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Ministria e Financave  
Ministarstvo za Finansije  
Ministry of Finance

## **Medium Term Expenditures Framework 2018-2020**

**April 2017**

## List of abbreviations

PAK	Kosovo Privatisation Agency
SAK	Statistics Agency of Kosovo
TAK	Tax Administration of Kosovo
GNIA	Gross National Income Available
WB	World Bank
EBRD	European Bank for Reconstruction and Development
PB	Payment Balance
GDP	Gross Domestic Product
CBK	Central Bank of Kosovo
ERS	Energy Renewable Sources
EPPD	Economics and Public Policy Department
EU	European Union
EULEX	European Union Mission on Rule of Law
KAF	Kosovo Armed Forces
FIFA	Fédération Internationale de Football Association
IMF	International Monetary Fund
KSF	Kosovo Security Force
CPI	Consumer Price Index
IFIs	International Financial Institutions
FDIs	Foreign Direct Investments
IPA	Instrument for Pre-Accession Assistance
IT	Information Technology
NBIHS	Non-beneficiary Institutions for Household Services
MTEF	Medium Term Expenditures Framework
KEK	Kosovo Energy Corporation
KfW	Kreditanstalt für Wiederaufbau
ODC	Other Depositing Corporations
LLGC	Law on Local Governance Finance
LPFMA	Law on Public Financial Management and Accountability
MEST	Ministry of Education, Science and Technology
MoF	Ministry of Finance
MLSW	Ministry of Labour and Social Welfare
SAA	Stabilisation and Association Agreement
SMEs	Small and Medium Enterprises
UN	United Nations Organisation
RTK	Radio Television of Kosovo
USA	United States of America
VAT	Value Added Tax
USAID	United States Agency for International Development
WEO	World Economic Outlook

## Content

Content.....	2
Introduction.....	4
<b>FIRST PART.....</b>	<b>5</b>
<b>1. DECLARATION OF MEDIUM TERM PRIORITIES 2018-2020.....</b>	<b>5</b>
1.1 Overall fiscal framework for prioritisation.....	6
1.2 Fundamental Principles .....	7
1.3. Priority areas.....	8
1.3.1 Education and Employment .....	8
1.3.2 Good governance and the rule of law.....	10
1.3.3 Competitive Industries .....	11
1.3.4 Infrastructure.....	13
1.3.5 European integration, foreign policy and security issues .....	14
<b>SECOND PART.....</b>	<b>17</b>
<b>2. MACRO-FISCAL FRAMEWORK.....</b>	<b>17</b>
2.1 External Economic Environment .....	17
2.2 Recent Economic Developments in Kosovo.....	19
2.3 Medium Term Macroeconomic Perspective.....	20
2.4 Fiscal Framework .....	24
2.4.1 Government Revenues and Expenditures .....	26
2.4.1.1 Projections of budget revenues for 2018-2020 .....	26
2.4.1.2 Projections of budget expenditure for 2018-2020.....	28
2.4.1.3 Budget Deficit And Fiscal Rule .....	31
2.5 Development potential and fiscal risks for 2017-2019.....	33
2.5.1 Development Potentials .....	33
2.5.2 Fiscal Risks .....	34
2.5.2.1 Fiscal risks outside budget.....	35
Annex 1. Macrofiscal Framework 2018-2020.....	36
<b>THIRD PART.....</b>	<b>40</b>
<b>3 SECTORIAL EXPENDITURES FRAMEWORK 2018-2020 – CENTRAL GOVERNMENT.....</b>	<b>40</b>
3.1 GENERAL GOVERNANCE SECTOR .....	41

<b>3.2</b>	<b>INTERNATIONAL COOPERATION SECTOR.....</b>	<b>43</b>
<b>3.3.</b>	<b>PUBLIC FINANCE SECTOR.....</b>	<b>45</b>
<b>3.4</b>	<b>DEFENCE AND PUBLIC SECURITY SECTOR.....</b>	<b>46</b>
<b>3.5</b>	<b>JUSTICE SECTOR .....</b>	<b>49</b>
<b>3.6</b>	<b>INFRASTRUCTURE AND COMPETITIVENESS SECTOR .....</b>	<b>50</b>
<b>3.7</b>	<b>AGRICULTURE SECTOR .....</b>	<b>52</b>
<b>3.8</b>	<b>ENVIRONMENTAL SECTOR.....</b>	<b>54</b>
<b>3.9</b>	<b>CULTURE SECTOR.....</b>	<b>55</b>
<b>3.10</b>	<b>EDUCATION SECTOR.....</b>	<b>57</b>
<b>3.11</b>	<b>HEALTH SECTOR.....</b>	<b>59</b>
<b>3.12</b>	<b>SOCIAL ISSUES SECTOR.....</b>	<b>60</b>
	<b>FOURTH PART.....</b>	<b>63</b>
<b>4</b>	<b>Municipal level .....</b>	<b>63</b>
<b>4.1</b>	<b>Introduction.....</b>	<b>63</b>
<b>4.2</b>	<b>Sources of Municipal Financing for 2018-2020 .....</b>	<b>63</b>
<b>4.2.1</b>	<b>General Grant for 2018 and forecasts for 2019 - 2020 .....</b>	<b>63</b>
<b>4.2.2</b>	<b>Specific grant for pre-university education for 2018-2020 .....</b>	<b>67</b>
<b>4.2.3</b>	<b>Specific grant for primary health care 2018-2020 .....</b>	<b>70</b>
<b>4.3</b>	<b>Financing of secondary health care 2018 .....</b>	<b>72</b>
<b>4.4</b>	<b>Financing of Residential Services for 2018.....</b>	<b>72</b>
<b>4.5</b>	<b>Projections of Municipal Own Source Revenues 2018 and forecasts 2019-2020 .....</b>	<b>73</b>
<b>4.7</b>	<b>Financing for Historic Center of Prizren, Historical Cultural Center within the Village Zym and the Council of Hoça e Madhe for 2018 .....</b>	<b>77</b>
<b>4.9</b>	<b>Structure of expenditures by economic categories for municipalities 2018-2020 .....</b>	<b>80</b>

## Introduction

The 2018-2020 Medium Term Expenditure Framework (MTEF 2018-2020) is the main document based on which the annual budget for 2018 will be 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 Program 2017-2019, stemming out the process of dialogue on economic governance between Kosovo and the EU.

The Government's main objective continues to be further strengthening 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 2018-2020 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 2018-2020 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's program and National Development Strategy, as well as Economic Reform Program; The second part provides **the Macro-Fiscal Projections** based on general parameters of economic development; and **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 are later prepared.

# **FIRST PART**

## **1. DECLARATION OF MEDIUM TERM PRIORITIES 2018-2020**

The main objectives of the Government's Program adopted in January 2015 is to build up an effective, competent and accountable governance towards a sustainable and inclusive economic growth and more strengthened social welfare. 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.

Competitive economy is the main pillar of any development and creating jobs. Given the current economic structure of Kosovo and numerous obstacles to economic growth, it is required to undertake economic reforms to free and strengthen the country's economic potential. The priorities of economic reforms for the medium term are also presented in the Economic Reform Program 2017-2019, stemming out from dialogue process on economic governance between Kosovo and the 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 fulfillment of SAA obligations. Furthermore, Kosovo through High Level Kosovo-EU dialogue on Key Priorities, adopted the Agenda for European Reform, whose purpose is to continuously focus on the implementation of the SAA in priority areas. The implementation of the European agenda will not only support Kosovo's approximation to the EU, but also achieve the main objectives for national development and improvement of economic competitiveness.

Medium Term Expenditure Framework 2018-2020, 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 will be provided from the budget of Kosovo and financial assistance or loans 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, ERA, NPI-SAA) 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 2018. According to these priorities, budget organizations may include proposals for the finalisation and rationalisation of the existing programs in order to identify the funding of high priority programs, including proposals for new policy initiatives. In exceptional circumstances, they may include requirements for additional financing if such requests demonstrate a high impact in the potential achievement of the Government's objectives and priorities.

### 1.1 Overall fiscal framework for prioritisation

The 2015-2018 Government Programme, the 2016-2021 National Development Strategy and the Economic Reform Programme 2016 and 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 in the 2018-2020 Medium Term Expenditure Framework.

Further strengthening of the fiscal position and responsible public finances management continues to be the Government's main objective in the fiscal strategy. In this context, the budget planning and execution will be in line with the fiscal rule that limits the budget deficit to 2% of GDP. Given that the existing fiscal space is limited, the Government intends to achieve the objectives in the strategic documents through reallocations within the existing ceiling set in the fiscal framework.

However, the implementation of investments clause will be part of this document, thus enabling the Government to fund capital projects of broad public interest beyond the deficit of 2% of GDP, provided that these projects are financed by international financial institutions and development agencies. The Government approved a list of specific projects to be funded through this clause, and some of these projects will be implemented during the next three years covered by this document. The concerning List is updated continuously, with the approval of the Government. It is important that these projects are financed in line with the long-term sustainability of public debt and public finances.

The main objectives of the fiscal strategy for the 2018-2020 period continue to be:

- **Strengthening of public finances** – adherence to the fiscal rule which limits the overall deficit to 2% of GDP by taking measures to improve the structure of budget expenditures by reducing the non-productive current spending and making room for development projects.
- The Government is committed to pursue a **prudent policy on employment and salaries**. It intends to regulate this policy by establishing a legal framework (such as the Law on Salaries). In this context, the Government is committed to restrict employment to the extent required for efficient and effective provision of public goods and services. Furthermore, the Government has also introduced a rules-based mechanism specifying that the increase of the invoice covering the public sector salaries is linked to nominal GDP growth aimed at better linking the increase of public sector salaries with productivity.
- The Government is also committed to implement a clear **policy of social protection** which not only will support a sensitive class of the population, but it will also encourage employment,

ensure fiscal sustainability and enable rapid and efficient administration of these expenditures. Thus, the Government intends to maintain the basis of incentives needed for the sustainable economic growth and employment.

- The Government of Kosovo is also committed to fulfil the Budget Organizations' development obligations and plans, with an emphasis on measures directly related to economic development. Given the existing high structural difficulties the economy is facing, the Government has amended the Law on Public Financial Management and Accountability (LPFMA) to approve the investment clause which allows additional spending (over the deficit of 2% set by law) for infrastructure projects with an impact on economic development, provided that they are financed by international financial institutions. In this regard, the Government is committed to implement the structural reforms program set out in its strategic documents.

These elements cover all budget organizations equally, therefore it is necessary to advance the cooperation at government level in order to enable the monitoring of the country's economic development agenda while maintaining macro-fiscal stability.

When it comes to the environment, transport and energy sectors, particular attention should be paid to requirements for co-financing priority projects within the List of Priority Projects. Similarly, budget organizations belonging to the environment, transport and energy sectors should ensure that sufficient co-funding is provided for priority infrastructure projects to begin from or carry on in 2018 and onwards.

Similar to last year guideline, budget organizations should assess the options for closing the programs and projects that are no longer main priorities of the Government. Emphasis should also be placed on the improvement of the efficiency and effectiveness of spending. Opportunities to expand and improve the performance of existing programs should largely be financed within the existing appropriations (allocations). For this reason, budget organizations should identify the resources within their own basic scenarios based on the areas of poor performance or that are not sufficiently in compliance with the high level priorities of the Government..

Where necessary, the Strategic Planning Committee and the Government may recommend the reallocation of expenditures between the function groups or budget organizations, or take other measures to finance the priorities of urgency, always taking priority on maintaining country's fiscal sustainability on board.

## **1.2 Fundamental Principles**

The 2018-2020 expenditures projections preparation process is driven by the following principles, which consider the evaluation of budget requests during the budgeting process, where the spending estimate is kept within the aggregate ceiling provided in the indicative ceilings of 2017-2018 MTEF for 2018.

- The reallocation of funds aimed at:
  - Better compliance with the Government's priority policies given in the National Development Strategy (NDS) 2016-2021, Economic Reform Program (ERP) 2016-2018, Stabilisation and Association Agreement between Kosovo and the EU and the Government Program 2015-2018. Instructions on specific priorities are given below;



- Allocation of expenditures that are more effective in the achievement of Government's policy objectives;
- Achieving the largest value for the money spent by meeting specific priority goals by moving funds towards high level priorities;
- Linking with external financing provided through IPA and other channels;

### 1.3. Priority areas

The Strategic Planning Committee presents the following declaration regarding the priorities on MTEF 2018-2020. The priorities are presented specifically and derive from the Guidelines for the Implementation of the National Strategy, paying attention also to measures set out in the Economic Reform Program and the National Program for the Implementation of SAA and European Reform Agenda. The declaration is also based on other sectoral strategic documents providing budget organizations with flexibility to determine the most appropriate structure and adequate levels of funding to achieve these goals.

While preparing and submitting 2018 budget requests with the medium term projections (2018-2020), 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.

#### 1.3.1 Education and Employment

Budget Sector holder: **Education**

with accompanying sectors: **Health, Social Issues**

The country's economy is to a large extent based on human capital; therefore the Government of Kosovo has set, support to the development of Education and Employment as a high priority. In the context of addressing current and future challenges in the education and employment sector, the Government's priorities for the next three years will focus on the following:

Aiming to ***increase participation in preschool and pre-primary education*** during the next medium-term period, government policies will focus on improving infrastructure by constructing new public gardens, and licensing private institutions, improving the legal framework for licensing new preschool institutions, relicensing of existing institutions and putting in place incentives for the expansion of private institutions network. Simultaneously, we will work to address the capacities of the teaching staff in preschool and pre-primary system.

***Improving the quality of teaching in elementary and secondary education*** as a prerequisite for a better performance of the education system and beefing up youngster's capacities for the labour market is intended to be achieved by supporting teachers' professional

**Economic Reform Program:** *Linking education with labor market needs (Measure 17) and implementation and improve the career system for teachers. ERP strengthens this pillar through measure 19 regarding the improvement of employment services and active labor market measures and measure 20 related to the improvement of social and health services*

a) review of curricula and school textbooks,

b) establishing mechanisms for assessment, continuous professional development of teachers and quality assurance; and

c) investments in school infrastructure including primary and preschool education.

- development of legal framework, strategic and inter-institutional mechanisms in the field of innovation.

- implementation of active labor market measures targeting youth employment and women, the development of employment services,

- Putting in place the health insurance fund

development process by reviewing programs for teacher's education and implementing the grading system in line with the licensing process. This will help accelerate the process of professional development for teachers focusing on vocational education and training. Optimising the existing number of teachers having quality as criteria will be applied by supplementing the legal basis for the professional development of teachers and putting in place a performance appraisal system that will be linked to the payroll system, enhancing the accountability in Education. This will be achieved by continuously expanding the use of the new curriculum in all schools and revising the existing text books and preparing new text books, especially focusing on basic text books on vocational education and training.

***Better linkage between the education system and the labour market*** will be supported in the process of developing professional standards and enhancing vocational education and training quality. These will be achieved by increasing the capacity of the Counselling Centres for and Career Guidance in municipalities and implementation of concepts by Core Curriculum; development of new curricula and review of all VET curricula; improving the quality of training services offered in the Vocational Training Centre; implementation of the pilot VET combined system with dual learning elements. While, in terms of linking research work in universities with industry through smart specialization approach and investment in R&D, the main focus will be on improving the legal framework for innovation and transfer of knowledge and technology and finance scientific research activity.

***Strengthening accountability and certification mechanisms in the education system*** so that schools and teachers are held accountable and rewarded for the quality of their work, will help improve the quality of education. This includes increasing the capacity of the National Quality Council and strengthening the Kosovo Accreditation Agency. It will also support the strengthening and implementation of a reliable system of final exam for students as well as improving the final exam for regulated professions. Expansion and improvement of the inspection system in the educational system and aspects of teacher performance appraisal will be supported through the adoption of the law on inspectorate of education, improving the quality of autonomy and accountability of accredited institutions and the development of a teaching appraisal system.

***Optimisation of spending on education through the teacher grading data systems*** will be achieved by building-up a master plan for the VET schools network; establishment of the Higher Education Information Management System (HEIMS) and further development of other information systems related to the educational system, the labour market and the interaction between them, increasing financing for programs of vocational education and higher education. This will be done by revising the current financing formula and reorienting the expenditures of less priority areas in priority ones. Then it is intended to undertake a pilot PPP model by reviewing the legal framework for public-private partnership with the aim of finding a suitable model for adaptation to the public school system.

In order to implement ***the employment and labour market policies***, the Government of Kosovo will focus on the functioning of the Agency for employment and implementing active labour market measures. It focuses on the reform and modernization of public employment services through the functionality of the Employment Agency and its capacities and planning, design, effective implementation and monitoring of active labour market measures. Relying on economic development priorities and obligations within the European integration process, the Government of Kosovo will work towards tackling ***youth unemployment*** through a strategic plan for tackling youth unemployment.

The government has a priority in *improving social and health services*, which will be implemented by employing the health insurance fund. This priority aims to strengthen the social protection system and social services by defining a sustainable system for financing social services and the establishment and implementation of the health insurance fund.

### 1.3.2 Good governance and the rule of law

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Budget Sector holder: **Justice, Corporate Governance**

with accompanying sectors: **Public Finances**

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The Government of republic of Kosovo is committed to establish a functioning market economy and this requires legal assurance and effective institutions in the rule of law and provision of services. Our plans for building-up an efficient and effective state thus is associated in general with our social and economic reform program, referring to the NDS priorities and strategic framework for Public Administration Reform as follows:

Based on the financial agreement within IPA 2016, respectively, the agreed indicators with the European Commission on the public administration reform, the Government of Kosovo will focus on improving the planning system, by strengthening linkage between policy and financial planning, improving public consultation and *simplification of legislation and regulatory system*. In order to enhance public administration efficiency, we will work on strengthening the system for the implementation of the ethics and integrity principles in public administration, including the adoption of a new law on salaries in order to establish a single legal framework for salary system. We will also work on the rationalization of public administration, improving accountability lines, in particular by implementing the recommendations for reviewing independent agencies and central administration bodies.

It will continue to *further improve the delivery of services to citizens and businesses* by creating an integrated information system for public administration services. Further on, it will work on *reducing administrative barriers for permits and licenses*, focusing on reviewing and harmonising administrative procedures in line with the law on general administrative procedures. This will be followed by putting in place a program for simplification, merging or abolition of permits and licenses, at the same time focusing on other reforms to improve Kosovo's ranking in the World Bank report of Doing Business.

In order to increase *the efficiency of the inspection system*, with the support of development partners we will work on the adoption of a harmonised law concerning inspections which will lay the foundation of a risk-based inspection approach and the establishment of a coordination

**ERP is directly linked to this pillar through these measures:**

- Improving public procurement by applying e-procurement;
- Developing policies based on data
- Ensuring property rights by addressing informality in the immovable property sector;
- Increased judicial efficiency by reducing backlog cases
- Establishing a single agency for revenue collection.

**NPISAA priorities:**

Reform of the civil service including: re-organization of ministries and their subordinate bodies, finalising the process of job classification, the implementation of the new salary and grading system.

Supporting the implementation of the legal framework for the fundamental rights

Capacity development of the statistical system, especially some key sectoral statistics for policy-making;

Development and implementation of policies that affect the improvement of the business environment

The establishment and improvement of the institutional and professional capacity by increasing the number of judges, prosecutors and professional associates

Advancing property rights sector, through the effective implementation of the strategic framework for this sector.

Continued support of migration policy, including the implementation of sustainable reintegration policies.

Combating the informal economy through the systematic implementation of the Strategy for the Prevention and Combating Informal Economy

mechanism between inspection bodies in order to ensure better coordination of inspection procedures and an effective system of supervision. This will be based on an assessment of all inspections, followed by the elimination of unnecessary activities or merging the inspection activities where possible.

The Government will implement *e-procurement system in order to enhance transparency* and close the gap for corrupt practices in the public procurement system. It will also continue strengthening policies for combating corruption by improving legislation and implementing strategic framework. By implementing the Strategy for the Reform of Public Financial Management, the Government aims to provide *a modern system of Public Financial Management*, in line with the best international standards and practices. It also includes, the establishment of the single agency for the collection of revenues that will enable more effective management, lower operating costs, reduced level of informality and favouring formal businesses.

*By implementing the strategic framework for property rights*, the Government intends to undertake a series of reforms to improve property rights. These reforms include legislative changes aiming to clearly define the rights and conditions for marketable property, promoting the land market that enables economic growth, strengthening the capacity and role of courts on recognizing, defining and strengthening property rights. Further on, reforms will focus on ensuring the protection of the property rights for respective members of minority communities, as well as guaranteeing and strengthening property rights for women.

Further on, in this respect, we will work on *improving the efficiency of the judiciary* in handling economic disputes, by handling the capacity of the judicial system in order to reduce the backlog cases. This will also include the establishment of a Case Management System in the entire judicial system and strengthening the capacity of the Department for Economic and Fiscal Administrative Division within Prishtina Basic Court.

### 1.3.3 Competitive Industries

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Budget Sector holder: **infrastructure and competitiveness**

With accompanying sectors: **Agriculture**

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This will be followed by implementing reforms to ensure a favourable environment for doing business, with particular emphasis on improving access to finance. Over the medium term, the main focus of the government policy will be:

*Improving access to finance for Kosovo enterprises* through the Kosovo Fund for Credit Guarantee. This includes the expansion of credit guarantee and improving information on business credit history of individuals and businesses by enabling access to finance and low interest rates. It will work on the integrating database of credit registry system from tax administration, public companies and the business register, in order to improve information through which the credit risk will be evaluated. With regard to industrial policy we will continue to *support the development of industrial groups* (industrial clusters),

**ERP is directly linked to this pillar through the following measures:**  
consolidation of agricultural lands;  
development of industrial clusters;  
improving access to finance;  
**ERP strengthens this area through:**  
the development of the tourism sector; research and innovation; Cost efficiency in foreign trade and infrastructure quality

which will help strengthen the ties between industries, create new enterprises on the old ones, and innovation in liaison with research.

***Improving the quality standards and the transition to activities with higher added value***, which will help businesses to produce more sophisticated and more expensive products, suitable for export, increasing the income for their own people as well as for economy. In this regard, during the next period we will work on further development of the quality infrastructure aligning legislation with the EU Acquis and its implementation as a basis for strengthening coordinated inter-institutional system.

***Promotion of foreign direct investment*** remains a high priority for the country, for which the main focus over the medium term will be on capacity building and improving the internal organization of the portfolio for the Agency of Investment Promotion and Support of Enterprise to allow improve its work to promote and support investment, development of private sector and SMEs. Further on, it will work in supporting strategic investors by finalising the legal framework for strategic investments. ***Supporting and protecting investors from diaspora*** will also be a high priority in the medium term, increasing cooperation with the diaspora business networks and including them within the current support schemes.

***Resolving the issue of fragmented agricultural land or agricultural land consolidation***, which will result in an increase in the average size of farms and plot surface, and increasing agricultural productivity due to economies of scale. This will include the preparation and financing of land consolidation project and integration into regional development projects and undertaking structural reforms in order to create the best conditions for increasing agricultural productivity.

***Exploitation of the country's mineral potential*** in the economic development will be addressed through the establishment of institutional modalities to support the new strategic projects in the mining sector. In particular this priority will be supported by developing and implementing the management plan for Kosovo's mineral resources, the support of geological and mining research programs. In order to ***complete the revitalization of Trepca***, based on the feasibility analysis and for implementing the law on Trepca we will work on drafting and adoption of relevant regulations. On the other hand, this will be followed by regulating issues on assets and volatile businesses for revitalization, the definition of the business units of Trepca and support the further growth of business / industrial production of Trepca.

**NPISAA priorities:**

Implementation of the food safety standards by centralising of food safety services  
Development of quality infrastructure and market surveillance, including strengthening of human resources and investment in infrastructure quality, meeting the safety requirements of products and development of product standards;  
Increasing research capacities within the Competition Authority, functionality and capacity for the implementation of state aid policy.  
The implementation of competition policy and state aid are in line with EU rules. Based on these rules, Kosovo needs to implement EU trade policy that does not prevent, restrict and distort competition including state aid as well.

***Good governance and corporate performance***

***satisfactory with state shares*** - This is done to increase the effectiveness and contribution of state-owned enterprises in the economy, increasing their value and increasing revenues to the state budget. This priority mainly involves legislative changes, namely amending the law on on publicly owned enterprises and relevant bylaws.



### 1.3.4 Infrastructure

Budget Sector holder: **Infrastructure And Competitiveness**

With accompanying sectors: **Environment, Agriculture**

The Government is committed to provide public infrastructure needed for the development of competitiveness and creating jobs. Public investments will be based on individual priority public investment projects, in particular on the basis of a report on the implementation of the investment clause, based on the priority list of infrastructure projects. We should highlight the prioritization of implementing all “soft measures” within the connectivity agenda and related policy reforms on transport and energy. For this priority area, focus will be on the following priorities:

***Security in supplying with electricity*** will be addressed by rehabilitating Kosovo B outdated capacities, finalising the agreement with the investor and starting to construct new generating capacities, Kosovo e RE and decommissioning of Thermal Power Plant Kosovo A also includes implementation of structural reforms in KEK, or legal separation of generation from mining activities and opening of new coal mine in order to increase the security of supply with coal production capacities. At the same time, ***putting in place an open and competitive electricity market*** as a priority aims at integrating the energy market to the regional market, in line with the commitments of the Berlin process with the EU directives, including also the functioning of the transmission line 400 kV between Kosovo and Albania, to enable the single market in the energy sector.

