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Qeveria – Vlada - Government

Ministria e Financave  
Ministarstvo za Finansije  
Ministry of Finance

## **Medium Term Expenditure Framework 2020-2022**

**April 2019**

## List of abbreviations

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

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

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## Preface

The Medium Term Expenditure Framework 2020-2022 (MTEF 2020-2022) is the main document based on which the annual budget for 2020 is drafted. The main purpose of the MTEF is to provide an analysis based on the country's macroeconomic environment, thus setting the basis for budget planning for the coming years in line with the Government's strategic priorities.

Given the current economic structure of Kosovo and numerous obstacles to economic growth, undertaking economic reforms to free and strengthen the country's economic potential is required. The economic reform priorities for the medium term stem out from the National Development Strategy and Economic Reform Programme 2019-2021, stemming out the process of dialogue on economic governance between Kosovo and the EU.

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

MTEF 2020-2022 summarizes these key government priorities in the Declaration of Medium Term Priorities and then in the relevant chapters, covering all budget sectors, describing the approach how funds will be provided for the implementation of the Budget of Kosovo and financial assistance or loans from development partners. MTEF 2019-2021 is structured into four main parts. The first part contains the **Statement of Medium Term Priorities** which provides an extensive summary of the Government's priorities in line with the Government Programme and National Development Strategy, as well as Economic Reform Programme. The second part provides the **Macro-Fiscal Projections** based on general parameters of economic development. **Fiscal Projections** are presented in the third and fourth parts, which set forth the general expenditures ceilings based on which the central and municipal budget is later prepared.

## **PART ONE**

### **1. Declaration of medium- term priorities 2020-2022**

The Medium Term Expenditure Framework 2020-2022 is the main document on the basis of which the annual budget for 2020 is drafted. The main purpose of prioritizing is to make the connection based on the expectations of a comprehensive macroeconomic environment analysis in the country and budget planning for upcoming years with a 3 (three) year-long perspective in accordance with the government's strategic objectives.

The main objectives of the Government Programme 2017-2021 are to build effective, competent and accountable governance towards sustainable and inclusive economic growth, better social welfare, Euro-Atlantic integration and sectorial development. In order for the orientation of economic development to be based on the specific priorities set in the National Development Strategy 2016-2021 (NDS) and the Economic Reform Programme 2019-2021 (ERP). While the NDS sets out 34 separate measures on the four pillars which constitute the country's highest development priorities, ERP derives from the process of 'economic governance' dialogue between Kosovo and the EU, with the main objective to further strengthen its fiscal position and responsible management of public finances.

Competitive economy is the main pillar of any development and job creation. Given the current economic structure of Kosovo and the numerous obstacles to economic growth, it is necessary to undertake economic reforms to free and strengthen the economic potential of the country. The economic reform priorities for the medium term period as is explained above are also presented in the Economic Reform Programme 2019-2021, which derives from the process of dialogue on economic governance between Kosovo and the EU. The selection of the 20 priority reform measures is mainly based on the NDS, but they also reflect the recommendations of the dialogue on economic policies between Kosovo and the EU.

Fiscal policy as planned in the ERP and MTEF, supports economic growth and structural reform agenda by ensuring that the level of public investment spending remains at above 10% of GDP, and in addition to transport infrastructure, includes investments in educational and health institutions, agricultural and rural development, irrigation and waste-water treatment. The budget for 2019 includes substantial funding growth for the priority areas as follows: judicial reform and enhancing the quality of education and health, the coverage of these sectors is intended to continue with future projections.

Kosovo's accession process in the European Union is not only important for economic development but also for improving the country's governance and institutions as well as the international political and economic integration and security of the country. The Stabilization and Association Agreement (SAA) between the Republic of Kosovo and the European Union (EU) is the mandatory contractual framework of Kosovo's accession process to the EU. In this regard, The



National Program for the Implementation of the Stabilization and Association Agreement sets the medium-term planning framework for fulfilling the SAA obligations, while the European Reform Agenda (ERA) sets key priorities of reforms for implementation of the SAA, agreed between the parties (Kosovo and EU) at the highest political level.

The Medium-term Expenditure Framework 2020-2022 summarizes these key priorities of the Government of Kosovo in the Declaration of Medium-Term Priorities and then in the relevant chapters covering all budget sectors, which describes the approach on how funds will be provided for their implementation from the Kosovo budget and financial assistance or loans from development partners.

The first two chapters of the Declaration of Medium-Term Priorities present the overall fiscal framework for the next three years and the underlying principles on which it is based. The third chapter presents a summary of the Government's priorities, based on the NDS and follows its four-pillar structure. The link between the NDS and other key strategic documents (ERP, NPISAA and Sectorial Strategies) are highlighted for each pillar. The four pillars of the NDS are complemented by a fifth priority pillar focusing on international co-operation, the European integration process and national security.

The main priorities will guide all budget organizations in the preparation of their budget proposals for 2020. Under these priorities, budget organizations may include proposals for finalizing or rationalizing existing programs in order to provide funding for high-priority programs, including new policy proposals. In specific cases, proposals may include additional funding requirements if such requirements demonstrate a high impact on the potential achievement of Government objectives and priorities.

### **1.1 General fiscal framework for prioritization**

The Government Program 2017-2021, the National Development Strategy 2016-2021 and the Economic Reform Program 2019-2021, as well as the Stabilization 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 determining the policy priorities in the Medium-Term Expenditure Framework 2020-2022.

The Government continues to have the macroeconomic and fiscal stability of the country as the main objective of the strategy, which is a prerequisite for the functioning of government activities and the creation of a more favourable climate for the development of the private sector. The Government of Kosovo will be committed on maintaining and strengthening the macro-fiscal stability by (i) providing the necessary balance between revenue collection and budget spending, (ii) by exercising discipline in expanding and utilizing public debt, (iii) maintaining a sufficient level of budgetary reserves to withstand external and internal fiscal risks, and (iv) continuing structural reforms that address the main obstacles for economic growth, supporting the

development of competitive economic sectors, and ensuring that economic growth is inclusive and aims at enhancing the welfare of the citizens of the country.

The main objectives of the fiscal strategy for the period 2020-2022 continue to be the following:

***Fiscal Sustainability*<sup>1</sup>** - The government will focus and ensure fiscal sustainability and sustainable economic growth by addressing strategic priorities and through the support of social welfare will ensure that economic development is inclusive. The budget, through social welfare support, will ensure that economic development is inclusive. In order to maintain fiscal stability, by addressing Government policy priorities, the Government should make a neutral review of annual budgets and identify the options for establishing effective fiscal surveillance mechanisms in accordance with needs and legal requirements, addressing Government policy priorities. The government is committed for full cooperation with the International Monetary Fund, including information and consultation about all fiscal initiatives for assessing the risk to fiscal stability. The government is committed to continuing the maturity of domestic and foreign public debt, further developing the domestic securities market, and developing the capital market. It will also increase the capacity for identifying, negotiating, and administering projects that will be financed through concessional loans of International Financial Institutions with a long-term maturity. Above all, it will be loaned for the financing of feasible capital projects with a high economic and social return.

***Rationalization of public expenditures*<sup>2</sup>** - The Government is committed to annual budget growth in line with the overall growth of the country's economy, and with provision of additional resources by narrowing the tax gap. However, the budget support needs are enormous and the Government sets high criteria to ensure that limited resources are dedicated only to projects and policies that provide the highest economic and social returns. To implement this reform, inter alia, the following actions will be taken:

- Setting the high criteria in the preparation, selection, and evaluation of budget allocations
- The budgets of previous years will no longer be the base for the next year's budget, both in operations and in capital investments. As we commit ourselves to increase the total budget every year in accordance with the above principles, the budgetary allocations will be set and revised annually as necessary according to the Government's strategic priorities and the assessment of the preliminary financial results
- At capital expenditures, priority will be given to activities that have an impact on long-term economic development, including public infrastructure and investment impacting on the development of private sector productivity

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<sup>1</sup> This objective is in accordance with the concretization of the principles of the Group "Economy, Agriculture and Energy", of the Program Principles, namely the principle that stipulates "Macroeconomic policies will be in the function of promoting economic development" and generally with the concretization of the recommendations of the joint conclusions from the Economic and Financial Dialogue of Ministers from the Western Balkans and the EU in May 2018, direct link to Box1 with points1, "forecasting and fiscal impact assessments.... concept paper for fiscal oversight" and generally with the Fiscal Framework described in Chapter 3 of the ERP. The proposal is indispensable for the implementation of the NDS measures.

<sup>2</sup>This proposal is in accordance with the concretization of the second group of principles "Budget and Fiscal Policies". With regards to ERP, it has a direct link with fiscal objectives (at ERP 2018) Box 1 with Points 2 and 5 "re-classification with the aim of reducing the cost of the pension scheme, strengthening institutional capacities for multi-year investment planning ..... as well as the new strategy and action plan to fight the informal economy" and generally at the medium-term fiscal outlooks described in Part 3.3 of the ERP. The proposal is indispensable for the implementation of NDS measures and directly related to the foreseen measures by the ERA.

- Improvement of capital project management, focusing on budgeting and implementation of multi-annual projects to improve the country's economic structure
- Current expenditures will prioritize activities for strengthening the rule of law and security, human capital building (through activities to enhance quality in education), and activities for improving health services
- Strengthening the role of internal audit to enhance performance and addressing the remarks of the National Audit Office for quality financial management.

***Prioritization of sectorial development in agriculture, industry and support to justice, health and education sectors in the allocation of the operational budget***<sup>3</sup> - Economic development (focusing on Agriculture and Energy), as a key priority of the government programme, is supported by increased capital investment and by efficiency measures in regulatory policy. Moreover, the focus will be on the following:

- Engagement of professional staff in order to increase the quality of vocational education and training based on labour market requirements
- Improving the quality and increasing the involvement of children in pre-university education
- Improving quality and increasing inclusion of children in pre-university education
- Structural change in the agro-processing sector and increased competitiveness in the manufacturing industry
- Increasing the access of young people and women to the labour market through the provision of quality employment services, active labour measures and entrepreneurship measures,

Increase of the efficiency of the judiciary in resolving cases by improving the efficiency of the judiciary in addressing the economic disputes and general inspection reforms through improved inter-institutional coordination and digitalisation of the inspection process.

***Review of policies and increase of efficiency of the tax and customs administration in supporting the development of the private sector***<sup>4</sup> - Aims at supporting manufacturing and service businesses, which stimulate the export, improve trade balance and create new jobs. Moreover, the simplification of the tax-customs system and increase of efficiency of tax administration in supporting the private sector development, in order to promote the voluntary fulfilment of tax duties by all taxpayers.

- Full reform of the tax control system,

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<sup>3</sup> The proposal is directly linked to the Pillar of Human Capital and Pillar of Rule of Law in NDS. With regards to ERP, it has a direct link to Chapter II and VI Sectorial Development, respectively Education and Skills, Measure 3 to 6 and 16 to 18, enhancing the quality of education ... education reforms, strengthening the judicial system, and cooperation of the labour sector with the academy. It is also directly related to Chapter 1 of the ERA.

<sup>4</sup> This proposal is in line with the concretization of first group of principles "Budget and Fiscal Policies", and in full compliance with NDS, ERA, it is also related with ERP 2019, at Box 1. Point 5 "...drafted a new strategy and action plan to fight the informal economy" and generally to the medium-term fiscal forecasts described in Section 3.3 of the ERP and has direct link with Measure no. 11 Reduction of informal economy.

- Revenue mobilization by expanding the tax base instead of increasing the statutory tax rates,
- Full digitalization of taxpayer services by establishing and functionalizing the modern platform of the information technology,
- Tax return process will be significantly improved,
- Full implementation of the chapter related to the free movement of goods, as provided for in SAA.

***Prioritizing large-scale investments for modern and energy infrastructure in the capital budget<sup>5</sup>***

– Prioritization will be determined based on the level of impact on transforming the economic structure in the country. Energy infrastructure, road transport and rail transport, water supply network, irrigation network, and waste water treatment will be prioritized in budget distribution, while investments in energy are planned to take place with the involvement of private sector; the reduction of energy costs with help businesses, promote private investment, stimulate the energy efficiency measures in households, allocate grants for efficiency measures for women's businesses, and increase the capacity of heating with biomass energy sources.

These elements treat equally all the budgetary organizations, therefore, it is imperative to advance the cooperation at the Government level so that the country's economic development agenda can be followed by maintaining macro-fiscal stability.

## **1.2 Basic principles**

The process of preparing the expenditure forecast for 2020-2022 is guided by the principles below, which take into account the evaluation of budgetary requirements for funding during the budget process, where the expenditure forecast is kept within the aggregate limit set in the indicative thresholds of MTEF 2019-2021 for 2018. The reallocation of funds was aimed at:

- Greater compliance with the Government's policy priorities given in the National Development Strategy (NDS) 2016-2021, Economic Reform Program (ERP) 2019-2021, National Program for Implementation of Stabilization and Association Agreement and European Reform Agenda as documents for implementation of this Agreement, and the Government Program 2017-2021. Guidelines for specific priorities are given below;
- Allocation of expenditures that are more effective in achieving the Government's policy objectives;
- Achieving greater value for funds spent by accomplishing specific priority goals, through shifting of funds to high-level priorities;
- Linkage with external funding provided through IPA and other channels;

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<sup>5</sup>This proposal is included in the Connectivity Agenda from EU and also is part of MTEF, ERP, NPISAA and NDS. It is related to the construction of the road Prishtina-Peja, Prishtina-Mitrovica, Lipjan-Hani i Elezit and Besi-Merdare. With regards to railways, it is related to the rehabilitation of the main line, which will provide quick access to European markets. The proposal is also related to the Measure and is directly related to ERP in Box 1. Point 4 The Law on Energy Efficiency and the establishment of the Energy Efficiency Fund. Chapter I Transport and Energy Market Reform Measures 1 and 2, Chapter II Sectorial Developments - Agriculture, Industry and Services Measures 3 to 6 and priority of the NDS infrastructure pillar.

### 1.3 Priority Areas

The Government of Kosovo presents the following statement of priorities regarding MTEF 2020-2022. The priorities are specifically presented and derive from the National Development Strategy, Economic Reform Program 2019-2021, as well as the National Program for the Implementation of the SAA. The statement is also based on other sectorial strategic documents, allowing budget organizations a measure of flexibility to determine the most appropriate structure and the most adequate funding levels to achieve these goals.

When preparing and submitting their budget requests for 2019 with medium term forecasts (2020-2022), budget organizations are expected to show how their budget plan responds to Government priorities set out below. Against the given priorities, budget organizations are encouraged to improve spending efficiently through reallocation within existing boundaries.

#### 1.3.1 Education, Employment and Health

As it stipulated in the Kosovo 2017-2021 National Development Strategy, **labour force is becoming the main engine of economic development** social welfare in the country; therefore to ensure formation and keeping capable labour force, the Government stipulates clear priorities for next 3 years in the sectors, which contribute to the field.

Aiming to address the shortages of the education system the Government priorities for the three coming years will be focused on the following:

- ***Increasing access to education<sup>6</sup> (with the focus on preschool and pre-primary level) -Increase of participation in preschool and pre-primary education*** during the next medium-term period is aimed to be achieved by continuing the construction of new public kindergartens, on-going licensing of private institutions, improving the legal framework for licensing new preschool institutions, putting in place incentives for the expansion of private institutions network, implementation of the core curriculum for early childhood education, as well as addressing capacities of the teaching staff at this level. This priority is addressed as well as in the Economic Reform Programme, Measure 17: ‘Improvement of the quality and increase of the inclusion of children in pre-university
- ***Improving quality of education at all level: especially the quality of teaching in elementary and secondary education<sup>7</sup>*** is intended to be achieved by supporting teachers’ professional development process and implementing the grading system in line with the licensing process, by focusing on vocational education and training and increase the link of youth skills with labour market.. Continuously expanding the use of the new curriculum in all schools and revising the existing textbooks and preparing new textbooks, especially focusing on basic textbooks on vocational education and training, will contribute to achievement of priority goals. This priority is addressed in the Economic Reform Programme, Measure 16: ‘Increase of quality

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<sup>6</sup> This priority is directly related with National Development Strategy, **Measure 1** ‘Enrolment in pre-school and pre-primary education’

<sup>7</sup> This priority is directly related with National Development Strategy, **Measure 2** ‘Enhanced quality of teaching in the pre-university education’

of vocational education and training based on labour market requirements’ and Measure 1: ‘Reform in Pre-University Education’

- ***Strengthening accountability and certification mechanisms in the education system***<sup>8</sup> will help improve the quality of education and increasing accountability of education system. It will also support the strengthening and implementation of a more 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.
- ***Better interconnection between education system and labour market***<sup>9</sup>: This priority will be based on the process of developing professional standards and enhancing vocational education and training quality. These will be achieved by increasing the capacity of the Centres for Counselling 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 VTC; implementation of the pilot VET combined system with dual learning elements. This priority is also addressed in the ERP, Measure 16: ‘Increase of quality of vocational education and training based on labour market requirements’.
- ***Optimisation of spending on education through the teacher grading data systems***<sup>10</sup> will be achieved by Building-up a master plan for the VET schools network; continuation of further development of the Higher Education Information Management System (HEIMS) and further development of other information systems related to the educational system, optimisation of financing through reallocation of funding from less to more market demanding programs of vocational and higher education. That will contribute to improving linkage to labour market.
- ***Improving access to health services*** - This priority aims the establishment and implementation of the health insurance fund; realization of cardio-surgical health services; provision of health services in preschool and school institutions; starting the collection of premiums from the employees in the public sector. In this regard, we also foresee the drafting of the legal and operational framework for starting the implementation of the Poverty Test of Social Categories, for exemption from paying the health insurance premiums. This priority is addressed in the Economic Reform Programme, Measure 20: ‘Improvement of social and health services’.

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<sup>8</sup> This priority is directly related with National Development Strategy, **Measure 4** ‘Strengthening the examination, inspection and accreditation functions in education system’

<sup>9</sup> This priority is directly related with National Development Strategy **Measure 3** ‘Better linkage between education system and labour market’

<sup>10</sup> This priority is directly related with National Development Strategy **Measure 5** ‘Optimise expenditures in education through data systems’

- ***Increasing employment, especially among young people and women***<sup>11</sup> - Relying on economic development priorities and obligations within the European integration process, the Government of Kosovo will work towards tackling youth unemployment through the implementation of strategic plan in force for tackling youth unemployment. In order to implement the employment and labour market policies, the focus will be on the reform and modernization of public employment services through planning, design, effective implementation and monitoring of active labour market measures. This priority is also addressed in the Economic Reform Programme, Measure 19: ‘Increasing the access of youth and women to the labour market through the provision of quality employment services, active employment measures and entrepreneurship’
- ***Strengthening social protection system and social services***<sup>12</sup> - In the field of social services, the Government will focus on defining a sustainable system for financing social services, also will continue the implementation of pension schemes and benefits and where necessary - reforming current social policies, reforming the pension system in legislative, organizational aspect and international cooperation; preparing and drafting Bilateral and Multilateral Social Security Agreements; development and promotion of the Integrated Information System for all pension schemes and benefits. Special importance will also be given regarding the strengthening of cooperation mechanisms with social partners. Also, ensuring the rights of categories emerged from war, with the focus on the implementation of legislation regarding these categories, will be one of the priorities in this area.

Safety and health at work - We will also focus on improving the working conditions of employees and guarantee the minimum standards of safety and health at work, which will be in line with international standards through the advancement of the legal framework by also strengthening the human capacities of the Labour Inspectorate.

**Supporting cultural activities and sport** - The Government of Kosovo will continue with the modernization of sports infrastructure according to international standards, advancement of school sport and increase of women participation in sport. Also, the support of cultural activities through various forms will remain a priority for funding over the next three years.

### **1.3.2 Good Governance and Rule of Law**

The Government of the Republic of Kosovo is committed towards enhancing the rule of law and good governance in Kosovo with the purpose to simplify legislation and establish a regulatory impact assessment system, including reduction of administrative burden for businesses. That will be implementing by prioritizing the public policy in the relevant sectors as follows:

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<sup>11</sup> This priority is indirectly related with National Development Strategy **Measure 3** ‘Better linkage between education system and labour market’<sup>12</sup>.Social’

<sup>12</sup> This priority is indirectly related with National Development Strategy **Measure 7** ‘Addressing informal employment and creating adequate working conditions’

- **Implementation of strategic framework for public administration reform** implementation of the package of laws adopted by the Kosovo Assembly is a priority of the Government for the upcoming midterm period. In addition, special focus will be further on the indicators agreed with the European Commission on direct budget support, aimed at continuous increase in the efficiency of governance. Moreover, these reforms are expected to be supported through the adoption of the Law on Government, which seeks to strengthen the transparency, efficiency and accountability of the government-
- **The Public Finance Management Reform**, as part of the Government's efforts within the Public Administration Reform, will continue to have a high focus through the implementation and completion of indicators agreed with the European Commission under the second program of budgetary support. **Ensuring the efficient, transparent and fair use of public funds** as well as the realization of the main principle in public procurement of “**value for money**” - will increase transparency and ensure better rationalization of public fund spending.
- Improving the business environment and combating the informal economy will continue through the adoption of an **Administrative Barrier Reduction Program**<sup>13</sup> aimed, inter alia, of facilitating doing business, simplification of administrative procedures by reducing the cost of doing business, and thus strengthening the private sector, and enabling increased investment and economic growth (ERP, Measure 7). In addition, the Government, through the continuation of the **general inspection reform**<sup>14</sup>, intends to address inter-institutional coordination and improve the efficiency of inspections. In addition, this reform empowers government efforts to combat the informal economy and corruption (PRE: Measure 10).
- **Strengthening efforts to reduce the informal economy** - through the implementation of the strategy on combating the informal economy, the Government aims is to increase competitiveness and equal conditions of competition, but also increase the public budget revenue (ERP Measure 11: ‘Reduction of Informal Economy’)
- **Increasing the efficiency of the judiciary**<sup>15</sup> Kosovo Government will focus on implementing the recommendations resulting from the **functional review of the rule of law sector** which aims to evaluate the functioning of the current judicial system and tends to provide answers about the improvements or possible interventions to be made in the system aiming better functioning. Also, in order to **increase the efficiency of the judiciary** - it is aimed at improving efficiency in addressing economic disputes by reducing the number of backlog cases through increasing the capacities and competencies of the courts and implementing the Case Management Information System. This priority is addressed in the Economic Reform Programme, Measure 9: ‘Increase the efficiency of the judiciary in resolving cases’.

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<sup>13</sup> This priority is in directly related with NDS, **Measure 9** ‘Reducing administrative burdens to licenses and permits’

<sup>14</sup> This priority is in directly related with NDS, **Measure 10** ‘Improving the efficiency of the inspection system’

<sup>15</sup> This priority is directly related with National Development Strategy, **Measure 14**: ‘Increased judicial efficiency’



- Further strengthening of the property rights system<sup>16</sup> - the government aims to address the security of property rights by focusing on the adoption and implementation of the legislation that regulates immovable property, the widespread level of informality in the real estate sector and non-consequent of implementation on property rights, has weakened the security of property rights in Kosovo. This priority also supports efforts to improve the environment of doing business and also is addressed in the Economic Reform Programme, Measure 8: ‘Securing property rights by addressing informality in the immovable property sector’.
- ***In the area of order, defence and security***, The Government of Kosovo remains committed to continuing the fight against organized crime and implement the legislation for the transformation of the Kosovo Security Forces into the Kosovo Army, and within a 10 year period is planned to complete this transformation followed by adequate interventions in capacity building, infrastructure and necessary equipment.

### 1.3.3 Competitive Industries

Government of Kosovo will continue to provide support to the development of the private sector with the aim to increase its competitiveness, better the doing business environment and facilitating trade. The measures undertaken in this direction remain largely harmonized with the aim of generating sustainable economic growth. Over the medium term, the government policies are as follow:

- ***Increasing competitiveness in the manufacturing industry***<sup>17</sup> - The Government of Kosovo aims to increase the competitiveness in the manufacturing industry by placing a special emphasis on the mechanisms that improve cooperation between SMEs, enhance networking, improve public-private dialogue, and increase production quality in industrial production sectors. Another manner through which such a target is set to be achieved is through the promotion of FDI and the increased role of diaspora in economic development. Emphasis is put on the Network and cluster development of SMEs as well. The facilitation of such clusters will enable interconnection between value chain enterprises and higher participation of industrial sector in GDP.
- Special emphasis will be put **on increasing investments in the mining sector** under the condition of proper utilization of natural resources. The Restructure and revitalization of Trepça will generate revenues for state budget, as well as produce a positive impact onto many other industries in Kosovo, providing thus an impetus to economic growth of the country and decreasing the trade deficit.
- ***Improving entrepreneurship and innovation environment*** - The Government of Kosovo, intends to establish a policy framework, legal basis and capacities for research and innovation, increasing the level of cooperation between research community and industry as well as increase

<sup>16</sup> This priority is in directly related with NDS, **Measure 13**: ‘Strengthening the System of Property Rights’

<sup>17</sup> This priority is in directly related with National Development Strategy, **Measure 17** ‘Network and cluster development of SMEs’ **Measure 18**: ‘Upgrading SMEs to activities with higher added value’ **Measure 19**: ‘Promoting Foreign Direct Investment (FDI) and increased role of diaspora in economic development’ **Measure 22**: ‘Restructure and revitalization of Trepça – reducing administrative burdens to licences and permits’

participation in European and regional projects and programs, and supporting innovation activities in general. This priority is addressed in the Economic Reform Programme, Measure 12: ‘Improving entrepreneurship and innovation environment’.

- ***Strengthening the transfer of knowledge***<sup>18</sup> - In the field of Research, Development and Innovation (RDI), the Government aims at linking research in universities with industries through access to smart specialization and R&D investment and improving the legal framework for innovation, transfer of knowledge and technology, and funding activities of scientific research. This priority is addressed in the ERP, Measure 12: ‘Improving entrepreneurship and innovation environment’.
- ***Improving the ICT access for business and citizens***<sup>19</sup> - The government aims at improving the ICT access and use through the expansion of broadband infrastructure in uncovered areas, strengthening human capital, and supporting digital businesses and digitalization of other businesses. Another measure to be undertaken is the deployment of information and communication technology infrastructure. Use of ITC will also spur innovation in operational process in private sector, consequently strengthening it. This priority is addressed in the ERP, Measure 13: ‘Expansion of relevant ICT network infrastructure and services for socio-economic development’
- ***Facilitating international trade*** - The Kosovo Government is also aiming to advance SMEs in higher value activities, aiming to increase SME competitiveness, leading to trade deficit decline, revenue growth in the economy, and enabling sustainable economic growth. These policies will increase the private sector’s trade capacity through the betterment of the cost-effectiveness of international trade transactions. This priority is addressed in the ERP, Measure 14: ‘Trade facilitation by increasing the cost-effectiveness of international trade transactions’

It is worth noting that, the government intends a ***further development of quality infrastructure and empowerment of the role of market surveillance authorities***, by aligning national legislation with the EU acquis, coordinating the inter-institutional system with business and other stakeholders, and membership in European and international organizations.

- ***Resolving the fragmentation of agricultural lands***<sup>20</sup> the consolidation of agricultural land is to be conducted through the adjustment and improvement of policy and legal framework on agricultural land, in addition to implementation of volunteer inventory and consolidation projects. That will result in an increase of the average farm size and the average parcel area as well as agricultural production; increased competitiveness; development of land market, as an important pre-requisite for free market economy. This priority is addressed in the ERP, Measure 4: ‘Consolidation and inventory of agricultural land’

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<sup>18</sup> This priority is in directly related with National Development Strategy, **Measure 3**: ‘Better linkage between the education system and the labour market’.

<sup>19</sup> This priority is in directly related with National Development Strategy, **Measure 30**: ‘Deployment of information and communication technology infrastructure’

<sup>20</sup> This priority is directly related with National Development Strategy, **Measure 20**: ‘Regulating agricultural land’

- ***Enhancing competitiveness in Tourism.*** The Government of Kosovo aims to promote development and competitiveness in tourism sector in order to increase economic value of tourism, increase employment and improve the quality of services. Increase the touristic offer by promoting tourism products, promoting development of products in order to penetrate the tourism market, cooperating with relevant stakeholders, applying tourism and hospitality standards, and improving the legal infrastructure according to European practices. This priority is also addressed in the ERP, Measure 6: 'Enhancing competitiveness in the Tourism and Hospitality Sector'.

## **1. Infrastructure and Environment**

The Government is committed to provide the public infrastructure necessary for growth and economic development. Sustainable energy and water supply as well as transport links with regional and European corridors will create a better environment for the private sector, too. For modern businesses, technological infrastructure is essential to boost productivity and reduce operating costs. This also applies to the agricultural sector which needs follow-up infrastructure, such as irrigation. But all this must be done in full harmony and using natural resources in the most rational manner, through the balance between immediate economic needs and environmental sustainability.

