



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

Ministria e Financave dhe Transfereve
Ministarstvo za Finansije i Transfere
Ministry of Finance and Transfers

MEDIUM TERM EXPENDITURE FRAMEWORK

2021-2023

April 2020

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

Content

PART ONE	8
1. DECLARATION OF MEDIUM-TERM PRIORITIES OF THE GOVERNMENT	8
PART TWO	23
2. MACRO-FISCAL FRAMEWORK	23
2.1.1 EXTERNAL ECONOMIC ENVIRONMENT	24
2.1.2. LATEST DEVELOPMENT IN THE KOSOVO ECONOMY	26
2.2. FISCAL FRAMEWORK 2021-2023	36
2.2.1. GOVERNMENT REVENUES AND EXPENDITURE	36
2.2.1.1. REVENUES AND EXPENDITURE IN 2020	36
2.2.1.2. REVENUE PROJECTIONS 2021-2023	36
2.2.1.3. EXPENDITURE PROJECTIONS 2021-2023	38
2.2.2. BUDGET BALANCE AND FISCAL RULES	42
2.3. MEDIUM TERM RISKS 2021-2023	47
PART THREE	54
3. SECTORIAL EXPENDITURES FRAMEWORK 2021-2023 – CENTRAL GOVERNMENT	54
3.1. GENERAL PUBLIC GOVERNANCE	56
3.2. DEFENCE	57
3.3. RULE OF LAW AND PUBLIC SAFETY	59
3.4. ECONOMIC ISSUES	61
3.5. ENVIRONMENT	63
3.6. HOUSING AND COMMUNITY ISSUES	64
3.7. HEALTH	66
3.8. RECREATION, CULTURE, RELIGION	67
3.9. EDUCATION	69
3.10. SOCIAL PROTECTION	71
PART FOUR	73
4. LOCAL LEVEL	73
4.1. INTRODUCTION	73
4.2. SOURCES OF MUNICIPAL FINANCING FOR THE YEAR 2021-2023	73
4.2.1. GENERAL GRANT	73
4.2.2. ADDITIONAL GRANT FOR THE FINANCING OF THE CAPITAL CITY	76
4.2.3. SPECIFIC GRANT FOR PRE-UNIVERSITY EDUCATION	76

4.2.4.	PRIMARY HEALTH SPECIFIC GRANT	79
4.2.5.	SECONDARY HEALTH FINANCING	80
4.2.6.	RESIDENTIAL SERVICES FINANCING.....	80
4.2.7.	FUNDING FOR THE HISTORIC CENTER OF PRIZREN, THE CULTURAL CENTER OF THE VILLAGE OF ZYM AND THE COUNCIL OF THE HOÇË E MADHE	80
4.2.8.	FINANCING FOR THE ENDANGERED ENVIRONMENTAL AREA OF OBILIQ	81
4.2.9.	FINANCING FOR THEATRE	81
4.3.	PROJECTIONS OF MUNICIPAL OWN SOURCE REVENUES FOR 2021 AND FORECASTS 2022-2023	81
4.4.	INVESTMENT CLAUSE	83
4.5.	SUMMARY OF MUNICIPAL FUNDING FOR 2021-2023.....	83

INFORMATION BOX 1. COMPARING MACROECONOMIC FORECASTS USED FOR PREVIOUS MTEFS WITH ACTUALS	29
---	----

INFORMATION BOX 2. COMPARING THE MACROECONOMIC FORECAST FOR THE MTEF 2020-2022 WITH OTHER FORECASTS	35
---	----

INFORMATION BOX 3. COMPARISON OF PROJECTIONS AND ACTUALS FOR YEAR 2019	37
--	----

INFORMATION BOX 4. EMERGENCY FISCAL PACKAGE AS A RESPONSE TO PUBLIC HEALTH EMERGENCY (COVID-19).....	41
--	----

INFORMATION BOX 5. MAIN DEVIATIONS BETWEEN MTEFS 2021-2023 AND 2020-2022 FOR 2021 AND 2022	43
--	----

Graph 1 Real economic growth in other countries.....	25
Graph 2 Exports diversification	27
Graph 3 Current account balance	28
Graph 4 Labour market.....	28
Graph 5 Loans, deposits and non-performing loans	29
Graph 6 GDP by components	33
Graph 7 Revenue Structure.....	36
Graph 8 Expenditure Structure	39
Graph 9 Trend of General Debt and as % of GDP.....	46
Graph 10 Real GDP growth, y-o-y, %	49

Table 1 Some Economic Indicators.....	32
Table 2 Revenue Projections	38
Table 3 Expenditure Projections.....	39
Table 4 General Debt.....	44
Table 5 International Debt including the committed debt and undisbursed, 31.12.2019.....	45
Table 6 Sensitivity analysis of the budget to fluctuations of macroeconomic variables, 2021- 2023	50
Table 7 Outstanding liabilities, more than 30 days.....	52
Table 8 Payments based on court decisions (mln Eur)	53
Table 9 Financing trends 2019 -2020 and estimations 2021 -2023	54
Table 10 Financing trends 2019 -2020 and estimations 2021 -2023 – Central Level.....	55
Table 11 Financing trends 2019 -2020 and estimations 2021 -2023- General Government Sector	57

Table 12 Financing trends 2019 -2020 and estimations 2021 – 2023 – Defence Sector	58
Table 13 Financing trends 2019 -2020 and estimations 2021 – 2023- Rule of Law and Public Security Sector	61
Table 14 Financing trends 2019 -2020 and estimations 2021 – 2023- Economic Issues Sector	62
Table 15 Financing trends 2019 -2020 and estimations 2021 – 2023- Environment Sector	64
Table 16 Financing trends 2019 -2020 and estimations 2021 – 2023- Housing and Community Issues Sector	65
Table 17 Financing trends 2019 -2020 and estimations 2021 – 2023- Health Sector.....	67
Table 18 Financing trends 2019 -2020 and estimations 2021 – 2023- Recreation, Culture and Religion Sector.....	68
Table 19 Financing trends 2019 -2020 and estimations 2021 – 2023- Education Sector	71
Table 20 Financing trends 2019 -2020 and estimations 2021 – 2023- Social Protection Sector	72
Table 21 Determining the value of the General Grant for municipalities 2021-2023 (mil. Euro)	74
Table 22 General Grant Structure for 2021-2023 according to LFPL (mil. Euro)	74
Table 23 Distribution of General Grant at municipalities 2021-2023	75
Table 24 Distribution of additional Grant for financing the Capital 2021-2023.....	76
Table 25 Distribution of Specific Grant for Education for the year	78
Table 26 Primary health specific grant, for 2021-2023	79
Table 27 Financing for residential services for 2021-2023	80
Table 28 Financing for theatres for 2021.....	81
Table 29 Projections of municipal own source revenues for 2021-2023	82
Table 30 Summary of municipal funding for 2021-2023 (mil. euro)	83
 ANNEX 1.....	 84
ANNEX 2... ..	93

Foreword

Medium Term Expenditure Framework 2021-2023 (MTEF 2021-2023) presents the main document on the basis of which the Annual Budget for 2021 will be drafted. The main purpose of the MTEF is to provide an analysis, which reflects the macroeconomic environment in the country, to lay the groundwork for budget planning for the coming years in line with the Government's strategic priorities.

Given Kosovo's current economic structure and the many obstacles to economic growth, it is necessary to undertake economic reforms to strengthen the country's economic potential. The priorities of economic reforms for the medium term stem from the National Strategy for Development and the Economic Reform Program 2020-2022, which derives from the process of dialogue for economic governance between Kosovo and the EU.

The government's main objective continues to be the strengthening of its fiscal position and responsible management of public finances. In this context, the planning and execution of the budget will be done in line with the fiscal rule that limits the budget deficit to 2% of GDP. Given that this rule is a limitation when we consider Kosovo's needs for major development projects, the implementation of the 'Investment Clause' enables the Government to finance capital projects of public interest, above the deficit of 2% of GDP, provided that these projects be funded by International Financial Institutions and Development Agencies.

MTEF 2021-2023 summarizes these key government priorities in the Medium Term Declaration of Priorities and in the relevant chapters, covering all budget sectors, describing the approach of how to ensure funding from the Kosovo budget and financial assistance or loans from development partners.

MTEF 2021-2023 is structured in four main parts. The first part contains the “**Medium Term Priorities Declaration**”, which provides a broad overview of Government priorities in line with the Governance Program, the National Development Strategy and the Economic Reform Program. In the second part is the **macro-fiscal framework** based on the general parameters of economic development. In the third and fourth part, the **fiscal projections** are presented, which determine the general expenditure limits on the basis of which the Central and Municipal Budgets are later prepared.

PART ONE

1. DECLARATION OF MEDIUM-TERM PRIORITIES OF THE GOVERNMENT

General objectives and fiscal framework

The Medium-Term Expenditure Framework 2021-2023 is the main document on the basis of which the annual budget for the coming year 2021 is drafted. The main purpose of prioritizing is to make the connection based on the comprehensive macro-economic environment analysis in the country and budget planning for upcoming years with a 3 (three) year-long perspective, in compliance with the strategic objectives of the Government.

Strategic objectives of the Government of Kosovo are determined through various strategic documents, namely by the Government Program, strategic documents such as the National Development Strategy and Sectorial Strategies, as well as documents deriving from the European integration process, such as the Economic Reform Program and National Programme for Implementation of the SAA. The main objectives of the Program of the Government 2021-2023 state that Government priorities should focus on the following areas: i) Justice; ii) Economy and Employment; iii) Education; iv) Health; v) Security; vi) Euro-Atlantic Integrations; and vii) Environment.

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, in particular the situation occurred as a consequence of the global pandemic COVID-19, it is necessary to orient structural reforms aimed at recovering the economy in general. To this end, the Government will undertake the necessary impact assessment of the pandemic crisis in economy, and will undertake continuous measures to recover the economy, considering the ongoing support of development partners.

Fiscal policy as planned in the MTEF and ERP, 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 2021 includes substantial funding growth for the priority areas as follows: judicial reform and enhancing the quality of education and health, agricultural sector and support for private sector.

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 Programme for the Implementation of the Stabilization and Association Agreement sets the medium-term planning framework for fulfilling the SAA obligation.

The Medium-term Expenditure Framework 2021-2023 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 main planning documents, such as: Government Programme, National Development Strategy and Sectorial Strategies, Economic Reform Program and National Programme for Implementation of SAA. Structure of third chapter has been designed in such a manner as to be approximated with the structure of MTEF sectors.

The main priorities will guide all budget organizations in the preparation of their budget proposals for 2021. 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 Programme of the Government 2021-2023, the National Development Strategy 2016-2021 and the Economic Reform Program 2020-2022, 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 2021-2023.

The Government continues to have country's macroeconomic and fiscal stability as the main objective of the strategy, which ensures sustainability, economic development and more favourable climate of doing business, enabling a more sustainable development of the private sector. The Government of Kosovo will be committed to progress, strengthening and transparency of progress of public funds by undertaking the following measures:

- Ensuring the enforcement of fiscal discipline aimed at maintaining the macro-fiscal stability;
- Approximating the legislation with the SAA (*Acquis*) obligations and international standards in the field of public finance;
- Increasing the effectiveness of allocation in public fund management, with the aim at providing qualitative services to citizens;
- Increasing the operational effectiveness in public fund management, in line with the applicable rules and standards;
- Ensuring sound public finance through reforms in Public Financial Management and cooperation with International Financial Institutions;

As main objectives of the fiscal strategy for the period 2021-2023 remain:

1.1.1. Public Finance Management: In order to ensure the sustainability and economic growth, the Government of Kosovo will undertake several concrete steps in this regard: such as: (i) increasing the threshold of non-taxable personal incomes, which will take place by reviewing the fiscal policies and amending the relevant legislation; (ii) review of legal and institutional framework in view of revenue collection within the territory of the country; (iii) decreasing the threshold of cash transactions, in order to intensify the fight against fiscal evasion, which would result in fair treatment of economic entities, increase of tax revenues and formalization of employment; (iv) ensuring accountability for more effective use of public funds; (v) increasing efficiency and effectiveness of public procurement, by strengthening the e-procurement and increasing the transparency of public tendering.

1.1.2. Business Environment and Entrepreneurship Development: This objective aims at institutional support of enterprises, as one of the main engines of economic growth in Kosovo, by ensuring an equal environment by removing monopolies, eliminating fiscal evasion, ensuring electricity supply with an affordable price, and, in particular, timely payments to companies performing contracted works by the public authority. This objective is also focused in public enterprises, aiming to improve the management and their performance. The establishment of the Commercial Court aims to create legal security for local businesses and foreign investors, as well as to serve for stimulation, risk reduction and expansion of existing businesses, which further leads to increased direct investment by foreign companies and diaspora. The priority of this court will be to create a more efficient environment, where businesses and investors will settle their disputes quickly and efficiently. In focus of this court will be elimination of barriers of doing business, strengthening of private sector, simplifying procedures for obtaining permits and licenses, and finalizing of the general inspection reform.

Furthermore, development of the private sector will initially be based on formalizing businesses and employment. In general, economic development policies are aimed at increasing and protecting production, purchasing power, expanding the market, fighting crime and corruption, increasing the number of jobs and the competitiveness of the private sector. The Government will have a special focus on promoting and facilitating foreign investments, especially by eliminating barriers to foreign investments. These policies will create special conditions for foreign investments and development of trade policies in accordance with the obligations to the SAA. These policies will also be designed to make exports a driver of growth and development by increasing production, innovation and competition. In order to promote exports and address supply constraints, the legal framework in the field of domestic and foreign trade, in the field of e-commerce and in the field of intellectual property rights will be improved.

1.1.3. Labour Market and Employment - This objective prioritizes the improvement of employment services, increasing the effectiveness of active labor market measures, improving workers' rights and guaranteeing minimum standards for occupational health and safety. This will be done in accordance with international standards through the improvement of the legal framework, namely the Law on Labour and that of Labor Inspectorate and through the development of the labor market information system.

1.1.4. Advancing policies in the agricultural sector: is intended to define clear criteria and full transparency, focusing on yield rather than surface - in line with existing circumstances to increase

productivity and quality resulting in increased competitiveness. Priority will be given to increasing transparency in the application, evaluation, monitoring/inspection, and payment of subsidies and grants. Also, the development of agro-processing entrepreneurship, along with the need to develop skills in the food industry sector, will be treated as a priority. As a result of the growing demand for professions in the food processing industry, treatment of the potential gap between skills and need to develop professional standards in this sector should be considered.

1.1.5. Prioritization of large-scale investments in Infrastructure and Energy: Prioritization will be done according to the degree of impact on the transformation of the economic structure in the country. Energy infrastructure, road, rail and air transport, water supply networks, irrigation, wastewater treatment, will be priority projects in the budget composition. Investments in energy are also planned to be made with the involvement of the private sector through the reduction of energy costs that will help businesses and further encourage private investment.

The above objectives treat all budget organizations equally, so it is necessary to advance cooperation at the Government level, so that the country's economic development agenda can be followed while maintaining macro-fiscal stability.

1.2. Basic principles

The process of preparing the expenditure forecast for 2020-2022 is guided by the following principles:

- 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;

1.3. Priority areas

The Government of Kosovo presents the following statement of priorities regarding MTEF 2020-2022. Priorities are specifically presented on the basis of the main strategic documents, particularly on the Government Program, 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 2021 with medium term forecasts (2021-2023), budget organizations are expected to show how their budget plan responds to Government priorities set out below. Priorities have been presented for all Government sectors, addressing the most important issues that the Government needs to focus on over the next three years. Against the given priorities, budget organizations are encouraged to improve spending efficiently through reallocation within existing boundaries.

1.3.1. Governance and Public Administration

The Government, in the medium term period, will continue to implement public administration reform with high priority. In this regard, priorities will be: improving policy planning, development and coordination, increasing transparency and accountability, improving public finance management, integrity and professionalism of the civil service, and continuous improvement of services, including reforms in local government.

- **Planning, Policymaking, Accountability and Transparency** – main focus is on improving strategic planning, increasing the quality of sectoral planning with performance indicators, thus advancing policy monitoring and evaluation practices. Development of data-based policies will be supported by applying the methodology for assessing the impact of policies undertaken. Particular attention should be paid to capacity building to develop reliable statistics, in line with European practices and standards. They will also be supported by increasing transparency, involving citizens, the media, civil society and the private sector in policy development. The Government will support the process of *reducing the administrative burden, eliminating excess bureaucracies* according to the respective Concept Document. In this regard, the Government will initiate the program for reducing the administrative burden by starting the measurements of the current legislation through the Standard Costing Model. In addition, the government will continue with the process launched for simplifying, eliminating or merging permits and licenses.
- **Public Finance Management** –in accordance with the strategic framework and obligations under the European Integration Agenda, will be ensured implementation of priorities within a comprehensive macro-fiscal policy, whereby ensuring sustainability and economic growth. Fiscal policies will be oriented in such a way as to provide support to economic sectors affected by the pandemic crisis during 2020. To ensure fair treatment of economic entities, increase tax revenues and formalize employment, the Government will intensify the fight to eliminate tax evasion. Furthermore, improving financial performance and accountability of public enterprises will be a priority.
- **Modernisation of Public Administration** – based on the commitments under the developed policy dialogue with the EU, the Government will continue to support the modernization of public administration. It will be supported implementation of the legal framework for public administration, namely laws, public officials and public sector wages, including the rationalization of agencies. To increase the capacity and efficiency of the services provided, e-governance projects will be supported, also providing the need for inter-institutional coordination to develop and implement e-governance policies. Capacity building of public administration will be supported through the development of incentive policies for the retention of specialized staff within the framework of cooperation schemes with external partners.

- **Local Governance** – with the aim at addressing existing challenges, the functional review of the local self-government system will take place and the legal framework of local self-government will be further supplemented. Also, it will be initiated the establishment of the fourth grant for municipalities, which will be used to finance capital projects of municipalities, according to the selection of local governments, for comprehensive development.

1.3.2. Foreign Policy and Euro-Atlantic Integration

- **Foreign Policy and Diplomacy** – priorities will focus on strengthening diplomatic relations with strategic partners, defining specific areas of cooperation with countries that have recognized the Republic of Kosovo, and prioritizing membership in international institutions and organizations. For more efficient functioning, the functional review of the Foreign Service will be carried out based on the performance, results and in accordance with the strategic interests of the country. Public diplomacy will be supported, strengthening of mechanisms for promoting the history, traditions and culture of our country.
- **Euro-Atlantic Integration** - the Government will intensify its work in cooperation with strategic partners. Inclusion in the Partnership for Peace, as an important instrument for strengthening cooperation with NATO and direct contribution to peace and security, is a medium-term priority of the Republic of Kosovo. Membership in NATO is a strategic goal of Kosovo. The Government will be committed to actively participate, with all its specialized military and civilian capacities, in support of peace, stability and security around the world.
- **The European Integration Agenda will be an integral part of the Government Agenda.** European integration will be in full synchronisation with the country's overall development agenda; reform efforts will be intensified to fulfil the obligations deriving from the SAA, including visa liberalization process as one of the Government's top priorities, as well as obligations arising from the ongoing dialogue for policy coordination with the EU.
- **Good neighbouring relations and regional cooperation** - The government aims to build good relations with all neighbouring countries and those of the region. Kosovo is committed to deepen even more the strategic partnership with Albania, by ensuring mutual cooperation in the field of economy and energy, education, art, culture, foreign policy and security, sports and tourism. The Government of the Republic of Kosovo will be committed to the normalization of relations with Serbia through dialogue and in the spirit of the principle of reciprocity.
- **Diaspora** - The Government will be committed to increasing the role of diaspora in country's development and promotion through their direct engagement in the development agenda; strengthening of Albanian schools all over the world; promoting the national language, history and culture. The Government will increase the role of diaspora by enabling its political representation in decision-making processes in Kosovo. In particular, the Government will work on the concrete engagement of experts and researchers from diaspora, to enable the transfer of their skills and strengthening of their ties with the homeland.

1.3.3. Defence and Security

The Government will give priority to defence and security, and will increase the budget for these areas. In this regard, the country's defence and security institutions will be supported in their capacity building, the legal framework will be improved, and defence and security policies will be developed, defining the main principles and directions of the Government in this field.

- The Government of the Republic of Kosovo is committed to capacity building for defence and security, so that, in times of peace and crisis, the military and civilian authorities cooperate in protecting Kosovo's interests.
- The Government will work to ensure that the armed forces participate in joint military exercises with NATO member states. It will continue to support the professionalization and provision of military equipment according to NATO standards, based on the Comprehensive Transition Plan.
- The Government's priority is also professionalism and capacity building for protection against possible hybrid and cyber attacks coming from within and outside the country.

1.3.4. Order, law and public security

For the functioning of the rule of law, economic development and equality before the law, the Government will give priority to further improvement of the legal and institutional framework, necessary infrastructure and capacity building.

- **Public order and security** - priority of the Government is strengthening of police capacities to fight all forms of crime, increasing the number of integrated financial investigations and modernization of police equipment. Special emphasis will be given to strengthening the capacity to prevent and combat terrorism, human trafficking, narcotics and commitment to the implementation of the concept of integrated border management. Among other things, the Government's priority is complete review of the strategic framework for public order and security. Strengthening institutional capacities for emergency management will also be supported. The Government will also prioritize migration policies as a need for internal and external migration management, and inter-institutional coordination within the Government Authority on Migration.
- **Human rights, gender equality and communities** - The Government's priority is to create equal and non-discriminatory opportunities, respecting human rights, strengthening gender equality mechanisms, protection from domestic violence, free legal aid, compensation of war crimes victims, integration of marginalized groups and freedom of speech. Also, special attention will be given to the establishment of mechanisms for the identification of war crimes in Kosovo.
- **Review of the justice system** - Among other priorities in the justice sector is also the review of the justice system, respectively drafting of the sectorial strategy. Also, a priority is the

vetting process, establishment of the Commercial Court, strengthening of free professions, adoption of the Civil Code, regulation of property issues, revision of criminal legislation and establishment of the criminal records centre.

- **Fight against organized crime and corruption** - is another top priority of the Government, which will be supported by capacity building of institutions and by strengthening of the existing mechanisms. Within the institutional accountability, as the priority of the Government is completion of the legislation for protection of whistleblowers and capacity building for handling whistle blowing cases.

1.3.5. Economic issues

Economic development will be based on the development of entrepreneurship as a whole and, with a particular focus on the support for small, medium enterprises and manufacturing industries, considering entrepreneurs as the driving force for the creation of new jobs and economic development. Modernizing the infrastructure and ensuring a stable electricity supply will also be a high priority within the medium term, including also the support for the agricultural sector, promotion of tourism and trade policies, as well as employment policies.

Transport and telecommunications

- **Infrastructure** - in view of economic development, actions will be taken in reviewing transport sector policies; reviewing the dynamics of existing road infrastructure projects, and prioritizing new projects to expand and modernize road infrastructure. The general rehabilitation and modernization of the 10th railway line will continue; necessary studies for the line with Albania and on the rehabilitation/modernization of the lines connecting the airport with the branches of the southern and northern part. Other priorities are civil aviation policies, respectively the approach related to Gjakova airport and Kosovo airspace.
- **Improvement of road safety and maintenance** - the Government will work on increasing the level of road traffic safety and will also improve the planning and programming of road maintenance works through the Intelligent Transport System (ITS).
- **Information and Communication Technology (ICT)** - The Government will pay special attention to the development of information technology through: approximation of the legal framework and policies with the EU legislation in the area of information technology infrastructure; expansion of the broadband infrastructure in areas not covered with internet access and support to the deployment of 5G mobile infrastructure, including the development of human resources for the digital economy; establishment of technology centres with stable and attractive infrastructure for international and local companies; design of incentive policies to support information and communication technology, especially in the case of start-up companies and existing ones.

Energy and mining

- **Securing stable energy supply** will be addressed through the rehabilitation of existing energy capacities; full liberalization of the electricity market which requires finalization of the regulatory framework and integration into the regional market; establishment of a joint energy market Kosovo-Albania and Kosovo's access to gas supply networks.
- **Rational use of renewable energy sources** - the goals agreed on with the energy community are intended to be achieved, in order to ensure energy participation from renewable sources in gross, with a focus on final consumption of energy; review of support schemes for renewable energy projects and redesigning of the use of hydro resources for electricity generation.
- **Reducing energy consumption through efficiency measures** - The Government continues to support investments in energy efficiency in the public sector and in the implementation of district heating networks in cities of Kosovo; completion of the legal framework for energy efficiency; functionalization of the Fund and increase of incentives in the private and residential sector.
- **Use of mineral resources** - will be done according to the principle of sustainable development by improving the legal framework and policies for the mining sector; preparation of a comprehensive study for the utilization of mines; analysis of Trepça feasibility; development of the processing industry (valorisation of mineral products), and promotion of the private sector for the development of processing of mineral products.

Balanced regional development

- Efforts will be made in developing a balanced regional development concept, focusing on capacity building of municipalities having economic potential to ensure economic and social convergence. It is necessary to undertake measures to increase competition between development regions/different areas of Kosovo, in order to achieve higher levels of productivity, employment, welfare and equality. The main priorities will focus in developing instruments to promote greater competition between regions and address regional inequality in terms of socio-economic development.

Support to industry and business

Agriculture and rural development – the Government policies in the agricultural and rural development sector will focus on three main aspects: increase of the productivity through policy advancement, infrastructure investment and innovation in agriculture. In this regard, the subsidy scheme and grant scheme will be reorganized based on clear criteria and full transparency; agricultural policies will also be revised, developing the New Agriculture and Rural Development Program.

Further consolidation of agricultural lands and their protection from the change of the planned destination will be another focus of the Government. Farmers will be supported through a

mechanism for agricultural insurance, as well as access to funds for farmers will be facilitated by increasing the coverage of loans by the Kosovo Credit Guarantee Fund.

- **Agricultural infrastructure** - will be supported to provide a sustainable irrigation system for agricultural lands, also by building and rehabilitating the road network of rural areas.
- **Food safety** - the Government aims to advance food safety policies and bring them closer to EU standards with particular emphasis on ensuring institutional capacities.
- **Industrial policies and private sector development** - the Government will facilitate the process of doing business and strengthen the private sector, particularly in terms of incentive measures as a result of the impact of the pandemic crisis. It will support the advancement of industrial policies in general and the provision of quality infrastructure, as well as the increase of production standards of the country's industries.
- **Tourism development** - in addition to policy development, higher priority will be given to projects for the improvement of the infrastructure that enables the development of tourism and support to the revitalization of existing tourism potentials, based on international standards, with special emphasis on protection of the environment and support to businesses regarding the development of rural tourism, as well as support to the development of tourism products in cultural heritage areas.
- **Stimulating, promoting and supporting foreign investment** - will be addressed by eliminating barriers to foreign investment; improving the institutional framework to enable effective fulfilment of responsibilities and the implementation of priorities; preparing and initiating the implementation of follow-up care services and programs for investors, as well as improving the necessary infrastructure for investors.
- **Trade policies** - within these policies, priority will be given to the commitment to implement obligations in the framework of regional cooperation, improvement of legislation, increase of product quality, protection of the consumer and intellectual property, as well as relevant areas resulting in increased production, improvement of the trade balance, innovation and economic development of Kosovo in general. Priority will also be given to the development of procedures for membership in regional and international organizations, the negotiation of trade agreements with regional countries and other countries.

Research, development and innovation

- The Government of Kosovo aims to increase support to the field of research, development and innovation by strengthening the country's innovative ecosystem, as well as linking research, development and innovation with the private sector as an engine of job creation. This is intended to be achieved through: supplementation and harmonization of the legislative, institutional and policy framework for research, innovation and information technology with

that of the EU, as well as completion of the smart specialization process; and design of the incentive policies to support information and communication technology.

Employment and Labour Market

- The Government aims to address the high unemployment rate among women, youth and vulnerable groups, and will focus on improving employees' rights and guaranteeing minimum standards for safety and health at work. With special emphasis, the government also aim to, based on the dual education system, employ students through paid institutional practices and contracting part-time work. These will be achieved through: reviewing the Youth Employment Plan; improving the legal, regulatory and policy framework; promoting the connection of vocational education with market needs; strengthening the capacity of public employment services and expanding active labour market measures; greater support to youth and women in the field of entrepreneurship development and wage subsidies in the private sector.

1.3.6. Environment

The environment situation in Kosovo needs major and continuous improvement. The Government will focus its policies on improving air, water and soil quality; and will improve and increase the level of waste and water management, sustainable use of natural resources, protection of biodiversity and natural landscapes. All this will be conducted in full compliance with the most rational use of natural resources, through the balance of economic needs and environmental sustainability.