**PRE is linked, directly to this pillar through measures:** reducing energy consumption through efficiency measures; New generating capacities; expansion of the ICT network infrastructure; The agriculture infrastructure for agro-processing

***Reduction of energy consumption through efficiency measures*** will continue to be supported by legislative changes to establish modalities for the establishment of mechanisms for financing energy efficiency and environmental measures in the public sector and housing and the promotion of comprehensive use of existing initiatives as the Regional Program on Energy Efficiency. Further on, the Government will continue implementing the measures of energy efficiency in the public sector in order to reduce energy by increasing the heating network in Prishtina as well as construction of new central heating in Gjakova aiming at achieving the savings targets energy from 9% in 2018 - the implementation of these measures includes support through development partners, namely financing by borrowing from the World Bank and the German Government through KfW.

***Rational use of renewable energy sources***, will be implemented by adopting regulations on feed-in tariffs for all types of renewable sources and revision of laws for the energy sector - renewable resources. The establishment of a single contact point (one-stop-shop) for renewable energy sources aimed at improving services for this sector, with the aim of implementing projects aimed at increasing generating capacity. This will enable the fulfilment of international commitments and would contribute to energy security in the country, and thus improving business climate, increasing investment and economic growth.

**NPISAA priorities:**

The establishment and improvement of the institutional and professional capacities, as well as capital investments in undertaking measures on environment protection and energy efficiency.

Building the professional and technical capacities of the Agency for Air Navigation Services, among others closely related to the process of normalization of lower airspace and preparations for the takeover of the upper airspace from Hungracontrol, namely the provision of air navigation services by AANS.

The Government of the Republic of Kosovo remains committed to further *improve the road and railway infrastructure*, focusing on the completion of major international axes, routes R6 and R7 and regional road M9, M2 as well as international railway lines, Route 10 to enable faster and cheaper movement of people and goods, reducing costs and distances of people and goods transport inside and outside Kosovo. This will facilitate the placement of business goods in local and international markets, and the modernization of international railway network will help the export sector of mineral and agricultural commodities.

Further on, *the expansion of information technology infrastructure* will make operational costs to reduce which would allow increased investment and increased innovation. This measure aims at the establishment of the National IT Council, supporting Kosovar businesses in the IT field (through the Fund for Employment and Development) to export services abroad and other businesses to advance business processes through the use of IT. The Government of Kosovo also aims to adopt relevant international standards of ICT for public institutions and businesses; implementation of the Program for Digital Economy of Kosovo - CODES (through the plan for ICT Development and Employment Fund).

*Improving agricultural infrastructure in function of agribusiness*, will focus on continuing support to the expansion of coverage for irrigation system, also including the negotiation of agreements with development partners to invest in this area. Further on, it will continue to support the expansion of farms and increasing the processing capacity of the food industry, increase of investment in the number of landfills and storage in the main regions of Kosovo, including public-private partnerships.

*Rational use and increasing the 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 the purpose of preserving water resources and their rational use, will initially work on the executing feasibility studies for possible locations for the construction of surface water accumulation.

*Use and sustainable management of forests in Kosovo* aimed at reforestation of degraded areas and forest recovery damaged by fires causing effects on the ecosystem, and better organization of wood market and mountain wastes that enables the development of wood industry in Kosovo. *The sustainable management of waste* means that waste of consumption do not harm the environment and return for industrial production, while generating employment and cost reductions for manufacturing industries.

### **1.3.5 European integration, foreign policy and security issues**

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Budget Sector holder: **International cooperation**

with accompanying sectors: **Defense and Public Security**

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European integration, foreign policy and national security remains the top priority of the country. In fact, the Government's approach in relation to these priorities determine the long-term vision of the Republic of Kosovo for integration into Euro-Atlantic structures.

*The Stabilization and Association Agreement (SAA) between the Republic of Kosovo and the European Union (EU)*, which entered into force on April 1, 2016, is contractually binding framework for Kosovo's EU accession process, which in the first place provides the gradual establishment of a free trade zone with the EU, based on a free market economy, within which the Kosovo market will be able to cope with competitive pressure and forces of the EU internal market. It also requires the

operation of the rule of law and strengthening of political stability with emphasis on functional institutions that would be democratic, representative and effective, in order to be able to take over the obligations of the *acquis* throughout all its 35 chapters.

Therefore, the implementation of the SAA and other obligations of the European integration process constitutes one of the pillars of the 2014-2018 Government Program, and whereby the Government also determined it as a national strategic goal within the next year (2018) to apply for candidate status for membership. In this new context, which requires dynamism of reforms and much greater political commitment in this regard, implementation of SAA takes place within three legal and planning frameworks: SAA itself, the Program for the Implementation of the SAA ( NPISAA) and European Reform Agenda (ERA).

The fulfilment of SAA obligations requires the implementation of a large number of profound legal, political, economic and institutional reforms, with priority in the highlighted sections below. Considering the implications of these reforms, the fulfilment of SAA obligations in these areas requires capacity building, including budgetary ones, the responsible institutions, so that the contractual obligations of the SAA are met in a timely and proper manner. Considering the importance of the three frameworks of planning and decision-making structures that work with them in the context of the European integration process, as part of the regular review of NPI in 2016, it is decided on identifying medium-term priorities for financing Medium Term Expenditure Framework (MTEF) and the state budget reforms required to fulfil SAA obligations. In addition, given the shortcomings so far in the implementation of NPI SAA and the ERA, there is a need for better reorientation of medium-term state budget planning , through the MTEF, in order to continuously ensure the allocation of budget sufficiently to fulfil the SAA obligations and other obligations of the European integration process, based on prioritization that constantly comes from planning and institutional frameworks of this process. Consequently, ***the priority areas for financing under the SAA***, which are broken down in the National Program for the Implementation of the SAA and the European Reform Agenda, include the following chapters:

1. Chapter 1 of *Acquis* : Free Movement of Goods;
2. Chapter 3 of *Acquis* : Right of establishment and freedom to provide services;
3. Chapter 5 of *Acquis* : public procurement;
4. Chapter 6 of *Acquis* Company Law;
5. Chapter 7 of *Acquis* : Intellectual Property;
6. Chapter 8 of *Acquis* : Competition policy;
7. Chapter 12 of *Acquis* : The food security, veterinary and phytosanitary policy;;
8. Chapter 23 of *Acquis* : Judiciary and fundamental rights; and
9. Chapter 24 of *Acquis* : Justice, Freedom and security

***All these chapters are linked to priorities expressed through four above-mentioned areas, and two planning frameworks complement each other*** by contributing to economic development and fulfilment of criteria for membership into the European Union.

Based on the Strategic Review of the Security Sector, the Government of Kosovo will focus on the ***implementation of reforms related to the establishment of the Kosovo Armed Forces*** with mission of safeguarding the country's territorial integrity, providing military support to civilian authorities when natural disasters happen and participation in peacekeeping operations. This also includes the transition



of the Ministry of KSF into the Ministry of Defence with the responsibility of providing supervisions and guidelines for the new Kosovo Armed Forces.

Further on, we will continue with ***high priority and that is recognition of Kosovo's international subjectivity***, including the increase in the number of recognitions, reaching bilateral agreements with different countries, membership into initiatives and organization based on a cautious prioritization.

### **Prioritising in the medium term budget process**

Të gjitha iniciativat e reja duhet të inkorporohen brenda kufijve ekzistues buxhetor. In the medium-term budget planning preparation this Declaration of Medium-Term Priorities serves to provide orientation to new financing initiatives in general and the distribution of fiscal space (expenses allowed under revenue forecasts and budget deficit allowed under the fiscal rule). All new initiatives should be incorporated within the existing budgetary ceilings.

The linkage between priority areas and budget planning is done in accordance with the relevant budgetary sectors where the burden to implement priority areas falls. As a result, in case of eventual expansion or narrowing of fiscal space during the next medium term, priority should be given to the budget following sectors:

1. Infrastructure and competitiveness
2. Education
3. Justice/General Governance
4. International Cooperation

## SECOND PART

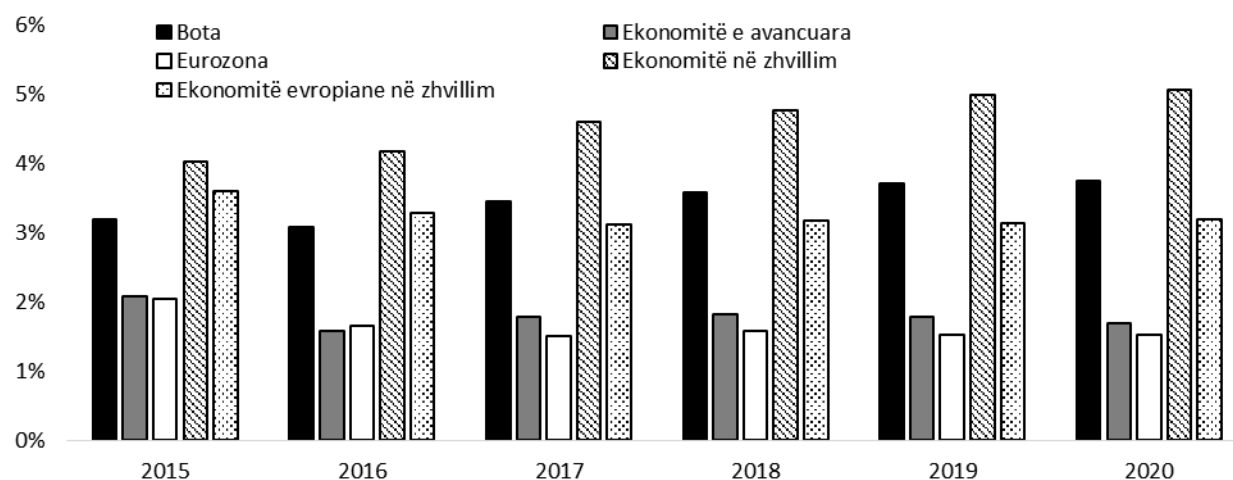
### 2. MACRO-FISCAL FRAMEWORK

#### 2.1 External Economic Environment

Economic growth in recent years failed to meet expectations as in the economies of the developed countries or the developing ones. The **global economy** in 2016 grew by 3.1%, which is almost equal to the growth rate of 2015. Developed countries in 2016 had an increase of 1.6% rate which is lower compared with the previous year (2.1%). Developing countries held the same growth rate as in 2015, of 4.1%, with significant differences between countries.

In many developed countries affected by the global financial crisis, GDP and investments are above the level they had been before the crisis, but still below the trend that had before the crisis. Among developed countries it is worth noting that the US during the first half of 2016 had a very poor economic growth, while in the second half of the year we saw a sound increase, where the economy is close to an full employment measure.

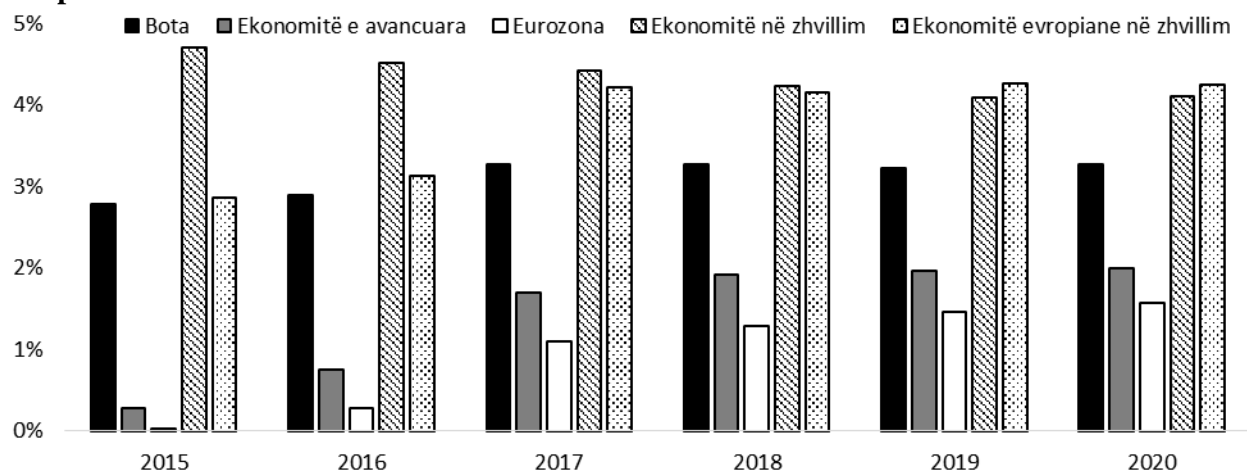
**Graph 1. Economic growth in major groups of states**



Source: 'IMF WEO October Database'

Developing countries had a higher growth than projected, where China could be singled out, whereas in 2016 managed to get economic rebalancing which was missing for years, achieved with the continued support of political factor. Even India's economy continued to have robust growth benefiting from improvements in the conditions of trade. It is worth mentioning that after more than four years of deflation, price inflation was noticed in China in 2016. With strong infrastructure and investments in immovable property, as well as expectations for the fiscal facilities in the US, base metal prices have risen again. Real and nominal interest rates have experienced a significant increase since August, especially in the UK and the US (BREXIT and the US elections). Forecasts show that during 2017 and 2018 the global economy will grow by 3.4% and 3.6% respectively.

**Graph 2. Inflation**



Source: 'IMF WEO October Database'

Graph 1 shows significant differences between inflation rates that occurred during 2015 and 2016 between groups of different countries. This difference is projected to fade gradually going right to the end of the next medium-term period, where advanced economies (and the Eurozone) is estimated to see the inflation rate around 2%.

The **European economy** has withstood the challenges of the past year, supported by factors such as sustainable growth, creation of new jobs, an accommodative monetary policy, lowering the prices of goods as well as improving labor market conditions. Nonetheless, last year brought unusual security problems which have deviated positive trajectory achieved before 2016. Weakened world trade, terrorist attacks in some member states and those in the region, voting in UK to exit EU, a quite severe campaign in the United States of America, are just some of the concerns the world faced.

Unemployment is projected to fall to 9.1% in 2018 (from 9.6% in 2016 in the Eurozone), which also represents the lowest rate since May 2009, which is mainly due to ongoing economic expansion. According to European Commission authorities, oil prices are expected to be the main driver of growth in inflation which is expected to be 1.7% in 2017 and 1.8% in 2018. The overall government deficit in the Eurozone is expected to fall from 1.7% of GDP for 2016 in 1.4% for 2017 and, under the assumption that there will not be any changes in policy, it will remain to 1.4% in 2018. This decline is due to the reduction in expenses (as a percentage of GDP) in social transfers, mainly as a result of the economic recovery and reducing unemployment. After an economic growth of 1.7% of GDP in the Eurozone this year, this rate is expected to be 1.6% and around 1.8%<sup>1</sup> in 2018. Private consumption remains the main source of this growth, while investments remain scarce; as a percentage of GDP they represent 1.8 percentage points (lower than the average of the early period of 2000) thus being a major cause for the slow pace of economic growth. Projections for increased investment in the Eurozone are 2.9% in 2017 and 3.4% in 2018.

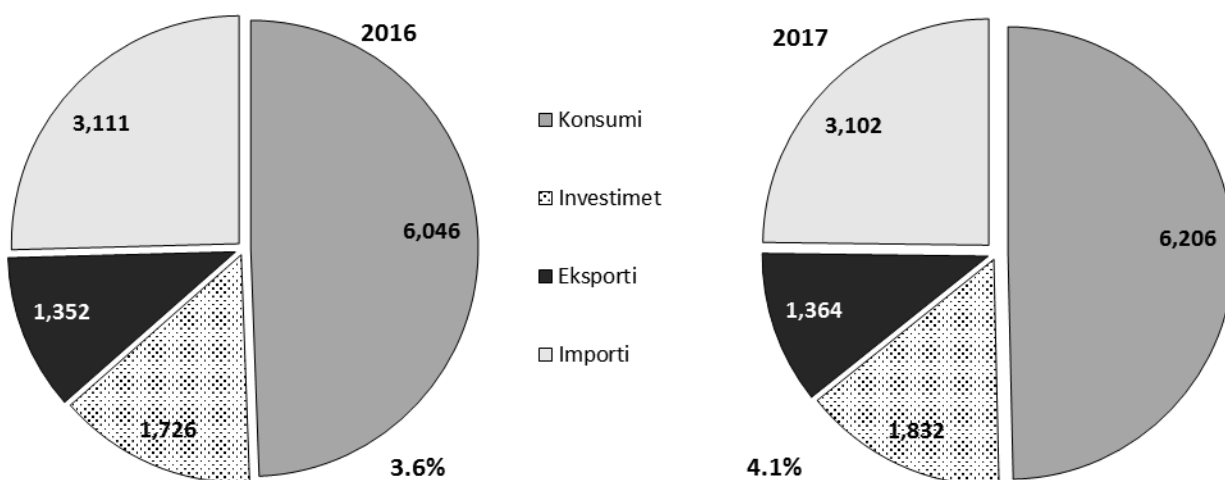
<sup>1</sup> The European Commission's expectations differ from those indicated in the corresponding graphs sourced from IMF; EC estimates that the economy in the eurozone will grow at higher rates than the estimates of the IMF for around 0.1 and 0.2 percentage points, whereas with 0.6 and 0.5 points difference percentage in inflation rates for 2017 and 2018 respectively

## 2.2 Recent Economic Developments in Kosovo

Kosovo's economy in 2016 grew compared with the previous year, where consumption and imports continue to be the main drivers of GDP growth. Investments also rose, driven mainly by increased public investment. Exports also increased in 2016, strongly supported by increased services export<sup>2</sup>.

The economic growth rate in 2015 resulted to be 4.1%,. A basic already higher in 2015 makes that the real growth rate for 2016 is estimated at 3.6%, i.e. a rate below that of 2015 but quite high compared with countries in the region in this period.

**Graph 3. Contribution of components to the real growth of GDP**



Source: KAS and estimates of Macroeconomic Unit

Graph 3 shows the GDP structure for 2016 and 2017, from which we see that consumption continues to be the component with the largest impact on GDP. It is estimated that in 2017 consumption will record 6.2 billion euros, to be followed by imports of nearly 3 billion euros, similar to the previous year.

**Consumption** growth is projected to be driven by private consumption, an estimate that takes into account the continuous growth of loans (consumer) this year, supported by the fall in interest rates on loans during this period. During 2016 there was an increase by 16% in the stock of household loans compared with the previous year, marking 796 million euros at the end of 2016, a trend that household loans continue to hold during the first months of 2017. New consumer households loans show similar growth trend, from 18% in 2016 compared with the previous one.

**Investments** are expected to record significant growth driven by the increase in public investment. 2016 was the year during which the Investment clause<sup>3</sup> was introduced, which in combination with funds exempted from PAK liquidation process, estimated to exercise significant influence on the growth of public investment. Spending funds from these sources exclusively relate to capital projects, initiatives undertaken to address the development obstacles that Kosovo faces, while maintaining a sound public finance position. It is planned that the execution of projects related to these funds starts

<sup>2</sup> Duhet permendur avancimi i metodologjise se BQK per regjistrimin e pagesave ne fund te 2016-ites, qe solli disa ndryshime ne strukture te perberesve te Bilancit te Pagesave ku rritje e theksuar u pa tek eksporti i sherbimeve, nderkaq jane ulur remitancat (te cilat rezultuan te mbivleresuara lehte ne te kaluaren)

<sup>3</sup> Më shumë detaje ofrohen në KASH 2017-2019 dhe Buxhet 2017-2019

manifesting in more restrained manner in 2017, to expand in the next mid-term period. Regarding private investment, if we look at the destination of total loans in the Kosovo economy of 1.4 billion million<sup>4</sup> in total as it was at the end of 2016 (an increase of 5.7% compared with the previous year), most loans were granted for the service sector, out of which the most in ‘wholesale and retail trade’, thus following the current trends.

The year 2016 experienced a decline in the **export** of goods compared with the previous year, mainly because of the aggravated situation for operation of Ferronickel began to improve only going by the end of the year. However, it should be noted that this decline was significantly compensated by increased exports of services resulting in an increase in total exports in nominal terms compared with the previous year. Given these developments, total export in 2017 is expected to increase, although the basis of this component as a contributor to GDP growth continues to remain relatively low.

Inflation is estimated to reach in 2017; about 1.5% compared with 0.3% as recorded in 2016. Remember that inflation is expected to be between 1.6% and 1.7% in Europe this year. This reflects movements in global food prices (which determine most of the price fluctuations in Kosovo), as well as fuel.

Given what has been said above, it is estimated that real GDP growth for 2017 will be 4.1%, driven by consumption and imports, and with an impact of ongoing increase within the investment component.

Estimates for 2017 take into account the impact of legislative changes in the tax system that aims to encourage local production by providing incentives for businesses. These changes are more a manifestation of the continuity of the initiative launched in 2015 and are the direct answer to lowering the barriers to Kosovo businesses, reflecting this continuous cooperation with chambers of commerce, associations and businesses. We are dealing with the expansion of exemptions for production lines, exemption for inputs in the production process, exemptions in IT equipment, expansion of the VAT scheme of 8% in culture, art, sport, tourism, etc. More details regarding this fiscal packages are provided in Box 1. Experience with tax changes initiated in 2015 has shown that economic agents need time to exploit the full potential provided by changes made in the tax system, therefore a conservative influence of these changes is projected in 2017, to be extended from 2018 onwards.

## **2.3 Medium Term Macroeconomic Perspective**

### ***Real Sector***

Even for the period 2018-2020 the main macroeconomic indicators projected to show that the increase in GDP was driven largely by the same drivers (private consumption, imports), but this time it is worth mentioning the increase of impact of the investment component in GDP growth.

The instrumentalisation of ‘Investments clause’ and funds exempted from the PAK liquidation process increased projections for capital expenditures (related to development projects), thus affecting the substantial growth of the investment component of GDP. The trade deficit remains a challenge for Kosovo’s economy, therefore the government has initiated several tax changes to encourage local production and export diversification that are included, to a certain extent, in the projections for the GDP growth.

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<sup>4</sup> ‘Loans of ODC according to the activity’, CBK

The high level of consumption in GDP consists mainly from the private, supported by remittances and increased consumer loans (as a result of lower rates on loans). On the other hand, due to a more cautious approach to government spending and the recent saving measures undertaken over the years, public consumption is not considered to be characterised by a significant increase in the near future. Private consumption is expected to be the main driver of total consumption, with the latter expected to grow by 3.4% in real terms and contribute 3.3 percentage points in the projected growth of GDP on average over the period 2018-2020.

‘Investment clause’, already in force is expected to show the first results during the second half of 2017. There are several projects whose execution is expected to begin this year, although at more restrained extent being that it is the first year this initiative is applied. Greater effects are expected to be transmitted over the next mid-term period, which can be of added or slow intensity, depending on the stage of n projects’ negotiation. In addition to the funds provided by Clause projects (around 100 million euros per year), a similar effect will also have the use of the exempted funds from the PAK liquidation, which go to the state budget and intended exclusively for capital projects , according to the legal criteria for their use<sup>5</sup>.

#### **Box 1. Fiscal Package 2.0**

In the absence of monetary policy as a result of using Euro as an official currency, fiscal policies remain the only tool available to policy-makers to create investment incentives in the private sector. In this context, the process of tax changes in line with the government program, the Government of Kosovo will continue with the implementation and maintenance of this tax simplicity focusing on designing fiscal policies oriented towards promoting investment and domestic production and also towards establishing an attractive environment for foreign investments.

As the only tool of influence in the economy, the objective of changes in fiscal policies have to guarantee macro-fiscal stability and at the same time within this space create support and incentives for private sector activities. In this context, the Ministry of Finance designed the second fiscal reform which same as the first fiscal reform in 2015 - is built on the basis of dialogue with the business community. However, unlike the first fiscal reform, the second fiscal package contains a number of broader measures and therefore aims at providing cross-sectional fiscal incentives. Specifically, the second fiscal package contains:

- **Exemption from customs duties for all products considered as raw materials for production.** As a continuation of the policy-making efforts to increase domestic production which will reflect on import substitution, thus narrowing the trade deficit as well as creating new jobs, all products considered as raw material for production are foreseen to be exempted from customs duties. Through this measure is intended to meet the exemptions cycle for the product where after the exemption of the production line (the first fiscal package) with the exemption of raw materials, manufacturing enterprises are allowed to have a much higher liquidity which is expected to reflect in expansion of their investment activity and consequently, increasing the overall economic activity in the country.
- **Abolition of the excise rate on heavy fuel oil for manufacturing enterprises.** As a result of

<sup>5</sup> Law on Public Financial Management and Accountability

the difficulties shown by manufacturing enterprises from the excise on heavy fuel oil, the second fiscal package foresees to allow the import of heavy fuel oil by manufacturing enterprises without excise tax<sup>6</sup>. Through this measure is intended that through fiscal policy to affect directly to increasing the liquidity of manufacturing enterprises and eliminate bureaucratic procedures.