- ***Securing stable energy supply and rational use of renewable energy sources<sup>21</sup>*** *Securing stable energy supply* will be addressed thorough the construction of TPP Kosova e Re after the financial closure of the agreement with the private investor and rehabilitating the old capacities of Kosovo B. The decommissioning of TPP Kosova A will take place in phases until functionalization of TPP Kosova e Re. At the same time, the security of electricity supply will be increased by creating an open and competitive electricity market that requires the finalization of the regulatory framework and integration into the regional market, including the operation of the 400 kV transmission line between Kosovo and Albania, in accordance with the commitments of the Berlin Process and the EU Directives in the single energy market. ***Rational use of renewable energy sources*** will be promoted through feed-in tariff regulations for all types of renewable sources and from on-going private investment in solar, wind, and small hydro power plants. Private investments will be facilitated through the creation of a one-stop shop for renewable energy sources in order to improve services for this sector. This priority is addressed in the Economic Reform Programme, Measure 2: 'Further development of energy generation capacities'
- ***Reducing energy consumption through efficiency measures<sup>22</sup>*** The Government continues to support investments in energy efficiency in the public sector and in the implementation of

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<sup>21</sup> This priority is directly related with National Development Strategy, **Measure 25:** 'Build new and sustainable power generation capacities', **Measure 26:** 'Establish an open and competitive energy market' and **Measure 28:** 'Rational use of renewable energy sources'

<sup>22</sup> This priority is directly related with National Development Strategy, **Measure 27:** 'Decrease energy consumption through energy efficiency measures.'

district heating networks in cities of Kosovo that will reduce energy consumption in residential buildings for heating purposes. The regulatory framework for standards and energy performance requirements will be improved. Efficiency measures will be implemented based on the new law adopted for EE, respectively through the Efficiency Fund that will determine the framework for the implementation of the Energy Efficiency Funds for energy efficiency measures in the private and residential sector and the promotion of the comprehensive use of existing initiatives such as the Regional Energy Efficiency Program, with the aim of achieving the 9% target of energy saving. This priority is addressed in the ERP, Measure 1: ‘Reduction of energy consumption through energy efficiency measures’

- ***Improving connectivity and mobility pre-condition***<sup>23</sup> The Government of the Republic of Kosovo remains committed to the further improvement of ***road and rail infrastructure***, focusing on the completion of major international and regional road axes as well as the international railway line to enable faster and cheaper movement of citizens and goods, reducing the costs and distances of transport of people and goods to and from Kosovo. This will facilitate for the businesses to place goods on local and international markets, while the modernization of the international rail network will help the sector of export of mining and agricultural commodities.
- ***Improving infrastructure for agribusiness***<sup>24</sup> The government continues supporting an expanding the coverage of the irrigation system as well as farm expansion activities through the provision of direct financial assistance (subsidies) and will support the growth of processing industries of the food industry, investment in agro-processing enterprises, respectively expansion of processing capacities and introduction of new production lines, investment in hygiene and quality standards. This priority is addressed in the ERP, Measure 3: ‘Structural changes in agro-processing sector’
- ***Increasing water recourses use efficiency***<sup>25</sup> rational use and increase of capacities of water resources will be supported thorough investments in the water supply network in all regional water companies, addressing the technical and commercial losses of the regional water supply companies. It is important to highlight that for the purpose of preserving water resources and their rational use; initially work will be done on the realization of feasibility studies for potential locations for the construction of surface water accumulations. The implementation of this priority will increase water use efficiency and increase the degree of control and reporting on used / consumed water quantity.
- ***Ensuring sustainable use and management of forests***<sup>26</sup> that priority aims to stop the rhythm of deforestation of Kosovo forests and starting their regeneration and sustainable use, in function of consumers and use in industrial sectors. Improving efficiency in better forest

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<sup>23</sup> This priority is directly related with National Development Strategy, **Measure 29**: ‘Further development of road and railway infrastructure’

<sup>24</sup> This priority is directly related with National Development Strategy, **Measure 31**: ‘Agriculture infrastructure at the service of agro-business’

<sup>25</sup> This priority is directly related with National Development Strategy, **Measure 32**: ‘Rational use and increase of capacities of water resources’

<sup>26</sup> This priority is directly related with National Development Strategy, **Measure 33**: ‘Sustainable forest management and use’

management will support the wood processing industry, ensuring fair price and sustainable supply with raw material.

- ***Enabling sustainable waste management***<sup>27</sup> In the mid-term the Government implements this priority by running the Sustainable Waste Management reform, which implies the granting of additional competencies to municipalities on waste management in accordance with the Law on Local Self-Government and Law on Waste, and which enables the consolidation of public waste collection companies and contracting economic operators through public-private partnerships for waste management. In general, the policy framework for integrated waste management will be established through the relevant strategy, which presents the Government's approach to integrated waste management and contributes to the implementation of the Stabilization and Association Agreement, related sector policies in the area of waste management with those of the EU, thus accelerating the European integration process.

### **1.3.5 European Integration, Foreign Policy and Security Affairs**

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

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

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

Kosovo, without any dilemma, aims the membership in NATO. Also, the on-going presence of NATO in Kosovo constitutes security and additional opportunities for Kosovo state and citizens. Transformation of the KSF into the KAF as foreseen by the legal framework adopted will continue in the years to come, in close cooperation with NATO thus ensuring the continuation of the full support in advancing the KSF in compliance with NATO standard.

In the field of European Integration, the Government of Kosovo remains committed to fully implement the Stabilisation and Association Agreement (SAA) within the deadlines agreed with the European Commission. In this regard, the budget organizations identify as priority in particular action within SAA, which include important short-term and medium term engagements (2018-

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<sup>27</sup> This priority is directly related with National Development Strategy, **Measure 34:** 'Sustainable waste management'

2020) included within the pillars of the National Development Strategy, European Reform Agenda, Economic Reform Programme, National Program for Implementation of Stabilisation and Association Agreement (NPISAA) and actions aiming the maximisation of use of EU funds as part of the Instrument of Pre-Accession (IPA), budget support from EU Western Balkans Investment Framework, as well as other developmental partners.

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

# **PART TWO**

## **2. Macroeconomic Framework**

### **Foreword**

The Medium-Term Expenditure Framework 2020-2022 is built on a macroeconomic scenario that foresees accelerated economic growth in the country, which coincides with optimistic expectations for investment and export growth, meanwhile consumption growth is expected to be the main growth contributor. Throughout the medium term, real economic growth is expected to lean towards 4.6%.

Economic growth is based on a combination of rising domestic and external demand. Higher private investment is expected in response to better credit conditions and improvements in the business environment. Furthermore, a higher public investment package financed by the budget and external borrowing, is expected to stimulate economic growth. This increase in investment activity, coupled with a lower cost of lending, are expected to further support private consumption growth.

Prices are expected to stabilize in the medium term mainly as a result of international developments, with an average change in consumer prices of 1.3%. The overall change in the level of GDP deflator is expected to have an average of 1.0% over the medium term.

Based on macroeconomic forecasts, the fiscal framework foresees that budget revenues will be 27.4% of GDP.

Based on these expectations for revenues, MTEF 2020-2022 foresees a spending space of an average of 32% of GDP in the medium term. During this period, current expenditure is expected to follow the trend of nominal GDP growth, with a share of around 21.2% of GDP. Capital expenditures, on the other hand, are projected to account for about 10.3% of GDP over the medium term. The budget deficit, limited by the fiscal rule at 2% of GDP, is expected to be around 2.0% of GDP in 2020 and 2021 and 1.4% of GDP in 2022. However, additional capital investments over the 2.0% of the deficit are expected to be financed by concessionary borrowing in the medium term and liquidation proceeds in 2020.

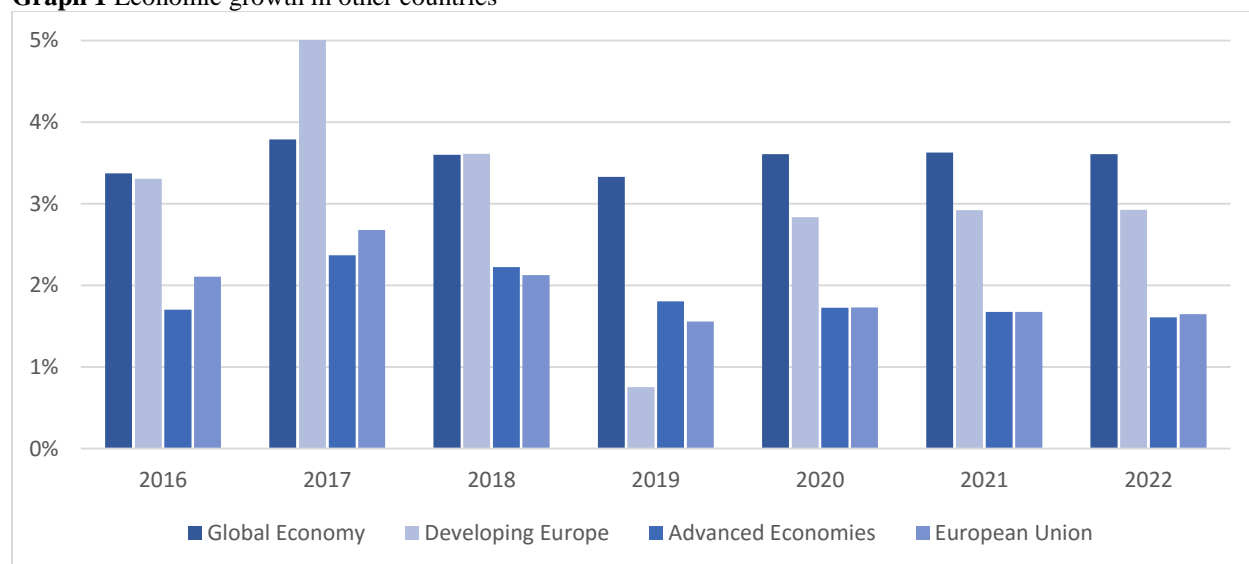
## 2.1 External Economic Environment

**Global economic growth slowed down in the second half of year 2018. This slowdown will continue in 2019 but growth will pick up in the medium term.**<sup>28</sup> Global economic growth is projected to level off from 3.6% in year 2018 to 3.3% in 2019. Growth for 2019 has been revised down by 0.4 percentage points from the October 2018 projections. This slowdown is mainly due to trade tensions and uncertainties stemming from trade measures, vulnerabilities in China, Brexit outcome and uncertain economic policy in Italy. Nonetheless, for years 2020-2022, global economic growth based on WEO is projected around 3.6%, based on improved momentum for emerging market and developing economies and moderated growth for advanced economies (Graph 1).

At the same time, growth in the European Union will slow down from 2.1 % in year 2018 to 1.6% in 2019 and maintain an average of 1.7% during 2020-2022. Revisions for lower growth in the European Union reflect trade tensions and uncertainties in general. In addition, the introduction of new emissions standards in Germany and financial risks in Italy which have an impact in business confidence and internal demand, have played a role in this economic slowdown.

Emerging and Developing Europe which includes most CEFTA member countries and Turkey is expected to slow down from 3.6% in 2018 to 0.8% in 2019, however during the medium term 2020-2022 an average growth of 2.9% is foreseen (from 2.6% October 2018 forecast).

**Graph 1** Economic growth in other countries



World average consumer prices, based on WEO 2019, are projected to be 3.6% in 2019 and an average rate of 3.5% for 2020-2022. April 2019 projections foresee lower prices as a result of lower oil prices that have subdued inflationary pressures. For advanced economies, inflation is

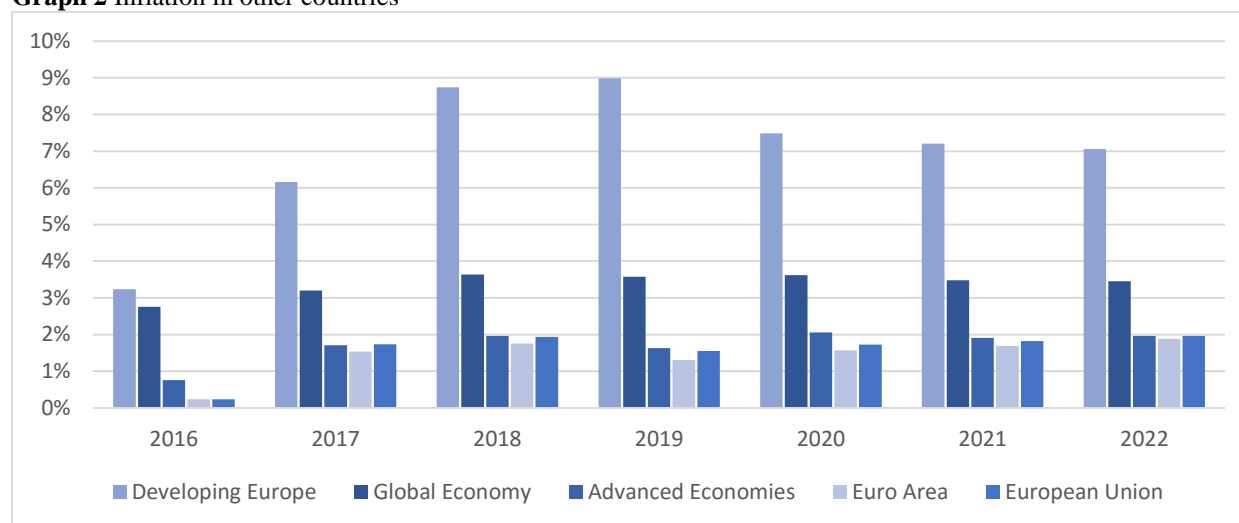
<sup>28</sup> WEO April 2019



projected to remain broadly at current levels, while for developing economies and emerging market, inflation is expected to decline.

Consumer price inflation in the Euro Area declined during the second part of 2018 reflecting lower energy and food commodity prices. Average inflation (HICP) based on WEO April 2019 was 1.8% during 2018. Oil price expectation for 2019 and 2020 are now lower than the ones projected in fall 2018, therefore euro area inflation is expected to slow down to 1.3% in 2019 to continue with an average growth of 1.7% during 2020-2022. In European Union, inflation is expected to have the same trend as the one in the Euro Area, marking a value of 1.6% in 2019 and 1.8% in the medium term (Graph 2).

**Graph 2** Inflation in other countries



### 2.1.1 Latest Economic Developments in Kosovo

Based on preliminary quarterly data from Kosovo Agency of Statistics (KAS), real GDP growth during 2018 was 3.9% compared to the previous year (for 2016 and 2017 real quarterly economic growth was 3.4% and 3.7% respectively). Based on historical data, annual publications for economic growth are usually higher than the quarterly ones (for instance, annual economic growth in publications of KAS was revised upwards to 4.1% and 4.2% in 2016 and 2017, respectively). Therefore, judging based on economic growth revisions by KAS and on the performance of consumption and investment financing sources, it is expected that the annual real growth for 2018 will be higher, around 4.3% (based on MoF projections).

Economic indicators show that year 2018 reflects a continuation of economic development based on improvement of credit conditions, growth of income from abroad (remittances and compensation of employees) and a faster dynamic for investment implementation (private and public).

Based on estimates, **consumption** during 2018, grew by 5.6% in real terms, reflecting private consumption growth of 5.6% and public consumption growth of 5.4%.

Private consumption growth reflects an increase of 10.4% during 2018 in new loans for consumption and an increase of 3.5% in imports of consumer goods. At the same time, consumption grew amid an increase in income from compensation of employees and remittances by 11.3% and 5.4%, respectively. Average interest rate on consumer loans has maintained a declining trend, falling from 7.5% at the end of 2017 to 6.8% at the end of 2018.

Whereas, government recurrent expenditure which includes spending on goods and service, wages and salaries, and subsidies and transfers increased by 9.2%, contributing positively to public and private consumption.

**Investment** during 2018 is estimated to have been around 29.7% of GDP, with an annual increase of 9.4% in real terms, which reflects an increase in public investment by 12.7% and an increase in private investment by 8.2%. This development in private investment is partly due to an increase in new investment loans by 21% during 2018 and an increase in imports of capital goods by around 18%.

Another supporter of investment is the improvement of the doing business environment, which is also reflected in the 2019 Doing Business Report by the World Bank. Simultaneously, according to data from the Kosovo Chamber of Commerce, business environment measured by the business confidence index throughout 2018 has been positive.

In addition, interest rate for investment loans is declining and the average rate for new loans has fallen from 6.8% at the end of 2017 to 6.6% at the end of 2018.

At the same time, the bank lending survey published by CBK shows that for the period March-August 2018, banks have declared that they expect further ease of credit standards, decline in interest rates, increase in the amount of approved loans, and increase in the demand for loans by SME-s and corporations.

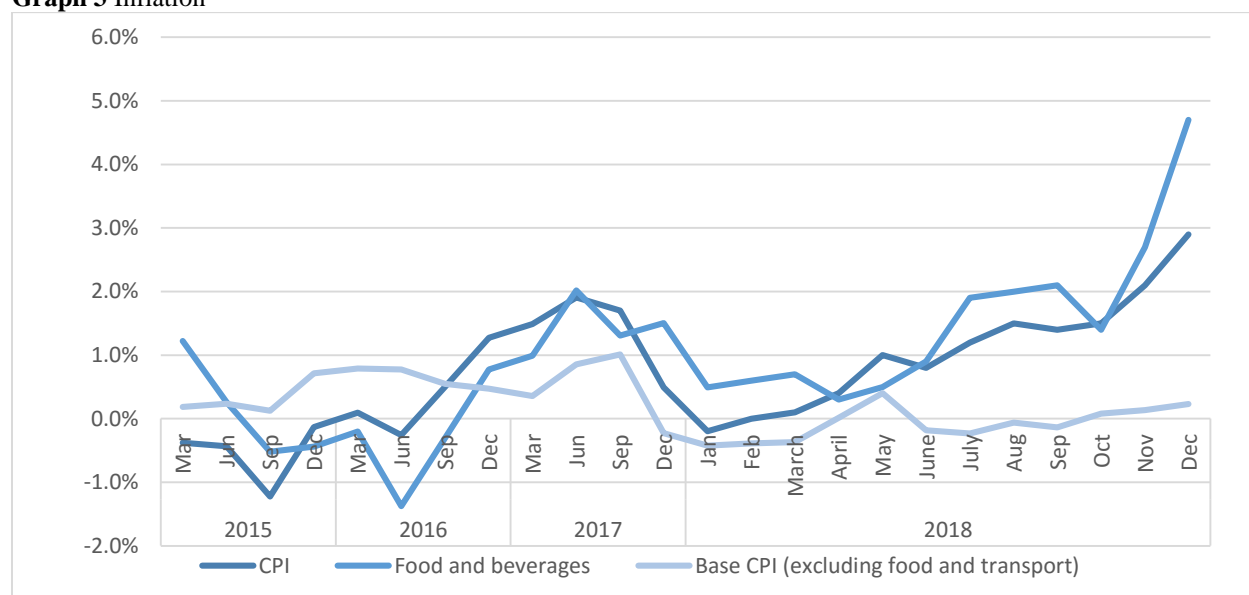
Foreign Direct Investment in 2018 declined by 16.3% compared to 2017, amounting to a value of 213.7 million euros. This fall in FDI is partly due to the withdrawal of investments in the form of dividends or debt repayment to parent companies, while FDI inflows have increased compared to last year.

According to economic activities, FDI in the real estate, renting and residential activities increased by more than 15 million euros, followed by energy, which increased by 10 million euros. Over 61% of total FDI in 2018 originated from Germany and Switzerland, which increase compared to last year.

During 2018, consumption prices increase by 1.1% on average, with a significant increase in the last months of the year. This growth reflects mainly the growth of transport prices at a rate of 3.9%, which began to increase after increasing fuel prices on world markets, growth of food prices (and non-alcoholic beverages) by 1.6%, and growth in prices of alcoholic beverages and tobacco at a

rate of 2.4% (Graph 3). While, core inflation, which excludes food and transport categories, fluctuated on average around the zero value.

**Graph 3 Inflation**



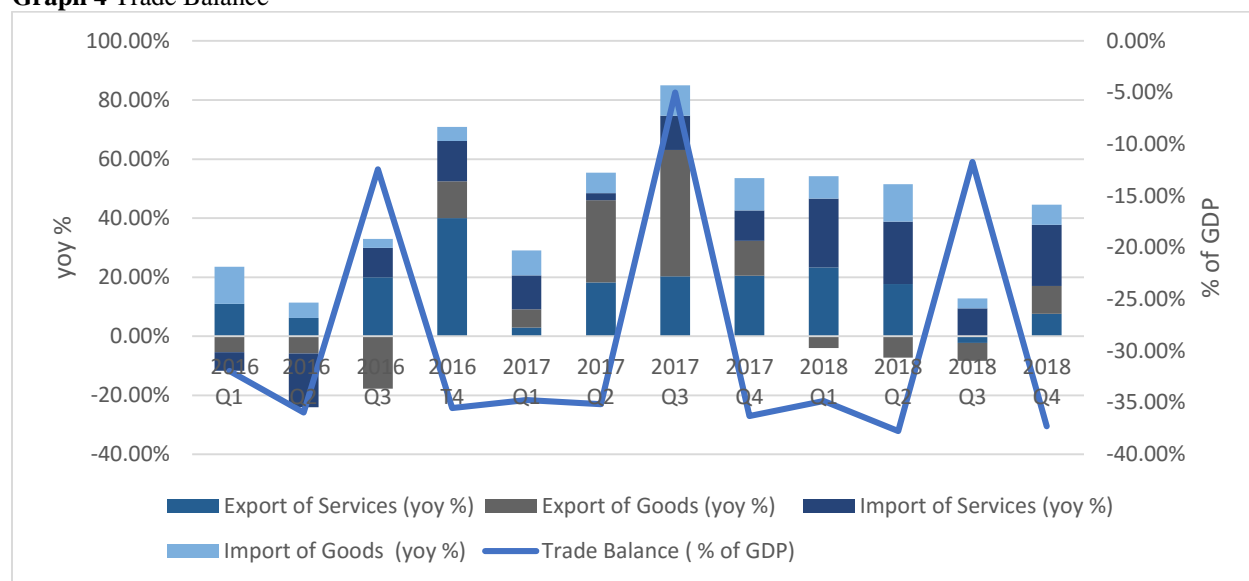
**Current Account Deficit** is estimated at 8.1% of GDP for 2018 while the trade deficit of goods and services at around 29.0% of GDP.

Exports of goods and services in 2018 increased by 3.6% compared to 2017. Exports of goods during 2018, were 2.8% lower than in 2017, while exports of services recorded an increase of 5.4 %.

Imports in 2018 were 10.8% higher compared to 2017, where imports of goods increased by 9.6%, while imports of services increased by 17.7%. Imported goods from EU countries account for about 43% of total imports, with 11.8% of EU imports coming from Germany. On the other hand, imports from CEFTA countries account for about 25% of total imports.

The balance of services during 2018 has decreased by 2.9% compared to 2017 and travel services continue to dominate with a share of about 77% of total exported services and about 36% of total imported services (Graph 4).

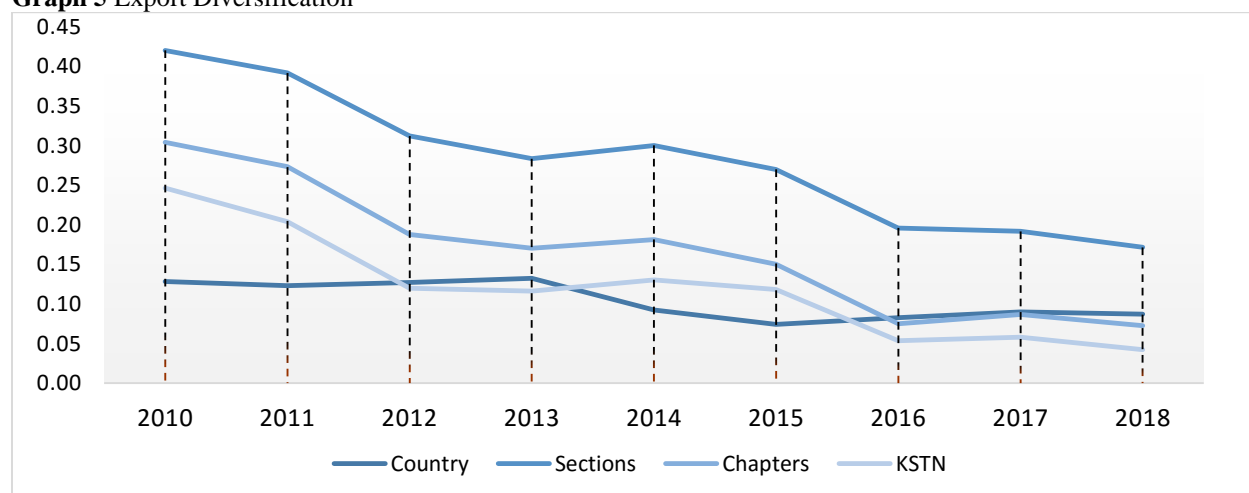
**Graph 4 Trade Balance**



In order to present the diversification of exports, the Herfindal Hirschman index was used, based on four different dimensions (Graph 5). Export diversification is a good way to ensure export sustainability, thus contributing to improving the country's trade balance.

Kosovo's export structure is still focused on exports of base metals and mineral products, which account for 48.1% of all exports of goods. However, as can be seen in Graph 5, the concentration of the export structure is decreasing (in 2016 and 2017, the share of these categories in the total exports of goods was 56.5% and 55.0% respectively). Significant sectors with a steady growth are the plastics and rubber sector as well as the prepared food sector, which account for about 22.9% of all exports.

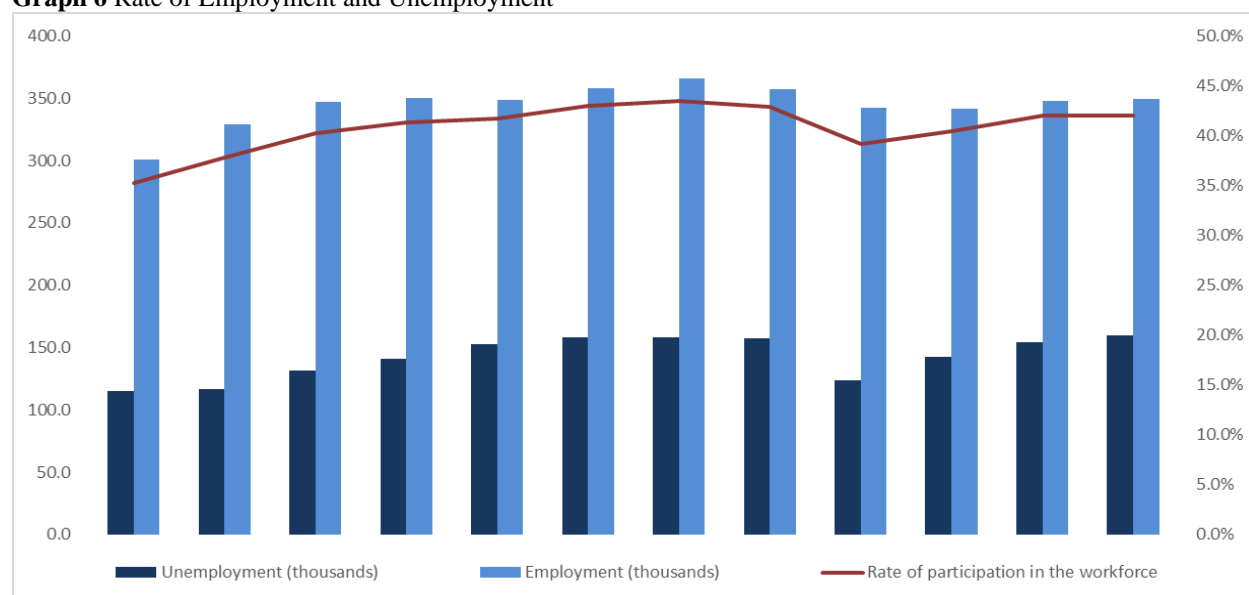
**Graph 5 Export Diversification**



The latest **labour market** data show that the employment rate at the end of 2018 was 28.8%, down from 29.8% at the end of 2017. The labour force participation rate declined to 40.9% in 2018 from 42.8% at the end of 2017. **While, the unemployment rate in 2018 declined to 29.6%, from**

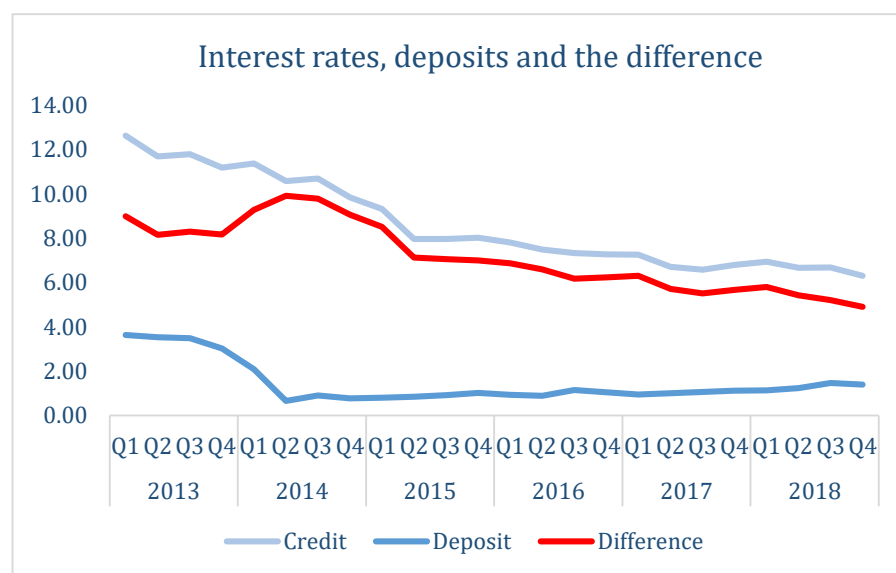
**30.5% at the end of 2017.** These developments are mainly attributed to the outflow of workers from the labour force (Graph 6).

**Graph 6** Rate of Employment and Unemployment



**The banking sector** continues to record accelerated credit growth. In December 2018, the stock of loans amounted to about 2.7 billion euros (2,755 million), marking an increase of 10.9% compared to the previous year. At the same time, corporate loans increased by 10.6% and households loans by 11.2%. In December 2018, the total amount of deposits amounted to about euros 3.4 billion euros, marking an annual growth of 9.1%, which was dominated mainly by the performance of corporate deposits by 14.3% (y-o-y), while deposits of households recorded a yearly growth of 7.1%.

