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Republika Kosova- Republic of Kosovo
Qeveria- Vlada- Government

Ministria e Financave
Ministarstvo za Finansije
Ministry of Finance

Medium Term Expenditures Framework 2017-2019

April 2016

List of abbreviations

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

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Introduction

The 2017-2019 Medium Term Expenditure Framework (MTEF 2017-2019) is the main document based on which the budget of the Republic of Kosovo is drafted. The main purpose of the MTEF is to provide an analysis based on the country's macroeconomic environment, thus setting the basis for budget planning for the coming years in line with the Government's strategic priorities.

In early 2015, the Government of the Republic of Kosovo approved the Government's Programme setting forth policy priorities for the coming years. Consequently, the Government's Programme is the document based on which the National Development Strategy and the Economic Reform Programme were drafted. This document has been prepared fully in line with these strategic documents of the Government, including the Stabilisation and Association Agreement between Kosovo and EU.

Notwithstanding the advantages Kosovo has in terms of the young population and natural resources, the economic development and the reduction of the unemployment rate remain the challenges that Kosovo is still facing. Year 2015 was characterized by a satisfactory economic growth mainly supported by the reforms on tax policy and on those for the improvement of Doing Business environment undertaken during 2015. The medium-term perspective is expected to be characterized by an average growth of 4%, where in addition to investment and consumption, the diversification of exports of goods is expected to contribute to a more sustainable growth.

Economic development, employment, increased welfare of the population as well as other not less important priorities, such as the Rule of Law, Education and Health, and European Integration are the main pillars of the Government's program. The MTEF 2017-2019 is therefore an important document for the Government in making the first steps towards achieving these objectives. When it comes to the new policies, it is worth mentioning that the Government plans during this period to start implementing the health insurance scheme pursuant to the Law on Health and the Law on Health Insurance already approved.

In addition, future particular emphasis will be placed on the so-called investment clause, through which the Government of the Republic of Kosovo aims to invest in major infrastructure projects to overcome the structural challenges that have hampered the maximum utilization of country's potential for development. On the other hand, the Government plans to put in place the rule on the budget of salaries through the Law on Public Financial Management and Accountability (LPFMA). This mechanism aims at limiting the increase of public sector salaries and better linking it with the economic growth, as a result the country's fiscal capacity.

In order to enable a comprehensive economic growth, the Government has made more room for capital spending at municipal level. The Government is thereof intending to give local governments more flexibility to invest in those projects that municipalities identify as important to the regional development in Kosovo.

MTEF 2017-2019 is divided into four main parts. The first part; the **Statement of Medium-Term Priorities** which provides an extensive summary of the Government's priorities in accordance with the Government's program and National Development Strategy; the **Macro-Fiscal Projections** based on general parameters of economic development discussed in the second part of the document; and **Fiscal Projections**, presented in the third and fourth parts, which set forth the general expenditures ceilings based on which the central and municipal budget are later prepared.

FIRST PART

1. DECLARATION OF MEDIUM TERM PRIORITIES 2017 – 2019

The Medium Term Expenditure Framework (MTEF) 2017-2019 lists and describes the Government's main funding priorities through the 2017-2019 Declaration Medium-Term Priorities. The main priority of the Government's Program adopted in January 2015 is to build up an effective, competent and accountable governance towards a sustainable and inclusive economic growth and social welfare strengthening. Meanwhile, the Government has this year approved the 2016-2021 National Development Strategy and Economic Reform Program for 2016-2018. The priorities listed in these key strategic documents have served as the main priorities for 2017-2019 Declaration of Medium Term Priorities.

These main priorities will guide all budget organizations in preparing their budget proposals for 2017. According to these priorities, budget organizations may include proposals for the completion and rationalisation of the existing programs in order to identify the funding of high priority programs, including proposals for new policy initiatives. In exceptional circumstances, they may include requirements for additional financing if such requests demonstrate a high impact in the potential achievement of the Government's goals and priorities.

1.1 General fiscal framework for prioritisation

The 2015-2018 Government Programme, the 2016-2021 National Development Strategy and the Economic Reform Programme 2016 and the Stabilisation and Association Agreement between Kosovo and the EU are the main documents that determine the orientation and development of government policies and provide the basis for setting policy priorities in the 2017-2019 Medium Term Expenditure Framework.

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

However, the implementation of investments clause will be part of this document for the first time, thus enabling the Government to fund capital projects of broad public interest beyond the deficit of 2% of GDP, provided that these projects are financed by international financial institutions and development agencies. In this context, the Government approved a list of specific projects to be funded through this clause, and some of these projects will be implemented during

the next three years covered by this document. These projects will be financed in line with long-term sustainability of public debt and public finances.

The main objectives of the 2017-2019 fiscal strategy are:

- **Strengthening of public finances** – adherence to the fiscal rule which limits the overall deficit to 2% of GDP by taking measures to improve the structure of budgetary expenditures by reducing the non-productive current spending and making room for development projects.
- The Government is committed to pursue a **prudent policy on employment and salaries**. It intends to regulate this policy by establishing a legal framework (such as the Law on Salaries). In this context, the Government is committed to restrict employment to the extent that is necessary for the efficient and effective provision of public goods and services. Moreover, the Government has also introduced a rules-based mechanism specifying that the increase in the public sector wage bill is linked to nominal GDP growth aimed at better linking the increase of public sector salaries with productivity.
- The Government is also committed to implement a **clear policy of social protection** which not only will support a sensitive strata of the population, but it will also encourage employment, ensure fiscal sustainability and enable rapid and efficient administration of these expenditures. Thus, the Government intends to maintain the basis of incentives needed for the sustainable economic growth and employment.
- Kosovo's Government is also committed to fulfil the budget organizations development obligations and plans, with an emphasis on measures directly related to economic development. Given the existing high structural difficulties the economy is facing, the Government has amended the Law on Public Financial Management and Accountability (PFMA) to approve the investment clause which allows additional spending (over the deficit of 2% set by law) for infrastructure projects with an impact on economic development, provided that they are financed by international financial institutions. In this regard, the Government is committed to implement the structural reforms program set out in its strategic documents.

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

When it comes to the environment, transport and energy sectors, particular attention should be paid to requirements for co-financing priority projects within the List of Priority Projects. Similarly, budget organizations belonging to the environment, transport and energy sectors should ensure that sufficient co-funding is provided for priority infrastructure projects to begin from or carry on in 2017 and beyond.

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

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

1.2 Fundamental Principles

The 2017-2019 expenditures projections preparation process is driven by the following principles, which consider the evaluation of budget requests during the budgeting process, where the spending estimate is kept within the aggregate ceiling provided in the indicative ceilings of 2016-2018 MTEF for 2017.

- The reallocation of funds aimed at:
 - Better compliance with the Government's priority policies given in the National Development Strategy (NDS) 2016-2021, Economic Reform Program (ERP) 2016-2018, Stabilisation and Association Agreement between Kosovo and the EU and the Government Program 2015-2018. Instructions on specific priorities are given below;
 - Allocation of expenditures that are more effective in the achievement of Government's policy objectives;
 - Achieving the largest value for the money spent by meeting specific priority goals by moving funds towards high level priorities;
 - Linking with external financing provided through IPA II and other;

1.3 Priority areas

The Strategic Planning Committee presents the following priorities declaration on MTEF 2017-2019. Each priority is intentionally broad and simple, based on the National Development Strategy 2016-2021, Economic Reform Programme 2016 of the Stabilisation and Association Agreement between Kosovo and the EU and other related priority documents, thus providing the budget organizations with some flexibility to determine the most appropriate structure and adequate funding levels to achieve these goals¹.

¹ Specific activities related to these priorities can be found in the NDS 2016-2021 and ERP 2016.

While preparing and submitting their 2017 budget requests with the medium term estimates (2017-2019), budget organizations are expected to demonstrate how their budget plans respond to Government's priorities below. Budget organizations are encouraged to improve the spending efficiency against the given priorities through reallocations within existing ceilings.

1.3.1 Human Capital

Budget Sector holder: **Education**

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

The country's economy is to a large extent based on human capital; therefore the Government of Kosovo has set support to the development of human capital as a high priority. Policies of developing countries should not be limited only to the importance of the existing infrastructure and natural resources, but also in developing a skilled workforce that can meet the need and requirements of a competitive market, thus being gearing mechanism of sustainable development.

Therefore, the Government of Kosovo plans to support this are starting with:

Increasing the involvement of children in preschool institutions: Solving the low level of enrolment in this field will enable better success at the highest levels of education, reduce inequality and increase the participation of women in the labour market;

Improving the quality of teaching in elementary and secondary education as a prerequisite for a better performance of the education system and beefing up youngster's capacities for the labour market. This objective will be addressed by optimising the number of teachers and increasing the skills of education staff, expanding the curricula and modernising new teaching tools accordingly;

Strengthening accountability and certification mechanisms in the education system so that schools and teachers are held accountable and rewarded for the quality of their work, this will help improve the quality of education;

Creating a policy framework *to accelerate the creation of research and innovation capacity* focusing on priority sectors of industrial policy, as well as improved partnership between public research institutions and Government

Diaspora involvement is intended to be facilitated including the education sector; strengthening the role of social partners in the development of socio-economic policy of the country in order to improve working conditions and reduce informal employment in Kosovo. Continuation of work towards establishing a sustainable funding system for the Health Sector, which results in Public Health Insurance Fund. At last but not least, we will continue with the development of sports infrastructure and the participation of youth in sports activities, including during school activities at all levels.

1.3.2 Good Governance and Rule of Law

Budget Sector holder: **Justice**

with accompanying sectors: **Corporate Governance, Public Finances**

The Government is committed to establish a functioning market economy and this requires legal assurance and effective institutions in the provision of services. In order to fulfil the country's obligations to implement the SAA, in collaboration with development partners, will continue the implementation of the modernisation of public administration focusing on citizens, businesses and civil society. Our plans to build an efficient and effective state are thus associated entirely with our program of social and economic reforms, referring to the priorities of NDS as follows:

Increasing the efficiency in resolving courts cases. Further improving the service delivery to citizens and businesses by establishing an integrated information system for public administrative services. Moving from border tax to inland tax. This will be achieved by merging Tax Administration and Customs which will enable a more effective management, reduced operating costs, reduced level of informality and of favouring of formal business

Strengthening of the property rights system enables legal assurance for investors and will enable citizens and businesses to use their property as collateral for access to finance and doing business.

Improving the efficiency and functioning of the state inspections system, including addressing informality and minimal administrative costs for businesses. More efficient and coordinated inspections will result in lower inspections costs, reduced number of unnecessary and arbitrary inspections, and will make public institutions and private companies comply with the law.

Reducing administrative barriers for the granting of businesses licenses and permits will help accelerate the application procedures and eliminating excessive regulations for businesses.

Regular evaluation of policy and regulatory measures before they are adopted, in order to prevent laws and policies from having unexpected consequences and the state or private investments resources from being spent irrationally.

1.3.3 Competitive Industries

Budget Sector holder: **Economic issues**

with accompanying sectors: **Corporate Governance, International Cooperation**

Kosovo's Government will continue to support young entrepreneurs, existing companies and potential foreign investors. This support will be accompanied by a new and innovative approach which will enable businesses to become more solid and have better access to finance. The private sector will provide the main incentive for rapid and sustainable economic growth, creating jobs and bringing foreign capital in.

Accordingly, we intend to fully revitalize Trepca through reorganisation and restructuring, which will result in the reduction of Kosovo's trade deficit, thus generating income that will have a

positive impact on many other industries by creating new jobs. The Government is also committed to invest the money of Privatization Fund in strategic economic assets. This is planned to be made by investing the funds of former companies under the asset-by-asset replacement principle. Facilitation of Kosovo enterprises to have access to finance is another commitment, which will enable enterprises to have access to credits at lower interest rates and smaller demand for collateral through credit guarantee mechanism.

We consider Foreign Direct Investment (FDI) and those of the Diaspora as a high priority area which will help the economy of Kosovo to cover its financing needs, provide transfer of technology and skills, and reduce the trade deficit. They will also be a support for enterprises in establishing contacts between enterprises and related industrial clusters (services, agriculture and industry sectors), that will help strengthen the ties between industries, create new enterprises based on the old ones, and innovation through research.

Furthermore, we intend to facilitate the further exploitation of Kosovo's mineral potential in terms of economic development, which will enable the growth of existing enterprises and the establishment of new enterprises which will enable greater economic growth.

In addition, we expect the budget organizations to consider other priorities under the Competitive Industries Pillar of NDS:

Improving of quality standards and the transition to activities with higher added value, which will help businesses to produce more sophisticated and more expensive products, suitable for export, thus increasing the incomes for their own and for economy.

Good governance and satisfactory performance of state-owned corporates. This priority measure will enable increased effectiveness and contribution of state-owned enterprises in the economy, increase their value and increase revenues for the state budget.

Resolving the issue of fragmented agricultural land or agricultural land consolidation, which will result in the growth of average farm size and surface plots, and increasing agricultural productivity due to economies of scale

1.3.4 Infrastructure

Budget Sector holder: Economic issues

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

resources in a more rational way, by balancing immediate economic needs and environmental sustainability.

For this priority area, we will focus on:

Sustainable energy supply for citizens and businesses, the creation of a favourable investment climate and reduction of trade deficit will be achieved through increased capacity local electricity production from coal and renewable resources. The Government of the Republic of Kosovo remains committed to extent connectivity in the region in order to enable optimization of the system, which will be consequently more reliable, uninterrupted and cheap, especially in times of peak consumption. This also means lower costs to citizens and businesses. We also intend to improve the supporting infrastructure for agricultural production that will help in reducing the cost of agricultural products, increasing productivity and incomes for farmers, as well as facilitating the work of agro-processing industry.

The Government of the Republic of Kosovo is committed to terminate the main axes of international and regional road and international railway lines to enable the faster and cheaper movement of people and goods, reducing costs and distances of transportation of people and goods within the country and abroad. This will facilitate businesses in launching goods in the domestic and international markets, while the modernisation of international railway network will help the export of mineral and agricultural commodities sector.

Moreover, extending the information technology infrastructure will reduce operational costs which would allow for more investments and innovation. This measure aims at establishing the National Council for IT, supporting Kosovo businesses in the field of IT (through the Employment and Development Fund) to export services abroad and other businesses to make forward work processes by using IT. The Government of the Republic of Kosovo also aims to adopt international standards relevant to ICT for public institutions and businesses; implement the Kosovo Digital Economy Programme - CODES (through the scheme for ICT Employment and Development Fund)

In addition to that, we expect budget organisations to consider other priorities under the Infrastructure pillar of NDS.

Application of efficiency measures on energy consumption will reduce domestic energy consumption and thus the financial costs, enabling increased investment and lower impact on the environment. The rational use of renewable energy is also a priority, which will help Kosovo meet its international commitments and contribute to energy security in the country, and thus to improve the doing business environment, increase investments and economic growth. The use of renewable energy sources will also provide for a more stable economic growth and more attentive to the consequences in nature.

Rationalisation of water use and building of production and distribution capacities. This will make the increase of Kosovo industries and the demand for water to go along with the increase of available water resources, ensuring adequate supply of water for businesses and citizens.

Ensuring sustainable use of forests in Kosovo. This will prevent the forests of Kosovo from deforestation and from having negative impacts on the ecosystems, thus Kosovo would have a stable and predictable industry.

More sustainable waste management means that consumption waste should not pollute the environment and be returned for industrial production, while generating employment and reducing the costs for manufacturing industries

1.3.5 European Integrations, foreign policy and security affairs

Budget Sector holder: **International Cooperation**

During the planning period, the Government remains focused on the following areas:

Implementation of the Stabilisation and Association Agreement with the EU is of great importance for the Republic of Kosovo. Budget organizations will prioritize their actions, especially those under the NDS's pillars defined above, involving significant short and medium term commitments (2017-2019) of the SAA;

Actions aimed at terminating the visa liberalisation process will be treated as a high priority;

Similarly, actions aimed at maximizing the use of EU funds as part of the Instrument for Pre-Accession (IPA), especially budget support from the EU framework for investing in the Balkans Western and other development partners will also be priorities.

Prioritising in the medium term budget process

In the medium-term budget planning preparation this Declaration of Medium-Term Priorities serves to provide orientation to new financing initiatives in general and the distribution of fiscal space (expenses allowed under revenue forecasts and budget deficit allowed under the fiscal rule). All new initiatives should be incorporated within the existing budgetary ceilings.

The connection between priority areas and budget planning is done in accordance with the relevant budgetary sectors where the burden to implement priority areas falls.