- **Amending/supplementing the list of products subject to the reduced rate of VAT.** Following the legal amendments in the law on VAT which has allowed the differentiation of rate VAT (through first fiscal package) aimed at a more equitable distribution of income, the second fiscal package foresees the expansion of the list of products/services which will be subject to reduced rate (8%) of VAT. Lowering the rate of VAT for certain products and services is expected to result in increasing the competitiveness of targeted sectors and increase the consumption of those products/services as a result of the price decrease due to the reduction of VAT. Similarly, all this is expected to further contribute to the formalization of profitable products/services. List of additional products/services expected to undergo a reduced rate is expected to include and not limited to products/services of a cultural, sports and tourism character.
- **The implementation of the legal framework regulating the provision of tax holidays for special interest sector.** In line with the Government program, the second fiscal package also contains a mechanism which provides tax holidays for a certain period of time for individual sectors, the beneficiaries of which will vest on the basis of their investment and number of employees. Offering incentives for tax exemptions is intended to serve as an incentive to increase private investment and opening of new jobs. Based on the development potential for sectors in the local economy, it is estimated that the beneficiary sectors of the tax exemption scheme may be agriculture (agro-processing), tourism and information technology (IT) sector.

Furthermore, the second fiscal package also contains a number of other measures in various administrative regulations and incentives that are expected to contribute to the formalisation of the different sectors and provide support to businesses. Specifically it is foreseen:

- Producing necessary legislative acts for the specific identification requirements, inspection and marking of flour which is placed in free circulation in the market of the Republic of Kosovo.
- Producing necessary legislative acts for certain conditions under which losses from deterioration, evaporation or loss of weight of oil and its product are recognised and examination of the possibility of recognising weight loss for other products.
- Creating new customs codes for some products, according to EU practices.
- Creating a list of companies' rating.

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<sup>6</sup> By decision of the Government of the Republic of Kosovo, dated 24.03.2015 an excise rates of 0.25 euros / liter for heating oil (heavy fuel oil). Also, under Article 7 of that decision, companies which use these goods in the production process can apply for a refund (return) of payment of excise duty.

- Licenses- creating a transparency portal.
- Advancement of fiscalization system by applying a new platform of Information Technology, with the aim of further upgrade of the system and creating a more solid basis to ensure equal conditions for doing business.
- Amendment of the Law on Games of Chance.
- Producing procedures for issuing authorization for local producers, who can take advantage of discounts for all inputs and machinery used in the production process.
- Amending/Supplementing of the Law for the Corporate Income Tax and the Law on Personal Income to address: i) the taxation of insurance companies and ii) review of tax withheld at source for collectors of agricultural products.
- Amending/Supplementing of the Law on VAT to address the form of i) taxation on international passenger road transport activities and ii) handling of special schemes for investment gold.
- Treatment on mobile phones import
- Regulation of on-line sales market.
- Reducing the excise tax on carbonated and non-carbonated drinks.
- Treatment of imported manufacturing equipment in partial form.
- The necessary legislative changes to the regulation of excise duty on ethyl alcohol for use in medicine.
- Treatment of samples in case of clearance.
- Producing an Administrative Instruction on Special scheme for investment gold
- Maintaining fair competition by examining potential monopolies in the market

These two initiatives (in addition to the regular budget designated for Capital Expenditures) is understandable that will significantly exceed the impact of private investment, especially when we are dealing with a low base such as Kosovo's GDP. However, private investment is expected to increase moderately based on the current trend, which along with public investment will lead to a real increase of 6.1% of the total investment component over the next mid-term period; a contribution of 2 percentage points to real growth of GDP on average for this period.

A persistent problem of Kosovo's economy is the high share of consumer products in the import in Kosovo. The government is making continuous efforts to help local manufacturers to expand their lines, increase production, stimulate exports, especially considering that the following period is of particular importance due to SAA<sup>7</sup> implementation. Tax incentives that the Ministry of Finance has developed in cooperation with chambers and business associations have the final aim of establishing

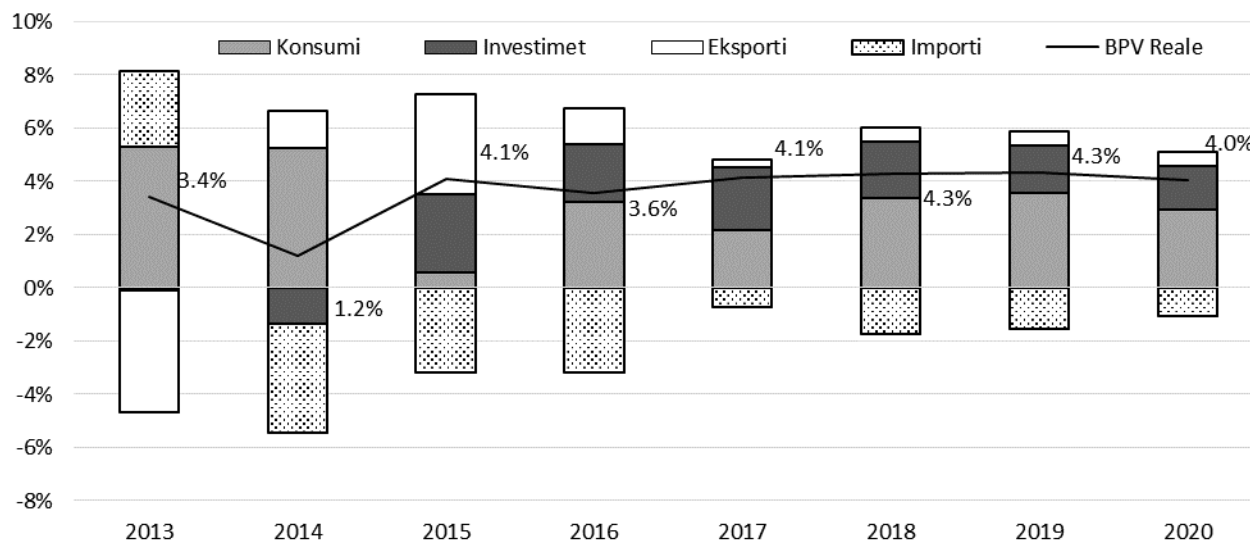
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<sup>7</sup>The Stabilization Association Agreements has one of the goals of which is the reduction / removal of tax barriers to trade (customs duties) in order to create a common market with the EU.



competitiveness of the country so that Kosovo can utilise the potentials of the SAA, and minimize the negative impact (decline of revenues from customs duties) brought by this agreement. Negative trade balance continues to be a challenge for Kosovo's economy. 2016 experienced a decline in exports of goods, due to difficulties in operation for 'Ferronickel'<sup>8</sup> as a result of fall in global metal prices (we would like to remind you that metals make up more than half of export).

**Graph 4. Share of component in the growth of GDP**



Source: KAS and forecasts of Macroeconomic unit

Stories like the one of Ferronickel during the period 2015-2016 clearly illustrate the need for import substitution and export diversification of Kosovo, for which the Government is always engaged in, with the help of the business community. However, we are dealing with changes which need time. Given the inclusion in the European market as part of our integration agenda, Kosovo products should be subject to the highest standards of quality, while of the European product placement in our market is expected to grow. Such a context requires prudent projection in growth of total exports, which is expected to grow by 2.5% on average for the period 2018-2020.

Imports continue to maintain the current trends, which is projected to grow by about 3% on average in real terms for the next period, whereas it will contribute -1.5 percentage points to the growth of GDP. This category as usually is dominated by imported goods, while import of services is estimated to maintain levels similar to current ones.

The end of 2016 and beginning of 2017 in Kosovo experienced drastic changes in the price level. While most of the 2016 held almost neutral level, only the last three months increased the rate of inflation for 2016 at 0.3%. Judging by the first months of 2017, but also looking at the projections for global inflation in particular the EU, expected inflation for the medium term future in Kosovo will record 1.0% on average.

## 2.4 Fiscal Framework

<sup>8</sup> More details on the situation of the metals market 2015-2016 period and impact on the Ferronickel operation are provided in the MTEF 2017-2019 and 2017-2019 Budget

Positive economic developments in recent years in the country have demonstrated that the actions taken in fiscal policy have had positive effects, also resulting in a steady increase in overall revenues. Therefore, in addition to fiscal reforms undertaken in order to stimulate domestic production and increase the country's competitiveness, the Government of Kosovo is also focused on the continued preservation of macroeconomic stability.

The Government of Kosovo is committed to maintain a sound system of public financial management. In this context, the Strategy for Public Financial Management 2016-2020 is designed, which aims to advance the projection capacities of macroeconomic indicators and the overall revenues, strengthening and promoting budgeting and execution process, improve the procurement process and strengthen control processes. The concerning strategy is focused on four main pillars (with 12 priorities), listed below:

- Fiscal Discipline
- Allocative efficiency
- Operational Efficiency
- Issues related to the Public Financial Management

Under the first pillar which relates to fiscal discipline, in projecting revenues and expenditures for strategic purposes, the Government of Kosovo continues to rely upon fiscal rule defined by the LPFMA, with the purpose of orienting the public debt towards a trajectory below the limit foreseen by law (40% of GDP).

22-month Stand-By Arrangement (SBA) Program negotiated with the IMF for financial support in the amount of 184 million euros started in 2015 is being successfully finalised in 2017 with the collection of the latest tranche of financial support from the IMF amounting around 100 million euros.

Under this program, considering the high structural obstacles Kosovar economy is facing, the Government of Kosovo has amended LPFMA to operationalize the investment clause for the purpose of providing opportunities for investment in infrastructure projects with development character through agreements with IFIs and other donor partners such as: the World Bank, KfW, EBRD, the Austrian government, the Government of France, Hungary, etc. The concerning projects directly derive from key strategic documents of the Government such as the National Development Strategy and Economic Reform Program.

The Government has also introduced the salary rule based on law, a mechanism which limits the increase of salaries within public sector with the increase of the nominal GDP, which is aimed at better linking the increase of salaries in public sector with productivity in economics. The Government has finalised the reform activities related to the implementation of centralized procurement and e-procurement, a very important step in the context of enhancing efficiency and transparency.

The actions taken so far on reforming the fiscal policy and expenditure budgets have proved to be productive given that over the last two years, Kosovo has not exceeded the fiscal rule limit of 2%, which demonstrates a prudent revenue and expenditure projection policy. This model of public financial management is expected to continue further in line with Government promises to sustainable economic growth and domestic productivity growth.

## 2.4.1 Government Revenues and Expenditures

### 2.4.1.1 Projections of budget revenues for 2018-2020

Overall budget revenues for 2018-2020 are expected to increase at a rate of about 9% on average, to reach a value of 2,257 million euros at the end of the period. This increase mainly results from an increase in tax revenues, which follow the projected trend of economic growth, but also reflect the impact of measures on revenues (changes in tax legislation) undertaken over the years as well as narrowing the tax gap. These projections include the effects of factors such as the full effect of the reforms from fiscal packages, customs exemptions, excise, administrative instructions affecting the tax system, and the SAA Agreement.

**Table 1. Structure of budget revenues, in millions of euros**

Description	2016	2017 Budget	2018 Proj.	2019 Proj.	2020 Proj.
<b>1. TOTAL REVENUES</b>	<b>1,608</b>	<b>1,725</b>	<b>1,898</b>	<b>2,067</b>	<b>2,257</b>
<b>1.1 TAX REVENUES</b>	<b>1,421</b>	<b>1,512</b>	<b>1,676</b>	<b>1,843</b>	<b>2,029</b>
<b>Direct taxes</b>	<b>232</b>	<b>253</b>	<b>358</b>	<b>453</b>	<b>551</b>
Tax Debts		2	1	1	1
Taxes on corporate income	81	84	136	181	227
Taxes on personal income	124	135	184	232	280
Property tax	25	25	30	33	36
out of which: land tax			0	3	3
Other direct taxes	2	7	7	7	7
<b>Indirect taxes</b>	<b>1,227</b>	<b>1,303</b>	<b>1,373</b>	<b>1,449</b>	<b>1,539</b>
Tax debts		11	5	5	5
Value added Tax (VAT)	694	748	792	846	919
Collected within in the country:	179	184	219	244	290
Collected at the border::	515	564	573	602	630
Customs duty	130	116	127	125	122
Excise tax	403	422	443	466	487
Other indirect taxes	0.4	6	6	6	6
<b>Tax Returns</b>	-38	-44	-44	-46	-48
<b>1.2 NON-TAX REVENUES</b>	<b>175</b>	<b>201</b>	<b>203</b>	<b>207</b>	<b>211</b>
Taxes, charges and other from Central Government BOs	92	100	102	103	104
Taxes, charges, and other from Local Government	45	54	52	52	52
out of which: Dedicated Revenue for the tax on waste	-	-	7	7	7
Concession Fee	8	9	10	12	14
Royalties	31	33	34	35	36
Revenues from the liberalization of the mobile phones market	0	0	0	0	0
Revenues from dividends	0	5	5	5	5

Source: Treasury and forecasts of the Macroeconomic Unit

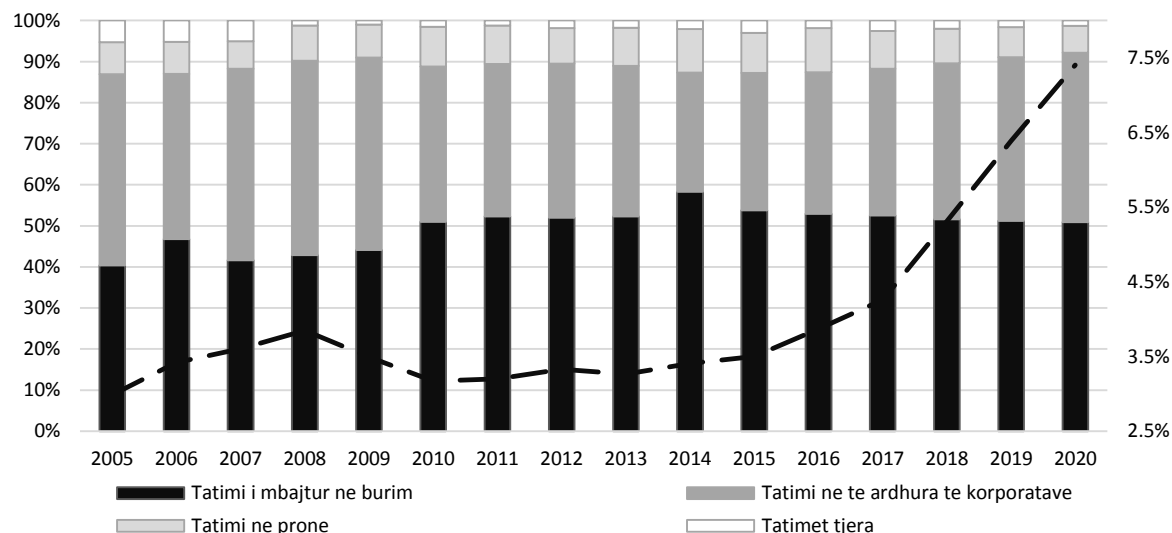
### Forecasts of direct revenues

Direct revenues include revenues collected from taxes on income and wealth; namely those revenues include revenues from corporation tax, withholding tax and property tax. Besides the main factors on which the forecast of direct revenues is based (tax base and the corresponding effective rate), a significant impact on revenue growth is expected to come from activities on enhancing efficiency in collection of budget revenues.

Especially corporate income and the personal income tax is estimated to have considerable room for narrowing the tax gap, the fulfillment of which would result in a level of revenues as presented in the table above. We can see that direct revenues are expected to reach a value of 551 million euros at the

end of the forecasted period, or 7.4% of projected GDP (see Graph 5)<sup>9</sup>. Direct revenues are expected to reach 27% of tax revenues in 2020, by a ratio of around 17% of what they are currently.

**Graph 5. Structure of direct taxes as % of GDP**



Source: Treasury and forecasts of the Macroeconomic Unit

Revenues from property tax are expected to grow from 25 million euros as foreseen in 2017 to 36 million at the end of the forecasted period, reflecting the beginning of the implementation on tax on the land. A prudent growth of 3 million euros per year is designed for the latter, given that we are dealing with the initial period when this tax is applied.

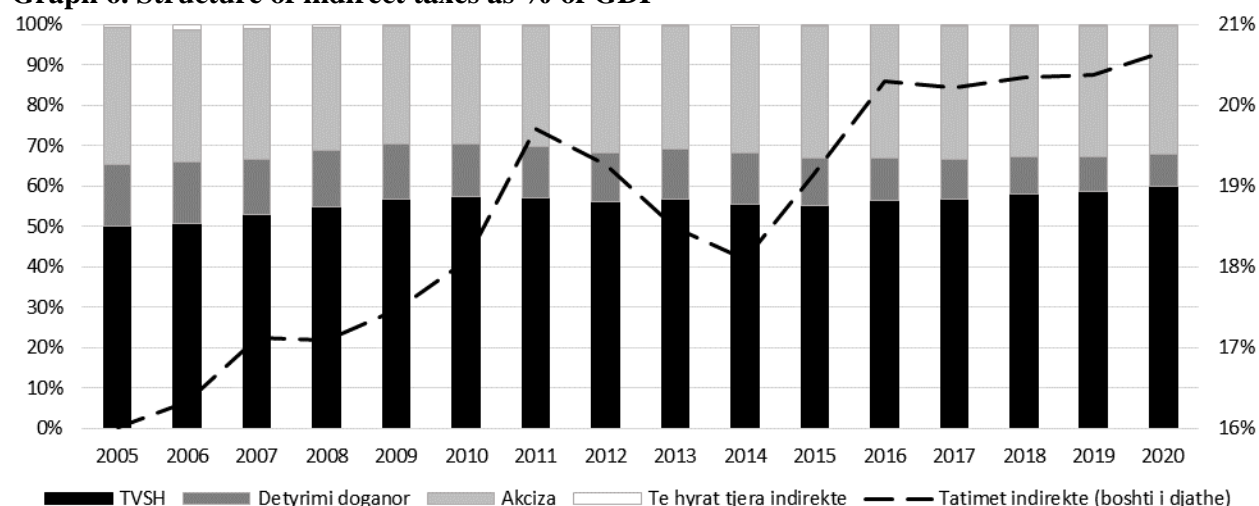
### ***Projections of indirect revenues***

Indirect revenues closely follow the trend of imports, however, the correlation of VAT collected within the country continues to be higher in relation to total consumption. Therefore, the projection of this category of revenues takes into account the forecasts on imports of goods movement and trend of available income in the private sector.

Indirect revenues are expected to grow at an average rate of 5.7% over the period 2018-2020, to reach nearly 21% of GDP at the end of the period. As usual, VAT revenues are expected to provide the largest contribution in indirect revenue growth. These projections include the impact of the implementation of SAA (by reducing tax base by gradual reduction of the rate of customs duty for certain products) as well as the effects of changes in the tax system, particularly those in VAT (escalation, exemptions for producers, etc.).

<sup>9</sup> As tax basis for foreseeing these revenues used GDP to which indirect taxes are deducted and subsidies and social transfers given by the state are added.

**Graph 6. Structure of indirect taxes as % of GDP**



Source: Treasury and forecasts of the Macroeconomic Unit

Growth is expected in revenues collected from import of excise products while revenues from customs duty are expected to slightly fall by a rate of 2% on average, reflecting the implementation of the SAA with a greater impact, going to the end of the next medium-term period. Revenues from excise tax reflect the projected effect on revenue as a result of applying the excise tax calendar on tobacco over the next medium-term period. Therefore, revenues from excise taxes are expected to maintain the level of 6.6% of GDP while revenues from customs duty are expected to be around 1.6% of GDP at the end of the forecasted period.

### ***Projection of other budget revenues***

Budget revenues collected from budget organizations at the central level are expected to follow the trend of the past years in relation to GDP. Consequently, the revenues of the central level are expected to reach 104 million euros in 2020, or around 1.4% of GDP over the next medium term period.

Within the non-tax revenues, revenues from royalties are expected to be collected in the amount of 35 million euros on average, which mainly reflects revenues from the exploitation of lignite from the Kosovo Energy Corporation and other companies exploiting natural resources. Concession fee will be collected with an almost constant growth, with 14 million projected for 2020. Own Source Revenues of municipalities are expected to follow restrained growth rates; 52 million or 0.7% of GDP.

### **2.4.1.2 Projections of budget expenditure for 2018-2020**

As a result of implementing prudent fiscal policies and continued consolidation of public spending, current spending is projected to maintain a share of around 19% of GDP over 2018-2020. Meanwhile, capital expenditures will account for nearly 13.5% of GDP by 2020.

Additional space (excluded from the limit of 2% of GDP) to increase the capital expenditure is made in line with the IMF as a result of the SBA program in force, to accommodate the development needs of the Kosovar economy. This extra space allows the Government to finance projects of public

interest that affect the reduction of development constraints (infrastructure) of the country through agreements with the IFIs

Expenditures for 2018-2020 are expected to grow consistently, reaching 2,485 million euros in 2020; an increase of around 7% on average. It should be highlighted that this increase is mainly due to the increase in capital expenditures, which are projected to grow at the rate of 14% on average for the next mid-term period. The rule for salaries in the public sector, approved in early 2016 by the Assembly by amending the Law on Public Financial Management and Accountability and careful management of employment in the public sector are measures that are expected to contribute to reducing current expenditures and have a successful fiscal consolidation. These changes serve as a guarantee of discipline which provides macro-fiscal stability, without jeopardising the 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 33% of GDP at the end of the planning period. As it can be seen from the Table below, despite a considerable increase in overall government expenditure going towards the end of the period, it should be highlighted that current expenses show a restrained rate of growth (3.6% on average). However, social support is extended and a higher financial support for social groups is provided. Through rationalization in expenditures (mainly allowances, transfers, etc.) as well as increasingly better revenue collection performance, but also improvements in public financial management, the implementation of an additional set of measures was made possible in improving social welfare, such as:

- Increasing to 50% of the contribution pensions
- the value of subsidies to the agricultural sector is significantly increased
- Increasing the investment level in the agricultural sector
- Improving physical infrastructure in the justice sector
- Improving social welfare and the preservation of social cohesion
- Increasing financial support for the prosecution and the judiciary

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

**Table 2. Structure of expenditures, in millions of euros**

Description	2016	2017 Budget	2018 Proj.	2019 Proj.	2020 Proj.
<b>2. TOTAL EXPENDITURES</b>	<b>1,669</b>	<b>2,001</b>	<b>2,192</b>	<b>2,335</b>	<b>2,485</b>
Out of which: expenditures from dedicated revenues	9	11	11	11	11
Expenditures from own source revenues carried forward	17	0	0	0	0
<b>2.1 CURRENT EXPENDITURES</b>	<b>1,221</b>	<b>1,275</b>	<b>1,345</b>	<b>1,382</b>	<b>1,417</b>
Wages and Salaries	544	572	595	613	630
Goods and Services	203	225	256	267	278
Subsidies and Transfers	475	473	484	492	499
Current Reserves	0	5	10	10	10
<b>2.2 CAPITAL EXPENDITURES</b>	<b>444</b>	<b>726</b>	<b>850</b>	<b>955</b>	<b>1,070</b>
out of which financing from: the regular budget	444	530	650	745	860
Capital Reserves		4	5	5	5
Investment Clause		105	105	105	105
PAK		87	90	100	100
<b>2.3 BORROWING TO POEs</b>	<b>-7</b>	<b>-11</b>	<b>-15</b>	<b>-14</b>	<b>-15</b>
Out of which: Borrowing to POEs	0	0	0	0	0
Out of which: returns TO POEs	-7	-11	-15	-14	-15

Source: Treasury and forecasts of the Macroeconomic Unit

***Wages and Salaries*** - category of expenditure for Wages and Salaries planned to continue to represent the major share of current expenditures during the period 2018-2020. During the planning period, this category is expected to gradually increase, mainly influenced by the allocation of funds for the implementation of the health insurance scheme, the implementation of the collective contract related to work experience, as well as growth of the salary bill in the public sector which relates with the growth of nominal GDP<sup>10</sup>. The increase in this category of expenditure is planned to hold an average of around 3.3% over the next medium-term period, while the overall share of this category in GDP is estimated to have slight decrease going from the end of the reporting period..

***Goods and Services*** - expenditures for Goods and Services in the past three years have decreased by an average of 1%. In the period 2018-2020 it is projected that these expenditures will increase by an average of 7.4%, as a result of implementing legal changes which entailed additional costs. The breakthrough for the category of expenditure is expected to be in 2018, while over the last two years of the next mid-term period are projected to increase at a rate of nearly 4%. Despite this increase, expenditures for Goods and Services will continue to maintain the same share in GDP with previous years, an average of approximately 3.7%.

***Subsidies and Transfers*** – as the second highest participant in the category of current expenditures, this component is planned to have a lower increase in the coming period compared with earlier periods. Consequently, expenditures in this category are projected to reach 499 million euros at the end of 2020, a figure which represents an increase of around 5.6% when compared with 2017, with a lower share of GDP. It should be highlighted that support for publicly owned enterprises is planned to gradually fall during the planning period.