**Graph 7** Interest Rate trend and difference between loans and deposits

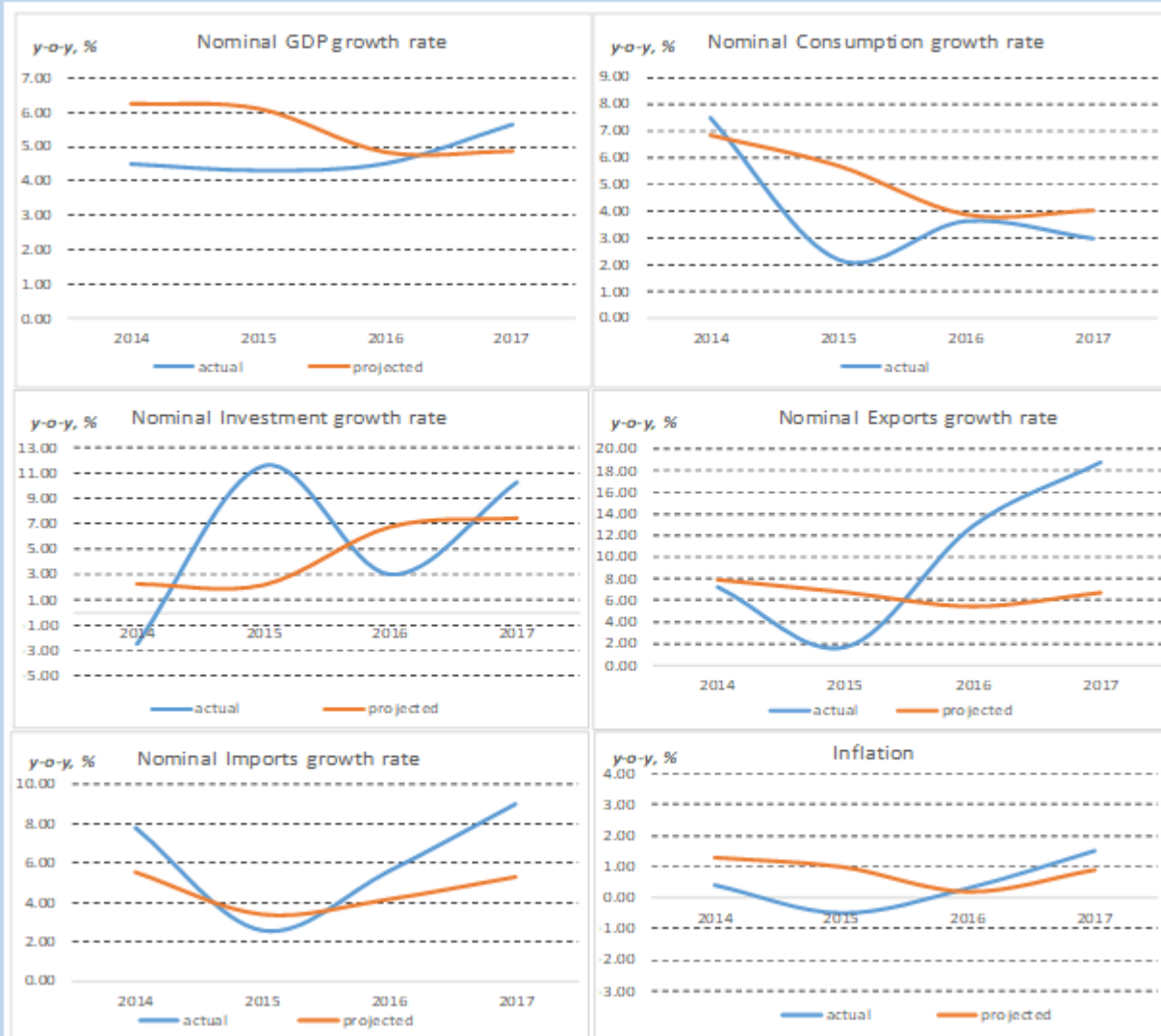


Average interest rate on loans during 2018 was 6.6%, about 0.2 percentage points lower than the interest rate in 2017. On the other hand, the average deposit interest rate was 1.31%, marking an increase of 0.28 percentage points. Consequently, the gap between the interest rate on deposits and loans continues to follow a downward trend (Graph 7).

### Information Box 1. Comparing macroeconomic forecasts used for previous MTEFs with actuals

Figure 1 shows the comparison between forecasts of main macroeconomic indicators provided in previous MTEFs and their actual performance over the period 2014-2017<sup>29</sup>. This helps in identifying whether there is a systematic bias (either upwards or downwards) in the projections.

**Figure 1. Main macroeconomic variables 2014- 2017: Projections for MTEF vs. Actuals**



As shown in Figure 1, the projected nominal GDP growth rate for the first two years (2014 and 2015) is higher than the actual data mainly due to higher growth in consumption, exports and lower growth in imports; while in 2016 this gap narrows considerably with GDP forecasted being very close to the actual values. In 2017, the forecasts for GDP were more conservative by being lower than the actual performance.

The above figure points out several issues that are relevant for the budget forecast process:

Given that nominal GDP is used as a key macroeconomic variable for projecting budget revenues, lower actual values of GDP than those projected usually<sup>30</sup> have a negative impact on revenue collection for those years compared to the forecasts, especially for categories of personal income and corporate income taxes;

As the gap between forecasted and actual consumption has narrowed considerably, it still leads to higher expectations for revenues collected from domestic VAT;

Imports, with the exception of year 2015, have been overestimated, thus yielding to higher forecasts for revenues collected from border VAT and custom duties. However, this is partly offset by the negative effect that such overestimation of imports has on projected GDP and consequently on projections for other budget revenues;

These divergences among projections and actuals of macroeconomic variables might have contributed to lower revenues than projected. Nevertheless, the budget balance and the bank balance have continued to stay within fiscal rules, with budget deficit being less than 2% of GDP and bank balance being no less than 4.5%<sup>31</sup> of GDP.

Taking into account the deviations between previous macroeconomic forecast and actuals, the current MTEF (2020- 2022) follows a cautious and conservative approach regarding the following:

- Assuming a lower degree of realization for capital expenditures based on past experience;
- Being more conservative in the assumptions in terms of exports performance.

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<sup>29</sup> Comparison for year 2018 is not provided due to considerable revision that the preliminary quarterly GDP data are usually subject to (as past history has shown). Annual data on GDP for year 2018 will be published in September 2019 by Kosovo Agency of Statistics.

<sup>30</sup> In the Kosovo context, the compliance gains particularly for direct taxes and domestic VAT might overlap with effects of macroeconomic variables impacting tax revenues.

<sup>31</sup> The 4.5% limit of the bank balance as percentage of GDP applies only in those years when the proceeds from SEO privatization are used.

## 2.1.2 Macroeconomic Projections 2020-2022

**Table 1** Main Macroeconomic Indicators

Macroeconomic Projections	2017	2018	2019	2020	2021	2022
	Actual	Estimation	Projections			
Real private consumption growth rate	1.8	5.6	3.5	4.3	4.8	4.6
Real total investment growth rate	5.6	9.4	7.6	4.9	5.0	4.9
<b>Real GDP growth rate</b>	<b>4.2</b>	<b>4.4</b>	<b>4.7</b>	<b>4.7</b>	<b>4.5</b>	<b>4.6</b>
<b>GDP at current prices (€ mil)</b>	<b>6414</b>	<b>6757</b>	<b>7123</b>	<b>7520</b>	<b>7946</b>	<b>8389</b>
Inflation	1.5	1.1	1.7	1.3	1.3	1.3
Current account balance (% e GDP)	-6.0	-8.0	-7.7	-7.9	-8.2	-8.3

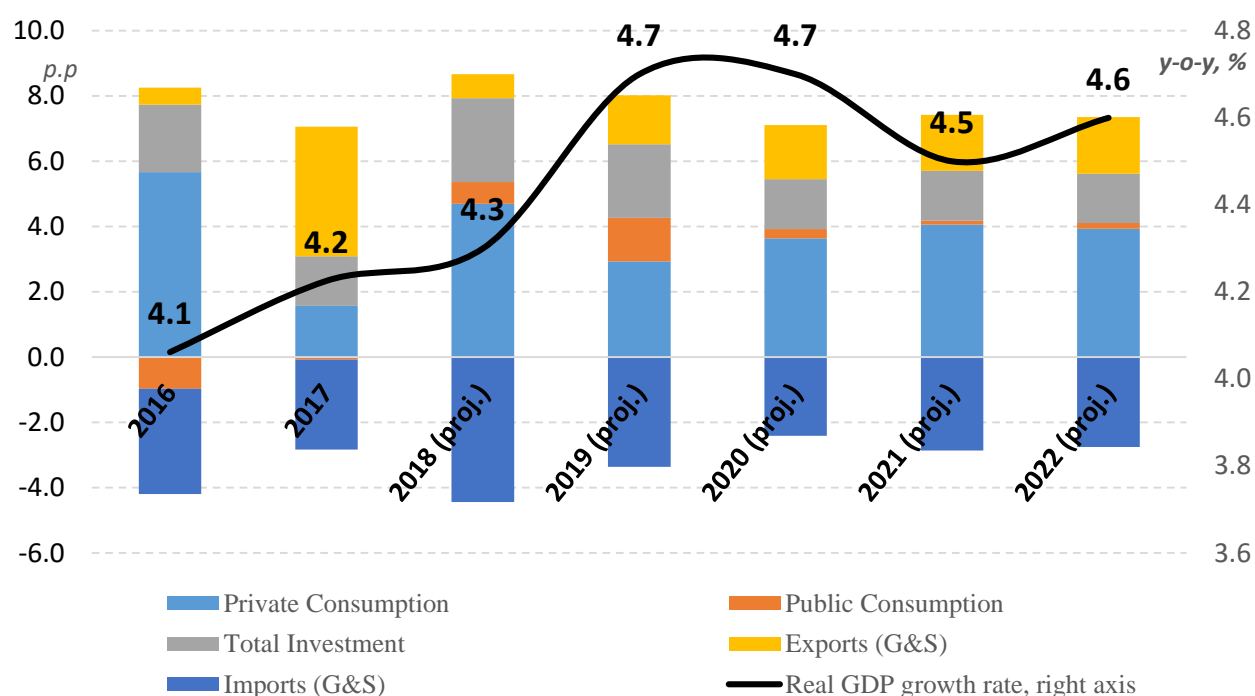
Over the period 2019- 2022, based on published data for main indicators of Kosovo's economy and based on actual and expected developments in the external environment published so far by international organizations, projections of Ministry of Finance result to be broadly in line with those published in the Economic Reform Programme 2019- 2021, with slight changes in growth structure and in the dynamics of growth over years.

During the period 2019- 2022, real GDP growth rate is estimated to be around 4.6% on average, ranging from 4.7% in 2019 and 2020 to 4.5% in 2021 and 4.6% in 2022. Over the medium- term (2020- 2022), economic growth is expected to be driven mainly by private consumption and total investment, while the contribution of exports is expected to increase (graph 8). For year 2020, real economic growth rate is higher than projections of two consecutive years and higher than latest projections published in Economic Reform Programme 2019- 2021, mainly as result of higher public consumption due to an increase in "goods and transfers" and "subsidies and transfers" category and a more accelerated dynamic of public investment realization.

Over the medium- term (2020- 2022), private consumption in real terms is expected to increase by 4.6%, as result of higher expectations for bank lending, driven by a low- interest rate environment and improved access to finance. Also, private disposable income is projected to increase as result of growth in remittances, social transfers and expectations for higher employment in private sector. Higher expenditures on infrastructure and health maintenance and higher employment in specific public sectors are expected to increase public consumption over the medium- term on average by 1.3%. Total consumption in real terms is expected to increase on average by 4% in 2020, to be followed by a similar growth rate in the following two years, contributing by 3.8 percentage points to real GDP over the medium- term (2020- 2022).



**Graph 8** Contribution of main components to read GDP growth rate



Private investment in real terms is expected to increase by 4.0% during 2020, following an increasing trend to 5% in the forthcoming years (2021 and 2022). Improved access to finance and lower cost of credit in the private sector will provide a significant stimulus to investment. At the same time, the capital increase of the Kosovo Credit Guarantee Fund is expected to further improve the access to finance and to enable the growth of investment loans. Also, stimulating measures for the production sector, which allow exemptions from customs duties on raw materials and exemptions from excise tax on energy sources in production are expected to provide a boost to investment growth over the medium- term by reducing production costs.

Public investment is projected to increase on average by 5.5% in real terms during the medium-term horizon. In year 2020, about 30% of public investment is expected to be financed by public investment and revenue from liquidation proceeds. Meanwhile, in the years 2021 and 2022, the structure of public spending will consist in about 75% of investments financed by regular budget and the rest will be financed by investment clause, in the absence of liquidation proceeds in these two years. The absence of these inflows will be challenging for maintaining public spending in an upward trend or at the same current level and at the same time keeping the budget deficit within fiscal rule, while taking into account that the expenditures financed by assets liquidation proceeds were excluded by the fiscal rule.

Exports of goods is projected to increase over the medium-term (2020- 2022) at an average rate of 5.9%. Diversification of exports of goods is expected to increase in the medium- term as result of the governmental scheme for stimulating production and in line with objectives of government reforms to ease administrative procedures and costs. At the same time, the positive effect of SAA

(increased competitiveness of Kosovo goods in the EU market) seen in the last two years is expected to further intensify as result of almost full implementation of this agreement. The positive developments in the nickel price in international markets and stabilization of global demand for nickel coupled with the increase in imports demand from Central and Eastern European countries will have a positive impact on the performance of exports of goods.

Exports of services, which represent about 20.7% of GDP in 2018 are expected to grow at real rate of 6.4% in the medium- term. This increase is related to the demand for services exports from EU countries, mainly due to the increased vacation spending from the Kosovo diaspora and increased demand for telecommunication services.

As a result of increased investment and consumption, import of goods and services is expected to increase by an average of 6.5% in 2019 and to decrease to an average growth rate of around 4.4% over the period 2020- 2022. Also, during the medium- term, the import of services is expected to decrease in line with historical trends, reflecting the decline in donor-funded services and the substitution of telecommunications services.

Due to expected developments in the import and export performance of goods and services, the trade deficit, over the 2020- 2022 period is expected to account for approximately 30.6% of GDP.

Based on forecasts for international prices, especially those of the EU, inflation in 2019 is expected to fluctuate around 1.75, with a decreasing trend in the medium- term (2020- 2022) around 1.3%. Import prices are expected to grow by an average of 1.4% over 2020- 2022, while the overall GDP deflator is expected to register an average growth rate of 1.0% over this period.

**Information Box 2. Comparing the macroeconomic forecast for the MTEF 2020-2022 with other forecasts.**

The following tables present projections of real GDP growth rate and nominal GDP (where available) among various institutions<sup>32</sup> over the medium- term. Such comparison allows judgment on whether macroeconomic projections of Ministry of Finance are broadly in line with those of other institutions (domestic or international).

As table 1 shows, the MoF projections of real GDP growth rate are more optimistic, which is mainly due to higher assumptions for investment and exports. At the same time, assumptions of MoF expecting a lower inflation rate than other institutions have contributed to higher real economic growth rates over the medium- term.

In terms of nominal GDP, projections of the Ministry of Finance and the International Monetary Fund are very close to each other.

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<sup>32</sup> The projections of other institutions are obtained from their latest updates and not all of them cover the same forecast horizon. Brackets in tables present the date of latest update for each institution.

**Table 1: Projections of Real GDP growth among institutions**

<b>Viti</b>	<b>2019<sup>33</sup></b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
MoF (April 2019)	4.7%	4.7%	4.5%	4.6%
Central Bank of Kosovo (March 2019)	4.2%	n/a	n/a	n/a
World Bank (March 2019)	4.4%	4.5%	n/a	n/a
IMF (April 2019)	4.2%	4.0%	4.0%	4.0%
EBRD(November 2018)	4.0%	n/a	n/a	n/a
<b>Average of the others</b>	<b>4.2%</b>	<b>4.3%</b>	<b>4.0%</b>	<b>4.0%</b>

**Table 2. Projections of Nominal GDP (mln euros) among institutions<sup>34</sup>**

<b>Year</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
MoF (April 2019)	7,123.0	7,520.4	7,945.7	8,389.2
IMF(April 2019)	7,106.0	7,507.0	7,944.0	8,420.0

**Table 3. Projections of inflation rate among institutions**

<b>Year</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
MoF (April 2019)	1.70%	1.30%	1.30%	1.3%
World Bank (March 2019)	2.60%	1.90%	n/a	n/a
IMF (April 2019)	2.24%	1.35%	1.77%	1.86%
<b>Average of the others</b>	<b>2.42%</b>	<b>1.63%</b>	<b>1.77%</b>	<b>1.86%</b>

## 2.2. Fiscal Framework 2020-2022

The Government of the Republic of Kosovo is oriented towards macro-fiscal stability, so the level of the budget deficit continues to be low, providing sufficient budget reserves and avoiding excessive accumulation of public debt. Such stable macro-fiscal environment favours economic growth which is mainly driven by private sector activity.

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

- Budgetary revisions with a neutral impact on the deficit
- Budget deficit limit to 2% of GDP
- Constant share of public payroll to nominal GDP, and
- Public debt limit of 40% or respectively 30% of GDP for the exclusion of capital investments from the deficit rule, according to the "investment clause"

<sup>33</sup> Data for 2019 are obtained from the latest projections realized in the framework of MTEF 2020- 2022.

<sup>34</sup> Nominal GDPs can only be compared among two institutions (Ministry of Finance and International Monetary Fund) as published projections for nominal GDP from other institutions were not available.

Exemption from deficit limit for capital projects funded through long-term and concessional lending of donors or those funded by the liquidation of Socially Owned Enterprises assets provides sufficient space to address these deficiencies within a prudent and sound fiscal framework. In this strategic context, the medium term fiscal objectives of the Government are based on the following principles:

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

Based on the objectives of the above-mentioned fiscal policies, MTEF 2020-2022 reflects the fiscal strategy that was initiated with the 2019 budget, by distributing the marginal fiscal space deriving from the projected increase in revenues to:

- a) Increase capital expenditure to tackle competitiveness gaps; and
- b) Higher operating costs for improving the provision of public services in priority sectors.

In addition, much of the revenue losses from the implementation of the Stabilization and Association Agreement (SAA) have already been absorbed, while the remainder is fully accounted for in the medium term. Limited losses from production incentive schemes - through the elimination of customs duties and excise duties on production inputs, spare parts, and IT equipment - are also accounted for in the medium term projections.

### **Information Box 3. Comparing budget forecasts and actuals for recent years**

Table 1 and 2 in Annex 2 allow the comparison among the performance of main budget items according to their realization, budget and MTEFs (the initial and the most recent one) for years 2017 and 2018.

Regarding expenditure, the main observation is that recurrent expenditure in MTEF and Budget were underestimated due to the increased number of beneficiaries in the war veteran pension schemes than expected and the non-implementation of the war veterans' reform which would enable the reduction of the number of the beneficiaries. In 2017, the actuals for wages and salaries were lower than the planned amounts in MTEF and in the Annual Budget due to vacancies not

filled. In 2018, the same phenomenon was true for the MTEF but the amount for the actuals were higher than the appropriated amounts in the Budget due to salary increase for certain categories of staff; while expenditure for goods and services are slightly above the plan.

Capital expenditures are below their projections in both MTEFs and Annual Budget for both years due to three main reasons:

- 1) the non-execution of the investment clause due to bottlenecks in decision-making as 2017 was an election year (for 2017) and due to project delays (PIUs not fully functional in 2018);
- 2) delays of required legal amendments for the use of privatization proceeds for public investment (for 2017);
- 3) other overestimation of capital expenditures due to project delays. Some examples for 2017 were the highway Pristina- Skopje M6 and for 2018 were the highway Pristina- Gjilan- Koncul, the highway Pristina- Mitrovica and Development Trust Fund.

In year 2017, there was a considerable discrepancy among revenue projections in the recent MTEF (2017- 2019) and in the annual budget. The performance of revenues in 2017 was highly determined by changes in existing policies: a) Law on tax debt forgiveness; b) increase of the VAT from 16% to 18%; c) removal of the restriction for importing old car imports. Also, the negative effect of the Stabilization and Association Agreement on indirect tax revenues was overestimated. These positive developments in terms of revenue collection in 2017 were partly offset by: a) higher reimbursements of fiscal coupons than planned due to high participation of the public; b) under-performance of non- tax revenues, one- off revenues and corporate income tax.

In year 2018, revenues resulted to be lower than projections both in the recent MTEF and – at a lower level- than in the annual budget. Main reasons are related to overestimation of revenues in the areas of narrowing tax gap and collecting tax debt, underperformance of indirect tax revenues and non-realization of one-off revenues. As usual, non-tax revenues were below their projections.

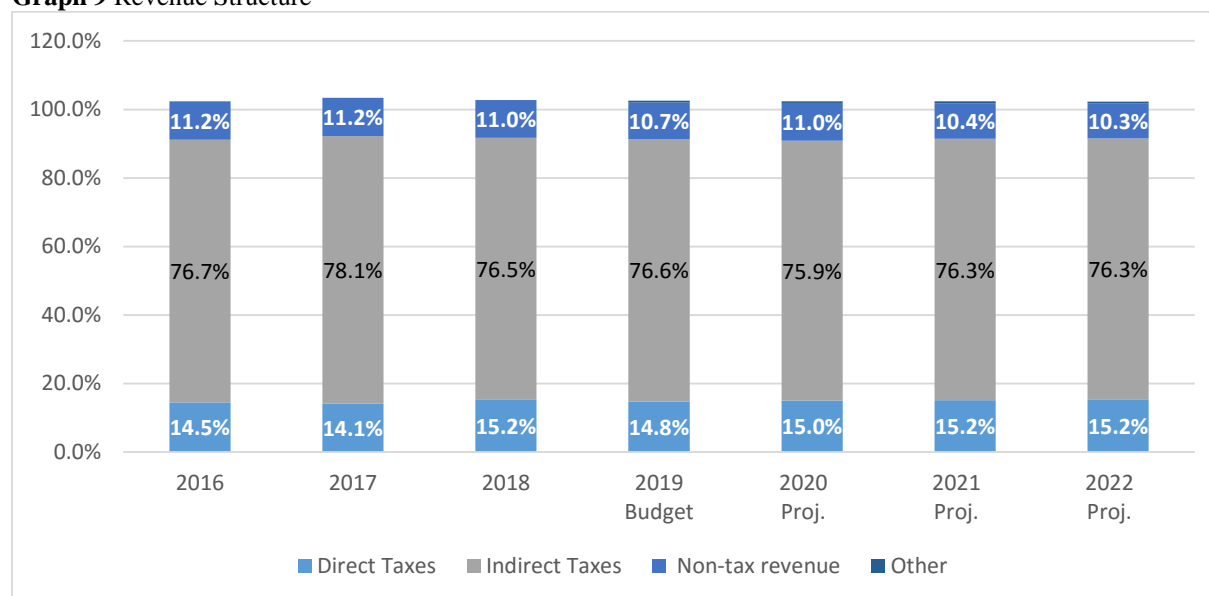
## **2.2.1. Government Revenue and Expenditure**

### **2.2.1.1. Revenue Projections 2020-2022**

Budget revenues are based on macroeconomic projections, reduction of tax debt stock and effects of fiscal measures.

Consequently, revenue is expected to increase by an average of 5.3% over the medium term. The expected increase in tax revenues is expected to be mainly driven by indirect taxes, particularly VAT and excise duties, while a stabilization of revenues from customs duties is foreseen, taking into account the reduction of the effects of the free trade agreement with EU countries (SAA).

**Graph 9 Revenue Structure**



**Revenues from indirect taxes** are expected to increase by about 5.2% in the medium term. VAT is expected to increase by 5.0% on average, with border VAT increasing by 5.5% driven by increased imports of goods and domestic VAT by 3.8% driven by the increase in overall consumption as well as the fiscal measures that have enabled the VAT payment to shift from the border to the country. In addition, the increase in domestic VAT revenues also encompasses a positive effect from exports of travel services, which mainly represent the consumption of emigrants during their stay in Kosovo. Excise revenues are expected to increase by 4.6% on average, driven mainly by real GDP growth, while customs duties are expected to increase by 8.1% in the medium term, based on an increase in imports and the declining negative impact of the SAA.

On the other hand, **direct tax revenues** are expected to increase by of 6.4% on average over the medium term. This growth was mainly driven by the increase in GDP and by an improvement in compliance. Other drivers of direct tax revenue increase in the medium term include higher profits for companies as a result of government exemptions from customs duties and excise duties on inputs and information technology equipment, higher public wages (based on the law on wages) and the reduction of tax debt for corporate income tax and personal income tax.

**Non-tax revenues** are projected to have a fall as a percent of GDP from 3.0% in 2019 to 2.8% at the end of the medium term. The revenue projections reflect the Government's policy stance to avoid supporting on non-tax revenues and to create incentives for reorganizing administrative fees in accordance with the principle of cost-based service and in compliance with license and permit legislation reforms. A more dynamic implementation of the legalization process of illicit constructions, improved compliance for vehicle registration and increased demand for sand and gravel extraction after intensified public infrastructure investment, can contribute to higher revenue than the one projected.

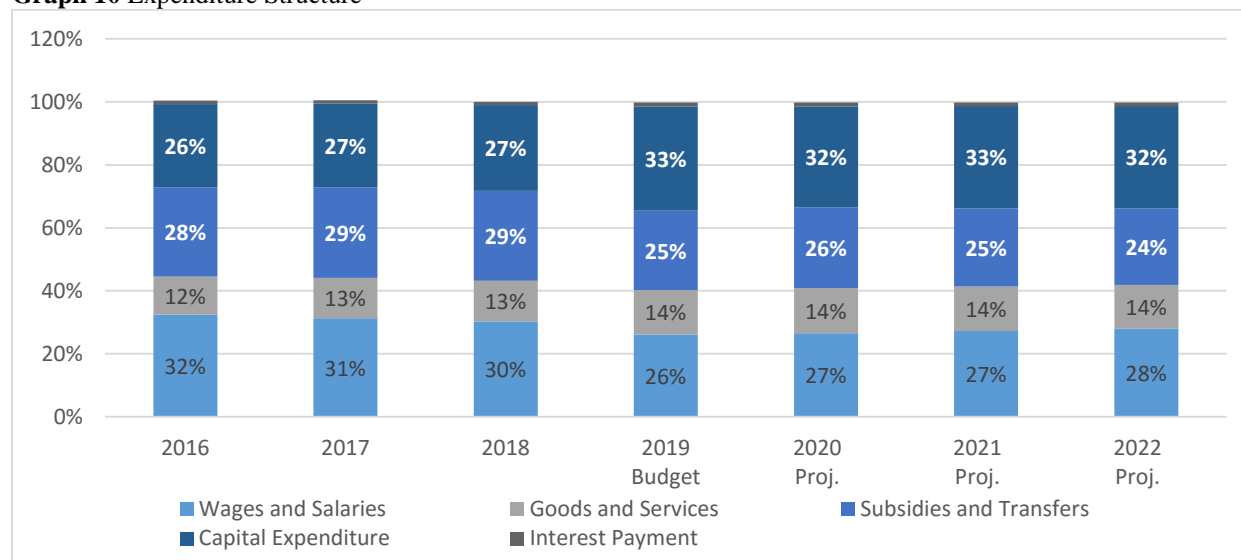
**Table 2** Revenue Projections

	2017	2018	2019 Budget	2020 Proj.	2021 Proj.	2022 Proj.
In million euros						
<b>1. Total Revenue</b>	<b>1,684</b>	<b>1,757</b>	<b>1,949</b>	<b>2,060</b>	<b>2,158</b>	<b>2,276</b>
<i>off which: extra tax debt collection</i>			27	27	27	27
<i>tax compliance gains</i>			14			
<b>1.1 Tax Revenue</b>	<b>1,496</b>	<b>1,564</b>	<b>1,730</b>	<b>1,824</b>	<b>1,924</b>	<b>2,032</b>
<b>Direct Taxes</b>	<b>238</b>	<b>268</b>	<b>288</b>	<b>310</b>	<b>327</b>	<b>347</b>
<i>Tax on Corporate Income</i>	75	87	91	100	105	110
<i>Tax on Personal Income</i>	137	153	163	173	182	192
<i>Tax on Immovable Property</i>	22	24	30	33	37	41
<i>Other</i>	3	4	4	4	4	4
<b>Indirect Taxes</b>	<b>1,315</b>	<b>1,344</b>	<b>1,492</b>	<b>1,564</b>	<b>1,648</b>	<b>1,737</b>
<i>Value Added Tax:</i>	756	799	905	941	989	1,048
<i>Domestic:</i>	198	213	258	267	273	288
<i>Border:</i>	558	586	647	675	716	760
<i>Customs Duty</i>	126	124	120	132	142	152
<i>Excise</i>	432	419	465	488	511	533
<i>Other indirect</i>	1	2	2	2	5	5
One-off revenue from POE tax debts	0	0	0	0	0	0
One-off revenue from SOE tax debts	0	0	0	0	0	0
<b>Tax Refunds</b>	<b>-58</b>	<b>-48</b>	<b>-50</b>	<b>-50</b>	<b>-51</b>	<b>-52</b>
<b>1.2 Non-tax revenue</b>	<b>188</b>	<b>193</b>	<b>208</b>	<b>226</b>	<b>224</b>	<b>233</b>
<i>Fees, charges, and other - Central Level</i>	103	110	103	126	120	127
<i>Fees, charges, and other - Local Level</i>	43	46	57	50	50	50
<i>Concessionary fees</i>	9	9	11	13	17	20
<i>Royalties</i>	31	25	33	33	33	33
<i>Revenues from liberalization of the mobile phone market</i>	0		0	0	0	0
<i>Dividends</i>	0	0	0	0	0	0
<i>Interest income (POE)</i>	3	2.1	4	4	4	3
<b>1.3 Budget support and grants</b>	<b>0</b>	<b>0</b>	<b>10.5</b>	<b>10.5</b>	<b>10.5</b>	<b>10.5</b>
<b>1.4 DDG - Donor designated grants</b>		<b>8.5</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>

### 2.2.1.2. Expenditure Projections 2020-2022

Throughout the medium-term 2020-2022, government expenditure is projected to hold a share of around 32 % of GDP. Current expenditure is expected to be about 21.2% of GDP, while capital expenditure will have a share of 10.3% during the medium term (Graph 10).

Part of the capital expenditure is planned to be financed by foreign financing through the investment clause, which provides additional space for spending above the deficit ceiling of 2% of GDP. This space, which helps to accommodate the development needs of Kosovo's economy, enables the Government to finance projects of public interest that ease developmental (infrastructure) constraints in the country. At the same time, another important financing source for capital expenditure during 2020 is expected from one-off financing from the liquidation of public enterprises.

**Graph 10** Expenditure Structure

Although difficulties to accommodate spending as a result of new initiatives and the implementation of the law on wages have been encountered during this period, the Law on Public Financial Management and Accountability has helped to cautiously manage expenditure and has provided fiscal sustainability. As a result, public spending is projected to increase by 3.1% in the medium term, with capital expenditure expected to increase by an average of 2.4%, while current expenditure by 3.4%.