- **Advancing environmental protection and preservation** - The Government of Kosovo will review and implement policies to improve air quality; preserve biodiversity; sustainable environment protection and development. Integrated waste management will be promoted also based on the support of development partners. On the other hand, the legal framework in the field of waste and chemical management will be strengthened; environmental impact assessment; prevention and integrated control of pollution; waste from the mineral extraction industry; as well as nature protection, will be treated with priority.
- **Advancing water management and infrastructure building** – implementation of the Water Strategy will be oriented through the operational plan, where the main challenges in water management will be addressed, including the state approach in terms of water accumulation, new hydro systems, and protective infrastructure along rivers.
- **Developing policies to advance spatial planning** – regarding development and advancement of spatial planning, the Government plans the completion and approval of the Zonal Map of Kosovo; revision of the Spatial Plan of the National Park “Sharri”; Spatial Plan of the National Park “Bjeshket e Nemuna” as well as the functioning and advancement of the SPAK system for the MESP needs.

1.3.7. Healthcare

The Government's focus will be on ensuring and improving the health of citizens, advancing quality, safety, efficiency, providing health services, reorganizing the health sector and its sustainable financing. The Government aims to achieve these objectives through development of adequate policies, completing legislative framework, strengthening education and prevention services, promoting, increasing and advancing human/professional resources, increasing the budget in healthcare, modernizing healthcare institutions and providing adequate medical equipment. Furthermore, integrated, patient-centred healthcare will be strengthened through the implementation of data-based medicine and functioning of the health information system, as a precondition for the implementation of Health Insurance. In order to address the shortcomings of the healthcare system, the Government's priorities for the next three years will be focused on the following:

- ***Reorganization of the health sector and provision of quality healthcare services*** - review of the Sectoral Health Strategy; amending and supplementing the basic legislation in the health sector; assessing the capacity and needs for palliative care; networking of Kosovo doctors in Diaspora and liaison with the organizations and chambers of health professionals through programs for exchanging professionals; long-term human resource planning in the health sector.
- ***Ensuring sustainable healthcare financing*** - this priority aims at creating and implementing a health insurance fund; amending and supplementing health insurance legislation; approving secondary legislation to set criteria for exemption from health insurance contribution payment; reviewing the list of essential medicines; evaluating the implementation of health policies (ex-post).

1.3.8. Youth, culture and sports

As part of the medium-term policies, the Government will support the development and promotion of art works and culture, and will invest in the necessary infrastructure for culture, including development and promotion of sports and policies for protecting and promoting cultural heritage. In order to address the needs in this sector, the Government will support the following priorities:

- **Improvement of infrastructure** – with the aim at promoting the development of art works and culture, the Government will support the improvement of cultural infrastructure by investing in the construction of new facilities for the Opera and Ballet Theatre, the Cultural Hall, and the renovation of existing ones, as needed.
- ***Financial support for art and culture*** - the Government will transform the planning system and allocate funding for art and culture, increase subsidies for independent artists and artistic and cultural events, and provide artists with adequate working conditions.

- ***Protection and promotion of cultural heritage*** – with the aim of protecting and promoting cultural heritage, the establishment of mechanisms for research in the field of heritage, for the financing of deficient staff in the field of heritage and for the restoration of cultural heritage objects will be supported. The government will digitize the materials of the state archives and archaeological materials, as well as the cultural heritage, and the legal framework for the return of illegally obtained heritage objects will be created, as well as the identification of new archaeological sites for which there has been no institutional attention.

Youth

- The Government will engage in institutional interaction on all issues related to youth. It will support the development of youth policies, focused on active citizenship; preparation for the labour market; as well as will increase the youth budget and orient it to activities that promote innovation, entrepreneurship and self-employment.

Sport

- ***Modernization of sports infrastructure*** – priority will be given to supporting the promotion of sports in general, and investing in the modernization of sports infrastructure, including the National Sports Centre, the construction of regional stadiums according to UEFA standards and other sports fields.
- ***Support for sports education*** - The Government will finance projects of multifunctional sports centres, as well as an intensive program to financially support school sports, emphasizing sports education for young people. The Government will provide financial and administrative support to clubs competing in international competitions, including individual clubs and sports that are also related to sports education program, it will support school sports and university sports; new women clubs will be established as well as support for quality clubs that have the opportunity to compete in international leagues.

1.3.9. Education and science

The Government in the next three years will focus on increasing the quality of education at all levels, so our education system meets the labour market demands and prepare pupils and students for life. Science will also be given a greater role by strengthening the relevant mechanisms and policy framework. In this regard, it is intended that the Kosovo Strategic Education Plan be reviewed and approved in due time. Therefore, in order to address the needs and reforms of the education system, the Government priorities for the next three years will focus on the following:

- ***Early childhood education*** – increasing the involvement of children aged 0-5 in preschool education through: expanding the network of institutions in pre-primary and preschool education throughout the country; regulating the funding method; licensing and re-licensing of public and private preschool institutions; adopting the Law on Early Childhood Education; approving and implementing the curriculum for early childhood education, training of educators; increasing the identification and inclusion of children with special needs and

increasing the number of assistants for this category; increasing the involvement of children of Roma, Ashkali and Egyptian communities in preschool institutions.

- ***Increasing quality of teaching in primary and secondary education*** – it is intended to be achieved through: improving the infrastructure and establishing educational infrastructure in the service of the community; reviewing the legislative framework at this educational level; evaluating the educational curricula; strengthening school-based decision-making, with greater community involvement and strengthening the parent-teacher-student relationship; drafting the law on textbooks and reviewing the Council for textbooks; equipping cabinets with the latest technological equipment and digitalising the educational content; introducing the subject of coding in the lower primary cycle; capacity building of pedagogical assessment teams in municipalities; professional development of education inspectors for performance assessment.
- ***Increasing quality of vocational education and training*** – this priority is intended to be met by increasing the cooperation between vocational schools and the business community; evaluating and approving the Curriculum Framework for the entire VET system and linking strongly the VET curricula with national deficit areas and the labour market; modernizing the vocational high schools with adequate equipment and textbooks; training teachers in the VET area; reviewing the funding formula and determination of the financing criteria for VET; establishing the office for cooperation with the private sector, in cooperation with the relevant ministry; creating and functionalising the digital platform in order to pertain to the labour market demands in the field of ICT; strengthening the lifelong learning as well as incentives for the involvement of young people in professional work, in cooperation with the private sector.
- ***Better quality and management in higher education*** – this is intended to be achieved by reviewing and approving the Law on Higher Education; finalizing the Law on the Kosovo Accreditation Agency and ensuring the autonomy of the Kosovo Accreditation Agency and its professional capacities; reorganizing the public universities; drafting and approving the guide by the State Council of Quality for setting the monitoring criteria of HEIs; reviewing and approving new standards for the evaluation of doctoral level programs; redefining the funding formula in higher education; strengthening participation in regional and international academic mobility programs, including teachers, students and researchers inside and outside the country; creating the “Scholarship Fund to educate and stimulate distinguished students and deficient staff”.
- ***Science*** – will increase the focus and investment in science by functionalizing the National Science Council and creating the National Science, Innovation and Excellence Fund; increasing cooperation with higher education institutions; creating special programs to engage the capacity of the diaspora as a qualified force in the field of scientific research; and supporting important scientific projects to achieve national priorities.

1.3.10. Social Protection

The Government deems that the improvement of the social protection system in Kosovo can be achieved by taking measures to reduce poverty, through inclusion of marginalised groups in socio-economic life of the country and through the system of redistribution of public goods. In the field of social services is planned to provide a sustainable system for financing of social services and implementing continuously the pension schemes and benefits, as well as, where necessary - reforming current social policies, reforming the pension system in legislative, organizational and international cooperation aspect.

- ***Enhancing welfare through restructuring social services*** - this priority aims to amend and supplement the legal framework in the field of social services; increase the level of employment for marginalized groups; strengthen the mechanisms of financing and decentralization of social services, through creating a Special Grant for Social Services; licensing and capacity building of individual providers, social workers, public and non-governmental providers in the field of social and family services.

Also, this priority includes the Government's objectives related to the improvement and upgrade of the infrastructure of housing and community-based centres for the provision of services for the elderly and disabled; support to families in need, children, people with disabilities, the elderly, victims of domestic violence through housing and community-based centres and licensed NGOs.

- ***Reforming pension and benefits schemes*** - within this priority, the Government will draft new policies for Social Assistance Scheme, Child Allowances and Tax Refunds; will amend and supplement the primary and secondary legislation on the benefits of persons with disabilities; and will develop international pension-related agreements.

PART TWO

2. MACRO-FISCAL FRAMEWORK

The Medium Term Expenditure Framework 2021-2023 is based on a macroeconomic scenario that projects economic rebound in the country after the crisis created by the COVID-19 pandemic in 2020, to be followed by a trend towards historical levels in 2022 and 2023.

Economic growth is based on a combination of increasing domestic and foreign demand. However, there are many uncertainties and risks shifted to downwards in the medium term, which are mostly related to the duration and magnitude of the current pandemic situation and the measures or policies undertaken by the relevant authorities to combat this situation.

The Government of the Republic of Kosovo is continuously oriented towards macro-fiscal stability and aims in the medium term (2021-2023) to maintain a level of budget deficit within fiscal rules and to provide sufficient budget reserves and avoidance of excessive accumulation of public debt. Such a stable, macro-fiscal environment fosters economic growth that comes largely as a result of private sector activity.

The MTEF document has continuously been based on the further development of the fiscal framework based on very important fiscal rules, including rules requiring: i) Budget reviews with neutral impact on the deficit; ii) Limitation of the budget deficit to 2% of GDP; iii) Limitation of the increase of the wage bill with the increase of the nominal GDP; iv) Limitation of public debt to 40% of GDP, i.e. 30% for capital investments from the "investment clause" that are exempt from the deficit rule. The exemption from the deficit limit for capital projects financed through long-term and concessional lending to donors provides sufficient space to address the need for capital investment within a prudent and sound fiscal framework.

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

- Maintaining a high level of capital investment to address structural barriers and increase competition by improving public infrastructure;
- Rationalizing of operating expenses and creation of space to increase funding and effectiveness for judicial, health and educational institutions;
- Improving the effectiveness of social spending and agricultural subsidies through better targeting;
- Mobilizing revenues by expanding the tax base;
- Simplification of administrative fees and the reduction of regulatory burden.

2.1. Macroeconomic Framework

2.1.1 External Economic Environment

With the beginning of 2020, the trade problems between USA and China that lead the decline in global manufacturing or the uncertainties with the effects of Brexit were quickly substituted with the COVID-19 pandemic. The crisis caused from this pandemic is now referred to as ‘The Great Lockdown’, a term coined by the IMF. This term is a result of comparing this crisis to ‘The Great Depression’, due to the fact that the current crisis is the biggest since the 1930s. Unlike the global financial crisis of 2008, effects of which were negligible for Kosovo, this crisis affects Kosovo as any other country in the world. Not only does this crisis affect directly Kosovo’s economy, but it also affects the channels through which the external economic environment affects Kosovo: trade, remittances, Foreign Direct Investments (FDI) and potentially the financial sector.

The keyword of this crisis is uncertainty. Initially, this crisis started as a supply shock (by shutting down numerous industries), however, as a result of the latter and the uncertainty for the future this consists a demand shock as well. Based on the literature, there are two phases for addressing this crisis, namely: the containment and stabilisation phase (reducing the cases with COVID-19) and the recovery phase. The main uncertainties in this crisis are: the duration of the general initial lockdown (as the initial phase of addressing the crisis or the first wave (and maybe the only) with infections), and the overall duration of the pandemic (until the vaccine is developed). The main characteristic of this crisis is that often there is a clash of objectives, namely between the objective of economic recovery with the public health objective. The other characteristic, compared to the last similar crisis – The Great Depression, is the presence and support of the international financial institutions, which will mitigate or even eliminate protectionist policies of countries as in the 30s that sought to protect or improve their trade balance (and current account balance) in absence of multilateral financial support, which nowadays is offered from several institutions such as the International Monetary Fund or the World Bank among others.

Despite uncertainties about the future, the IMF has projected a decline in the global GDP of 3 percent in real terms, specifically: 6.1 percent and 1.0 percent for the developing and developed economies, respectively. Some indicators that substantiated these projections are: the increase in the unemployment claims – 6.6 million in the last week of March, compared to 280,000 in the second week of March; projections of a 20 percent unemployment rate in the US during April (Bloomberg, 2020)¹; the decline in industrial production and retail sales in China during January – February by 13.5 and 20.5 percent compared to the same period of the previous year (Bloomberg, 2020)². Further, based on the latest data (March 2020), it can be noticed that the commodities price index has declined by 25.6 points (as a result of the contraction in demand and the drop in the oil

¹ Worst-Case Fears of 20%-Plus U.S. Jobless Rate Are Now Realistic: <https://www.bloomberg.com/news/articles/2020-04-14/worst-case-fears-of-20-30-u-s-jobless-rate-are-now-realistic>

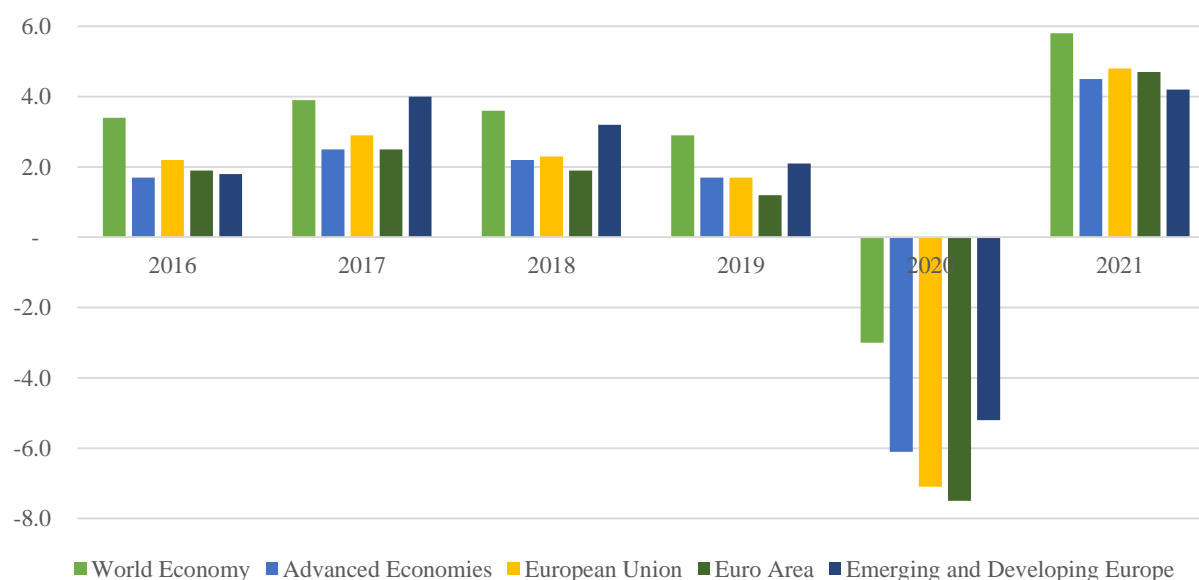
² China’s Economy Suffers Historic Slump Due to Virus Shutdown: <https://www.bloomberg.com/news/articles/2020-03-16/china-manufacturing-and-retail-contract-for-first-time-on-virus>

price), compared to January 2020. It is worth mentioning that the price of oil (brent) in March 2020 has declined by almost 50 percent or 33 dollars/barrel in comparison with December 2019. Inflation in developed countries is expected to amount to 0.5 percent during 2020 (during 2019 it was 1.4 percent), and 1.5 percent during 2021. Further, in the developing countries, inflation is expected to decline from 5.0 percent in 2019 to 4.6 percent and 4.5 percent during 2020 and 2021, respectively.

Despite the problems caused by The Great Lockdown in 2020, during 2021 an economic recovery of 5.8 percent in the global GDP is expected. However, it is worth noting that even though an economic recovery is expected in 2021, for many countries this will not suffice to come back to their pre-crisis economic levels.

Seeing that the channels through which the external environment affects Kosovo's economy are more accentuated in relation to the European countries, it is important that these economies are further analysed. During 2020, Euroarea's economy is expected to decline by 7.5 percent, while during 2021 an improvement with a 4.7 economic growth is projected. Some of the most (negatively) affected countries from the crisis are Greece (an economic decline of 10 percent) and Italy (a decline of 9.1 percent). Further, the economies of Germany and Switzerland, from where over 60 percent of remittances in Kosovo originate, are expected to decline by 7 and 6 percent, respectively.

Graph 1 Real economic growth in other countries



Taking into account the data presented above as results of the crisis caused by COVID-19 in the external economic environment and the channels through which it affects Kosovo, this crisis can affect Kosovo's economy in several aspects. Regarding the trade channel, seeing that this crisis has disrupted the global supply chain, during 2020 it is expected that the import of machinery, tools and electrical equipment is affected negatively, due to the fact that 30 percent of these goods are imported from China and incidentally they consist some of the main components of private

investment. Furthermore, due to the decline in commodity prices, and specifically nickel (more than 35 percent of Kosovo's goods exports are within the category of 'Base metals and articles of base metals' – a category which is dominated by the export of nickel) from averagely 15,349 dollars/ton in the last quarter of 2019 to 11,846 dollars/ton in March 2020, Kosovo's exports are expected to be negatively affected. Moreover, the closing of borders causes immense problems in trading services (especially in transport and travel in Kosovo's case). Regarding the remittances channel, as mentioned above, the economies of Germany, Switzerland and Italy (from where over 65 percent of remittances originate) are expected to decline during 2020, which will result in a decline of remittances to Kosovo. Due to the uncertainty arising from the recent crisis and due to existing and potential problems in financial systems, also the FDI channel will be negatively affected. Lastly, in case of problems with the financial sectors of the countries where Kosovo's foreign financial institutions are based in, this can negatively affect our financial system as well.

2.1.2. Latest Development in the Kosovo Economy

According to preliminary quarterly data from the Kosovo Statistics Agency (KSA), real GDP during 2019 increased by 4.2 percent compared to the previous year.

However, economic indirect indicators show that 2019 was a year of a slower economic activity compared to the preliminary data from KSA. Consequently, MFT has estimated that the real growth in 2019 was 4 percent, in line with the developments in these indicators. Further, it is expected that the data revision from KSA in its annual publication of GDP to reflect these expectations.

Based on preliminary data for 2019, **Consumption** is expected to have increase by 2.3 percent in real terms, as a result of an increase in private consumption by 2.1 percent and the public consumption by 3.6 percent. The slightly slower increase in private consumption reflects the decline in new consumption loans by 4.1 percent and the slower increase in employee compensation with 6.8 percent (from 11 percent in 2019). **Investments** during 2019 increased by 5.7 percent in real terms, which reflects a slowdown compared to 2018. This level of increase is supported also by a slowdown in the imports of capital goods with only 3.7 percent increase and another slowdown in public investment which increased by only 0.1 percent as a result of a late budget approval and the government resignation in the beginning of the second half of 2019. Further, FDI during 2019 marked an annual decrease of 2.1 percent. This development is a result of the not reinvesting new profits in the last quarter (mainly in the construction sector). **Net exports** during 2019 have contributed positively in real grow with 0.3 percent as a result of a slowdown in imported goods and a higher increase in total exports.

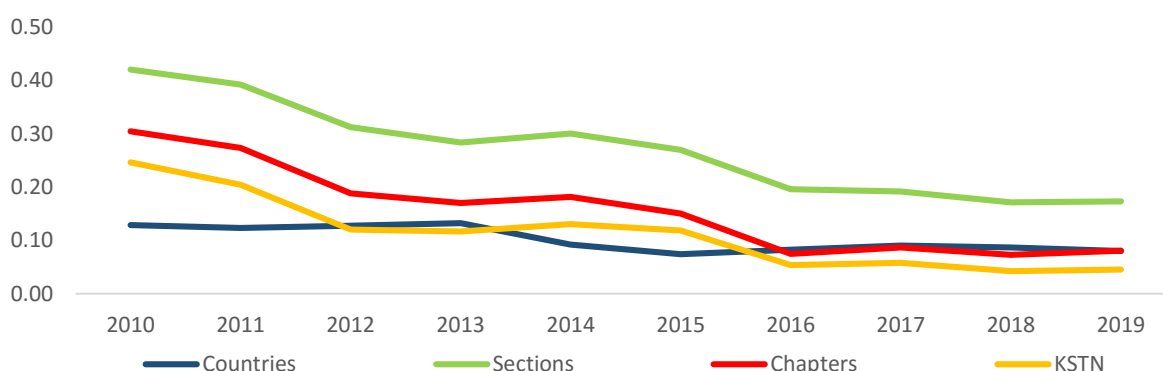
Inflation, measured as the annual change in the Consumer Price Index, increased on average by 2.7 percent in 2019, with a significant increase during the beginning of the year. This level of consumption prices during 2019 is attributed mainly to the increase of prices in the categories of 'Food and non-alcoholic beverages' and 'Alcoholic beverages and tobacco'. Even though the category of 'Transport' has market a positive contribution to inflation, still it stands at a lower

level than in 2018, as a result of the developments regarding the price of oil in international markets.

Current account balance in 2019³ is estimated to be -5.8 percent of GDP, whereas the trade deficit is approximately 27 percent of GDP. These development show that there has been an slight improvement compared to last year.

Export of goods and services market an annual increase of 6.8 percent. Export of goods increased by 4.4 percent, whereas the export of services increased at a higher rate – 7.3 percent. Export of goods towards CEFTS countries constitutes 43 percent, while export towards EU countries constitutes 36.1 percent of total exports. Further, regarding the exports towards countries other than EU and CEFTA, most exports were destined for India and Switzerland with 8.6 percent and 7.3 percent, respectively. Export diversification⁴ is a sound approach to ensure exports sustainability, therefore contributing towards improving the country's trade balance. Kosovo's structure of exports currently is mainly focused within the exports of base metals, which consist of 35 percent of total goods exports. However, as it can be noticed in Graph 2, the concentration of the structure of exports is slowly diminishing. Two important sectors with a robust increase over the last two years are plastics and prepared foods, which make u for 13.25 percenta and 10.4 percent, respectively.

Graph 2 Exports diversification



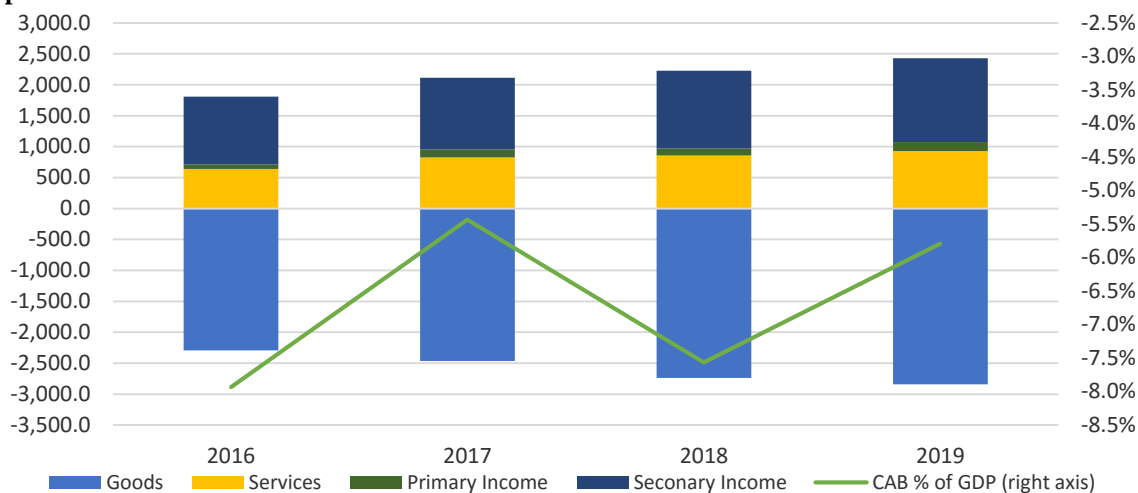
Import of goods and services market an annual increase of 4.3 percent, where the import of goods increase by 3.8 percent, whereas the import of services increase at a 6.2 percent rate. Import from EU countries constitutes approximately 50 percent of total imports, where over half of those originate from Germany. However, imports from CEFTA countries make up for 14.4 of total imports, and those from Turkey and China constitute 12.3 percent and 9.7 percent, respectively.

Goods trade balance during 2019 increased annually by 3.7 percent, whereas services trade balance increased by 8.3 percent. Travel services continue to dominate the services trade with a share of 78.8 percent of total services exports and approximately 43.7 percent of total services imports.

³ The GDP value for 2019 is according to the preliminary quarterly data from KSA.

⁴ In order to present export diversification, the Herfindal Hirschman index has been utilised based on four different dimensions regarding the export of goods and services.

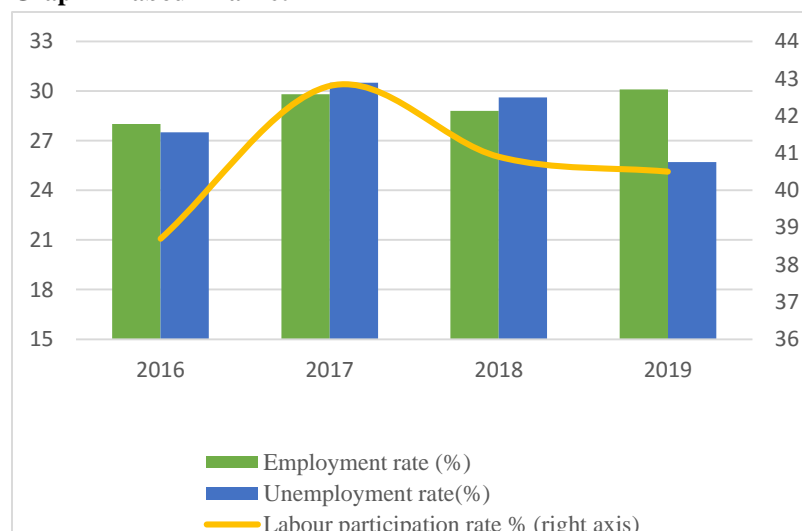
Graph 3 Current account balance



Primary income balance marked an annual increase of 31.7 percent driven mainly from the category of employee compensation (contribution of 7.7 p.p. and an increase of 8.5 percent) and investment income (contribution of 15.4 p.p. and an increase of 14.3 percent). **Secondary income balance** increase by 7.5 percent. This increase was driven by net remittances (credit-debit) which increased by 8.1 percent and had a positive contribution of 6.6 p.p..

The latest **labour market** data show that the employment rate at the end of 2019 was 30.1 percent, which shows an improvement of 1.3 p.p. compared to 2018. The labour participation rate has slightly decreased to 40.5 percent in 2019 from 40.9 in 2018. Consequently, the unemployment rate decreased by 3.9 p.p. in annual terms, amounting to the rate of 25.7 percent. It must be noted that Kosovo held its parliamentary elections in 2019, therefore the 2019 labour data need to be analysed by taking into account also these developments.

Graph 4 Labour market

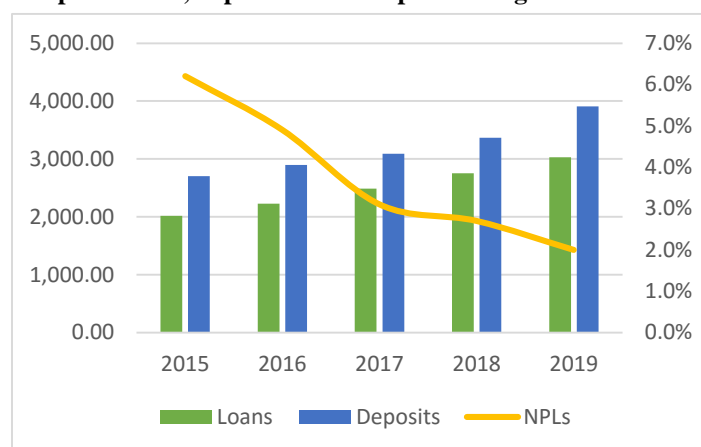


Employment based on education level has changed during 2019. Employment with secondary and tertiary education has increased, whereas employment with high school education has decreased. Structure of employment based on activities has remained almost the same as in the previous years, lead by employment in retail, construction, manufacturing and education. However, in 2019 there was an increase in the

number of employed in the sector of agriculture (from 3.5 percent of the total of employed in 2018, to 5.2 percent in 2019).