As a result, in case of eventual expansion or narrowing of fiscal space during the next medium-term, priority should be given to the budget following sectors:

1. Economic Issues
2. Education
3. Legal / Corporate Governance
4. International Cooperation

SECOND PART

2. MACROECONOMIC FRAMEWORK

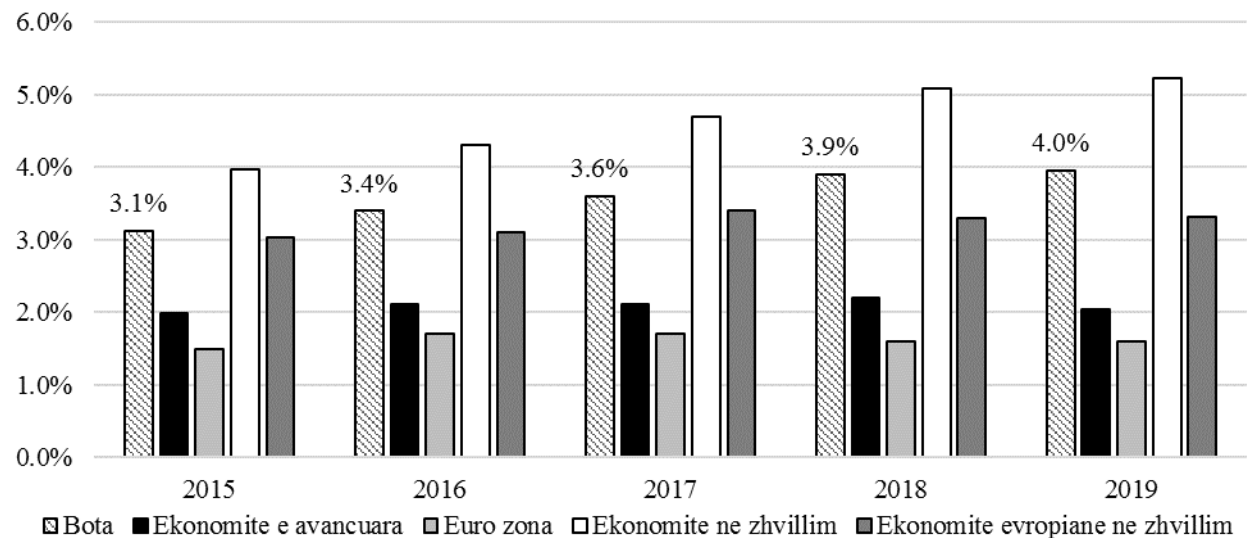
2.1 External economic environment

In 2015, the global economy grew by 3.1%, with some considerable differences between regions. Recovery in advanced economies faces relative setbacks (going on for many years) in the developing economies. This is mainly due to poorer perspective for some of the latter as well as for oil exporters.

In regard to the medium term, developments are being carefully followed, especially when it comes to prices, given that we are facing a period of declining prices, and consequently less flow of capitals to the developing economies, which puts pressure to their currencies.

All these lead to more uncertain financial markets. According to IMF stagnation in emerging economies implies that it is not just for specific shots in the respective countries, but it has long-term (and medium) elements with impact on this situation, such as "lower productivity, consequences of the crisis in some countries (high levels of debt, declining investment), demographic transitions, adjustment to the period after the credit and investment boom (especially in China)

Graphic 1. Real GDP growth, in %²



Source: FMN WEO Database

² It is worth noting that in January 2016 the IMF made a review of these figures, reducing growth rates of 0.2% for 2016 to 2017, resulting in rates presented in this graph. Review results from the assessment that the outlook for the medium term is weaker than was estimated at the time of publication Database WEO (October 2015); <http://ëëë.imf.org/external/pubs/ft/ëeo/2016/update/01/>

The fall in oil prices is estimated to be the result of stable supply, the continuity of which is expected to be helped by the nuclear agreement with the Republic of Iran. Metal prices have also declined, mainly due to the slowdown in the level of investment in the industry that uses this commodity (with special emphasis on China).

This period the world faced in 2015, with implications for the medium term, may serve to illustrate the impact on prices (and exchange rates) in the relations between regions facing economic growth; although developing economies had the devaluation of their currencies (as a result of flexible exchange rates) which stimulates their exports. Advanced economies enjoy currencies subject to generally inflexible exchange rates and therefore the transfer of capital to emerging economies continues to be sluggish. Thus, it is estimated that additional efforts are needed by decision-makers and stakeholders to influence the recovery of the global economy.

In the medium term, policy-makers are focusing on increasing production but also the actual potential through 'structural reforms and those who support the supply. This is about adjusting monetary policy (in the case of advanced economies), assisting in labour market adjustments, additional care in handling the debt consequences, and reducing barriers to access to markets.

Many countries have already started implementing the reforms in question, where the global economy is estimated to grow by an average of 3.8% for the period 2017-2019.

2.2 Latest economic developments in Kosovo

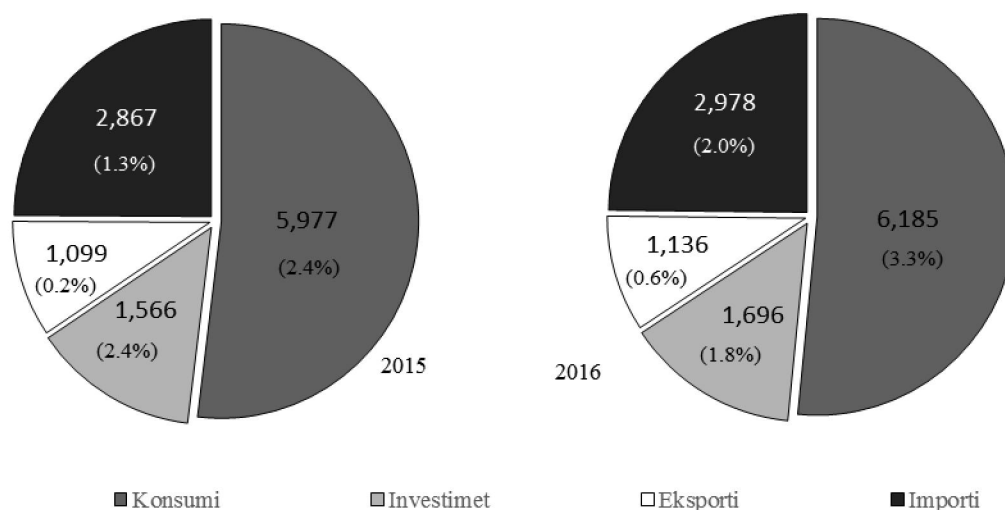
Kosovo's economy is estimated to have grown at a real rate of 3.6% in 2015, a significant increase compared to the previous year (1.2%³).

The beginning of 2015 brought a recovery in the aftermath of a growing sense of assurance to economic agents about the environment, driven among other things by a Program Governing clearly articulated at the outset of the taking over of the mandate of the end of 2014.

While 2015 was manifested by recovery compared with the figures of 2014 (due to the political situation in the country after the elections), 2016 is expected to be disclosed as a continuation of economic growth in all sectors of the economy.

³ This is the latest official figures for GDP growth in 2015, a difference of 0.9% from the figure that was initially given by KSA; discrepancy in the aftermath of the publication of the quarterly GDP for the first time by ASK, after which there was a need for re-evaluation

Graphic 2. GDP Structure, in nominal value (million euro)



Graphic 2 shows the structure of GDP for 2015 and 2016, where we see that consumption continues to be the component with the greatest impact on GDP. It is estimated that consumption will amount to over 6 milliard euros in 2016, to be followed by imports of nearly 3 milliard euros, similar to 2015.

Consumption is estimated to have grown due to private consumption, an estimation that takes into account the increasing trend of remittances and credits (consumer) during this year. This trend continues even during the first months of 2016. During 2015, new loans amounted to 108 million euros⁴ at the end of 2015, or 11% more than in 2014. Out of these, 25% were consumer loans 24% investment loans in service sector. New loans, in the latter, increased by 29% compared with 2014, reaching a value of 259 million euros by December 2015.

Investments are also expected to increase slightly, driven not only by the private but also public investment, as a result of the advancement of infrastructure projects in a quicker pace started in 2015. According to the CBK, the total loans in Kosovo economy at the end of 2015 amounted to 1.3 milion euros, an increase of 6% compared with the previous year. Of these, most loans were given to the sector ‘wholesale and retail’ followed by the manufacturing sector and that of engineering. It is worth mentioning that in the manufacturing sector loans had increased by 7% compared with 2014 (reaching 164 million euros at the end of the 2015).

We see a slight increase in **exports** of goods and services from 2015 to 2016 but with a base that remains relatively low, around 1 million euros. In this context it is important to mention that the reforms undertaken by the Government in 2015, which are intended to support domestic production, have the initial impact on **import** substitution. However, in the medium term, the range of products that Kosovo exports is expected to be more diversified, in order to have a stable increase in export in the future.

⁴ Non-cumulative data, end of 2015

In 2015 there were more amendments needed in laws related to tax changes that were made to allow for local production facilities, so their effect began to be felt just from the second half of the year. However, economic agents are expected to use these facilities more intensively in 2016, thus making their influence more evident during 2016. Thus, real GDP is estimated to grow at 3.8% in 2016, a level similar to that of the previous year. Manifesting of the full effect of the tax changes take time, so most obvious impact will come out in medium term 2017-2019.

Estimates for 2016 take into account (albeit conservative) the impact of tax changes initiated in 2015 regarding the support of local production, such as: exemptions for production lines, exemption for input in the manufacturing process, reductions in the IT devices, escalating VAT, etc. These changes are also designed to be complementary to existing government initiatives related to local production support, such as subsidies in agriculture. The latter will continue to be an important support to agricultural producers in the country, so this scheme will continue to support entrepreneurs and companies in the coming years. The government is committed for the management and monitoring of the scheme, as a defining element of the success of the scheme, to improve every year.

When it comes to the price, 2015 ended with a deflation of 0.5%, while for 2016 inflation is estimated to slightly be at 0.2%. This reflects the fluctuations in global food prices (which determine most of the price fluctuations in Kosovo), as well as fuel oil, which is expected to continue its decreasing trend in 2016.

2.3 Medium term Macroeconomic Perspective

Real Sector

Kosovo has recently enjoyed an average GDP growth rate among the highest in the region. Main macroeconomic indicators show that Kosovo's economy recovered, supported not only by improved lending in general and increased security of investors and other economic agents, but also by the improved economic environment in the Eurozone. There is an increase in investment, which is expected to affect economic growth in the medium term, followed by a slight increase in consumption and imports. Recent initiatives of tax incentives for manufacturers are expected to address the issue of the high cost of financing, thus stimulating domestic product growth in the coming years. As a result, based on underlying assumptions, it estimated that the economy will grow at a rate of nearly 4% on average for the period 2017-2019

Total consumption, which accounts for more than 80% of disposable income is expected to grow at a real rate of about 3% in the medium term, contributing 3.1 percentage points to GDP growth.

While remittances and increased public sector salaries⁵ are continuing to push the total consumption, private consumption is estimated to benefit from the expected growth of consumer

⁵ Given that food prices are expected to keep a decreasing trend, the increase in wages and pensions by 25% in 2014 has increased real wages of civil servants

loans, so it is estimated that almost all the contribution of consumption to GDP comes from the private sector. However, slight shrinkage of government spending is expected to counteract the positive effects mentioned above in relation to the impact on total consumption, where public consumption (government) is expected to fall by 0.7% on average during 2017-2019.

During 2015, the Government, in agreement with the IMF, introduced the so-called "investment clause"; an opportunity that allows additional spending over the deficit of 2% of GDP associated with development projects with an impact on economic growth financed by IFIs. In addition, the government has moved forward with tax reforms initiated in 2015; exempted VAT at the border for input and output lines, in the meantime we are continuously working on reforms of doing business.

Box 1. Projects expected to be funded through the Investment Clause

It is worth noting that the concept "investment clause" exactly means the :

'Relaxation of the Fiscal Rule limiting the budget deficit, and hence borrowing to finance public investment projects (...) that will enable the government to enter into negotiations with the IFIs and donors to finance capital projects of public importance that will directly and indirectly impact the development of the private sector'

... where 'Financial Rule' refers to an amendment to the Law on Public Financial Management and Accountability (LPFMA) after the program in 2012 with the IMF, wherefrom, according to this limitation, Government overheads can not exceed the value of projected budget revenues and 2% of the projected GDP.

Thanks to this amendment, the Government could account for the financing of capital investment of public interest, provided that the Government's accumulated debt - including the planned debt for new projects - does not exceed the limit of 30% of GDP. With a relatively low level of public debt, the Government remains committed to include capital projects implemented through the clause into the budget process in a balanced way.

The National Investment Council (NIC) has started to draft the Priority Projects List, which currently includes the areas of transport, energy and environment. After reviewing the proposals from relevant ministries, NIC approved the list in December 2015 which includes 39 infrastructure projects, the total cost of which exceeds the amount of 2.3 billion euro.

It is about the following projects, which are at different stages of negotiation/signing:

- *Rehabilitation of Railway 10*
- *Construction and modernisation of the railway line Prishtinë – Fushë Kosovë – Prishtina Airport "Adem Jashari"*
- *Rehabilitation of Ibër-Lepencit*
- *Rehabilitation of regional roads*
- *Construction of the Road N9 Prishtinë - Pejë (SEETO Road 6 A) from Kijevë -Klinë to Zahaq*
- *Overall rehabilitation of the eastern and southern railway line (crossborder with Serbia – Podujeva – Fushë Kosova, Klina – Prizren)*
- *Extending the irrigation system of "Radoniqi" Company – stage II*
- *Construction of the new Highway Prishtinë-Gjilan-Dheu i Bardhë*

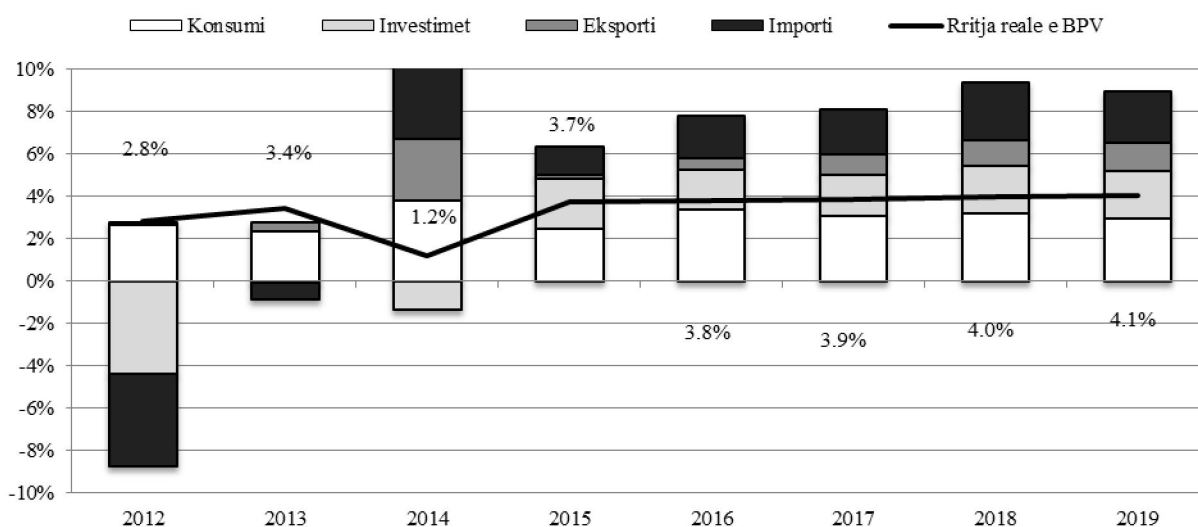
Knowing that the LPFMA was adopted by the Assembly after the 2016 Budget was approved; the Government has failed to include any capital project in the 2016 budget that would be financed through this clause. However, in March 2015, the Government, as part of the progress report on planning and implementing the investment clause, has approved a number of projects of strategic importance which will be financed through investment clause. Depending on the progress to be achieved in implementing these projects, the negotiation and signing of financing agreements with other IFIs and donors, some of them are expected to be included in the 2016 Budget through the budget review process. The rest of the projects presented in this report will be included in the 2017 Budget through the budget process.

However, this project list is not exhaustive, and *depending on the progress that ministries make in preparing new projects, they will be reviewed by the National Investment Council and potentially be included in the priority list*, including projects in the social sector.

In the medium term, these initiatives are expected to support private investment through an improved business environment and by providing better infrastructure. As a result, investment in real terms over the period 2017 - 2019 is expected to grow on average by 7.4%, contributing 2.1 percentage points to GDP growth. Whilst the effects of these measures on the growth of GDP are expected to manifest as direct incentive in the medium term, their most significant impact will only be evident in a longer term.

Negative trade balance continues to be a challenge for the economy. The high share of consume products in Kosovo import implies there is a low level of competitiveness and the possibility to increase the low level of import substitutes. Besides the low export base, the main problem is the low level of its diversification, where over 50% of Kosovo's exports consist of metals. This characteristic has a direct impact on the sustainability of export, which is highlighted in the period, as the present one, the decline in prices.

Graphic 3. Share of components in GDP



Source: Projections of the Macroeconomic Unit, MoF

It is assumed that approximately 60% of the variance in metal price is explained by movements in China's⁶, industrial production, which justifies the linkage of the global price of metals with the demand in industry in China. Given that, according to the latest data, the structure of economic growth in China has shifted from investment (in the industry) to consumption, which has caused the decline in industrial production in this country, there is reason to believe that metal prices will keep the same trend.

Thus, exports of goods are expected to grow on average 7.8%, considering the impact of global developments and the Government's efforts to improve the business environment in the country in order to stimulate the diversification of export (in the medium term). On the other hand, the export of services is expected to grow by 5.4% on average, dominated by export of travel services. In total, exports are expected to grow by 6.1% on average until 2019.

In addition to the projections for increase in investments, export of goods, and consume, import of goods are expected to grow by 6.1% on average. Meanwhile, imports of services is dominated by transportation and travel. The trend of imports of transportation services is significantly affected by movements in imports of goods since the beginning of constructions on Road 6 expected to determine a large share of the increase in imports of construction services. Thus, import of services is expected to record an average growth rate of 6.6% for the period 2017-2019.

Given the above discussion on prices and the fact that prices in Kosovo closely monitor fluctuations in international prices, it should be noted that this correlation is more pronounced in times of inflation pressures than in times of deflation⁷. Consequently, it is reasonable to expect that, although prices are expected to continue to decline globally, in Kosovo they will stabilize at an average of 1.3% over the period 2017-2019.