Table 3 shows the structure of general government expenditure over the medium term, which is planned as follows:

**Table 3** Expenditure Structure

	2017	2018	2019 Budget	2020 Proj.	2021 Proj.	2022 Proj.
in million euros						
<b>Total Expenditure</b>	<b>1,759</b>	<b>1,956</b>	<b>2,378</b>	<b>2,466</b>	<b>2,535</b>	<b>2,603</b>
<b>Current Expenditure</b>	<b>1,28</b>	<b>1,404</b>	<b>1,561</b>	<b>1,643</b>	<b>1,682</b>	<b>1,727</b>
<i>Wages and Salaries</i>	550	593	620	654	691	730
<i>Goods and Services</i>	226	253	337	353	357	360
<i>Subsidies and Transfers</i>	506	559	600	631	630	633
<i>Recurrent Reserves</i>	0.0	0.0	4.8	4.8	4.8	4.8
<b>Capital Expenditure</b>	<b>468</b>	<b>533</b>	<b>789</b>	<b>794</b>	<b>825</b>	<b>846</b>
<i>Regular Budget Financing</i>	468	450	515	549	616	647
<i>Investment Clause</i>	0.0	0.0	123	185	209	199
<i>Liquidation Proceeds</i>	0.0	84	151	60.0	0.0	0.0
<b>Public Debt Interest</b>	<b>18.7</b>	<b>18.7</b>	<b>28.3</b>	<b>29.0</b>	<b>28.1</b>	<b>30.0</b>
<b>Donor Designated Grants</b>	<b>11.7</b>	<b>6.9</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>



**Wages and Salaries** - The category of wages and salaries is planned to increase after the implementation of the law on wages, but this growth will be made in line with nominal economic growth based on LPFMA<sup>35</sup>. Growth in this category of expenditure is expected to maintain an average of about 5.6% over the medium term, while the overall share to GDP is expected to be on average around 8.7%, maintaining the same trend of participation as in previous years.

**Goods and Services** - The category of goods and services is expected to grow by an average of 2.2% in the medium term. The highest growth is anticipated in 2020, as a result of some capital expenditure reclassification in this category. Reclassification includes a) maintenance of medical equipment; b) maintenance of memorial complexes; c) equipment for the Kosovo Police, etc. The effect of this reclassification is estimated to be around 14 million euros in 2020. Despite these changes, expenditure on goods and services is expected to be 4.5% of GDP, a ratio which is similar to previous years.

**Subsidies and Transfers** –after expenditure in this category increased during 2019 in order to cover the cost of increased pensions for some categories and increased number of beneficiaries in other schemes, during the medium term there will be an increase of 2.2% in spending. The highest growth is foreseen in 2020, mainly as a result of: the payment of residents within the Ministry of Health, the Law on Teachers, the re-classification of transfers to Public Enterprises from capital expenditures, the credit guarantee fund, the reallocation of some expenditures from the category of capital expenditures in this category, and the establishment of the special court. Expenditure in this category is expected to be 8.4% of GDP in 2020, continuing with a downward trend in 2021 and 2022 with a share of 8.0% and 7.6%, respectively.

**Capital expenditure** - represents a significant portion of total expenditure and is expected to represent about 32.4% of total spending or an average of about 10.3% of GDP for the period 2020-2022. During the medium term, it is expected the implementation of capital projects based on a priority list which includes projects that improve the transport network, electricity grid and conditions in education, social and health systems. This category of expenditure is expected to increase at a rate of 2.4% in the medium term. Most of the capital investment over the medium term will be funded from regular budget funding, but a large number of projects in different sectors are planned to be financed by foreign financing and socially owned enterprises liquidation funds (2020).

Funding priority will be given to ongoing projects, as well as projects that are in full harmony with Government priorities. Consequently, a significant number of projects is based on the priorities and structural reforms presented in the Economic Reform Program and some of those projects are presented in Box 1 below.

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<sup>35</sup> LPFMA amendments that link nominal GDP growth and the increase of public wage bill.

### **Box 1. Investment Clause**

As part of the Program with the International Monetary Fund (IMF), the Parliament approved the amendments in LPFMA, including the adoption of the so-called fiscal rule provides for exemptions from the deficit limit for capital projects with funding from the donor's concessional lending - the so-called "investment clause". Through the Investment Clause, so far, 21 capital projects have been embedded in the negotiation and implementation process, while other projects are in the phase of conception. The main projects are briefly described below:

1. **Rehabilitation of Railway Route 10**- the implementing institution for this project is the Public Company 'Infrakos', Prishtina. The total value of the project is estimated to be 195.4 million euros. Half of the funding is provided through investment grants from the European Union (EU) and the other half through loans with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). Financial agreements with EBRD and EIB have been signed and ratified and are expected to be implemented in three phases. The contract for the first segment has been signed and works begin in the spring of 2019.
2. **Rehabilitation of Iber-Lepenc** – the implementing institution for this project is the Public Enterprise of "Iber Lepenc" and the assessment of the total cost is 25 million euros. The agreement was ratified during 2017 and has commenced in 2018.
3. **Rehabilitation of regional roads** - the implementing institution for this project is the Ministry of Infrastructure. The Financing Agreement was signed and the project is worth 29 million euros with EBRD financing. Expropriation is in the process and civil works are expected to commence in 2019.
4. **Construction of N9 Highway Pristina - Peja (SEETO Route 6 A)** the part from Kijevë - Kline to Zahaq - the implementing institution for this project is the Ministry of Infrastructure. The project is worth 193 million euros. The two agreements were signed and ratified, one with EBRD and one with European Investment Bank. Civil works are expected to commence in the second half of 2019.
5. **Competitiveness and readiness to export** - the implementing institution for this project is the Ministry of Trade and Industry (MTI) and there may be representative from the PM office and MoF. The project is financed by the World Bank and is worth 14.3 million euros. The project implementation has started during 2018.
6. **Additional financing for the Agricultural and Rural Development Project** - the agreement for this project was signed between the Republic of Kosovo and the International Development Association- World Bank during 2017 and the agreement was ratified by the Parliament. The estimated cost of the project is 20.8 million euros and the project implementation has commenced during 2018.
7. **Treatment of waste water in Prishtina** - the Ministry of Environment and Spatial Planning is the implementing institution for this project. Financing of this project will be done by the framework agreement between the Government of the Republic of Kosovo and the

Government of France, which was ratified during 2017. Based on the agreement the project is valued to be 66 million euros and the implementation will begin in 2019.

8. **Construction of Waste water treatment in Podujeva** – the municipality of Podujeva is the implementing institution for this project. The financing agreement is signed with Unicredit Bank Austria AG and the agreement has been ratified. The implementation will commence during the first half of 2019.
9. **Construction of a water supply system for the Municipality of Ferizaj** - the municipality of Ferizaj is the implementing institution for this Project while the Austrian Government is financing the project. The financing agreement has been signed and ratified with Raiffeisen Bank International. The implementation will commence during the first half of 2019.
10. **Construction of a water supply system for the Municipality of Istog** – the municipality of Istog is the implementing institution for this project while the Austrian Government is financing the project. The Project will cost around 5.094 million euros and the agreement with Unicredit Bank Austria AG has been signed and ratified. The implementation will commence during the first half of 2019.
11. **Construction of Waste water treatment in Shtime** – the municipality of Shtime is the implementing institution for this project while the Austrian Government is financing the project. The Project will cost around 2.385 million euros and the financing agreement with Unicredit Bank Austria AG has been signed and ratified. The implementation will commence during the first half of 2019.
12. **Construction of a water supply system for the Municipality of Graçanica** – the municipality of Graçanica is the implementing institution for this project while the Austrian Government is financing the project. The Project will cost around 5.115 milion euros and the financing agreement with Unicredit Bank Austria AG has been signed and ratified. The implementation will commence during the first half of 2019.
13. **Construction of Ring Road Prishtina** – the implementing institution for this project is the Municipality of Prishtina. The project is in the process of evaluation from the Banks, EBRD and EIB. The agreement will be signed during 2019 and the civil works are expected to commence during the fourth quarter of 2019 or beginning of 2020.
14. **Construction of Waste water treatments for Municipality of Mitrovica and Municipality of Gjilan** – the Regional Water Companies of Mitrovica and Gjilan are the implementing institutions for this project. The financing agreements will be signed during 2019 with EBRD and EIB for 50% of the financing, while the rest, 50% will be financed with a grant from WBIF. After the ratification of the agreements, the implementation will commence during the fourth quarter of 2019 or beginning of 2020.
15. **Kosovo Digital Economy (KODE)** - The purpose of this project is to develop broadband interconnection infrastructure in uncovered areas, strengthen human capital and support businesses to enter the digital economy of the future. The Ministry of Economic Development is the implementing institution and the project will be financed by the World

Bank. The agreement has been ratified in 2018 and the total project value reaches 20.7 million euros. The project is expected to begin implementation in 2019.

16. **Real Estate Cadaster and Geospatial Infrastructure Project (REGIP)** - the implementing institution for this project is Kosovo Cadaster Agency. The assessment of total project cost is 14.6 million euros. The financing agreement (FA) between Government of Kosovo and International Development Association (IDA WB) was signed in 2018 however, the project implementation is expected to commence during 2019 after ratification.
17. **Traffic and Transportation Safety Project** -The control System will perform the complex traffic enforcement tasks with Fixed Enforcement Stations, Mobile Enforcement Station, Mobile Enforcement Equipment, Mobile Enforcement Units and Portable Enforcement Units. Project has been approved by National Investment Committee (NIC) to be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation. The project is under design by the Ministry of Infrastructure which is also the implementing institution.
18. **Replacement of Asbestos – Cement Pipes in Gjakova Municipality** - Replacement of the water supply pipe lines of asbestos - cement material, which were installed 55 years ago, in the town of Gjakova. Through this investment, the need to support the supply of drinking/tap water for the next 30 years will be fulfilled. The implementation agency is the Municipality of Gjakova. The project will be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation.
19. **Waste Water Treatment Plant in Ferizaj Municipality** – This project includes the design, construction and maintenance of collecting systems (Wastewater Treatment Plant) in Ferizaj Municipality. This project will be implemented by Municipality of Ferizaj. Project will be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation.
20. **Sewage System in Deçan Municipality** - Zone 1: Sewage system for Strelle villages. Zone 2: Sewage system for Dubovik villages and part of Isniq village. Zone 3: Sewage of villages Lëbushë, Isniq and Prapaqan. This project will be implemented by the Municipality of Deçan. The project will be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation.
21. **Catchment for Drinking Water in Verboc village/Drenas Municipality** - The construction of the catchment for drinking/tap water in Verboc village, will supply drinking/tap water in Drenas Municipality. This project will be implemented by Municipality of Drenas. The project will be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation.

#### **Information Box 4. Major deviations between the MTEFs 2020-2022 and 2019-2021 for 2020 and 2021**

Tables 3 and 4 in Annex 2 identify and explain in details the main differences in revenue and expenditure between MTEF 2019-2021 and MTEF 2020-2022. Table three presents the deviations for year 2020 while table four presents the deviations for year 2021.

The difference in budget revenues is the highest during year 2020. Deviation in revenue is around 28 million euros and comes mainly through divergences in projections for customs duties, excise, and central level revenue. At the same time, VAT has had changes in structure due to the new fiscal measures that were introduced during 2018 and made possible the shift of VAT payment from the border to TAK. Whereas, the deviation in revenue during 2021 is around 1.6 million euros, but there are considerable changes in the structure of revenues.

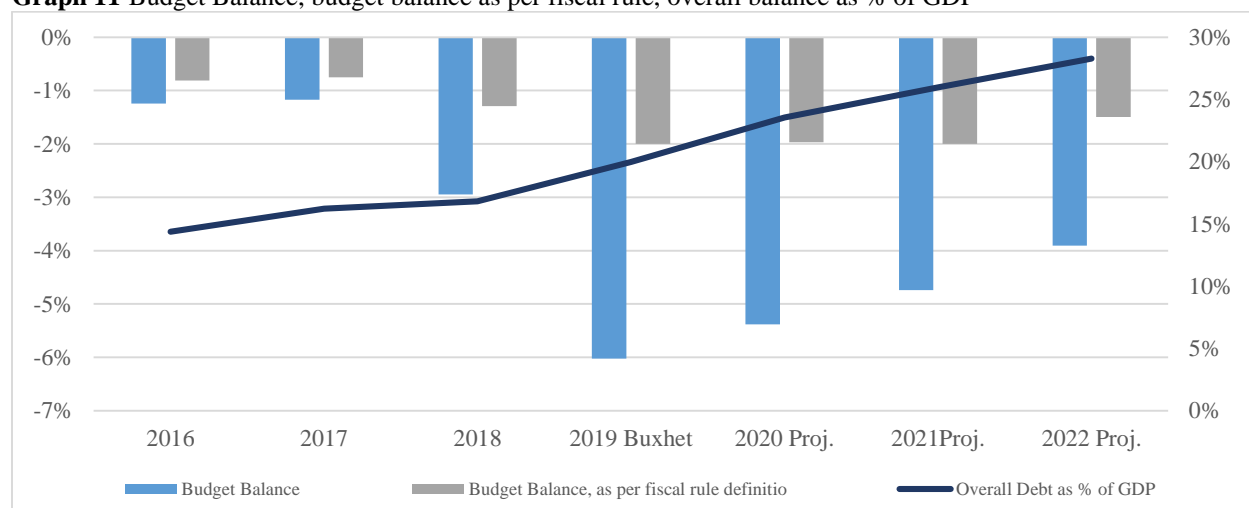
Expenditure during 2020 is expected to be 55 million higher than the one projected in MTEF 2019-2021. Additional expenditure for year 2020 is projected in the categories of goods and services, wages and salaries, and subsidies and transfers. Whereas, lower spending is projected in capital expenditure mainly due to fiscal space restrictions (budget deficit ceiling of 2% and stable bank balance). Differences in projections for capital expenditure between the two MTEFs also reflect changes in structure due to expenditure reclassification from capital expenditure to current expenditure. Likewise, in year 2021, additional spending is projected for wages and salaries because of the wage law and lower spending is projected for capital expenditure (compared to MTEF 2019-2021).

#### **2.2.1.3. Budget Balance**

For the period 2020-2022, the overall fiscal position is estimated to remain stable, while maintaining the overall budget balance. The deficit is expected to be financed by one-off revenues (liquidation funds in 2020), domestic debt and financial support from international financial institutions.

As part of the 2020-2022 financing strategy, the government aims to maintain the level of external debt by focusing on financing and offering guarantees in some of the key projects, mainly in infrastructure and health sector. In this context, the overall value of external debt (including on lending) during the years 2020-2022 is planned not to exceed the value of about 550 million euros, while the projection for domestic borrowing during 2020-2022 is estimated to be about 450 million euros (Graph 11).

**Graph 11** Budget Balance, budget balance as per fiscal rule, overall balance as % of GDP



The government's financing need has been projected on the basis of regular planning for domestic and foreign debt, keeping the general public debt at a reasonable and stable level.

**Table 4** Overall Budget Balance

	2017	2018	2019 Budget	2020 Proj.	2021 Proj.	2022 Proj.
<b>Budget Balance</b>	<b>-75.1</b>	<b>-199.2</b>	<b>-429.2</b>	<b>-405</b>	<b>-376</b>	<b>-328</b>
<b>Expenditure exempted from the fiscal rule:</b>	<b>27.0</b>	<b>111.8</b>	<b>283.7</b>	<b>257</b>	<b>217</b>	<b>208</b>
<i>Expenditure from dedicated PAK revenue/2</i>	9.4	9.0	2.0	2	2	3
<i>Expenditure financed from municipal carried-over OSR</i>	17.5	19.3	8.0	10	6	6
<i>Capital spending from the investment clause and liquidation p.</i>	0	83.6	273.7	245	209	199
<b>Budget Balance, as per fiscal rule definition (5+6)</b>	<b>-48.1</b>	<b>-87.4</b>	<b>-145.5</b>	<b>-148</b>	<b>-159</b>	<b>-119</b>
<b>Financing Needs</b>	<b>-75.1</b>	<b>-199.2</b>	<b>-429.2</b>	<b>-405</b>	<b>-376</b>	<b>-328</b>
<b>External Financing</b>	<b>101.0</b>	<b>-2.4</b>	<b>151.0</b>	<b>209</b>	<b>162</b>	<b>180</b>
<i>On-budget lending (IMF Drawings)</i>	130.0	0.0	0.0	45	0	0
<i>Regular on-budget project-loans</i>	21.7	11.3	54.3	45	21	13
<i>Investment clause project-loans</i>	0.0	0.0	122.7	185	209	199
<i>POE on-lending receipts (gross)</i>	7.9	8.3	24.0	32	24	17
<i>Principal repayment</i>	58.6	22.0	50.0	98	92	49
<b>Internal Financing</b>	<b>82.8</b>	<b>212.8</b>	<b>297.9</b>	<b>191</b>	<b>125</b>	<b>133</b>
<i>Issuance of treasury bills</i>	95.3	102.4	135.0	140	130	130
<i>Repayment of POE debts</i>	0.0	10.9	10.9	11	11	11
<i>Liquidation/privatization proceeds</i>		86.1	151.0	60	0	0
<i>One-off financing (KPST)</i>		11.6	0.0	0	0	0
<i>Use of carried-forward municipal OSR</i>		0.0	23.0	10	6	6
<i>Use of dedicated PAK revenue</i>	9.4	11.0	2.0	2	2	2
<i>POE on-lending outlays (gross)</i>	21.9	9.2	24.0	32	24	17
<b>Change in usable bank balance:</b>	<b>79.4</b>	<b>11.2</b>	<b>20.6</b>	<b>-5</b>	<b>-88</b>	<b>-15</b>
<b>Stock of Usable Bank Balance</b>	<b>292.2</b>	<b>301.7</b>	<b>340.0</b>	<b>335</b>	<b>247</b>	<b>231</b>
Memo:						
Budget deficit (fiscal rule def.) as % of GDP	-0.7%	-1.3%	-2.0%	-2.0%	-2.0%	-1.4%
Available bank balance as % of GDP	4.6%	4.5%	4.8%	4.5%	3.1%	2.8%

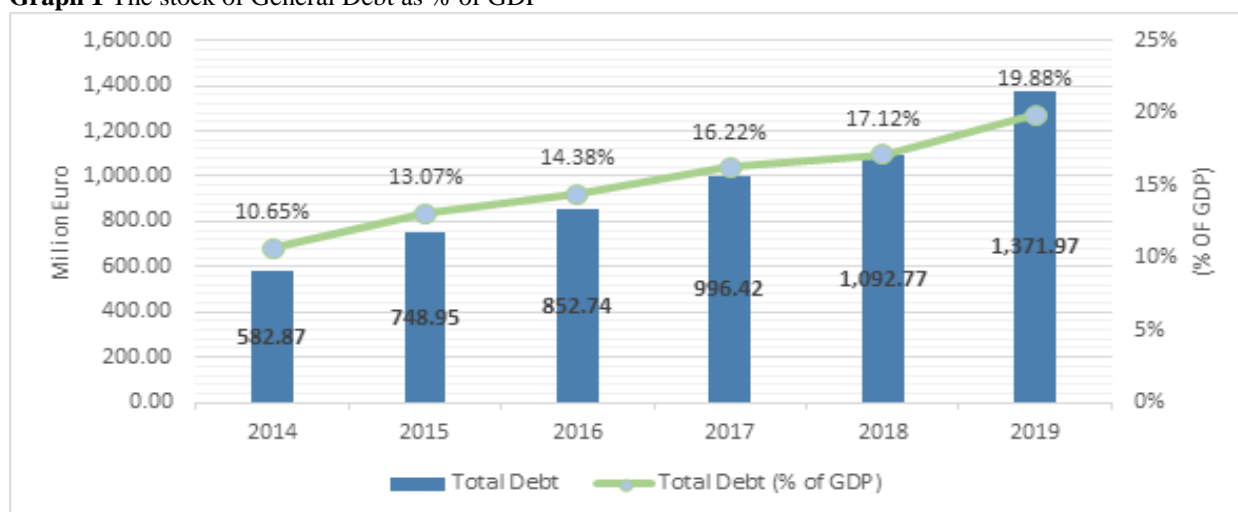
Stock of Domestic Debt	574.3	676.7	811.7	951.7	1,081.7	1,211.7
Stock of Foreign Debt	466.2	460.2	611.1	820.0	982.5	1,162.1
Total debt as % of GDP	16.2%	16.8%	20.0%	23.6%	26.0%	28.3%

Bank balance during 2020 is projected to be 4.5% of nominal GDP based on LPFMA criteria, given the availability of PAK assets for this year. While in the years 2021 and 2022 in the absence of liquidation funds, the bank balance is expected to be 3.1% and 2.7%, respectively. Deficit based on the fiscal rule is projected to be below 2% of GDP in the medium term.

## 2. The level of State debt, developments and perspectives for the upcoming years

Historically, the level of General Debt of the Government of Kosovo has been relatively low. However, as it is indicated in the chart below, Kosovo's debt has marked a gradual increasing trend. From the following data, it can be indicated that there will be an increase also in 2019. This will mainly be due to domestic market borrowings through the Securities and Disbursement of funds and the Investment Clause.

**Graph 1** The stock of General Debt as % of GDP



Based on the Budget Law 2019, the General Debt at the end of 2019 is projected to be 1,371.97 million euros or 19.88%<sup>36</sup> of GDP. The General Debt Portfolio by the end of 2018 consists of Internal Debt, International Debt and three State Guarantees. So far, Kosovo has no Municipal Debt or Municipal Guarantee issued. Whereas, in 2016 with the support of the Ministry of Finance (MF), only one agreement was signed in the amount of euros 2.5 million, which is sub-borrowed to four municipalities. In the negotiation process from the MoF, there are also some borrowing agreements whose funds are planned to be used by the municipalities for the realization of various projects. Likewise, the state debt portfolio of Kosovo contains three state guarantees in the amount of euros 44.00 million issued in 2013 and 2016. For the first time in the debt portfolio history, the

<sup>36</sup> This includes state guarantees worth 44 million euros which includes actual guarantees and projected guarantees for 2019

amount of Securities (S) issued in the domestic market as a percentage of total debt has exceeded foreign currency borrowing by 0.88% at the end of December 2015. Such an increased trend in favour of domestic debt has continued in the following years as well, where by the end of 2018 the total debt ratio was 61.92%. This part of Kosovo's debt portfolio consists of debt instruments with a maturity of 6 months to 10 years. The Ministry of Finance since the beginning of the Securities emission (2012) has focused on budget financing mainly from the domestic market, by contributing towards market development. Through securities, the Government of Kosovo has borrowed funds on favourable terms and has contributed towards the development of the Securities Market. Until the end of 2019, the domestic debt is projected to reach 814.82 million euros or 11.44% of GDP.

The remainder of Kosovo's state debt is the international debt that is comprised of the program with the International Monetary Fund (IMF)<sup>37</sup>, borrowing from the World Bank (WB), German Bank for Reconstruction and Development (KfW), European Bank for Reconstruction and Development (EBRD), The European Investment Bank (EIB) and other creditors with small participation. Excluding the IMF program, all other borrowings are linked to the financing of specific projects in different sectors. By the end of 2019, the international debt stock is expected to reach 557.15 million euros or 7.82% of Gross Domestic Product (GDP). The following sequence presents the current state<sup>38</sup> of the international debt portfolio, including the committed and undispersed debt (which implies the agreements that have been ratified by the Assembly of Kosovo but have not yet begun to be disbursed).

**Table 5** Debt including the committed debt and undisbursed debt

Creditor	Actual debt Ratified (A)	Actual debt disbursed (B)	Undisbursed debt (C=A-B)	Outstanding debt (D=B-E)	Debt Repayment (E)	Undisbursed debt as % of GDP	Disbursed debt (unpaid) % of GDP
IBRD	381.21	381.21	0.00	146.98	234.23	0.00%	2.06%
IDA	169.91	50.10	119.64	49.99	0.10	1.68%	0.70%
IMF	287.38	287.38	0.00	157.20	128.44	0.00%	2.21%
KfW	71.00	68.26	2.74	48.91	19.36	0.04%	0.69%
UniCredit	25.07	7.04	18.03	7.04	0.00	0.00%	0.10%
OFID, IsDB, SFD <sup>39</sup>	47.03	3.69	43.34	3.69	0.00	0.61%	0.06%
EBRD	139.90	0.00	139.90	0.00	0.00	1.96%	0.00%
EIB	122.00	0.00	122.00	0.00	0.00	1.71%	0.00%
NATIXIS France	66.00	0.00	66.00	0.00	0.00	0.93%	0.00%
RBKO-AUSTRIA	5.13	0.00	5.13	0.00	0.00	0.07%	0.00%
<b>Internation. Debt</b>	<b>1,314.64</b>	<b>797.68</b>	<b>516.96</b>	<b>413.81</b>	<b>382.13</b>	<b>7.00%</b>	<b>5.81%</b>

**Remarks:** The actual ratified debt means the total amount of all international financial agreements on borrowings (excluding repayable loans), which are ratified by the Assembly of the Republic of Kosovo. The International Debt at column "D" in the table changes also as a result of the foreign exchange rate on borrowing in non-euro currency.

<sup>37</sup> Stand-by Arrangement 2015

<sup>38</sup> Data available on 28.02.2019

<sup>39</sup> Islamic Creditor



Due to favourable conditions on borrowing, in the medium term, the Government intends to be slightly oriented towards international borrowing. In this regard, cooperation and communication with international financial institutions, in particular with developmental ones, will be enhanced in order to introduce the priority projects for the economy of the country and consequently, to finance these projects through preferential loans from these institutions.

During the 2020-2021 period, there is a projection of increasing the quota of the Republic of Kosovo in the IBRD and IFC in line with the 2018 General Capital Increase and 2018 Selective Capital Increase.

Moreover, the Ministry of Finance aims to further develop the domestic market of securities of the Government of Kosovo by stimulating and supporting the expansion of the investor's base. The expansion of the investor's base is planned to be done by issuing new debt instruments, which in some cases will target new market groups with high investment potential. The financing the Kosovo budget deficit will always be in full consistency with the level of deficit presented in the Budget Law as well as the need to finance the banking balance. In any case, the Ministry of Finance will ensure that the amount borrowed for Government needs will be at the lowest possible cost and always within the acceptable limits of exposure to market risks. In order to ensure proper and strategic debt management, the Ministry of Finance prepares each year the Mid-Term State Debt Program, which is complementary document and in line with the Mid-Term Expenditure Framework. Regarding the public debt for the period covered by the MTEF, borrowings for financing specific projects (those signed, but not debited and those that are expected to be signed) have been taken into consideration. Moreover, the scenario of economic and fiscal projections also takes into account the issuance of securities towards financing the deficit. Taking into account the returns for the medium term, a gradual increase in public debt stock is expected, but the total debt to GDP ratio will remain at acceptable and sustainable levels. However, in the projections of this Framework the possibility for the Government to issue a state guarantee for the Kosovo e Re project was not taken into consideration. If, in the future, the Government issues such a guarantee, the level of public debt will reach very high levels, and potentially, will reach the highest level allowed by Law no. 03 / L-175 on Public Debt (Law). According to this Law, for the purpose of calculating the indicator Debt to GDP, the state guarantees are considered as general state debt. Consequently, the potential state guarantee issuance for the aforementioned project would increase the overall state debt of the country, and this will reduce or completely disable borrowings for other priority and development projects, taking into account the indicators of public debt stability.

### **2.3. FISCAL RISKS AND POTENTIAL DEVELOPMENTS 2020-2022**

The basic framework presented in the MTEF, as every year, contains a section on main potential developments and fiscal risks, which might alter the macro- fiscal picture either positively or negatively, depending on the probability and intensity of their realisation.

In order to support cautious planning and transparency, the Macro Fiscal Framework will take into consideration these fiscal risks, whose details will be outlined in the following. Since the MTEF

document is prepared on annual basis, there are no major changes to this list when dealing with inherited structural obstacles (only when some of these risks are improved or worsened and if new risks are identified are added to this list).

Similar to the previous year, an assessment of main development potentials and fiscal risks is carried out in January 2019 as part of Economic Reform Programme 2019- 2021, which continues to remain the basis for any presented risks or potentials.

### **2.3.1. Development Potentials**

In the medium-term, growth potentials for an increase in private sector investment have increased as a result of:

#### **Improving the doing business environment;**

**Undertaking of a series of fiscal reforms** by the Ministry of Finance, which have helped towards removing obstacles to the development of the private sector, facilitating trade and increasing the efficiency of the Tax Administration. In addition, the implementation of fiscal measures initiated during 2018, which will also continue in 2019, is expected to have a positive impact on increasing competitiveness and boosting domestic production and investment.

Realization of the potential of strategic investment through **the Investment Clause** is expected to increase in the medium- term, because of the accelerated implementation of projects over the 2020-2022.

**Building New Energy Capabilities** –with a planned investment over a 5-year period, the construction of new power generation capacities will affect the growth of total investment on top of the baseline scenario, resulting in a much higher economic growth rate. Also, investment in improving the transmission system is expected to increase.

**The Economic Effects of the Stabilization and Association Agreement (SAA)** are expected to generate their positive effects over the medium- term, given that the obstacles and costs of trade between Kosovo and EU countries will continue to decrease.

### **2.3.2. Fiscal Risks**

#### **Macroeconomic derived risks**

This section outlines the effects that deviations from macroeconomic projections used for the MTEF might have on main budget aggregates. Table 6 describes how positive or negative deviations from macroeconomic projections used for the MTEF 2020- 2022 impact revenues, expenditures and budget balance.<sup>40</sup>

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<sup>40</sup> The deviation from the projected baseline can be either positive or negative. All calculations are based on year 2020 obtained from MTEF 2020- 2022.

This sensitivity analysis shows that developments of macroeconomic variables determine predominantly the performance of the budget revenues rather than the expenditures, as in Kosovo few expenditure areas are directly related to macroeconomic developments. One example for this impact is inflation, which some social transfers of the budget are linked to.

Law No. 04/L-131 “Law on Pension Schemes Financed by the State”, article 5, stipulates that if any pension paid under this Law is increased by any other legal or sub-legal act, or by any other authorized administrative measure, indexing with inflation or cost of living shall not be applied for two calendar years, starting from the month when the increase has entered into the force. Since in 2019 there has been an increase in basic pensions and contributory pensions by a government decision, there is no inflation-induced expenditure to be expected in the years 2020 and 2021. However, there are other expenditure areas in the budget which were not affected by this government decision and therefore the effect of inflation applies to them over the period 2020-2022.

**Table 6** Sensitivity analysis of the budget to fluctuations of macroeconomic variables for 2020

Variable	Change	Revenue		Expenditure	Budget Balance
		<i>impact in million euros</i>	<i>% of proj. revenues</i>	<i>impact in million euros</i>	
Nominal GDP	1 percentage point deviation	14.54	0.71%		14.54
CPI	1 percentage point deviation	3.96	0.19%	0.30	3.66
Remittances	1 percent deviation	7.06	0.35%		7.06
"All Primary Commodities" Index	10 percent deviation	5.56	0.27%	0.13	5.43
Nickel Price Index	10 percent deviation	0.79	0.04%		0.79

As shown in the table, among macroeconomic variables, nominal GDP and remittances have the highest impact on budget revenues.