The banking sector continues to experience an accelerated growth in credit. At the end of 2019, the stock of loans amounted to about 3.03 billion euros (3,032 million), marking an increase of 10.0% compared to the previous year. Corporate loans increased by 9.4%, whereas households loans increased by 10.4%. At the end of 2019, the total amount of deposits amounted to about euros 3.9 billion euros, marking an annual increase of 16.2%, which was dominated mainly by the performance of corporate deposits by 14.3% (y-o-y), while deposits of households recorded a

Graph 5 Loans, deposits and non-performing loans



yearly growth of 11.8%. Furthermore, the rate of non-performing loans has marked a continuous decrease during the years, amounting to 2.0 percent at the end of 2019 and it shows a high quality of loans in the country. Average loan interest rate during 2019 was 6.4 percent, around 0.2 p.p. lower than in the previous year. Whereas, average deposit interest rate was 1.5 percent, higher for 0.15 p.p. than in the previous year.

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 2014-2018⁵. This helps in identifying whether there is a systematic bias (either upwards or downwards) in the projections.

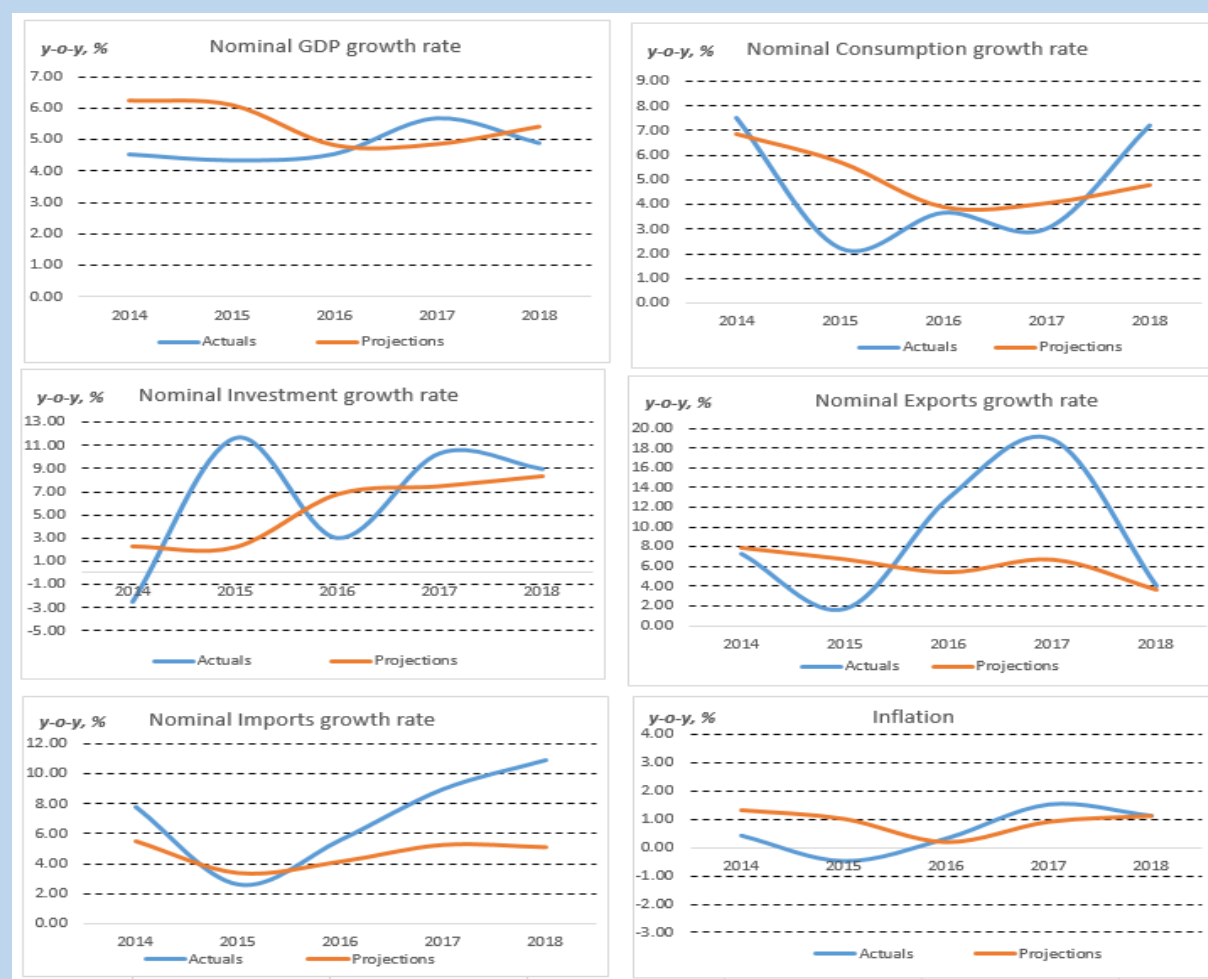
As shown in Figure 1, the projected nominal GDP growth rate for the first two years (2014 and 2015) is higher than the actual data mainly due to higher growth in consumption, exports and lower growth in imports; while in 2016 this gap narrows considerably with GDP forecasted being very close to the actual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

While in 2018, the projected nominal GDP is higher than the current one, although the gap between the two is narrower than in the past. This gap in 2018 is attributed mainly to lower

⁵ There is no comparison for 2019 since the quarterly data are preliminary until the annual publications of KAS (September 2020).

expectations of total imports than the current value (about 5 percentage points lower), while expectations for other components of GDP have been lower than current ones. It is worth noting that the gap between total export projections and inflation is at levels close to zero during 2018.

Figure 1. Main Macroeconomic Variables 2014-2018: MTEF projections vs. Actuals



The figures above present some important issues for the budget forecasting process:

Because nominal GDP is used as a key macroeconomic variable that affects budget revenues, lower current GDP values than those predicted usually⁶ have a negative impact on revenue collection for those years compared to forecasts, especially for personal and corporate income tax categories;

⁶ In the context of Kosovo, the benefits of fulfilling direct tax liabilities and domestic VAT can overlap (coincide) with the effects of macroeconomic variables affecting tax revenues.

Although the gap between projected current consumption and current consumption has narrowed significantly, it still leads to higher expectations for revenues collected from domestic VAT.

Imports, with the exception of 2015, have been underestimated, leading to lower forecasts for revenues collected from VAT at the border and from customs duties. However, this is partially offset by the positive effect that such a + undervaluation of imports has on the projected GDP and consequently on projections for other budget revenues (excise).

These divergences between projections and current figures of economic variables may have contributed to lower revenues than projected. However, the budget balance and the bank balance sheet continued to remain within the fiscal rules, where the budget deficit was less than 2% of GDP and the bank balance sheet was not less than 4.5% of GDP⁷.

2.1.3. Macroeconomic Perspective 2020-2023

In early March 2020, the Ministry of Finance updated the macro-fiscal projections in the Budget for this year. According to these projections, Kosovo's economy was estimated to grow in real terms by about 4.2% (similar to its historical trend), driven mainly by consumption and public investment. At the time of the preparation of the 2020 Budget, the likelihood of the materialization of the COVID-19 pandemic scenario in Kosovo or the impact of this new was considered a potential risk but was not incorporated into the baseline scenario, as a result of the uncertainty surrounding the spread and magnitude of this pandemic and the impact it could have on the economy. Also, until the beginning of March, Kosovo was one of the few countries in the region and the world that had not registered any cases of COVID-19 infection. However, in a one-month period, the economic situation and perspective in Kosovo has changed dramatically. Currently, the number of infected people has increased to over 400 people and the measures or decisions taken by the government (restricting movement and travel of people, banning activity for a range of business activities, closing schools, etc.) in order to prevent the spread further COVID19 are tightened and are expected to have a significant negative impact on key economic indicators.

Currently, the only available data that can reflect the impact of COVID-19 on Kosovo's economy are fiscal data (revenues and expenditures), trade in goods (based on Customs data), inflation and indicators of other "soft" ones, such as questionnaires or various interviews conducted by the different chambers of commerce or other organizations with major businesses or sentiments of uncertainty reflected in the daily activities of businesses and households.

Unlike the first two months of the year, as shown in Table 1, the import of goods during March 2020 has marked negative growth in annual terms, both in quantity and value, which reflects not only the slowdown in aggregate demand in the country but even the lower prices of primary commodities in international markets. The decline in imports is reflected in almost all categories

⁷ Limit of 4.5% of GDP of the Bank Balance applies only in those years when funds from liquidation are used.

of imported goods, with the exception of the category of cigarettes. The performance of exports of goods during the first three months of this year was similar as well.

The dynamics of the execution of capital expenditures in January and February, despite the non-formation of the new government and the lack of an approved budget for 2020, has been better than the first two months of the previous year. Meanwhile, in March this trend changed direction, reflecting an execution of capital expenditures by about 28 million Euros lower than in the same month of the previous year. Tax revenues from Customs in March recorded an annual decline of 3%, in line with the performance of imports. Also, tax revenues from TAK, after a satisfactory performance in the first two months of the year, recorded an annual decline of 31.5% (or about 10 million Euros lower) compared to March last year. The Consumer Price Index also continued its downward trend since January, not only as a result of a high base in the same period last year due to the 100% tariff on products from Serbia and Bosnia & Herzegovina, but also as a result of significant price declines in international markets due to the drastic decline in global travel and industrial activity.

Table 1 Some Economic Indicators

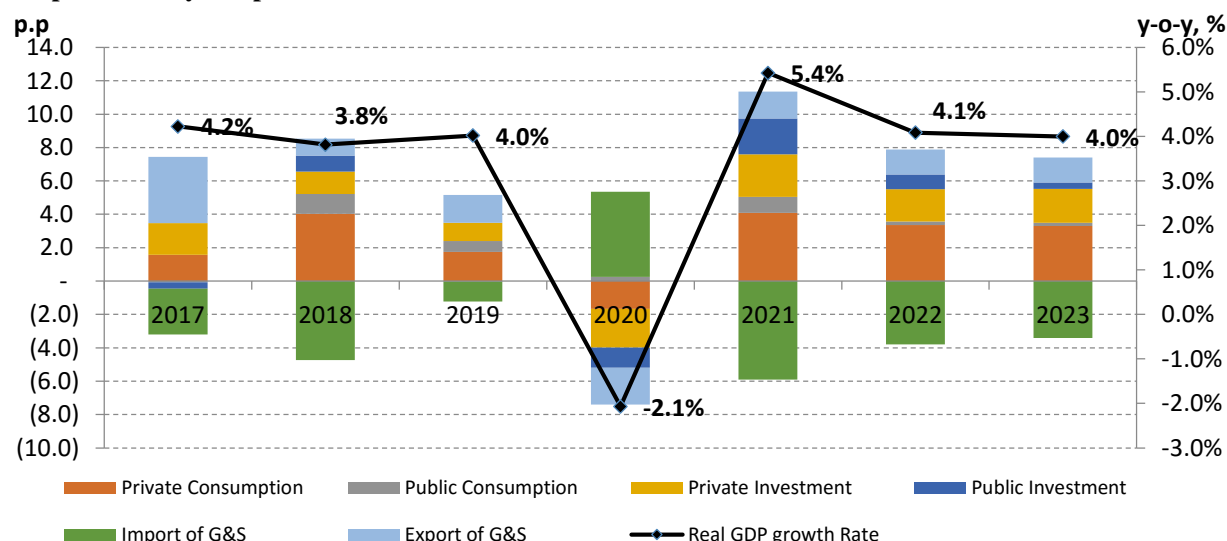
<i>Indicator, y-o-y, % if not stated otherwise</i>	<i>Jan '20</i>	<i>Feb '20</i>	<i>Mar '20</i>
Import of Goods_Quantity	41.1%	7.3%	-15.4%
Import of Goods_Value	16.3%	12.7%	-12.8%
Export of Goods_Quantity	34.1%	11.1%	-23.0%
Export of Goods_Value	27.0%	52.6%	5.1%
Revenues_TAK	14.4%	5.9%	-31.5%
Revenues_Customs	9.3%	7.3%	-3.1%
Capital Expenditure (<i>difference in mln EUR</i>)	0.2	12.2	-27.6
HCPI	1.5%	1.0%	0.7%

The spread of COVID-19 pandemic in Kosovo, in addition to the public health aspect, presents a number of challenges in the economic and financial field. Analyzing the impact of the effect of this situation on the economy of Kosovo requires the separation of two phenomena from each other. First, current and future developments in the number of infected cases or mortality rates will mainly affect the long-term performance of the economy, as they will directly affect the labor force of the Kosovo economy. Second, the necessary measures taken by the Kosovo authorities to prevent further spread of the COVID-19 virus will be key determinants of short-term economic performance. Given the low mortality rate of COVID19 pandemics and the low number of infected people in Kosovo, expectations are that most of the negative economic effects will stem from measures taken for social distancing and therefore be of a short-term nature.

Assessing the impact of these measures on Kosovo's economy is also quite challenging as there are a number of major uncertainties regarding: i) the duration of the COVID-19 situation in Kosovo; ii) tightening restrictive measures regarding the movement of people or the development of business activity; iii) developments in the foreign economy and especially in neighboring countries; or iv) fiscal incentives undertaken by the relevant authorities (as in the case of the recently adopted Emergency Fiscal Package).

Measures taken so far in Kosovo to limit the spread of the COVID-19 virus are expected to have a double impact on Kosovo's economy. On the one hand, the temporary ban on business activity for some sectors will lead to a reduction in the supply of goods and services in the market. On the other hand, quarantining and restricting circulation in foreign economies will reduce the demand in the economy through the remittance or travel channel in Kosovo. Also, a similar situation in Kosovo is expected to affect lower demand for goods and services, lower incomes and lower investment by the private sector. In the context of a rapidly changing environment, it is quite difficult to quantify the impact of these measures on the economy, although it is clear that they will lead to a significant contracting of production, spending of households, investment of corporations, and international trade. Taking all this into account, real economic growth for 2020 has been significantly revised downwards, already fluctuating to negative values, around -2%, with the biggest shock reflected in the second quarter, to be followed by a gradual recovery in the following quarters of the year. During 2021, Kosovo's economy is expected to grow at a real rate above its historical trend, by about 5.4%, but still the level of GDP will be lower than the level predicted in the baseline scenario before the COVID situation. 19. However, the longer the period of social distancing or isolation, the lower the likelihood of a recovery of the economy according to a V-shaped trajectory (as shown in graph 6). Meanwhile, in the next two years (2022 and 2023), economic growth will fluctuate around 4%.

Graph 6 GDP by components



One of the main channels of transmission of this pandemic crisis is *remittances*, which have historically been one of the main sources of external financing in Kosovo (over 10% of GDP). During 2020, remittances are expected to fall significantly, by over 12% compared to last year as a result of expectations for significant deterioration of the economic situation in countries where Kosovo immigrants are located. This declining performance of remittances is expected to continue in the following year (2021), given the delayed response of remittances to economic developments; while in the next two years (2022 and 2023) their performance is expected to stabilize. *Foreign*

direct investment, which is mainly concentrated in the real estate sector (over 80%) is expected to be at levels close to zero during the second quarter of 2020, which will be further reflected in the deterioration of the construction sector. in Kosovo's economy. *Bank lending* during the second quarter is also expected to be reduced to very low levels as a result of the lower demand from individuals or businesses but also as a result of the tightening of supply by banks, due to increasing uncertainty which is consequently reflected in increasing borrower solvency risk. Employment in the private sector is expected to worsen as a result of job losses, especially in those sectors that are directly affected by this crisis (services sector; retail trade, transport, etc.).

All the above mentioned factors combined with the increase of uncertainty in the country are expected to affect a significant slowdown in consumption and private investment, which are estimated to mark a real annual decline of about -0.5% and -9.2%, respectively. While in 2021, private consumption and investment will accelerate significantly, marking real growth rates above their historical level, to stabilize during 2022 and 2023.

Export of services, which is characterized by a high component of travel, is expected to mark a significant decline in the second quarter of 2020 as a result of high restrictions on travel. The performance of imports of services will be similar. During 2020, the export and import of services, in real terms, will mark an annual decrease of more than 8%, while in the following years their performance will be in line with the historical trend.

Exports of goods will be negatively affected (real annual decline of 5.2%) mainly as a result of slower demand in foreign economies but also low prices that are characterizing international markets (especially nickel prices). Imports of goods will fall sharply (by about -7.4% compared to last year - in real terms), being in line with the slowdown in private consumption, private investment and the slow execution of public spending. In 2021, the performance of exports and imports of goods will improve significantly, marking a real annual growth of 7.0% and 13.6%, respectively.

Public investment is expected to slowdown compared to last year as a result of the situation created by COVID-19, which created the need to make fiscal space in order to accommodate the necessary and essential costs in this situation, such as the case of the Emergency Fiscal Package. This was recently approved by the Government and is expected to help households and businesses overcome this difficult situation. As a result, the government's current expenditures are expected to exceed the budgeted amount and mark an annual increase of 6.8%, which is mainly attributed to the increase in the category of "subsidies and transfers", which will lead to an increase in public consumption by about 3.4% (in real terms), constituting the second component (after import) that is expected to have a positive contribution to real GDP.

The Consumer Price Index is expected to fluctuate around the level of 1.4% during 2020, significantly below the level recorded in 2019 (2.7%). Inflationary pressures in the category of "food and alcoholic beverages" that may come from food chain distortions are expected to be dominated by disinflationary pressures that may come from 100% tariff cuts on products from Serbia and Bosnia & Herzegovina and a drastic drop in prices of primary goods (oil, base metals,

etc.) in international markets. Meanwhile, starting in late 2020 and the following year, inflation is expected to follow an upward trend in line with the revival of the economy and the return of prices in foreign markets to their historical levels. In the medium term (2021-2023), inflation is expected to fluctuate around 2%.

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 over the medium-term⁸. Such a comparison enables the judgment of whether the macroeconomic projections of the Ministry of Finance and Transfers are broadly in line with those of other institutions (local and international).

As Table 1 shows, all institutions for 2020 expect a decline in economic activity as a result of measures taken to prevent COVID-19, to be followed by a rapid recovery in 2021. All institutions emphasize that their baseline scenario is surrounded by a high degree of uncertainty and by a balance of risks significantly shifted downwards. MFT projections are more optimistic than the average estimates of other institutions. In addition, the MFT expects a lower rate of inflation than other institutions. In terms of nominal GDP, the projections of the Ministry of Finance are higher than those of the International Monetary Fund, especially in 2020 (about 2.3% higher).

Table 1: Real GDP projections among institutions					
Year	2019	2020	2021	2022	2023
MFT (<i>Apr'20</i>)	4.0%	-2.1%	5.4%	4.1%	4.0%
Central Bank of Kosovo (<i>Apr'20</i>) ⁹	3.9%	-3.0%			
World Bank (<i>Apr'20</i>)	4.2%	-4.5%	5.2%	n/a	n/a
IMF (<i>Apr'20</i>)	4.0%	-5.0%	7.5%	3.7%	3.8%
Average of others	4.0%	-3.2%	6.0%	3.9%	3.9%

Table 2. Nominal GDP projections (in mln euro)					
Year	2019	2020	2021	2022	2023
MFT (<i>Apr'20</i>)	7,114	7,033	7,561	8,003	8,465
IMF (<i>Apr'20</i>)	7,125	6,877	7,476	7,870	8,305

Table 3. Inflation rate projections among institutions					
Year	2019	2020	2021	2022	2023
MFT	1.7%	0.9%	2.0%	1.7%	1.7%
World Bank	2.7%	1.6%	1.8%	n/a	n/a
IMF	2.7%	1.3%	1.6%	1.8%	1.8%
Average of others	2.7%	1.6%	1.9%	1.5%	1.8%

⁸ Other Institution's projections have been updated using their most recent publications and not all of them cover the same forecast period. The parantheses in each table include the date of the most recent publication for each institution.

⁹ CBK projections are available only from the Governor's press conference (<https://www.bqk-kos.org/?id=104&l=1731>), and are available in intervals [-4%: -2%] – in the table there is the median of this interval.

2.2. FISCAL FRAMEWORK 2021-2023

2.2.1. Government revenues and expenditure

2.2.1.1. Revenues and Expenditure in 2020

In 2020, the economic situation and perspective in Kosovo has changed due to COVID-19 pandemic. The impact on the economy of pandemic and measures taken by the government will have an impact on fiscal forecast for this year and thus, change compared to the 2020 budget projections.

Estimation of total revenues by the Ministry of Finance for 2020 show that revenues will have an annual decrease of 5.3%, due to slowdown in economic activity.

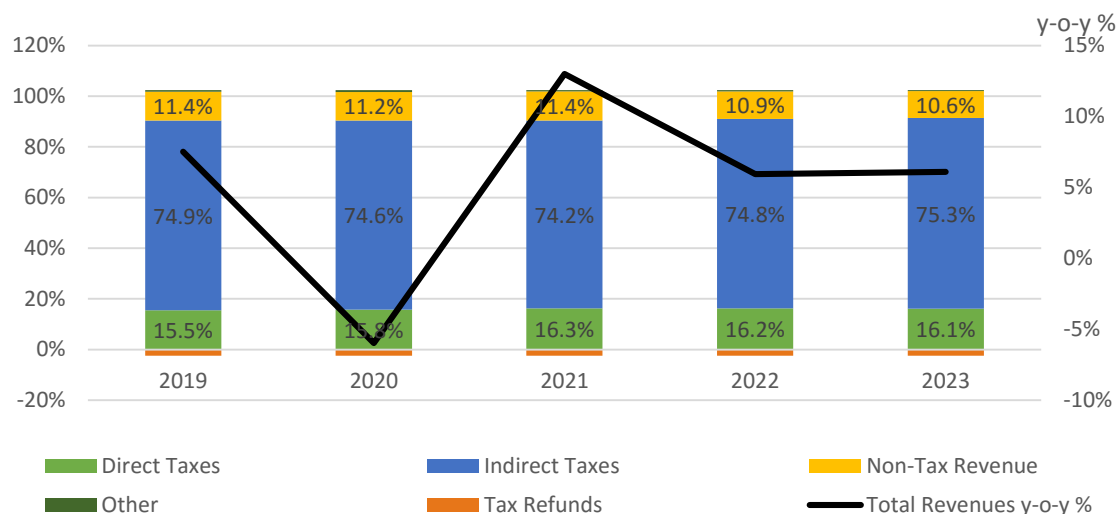
On the other hand, the budget expenditures for 2020 are expected to increase by about 14% compared to last year. However, the structure of the expenditures has undergone changes due to accommodation for expenditures derived from the Emergency Fiscal Package.

2.2.1.2. Revenue Projections 2021-2023

Budget revenues for the medium term are expected to stabilize, based on macroeconomic projections, reduction of the tax debt stock and fiscal policy effects.

Consequently, **total budget revenues** are expected to increase by an average of 8.3% over the medium term. The projected growth is most pronounced in 2021 mainly due to the underlying effect from 2020 and the recovery of the economy after the pandemic.

Graph 7 Revenue Structure



Revenues from indirect taxes continue to have the highest share of total revenues and are expected to increase by about 8.6% in the medium term. VAT is expected to increase by an average of 9.8%, driven by increased imports of goods and general consumption. It is also worth mentioning that the export of travel services, which mainly represent the consumption of immigrants during their stay in Kosovo, has a positive effect on the increase of revenues from local VAT. Excise revenues are expected to increase in line with real GDP growth by an average of

4.5%, while revenues from customs duties are expected to increase by an average of 16.1% in the medium term based on increased imports and reduced negative effect of SAA .

On the other hand, **direct tax revenues** are expected to increase by an average of about 9.1% in the medium term. The most significant increase is in 2021 as a result of a recession of the economy after the contraction in 2020 caused by the measures taken to combat the COVID-19 pandemic. In addition, this increase is driven by the reduction of tax debt within corporate income tax and personal income.

Non-tax revenues are projected to increase by 6.3% in the medium term, but they are expected to decrease as a share of GDP from 3.0% in 2020 to 2.8% at the end of the medium term. The forecast reflects the Government's policy stance to avoid support for non-tax revenues however, a more dynamic implementation of the process of legalizing illegal construction and improving vehicle registration fulfillment can contribute to higher revenues than those forecasted for the collection of non-tax revenues.

Information Box 3. Comparison of projections and actuals for year 2019

Table 1 in Annex 2 enables the comparison of the performance of the main budget items according to their execution, the budget and the MTEF (the initial and the last one) for 2019.

In terms of spending, the main conclusion is that current expenditures in MTEF (2019-2021) have been underestimated due to the increase in the number of beneficiaries in pension schemes, as a result of non-reform of the scheme for war veterans which would have enabled the reduction of the number of beneficiaries in this category and due to the decision to increase the basic and contributory pensions by 20% and 15% during 2019.

While current figures for current expenditures compared to the 2019 budget were lower due to an under-expenditure on wages and salaries and on goods and services, despite that the category of subsidies and transfers had an over-spending. This under-execution in the category of "salaries and wages" and "goods and services" was mainly due to non-fulfillment of the number of vacancies, later approval of the budget (February 2019), early elections (October 2019) and a contingency planned in the 'goods and services' category, which at the end of 2019 was partly relocated to cover expenditures in the 'subsidies and transfers' category.

Capital expenditures had an under execution compared to both the MTEF and the Annual Budget for two main reasons:

- 1) non-execution of the investment clause due to difficulties in the efficient functioning of the implementing units and project delays;
- 2) non-execution of capital projects financed from the regular budget due to difficulties in decision-making since 2019 was an election year and the budget was approved late in February 2020.

In 2019 there was a difference between actual revenues and projections of revenues both in the last MTEF (2019-2021) and in the annual budget. The lowest revenue performance in 2019 was largely determined by VAT and excise revenues. This was partly influenced by the Law on the Prohibition of Gambling and the slower performance of import of goods. On the other hand, the projections had overestimated the negative effect of the Stabilization and Association Agreement on customs duties. Meanwhile, revenues from TAK and TAP and non-tax revenues had a slight overperformance.

Table 2 Revenue Projections

Description	2019	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
In mln Eur					
1. Total Revenues	1,889	1,788	2,007	2,126	2,255
<i>Of which: tax debt stock reduction</i>	22		27	27	27
1.1 Tax Revenues	1,662	1,563	1,767	1,884	2,006
Direct Taxes	292	280	327	345	363
<i>Corporate Income Tax</i>	95	88	104	109	115
<i>Personal Income Tax</i>	166	158	179	189	199
<i>Property Tax</i>	27	29	37	40	43
<i>Other</i>	5	6	6	6	7
Indirect Taxes	1415	1,326	1,489	1,591	1,698
<i>Value Added Tax</i>	846	796	912	983	1,051
<i>Domestic</i>	239	239	276	291	307
<i>Border</i>	606	557	636	691	744
<i>Custom Duties</i>	130	100	124	136	157
<i>Excise</i>	436	426	450	468	487
<i>Other</i>	4	3	4	4	4
Tax Refunds	-46	-43	-48	-52	-55
1.2 Non-tax Revenues	215	200	230	231	239
Fees, charges and other – Central Level	122	105	128	127	131
Fees, charges and other – Local Level	50	47	50	50	50
Concessionary Fees	11	13	17	20	23
Royalties	29	30	30	30	30
Interest Income (POE)	3	4	4	4	4
1.3 Budget Support Grants	11.5	25.0	10.5	10.5	10.5
1.4 Donor Designated Grants	8.0	12.0	12.0	12.0	12.0

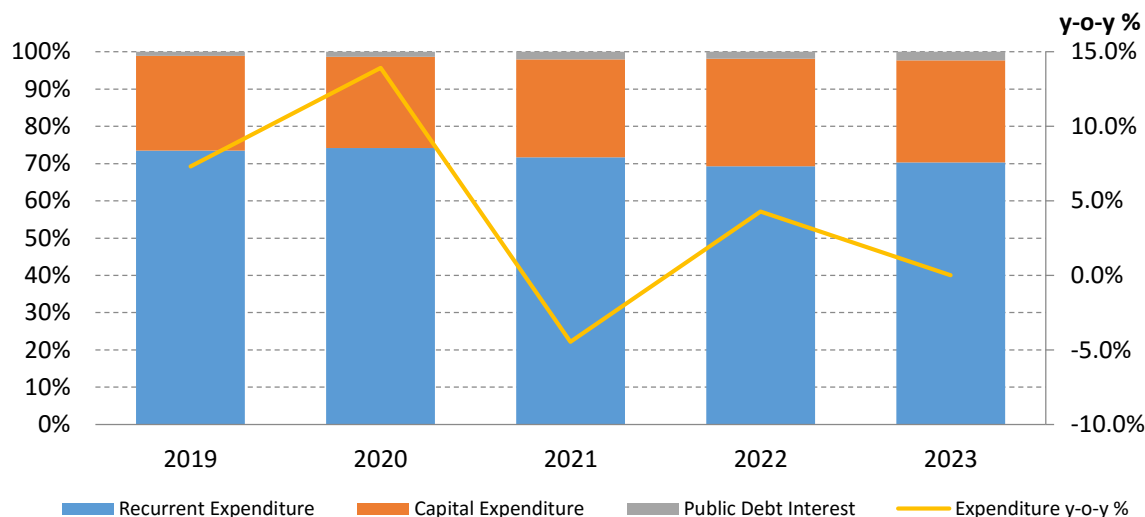
2.2.1.3. Expenditure Projections 2021-2023

Budgetary expenditures in the medium term are expected to stabilize after the COVID 19 pandemic and gradually return to levels of historical growth. The year 2021 is expected to be characterized by a decline in some of the spending categories, mainly due to the base effect of 2020, where there has been a pronounced increase in some categories due to government's fiscal stimulus measures. Also, expenditures are planned in accordance with the Public Finance Management Law and compensate the excessive deficit on fiscal rule in 2020.