***Capital Expenditures*** - are planned to constitute a significant portion of overall government expenditures in relation to the past. Capital expenditures over the medium term are expected to represent around 41% of total expenditures or an average of around 14% of GDP for 2018-2020. During the next medium-term period, it is important to implement capital projects based on a priority list that includes influential projects for improving the transportation network, improving the electricity network and investments in utility infrastructure for improving conditions in education, social system and health. Priority of financing will have projects that are ongoing and those that are in line with government priorities. This list of priorities, which is still in the processing stage includes:

- *Rehabilitation of Railway Route 10*
- *Construction and modernisation of railway line Prishtina – Fushe Kosovo - Pristina Airport “Adem Jashari”*
- *Rehabilitation of Iber-Lepenc*
- *Rehabilitation of regional roads*
- *Construction of the road N9 Prishtina - Peja (SEETO Route 6 A) part of Kijevo -Klina to Zahaq*
- *General rehabilitation of the eastern and southern railway line (border with Serbia - Podujevo – Fushe Kosovo - Klina - Prizren)*
- *Expansion of the irrigation system for the Company “Radoniqi” - Phase II*
- *Construction of a new motorway Prishtina-Gjilan- Dheu i Bardhë*
- *Improving transmission network, phase VI-VII*
- *Competitiveness and readiness for export*

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<sup>10</sup> Here we refer to the changes in LPFMA which sets the ceiling of the increase of salaries in public sector, linked to the growth of GDP as an indicator of the country's productivity

- *Construction of the main sewage collector in the municipality of Podujevo and the sewage system upgrades in Gjilan*
- *Protection of Lake Batllava from wastewater (treatment of waste water in Batllava accumulation)*
- *Waste water treatment in Prishtina (building of factory for the treatment of wastewater in the Pristina region)*
- *Expansion of the broadband telecommunications infrastructure*
- *National Sports Center*
- *Improvement of medical equipment to the University Clinical Center of Kosovo*
- *Replacement of water supply network for Gracanica and Laplje Selo, Kishnica, Badovc and Shushice*
- *Construction of collectors and the main wastewater treatment plant in the municipality of Shtime*

### 2.4.1.3 Budget Deficit And Fiscal Rule

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

Going towards the end of the planning period, the financing Table includes principal payments of debt (where the lion share relates to the debt repayment to the IMF), as it is detailed in table number 4 in the attached Appendix. The need of the Government for funding is made on the basis of a regular planning for internal and external debt, maintaining to reasonable levels (considering that Kosovo continues to maintain a relatively low level of debt).

**Table 3. Overall budget deficit**

Description	2015	2016	2017 Budget	2018 Proj.	2019 Proj.	2020 Proj.
<b>PRIMARY BUDGET BALANCE</b>	<b>-94</b>	<b>-64</b>	<b>-276</b>	<b>-295</b>	<b>-268</b>	<b>-228</b>
Payment of Interest	-17	-19	-23	-31	-33	-34
<b>OVERALL BUDGET BALANCE (financing needs)</b>	<b>-111</b>	<b>-83</b>	<b>-300</b>	<b>-326</b>	<b>-301</b>	<b>-262</b>
1.1. Net financing from external sources for the year	38	8	237	116	84	36
1.2 Net financing from internal sources for the year	172	86	180	188	231	259
<b>CHANGES IN THE BALANCE BANK (retained)</b>	<b>99</b>	<b>11</b>	<b>117</b>	<b>-21</b>	<b>13</b>	<b>33</b>
<b>NET BANK BALANCE AT YEAR END</b>	<b>201</b>	<b>212</b>	<b>329</b>	<b>308</b>	<b>321</b>	<b>354</b>
<i>Out of which: ELA</i>	46	46	46	46	46	46
Net bank balance at year end (as% of GDP)	3.5%	3.5%	5.2%	4.6%	4.5%	4.8%
<b>GROSS BANKING BALANCE AT THE YEAR END</b>	<b>257</b>	<b>270</b>	<b>387</b>	<b>366</b>	<b>380</b>	<b>412</b>
<b>Expenditures excluded from the calculation of the fiscal rule:</b>						
Expenditures from dedicated revenues		9	11	11	11	11
Expenditures from own source revenues carried forward		17	0	0	0	0
Expenditures financed by the investment clause and PAK			192	195	205	205
<b>BALANCE BUDGET UNDER FISCAL RULE</b>	<b>-78</b>	<b>-54</b>	<b>-97</b>	<b>-120</b>	<b>-85</b>	<b>-46</b>
Additional notes::						
GDP	5,807	6,051	6,380	6,726	7,080	7,424
Deficit as% of GDP	-1.3%	-0.9%	-1.5%	-1.8%	-1.2%	-0.6%

*Source: Department of Treasury and calculations of Macroeconomic Unit*

Bank balance is held at above 4.5% of nominal GDP on average, according to LPFMA criteria for the use of PAK assets. The deficit is also held in levels defined through fiscal rule; under 2% of GDP.

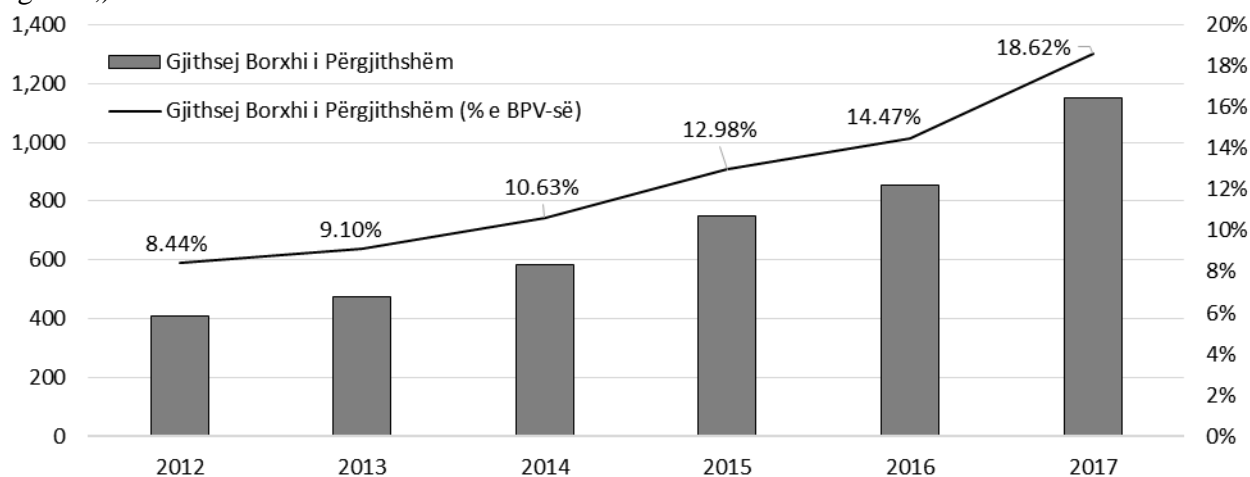


## The level of public debt, developments and outlook in coming years<sup>11</sup>

Historically, the level of the total debt of the Government of Kosovo has been relatively low. As it can be seen from the graph below, the debt of Kosovo recorded a trend of gradual increase. From the following data, we can see that the highest increase of overall debt is expected during the current year (2017). This will occur mainly due to one-off disbursement of funds from the agreement with the International Monetary Fund. Overall debt at the end of 2017 is estimated at EUR 1,151 million or 18.64%<sup>12</sup> of GDP. So far, with the support of the Ministry of Finance (MoF), an agreement for municipal debt has been signed which amounts to 2.5 million euros. Further on, the portfolio of the state debt contains two state guarantees of EUR 22 million issued in 2014 and 2016. While in 2017 is planned issue a guarantee of 24 million euros.

For the first time in the history of the debt portfolio at end December 2015, the amount of Securities issued in the domestic market as a percentage of total debt has surpassed credit borrowings from external creditors by 0.44%. Such increasing trend in favor of domestic debt has continued in 2016, where in 2016 the ratio of domestic debt/total debt was 56%. This part of the debt portfolio of Kosovo consists of debt instruments with maturities from 3 months to 5 years. MoF since the beginning of the emission of securities (2012) focused on budget financing mainly from the domestic market, contributing to the development of the market. Through securities, the Kosovo government has borrowed funds on favourable terms and has contributed to the development of Securities Market. By the end of 2017, the internal debt is expected to reach 579 million euro or 9.03% e GDP.

**Graph 7. Overall debt stock** (in millions of euros, left ax) and as **percentage of GDP** (in percentage, right ax,)



Source: Debt Management Unit, Treasury MF

The remaining half of the Kosovo's state debt is the external debt which consists of programs<sup>13</sup> 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 creditors. Excluding IMF programs, all other borrowings are related to the financing of specific projects in different sectors. By the end of 2017, the stock of external public debt is expected to reach 572 million euro or 8.92% of Gross Domestic Product (GDP).

<sup>11</sup> This section is compiled by the Debt Unit (Treasury MF)

<sup>12</sup> Debt as % of GDP includes guarantees of EUR 44 million (actual and forecasted for 2017).

<sup>13</sup> Stand By Arrangement 2013 and 2015

Due to favourable loan conditions, in the medium term, the government aims to orient easily to international borrowing. In this regard, cooperation and communication with international financial institutions will be increased, particularly with developments ones, to introduce the priority projects for the economy and therefore in financing these projects through preferential loans from these institutions. Furthermore, the Ministry of Finance intends to further develop the internal market of Securities by stimulating and supporting the extension of the investor base. The extension of the investor base is planned to occur by issuing new debt instruments which in some cases will be targeting new groups in the market with great investment potential.. Financing of the budget deficit of Kosovo 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.

## **2.5 Development potential and fiscal risks for 2017-2019**

Basic framework presented in the MTEF is followed, as every year, with **potentials** and **risks** which may change the macro-fiscal overview positively or negatively, depending on the probability of materialization and the intensity with which they are executed. For the sake of prudent planning and in the interest of transparency these considerations will be part of the macro-fiscal framework, details of which are provided below. Given that the MTEF is compiled on an annual basis, there are no major changes in this list from year to year (when dealing with inherited structural obstacles), whereas if new ones are identified, they as are added to this list.

Similar to last year, a quantified assessment of development potentials and fiscal risks in the medium term period through alternative scenarios was developed in January 2017 as part of the Program for economic reforms 2017-2019.

### **2.5.1 Development Potentials**

**Addressing development obstacles through Investment Clause and releasing funds from the PAK liquidation process** - Details about the Investment Clause are provided in the MTEF 2017-2019 but also in the Budget 2017-2019, while a similar nature is the use of funds from the liquidation process. It is for infrastructure projects covering the expansion and improvement of infrastructure (roads, railways), improvement of irrigation systems, wastewater treatment, upgrading of the transmission network, improvements in health infrastructure, sports, etc. with direct impacts (in the budget) but also indirect ones (trade, doing business, livelihood, etc.) in the economy. Despite the difficulties in the negotiation and implementation of projects part of the clause, their nature and the concerning values made these to be recognized as with potential significant macro-fiscal impact. The full realization of both these measures will generate additional investment of 3% of GDP on average in the mid-term period.

**Developing New Energy Manufacturing Capacities**- recent communications of the authorities within the Government of Kosovo with the World Bank indicate that the agreement for the construction of power plant “Kosova e Re” is very close to signing. Assumptions for executing this project are those of a similar distribution shown by major capital projects until today, where the

execution of the project assuming an investment of EUR 1 billion for 5 years) focuses on the mid-period and at the end. Taking into account these assumptions, it is estimated that this project will generate additional investment of 3% - 4% of GDP on average for the next mid-term period, which would result in a contribution to the investment component of around 3 points percentage growth in real GDP projected for the mid-term period. However, it should be highlighted that these assumptions remain in the service of including this measure as a potential in this MTEF, where the actual impact of this project on the macro-fiscal framework is directly dependent on the details of the agreement, which remains to be determined.

**Economic impacts of the Stabilization and Association Agreement (SAA)** - An overview of the effects of this agreement were discussed in the first section of this framework. We are dealing with an agreement that has a significant budget impact; it is assessed that losses in revenues from the border will be on average around 25 million euros per year. Macro-fiscal scenario presented in this MTEF does not include the effects of transferring this value to the revenue available to the private sector. Consequently, the economic effects of the SAA have the potential to produce higher economic growth than the macro-fiscal scenario based on forecasts. It should be highlighted that the SAA itself presents considerable potential for a small open economy with clear integration into the European Union agenda such as Kosovo

**Effects of the entry into force of the Law on Strategic Investments** – this law is expected to contribute on investments, opening of new jobs, providing new technologies to enhance the competitiveness and efficiency of investment, and increasing the level and quality of life of citizens and protection of the environment and customer. Measurement of these effects in the context of Macro-Fiscal Framework at this time is difficult because of the different nature of the projects and the fact that there no concrete developments in terms of their negotiation. Some of the projects that are being mentioned by PAK as potential to be treated through this law are Golesh mine, the Strezovc mine (the only mine where magnesium can be extracted), Bauxite o Kosovo, as well as Grand Hotel and tourist resort in Brezovica. This initiative is expected to eliminate potential barriers to absorption and implementation of foreign investment, such as excessive bureaucracy, lack of transparency, unfavourable legal infrastructure.

## **2.5.2 Fiscal Risks**

### **- Systematic (macro-economic) risks**

**Dependence on Remittances:** - Since 2013 remittances of the diaspora in Kosovo have increased by nearly 50 million every year. 2016 experienced an increase as a half of the abovementioned trend; only 25 million more have been received as remittances in 2016 compared with the previous year. This is an indicator related to demographic trends and behavior changes (i.e., the long-term nature), but since it continues to be the main source of consumption and investment of households in Kosovo, it should be mentioned as a factor that could have a negative impact in fiscal statements on which medium-term projections rely upon. This risk is even close when we take into account the recent revision of the methodology used by CBK, which resulted in changes in the structure of balance of

payments, where remittances are proved to have been overstated in the past, which led to a slight decrease.<sup>14</sup>

**Low diversification of exports** - Discussion on the trade deficit in the first part of this document specifies thoroughly the need for diversification of Kosovo export, which will lead to increasing the value of this component of GDP. The import substitution (especially when we take into account that a large part of Kosovo's imports are consumer products) and export growth can only come as a result of increased domestic production. The Government of Kosovo is making continuous efforts in promoting the latter, but in the medium term, the trade deficit remains to be a constant risk of macro-fiscal baseline.

**Outdated Energy Production Capacities** – are recognized as such for the next medium-term period since the agreement for the construction of new capacities 'Kosova e Re' is not officially signed. Potential shocks in energy production (especially in sensitive periods such as the winter season) cause increased energy costs and have an impact on energy consumption as well as in the supply by other economic sectors, which led to the need for budget assistance in this sector. The risk associated with the inherited structural problems of Kosovo's economy is expected to be addressed through the construction of new energy capacities.

#### **- Specific risks**

**Narrowing the tax gap** - as in previous periods, the revenue projection is based not only on increasing revenues as a result of the economic activity growth in the country, but also in narrowing the tax gap. Therefore, the projected fiscal space on which the MTEF is based is also dependent on the success of administrative and incentive policies for narrowing the tax gap.

**Non-implementation of capital projects related with Investment clause and PAK liquidation funds** - while Investment clause and the use of funds from the PAK liquidation process are recognized as additional potential to basic expectations expressed in this MTEF we should know the other side of the medal, which is non-execution of capital expenditures related to these measures.

The project execution rate in the 'Clause' depends on the different stages of negotiation/execution in which projects are found, while the execution of the costs associated with the funds exempted from PAK the liquidation process depends on the resolution of court cases process with which these funds are linked.

**Fiscal risks due to legal obligations against parties** - liabilities that may arise as a result of existing contracts between the Government and other parties should be recognized as factors that may increase Government expenditures. Depending on the condition of the agreement and verdict given on the matter, financial obligations to the state budget may arise.

#### **2.5.2.1 Fiscal risks outside budget**

**Risks related to the ownership of publicly owned enterprises<sup>15</sup>** - the Republic of Kosovo in 2016 owned 17 publicly owned enterprises. Ownership of public enterprises compared with the previous

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<sup>14</sup> The concerning revision is applied on historical data of the Balance of Payments by CBK; until 2011

<sup>15</sup> This section is compiled by the Unit for the POE management, MED

year has changed through specific laws where one enterprise underwent the supervision of the Republic of Kosovo (KOSTT), while another company was added to the portfolio of public enterprises owned by the Government of the Republic of Kosovo.

In the medium term, the risk relates to the lack of liquidity and the need for a shareholder contribution in working capital (subsidy) despite the long-term financing through loans.

In general, the best concentration of corporate self-sustainability owned by the Central Government through proper management would avoid the risks with which the budget of the Republic of Kosovo may face in providing corporate working capital.

## Annex 1. Macrofiscal Framework 2018-2020

**Table 1. Key macroeconomic aggregates**

Description	2015	2016 Value	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
<b>Real growth rates (in percentage)</b>						
GDP	4.1%	3.6%	4.1%	4.3%	4.3%	4.0%
GDP per capita	3.9%	3.4%	3.9%	4.1%	4.1%	3.8%
Consumption	0.6%	3.2%	2.2%	3.4%	3.6%	3.0%
Investments	11.3%	7.8%	8.5%	7.1%	5.9%	5.3%
Export	16.8%	6.2%	1.3%	2.5%	2.6%	2.4%
Import	6.2%	6.3%	1.4%	3.5%	3.1%	2.1%
<b>price changes (in percentage)</b>						
PCI	-0.5%	0.3%	1.5%	1.1%	0.9%	0.9%
Deflator	0.2%	0.6%	1.3%	1.2%	0.9%	0.8%
Import prices	-1.0%	-2.5%	3.8%	1.5%	1.5%	1.5%
<b>The balance of savings / investments (in% of GDP)</b>						
Net primary income from abroad	1.3%	1.1%	1.5%	1.6%	1.7%	1.6%
Net secondary income from abroad	18.3%	17.8%	17.5%	17.1%	16.8%	16.5%
<i>Out of which: remittances</i>	11.5%	11.4%	11.1%	10.9%	10.6%	10.4%
Investments	27.6%	27.9%	29.6%	30.4%	31.0%	31.8%
Current account balance	-8.8%	-9.4%	-9.3%	-9.8%	-10.2%	-10.5%
Trade Balance	-36.3%	-37.9%	-37.8%	-37.9%	-38.0%	-37.8%
Gross National savings	18.8%	18.6%	20.3%	20.6%	20.8%	21.3%
Private savings	15.3%	13.5%	15.3%	15.0%	14.7%	14.5%
<b>Key aggregates (in millions of euros)</b>						
GDP	5,807	6,051	6,380	6,726	7,080	7,424
BAKD	6,947	7,197	7,593	7,989	8,389	8,778
GDP per capita (ne euro)	3,211	3,339	3,513	3,697	3,884	4,064
BAKD per capita (ne euro)	3,622	3,757	3,957	4,159	4,362	4,557
Employees remittances	665	691	710	730	751	772
Population (thousands)	1,809	1,812	1,816	1,819	1,823	1,827

Source: KAS and projections of Macroeconomic Unit

**Table 2. Nominal GDP and its components**

Description	2015	2016 Value	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
<i>In millions of euros</i>						
<b>Consumption</b>	<b>5,858</b>	<b>6,074</b>	<b>6,301</b>	<b>6,602</b>	<b>6,915</b>	<b>7,183</b>
Private Consumption	4,942	5,150	5,348	5,626	5,910	6,182
Public Consumption	894	905	932	956	984	979
General Government	772	795	828	857	890	890
Donor Sector	122	110	104	99	94	89
NPISH	22	20	20	20	21	21
<b>Investments</b>	<b>1,602</b>	<b>1,689</b>	<b>1,888</b>	<b>2,045</b>	<b>2,198</b>	<b>2,360</b>
Private Investments	1,197	1,245	1,298	1,368	1,443	1,534
Public Investments	404	444	590	677	756	826
<b>Net exports of Goods and Services</b>	<b>-1,652</b>	<b>-1,712</b>	<b>-1,809</b>	<b>-1,920</b>	<b>-2,033</b>	<b>-2,119</b>
Exports	1,274	1,346	1,398	1,450	1,502	1,553
Goods exports	322	308	328	340	352	363
Service exports	952	1,038	1,070	1,110	1,150	1,190
<b>Imports</b>	<b>2,926</b>	<b>3,058</b>	<b>3,207</b>	<b>3,371</b>	<b>3,535</b>	<b>3,672</b>
Goods import	2,432	2,599	2,742	2,890	3,040	3,166
Service import	494	460	465	481	496	506
<b>GDP</b>	<b>5,807</b>	<b>6,051</b>	<b>6,380</b>	<b>6,726</b>	<b>7,080</b>	<b>7,424</b>
<b>BAKD</b>	<b>6,947</b>	<b>7,197</b>	<b>7,593</b>	<b>7,989</b>	<b>8,389</b>	<b>8,778</b>
<i>Other indicators:</i>						
Private sector available incomes (mil. euro)	5,773	5,956	6,243	6,572	6,901	7,212
Private Consumption per capita (ne euro)	2,733	2,842	2,945	3,092	3,242	3,384
Private Consumption in relation to GDP	85%	85%	84%	84%	83%	83%
Private Investments in relation toGDP	21%	21%	20%	20%	20%	21%
Exsports in relation toGDP	22%	22%	22%	22%	21%	21%
Imports in relation to GDP	50%	51%	50%	50%	50%	49%

*Source: KAS and projections of Macroeconomic Unit*

**Table 3. Overall budget revenues and expenditures**

Description	2015	2016	2017 Budget	2018 Proj.	2019 Proj.	2020 Proj.
In millions of euros						
<b>1. TOTAL REVENUES</b>	<b>1,470</b>	<b>1,608</b>	<b>1,725</b>	<b>1,898</b>	<b>2,067</b>	<b>2,257</b>
<b>1.1 TAX REVENUES</b>	<b>1,269</b>	<b>1,421</b>	<b>1,512</b>	<b>1,676</b>	<b>1,843</b>	<b>2,029</b>
Out of which, one-off: revenues:						
Tax debts (including Social Enterprises)	-	-	13	6	6	6
Narrowing the tax gap	-	-	-	80	77	100
The effect of the fiscal package 2.0	-	-	-	-12	-12	-13
<b>Direct taxes</b>	<b>198</b>	<b>232</b>	<b>253</b>	<b>358</b>	<b>453</b>	<b>551</b>
Tax Debts			2	1	1	1
Taxes on corporate income	68	81	84	136	181	227
Taxes on personal income	109	124	135	184	232	280
Property tax	20	25	25	30	33	36
out of which: land tax				0	3	3
Other direct taxes	2	2	7	7	7	7
<b>Indirect taxes</b>	<b>1,107</b>	<b>1,227</b>	<b>1,303</b>	<b>1,373</b>	<b>1,449</b>	<b>1,539</b>
Tax debts			11	5	5	5
Value added Tax (VAT)	611	694	748	792	846	919
Collected within in the country:	155	179	184	219	244	290
Collected at the border::	457	515	564	573	602	630
Customs duty	<b>131</b>	<b>130</b>	<b>116</b>	<b>127</b>	<b>125</b>	<b>122</b>
Excise tax	<b>361</b>	<b>403</b>	<b>422</b>	<b>443</b>	<b>466</b>	<b>487</b>
Other indirect taxes	3	0.4	6	6	6	6
<b>Tax Returns</b>	<b>-36</b>	<b>-38</b>	<b>-44</b>	<b>-44</b>	<b>-46</b>	<b>-48</b>
<b>1.2 NON-TAX REVENUES</b>	<b>188</b>	<b>175</b>	<b>201</b>	<b>203</b>	<b>207</b>	<b>211</b>
Taxes, charges and other from Central Government BOs	84	92	100	102	103	104
Taxes, charges, and other from Local Government	38	45	54	52	52	52
out of which: Dedicated Revenue for the tax on waste	-	-	-	7	7	7
Concession Fee	7	8	9	10	12	14
Royalties	30	31	33	34	35	36
Revenues from the liberalization of the mobile phones market	15	0	0	0	0	0
Revenues from dividends	15	0	5	5	5	5
<b>1.3 BUDGET SUPPORT AND GRANTS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7</b>	<b>5</b>	<b>5</b>
<b>1.4 DONOR DESIGNATED GRANTS</b>	<b>13</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>
<b>2. TOTAL EXPENDITURES</b>	<b>1,564</b>	<b>1,672</b>	<b>2,001</b>	<b>2,192</b>	<b>2,335</b>	<b>2,485</b>
Out of which: expenditures from dedicated revenues	6	9	11	11	11	11
Expenditures from own source revenues carried forward	28	17	0	0	0	0
<b>2.1 CURRENT EXPENDITURES</b>	<b>1,149</b>	<b>1,221</b>	<b>1,275</b>	<b>1,345</b>	<b>1,382</b>	<b>1,417</b>
Wages and Salaries	525	544	572	595	613	630
Goods and Services	205	203	225	256	267	278
Subsidies and Transfers	418	475	473	484	492	499
Current Reserves	0	0	5	10	10	10
<b>2.2 CAPITAL EXPENDITURES</b>	<b>404</b>	<b>444</b>	<b>726</b>	<b>850</b>	<b>955</b>	<b>1,070</b>
out of which financing from: the regular budget	404	444	530	650	745	860
Capital Reserves			4	5	5	5
Investment Clause			105	105	105	105
PAK			87	90	100	100
<b>2.3 BORROWING TO POEs</b>	<b>-2</b>	<b>-7</b>	<b>-11</b>	<b>-15</b>	<b>-14</b>	<b>-15</b>
Out of which: Borrowing to POEs	0	0	0	0	0	0
Out of which: returns TO POEs	-2	-7	-11	-15	-14	-15
<b>2.4 DONOR DESIGNATED GRANTS</b>	<b>13</b>	<b>15</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>
<b>3. PRIMARY T BALANCE</b>	<b>-94</b>	<b>-64</b>	<b>-276</b>	<b>-295</b>	<b>-268</b>	<b>-228</b>
Payment of Interest	-17	-19	-23	-31	-33	-34
<b>4. OVERALL BALANCE</b>	<b>-111</b>	<b>-83</b>	<b>-300</b>	<b>-326</b>	<b>-301</b>	<b>-262</b>
<b>5. Expenditures excluded from the calculation of the fiscal rule:</b>						
Expenditures from dedicated revenues		9	11	11	11	11
Expenditures from own source revenues carried forward		17	0	0	0	0
Expenditures financed by the investment clause and PAK			192	195	205	205
<b>4. Overall Balance (as per fiscal rule)</b>	<b>-78</b>	<b>-54</b>	<b>-97</b>	<b>-120</b>	<b>-85</b>	<b>-46</b>
Additional notes:						
Domestic revenues	333	386	412	548	665	804
Customs revenues	952	1048	1119	1154	1204	1250
GDP	5,807	6,051	6,380	6,726	7,080	7,424
Deficit as % of GDP	-1.3%	-0.9%	-1.5%	-1.8%	-1.2%	-0.6%