A decrease/increase in the growth rate of nominal GDP is reflected in main categories of budget revenues and due to second-round effects such deviation is also transmitted to other GDP components (such as private consumption, investment and imports of goods) which affect budget revenues.<sup>41</sup>

Remittances represent an important source of foreign financing in Kosovo, accounting for 12% of GDP over the last years. These inflows smoothed the trade deficit considerably and are primarily used for consumption, thereby mitigating the negative effects of poverty and high unemployment in Kosovo. A decrease/increase in these inflows is transmitted into lower/higher disposable income

<sup>41</sup> Numbers presented in the table capture both effects (first- and second-round effects).

and therefore into lower/higher consumption which is then reflected into lower/higher GDP and budget revenues.

A negative/positive deviation in the inflation rate by 1 percentage point has a negative /positive impact on revenues and due to inflation indexing for certain social transfers a negative/positive impact on expenditures as well.

Given that Kosovo is an open economy, characterized by a high share of imports to GDP (around 45%), price developments in international primary commodities play an important role in domestic economy. A deviation by 10% in the “all primary commodities” index<sup>42</sup> has some effect on the budget revenues due to its impact on imports and a smaller impact on expenditures due to inflationary pressures stemming from higher commodities prices.

The nickel price index is also an important indicator for the economy of Kosovo due to the presence of minerals in the structure of exports of goods; however its effect on the budget is small.

## **Specific Risks**

### **1. Energy sector risks**

The government intends to implement the thermo power plant project “Kosovo e Re” with a capacity of 500 MW. The commercial contracts for the thermo power plant project “Kosova e Re” include commitments for the successful completion of the investment of more than 1 billion euros. According to these contracts, NKEC<sup>43</sup>, which is a public wholesale buyer of electricity, will guarantee the off taking of the whole energy produced in the new Kosovo power plant for the next 20 years, consequently such duration exposes the government to potential risks.

Furthermore, there is also a risk for the “Kosovo e Re” power plant project related to investments required for (i) opening a new mine to producing sufficient coal for the new Kosovo power plant (delivered by KEK <sup>44</sup>), (ii) ensure appropriate water supply (Iber- Lepenci)<sup>45</sup> and (iii) investment in the electricity grid (KOSTT<sup>46</sup>).

### **2. Potential Government Guarantees**

The current government guarantees amount to 44 million euros for two credit lines to the Deposit Insurance Fund of Kosovo and Urban Traffic Pristina (local government POE). The government considers a remote likelihood of these guarantees to be called (very low credit risk).

A government guarantee requires approval not only from the government itself but also from parliament (2/3 majority needed for approval). Currently, the Ministry of Finance has not received

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<sup>42</sup> A deviation of 10% is the approximate standard deviation of yearly growth rates of the "all primary commodities" index, which included fuel and non- fuel commodities.

<sup>43</sup> New Kosovo Energy Company, 100% owned by the Government of Kosovo

<sup>44</sup> Kosovo Energy Corporation, 100% owned by the government

<sup>45</sup> 100% owned by the government

<sup>46</sup> Kosovo Transmission System and Market Operator, j.s.c, 100% owned by the government

any additional requests for state guarantees. In case such requests arise, it remains to be seen which probability and magnitude of fiscal risk might be emanating from such potential guarantees.

### **3. Under- execution of capital expenditures**

An increase in public capital spending in order to address structural barriers is the backbone of the Government's strategy to support a friendly economic environment for economic growth. In recent years, despite improvements, under- execution of capital expenditures exceeded 5% of the total budgeted amount. In order to support cautious planning, the 2020- 2022 framework assumes similar historic level of non-execution for capital expenditures finances by regular budget while for loan- financed projects, the assumptions are even more conservative.

Nonetheless, under execution of capital projects in the assumptions of the baseline scenario, especially for projects financed by loans, is seen as a potential risk for lower growth. The execution of capital projects financed by concessionary debt, after the signing of financial agreements, remains challenging for budget organisations. This is mainly due to a rushed decision- making on loans, without making sure that all the preconditions are met and the right needed preparations, studies and market analysis are done, in order to ensure the immediate initiation of projects after loan ratification and efficient use of funds. Other factors include the lack of proper alignment of procurement procedures with those of the creditor at the start of the process, the inadequate participation of line ministry officials during the process of loan negotiations, the lack of consolidation and instability of the Project Implementation Units, lack of capacities, etc.

Based on recommendations of the National Audit Office and based on the implementation plan of the recommendations approved by the Government, reporting to the Government on the level of execution of the borrowing projects has started. Before this change, reporting was directed only to the Minister of Finance and individual quarterly reports were received by the implementing Budget Organizations and Project Implementing Entities as required by legislation.

### **4. Pressures for increased spending on transfers**

As outlined in this MTEF, the fiscal space for the years 2020 and 2021 within the legal 2 percent deficit ceiling amounts to around 0.0 percent of GDP (0 million euros) and 0.6% percent of GDP (50.3 million euros) in year 2022. According to these projections, it is clear that the fiscal space to accommodate new initiatives for social transfers is highly limited. The increased pressure on the use of public money as redistribution, especially when such redistribution does not target poverty but is based on other criteria, presents a potential risk for a fiscal strategy targeting socio- economic development.

### **5. Fiscal Risks from revenue collection**

According to an EU study in 2017, the value of the informal economy in Kosovo is estimated to be 1,845 million euros, which accounts for around 31.7% of the GDP. This represents a slight decrease from the previous estimation in 2015 when the informal economy was about 32.7% of

GDP. Currently, there is no estimation of the magnitude of the tax gap available which is emanating from the tax avoidance by the informal economy.

Revenue projections in the Budget 2019 as well as for the other two consecutive years include an extra 14 million euros per year to be collected due to attempts of the Tax Authority to reduce the tax gap. However, this does not represent any risks for the budget balance as the Budget Law 2019 includes a provision (Article 18) which requires cutting expenditures accordingly in case that the 14 million euros are not collected.

One important fiscal risk linked to tax revenues is whether tax receivables can be collected or not. According to the annual financial report for year 2018, the uncollected receivables amounted to about 632 million euros, of which 462 relate to the central government level and 170 to the local government level. These 632 million euros of uncollected receivables represent a substantial increase from 2016 (516 million euros) and 2017 (539 million euros). The average annual increase between 2016 and 2018 amounts to 10.8%.

## **6. Arrears**

Article 39 of the PFM Law defines arrears as payments overdue 30 days. The magnitude of these arrears is currently not available. The financial statement includes an annex on outstanding liabilities which includes future financial commitments, accounts payable and arrears, but does not disaggregate the amounts for these different categories. The Ministry of Finance plans to disaggregate these different categories in the financial report for 2019. The respective results will be included in the MTEF 2021- 2023.

## **7. Fiscal risks from litigation costs**

One important indicator of fiscal risks from litigation is the development of the annual government payments due to court decisions. Table 7 shows the payments by court decisions over the last three years, both at central and local government level. Overall, payments by court decisions account for no more than 1% of total budget expenditures, though showing an increasing trend over the years. Most of the litigation costs in 2017 and 2018 stem from the local government level. Payments by court decisions at the central government are mainly attributed to Ministry of Environment and Spatial Planning, Ministry of Culture, Youth and Sports and Ministry of Internal Affairs. In 2018, payments based on court decisions account for 0.52% of actual expenditures of budget organizations at central level government and about 2.71% at the local government level which add up to 1.05% for total budget expenditures. In order to have a fuller picture of the fiscal risks generated by litigation costs, the magnitude of costs that could emanate from pending court cases would be required.<sup>47</sup>

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<sup>47</sup> The next MTEF will include more detailed information on the main payments by court decisions and will attempt to quantify the magnitude of costs which might arise from pending court cases.

**Table 7** Payments based on court decisions (mln euros)

	2016	2017	2018	2018/ Total Spending of BO
Central government (mln euros)	4.11	5.26	7.59	0.52%
<i>Ministry of Environment and Spatial Planning</i>	51.79%	46.47%	31.25%	6.28%
<i>Ministry of Culture, Youth and Sports</i>	2.65%	7.19%	13.61%	3.45%
<i>Ministry of Internal Affairs</i>	4.17%	16.98%	3.15%	0.21%
Local Government (mln euros)	2.23	6.29	12.67	2.71%
<i>Municipality Ferizaj</i>	7.21%	17.25%	22.86%	9.82%
<i>Municipality Leposaviq</i>	0.00%	3.20%	17.61%	49.29%
<i>Municipality Mitrovicë</i>	6.65%	8.55%	8.31%	5.58%
<i>Municipality Prizren</i>	4.60%	8.82%	7.74%	2.36%
Total (mln euros)	6.34	11.54	20.26	1.05%
Tot. Payments/ tot. budget expenditures, %	0.38%	0.66%	0.97%	

## 8. Fiscal risks from POEs

Ownership of POEs, which are mainly there to provide public goods and can operate on the basis of natural monopolies, exposes the Government of Kosovo to risks through the need to ensure the sustainable provision of those public goods. The Government of the Republic of Kosovo in 2017 owned 16 public enterprises. If we look at the sectors where these enterprises operate, potential indirect risk is posed by companies in the field of post and telecommunications, which have shown negative financial results for several years. Meanwhile, in 2017, there is a slight improvement in profits (from negative to positive) of companies operating in the sectors of Transport, Urban Waste and Water Supply and a reduction in profits of companies operating in the sector of irrigation systems.

**Table 8** POE Performance, Profit/Loss in million euros

POEs per sector	2013	2014	2015	2016	2017
Energy	26.89	15.61	11.93	6.60	16.81
Irrigation System	0.02	0.02	(0.01)	0.13	0.08
Post	(4.33)	(4.45)	(3.04)	(1.59)	(1.94)
Telecom	36.15	16.56	(8.12)	(31.31)	(13.90)
Transportation	(1.04)	(0.99)	(0.16)	(2.20)	0.02
Urban Waste	(0.75)	(0.70)	(0.66)	(0.51)	0.19
Water Supply	0.22	1.00	0.28	(0.13)	0.86

In the medium term, the risks posed by POEs are related to their lack of liquidity and the need for a shareholder's contribution to their working capital (subsidies) despite long-term financing through loans. As Table 9 shows, government subsidies to public enterprises accounted for about 0.2% of GDP in 2017<sup>48</sup>. Public Enterprises operating in the Railway sector represent the highest dependence on subsidies, which account for about 23% of their total revenues, to be followed by public enterprises in the regional water supply sector with dependence on subsidies with around 13.6% and lastly by public enterprises in the energy sector with dependence of about 3.4%.<sup>49</sup>

<sup>48</sup> Information from financial statements of POEs are still not available for 2018

<sup>49</sup> Subsidies in the energy sector consist of payment of electricity bills for social cases.

**Table 9** Subsidies and dependency to subsidies

<b>Subsidies</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Energy (Generation)	16.14	7.91	7.22	6.46	5.92
Railways	2.73	2.19	3.16	1.58	1.58
Regional Water Supply	4.14	4.33	3.04	3.94	5.06
Percent of GDP	0.43	0.26	0.23	0.20	0.20
<b>Dependency on subsidies. (subsidies/revenue, %)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Energy (Generation)	7.06	4.81	4.66	3.82	3.44
Railways	29.05	24.50	35.61	26.04	23.05
Regional Water Supply	13.11	13.18	9.06	10.95	13.58

Overall, better focus on self-sustainability of enterprises owned by the Central Government through proper management would avoid the risks that the Republic of Kosovo's budget could face in securing working capital for these enterprises.



## THIRD PART

### 3. SECTORIAL EXPENDITURES FRAMEWORK 2020-2022 – CENTRAL GOVERNMENT

As it can be seen, in the first part of this document are presented the government priorities related to MTEF 2020-2022, where it was emphasized that the priorities derive from the National Strategy for Development, the Economic Reform Program 2019-2021, The National Program for the Implementation of the SAA, as well as other sectorial strategic documents. Whereas, following the document, the main objectives will be presented by the central level sectors. A total of 10<sup>50</sup> sectors have been presented where each sector has presented the financing trend for 2018-2019 and budget estimations for the next three-year period 2020-2022. Each section presents Budget Organizations according to the respective sectors. The following tables present the projections for 2020-2022 for overall Budget of Kosovo, centrally and by sectors. The fourth part presents municipal funding.

With regard to budget expenditure projections for the upcoming medium term period 2020-2022, there are three key elements that budget organizations should consider. First, budget organizations can plan expenditures within the limits given only after covering the contractual obligations, then the free space within the boundaries can be used for other priorities. Secondly, the effective cost of wages and salaries is expected to start to reflect from 2020 onwards according to the respective law on salaries approved by the Assembly. For the purpose of spending projection in the category of wages and salaries for the year 2020, two scenarios were analysed: 1) the estimated cost in the amount of 685 million euros that takes into account the possible cost of filling 30% of the unfilled positions and 2) the estimated cost of € 653.8 million that only accounts for the cost of salaries for current positions. To be in line with the rules on salaries, the cost of wage and salary category in the tables presented below takes into account the second scenario, but setting a contingency for eventual addressing of the additional cost. Meanwhile, the third element concerns the sustainability of the veterans' scheme where appropriate institutions need urgently to fulfil the legal obligation on categorizing war veterans.

**Table 10** Historic trends of expenditures and estimations for the period 2020-2022 for Overall Budget of Kosovo

Overall Budget of Kosovo	2018 Expenditure	2019 Budgeted	2020 Estimated	2021 Estimated	2022 Estimated
<b>Total</b>	<b>1,955,215,730</b>	<b>2,350,231,811</b>	<b>2,436,530,898</b>	<b>2,506,884,490</b>	<b>2,573,456,547</b>
Number of employees	82,009	85,963	86,360	86,525	86,686

<sup>50</sup> Sectors are presented according to the Classification of the Functions of Government (COFOG), drafted by the Organization for Economic Co-operation and Development (OECD).

Wages and Salaries	599,618,415	619,997,499	653,822,473	691,001,191	729,962,472
Goods and Services	231,774,909	307,127,316	322,855,900	326,927,695	329,725,556
Utilities	23,662,650	29,482,512	29,798,512	29,779,552	29,791,552
Subsidies and Transfers	555,902,963	600,024,346	631,491,350	629,491,370	633,191,350
Capital Expenditures	544,256,792	788,800,138	793,762,663	824,884,682	845,985,617
Reserves	-	4,800,000	4,800,000	4,800,000	4,800,000
<b>Financing Sources</b>					
Government Grants	1,763,651,584	1,919,245,509	2,050,630,163	2,175,741,003	2,256,766,219
Own Source Revenues	91,930,711	103,959,689	96,694,454	100,840,011	105,013,328
Revenues from PAK	83,562,097	151,000,000	60,000,000	-	-
Financing from borrowing	16,071,338	176,026,613	229,206,281	230,303,476	211,677,000
Financing from budget deficit (2%) - 04	16,071,338	53,319,434	44,723,043	21,503,476	12,497,000
Financing from investment clause - 06	-	122,707,179	184,483,238	208,800,000	199,180,000
Donor Grants *	1,479,086	2,698,231	2,037,126	2,003,437	1,920,000

**Table 11** Historic trends of expenditures and estimations for the period 2020-2022 for central level

Sector Level	2018 Expenditure	2019 Budgeted	2020 Estimated	2021 Estimated	2022 Estimated
<b>Total</b>	<b>1,463,932,957</b>	<b>1,795,508,603</b>	<b>1,856,788,180</b>	<b>1,919,705,237</b>	<b>1,965,620,702</b>
Number of employees	38,131	41,760	42,011	42,176	42,337
Wages and Salaries	333,848,496	347,868,979	345,675,473	366,001,191	390,962,472
Goods and Services	173,244,466	236,133,448	245,862,032	249,933,827	252,731,688
Utilities	13,973,750	18,249,365	18,565,365	18,546,405	18,558,405
Subsidies and Transfers	547,154,655	587,642,999	618,957,004	616,939,132	620,574,159
Capital Expenditures	395,711,590	600,813,812	622,928,306	663,484,682	677,993,978
Reserves	-	4,800,000	4,800,000	4,800,000	4,800,000

<b>Financing Sources</b>					
Government Grants	1,358,246,088	1,479,389,666	1,565,534,022	1,675,697,999	1,740,086,319
Own Source Revenues	10,505,712	16,959,689	13,577,877	13,703,762	13,857,383
Revenues from PAK	83,562,097	151,000,000	60,000,000	-	-
Financing from borrowing	11,619,060	148,159,248	217,676,281	230,303,476	211,677,000
Financing from budget deficit (2%) - 04	11,619,060	48,520,423	44,723,043	21,503,476	12,497,000
Financing from investment clause - 06	-	99,638,825	172,953,238	208,800,000	199,180,000
Donor Grants *	1,479,086	2,698,231	2,037,126	2,003,437	1,920,000

The following sections are presented separately.

### **3.1 General Public Governance**

The main objectives of this sector are good governance, professional public administration, socio-economic development and advancement of the integration processes of the country. The main objectives during the next three-year period 2020-2022 within this sector are:

- Ensuring new recognitions, strengthening the international subjectivity of the Republic of Kosovo and implementing the criteria in the EU integration process and international institutions;
- Maintaining macro-fiscal sustainability, developing and upgrading the collection and administration system of tax and customs revenues and reducing the informal economy;
- Drafting and implementing sub legal acts related to public administration reform package;
- Standardization and simplification of administrative procedures and deepening of the fight against corruption;
- Advancing the electronic procurement system and enhancing the quality of public finance management;
- Balanced development and enhancement of inter-municipal and cross-border cooperation;
- Promote investments, especially strategic ones, with a focus on Diaspora investments, as well as other internal and external investments;
- Food safety and public health preservation.

Budget Organizations in the field of the Sector of the General Public Government are: the Assembly of Kosovo, the Office of Presidency, the Office of Prime Minister, Ministry of Finance, Ministry of Public Administration, Ministry of Local Government Administration, Ministry of Regional Development, Ministry of Foreign Affairs, Ministry of European Integration, Ministry of Diaspora and Strategic Investments, Public Procurement Regulatory Commission, Anti-Corruption Agency, Procurement Review Body, Election Complaints and Appeals, National Agency for Protection of Personal Data, National Audit Office, Central Election Commission, Independent Oversight Board Civil Service of Kosovo and Unpredictable Expenditures.

**Table 12** Historic trends of expenditures and estimations for the period 2020-2022

<b>Sector of General Public Government</b>	<b>2018 Expenditure</b>	<b>2019 Budgeted</b>	<b>2020 Estimated</b>	<b>2021 Estimated</b>	<b>2022 Estimated</b>
<b>Total</b>	<b>124,929,215</b>	<b>209,774,295</b>	<b>223,716,096</b>	<b>229,061,773</b>	<b>197,630,661</b>
Number of employees	3,987	4,403	4,447	4,454	4,454
Wages and Salaries	44,089,688	47,388,213	44,520,256	47,138,047	50,352,862
Goods and Services	39,880,177	74,627,976	74,189,195	77,037,200	66,456,246
Utilities	3,415,226	4,736,946	5,060,946	5,060,946	5,060,946
Subsidies and Transfers	12,990,007	23,440,000	25,027,000	18,609,128	19,544,155
Capital Expenditures	24,554,117	54,781,160	70,118,699	76,416,452	51,416,452
Reserves	-	4,800,000	4,800,000	4,800,000	4,800,000
<b>Financing Sources</b>					
Government Grants	124,628,215	183,757,787	190,018,542	200,719,219	192,288,107
Own Source Revenues	-	342,554	342,554	342,554	342,554
Revenues from PAK	301,000	15,173,954	6,355,000	-	-
Financing from borrowing	-	10,500,000	27,000,000	28,000,000	5,000,000
Financing from budget deficit (2%) - 04	-	3,000,000	4,000,000	4,000,000	5,000,000
Financing from investment clause - 06	-	7,500,000	23,000,000	24,000,000	-
Donor Grants *	178,129	2,065,752	1,920,000	1,920,000	1,920,000

### 3.2 Defence

This sector aims the design and implementation of general state policies in the field of defence under the legislation in force. As it is known, the package of laws for the Ministry of Defence, the Law on KSF and the Law on Service in the KSF was approved, laws that extend the KSF's mission as a professional military force with competencies and duties for the protection of sovereignty and territorial integrity of the Republic of Kosovo.

For the medium term period 2020-2022, the main objectives of the Defence Sector are:

- Drafting, finalizing, approving and implementing strategic documents and sub-legal acts necessary for the functioning of the Ministry of Defence and the KSF;
- Implementation of the Comprehensive Transition Plan and other support plans in order to increase the units and achieve operational capabilities of the KSF according to the course of action defined in the comprehensive transition plan;
- Deepening and expanding international cooperation in defence and security with a view to membership in regional initiatives and NATO integration;
- Advancement and development of management system of human, material, infrastructural and financial resources, as well as continuing the advancement of standards of transparency, accountability, integrity, credibility and institutional image;
- Capacity building and operational skills of the KSF for conducting operations for response to crisis, civil protection and support of civil authorities in managing crisis, as well as developing and advancing capacities and professional skills for participation in international operations.

The objectives outlined above will be implemented through concrete actions, as foreseen by the strategic documents of this sector as well as with the action plans, a series of specific actions undertaken will be implemented over the next three years. Expanding the bilateral cooperation with Armed Force of the United States of America, regional countries, NATO and European Union – even during this period to continue the synchronization of all activities with the US ODC and the National Guard of IOWA, for all areas, as well as to evaluate and identify new capacity building requirements for this period so that coordination of support from US military structures can be achieved in a timely manner.

Another activity related to the above-mentioned objectives is continuous deepening of the international cooperation in the field of security and defence, aiming the membership in regional initiatives and integration in NATO. Our most important goal is membership in the Partnership for Peace Program (PfP) in order to establish formal relations with NATO, to meet the standards that will help Kosovo on the road to full membership in NATO. Also, active participation and substantial contribution of the KSF in exercises, regional initiatives organizations as well as building regional stability and cooperation will be a priority of this sector.

**Table 13** Historic trends of expenditures and estimations for the period 2020-2022

Defence Sector	2018 Expenditure	2019 Budgeted	2020 Estimated	2021 Estimated	2022 Estimated
<b>Total</b>	<b>47,061,129</b>	<b>58,688,060</b>	<b>67,331,422</b>	<b>72,468,492</b>	<b>78,817,749</b>

Number of employees	2,872	3,480	3,636	3,792	3,948
Wages and Salaries	21,669,738	23,459,849	24,931,473	26,397,443	28,197,749
Goods and Services	10,061,933	12,081,245	12,571,245	13,192,345	13,400,000
Utilities	671,355	938,000	938,000	988,000	1,000,000
Subsidies and Transfers	-	-	-	-	-
Capital Expenditures	14,658,103	22,208,966	28,890,704	31,890,704	36,220,000
Reserves	-	-	-	-	-
<b>Financing Sources</b>					
Government Grants	<b>47,061,129</b>	<b>52,688,060</b>	<b>67,331,422</b>	<b>72,468,492</b>	<b>78,817,749</b>
Own Source Revenues	-	-	-	-	-
Revenues from PAK	-	6,000,000	-	-	-
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04	-	-	-	-	-
Financing from investment clause - 06	-	-	-	-	-
Donor Grants *	-	-	-	-	-

### 3.3 Order, law and public security

The main objectives of this sector are: the fight against organized crime, corruption and terrorism; protection of public safety, increase of document security and improvement of services to citizens. In this context, the main objectives within the sector of order, law and public security are:

- Improving legal and institutional infrastructure of the justice system, as well as strengthening the capacities of the prosecutorial system and the judicial system;
- Fight against organized crime, corruption and terrorism, as well as efficient migration and border management;
- Protection and fully respect of human rights and freedoms through the implementation of the highest professional and ethical standards;
- Functionalization of Functional Review of the Rule of Law Sector as well as the start of the "Justice 2020" agenda.
- More efficient administration of the system of execution of penal sanctions;
- Maintaining public security and improving services for citizens;
- Provision of free legal aid to marginalized groups.

For achieving the aims of this sector, the main responsible institutions will be Budget Organizations which are a part of the Sector of Order, Law and Public Security, such as: Ministry of Justice, Ministry of Internal Affairs, Kosovo Judicial Council, Kosovo Prosecutorial Council, Kosovo

Intelligence Agency, Kosovo Constitutional Court, Ombudsperson Institution and Agency for Free Legal Aid.

**Table 14** Historic trends of expenditures and estimations for the period 2020-2022

<b>Sector of Order, Law and Public Security</b>	<b>2018 Expenditure</b>	<b>2019 Budgeted</b>	<b>2020 Estimated</b>	<b>2021 Estimated</b>	<b>2022 Estimated</b>
<b>Total</b>	<b>184,615,998</b>	<b>203,900,779</b>	<b>209,930,463</b>	<b>218,104,737</b>	<b>230,224,938</b>
Number of employees	14,811	16,391	16,408	16,410	16,410
Wages and Salaries	130,027,077	133,381,260	125,608,383	132,994,157	142,064,358
Goods and Services	36,333,393	38,386,016	43,375,111	43,375,111	43,525,111
Utilities	2,800,278	3,812,599	3,788,599	3,788,599	3,788,599
Subsidies and Transfers	3,497,246	4,959,367	15,069,367	15,069,367	15,069,367
Capital Expenditures	11,958,004	23,361,537	22,089,003	22,877,503	25,777,503
Reserves	-	-	-	-	-
<b>Financing Sources</b>					
Government Grants	182,512,846	193,884,092	205,255,276	215,429,550	227,549,751
Own Source Revenues	2,103,152	2,675,187	2,675,187	2,675,187	2,675,187
Revenues from PAK	-	7,341,500	2,000,000	-	-
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04	-	-	-	-	-
Financing from investment clause - 06	-	-	-	-	-
Donor Grants *	-	-	-	-	-

### 3.4 Economic issues

This sector intends using the development resources in an efficient and effective way in order to ensure sustainable socio-economic development. The main objectives within the sector over the next three years are:

- Creating favourable conditions for increasing domestic productivity and export competitiveness, developing economic zones, protection of industrial property, quality infrastructure system and facilitating access to finance for Small and Medium Enterprises through the Program in co-operation with the EU “Competitiveness of small and medium enterprises (COSME) (2014-2020)”;
- Construction and maintenance of road infrastructure and development of railway infrastructure;

- Ensuring the sustainable energy supply with lignite-based new production capacities, as well as renewable sources, implementation of energy efficiency measures in public sector buildings, and implementation of projects in the field of energy efficiency in the services, household, industry and transport sectors; development of competitiveness and non-discriminatory access conditions to transmission and distribution systems;
- Increasing security level in traffic;
- Drafting strategic policies for sustainable development of mining sector by stimulating the research and sustainable use of mineral resources;
- Information and Communication Technology (ICT) development, especially exports of Information Technology Services, through the development of broadband infrastructure and human capital, to ensure inclusion and maximize the benefits of the digital economy in the global market;
- Increasing sustainable development of agriculture through increased agricultural productivity, including policies affecting the agricultural business environment and the way of using natural resources to support structural transformation and innovation in agriculture; Increase of competitiveness in agriculture, especially in the agri-food sector, promotion of development and employment opportunities, and improvement of the quality of life in rural zones; Increasing the production potential of farms;
- Improving the sustainable development of forests and all economic and social functions;
- Investment and Export Encouragement, Market Surveillance and Costumer Protection;
- Development of SME competitiveness and preparation of SMEs for export;;
- Full normalization of Kosovo's airspace;
- Promotion of innovation by sectors of economy.

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

**Table 15** Historic trends of expenditures and assessments for the period 2020-2022

<b>Sector of Economic Issues</b>	<b>2018 Expenditure</b>	<b>2019 Budgeted</b>	<b>2020 Estimated</b>	<b>2021 Estimated</b>	<b>2022 Estimated</b>
<b>Total</b>	<b>346,558,876</b>	<b>445,899,109</b>	<b>432,898,932</b>	<b>444,918,470</b>	<b>488,622,437</b>
Number of employees	1,717	1,870	1,884	1,884	1,884
Wages and Salaries	17,427,754	19,246,044	18,700,931	19,800,545	21,150,942
Goods and Services	19,342,467	24,278,721	25,513,721	26,463,721	39,477,291
Utilities	525,512	991,148	997,148	991,148	991,148



Subsidies and Transfers	60,113,630	69,254,706	76,129,706	72,529,706	72,529,706
Capital Expenditures	249,149,512	332,128,490	311,557,426	325,133,350	354,473,350
Reserves	-	-	-	-	-
<b>Financing Sources</b>					
Government Grants	258,734,988	244,615,836	272,597,771	332,334,262	358,582,751
Own Source Revenues	3,430,585	7,233,305	3,824,880	3,949,565	4,102,686
Revenues from PAK	74,453,332	72,200,500	20,000,000	-	-
Financing from borrowing	9,939,970	121,849,468	136,476,281	108,634,643	125,937,000
Financing from budget deficit (2%) - 04	9,939,970	39,210,643	34,923,043	16,234,643	7,097,000
Financing from investment clause - 06	-	82,638,825	101,553,238	92,400,000	118,840,000
Donor Grants *	-	-	-	-	-

### 3.5 Environmental protection

This sector aims the balanced and sustainable development by ensuring the environmental protection and developing the proper spatial planning through environmental monitoring, informing and reporting. The main objectives of the environment sector are:

- Improving the state of environment and monitoring its state;
- Establishing an efficient administrative system for spatial planning, construction, housing, energy efficiency in buildings and cadastre;
- Better administration and management of water resources and rehabilitation of riverbeds and waste management;
- Strengthening of the inspectorates of environment, waters, nature, spatial planning, housing and construction;
- Advancing tariff policies, water service standards, and reducing water losses.

Budget Organizations in the field of the Environment Sector are: Ministry of Environment and Spatial Planning and Water Services Regulatory Authority.