Along the medium - term 2021-2023, expenditures are projected to hold a participation of about 29.3% of GDP on average. Of them, current spending is expected to be around 20.6% of GDP, while capital spending around 8.1%.

Part of capital spending is planned to be financed by foreign borrowing through the investment clause, which allows the government to finance projects of public interest and influence the country's reduction of development (infrastructure) barriers.

Graph 8 Expenditure Structure



Although during this period, there have been difficulties to accommodate spending as a result of legal restrictions to offset the excessive deficit in 2020 due to measures taken for preventing the pandemic, public spending in the medium term is expected to remain almost unchanged. In 2021, a decline in expenditures is foreseen to continue with an increase in the next two years. This decline in 2021, especially in current spending, is largely due to the 2020 base effect, where current spending has increased to accommodate fiscal stimulus measures.

The general government spending structure has been presented on the table below along the medium-term, which is planned as follows:

Table 3 Expenditure Projections

	2019	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
In mln Eur					
Total Expenditure	2,091	2,383	2,276	2,373	2,374
Recurring Expenditure	1,537	1,766	1,631	1,645	1,669
<i>Wages and Salaries</i>	616	634	639	642	645
<i>Goods and Services</i>	294	308	353	385	364
<i>Subsidies and Transfers</i>	627	781	631	640	652
<i>Recurrent Reserve</i>	0	44	7.8	7.8	7.8
Capital Expenditure	531	583	599	684	651
<i>Financed by: Regular Budget</i>	384	510	467	564	624
<i>Investment Clause</i>	14	72.8	132	120	26
<i>Liquidation Proceeds</i>	132	0	0	0	0
Public Debt Interest	23	33	46	44	54

Current spending in the medium term are planned to decrease by 1.8% on average which mainly will be affected by 2021 (-7.7%), following with slight increases in the consecutive years.

Spending for **Wages and Salaries** is expected to increase on average by around 0.6% during the medium term.

Spending on **goods and services** are expected to increase on average by 6.0% during the medium term, mainly due to the increase in 2021, as a result of a low base in 2020, as well as excess spending for local elections (around 5 million Eur) and population registration (around 7 million Eur) in 2021. Despite these changes, expenditures on goods and services are expected to be on average around 4.5% of GDP.

Subsidies and transfers are expected to decrease by 5.3%, mainly due to high spending in 2020 for the government measures for the pandemic. Spending in this category are expected to be around 8.1% of GDP during the medium term.

Capital expenditures – account for a considerable amount of total expenditure and are expected to be around 27.5% of total expenditure during the medium term. During this period, the implementation of capital projects based on a list of priorities is expected, which entails projects with influence on upgrading the transportation network, upgrading the electric energy network, and upgrades in education, social system, and healthcare. This category of expenditure is expected to grow annually by 4% during the medium term. The majority of these expenditures will be financed by the regular budget, followed by foreign financing through the investment clause (box 1 in the annex).

Information Box 4. Emergency Fiscal Package as a response to public health emergency (COVID-19)

On March 30, 2020, the Government of the Republic of Kosovo adopted the Decision on the Emergency Fiscal Package, which aims to address the socio-economic problems caused by the COVID-19 pandemic. This package consists of a total of 15 measures, which aim at the immediate assistance of citizens and those businesses that have been influenced the most by the measures imposed by the government regarding the restriction of economic activity for some sectors and the movement of citizens. The aim of these measures is not to compensate for all the negative effects but to orient towards minimizing the damage caused by this emergency public health situation.

This package amounts to 180 million Euros and accounts for about 2.4% of Gross Domestic Product and will be followed by an additional package, which is expected to affect the medium-term outlook of the economy by reviving the economy, production and employment after the end of pandemics and the removal of restrictive measures. Below is the detailed composition of the Fiscal Emergency Package measures taken in response to this emergency situation:

Table 1. Composition of the Emergency Fiscal Package and other measures

Measures	Support	Benefit (EUR)/ Month	Total cost, mln Eur	Mar	Apr	May	Jun	Jul
<i>Measure 1</i>	Double payment of some social scheme		7.7	2.6	2.6	2.6		
<i>Measure 2</i>	Additional payment for the beneficiaries of social and pension schemes with a monthly payment of less than 100 euros	30	13		4.3	4.3	4.3	
<i>Measure 3: Mbështetje financiare për shoqëritë tregtare që janë në vështirësi financiare</i>	a) Monthly salaries of employees	170 për person	41		20.5	20.5		
	b) Rent subsidies for SMEs	max 50%	12		6	6		
	c) Coverage of pension contributions for salaries under measure a)		8		4	4		
<i>Measure 4</i>	No interest loans for POEs, to be returned by the end of year		20		6.7	6.7	6.7	
<i>Measure 5</i>	Financial Support for municipalities most affected by the pandemics		10		7	3		
<i>Measure 6</i>	Bonus payments for public sector workers directly exposed to the risk of getting infected	300	15		7.5	7.5		
<i>Measure 7</i>	Bonus payment for workers in food stores, bakeries and pharmacies	100	3		1.5	1.5		

<i>Measure 8</i>	Monthly payment for citizens who lose their jobs due to the pandemics	130	4		1.3	1.3	1.3	
<i>Measure 9</i>	Support for initiatives and projects aiming to improve the lives of minorities, who have been mostly affected by the pandemics		2		0.7	0.7	0.7	
<i>Measure 10</i>	Ensuring financial liquidity for: micro-enterprises, the self-employed or companies that provide basic services, through certain KCGF programs		15				7.5	7.5
<i>Measure 11</i>	Increase the budget for grants and subsidies for the Ministry of Agriculture		5			2.5	2.5	
<i>Measure 12</i>	Increase the budget for grants and subsidies for the Ministry of Culture, Youth and Sport		5			2.5	2.5	
<i>Measure 13</i>	Support for exporters after the end of the emergency situation		10					10
<i>Measure 14</i>	Financial support for companies that register employees with a contract of employment of at least (1) years during the period of emergency	130	6		3	3		
<i>Measure 15</i>	Payment of monthly assistance for citizens with difficult social conditions, declared unemployed in the competent institution and who do not benefit from any monthly income from the Kosovo budget.	130	3		1	1	1	
Total amount of the package			179.7	2.6	66.1	67.1	26.5	17.5
<i>Extra Measure</i>	Increased expenditures in the category "Goods and Services" for the Ministry of Health		10		5	5		

Note: The light purple color belongs to the "Subsidies and Transfers" category; the green color belongs to "Loan to NP"; light gray color belongs to "Goods & Services"; while the yellow color belongs to "Salary & Afternoon"

2.2.2. Budget Balance and Fiscal Rules

In order to compensate for the excess deficit, expected to run during 2020 due to the effect of the pandemic, based on the Law on Public Finance, adequate measures are foreseen for the period of 2021-2023. Necessary arrangements have been adopted to ensure a sustainable fiscal stance, by compensating the excess deficit during 2020 and by maintaining the overall budget balance¹⁰.

¹⁰ It is worth mentioning that no law on budget allocations must include overall deficit that exceeds 2% of GDP. In specific cases however, it is allowed to deviate from this rule. So, Article 11 of the law No. 04/L-194 explains the

As a result, the budget deficit as per the fiscal rule is expected to hover around -1.6% as a share of GDP in 2021 and gradually fall to -1.5% and -1.0% in 2022 and 2023, respectively.

As part of the financing strategy 2021-2023, the government aims to maintain the external debt level by focusing on financing and on offering state guarantees for some key projects in infrastructure and healthcare. The financing need of the government is based on a regular planning of the external and internal debt, by keeping the public debt under control. The bank balance during the medium term is expected to be around 3.7% of nominal GDP, based on the criterias set of the LMPF in absence of liquidation funds for this period.

Information Box 5. Main deviations between MTEFs 2021-2023 and 2020-2022 for 2021 and 2022

Tables 2 and 3 in the Annex identify and explain the changes in revenues and expenditures between MTEF 2020-2022 and MTEF 2021-2023. Table 2 presents the deviations in the forecasts for 2021 while Table 3 presents the deviations for 2022.

In terms of budget revenues, we have similar deviations in both years and that comes mainly from indirect tax revenues such as excise, VAT and customs duties. These deviations come mainly from the underlying effect or effect carried over from 2020. Year 2020 as a result of COVID 19 pandemic and government preventive measures, had a significant decline in economic activity and consequently a decrease in budget revenues and especially indirect ones. For this reason, the significant differences in revenues compared to the previous MTEF come from the lower base levels of revenues, despite their increase compared to 2020.

Budget expenditures also in both 2021 and 2022 are lower than those planned in the previous MTEF. These deviations are for several reasons. First, the excess deficit in 2020 requires that that excess be offset in subsequent periods. Second, the economic activity projected in these two years is slower than that foreseen in the previous MTEF and has influenced wages and salaries to have a slower growth; Third, there was a revision of projects in the investment clause based on the probability of their realization.

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

The total general debt by the end of 2019 was 1,201.05 million Euros, of which 791.94 million Euros represents domestic debt, while 409.10 million Euros represents international debt, as presented in the table below. The General Debt portfolio by the end of 2019 consisted of Domestic

period of correction which is 3 years in cases of a deviation below 1% and 5 years in cases of a higher deviation than 1%.

Debt and International Debt, and there was no Municipal Debt or Municipal Guarantee issued. It also included three state guarantees, amounting to 42.68 million¹¹ Euros.

Table 4 General Debt

	2015	2016	2017	2018	2019
International Debt	371.17	373.77	422.15	416.43	409.10
Domestic Debt	377.78	478.97	574.27	676.62	791.94
Total Public Debt	748.95	852.74	996.42	1,093.05	1,201.05
State Guarantees	10.00	20.00	44.00	43.70	42.68
Total General Debt (% e GDP)	13.07	14.38	16.62	16.90	17.46
GDP	5,807.01	6,070.11	6,413.86	6,725.91	7,123.10

For the first time in the debt portfolio history, the domestic debt has exceeded international debt in 2015, and since then has followed similar trend. This part of Kosovo's debt portfolio consists of debt instruments with a maturity of 1 year to 10 years. The Ministry of Finance and Transfers 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. By the end of 2019, the domestic debt reached 791.94 million Euros, accounting for 66% of general debt, while by the end of year 2020 it is expected to reach 962.09 million Euros or 13.68%.

The remainder of Kosovo's state debt is the international debt, which by end of 2019 consists of the program with the International Monetary Fund (IMF)¹², 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 reached 602.4 million Euros or 34% of general debt. By end of year 2020, internal debt is expected to reach 602.45 million Euros of around 8.57% of GDP. The following tables presents the current state of the international debt portfolio, including the committed and undisbursed debt (which implies the agreements that have been ratified by the Assembly of Kosovo but have not yet begun to be disbursed).

¹¹ The Guaranteed Loan for Urban Traffic has started to be paid, and consequently the State Guarantee is reduced by the amount paid.

¹² Stand-by Arrangement 2015

Table 5 International Debt including the committed debt and undisbursed, 31.12.2019

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	135.64	245.57	0.00%	1.90%
IDA	167.68	61.31	106.37	60.53	0.78	1.49%	0.85%
FMN	287.38	287.38	0.00	132.60	154.53	0.00%	1.86%
KFW	71.00	68.43	2.57	42.79	25.64	0.04%	0.60%
UniCredit	24.98	13.34	11.55	13.26	0.18	0.16%	0.19%
OFID, IsDB, SFD	47.50	13.05	34.19	12.15	1.16	0.48%	0.17%
EBRD	139.90	4.30	135.60	4.11	0.19	1.90%	0.06%
EIB	122.00	7.00	115.00	7.00	0.00	1.61%	0.10%
NATIXIS Franca	66.00	0.00	66.00	0.00	0.00	0.93%	0.00%
RBI Austria	5.13	1.03	4.10	1.03	0.00	0.06%	0.01%
International Debt	1,312.78	837.05	475.38	409.10	428.04	6.67%	5.74%

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.

Historically, the level of General Debt of the Government of Kosovo has been relatively low. However, as the graph below shows, Kosovo's debt has marked a gradual upward trend. From the following data, it can be noticed that there will be an increase in 2020. This will happen mainly due to the need to finance the deficit to meet the immediate health and economic needs caused by the pandemic COVID-2019: (a) from additional borrowings from the domestic market through Securities, (b) obtaining loans from incentive packages offered by international financial institutions, and (c) a portion of the disbursement of funds through the investment clause.

The new situation created by the COVID-19 pandemic has presented the need for additional funds to cope with the health and economic situation. As a result, the MFT, for immediate needs, has planned to increase the issuance of securities in the amount of 50 million euros, by not preferring the public auction method. In this regard, the possibility is being considered that these funds be issued with private placement to the Pension Funds, in accordance with the law on public debt. This would be a long-term instrument (at least 10 years maturity) that would coincide with the strategy for extending the average return time and the Fund's strategy for prolonging the maturity of their portfolio of liabilities and investments - assets. Also, through this investment of the Fund, Kosovo's contributors will directly benefit.

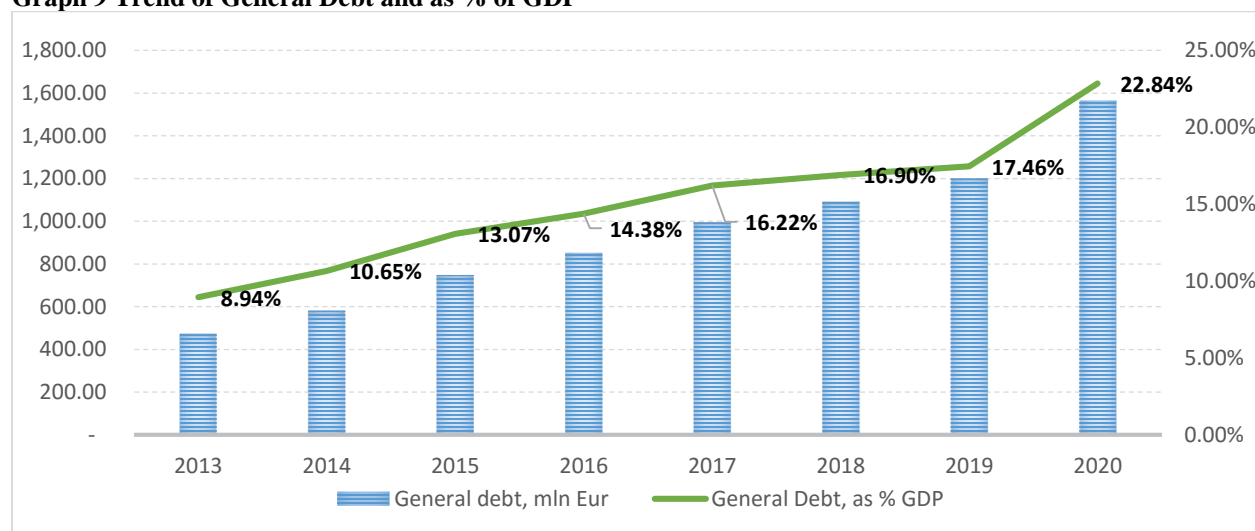
In response to the emergency needs created by the pandemic, the Government is also considering the benefit of emergency packages and special instruments of IFIs where Kosovo is a member.

The IMF has approved and disbursed the Instrument for Immediate Funding¹³ in the amount of about 52 million Euros, to alleviate the urgent needs arising from the crisis. Kosovo is expected to receive an amount of 50 million Euros from the World Bank (WB), as well as about 100 million Euros¹⁴ in the form of loans with favorable conditions from the European Union (EU) to deal with the effects of the crisis (loans only).

Several other financing options are being analyzed, but it should be borne in mind that under applicable laws it can only be borrowed as far as provided for in the Budget Law and such borrowing must be ratified by the Assembly through an international financial agreement with 2/3 of the votes.

The General Debt by the end of 2020 is projected to be 1,564.54 million Euros or 22.84%¹⁵ of GDP. The projected stock of the General Debt, in addition to data incorporated in the 2020 Budget Law (not including DPL), also includes additional emergency funds from international financial institutions as follows, IMF in the amount of 52 million Euros, WB in the amount 50 million Euros and EU in the amount of 50 million Euros, as well as the additional amount of 50 million Euros from Securities. The figure below shows the trend of the General Debt stock.

Graph 9 Trend of General Debt and as % of GDP



Due to favorable 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.

¹³ <https://www.imf.org/en/News/Articles/2020/04/10/pr20149-kosovo-imf-executive-board-approves-us-million-emergency-support-address-covid-19-pandemic>

¹⁴ From which, 50 mln Euros will be disbursed in year 2020 and other 50 mln Euros in year 2021

¹⁵ Debt to GDP includes the state guarantees worth 41.65 million Eur (actuals and projected for 2020)

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. Also, the strengthening of the secondary market, the increase of liquidity of securities through REPO transactions between banks, but also with the beginning of the implementation of these transactions with CBK are expected to increase the dynamism of this sector.

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.

The new situation created by COVID-19, presents the need to review some of the main macroeconomic indicators, therefore this requires a review of the structure and sources of funding, to adapt in a timely manner to the consequences of pandemics. However, the limit of public debt remains within the legal parameters, with any scenario that will be decided to finance the deficit (due to declining budget revenues) as well as with any increasing budgetary pressure on spending.

2.3. MEDIUM TERM RISKS 2021-2023

The basic framework presented in the MTEF, as every year, contains a section on main fiscal risks, which might alter the macro-fiscal picture negatively, depending on the probability and intensity of their realization. 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. Compared to the previous MTEF document, fiscal risks have increased considerably this year, mainly originating from the macroeconomic environment.

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 deviations from macroeconomic projections used for the MTEF 2021- 2023 impact revenues, expenditures and budget balance.

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 year 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 2021- 2023.

The macroeconomic projections on which the Medium Term Expenditure Framework 2021-2023 is built are based on the main assumption that social distancing or isolation measures will continue to remain as such during the second quarter, with a normalization trend from the end-June onwards. Under this assumption, households and businesses after the removal of these measures will be able to gradually return to normality, without assuming any hesitation or psychological effects to consume or invest or any lingering skepticism of participating in social gatherings, which might prevail even after the second quarter of 2020. Also, the baseline scenario does not take into account a greater duration or persistence of the pandemic during 2020 or at worst the likelihood of a second pandemic wave occurring in the following year (2021).¹⁶ The combination of these uncertainties surrounding the baseline scenario (which is significantly lower than the projections presented in 2020 Budget) would generate a real economic growth, which is on average 3.5 percentage points lower than the projected growth rate in the baseline scenario for the period 2021- 2023.

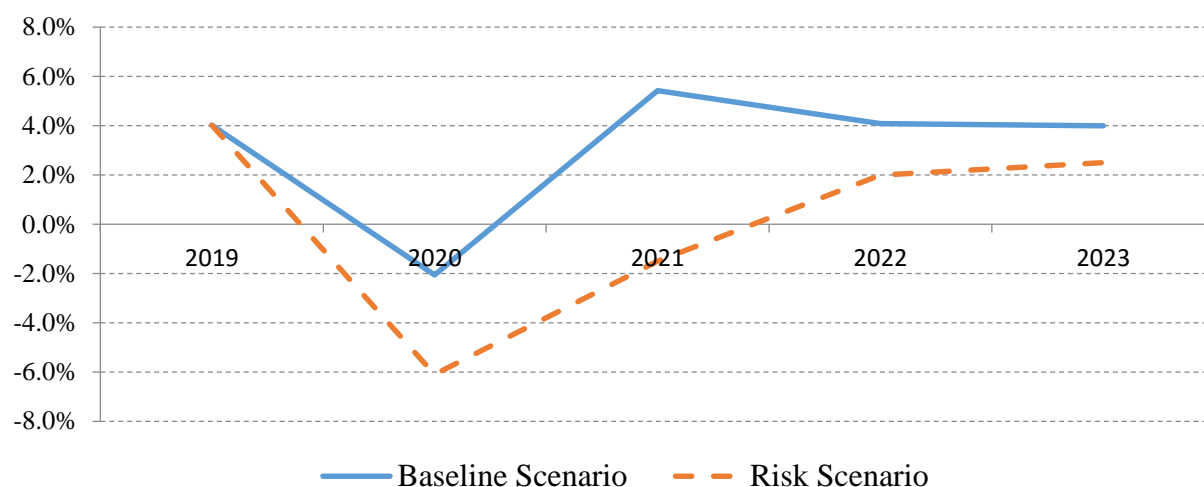
Given that Kosovo is an open economy, characterized by a high share of imports to GDP (around 45%), price developments in international primary commodities play an important role in domestic economy. In the baseline scenario presented in MTEF 2021-2023, a drastic drop in prices in international markets during 2020 is assumed as a result of pandemic to be followed by an improvement trend in 2021 onwards. Similar to the first scenario, under the assumption that the current situation might last beyond the second quarter of 2020, then the likelihood that the fall in prices in international markets will be even greater. A deviation by 10% in the “all primary commodities” index¹⁷ has some effect on the budget revenues due to its impact on imports and a

¹⁶ The IMF at WEO (April 2020) analyzes three different risk scenarios, one of which assumes a greater duration of the current pandemic situation during 2020 and the recurrence of a similar situation (a second wave) during 2021.

¹⁷ 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.

smaller impact on expenditures due to inflationary pressures stemming from higher commodities prices.

Graph 10 Real GDP growth, y-o-y, %



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. In the baseline scenario presented in MTEF 2021-2023, a drastic drop in prices in international markets during 2020 is assumed as a result of pandemic to be followed by an improvement trend in 2021 onwards. Similar to the first scenario, under the assumption that the current situation might last beyond the second quarter of 2020, then the likelihood that the fall in prices in international markets will be even greater. A deviation by 10% in the “all primary commodities” index¹⁸ 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.

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. In the baseline scenario, remittances are expected to decline by 12% and 10% in 2020 (with the main negative effect appearing in the second quarter onwards) and 2021, respectively, as a result of expected developments in the Eurozone. However, if the economic outlook in the countries where Kosovar emigrants are located worsens, then the decline in remittances will be even greater. A decrease/increase in these inflows is transmitted into lower/higher disposable income and therefore into lower/higher consumption which is then reflected into lower/higher GDP and budget revenues.

¹⁸ 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.

Table 6 Sensitivity analysis of the budget to fluctuations of macroeconomic variables, 2021- 2023

Variable	Change	Revenues		Expenditure	Budget Balance
		<i>impact in mln eur</i>	<i>% of projected revenues</i>	<i>Impact in million euros</i>	
Nominal GDP	3.5 percentage points (-)	-210.8	-2.90%		-210.8
Remittances	10 percent deviation (-)	-80.06	-1.3%		-7.06
“All primary commodities” index	10 percent deviation (+)	-16.68	-0.27%	0.39	-17.07

SPECIFIC RISKS

1. The risk of contingent liabilities arising from credit guarantees and on-borrowed loans

In the public debt portfolio, the potential source of this risk is posed by public sector guaranteed loans and international on-borrowed loans by the Ministry of Finance to companies providing essential public services. Guaranteed loans at the end of 2019 amount to 44 million euros and comprise less than 1% of total debts. Part of the portfolio that may require closer monitoring is the state guarantee for ‘Trafiku Urban’ and on-borrowed loans to companies offering public good. Analyses of financial and economic risks have raised concerns about the poor performance of public companies. A deeper diversion of the financial results of these companies can cause a burden on the Government in the medium term, both in subsidizing the services they provide and in taking financial obligations to external creditors.

In order to limit the impact of the risk on contingent liabilities, a number of measures will continue to be implemented, such as: (a) monitoring of the financial position of the beneficiaries; (b) initial assessment of the possible materialization of existing contingent liabilities. Depending on the estimates for the alleged losses, the applicable guarantee rates in accordance with the Law on Public Debt will be determined. The inclusion of guarantees in the amount of total debt in calculating the debt limit to GDP, also serves as a measure to manage these risks

2. 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 2021- 2023 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 more than the level assumed in 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.

Another very important factor that could further worsen the performance of capital expenditures is the situation created by the COVID-19 pandemic, during which the economic and administrative activities of the parties involved in these projects have been reduced to a minimum, adding to the difficulties in execution of capital expenditures or their postponement to a later time.

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.

3. Pressures for increased spending on transfers

As presented in MTEF 2021-2023, the fiscal space within the legal deficit limit of 2 percent amounts to around 1 percent of GDP for the three years (2021, 2022 and 2023). Under these projections and under the restriction that exceeding the deficit above the legal level allowed in 2020 should be offset in the coming years, it is clear that the fiscal space to accommodate new initiatives for social transfer is quite 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. However, if the pandemic situation continues longer and the impact on the economy turns out to be significantly worse than that presented in this MTEF, then a reorganization of spending or finding new resources of funding will be inevitably necessary, in order to accommodate new fiscal initiatives to address the socio-economic consequences of pandemics.

4. Fiscal Risks from revenue collection

As mentioned in the macroeconomic risks, the new situation created by the COVID-19 pandemic aggravates the process of collecting budget revenues. If prior to the pandemic, the informal economy was one of the main risks for revenue collection, after the pandemic the main risk will be tax noncompliance from previously compliant economic agents.

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 2019, the uncollected receivables amounted to about 634 million euros, of which 452 relate to the central government level and 182 to the local government level. These 634 million euros of uncollected receivables represent a slight increase from the previous year (by 23 million euros). The average annual increase over the period 2016-2019 amounts to 7.2%, with the lowest increase registered in 2019 (3.8%, *y-o-y*).

5. Arrears

Article 39 of the PFM Law defines arrears as payments overdue 30 days. The magnitude of these arrears is currently not available. Compared to the previous year, the financial statement of the Budget of the Republic of Kosovo includes an annex on outstanding liabilities which includes future financial commitments, accounts payable and arrears, while disaggregating the amounts in two different categories, based on due date: i) less than 30 days; and ii) more than 30 days.

Table 7 presents outstanding liabilities (> 30 days) for three years at central and local level. In 2019, there is a slight decline in total outstanding liabilities, from 88.3 million Euros in 2018 to 79 million Euros in 2019, mainly as a result of the decline in outstanding liabilities at local level. At the central level, most of the outstanding liabilities (> 30 days) are mostly attributed to the Ministry of Environment and Spatial Planning (which has marked a significant increase from 2018 to 2019) and the Ministry of Infrastructure (its liabilities which have been halved from 2018 to 2019). At the local level, in 2019 Prizren and Gjilan are the two municipalities, which constitute most of the outstanding liabilities (> 30 days). The decrease in liabilities at the local level in 2019 is mainly attributed to the decrease in outstanding liabilities in the municipalities of Prishtina and Gjilan. In 2019, total outstanding liabilities accounted for 4.07% of current expenditures of budgetary organizations at the central level and about 3.06% at the local level, which together account for 3.82% of total budget expenditures.