External Sector

In the medium term 2017-2019, a deterioration of the current account (to reach approximately 630 million euro in 2019) is expected, mainly driven by public infrastructure projects and the repatriation of profits, thus counteracting the positive effect of increase in exports.

During the forecast period, total imports is expected to grow at an average rate of approximately 5%. The structure of the products imported in Kosovo is expected to remain the same, dominated by mineral products and imports of food products, beverages, and tobacco; Considering that manifesting of measures that the Government has taken in recent years to support local production takes more time.

⁶ IMF Direct, Metals and Oil, Arezki & Matsumoto, 2015; <https://blog-imfdirect.imf.org/2015/09/14/metals-and-oil-a-tale-of-two-commodities/>

⁷ For an extended discussion on the relationship between the price level in Kosovo and the international Programme for Reform Economy (<https://mf.rks-gov.net/en-us/Reports/Reports-and-Publications/National-Economic-Reform-Programme>) provides an analysis that particularly handles this issue.

Table 1 provides information on the structure of export, which shows that about half of Kosovo's total exports consist of base metals, while we see that while there is an increase in the export of foodstuffs and plastics (including articles thereof). Given the structure of the trade deficit, the recent measures taken by the Government aimed at stimulating local production in order to stimulate Kosovo exports after a period of import substitution, especially in food products were these amenities are expected to interact with another initiative of Government that is subsidies for agriculture

Table 1 Share of exported goods in the total of exports, by main groups

Description	2013	2014	2015
Base metals and products thereof	49.0%	51.6%	48.5%
Mineral products	16.5%	13.8%	12.8%
Foodstuff, drinks and tobacco	6.6%	6.3%	7.8%
Plastic, rubber and products thereof	6.2%	5.0%	7.2%
Other	21.8%	23.3%	23.7%

Source: calculations based on KAS data for foreign trade

These initiatives are carried out taking into account the fact that Kosovo must begin to fully utilize its all opportunities offered by trade agreements such as CEFTA, SAA (which came into force on April 1, 2016) and the agreement with Turkey. It is important for the Government that Kosovo products are ready for foreign markets in order to be able to rely on stable export in improving trade deficit.

Thus, total exports during the period 2017-2019 are expected to grow at an average rate of 6.1% (with estimates of exports of goods and services in the section above), whereas by 2019 it is estimated that will mark a trade balance -36.7% of GDP

Remittances, which account for the bulk of secondary income account, continue to contribute to reducing the current account deficit. After a slowdown due to the global financial crisis in European countries, remittances increased significantly. In 2015 it recorded 752 million euros in remittances; an increase of 8.5% compared with the previous year, a growth rate which is expected to be moderate after an improved economic environment in Kosovo in the future. Thus, remittances are expected to grow at an average rate of about 6%, holding a share of GDP of about 13% for the period 2017-2019.

FDI declined significantly in 2014, largely due to the sale of shares of several foreign companies operating in Kosovo to residents and distribution of super-dividend⁸ of several foreign companies operating in Kosovo.

⁸ Super-dividend implies a dividend that is higher than the profit of the Company for the respective period. The super-dividend distribution lowers the foreign capital share, which implies a decline in FDI

However, FDI grew considerably in 2015. According to data from CBK, until December of 2015 FDI inflows amounted to 338 million euro, an increase of over 100% compared to 2014. However, care should be taken in the interpretation of this growth given the political situation in the country in 2014 that may have negatively affected economic security agents. This gets clear if we compare FDI recorded in 2015 with the one recorded in 2013, where we dealt with an increase of around 20%. Over 50% of FDI in 2015 were destined to the Real Estate sector, around 189 million euro which corresponds to the positive developments in the construction sector in 2015. Over the 2017-2019 period, FDI is projected to continue to increase, mainly due to a better internal and external environment following the global financial crisis.

2.4 Fiscal Framework

The fiscal strategy designed for the medium term remain supportive of economic development and at the same time is oriented to maintaining macroeconomic stability.

The Government of the Republic of Kosovo continues to have its fiscal policy as its main objective for maintaining sustainable fiscal position and responsible management of public finances. To prove this commitment, the Government has continued with the development and implementation of macro-fiscal framework respecting fiscal rule determined by LPFMA. The purpose of such a mechanism is the orientation of the level of public debt towards a margin that keeps public debt below the limit set by law (40% of GDP).

During 2015, the Government has negotiated 22-month Stand-By Arrangement (SBA) with the IMF for financial support of 184 million euro. Given that Kosovo is not characterized by any fiscal risk or balance of payments and having no monetary policy, this program has a special focus in stimulating sustainable economic growth of the country. Given the relationship that Kosovo has with the IMF, as one of the main partners in terms of development of macro-fiscal framework, Kosovo has significantly defined the space to accommodate the new policies stemming from its documents strategic

Given the high structural barriers the economy is now facing, the Government of Kosovo has amended the LPFMA, under the program with the IMF, in order to operationalize the provision of investment with the aim of facilitating investment in infrastructure development projects, financed by international financial organizations (Box 1). In this context, the Government is committed to implement the program of structural reforms set out in its strategic documents

The government has also introduced the Rule of salaries based on the law. A mechanism which limits the increase in public sector salaries by increasing the nominal GDP aiming at a better linkage between the public sector salaries and productivity. In order to increase the efficiency of expenditure and transparency, the government in its reform agenda foresees the implementation of centralized procurement and e-procurement. To this end, during 2015, the government approved a list of six products that will be subject to centralized procurement for all central budget organizations. Furthermore, over the medium term the Government intends to further proceed with gradually expanding the list of goods and services that will qualify for centralized procurement, and cover all budget organizations, including municipalities and agencies. In regard

to procurement, the government has drafted legislation that, in the medium term will make the use of e-procurement mandatory for all budget organizations.

During 2015, the government has implemented tax policy changes as outlined in the Government program. In this context, the government has introduced the VAT rate reduced to 8% for a number of basic products, and increased the standard rate of VAT at 18%. In addition, to further promote competition in the domestic market and to reduce tax evasion, amendments were made to the Law on VAT to reduce the threshold of 50,000 euro to 30,000 euro. Aiming to indirectly create incentives for the private sector who face difficulties in accessing finance and high cost of capital, fiscal reform includes VAT exemption on import of production lines and inputs for local manufacturers. Similarly, the IT devices are exempt from VAT at the border until the feature is introduced reduced rates of VAT for pharmaceutical products⁹. At the same time, these goods are exempted from customs duty, a measure which has regulated competition in this market.

2.4.1 Government revenues and expenditures

2.4.1.1 Forecasts of the budget revenues for 2017-2019

Forecasted revenues for 2017-2019 period reflects the expectations about the rotation of key indicators according the country's economic growth scenario. More specifically, the tax revenue forecast is made using the effective rate of each tax based category for which the forecast is made. Therefore, this MTEF presents revenue forecasts by the type of tax classified into direct and indirect taxes. Revenue forecasts also takes into account the improvement of the efficiency of revenue collection agencies as well as the potential effect of the measures, legislative changes, agreements and major capital projects in the regular budget revenues.

The total budget revenues for the 2017-2019 period are expected to grow at a rate of 3.6% amounting to 1,779 million euros. This increase is mainly due to tax revenues, which to some extent are expected to follow the trend of expected economic growth but also reflect the effect of measures taken on revenues in 2015. In 2017, total revenues will show a slower growth, mainly driven by one-off revenues, the collection of which is expected to be lower compared to previous years (see table 2).

⁹ Earlier, pharmaceutical products were VAT exempted and at the same time subject to customs fees. This has promoted unfair competition in favour of products originating from countries with which Kosovo has had a free trade agreement

Table 2 Structure of budget revenues, in million euro

Description	2015	2016 Budget Proposal	2017 Proj.	2018 Proj.	2019 Proj.
1. TOTAL REVENUES	1,472	1,601.8	1,643	1,701	1,779
1.1 TAX REVENUES	1,269	1,370	1,425	1,482	1,558
Direct taxes	198	222	237	248	262
Corporate income tax	68	71	76	80	85
Personal income tax	109	124	130	137	145
Property tax	20	20	25	25	26
Other direct taxes	2	6	6	6	6
Indirect taxes	1,107	1,173	1,229	1,280	1,345
Value Added Tax (VAT)	611	667	711	755	799
Custom duty	131	126	112	104	107
Excise	361	374	400	415	434
Other indirect taxes	3	6	6	6	6
One-off revenues from collection of tax debts	0	10	0	0	0
One-off tax revenues from SOEs debts	0	8	3	0	0
Tax returns	-36	-43	-44	-46	-49
1.2 NON-TAX REVENUES	189	219	205	207	209
Taxes, fees and other from central BOs	85	96	96	97	98
Taxes, fees and other from local BOs	38	60	54	54	54
Concession fee	7	10	10	11	12
Royalties	30	30	30	30	30
Revenues from the liberalisation of mobile phone market	15	0	0	0	0
Revenues from dividend	15	23	15	15	15

Source: Treasury Department and DPE projections

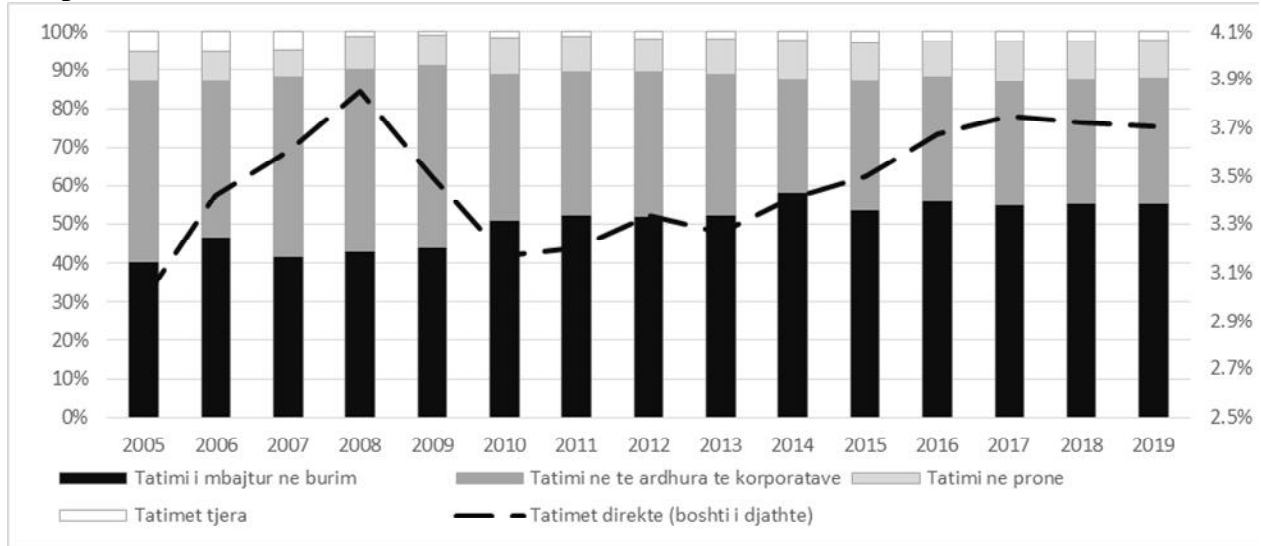
Forecasting of direct revenues

Direct revenues include revenues collected from wealth and income taxes; i.e. these revenues include revenues from corporate income tax, withholding tax and property tax. Such revenues forecast was made based on the movement of the tax base by keeping the effective tax rate unchanged from that estimated for 2016. Consequently, the direct revenues are expected to amount to 262 million euros at the end of the forecast period or 3.7% of GDP (see chart 4)¹⁰.

Direct revenues are expected to grow at an average rate of 5.6% during the forecast period and reach 16.8% of tax revenues at the end of the forecast period (from 16.2% as planned in 2016). The highest contribution to the growth of revenues direct is expected to yield revenues collected from income withholding tax (2.9 percentage points) partially due to a larger but also as a result of the forecast for increased economic activity and measures aimed at narrowing the tax gap for the types of taxes that falling into this category.

¹⁰ The GDP from which indirect taxes are removed and social transfers and subsidies granted by the state are added is used as a basis for forecasting tax revenues.

Graphic 4 Structure of direct taxes as % of GDP



Source: Treasury Department and DPE projections

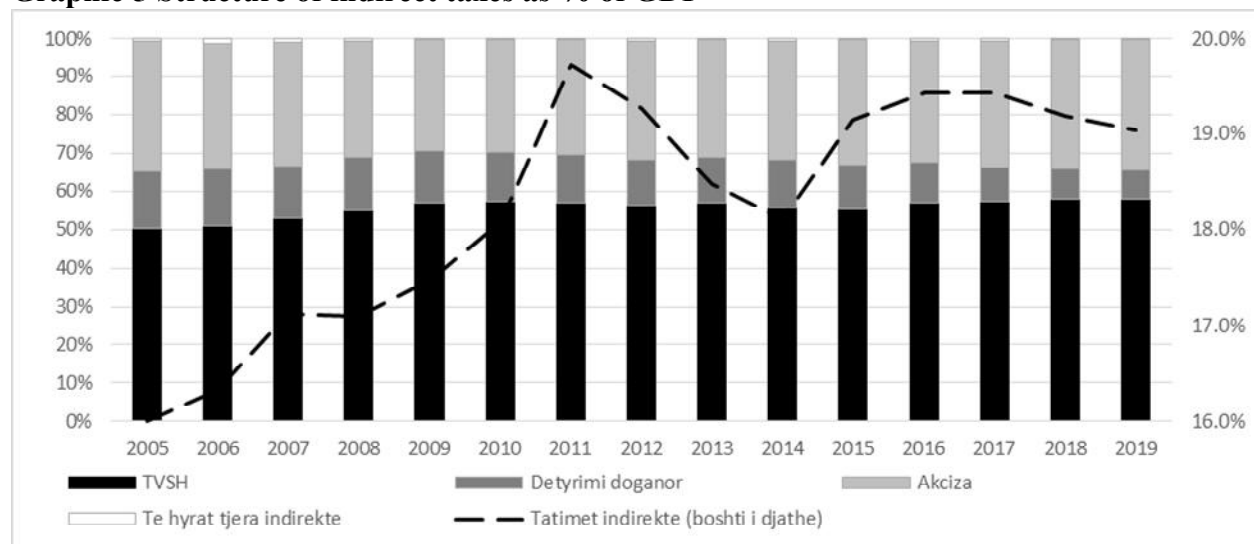
In general, direct taxes are expected to maintain the same level in relation to GDP compared with the level expected to arrive in 2016. Property tax revenues from are expected to grow by 20 million euros as foreseen in 2016 to 25 million euros in the coming years to reflect the start of the implementation of the land tax.

Forecasting of indirect revenues

Indirect revenues follow the trend of imports to a significant extent. However, the correlation of VAT collected within the country is higher in relation to total consumption. Therefore, the projection of this category of revenues takes into account the forecasts on imports of goods movement and trend of disposable income in the private sector.

Indirect revenues are expected to grow at an average rate of 4.7% over the period 2017 to 2019, amounting to 19% of GDP (or EUR 1,345 million) at the end of the period. Occupying the most important place in this category of revenues, VAT revenues are expected to provide the largest contribution (3.0 percentage points) in indirect revenue growth. However, the forecasted trend of increase in VAT revenues does not reflect the trend of the tax base in general to the fact that the entry into force of the SAA is expected to have an indirect impact on VAT revenues by reducing tax base (by gradual reduction of customs duty for certain products). The forecast for VAT revenues also reflects the full effect of the escalating rate of VAT and exemption from VAT of production lines and inputs for local manufacturers in revenues from this source.

Graphic 5 Structure of indirect taxes as % of GDP



Source: Treasury Department and DPE projections

The increase in indirect revenues is also expected to occur from revenues collected from import of excise products (which is expected to contribute with an average of 2.2 percentage points) while revenues from customs duties are expected to fall gradually, thus reflecting the entry into force of the SAA. Considering that the excise tax applied on import quantities of products subject to this tax, the accelerated growth of revenues reflects the growth forecast for the price of these products during the observed period. Revenues from excise taxes also reflect the estimated effect on revenue as a result of the application of excise duties on tobacco over the medium term. Therefore, revenues from excise taxes are expected to maintain a level of around 6.5% of GDP while revenues from customs duty is expected to fall by 2.1% in 2016 to 1.5% of GDP at the end of the forecast period.

Forecasting of other budget revenues

Budget revenues collected by central budget organizations are expected to follow the trend of the past years in relation to GDP. Consequently, central revenues are expected to reach 98 million in 2019 or about 1.5% of GDP on average over the forecast period.

In the context of non-tax revenues, revenues from royalties are expected to be collected in an annual value of 30 million euros mainly reflecting revenues from the exploitation of lignite from Kosovo Energy Corporation and other companies exploiting natural resources. Similarly, revenues from concession fees are maintained at the same value compared to 2016, to reflect the payment of liabilities relating to the concession of Prishtina International Airport to the Government of the Republic of Kosovo.

A similar trend is expected to follow municipal own source revenues as well, excluding property tax. As a result, at the end of the forecast period, these revenues are expected to maintain the same level of 2016 of 54 million euros, corresponding to 0.8% in relation to GDP.