**Table 16** Historic trends of expenditures and estimations for the period 2020-2022

Environment Sector	2018 Expenditure	2019 Budgeted	2020 Estimated	2021 Estimated	2022 Estimated
<b>Total</b>	<b>38,133,163</b>	<b>55,277,773</b>	<b>69,004,130</b>	<b>94,479,324</b>	<b>95,724,479</b>
Number of employees	349	376	376	376	376
Wages and Salaries	2,407,429	2,574,500	2,735,963	2,896,837	3,094,401

Goods and Services	1,186,150	1,552,576	1,652,576	1,652,576	1,760,166
Utilities	72,664	89,723	89,723	89,723	89,723
Subsidies and Transfers	-	200,000	200,000	200,000	200,000
Capital Expenditures	34,466,921	50,860,974	64,325,868	89,640,188	90,580,188
<b>Financing Sources</b>					
Government Grants	35,076,681	38,249,889	35,204,130	19,679,324	29,984,479
Own Source Revenues	-	-	-	-	-
Revenues from PAK	3,056,483	7,227,884	5,000,000	-	-
Financing from borrowing	-	9,800,000	28,800,000	74,800,000	65,740,000
Financing from budget deficit (2%) - 04	-	300,000	400,000	400,000	400,000
Financing from investment clause - 06	-	9,500,000	28,400,000	74,400,000	65,340,000
Donor Grants*	504,728	632,479	-	-	-

### 3.6 Housing and community issues

This sector aims at creating the conditions for sustainable return of displaced persons; protecting, integrating and developing communities living in Kosovo as well as solving property cases relating to original cadastral documents prior to June 1999.

With regards to this sector, the main objectives for the forthcoming three year period are:

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

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

Budget Organizations in the field of the sector for housing and communities issues are: Ministry for Communities and Returns and Kosovo Property Comparison and Verification Agency.

**Table 17** Historic trends of expenditures and estimations for the period 2020-2022

<b>Sector for Housing and Communities Issues</b>	<b>2018 Expenditure</b>	<b>2019 Budgeted</b>	<b>2020 Estimated</b>	<b>2021 Estimated</b>	<b>2022 Estimated</b>
<b>Total</b>	<b>10,835,385</b>	<b>10,533,859</b>	<b>10,099,284</b>	<b>11,328,028</b>	<b>11,386,134</b>
Number of employees	307	362	362	362	362
Wages and Salaries	2,000,376	2,124,094	2,189,519	2,318,263	2,476,369
Goods and Services	1,447,684	1,572,742	1,572,742	1,172,742	1,072,742
Utilities	61,960	105,523	105,523	105,523	105,523
Subsidies and Transfers	299,925	300,000	300,000	300,000	300,000
Capital Expenditures	7,025,440	6,431,500	5,931,500	7,431,500	7,431,500
<b>Financing Sources</b>					
Government Grants	10,835,385	9,533,859	10,099,284	11,328,028	11,386,134
Own Source Revenues	-	-	-	-	-
Revenues from PAK	-	1,000,000	-	-	-
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04	-	-	-	-	-
Financing from investment clause -06	-	-	-	-	-
Donor Grants*	-	-	-	-	-

### 3.7 Health

This sector aims at protecting the population health, promoting healthy lifestyles and providing qualitative and safe health services, with an easy, equal and cost-effective access with no financial risk. In the health sector, we will continue the implementation of substantial reforms to achieve the main objectives of this sector, which are:

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

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

package of health services and outsourcing, development of a health information system and integration of information technology in Hardware and Software of all health institutions, etc., will be undertaken.

Budget Organizations in the field of this sector are: Ministry of Health, Hospital and University Clinical Service of Kosovo (HUCCK) and the Health Insurance Fund.

**Table 18** Historic trends of expenditures and estimations for the period 2020-2022

<b>Health Sector</b>	<b>2018 Expenditure</b>	<b>2019 Budgeted</b>	<b>2020 Estimated</b>	<b>2021 Estimated</b>	<b>2022 Estimated</b>
<b>Total</b>	<b>143,089,011</b>	<b>169,732,654</b>	<b>195,075,636</b>	<b>190,358,747</b>	<b>197,566,820</b>
Number of employees	8,124	8,696	8,696	8,696	8,696
Wages and Salaries	66,247,088	66,356,913	72,123,825	76,364,706	81,572,779
Goods and Services	47,952,796	57,675,812	61,074,082	61,136,772	61,136,772
Utilities	3,772,955	3,896,924	3,896,924	3,833,964	3,833,964
Subsidies and Transfers	11,016,744	8,313,805	9,313,805	9,313,805	9,313,805
Capital Expenditures	14,099,428	33,489,200	48,667,000	39,709,500	41,709,500
<b>Financing Sources</b>					
Government Grants	141,638,133	152,551,055	162,930,636	172,358,747	182,566,820
Own Source Revenues	-	-	-	-	-
Revenues from PAK	498,811	14,452,662	9,645,000	-	-
Financing from borrowing	952,067	2,728,937	22,500,000	18,000,000	15,000,000
Financing from budget deficit (2%) - 04	952,067	2,728,937	2,500,000	-	-
Financing from investment clause -06	-	-	20,000,000	18,000,000	15,000,000
Donor Grants*	443,875	-	-	-	-

### 3.8 Recreation, culture, and religion

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

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

- Supporting the building of an independent culture and advancing the cultural diplomacy;

- Preserving, protecting and promoting the cultural and religious heritage and endeavours for membership in UNESCO;
- Increasing youth participation in policy-making processes, decision-making and promotion of employment through training sessions and support of young entrepreneurs;
- Support, massivization, development of quality sports and the improvement of sports infrastructure;
- Regulation, management and oversight of the broadcasting frequency spectrum and RTK digitalisation, and implementation of terrestrial digital television broadcasting.

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

**Table 19** Historic trends of expenditures and estimations for the period 2020-2022

<b>Recreation, Culture and Religion Sector</b>	<b>2018 Expenditure</b>	<b>2019 Budgeted</b>	<b>2020 Estimated</b>	<b>2021 Estimated</b>	<b>2022 Estimated</b>
<b>Total</b>	<b>46,664,417</b>	<b>64,226,688</b>	<b>61,869,673</b>	<b>61,573,755</b>	<b>61,699,290</b>
Number of employees	806	866	866	866	866
Wages and Salaries	5,040,863	5,788,947	5,893,004	6,239,514	6,665,049
Goods and Services	2,080,665	1,959,233	2,514,233	2,504,233	2,504,233
Utilities	376,437	490,458	498,458	498,458	498,458
Subsidies and Transfers	22,134,320	20,216,550	20,516,550	20,516,550	20,216,550
Capital Expenditures	17,032,131	35,771,500	32,447,428	31,815,000	31,815,000
<b>Financing Sources</b>					
Government Grants	44,220,606	48,379,798	51,787,670	61,490,552	61,615,587
Own Source Revenues	70,503	55,390	82,003	83,203	83,703
Revenues from PAK	2,373,308	15,791,500	10,000,000	-	-
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04	-	-	-	-	-
Financing from investment clause - 06	-	-	-	-	-
Donor Grants*	113,612	-	117,126	83,437	-

### 3.9 Education

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

Main objectives of the education sector for the forthcoming three year period are:

- Increasing inclusion and preventing pre-university education dropout;
- Qualitative and efficient management of education system based on transparency and accountability;
- Development of a functional system for quality assurance, in accordance with international standards;
- Building quality of teaching through sustainable system for professional preparation and development of teachers;
- Enhancing learning through qualitative teaching, by applying the curricula based on competences and using high quality learning methods;
- Education and professional training in accordance with requirements of labour market in the country and beyond;
- Increasing quality and competitiveness of higher education through stimulating refinement in teaching, scientific research, innovation and internationalism.

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

**Table 20** Historic trends of expenditures and estimations for the period 2020-2022

Education Sector	2018 Expenditure	2019 Expenditure	2020 Estimated	2021 Estimated	2022 Estimated
<b>Total</b>	<b>80,566,722</b>	<b>110,813,559</b>	<b>111,822,429</b>	<b>114,137,569</b>	<b>117,263,401</b>
Number of employees	4,357	4,441	4,461	4,461	4,466
Wages and Salaries	39,852,615	42,229,741	43,287,987	45,833,320	48,959,152
Goods and Services	13,184,208	22,154,876	21,554,876	21,554,876	21,554,876
Utilities	1,987,499	2,810,959	2,812,959	2,812,959	2,812,959
Subsidies and Transfers	3,455,858	7,722,498	7,485,929	7,485,929	7,485,929
Capital Expenditures	22,086,543	35,895,485	36,680,678	36,450,485	36,450,485
<b>Financing Sources</b>					
Government Grants	72,059,064	89,767,463	95,269,176	106,615,483	110,610,148
Own Source Revenues	4,901,472	6,653,253	6,653,253	6,653,253	6,653,253
Revenues from PAK	2,879,163	11,112,000	7,000,000	-	-
Financing from borrowing	727,023	3,280,843	2,900,000	868,833	-

Financing from budget deficit (2%) - 04	727,023	3,280,843	2,900,000	868,833	-
Financing from investment clause - 06	-	-	-	-	-
Donor Grants*	238,741	-	-	-	-

### 3.10 Social protection

This sector aims at developing, implementing and coordinating policies, laws and other instruments to ensure social protection and inclusion, creation of infrastructure for employment and vocational training, skills and ability to provide services to the most marginalized groups of the society. An urgent issue to be addressed is the youth unemployment, where the unemployment rate is twice higher than the active population in general. In this respect, the analyses and surveys report that the level of labour force skills does not match to the labour market demands.

Main objectives for the forthcoming three year period are:

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

The sole budget organization in the field of this sector is the Ministry of Labour and Social Welfare.

**Table 21** Historic trends of expenditures and estimations for the period 2020-2022

Social Issues Sector	2018 Expenditure	2019 Expenditure	2020 Estimated	2021 Estimated	2022 Estimated
<b>Total</b>	<b>441,479,041</b>	<b>466,661,828</b>	<b>475,040,115</b>	<b>483,274,342</b>	<b>486,684,794</b>
Number of employees	801	875	875	875	875
Wages and Salaries	5,085,867	5,319,419	5,684,132	6,018,359	6,428,811
Goods and Services	1,774,994	1,844,251	1,844,251	1,844,251	1,844,251
Utilities	289,864	377,085	377,085	377,085	377,085
Subsidies and Transfers	433,646,925	453,236,073	464,914,647	472,914,647	475,914,647
Capital Expenditures	681,391	5,885,000	2,220,000	2,120,000	2,120,000
<b>Financing Sources</b>					
Government Grants	441,479,041	465,961,828	475,040,115	483,274,342	486,684,794
Own Source Revenues	-	-	-	-	-

Revenues from PAK		700,000			
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) - 04	-	-	-	-	-
Financing from investment clause - 06	-	-	-	-	-
Donor Grants*	-	-	-	-	-



## **FOURTH PART**

### **4. Municipal level**

#### **4.1.Introduction**

This document defines government grants for financing municipalities for 2020 and orientations for 2021-2022, based on the Government's strategic priorities in the area of intergovernmental fiscal relations. Also, this document defines the level of municipal own-source revenues for the fiscal year 2020 and the mid-term forecast 2021-2022.

The principles, criteria and formulas applied for allocation of government grants for financing municipalities for 2020 are based on the Law on Local Government Finance (LLGF) and Table 1 of macro-fiscal projections prepared by the Ministry of Finance as specified in the Law on Public Financial Management and Accountability (LPFMA). The Grants Commission, at the meeting held on 23.04.2019 approved those grants for financing municipalities for 2020 and the projections for 2021-2022.

The municipal budget process takes into account the following aspects:

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

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

#### **4.2 Municipal Financing Sources for 2020 and projections for 2021-2022**

##### **4.2.1 The General Grant**

Based on Table 1 presented below, prepared by the Department of Economic, Public Policies and International Finance Cooperation of the Ministry of Finance in accordance with LLGF, the General Grant for Municipalities for 2020 was approved by the Grants Commission in the amount of 196.3 million euros.

This allocation is based on the formula set out in Article 24 of the LLGF. According to this article, 10% of the total budgeted revenues of the central government are allocated to municipalities,

excluding the budget support and grants, property tax revenues, interest income as well as taxes, charges and others from the local government.

As shown in the following table, based on estimates of the Department of Economic Policies, Public Policy and International Financial Cooperation, the total government revenues for 2020 are expected to be 2,060.5 million euros. Of this amount, the revenues are deducted as specified in Article 24 of the LLGF and we come to the general grant allocation base for municipalities, which for 2020 is in the amount of 196.3 million euros.

**Table 22** Determining the value of the General Grant for Municipalities 2020-2022 (Million Euro)

Description	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
A. General Government Revenues	1,896.00	1,920.3	2,060.5	2,171.9	2,298.3
Subtracted:					
Dedicated Revenue	-50	-9.2			
Budget support and grants	-5	-5	-11	-11	-11
Property tax	-30	-30	-33	-37	-41
Dividend revenues	-5				
Designated Donor Grants	-12				
Taxes and other charges by the Local Government	-52	-57	-50	-50	-50
One-off income from debts	-6	-8			
Revenues from interest		-4.2	-4	-4	-3
B. Basis for calculating the general grant for municipalities	1,736	1,806.9	1,962.8	2,070.9	2,193.9
C. General Grant for Municipalities (10%)	173.60	180.69	196.28	207.09	219.39

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

**Table 23** General Grant Structure for 2020-2022 according to LLGF (Million Euro)

Factors	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
General Grant	173.6	180.69	196.28	207.09	219.39
Contingence for Correction of Formula (2.7%)	4.7	4.9			
Fixed amount	3.6	3.6	3.6	3.6	3.6
Population (residents)	1,780,021	1,780,021	1,780,021	1,780,021	1,780,021
Budget: 89% of aggregate amount	147.1	153.3	171.5	181.1	192.0
Municipal zone (km2)	10,901	10,901	10,901	10,901	10,901
Buxheti: 6% e shumë agregate	9.92	10.33	11.56	12.21	12.95
Minority communities in the municipality	107,926	107,926	107,926	107,926	107,926
Budget: 3% of aggregate amount	5.0	5.2	5.8	6.1	6.5
Population of minority municipalities	62,031	62,031	62,031	62,031	62,031
Budget: 2% of aggregate amount	3.3	3.4	3.9	4.1	4.3

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

**Table 24** Distribution of General Grant in Municipalities 2020-2022

Criteria		2020	2021	2022
Budget revenue (mil. €)		1,962.8	2,070.9	2,193.9
General grant (10%)		10% 196,284,934	207,088,267	219,388,008
Fixed amount		140,000	3,636,657	3,636,657
Total				
Population		89% 171,456,967	181,071,933	192,018,702
Geographic size		6% 11,558,897	12,207,097	12,945,081
Minorities		3% 5,779,448	6,103,548	6,472,541
Municipalities with minorities		2% 3,852,966	4,069,032	4,315,027

Municipalities	Criteria for distributing the General Grant											General grant in 2020	General grant in 2021	General grant in 2022			
	Population		Geographic size		Minorities		Municipalities with minorities		Fixed amount (140,000-1€)	Amount per population (89%)	Amount per geographic size (6%)				Amount per minorities in municipalities (3%)	Amount per municipalities with minorities (2%)	
	Popullsia	89%	Madhësia gjeografike	6%	Minorities	3%	Municipalities with minorities	2%									
1 Deçan	40,019	2.25%	297	2.72%	551	0.51%		0.00%	99,981	3,854,750	314,950	29,506	-	4,299,188	4,534,671	4,802,771	
2 Dragash	33,997	1.91%	430	3.94%	13,559	12.56%		0.00%	106,003	3,274,693	455,982	726,086	-	4,562,764	4,812,691	5,097,235	
3 Ferizaj	108,610	6.10%	345	3.17%	4,193	3.89%		0.00%	31,390	10,461,641	365,849	224,536	-	11,083,416	11,703,192	12,408,814	
4 Fushë Kosovë	34,827	1.96%	83	0.76%	4,511	4.18%		0.00%	105,173	3,354,641	88,150	241,565	-	3,789,529	3,996,140	4,231,370	
5 Gjakovë	94,556	5.31%	587	5.39%	6,679	6.19%		0.00%	45,444	9,107,918	622,588	357,661	-	10,133,611	10,699,335	11,343,420	
6 Gjiłan	90,178	5.07%	392	3.60%	2,264	2.10%		0.00%	49,822	8,686,216	415,811	121,237	-	9,273,087	9,790,309	10,379,174	
7 Glogoc	58,531	3.29%	276	2.53%	45	0.04%		0.00%	81,469	5,637,882	292,806	2,410	-	6,014,566	6,347,283	6,726,085	
8 Hani i Elezit	9,403	0.53%	83	0.76%	44	0.04%		0.00%	130,597	905,725	88,150	2,356	-	1,126,829	1,182,695	1,246,300	
9 Istog	39,289	2.21%	454	4.17%	3,085	2.86%		0.00%	100,711	3,784,434	481,556	165,202	-	4,531,903	4,780,396	5,063,308	
10 Junik	6,084	0.34%	74	0.68%	4	0.00%		0.00%	133,916	586,029	78,607	214	-	798,766	836,050	878,497	
11 Kaçanik	33,409	1.88%	211	1.94%	36	0.03%		0.00%	106,591	3,218,055	223,881	1,928	-	3,550,455	3,743,580	3,963,455	
12 Kamenicë	36,085	2.03%	424	3.89%	1,864	1.73%		0.00%	103,915	3,475,816	449,744	99,817	-	4,129,292	4,355,027	4,612,030	
13 Klinë	38,496	2.16%	309	2.84%	1,241	1.15%		0.00%	101,504	3,708,050	327,799	66,456	-	4,203,809	4,433,858	4,695,772	
14 Leposaviq	13,773	0.77%	539	4.95%	323	0.30%	13,773	22.20%	126,227	1,326,657	571,689	17,297	855,490	2,897,359	3,052,759	3,229,684	
15 Lipjan	57,605	3.24%	338	3.10%	3,107	2.88%		0.00%	82,395	5,548,687	358,550	166,380	-	6,156,012	6,496,608	6,884,382	
16 Malishevë	54,613	3.07%	306	2.81%	54	0.05%		0.00%	85,387	5,260,488	324,618	2,892	-	5,673,385	5,986,748	6,343,517	
17 Mamushë	5,507	0.31%	32	0.29%	379	0.35%	5,507	8.88%	134,493	530,451	34,070	20,295	342,059	1,061,369	1,113,346	1,172,523	
18 Mitrovicë	71,909	4.04%	331	3.04%	2,199	2.04%		0.00%	68,091	6,926,491	351,128	117,757	-	7,463,466	7,878,184	8,350,346	
19 Novo Bërdë	6,729	0.38%	204	1.87%	3,202	2.97%		0.00%	133,271	648,157	216,458	171,467	-	1,169,354	1,227,455	1,293,604	
20 Obiliq	21,549	1.21%	105	0.96%	1,655	1.53%		0.00%	118,451	2,075,664	111,479	88,625	-	2,394,220	2,521,840	2,667,138	
21 Pejë	96,450	5.42%	603	5.53%	8,334	7.72%		0.00%	43,550	9,290,354	639,554	446,287	-	10,419,744	11,001,621	11,664,095	
22 Podujevë	88,499	4.97%	633	5.81%	849	0.79%		0.00%	51,501	8,524,489	671,366	45,464	-	9,292,820	9,811,055	10,401,073	
23 Prishtinë	198,897	11.17%	514	4.72%	4,146	3.84%		0.00%		19,158,356	545,179	222,019	-	19,925,554	21,042,940	22,315,098	
24 Prizren	177,781	9.99%	603	5.53%	31,682	29.36%		0.00%		17,124,400	639,554	1,696,574	-	19,460,528	20,551,836	21,794,305	
25 Rahovec	56,208	3.16%	278	2.55%	944	0.87%		0.00%	83,792	5,414,123	294,927	50,551	-	5,843,393	6,166,380	6,534,106	
26 Shtërpçë	6,949	0.39%	248	2.28%	3,182	2.95%		0.00%	133,051	669,349	263,115	170,396	-	1,235,911	1,297,757	1,368,170	
27 Shtime	27,324	1.54%	134	1.23%	858	0.79%		0.00%	112,676	2,631,930	142,230	45,946	-	2,932,782	3,090,928	3,270,979	
28 Skenderaj	50,858	2.86%	374	3.43%	109	0.10%		0.00%	89,142	4,898,795	396,724	5,837	-	5,390,499	5,687,788	6,026,256	
29 Suharekë	59,722	3.36%	361	3.31%	575	0.53%		0.00%	80,278	5,752,602	382,939	30,791	-	6,246,611	6,592,407	6,986,100	
30 Viti	46,987	2.64%	270	2.48%	258	0.24%		0.00%	93,013	4,525,929	286,444	13,816	-	4,919,202	5,189,845	5,497,975	
31 Vushtrri	69,870	3.93%	345	3.17%	960	0.89%		0.00%	70,130	6,730,088	365,973	51,408	-	7,217,599	7,618,415	8,074,750	
32 Zubin Potok	6,616	0.37%	333	3.06%	995	0.92%	6,616	10.67%	133,384	637,273	353,248	53,282	410,943	1,588,131	1,669,710	1,762,589	
33 Zveçan	7,481	0.42%	123	1.13%	386	0.36%	7,481	12.06%	132,519	720,592	130,566	20,670	464,671	1,469,019	1,543,968	1,629,297	
34 Gracanicë	10,675	0.60%	131	1.20%	3,423	3.17%	10,675	17.21%	129,325	1,028,248	139,049	183,302	663,062	2,142,986	2,255,909	2,384,472	
35 Klokot	2,556	0.14%	23	0.21%	1,193	1.11%		0.00%	137,444	246,202	24,527	63,885	-	472,058	490,822	512,186	
36 Mitrovica veriore	12,326	0.69%	5	0.05%	867	0.80%	12,326	19.87%	127,674	1,187,277	5,440	46,428	765,612	2,132,431	2,244,853	2,372,848	
37 Partesh	1,787	0.10%	29	0.27%	2	0.00%	1,787	2.88%	138,213	172,129	30,889	107	110,997	452,335	469,951	490,006	
38 Ranillug	3,866	0.22%	69	0.63%	168	0.16%	3,866	6.23%	136,134	372,385	73,305	8,996	240,131	830,951	869,915	914,276	
TOTAL		1,780,021	100%	10,901	100%	107,926	100%	62,031	100%	3,636,657	171,456,967	11,558,897	5,779,448	3,852,966	196,284,934	207,088,267	219,388,008

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

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

Also, specific grants for pre-university education and primary health care will be covered by the general grant whenever necessary.

#### **4.2.2 Additional grant for financing the Capital City**

Based on Law no. 06/L-012 on the Capital of the Republic of Kosovo, Prishtina, Article 19, the capital of the Republic of Kosovo, Prishtina, receives an additional grant from the central level, not less than 6% of the total grant.

By 2020, the capital, Prishtina, receives additional grants in the amount of € 11,777,096, while for the year 2021 it benefits € 12,425,296 and for the year 2022 it benefits € 13,163,280.

**Table 25** Distribution of Additional Grant for the Financing of the Capital City 2020-2022

<b>Description</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
General Government Grants	173.6	180.69	169.28	207.09	219.39
Additional grant for financing the Capital City (6%)		10.84	11.78	12.43	13.16

#### **4.2.3 Specific Grant for Pre-University Education**

The specific grant for pre-university education for 2020 was approved in the amount of 205.5 million euros, out of which 192.1 million euros of wages and salaries, 10.8 million euros of goods and services and 2.5 million euros of capital expenditures. The LLGF Specific Education Grant is based on an open funding system, taking into account the criteria in the MEST's pre-university education formula for 2020.

The formula addresses the level of pre-primary, primary and secondary education, based on these criteria:

- a) Number of registered pupils for 2018/2019;
- b) Pupil-Teacher ratio for Primary and Secondary Education for students (pupils) of majority 1: 21.3 (based on Administrative Instruction No. 22/13 of MEST);
- c) Pupil-Teacher ratio for primary and secondary education for students of minority communities 1:14.2;
- d) Pupil-Teacher ratio for preschool education 1:12;

- e) Pupil-Teacher ratio for vocational secondary education for students of majority 1:17.2, and for pupils of minorities 1:11.5;
- f) Pupil-Teacher ratio for mountainous areas 1:14.2;
- g) Calculation for English language teaching staff for grades I and II;
- h) Calculation for administrative technical staff for 630 pupils 1 staff in pre-primary and primary education;
- i) Calculation for administrative technical staff for 470 students, 1 staff in secondary education.
- j) The calculation for the teaching staff during maternity is foreseen 3% (teaching staff base);
- k) Calculation of support staff for 170 pupils, 1 staff (cleaning staff) as well as 1 school staff (guard);
- l) Professional service;
- m) Quality Coordinators;
- n) The calculation of salaries is based on the Law on Salaries;
- o) Goods and services are calculated according to the criteria per student (23 euro per student of majority and 25 euro per student of minorities) and for the school (1,500 euro per school for pre-primary and primary schools and 3,250 euros for secondary school);
- p) The capitals are calculated according to the criteria 7 euro per student;
- q) Calculation of three wages after retirement, at a cost of 1.4 million euros;
- r) Assistant for children with special needs, at a cost of 0.78 million euro;

According to MEST, a number of 11,938 less students compared to the previous year in pre-university education, was reported. Based on the continuous reduction of the number of students year by year and based on the current teaching/student parameters, the MEST recommends that the municipalities should not announce a vacancy announcement after retirement of a teaching staff, but should instead settle teachers who are under part-time working schedule.

**Table 26** Specific Grant for Pre-University Education for 2020-2022

Nr	Municipalities	Total number of students	Staff			Wages and salaries					Goods and services	Capital expenditure	Total Grant for Pre-University Education in 2020	Total Grant for Pre-University Education in 2021	Total Grant for Pre-University Education in 2022
			Teaching staff	Administrative, technical and support staff	Total	Salaries for: teachers, maternity leave, mountain area, english language, etc.	Salaries for administrative, technical and support staff	Assistant for children with special needs	Three salaries after retirement	Total wages and salaries					
<b>TOTAL</b>		<b>370,149</b>	<b>21,901</b>	<b>5,104</b>	<b>27,005</b>	<b>162,255,011</b>	<b>27,673,894</b>	<b>787,662</b>	<b>1,375,106</b>	<b>192,091,672</b>	<b>10,875,192</b>	<b>2,591,043</b>	<b>205,557,907</b>	<b>206,585,697</b>	<b>207,618,625</b>
1	Deçan	5,778	322	92	413	2,356,948	519,297	23,630	29,368	2,929,242	170,908	40,446	3,140,596	3,156,299	3,172,081
2	Dragash	4,116	303	81	384	2,263,467	425,042	7,877	19,003	2,715,389	158,490	28,812	2,902,691	2,917,204	2,931,790
3	Ferizaj	24,424	1,442	305	1,747	10,726,487	1,635,118	47,260	98,469	12,507,334	679,034	170,968	13,357,336	13,424,123	13,491,243
4	Fushë Kosovë	9,437	528	108	636	3,872,863	566,386	31,506	22,458	4,493,213	251,001	66,059	4,810,273	4,834,324	4,858,496
5	Gjakovë	18,010	1,029	254	1,283	7,623,289	1,388,141	47,260	77,738	9,136,428	528,596	126,070	9,791,094	9,840,050	9,889,250
6	Gjilan	18,651	1,144	254	1,397	8,521,326	1,369,850	39,383	72,556	10,003,114	565,963	130,557	10,699,634	10,753,133	10,806,898
7	Gllgoc	12,602	766	169	936	5,704,421	927,672	23,630	36,278	6,692,000	350,502	88,214	7,130,716	7,166,370	7,202,202
8	Hani i Elezit	1,854	104	24	128	768,016	129,946	15,753	5,183	918,897	53,682	12,978	985,557	990,485	995,437
9	Istog	7,583	445	112	557	3,293,714	597,040	23,630	36,278	3,950,661	231,925	53,081	4,235,667	4,256,846	4,278,130
10	Junik	853	49	10	59	358,958	55,669	-	1,728	416,355	24,369	5,971	446,695	448,929	451,173
11	Kaçanik	6,568	380	96	476	2,811,860	513,883	23,630	22,458	3,371,831	197,612	45,976	3,615,419	3,633,496	3,651,664
12	Kamenicë	4,799	301	101	402	2,243,098	567,879	31,506	32,823	2,875,306	181,007	33,593	3,089,906	3,105,356	3,120,883
13	Klinë	8,268	486	117	603	3,601,986	632,983	23,630	38,005	4,296,604	240,614	57,876	4,595,094	4,618,070	4,641,160
14	Leposaviq	2,238	134	46	181	977,616	249,426	-	6,910	1,233,952	96,268	15,666	1,345,886	1,352,615	1,359,378
15	Lipjan	13,224	790	195	985	5,870,018	1,038,243	23,630	63,918	6,995,809	405,851	92,568	7,494,228	7,531,699	7,569,357
16	Malishevë	13,052	763	187	950	5,663,335	1,034,584	23,630	43,188	6,764,737	373,822	91,364	7,229,923	7,266,072	7,302,403
17	Mamushë	946	73	13	86	539,096	72,134	7,877	3,455	622,562	29,778	6,622	658,962	662,257	665,568
18	Mitrovicë	17,707	1,038	221	1,259	7,635,288	1,186,818	31,506	82,921	8,936,534	485,355	123,949	9,545,838	9,593,567	9,641,535
19	Novo Bërdë	1,394	119	46	165	891,127	251,086	7,877	6,910	1,156,999	79,092	9,758	1,245,849	1,252,079	1,258,339
20	Obiliq	5,020	320	76	397	2,374,987	415,941	23,630	15,548	2,830,105	161,952	35,140	3,027,197	3,042,333	3,057,545
21	Pejë	19,169	1,101	239	1,340	8,142,093	1,275,762	47,260	74,283	9,539,398	534,075	134,183	10,207,656	10,258,694	10,309,987
22	Podujevë	18,917	1,101	254	1,356	8,179,074	1,363,712	31,506	63,918	9,638,211	537,737	132,419	10,308,367	10,359,909	10,411,709
23	Prishtinë	45,258	2,531	510	3,041	18,652,250	2,694,721	94,519	139,929	21,581,419	1,192,308	316,806	23,090,533	23,205,986	23,322,016
24	Prizren	31,540	1,915	393	2,308	14,204,728	2,106,993	39,383	101,924	16,453,027	899,992	220,780	17,573,799	17,661,668	17,749,977
25	Rahovec	10,312	608	160	767	4,488,477	892,285	7,877	46,643	5,435,282	313,512	72,184	5,820,978	5,850,083	5,879,333
26	Shtërpçë	2,411	185	45	230	1,376,044	255,880	-	5,183	1,637,106	86,275	16,877	1,740,258	1,748,959	1,757,704
27	Shtime	5,973	353	80	433	2,622,238	421,844	7,877	41,460	3,093,419	176,585	41,811	3,311,815	3,328,374	3,345,016
28	Skenderaj	10,402	645	154	798	4,810,951	844,033	23,630	44,916	5,723,530	317,058	72,814	6,113,402	6,143,969	6,174,688
29	Suharekë	11,705	715	171	886	5,325,387	931,115	39,383	44,916	6,340,801	346,845	81,935	6,769,581	6,803,429	6,837,446
30	Viti	8,976	507	134	641	3,751,941	715,085	15,753	36,278	4,519,057	274,098	62,832	4,855,987	4,880,266	4,904,668
31	Vushtrri	14,833	862	214	1,077	6,382,563	1,176,390	23,630	53,553	7,636,136	431,465	103,831	8,171,432	8,212,289	8,253,351
32	Zubin Potok	1,263	71	22	93	526,776	132,062	-	1,728	660,566	46,517	8,841	715,924	719,503	723,101
33	Zveçan	1,152	64	24	87	475,862	132,292	-	-	608,154	41,886	8,064	658,104	661,395	664,702
34	Klllokot	600	39	16	55	287,950	97,025	-	-	384,975	24,842	4,200	414,017	416,088	418,168
35	Mitrovic veriore	4,874	293	72	365	2,181,366	415,525	-	-	2,596,890	154,172	34,118	2,785,180	2,799,106	2,813,102
36	Partesh	1,001	58	22	80	432,966	143,296	-	3,455	579,717	48,647	7,007	635,371	638,548	641,741
37	Ranillug	1,203	76	22	97	552,780	122,044	-	-	674,824	45,163	8,421	728,408	732,050	735,710
38	Graçanicë	4,036	241	64	305	1,763,665	376,692	-	1,728	2,142,084	138,194	28,252	2,308,530	2,320,073	2,331,673

#### 4.2.4 Specific Grant for Primary Health Care

The specific grant for primary health care for 2020 was approved in the amount of 61.7 million euros, of which 53.4 million euros are a basic grant per capita and 8.3m euros additional costs for wages and salaries. The distribution of the specific health grant is based on an open system in accordance with the LGGL. The specific grant for primary health for 2020 is prepared according to the per capita criterion and in accordance with the recommendations of the Grants Commission as outlined in the Annual Report on Assessing the Adequacy of the Municipal Financing System.