Table 7 Outstanding liabilities, more than 30 days

	2017	2018	2019	2019/ Total Spending of BO
Central Government (mil Eur)	33.83	62.99	63.32	4.07%
<i>Ministry of Infrastructure</i>	22.6	38.5	15.4	7.83%
<i>Ministry of Environment and Spatial Planning</i>	0.6	2.5	31.8	73.22%
<i>Health Insurance Fund</i>	4.0	6.0	9.8	104.40%
<i>Ministry of Culture, Youth and Sport</i>	2.3	3.1	2.5	8.07%
Local Government (mil Eur)	18.8	25.3	15.7	3.06%
<i>Municipality Prishtina</i>	1.3	7.5	0.1	0.18%
<i>Municipality Prizren</i>	3.3	2.2	1.3	3.08%
<i>Municipality Gjilan</i>	2.5	7.8	9.8	38.90%
Total (mil euro): Central + Local	52.7	88.3	79.0	3.82%
Tot. payments/tot. budget exp %	3.0%	4.50%	3.82%	

6. Fiscal risks from litigation costs

One important indicator of fiscal risks from litigation is the performance of the annual government payments due to court decisions. Table 8 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 2% of total budget expenditures, though showing an increasing trend over the years, both at central and local government. Most of the litigation costs over the last three years

stem from the local government level. Payments by court decisions at the central government are mainly attributed to Ministry of Finance (on behalf of expropriation for MESP¹⁹), Ministry of Public Administration, Hospital and University Clinical Service of Kosovo, and Property Comparison and Verification Agency. At local level, municipalities Ferizaj, Leposaviq, Mitrovicë and Pristina account for the majority of these payments. In 2019, payments based on court decisions account for 0.67% of actual expenditures of budget organizations at central government level and about 2.99% at the local government level, which add up to 1.25% 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.²⁰

Table 8 Payments based on court decisions (mln Eur)

	2016	2017	2018	2019	2019/ Total Spending of BO
Central government (mil Eur)	4.11	5.26	7.59	10.5	0.67%
<i>Ministry of Finance</i>	4.5%	1.9%	0.5%	27.5%	9.33%
<i>Ministry of Public Administration</i>	0.9%	1.2%	0.1%	12.2%	4.33%
<i>Hospital and University Clinical Service of Kosovo</i>	1.3%	5.0%	4.0%	11.6%	0.98%
<i>Ministry of Environment and Spatial Planning</i>	51.8%	46.5%	31.3%	5.6%	1.34%
<i>Property Comparison and Verification Agency</i>	0.6%	-	7.9%	5.7%	22.32%
Local Government (mil Eur)	2.2	6.3	12.7	15.3	2.99%
<i>Municipality Ferizaj</i>	7.2%	17.3%	22.9%	29.7%	14.31%
<i>Municipality Leposaviq</i>	0.0%	3.2%	17.6%	8.7%	31.10%
<i>Municipality Mitrovicë</i>	6.7%	8.6%	8.3%	9.7%	7.66%
<i>Municipality Pristina</i>	18.3%	14.1%	5.2%	8.0%	1.56%
Total (mil euro): Central + Local	6.34	11.54	20.26	25.83	1.25%
Tot. payments/tot. budget expenditures, %	0.38%	0.66%	1.04%	1.25%	

¹⁹ Ministry of Environment and Spatial Planning

²⁰ 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.

PART THREE

3. SECTORIAL EXPENDITURES FRAMEWORK 2021-2023 – CENTRAL GOVERNMENT

As can be seen, in the first part of this document are presented the government priorities related to MTEF 2021-2023, where it is emphasized that the priorities derive from the National Strategy for Development, the Government Program, the Program for Economic Reform 2020-2022, the National Program for the Implementation of the SAA, as well as other strategic sectoral documents. Whereas, following the document, the main objectives will be presented according to the central level sectors where a total of 10 sectors²¹ are presented where each sector has presented the financing trend 2019-2020 and budget estimates for the next three-year period 2021-2023. Within each sector, budget organizations are presented according to the respective sectors. The following tables present the projections for the years 2021-2023 for the general budget of Kosovo, at the central level and by sectors. In the fourth part of the document is presented the municipal funding. Regarding the projections of budget expenditures for the next medium term period 2021-2023, there are three key elements that budget organizations should keep in mind. First, budgetary organizations can plan spending within the given limits only after they have covered the contractual obligations, and then they can use the free space within the ceilings for other priorities. Second, the budgetary ceilings assessed by this document may change through the third budget circular, as a result of the change in macroeconomic circumstances in terms of exiting from the pandemic COVID 19. Third, the projection of expenditures in the category of salaries and allowances for the year 2021 may be changed as a result of the final decision of the Constitutional Court on the Law on Wages in the Public Sector.

Table 9 Financing trends 2019 -2020 and estimations 2021 -2023

Kosovo General Budget	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year2023 Estimated
Total	2,069,971,611	2,356,860,924	2,276,309,640	2,373,508,890	2,373,892,259
Number of employees	84,621	85,425	85,438	85,438	85,438
Wages and allowances	615,933,279	619,203,936	638,684,627	642,094,325	645,304,796
Goods and services	270,687,394	326,424,093	323,261,272	324,739,790	333,447,044
Utilities	24,863,550	30,545,232	30,074,162	30,558,405	31,058,405
Subsidies and transfers	627,271,358	632,752,862	631,335,357	639,835,357	651,755,357
Capital expenditures	531,216,030	671,808,032	599,054,222	684,181,013	650,626,657

²¹ Sectors are based on Government Functions classifications (COFOG) by OECD

Reserves	0	44,126,769	7,800,000	7,800,000	7,800,000
Interest		32,000,000	46,100,000	44,300,000	53,900,000
Sources of financing					
Government grants	1,853,157,879	2,023,371,503	1,986,872,983	2,100,207,818	2,177,724,368
Own source revenues	60,748,156	95,728,712	96,349,865	103,264,138	106,122,246
Revenues from PAK	127,683,360	85,000,000	-	-	-
Dedicated revenues	6,458,847	10,395,233	9,600,547	10,798,867	15,098,867
Financing from borrowing	28,382,216	120,760,709	146,986,792	125,736,934	36,145,645
Financing from budget deficit (2%) – 04	20,895,548	45,915,471	14,921,300	5,400,000	9,700,000
Financing from Investment clause - 06	7,486,668	74,845,238	132,065,492	120,336,934	26,445,645
Donor grants *	1,066,557	265,910	-	-	-

Table 10 Financing trends 2019 -2020 and estimations 2021 -2023 – Central Level

Central level - Total	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year 2023 Estimated
Total	1,556,668,330	1,745,118,203	1,675,763,560	1,711,508,890	1,684,502,259
Number of employees	40,418	41,076	41,076	41,076	41,076
Wages and allowances	352,506,964	345,303,705	360,914,895	362,935,745	364,750,423
Goods and services	206,297,829	250,681,347	241,018,526	241,197,044	251,447,044
Utilities	14,185,170	19,017,475	18,546,405	18,558,405	18,558,405
Subsidies and transfers	605,303,149	619,262,004	616,335,357	622,835,357	633,755,357
Capital expenditures	378,375,218	500,973,672	431,148,377	458,182,340	408,191,031
Reserves	-	9,880,000	7,800,000	7,800,000	7,800,000
Sources of financing					
Government grants	1,396,239,406	1,527,880,128	1,507,489,485	1,561,760,956	1,620,045,614
Own source revenues	6,354,433	12,612,133	13,212,133	13,212,133	13,212,133
Revenues from PAK	127,683,360	85,000,000	-	-	-

Dedicated revenues	6,458,847	10,395,233	9,600,547	10,798,867	15,098,867
Financing from borrowing	19,932,284	109,230,709	145,461,395	125,736,934	36,145,645
Financing from budget deficit (2%) – 04	19,860,584	45,915,471	14,921,300	5,400,000	9,700,000
Financing from Investment clause - 06	71,700	63,315,238	130,540,095	120,336,934	26,445,645
Donor grants *	1,066,557	265,910	-	-	-
* Donor grants are not part of total expenditures according to sources of financing					

3.1. GENERAL PUBLIC GOVERNANCE

The main goals within this sector are good governance, professional public administration, socio-economic development and advancement of the country's integration processes. The main objectives during the next three-year period 2021-2023 within this sector are:

- Ensuring new recognitions, strengthening the international subjectivity of the Republic of Kosovo and applying the criteria in the EU integration process and international institutions;
- Maintaining macro-fiscal sustainability, developing and perfecting the system of collection and administering tax and customs revenues, and reducing the informal economy;
- Increasing quality level of public services;
- Standardization and simplification of administrative procedures and deepening the fight against corruption;
- Advancing the electronic procurement system and improving the quality of public finance management;
- Balanced development and increase of inter-municipal and cross-border cooperation;
- Food safety and public health.

The budgetary organizations that make up the Sector of the General Public Government are: the Assembly of the Republic of Kosovo, the Office of the President, the Office of the Prime Minister, the Ministry of Finance and Transfers (excluding budget allocations related to pension and social schemes), Ministry of Internal Affairs and Public Administration (including only budget allocations related to Public Administration), Ministry of Local Government Administration, Ministry of Regional Development, Ministry of Foreign Affairs and Diaspora, Ministry of European Integration, Public Procurement Regulatory Commission, Anti-Corruption Agency, Procurement Review Body, Election Complaints and Appeals Panel, Agency for Information and Privacy, National Audit Office, Central Election Commission, Independent Oversight Board for the Kosovo Civil Service. This sector also includes Unforeseen Expenditures.

Table 11 Financing trends 2019 -2020 and estimations 2021 -2023- General Government Sector

General Government Sector	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year2023 Estimated
Total	145,498,054	223,860,948	191,474,453	181,922,014	199,942,029
Number of employees	4,078	4,332	4,332	4,332	4,332
Wages and allowances	45,852,294	46,939,855	49,162,717	49,732,894	50,082,908
Goods and services	55,297,511	71,615,748	66,060,838	61,129,721	71,379,721
Utilities	3,515,612	5,104,446	5,074,446	5,074,446	5,074,446
Subsidies and transfers	12,183,797	21,577,000	20,310,000	20,310,000	26,230,000
Capital expenditures	28,648,840	71,823,899	46,066,452	40,874,954	42,374,954
Reserves	-	6,800,000	4,800,000	4,800,000	4,800,000
Sources of financing					
Government grants	133,810,877	212,629,896	187,293,767	176,741,328	190,461,343
Own source revenues	286,656	180,686	180,686	180,686	180,686
Revenues from PAK	11,400,522	6,355,000	-	-	-
Financing from borrowing	-	4,695,366	4,000,000	5,000,000	9,300,000
Financing from budget deficit (2%) – 04	-	4,695,366	4,000,000	5,000,000	9,300,000
Financing from Investment clause - 06	-	-	-	-	-
Donor grants *	490,506	265,910	-	-	-
* Donor grants are not part of total expenditures according to sources of financing					

3.2. DEFENCE

The mission of the Defence Sector is to draft and implement general state defence policies at the strategic level, as well as to exercise its functions and competencies in accordance with the Security Strategy of the Republic of Kosovo and the Defence Strategy, as well as the legislation in force. The mission of the Ministry of Defence is to design, plan, manage, supervise, expand, implement, evaluate and develop general state defence policies within the framework of democratic governance and in accordance with the Constitution and laws of the Republic of Kosovo. Since 2019, a new chapter has been opened for the Ministry of Defence (MoD) and the Kosovo Security Force (KSF) which is related to the realization of our goals, the approval of the Law on the Ministry of Defence, the Law on the KSF and the Law on Service in KSF, which laws expand the mission of the KSF as a professional military force with competencies and tasks for the protection of the territorial integrity of the Republic of Kosovo. In the framework of meeting the objectives set out in the Comprehensive Transition Plan (CTP), MoD and KSF are in the second year of transition

(first phase) which determines the establishment of priority units and the development of the necessary skills in order to fulfil the constitutional and legal mission.

The current and future strategic, global, regional and internal security environment requires flexibility and action, timely decisions on the development of defence capabilities and capacities for the Republic of Kosovo, in order to deal with a variety of security challenges. Therefore, the Ministry of Defence and the KSF, by following these developments closely, will address the requests for new military projects to the institutions of the Republic of Kosovo. Based on CTP certain priorities for the first year of transition have been successfully implemented in all administrative planned actions. However, during 2018 and 2019, there have been procedural challenges and delays in the execution of projects related to the planned military purchases to achieve the capabilities and capacities for the protection of the territory. One of the main challenges in this regard is the lack of a legal framework for long-term procurement of military equipment and systems. MoD / KSF remains continuously engaged in effective and efficient planning for the development of KSF's capacities and operational capabilities in conducting operations, for the protection of the territory, for responding to crises in military support to civilian authorities and for participation in international operations.

The Ministry of Defence, based on its strategy, and especially on the recommendations of the Strategic Review of the Security Sector (RSSS), has defined its objectives which are:

- Continuation of transition and defence planning;
- Readiness and operations of the Kosovo Security Force;
- Capacity development, standardization and modernization;
- Inter-institutional and international cooperation and
- Strengthen transparency, accountability, integrity and reliability.

Table 12 Financing trends 2019 -2020 and estimations 2021 – 2023 – Defence Sector

Defence Sector	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year2023 Estimated
Total	49,703,787	69,275,842	64,839,562	68,375,087	68,508,862
Number of employees	3,455	3,636	3,636	3,636	3,636
Wages and allowances	21,973,358	23,504,455	26,621,977	26,755,087	26,888,862
Goods and services	9,450,545	11,942,683	11,338,881	11,400,000	11,400,000
Utilities	651,461	938,000	988,000	1,000,000	1,000,000
Subsidies and transfers			-	-	-
Capital expenditures	17,628,423	32,890,704	25,890,704	29,220,000	29,220,000
Reserves			-		
Sources of financing					

Government grants	44,376,315	67,775,842	64,839,562	68,375,087	68,508,862
Own source revenues					
Revenues from PAK	5,327,472	1,500,000	-		
Dedicated revenues					
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) – 04					
Financing from Investment clause - 06					
Donor grants *					
* Donor grants are not part of total expenditures according to sources of financing					

3.3. RULE OF LAW AND PUBLIC SAFETY

The mission of the Rule of Law and Public Safety is to prepare public policies, legal acts and mandatory standards in the field of justice in accordance with the Constitution and applicable law and to ensure an independent, impartial professional and effective system of the prosecutorial and judicial system. Part of this mission is also the creation, preservation, increasing and protection of life safety and free movement for all citizens of Kosovo.

The Ministry of Justice, as the bearer of the legal sector, will manage and implement various reforms and measures in the field of rule of law, in order to increase efficiency, accountability and inclusiveness in meeting the needs and priorities of citizens in the field of rule of law. This sector is committed to fulfilling the obligations arising from some strategic and planning documents, including: Government Program 2020-2023, National Development Strategy 2016-2021, Kosovo Program for Economic Reform 2020, National Program for Implementation of the Agreement of the Stabilization and Association (PKMMSA) and the Legislative Program for 2020. It should be noted that we have currently entered at the final phase of the Functional Review Process of the Rule of Law Sector. The main goal of this process is to identify the main problems that hinder the proper functioning of the rule of law and, consequently, to address them through clear and well-thought-out measures, which will ensure the well-being of this sector and building trust of the citizens in justice domain. In the end, this process will be finalised with the drafting of the Sectoral Strategy for the Rule of Law. The Public Security Sector has successfully implemented its policies towards meeting the objectives set for 2020. The fight against organized crime, corruption and terrorism, the protection of public safety, the increase of security of documents and the improvement of services to citizens were among the main priorities of the MIA.

In order to advance the necessary policies for meeting the objectives, the State Strategy Against Organized Crime 2018-2022, the State Strategy against Narcotics 2018-2022 and the State Strategy against Terrorism 2018-2022 have been approved. The Ministry of Internal Affairs is continuing its activities and efforts for membership in the International Criminal Police Organization INTERPOL and in signing of a cooperation agreement with the European Union Agency for Cooperation in the Implementation of the EUROPOL Law.

In the field of the fight against terrorism, organized crime and corruption, the ministry has implemented its policies. During 2019, the Kosovo Police has identified 40,128 cases, of which 26,895 criminal offenses of various natures and 9348 persons have been arrested. Compared to the same period of 2018, the number of cases decreased by 8.81% and the number of criminal offenses decreased by 16.27%. In order to strengthen preventive measures against violent extremism as well as de-radicalization and reintegration of persons returned from conflict areas, the Division for Prevention and Reintegration of Radicalized Persons within the Ministry of Internal Affairs has prepared and provided standard packages of services for persons returning from conflict areas. The main strategic objectives within the rule of law sector and public safety are:

- Strengthening the rule of law by reviewing the justice system and respecting human rights;
- Improving the legal and institutional infrastructure of the justice system;
- Fight against organized crime, corruption, and terrorism, as well as efficient migration and border control management;
- Raising the level of quality of public services through capacity building of e-Government (State Data Centre, State Network and Electronic Systems);
- Ensuring the independence of the judicial and prosecutorial system of Kosovo;
- More efficient administration of the system of execution of criminal sanctions;
- Maintaining public safety and improving services for citizens;
- Increasing the quality of the legal framework for the facilitation and better functioning of the Constitutional Court of Kosovo;
- Strengthening the institutional and professional capacities for increasing the efficiency and effectiveness of the administration of the prosecutorial and judicial system;
- Investigation and treatment of cases according to the submissions, based on the Constitution of the Republic of Kosovo, other legal provisions and according to various international conventions on human rights, as a fundamental responsibility in the functioning of the Ombudsperson Institution and
- Provision of free legal counselling, ensuring equal access to justice for all citizens of the Republic of Kosovo, especially for marginalised groups.

In order to achieve the above objectives, the implementation of activities, respectively concrete actions, identified in many of the strategic documents of this sector will continue. Budget organizations that are part of Rule of Law Sector and Public Safety are: Ministry of Justice, Ministry

of Internal Affairs, Kosovo Judicial Council, Kosovo Prosecutorial Council, Kosovo Intelligence Agency, Kosovo Constitutional Court, Ombudsperson Institution and Agency for Free Legal Counselling.

Table 13 Financing trends 2019 -2020 and estimations 2021 – 2023- Rule of Law and Public Security Sector

Rule of Law and Public Security Sector	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year2023 Estimated
Total	203,832,368	213,789,460	211,082,519	219,765,284	220,360,010
Number of employees	15,695	16,034	16,044	16,044	16,044
Wages and allowances	140,776,684	133,842,124	138,419,406	139,013,979	139,608,705
Goods and services	37,157,346	41,972,767	40,825,044	42,121,738	42,121,738
Utilities	2,913,340	3,796,199	3,796,199	3,796,199	3,796,199
Subsidies and transfers	2,508,039	9,869,367	10,069,367	10,069,367	10,069,367
Capital expenditures	20,476,959	24,309,003	17,972,503	24,764,001	24,764,001
Reserves	-	-	-	-	-
Sources of financing					
Government grants	191,936,907	209,126,873	208,419,932	217,102,697	217,697,423
Own source revenues	2,254,254	2,662,587	2,662,587	2,662,587	2,662,587
Revenues from PAK	9,641,207	2,000,000	-	-	-
Dedicated revenues	-	-	-	-	-
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) – 04	-	-	-	-	-
Financing from Investment clause - 06	-	-	-	-	-
Donor grants *	-				
* Donor grants are not part of total expenditures according to sources of financing					

3.4. ECONOMIC ISSUES

Within this sector, it is intended that human, natural, physical and financial resources be used effectively and efficiently in order to ensure sustainable socio-economic development. The main objectives within the sector for the next three-year period are:

- Creating favourable conditions for increasing domestic productivity and export competition, as well as investing in the protection of industrial property and the quality infrastructure system;
- Encouraging investment and exports, market surveillance and consumer protection;

- Ensuring sustainable energy supply, diversifying energy resources and implementing efficiency measures in public sector buildings and in the services, household, industry and transport sectors;
- Drafting strategic policies for sustainable development of the mining sector and preventing and stopping the informal economy in the mining sector;
- Accelerating the access and use of Information and Communication Technology through broadband and human capital advancement to ensure inclusiveness and at the same time maximize the benefits of the digital economy in the global market;
- Construction and maintenance of road infrastructure and development of railway infrastructure;
- Increasing the level of traffic safety;
- Normalization of the full airspace of Kosovo;
- Increasing agricultural productivity, increasing competitiveness in agriculture and increasing the productive potential of farms;
- Improving and sustainable development of forests and their functions;
- Advancing entrepreneurship and private initiative through innovation with a focus on the development of manufacturing SME and services;
- Improving working conditions and reducing informal employment by strengthening oversight mechanisms and strengthening social dialogue.

Budget organizations that are part of the sector for economic affairs are: Ministry of Economy, Employment, Trade , Industry, Entrepreneurship and Strategic Investments, Ministry of Infrastructure and Environment (divisions related to road infrastructure), Ministry of Agriculture, Forestry and Rural Development, Energy Regulatory Office, Regulatory Authority for Electronic and Postal Communications, Kosovo Competition Authority, Railway Regulatory Authority, Civil Aviation Authority, Kosovo Air Navigation, the Independent Commission for Mining and Minerals and Kosovo Privatization Agency.

Table 14 Financing trends 2019 -2020 and estimations 2021 – 2023- Economic Issues Sector

Economic Issues Sector	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year2023 Estimated
Total	304,767,277	363,681,048	365,583,022	384,849,690	340,968,026
Number of employees	2,071	2,194	2,194	2,194	2,194
Wages and allowances	18,215,538	21,696,278	21,812,572	21,929,027	22,038,672
Goods and services	20,681,914	32,179,895	29,250,466	36,634,412	36,634,412
Utilities	527,075	1,089,943	1,167,833	1,167,833	1,167,833
Subsidies and transfers	63,379,700	86,299,706	68,329,706	70,329,706	70,329,706
Capital expenditures	201,963,050	219,335,226	242,022,445	251,788,712	207,797,403

Reserves	-	3,080,000	3,000,000	3,000,000	3,000,000
Sources of financing					
Government grants	216,007,394	243,017,069	232,897,225	271,930,734	311,440,359
Own source revenues	110,151	183,155	183,155	183,155	183,155
Revenues from PAK	64,923,214	25,000,000	-	-	-
Dedicated revenues	6,458,847	5,699,867	5,600,547	5,798,867	5,798,867
Financing from borrowing	17,267,672	89,780,957	126,902,095	106,936,934	23,545,645
Financing from budget deficit (2%) – 04	17,195,972	33,627,719	10,000,000	-	-
Financing from Investment clause - 06	71,700	56,153,238	116,902,095	106,936,934	23,545,645
Donor grants *	-	-	-	-	-
* Donor grants are not part of total expenditures according to sources of financing					

3.5. ENVIRONMENT

Within this sector, a balanced and sustainable development is aimed at ensuring the protection of the environment and the development of proper spatial planning through monitoring, information and environmental reporting. Kosovo faces problems with water, waste management, air and land pollution. Other environmental problems are caused by unplanned spatial developments and illegal constructions which damage the space and reduce the possibilities for the future development of the country. While efforts have been made in recent times to address the challenges of these issues, much remains to be done. As for the next period, the Government intends to take concrete actions towards improving the current situation. The main objectives of the environmental sector are:

- Completion of legal infrastructure in the field of environment and their harmonization with EU legislation and its implementation;
- Improving the state of the environment and monitoring its condition;
- Establishment of 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 river beds and waste management;
- Strengthening the environmental inspectorate, water, nature, spatial planning, housing and construction;
- Advancing tariff policies, raising water service standards and reducing water losses and
- Strengthening of Expropriation at the national level.

The objectives listed above will be achieved by focusing on the implementation of field respective actions, such as initially drafting primary and secondary legislation, preventing and reducing environmental pollution and integrated access to pollution control and monitoring the implementation of environmental permits, improving monitoring and reporting on air quality, etc.

Table 15 Financing trends 2019 -2020 and estimations 2021 – 2023- Environment Sector

Environment Sector	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year2023 Estimated
Total	43,824,594	53,233,919	30,254,789	40,261,060	29,770,128
Number of employees	354	329	329	329	329
Wages and allowances	2,437,442	1,810,693	1,811,933	1,813,599	1,822,667
Goods and services	1,479,144	4,202,270	2,963,345	2,249,550	2,249,550
Utilities	60,581	74,723	74,723	74,723	74,723
Subsidies and transfers	200,000	200,000	200,000	200,000	200,000
Capital expenditures	39,647,427	46,946,233	25,204,788	35,923,188	25,423,188
Reserves					
Sources of financing					
Government grants	30,495,635	24,671,919	16,216,789	26,461,060	26,470,128
Own source revenues	-	-	-	-	-
Revenues from PAK	13,328,959	22,000,000	-	-	-
Dedicated revenues	-	-	-	-	-
Financing from borrowing	-	6,562,000	14,038,000	13,800,000	3,300,000
Financing from budget deficit (2%) – 04	-	400,000	400,000	400,000	400,000
Financing from Investment clause - 06	-	6,162,000	13,638,000	13,400,000	2,900,000
Donor grants *	-	-	-	-	-
* Donor grants are not part of total expenditures according to sources of financing					

3.6. HOUSING AND COMMUNITY ISSUES

Within this sector, the purpose is to create conditions for sustainable return of displaced persons, protection, integration and development of communities living in Kosovo, as well as the resolution of property issues related to the original cadastral documents before June 1999.

In regard to this sector, key targets for the next three years' period are:

- Return, reintegration into Kosovo and construction of the necessary infrastructure for the normal functioning of returnees;
- Stabilization of communities and closure of collective centers in Kosovo;
- Accepting, comparing and resolving the differences between the cadastral documents obtained by the Serbian authorities and the current cadastral documents in Kosovo for private, commercial property and religious communities;
- Implementation of the decisions of the Kosovo Property Claims Commission and the decisions of the Supreme Court, the destruction of illegal structures in private properties and the administration of the lease scheme.

These objectives will be achieved through the undertaking of respective actions: construction of houses for returnees, construction of collective residential buildings, construction of schools and health centers, construction of roads and irrigation and sewerage systems, etc. The budgetary organizations comprising the sector for housing and community issues are: The Ministry of Communities and Returns and the Kosovo Property Comparison and Verification Agency.

Table 16 Financing trends 2019 -2020 and estimations 2021 – 2023- Housing and Community Issues Sector

Housing and Community Issues Sector	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year 2023 Estimated
Total	9,992,742	9,927,519	7,434,548	6,922,175	6,932,762
Number of employees	304	320	320	320	320
Wages and allowances	1,956,981	2,096,392	2,106,875	2,117,410	2,127,997
Goods and services	1,495,618	1,494,104	1,090,650	967,742	967,742
Utilities	60,376	105,523	105,523	105,523	105,523
Subsidies and transfers	288,325	300,000	300,000	300,000	300,000
Capital expenditures	6,191,442	5,931,500	3,831,500	3,431,500	3,431,500
Reserves	-	-	-	-	-
Sources of financing					
Government grants	9,038,105	9,927,519	7,434,548	6,922,175	6,932,762
Own source revenues	-	-	-	-	-
Revenues from PAK	954,637	-	-	-	-
Dedicated revenues	-	-	-	-	-
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) – 04	-	-	-	-	-

Financing from Investment clause - 06	-	-	-	-	-
Donor grants *	-	-	-	-	-
* Donor grants are not part of total expenditures according to sources of financing					

3.7.HEALTH

Within this sector is aimed at maintaining health, promoting healthy lifestyles and providing quality services with safe, easy and equal access, without financial and cost-effective risk.

In order to continue the reform in the health sector and achieve the objectives set by the Health Sector Strategy 2017-2021, the Ministry of Health in 2019 is focused on the functioning of the Health Insurance Fund which is a precondition for the establishment of a stable financing system in health sector. The Health Sector in order to maintain and improve health and increase the quality of health services in 2019 has intensified efforts to create infrastructural and diagnostic conditions for the provision of quality health services, however, the implementation of infrastructure projects has faced challenges and delays in all projects as a result of shortcomings in the initial projects and inadequate implementation by economic operators, with emphasis on the emergency project that is under court proceeding. In 2018-2019 started the extension of the basic system of health information in primary health care. So far, the basic health information system has been extended to 29 municipalities and 14 specialist ambulances. The Health Sector at the beginning of 2020 is fully focused on taking measures to prevent and combat pandemic COVID-19 in order to maintain the health of the citizens of the Republic of Kosovo.

Based on the Health Sector Strategy 2017-2021 and the Government Program 2020-2023, the goal is to meet the four strategic priorities/objectives:

- Protection of health and improvement of the quality of provided health services;
- Reorganization of health sector and
- Ensuring of sustainable health funding.

In order to achieve these objectives, actions such as providing and improving accessible and equal health services, implementing an action plan for education and health promotion, maternal and child health, reproductive health, and implementation of assessment of environment impact on health will be undertaken, full functionalization of the Health Insurance Fund, implementation of the Basic Health Services Package and contracting, development of the health information system and integration of information technology (in Hardware and Software) in all health institutions. Budgetary Organizations comprising this sector are: The Ministry of Health, Kosovo University Clinical Hospital Service, and the Health Insurance Fund.