2.4.1.2 Forecasting of budget expenditures for 2017-2019 period

The overall government expenditure budgeted for 2016, and forecasts for 2017, 2018 and 2019 are based on the existing fiscal space made available through planning revenues and restricted in the required level of budget deficit, according to the fiscal rule and liabilities arising from Stand by Arrangement entered into with the IMF in 2015. This form of budgeting and planning discipline serves as a guarantee to ensure macro-fiscal stability in the planning stage. Consequently, the medium-term expenditure planning, in addition to special care paid to adherence to the deficit level under the fiscal rule, is built on the premise of increasing the share of capital expenditure in the total of expenditures. This is a way to ensure a modern infrastructure that directly serves to the overall economic development and social welfare. In addition, as a result of the large needs of capital investment, this framework has created additional space (more than stipulated by the fiscal rule) for the adoption of strategic capital development projects financed through agreements with international financial institutions (IFIs). Moreover, this planning has maintained the adequate funding level of running costs, ensuring proper funding for public services and adequate financial support for social issues.

Based on these pillars of careful planning, Government overheads as a percentage of gross domestic product are planned to amount to 28.4% on average over the planning period. Based on the forecast for the trend of total budget revenues, the Government overheads in the last year planning are expected to increase to about 17.7% compared with the budgeted expenditure in 2016. This significant increase in overheads is influenced by the increase in capital spending as a result of additional spaces created in this category of expenditure by the investments clause.

As we can see from the following table, despite this sharp increase in the Government overheads, recurrent expenditures are expected to grow at a slower pace. However, despite the slowdown in growth, social support is expanded and a higher financial support to social groups is provided. The rationalization costs (mainly in additions, transfers, etc.) and increasingly better performance in the collection of revenues and improvements in the management of public finances has enabled the implementation of a series of additional measures to improve the welfare social, such as:

- Increased of social assistance to families in need by 25%
- Implementation of the Law on Pension Schemes financed by state
- Implementation of compensation of work experience of public servants
- Maintaining the level of subsidies to the agricultural sector
- Provision of pensions to veterans and other war categories
- Accommodation costs arising from the integration agenda of Kosovo

- Increased financial support to the prosecution and the judiciary

Specifically, the dynamics of Government overheads over the medium term is planned as follows:

Table 3: Structure of expenditures, in million euro

Description	2015	2016 Budget	2017 Proj.	2018 Proj.	2019 Proj.
2. Total Expenditures	1,570	1,684	1,821	1,903	1,982
2.1 Current spending	1,154	1,211	1,258	1,292	1,330
<i>Wages and Salaries</i>	529	548	560	585	619
<i>Goods and Services</i>	206	209	218	220	222
<i>Subsidies and Transfers</i>	419	453	478	485	487
2.2 Capital expenditures	404	463	558	610	650
<i>Out of which: capital spending funded by the regular budget</i>			344	383	419
<i>Existing capital expenditures funded by IFI</i>			24.1	26.6	30.8
<i>Existing capital expenditures from internal borrowing</i>			100	100	100
<i>Existing capital expenditures funded by the investments clause</i>			90	100	100
3. Primary balance	-98	-82	-177	-202	-203
4. Overall balance	-112	-107	-207	-232	-233

Wages and Salaries – The wages and salaries category of expenditure has historically represented the bulk of the current expenditure. The same trend is planned to continue during the planning period. This category is expected to gradually increase, mainly owing to the allocation of funds for implementation of the health insurance scheme, and partially because of the implementation of the collective agreement relating to work experience. As a result of the accelerated increase in GDP, expenditures for this category are planning to reduce their annual share in GDP in the medium term. Consequently, the annual increase in spending in this category is scheduled to be at an average rate of approximately 4% over the medium term; thus recording an increase of about 13% at the end of 2019 compared to the budgeted level of spending during 2016. Moreover, in cooperation with the IMF, the Government of Kosovo has made the necessary legal provisions which would serve as care mechanisms to the wage bill in the public sector. This legal provision (Rule on salaries) ensures that the increase in the public sector wage bill is in line with the overall economic development in the country. Consequently, pursuant to Rule on salaries, the increase in public sector wage bill will be in proportion to the nominal growth of gross domestic product. This legal mechanism provides stability in the compensation of public sector servants and also ensures that competitiveness between private and public sector workforce is equal and their compensation to be led by a factor like (growth economic).

Goods and services – In order to rationalise Government spending on Goods and Services as well as the inclusion of new initiatives which in themselves bear additional costs to the budget, expenditures in this category are planned to maintain the same share in GDP as in previous years,

by recording only a small decline in 2019. As a result, expenditures for this category are expected to mark quite a low annual increase, around 2% the average over the planning period

Subsidies and Transfers – having the second largest share in current spending category, expenditures for Subsidies and Transfers are planned to have a moderate increase over the reporting period as a result of new initiatives of spending in this category. In addition, this category of expenditure reflects the implementation of the Law on War Veterans and the natural growth of beneficiaries in other schemes. Moreover, this expense category includes subsidies for the agricultural sector, and reflects the cost of the change in pension law. Consequently, the costs for this category are planned to reach 487 million in the end of 2019, a figure which represents the increase in mass of about 7% compared with budget expenditures for 2016. Furthermore, in line with Government objectives and previous plans for privatization and stabilization of functioning of public enterprises, subsidies to public enterprises are projected to continuously decline during the planning period.

Capital expenditures – after a contraction during 2014, capital expenditures are planned to have a notable increase over the medium term. Consequently, from a level of around 26% of the share in overheads of 2014, capital expenditures are expected to amount to around 33% of the Government overheads in the last year of planning. Also, this category of expenditure is planned to record a growth of about 40% in the end of 2019 compared to budgeted expenditures in 2016. Consequently, this MTEF foresees an average annual increase of about 12% of the capital expenditure during the reporting period. This significant increase of capital expenditures budget is a reflection of the government's program to focus on the overall economic development. From this starting point and to accommodate the needs of the local economy for major capital investments, a possibility was created in accordance with the through an investment clause (see Box 1) for a significant increase in capital investment. Consequently, the implementation of new capital projects is based on a priority list which considers the impact of these investments on the economy and employment. This list of priorities which is still in the processing stage includes:

- *Rehabilitation of Railway 10*
- *Construction and modernisation of the railway line Prishtinë – Fushë Kosovë – Prishtina Airport “Adem Jashari”*
- *Rehabilitation of Ibër-Lepencit*
- *Rehabilitation of regional roads*
- *Construction of the Road N9 Prishtinë - Pejë (SEETO Road 6 A) from Kijevë -Klinë to Zahaq*
- *Overall rehabilitation of the eastern and southern railway line (crossborder with Serbia – Podujeva – Fushë Kosova, Klina – Prizren)*
- *Extending the irrigation system of “Radoniqi” Company – stage II*
- *Construction of the new Highway Prishtinë-Gjilan-Dheu i Bardhë*

2.4.1.3 Financing of deficit, debt level, developments and outlook for the coming years¹¹

Budget deficit, financing and fiscal rule

Starting the implementation of the fiscal rule from 2014 onwards has conditioned mature planning of public spending, by limiting the budget deficit ceiling of 2% of GDP. On the basis of this policy, the overall fiscal position over the period is estimated to remain stable.

Notwithstanding the increasing trend of overall budget for the medium term, the share of capital expenditure remains high and at the same time overall budget deficit over the medium term is expected to be below 2% of GDP. The total medium term deficit, as foreseen in the fiscal framework is planned to be financed by domestic borrowing, external borrowing and one-off revenues, including revenues from the liquidation of SOEs. The external debt is planned to be developed for the purpose of financing projects which are already included in the existing framework and projects in lending to non-budgetary organisations, for which the government acts as guarantor (reaching the cumulative value of 27 million euro for the period 2017-2019)

Foreign borrowing, as reflected in the fiscal framework for the medium term (Table 4) is planned to reach a cumulative value of 399 million euro for the three-year. External borrowing presented in Table 4 includes borrowing for financing the budget of on-going projects and provides disbursement of funds from the IMF in the amount of 16 million euros (for 2017). The level of external debt includes borrowing for projects expected to be accommodated under the provisions of investment clause that is expected to reach an annual value of 90 million euro.

Table 4: Overall budget deficit and funding

Description	2015 Current	2016 Budget proposal	2017 Proj.	2018 Proj.	2019 Proj.
In million euro					
1. PRIMARY BALANCE	-98	-82	-177	-202	-203
Interest payments	-14	-26	-30	-30	-30
2. Overall balance (according to fiscal rule)	-80	-95	-108	-123	-124
3. Total Balance	-112	-107	-207	-232	-233
4. Financing	-112	-107	-207	-232	-233
4.1 Net financing from external resources	37	80	79	104	62
Inflows:	66	149	140	128	131
Withdraws	66	149.0	140	128	131
<i>Out of which: IMF</i>	36	100	16	0	0
<i>Under-borrowing</i>	22	23	10	1	0
<i>IFI according to investment clause</i>			90	100	100
Outflows:	-29	-69	-61	-24	-69
Payment of debts principal	-29	-69	-61	-24	-69
4.2 Net financing from internal resources	75	27	128	128	171
Inflows:	472	425	474	469	424
Internal borrowing – new emissions	121	100	100	100	100
Internal borrowing – re-financing	261	281	305	300	285
One-off financing	61	33	60	60	30
Financing from use of stock of OSR (PAK, municipalities)	28	12	9	9	9
Outflows:	-294	-307	-318	-304	-288
Re-financing of domestic debt	-261	-281	-305	-300	-285

¹¹ This section is drafted in cooperation with the Debts Unit (Treasury, MF)

Under-borrowing	-29	-23	-10	-1	0
Outflows increasing the stock level of OSR (PAK, municipalities)	-4	-3	-3	-3	-3
Net difference in bank balance	103	92	28	37	-35
5. CLOSING BALANCE	204	295	323	359	324

Source: Treasury Department and DPE projections

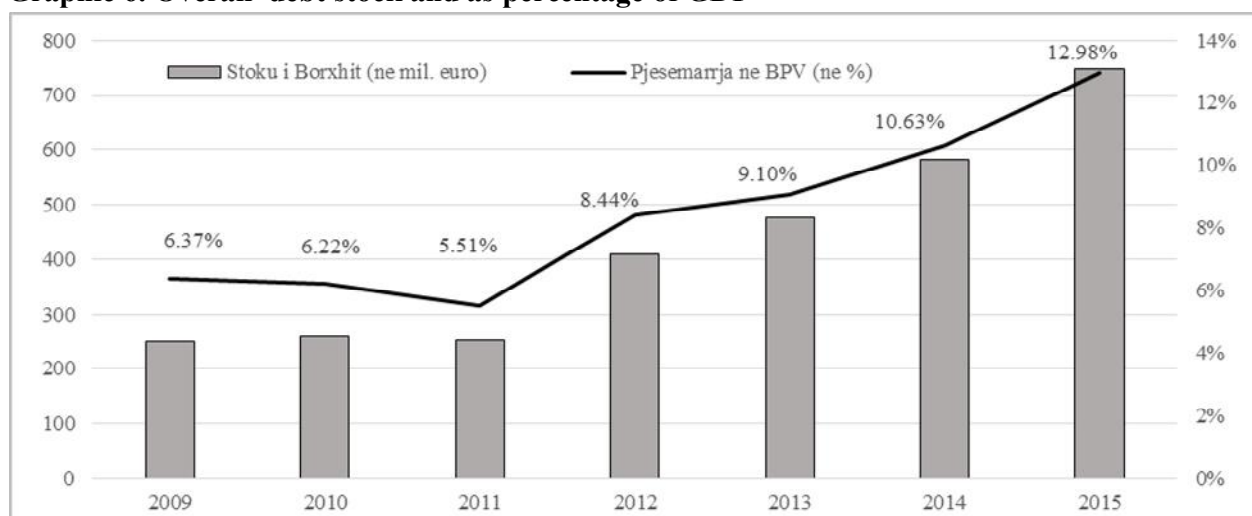
Occupying an important place in the financing of the fiscal framework, payment of principal is expected to reach a cumulative value of 154 million, is mainly related to repaying debt to IMF from the first program with this institution. Internal borrowing is expected to reach a value of 300 million euro (cumulative) for the three year period. The one-off revenues from the free funds from the liquidation process constitute an important part of financing, which is expected to reach a cumulative value of 150 million euros over the period.

Kosovo's Government is committed to maintain fiscal stability reserve at a level that is considered to be sufficient to manage liquidity risk and ensure proper management of the cash budget. Consequently, by the end of the planning period, the bank balance is estimated at an average 4.5% of GDP

State debt level, developments and outlook in coming years

Kosovo Government's overall debts have historically been relatively low. As we can see from the graphic below, the Kosovo's debt has marked a gradually increasing trend. From the data below, we can see that the highest increase was recorded in 2012. This was due to the opening of the internal market, namely, the issue of Securities by the Government of Kosovo.

Graphic 6. Overall debt stock and as percentage of GDP



Source: Division for Debts Management, Treasury MoF

Total debt at the end of 2016 is estimated at 977 million euros, or 16.73% of GDP. So far, with the support of the Ministry of Finance (MF), only one agreement for municipal debt has been signed which amounts to 2.5 million Euro. Also, the Kosovo state debt portfolio features a state

guarantee issued in 2014 in the amount of 10 million euros for the Kosovo Deposit Insurance Fund, which has signed an agreement for a credit line with the European Bank for Reconstruction and Development (EBRD). While during 2016 a guarantee for the Urban Traffic Project worth 10 million euros, already negotiated, is planned to be issued.

For the first time in the history of the debt portfolio at end December 2015, the amount of Securities issued in the domestic market as a percentage of total debt has surpassed credit borrowings from external creditors to 12:44%. This part of the debt portfolio of Kosovo consists of debt instruments with maturities from 3 months to 5 years. MoF since the beginning of the emission of securities (2012) focused on budget financing mainly from the domestic market, contributing to the development of the market. Through securities, the Kosovo government has borrowed funds on favourable terms and has contributed to the development of Securities Market. By the end of 2016, the internal debt is expected to reach 481 million euros in or 8.32% of GDP.

The remaining half of the Kosovo's state debt is the external debt which consists of programs with the International Monetary Fund (IMF) loans from the World Bank (WB), the German Development Bank (KfW), European Bank for Reconstruction and Development (EBRD) and other creditors with little participation. Excluding IMF programs, all other borrowings are related to the financing of specific projects in different sectors. By the end of 2016, the stock of external public debt is expected to reach 496 million euro at 8:32 or% of Gross Domestic Product (GDP).

Due to favourable loan conditions, in the medium term, the government aims to orient easily to international borrowing. In this regard, cooperation and communication with international financial institutions will be increased, particularly with developments ones, to introduce the priority projects for the economy and therefore in financing these projects through preferential loans from these institutions.

Moreover, the Ministry of Finance intends to further develop the internal market of the Kosovo Securities by stimulating and supporting the extension of the investor base. The extension of the investor base is planned to occur by issuing new debt instruments which in some cases will be targeting new groups in the market with great investment potential.

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

2.5 Development potential and fiscal risks for 2017-2019

As a continuation of preliminary estimates for 2016-2018 MTEF, macro-fiscal baseline scenario is accompanied in the 2017-2019 medium-term with potential developments that could lead to a higher economic growth and towards a broader fiscal space. At the same time, this scenario is also accompanied by risks related to fiscal obstacles inherent in the structure of the Kosovo economy. Compared with the previous MTEF, it estimated that there were significant changes in Source fiscal risks. At the same time, the likelihood of the realization of the development potentials are raised.

A quantified assessment of development potentials and fiscal risks in the medium term through alternative scenarios is presented in January this year as part of the reform program in Economics

2.5.1 Development potentials

Addressing the infrastructure gap through Investment Clause - After amending the Law on Public Finance and Accountability, respectively Section 22A of the Law, the Government of Kosovo has created the possibility of using favourable opportunities for investment from international financial institutions to address the needs of high modernization of public infrastructure. Through this measure, it is expected that over the medium to generate additional investment in the average value of 1.5% of GDP.

Two major development projects: development of new capacity for the production of energy and development-resort resort Brezovica - In addition to addressing one of the most prominent economic structural risks of Kosovo, namely the supply of reliable electricity, the construction of new capacities for energy development can raise the level of aggregate investment in the economy. With a total value of about 20% -25% of the average annual GDP over 2017-2019, the impact of the macro-fiscal scenario will depend on the distribution of investment over the years. An equal distribution within five years of the investment value is expected to lead to an acceleration of economic growth of at least one percentage point of GDP, in real terms. At the same time, the project of development of the tourist-resort Brezovica expected to have a similar effect, medium and long term. The effect is expected to accelerate the growth medium investment of at least 3.5% in real terms

The economic impact of the Stabilization and Association Agreement (SAA) - The ultimate goal of this agreement is to strengthen the foundations of a functioning market economy, and as such, the agreement is expected to have multiple impacts on the economy. Macro-fiscal scenario for the medium term 2017-2019 has taken into account the effect of losses from free trade provisions, namely the removal or reduction of customs duty on products originating from the European Union. These losses in budget revenues are estimated at an average of about 25 million euros per year. But at the same time, as part of the macro-fiscal situation are not calculated effects of the transfer of this amount in revenues available to the private sector. Consequently, the economic effects of the SAA have the potential to produce higher economic growth than the forecasts of macro-fiscal baseline.

Effects of the entry into force of the Law on Strategic Investments - Government of the Republic of Kosovo in August 2015 approved the Concept Paper on Strategic Investment in the Republic of Kosovo, whose goals are in line with the objectives of the Government Programme.

