	75,000	10,000	5,000	160,000
	Total	730,000	730,000	100,000	60,000	1,620,000

4.5.Financing for the Historic Center of Prizren, the Cultural Center of Zym village and the Council of Hoça e Madhe

With the entry into force of the Law No. 04 / L-066 on the Historic Center of Prizren, Law No.04 / L-196 on the Historical Cultural Center of Zym village and Law no. 04 / L-62 for the village of Hoça e Madhe, with budget planning for 2019, are allocated funds in the amount of 65,140 euro for the two municipalities as follows:

- Municipality of Prizren, in the amount of € 41,646, and
- Municipality of Rahovec, in the amount of 23,494 euros.

4.6.Municipal Own Source Revenues Projections for 2019 and Projections 2020-2021

The Municipal Own Source Revenues Projections for 2019, based on macro-fiscal estimates, are in the amount of 87 million euros. These revenues are added to municipal funding along with municipal grants.

Projection of own source revenues for each municipality is based on the recommendations of the grant commission included in the “Adaptation Assessment of Municipal Financing” report.

In this projection have been taken into account the municipalities' projections on income from property tax, tax revenues, other non-tax revenues and revenues, municipal waste taxes, land tax revenues, excluding one-off revenues and setting a real growth target and taking into account the Law on Debt Forgiveness, in order to ensure financial sustainability of municipalities.

Table 7: Municipal Own Source Revenue Projections for 2019- 2021

Projections of Municipal Own Source Revenues for the year 2019							Projections for 2020	Projections for 2021
Nr.	Municipality	Taxes, charges and other non-tax revenues	Taxes from Waste	Income from property tax	Tax on land and debt collection	Projections for 2019		
1	Deçan	419,750		199,869	50,784	670,403	693,520	716,638
2	Dragash	250,000		200,000	50,817	500,817	518,087	535,356
3	Ferizaj	2,423,238		2,136,982	542,978	5,103,198	5,279,171	5,455,143
4	Fushë Kosovë	1,675,000		610,000	154,993	2,439,993	2,524,130	2,608,268
5	Gjakovë	1,802,000		1,350,000	343,017	3,495,017	3,615,535	3,736,052
6	Gjilan	2,660,000		1,440,000	365,884	4,465,884	4,619,880	4,773,877
7	Gilgovec	799,360		410,000	104,175	1,313,535	1,358,830	1,404,124
8	Hani i Elezit	163,720		100,000	25,409	289,129	299,099	309,069
9	Istog	821,091		364,000	92,487	1,277,578	1,321,633	1,365,687
10	Junik	59,631		43,000	10,926	113,557	117,472	121,388
11	Kaçanik	441,539		275,000	69,874	786,413	813,530	840,648
12	Kamenicë	877,981		280,000	71,144	1,229,125	1,271,509	1,313,892
13	Klinë	570,000		280,000	71,144	921,144	952,908	984,671
14	Leposaviq	24,000			-	24,000	24,828	25,655
15	Lipjan	980,000		800,000	203,269	1,983,269	2,051,658	2,120,046
16	Malishevë	544,797		300,000	76,226	921,023	952,782	984,542
17	Mamushë	34,700		29,000	7,369	71,069	73,519	75,970
18	Mitrovicë	1,319,410	380,000	610,000	154,993	2,464,403	2,549,382	2,634,362
19	Novo Bërdë	138,630		108,408	27,545	274,583	284,051	293,520
20	Obiliq	476,239		446,000	113,323	1,035,562	1,071,271	1,106,980
21	Pejë	2,410,587		1,737,000	441,348	4,588,935	4,747,174	4,905,413
22	Podujevë	1,074,000		410,000	104,175	1,588,175	1,642,940	1,697,705
23	Prishtinë	19,456,363	4,338,000	6,331,000	1,608,621	31,733,984	32,828,260	33,922,535
24	Prizren	4,508,404	1,450,000	2,200,000	558,990	8,717,394	9,017,994	9,318,594
25	Rahovec	640,000	140,000	310,000	78,767	1,168,767	1,209,069	1,249,371
26	Shtërpçë	179,914		134,408	34,151	348,473	360,490	372,506
27	Shtime	243,437		207,677	52,768	503,882	521,257	538,632
28	Skenderaj	727,200		225,500	57,296	1,009,996	1,044,824	1,079,651
29	Suharekë	1,342,580		715,000	181,672	2,239,252	2,316,467	2,393,683
30	Viti	584,088		365,912	92,973	1,042,973	1,078,938	1,114,902
31	Vushtrri	984,383	672,000	710,000	180,401	2,546,784	2,634,605	2,722,425
32	Zubin Potok	25,000			-	25,000	25,862	26,724
33	Zveçan	30,000			-	30,000	31,034	32,069
34	Gracanica	998,000		502,000	127,551	1,627,551	1,683,674	1,739,796
35	Klllokot	57,510		58,640	14,900	131,050	135,569	140,088
36	Mitrovica veriore	138,445			-	138,445	143,219	147,993
37	Partesh	49,003		7,400	1,880	58,283	60,293	62,303
38	Ranillug	70,000	20,000	25,000	6,352	121,352	125,537	129,721
TOTAL		50,000,000	7,000,000	23,921,796	6,078,204	87,000,000	90,000,000	93,000,000