**Table 27** Specific Grant for Primary Health Care for 2020-2022

	Municipality	Population	Demographics					Number of people with special needs (reported from the municipalities)	Grant for Primary Health in 2020	Grant for Primary Health in 2021	Grant for Primary Health in 2022
			Sex			Age					
			M	F	Women of reproductive age 15-49 years	Number of children 0-14 years	Number of elderly people - above 65 years				
1	Deçan	40,019	20,125	19,894	10,941	10,471	4,084	151	1,351,544	1,405,606.26	1,461,831
2	Dragash	33,997	17,035	16,962	8,500	10,000	5,000	497	1,117,392	1,162,087.48	1,208,571
3	Ferizaj	108,610	54,841	53,769	29,300	31,566	6,900	982	3,723,867	3,872,822.19	4,027,735
4	Fushë Kosovë	34,827	17,621	17,206	14,123	6,585	3,202	233	1,199,054	1,247,016.52	1,296,897
5	Gjakovë	94,556	47,226	47,330	25,198	25,300	9,329	1,090	3,489,702	3,629,290.12	3,774,462
6	Gjilan	90,178	45,354	44,824	24,539	23,464	6,554	180	3,036,082	3,157,524.87	3,283,826
7	Glogovc	58,531	29,733	28,799	15,996	17,507	3,336	177	1,954,270	2,032,440.83	2,113,738
8	Hani i Elezit	9,403	4,836	4,567	1,824	2,778	560	84	311,844	324,317.97	337,291
9	Istog	39,289	19,679	19,610	10,607	10,804	2,976	486	1,362,557	1,417,059.52	1,473,742
10	Junik	6,084	2,995	3,089	2,020	1,681	450	50	245,286	255,096.99	265,301
11	Kaçanik	33,409	16,970	16,439	9,054	9,683	1,940	200	1,123,930	1,168,887.21	1,215,643
12	Kamenicë	36,085	18,559	17,526	23,263	5,389	4,140	242	1,150,672	1,196,698.44	1,244,566
13	Klinë	38,496	18,960	19,537	10,726	10,915	2,830	260	1,340,163	1,393,769.42	1,449,520
14	Leposavic	13,773	6,969	6,804	3,443	2,754	965		516,494	537,153.77	558,640
15	Lipjan	57,605	29,325	28,280	15,355	17,461	7,032	706	2,104,564	2,188,746.13	2,276,296
16	Malishevë	54,613	25,901	28,713	37,276	20,758	3,500	640	1,784,404	1,855,780.18	1,930,011
17	Mamushë	5,507	2,672	2,836	2,543	2,670	737	40	185,360	192,774.08	200,485
18	Mitrovicë	71,909	36,275	35,634	18,624	20,351	5,074	1,200	2,436,697	2,534,164.65	2,635,531
19	Novobërdë	6,729	3,466	3,264	1,726	1,643	732	41	247,951	257,869.09	268,184
20	Obiliq	21,549	10,885	10,664	5,636	6,419	1,239	340	817,798	850,509.84	884,530
21	Pejë	96,450	50,466	45,985	24,817	24,993	7,495	1,411	3,439,186	3,576,753.81	3,719,824
22	Podujevë	88,499	44,955	43,544	24,042	12,975	2,476	872	2,938,671	3,056,217.33	3,178,466
23	Prishtinë	198,897	99,355	99,543	55,375	51,884	13,231	1,600	7,527,953	7,829,071.13	8,142,234
24	Prizren	177,781	89,173	88,608	49,156	49,661	11,524	1,578	5,951,383	6,189,438.63	6,437,016
25	Rahovec	56,208	28,512	27,696	15,393	16,081	3,352	377	1,889,703	1,965,291.38	2,043,903
26	Shtërpçë	6,949	3,554	3,395	1,744	1,577	500	47	233,353	242,686.76	252,394
27	Shtime	27,324	13,850	13,474	5,874	7,877	1,800	253	893,463	929,201.62	966,370
28	Skenderaj	50,858	25,646	25,212	15,665	14,265	4,241	1,523	1,738,586	1,808,129.39	1,880,455
29	Suharekë	59,722	29,478	30,244	16,413	17,409	4,104	400	1,947,035	2,024,916.15	2,105,913
30	Viti	46,987	23,686	23,301	12,343	14,168	6,100	731	1,581,704	1,644,971.73	1,710,771
31	Vushtrri	69,870	36,004	33,866	18,146	19,634	4,508	750	2,345,275	2,439,086.14	2,536,650
32	Zubin Potok	6,616	3,408	3,208	1,456	1,588	476	38	205,279	213,489.90	222,029
33	Zveçan	7,481	3,661	3,821	1,623	1,770	531	18	273,206	284,134.48	295,500
34	Graçanicë	10,675	5,428	5,248	2,463	2,661	993	81	451,874	469,949.32	488,747
35	Klllokot	2,556	1,417	1,140	688	670	214	18	92,578	96,281.51	100,133
36	Mitrovica Veriore	12,326	6272.5	6053.5	2,686	2,931	879	82	386,186	401,633.28	417,699
37	Partesh	1,787	922	865	477	340	202	0	62,520	65,021.11	67,622
38	Ranillug	3,866	1,969	1,897	1,012	393	259	0	230,926	240,162.96	249,769
	Total	1,780,021	897,179	882,843	520,067	479,076	133,466	17,378	61,688,512	64,156,052	66,722,294



#### 4.2.5 Secondary Health Financing

Secondary health financing for 2020 is in the amount of € 2,603,077 according to the proposal of MoH and MTEF projections for the three minority municipalities, as follows:

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

#### 4.2.6 Financing for Residential Services

Financing of residential services for the communities' homes for elderly people and communities' homes for people with disabilities for 2020 has been approved in the amount of 2,040,000 euros. For 2020, within this proposal is envisaged the increase of 22 staff and additional financing for the functionalization of residential services for elderly persons in the Municipality of Novobërdë/Novo Brdo and the functionalization of residential services for persons with disabilities in Prizren municipality.

**Table 28** Financing for residential services for 2020

Municipalities	Additional staff	Wages and Salaries	Goods and Services	Utilities	Capital Expenditures
Skenderaj SHKPM	0	85,000	67,000	8,000	20,000
Graçanice SHKPM/SHKPAK	0	166,000	120,000	14,000	20,000
Istog SHKPM	0	85,000	67,000	8,000	20,000
Deqan SHKPAK	0	83,000	60,000	7,000	20,000
Ferizaj SHKPAK	0	83,000	60,000	7,000	20,000
Kamenice SHKPAK	0	83,000	60,000	7,000	20,000
Vushtrri SHKPAK	0	83,000	60,000	7,000	20,000
Shtime SHKPAK	0	83,000	60,000	7,000	20,000
Lipjan SHKPAK	0	83,000	60,000	7,000	20,000
Prizren SHKPAK	11	83,000	60,000	7,000	20,000
Novobërdë SHKPM	11	83,000	60,000	7,000	20,000
<b>Total</b>	<b>22</b>	<b>1,000,000</b>	<b>734,000</b>	<b>86,000</b>	<b>220,000</b>

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

With the entry into force of Law No. 04 / L-066 on the Historic Center of Prizren, Law No.04 / L-196 on the Historical Cultural Center of Zym village and Law no. 04 / L-62 On the Village of Hoça e Madhe, with budget planning for 2020, are allocated funds in amount of 69,048 euro, for the two municipalities as follows:

- Municipality of Prizren, in the amount of 44,144 euros, and
- Municipality of Rahovec, in the amount of 24,904 euros.

#### 4.2.8 Financing for environmental endangered zone of Obiliq

Based on Law no. 05 / L-044 on the Environmentally Endangered Zone of Obiliq and Its Surroundings, article 9 Obiliq benefits from the collection of mineral rent from the respective institution, 20% of the value of this rent is reallocated from the Central Budget for the Municipal Budget of the Municipality of Obiliq, specifically dedicated to investment in community development at the location of the business unit in the field of environmental protection, infrastructure, sports, health and education.

By 2020, Obiliq Municipality, based on the collection of mineral resources, received additional funding of EUR 4,175,567.

#### 4.2.9 Financing the theatres

Financing for theatres for 2020 was approved by the Grants Commission in the amount of 900,000 euros and additional staff of 124 as follows.

**Table 29** Financing the Theatres for 2020

Municipalities	Staff	Wages and Salaries	Subsidies and transfers	Total
Professional Theater of Gjilan	19	100,886		100,886
Professional Theater of Gjakova	14	73,443	42,500	115,943
Professional Theater of Prizren	21	111,558	29,750	141,308
Professional Theater of Peja	16	85,639	43,500	129,139
Professional Theater of Ferizaj	18	94,788	18,700	113,488
Professional Theater of Mitrovica	19	100,886	68,500	169,386
Professional Theater of Prishtina-Dodona	5			-
Professional Theater of Podujeva	12	79,800	50,050	129,850
<b>Totali</b>	<b>124</b>	<b>647,000</b>	<b>253,000</b>	<b>900,000</b>

#### 4.2.10 Municipal Own Source Revenues Projections for 2020 and Projections for 2021-2022

The Municipal Own Source Revenues Projections for 2020, based on macro-fiscal estimates, are in the amount of 83.1 million euros. These revenues are added to municipal funding along with municipal grants.

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

These projections take into account trends of realization of non-tax revenues over the last three years, income from property tax on property tax billing, while excluding revenues from traffic fines and court revenues from these projections.

**Table 30** Projections of own-source revenues for 2020-2022

Nr.	Municipality	Tax revenues						Non-tax revenues			Total projections of own-source revenues		
		Property tax 2020	Property tax 2021	Property tax 2022	Land tax 2020	Land tax 2021	Land tax 2022	Proj. 2020	Proj. 2021	Proj. 2022	Proj. 2020	Proj. 2021	Proj. 2022
1	Deçan	231,131	238,065	245,207	168,674	253,011	337,347	370,461	372,971	375,297	770,266	864,047	957,851
2	Dragash	189,723	195,415	201,278	68,417	102,626	136,835	204,203	205,587	206,869	462,344	503,628	544,981
3	Ferizaj	2,046,768	2,108,171	2,171,416	605,170	907,755	1,210,339	2,363,589	2,379,602	2,394,441	5,015,526	5,395,528	5,776,196
4	Fushë Kosovë	889,907	916,604	944,103	62,196	93,295	124,393	1,857,406	1,869,991	1,881,651	2,809,510	2,879,890	2,950,147
5	Gjakovë	1,612,782	1,661,166	1,711,001	471,803	707,704	943,605	1,637,782	1,648,878	1,659,160	3,722,367	4,017,748	4,313,766
6	Gjilan	1,609,193	1,657,469	1,707,193	426,368	639,551	852,735	2,363,836	2,379,851	2,394,691	4,399,396	4,676,871	4,954,619
7	Glogoc	482,710	497,192	512,107	72,237	108,355	144,473	835,843	841,506	846,754	1,390,790	1,447,053	1,503,334
8	Hani i Elezit	94,694	97,535	100,461	54,096	81,144	108,192	169,075	170,220	171,282	317,865	348,899	379,935
9	Istog	348,287	358,735	369,498	146,882	220,323	293,764	656,129	660,574	664,693	1,151,298	1,239,633	1,327,955
10	Junik	59,082	60,854	62,680	12,274	18,412	24,549	65,843	66,289	66,703	137,199	145,555	153,931
11	Kaçanik	264,960	272,909	281,096	97,925	146,887	195,850	347,842	350,199	352,382	710,727	769,995	829,328
12	Kamenicë	277,730	286,062	294,643	101,134	151,701	202,268	483,210	486,484	489,518	862,074	924,247	986,430
13	Klinë	352,114	362,677	373,558	77,621	116,432	155,242	485,339	488,627	491,674	915,074	967,736	1,020,474
14	Leposaviq	-	-	-	-	-	-	40,000	45,000	50,000	40,000	45,000	50,000
15	Lipjan	966,897	995,904	1,025,781	74,490	111,735	148,980	1,039,531	1,046,574	1,053,101	2,080,919	2,154,214	2,227,862
16	Malishevë	287,742	296,374	305,265	157,129	235,694	314,259	451,220	454,277	457,109	896,090	986,344	1,076,633
17	Mamusha	26,913	27,720	28,552	5,777	8,666	11,554	30,508	30,714	30,906	63,197	67,100	71,011
18	Mitrovicë	824,329	849,059	874,531	153,059	229,589	306,118	1,522,587	1,532,902	1,542,461	2,499,975	2,611,550	2,723,110
19	Novobërdë	81,743	84,195	86,721	29,807	44,710	59,614	130,930	131,817	132,639	242,479	260,722	278,973
20	Obiliq	402,110	414,173	426,598	49,289	73,934	98,578	571,266	575,137	578,723	1,022,665	1,063,244	1,103,900
21	Pejë	1,959,535	2,018,321	2,078,870	422,217	633,326	844,435	1,967,843	1,981,176	1,993,530	4,349,595	4,632,823	4,916,835
22	Podujevë	370,959	382,088	393,551	137,654	206,482	275,309	907,948	914,099	919,800	1,416,561	1,502,669	1,588,659
23	Prishtinë	8,260,640	8,508,459	8,763,713	879,031	1,318,547	1,758,063	20,118,696	20,255,003	20,381,309	29,258,367	30,082,009	30,903,085
24	Prizren	2,374,871	2,446,117	2,519,500	474,039	711,058	948,077	4,711,386	4,743,306	4,772,884	7,560,295	7,900,481	8,240,462
25	Rahovec	390,333	402,043	414,105	150,840	226,260	301,680	615,668	619,839	623,704	1,156,841	1,248,142	1,339,489
26	Shtërpçë	273,566	281,773	290,226	63,615	95,422	127,229	152,024	153,054	154,008	489,205	530,249	571,464
27	Shtime	143,994	148,314	152,764	135,579	203,368	271,158	350,077	352,449	354,647	629,651	704,132	778,568
28	Skenderaj	191,178	196,913	202,821	63,390	95,085	126,779	1,273,446	1,282,074	1,290,069	1,528,014	1,574,072	1,619,669
29	Suharekë	743,925	766,243	789,230	179,304	268,957	358,609	1,047,427	1,054,523	1,061,099	1,970,656	2,089,723	2,208,938
30	Viti	388,083	399,725	411,717	102,991	154,486	205,981	457,526	460,626	463,498	948,599	1,014,837	1,081,196
31	Vushtri	688,234	708,881	730,147	119,034	178,551	238,068	1,228,392	1,236,714	1,244,426	2,035,660	2,124,146	2,212,641
32	Zubin Potok	-	-	-	-	-	-	30,000	35,000	40,000	30,000	35,000	40,000
33	Zveçan	-	-	-	-	-	-	35,000	40,000	45,000	35,000	40,000	45,000
34	Gracanica	566,361	583,352	600,853	77,583	116,375	155,166	1,143,222	1,150,967	1,158,144	1,787,166	1,850,694	1,914,163
35	Kilokot	69,794	71,888	74,044	15,371	23,057	30,742	73,677	74,176	74,638	158,842	169,120	179,425
36	Mitrovica veriore	-	-	-	-	-	-	60,000	65,000	70,000	60,000	65,000	70,000
37	Partesh	13,417	13,820	14,234	7,002	10,503	14,004	43,382	43,676	43,948	63,801	67,999	72,187
38	Ranillug	29,730	30,622	31,541	12,224	18,335	24,447	86,610	87,197	87,741	128,564	136,154	143,728
TOTAL		27,513,434	28,338,837	29,189,002	5,674,222	8,511,333	11,348,444	49,928,922	50,286,080	50,618,500	83,116,577	87,136,249	91,155,945

#### **4.2.11 Summary of municipal financing for 2020 and estimates for 2021-2022**

For allocation of government grants by municipalities for 2020, the criteria and basic formulas defined in the Law on Local Government Finance and other relevant laws are applied, as well as the macro-fiscal projections and data from line ministries served as the basis of that:

- The amount of General Grant approved for 2020 is 196.3 million euros, which, in comparison to 2019 represents an increase of 15.6 million euros as a result of an increase in total revenue;
- The specific grant for pre-university education approved for 2020 is in the amount of 205.5 million euros, which represents an increase of 20.5 million euros compared to 2019;
- The specific primary health grant for 2020 is in the amount of 61.7 million euros and there is an increase of 8.3 million euros compared to 2019;
- Secondary health financing for 2020 is at the same level as the previous year;
- Financing for residential services for 2020 marks an increase of 0.44 million euros;
- Funding for the Historic Center of Prizren, the historic cultural center of Zym village and the Hoca e Madhe Council in Rahovec for 2020 is in the amount of 69,048 euros;
- The additional grant for the capital approved for 2020 is in the amount of 11.77 million euros, which in comparison to 2019 marks an increase of 0.9 million euros;
- Funding for Obiliq for 2020 is at the same level as in 2019;
- Funding for theatres for 2020 was approved in the amount of 0.9 euros million;
- In comparison to 2019, projections of municipal own source revenues for 2020 represent a decrease of 4 million euros. The decrease in OSR projections comes as a result of planning of court revenues and traffic penalties at the central rather than at the local level as planned until now;
- Investments under the Investment Clause for 2020 are in the amount of 11.5 million euros.

**Table 31** Summary of Municipal Financing for 2020-2022 (Million Euro)

Description	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. Government grants	392.4	419.1	463.5	477.8	493.7
1.1 General grant	173.6	180.7	196.3	207.1	219.4
General grant	168.9	175.8			
Contingency to the correction formula	4.7	4.9			
1.2 Specific health grant	48.5	53.4	61.7	64.1	66.7
1.3 Specific education grant	170.3	185.0	205.6	206.6	207.6
2. Financing for secondary healthcare	2.6	2.6	2.6	2.6	2.6
3. Residential services	1.7	1.6	2.0	2.0	2.0
4. Financing for CPC, QKHFZ and KHM	0.1	0.1	0.1	0.1	0.1
5. Grant for the Capital - Prishtina		10.8	11.8	12.4	13.2
6. Financing for Obiliq		5.0	4.2	4.2	4.2
7. Municipal own-source revenues	82.0	87.0	83.1	87.1	91.2
8. Financing for theatres			0.9	0.9	0.9
9. Financing from borrowing	3.7	4.8	-	-	-
10. Funding from the Investment Clause		23.1	11.5		
<b>Total Municipal Financing</b>	<b>482.41</b>	<b>554.05</b>	<b>579.74</b>	<b>587.18</b>	<b>607.84</b>

The table below shows the financing sources and the structure of expenditures at the Municipal level.

**Table 32** Summary of Municipal financing for 2020 and estimations for 2021-2022

Description	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
<b>Expenditure Structure</b>	<b>482,012,850</b>	<b>554,723,208</b>	<b>579,742,718</b>	<b>587,179,253</b>	<b>607,835,845</b>
Number of employees	43,871	44,203	44,349	44,349	44,349
Wages and salaries	256,500,000	272,128,520	308,147,000	325,000,000	339,000,000
Goods and services	58,530,443	70,993,868	76,993,868	76,993,868	76,993,868
Utilities	9,688,901	11,233,147	11,233,147	11,233,147	11,233,147
Subsidies and transfers	8,748,307	12,381,347	12,534,346	12,552,238	12,617,191
Capital expenditures	148,545,200	187,986,326	170,834,357	161,400,000	167,991,639
Reserve	-	-	-	-	-
<b>Financing sources</b>	<b>482,012,850</b>	<b>554,723,208</b>	<b>579,742,718</b>	<b>587,179,253</b>	<b>607,835,845</b>
Government grants	396,710,572	439,855,843	485,096,141	500,043,004	516,679,900
Own-source revenue	82,000,000	87,000,000	83,116,577	87,136,249	91,155,945
Financing from borrowing	3,302,278	4,799,011	-	-	-
Funding from the Investment Clause		23,068,354	11,530,000	-	-

# ANNEX 1

**Table 1. Revenue and Expenditure Projections: 2020- 2022**

Description	Notes	2017	2018	2019 Budget	2020 Proj.	2021 Proj.	2022 Proj.
in million Eur							
<b>1. Total Revenue</b>		<b>1,684</b>	<b>1,757</b>	<b>1,949</b>	<b>2,060</b>	<b>2,159</b>	<b>2,276</b>
off which: extra tax debt collection	/1			27	27	27	27
tax compliance gains	/2			14			
<b>1.1 Tax Revenue</b>		<b>1,496</b>	<b>1,564</b>	<b>1,730</b>	<b>1,824</b>	<b>1,924</b>	<b>2,032</b>
<b>Direct Taxes</b>		<b>238</b>	<b>268</b>	<b>288</b>	<b>310</b>	<b>327</b>	<b>347</b>
Tax on Corporate Income		75	87	91	100	105	110
Tax on Personal Income		137	153	163	173	182	192
Tax on Immovable Property		22	24	30	33	37	41
Other	/3	3	4	4	4	4	4
<b>Indirect Taxes</b>		<b>1,315</b>	<b>1,344</b>	<b>1,492</b>	<b>1,564</b>	<b>1,648</b>	<b>1,737</b>
Value Added Tax:		756	799	905	941	989	1,048
Customs Duty		126	124	120	132	142	152
Excize		432	419	465	488	511	533
Other indirect		1	2	2	2	5	5
<b>Tax Refunds</b>		<b>-58</b>	<b>-48</b>	<b>-50</b>	<b>-50</b>	<b>-51</b>	<b>-52</b>
<b>1.2 Non-tax revenue</b>		<b>188</b>	<b>193</b>	<b>208</b>	<b>226</b>	<b>224</b>	<b>233</b>
Fees, charges, and other - Central Level		103	110	103	126	120	127
Fees, charges, and other - Local Level		43	46	57	50	50	50
Concessionary fees		9	9	11	13	17	20
Royalties		31	25	33	33	33	33
Interest income (KEC loan)	/4	3	2.1	4	4	4	3
<b>1.3 Budget support and grants</b>		<b>0</b>	<b>0</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>
<b>2. Total Expenditure</b>	/5	<b>1,759</b>	<b>1,956</b>	<b>2,378</b>	<b>2,466</b>	<b>2,535</b>	<b>2,603</b>
<b>2.1 Recurrent Expenditure</b>		<b>1,282</b>	<b>1,404</b>	<b>1,561</b>	<b>1,643</b>	<b>1,682</b>	<b>1,727</b>
Wages and Salaries		550	593	620	654	691	730
Goods and Services		226	253	337	353	357	360
Subsidies and Transfers		506	559	600	631	629	633
Recurrent reserves		0	0	5	5	5	5
<b>2.2 Capital Expenditure</b>		<b>468</b>	<b>533</b>	<b>789</b>	<b>794</b>	<b>825</b>	<b>846</b>
Regular budget financing	/6	468	449.7	515	549	616	647
Debt financing through the investment clause			0	123	185	209	199
Liquidation proceeds			83.6	151	60	0	0
of which: loans for POE-s		-9	0	0	0	0	0
<b>2.3 Public Debt Interest</b>	/7	<b>19</b>	<b>19</b>	<b>28</b>	<b>29</b>	<b>28</b>	<b>30</b>
<b>2.4 DDG- Donor designated grants</b>		<b>12</b>	<b>6.9</b>	<b>12</b>	<b>12</b>	<b>12</b>	<b>12</b>
<b>3. Budget Balance (1-2)</b>		<b>-75</b>	<b>-199</b>	<b>-429</b>	<b>-405</b>	<b>-376</b>	<b>-328</b>
<b>4. Expenditure exempted from the fiscal rule:</b>		<b>27</b>	<b>112</b>	<b>284</b>	<b>257</b>	<b>217</b>	<b>208</b>
Expenditure from dedicated PAK revenue/2		9	9	2	2	2	3
Expenditure financed from municipal carried-over OSR		18	19	8	10	6	6
Capital spending from the investment clause and liquidation p.		0	84	274	245	209	199
<b>5. Budget Balance, as per fiscal rule definition (5+6)</b>		<b>-48</b>	<b>-87</b>	<b>-146</b>	<b>-148</b>	<b>-159</b>	<b>-119</b>
<b>A. Financing Need:</b>		<b>-75</b>	<b>-199</b>	<b>-429</b>	<b>-405</b>	<b>-376</b>	<b>-328</b>
<b>B. External Financing</b>		<b>101</b>	<b>-2</b>	<b>151</b>	<b>209</b>	<b>162</b>	<b>180</b>
On-budget lending (IMF Drawings)		130	0	0	45	0	0
Regular on-budget project-loans		22	11	54	45	21	13
Investment clause project-loans		0	0	123	185	209	199
POE on-lending receipts (gross)		8	8	24	32	24	17
Principal repayment		59	22	50	98	92	49
<b>C. Internal Financing</b>	/8	<b>83</b>	<b>213</b>	<b>298</b>	<b>191</b>	<b>125</b>	<b>133</b>
Issuance of treasury bills		95	102	135	140	130	130
Repayment of POE debts			11	11	11	11	11
Liquidation/privatization proceeds			86	151	60	0	0
One-off finaicning (KPST)			12	0	0	0	0
Use of carried-forward municipal OSR			0	23	10	6	6
Use of dedicated PAK revenue		9	11	2	2	2	2
POE on-lending outlays (gross)		22	9	24	32	24	17
<b>D. Change in usable bank balance:</b>		<b>79</b>	<b>11</b>	<b>21</b>	<b>-5</b>	<b>-88</b>	<b>-15</b>
<b>E. Stock of Usable Bank Balance</b>		<b>292</b>	<b>301.69</b>	<b>340</b>	<b>335</b>	<b>247</b>	<b>231</b>
Memo:							
Revenues received from TAK		414	456	516	544	563	594
Revenues received from Customs		1,117	1,131	1,234	1,297	1,375	1,449
Inflow s and Outflow s from DDG-s	/9		12	12	12	12	12
GDP	/10	<b>6,414</b>	<b>6,761</b>	<b>7,123</b>	<b>7,520</b>	<b>7,946</b>	<b>8,389</b>
Budget deficit (fiscal rule def.) as % of GDP		-0.7%	-1.3%	-2.0%	-2.0%	-2.0%	-1.4%
Available bank balance as % of GDP		4.6%	4.5%	4.8%	4.5%	3.1%	2.8%
Total debt as % of GDP		16.2%	16.8%	20.0%	23.6%	26.0%	28.3%
Notes:							
1) Revenues from PIT and CIT 10% of total debt in each category, not older than six years, VAT 20% of total debt in this category, not older than six years							
2) Increase in tax base for 1%							
3) Receipts from the debt of public and socially-owned enterprises for 2018 are listed in this line in order to enable better budget comparison by 2019, where debts are distributed by tax categories							
4) 10 million Eur additional revenue planned for 2020 from RAEPD and 2.5 million Eur in year 2022. This additional revenue is planned for individual authorisations.							
5) For 2017, KEK's debt repayment interest was reclassified. Receipts from the principal's return are recorded as deficit financing. In this line are also included the revenues from the guarantee fees.							
6) Total expenses also include interest expenses. In accordance with international reporting standards, the definition of primary deficit has been removed and the general deficit							
7) Included is capital expenditure financed by project-loans that are not excluded from the deficit limit							
8) This item does not include the collection of State Guarantee fees							
9) The projections in this item are indicative and are definitively determined on a quarterly basis according to the dynamics of the cash flow and the availability of other borrowing resources. In case of availability of resources from direct budget funding, the projections will be lowered to reflect the replacement with the latter.							
10) In order to comply with international standards, financial reporting, admission and outflow for donor grants are reclassified as information units as the costs of these categories are authorized by the donor.							