Draft itself provides criteria as the total value of investments, opening of new jobs, providing new technologies to enhance the competitiveness and efficiency of investment, and increasing the level and quality of life of citizens and protection of the environment and customer. It is worth mentioning that according to these criteria and the establishment of the Commission for Negotiation of Strategic Investment Agreements, the Government may grant the right to use of state property of the Republic of Kosovo to foreign investors without having to open tendering procedures.

This initiative is expected to eliminate potential barriers to absorption and implementation of foreign investment, such as excessive bureaucracy, lack of transparency, unfavourable legal infrastructure. Thus, this initiative establishes procedures and rules favouring, facilitating and accelerating the sectors that are estimated to have an impact on economic growth and employment

2.5.2 Fiscal risks

Systematic risks (macroeconomic)

Dependence on Remittances: As a structural feature of the Kosovo economy, the impact of the economic growth model continues to be affected by the flow of remittances high. While remittances provide an important source of consumption and household investment, their flow is influenced by external factors, i.e. changes in the economies in which the Kosovar diaspora is concentrated. Shocks in the economy can be transmitted in the Kosovo economy, and have a negative effect on fiscal space on which this MTEF is build.

Low diversification of exports - basic metals and articles of basic metals and mineral products account for over 50% of volume and 40% of the value of exports of goods in Kosovo. Consequently, exports of goods are more exposed to the impact of metal prices and external demand for such products. This makes the low diversification of exports identified as risk permanent basis macro-fiscal scenario.

Out-dated capacities for energy production - are also a source of risk to macro-forecasts of fiscal scenario presented to the MTEF 2017-2019. Potential shocks in energy production causing rising cost of energy and have an impact on energy consumption as well as in other economic sectors, but that can be followed for assistance with budget pressures for the sector. This risk is related to the structural problems inherent to the Kosovo economy is expected to be addressed through capacity building new energy.

Specific risks (from politics)

Narrowing the tax gap - as in previous periods, the revenue projections are based not only on increasing revenues as a result of macroeconomic developments, but also in bridging the tax gap. Therefore, the projected fiscal space which is based on the MTEF is dependent on the success of administrative and incentive policies for narrowing the tax gap.

Overcoming the foreseen policy costs – the policy costing quality foreseen as part of the budget process is a vital element in the accuracy of compiling estimates for 2017-2019 MTEF. Leaving aside the technical difficulties costing policies, any underestimation of the costs of public policy by Budget Organizations can be a source of fiscal risk for the medium term

2.5.2.1 Fiscal risks outside budget

Given that the Government has no off-budget funds, such as extra-budgetary funds of social security, or publicly owned bank, the off-budget risk in the case of the Republic of Kosovo is extremely limited. From the Central Government perspective, there are two sources of extra-budget risk addressed as part of the risk analysis for the MTEF

Risks Related to Ownership of Public Enterprises – the Government of the Republic of Kosovo owns 18 Public Enterprises. According to the preliminary financial data (un-audited), in 2015 their carrying amount was €638.77 million, or around 2.80% less than in the previous year. At the same time, the carrying amount of liabilities in 2015 was €615.90 million, or 4.34% more than in the previous year.

During 2015, the Central Public Enterprises are characterized by an increase in sales revenues to 2.93%, while foreign contributions in 2015 reached 8.9 mil. Euro, thus marking a decline of 12.12% compared with the previous year. In addition, long-term liabilities show an increase of 8.04% reflecting increased long-term funding through government-guaranteed debt.

Despite an increase in revenues from sales, assets of public enterprises have declined by -1.05%, reflecting the increase in staffing costs and reduced funding from abroad in the form of grants from both the shareholder of the development partners.

As a result, , the focus of further financial self-sustainability and operational corporate public ownership is necessary over the medium term in order to keep in control of possible risks from the contraction of corporate assets, which could jeopardize the activation of guarantees issued by the Government Central.

As well as in the medium term, publicly owned enterprises should take extra care in disclosing of external situations to avoid loss of liquidity and the ability to cover operating expenses. From the Central Government perspective, this could be presented as a risk of increasing demand for grants/subsidies.

2.6 Annex

Table 1 Main macroeconomic aggregates

Description	2014	2015 val.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
Real growth rates (in %)						
GDP	1.2%	3.6%	3.8%	3.9%	4.0%	4.0%
GDP per capita	2.1%	3.4%	3.5%	3.7%	3.8%	3.8%
Consumption	3.7%	2.2%	3.0%	3.1%	3.2%	3.0%
investments	-5.0%	9.2%	7.6%	6.6%	8.0%	7.6%
Export	16.7%	1.1%	3.0%	5.2%	6.3%	6.7%
Import	8.4%	2.6%	3.9%	4.3%	5.5%	5.1%
Price changes (in %)						
ICK	0.4%	-0.5%	0.2%	0.9%	1.3%	1.6%
Deflator	3.3%	0.1%	0.8%	1.0%	1.4%	1.8%
Import prices	-0.6%	-0.7%	-0.3%	0.9%	0.9%	1.5%
Government Budget (in % of GDP)						
Revenues	24.0%	25.3%	26.3%	25.8%	25.3%	25.0%
<i>Out of which:</i>						
Tax revenues	20.9%	22.0%	22.7%	22.5%	22.2%	22.1%
Non-Tax revenues	3.1%	3.3%	3.6%	3.2%	3.1%	3.0%
Expenditure	26.3%	27.0%	27.6%	26.6%	26.0%	25.2%
<i>Out of which:</i>						
Current spending	18.9%	20.0%	20.1%	19.3%	18.6%	17.7%
Capital spending and net borrowing	7.4%	7.0%	7.5%	7.3%	7.4%	7.5%
Interest payment	0.2%	0.3%	0.4%	0.5%	0.5%	0.4%
Primary balance	-2.3%	-1.7%	-1.3%	-0.9%	-0.6%	-0.2%
Overall balance	-2.5%	-2.0%	-1.7%	-1.4%	-1.1%	-0.6%
Overall balance (according to fiscal rule)	-2.4%	-1.8%	-1.5%	-1.2%	-1.0%	-0.5%
Balance of savings/investments (in % of GDP)						
Primary net incomes from abroad	2.0%	1.3%	1.5%	1.8%	1.9%	2.0%
Secondary net incomes from abroad	21.0%	19.9%	19.4%	19.5%	19.6%	19.6%
<i>Out of which: remittance</i>	12.5%	13.0%	13.2%	13.4%	13.6%	13.6%
Investment	25.8%	27.1%	28.1%	28.8%	29.8%	30.9%
Current Account Balance	-7.8%	-9.4%	-9.6%	-9.0%	-9.0%	-8.8%
Trade Balance	-37.0%	-36.5%	-36.4%	-36.4%	-36.7%	-36.7%
National Gross Savings	17.9%	17.7%	18.5%	19.7%	20.8%	22.1%
Private Savings	14.1%	12.5%	13.6%	15.2%	15.8%	16.9%
Main aggregates (in millions euro)						
GDP	5,568	5,774	6,039	6,333	6,674	7,065
GNIA	6,853	7,001	7,303	7,684	8,108	8,588
GDP per capita (in euro)	3,085	3,193	3,332	3,488	3,668	3,876
GNIA per capita (in euro)	3,532	3,651	3,823	4,018	4,235	4,481
Remittance of employees	694	752	798	849	905	963
population (in thousands)	1,805	1,809	1,812	1,816	1,819	1,823

Source: KAS and EPD projections

Table 2 nominal GDP and its components

Description	2014	2015 Value.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.
<i>In millions euro</i>						
Consumption	5,856	5,977	6,185	6,434	6,718	7,029
Private Consumption	4,926	5,060	5,248	5,495	5,797	6,100
Public consumption	910	897	917	919	901	909
General Government	724	729	757	767	751	760
Donors sector	187	168	160	152	150	149
NPISH	19	20	20	20	20	21
Investments	1,435	1,566	1,696	1,822	1,988	2,182
Private investments	1,024	1,161	1,256	1,353	1,482	1,644
Public Investments	411	404	440	470	505	539
Net exports of goods and services	-1,723	-1,768	-1,842	-1,923	-2,032	-2,146
Exports	1,092	1,099	1,136	1,212	1,305	1,415
Exports of goods	324	323	328	349	378	416
Exports of services	767	777	808	863	927	999
Import	2,814	2,867	2,978	3,135	3,337	3,561
Imports of goods	2,383	2,432	2,524	2,657	2,825	3,011
Imports of services	431	436	454	478	512	550
GDP	5,568	5,774	6,039	6,333	6,674	7,065
GNIA	6,853	7,001	7,303	7,684	8,108	8,588
<i>Other indicators:</i>						
Private sector available revenues (in millions of euros)	5,665	5,807	6,057	6,404	6,782	7,194
Private consumption per capita (in euro)	2,729	2,798	2,896	3,026	3,186	3,346
Private consumption in relation to GDP	88%	88%	87%	87%	87%	86%
Private investments in relation to GDP	18%	20%	21%	21%	22%	23%
Exports in relation to GDP	20%	19%	19%	19%	20%	20%
Imports in relation to GDP	51%	50%	49%	49%	50%	50%

Source: KAS and EPD projections

Table 3 Overall budget revenues and expenditures in million euro

Description	2015 current	2016 Prop. duget	2017 Proj.	2018 Proj.	2019 Proj.
1. TOTAL REVENUES	1,472	1,601.8	1,644	1,702	1,779
1.1 TAX REVENUES	1,269	1,370	1,426	1,482	1,558
Direct taxes	198	222	237	248	262
Corporate income tax	68	71	76	80	85
Personal income tax	109	124	130	137	145
Property tax	20	20	25	25	26
Other direct taxes	2	6	6	6	6
Indirect taxes	1,107	1,173	1,230	1,280	1,345
VAT	611	667	702	740	777
Custom Duty	131	126	112	104	107
Excise	361	374	410	431	455
Other indirect taxes	3	6	6	6	6
One-off revenues from collection of tax debt	0	10	0	0	0
One-off revenues for SOEs debts	0	8	3	0	0
Tax returns	-36	-43	-44	-46	-49
1.2 NON-TAX REVENUES	189	219	205	207	209
Taxes, fees and other from central governance	85	96	96	97	98
<i>Out of which: non-tax revenues</i>	<i>51</i>	<i>51</i>	<i>51</i>	<i>52</i>	<i>52</i>
<i>Central level OSR</i>	<i>35</i>	<i>45</i>	<i>45</i>	<i>46</i>	<i>46</i>
Taxes, fees and other from local governance	38	60	54	54	54
Concession fee	7	10	10	11	12
Royalties	30	30	30	30	30
Revenues from the liberalisation of mobile phone market	15	0	0	0	0
Revenues from dividend	15	23	15	15	15
1.3 BUDGET SUPPORT AND GRANTS	0	1	1	0	0
1.4 DESIGNATED DONOR GRANTS	14	12	12	12	12
2. TOTAL EXPENDITURES	1,570	1,684	1,821	1,903	1,982
<i>Out of which: expenditures from PAK designated revenues</i>	<i>6</i>	<i>12</i>	<i>9</i>	<i>9</i>	<i>9</i>
2.1 CURRENT SPENDING	1,154	1,211	1,258	1,292	1,330
Wages and Salaries	529	548	560	585	619
Goods and Services	206	209	218	220	222
Subsidies and Transfers	419	453	478	485	487
Social Transfers		439	468	475	477
Subsidies to POE		14	10	10	10
Reserve		5	6	6	6
<i>Out of which: for current spending</i>		1	2	2	2
<i>for capital spending</i>		4	4	4	4
Borrowing to POEs	-2	-7	-11	-15	-15
Out of which: loans to POEs	0	0	0	0	0
Out of which: returns from POEs	-2	-7	-11	-15	-15
2.2 Capital Spending	404	463	558	610	650
<i>Out of which: capital spending funded by the regular budget</i>		<i>463</i>	<i>340</i>	<i>382</i>	<i>438</i>
<i>Existing capital expenditures funded by IFI</i>			<i>28.4</i>	<i>27.8</i>	<i>12.5</i>
<i>Existing capital expenditures from internal borrowing</i>			<i>100</i>	<i>100</i>	<i>100</i>
<i>Existing capital expenditures funded by the investments clause</i>			<i>90</i>	<i>100</i>	<i>100</i>
2.3 Expenditures from designated donor grants.	14	12	12	12	12
3. PRIMARY BALANCE	-98	-82	-177	-202	-203
Interest payment	-14	-26	-30	-30	-30
4. Overall balance (according to fiscal rule)	-80	-95	-108	-123	-124
5. Total Balance	-112	-107	-207	-232	-233
6. FINANCING	-112	-107	-207	-232	-233
6.1 Net financing from external resources	38	80	79	104	62
Inflows:	66	149	140	128	131
Withdrawals	66	149.0	140	128	131
Out of which: IMF	36	100	16	0	0
Under-borrowing	23	23	10	1	0
IFI according to investment clause			90	100	100
Outflows:	-28	-69	-61	-24	-69
Payment of debts principal	-28	-69	-61	-24	-69
6.2 Net financing from internal resources	74	27	128	128	171
Inflows:	465	425	474	469	424
Internal borrowing – new emissions	121	100	100	100	100
Internal borrowing – re-financing	261	281	305	300	285
One-off financing	67	33	60	60	30
Financing from use of stock of OSR (PAK, municipalities)	17	12	9	9	9
Outflows:	-289	-307	-318	-304	-288
Re-financing of domestic debt	-261	-281	-305	-300	-285
Under-borrowing	-23	-23	-10	-1	0
Outflows increasing the stock level of OSR (PAK, municipalities)	-5	-3	-3	-3	-3
Net difference in bank balance	102	92	28	37	-35
7. Closing Balance	204	295	323	359	324
<i>Out of which: ELA</i>	<i>46</i>	<i>46</i>	<i>46</i>	<i>46</i>	<i>46</i>
Domestic revenues	332.8	370.0	387.4	408.2	429.7
Customs revenues	951.8	1,005	1,055	1,096	1,151
Total annual funding from borrowing	187	249	240	228	231
Deficit as % of GDP	-1.4%	-1.6%	-1.7%	-1.8%	-1.8%

THIRD PART

3 SECTORIAL EXPENDITURES FRAMEWORK 2017-2019 – CENTRAL GOVERNMENT

3.1 GENERAL GOVERNANCE SECTOR

This sector aims at the advancement of legal infrastructure and enforcement of law to stimulate internal and external investments and to support the sustainable economic development and provision of better services to citizens of the Republic of Kosovo. In the period till now, a number of laws were adopted which played an important role in the integration of the country in international institutions as well as in meeting the obligations for visa liberalisation and other obligations related to the Stabilisation and Association Agreement. We continued with the creation of better working conditions for the public administration and for provision of better services to the public and institutions through the solutions provided by Information Technology. In addition, we also developed administrative mechanisms for monitoring the implementation of legality, transparency, accountability and assessment of quality of services delivered. Government is committed to implement SAA obligations in order to accelerate social and economic development.

Key objectives, within the general governance sector for the upcoming three year period 2017-2019, depending on relevant instructional competences, are the following;

- Development of an efficient legislative process and guaranteeing constitutional functioning of the institutions of the Republic of Kosovo,
- Continuing to combat corruption, advancement of public administration services, respect of human rights according to international standards, security of food and protection of public health,
- Enhancing public procurement system,
- Enhancing property rights system.

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

Financing trends 2015- 2016 and assessment 2017-2019 (General Governance Sector)

	2015 Expenditures	2016 Budget approved	2017 Assessment	2018 Assessment	2019 Assessment
Total	56,919,201	57,929,753	58,907,653	58,662,840	52,699,321
Number of employees	2,077	2,277	2,277	2,277	2,277
Wages and Salaries	19,943,488	21,110,316	19,804,595	19,884,782	19,964,963
Goods and Services	13,496,241	13,619,146	19,380,488	19,380,488	13,380,488
Utilities	2,765,572	2,309,227	3,209,227	3,209,227	3,209,227
Subsidies and transfers	5,247,719	6,063,649	6,063,649	6,063,649	6,063,649
Capital expenditures	15,466,180	14,827,415	10,449,694	10,124,694	10,080,994
Sources of financing					
Government grants	56,044,241	56,956,119	58,554,019	58,309,206	52,345,687
Own source revenues	297,629	353,634	353,634	353,634	353,634
Funding from borrowings	577,331	620,000	-	-	
Donor grants	505,401	707,820	60,000	60,000	-

3.2 INTERNATIONAL COOPERATION SECTOR

Within this sector we aim at enhancing our country and the development of our diaspora in the international position. One of the key achievements of Kosovo during the previous year was the signing of Stabilisation and Association Agreement between Kosovo and European Union and meeting the conditions related to visa liberalisation for Kosovo citizens wishing to move in the Schengen zone. In addition, there was progress made in the membership of Kosovo to different international organisations and in increasing the number of countries which recognised the Republic of Kosovo as a country, and we also worked in registering members of diaspora and networking businesses in the diaspora, by promoting possibilities of investments in the Kosovo economy.

Key objectives, within the international cooperation sector for the upcoming three-year period 2017-2019, depending on legal competencies of relevant institutions, are the following:

- Consolidation of international subjectivity of the Republic of Kosovo, membership of the Republic of Kosovo in international organisations and enhancing bilateral and multilateral international cooperation,
- Implementation of strategic partnership with the Republic of Albania and strengthening cooperation in all areas with the regional states,
- Establishment of joint inter-institutional structures Kosovo – EU for leading and coordinating the implementation and monitoring of assessment of SAA implementation,
- Continuing with the approximation of domestic legalisation with the EU legislation and increasing capacities of public institutions for absorbing funds from EU and other donors,

- Maintain identity and empowering ties with the country, promotion and enhancing political and social rights of diaspora, encouraging diaspora to invest in Kosovo, and
- Adoption of framework agreements for Kosovo access to EU programmes.