4.7.Borrowing

Funds disbursed from MEST borrowing to the sub-programs "Central Administration and Capital Investments in Pre-University Education", within the "Education Reform" Project (Component 1.3 of the Law on Ratification of this Loan Agreement), are transferred to municipalities for the year 2019 in the amount of 526,960 euros. Such transfers are not subject to the Limits of the Special Grant for Pre-University Education

Table 8: Funding from Education Borrowing for 2019

No.	Municipalities	Funding from borrowing for 2019			
		Nr. of schools per municipality	Goods and Services (min. 60%)	Capital Expenditures (max. 40%)	Total Funding for 2019
1	Deçan	6	13,144	8,762	21,906
2	Dragash	3	6,641	4,427	11,068
3	Glllogoc	4	9,451	6,301	15,752
4	Ferizaj	3	6,588	4,392	10,980
5	Gjakovë	11	24,274	16,183	40,457
6	Hani Elezit	1	2,202	1,468	3,671
7	Kacanik	5	11,898	7,932	19,830
8	Kamenicë	1	2,127	1,418	3,545
9	Klinë	10	22,818	15,212	38,030
10	Lipjan	8	18,542	12,361	30,903
11	Malishevë	8	17,931	11,954	29,885
12	Mitrovicë	5	11,099	7,399	18,498
13	Novo Berdë	1	2,199	1,466	3,664
14	Obiliq	2	5,487	3,658	9,144
15	Pejë	6	13,360	8,907	22,267
16	Podujevë	6	13,092	8,728	21,819
17	Prishtinë	2	4,541	3,027	7,568
18	Prizren	13	28,995	19,330	48,325
19	Rahovec	9	20,230	13,487	33,716
20	Shtërpçë	2	4,476	2,984	7,461
21	Shtime	1	3,413	2,275	5,688
22	Skenderaj	15	33,342	22,228	55,569
23	Suharekë	5	11,066	7,377	18,443
24	Vushtrri	13	29,262	19,508	48,770
Total		140	316,176	210,784	526,960

The schools will decide on spending the funds for the projects envisaged under the "School Development Plan". These projects will be approved by MEST in advance. The use of funding will concentrate on improving the quality in schools.

The allocation of funds for each municipality is done by applying the formula foreseen by the "School Development Grants Handbook", issued by MEST.

Funds disbursed from MoH borrowing have been transferred to municipalities in the amount of EUR 4,272,051 for 2019.

The amount allocated to each municipality on an annual basis will be subject to the assessment of the Ministry of Health to meet the criteria set forth in the previously signed agreement between the municipality and the MoH.

Table 9: Funding from Health Care Borrowing for 2019

No.	Municipalities	Goods and Services for 2019
1	Deçan	96,046
2	Dragash	81,593
3	Ferizaj	260,664
4	Fushë Kosovë	83,585
5	Gjakovë	226,934
6	Gjilan	216,427
7	Glllogovc	140,474
8	Hani i Elezit	22,567
9	Istog	94,294
10	Junik	14,602
11	Kaçanik	80,182
12	Kamenicë	86,604
13	Klinë	92,390
14	Leposavic	33,055
15	Lipjan	138,252
16	Malishevë	131,071
17	Mamushë	13,217
18	Mitrovicë	172,582
19	Novobërdë	16,150
20	Obiliq	51,718
21	Pejë	231,480
22	Podujevë	212,398
23	Prishtinë	477,353
24	Prizren	426,674
25	Rahovec	134,899
26	Shtërpçë	16,678
27	Shtime	65,578
28	Skenderaj	122,059
29	Suharekë	143,333
30	Viti	112,769
31	Vushtrri	167,688
32	Zubin Potok	15,878
33	Zveçan	17,954
34	Graçanicë	25,620
35	Klllokot	6,134
36	Mitrovica Veriore	29,582
37	Partesh	4,289
38	Ranillug	9,278
Total		4,272,051