**Table 1.1.** Budget Balance Financing 2020- 2022

Description	2017	2018	2019 Budget	2020 Proj.	2021 Proj.	2022 Proj.
in milion Eur						
Budget Revenues	1684	1756.6	1949.0	2060.5	2159.2	2275.8
Budget Expenditure	1759	1955.8	2378.2	2465.6	2535.0	2603.4
<b>1. Financing Need</b>	<b>-75</b>	<b>-199.2</b>	<b>-429.2</b>	<b>-405.1</b>	<b>-375.8</b>	<b>-327.6</b>
<b>2. Net external financing</b>	<b>72</b>	<b>-2.5</b>	<b>144.7</b>	<b>208.9</b>	<b>162.5</b>	<b>179.6</b>
<b>2.1. Inflows</b>	<b>130</b>	<b>19.6</b>	<b>201.0</b>	<b>306.7</b>	<b>254.2</b>	<b>228.8</b>
IMF, WB	100	0.0	0.0	45.0	0.0	0.0
On-lending	22	9.2	24.0	32.2	24.1	16.8
Withdrawals from Creditors	13.5	1.0	16.0	24.2	16.3	6.0
Receipts from public borrowing entitites	8.4	8.3	8.0	8.0	7.8	10.8
Project Loans	8	10.4	177.0	229.5	230.1	212.1
IFI financing as per the investment clause (06)	0	0.0	122.7	184.6	208.7	199.2
IFI project-loans (04)	8	10.4	54.3	44.8	21.4	12.9
<b>2.2. Outflows:</b>	<b>59</b>	<b>22.0</b>	<b>56.3</b>	<b>97.8</b>	<b>91.8</b>	<b>49.2</b>
Debt principal repayments	59	22.0	56.3	97.8	91.8	49.2
<b>3. Net domestic financing</b>	<b>83</b>	<b>212.3</b>	<b>297.9</b>	<b>191.2</b>	<b>124.3</b>	<b>132.6</b>
<b>3.1. Inflows:</b>	<b>416</b>	<b>541.5</b>	<b>591.4</b>	<b>518.2</b>	<b>449.4</b>	<b>449.4</b>
Domestic borrowing: new debt issuance	95	102.4	135.0	140.0	130.0	130.0
Refinancing of treasury bills	305	320.0	269.6	294.9	300.0	300.0
Loans to POEs (principal)	7	10.9	10.9	11.4	11.4	11.4
One-off financing (PAK)	0	97.7	151.0	60.0	0.0	0.0
Inflow s from designated funds	9	10.5	2.0	2.0	2.0	2.0
Inflow s from funds (FS2, FS3)	0	0.0	23.0	10.0	6.0	6.0
<b>3.2. Outflow s:</b>	<b>333</b>	<b>329.2</b>	<b>293.6</b>	<b>327.1</b>	<b>325.1</b>	<b>316.8</b>
Loans to POEs (principal)	0	0.0	0.0	0.0	1.0	0.0
On-lending	22	9.2	24.0	32.2	24.1	16.8
Outflow s from the issuance of treasury bills	305	320.0	269.6	294.9	300.0	300.0
Outflow s from funds (FS2, FS3, increase)	6		0.0	0.0	0.0	0.0
<b>4. CHANGES IN BANK BALANCE (Undesignated)</b>	<b>80</b>	<b>11</b>	<b>13</b>	<b>-5</b>	<b>-89</b>	<b>-15</b>
<b>5. END-YEAR NET BANK BALANCE</b>	<b>292</b>	<b>302</b>	<b>333</b>	<b>328</b>	<b>239</b>	<b>223</b>
off w hich : ELA	46	46	46	46	46	46
<b>6. Designated Funds</b>	<b>66</b>	<b>77</b>	<b>55</b>	<b>45</b>	<b>39</b>	<b>39</b>
Stock of donor designated grants	7	8	12	12	12	12
Stock of carried-over OSR	33	39	19	11	8	8
The development trust	10	11	8	6	3	3
Designated revenue	1	2	1	1	1	1
Other	15	16	15	15	15	15
<b>7. END-YEAR GROSS BANK BALANCE</b>	<b>357</b>	<b>379</b>	<b>388</b>	<b>372</b>	<b>277</b>	<b>262</b>
<b>8. CHANGE in BANK BALANCE</b>	<b>85</b>	<b>22</b>	<b>11</b>	<b>-15</b>	<b>-95</b>	<b>-15</b>
Memo						
Stock of Domestic Debt	574	677	812	952	1082	1212
Stock of Foreign Debt	422	417	567	776	939	1118
State guarantees	44	44	44	44	44	45
Interest expenditure as % of GDP	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%
/1 In 2018 this line included the Navigation Agency. By 2019, in accordance with the IMF, receipts from this agency are recognized as a budget revenue.						
and outflow s from specific purpose funds are unpredictable before the beginning of the fiscal year. The planning of these transactions takes place after the beginning of the fiscal year and is reflected in the financial statements.						

**Table 1.1.1.** Existing projects from the budget process and new projects from MTEF

Description			Investment clause?*	Development partner	Implementation projection									
					2018		2019		2020		2021		2022	
					04 - Within deficit ceiling	06 - Investment clause	Within deficit ceiling	Investment clause	Within deficit ceiling	Investment clause	Within deficit ceiling	Investment clause	Within deficit ceiling	Investment clause
In Euro Millions														
	EXISTING PROJECTS			30.4	62.0	54.3	104.70	44.8	105.4	21.4	75.5	12.9	73.2	
1	Rehabilitation of Regional Roadways	Yes	EIB		10.0		15.0		10.00		8.00		0.00	
2	Rehabilitation of Rail Route 10	Yes	EIB		10.0		10.0		22.03		4.75		5.22	
3	Construction of Plant for Treatment of Sewerage-Prishtinë	Partly	F. Government		3.0	0.3	2.5	0.30	2.00	0.30	25.00	0.30	29.00	
4	Project for Competitiveness and Readiness for Export	Partly	BB		0.0	1.1	2.0	1.07	2.93	1.07	4.00	0.73	0.98	
5	Water Supply and Channel Protection	Yes	BB		0.0	0.3	2.5	0.40	3.20	0.00	2.40	0.00	0.00	
6	Roadway Kijevë-Zahaq	Yes	EBRD+EIB		37.0		45.0		45.00		24.00		37.00	
7	Agriculture and Rural Development Project	Yes	BB	1.3	0.0	0.0								
8	Extra Funding for Agriculture and Rural Development Project	Partly	BB	3.7	2.0	3.6	2.2	4.59	2.72	3.87	1.00	1.00	0.00	
9	Funding of Project for Roadway M2 Milloshevë – Mitrovicë	No	OPEC, FS, BZHI	12.0		23.0		18.09		7.00		0.00		
10	Health Project	No	BB	3.6		7.0		2.50		0.00		0.00		
11	Efficiency and Renewable Energy Project	No	BB	6.4		7.8		6.93		0.00		0.00		
12	Project for Improvement of Education System	No	BB	3.4		3.6		2.91		0.87		0.00		
13	Digital Economy in Kosovo (KODE)	Partly	BB	0.0	0.0	2	0	3.53	2.62	3.80	1.99	5.37	0.62	
14	Construction of System for Removal of Sewerage in Podujevë	Yes	UniCredit		0.0		6.0		2.67		0.00		0.00	
15	Construction of Water Supply System in Istog Municipality	Yes	UniCredit		0.0		5.0		2.55		0.00		0.00	
16	Construction of Water Supply System in Graçanica Municipality	Yes	UniCredit		0.0		5.0		2.56		0.00		0.00	
17	Constructon of Sewerage in Shtime Municipality	Yes	UniCredit		0.0		2.0		1.19		0.00		0.00	
18	Construction of Water Supply System in Ferizaj	Yes	Raiffeisen		0.0		5.0		2.56		0.00		0.00	
19	Financial Strengthening Project	No	BB			5	0.5	4.00		4.00		5.00		
20	Project of Real Estate Cadastre and Geospatial Infrastructure	Yes	BB		0.0	0	2.0	0.5	3.40	0.5	4.40	0.5	0.34	
Sub-total:				30.4	62.0	54.3	104.7	44.8	105.4	21.4	75.5	12.9	73.2	
	New development projects from MTEF 2019-2022			0	0	0	18	0	79	0	133	0	126	
1	Municipal Investment Window	Yes	EBRD				7.0		23.0		24.0			
2	Construction of Plant for Treatment of Sewerage in Gjiilan and	Yes	EBRD+EIB				5.0		15.0		25.0		10.0	
3	Construction of Plant for Treatment of Sewerage in Ferizaj	Yes	H.Government				0.0		7.0		10.0		10.0	
6	Public Infrastructure Development Window	Yes	H.Government				3.0		5.0		2.0			
7	Infrastructure Window for Treatment of Sewerage (MED)	Yes	H.Government				3.0		7.2		7.2		7.0	
8	Improvement of Physical Infrastructure in Terciar and Second	Yes	EIB+CEB				0.0		20.0		18.0		15.0	
9	Pristina Ring Road	Yes	EBRD								20.0		40.0	
10	Youth Involvement and Entrepreneurship		BB						1.0		2.0		3.0	
11	Project on Waters (blue economy for sust. Transition)		BB						1.0		3.0		3.0	
12	Roadway Besi - Merdare	Yes	EBRD/ EIB								15.0		25.0	
13	Construction of plant for treatment of sewerage in Pristina	Yes	AFD								7.0		13.0	
Sub-total:				0.0	0.0	0.0	18.0	0.0	79.2	0.0	133.2	0.0	126.0	
			Total:	30.4	62.0	54.3	122.7	44.8	184.6	21.4	208.7	12.9	199.2	



**Table 2.** Main Macroeconomic Indicators

Description	2016	2017 Actual	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
<b>Real growth rates (in percent)</b>							
GDP	4.1%	4.2%	4.4%	4.7%	4.7%	4.5%	4.6%
GDP per capita	2.8%	4.7%	3.9%	4.3%	4.3%	4.2%	4.3%
Consumption	4.7%	1.5%	5.6%	4.3%	4.0%	4.2%	4.1%
Investment	7.5%	5.6%	9.4%	7.6%	4.9%	5.0%	4.9%
Exports	2.4%	16.8%	2.8%	5.7%	6.2%	6.4%	6.3%
Imports	6.4%	5.4%	8.6%	6.2%	4.3%	5.0%	4.8%
<b>Price changes (in percent)</b>							
CPI (annual monthly average)	0.3%	1.5%	1.1%	1.7%	1.3%	1.3%	1.3%
GDP deflator	0.5%	1.4%	1.0%	0.8%	0.9%	1.1%	1.0%
Import prices	-1.6%	3.9%	2.7%	2.4%	1.8%	1.2%	1.2%
<b>General government budget (in percent of GDP)</b>							
Revenue	26.3%	26.2%	26.1%	27.4%	27.2%	27.0%	27.0%
<i>of which:</i>							
Tax revenue	23.4%	23.3%	23.1%	24.3%	24.0%	24.1%	24.1%
Non-tax revenue	2.9%	2.9%	2.9%	2.9%	3.0%	2.8%	2.8%
Expenditure	27.3%	27.2%	28.7%	33.0%	32.4%	31.6%	30.7%
<i>of which:</i>							
Recurrent spending	20.1%	20.4%	20.8%	21.9%	21.9%	21.2%	20.6%
Capital investment spending	7.2%	7.1%	7.9%	11.1%	10.5%	10.4%	10.1%
Interest payments	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%
Overall balance	-1.3%	-1.2%	-2.8%	-6.0%	-5.4%	-4.7%	-3.9%
Overall balance (fiscal rule definition)	-1.0%	-0.8%	-1.3%	-2.0%	-2.0%	-2.0%	-1.4%
<b>Savings/investment balances (in percent of GDP)</b>							
Net primary income from abroad	1.2%	2.0%	2.4%	4.5%	4.4%	4.2%	4.4%
Net secondary income from abroad	18.1%	18.1%	18.6%	18.5%	18.3%	18.2%	18.0%
<i>of which: remittances</i>	11.4%	11.8%	11.8%	11.8%	11.7%	11.7%	11.6%
Investment	27.2%	28.4%	29.9%	30.8%	30.8%	30.8%	30.7%
Current account balance	-7.9%	-6.0%	-8.0%	-7.7%	-7.9%	-8.2%	-8.3%
Trade balance	-37.7%	-38.4%	-40.4%	-42.1%	-42.2%	-42.2%	-42.3%
Gross national savings (GNDI- Total Consumption)	19.2%	22.6%	21.8%	23.2%	22.9%	22.5%	22.4%
Private domestic savings (GDP-Private Consumption)	13.1%	16.0%	16.0%	17.1%	17.0%	16.1%	15.5%
<b>Main aggregates (in millions of euros)</b>							
GDP	6,070	6,414	6,757	7,123	7,520	7,946	8,389
GNDI	7,240	7,701	8,177	8,761	9,230	9,727	10,267
GDP per capita (in euros)	3,386	3,596	3,773	3,963	4,169	4,391	4,624
GNDI per capita (in euros)	3,813	4,093	4,309	4,609	4,842	5,090	5,362
Workers remittances	691	759	800	840	883	927	973
Private disposable income	5,987	6,394	6,809	7,248	7,651	8,042	8,469
Population (in thousands)	1,792	1,784	1,791	1,797	1,804	1,809	1,814

**Table 3.** Nominal GDP and its components

Description	2016	2017	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.	2022 Proj.
<i>In millions of euros</i>							
<b>Consumption</b>	<b>6,072</b>	<b>6,254</b>	<b>6,702</b>	<b>7,111</b>	<b>7,505</b>	<b>7,936</b>	<b>8,388</b>
Private consumption	5,194	5,370	5,728	6,027	6,370	6,763	7,168
Public consumption	854	863	944	1,055	1,105	1,143	1,188
General government	730	752	818	926	974	1,009	1,052
Donors	124	111	126	128	131	133	136
NPISH	24	22	30	30	30	30	31
<b>Investment</b>	<b>1,650</b>	<b>1,820</b>	<b>2,021</b>	<b>2,195</b>	<b>2,318</b>	<b>2,443</b>	<b>2,573</b>
Private sector	1,207	1,352	1,488	1,574	1,660	1,764	1,871
General government investment	444	468	533	621	659	680	702
<b>Net exports of goods and services</b>	<b>-1,652</b>	<b>-1,660</b>	<b>-1,966</b>	<b>-2,183</b>	<b>-2,303</b>	<b>-2,434</b>	<b>-2,571</b>
Exports	1,439	1,709	1,778	1,896	2,027	2,167	2,314
Exports of goods	308	378	376	396	422	450	477
Exports of services	1,131	1,331	1,402	1,500	1,605	1,717	1,838
Imports	3,091	3,369	3,743	4,079	4,330	4,601	4,885
Imports of goods	2,599	2,843	3,115	3,397	3,594	3,805	4,027
Imports of services	492	527	628	682	736	795	859
<b>GDP</b>	<b>6,070</b>	<b>6,414</b>	<b>6,757</b>	<b>7,123</b>	<b>7,520</b>	<b>7,946</b>	<b>8,389</b>
<b>GNDI</b>	<b>7,240</b>	<b>7,701</b>	<b>8,177</b>	<b>8,761</b>	<b>9,230</b>	<b>9,727</b>	<b>10,267</b>
<i>Memorandum items:</i>							
Private sector disposable income (in million euros)	5,987	6,394	6,809	7,248	7,651	8,042	8,469
Private sector consumption per capita (in euros)	2,898	3,011	3,198	3,353	3,532	3,738	3,951
Private consumption to GDP ratio	86%	84%	85%	85%	85%	85%	85%
Private Investment to GDP ratio	20%	21%	22%	22%	22%	22%	22%
Government consumption and investment to GDP ratio	21%	21%	22%	24%	23%	23%	23%
Exports to GDP ratio	24%	27%	26%	27%	27%	27%	28%
Imports to GDP ratio	51%	53%	55%	57%	58%	58%	58%

## ANNEX 2

**Table 1: Comparing Budget Forecasts in previous MTEF, annual budgets and actuals, Year 2017**

	<a href="#">Initial MTEF[1]</a>	<a href="#">Most recent MTEF[2]</a>	Annual budget	<a href="#">Most recent ERP[3]</a>	<a href="#">Actuals[4]</a>	Deviations				Recent MTEF to Actuals	Budget to Actuals	
						Initial-MTEF: Actuals	Recent MTEF: Actuals		Budget: Actuals			
							%	mln Eur	%			mln Eur
Total expenditure	1,706.0	1,821.0	2,001.0	2,001.0	1,758.5	3%	-3.4%	-62.52	-12.1%	-242.52		
<i>of which recurrent</i>	1,215.0	1,258.0	1,275.0	1,282.0	1,287.4	6%	2.3%	29.38	1.0%	12.38	1) number of beneficiaries in the war veteran pension schemes higher than expected (around 27.8 mln more); 2) increase in goods and services (around 10.3 mln); 3) wages& salaries were lower than planned by 9.25 mln due to about 4132 vacant positions and staff on unpaid leave;	1) number of beneficiaries in the war veteran pension schemes higher than expected (around 27.8 mln more); 2) increase in goods and services (around 3 mln EUR); 3) wages& salaries underperformed by 21 mln due to about 4132 vacant positions and staff on unpaid leave;
<i>of which capital</i>	470.0	558.0	722.0	722.0	471.1	0%	-15.6%	-86.90	-34.8%	-250.90	1) the non-execution of the investment clause due to bottlenecks in decision-making as 2017 was an election year (-90 mln Eur); 2) delays of required legal amendments for the use of privatisation proceeds for public investment (-100 mln Eur); 3) capital expenditures financed by regular budget were higher than planned (by 100 mln Eur)	1) the non-execution of the investment clause due to bottlenecks in decision-making as 2017 was an election year (-105 mln). 2) delays of required legal amendments for the use of privatisation proceeds for public investment (-87 mln EUR); 3) other overestimation of capital expenditures, e.g highway Pristina- Skopje M6 (underexecution of 63 mln Eur);
Total revenue	1,598.0	1,644.0	1,725.0	1,725.0	1,689.9	6%	2.8%	45.90	-2.0%	-35.10	1) Changed existing policies: Increase in indirect tax revenue by 82 mln compared to MTEF due to: a) Law on tax debt forgiveness into effect up to 31st August 2017; b) Increase of the VAT from 16% to 18%; c) Removal of the restriction for importing old cars); 2) Reimbursements of fiscal coupons (as a means to reduce informal economy) resulted to be higher than expected (by 13.58 mln EUR more and thus, less revenue) due to high participation of the public; 3) Under-performance of non tax- revenues by 19.1 mln Euros mostly due to overestimation of concessionary fees and royalties;	1) Reimbursements of fiscal coupons (as a means to reduce informal economy) resulted to be higher than expected (by 14.6 mln EUR more) due to high participation of the public; 2) Underperformance of Corporate Income Tax by 9 mln Eur; 4) The negative effect of the Stabilization and Agreement Association on indirect tax revenues was overestimated (indirect tax revenues 23 mln Eur higher than projected) 5) Under-performance of non tax- revenues by 26 mln Euros due to difficulties of the local government to collect fees and non-collection of the Post and Telecom of Kosovo dividends (5 mln Eur)
Primary Balance	-108.0	-177.0	-276.0	-276.0	-68.6	-37%	-61.3%	108.42	-75.2%	207.42		
Interest payments	23.1	30.0	23.0	23.0	16.4	-29%	-45.3%	-13.60	-28.7%	-6.60	1) Expectations for higher interest rates; 2) SDR / EUR decreased by more than expected;	1) Expectations for higher interest rates; 2) SDR / EUR decreased by more than expected;
Overall Balance	-131.1	-207.0	-299.0	-299.0	-85.0	-35%	-58.9%	122.02	-71.6%	214.02		

**Table 2: Comparing Budget Forecasts in previous MTEF, annual budgets and actuals, Year 2018**

	<a href="#">Initial MTEF[6]</a>	<a href="#">Most recent MTEF[7]</a>	Annual budget	<a href="#">Most recent ERP[8]</a>	<a href="#">Actuals[9]</a>	Deviations					Recent MTEF to Actuals	Budget to Actuals
						Initial-MTEF: Actuals	Recent MTEF: Actuals		Budget: Actuals			
							%	mln Eur	%	mln Eur		
Total expenditure	1,757.0	2,192.0	2,092.0	2,092.0	1,937.1	10.3%	-11.6%	-254.90	-7%	-154.90		
of which recurrent	1,274.0	1,345.0	1,386.0	1,386.0	1,403.9	10.2%	4.4%	58.90	1.3%	17.90	<div>1) Non-implementation of the war veterans' reform (recategorization) resulted in over-expenditure for this category by more than 40 mln Eur; 2) Some social schemes (paraplegic and tetraplegic) were paid retroactively in 2018 for 2017 (10 mln Eur); 3) higher number of beneficiaries eligible for the contributory pensions caused an additional 5.6 mln Eur; 4) other new schemes were introduced in 2018 (scheme of sexual violence victims, family pensions and invalid pensions at work - in total 6 mln Eur) 5) wages and salaries were lower by 2.4 mln Eur due to about 4204 vacant positions;</div>	<div>1) Non-implementation of the war veterans' reform (recategorization) resulted in over-expenditure for this category by 17 mln Eur; 2) Some social schemes (paraplegic and tetraplegic) were paid retroactively in 2018 for 2017 (10 mln Eur); 3) higher number of beneficiaries eligible for the contributory pensions caused an additional 5.6 mln Eur; 4) new schemes were introduced in 2018 (scheme of sexual violence victims, family pensions and invalid pensions at work - in total 6 mln Eur) ; 5) lower actuals of good and services by 12 mln Eur due to reclassification; from recurrent to capital expenditure; 6) higher actuals for wages and salaries by 2.4 mln Eur due to increase in salaries for certain positions by government decision (otherwise wages and salaries would have been lower than projections due to about 4204 vacant positions)</div>
of which capital	480.0	850.0	694.0	694.0	533.2	11.1%	-37.3%	-316.80	-23%	-160.80	<div>1) non-execution of the investment clause due to project delays (Public Investment Units not fully functional) - 105 mln EUR; 2) other overestimation of capital expenditures (the highway Prishtine- Gjiilan-Koncul (-4 mln Eur); Prishtina- Mitrovice (- 2mln Eur) and Development Trust Fund (-4 mlnEur) and some other underexecution for Prishtina- Skopje M6 Highway;</div>	<div>1) non-execution of the investment clause due to project delays (PIUs not fully functional) - 105 mln EUR - 62 mln EUR; 2) other overestimation of capital expenditures (the highway Prishtine- Gjiilan- Koncul (-4 mln Eur); Prishtina- Mitrovice (- 2mln Eur) and Development Trust Fund (-4 mlnEur) and some other underexecution for Prishtina- Skopje M6 Highway</div>
Total revenue	1,625.0	1,898.0	1,829.0	1,829.0	1,769.0	8.9%	-6.8%	-129.00	-3%	-60.00	<div>1) higher projections due to assumed narrowing tax gap and collecting tax debt by 86 mln Eur; 2) underperformance of non-tax revenues by 10 mln ( of which 5 mln of dividend from Post and Telekom of Kosovo not received); 3) one-off revenues not collected as expected (-8 mln Eur); 4) lower performance of border taxes;</div>	<div>1) In difference to the MTEF, the tax compliance gains and the collection of tax debt not foreseen in the Budget. 2) underperformance in excise collection by 27 mln Eur mostly due to overestimated number of imported old cars ; 3) lower actuals as tax revenues was shifted from 2018 to 2019 due to shift in VAT collection border to inland ; 4) one-off revenues not collected as expected (-8 mln Eur); 5) underperformance of non-tax revenues by 9.6 mln EUR;</div>
Primary balance	-132.0	-294.0	-263.0	-263.0	-168.1	27.3%	-42.8%	125.90	-36%	94.90		
Interest payments	23.1	31.0	24.0	24.0	18.7	-19.0%	-39.7%	-12.30	-22%	-5.30	1. Expectations for higher interest rates	1. Expectations for higher interest rates
Overall balance	-155.1	-325.0	-287.0	-287.0	-186.8	20.4%	-42.5%	138.20	-35%	100.20		

**Table 3:** Major deviations between the MTEFs 2020-2022 and 2019-2021 for 2020

	MTEF 2019-2021	MTEF 2020-2022	Deviations		Recent MTEF to old MTEF
			Recent MTEF to old MTEF		
			%	mln Eur	
	2020	2020			
Total Budget Revenues	2,032.7	2,060.5	1.4%	27.79	
of which: Custom Duties	100.0	132.0	32.0%	32.00	1) MTEF 2019-2021 forecasts have accounted for a greater negative impact of the SAA, however based on actual data in 2018, customs duties have reached a value of 124 million and based on analysis, the effect of the SAA is in a declining trend. 2) Imports of goods, which is the main indicator for revenues coming from custom duties, has changed compared to MTEF 2019-2021 to MTEF 2020-2022. MTEF 2020-2022 forecasts that imports of goods will grow by 6.6%, while the old MTEF projected a growth of 4.9%. This change in the macro base of customs duties has had an impact in the value of revenues of customs duties for 2020.
of which: Excise	512.6	488.2	-4.8%	-24.41	1) Excise in MTEF 2020-2022 compared to thhe old MTEF has been revised downwards for 24 million. This revision is mainly based on the change in the macro base (real GDP). Real GDP in the old MTEF was projected to grow by 5.1%, while the recent MTEF forecasts a real GDP growth of 4.6%.
of which: border VAT	700.9	674.6	-3.7%	-26.25	1) Revenue from Value Added Tax has had some changes in the recent MTEF, these changes are mainly in VAT structure as a result of new fiscal measures during 2018. Total deviation for this revenue is 3 million or 0.4% lower than the forecast in the old MTEF. 2) Border VAT has been revised downwards for 26 million and some part of it has been accounted for in domestic VAT.
of which: Domestic VAT	244.0	266.8	9.4%	22.87	1) Revenue from Value Added Tax has had some changes in the recent MTEF, these changes are mainly in VAT structure as a result of new fiscal measures during 2018. Consequently, domestic VAT has been revised upwards for 23 million and it mainly reflects the changes in fiscal policy and assumptions for lowering tax debt.
of which: Central Level Revenues	103.2	126.2	22.3%	23.00	1) Central Level Revenue in the recent MTEF has been positively revised from MTEF 2019-2021 for 23 million. At the same time, this revenue during 2018 had a better performance than expectations (10 million more) and this performance has had an impact in projections for upcoming years. 2) An additional 10 million is planned for revenue from RAEPC for 2020. 7 million is added to this category from the local level revenue. 3) Local level renue is based on historical data and for the medium term is expected to stay at the same level as the one in the old MTEF, except the 7 million Euro that has been moved to the central level.
Total Expenditure	2,410.1	2,465.0	2.3%	54.89	
of which: Wages and Salaries	641.6	653.5	1.9%	11.91	1) Wages and Salaries category is planned to be higher due to the implementation of the wage law, however this increase will be based on nominal economic growth based on the Law on Public Finance Management.
of which: Goods and Services	314.2	352.6	12.3%	38.49	1) This deviation comes mainly due to reclassification from capital expenditure to this category, this change in classification was done in the budget 2019. Additional 14 million Eur are to cover the reclassification of a) maintainance of medical equipment in the Ministry of Health b) maintance of memorial complexes; c) Kosovo police equipment , etc. 2) Additional 2 million Eur are allocated for the preparation of elections 3) Additional 1 milion Eur sre allocated to Ministry of Economic Development for consultancy for the new mine 4) Additional 1 milion Eur sre allocated for the maintance of government buildings
of which: Subsidies and Transfers	576.4	635.0	10.2%	58.57	1) The lack of implementation of the ricategorization of the veteran's list, the increase in basic and contributory pensions, law on teachers have brought the need for an additional 33 million funding. 2) An additional 1 million Euros for residents in the Ministry of Health. 3) Additional 10 million Euros for functionalizing ther Specialist Court
of which: Capital Expenditure	853.3	790.1	-7.4%	-63.22	1) Capital expenditure from the regular budget has been revised downwards for 65 million compared to the old MTEF. One of the reasons is the reclassification of some expenditure from this category to the category of goods and services. At the same time, expenditure in this category is lower in order to accomodate total expenditure in the legally allowed fiscal space. 2) PAK liquidation funds are 10 million Euros lower than those projected in the old MTEF. This revision is based on updated PAK information regarding proceeds. 3) Investment clause is 12 million higher than planned in the old MTEF. This change is mainly as a result of the dynamics of projects.
Overall balance	-377.0	-404.5	7.3%	-27.52	

**Table 4:** Major deviations between the MTEFs 2020-2022 and 2019-2021 for 2021

	MTEF 2019-2021	MTEF 2020-2022	Deviations		Recent MTEF to old MTEF
			Recent MTEF to old MTEF		
			%	mIn Eur	
	2021	2021			
Total Budget Revenues	2,159.6	2,159.2	0.0%	-0.40	
of which: Custom Duties	97.0	142.5	46.9%	45.50	1)MTEF 2019-2021 forecasts have accounted for a greater negative impact of the SAA, however based on actual data and based on analysis, the effect of the SAA is in a declining trend.
of which: Excise	549.5	511.4	-6.9%	-38.14	1) Excise in MTEF 2020-2022 compared to the old MTEF has been revised downwards for 38 million. This revision is mainly based on the change in the macro base (real GDP). Real GDP in the old MTEF was projected to grow by 5.3%, while the recent MTEF forecasts a real GDP growth of 4.5%.
of which: border VAT	749.9	716.1	-4.5%	-33.85	1) Revenue from Value Added Tax has had some changes in the recent MTEF, these changes are mainly in VAT structure as a result of new fiscal measures. 2) Border VAT has been revised downwards for 33 million and some part of it has been accounted for in domestic VAT. Additionally, the old MTEF projected an increase of 7% in imports, whereas this recent MTEF only foresees an increase of 5.9%.
of which: Domestic VAT	263.5	272.9	3.6%	9.44	1) Revenue from Value Added Tax has had some changes in the recent MTEF, these changes are mainly in VAT structure as a result of new fiscal measures and assumptions for lowering tax debt.
of which: Central Level Revenues	105.2	120.2	14.3%	15.00	1) Central Level Revenue in the recent MTEF has been positively revised from MTEF 2019-2021 for 15 mIn Eur. 2) 7 million Eur is added to this category from the local level revue.
Total Expenditure	2,501.7	2,534.0	1.3%	32.27	
of which: Wages and Salaries	673.3	690.7	2.6%	17.44	1) Wages and Salaries category is planned to be higher due to the implementation of the wage law;
of which: Subsidies and Transfers	584.1	633.0	8.4%	48.86	1) This deviation is mainly due to measures and allocations made in year 2020.
of which: Capital Expenditure	869.4	824.5	-5.2%	-44.90	1) Capital expenditure from the regular budget has been revised downwards for 45 million compared to the old MTEF. One of the reasons is to accomodate total expenditure in the legally allowed fiscal space. 2) Investment clause is 34 million higher than planned in the old MTEF. This change is mainly as a result of the dynamics of projects
Overall balance	-342.0	-363.0	6.1%	-21.01	