Table 17 Financing trends 2019 -2020 and estimations 2021 – 2023- Health Sector

Health Sector	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year2023 Estimated
Total	159,420,299	168,913,052	163,505,337	164,036,436	165,391,308
Number of employees	8,364	8,581	8,571	8,571	8,571
Wages and allowances	70,475,341	65,493,071	70,820,537	71,175,640	71,530,512
Goods and services	51,407,528	62,142,252	62,944,531	61,103,527	61,103,527
Utilities	3,936,108	4,396,924	3,833,964	3,833,964	3,833,964
Subsidies and transfers	10,629,011	9,313,805	8,813,805	8,813,805	8,813,805
Capital expenditures	22,972,311	27,567,000	17,092,500	19,109,500	20,109,500
Reserves	-				
Sources of financing	-				
Government grants	150,316,689	151,910,120	160,205,337	160,736,436	162,091,308
Own source revenues	-	3,300,000	3,300,000	3,300,000	3,300,000
Revenues from PAK	7,386,532	9,645,000	-	-	-
Dedicated revenues	-	-	-	-	-
Financing from borrowing	1,717,078	4,057,932	-	-	-
Financing from budget deficit (2%) – 04	1,717,078	4,057,932	-	-	-
Financing from Investment clause - 06	-				
Donor grants *	221,130				
* Donor grants are not part of total expenditures according to sources of financing					

3.8. RECREATION, CULTURE, RELIGION

Within this sector, the purpose is to create and develop policies, environment and mechanisms for the promotion and increase of sports, cultural and youth activities, evidence, assessment and protection of cultural heritage, as well as regulation, management and supervision of the broadcasting frequency spectrum.

Key objectives of recreation, culture and religion sector are:

- Supporting independent culture, supporting publishing activity as well as advancing cultural diplomacy;
- Advancing of legal and institutional system of protection, preservation of cultural heritage, continuous approximation with EU legislation as well as commitments towards European Partnership Priorities and UNESCO membership;

- Education, promotion and civic awareness, study and objective and inclusive interpretation of socio-cultural and economic values, increasing the number of publications, guides, virtual and digital media for the promotion of cultural heritage;
- Creation, reflection, protection, classification, processing, use and preservation of archival documentation of historical and scientific value;
- Design, construction and maintenance of memorial complexes;
- Activation and mobilization of youth for active participation and representation, preparation of youth for the labor market and providing a healthy and safe environment for youth;
- Financial support of sports federations, development of quality sports for all and establishment of sports infrastructure according to international standards, and
- Regulation, management and supervision of RTK digitalization and broadcasting frequency spectrum, and implementation of digital terrestrial television broadcasting.

The budgetary organizations comprising the sector of recreation, culture and religion are: Ministry of Culture, Youth and Sports, Kosovo Council for Cultural Heritage, Agency for Management of Memorial Complexes, Independent Media Commission and Radio-Television of Kosovo.

Table 18 Financing trends 2019 -2020 and estimations 2021 – 2023- Recreation, Culture and Religion Sector

Recreation, Culture and Religion Sector	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year2023 Estimated
Total	47,116,582	60,125,265	49,820,821	50,999,578	51,028,432
Number of employees	829	853	853	853	853
Wages and allowances	5,588,734	5,713,559	5,742,126	5,770,837	5,799,691
Goods and services	2,218,658	3,114,270	2,863,687	3,013,733	3,013,733
Utilities	349,506	498,458	498,458	498,458	498,458
Subsidies and transfers	23,028,383	18,161,550	17,476,550	16,976,550	16,976,550
Capital expenditures	15,931,300	32,637,428	23,240,000	24,740,000	24,740,000
Reserves	-	-	-	-	-
Sources of financing					
Government grants	39,992,846	48,569,875	49,765,431	50,944,188	50,973,042
Own source revenues	17,873	55,390	55,390	55,390	55,390
Revenues from PAK	7,105,863	11,500,000	-	-	-
Dedicated revenues	-	-	-	-	-
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) – 04	-	-	-	-	-

Financing from Investment clause - 06	-	-	-	-	-
Donor grants *	-	-	-	-	-

* Donor grants are not part of total expenditures according to sources of financing

3.9.EDUCATION

This sector aims to develop a knowledge-based society and competitive skills, integrated into European flows, with equal opportunities for the advancement of each individual to prepare and contribute to sustainable social, economic and political development in the country. The education sector has state and civic responsibilities in proper education to prepare them as worthy and useful citizens for the country. This sector is undergoing a reform process that aims to increase participation and improve the quality of education. Legislation has been drafted and numerous legal and sub-legal acts have been also drafted and many educational facilities have been built, renovated and many new institutions have been established. Work has been carried over to improve curricula and to design and provide new textbooks, which should be supported by new teaching and learning practices. The goal is also to support scientific research and participation in all education activities at the national, regional and international levels, to achieve European standards. The access to knowledge, scientific research, innovation and skills acquisition, which are in function of the accelerated development of our society and competitive skills inside and outside Kosovo in accordance with international standards.

The key objectives to meet the goals of the education sector are:

- Increasing inclusion and preventing abandonment in pre-university education;
- Quality and efficient management of the education system, based on transparency and accountability;
- Development of a functional system for quality assurance, in compliance with international standards;
- Improving the quality of teaching through a sustainable system for the preparation and vocational development of teachers;
- Advancing learning through quality teaching, implementing competency-based curriculum and utilizing high quality teaching resources;
- Education and vocational training in accordance with the requirements of the labor market in the country and beyond, and
- Improving the quality and competitiveness of high education by promoting excellence in teaching, science research, innovation and internationalization.

The first objective is related to the increase of inclusion and quality education in early childhood, increase the inclusion of children with special needs in pre-university quality education, increase the inclusion of children from Roma, Ashkali and Egyptian communities in pre-university

education, and repatriated children, reduction of abandonment and non-enrollment, and support for children with high intelligence.

The second objective concerns the increase of management capacities at the central, municipal and school level, professionalization of the position of leading staff of educational institutions, implementation of a funding formula that takes into account the specifics of school levels and types, advancement of the information management system in education, reviewing and supplementing the legislation and creating a suitable and safe environment for the educational process.

The third objective is related to the increase of capacity for quality assurance at all levels, building of effective mechanisms for quality assurance, advancement of development planning at school and municipal level, increase of stakeholders' awareness to ensure quality assurance, increasing the reliability of the results of national tests and their use for policy making, in addition to the results of international tests.

The fourth objective is related to the continuous vocational development of teachers (VDT), the assessment of teachers' performance, the implementation of the licensing system, the legal harmonization of VDT documents for the phase "before service" and "in service" and the assuring of the system for sustainable funding of teachers' vocational development.

The fifth objective is related to the implementation of the new curriculum in all schools, drafting of new school textbooks in accordance with the curriculum and curricula, design/provision of electronic teaching materials in support of the implementation of the new curricula and equipping schools with ICT tools and other concretization tools.

The sixth objective is related to the adaptation of Education and Vocational Training (EVT) programs to the labor market requirements, the provision of teaching materials for EVT, practical work and professional practice, ensuring the sustainability of competence centers and their further development, counseling and career orientation, the functioning and strengthening of mechanisms for regulating the education system.

The seventh objective is about increasing of quality standards in High Education Institutions (HEI), adopting of study programs to the demands of the labor market, promote scientific research and innovation in HEI, harmonization and completion of the legal framework in high education, performance-based HEI funding, promotion of international cooperation in the field of high education and scientific research.

To achieve the above objectives, government institutions will take respective steps, as provided by sectoral strategies and other strategic documents, including their action plans. The budgetary

organizations that comprises the education sector are: The Ministry of Education, Science and Technology, the University of Prishtina, the Academy of Sciences and Arts of Kosovo and the Academy of Justice.

Table 19 Financing trends 2019 -2020 and estimations 2021 – 2023- Education Sector

Education Sector	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year2023 Estimated
Total	93,634,873	112,694,981	106,075,868	103,681,875	106,893,398
Number of employees	4460	4412	4412	4412	4412
Wages and allowances	40,071,770	41,884,731	42,094,156	42,304,626	42,516,149
Goods and services	25,219,165	21,184,683	22,834,339	21,729,876	21,729,876
Utilities	1,855,307	2,841,959	2,835,959	2,835,959	2,835,959
Subsidies and transfers	4,135,273	10,035,929	9,635,929	9,635,929	9,635,929
Capital expenditures	22,353,358	36,747,679	28,675,485	27,175,485	30,175,485
Reserves					
Sources of financing					
Government grants	82,086,558	95,330,212	98,724,253	96,851,560	100,063,083
Own source revenues	3,685,499	6,230,315	6,830,315	6,830,315	6,830,315
Revenues from PAK	6,915,281	7,000,000	-	-	-
Dedicated revenues	-	-	-	-	-
Financing from borrowing	947,534	4,134,454	521,300	-	-
Financing from budget deficit (2%) – 04	947,534	3,134,454	521,300	-	-
Financing from Investment clause - 06	-	1,000,000	-	-	-
Donor grants *	354,921	-	-	-	-
* Donor grants are not part of total expenditures according to sources of financing					

3.10. SOCIAL PROTECTION

This sector intends to define a sustainable system for funding of social services and continuous implementation of pension benefits and schemes, providing services to the most vulnerable groups in society, and where ever is necessary reforming of current social policies, reforming the pension system in terms of legislative, organizational and international cooperation. Specific attention will be paid to the aspect of strengthening the mechanisms of cooperation with social partners.

The key objectives for the next three-year period are:

- Increasing welfare through the restructuring of social services by increasing the level of employment for marginalized groups, drafting Concept Documents on the Social Assistance Scheme, Child Allowances, supplementing and amending of primary and

secondary legislation on the benefits of persons with disabilities, creating of affordable housing scheme and development of international agreements on Pension matters;

- Increasing social welfare through expanding and raising quality, providing social and family services, with a specific focus on groups in need and gender equality;
- Development of a sustainable pension system and increase of institutional capacities for the realization of the rights for benefits and better services for pensioners.

Budgetary organizations that comprise the Social Protection Sector are: the Ministry of Finance and Transfers (budgetary appropriations related to pension and social schemes), as well as the Ministry of Health (budgetary appropriations related to social policies and services).

Table 20 Financing trends 2019 -2020 and estimations 2021 – 2023- Social Protection Sector

Social Protection Sector	Year 2019 Expenditure	Year 2020 Budgeted	Year 2021 Estimated	Year 2022 Estimated	Year2023 Estimated
Total	498,877,754	469,616,169	485,692,641	490,695,691	494,707,304
Number of employees	808	385	385	385	385
Wages and allowances	5,158,822	2,322,547	2,322,596	2,322,646	2,334,259
Goods and services	1,890,400	832,675	846,745	846,745	846,745
Utilities	315,803	171,300	171,300	171,300	171,300
Subsidies and transfers	488,950,621	463,504,647	481,200,000	486,200,000	491,200,000
Capital expenditures	2,562,108	2,785,000	1,152,000	1,155,000	155,000
Sources of financing					
Government grants	498,178,080	469,616,169	485,692,641	490,695,691	494,707,304
Own source revenues					
Revenues from PAK	699,674				
Financing from borrowing	-	-	-	-	-
Financing from budget deficit (2%) – 04					
Financing from Investment clause - 06					
Donor grants *					
Donor grants are not part of total expenditures according to sources of financing					

PART FOUR

4. LOCAL LEVEL

4.1. Introduction

This document defines government grants for municipal funding for 2021 and orientations for the years 2022-2023, based on the Government's strategic priorities in the field of intergovernmental fiscal relations. Also, this document determines the level of own source municipal revenues for the fiscal year 2021 and the medium-term forecast 2022-2023.

The principles, criteria and formulas applied for the allocation of government grants for municipal funding for 2021 are based on the Law on Local Government Finances (LFPL) and Table 1 of macro-fiscal projections, prepared by the Ministry of Finance and Transfers as specified in the Law on Public Financial Management and Liability (LPFML).

The municipal budget process takes into account the following aspects:

- Budgeting at the level of programs and sub-programs, in accordance with the existing structure of the accounting plan,
- Improving results-oriented and performance-oriented budgeting approaches,
- Implementation of the multi-year concept on capital project planning as well
- Determining the structure of expenditures according to expenditure categories.

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

4.2.Sources of Municipal Financing for the year 2021-2023

4.2.1. General Grant

Based on Table 1, presented below, prepared by the Department of Economic, Public Policy and International Financial Cooperation of the Ministry of Finance and Transfers in accordance with the LFPL, the General Grant for Municipalities for 2021 has been approved in the amount of 190.49 million euros .

This division is based on the formula set out in Article 24 of the LFPL. According to this article, 10% of the total budgeted revenues of the Central Government are allocated to municipalities, excluding: budget support and grants, property tax revenues, interest income revenues and taxes, encumbrances and others from the local government.

As shown in the following table, based on the estimates of the Department of Economic, Public Policy and International Financial Cooperation, the total government revenues for 2021 are

expected to be 2.006.8 million euros. From this amount, the revenues are deducted as specified in Article 24 of the LFPL and we come to the basis for the allocation of the general grant for municipalities, which grant for 2021 is in the amount of 190.49 million euros.

Table 21 Determining the value of the General Grant for municipalities 2021-2023 (mil. Euro)

Factors	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
General Grant	173.6	180.69	196.28	190.49	202.10	214.77
Formula correction contingency (2.7%)	4.7	4.9				
Fixed amount	3.6	3.6	3.6	3.6	3.6	3.6
Population (inhabitants)	1,780,021	1,780,021	1,780,021	1,780,021	1,780,021	1,780,021
Budget: 89% e of aggregate amount	147.1	153.3	171.5	166.3	176.6	187.9
Municipal zone (km2)	10,901	10,901	10,901	10,901	10,901	10,901
Budget: 6% of aggregate amount	9.92	10.33	11.56	11.21	11.91	12.67
Minority communities in the municipalities	107,926	107,926	107,926	107,926	107,926	107,926
Budget 3% of aggregate amount	5.0	5.2	5.8	5.6	6.0	6.3
Population of minority municipalities	62,031	62,031	62,031	62,031	62,031	62,031
Budget: 2% of aggregate amount	3.3	3.4	3.9	3.7	4.0	4.2

In order to level the low capacity of own source revenues of smaller municipalities, based on LFPL, each municipality will receive a fixed total amount of 140,000 euros per year, deducting 1 euro per capita or 0 euros for municipalities with a population equal to or greater than 140,000 inhabitants. After that, the distribution made in the municipalities is based on the formula for allocating the general grant in the municipalities according to LFPL:

- (i) the population number is calculated with eighty-nine percent (89%); (ii) the geographical dimensions of the municipality by six percent (6%); (iii) the number of the minority population in the municipality by three percent (3%);
- (iv) municipalities where the majority of the population consists of two percent minorities (2%).

Table 22 General Grant Structure for 2021-2023 according to LFPL (mil. Euro)

Factors	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
General Grant	173.6	180.69	196.28	190.49	202.10	214.77
Formula correction contingency (2.7%)	4.7	4.9				
Fixed amount	3.6	3.6	3.6	3.6	3.6	3.6
Population(inhabitants)	1,780,021	1,780,021	1,780,021	1,780,021	1,780,021	1,780,021
Budget: 89% of aggregate amount	147.1	153.3	171.5	166.3	176.6	187.9
Municipal zone (km2)	10,901	10,901	10,901	10,901	10,901	10,901
Budget: 6% of aggregate amount	9.92	10.33	11.56	11.21	11.91	12.67
Minority community in the municipality	107,926	107,926	107,926	107,926	107,926	107,926
Budget: 3% of aggregate amount	5.0	5.2	5.8	5.6	6.0	6.3
Population of minority municipalities	62,031	62,031	62,031	62,031	62,031	62,031
Budget: 2% of aggregate amount	3.3	3.4	3.9	3.7	4.0	4.2

Formula for allocation of General Grant for 2021-2023

Criteria		VIII 2021	Year 2022	Year 2023
Budget revenues (mil. €)		1,904.9	2,021.0	2,147.7
Total Grant (10%)		10%	190,490,000	202,100,000
Fixed amount		140,000	3,636,657	3,636,657
Total			186,833,343	198,461,343
Population			186,299,475	176,632,375
Geographical size			11,211,201	11,907,801
Minority population			5,953,900	6,334,000
Minorities with minority			3,737,067	3,969,267
				4,222,667

Criteria for allocation of General Grant (pursuant to LEPL)														
Municipalities	Population		Geographical size		Minority population		Municipalities with minority population		Fixed amount (140,000-1€)	Amount per population (89%)	Amount for geographical size (6%)	Amount for minority population in municipalities (3%)	Amount for minority population with minority (2%)	Total General Grant for 2021
	Populatia	89%	Geographical size	6%	Minority population in municipalities	3%	Municipalities with minority population	2%						
1 Decan	40,019	2.25%	297	2.72%	551	0.31%	0.00%	0.00%	99,981	3,738,798	305,476	28,619	-	4,172,874
2 Dragănești	33,997	1.91%	430	3.94%	13,559	12.66%	0.00%	0.00%	106,033	3,176,189	442,266	704,245	-	4,428,703
3 Fetești	108,610	6.10%	345	3.17%	4,193	3.89%	0.00%	0.00%	31,390	10,146,951	354,844	217,781	-	10,750,967
4 Fălticeni	34,827	1.96%	83	0.76%	4,511	4.18%	0.00%	0.00%	105,173	3,253,732	85,499	234,298	-	3,678,702
5 Gălbac	94,556	5.31%	587	5.39%	6,679	6.19%	0.00%	0.00%	45,444	8,833,948	603,860	346,903	-	9,830,155
6 Gălbac	90,178	5.07%	392	3.60%	2,264	2.10%	0.00%	0.00%	49,822	8,424,931	403,304	117,591	-	8,995,647
7 Gălbac	58,531	3.29%	276	2.53%	45	0.04%	0.00%	0.00%	81,469	5,468,292	283,998	2,337	-	5,836,097
8 Hârlău	9,403	0.53%	83	0.76%	44	0.04%	0.00%	0.00%	130,597	878,481	85,499	2,285	-	1,096,862
9 Isacova	39,289	2.17%	454	4.87%	30,85	2.66%	0.00%	0.00%	100,711	3,670,597	467,070	160,233	-	4,396,611
10 Iancu	6,084	0.34%	74	0.68%	4	0.00%	0.00%	0.00%	133,916	568,401	76,242	208	-	778,767
11 Kămin	33,409	1.88%	211	1.94%	36	0.03%	0.00%	0.00%	106,591	3,121,235	217,146	1,870	-	3,446,862
12 Kamenitz	36,085	2.03%	424	3.89%	1,864	1.73%	0.00%	0.00%	103,915	3,371,262	436,216	96,815	-	4,008,410
13 Kamenitz	38,496	2.16%	309	2.84%	1,241	1.15%	0.00%	0.00%	101,504	3,596,511	317,939	64,457	-	4,080,410
14 Leposaviq	13,773	0.77%	539	4.95%	323	0.30%	0.00%	0.00%	126,227	1,286,730	554,492	16,776	829,756	2,814,003
15 Lipcani	57,605	3.24%	338	3.10%	3,107	2.88%	0.00%	0.00%	82,395	5,381,780	347,765	161,375	-	5,973,315
16 Mălcușești	54,613	3.07%	306	2.81%	54	0.05%	0.00%	0.00%	85,887	5,102,251	314,853	2,805	-	5,505,295
17 Mălcușești	5,507	0.31%	32	0.29%	379	0.35%	0.00%	0.00%	134,493	514,495	33,046	19,685	331,770	1,033,488
18 Mălcușești	71,909	4.04%	331	3.04%	21,99	2.04%	0.00%	0.00%	68,091	6,718,139	340,566	114,215	-	7,241,010
19 Novaci	6,729	0.38%	204	1.87%	3,202	2.97%	0.00%	0.00%	133,271	638,661	209,947	166,310	-	1,138,188
20 Onuțiu	21,549	1.21%	105	0.96%	1,655	1.53%	0.00%	0.00%	118,451	2,013,228	108,126	85,960	-	2,325,764
21 Peștera	96,450	5.42%	603	5.53%	8,334	7.72%	0.00%	0.00%	45,550	9,010,896	620,316	432,862	-	9,014,838
22 Podușeni	88,499	4.97%	633	5.81%	849	0.79%	0.00%	0.00%	51,501	8,208,069	651,171	44,096	-	9,571,769
23 Pristina	178,897	11.17%	514	4.72%	4,146	3.84%	0.00%	0.00%	18,582,065	528,780	215,340	-	-	19,326,186
24 Pristina	177,781	9.99%	603	5.53%	31,682	29.56%	0.00%	0.00%	16,609,291	620,316	1,645,541	-	-	18,875,148
25 Rădăuți	56,208	3.16%	278	2.59%	944	0.87%	0.00%	0.00%	83,792	5,251,264	286,055	49,031	-	5,670,142
26 Sătești	6,949	0.37%	248	2.28%	3,182	2.95%	0.00%	0.00%	133,051	649,214	255,200	165,271	-	1,202,737
27 Sătești	27,324	1.54%	134	1.23%	858	0.79%	0.00%	0.00%	112,676	2,552,760	137,952	44,564	-	2,847,952
28 Sătești	30,858	2.86%	374	3.43%	109	0.10%	0.00%	0.00%	89,142	4,751,438	384,791	5,661	-	5,231,032
29 Sătești	59,722	3.36%	361	3.31%	575	0.53%	0.00%	0.00%	80,278	5,579,562	371,420	29,865	-	6,061,125
30 Vii	46,987	2.64%	270	2.48%	258	0.24%	0.00%	0.00%	93,013	4,389,787	277,827	13,400	-	4,773,028
31 Vii	69,870	3.93%	345	3.17%	960	0.89%	0.00%	0.00%	70,130	6,527,645	354,964	49,862	-	7,002,601
32 Zubin Poni	6,616	0.37%	333	3.06%	995	0.92%	0.00%	0.00%	133,384	618,104	342,623	51,680	-	1,434,372
33 Zăvoia	7,481	0.42%	123	1.13%	386	0.36%	0.00%	0.00%	698,917	126,639	20,949	450,694	-	1,428,817
34 Zăvoia	10,675	0.60%	131	1.20%	3,423	3.17%	0.00%	0.00%	129,225	997,318	134,867	177,788	-	2,083,415
35 Kloboc	2,556	0.14%	23	0.21%	1,193	1.11%	0.00%	0.00%	137,444	238,796	23,789	61,964	-	461,992
36 Mitrovica veche	12,326	0.69%	5	0.05%	867	0.80%	0.00%	0.00%	127,674	1,151,556	25,766	45,031	-	2,072,127
37 Parșev	1,787	0.10%	29	0.27%	2	0.00%	0.00%	0.00%	138,313	166,951	29,960	104	107,658	442,887
38 Rădăuți	3,865	0.22%	69	0.63%	168	0.16%	0.00%	0.00%	136,134	361,183	71,100	8,726	232,908	810,051
TOTAL	1,780,021	100%	10,901	100%	107,926	100%	62,031	100%	3,636,657	166,299,475	11,211,201	5,605,600	3,737,067	190,490,000

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

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

Also, the general grant will supplement the specific grants for education and health when necessary.

4.2.2. Additional grant for the financing of 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, at a height of not less than 6% of the total grant. For 2021 the Capital, Prishtina benefits an additional grant of 11,429,400 euros, while for 2022 it benefits 12,126,000 euros and for 2023 it benefits 12,886,200 euros.

Table 24 Distribution of additional Grant for financing the Capital 2021-2023

Description	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
General Grant for municipalities	173.60	180.69	196.28	190.49	202.10	214.77
Additional Grant for financing the Capital City(6%)		10.84	11.78	11.43	12.13	12.89

4.2.3. Specific grant for pre-university education

The specific grant for pre-university education according to the LFPL, is based on an open funding system, taking into account the criteria in re-university education formula for 2021 of MEST. The specific grant for pre-university education for 2021 has been approved by the Grants Commission in the amount of 194.8 million euros.

The basic grant has been approved in the amount of 192 million euros as follows:

- a) Salaries and allowances in the amount of 175.5 million euros;
- b) Goods and services in the amount of 14 million euros;
- c) Capital expenditures in the amount of 2.5 million euros.

The new policies approved by the KG are as follows:

- a) Jubilee salaries according to the collective agreement for Education, at a cost of 1.1 million euros;
- b) Pre-school salary for schools (2 to 5 years old) for 2021, at a cost of 1.6 million euros;
- c) Goods and services for children (4 to 5 years old), at a cost of 78,848 euros;
- d) Cost of payment of procedures for validation and accreditation for high vocational schools (8 schools), at a cost of 38,400 euros.

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

- a) Number of students enrolled for 2019/2020;
- b) Student-teacher relationship for primary and secondary education for students of majority 1:21.3 (based on Administrative Instruction no. 22/2013 of MEST);
- c) Student-teacher relationship for primary and secondary education for students of minority 1:14.2;
- d) Student-teacher relationship for preschool education 1:12;
- e) Student-teacher relationship for vocational secondary education for students of majority 1:17.2, and for students of minority 1:11.5;
- f) Student-teacher relationship for mountainous areas 1:14.2;
- g) Calculation for English language teaching staff for grades I and II;
- h) Calculation for technical administrative staff for 630 students 1 staff in pre-school and primary education;
- i) Calculation for technical administrative staff for 470 students 1 staff in secondary education
- j) Calculation for assistant staff for 170 students 1 staff (cleaner) and 1 staff per school (guard);
- k) The calculation of salaries and allowances is based on the current average salary in education for each municipality;
- l) Professional Pedagogical / Psychological Service;
- m) Quality coordinators;
- n) Calculation of salaries for replacements during maternity leave from 3% to 6%;
- o) Goods and services are calculated according to the criteria for students (23 euros for majority students and 25 euros for minority students) and for school (1,500 euros for pre-school and primary school and 3,250 euros for secondary school);
- p) Capitals are calculated according to the criterion 7 euros per student;
- q) Calculation of three salaries after retirement at a cost of 1.2 million euros;
- r) Salary for child assistance with special needs at a cost of 0.6 million euros;
- s) Professional practice at a cost of 3.5 million euros;
- t) Jubilee salaries according to the collective contract for Education, at a cost of 1.1 million euros;
- u) Pre-school salary for schools (2 to 5 years old) for 2021, at a cost of 1.6 million euros;
- v) Goods and Services for children (4 to 5 years old), at a cost of 78,848 euros;
- w) Cost of payment of procedures for validation and accreditation for high vocational schools (8 schools), at a cost of 38,400 euros.

According to MEST, the number was reported to be 10,338 fewer students in pre-university education compared to the previous year. Based on the continuous reduction of the number of students from year to year and taking into account the teacher / student parameters according to the current situation, MEST recommends municipalities that in case of retirement of teaching staff not to announce a competition for admission of new staff, but to accommodate teachers who do not have a norm or do not have a full norm.