4.8. Summary of municipal funding for 2019-2021

For allocation of government grants by municipalities for 2019, the criteria and basic formulas defined in the Law on Local Government Finance and other relevant laws are applied, as well as the macro-fiscal projections and data from line ministries served as the basis of that:

- The General Grant for 2019 compared to 2018 has an increase of 7.1 million euros as a result of the increase of total revenues.
- The specific grant for pre-university education for 2019 is in the amount of 185 million euros, there is an increase of 15 million euros compared to 2018, despite the reduction of the number of students reported by MEST.
- The specific primary health grant for 2019 is in the amount of 53.4 million euros and there is an increase of 5 million euros compared with 2018.
- Secondary health financing for 2019 is at the same level as the previous year.
- Financing for residential services for 2019 is at the same level as the previous year.
- Funding for the Historic Center of Prizren, the historic cultural center of Zym village and the Hoca e Madhe Council in Rahovec for 2019 is in the amount of 65,140 euros.
- Municipal Own Source Revenue Projections for 2019 has an increase of 5 million euros compared to 2018.

The Grants Commission, based on the specifics in the education and health sector has approved the increase of the staff for Fushe Kosova for 18 positions, the municipality of Gillogoc for 10 positions, the municipality of Mamusha for 5 positions and the municipality of Rahovec for 8 positions.

Table 10: Summary of Municipal Financing for 2019-2021 (Euro Million)

Description	2017	2018	2019	2020	2021
1. Government Grants	356.74	392.4	419.09	433.26	449.02
General Grant	149.2	173.6	180.69	191.33	203.45
General Grant	145.2	168.92	175.79		
Contingency to the correction formula	4	4.68	4.9		
Specific health grant	44.11	48.5	53.4	56.07	58.87
Specific Education Grant	163.43	170.3	185	185.86	186.7
2. Grants for enhanced competencies	2.6	2.6	2.6	2.6	2.6
Secondary health care	2.6	2.6	2.6	2.6	2.6
3. Residential services	1.62	1.65	1.62	1.62	1.62
4. Financing for CPC, QKHFZ and KHM	0.06	0.06	0.06	0.06	0.06
5. Municipal Own Source Revenues	79	82	87	90	93
6. Financing from Borrowing		3.7	4.8	0	0
Total Municipal Financing	440.02	482.41	515.17	527.5	546.3

4.9.Expenditure Structure for Municipal Budget for 2019-2021

The table below shows the structure of municipal expenditures for the next three-year period 2019-2021.

Table 11: Expenditure structure for municipal budget 2019-2021

Description	2017	2018	2019	2020	2021
Total Expenditures	440,230,866.00	491,282,773	515,176,728	527,554,308	546,348,923
Number of Employees	43,871	43,878	44,058	44,058	44,058
Wages and salaries	250,700,875	265,769,919	270,083,556	271,433,974	272,791,144
Goods and Services	40,254,666	58,530,443	69,855,347	68,855,347	68,855,347
Utilities	9,688,900	9,688,901	9,688,900	9,688,900	9,688,900
Subsidies and Transfers	8,748,308	8,748,308	8,834,953	8,834,953	8,834,954
Capital expenditures	130,838,117	148,545,202	156,713,972	168,741,134	186,178,578
Reserve	0	-	-	-	-
Funding Sources	440,230,866.00	491,282,773	515,176,728	527,554,308	546,348,923
Government grants	360,917,376	405,405,496	423,377,717	437,554,308	453,348,923
Own Source Revenues	78,163,490	81,424,999	87,000,000	90,000,000	93,000,000
Financing from borrowing	1,150,000	4,452,278	4,799,011		
Funding from the Investment Clause -06					
Donor Grants					