Source: Treasury and forecasts of the Macroeconomic Unit

**Table 4. Financing Table**

	2015	2016	2017	2018	2019	2020
<b>FINANCING NEED</b>	<b>-111</b>	<b>-83</b>	<b>-300</b>	<b>-326</b>	<b>-301</b>	<b>-262</b>
<b>1.1. N Net financing from external sources for the year</b>	<b>38</b>	<b>8</b>	<b>237</b>	<b>116</b>	<b>84</b>	<b>36</b>
<b>Inflows:</b>	66	69	261	141	144	144
IMF	36	36	116	0	0	0
Sub-loans	22	24	15	10.3	8.0	10.0
IFI according to investment clause	0	0	105	105	105	105
IFI project loans	8	9	24	26	31	29
<b>Outflows:</b>	<b>28</b>	<b>61</b>	<b>25</b>	<b>24</b>	<b>60</b>	<b>109</b>
Repayments of debt principal	28	61	25	24	60	109
<b>1.2 Net financing from internal sources for the year</b>	<b>172</b>	<b>86</b>	<b>180</b>	<b>188</b>	<b>231</b>	<b>259</b>
<b>Inflows:</b>	457	434	534	532	547	562
Internal Borrowing -New Emissions	121	101	100	100	110	120
Internal Re-Financing Borrowing	257	321	335	330	305	290
One-off Financing (PAK)	67	0	87	90	120	140
Inflow from funds with specific purposes	13	12	12	12	12	12
<b>Outflows:</b>	<b>285</b>	<b>348</b>	<b>354</b>	<b>344</b>	<b>317</b>	<b>304</b>
Refinancing of domestic debt	257	321	335	330	305	290
Sub-borrowing	22	24	15	10	8	10
Outflow in the funds with specific purposes	6	4	4	4	4	4
<b>CHANGES IN THE BANK BALANCE (retained)</b>	<b>99</b>	<b>11</b>	<b>117</b>	<b>-21</b>	<b>13</b>	<b>33</b>
<b>7. NET BANK BALANCE AT YEAR END:</b>	<b>201</b>	<b>212</b>	<b>329</b>	<b>308</b>	<b>321</b>	<b>354</b>
<i>Out of which: ELA</i>	46	46	46	46	46	46
<b>Net bank balance as% of GDP</b>	<b>3.5%</b>	<b>3.5%</b>	<b>5.2%</b>	<b>4.6%</b>	<b>4.5%</b>	<b>4.8%</b>
<b>FUNDS WITH SPECIFIC PURPOSES</b>	<b>56</b>	<b>58.4</b>	<b>58.4</b>	<b>58.4</b>	<b>58.4</b>	<b>58.4</b>
Designated by donors	12	7.3	7	7	7	7
Own Source Revenues carried forward	22	27	27	27	27	27
Dedicated Revenues	8.5	10.1	10	10	10	10
Development Trust Fund	1	1	1	1	1	1
Others	13	13	13	13	13	13
<b>7. GROSS BANKING BALANCE AT YEAR END</b>	<b>257</b>	<b>270</b>	<b>387</b>	<b>366</b>	<b>380</b>	<b>412</b>

Source: Debt Management Unit, Treasury, MF



# 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 12 sectors are introduced, each sector has also the trend of financing 2016-2017 and budget estimates for the next three-year period 2018-2020 introduced. Each section introduces Budget Organizations according to the respective sectors.

The following tables presents the projections for 2018-2020 for overall Budget of Kosovo, centrally and by sector. The fourth part introduces municipal funding.

**Table 1: Trends of financing 2016- 2017 and assesments 2018-2020 for Overall Budget of Kosovo**

Overall total of Budget of Kosovo	2016 Expenditure	2017 Budgeted	2018 Assessed	2019 Assessed	2020 Assessed
<b>Total*</b>	1,645,043,503	2,001,020,477	2,194,720,000	2,337,080,000	2,487,220,000
Number of employees	77,792	83,304	83,545	83,964	84,293
Wages and Salaries	543,659,459	572,275,399	595,000,000	613,080,000	630,420,000
Goods and Services	176,739,334	198,059,823	227,560,548	237,688,174	247,311,476
Utilities	23,101,904	26,697,745	28,029,452	29,451,826	30,218,524
Subsidies and Transfers	474,152,167	473,332,564	484,380,000	491,860,000	499,270,000
Capital Expenditures	427,390,639	725,714,946	850,000,000	955,000,000	1,070,000,000
Reserves	-	4,940,000	9,750,000	10,000,000	10,000,000
<b>Financing Sources</b>					
Government Grant	1,568,648,894	1,773,385,964	1,962,677,715	2,096,609,555	2,245,192,542
Own Source Revenues	67,480,603	99,433,008	101,546,122	104,706,605	107,736,755
Financing from Borrowing	8,914,005	128,201,505	130,496,163	135,763,840	134,290,703
Financing from budget deficit (2%) - 04	8,914,005	23,201,505	25,496,163	30,763,840	29,290,703
Financing from Investment Clause-06	-	105,000,000	105,000,000	105,000,000	105,000,000
Donor Grants	3,171,193	1,204,877	1,174,597	1,174,597	-

\* In comparison with table 3. The general budgetary revenues and expenditures , expenditures presented in this table include only the general expenditures of the budgetary organizations. This excludes expenditures from the Donor Designated Grants and does not subtract returns from the net loans granted to Public Enterprises.

**Table 2: Trends of financing 2016- 2017 and assessments 2018-2020 for Central level**

<b>Overall total of Central level</b>	<b>2016 Expenditure</b>	<b>2017 Budgeted</b>	<b>2018 Assessed</b>	<b>2019 Assessed</b>	<b>2020 Assessed</b>
<b>Total</b>	1,256,589,847	1,560,789,611	1,712,318,988	1,820,053,233	1,937,710,373
Number of employees	37,068	39,407	39,648	40,067	40,396
Wages and Salaries	297,091,112	321,574,524	338,500,000	353,080,000	367,420,000
Goods and Services	139,534,007	157,805,157	168,641,943	176,567,179	190,470,376
Utilities	14,181,886	17,008,845	18,340,552	19,762,926	20,529,624
Subsidies and Transfers	465,838,398	464,584,256	475,631,692	482,860,000	490,070,000
Capital Expenditures	339,944,444	594,876,829	701,454,801	777,783,127	859,220,373
Reserves	-	4,940,000	9,750,000	10,000,000	10,000,000
<b>Financing Sources</b>					
Government Grant	1,228,798,089	1,413,305,098	1,565,967,143	1,670,343,878	1,783,682,915
Own Source Revenues	18,877,752	20,433,008	19,546,122	19,706,605	19,736,755
Financing from Borrowing	8,914,005	127,051,505	126,805,723	130,002,750	134,290,703
Financing from budget deficit (2%) - 04	8,914,005	22,051,505	21,805,723	25,002,750	29,290,703
Financing from Investment Clause-06	-	105,000,000	105,000,000	105,000,000	105,000,000
Donor Grants	3,171,193	1,204,877	1,174,597	1,174,597	-

### 3.1 GENERAL GOVERNANCE SECTOR

This sector aims at the advancement of legal infrastructure and law enforcement to stimulate internal and external investments and support the sustainable economic development and provision of better services to citizens of the Republic of Kosovo. Within this period, a number of laws were adopted which played an important role to the integration of the country into international institutions as well as in meeting the obligations for visa liberalisation and other obligations related to the Stabilisation and Association Agreement.

In order to increase the efficiency of public administration we are working on strengthening the system for applying the principles of ethics and integrity in public administration, including the adoption of a new law on salaries in order to establish a single legal framework for the salary system. We will also work on the rationalization of public administration, improving accountability lines, in particular by implementing recommendations for reviewing independent agencies and central administration bodies. The government will also implement e-procurement system in order to increase transparency and close gaps for corrupt practices within the public

procurement system. We will also continue strengthening policies for combating corruption through improved legislation and enforcing strategic framework.

By implementing the strategic framework for property rights, the Government intends to undertake a series of reforms to improve property rights. These reforms include legislative changes aiming to clearly define the rights and conditions for marketable property rights, promoting the land market enabling economic growth, strengthening the capacity and role of courts for recognizing, defining and strengthening property rights. Further on, reforms will focus on ensuring the protection of the respective property rights of members coming from minority communities, as well as guaranteeing and strengthening property rights for women.

We continued creating better working conditions for the public administration and providing better services to the public and institutions through the solutions provided by Information Technology. In addition, we also developed administrative mechanisms for monitoring the implementation of legality, transparency, accountability and assessment of quality of services delivered. The Government is committed to implement SAA obligations in order to accelerate social and economic development.

**Key objectives**, within the general governance sector for the upcoming three year period 2018-2020, depending on relevant instructional competences, are the following;

- Development of an efficient legislative process and guaranteeing constitutional functioning of the institutions of the Republic of Kosovo,
- Advancement of public administration services, reforms in civil service (re-organising Ministries and their subordinate bodies, finalising the process of classifying job positions, implementing new salary and grading system), respecting human rights according to international standards, security of food and protection of public health, developing a statistical system
- Enhancing public procurement system, enhancing access to information on public tenders, creating a modern and transparent institutional framework of the Law on Public Procurement (maintenance of electronic procurement platform.
- Enhancing property rights system.

**Budget organisations** which belong to the General Governance Sector are the following: the Assembly of Kosovo, the Office of Presidency, the Office of Prime minister, Ministry of Public Administration, Ministry of Local Government Administration, Public Procurement Regulatory Commission, Anti-Corruption Agency, Procurement Review Body, Kosovo Constitutional Court, Election Panel for Complaints and Submissions, State Agency for the Protection of Personal Data, Office of the Auditor General, Central Election Commission, Ombudsperson Institution, Kosovo Property Comparison and Verification Agency

**Table 3: Trends of financing 2016- 2017 and assessments 2018-2020 – General Governance Sector**

General Governance Sector	2016 Expenditure	2017 Budgeted	2018 Assessed	2019 Assessed	2020 Assessed
<b>Total</b>	56,660,350	70,969,969	76,543,800	72,965,278	71,096,827
Number of employees	2,133	2,207	2,211	2,211	2,211
Wages and Salaries	20,279,402	20,863,525	21,884,148	22,372,332	21,578,151
Goods and Services	13,394,208	20,537,169	21,619,401	16,357,695	16,227,695
Utilities	2,687,176	3,184,132	3,635,432	4,135,432	4,135,432
Subsidies and Transfers	6,049,295	6,093,649	6,103,649	6,108,649	6,113,649
Capital Expenditures	14,250,269	20,291,494	23,301,170	23,991,170	23,041,900
Reserves					
<b>Financing Sources</b>			-	-	-
Government Grants	56,660,350	70,647,425	76,221,256	72,642,734	70,774,283
Own Source Revenues		322,544	322,544	322,544	322,544
Financing from Borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04					
Financing from Investment Clause-06					
Donor Grants					

### 3.2 INTERNATIONAL COOPERATION SECTOR

Within this sector we aim at advancing international position of our country and the development of our diaspora. Political and technical dialogue when it comes to implementing Stabilisation and Association Agreement between Kosovo and European Union and meeting the conditions related to visa liberalisation for Kosovo citizens wishing to move in the Schengen area. In addition, there was progress made in the membership of Kosovo to different international organisations and in increasing the number of countries which recognised the Republic of Kosovo as a country, and we also worked in registering members of diaspora and networking businesses in the diaspora, by promoting possibilities of investments in the Kosovo's economy.

**Key objectives**, within the international cooperation sector for the upcoming three-year period 2018-2020, depending on legal competencies of relevant institutions, are the following:

- Consolidation of international subjectivity of the Republic of Kosovo, membership of the Republic of Kosovo in international organisations and enhancing bilateral and multilateral international cooperation,
- Developing regular technical dialogue between Kosovo and the EU within the implementation framework of the Stabilisation Association Agreement;
- Applying for the status of candidate country for EU membership, continued alignment of national legislation with EU legislation and increasing the capacity of public institutions to absorb EU funds and other donors;
- Maintain identity and empowering ties with the country, promotion and enhancing political and social rights of diaspora, encouraging diaspora to invest in Kosovo, and
- Ratification of framework agreements for Kosovo access to EU programmes.

**Budget organisations** which belong to International Cooperation Sector are: Ministry of Foreign Affairs, Ministry for European Integration, Ministry of Diaspora.

**Table 4: Trends of financing 2016- 2017 and assessments 2018-2020 – international cooperation sector**

	2016 Expenditure	2017 Budgeted	2018 Assessed	2019 Assessed	2020 Assessed
<b>International Cooperation Sector</b>					
<b>Total</b>	22,447,703	24,265,518	34,216,030	34,798,025	34,881,944
Number of employees	396	447	447	447	447
Wages and Salaries	6,819,591	6,682,880	8,094,876	8,128,625	8,162,544
Goods and Services	13,966,314	14,466,823	15,992,103	17,425,349	17,425,349
Utilities	396,303	574,051	774,051	774,051	774,051
Subsidies and Transfers	645,197	480,000	730,000	730,000	780,000
Capital Expenditures	620,298	2,061,764	8,625,000	7,740,000	7,740,000
Reserves					
<b>Financing Sources</b>					
Government Grant	22,447,703	24,265,518	34,216,030	34,798,025	34,881,944
Own Source Revenues	-	-	-	-	-
Financing from Borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04					
Financing from Investment Clause-06	-	-	-	-	-
Donor Grants	-	30,280	-	-	-

### 3.3. PUBLIC FINANCE SECTOR

Within this sector we aimed at as responsible, fair and transparent management of public funds as possible. Development and implementation of sound macro-economic policies will continue in coordination with the Assembly of Kosovo, Line Ministries, International Financial Organisations and Donors.

The implementation of the fiscal package continued successfully and the emission of securities successfully continued, which is characterised in each auction with a higher demand than offers, as well as with low interest rates. The Ministry of Finance examines and provides comments on all international economic and financial agreements and other activities in the financial area of the Government, according to this, the Minister of Finance on behalf of the Republic of Kosovo signed a framework cooperation agreement with the European Investment Bank, which is also the first project implemented by the EIB (European Investment Bank) for supporting private financial sector.

In order to maintain the macro-financial stability, MoF has a leading role in the sustainable collection of budget revenues, and based on this it established a working group to integrate Kosovo Customs and Tax Administration of Kosovo into Revenue Agency, enabling the transfer from border tax to tax within Kosovo, and thus enabling more effective and efficient management and reduction of informality level.

Within the reforms foreseen in the Public Administration Reform (PAR) Kosovo aims to put in place a modern Public Finance Management system (PFM), in line with the best international standards and practices, where according this the Government approved Public Financial Management strategy, enabling the efficient and effective functioning of all phases of the Public Finance Management.

Further on, MoF prepared a Public Internal Financial Control Strategy, which aims to strengthen the internal controls respectively better operation of internal controls.

**Key objectives**, within the public finance sector for the upcoming three-year period 2018-2020, are the following:

- Retaining macro-fiscal sustainability by drafting sustainable fiscal policy;
- Reducing of informal economy by implementing government programme and action plan for prevention of informal economy in Kosovo;
- Development and refinement of collection and administration of tax and customs revenues;
- Enhancing quality of public expenditure management through efficient and transparent management of public finances, a crucial role plays the liaison of priority policies, structural reforms and laws proposed under the assessed planning of public expenditures and meeting the obligations
- Adjusting of Public Internal Financial Control system, including Financial Management and Control, Internal Auditing and their harmonisation in compliance with international standards.

**Public Finance Sector** is composed of the Ministry of Finance and forecasted expenditures

**Table 5: Trends of financing 2016- 2017 and assessments 2018-2020 - Public Finance Sector**

<b>Public Finance Sector</b>	<b>2016 Expenditure</b>	<b>2017 Budgeted</b>	<b>2018 Assessed</b>	<b>2019 Assessed</b>	<b>2020 Assessed</b>
<b>Total</b>	21,588,129	138,267,899	203,740,173	250,532,883	302,336,131
Number of employees	1,648	1,828	1,833	1,833	1,833
Wages and Salaries	14,659,710	32,307,238	18,018,774	28,943,819	40,839,887
Goods and Services	5,326,432	5,151,366	7,085,251	15,931,773	21,862,042
Utilities	316,892	488,592	743,840	1,555,249	2,311,286
Subsidies and Transfers	288,757	226,000	291,973	226,000	9,002,104
Capital Expenditures*	996,338	95,154,703	167,850,335	193,876,042	218,320,812
Reserves	-	4,940,000	9,750,000	10,000,000	10,000,000
<b>Financing Sources</b>					
Government Grants	21,588,129	59,467,899	127,840,173	172,988,375	228,769,369
Own Source Revenues					
Financing from Borrowing	-	78,800,000	75,900,000	77,544,508	73,566,762
Financing from budget deficit (2%) - 04					
Financing from Investment Clause-06		78,800,000	75,900,000	77,544,508	73,566,762
Donor Grants					

\*The public finance sector includes financing from investment clauses as well as revenues from PAK. Also a contingency to neutralize the negative effects of possible macro risks is foreseen.

### **3.4 DEFENCE AND PUBLIC SECURITY SECTOR**

Defense and public security sector aims at building, maintaining and providing security for all citizens, supervising and securing the rule of law, protection of life, property and freedom of movement for all citizens. Relying on professional and human values, it offers modern access, professionalism, transparency, respect for human rights, offering equal opportunities for all citizens of the Republic of Kosovo. Furthermore, this sector aims at designing and implementing policies at the strategic level of national security and exercising the functions and powers in line with the Security Strategy of Kosovo.

Ministry of Security Force and the Ministry of Internal Affairs have enhanced their capacities in all areas for the provision of public order and security. This period is characterised by progress in various fields, such as deepening of bilateral cooperation, which resulted in taking part in numerous initiatives in exercises, training and regional cooperation with partner countries; development and advancement of capacities, capability and operational readiness; strengthening of partnership with NATO. This sector continues to be acknowledged having with professional approach, apolitical, competent, disciplined and multi-ethnic.

Based on the final outcome of the process of Strategic Review of Security Sector (SRSS) respectively recommendations from the analysis made on this process which defined the transformation need of the Ministry for Kosovo Security Force into the Ministry of Defense, this institution has prepared drafts strategic documents which will precede this process.

Agreements on readmission of repatriated persons, regional and international cooperation in the field of migration and combating organised crime have been signed.

In the field of prevention of violent extremism and radicalism, the National Strategy was established for this purpose and the same, with the Action Plan has been approved by the Government in September 2015.

**The key objectives** to meet the goals of public safety and security sector are:

- Transformation of Ministry for Kosovo Security Forces into the Ministry of Defence and Kosovo Security Forces into Kosovo Armed Forces.
- The development and completion of infrastructure, strategic and planning documents;
- Advancement of human resources management system, security and intelligence, logistical support, communications, medical support and infrastructure capacity for work, life and learning;
- Continued commitment to achieve membership into NATO Partnership for Peace Program and other Euro-Atlantic mechanisms;
- Implementation of recommendations from the security sector review (SSR);
- Preventing and combating crime, radicalisation and violent extremism, fighting terrorism and providing public safety;
- Supply and maintenance of equipment and expansion of infrastructure for the Defense and public security sector;
- The recruitment process, establishment of units and the development of training programs for the Kosovo Armed Forces;
- Enhancing the professional level of research structures and upgrading the level of methods, techniques and technological equipment which will be used during intelligence operational activities;
- Reforms in the Public Safety Agencies;
- Expanding the provision of civil documentation services;

The objectives above on public safety and security sector will be implemented through the following activities:

- Completing the package of key laws and bylaws (Law on Defense, Law on Kosovo Armed Forces, etc.);
- Completing the package of key strategic and planning documents (Strategy of Defense, the General Military Doctrine in line with SSR, as well as the National Security Strategy);
- Completing the package of key planning documents (Long Term Development Plan A+10, A3 medium term plan, Annual Protection Directive);
- Putting in place a unique integrated system with the possibility of expanding capacities according to operational needs of forces to support other Command and Control platforms;
- Finalising a package of primary and secondary legislation meaning drafting of new laws and amending and supplementing the laws related to Kosovo Armed Forces determining amending/supplementing and drafting of new bylaws;
- Supply with equipment for fighting global terrorism and Cyber Crime,
- Integrated Border management;
- Training developed within MKSF and training provided by our strategic partners supporting the development of our forces according to international standards;
- Expansion of expertise fields within the Forensic Agency;
- Finalising the Law on early retirement of Police officers;



- Capacity building of Kosovo Police in crowd management and violent protests, the establishment of operational centre for emergency management, enhancing operational capacities and completion of the emergency system, management of hazardous materials and operationalization of the helicopter unit;
- Digitalization of civil registries and equipping citizens with personal documents of high quality security, according to EU standards, providing biometric passports;
- Continuing with negotiations and drafting bilateral agreements on readmission;
- Continuing and enhancement of bilateral cooperation with friendly countries and engagement in regional initiatives and exercises;

**Budget Organisations** which belong in the Defence and Public Security Sector are the following:  
Ministry of Kosovo Security Forces, Ministry of Internal Affairs and Kosovo Intelligence Agency.

**Table 6: Trends of financing 2016-2017 and assessments 2018-2020 - Defence and Public Security Sector**

<b>Defence and Public Security Sector</b>	<b>2016 Expenditure</b>	<b>2017 Budgeted</b>	<b>2018 Assessed</b>	<b>2019 Assessed</b>	<b>2020 Assessed</b>
<b>Total</b>	<b>154,439,706</b>	<b>172,304,671</b>	<b>184,112,282</b>	<b>195,467,852</b>	<b>200,444,371</b>
Number of employees	13,458	13,801	14,037	14,456	14,785
Wages and Salaries	99,366,392	98,670,847	104,720,643	107,437,755	109,721,459
Goods and Services	27,600,167	31,317,357	34,782,233	38,251,230	40,940,230
Utilities	2,596,314	3,021,000	3,071,000	3,171,000	3,171,000
Subsidies and Transfers	2,454,492	3,021,867	3,108,406	3,117,267	3,121,082
Capital Expenditures	22,422,341	36,273,600	38,430,000	43,490,600	43,490,600
Reserves					
<b>Financing Sources</b>					
Government Grant	153,694,323	171,413,542	183,221,153	194,576,723	199,553,242
Own Source Revenues	745,383	891,129	891,129	891,129	891,129
Financing from Borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04					
Financing from Investment Clause-06					
Donor Grants	-	-	-	-	-

### 3.5 JUSTICE SECTOR

Justice Sector aims to develop and prepare legislation and policies in the field of justice, putting in place an advanced legal system in line with international standards and European best practices. Furthermore, this sector aims to create a unique independent judiciary and prosecution to ensure the rule of law, protection of rights and freedoms and property of the citizens of Kosovo.

The Ministry of Justice as the main carrier of the Justice Department is committed to manage and implement reforms in the field of rule of law. In this regard, this Ministry applied a series of measures in order to become more effective, accountable and inclusive in response to citizens' needs and priorities in the field of rule of law. The Ministry is committed to meet the obligations arising from several strategic and planning documents, including: the Action Plan for the Stabilization and Association Agreement (SAA); Action Plan on Visa Liberalization Roadmap; and Legislative Program for 2016-2017.

**The key objectives** to meet the goals of the justice sector are::

- Continuing reforms in justice in order to create an impartial and independent judicial and prosecution system,
- Increase of efficiency of courts and prosecutions for resolution of cases
- More efficient administration for the execution of criminal sanctions
- Strengthening the capacity of forensics and investigation of war crimes, organised crime, and offenses that undermine the fundamentals of the economy;
- Enhancing International Legal Aid and Cooperation system;
- Continuous promotion of professional building of judges and prosecutors,

The objectives above of the justice sector will be implemented through **the following activities:**

- Advancement of legal and institutional infrastructure of the justice system,
- Amending the legal framework in such a way that the judicial system deals with offenses only if sanctions are disputed by the parties.
- Full operationalisation of Educational Correctional and Detention Centers;
- Finalising the Agreements for International Legal Cooperation in criminal or civil matters.
- Building-up forensic capacities (anthropologist, archaeologist, forensic toxicologist)
- Training of judges and prosecutors from the Kosovo Judicial Institute
- Providing free legal aid to all citizens of the Republic of Kosovo
- Deciding on appeals by civil servants against decisions taken by employing authorities in all Civil Service institutions

**Budget Organisations** comprising the justice sector are: Ministry of Justice, Kosovo Judicial Council, Kosovo Prosecution Council, Kosovo Judicial Institute, Agency for Free Legal Aid and Independent Oversight Board for Civil Servants.