Table 25 Distribution of Specific Grant for Education for the year

No.	Municipality	Total number of pupils	Wage and allowance (for Teaching, administrative, assistant staff)	Assistant for children with special needs (100)	Three wages after retirement	Total wages and allowances	Goods and services		Total goods and services	Capital expenditure	Ground Grant for preuniversity education for 2021	New policies			Total proposal of specific grant for preuniversity education for 2021	Total proposal of specific grant for preuniversity education for 2022	Total proposal of specific grant for preuniversity education for 2023		
							Goods and services for schools and pupils	Professional practice				Joblike wages according to collective contract for education	Wage for pre school for schools (2 to 5 years) for 2021	Goods and services for children - 4 to 5 years				Payment for proceeding of validation and accreditation for vocational high secondary schools (8 Schools)	Cost of new policies
TOTAL		359,811	173,644,706	619,645	1,231,229	175,495,590	10,476,508	3,500,000	13,976,508	2,494,681	191,966,779	1,068,638	1,659,229	78,848	38,400	2,945,125	194,811,904	212,460,183	213,360,111
1	Deçan	5,568	3,386,274	18,471	26,167	3,430,912	165,987	32,511	198,498	38,493	3,667,903	22,460	33,341	1,594	4,800	62,395	3,730,297	4,040,021	4,057,737
2	Dragash	3,908	2,766,888	5,976	16,434	2,789,298	152,284	-	152,284	27,048	2,686,630	17,509	21,277	1,011	0	39,796	3,008,426	3,223,811	3,238,302
3	Ferizaj	24,442	11,186,186	38,027	90,313	11,314,526	672,757	260,563	933,320	169,575	12,417,421	67,137	104,892	4,985	4,800	181,814	12,599,225	13,739,096	13,796,427
4	Fushë Kosovë	9,801	3,029,208	24,528	19,929	3,073,665	257,349	62,576	319,925	67,991	3,461,581	17,730	42,757	2,032	0	62,339	3,324,120	3,599,329	3,975,249
5	Gjakovë	17,624	9,038,815	36,422	68,292	9,143,530	515,502	205,089	720,591	122,108	9,986,228	54,941	87,072	4,138	4,800	150,951	10,137,179	11,031,088	11,077,510
6	Gjilan	17,893	10,686,000	31,975	67,147	10,785,122	518,610	225,684	744,294	124,222	11,653,639	68,707	71,284	3,387	4,800	148,178	11,801,816	12,746,956	12,801,626
7	Gilgoc	12,194	5,755,860	18,468	32,319	5,806,647	338,176	123,416	461,592	84,462	6,352,701	30,067	61,865	2,940	0	94,871	6,447,573	7,013,890	7,043,544
8	Hani i Elezit	1,843	752,387	12,752	4,782	769,921	52,996	-	52,996	12,768	835,685	4,589	9,012	428	0	14,029	849,714	983,028	987,373
9	Ishtog	7,393	3,785,736	18,201	31,851	3,835,787	225,810	42,927	268,737	51,226	4,155,751	24,271	36,523	1,736	0	62,329	4,218,280	4,610,370	4,630,120
10	Junik	808	392,155	-	1,556	393,711	23,150	-	23,150	5,600	422,461	1,449	3,795	180	0	5,424	427,885	501,097	503,551
11	Kacanj	6,309	3,304,509	18,919	20,496	3,343,924	185,624	41,980	227,604	43,722	3,615,250	22,218	30,560	1,452	0	54,230	3,669,480	4,002,671	4,019,949
12	Kamenicë	4,484	4,282,987	24,096	28,613	4,335,697	172,827	39,061	211,888	31,157	4,578,741	33,086	16,059	763	0	49,008	4,628,649	4,911,773	4,934,035
13	Kitë	7,864	4,011,528	18,893	34,636	4,065,057	227,585	64,391	291,976	54,397	4,411,430	30,791	45,128	2,145	0	78,064	4,489,494	4,902,818	4,923,720
14	Leppasviz	2,265	935,710	-	4,068	939,779	95,370	29,039	124,409	15,834	1,080,022	604	1,287	61	0	1,952	1,081,974	1,162,567	1,167,765
15	Lipjan	12,805	6,189,480	17,820	54,945	6,262,245	388,551	82,619	471,170	88,844	6,822,259	37,070	54,615	2,595	0	94,280	6,916,540	7,563,566	7,595,510
16	Mallkëvë	12,335	6,259,884	18,594	38,737	6,317,215	353,990	63,602	417,392	85,428	6,820,235	38,036	63,627	3,024	0	104,686	6,924,921	7,526,118	7,558,337
17	Manastir	898	404,918	6,135	3,068	414,121	28,316	-	28,316	6,216	448,653	2,053	4,946	235	0	7,234	455,887	525,635	528,191
18	Mitrovicë	16,568	7,752,299	24,610	73,831	7,850,741	459,782	216,057	675,839	114,772	8,641,352	47,938	83,074	3,948	0	134,959	8,776,311	9,609,735	9,649,660
19	Novo Brdo	1,401	952,504	5,351	5,351	963,206	77,432	17,992	95,424	9,738	1,068,388	3,260	3,324	167	0	6,951	1,075,339	1,162,913	1,168,229
20	Obiliq	4,932	2,295,552	17,568	13,176	2,326,296	158,849	46,242	205,091	34,223	2,665,610	13,403	20,599	979	0	34,981	2,600,591	2,878,781	2,890,946
21	Pejë	18,627	9,217,992	38,704	69,344	9,325,950	510,004	200,433	710,437	128,856	10,165,243	58,202	106,112	5,043	4,800	174,156	10,339,399	11,261,487	11,308,825
22	Podujevë	17,962	8,509,704	24,864	57,498	8,592,066	511,497	197,040	708,537	124,607	9,425,210	39,606	78,060	3,709	0	121,375	9,546,585	10,404,033	10,447,684
23	Prishtinë	45,405	18,671,616	73,728	124,416	18,689,760	1,180,998	388,398	1,569,396	314,734	20,753,890	124,614	214,528	10,195	4,800	354,137	21,108,027	23,193,296	23,288,592
24	Prizren	30,587	14,047,488	32,160	94,872	14,174,520	867,862	315,169	1,183,031	211,722	15,569,273	89,717	164,860	7,834	0	262,412	15,831,684	17,270,596	17,342,299
25	Rahovec	9,839	5,214,054	6,244	42,150	5,262,448	292,933	36,693	329,626	68,131	5,660,205	27,169	51,159	2,431	4,800	85,559	5,745,764	6,223,738	6,250,657
26	Shkup	2,332	1,186,664	-	4,384	1,191,049	77,967	868	78,835	16,373	1,286,257	15,456	6,302	299	0	22,057	1,308,314	1,408,562	1,415,023
27	Shkine	5,780	2,710,164	6,036	36,216	2,752,416	169,295	46,715	216,010	40,089	3,008,515	15,577	25,478	1,211	0	42,265	3,050,780	3,344,426	3,358,732
28	Skenderaj	10,093	5,073,584	18,338	39,733	5,131,655	302,105	119,392	421,497	69,867	5,623,018	32,723	54,208	2,576	0	89,507	5,712,526	6,202,980	6,229,242
29	Subotikë	11,056	5,938,236	31,620	41,106	6,010,962	332,190	105,267	437,457	76,580	6,524,999	39,002	55,902	2,657	0	97,561	6,622,559	7,204,989	7,233,669
30	Viti	8,209	4,944,168	12,438	32,650	4,989,257	254,807	52,554	307,361	56,973	5,353,591	31,516	33,677	1,600	4,800	71,593	5,425,184	5,860,727	5,886,273
31	Vushtri	14,469	6,815,831	18,708	48,328	6,882,867	418,472	148,389	567,061	100,338	7,580,265	42,987	65,321	3,104	0	111,412	7,661,677	8,364,042	8,399,104
32	Zubin Potok	1,263	391,558	-	1,100	392,658	44,942	21,306	66,248	8,820	467,726	1,328	1,626	77	0	3,032	470,758	529,286	531,734
33	Zveçan	1,153	439,953	-	-	439,953	37,326	20,043	57,369	8,050	505,372	-	1,491	71	0	1,562	506,934	562,520	565,206
34	Klokot	615	331,985	-	-	331,985	23,579	11,915	35,494	4,291	371,771	725	881	42	0	1,647	373,418	418,582	420,726
35	Mitrovica e re	4,878	1,157,664	-	-	1,157,664	152,852	159,320	312,172	34,118	1,503,955	0	1,694	81	0	1,775	1,505,729	1,641,922	1,648,215
36	Paresh	999	409,625	-	2,593	412,217	48,454	22,963	71,417	6,986	490,620	5,796	271	13	0	6,080	496,700	550,686	553,233
37	Ranilug	1,192	428,713	-	-	428,713	44,416	28,723	73,139	8,344	510,197	4,589	68	3	0	4,659	514,856	572,722	575,351
38	Graçanice	3,998	986,916	-	1,137	988,053	135,862	70,862	206,724	27,938	1,222,735	2,294	2,168	103	0	4,566	1,227,300	1,350,324	1,355,765

4.2.4. Primary health specific grant

Health specific grant is based on an open system in line with the LFPL.

The specific grant for primary health care for 2021 has been approved by the GC in the amount of 62.6 million euros.

The specific grant for primary health care - basic grant for 2021 is in amounted to 61.7 million euros and is prepared according to the criterion per capita (35 €) and in accordance with the recommendations of the Grants Commission issued by the annual report on Adaptability Assessment of Municipal Financing System.

New policy approved by GC for 2021 is care of palliative visit (visit x 20 euro) with a cost of 0.9 million euro

Table 26 Primary health specific grant, for 2021-2023

Ground Grant									New policies		Total specific grant for Health for 2021	Total specific grant for Health for 2022	Total specific grant for Health for 2023
		Demography						Specific grant for Health for 2021	Paliativ care visits (visit x 20 euro)				
No	Municipality	Population	Gender			Age				Number of persons with special needs (reported by municipalities)			
			M	F	Females of reproduction age 15-49 years	Number of children from 0-14 years	Number of elderly persons - over 65 years						
1	Deçan	40,019	20,125	19,894	10,941	10,471	4,084	151	1,386,900.81	3,480	1,390,381	2,138,546	2,149,239
2	Dragash	33,997	17,035	16,962	8,500	10,000	5,000	497	1,178,202	9,220	1,187,422	1,814,473	1,823,545
3	Ferizaj	108,610	54,841	53,769	29,300	31,566	6,900	982	3,763,995	91,480	3,855,475	5,732,650	5,761,313
4	Fushë Kosovë	34,827	17,621	17,206	14,123	6,585	3,202	233	1,206,967	44,520	1,251,487	1,841,970	1,851,180
5	Gjakovë	94,556	47,226	47,330	25,198	25,300	9,329	1,090	3,276,938	6,320	3,283,258	4,852,885	4,877,150
6	Gjilan	90,178	45,354	44,824	24,539	23,464	6,554	180	3,125,214	41,840	3,167,054	4,086,375	4,106,807
7	Gilgovec	58,531	29,733	28,799	15,996	17,507	3,336	177	2,028,454	24,160	2,052,614	2,905,945	2,920,474
8	Hani i Elezit	9,403	4,836	4,567	1,824	2,778	560	84	325,871	0	325,871	633,811	636,980
9	Istog	39,289	19,679	19,610	10,607	10,804	2,976	486	1,361,602	20,260	1,381,862	1,981,193	1,991,099
10	Junik	6,084	2,995	3,089	2,020	1,681	450	50	210,847	33,700	244,547	355,335	357,112
11	Kaçanik	33,409	16,970	16,439	9,054	9,683	1,940	200	1,157,824	3,180	1,161,004	1,804,596	1,813,619
12	Kamenicë	36,085	18,559	17,526	23,263	5,389	4,140	242	1,250,564	27,820	1,278,384	2,596,316	2,609,297
13	Klinë	38,496	18,960	19,537	10,726	10,915	2,830	260	1,334,120	92,240	1,426,360	1,999,168	2,009,164
14	Leposavic	13,773	6,969	6,804	3,443	2,754	965		477,318	11,880	489,198	652,566	655,829
15	Lipjan	57,605	29,325	28,280	15,355	17,461	7,032	706	1,996,362	0	1,996,362	3,087,960	3,103,400
16	Malishevë	54,613	25,901	28,713	37,276	20,758	3,500	640	1,892,671	0	1,892,671	2,792,431	2,806,393
17	Mamushë	5,507	2,672	2,836	2,543	2,670	737	40	190,851	7,300	198,151	378,544	380,437
18	Mitrovicë	71,909	36,275	35,634	18,624	20,351	5,074	1,200	2,492,083	14,820	2,506,903	3,627,727	3,645,865
19	Novobërdë	6,729	3,466	3,264	1,726	1,643	732	41	233,201	6,300	239,501	336,728	338,412
20	Obiliq	21,549	10,885	10,664	5,636	6,419	1,239	340	746,803	60,900	807,703	1,655,125	1,663,401
21	Pejë	96,450	50,466	45,985	24,817	24,993	7,495	1,411	3,342,577	0	3,342,577	4,662,844	4,686,158
22	Podujevë	88,499	44,955	43,544	24,042	12,975	2,476	872	3,067,027	6,940	3,073,967	4,199,260	4,220,256
23	Prishtinë	198,897	99,355	99,543	55,375	51,884	13,231	1,600	6,892,986	57,020	6,950,006	10,003,357	10,053,374
24	Prizren	177,781	89,173	88,608	49,156	49,661	11,524	1,578	6,161,189	0	6,161,189	8,023,493	8,063,611
25	Rahovec	56,208	28,512	27,696	15,393	16,081	3,352	377	1,947,948	3,100	1,951,048	2,590,376	2,603,328
26	Shtërpçë	6,949	3,554	3,395	1,744	1,577	500	47	240,825	0	240,825	437,253	439,439
27	Shtime	27,324	13,850	13,474	5,874	7,877	1,800	253	946,942	20,340	967,282	1,441,658	1,448,866
28	Skenderaj	50,858	25,646	25,212	15,665	14,265	4,241	1,523	1,762,538	12,660	1,775,198	2,607,180	2,620,216
29	Suharekë	59,722	29,478	30,244	16,413	17,409	4,104	400	2,069,729	21,320	2,091,049	2,916,349	2,930,931
30	Viti	46,987	23,686	23,301	12,343	14,168	6,100	731	1,628,384	0	1,628,384	2,307,320	2,318,856
31	Vushtri	69,870	36,004	33,866	18,146	19,634	4,508	750	2,421,419	4,000	2,425,419	3,266,671	3,283,004
32	Zubin Potok	6,616	3,408	3,208	1,456	1,588	476	38	229,284	97,720	327,004	400,157	402,157
33	Zveçan	7,481	3,661	3,821	1,623	1,770	531	18	259,262	40,740	300,002	493,410	495,877
34	Gračanice	10,675	5,428	5,248	2,463	2,661	993	81	369,953	92,360	462,313	724,130	727,751
35	Klllokot	2,556	1,417	1,140	688	670	214	18	88,581	30,260	118,841	179,043	179,939
36	Mitrovica Veriore	12,326	6272.5	6053.5	2,686	2,931	879	82	427,171	20,940	448,111	613,835	616,904
37	Partesh	1,787	922	865	477	340	202	0	61,930	0	61,930	79,848	80,247
38	Ranillug	3,866	1,969	1,897	1,012	393	259	0	133,980	0	133,980	266,755	268,088
Total		1,780,021	897,179	882,843	520,067	479,076	133,466	17,378	61,688,512	906,820	62,595,332	90,487,284	90,939,721

4.2.5. Secondary health financing

Financing for secondary health for 2021 has been approved in amount of 2,603,077 euros according to MH proposal and projections of MTEF for three minority municipalities, as follows:

- Shtërpce municipality, amounted to 522,371 euros,
- Mitrovica municipality, amounted to 989,935 euros, and
- Graçanica municipality, amounted to 1,090,771 euros.

4.2.6. Residential services financing

The financing of residential services for community houses for the elderly and community houses for people with disabilities for 2021 has been approved according to the MH proposal amounted to 2,305,000 euros.

For 2021, the staff increase of 13 and additional financing for the functioning of Residential Services for the elderly in the Municipality of Prizren has been approved.

Table 27 Financing for residential services for 2021-2023

Nr.	Municipalities	Extra staff	Wages and allowance	Goods and services	Utilities	Capital expenditure	Total 2021	Total 2022	Total 2023
1	Skenderaj SHKPM		90,000	75,000	10,000	10,000	185,000	185,000	185,000
2	Graçanice SHKPM/SHKPAK		170,000	144,000	16,000	20,000	350,000	350,000	350,000
3	Istog SHKPM		90,000	75,000	10,000	10,000	185,000	185,000	185,000
4	Deqan SHKPAK		85,000	72,000	8,000	10,000	175,000	175,000	175,000
5	Ferizaj SHKPAK		85,000	72,000	8,000	10,000	175,000	175,000	175,000
6	Kamenice SHKPAK		85,000	72,000	8,000	10,000	175,000	175,000	175,000
7	Vushtrri SHKPAK		85,000	72,000	8,000	10,000	175,000	175,000	175,000
8	Shtime SHKPAK		85,000	72,000	8,000	10,000	175,000	175,000	175,000
9	Lipjan SHKPAK		85,000	72,000	8,000	10,000	175,000	175,000	175,000
10	Prizren SHKPM/SHKPAK	13	175,000	147,000	18,000	20,000	360,000	360,000	360,000
11	Novobërd SHKPM		85,000	72,000	8,000	10,000	175,000	175,000	175,000
Total		13	1,120,000	945,000	110,000	130,000	2,305,000	2,305,000	2,305,000

4.2.7. Funding for the Historic Center of Prizren, the Cultural Center of the village of Zym and the Council of the Hoçë 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 for the village of Hoçë e Madhe, with the budget planning for 2021, financial funds are allocated in the amount of 69,393 euros, for the two municipalities as follows:

- Prizren municipality, amount of 44,365 euros, and
- Rahovec municipality, amount of 25,028 euros.

4.2.8. Financing for the endangered environmental area of Obiliq

Pursuant to Law No. 05/L-044 on the endangered environmental area of Obiliq and around it Article 9, Obiliq benefits from the collection of mining rent by the respective institution, 20% of the value of this rent is reallocated from the Central Budget to the Municipal Budget of the Municipality of Obiliq, specifically dedicated to investments in community development in the location where the business unit is located in the field of environmental protection, infrastructure, sports, health and education.

For 2021, the Municipality of Obiliq, based on the collection of the mining rent, benefits extra financing of 4,600,000 euros.

4.2.9. Financing for Theatre

Financing for theatres for 2021 has been approved in amount of 900,000 as in attached table below:

Table 28 Financing for theatres for 2021

Municipalities	Wages and allowance	Subsidies and transfers	Total
Teatri Profesionist Gjilan	100,886		100,886
Teatri Profesionist Gjakovë	73,443	42,500	115,943
Teatri Profesionist Prizren	111,558	29,750	141,308
Teatri Profesionist Pejë	85,639	43,500	129,139
Teatri Profesionist Ferizaj	94,788	18,700	113,488
Teatri Profesionist Mitrovicë	100,886	68,500	169,386
Teatri Profesionist Podujevë	79,800	50,050	129,850
Totali	647,000	253,000	900,000

4.3. Projections of Municipal Own Source Revenues for 2021 and forecasts 2022-2023

The projections of own source municipal revenues for 2021 based on macro-fiscal assessments are in the amount of 83.1 million euros. These revenues are added to municipal funding in addition to municipal grants.

The projection of own source revenues for each municipality is based on the recommendations of the grant commission, included in the report of “Adoptability Assessment of Municipality Financing”. This projection considered revenues of immovable property tax according to the

property tax invoicing (tax burden) and the trend of increasing non-tax revenues during the last three years, excluding revenues from traffic fines and revenues by the courts.

Table 29 Projections of municipal own source revenues for 2021-2023

No.	Municipality	Tax revenues			Non tax revenues			Projections for 2021	Projections for 2022	Projections for 2023
		Tax on property and land 2021	Tax on property and land 2022	Tax on property and land 2023	Years 2021	Years 2022	Years 2023			
1	Deçan	665,801	799,528	933,255	104,465	298,768	298,768	770,266	1,098,296	1,232,024
2	Dragash	285,429	319,464	353,500	176,915	185,300	185,300	462,344	504,765	538,800
3	Ferizaj	3,339,473	3,766,930	4,194,386	1,676,053	2,577,353	2,577,353	5,015,526	6,344,283	6,771,740
4	Fushë Kosovë	1,031,165	1,060,168	1,089,171	1,778,345	1,793,763	1,793,763	2,809,510	2,853,931	2,882,934
5	Gjakovë	2,144,265	2,315,756	2,487,247	1,578,101	1,629,124	1,629,124	3,722,367	3,944,880	4,116,371
6	Gjilan	2,301,939	2,507,975	2,714,011	2,097,458	2,247,028	2,247,028	4,399,396	4,755,003	4,961,040
7	Glogoc	614,578	650,580	686,583	776,212	755,495	755,495	1,390,790	1,406,075	1,442,078
8	Hani i Elezit	182,502	209,906	237,309	135,362	171,208	171,208	317,865	381,114	408,517
9	Istog	540,133	599,828	659,523	611,165	652,165	652,165	1,151,298	1,251,993	1,311,689
10	Junik	86,232	92,263	98,293	50,968	87,277	87,277	137,199	179,540	185,571
11	Kaçanik	402,569	449,309	496,048	308,158	325,755	325,755	710,727	775,063	821,803
12	Kamenicë	420,694	471,356	522,019	441,381	426,635	426,635	862,074	897,991	948,653
13	Klinë	527,311	565,041	602,771	387,763	510,049	510,049	915,074	1,075,090	1,112,821
14	Leposaviq				40,000	53,529	53,529	40,000	53,529	53,529
15	Lipjan	1,119,922	1,157,900	1,195,879	960,997	993,412	993,412	2,080,919	2,151,313	2,189,292
16	Malishevë	541,151	620,388	699,625	354,939	438,398	438,398	896,090	1,058,786	1,138,023
17	Mamusha	38,174	41,011	43,848	25,023	30,232	30,232	63,197	71,243	74,080
18	Mitrovicë	1,158,840	1,232,528	1,306,216	1,341,135	1,524,035	1,524,035	2,499,975	2,756,563	2,830,251
19	Novobërdë	127,617	142,657	157,696	114,862	119,841	119,841	242,479	262,498	277,538
20	Obiliq	496,510	520,932	545,355	526,156	546,545	546,545	1,022,665	1,067,477	1,091,899
21	Pejë	2,631,700	2,851,428	3,071,157	1,717,896	1,981,975	1,981,975	4,349,595	4,833,403	5,053,132
22	Podujevë	576,895	644,341	711,788	839,666	809,102	809,102	1,416,561	1,453,444	1,520,890
23	Prishtinë	9,639,529	10,043,605	10,447,681	19,618,838	20,410,796	20,410,796	29,258,367	30,454,401	30,858,477
24	Prizren	3,042,452	3,267,929	3,493,407	4,517,843	4,720,059	4,720,059	7,560,295	7,987,988	8,213,466
25	Rahovec	619,394	691,785	764,175	537,447	620,190	620,190	1,156,841	1,311,975	1,384,365
26	Shtërpcë	406,431	441,968	477,506	82,774	149,446	149,446	489,205	591,415	626,952
27	Shtime	282,562	328,856	375,149	347,088	312,496	312,496	629,651	641,352	687,645
28	Skenderaj	314,460	345,956	377,452	1,213,553	1,381,700	1,381,700	1,528,014	1,727,656	1,759,151
29	Suharekë	1,032,436	1,119,833	1,207,230	938,220	1,011,313	1,011,313	1,970,656	2,131,146	2,218,543
30	Viti	545,001	595,983	646,966	403,598	467,205	467,205	948,599	1,063,188	1,114,171
31	Vushtrri	923,124	982,644	1,042,164	1,112,535	1,310,145	1,310,145	2,035,660	2,292,789	2,352,309
32	Zubin Potok				30,000	42,823	42,823	30,000	42,823	42,823
33	Zveçan				35,000	48,176	48,176	35,000	48,176	48,176
34	Gracanica	941,270	981,580	1,021,889	845,896	1,110,784	1,110,784	1,787,166	2,092,363	2,132,673
35	Klllokot	91,932	99,673	107,414	66,909	76,704	76,704	158,842	176,377	184,118
36	Mitrovica veriore				60,000	74,941	74,941	60,000	74,941	74,941
37	Partesh	69,955	74,213	78,470	15,000	37,368	37,368	84,955	111,580	115,838
38	Ranillug	52,451	58,690	64,930	76,112	68,861	68,861	128,564	127,552	133,791
TOTAL		37,193,896	40,052,005	42,910,113	45,943,835	50,000,000	50,000,000	83,137,732	90,052,005	92,910,113

4.4. Investment clause

For year 2021 there will be financing through the mechanism of investment clause for the project Construction of Water Supply System for Istog Municipality in the amount of 1,525,397 euro.

4.5. Summary of municipal funding for 2021-2023

For the allocation of government grants by municipalities for 2021, the basic criteria and principle formulas stipulated in the Law on Local Government Finance and other relevant laws have been implemented, as well as based on macro-fiscal projections and data from line ministries.

GC also agreed in principle that municipalities that have unemployed staff if it is not in employment procedures and it is unnecessary as a number to be deducted.

Table 30 Summary of municipal funding for 2021-2023 (mil. euro)

Description	Year 2018	Year 2019	Year 2020	Year 2021	Projections for 2022	Projections for 2023
1. Government grants	392.4	419.1	463.5	447.9	505.1	519.1
1.1 General grant	173.6	180.7	196.3	190.5	202.1	214.8
General grant	168.9	175.8	196.3	190.5	202.1	214.8
Contingency to the correction formula	4.7	4.9				
1.2 Specific health grant	48.5	53.4	61.7	62.6	90.5	91.0
Basic grant			61.7	61.7		
New policies				0.9		
1.3 Specific education grant	170.3	185.0	205.6	194.8	212.5	213.4
Basic grant			205.6	192.0		
New policies				2.8		
2. Financing for secondary healthcare	2.6	2.6	2.6	2.6	2.6	2.6
3. Residential services	1.7	1.6	2.0	2.3	2.3	2.3
4. Financing for CPC, QKHFZ and KHM	0.1	0.1	0.1	0.1	0.07	0.07
5. Grant for the Capital - Prishtina		10.8	11.8	11.4	12.1	12.9
6. Financing for Obiliq		5.0	4.2	4.6	4.6	4.6
7. Municipal own-source revenues	82.0	87.0	83.1	83.1	90	93
8. Financing for theatres			0.9	0.9	0.9	0.9
9. Financing from borrowing	3.7	4.8	0	0	0	0
10. Funding from the Investment Clause		23.1	11.5	1.5	0	0
Total Municipal Financing	482.41	554.05	579.75	554.45	617.70	635.49

ANNEX 1

Table 1: Fiscal Projections (Revenue and Expenditure)

Description	2018	2019	2020 B.	2020 P.	2021 P.	2022 P.	2023 P.
In mln Eur							
1. Total Revenues	1,757	1,889	2,020	1,788	2,007	2,126	2,255
1.1 Tax Revenues	1,564	1,662	1,783	1,563	1,767	1,884	2,006
Direct Taxes	268	292	312	280	327	345	363
Corporate Income Tax	87	95	100	88	104	109	115
Personal Income Tax	153	166	176	158	179	189	199
Property Tax	24	27	31	29	37	40	43
Other	4	5	4	6	6	6	7
Indirect Taxes	1,344	1,415	1,521	1,326	1,489	1,591	1,698
Value Added Tax	799	846	939	796	912	983	1,051
Domestic	213	239	276	239	276	291	307
Border	586	606	662	557	636	691	744
Custom Duties	124	130	123	100	124	136	157
Excise	419	435	454	426	450	468	487
Other	2	4	4	3	4	4	4
Tax Refunds	-48	-46	-50	-43	-48	-52	-55
1.2 Non-Tax Revenues	193	215	226	200	230	231	239
Fees, charges and other-Central Level	110	122	126	105	128	127	131
Fees, charges and other – Local Level	46	50	50	47	50	50	50
Concessionary Fees	9	11	13	13	17	20	23
Royalties	25	29	33	30	30	30	30
Interest Income (POE)	2	3	4	4	4	4	4
1.3 Budget support and grants	0	12	11	25	11	11	11
1.4 DDG-Donor designated grants	8	8	12	12	12	12	12
2. Total Expenditure	1,949	2,091	2,357	2,382	2,276	2,374	2,374
2.1 Recurrent Expenditure	1,400	1,537	1,653	1,766	1,631	1,645	1,669
Wages and Salaries	592	616	619	634	639	642	645
Goods and Services	250	294	357	308	353	355	365
Subsidised and Transfers	558	627	633	781	631	640	652
Recurrent Reserves	0	0	44	44	8	8	8
2.2 Capital Expenditure	530	531	672	583	599	684	651
Financing : Regular Budget	446	384	510	510	467	564	624
Investment Clause	0	14	77	73	132	121	26
Liquidation proceeds	84	132	85	0	0	0	0
2.3 Public Debt Interest	19	23	32	33	46	44	54
3. Budget Balance (1-2)	-192	-203	-337	-594	-269	-248	-119
4. Expenditure exempted from the fiscal rule:	112	183	190	121	148	127	32
Expenditure from dedicated PAK revenue/2	10	6	6	6	6	6	6
Expenditure financed from municipal carried-over OSR	19	31	22	42	10	0	0
Capital spending from the investment clause and liquidation p.	84	146	162	73	132	121	26
5. Budget Balance, as per fiscal rule definition (3+4)	-80	-19	-147	-473	-121	-121	-86
A. Financing Need:	-192	-203	-337	-594	-269	-248	-119
B. External Financing	-2	-4	94	204	199	112	5
On-budget lending (IMF Drawings)	0	0	45	152	95	0	0
Regular on-budget project-loans	10	21	46	55	43	26	12
Investment clause project-loans	0	14	77	73	132	121	26
POE on-lending receipts (gross)	9	12	35	34	27	20	15
Principal repayment	22	51	110	110	99	54	48
C. Internal Financing	198	263	209	261	130	128	132
Issuance of treasury bills	102	115	120	170	130	130	130
Rapayment of POE debts	11	11	11	11	11	11	11
Liquidation/privatization proceeds	86	150	85	85	0	0	0
One-off financing (KPST)	12	0	0	0	0	0	0
Use of carried-forward municipal OSR	-15	-6	22	42	10	0	0
Use of dedicated PAK revenue	11	6	6	6	6	6	6
Outflows for POE lending	0	0	0	20	0	0	0
POE on-lending outflows (gross)	9	13	35	34	27	20	15
D. Change in usable bank balance:	11	63	-34	-130	60	-8	19
E. Stock of Usable Bank Balance	305	368	334	238	298	290	309
Memo: Revenues received from TAK	457	504	557	490	566	596	627
Revenues received from Customs	1,135	1,180	1,244	1,087	1,212	1,300	1,391
Inflows and Outflows from DDG-s	12	12	12	12	12	12	12
GDP	6,726	7,114	7,464	7,033	7,561	8,003	8,465
Budget deficit (fiscal rule def.) as % of GDP	-1.2%	-0.3%	-2.0%	-6.7%	-1.6%	-1.5%	-1.0%
Available bank balance as % of GDP	4.5%	5.2%	4.5%	3.4%	3.9%	3.6%	3.7%
Stock of Domestic Debt	677	792	912	962	1,092	1,222	1,352
Stock of Foreign Debt	416	409	502	602	791	892	887
State Guarantees	44	44	44	44	44	44	44
Stock of General Debt, % of GDP	16.9%	17.5%	19.5%	22.9%	25.5%	27.0%	27.0%