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

Trends of financing 2015 – 2016 and assessments 2017-2019 (International Cooperation Sector)

	2015 Expenditures	2016 Budget approved	2017 Assessment	2018 Assessment	2019 Assessment
Total	21,384,335	22,394,766	22,624,398	22,654,702	22,684,957
Number of employees	379	424	424	424	424
Wages and Salaries	6,140,867	6,417,328	6,646,960	6,677,214	6,707,469
Goods and Services	14,266,664	14,366,823	14,366,823	14,366,823	14,366,823
Utilities	371,713	574,051	574,051	574,101	574,101
Subsidies and transfers	307,460	280,000	280,000	280,000	280,000
Capital expenditures	297,631	756,564	756,564	756,564	756,564
Sources of financing					
Government grants	21,384,335	22,394,766	22,624,398	22,654,702	22,684,957
Own source revenues					
Funding from borrowings					
Donor grants					

3.3. PUBLIC FINANCE SECTOR

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

During previous year, the implementation of the fiscal package commenced successfully and the emission of securities successfully continued, which is characterised in each auction with a higher request than offers, as well as with low interest rates. We worked on merging TAK and Customs as main bearers of revenues in one single Agency for revenues collection, where the transfer will be made from taxes at borders towards taxes within Kosovo, upon which case we will enable more effective and efficient management as well as decrease of the level of informality. Among others, the Public Finance Strategy was drafted, through which Kosovo aims at ensuring a modern Public Finance Management (PFM) system, in compliance with standards and best international experiences. This will enable efficient and effective functioning of all stages of Public Finance Management. In addition, this Strategy will facilitate Kosovo access to ensure financial sustainability through sectorial budget support from Instrument for Pre accession Assistance (IPA) of European Union (EU).

Key objectives, within the public finance sector for the upcoming three-year period 2017-2019, are the following:

- Retaining macro-fiscal sustainability through stable fiscal policy drafting;
- Decrease of informal economy through government programme implementation and action plan for prevention of informal economy in Kosovo,
- Development and perfectionism of collection and administration of tax revenues,
- Enhancing quality of public expenditure management through efficient and transparent management of public finances, a crucial role plays the liaison of priority policies, structural reforms and laws proposed under the assessed planning of public expenditures and meeting the obligations deriving from the IMF agreement and other international financial institutions, and
- Regulation of Public Internal Financial Control system, including Financial Management and Control, Internal Auditing and their harmonisation in compliance with international standards.

Public Finance Sector is composed of the Ministry of Finance and Forecasted expenditures

Trends of financing 2015- 2016 and assessments 2017-2019 (Public finance sector)

	2015 Expenditures	2016 Budget approved	2017 Assessment	2018 Assessment	2019 Assessment
Total	23,760,855	33,983,982	57,905,401	115,945,758	182,994,845
Number of employees	1,625	1,802	1,802	1,802	1,802
Wages and Salaries	13,933,678	15,032,524	33,413,186	56,263,113	88,513,039
Goods and Services	5,879,748	5,151,366	5,151,366	9,641,197	17,670,858
Utilities	342,826	488,592	488,592	488,592	488,592
Subsidies and transfers	3,103,322	20,000	4,822,257	7,837,257	4,842,257
Capital expenditures	501,281	8,291,500	8,030,000	35,715,599	65,480,099
Reserves	-	5,000,000	6,000,000	6,000,000	6,000,000
Sources of financing					
Government grants	23,410,834	33,863,982	57,905,401	115,945,758	182,994,845
Own source revenues	-	-	-	-	-
Funding from borrowings	350,021	120,000	-	-	-
Donor grants *	614,175	183,637	-	-	-

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

*Remark: the amount of €17,000,000 is presented in the total of economic category of Wages and Salaries for 2017-2019, which is planned in the Ministry of Finance as a Contingency for Health Insurances.

3.4 DEFENCE AND PUBLIC SECURITY SECTOR

The defence and public security sector aims at provision of security for all citizens and protection of life, assets and freedom of movement for all citizens. Relevant state bodies built capacities for provision of rule of law and public security. This previous period is characterised by progress in different areas, such as; stepping up bilateral cooperation which resulted in numerous participations in initiatives, exercises and regional cooperation trainings with partner states; development and enhancement of capacities, skills and operational readiness; strengthening partnership with NATO. This sector continues to stand out with professional, apolitical, competent, and disciplined and multi ethnic approach.

Key objectives, within this defence and public security sector for the upcoming three year period 2017-2019, depending on legal competencies of relevant institutions, are the following;

- Transformation of Ministry for Kosovo Security Forces into the Ministry of Defence and Kosovo Security Forces in Kosovo Armed forces.
- Prevention and combating crime, radicalism and violent extremism, terrorism combat and provision of public security,
- Development and completion of legal, strategic and doctrinal staff of Kosovo Armed Forces,
- Recruitment process, development of units and development of training programmes for Kosovo Armed Forces,
- Supply and maintenance of equipment and enlargement of infrastructure for the defence and public security sector, and
- Enchaining professional level of research and advance structures at the level of methods, techniques and technologic equipment, which will be used during the intelligence operational activity.

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

Trends of financing 2015- 2016 and assessments 2017-2019 (Defence and Public Security Sector)

	2015 expenditures	2016 Budget approved	2017 Assessment	2018 Assessment	2019 Assessment
Total	155,137,055	165,081,543	161,314,404	161,967,969	161,937,937
Number of employees	13,582	13,778	13,778	13,778	13,778
Wages and Salaries	95,525,374	98,174,386	96,245,490	96,709,055	97,172,623
Goods and Services	31,254,697	28,445,932	29,445,932	29,445,932	29,445,932
Utilities	2,521,345	2,727,515	2,727,515	2,727,515	2,727,515
Subsidies and transfers	2,862,033	2,521,867	2,521,867	2,521,867	2,521,867
Capital expenditures	22,973,606	33,211,843	30,373,600	30,563,600	30,070,000
Sources of financing					
Government grants	153,960,658	164,190,414	160,423,275	161,076,840	161,046,808
Own source revenues	1,176,397	891,129	891,129	891,129	891,129

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

3.5 JUSTICE SECTOR

Justice sector aims at achieving an advanced legal system in compliance with international standards and best European practices. In addition, an independent and unique judiciary and prosecution are aimed to be achieved to ensure rule of law, protection of rights, freedoms and property of Kosovo citizens. As an important factor in building economic welfare is the legal security and effectiveness of justice sector institutions. In this regard, institutions which are part of this sector gave a considerable contribution in different aspects of their work.

Key objectives, within this justice sector for the upcoming three-year period 2017-2019, depending on legal competencies of relevant institutions, are the following

- Continuing reforms in justice in order to create an impartial and independent judicial and prosecution system,
- Increase of efficiency of courts and prosecutions for resolution of cases,
- Strengthening structures and institutional capacities of prosecutorial and judicial system,
- More efficient administration for the execution of criminal sanctions,
- Enhancing International Legal Aid and Cooperation system in Criminal and Civil issues,
- Continuous promotion of professional building of judges and prosecutors,
- Amending legal framework in a manner that judicial system deals with offences, only if sanctions are disputed by parties,
- Alternative resolution of disputes through mediation, arbitration agreements and needs, and
- Full functionalization of Educational Correctional and Detention Centres.

Budget organisations which comprise the justice sector are: Ministry of Justice, Kosovo Judicial Council, State Prosecution Office, Kosovo Judicial Council, Agency for Free Legal Aid and Independent Oversight Board for Civil Servants.

Trends of financing 2015- 2016 and assessments 2017-2019 (Justice Sector)

	2015 Expenditures	2016 Budget approved	2017 Assessment	2018 Assessment	2019 Assessment
Total	45,133,204	48,619,207	46,614,676	46,940,483	46,839,293
Number of employees	4327	4877	4877	4877	4877
Wages and Salaries	31,239,897	34,351,092	32,833,061	32,978,868	33,124,678
Goods and Services	10,128,131	10,132,574	10,132,574	10,132,574	10,132,574
Utilities	1,630,325	1,607,041	1,607,041	1,607,041	1,607,041
Subsidies and transfers	380,288	250,000	250,000	250,000	250,000
Capital expenditures	1,754,563	2,278,500	1,792,000	1,972,000	1,725,000
Sources of financing	-	-	-	-	-
Government grants	43,826,826	47,117,077	45,112,546	45,438,353	45,337,163
Own source revenues	1,306,378	1,502,130	1,502,130	1,502,130	1,502,130
Funding from borrowings	-	-	-	-	-
Donor grants *	-	-	-	-	-

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

3.6 INFRASTRUCTURE AND COMPETITIVENESS SECTOR

Infrastructure and competitiveness are key factors for the country's economic development. Among these factors is physical infrastructure of state, access to finances, regulatory conditions and also Kosovo business environment as well as general living quality. Kosovo during the recent years made considerable results in improving road infrastructure in particular international connections. Another bigger challenge is the provision of stable and less expensive supply with electricity, while existing capacities for generation are old and lack diversity for import impacts considerably on the increase of process. On the other hand, Information Technology has become a daily tool for household use in Kosovo, but not for the improvement of operational processes in private sector, public institutions and education institutions. Railways as means of transport are still not being used at the level required for transportation of people and goods.

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

- Building and maintaining road transport infrastructure which will enable more free movement of people and goods and easier access to pan-European corridors,
- Increasing level of traffic safety,
- Secure supply with energy, undertaking measures in the network system, implementation of measures of energy efficiency, revitalisation of generating units,
- Provision of Information Technology and Communication (ITC) services through competitive market integrated in regional system and based on international standards,
- Stimulation of research, sustainable use of mineral resources and frequency resources, and
- Creating a favourable climate for investments and support of development of small and medium enterprises.

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

Trends of financing 2015- 2016 and assessments 2017-2019 (Infrastructure and Competiveness sector)

	2015 Expenditures	2016 Budget approved	2017 Assessment	2018 Assessment	2019 Assessment
Total	199,943,730	235,683,051	235,209,568	234,677,672	226,203,963
Number of employees	1,090	1,340	1,340	1,340	1,340
Wages and Salaries	10,351,974	13,514,067	13,178,513	13,239,804	13,301,095
Goods and Services	11,915,672	17,148,505	15,434,221	15,229,221	15,149,221
Utilities	460,344	770,963	770,963	770,963	770,963
Subsidies and transfers	12,078,893	12,417,684	7,467,684	7,452,684	7,447,684
Capital expenditures	165,136,846	191,831,832	198,358,187	197,985,000	189,535,000
Sources of financing					
Government grants	198,470,006	207,028,922	212,310,114	207,938,096	201,649,324
Own source revenues	-	9,959,129	9,531,602	9,312,401	9,258,199
Funding from borrowings	1,473,724	18,695,000	13,367,852	17,427,175	15,296,440
Donor grants	-	-	-	-	-

In funding of the motorway Prishtinë-Hani i Elezit for 2017, it is foreseen that the amount of € 100 million is to be funded from internal borrowing (securities).

3.7 AGRICULTURE SECTOR

The agriculture sector aims at creating and implementing developmental policies and programmes which have a quick and efficient impact to the balanced economic/agricultural and social development, which impacts directly on the welfare of rural area of Kosovo. Kosovo has non-competitiveness agriculture production and low basis of production, which is not sufficient to meet the internal needs, the needs of customers or the agro-processing industry needs. Kosovo agriculture is characterised by small farms, low production and insufficient level of advisory services, but also despite this it contributes with 11.9% of GDP of Kosovo. Expressed in percentage, there are 26.7% employed in agriculture, compared to the total number of employees in Kosovo and it comprises about 12% of the total export value. About 62% of Kosovo Population lives in rural areas. Agriculture sector, as such will play an important role in the provision of possibilities for employment and for generating incomes for the people living in rural areas.

Development of agriculture sector is of special importance, both in the aspect of improving the trade balance, decrease of unemployment, security of food products, and protection of environment and improvement of the lives of citizens in general. As a result of support in this sector, the net income in farms has increased considerably. Agriculture sector, through development policies and strategies will also be in the future oriented towards supporting production factors, stimulation of farms and creating a more favourable development environment.

Key objectives, to meet the agriculture sector purposes, are:

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

Agriculture sector is comprised of Ministry of Agriculture, Forest and Rural Development.

Trends of financing 2015- 2016 and assessments 2017-2019 (Agriculture sector)

Budget organisation	Budget 2015	Budget 2016	2017	2018	2019
			Assessed	Assessed	Assessed
Total	53,858,720	57,236,274	53,493,566	53,482,532	53,491,498
Number of employees	311	354	354	354	354
Wages and Salaries	1,949,390	2,069,235	2,139,195	2,148,161	2,157,127
Goods and Services	3,473,235	2,981,681	2,981,681	2,981,681	2,981,681
Utilities	98,207	118,768	118,768	118,768	118,768
Subsidies and transfers	47,615,504	47,383,922	47,383,922	47,383,922	47,383,922
Capital expenditures	722,383	4,682,668	870,000	850,000	850,000
Sources of financing	53,858,720	57,236,274	53,493,566	53,482,532	53,491,498
Government grants	52,424,453	54,026,760	50,899,400	53,299,017	53,307,983
Own source revenues	227,756	183,514	183,514	183,515	183,515
Funding from borrowings	1,206,512	3,026,000	2,410,651		
Donor grants *	3,443,289	-	-	-	-

3.8 ENVIRONMENT SECTOR

The environment sector aims at a balanced and sustainable development by ensuring environment protection and development of proper environmental planning. Support to the sustainable development aims at improving quality of life of Kosovo citizens and of the generations to come. The achievement of this developmental objective will be done through integration of environment strategy with the sectorial strategy and through monitoring, information and environment reporting. All this will enable integrated and sustainable administration of environment. Quality of environment in Kosovo should be improved. Kosovo is facing problems in respect of water management, waste management, and air and land pollution. Other problems of environment are caused by unplanned environments development, and constructions without permits, which are affecting the area and are decreasing possibilities for the future country's development.

Key objectives, within the environment sector for the upcoming three-year period 2017-2019, depending on legal competencies of relevant institutions, are:

- Completing legal infrastructure in the scope of activity of environment and its harmonisations with EU legislation and its implementation,
- Improvement of environment situation and monitoring of its status,
- Administration and better management of water resources and rehabilitation of riverbeds,
- Mapping of the Rural Kosovo Map and Zoning maps of Municipalities and E-permits.
- Rational use and increase of water source capacities, and
- Sustainable waste management.

Budget organisations which belong to the Environment Sector are: Ministry of Environment and Spatial Planning and Water and Sewage Regulatory Office.

Trends of financing 2015- 2016 and assessments 2017-2019 (Environment Sector)

	2015 Expenditures	2016 Budget approved	2017 Assessment	2018 Assessment	2019 Assessment
Total	38,432,677	39,532,462	41,038,471	47,071,583	59,081,906
Number of employees	310	356	356	356	356
Wages and Salaries	1,995,580	2,355,923	2,219,631	2,229,954	2,240,277
Goods and Services	1,619,458	1,252,576	1,252,576	1,252,576	1,252,576
Utilities	46,593	89,723	89,723	89,723	89,723
Subsidies and transfers	-	190,000	-	-	-
Capital expenditures	34,771,046	35,644,240	37,476,541	43,499,330	55,499,330
Sources of financing	-	-	-	-	-
Government grants	36,269,552	38,813,462	41,038,471	47,071,583	59,081,906
Own source revenues	-	-	-	-	-
Funding from borrowings	1,756,619	719,000	-	-	-
Donor grants *	0	-	-	-	-

3.9 CULTURE SECTOR

The culture sector aims at promoting culture and national values, preservation and protection of cultural heritage and memorial complexes, empowering and participation of youth in overall social processes of the country, development and affirmation of Kosovo sports in the country and in international arena as well as promotion and protection of the copyright.

We worked in this sector to advance legal infrastructure, we increased financial support for public cultural institutions, and we managed to enter into cooperation with different states, through signing cooperation agreements in the area of culture.

Treatment of cultural heritage should be done in an integrated manner, such as architectural heritage, spiritual heritage and the archaeological heritage, cultural landscapes and all assets under the state protection should be protected, preserved, studied and promoted as much as possible and objects with touristic maps of the Republic of Kosovo should be compiled. Sports is the best ambassador of our country in the international arena regulating the image of the country an aim which is constantly being supported.

Key objectives to meet purposes of the culture sector are:

- Enhancing cultural diplomacy,
- Preservation, protection and promotion of cultural heritage,
- Empowering and participation of youth in development processes, and

- Development and enhancement of qualitative sports, sports becoming massive and participation in international competitions.