**Table 7: Trends of Financing 2016-2017 and assessments 2018-2020 – Justice Sector**

Justice Sector	2016 Expenditure	2017 Budgeted	2018 Assessed	2019 Assessed	2020 Assessed
<b>Total</b>	46,429,465	53,506,478	55,539,043	56,461,352	56,610,043
Number of employees	4,308	4,951	4,951	4,951	4,951
Wages and Salaries	32,462,214	36,379,363	37,238,662	37,422,434	37,607,125
Goods and Services	10,579,561	10,562,574	11,055,840	11,466,877	11,466,877
Utilities	1,469,688	1,607,041	1,827,041	1,827,041	1,827,041
Subsidies and Transfers	378,112	1,750,000	2,150,000	2,150,000	2,150,000
Capital Expenditures	1,539,890	3,207,500	3,267,500	3,595,000	3,559,000
Reserves	-		-	-	-
<b>Financing Sources</b>					
Government Grants	45,721,704	52,222,420	54,250,483	55,172,129	55,320,820
Own Source Revenues	707,761	1,284,058	1,288,560	1,289,223	1,289,223
Financing from Borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04					
Financing from Investment Clause-06					
Donor Grants					

### 3.6 INFRASTRUCTURE AND COMPETITIVENESS SECTOR

Infrastructure and competitiveness are key factors for the country's economic development. Among these factors is physical infrastructure of state, capital availability, regulatory conditions including business environment as well as general living quality. A business and a community cannot succeed if there is no regular power supply or roads of a high standard through which goods could be placed on the market. Economic development is influenced by a variety of factors and conditions both for development as well as promoting investment from abroad. The state's role is inevitable to stimulate the creation of competitive enterprises in sectors with high added value. Further development of this sector would foster encouragement, creation, sustainability and the growth of private enterprise productivity and attracting foreign investment.

Kosovo during the recent years made considerable results in improving road infrastructure in particular international connections. Another bigger challenge is the provision of stable and less expensive supply with electricity, while existing capacities for generation are old and lack diversity for import impacts considerably on the increase of process. On the other hand, Information Technology has become a daily tool for household use in Kosovo, but not for the improvement of operational processes in private sector, public institutions and education institutions.

Railways as means of transport are still not being used at the level required for transportation of people and goods. In this regard it is expected to have investments in railway infrastructure, investment which will foster the modernization of Kosovo's railway network.

It is necessary to have a new and innovative approach to state intervention which will enable the business to develop more solidly and with better access to finance.

**Key objectives**, for meeting the goals within the infrastructure and competitiveness sector, are:

1. Building and maintaining road transport infrastructure which will enable more free movement of people and goods and easier access to pan-European corridors,
2. Increasing the level of traffic safety,
3. Creating a favorable climate for investment and supporting the development of small and medium-sized enterprises;
4. Creating policies and legal framework in order to ensure the supply of energy;
5. Developing strategic policies for sustainable development of the mining sector; and
6. Developing policies and legal framework for POEs.

The objectives above of the infrastructure and competitiveness sector will be implemented through the following activities:

- Completing the construction of motorway segments Prishtina- Hani i Elezit, to connect with Corridor VIII and X of Southeast Europe,
- Construction of the motorway segments Prishtina-Gjilan-Konqul,
- Continuing with construction of national roads Prishtina-Peja (M9) and Prishtina-Mitrovica (M2)
- Vertical and horizontal road signalling network,
- Developing brochures and development of campaigns aimed at making the public aware on traffic safety,
- Establishing economic areas,
- Safety of products, implying market surveillance, consumer protection and market adjustment
- Construction of new generation capacities and rehabilitation of existing ones;
- Implementation of efficiency measures and diversification of sources on energy generation;
- Developing promotional projects in the field of EE and RES ....
- Rehabilitation and opening new sites in the mine “Trepça”;
- Evaluating the potential of mineral resources through research;
- Evaluating the mineral-bearing potential for chrome, copper, platinum and their prospects in the area between Albania and Kosovo;
- Producing Maps (geological planchettes) scale 1:25000 for the territory of the Republic of Kosovo;
- Evaluating mineral-bearing potential and pre-preparation of the investment package for 11 areas of interest, published by the Government of Kosovo....

**Budget Organisations** comprising the infrastructure and competitiveness sector are: Ministry of Infrastructure, Ministry of Economic Development, Ministry of Trade and Industry, Privatisation Agency of Kosovo, Regulatory Authority of Electronic and Postal Services, Kosovo Competition Commission, Independent Commission for Mines and Minerals, Civil Aviation Authority, Regulatory Railways Authority and Air Navigation Services Agency, Energy Regulatory Office.

**Table 8: Trends of financing 2016-2017 and assessments 2018-2020 - Infrastructure and Competitiveness Sector**

<b>Infrastructure and Competitiveness Sector</b>	<b>2016 Expenditure</b>	<b>2017 Budgeted</b>	<b>2018 Assessed</b>	<b>2019 Assessed</b>	<b>2020 Assessed</b>
<b>Total</b>	259,720,591	355,100,127	368,456,239	386,966,572	445,025,779
Number of employees	1,298	1,344	1,339	1,339	1,339
Wages and Salaries	13,263,568	13,684,937	13,862,235	13,931,341	14,000,793
Goods and Services	13,484,909	16,859,906	17,679,406	17,747,437	17,859,446
Utilities	412,867	787,618	787,618	787,618	787,618
Subsidies and Transfers	12,988,984	7,975,860	8,467,684	8,467,684	8,467,684
Capital Expenditures	219,570,264	315,791,806	272,659,296	286,032,492	293,910,238
<i>Contingency for infrastructure and competitiveness</i>	-	-	<i>55,000,000</i>	<i>60,000,000</i>	<i>110,000,000</i>
<i>Reserves</i>					
<b>Financing Sources</b>					
Government Grants	250,678,734	303,961,259	316,450,777	335,493,730	385,180,654
Own Source Revenues	9,041,857	10,979,779	9,984,399	10,039,677	10,051,315
Financing from Borrowing	-	40,159,090	42,021,063	41,433,165	49,793,810
Financing from budget deficit (2%) - 04	-	13,959,090	15,821,063	16,877,673	18,360,572
Financing from Investment Clause-06	-	26,200,000	26,200,000	24,555,492	31,433,238
Donor Grants					

### 3.7 AGRICULTURE SECTOR

The agriculture sector aims at creating and implementing developmental policies and programmes which have a direct impact on the welfare of rural area of Kosovo.

The overall aim is orientation and ensuring a sustainable development of crops, livestock reserve and enhancing forest areas, aiming at optimal growth of production in order to better fulfill the country's needs, minimize import and increase export opportunities as well as support and manage this development.

Agriculture plays an important role in Kosovo's economy due to the expansion of the rural population creating opportunities for generation of income.

Expressed as a percentage, employed in agriculture are 26.7% compared with the total number of employees in Kosovo and constitutes around 17.6% of total exports. The agricultural sector, as such, will play an important role in providing employment opportunities and income generation for people living in rural areas. The development of the agriculture sector is of particular importance, both in terms of improving trade balance, unemployment reduction, food security, environmental protection and improving the lives of citizens in general.

As a result of supporting this sector, only in the last year, the net farm income increased by 12.2%. Therefore, the Government should continue to support the agriculture sector in the coming mid-term period.

As a key sector of Kosovo's economy, agriculture is full of systematic and structural challenges which need to be addressed to use the competitive potential and growth. Currently, agriculture is characterised by low productivity, mainly due to: (i) fragmented holdings with an average of 2 hectares; (ii) outdated farming technologies and lack of knowledge/modern farming skills among farmers and agro-processors; (iii) lack of diversification of agricultural products and (iv) lack of investment in irrigation.

Agriculture sector, in the future through the development of policies and strategies will be oriented in supporting factors of production in stimulating farmers and creating a more favorable development environment.

These policies and strategies are creating opportunities to achieve sustainable development and a more efficient use of natural resources.

**Key objectives**, for meeting the goals within agriculture sector, are

- Increase of sustainable development in agriculture sector and provision of the appropriate level of incomes of agricultural manufacturers, and the sustainable production of qualitative food and protection of environment,
- Increase of competitive ability in agriculture, in particular in agro-food sector, promotion of development and employment opportunities as well as improvement of the quality of life in rural areas,
- Increase of capacity and productive potential of farms, that will enable increase of domestic production and decrease of import in agriculture products,
- Improvement of sustainable forest development and all of their ecological, economic and social functions, including the preservation of biodiversity, and
- Management and development of qualitative agriculture sector, including the development of policies and enhancing legislative framework.

Objectives above of the agricultural sector will be implemented through the following activities:

- Investment in enhancing production capacities and improving hygiene conditions in livestock farms, increasing surfaces with fruits and vegetables, both in open plantations and greenhouses, increasing surfaces with vineyards, preservation and storage of primary products and improving the market supply of fresh calves and birds meat;
- Investments in new technologies and enhancing the processing capacities of agro-food industry, such as meat, milk, fruits, vegetables and grapes;
- Investment in business and service activities in rural and mountain areas (rural tourism, aromatic plants and forest fruits);
- Investments in renewable energy sources;
- Investment in modernisation and expansion of existing systems and new irrigation at farm level and other activities foreseen in the framework on the implementation of ARDP 2014-2020;
- Forestation of bare forest areas, forest recovery damaged from fire and taking damage prevention measures by addressing the entomological preparations.

**Budget Organisation** part of the Agriculture Sector is the Ministry of Agriculture, Forest and Rural Development.

**Table 9: Trends of financing 2016- 2017 and assessments 2018-2020 - Agriculture Sector**

Agriculture Sector	2016 Expenditure	2017 Budgeted	2018 Assessed	2019 Assessed	2020 Assessed
<b>Total</b>	50,817,594	57,596,233	59,141,461	59,636,711	56,817,460
No. of employment	354	392	392	392	392
Wages and Salaries	2,173,944	2,319,194	2,431,990	2,443,702	2,455,473
Goods and Services	3,566,038	2,981,681	3,363,681	3,375,219	3,375,219
Utilities	99,571	118,768	118,768	118,768	118,768
Subsidies and Transfers	43,869,949	47,203,922	47,477,022	47,599,022	47,668,000
Capital Expenditures	1,108,092	4,972,668	5,750,000	6,100,000	3,200,000
Reserves					
<b>Financing Sources</b>					
Government Grant	47,719,240	54,392,718	52,382,846	52,878,096	52,958,845
Own Source Revenues	170,769	183,515	183,515	183,515	183,515
Financing from Borrowing	2,927,585	3,020,000	6,575,100	6,575,100	3,675,100
Financing from budget deficit (2%) - 04	2,927,585	3,020,000	3,675,100	3,675,100	3,675,100
Financing from Investment Clause- 06			2,900,000	2,900,000	
Donor Grants	39,972	-	-	-	-

### 3.8 ENVIRONMENTAL SECTOR

The environment sector aims at a balanced and sustainable development by ensuring environment protection and development of proper environmental planning. Support to the sustainable development aims at improving quality of life of Kosovo citizens and of the generations to come. The achievement of this developmental objective will be done through integration of environment strategy with the sectorial strategy and through monitoring, information and environment reporting.

All this will enable integrated and sustainable administration of environment. Quality of environment in Kosovo should be improved. Kosovo is facing problems in respect of water management, waste management, and air and land pollution. Other problems of environment are caused by unplanned environments development, and constructions without permits, which are affecting the area and are decreasing possibilities for the future country's development.

**Key objectives**, within the environment sector for the upcoming three-year period 2018-2020, depending on legal competencies of relevant institutions, are:

- Completing legal infrastructure in the scope of activity of environment and its harmonisations with EU legislation and its implementation,

- Improvement of environment situation and monitoring of its status,
- Administration and better management of water resources and rehabilitation of riverbeds,
- Mapping of the Rural Kosovo Map and Zoning maps of Municipalities and E-permits.
- Strengthen the Environmental, Water, Nature, Spatial Planning, Construction and Housing Inspectorate;
- Rational use and increase of water source capacities,
- Sustainable waste management.
- Establishment of water service providers Standards;
- Enhancing monitoring and reporting on the performance of water service providers.

**Budget Organisations** which belong to the Environment Sector are: Ministry of Environment and Spatial Planning and Water Service Regulatory Authority.

**Table 10: Trends of financing 2016- 2017 and assessments 2018-2020 - Environment Sector**

Environment Sector	2016 Expenditure	2017 Budgeted	2018 Assessed	2019 Assessed	2020 Assessed
<b>Total</b>	37,182,453	49,480,168	51,931,208	55,205,366	58,217,769
Number of employees	352	356	356	356	356
Wages and Salaries	2,164,127	2,313,557	2,336,750	2,348,434	2,360,176
Goods and Services	1,037,649	1,252,576	1,252,576	1,264,085	1,264,085
Utilities	44,973	89,723	91,882	92,847	93,508
Subsidies and Transfers	-	-	-	-	-
Capital Expenditures	33,935,704	45,824,312	48,250,000	51,500,000	54,500,000
Reserves					
<b>Financing Sources</b>					
Government Grants	36,462,377	49,480,168	51,931,208	55,205,366	58,217,769
Own Source Revenues					
Financing from Borrowing	720,076	-	-	-	-
Financing from budget deficit (2%) - 04	720,076				
Financing from Investment Clause-06					
Donor Grants*	1,294,549				

### 3.9 CULTURE SECTOR

The mission of the cultural sector is the creation and development of policies, environment and appropriate mechanisms for promotion of cultural activities, assessment and protection of cultural heritage, empowerment and participation of youth in governance and creativity, development and affirmation of Kosovo sports in the country and in international arena as well as the promotion and protection of copyright.



The sector is engaged in support, guidance, coordination and monitoring the progress in implementation of cultural diversity projects designed and implemented by professionals. Kosovo is promoted with dignity in great events of culture and sport in the world, noteworthy are the achievements in international arena winning a gold medal in the Olympic Games in Rio, Brazil in 2016, nominations for “Oscar” awards as well as participation in international architecture exhibition at the Venice Biennale. The cultural sector is the best ambassador of presenting the identity and values of the country in the international arena.

Attention to cultural heritage is everyone's responsibility and an important factor in sustainable urban, social, economic and cultural development, a particular challenge for Kosovo remains inter-institutional coordination and comprehensiveness in the study and objective interpretation as well as inclusive identification, assessment and protection of social and cultural values of cultural heritage in the country.

**The key objectives** to meet the goals within the cultural sector are:

- Support, mass, the qualitative development of sports and building a sports infrastructure in line with international standards,
- Integrated approach to the protection of cultural heritage towards sustainable development, education, training and active participation of all in the assessment, prevention and protection of cultural heritage damage
- Supporting in the establishment of an independent culture and promotion of cultural diplomacy,
- Empowerment of youth in development processes, care for youth health and safety, providing non-formal education and creating employment opportunities,
- Monitoring of the digitization process in all its complexity and development of media pluralism that serves to all citizens of Kosovo.
- Planning, design, management and maintenance of the memorial complexes of particular importance.

Objectives above of Culture sector will be implemented through the following activities:

- Improvement of sports and cultural infrastructure in order to create adequate spatial, technical and professional development activities according to European standards;
- Stimulating the athletes in the Olympic cycle to be active in sports and work on further promotion of sports and performance;
- Developing management plans and determining management units for major localities of cultural heritage;
- Increasing the number of publications, guidelines, virtual media, etc. and systematic distribution in the country and in the international arena regarding the cultural sector;
- Developing professional skills for young people to be prepared in accordance with current labor market needs through job training and expansion of the variety of youth services at the Youth Center;
- Supporting Book and libraries;
- Coordination with neighboring countries for digital frequency plan;
- Developing a plan of expropriation and elaborations of memorial complexes management.

**Budget Organisations** comprising the culture sector are: Ministry of Culture, Youth and Sports, Kosovo Council for Cultural Heritage, Independent Media Commission, Radio and Television of Kosovo and Agency for Management of Memorial Complexes.

**Table 11: Trends of financing 2016- 2017 and assessments 2018-2020 - Culture Sector**

culture sector	2016 Expenditure	2017 Budgeted	2018 Assessed	2019 Assessed	2020 Assessed
<b>Total</b>	<b>29,447,774</b>	<b>49,862,893</b>	<b>52,470,417</b>	<b>64,474,373</b>	<b>64,538,071</b>
Number of employees	695	832	832	832	832
Wages and Salaries	4,011,798	4,671,942	4,769,150	4,792,729	4,816,427
Goods and Services	1,495,074	1,524,259	1,659,259	1,749,636	1,749,636
Utilities	356,369	422,458	475,458	485,458	495,458
Subsidies and Transfers	17,016,765	18,206,550	17,206,550	17,226,550	17,256,550
Capital Expenditures	6,567,768	25,037,684	28,360,000	40,220,000	40,220,000
Reserves					
<b>Financing Sources</b>					
Government Grants	29,394,583	49,792,390	52,399,945	64,403,901	64,467,599
Own Source Revenues	53,191	70,503	70,472	70,472	70,472
Financing from Borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04					
Financing from Investment Clause-06					

### 3.10 EDUCATION SECTOR

The education sector aims at developing society based on knowledge and competitive skills, which is integrated in international flows with equal opportunities for advancement of each individual ready to contribute to sustainable social and economic development in the country.

The education sector has state and civic responsibility in the proper education of the youth within the Republic of Kosovo to prepare them as good citizens and useful for the country. The role of the sector is a source of intellectual and political, economic, and social in the progress of the country and society.

The education sector in the Republic of Kosovo is going through some reformation processes whose objective is increasing participation and improvement of quality of education. We worked on drafting legislation and numerous legal and sublegal acts were adopted, many schools are built and many new institutions are established. We worked on improving curricula and on drafting and providing new text books for schools, supported by new practices of teaching and learning. We also aim at supporting scientific researches and participation in all activities of national, regional and international level of education, to achieve European standards.

Access to knowledge, scientific research and skills are in function of accelerating the development of our society and competitiveness in-house and abroad in line with international standards

**Key objectives** to meet the education sector goals are:

- Increase the inclusion and prevent pre-university education dropout. This objective covers the increase of inclusion and qualitative education in early childhood,

- Qualitative and efficient management of education system based on transparency and accountability. This objective covers building management capacities at central, municipal and school level,
- Development of a functional system for quality assurance, in accordance with international standards. This objective deals with building capacities for quality assurance at all levels,
- Building quality of teaching through sustainable system for professional preparation and development of teachers. This objective covers continuous professional development of teachers,
- Enhancing learning through qualitative teaching, by applying the curricula based on competences and using high quality learning resources. This objective covers implementation of new curricula at all schools,
- Education and professional training in accordance with requirements of labour market. This objective is achieved by increasing the capacity of the Centers for Counseling and Career Guidance in municipalities and implementation of concepts by Core Curriculum; development of new curricula and review of all VET curricula; improving the quality of training services provided in vocational training centers, and
- Increasing quality and competitiveness of higher education through stimulating refinement in teaching, scientific research, innovation and internationalism.

**Budget Organisations** comprising Education Sector are: Ministry of Education, Science and Technology, Kosovo Academy of Arts and Science, University of Prishtina

**Table 12: Trends of financing 2016- 2017 and assesments 2018-2020 - Education Sector**

Education Sector	2016 Expenditure	2017 Budgeted	2018 Assessed	2019 Assessed	2020 Assessed
<b>Total</b>	75,165,543	79,165,038	84,905,306	92,208,031	92,400,024
Number of employees	3,797	4,201	4,202	4,202	4,202
Wages and Salaries	37,086,931	37,450,470	39,440,411	39,129,541	39,319,616
Goods and Services	10,563,197	12,266,460	13,267,207	14,097,302	14,099,220
Utilities	1,905,833	2,490,259	2,590,259	2,590,259	2,590,259
Subsidies and Transfers	4,262,101	5,120,929	5,120,929	5,120,929	5,120,929
Capital Expenditures	21,347,481	21,836,920	24,486,500	31,270,000	31,270,000
Reserves					
<b>Financing Sources</b>	-	-	-	-	-
Government Grants	67,689,690	69,816,158	76,890,243	82,898,040	85,471,467
Own Source Revenues	5,932,854	6,701,480	6,805,503	6,910,045	6,928,557
Financing from Borrowing	1,543,000	2,647,400	1,209,560	2,399,946	-
Financing from budget deficit (2%) - 04	1,543,000	2,647,400	1,209,560	2,399,946	
Financing from Investment Clause-06			-	-	-
Donor Grants*	662,075				-

### 3.11 HEALTH SECTOR

Health sector aims at improving the health of population by promoting healthy manners of living and provision of qualitative health services with easier and equal access and cost-effectively.

Current situation in health sector is considered with different achievements in different areas but also with considerable difficulties for securing the volume and required quality of health services.

Law on Health Insurances foresees the establishment of a mandatory public scheme of health insurance foreseeing the premium payment of health insurance. Use of health capacities is low, while quality of health services is still not satisfactory, especially with regard to hospital infections, use of guidance and clinical protocols and the way how patients are treated should be at the centre of attention, and sufficient time should be paid to clinical examinations.

Secondary and tertiary health care provides hospital, outpatient, diagnostic, therapeutic, rehabilitation, emergency transportation, dental care services, as well as regionalized public health services for patients treated in the organizational units of Hospital and University Clinical Service of Kosovo. Except providing health services they provide basic education, postgraduate and participation in relevant research in cooperation with the Faculty of Medicine.

Kosovo society has relatively sufficient infrastructure capacities and good network with health institutions when it comes to administration of emergency services for the population with the exception of capacities for emergency services at Hospital and University Clinical Service of Kosovo, which meet the minimum required.

**Key objectives** to meet the goals of the health sector are:

- Protection of health and improvement of quality of health services provided,
- Reorganisation of financing of health sector in order to provide accessible and equal services,
- Integrated effective and efficient health services, implementation of new methods in diagnostics and therapy,
- Functional health infrastructure,
- Operationalization of the Health Insurance Fund (HIF), and
- Development of Health Information System (HIS) and being functional in all health institutions.

The objectives above the health sector will be implemented through the following activities:

- Establishing and improving the provision of accessible and equal health services;
- Improving maternal and child health;
- Prevention and control of chronic and chronic non-contagious conditions;
- The campaign of early detection of cancer; breast, cancer of the cervix and colorectal cancers, and genetic fatal malformation;;
- Functionality of Cardio Surgery and invasive cardiology services;
- Development of Health Information System (HIS) and functional in all health institutions;
- Collection of premiums, signing annual contracts with health care providers according to the basic package;

- Putting in place a payment system that will promote innovation and rewarding performance, quality and effectiveness, as well as to ensure the purchase of health services;
- Continuous improvement of quality in family medicine; and
- Construction of Emergency Health Center.

**Budget Organisations** which belong to health sector are: Ministry of Health (MoH) and Hospital and University Clinical Service of Kosovo (HUCSK).

**Table 13: Trends of financing 2016- 2017 and assessments 2018-2020 - Health Sector**

Health Sector	2016 Expenditure	2017 Budgeted	2018 Assessed	2019 Assessed	2020 Assessed
<b>Total</b>	118,605,043	126,663,627	147,789,814	150,589,754	156,489,756
Number of employees	7,703	8,084	8,084	8,084	8,084
Wages and Salaries*	59,202,835	60,504,684	79,902,249	80,300,260	80,700,262
Goods and Services	35,186,115	38,736,796	38,736,796	36,723,902	42,023,902
Utilities	3,535,238	3,821,964	3,821,964	3,821,964	3,821,964
Subsidies and Transfers	9,841,961	7,013,805	7,213,805	7,413,805	7,613,805
Capital Expenditures	10,838,894	16,586,378	18,115,000	22,329,823	22,329,823
Reserves					
<b>Financing Sources</b>	-	-	-	-	-
Government Grants	112,655,761	124,238,612	146,689,814	148,539,723	149,234,725
Own Source Revenues	2,225,937	-	-	-	-
Financing from Borrowing	3,723,345	2,425,015	1,100,000	2,050,031	7,255,031
Financing from budget deficit (2%) - 04	3,723,345	2,425,015	1,100,000	2,050,031	7,255,031
Financing from Investment Clause-06	-	-	-	-	-
Donor Grants	1,174,597	1,174,597	1,174,597	1,174,597	-

\* On behalf of the Ministry of Health, under the economic category of wages and salaries are included EUR 18.5 million each year for the period 2018-2020 for health insurance

### 3.12 SOCIAL ISSUES SECTOR

Social sector issues aims at development, implementation and coordination of 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 all citizens of Kosovo.

The support to social categories through social protection and professional schemes will also continue during the upcoming years. In this function, the review of legal infrastructure was

carried out to provide services, through programmes which are designed to help the most needed part of population: the elderly people, poverty stricken, persons with disabilities, displaced persons, targeting the beneficiaries of social schemes, the unemployed and others most in need of assistance from Government.

We will work in all directions with legal reform to support labour and employment policy, health care and better education, especially for the minorities living in Kosovo. Urgent issue to be addressed is unemployment of young people facing unemployment rate nearly twice as high as the active population in general. Related to this, analysis and surveys report that the level of skills to the workforce and the discrepancy is with market requirements.

Organization and functioning of Vocational Education should be in compliance with the legal infrastructure of the Republic of Kosovo and similar to the European one. Modern employment services are managed according to objectives, this orientation appears to be clear to the the future Kosovo Employment Agency.