Table 1.1 Financing 2019-2022

Description	2018	2019	2020 Budget	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
In mln Eur							
Budget Revenues	1,757	1,889	2,020	1,788	2,007	2,126	2,255
Budget Expenditure	1,949	2,091	2,357	2,382	2,276	2,374	2,374
1. Financing Need	(192)	(203)	(337)	(594)	(269)	(248)	(119)
2. Net External Financing	(2)	(4)	94	204	199	112	5
2.1. Inflows:	20	47	203	313	297	166	54
IMF	-	-	45	152	95	-	-
On-lending	9	12	35	34	27	20	15
Withdrawals from creditors	1	4	25	23	16	9	5
Receipts from public lending entities	8	8	11	10	11	11	11
Draft loans	10	35	123	127	175	147	38
IFI financing as per the investment clause (06)	-	14	77	73	132	121	26
IFI project-loans (04)	10	21	46	55	43	26	12
2.2. Outflows:	22	51	110	110	99	54	48
Debt principal repayments	22	51	110	110	99	54	48
3. Net Domestic Financing	197	263	209	261	130	128	132
3.1. Inflows	541	526	445	514	319	352	417
New debt issuance	102	115	120	170	130	130	130
Refinancing of treasury bills	320	245	200	200	162	205	270
Loans to POE (principal)	11	11	11	11	11	11	11
One off Financing from liquidation	98	150	85	85	-	-	-
Designated inflows for PAK	10	6	6	6	6	6	6
Inflows from specific funds (FS2 and FS3 decrease)	-	-	22	42	10	-	-
3.2. Outflows	344	264	235	253	189	225	285
Loans to POE	-	-	-	20	-	-	-
On-lending	9	13	35	34	27	20	15
Outflows for debt service	8	9	11	10	11	11	11
Outflows for onlending	1	4	25	23	16	9	5
Outflows for issuance of treasury bills (refinancing)	320	245	200	200	162	205	270
Inflows from specific funds (FS2 and FS3 increase)	15	6	-	-	-	-	-
4. Changes in Bank Balance (1+2+3)	11	63	(34)	(130)	60	(8)	19
5. End-year Net Bank Balance	305	368	334	238	298	290	309
Of which: ELA	46	46	46	46	46	46	46
6. Designated Funds: stock	83	90	67	47	37	37	37
FS1: Donor Designated Grants	8	9	8	8	8	8	8
FS2Q: Carried over OSR - Central	4	6	3	3	3	3	3
FS2K: Carried over OSR - Local	44	49	32	12	7	7	7
FS3: Development Trust Fund	9	8	6	6	2	2	2
FS4: Designated Revenue	2	1	1	1	1	1	1
7. End-year Gross Bank Balance	388	458	401	285	335	327	346
8. Changes in Bank Balance	30	70	(57)	(173)	50	(8)	19
Memo:							
Stock of Domestic Debt	677	792	912	962	1,092	1,222	1,352
Stock of Foreign Debt	416	409	502	602	791	892	887
State Guarantees	44	44	44	44	44	44	44
Interest Expenditure as % of GDP	0.3%	0.4%	0.4%	0.5%	0.6%	0.6%	0.6%

Table 2: Main Economic Indicators

Description	2019 Estimate	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
Real growth rates (%)					
GDP	4.0%	-2.1%	5.4%	4.1%	4.0%
Consumption	2.5%	-1.4%	5.0%	3.6%	3.5%
Investment	3.7%	-12.0%	17.7%	9.6%	7.9%
Export	6.3%	-8.3%	6.5%	6.0%	6.1%
Import	2.2%	-9.3%	11.5%	7.0%	6.2%
Price Changes (%)					
CPI	2.7%	1.4%	2.0%	2.0%	2.0%
Deflator	1.7%	0.9%	2.1%	1.8%	1.8%
Import Prices	2.4%	1.8%	1.2%	1.2%	1.2%
Fiscal Data (as % of GDP)					
Revenue	26.5%	25.4%	26.5%	26.6%	26.6%
<i>Of which:</i>					
Tax Revenue	23.4%	22.2%	23.4%	23.5%	23.7%
Non Tax Revenue	3.0%	2.8%	3.0%	2.9%	2.8%
Expenditure	29.4%	33.9%	30.1%	29.7%	28.0%
<i>Of which:</i>					
Recurrent Expenditure	21.6%	25.1%	21.6%	20.6%	19.7%
Capital Expenditure	7.5%	8.3%	7.9%	8.5%	7.7%
Interest Expenditure	0.3%	0.5%	0.6%	0.6%	0.6%
Budget Balance	-2.8%	-8.4%	-3.6%	-3.1%	-1.4%
Budget Balance (per fiscal rule)	-0.3%	-6.7%	-1.6%	-1.5%	-1.0%
Balance of Savings/Investment (as % of GDP)					
Net Primary Income	2.6%	1.8%	2.1%	2.1%	3.2%
Net Secondary Income	18.5%	16.7%	14.5%	14.9%	15.4%
<i>Of which: remittances</i>	<i>12.0%</i>	<i>10.7%</i>	<i>9.1%</i>	<i>9.5%</i>	<i>9.9%</i>
Investment	29.5%	26.6%	29.3%	30.5%	31.3%
Current Account Balance	-5.8%	-6.8%	-11.5%	-12.3%	-11.5%
Trade Balance	-39.9%	-37.5%	-40.0%	-41.2%	-42.0%
Gross National Savings	22.1%	18.5%	16.7%	17.0%	18.6%
Private Savings	16.9%	17.2%	12.1%	11.9%	12.9%
Main agregatets (in mln euro)					
GDP	7,114	7,033	7,561	8,003	8,465
Remittances	852	750	690	759	834
Private Disposable Income	7,212	7,182	7,299	7,724	8,272

Table 3: Nominal GDP and its components, in mln Eur

Description	2019 Estimate	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
Consumption	7,037	7,035	7,562	8,006	8,470
Private Consumption	6,011	5,975	6,387	6,774	7,179
Public Consumption	996	1,030	1,144	1,200	1,260
General Government	868	900	1,012	1,065	1,122
Donors	128	130	133	135	138
NPISH	30	30	30	31	31
Investment	2,098	1,869	2,215	2,442	2,650
Private Investment	1,567	1,423	1,618	1,777	1,953
Public Investment	531	446	598	665	697
Net exports of goods and services	-2,021	-1,872	-2,216	-2,445	-2,655
Exports	1,898	1,747	1,865	1,982	2,108
Exports of goods	393	373	399	419	440
Exports of Services	1,505	1,374	1,465	1,563	1,668
Imports	3,919	3,619	4,081	4,427	4,763
Imports of goods	3,253	3,009	3,422	3,715	3,993
Imports of services	666	610	659	712	770
GDP	7,114	7,033	7,561	8,003	8,465
<i>Other indicators</i>					
Private sector disposable income in mln Eur	7,212	7,182	7,299	7,724	8,272
Private Consumption to GDP	84%	85%	84%	85%	85%
Private Investment to GDP	22%	20%	21%	22%	23%
Exports to GDP	27%	25%	25%	25%	25%
Imports to GDP	55%	51%	54%	55%	56%

Box 1. Investment clause

The Government of Kosovo identified the need for extra space for financing major capital projects and in 2015 started the negotiations for a third IMF program, which, among other things, would allow the relaxation of the fiscal rule. In other words, for large capital projects of strategic importance, the Government would be able to enter into debt beyond the fiscal rule of 2% of Gross Domestic Product (GDP) for a period of 10 years, with the main condition that it does not exceed 30% of the total debt of the country. This would enable the Government of Kosovo to have an additional fiscal space of approximately 1.8% over the 2% stipulated by the fiscal rule, in order to obtain more financing for capital projects of public importance. This was recognized as the "investment clause" amendment which introduced the approval of the necessary legislative amendments by the Assembly in January 2016, through the amendment of the Law on Public Financial Management and Accountabilities, which includes the fiscal rule as well.

The Government of Kosovo remains committed to include, in a balancing manner, in the budget the process of capital projects implemented through the "investment clause", so that the analysis of funding of such projects is based on the analysis of the long-term sustainability of public debt.

Another condition provided by the provisions of the investment clause is that the Ministry of Finance prepares, twice a year, a narrative report on the implementation of projects under this provision. The reports to be prepared in 2020 will include the following projects which are part of the budget tables for 2020. It is worth highlighting that the inclusion of projects in the investment clause is realized based on their maturity for implementation in 2020.

Projects that are included in the investment clause are shortly summarized as follows:

- **Rehabilitation of Railway Route 10**– The implementing institution for this project is the Public Enterprise "Infrakos" Prishtina. The total cost of the project is expected to be approximately 194.5 million Euros. The EBRD and the EIB fund half of it, whereas the European Union funds the other half of the project. Financial agreements with EBRD and EIB have been signed and ratified. With regard to the EU contribution, the first and second grant agreements have already been signed and ratified. Civil works for phase 1 started in early 2019, while for works for phase 2 are expected to begin in 2020. Tender and procurement procedures for phase 3 are expected to begin in late 2020, whereas works are expected to begin in 2021 and be completed in 2024. The first disbursement of loans and grant agreement was realized during 2019, and due to implementation delays, amendments to the agreements signed in 2015 must be made.
- **Rehabilitation of Ibër-Lepenc** – The implementing institution for this project is the Public Enterprise "Iber Lepenci" and the estimated cost of the project is 25 million Euros. The financial agreement between the Republic of Kosovo and the World Bank was ratified in 2017, whereas the first disbursement was made in January 2018.
- **Rehabilitation of Regional Roads** - the implementing institution for this project is the Ministry of Infrastructure and Environment (former Ministry of Infrastructure). The financial agreement has been signed and ratified, and the project is worth 29 million Euros, with funding from the EBRD. Fieldwork will begin during 2020 and expected to be completed in 2021.
- **Construction of Motorway N9 Pristina - Pejë (SEETO Route 6 A) Segment Kijeve-Klina to Zahaq** - the implementing institution for this project is the Ministry of Infrastructure and

Environment (former Ministry of Infrastructure). The cost of the project is 193 million Euros. The Loan Agreement with the EBRD was signed in 2017 and with EIB in the second half of 2018. In January 2019, an agreement of 1 million Euros was signed between the Republic of Kosovo and the EIB as part of the Economic Resilience Initiative for support during implementation. Civil works have been delayed due to changes in implementation, as requested by the line ministry, by dividing the project into 3 lots. By changing the leadership of the Project Implementation Unit, implementation could be accelerated.

- **Project for Competitiveness and Export Readiness** - The implementing institution for this project is the Ministry of Economy, Labor, Trade, Industry, Entrepreneurship, and Strategic Investments (former Ministry of Trade and Industry and the Ministry of Labor and Social Welfare). The 14.3 million Euro project is funded by the World Bank and the first disbursement was made in March 2019.
- **Additional financing for the project of agriculture and rural development** – The agreement on this project was signed with the International Development Agency - World Bank, in 2017, and has already been ratified by the Assembly. The estimated cost of the project is 20.8 million Euros and the first disbursement was made in March 2019.
- **Treatment of wastewater in Pristina (construction of waste water treatment plant in Prishtina region)** – The Ministry of Infrastructure and Environment (former Ministry of Environment and Spatial Planning) is the implementing institution of this project. Funding of the project will be provided through a framework agreement between the Government of the Republic of Kosovo and the Government of the Republic of France, which was ratified during 2017. Based on the agreement, the project is worth 86 million Euros. Implementation is expected to begin in the second quarter of 2020.
- **Construction of Pristina Ring Road** – The implementing institution for this project is the Municipality of Prishtina. The project is being evaluated by Banks, EBRD and EIB. The civil works are expected to start in 2022, as the study of the project which is being funded by the EBRD has not been finalized yet.
- **Kosovo Digital Economy (KODE)** – The Ministry of Economy, Labor, Trade, Industry, Entrepreneurship, and Strategic Investments (former Ministry of Economic Development) is the implementing institution for this project. The estimated value of the project is 25 million US dollars, which will be potentially funded by the World Bank. The first disbursement was made in November 2019.
- **Construction of wastewater treatment plants in Mitrovica** – Mitrovica Regional Water Company is the implementing institution for this project. The project is under assessment carried by the EBRD (as the main financial institution) and the EIB, which will fund the project together, whereas will be supported by a grant from the Western Balkans Investment Framework (WBIF). Following the signing and ratification of the agreements, implementation is expected to begin in 2020.
- **Wastewater Treatment Development Project in Gjilan** – Gjilan/Hidromorava regional water company is the implementing institution for this project, which has a projected value of 23 million euros, which will be funded by the EBRD and the EIB. The 10 million Euros financial agreement with the EBRD was signed in May 2019 - and is awaiting ratification, while the 11 million Euros agreement with the EIB will be signed in mid-2020 as delays in the stabilizing of institutions and due to the pandemic Covid-19 have postponed the planned signing for March 2020. The project is expected to be implemented during the period 2021-2024.

- **Project for wastewater treatment in Podujeva municipality** – Podujeva municipality is the implementing institution of this project, which has a value provided by 5.4 million Euros. The financial agreement was signed with UniCredit Bank Austria AG, on behalf of the Ministry of Finance of Austria. The agreement was ratified and became effective in June 2019. During 2019, about 2.4 million Euros were disbursed, whereas by mid-April 2020, another 548 thousand were disbursed. The last disbursement for this project is expected to take place at the end of October 2020.
- **Construction of a Water Supply System in the Municipality of Ferizaj** – The Municipality of Ferizaj is the implementing institution for this project, with a total estimated value of 5.1 million Euros. The financial agreement was signed in November 2018 with Raiffeisen Bank International, which operates on behalf of the Ministry of Finance of Austria. The agreement was ratified and became effective in June 2019. During 2019, approximately 1,025 million Euros were disbursed, whereas by the mid-April 2020 approximately another 485 thousand were disbursed. At the end of June 2021, the last disbursement for this project is expected to be completed.
- **Construction of a Water Supply System in the Municipality of Istogu** – The Municipality of Istog is the implementing institution for this project, with a total estimated cost of 5.1 million euros. The financial agreement was signed in November 2018 with UniCredit Bank Austria AG, which operates on behalf of Ministry of Finance of Austria. The agreement was ratified and became effective in June 2019. During the same year 1,018 million Euros were disbursed, whereas by mid-April 2020 another 548 thousand were disbursed. The last disbursement for this project is expected to be completed by the end of March 2021.
- **The Project for Treatment of Wastewater in the Municipality of Shtime** -Shtime Municipality is the implementing institution for this project, with a total estimated cost of 2.4 million Eur. The financial agreement was signed in November 2018 with UniCredit Bank Austria AG, which operates on behalf of the Austrian Ministry of Finance. The agreement was ratified and became effective in June 2019. During 2019, approximately 1.4 million Euro were disbursed, while by the middle of April 2020, 46,192.38 were disbursed. The last disbursement for this project is expected to take place at the end of June 2020.
- **Construction of a Water Supply Scheme in the Municipality of Gracanica**-The Municipality of Gracanica is the implementing institution for this project, with a total estimated cost of 5.1 million euros. The financial agreement was signed in November 2018 with UniCredit Bank Austria AG, which operates on behalf of the Ministry of Finance of Austria. The agreement was ratified and became effective in June 2019. Also, during this year 1.48 million Euros were disbursed, while by the mid-April 2020 another 315 thousand were disbursed. The last disbursement for this project is expected to take place at the end of March 2021.
- **Real Estate Cadaster and Geospatial Infrastructure Project (REGIP)** - the implementing institution of this project is the Kosovo Cadastre Agency. The total project cost estimate is US \$ 16.5 million. The Financing Agreement (FA) between the Government of Kosovo and the International Development Association (IDA WB) was signed in February 2019. The implementation of the project is expected to begin in 2020.
- **Public Transport Project, Municipality of Prishtina** - Public Enterprise of Prishtina 'Trafiku Urban' is the implementing institution for this project, which has a total estimated

cost of 10 million Euros. The project is funded by the EBRD and its implementation began in 2016.

- **Replacement of Asbestos-Cement Pipes in the Municipality of Gjakova** - Replacement of asbestos water supply pipe lines - cement material, which were installed 55 years ago, in the city of Gjakova. This investment will meet the need to support the supply of drinking water from the tap for the next 30 years. The implementation agency is the Municipality of Gjakova. The project has been approved by the National Investment Committee (NIC) to be funded through the Agreement between the Government of the Republic of Kosovo and the Government of Hungary on the Establishment of the Framework Program for Financial Cooperation (Law No. 05 / L-153). Negotiations of the Financing Agreement are subject to the procedures of Law no. 05 / L-153.
- **Wastewater Treatment Plant in the Municipality of Ferizaj** - This project includes the design, construction and maintenance of collection systems (Wastewater Treatment Plant) in the Municipality of Ferizaj. This project will be implemented by the Municipality of Ferizaj. The project has been approved by the National Investment Committee (NIC) to be funded through the Agreement between the Government of the Republic of Kosovo and the Government of Hungary on the Establishment of the Framework Program for Financial Cooperation (Law No. 05 / L-153). Negotiations of the Financing Agreement are subject to the procedures of Law no. 05 / L-153.
- **Sewerage system in the Municipality of Deçan** - Zone 1: Sewerage system for Strelle village. Zone 2: Sewer system for Dubovik village and part of Isniq village. Area 3: Sewerage of Lëbushë, Isniq and Prapaqan villages. This project will be implemented by the Municipality of Deçan. The project has been approved by the National Investment Committee (NIC) to be funded through the Agreement between the Government of the Republic of Kosovo and the Government of Hungary on the Establishment of the Framework Program for Financial Cooperation (Law No. 05 / L-153). Negotiations of the Financing Agreement are subject to procedures according to Law no. 05 / L-153.
- **Drinking water reservoir in the village of Verboc / Municipality of Drenas** - Construction of a drinking water collector / from the tap in the village of Verboc, which will provide drinking water supply in the municipality of Drenas. This project will be implemented by the Municipality of Drenas. The project has been approved by the National Investment Committee (NIC) to be funded through the Agreement between the Government of the Republic of Kosovo and the Government of Hungary on the Establishment of the Framework Program for Financial Cooperation (Law No. 05 / L-153). Negotiations of the Financing Agreement are subject to procedures according to Law no. 05 / L-153.

In the Law on Budget of 2020, the following projects are planned to be reflected through the Investment Clause in the medium term:

- **Construction of the Highway, section E from Besi to Merdare (Road 7 SEETO)** - the implementing institution for this project is the Ministry of Infrastructure and Environment (former Ministry of Infrastructure). The project has a total estimated cost of 240 million Euros and will be potentially funded by EBRD, EIB and the Government of Kosovo. The project has been identified as a priority project by the National Investment Committee and is part of the Priority List of Projects under the transport sector as it is part of the pan-

European corridors of the TEN-T network. So far, the European Union has supported the project with over 6 million euros for feasibility studies and separate funding to supervise the works. As a result of support from the Ministry of Finance, this project is suitable for investment grants through the Western Balkans Investment Framework (WBIF). The application for the investment grant, prepared with the support of the Ministry of Finance to the Ministry of Infrastructure and Environment, for a grant of 20% of the total value of the works is being reviewed by the WBIF, and the preliminary response is expected to be provided during the summer of 2020.

- **Project for the purchase of equipment and renovation of tertiary and secondary health care hospitals** - This project is part of two studies requested by WBIF, where the first was to identify the needs for equipment, while the study for improvement of health infrastructure has not started yet. Projects arising from these two studies will radically transform the health system in the country. The COVID-19 pandemic situation has made healthcare a priority since during the curfew period, the country should create capacities that would enable easier coping with the situation at the moment when the gradual reopening of the economy will begin. Therefore, during review it is expected that funding will be approved by the Development Bank of the Council of Europe and the World Bank to combat the situation and through which the projects for the purchase of equipment and renovation of hospitals will continue.
- **Establishment of e-Testing Centers and further enhancement of e-Education services for pre-university education in Kosovo**-This project is run by the Ministry of Education, Science and Technology and is financed with a loan through the Austrian Soft Credit Program, with a value of 4.9 million Eur.
- **Prishtina-Mitrovica Highway Project (Phase 2)** - The aim of the project is to connect the capital city of Prishtina with the cities of Vushtrri and Mitrovica through the construction and rehabilitation of the second main road (M2) and transform it from a one-lane road on each side to high-speed two-lane roads on each side. The project will be funded by a loan from the Saudi Development Fund, in the amount of 12.8 million Euros and will be managed by the Ministry of Infrastructure and Transport.
- **Development of the Industrial Zone of Drenas** - The area will be developed in a high quality business center in an area of 37 ha, in front of the Industrial Park of Drenas now fully occupied. The project will be funded by a loan from the European Bank for Reconstruction and Development, with a value of 12.8 million euros, and will be managed by the Ministry of Trade and Industry.

ANNEX 2

Table 1 Comparing Budget Forecasts in previous MTEF, annual budgets and actuals, Year 2019

	Initial MTEF (2017-2019)	Recent MTEF (2019-2021)	Annual budget	ERP 2019-2022	Actuals	Deviations				RECENT MTEF TO ACTUALS	BUDGET TO ACTUALS	
						Initial-MTEF: Actuals	Recent MTEF: Actuals		Budget: Actuals			
							%	mln Eur	%			mln Eur
Total expenditure	1,982	2,261	2,350	2,350	2068	4.3%	-8.5%	-193.00	-12%	-282.00		
of which recurrent	1,330	1,478	1,561	1,561	1537	15.6%	4.0%	59.00	-2%	-24.00	1) Overperformance in subsidies and transfers was mainly due to the number of beneficiaries in the pension schemes of war veterans who are higher than expected, since reclassification did not occur and slightly higher expenditures in other categories (+37 mln); Increase of pensions 15% -20% for basic and contributory pensions (+20 mln); payment for teachers' law (+7 million) (total +64 million subsidies and transfers) 2) under- performance in expenditure for goods and services (about 5 mln); 3) Wages and salaries were slightly higher than planned at the	
of which capital	650	783	789	789	531	-18.3%	-32.2%	-252.20	-33%	-258.20	1) Non-execution of the investment clause due to obstacles in the implementing units (-107 mln); 2) Lower execution of capex financed by the regular budget due to a slowdown in execution as a result of the late approval of the budget and the resignation of the government in the second half of the year (-175 mln); 3) Higher investment financed through liquidation proceeds (31 mln)	
Total revenue	1779	1923	1949	1949	1889	6.2%	-1.8%	-34.00	-3%	-60.00	1) Over-performance in revenues from CIT and PIT (10 mln) 2) Under-performance of border VAT and overperformance of domestic VAT mainly due to policy changes that enabled the deferred VAT payment from the border to TAK, but also due to lower imports and lower execution of capital expenditures. (+11 mln domestic VAT, -48 ml border VAT) 3) Higher customs duties due to a smaller negative effect of SAA in revenues than previously assessed (22 mln) 4) Lower excise revenues due to the government's decision to ban gambling and lower real GDP than projected in the MTEF (42 million) 5) overperformance in non-tax revenues - mainly those of the central level (7 mil) 6) 6.5 mil more grants for budget support	
Primary Balance	-203	-338	-401	-401	-179	-11.8%	-47.0%	159.00	-55%	222.00		
Interest payments	30	22	28	28	24	-21.7%	6.8%	1.50	-16%	-4.50	1) SDR / EUR decreased more than expected; historically more conservative expectations regarding exchange rate performance;	
Overall Balance	-233	-359	-429	-429	-203	-13.0%	-43.5%	156.30	-53%	226.30		

Table 2: Main deviations between MTEF 2020- 2022 dhe 2021- 2023 for year 2021

Year 2021	MTEF 2020-2022	MTEF 2021-2023	Deviations		Recent MTEF to Previous MTEF
			Recent MTEF to Previous MTEF		
			%	mln Eur	
Total Revenues	2159	2007	-7.0%	-152	
of which					
Excise	511	450	-11.9%	-61	1) Real negative economic growth in 2020 has led to lower levels of excise revenues in the base year (2020) which is used to estimate revenues in the coming years. 2) the higher economic growth in 2021 compared to that in the previous MTEF has had a positive effect. However, the base effect has had a greater impact, bringing a lower level of excise revenue in terms of levels in mln Eur
Custom Duties	142	124	-12.7%	-18	1) the base effect as a result of the sharp decline in imports of goods in 2020,t has caused year 2021 to have lower levels of revenues from customs duties; 2) despite the fact that the increase in imports in 2021 is higher than in the previous MTEF, the effect of the base has had a greater impact
Border VAT	716	636	-11.2%	-80	1) the base effect as a result of the sharp decline in imports of goods in 2020,t has caused year 2021 to have lower levels of revenues from customs duties; 2) despite the fact that the increase in imports in 2021 is higher than in the previous MTEF, the effect of the base has had a greater impact
Total Expenditure	2535	2263	-10.7%	-272	
of which					
Wages and Salaries	691	638.7	-7.6%	-52.3	1) In accordance with the LPFM, the wage bill increases up to the maximum of the nominal economic growth of the period two years ago, however, for this year a lower increase than that allowed by law is planned because it is enough for covering the expenses of salaries and wages. 2) Also, the planned expenditures in 2020 are significantly lower than those projected for 2020 in the previous MTEF (about 20 million lower Eur) and this has contributed that the base on which the increase in the invoice of wagesis applied to be lower than in the previous MTEF.
Goods and Services	357	353.3	-1.0%	-3.7	
Capital Expenditure	825	599.1	-27.4%	-225.9	1) The decline in this category is mainly due to the limitation of expenditures based on LMFP regarding the exceeding of the budget deficit in 2020. 2) Also, some of the projects from the investment clause have been revised based on the probabilities of implementation and have been postponed for the next periods. "
Interest Expenditure	28	46.1	64.6%	18.1	1) Increased emissions worth 30 million Euros more than the one projected in the previous MTEF for 2020; 2) Revisions of the structure of domestic and foreign debt; "

Table 3: Main deviations between MTEF 2020- 2022 dhe 2021- 2023 for year 2022

Year 2022	MTEF 2020-2022	MTEF 2021-2023	Deviations		Recent MTEF to Previous MTEF
			Recent MTEF to Previous MTEF		
			%	mln Eur	
Total Revenues	2276	2126	-6.6%	-150	
of which					
Excise	533	468	-12.2%	-65	1) the lower level of excise revenues in 2021 which is used to estimate revenue in subsequent years; 2) real economic growth lower than that in the last MTEF (from 4.6% in the last MTEF to 4.1% in the recent MTEF; "
Custom Duties	152	136	-10.5%	-16	1) the lower level of revenue from customs duties in 2021, which is used to estimate revenue in 2022; 2) despite the fact that the increase in imports in 2022 is higher than in the previous MTEF, the effect of the base has had more impact
Border VAT	760	691	-9.1%	-69	1) the lower level of VAT revenues in 2021, which is used to estimate revenues in 2022; 2) despite the fact that the increase in imports in 2022 is higher than in the previous MTEF, the effect of the base has had more impact
Total Expenditure	2603	2367	-9.1%	-236	
of which					
Wages and Salaries	730	642.1	-12.0%	-87.9	1) in accordance with LMFP, the salary bill increases based on the nominal economic growth of the period two years ago, which in the recent MTEF was negative for 2020 while in the previous MTEF there was an increase of 5.6%. 2) Also, the planned expenditures in 2021 are significantly lower than those projected in the previous MTEF (about 52 million lower Eur) and this has contributed to the basis on which the increase in the salary bill of be lower than in the previous MTEF.
Goods and Services	360	355.3	-1.3%	-4.7	
Capital Expenditure	846	684.2	-19.1%	-161.8	1) The decline in this category was mainly due to limited spending for a period of 3-5 years based on LMFP related to overcoming the exceeded budget deficit in 2020. 2) Also, some of the projects from the investment clause have been revised based on the possibilities of implementation and have been postponed for the next periods.
Interest Expenditure	30	44.3	47.7%	14.3	1) Increased emissions worth 30 million Euros more than the one projected in the previous MTEF for 2020; 2) Revisions of the structure of domestic and foreign debt; "