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

Trends of financing 2015- 2016 and assessments 2017-2019 (Culture Sector)

	2015 Expenditures	2016 Budget approved	2017 Assessment	2018 Assessment	2019 Assessment
Total	29,482,858	28,054,570	31,677,342	21,916,132	21,934,924
Number of employees	738	733	733	733	733
Wages and Salaries	3,535,201	4,103,292	3,995,245	4,013,697	4,032,150
Goods and Services	1,178,077	1,203,404	1,203,740	1,204,078	1,204,417
Utilities	350,998	323,123	323,123	323,123	323,123
Subsidies and transfers	16,499,083	11,006,550	16,106,550	6,206,550	6,206,550
Capital expenditures	7,919,499	11,418,201	10,048,684	10,168,684	10,168,684
Sources of financing					
Government grants	29,439,238	28,010,950	31,633,722	21,872,512	21,891,304
Own source revenues	43,620	43,620	43,620	43,620	43,620
Funding from borrowings	-	-	-	-	-
Donor grants *				-	

3.10 EDUCATION SECTOR

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

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

Key objectives to meet the education sector purposes are

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

- Qualitative and efficient management of education system based on transparency and accountability. This objective deals with building management capacities at central, municipal and school level,
- Development of a functional system for quality assurance, in accordance with international standards. This objective deals with building capacities for quality assurance at all levels,
- Building quality of teaching through sustainable system for professional preparation and development of teachers. This objective deals with continuous professional development of teachers,
- Enhancing learning through qualitative teaching, by applying the curricula based on competences and using high quality learning resources. This objective deals with implementation of new curricula at all schools,
- Education and professional training in accordance with requirements of labour market, and
- Increasing quality and competitiveness of higher education through stimulating perfectionism in teaching, scientific research, innovation and internationalism.

Budget organisations comprising education sector are: Ministry of Education, Science and Technology, Kosovo Academy of Arts and Science, University of Prishtina

Trends of financing 2015- 2016 and assessments 2017-2019 (Education sector)

Education sector	2015 Expenditures	2016 Budget approved	2017 Assessment	2018 Assessment	2019 Assessment
Total	70,516,297	75,178,318	74,626,226	75,300,231	75,734,455
Number of employees	4,242	4,201	4,201	4,201	4,201
Wages and Salaries	34,639,623	36,591,634	37,438,785	37,593,009	37,747,233
Goods and Services	10,683,734	12,021,241	12,266,460	12,371,241	12,421,241
Utilities	1,997,813	2,255,052	2,255,052	2,255,052	2,255,052
Subsidies and transfers	4,936,213	5,120,929	5,120,929	5,120,929	5,120,929
Capital expenditures	18,258,914	19,189,462	17,545,000	17,960,000	18,190,000
Sources of financing					
Government grants	63,297,541	66,264,094	64,812,002	65,686,007	65,259,195
Own source revenues	5,538,603	7,314,224	7,314,224	7,314,224	7,314,224
Funding from borrowings	1,680,153	1,600,000	2,500,000	2,300,000	3,161,036
Donor grants *	1,207,748	2,455,754	2,000,000	-	-

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

3.11 HEALTH SECTOR

Health sector aims at improving the health of population through promotion of healthy ways of living and provision of qualitative health services with easier and equal access and cost-effective.

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

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

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

Law on Tobacco Control gave a very important contribution to public health by enabling substantial advancement of citizens' culture in compliance with the most advanced international standards.

Key objectives to meet purposes of the health sector are:

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

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

Trends of financing 2015- 2016 and assessments 2017-2019 (Health sector)

	2015 Expenditures	2016 Budget approved	2017 Assessment	2018 Assessment	2019 Assessment
Total	117,623,062	125,645,553	119,180,119	120,666,845	120,617,571
Number of employees	7,778	7,825	7,820	7,820	7,820
Wages and Salaries	57,500,173	60,393,083	57,887,634	58,122,360	58,357,086
Goods and Services	36,256,970	37,151,781	37,856,796	37,566,796	37,566,796
Utilities	3,678,602	3,821,964	3,821,964	3,821,964	3,821,964
Subsidies and transfers	9,714,570	7,503,725	7,503,725	7,503,725	7,503,725
Capital expenditures	10,472,747	16,775,000	12,110,000	13,652,000	13,368,000
Sources of financing					
Government grants	114,549,396	118,724,896	115,090,567	117,372,278	117,323,004
Own source revenues	3,016,929	2,286,418	2,286,418	2,286,418	2,286,418
Funding from borrowings	56,737	4,634,239	1,803,134	1,008,149	1,008,149
Donor grants	1,174,597	1,174,597.41	1,174,597.41	1,174,597.41	1,174,597.41

3.12 SOCIAL ISSUES SECTOR

Social sector issues aims at development, implementation and coordination of policies, laws and other instruments to ensure protection and social support, creation of infrastructure for employment and vocational training, as well as building of skills.

Support to social categories through social protection and professional schemes will also continue during the upcoming years. In this function, the review of legal infrastructure was conducted to provide services, through programmes which are designed to help the most needed part of population: the elderly people, poverty stricken, persons with disabilities, displaced persons, targeting the beneficiaries of social schemes, the unemployed and others most in need of assistance from Government.

Analysis and surveys suggest that there is discrepancy between skills of the work force and requirements of labour market.

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

- Increase of employment, development of skills and better functioning of labour market for all citizens living in Kosovo,
- Increase of social welfare through enlargement and increase of quality of provision of social and family services, with special focus on vulnerable groups,
- Stabilisation of communities, returns, integration in Kosovo and better well-being,
- Increase of social welfare of pensioners through the creation of sustainable and functional system, and
- Empowering the role of social partners in development of social and economic policies of the county, improvement of labour conditions of workers and decrease of informal employment.

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

Trends of financing 2015- 2016 and assessments 2017-2019 (Social sector)

	2015 Expenditures	2016 Budget approved	2017 Assessment	2018 Assessment	2019 Assessment
Total	322,394,870	367,159,389	387,180,404	396,045,481	401,071,558
Number of employees	984	993	993	993	993
Wages and Salaries	5,761,934	5,686,286	5,699,301	5,724,378	5,749,455
Goods and Services	2,662,844	2,248,190	2,248,190	2,248,190	2,248,190
Utilities	391,897	383,239	383,239	383,239	383,239
Subsidies and transfers	305,989,868	351,611,674	371,611,674	380,511,674	385,511,674
Capital expenditures	7,588,327	7,230,000	7,238,000	7,178,000	7,179,000
Sources of financing	-	-	-	-	-
Government grants	322,394,870	367,159,389	387,180,404	396,045,481	401,071,558
Own source revenues					
Funding from borrowings					
Donor grants *					

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

The table below presents the total of expenditures of all sectors at central level.

Total sectors – Central level 2015-2019

Description	Expenditures 2015	Budget approved 2016	Assessments 2017	Assessments 2018	Assessments 2019
TOTAL SECTORS:	1,134,649,105	1,256,498,868	1,289,772,228	1,357,332,228	1,427,292,228
Number of employees	37,443	38,960	38,955	38,955	38,955
Wages and Salaries	282,517,179	299,799,166	311,501,596	335,584,395	369,067,195
Goods and Services	142,877,715	145,723,219	151,720,847	155,820,797	157,820,797
Utilities	14,656,236	15,469,258	16,369,258	16,369,308	16,369,308
Subsidies and transfers	408,734,953	444,370,000	469,132,257	471,132,257	473,132,257
Capital expenditures	285,863,022	346,137,225	335,048,270	372,425,471	404,902,671
Reserves	-	5,000,000	6,000,000	6,000,000	6,000,000

FOURTH PART

4 Municipal Level

4.1 Introduction

Medium Term Expenditure Framework (MTEF) 2017-19 for municipal level foresees guidance to municipalities for preparation of 2017 budget and guidelines for 2018 and 2019 based on the Government's strategic priorities in the field of intergovernmental fiscal relations. Further on, this document sets out the aggregate amounts of government grants for municipal financing and level of municipal revenues for fiscal year 2017 and 2018-2019 medium-term projections.

The principles, criteria and formulas used for allocation of government grants for municipal financing 2017 are based on the Law on Local Government Finance (LLGF) and Table 1 of the macro-fiscal projections prepared by the Ministry of Finance as specified in the Law on Public Financial Management and Accountability (LPFMA).

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
- Improvements in access to results-oriented and performance budgeting,
- Implementing the concept of multi-year planning of capital projects and,
- Tabular presentation of funding sources and the structure of expenditures by economic categories for the current budget year and two subsequent years.

Budgeting of multi-year capital projects involves data integration planned by municipalities into Public Investment Projects system (PIP) and performance-based budgeting. Consequently, municipalities are required to develop the framework strategy based on the result-oriented goals and objectives.

4.2 Municipal Financing Sources 2017-2019

4.2.1 *General Grant 2017 and projections 2018-2019*

As shown in Table 1, prepared by the Department of Economic and Fiscal Policy within the Ministry of Finance in line with LLGF, General Grant 2017 for municipalities was approved by the Grants Commission in the amount of €149,200,000. This is based on the formula set out in Article 24 of LLGF, where 10% of the total revenues budgeted of Central Government shall be allocated to municipalities, excluding own source revenues of the central level, budget support and grants, revenues from property tax, revenues from dividends, designated donor grants as well as fees and other charges of local government.

As shown in the following table, based on estimates made by the Department of Economic and Fiscal Policy, overall government revenues for 2017 are expected to be €1,644 million. From this amount, those revenues as specified in Article 24 of LLGF are deducted and we come up with the basis for allocation of general grant for municipalities, which grant for 2017 is in the amount of €149.2 million euro.

Table 1: The amount of the General Grant for municipalities 2017-19

	2017	2018	2019
A. Overall government revenues	1,644.0	1,701.0	1,779.0
Deducted:			
Central level Own source revenues	(45.0)	(46.0)	(47.0)
Budget support and grants	(1.0)	-	-
Property tax	(25.0)	(25.0)	(26.0)
Revenues from dividends	(15.0)	(15.0)	(15.0)
Designated Donor Grants	(12.0)	(12.0)	(12.0)
Taxes and other charges by the Local Government	(54.0)	(54.0)	(54.0)
B. Basis for the calculation of the general grant for municipalities	1,492.0	1,549.0	1,625.0
C. General Grant for municipalities (10% of B)	149.2	154.9	162.5

With the aim of levelling low capacity of the revenues of smaller municipalities, based on LLGF, each municipality shall receive annually a total fixed (random) amount of €140,000 euros, deducting 1 euro per capita or 0 euro for municipalities with populations equal to or greater than 140,000 inhabitants. Following this, the distribution is made in the municipalities based on the formula for the allocation of General Grant to municipalities under LLGF: (i) the population is estimated at eighty-nine per cent (89%); (ii) the geographical size of the municipality to six per cent (6%); (iii) the number of minority population in the municipality (3%); (iv) municipalities whose majority of population consists of ethnic minorities at two per cent (2%); (v) and also foresees a contingency for correction of formula for distributing the part of the general grant for municipalities in the amount of €4 million.

Table 2: Structure of General Grant for 2017 and projections for 2018-2019 (million Euros)

Factors	2016	2017	2018	2019
	Estimates	Estimates	Estimates	Estimates
<i>General Grant</i>	134.9	149.2	154.9	162.5
General Grant distributed to municipalities		145.2		
Contingency for correction of formula		4.0		
Fixed Amount	3.6	3.6	3.6	3.6
Population (inhabitants)	1,780,021	1,780,021	1,780,021	1,780,021
Budget: 89% of the aggregate amount	116.8	125.99	134.62	141.38
Municipal Area (km2)	10,901	10,901	10,901	10,901
Budget: 6% of the aggregate amount	7.9	8.5	9.1	9.5
Minority communities in the municipality	107,926	107,926	107,926	107,926
Budget: 3% of the aggregate amount	3.9	4.3	4.5	4.8
The population of minority municipalities	62,031	62,031	62,031	62,031
The budget: 2% of the aggregate amount	2.6	2.8	3.0	3.2

The table below outlines the allocation of the general grant to municipalities according to the formula specified in the table above, keeping a contingency of €4 million as undistributed to correct formula of grant allocations in the coming months based on government decisions. For the implementation of Article 35 of the Law on Local Government Finances no. 03/L-049, based on 2011 census and officially published by SAK in December 2012, including estimates of the Statistical Agency of Kosovo (SAK) for four minority municipalities which did not participate in the census process, such as Leposavic, Zubin Potok, Zvecan and northern Mitrovica, the Government of the Republic of Kosovo under decision no.09/121 dated 27.03.2013 approved the amendment of Annex 1 LLGF for new number of population. Under Government's decision no.07/170 dated 14.02.2014 the amendment/supplement of Annex I LLGF on the number of population for the four northern municipalities such as Leposavic, Zvecan, Zubin Potok and northern Mitrovica was approved. Therefore, the Government of Kosovo before preparing the first Budget Circular for municipalities will issue a decision on correction of the population in some municipalities.

Table 3: General Grant for 2017 and projections 2018-2019

Kriteret	Viti 2017			Viti 2018			Viti 2019		
	1.492.0	1.549.0	1.625.0	1.644.0	1.701.0	1.779.0	1.701.0	1.779.0	1.856.0
TE hvat e bndur tuara ne bndurim e kosovete	1.492.0	1.549.0	1.625.0	1.644.0	1.701.0	1.779.0	1.701.0	1.779.0	1.856.0
Granti i Pergjithshem (10%)	149,200.000	154,900.000	162,500.000	164,400.000	170,100.000	177,900.000	170,100.000	177,900.000	185,600.000
Granti i Përgjithshëm	145,200.000	151,200.000	158,800.000	160,700.000	166,300.000	174,100.000	166,300.000	174,100.000	182,800.000
Kontribucione ne korrktim e komunita	4,000.000	3,696.657	3,696.657	3,700.000	3,800.000	3,800.000	3,800.000	3,800.000	3,800.000
Shuma Fitese	140,000	147,503.343	155,103.343	157,400.000	162,100.000	167,900.000	160,100.000	167,900.000	176,600.000
Popullsia	125,991,375	134,624,375	141,388,375	125,991,375	134,624,375	141,388,375	125,991,375	134,624,375	141,388,375
Madhësia e gjeografike	8,493,801	9,075,801	9,531,801	8,493,801	9,075,801	9,531,801	8,493,801	9,075,801	9,531,801
Popullsia e Pakete	4,246,900	4,537,900	4,765,900	4,246,900	4,537,900	4,765,900	4,246,900	4,537,900	4,765,900
Komunitat me Popullsi Pakete	2,831,267	3,025,267	3,177,267	2,831,267	3,025,267	3,177,267	2,831,267	3,025,267	3,177,267
Gjithësej	141,563,343	151,263,343	158,863,343	141,563,343	151,263,343	158,863,343	141,563,343	151,263,343	158,863,343
Popullsia	89%	89%	89%	89%	89%	89%	89%	89%	89%
Madhësia gjeografike	6%	6%	6%	6%	6%	6%	6%	6%	6%
Popullsia e Pakete	3%	3%	3%	3%	3%	3%	3%	3%	3%
Komunitat me Popullsi Pakete	2%	2%	2%	2%	2%	2%	2%	2%	2%

Kriteret për ndarjen e Grantit të Përgjithshëm (si pas JEPJ)	Viti 2017			Viti 2018			Viti 2019		
	1.492.0	1.549.0	1.625.0	1.644.0	1.701.0	1.779.0	1.701.0	1.779.0	1.856.0
Popullsia	149,200.000	154,900.000	162,500.000	149,200.000	154,900.000	162,500.000	149,200.000	154,900.000	162,500.000
Madhësia gjeografike	10%	10%	10%	10%	10%	10%	10%	10%	10%
Popullsia e Pakete	145,200.000	151,200.000	158,800.000	145,200.000	151,200.000	158,800.000	145,200.000	151,200.000	158,800.000
Kontribucione ne korrktim e komunita	4,000.000	3,696.657	3,696.657	4,000.000	3,696.657	3,696.657	4,000.000	3,696.657	3,696.657
Shuma Fitese	140,000	147,503.343	155,103.343	140,000	147,503.343	155,103.343	140,000	147,503.343	155,103.343
Popullsia	125,991,375	134,624,375	141,388,375	125,991,375	134,624,375	141,388,375	125,991,375	134,624,375	141,388,375
Madhësia e gjeografike	8,493,801	9,075,801	9,531,801	8,493,801	9,075,801	9,531,801	8,493,801	9,075,801	9,531,801
Popullsia e Pakete	4,246,900	4,537,900	4,765,900	4,246,900	4,537,900	4,765,900	4,246,900	4,537,900	4,765,900
Komunitat me Popullsi Pakete	2,831,267	3,025,267	3,177,267	2,831,267	3,025,267	3,177,267	2,831,267	3,025,267	3,177,267
Gjithësej	141,563,343	151,263,343	158,863,343	141,563,343	151,263,343	158,863,343	141,563,343	151,263,343	158,863,343

Kontingjencat për korrktim të formimit për shpërndarje si pjesë e grantit të përgjithshëm	Viti 2017			Viti 2018			Viti 2019		
	1.780.021	100%	108.896	100%	107.926	100%	62.031	100%	3.636.657
TOTAL	1.780.021	100%	108.896	100%	107.926	100%	62.031	100%	3.636.657

Kontingjencat për korrktim të formimit për shpërndarje si pjesë e grantit të përgjithshëm	Viti 2017			Viti 2018			Viti 2019		
	1.492.0	1.549.0	1.625.0	1.644.0	1.701.0	1.779.0	1.701.0	1.779.0	1.856.0
Popullsia	149,200.000	154,900.000	162,500.000	149,200.000	154,900.000	162,500.000	149,200.000	154,900.000	162,500.000
Madhësia gjeografike	10%	10%	10%	10%	10%	10%	10%	10%	10%
Popullsia e Pakete	145,200.000	151,200.000	158,800.000	145,200.000	151,200.000	158,800.000	145,200.000	151,200.000	158,800.000
Kontribucione ne korrktim e komunita	4,000.000	3,696.657	3,696.657	4,000.000	3,696.657	3,696.657	4,000.000	3,696.657	3,696.657
Shuma Fitese	140,000	147,503.343	155,103.343	140,000	147,503.343	155,103.343	140,000	147,503.343	155,103.343
Popullsia	125,991,375	134,624,375	141,388,375	125,991,375	134,624,375	141,388,375	125,991,375	134,624,375	141,388,375
Madhësia e gjeografike	8,493,801	9,075,801	9,531,801	8,493,801	9,075,801	9,531,801	8,493,801	9,075,801	9,531,801
Popullsia e Pakete	4,246,900	4,537,900	4,765,900	4,246,900	4,537,900	4,765,900	4,246,900	4,537,900	4,765,900
Komunitat me Popullsi Pakete	2,831,267	3,025,267	3,177,267	2,831,267	3,025,267	3,177,267	2,831,267	3,025,267	3,177,267
Gjithësej	141,563,343	151,263,343	158,863,343	141,563,343	151,263,343	158,863,343	141,563,343	151,263,343	158,863,343

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

The employees in the Administration of the Municipal Directories of Pre-university Education are financed by the General Grant in Municipalities. Further on, the employees in the Administration of Municipal Directories for Primary Health and Secondary Health (Gračanica, Shterpece and Mitrovica North) are financed by the General Grant in Municipalities.