**Key objectives** to meet the purposes of social issues sector are:

- Implementing active labour market measures, increasing employment, skills development and better functioning of the labour market for all citizens living in Kosovo.
- Increase of social welfare through enlargement and increase of quality by providing social and family services, with special focus on vulnerable groups,
- Stabilisation of communities, returns, integration in Kosovo and better well-being,
- Development of a sustainable pension system and institutional capacity building for exercising the right to benefits and better services for all communities.
- Empowering the role of social partners in developing social and economic policies of the county, improving labour conditions of workers and decrease of informal employment.

The objectives above for social issues sector will be implemented through the **following activities:**

- The reform and modernization of public employment services (PES) adequate for the needs of labour market.
- Expansion of active labor market measures focusing on people who face difficulties in the labour market.
- Providing quality services to vocational training in line with labor market needs.
- Developing standards and alternative/innovative forms of providing social welfare services and promoting social inclusion.
- Construction of houses, collective buildings, schools, health centers for a better welfare of communities.
- Construction of road infrastructure, sports facilities for making the life of communities and all the citizens of Kosovo much easier.
- Creating a legal basis for a democratic society, enhancing credibility and cooperation with local and international institutions..
- Enhancing the service quality through re-organisation of pension entities in level of Agency for the implementation of pension schemes. Upgrading and coordination of social security by entering into bilateral agreements for executing human rights and creating opportunities for the workforce movement.

- Development and empowering the dialogue with social partners, in particular, dialogue with employers 'and employers' organizations by developing structures and capacities of ESC working system.
- Improving employees' rights and guaranteeing minimum standards of safety and health at work, according to international standards by improving legal framework, raising awareness and better monitoring and enforcement of the legal framework.
- Strengthening the mechanisms and inter-institutional coordination for reducing informal employment.

**Budget organisations** comprising the social issues sector are: Ministry of Labour and Social Welfare and Ministry of Communities and Returns.

**Table 14: Trends of financing 2016-2017 and assessments 2018-2020 – Sector for Social Issues**

Sector for Social Issues	2016 Expenditure	2017 Budgeted	2018 Assessed	2019 Assessed	2020 Assessed
<b>Total</b>	384,085,495	383,606,990	393,473,215	400,747,036	398,852,200
Number of employees	926	964	964	964	964
Wages and Salaries	5,600,600	5,725,887	5,800,112	5,829,028	5,858,089
Goods and Services	3,334,343	2,148,190	2,148,190	2,176,675	2,176,675
Utilities	360,662	403,239	403,239	403,239	403,239
Subsidies and Transfers	368,042,785	367,491,674	377,761,674	384,700,094	382,776,197
Capital Expenditures	6,747,105	7,838,000	7,360,000	7,638,000	7,638,000
Reserves					
<b>Financing Sources</b>	-	-	-	-	-
Government Grants	384,085,495	383,606,990	393,473,215	400,747,036	398,852,200
Own Source Revenues			-	-	-
Financing from Borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04					-
Financing from Investment Clause-06			-	-	-
Donor Grants					-

## **FOURTH PART**

### **4 Municipal level**

#### **4.1 Introduction**

Medium Term Expenditure Framework 2018-2020 for municipal level determines government grants for municipal financing 2018 and orientations for 2019-2020, based on the Government's strategic priorities in the field of intergovernmental fiscal relations. In addition, this document defines the level of municipal own source revenues for fiscal year 2018 and medium-term forecast 2019-2020.

The principles, criteria and formulas used for the allocation of government grants for municipal financing 2018 are based on the Law on Local Government Finances (LLGF) and Table 1 of the macro-fiscal projections prepared by the Ministry of Finance as specified within the Law on Public Financial Management and Accountability (LPFMA).

The municipal budget process takes into account the following aspects:

- Budgeting at the level of programs and sub-programs, in line with the existing structure of the chart of accounts
- Improvements in approach of result-oriented budgeting and performance,
- Implementation of the multi-year concept on capital planning projects, and
- Defining the structure of expenditures by economic categories.

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

#### **4.2 Sources of Municipal Financing for 2018-2020**

##### **4.2.1 General Grant for 2018 and forecasts for 2019 - 2020**

Based on Table 1, prepared by the Department of Economic and Fiscal Policy and International Financial Cooperation within the Ministry of Finance in line with LLGF, the Grant Commission on the meeting held on 04 April 2017 approved the General Grant to municipalities for 2018 amounts to 173.6 million euros.

This allocation is based on the formula set out in Article 24 of LLGF. Pursuant to this Article, 10% of the total budgeted revenues of central government are allocated to municipalities, excluding: the own source revenues of central level, budget support and grants, revenues from property tax, revenues from dividends, designated donor grants, the effect of one-off revenues from tax debts as well as taxes and charges and others from local government.

As shown in the following table, the overall government revenues for 2018 are expected to be 1,898 million euros. Out of this amount, the revenues as specified in Article 24 of LLGF are



deducted and we come to the basis for allocating general grant for municipalities, which grant for 2018 amounts to 173.6 million euros.

Table 1: Determining the amount of general grant for municipalities for 2018-2020 (mil. Euro)

Description	2017*	2018	2019	2020
A. Overall Government revenues	1,644	1,898	2,067	2,257
Deducted:				
Central level own source revenues	-45	-52	-52	-53
Budget support and grants	-1	-5	-5	-5
Property tax	-25	-30	-33	-36
Revenues from dividends	-15	-5	-5	-5
Donor Designated Grants	-12	-12	-12	-12
Taxes, charges and others from Government	-54	-52	-52	-52
Effects from one-off revenues from debt	-0	-6	-6	-6
B. Basis for calculating general grant	1,492	1,736	1,903	2,088
C. General Grant for Municipalities (10% of B)	149.2	173.6	190.3	208.8

\* Calculation of the 2017 General Grant is done based on the projections of MTEF 2017-2019.

With the recent amendment of the Law on Local Government Finances, approved in the Assembly on July 14, 2016, the correction is made to the formula of general grant. Part of 2.7% of the general grant is allocated to 14 municipalities having a number of population under 22,000 inhabitants. From this amount, half is allocated to these 14 municipalities based on the number of inhabitants they have and the other half is allocated as same fixed amount for each of these Municipalities.

For the purpose of levelling low capacity of the revenues for smaller municipalities, based on LLGF, each municipality will receive annually a total fixed (random) amount of 140,000 euros, deducting by 1 euro or 0 euros per capita for municipalities with population equal to or greater than 140,000 inhabitants. Thereafter, allocation is made to municipalities based on the formula for the allocation of general grant to municipalities pursuant to LLGF: (i) the number of the population is calculated as eighty nine percent (89%); (Ii) the geographical size of the municipality with six percent (6%); (Iii) the number of minority population within the municipality (3%); (iv) municipalities whose majority of population consists of ethnic minorities at two percent (2%).

Table 2: Structure of General Grant for 2018-2020 as per LLGF (mil. Euro)

Factors	2017	2018	2019	2020
	Estimation	Estimation	Estimation	Estimation
General Grant	149.2	173.6	190.3	208.8
Contingency for correction of formula	4	4.7	5.1	
Fixed amount	3.6	3.6	3.6	3.6
Population (inhabitants)	1,780,021	1,780,021	1,780,021	1,780,021
Budget: 89% of aggregate amount	125.99	147.1	161.6	182.6
Municipal area (km2)	10,901	10,901	10,901	10,901
Budget: 6% of aggregate amount	8.5	9.92	10.89	12.30
Minority communities in the Municipality	107,926	107,926	107,926	107,926
Budget: 3% of aggregate amount	4.3	5.0	5.4	6.2
Population of Minority Municipalities	62,031	62,031	62,031	62,031
Budget: 2% of aggregate amount	2.8	3.3	3.6	4.1

Table 3 below shows the distribution of the General Grant to municipalities according to the formula provided in LLGF.

Table 3: Distribution of General Grant in municipalities 2018-2020

# The formula of General Grant appropriation for the year 2018-2020

Criteria		Year 2018		Year 2019		Year 2020	
Revenues budgeted (€ m)		1,736.0		1,903.0		2,088.0	
General Grant (10%)		10%		173,600,000		190,300,000	
Contingency for the correction of formula		2.7%		4,687,200		5,138,100	
General Grant		168,912,800		185,161,900		185,161,900	
Fixed amount		140,000		3,636,657		3,636,657	
Total		165,276,143		181,525,243		205,163,343	
Population		89%		167,095,372		161,557,466	
Geographical size		6%		99,659		10,891,515	
Minority population		3%		49,824		5,485,757	
Minority population		2%		3,065,523		3,680,305	
Minority population						4,103,267	

Criteria for General Grant allocation (according to LLGF)											
Municipalities	Population		Geographical size		Minority Population		Municipalities with Minority Population		Kontingencija per korekciju		Total General Grant 2019
	Population	89%	Geographical size	6%	Minority Population in Municipalities	3%	Municipalities with Minority Population	2%	Fixed amount for 14 municipalities	Proportionately to the population of 14 municipalities	Total
1 Decan	40,019	2,25%	297	2,72%	451	0,51%		0,00%		-	-
2 Dibrë	33,997	1,91%	430	3,94%	13,559	12,56%		0,00%		-	-
3 Ferizaj	108,610	6,10%	345	3,17%	4,151	4,18%		0,00%		-	-
4 Fushë Kosovë	34,827	1,96%	83	0,76%	4,311	4,18%		0,00%		-	-
5 Gjakovë	94,556	5,31%	587	5,39%	6,679	6,19%		0,00%		-	-
6 Gllanë	90,178	5,07%	392	3,69%	2,264	2,10%		0,00%		-	-
7 Gërrë	58,531	3,29%	276	2,53%	45	0,04%		0,00%		-	-
8 Hamit Elbert	9,403	0,53%	83	0,76%	44	0,04%		0,00%	167,400	191,125	358,525
9 Isog	39,289	2,21%	454	4,17%	3,085	4,00%		0,00%		-	-
10 Kacanik	6,084	0,34%	74	0,68%	4	0,00%		0,00%	167,400	123,663	291,063
11 Kamenicë	33,409	1,88%	211	1,9%	1,864	0,03%		0,00%		-	-
12 Kamenicë	36,085	2,03%	424	3,89%	36	1,73%		0,00%		-	-
13 Kërn	38,496	2,16%	309	2,84%	1,341	1,13%		0,00%		-	-
14 Leposaviq	13,773	0,77%	539	4,95%	323	0,36%		0,00%		-	-
15 Lipjan	57,605	3,24%	338	3,10%	3,107	2,88%		0,00%		-	-
16 Malishevë	54,613	3,07%	306	2,81%	54	0,05%		0,00%		-	-
17 Mamushë	5,407	0,31%	32	0,29%	379	0,33%		8,88%	167,400	111,935	279,335
18 Mitrovicë	71,909	4,04%	331	3,04%	2,199	2,04%		0,00%		-	-
19 Novo Brdo	6,729	0,38%	204	1,87%	3,202	2,97%		0,00%	167,400	136,773	304,173
20 Pejë	21,549	1,21%	105	0,96%	1,653	1,53%		0,00%	167,400	438,003	605,403
21 Prizren	96,450	5,42%	603	5,53%	8,334	7,72%		0,00%		-	-
22 Prishtinë	88,499	4,97%	633	5,81%	849	0,79%		0,00%		-	-
23 Prishtinë	198,897	11,17%	514	4,72%	4,146	3,84%		0,00%		-	-
24 Prizren	177,781	9,99%	603	5,53%	31,682	29,36%		0,00%		-	-
25 Ristecë	56,208	2,78%	278	2,55%	944	0,87%		0,00%		-	-
26 Shtetë	6,949	0,39%	248	2,28%	3,182	2,9%		0,00%	167,400	141,245	308,645
27 Shkup	27,324	1,54%	134	1,23%	858	0,79%		0,00%		-	-
28 Shkup	50,858	2,69%	374	3,43%	109	0,10%		0,00%		-	-
29 Shkup	59,222	3,36%	361	3,31%	575	0,53%		0,00%		-	-
30 Viti	46,987	2,64%	270	2,48%	258	0,24%		0,00%		-	-
31 Vushtri	69,570	3,93%	345	3,17%	960	0,89%		0,00%		-	-
32 Zhepë	6,616	0,37%	333	3,06%	995	0,92%		0,00%	167,400	134,476	301,876
33 Zvezdë	7,481	0,42%	123	1,13%	386	0,36%		0,00%	167,400	132,058	319,458
34 Gërrë	10,675	0,60%	131	1,20%	1,131	3,17%		0,00%	167,400	129,325	384,729
35 Kibër	2,556	0,14%	23	0,21%	1,193	1,11%		0,00%	167,400	51,953	219,353
36 North Mitrovicë	12,526	0,69%	5	0,05%	887	0,80%		0,00%	250,537	51,953	302,490
37 Prishtinë	1,787	0,10%	29	0,27%	2	0,00%		2,88%	167,400	36,222	203,622
38 Prishtinë	3,866	0,22%	69	0,63%	168	1,06%		6,23%	167,400	78,580	245,980
TOTAL	1,780,021	100%	10,901	100%	107,926	100%	62,031	100%	2,343,600	4,687,200	3,636,657
									147,095,767	9,916,569	4,958,284
									3,305,523		3,305,523
									190,300,000		208,800,000

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

The employees in the administration of Municipal Departments for Pre-University education are financed from the General Grant for municipalities. Further on, employees in the administration of Municipal Departments for Primary Health are financed from the General Grant for Municipalities.

Further on, specific grant for education and specific grant for health will be supplemented from the general grant when needed.

#### **4.2.2 Specific grant for pre-university education for 2018-2020**

The specific grant for pre-university education for 2018 was approved by the Grants Commission in the amount of 170.2 million euros. Further on, for 2018 compared with 2017, according to MEST a number of 8,600 fewer students in pre-university education was reported. In calculating the grant for education, the decline in the number of students means around 430 less teaching hours. All these hours will be held in Education as quality coordinators in schools.

Specific Grant for Education according to LLGF is based on open system of financing, taking into account the criteria and parameters on state formula of pre-university education proposed by the MEST for 2018. The state formula addresses the level of pre-primary schools, primary and secondary schools, taking into account the following elements:

- a) The number of pupils enrolled for 2016/2017;
- b) The pupil-teacher ratio for primary and secondary education for majority pupils 1:21.3;
- c) The pupil-teacher ratio for primary and secondary education for minority pupils 1:14.2;
- d) The pupil-teacher ratio for preschool education 1:12;
- e) The pupil-teacher ratio for secondary vocational education for majority students 1:17.2, and for minority pupils 1:11.5;
- f) The pupil-teacher ratio for mountainous areas 1:14.2;
- g) Calculation for the teaching staff of English Language for I and II grade
- h) Calculation for administrative and technical staff for 630 pupils, 1 staff in pre-primary and primary education (based on Administrative Instruction no.18/2009 of MEST);
- i) Calculation for administrative and technical staff for 470 pupils, 1 staff in secondary education (based on the Administrative Instruction no.18/2009 of MEST);
- j) Calculation for teaching staff in maternity leave is foreseen 3% (base is the teaching staff).
- k) Calculation for support staff for 170 pupils, 1 staff (cleaner) and 1 staff for school (guard) based on Administrative Instruction no.18/2009 of MEST;
- l) Professional services of 80 professors (based on the Administrative Instruction no.18/2009 of MEST);
- m) Quality Coordinators;
- n) Salaries are calculated based on the average salary by levels;
- o) Working experience is calculated by taking the average of 15 years;

Table 4: Distribution of specific grants for pre-university education for 2018-2020

No	Municipality	Number of students					Teaching staff										Professional administrative and assistance staff						
		Number of pre-primary and primary students	Number of students of High School	Total number of students	Number of teachers in special education	Number of teachers in special education in sick and maternity leave	Number of pre-school teachers	Number of teachers in pre-primary school in sick leave and maternity leave	Number of primary teachers	Number of teachers in primary schools in sick leave and maternity leave	Number of teachers of high school	Teachers at Correctional Center in Lipljan	Teachers of high school in sick leave and maternity leave	Additional teachers for mountainous areas	Number of English Teachers	Number of quality coordinators	Total teaching staff	The number of administrative staff for the elementary school	Number of administrative staff for high school	Pedagogical / Psychological Vocational Service	The number of support staff for pupils	Total teaching , professional, administrative and support staff	
TOTAL		300,264	92,249	392,513	73	4	2,878	98	10,191	342	4,949	7	167	3,578	305	560	23,151	1,236	345	80	3,588	28,400	
1	Decan	4,958	1,328	6,286	1	0	54	2	203	7	68		2	-	6	10	352		26	5	2	60	444
2	Dregeš	4,568	-	4,568	-	-	8	0	-	-	-		-	315	7	5	335		19	1	2	63	420
3	Ferizaj	19,932	6,785	26,717	11	0	219	7	575	19	362		12	349	18	30	1,603		72	22	2	218	1,918
4	Frutke Kosovë	6,457	1,603	8,060	-	-	31	1	288	10	85		3	-	5	13	435		20	6	2	65	529
5	Gjakovë	14,638	4,351	18,989	9	0	131	4	580	19	233		8	45	15	35	1,079		65	15	2	179	1,340
6	Gjilan	14,829	5,634	20,463	7	0	164	6	411	14	306		10	296	16	33	1,262		57	22	4	182	1,527
7	Glogoc	10,660	3,031	13,691	2	0	113	4	282	10	160		5	231	10	25	842		49	8	2	118	1,019
8	Hani i Elezit	1,600	343	1,943	-	-	16	1	66	2	16		1	1	1	4	108		6	2	2	18	135
9	Isog	6,689	1,670	8,359	2	0	72	3	216	7	86		3	90	6	10	495		27	6	2	83	612
10	Jurik	652	220	872	1	0	7	0	26	1	10		0	-	1	2	49		2	1	2	7	62
11	Kecunik	5,155	1,526	6,681	2	0	32	1	196	7	80		3	41	6	15	382		22	5	2	66	477
12	Kamenicë	4,501	1,633	6,134	2	0	39	1	181	6	93		3	36	7	20	388		32	7	2	83	512
13	Klinë	6,834	1,814	8,648	2	0	47	2	240	8	96		3	79	7	20	505		30	6	2	80	622
14	Leposaviq	1,894	451	2,345	1	0	43	2	63	2	25		1	2	2	2	143		9	4	2	37	195
15	Lipjan	10,816	3,191	14,007	2	0	106	4	317	11	160	7	5	198	11	15	836		43	10	2	140	1,032
16	Mahishëvë	11,634	3,312	14,946	2	0	122	4	341	11	169		6	204	12	15	886		54	10	2	129	1,081
17	Mamusha	773	221	994	1	0	1	0	34	1	10		0	4	1	3	56		3	1	2	9	71
18	Mitrovicë	12,762	4,451	17,213	2	0	124	4	481	16	240		8	72	12	25	984		49	14	4	145	1,197
19	Novo Brdë	1,112	226	1,338	-	-	6	0	37	1	15		1	24	3	5	91		10	3	2	33	140
20	Obiliq	4,422	854	5,276	4	0	47	2	140	5	49		2	77	4	10	340		18	6	2	55	421
21	Pejë	15,160	5,018	20,178	2	0	159	5	602	20	278		9	46	14	25	1,161		54	17	2	165	1,398
22	Podujevë	15,898	4,560	20,458	3	0	143	5	517	17	246		8	222	15	25	1,201		63	13	2	182	1,462
23	Prishtinë	35,253	11,141	46,394	5	0	412	14	1,376	46	590		20	75	29	40	2,607		107	38	4	355	3,108
24	Prizren	25,275	7,763	33,038	4	0	161	5	937	31	439		15	297	28	40	1,956		93	25	4	277	2,355
25	Radovec	9,133	2,475	11,608	2	0	83	3	322	11	122		4	93	10	25	674		44	10	2	110	841
26	Shkup	1,892	742	2,634	-	-	13	1	56	2	39		1	39	4	5	160		12	5	2	31	210
27	Shinë	4,955	1,538	6,493	1	0	46	2	137	5	80		3	105	5	5	387		16	4	2	57	467
28	Skenderaj	9,163	2,641	11,804	3	0	86	3	228	8	144		5	231	9	22	738		41	10	2	111	902
29	Subotik	9,880	3,193	13,073	2	0	82	3	242	8	171		6	263	10	20	806		45	10	2	122	984
30	Viti	7,438	2,464	9,902	2	0	64	2	290	10	126		4	35	9	15	556		31	8	2	99	697
31	Vushtri	11,739	3,520	15,259	1	0	84	3	439	15	191		6	109	12	20	881		58	11	2	147	1,099
32	Zahin Potok	1,004	270	1,274	-	-	1	0	49	2	16		1	-	1	2	72		6	4	2	14	97
33	Zveçan	886	254	1,140	-	-	-	-	43	2	15		1	-	1	2	63		6	2	2	13	85
34	Klokot	477	151	628	-	-	4	0	23	1	9		0	-	1	3	41		5	1	2	9	58
35	Mitrovica veriore	2,728	2,311	5,039	-	-	69	2	89	3	131		4	-	3	5	307		16	12	-	49	384
36	Pareesh	631	371	1,002	0	0	5	0	27	1	21		1	-	1	2	58		5	7	-	17	87
37	Ranilug	954	390	1,344	-	-	32	1	27	1	23		1	-	1	2	88		5	3	2	17	114
38	Gjericë	2,925	803	3,728	1	0	54	2	110	4	46		2	-	4	5	228		17	11	2	43	300

No.	Municipality	Wages and Salaries							Total wages and salaries	Total goods and services	Total capital expenditure	Specific Grant for education for 2018	Specific Grant for education for 2019	Specific Grant for education for 2020	
		Wage of teachers	Wages of teachers on sick leave and maternity	Wages of teachers in mountainous areas	Payments for pedagogical/ psychological/ personnel	Wages for English Language Grade I + II	Wages for administrative staff	Wages for support staff							Work experience (15 years)
TOTAL		103,890,470	3,233,318	19,795,989	473,280	1,688,366	7,568,403	13,002,539	11,227,272	160,879,638	8,213,276	1,177,538	170,270,451	178,273,163	188,078,187
1	Deçan	1,854,910	58,344	-	11,832	32,086	146,971	217,360	174,165	2,495,667	132,308	18,859	2,646,834	2,771,235	2,923,653
2	Durrës	69,804	1,591	1,742,580	11,832	36,511	96,961	227,843	164,083	2,851,205	133,216	13,704	2,498,125	2,615,537	2,759,392
3	Fier	6,665,371	206,856	1,930,746	11,832	99,576	450,429	790,613	761,884	10,917,207	516,179	80,152	11,513,638	12,054,779	12,717,792
4	Fushë Kosovë	2,327,808	72,665	-	11,832	25,447	127,645	237,047	210,246	3,012,690	153,338	24,179	3,190,208	3,340,148	3,523,856
5	Gjakovë	5,498,700	169,198	251,277	11,832	80,767	385,394	647,598	528,515	7,573,281	402,398	56,966	8,032,644	8,410,178	8,872,238
6	Gjilan	5,139,725	158,059	1,635,836	23,664	87,406	375,981	660,916	606,300	8,687,887	426,983	61,390	9,176,259	9,607,543	10,135,958
7	Glllogoc	3,237,218	99,715	1,275,477	11,832	54,214	274,682	425,937	403,551	5,782,626	270,906	41,072	6,094,603	6,381,049	6,732,007
8	Hani i Elezit	564,661	18,564	3,896	11,832	6,638	34,808	66,794	53,055	760,248	41,443	5,830	807,521	845,474	891,975
9	Isog	2,132,467	67,361	499,049	11,832	34,298	154,029	301,400	240,104	3,440,540	184,484	25,076	3,650,099	3,821,654	4,031,845
10	Junik	258,931	9,017	-	11,832	4,426	16,769	25,836	24,517	351,318	17,823	2,615	371,755	389,227	410,635
11	Kaçanik	1,818,004	55,692	225,176	11,832	30,979	131,332	240,271	188,553	2,701,838	145,371	20,043	2,867,252	3,002,013	3,167,124
12	Kamenitë	1,874,464	56,222	198,295	11,832	36,511	189,697	301,096	200,168	2,868,286	174,400	18,403	3,061,088	3,204,959	3,381,232
13	Kinë	2,266,504	69,482	436,327	11,832	38,724	170,890	289,238	246,298	3,529,295	178,810	25,914	3,734,019	3,909,518	4,124,541
14	Leposaviq	733,553	24,398	11,298	11,832	12,170	62,081	133,342	74,173	1,062,847	78,483	7,035	1,148,365	1,202,338	1,268,466
15	Lipjan	3,375,480	104,489	1,097,440	11,832	61,958	252,697	508,794	406,073	5,818,762	311,783	42,022	6,172,567	6,462,677	6,818,125
16	Malishevë	3,598,831	112,975	1,127,437	11,832	64,171	308,887	467,187	426,976	6,118,297	296,721	44,837	6,459,854	6,763,467	7,135,457
17	Mamusha	276,320	9,547	21,816	11,832	4,426	22,492	32,067	28,596	406,897	21,370	2,983	431,249	451,518	476,351
18	Miforocë	4,858,944	150,634	400,096	23,664	64,171	305,128	526,402	474,819	6,803,859	335,101	51,640	7,190,599	7,528,557	7,942,628
19	Novobardë	352,379	11,138	132,067	11,832	14,383	63,420	119,118	52,841	757,177	63,992	4,013	825,183	863,967	911,485
20	Obiliq	1,386,138	43,493	427,756	11,832	22,128	114,125	199,443	165,418	2,370,333	125,678	15,827	2,511,838	2,629,894	2,774,539
21	Pejë	5,932,139	184,579	254,394	11,832	79,661	338,700	596,841	555,026	7,953,172	384,971	60,533	8,398,675	8,793,412	9,277,050
22	Podujevë	5,196,304	161,242	1,229,117	11,832	84,086	363,588	660,810	578,196	8,285,174	413,184	61,375	8,759,733	9,171,440	9,675,870
23	Prishtinë	13,436,920	422,198	416,848	23,664	160,428	692,635	1,278,920	1,232,738	17,664,351	843,151	139,181	18,666,682	19,523,076	20,596,846
24	Prizren	8,842,103	273,686	1,641,679	23,664	152,683	563,241	1,005,084	937,940	13,440,082	658,732	99,114	14,197,928	14,865,230	15,682,818
25	Rahovec	3,078,605	94,411	513,463	11,832	55,320	262,202	399,658	331,261	4,746,752	248,712	34,823	5,030,287	5,266,711	5,556,380
26	Shkupë	633,653	20,155	216,995	11,832	22,128	79,394	114,135	82,396	1,180,688	70,238	7,902	1,258,828	1,317,993	1,390,482
27	Shitë	1,494,262	47,736	580,470	11,832	27,660	96,420	207,277	184,979	2,650,636	130,633	19,480	3,093,665	3,292,384	3,493,665
28	Skenderaj	2,691,844	82,212	1,275,866	11,832	50,894	240,183	403,842	356,857	5,113,530	253,796	35,412	5,402,738	5,656,666	5,967,783
29	Subotikë	2,886,720	88,577	1,452,734	11,832	56,426	260,830	441,760	390,032	5,588,912	276,301	39,218	5,994,431	6,181,940	6,521,946
30	Viti	2,768,225	86,455	195,620	11,832	47,575	186,962	339,661	274,156	3,928,487	216,321	29,705	4,174,592	4,370,714	4,611,103
31	Vushtrri	4,106,117	127,296	604,235	11,832	67,490	330,956	531,843	433,612	6,213,381	325,436	45,776	6,584,592	6,894,067	7,273,241
32	Zubin Potok	381,916	12,730	-	11,832	6,638	43,897	52,527	38,227	547,766	35,100	3,822	586,688	614,262	648,047
33	Zveçan	337,265	10,608	-	11,832	5,532	38,049	46,046	33,710	483,042	27,966	3,420	514,428	538,606	568,229
34	Kilokot	217,760	6,895	-	11,832	4,426	29,100	31,497	22,620	324,130	18,935	1,883	344,947	361,159	381,023
35	Miforocë veriore	1,645,655	51,449	-	-	18,809	135,247	176,276	152,103	2,179,538	116,335	15,117	2,310,990	2,419,607	2,552,685
36	Partesh	309,408	10,078	-	-	6,638	56,455	61,224	33,295	477,099	42,030	3,006	522,135	546,675	576,742
37	Ranilug	455,380	14,851	-	11,832	6,638	35,165	61,272	43,898	629,037	37,164	4,033	670,234	701,735	740,230
38	Gravancë	1,185,986	38,719	-	11,832	24,341	130,958	155,576	116,091	1,663,503	103,490	11,184	1,778,177	1,861,752	1,964,148

#### **4.2.3 Specific grant for primary health care 2018-2020**

The specific grant for primary health care 2018 is approved by the Grants commission in the amount of 48.5 million euros. Distribution of specific grant for Health is based on open system in line with LLGF. The specific grant for primary health care 2018 is prepared in line with the priorities of the Government, and in line with Commission's recommendations arising from the annual report on the evaluation of the Eligibility of the Municipal Financing System for 2016.

Table 5: Specific Grant for Health 2018-2020

No.	Municipality	Population	Total 2018 (based on population)	Total 2018 (based on population)	Total 2018 (based on population)
1	Decan	40,019	1,090,247	1,199,272	1,355,177
2	Dragash	33,997	926,188	1,018,807	1,151,252
3	Ferizaj	108,610	2,958,888	3,254,777	3,677,898
4	Fushe Kosova	34,827	948,800	1,043,680	1,179,359
5	Gjakova	94,556	2,576,012	2,833,613	3,201,983
6	Gjilan	90,178	2,456,741	2,702,415	3,053,729
7	Glogovc	58,531	1,594,574	1,754,032	1,982,056
8	Hani i Elezit	9,403	256,168	281,785	318,417
9	Istog	39,289	1,070,360	1,177,396	1,330,457
10	Junik	6,084	183,994	202,393	228,704
11	Kacanik	33,409	910,169	1,001,186	1,131,341
12	Kamenica	36,085	983,072	1,081,380	1,221,959
13	Klina	38,496	1,048,756	1,153,631	1,303,603
14	Leposavic	13,773	375,221	412,743	466,400
15	Lipjan	57,605	1,569,347	1,726,282	1,950,698
16	Malisheva	54,613	1,487,835	1,636,619	1,849,379
17	Mamusha	5,507	150,029	165,031	186,485
18	Mitrovica Veriore	71,909	1,959,034	2,154,938	2,435,080
19	Novo brda	6,729	183,320	201,652	227,866
20	Obiliq	21,549	587,065	645,771	729,721
21	Peja	96,450	2,627,611	2,890,372	3,266,120
22	Podujeva	88,499	2,411,000	2,652,100	2,996,872
23	Prishtina	198,897	5,418,599	5,960,459	6,735,318
24	Prizren	177,781	4,843,331	5,327,664	6,020,260
25	Rahovec	56,208	1,531,288	1,684,417	1,903,391
26	Shterpce	6,949	189,313	208,245	235,316
27	Shtime	27,324	744,394	818,834	925,282
28	Skenderaj	50,858	1,385,537	1,524,090	1,722,222
29	Suhareka	59,722	1,627,021	1,789,723	2,022,387
30	Viti	46,987	1,280,078	1,408,086	1,591,137
31	Vushtrri	69,870	1,903,485	2,093,834	2,366,032
32	Zubin Potok	6,616	180,241	198,265	224,040
33	Zvecan	7,481	203,807	224,187	253,332
34	Gracanica	10,675	290,822	319,904	361,491
35	Klllokot	2,556	69,634	76,597	86,555
36	North Mitrovica	12,326	335,800	369,380	417,400
37	Partesh	1,787	60,847	66,932	75,633
38	Ranillug	3,866	105,322	115,855	130,916
Total		1,780,021	48,523,950	53,376,345	60,315,270



### 4.3 Financing of secondary health care 2018

Financing of secondary health care 2018 is approved by the Grant Commission in the amount of EUR 2,603,077 according to government priorities, and projections in the MTEF and proposal from the MoH, for three minority municipalities, as follows:

- Shtrpce Municipality, financing of 522,371 euros
- Municipality of Mitrovica north, financing of 989,935 euros
- Municipality of Gračanica, financing of 1,090,771 euro.

### 4.4 Financing of Residential Services for 2018

Financing of residential services for community houses covering the municipalities listed in the table according to MLSW for 2018 is approved by the Grants Commission in the amount of 1,650,000 Euro.

Table 6: Financing of residential services 2018

No.	Municipalities	Wages and Salaries	Goods and Services	Utilities	Capital expenditures	Total
1	Skenderaj	80,000	85,000	10,000	5,000	180,000
2	Gračanica	140,000	130,000	20,000	15,000	305,000
3	Istog	80,000	85,000	10,000	10,000	185,000
4	Deçan	70,000	75,000	10,000	10,000	165,000
5	Ferizaj	70,000	75,000	10,000	10,000	165,000
6	Kamenica	70,000	75,000	10,000	10,000	165,000
7	Vushtrri	70,000	75,000	10,000	10,000	165,000
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	720,000	750,000	100,000	80,000	1,650,000

#### **4.5 Projections of Municipal Own Source Revenues 2018 and forecasts 2019-2020**

Projections of municipal own source revenues for 2018 based macro-fiscal estimates amount to 82 million euros. These revenues are added to municipal financing in addition to municipal grants.

Projections of own source revenues for each municipality is based on the recommendations of the Grants Commission included in the Report on Evaluation of Municipal Financing Eligibility for 2016 which was approved by the Government under decision no.04/131 dated 15.02.2017.

The projection of own source revenues takes into account the collection of own source revenues in the past three years, excluding the collection of one-off revenues, and by setting a realistic growth goal and taking into account the Law on debt forgiveness aiming at enhancing the sustainability of municipal financing. Further on, for municipalities Mitrovica, Prizren, Rahovec, Vushtrri and Prishtina are foreseen revenues from municipal taxes on waste for 2018-2020. In addition to this, for all Municipalitird, for 2019 and 2020 revenues for land tax were foreseen expected to result from the new law on tax on immovable property.

Table 7: Projections of municipal own revenues for 2018-2020

No.	Municipalities	Realization of OSR in 2014	Realization of OSR in 2015	Realization of OSR in 2016	Planing for the year 2017	Projections for 2018	Projections for 2019	Projections for 2020
1	Decan	434,348	616,304	673,488	1,309,444	695,527	720,973	746,419
2	Dragash	374,716	349,061	418,143	751,675	460,657	477,510	494,363
3	Ferizaj	3,575,463	3,512,010	4,199,493	4,472,188	4,553,220	4,719,802	4,886,383
4	Fushe Kosova	2,288,351	2,034,210	2,427,935	3,035,973	2,723,185	2,822,814	2,922,442
5	Gjakova	2,713,494	2,581,209	3,204,552	3,616,260	3,428,643	3,554,081	3,679,520
6	Gjilan	3,698,330	3,527,190	3,447,020	4,599,390	4,305,358	4,462,871	4,620,384
7	Gillogoc	1,013,627	893,350	985,094	1,474,005	1,166,676	1,209,360	1,252,043
8	Hani i Elezit	277,233	223,521	251,831	239,854	303,597	314,704	325,811
9	Istog	924,959	941,133	1,061,276	1,226,695	1,180,915	1,224,119	1,267,324
10	Junik	83,865	77,579	83,989	141,987	99,009	102,631	106,254
11	Kacanik	533,685	556,372	632,566	861,014	694,915	720,339	745,763
12	Kamenica	749,986	759,595	830,470	899,181	943,989	978,525	1,013,061
13	Klina	916,415	790,640	841,112	1,030,521	1,027,944	1,065,552	1,103,159
14	Leposaviq	14,764	19,874	22,380	198,013	23,001	23,843	24,684
15	Lipjan	1,607,253	1,438,166	1,755,215	2,108,547	1,936,600	2,007,452	2,078,303
16	Malisheva	706,544	586,364	739,284	1,097,142	819,797	849,790	879,782
17	Mamusha	62,498	52,763	56,244	105,826	69,186	71,717	74,249
18	Mitrovica	1,645,634	1,517,743	2,099,819	2,436,932	2,445,366	2,534,831	2,624,295
19	Novo brdo	166,321	187,189	237,259	218,829	238,319	247,038	255,757
20	Obiliq	700,068	744,952	728,299	1,044,713	876,728	908,804	940,879
21	Peja	3,271,418	3,337,519	3,470,909	4,429,046	4,066,262	4,215,027	4,363,793
22	Podujeva	1,199,576	1,180,319	1,481,270	1,847,800	1,557,614	1,614,600	1,671,586
23	Prishtina	19,904,415	18,035,992	24,243,686	24,607,375	29,574,132	30,656,113	31,738,093
24	Prizren	5,346,359	5,272,577	6,290,328	6,102,106	8,121,284	8,418,404	8,715,524
25	Rahovec	1,011,497	969,696	1,009,927	1,247,732	1,650,027	1,710,394	1,770,761
26	Shterpce	259,587	231,679	260,405	446,914	303,228	314,322	325,415
27	Shtime	350,677	334,729	393,391	573,460	435,192	451,114	467,036
28	Skenderaj	768,566	702,249	844,363	1,187,875	933,955	968,124	1,002,293
29	Suhareka	1,632,168	1,533,148	1,764,872	1,934,756	1,988,863	2,061,627	2,134,390
30	Viti	876,595	769,569	949,253	1,106,695	1,047,005	1,085,310	1,123,615
31	Vushtrri	1,369,708	1,400,925	1,327,677	2,316,735	2,275,368	2,358,613	2,441,859
32	Zubin Potok	8,680	6,531	9,128	90,486	9,818	10,177	10,537
33	Zvecan	16,454	10,603	11,566	102,771	15,581	16,151	16,721
34	Gracanica	1,033,849	1,699,488	1,365,429	1,700,483	1,653,463	1,713,956	1,774,448
35	Klllokot	116,032	91,726	118,120	104,297	131,461	136,270	141,080
36	North Mitrovica	20,532	27,400	44,005	177,463	37,088	38,445	39,802
37	Partesh	30,655	41,486	67,676	42,483	56,403	58,466	60,530
38	Ranillug	115,973	112,337	145,069	113,334	150,623	156,134	161,644
<b>Total</b>		<b>59,820,296</b>	<b>57,167,197</b>	<b>68,492,545</b>	<b>79,000,000</b>	<b>82,000,000</b>	<b>85,000,000</b>	<b>88,000,000</b>

## **4.6 Borrowing**

Funds allocated from borrowing by MEST in sub-programs “central administration and capital investment in Pre-University Education”, within the project “Education reform” (Component 1.3 of the Law on Ratification of the Loan Agreement) are transferred to the municipality for 2018 in the amount of 790,440 euros, and for 2019 in the amount of 461,090 euro (to the extent these funds are foreseen by borrowing). Such transfers are not subject to limitations by Specific Grant for Pre-University Education.

Table 8: Financing from borrowing in education 2018-2019

No	Municipality	Funding by borrowing for 2018				Funding by borrowing for 2019		
		The number of schools per municipality	Goods and Services (min. 60%)	Capital expenditures (max. 40%)	Total funding for the year 2018	Goods and Services (min. 60%)	Capital expenditures (max. 40%)	Total funding for the year 2019
1	Decan	6	19,715	13,144	32,859	11,501	7,667	19,168
2	Dragash	3	9,961	6,641	16,602	5,811	3,874	9,685
3	Ferizaj	3	9,882	6,588	16,470	5,765	3,843	9,608
4	Gjakova	11	36,411	24,274	60,685	21,240	14,160	35,400
5	Glogoc	4	14,176	9,451	23,627	8,270	5,513	13,783
6	Hani i Elezit	1	3,304	2,202	5,506	1,927	1,285	3,212
7	Kacanik	5	17,847	11,898	29,745	10,411	6,940	17,351
8	Kamenica	1	3,191	2,127	5,318	1,861	1,241	3,102
9	Klina	10	34,227	22,818	57,045	19,966	13,311	33,276
10	Lipjan	8	27,813	18,542	46,355	16,224	10,816	27,040
11	Malisheva	8	26,897	17,931	44,828	15,690	10,460	26,150
12	Mitrovica	5	16,648	11,099	27,747	9,711	6,474	16,185
13	Novo Brdo	1	3,298	2,199	5,497	1,924	1,283	3,206
14	Obiliq	2	8,230	5,487	13,717	4,801	3,201	8,001
15	Peja	6	20,040	13,360	33,400	11,690	7,793	19,483
16	Podujeva	6	19,637	13,092	32,729	11,455	7,637	19,092
17	Prishtina	2	6,811	4,541	11,352	3,973	2,649	6,622
18	Prizren	13	43,492	28,995	72,487	25,370	16,914	42,284
19	Rahovec	9	30,345	20,230	50,575	17,701	11,801	29,502
20	Shterpce	2	6,715	4,476	11,191	3,917	2,611	6,528
21	Shtime	1	5,120	3,413	8,533	2,986	1,991	4,977
22	Skenderaj	15	50,012	33,342	83,354	29,174	19,449	48,623
23	Suhareka	5	16,599	11,066	27,665	9,683	6,455	16,138
24	Vushtrri	13	43,893	29,262	73,154	25,604	17,069	42,673
Total		140	474,264	316,176	790,440	276,654	184,436	461,090

Schools will decide for Expenditure of funds concerning the projects foreseen under the “School Development Plan”. These projects will be approved by MEST in advance. Use of funds will concentrate on improving the quality of schools and up to 40% of the allocation could be spent for Capital Expenditures (purchase of different equipment for teaching and learning).

The formula foreseen in the “Grants Manual for School Development”, produced by MEST will apply For the allocation of funds to each municipality.

Funds allocated from borrowing of 8.5 million euros, within the Ministry of Health under the program “Relevant Pharmaceutical Services” are transferred to municipalities for 2018 in the amount of 2.9 million euros and for 2019 in the amount of 5.3 million euros. Distribution and the amount allocated annually to each municipality will be subject to evaluation by the Ministry of Health for meeting the criteria defined by the agreement signed previously between the Municipality and the Ministry of Health. The respective amounts for municipalities will be determined under the agreement between the Ministry of Health and respective municipalities and will be regulated by law on budget for 2018.

#### **4.7 Financing for Historic Center of Prizren, Historical Cultural Center within the Village Zym and the Council of Hoça e Madhe for 2018**

With the entry into force of the Law no.04/L-066 on Historic Center of Prizren, the Law No.04/L-196 on the Historic Cultural Center in Village Zym and Law no. 04/L-62 on the village Hoca e Madhe, with budget planning for 2018 funds in the amount of 63,093 euros were allocated for the two municipalities as follows:

- Municipality of Prizren, in the amount of 40,350 euro, and
- Municipality of Rahovec, in the amount of 22,743 euros.

#### **4.8 Summary of municipal financing 2018-2020**

The Grants Commission on its meeting held on 4<sup>th</sup> of April 2017 approved government grants for municipal financing including financing and borrowing projections of own source revenues for 2018, with total resources of municipal financing approved in the amount of EUR 482.41 million (table 9).

The criteria and formulas specified in the Law on Local Government Finances and other laws as well as the macro-fiscal projections and data from line ministries were applied for allocation of government grants according to Municipalities for 2018:

- General Grant for 2018 compared with 2017 increased by 24.4 million euros as a result of the increase in overall revenues.
- The specific grant for pre-university education for 2018 amounts to 170.3 million euros, compared with 2017 it has increased by 7 million euros, despite the reduction in the number of pupils reported by the Ministry for 2018, the grant is not reduced.
- The specific grant for primary health care 2018 amounts to 48.5 million euros and compared to 2017 it has increased by 4.5 million euros.
- Financing for secondary health care for 2017 is at the same level as the previous year
- There is a slight increase in financing of residential services for 2018 compared with 2017.

- Financing for Historic Center of Prizren, Historical Cultural Center within the Village Zym and the Council of Hoça e Madhe in Rahovec for 2018 is in the amount of 63,093 euros.
- There is an increase of 3.0 million euros compared with 2017 when it comes to projections of own source revenues for 2018

Table 9: Summary of municipal financing 2018-2020 (mil. euro)

Description	2017	2018	2019	2020
1. Grantet qeveritare	356.74	392.4	421.9	457.2
General Grant	149.2	173.6	190.3	208.8
General Grant	145.2	168.92	185.17	
Contingency for correction of formula	4	4.68	5.13	
Specific grant for Health	44.11	48.5	53.3	60.3
Specific Grant for Education	163.43	170.3	178.3	188.1
2. Grants for transferred competencies	2.6	2.6	2.6	2.6
Secondary Healthcare	2.6	2.6	2.6	2.6
3. Transfer of residential services	1.62	1.65	1.65	1.65
4. Financing for HCP, HCCV, CHM	0.06	0.06	0.06	0.06
5. Municipal Own Source Revenues	79	82	85	88
6. Financing from Borrowing		3.7	5.8	
Total of Municipal Financing	440.02	482.35	516.95	549.45

Table 10: Summary of municipal financing 2018-20

No.	Municipality	General Grant	Specific Grant on Education	Specific Grant on Health	Funding for Secondary Health	Funding for Residential Services	Funding for the historic center of Prizren, Cultural Center of Zym village and the Council of Hoçës së Madhe	Municipal own revenues	Borrowing for Education	Total Municipal Financing for 2018
1	Deçan	3,702,550	2,646,834	1,090,247		165,000		695,527	32,859	8,333,017
2	Dragash	3,929,532	2,498,125	926,188				460,657	16,602	7,831,105
3	Ferizaj	9,513,106	11,513,638	2,958,888		165,000		4,553,220	16,470	28,720,322
4	Fushë Kosovë	3,266,043	3,190,208	948,800				2,723,185		10,128,236
5	Gjakovë	8,700,249	8,032,644	2,576,012				3,428,643	60,685	22,798,233
6	Gjilan	7,962,613	9,176,259	2,456,741				4,305,358		23,900,971
7	Glogovc	5,171,571	6,094,603	1,594,574				1,166,676	23,627	14,051,051
8	Hani i Elezit	1,343,805	807,521	256,168				303,597	5,506	2,716,597
9	Istog	3,902,304	3,650,099	1,070,360		185,000		1,180,915		9,988,678
10	Junik	995,365	371,755	183,994				99,009		1,650,123
11	Kaçanik	3,061,138	2,867,252	910,169				694,915	29,745	7,563,220
12	Kamenicë	3,557,352	3,061,088	983,072		165,000		943,989	5,318	8,715,820
13	Klinë	3,620,939	3,734,019	1,048,756				1,027,944	57,045	9,488,703
14	Leposavic	2,950,976	1,148,365	375,221				23,001		4,497,564
15	Lipjan	5,293,051	6,172,567	1,569,347		160,000		1,936,600	46,355	15,177,920
16	Malishevë	4,879,423	6,459,854	1,487,835				819,797	44,828	13,691,736
17	Mamushë	1,209,010	431,249	150,029				69,186		1,859,474
18	Mitrovicë	6,412,706	7,190,599	1,959,034				2,445,366	27,747	18,035,452
19	Novobërdë	1,326,317	825,183	183,320				238,319	5,497	2,578,635
20	Obiliq	2,676,274	2,511,838	587,065				876,728	13,717	6,665,622
21	Pejë	8,945,459	8,398,675	2,627,611				4,066,262	33,400	24,071,406
22	Podujevë	7,979,782	8,759,733	2,411,000				1,557,614	32,729	20,740,857
23	Prishtinë	17,094,462	18,646,682	5,418,599				29,574,132	11,352	70,745,228
24	Prizren	16,695,509	14,197,928	4,843,331			40,350	8,121,284	72,487	43,970,888
25	Rahovec	5,025,049	5,030,287	1,531,288			22,743	1,650,027	50,575	13,309,970
26	Shtërpcë	1,387,858	1,258,828	189,313	522,371			303,228	11,191	3,672,789
27	Shtime	2,532,092	2,800,749	744,394		160,000		435,192	8,533	6,680,960
28	Skenderaj	4,637,264	5,402,738	1,385,537		180,000		933,955	83,354	12,622,847
29	Suharekë	5,370,477	5,904,431	1,627,021				1,988,863	27,665	14,918,457
30	Viti	4,233,480	4,174,512	1,280,078				1,047,005		10,735,075
31	Vushtri	6,202,062	6,584,592	1,903,485		165,000		2,275,368	73,154	17,203,661
32	Zubin Potok	1,683,312	586,688	180,241				9,818		2,460,059
33	Zveçan	1,598,583	514,428	203,807				15,581		2,332,398
34	Graçanicë	2,241,258	1,778,177	290,822	1,090,771	305,000		1,653,463		7,359,491
35	Klllokot	643,868	344,947	69,634				131,461		1,189,909
36	Mitrovica Veriore	2,265,525	2,310,990	335,800	989,935			37,088		5,939,339
37	Partesh	611,426	522,135	60,847				56,403		1,250,811
38	Ranillug	978,209	670,234	105,322				150,623		1,904,388
<b>Total</b>		<b>173,600,000</b>	<b>170,270,451</b>	<b>48,523,950</b>	<b>2,603,077</b>	<b>1,650,000</b>	<b>63,093</b>	<b>82,000,000</b>	<b>790,440</b>	<b>479,501,012</b>
Borrowing for Education										2,900,000
<b>Total Municipal Financing for 2018</b>										<b>482,401,012</b>



#### 4.9 Structure of expenditures by economic categories for municipalities 2018-2020

The following table shows the structure of municipal expenditures for the next three-year period 2018-2020.

Table 11: Structure of expenditures for the municipal budget 2018-2020 (mil)

Overall total of Municipal level	2016 Expenditure	2017 Budgeted	2018 Assessed	2019 Assessed	2020 Assessed
<b>Total</b>	388,453,656	440,230,866	482,401,012	517,026,768	549,509,627
Number of employees	40,724	43,897	43,897	43,897	43,897
Wages and Salaries	246,568,347	250,700,875	256,500,000	260,000,000	263,000,000
Goods and Services	37,205,327	40,254,666	58,918,605	61,120,995	56,841,100
Utilities	8,920,018	9,688,900	9,688,900	9,688,900	9,688,900
Subsidies and Transfers	8,313,769	8,748,308	8,748,308	9,000,000	9,200,000
Capital Expenditures	87,446,195	130,838,117	148,545,199	177,216,873	210,779,627
Reserves			-	-	-
<b>Financing Sources</b>	388,453,656	440,230,866	482,401,012	517,026,768	549,509,627
Government Grant	339,850,805	360,080,866	396,710,572	426,265,678	461,509,627
Own Source Revenues	48,602,851	79,000,000	82,000,000	85,000,000	88,000,000
Financing from Borrowing	-	1,150,000	3,690,440	5,761,090	-
Financing from budget deficit (2%) - 04		1,150,000	3,690,440	5,761,090	
Financing from Investment Clause-06					
Donor Grants					