4.2.2 Specific grant for pre-university education for 2017

Specific grant for education in accordance with the LFPL is based on the approach to the open financing system, having into consideration criteria and parameters in the state formula for pre-university education proposed by MEST for 2017. State formula for pre-university education particularly addresses pre-school, primary and secondary level, taking into account the following elements:

- a) Number of pupils enrolled for 2015/2016;
- b) Pupil-teacher ratio for primary and secondary education for majority pupils 1:21.3;
- c) Pupil-teacher ratio for primary and secondary education for minority pupils 1:14.2;
- d) Pupil-teacher ratio for pre-school education 1:12;
- e) Pupil-teacher ratio for secondary vocational education for majority pupils 1:17.2, and for minority pupils 1:11.5;
- f) Pupil-teacher ratio for mountain areas 1:14.2;
- g) Calculation for English language teaching staff for class I and II
- h) The calculation of technical/administrative staff, 1 staff for 630 pupils in pre-school and primary education (based on Administrative Instruction no.18/2009 of MEST);
- i) The calculation of technical/administrative staff, 1 staff for 470 pupils in secondary education (high schools and vocational schools based upon the Administrative Instruction no.18/2009 of MEST);
- j) The calculation for support staff, 1 staff (cleaners) for 170 pupils and 1 staff for school (guards) based on Administrative Instruction no.18/2009 of MEST;
- k) Professional service, 80 pedagogues;
- l) Salaries are calculated based on average salary according to levels for all municipalities;
- m) Working experience is calculated considering the average of 15 years;
- n) The calculation for the teaching staff in maternity leave is foreseen 3% (basic teaching staff).

The specific grant for pre-university education for 2017 was approved by the Grants Commission in the amount of €163.4 million. Further on, the number of staff has increased to 7 employees within the Correctional Centre in Lipjan. Given that in the next academic year, according to MEST, is expected to have over 10,000 less pupils in pre-university education, then this implies that the funding per pupil has increased compared with 2016.

Table 4: Distribution of Specific grant for pre-university Education 2017

Komuna	Numri i nxënësve					Staf Mësimdhënës										Staf Profesional Administrativ dhe ndihmës					Total paga dhe mefitë	Total malla dhe shërbime	Granti specifik për arsim për vitin 2017	Granti specifik për arsim për vitin 2018	Granti specifik për arsim për vitin 2019
	Numri i nxënësve parafilior dhe fillor	Numri i nxënësve të sh. Mesme	Total numri i nxënësve	Numri i mësimdhënësve në arsimin special	Numri i mësimdhënësve në arsimin special në pushim mjekësor dhe të lehonise	Numri i mësimdhënësve parafilior	Numri i mësimdhënësve në sh. parafilior në pushim mjekësor dhe të lehonise	Numri i mësimdhënësve fillor	Numri i mësimdhënësve në sh. Fillore në pushim mjekësor dhe të lehonise	Numri i mësimdhënësve të sh. Mesme	Mësimdhënës në Qendren Korrektuese në Lipljan	Mësimdhënësit e sh. Mesme në pushim mjekësor dhe të lehonise	Mësimdhënësit shëtitës për zonat malore	Numri i mësimdhënësve të gjuhës angleze	Total stafi mësimdhënës	Numri i personelit administrativ për sh. Fillore	Numri i personelit administrativ për sh. të mesme	Shërbimi Profesional Pedagogjik/Psikologjik	Numri i personelit ndihmës për nxënës	Total stafi Mësimdhënës, profesional, administrativ dhe ndihmës					
	312,791	88,311	401,092	73	4	2,899	98	10,509	352	4,735	7	160	4,002	305	23,144	1,247	356	80	3,684	28,512					
Blloç	5,183	1,396	6,579	1	0	54	213	7	71	0	2	78	7	356	36	6	2	62	482						
Dibër	5,099	-	5,099	-	-	8	-	-	-	-	-	-	-	863	20	2	2	66	483						
Fier	20,388	2,682	23,070	11	0	219	799	19	345	12	376	18	1,586	71	23	22	222	1,904							
Gjirokastra	6,304	1,498	7,802	-	-	31	261	9	79	3	22	5	411	21	6	6	63	908							
Korçë	15,576	5,373	20,949	7	0	165	616	21	228	4	616	15	1,073	66	18	2	186	1,345							
Durrës	11,279	2,089	13,368	2	0	113	418	9	147	10	318	16	1,288	48	8	8	121	1,031							
Elbasan	1,645	770	2,415	-	-	16	67	2	17	1	1	2	107	6	6	2	21	138							
Fier	6,988	1,708	8,696	2	0	72	210	2	88	3	100	6	6	6	27	7	7	83							
Gjithëshpirt	689	212	901	1	0	7	28	1	10	0	0	-	-	1	3	1	2	7							
Kurbin	5,279	1,419	6,698	2	0	32	202	7	74	3	41	6	366	22	6	6	67	464							
Lezhë	4,298	1,653	5,951	2	0	39	193	7	84	3	38	7	385	30	7	7	83	510							
Lidhza	7,181	1,733	8,914	2	0	47	254	9	92	3	83	3	479	27	6	6	82	616							
Mallakastrë	1,895	451	2,346	1	0	43	63	2	25	2	2	2	142	10	6	2	42	201							
Mat	11,351	2,732	14,083	2	0	107	334	11	142	7	5	211	111	833	44	12	144	1,084							
Mediteran	12,575	2,256	14,831	2	0	122	4	376	13	166	6	210	12	920	56	10	136	1,113							
Metohia	820	203	1,023	1	0	6	33	1	10	0	5	5	1	56	3	1	9	72							
Mirësi	13,220	4,240	17,460	2	0	123	4	502	17	228	8	74	12	970	52	16	16	914							
Novake	1,180	171	1,351	-	-	10	44	-	2	11	-	27	3	96	9	3	2	53							
Pejë	15,669	4,949	20,618	2	0	157	5	627	21	275	9	49	14	1,159	57	18	175	1,411							
Prishtinë	16,576	3,886	20,462	3	0	143	5	538	18	208	7	238	15	1,175	67	13	186	1,444							
Prizren	35,681	11,060	46,741	5	0	413	14	1,373	46	583	20	109	29	2,591	108	36	356	3,094							
Rrethi i Prizrenit	26,071	7,406	33,477	4	0	165	6	982	33	419	14	328	28	1,977	90	29	287	2,388							
Rrethi i Shkupit	10,122	1,945	12,067	2	0	86	3	333	11	98	3	143	10	689	43	8	111	883							
Shkup	2,105	609	2,714	-	-	17	68	1	37	2	51	4	180	9	3	3	31	227							
Shkup	5,137	1,473	6,610	1	0	46	2	141	4	76	3	112	5	389	16	4	61	472							
Shkup	2,927	2,541	5,468	3	0	86	3	240	8	165	5	258	10	823	48	10	120	967							
Shkup	10,588	3,096	13,684	2	0	82	-	252	-	165	-	295	-	1,089	-	9	2	126							
Shkup	7,899	2,228	10,127	2	0	64	2	309	10	119	4	38	9	587	32	9	102	702							
Shkup	12,151	3,448	15,599	1	0	84	3	451	15	187	6	121	12	880	54	11	146	1,093							
Shkup	1,005	270	1,275	-	-	1	0	49	2	16	1	-	1	70	6	2	2	95							
Shkup	901	254	1,155	-	-	2	0	43	4	15	1	-	1	62	4	4	13	83							
Shkup	498	151	649	-	-	5	0	24	1	9	0	-	1	40	4	1	9	56							
Shkup	2,728	2,311	5,039	-	-	69	2	89	3	131	4	-	3	302	16	13	49	379							
Shkup	371	1,002	1,373	0	0	5	27	1	21	1	-	-	1	56	4	5	14	79							
Shkup	954	390	1,344	-	-	32	1	27	1	23	1	-	1	86	5	3	19	114							
Shkup	2,925	803	3,728	1	0	54	110	4	46	2	-	-	4	223	17	11	43	295							

4.2.3 Specific Grant for Primary Healthcare 2017

The specific grant for primary health care for 2017 was approved by the Grants Commission in the amount of €44,085,037 which compared with 2016 is an increase by €2 million. The Ministry of Health transferred 5 employees and total salaries of €27,645 euro in two municipalities as follows: (Municipality of Junik, 3 employees and salaries of €16,587 euro) and (Municipality of Partesh, 2 employees and salaries of €11,058). This indicates that the health grant increased for the amount of the salaries transferred from MoH by 27,645 euro, which in total reflects €44,112,682.

Distribution of Specific Grant for Health is based on open system in line with LLGF. The specific grant for primary health care for 2017 is prepared in accordance with the priorities of the Government, the projections in the MTEF and the proposal by the MoH, and in line with the recommendations of the Grants Commission stemming out from the annual report on the evaluation of the adequacy of the Municipal Financing System 2015 approved by the Government on 30th of March 2016, taking the population of municipalities as a basic criterion.

Table 5: Specific Grant for Health 2017-2019

Nr.	Komuna	Popullsia	Total 2017 (bazuar në numrin e popullsisë)	Total 2018 (bazuar në numrin e popullsisë)	Total 2019 (bazuar në numrin e popullsisë)
1	Deçan	40,019	991,134	991,134	991,134
2	Dragash	33,997	841,990	841,990	841,990
3	Ferizaj	108,610	2,689,899	2,689,899	2,689,899
4	Fushë Kosovë	34,827	862,546	862,546	862,546
5	Gjakovë	94,556	2,341,829	2,341,829	2,341,829
6	Gjilan	90,178	2,233,401	2,233,401	2,233,401
7	Glogovc	58,531	1,449,613	1,449,613	1,449,613
8	Hani i Elezit	9,403	232,880	232,880	232,880
9	Istog	39,289	973,054	973,054	973,054
10	Junik	6,084	167,267	167,267	167,267
11	Kaçanik	33,409	827,427	827,427	827,427
12	Kamenicë	36,085	893,702	893,702	893,702
13	Klinë	38,496	953,414	953,414	953,414
14	Leposavic	13,773	341,110	341,110	341,110
15	Lipjan	57,605	1,426,679	1,426,679	1,426,679
16	Malishevë	54,613	1,352,577	1,352,577	1,352,577
17	Mamushë	5,507	136,390	136,390	136,390
18	Mitrovicë	71,909	1,780,940	1,780,940	1,780,940
19	Novobërdë	6,729	166,654	166,654	166,654
20	Obiliq	21,549	533,695	533,695	533,695
21	Pejë	96,450	2,388,737	2,388,737	2,388,737
22	Podujevë	88,499	2,191,818	2,191,818	2,191,818
23	Prishtinë	198,897	4,925,999	4,925,999	4,925,999
24	Prizren	177,781	4,403,028	4,403,028	4,403,028
25	Rahovec	56,208	1,392,080	1,392,080	1,392,080
26	Shtërpçë	6,949	172,103	172,103	172,103
27	Shtëmë	27,324	676,722	676,722	676,722
28	Skenderaj	50,858	1,259,579	1,259,579	1,259,579
29	Suharekë	59,722	1,479,110	1,479,110	1,479,110
30	Viti	46,987	1,163,707	1,163,707	1,163,707
31	Vushtrri	69,870	1,730,441	1,730,441	1,730,441
32	Zubin Potok	6,616	163,856	163,856	163,856
33	Zveçan	7,481	185,279	185,279	185,279
34	Graçanicë	10,675	264,383	264,383	264,383
35	Kllokot	2,556	63,303	63,303	63,303
36	Mitrovica Veriore	12,326	305,273	305,273	305,273
37	Partesh	1,787	55,316	55,316	55,316
38	Ranillug	3,866	95,748	95,748	95,748
Total		1,780,021	44,112,682	44,112,682	44,112,682

4.2.4 Financing of secondary healthcare for 2017

Financing for secondary healthcare covering 2017 was approved by the Grants Commission in the amount of €2,603,077 according to government priorities, projections in the MTEF and the proposal by MoH, three minority municipalities, as follows:

- Municipality of Shtërpe, financing of €522,371
- Municipality of Mitrovica north, financing of €989,935; and
- Municipality of Graçanica, financing of €1,090,771

4.2.5 Financing for residential services

Financing of residential services for community houses for the municipalities listed in the table according to MLSW for 2017 was approved by the Grants Commission in the amount of €1,620,000.

Table 6: Financing for residential services for 2017

Municipalities	Total
Skenderaj	180,000
Graçanica	300,000
Deçan	160,000
Ferizaj	160,000
Istog	180,000
Kamenica	160,000
Lipjan	160,000
Shtime	160,000
Vushtrri	160,000
Total	1,620,000

4.2.6 Projections of own source revenues for 2017 and projections 2018-2019

Projections of own source revenues for 2017 based on Table 1 Macroeconomic in the amount of €79 million are incorporated as part of the 2017-2019 Municipal MTEF, as a source of municipal financing based on LPF. Distribution of this projection of revenues to municipalities is based on the recommendations of the working group established for this purpose. The working group proposed the distribution of projection based on the parameters: revenues from property tax, revenues from construction licenses and other municipality's revenues. Specific weight is given to each parameter. Based on these parameters, the distribution of the projection is adapted to several municipalities with the collection of revenues in 2015.

Table 7: Projections of own source revenues 2017-2019

No.	Municipalities	Own Source Revenues 2017	Plan on Own Source Revenues 2018	Plan on Own Source Revenues 2019
1	Deçan	1,309,444	1,309,444	1,326,019
2	Dragash	751,675	751,675	761,190
3	Ferizaj	4,472,188	4,472,188	4,528,798
4	Fushë Kosovë	3,035,973	3,035,973	3,074,403
5	Gjakovë	3,616,260	3,616,260	3,662,035
6	Gjilan	4,599,390	4,599,390	4,657,610
7	Glllogoc	1,474,005	1,474,005	1,492,663
8	Hani i Elezit	239,854	239,854	242,890
9	Istog	1,226,695	1,226,695	1,242,223
10	Junik	141,987	141,987	143,784
11	Kaçanik	861,014	861,014	871,913
12	Kamenicë	899,181	899,181	910,563
13	Klinë	1,030,521	1,030,521	1,043,566
14	Leposaviq	198,013	198,013	200,519
15	Lipjan	2,108,547	2,108,547	2,135,237
16	Malishevë	1,097,142	1,097,142	1,111,030
17	Mamusha	105,826	105,826	107,166
18	Mitrovicë	2,436,932	2,436,932	2,467,779
19	Novobërdë	218,829	218,829	221,599
20	Obiliq	1,044,713	1,044,713	1,057,937
21	Pejë	4,429,046	4,429,046	4,485,110
22	Podujevë	1,847,800	1,847,800	1,871,190
23	Prishtinë	24,607,375	24,607,375	24,918,861
24	Prizren	6,102,106	6,102,106	6,179,348
25	Rahovec	1,247,732	1,247,732	1,263,526
26	Shtërpcë	446,914	446,914	452,571
27	Shtime	573,460	573,460	580,719
28	Skenderaj	1,187,875	1,187,875	1,202,911
29	Suharekë	1,934,756	1,934,756	1,959,247
30	Viti	1,106,695	1,106,695	1,120,704
31	Vushtrri	2,316,735	2,316,735	2,346,061
32	Zubin Potok	90,486	90,486	91,631
33	Zveçan	102,771	102,771	104,072
34	Gracanicë	1,700,483	1,700,483	1,722,008
35	Klllokot	104,297	104,297	105,617
36	Mitrovica veriore	177,463	177,463	179,709
37	Partesh	42,483	42,483	43,021
38	Ranillug	113,334	113,334	114,769
	Total	79,000,000	79,000,000	80,000,000

4.2.7 Summary of municipal financing 2017-19

Criteria and basic formulas set out in the in the Law on Local Government Finances were applied for allocation of government grants according to municipalities for 2017 and based on Table 1 of the macro-fiscal projections and data from ministries.

Grants Committee in its meeting held on 21st of April 2016 approved government grants for financing municipalities including projections of own source revenues for 2017, with total sources of municipal financing approved in the amount of €439.96 million (Table 8).

General Grant for 2017 compared with 2016 increased by €14.29 million as a result of the increase of total revenues.

The specific grant for pre-university education for 2017 increased by €2.1 million in the economic category of goods and services compared with 2016 despite the decline in the number of pupils reported by the Ministry for 2017, then this means that financing per pupil increased compared with 2016.

Specific grant for primary health care 2017 is an increase of €2 million compared with 2016.

Financing for secondary healthcare for 2017 is at the same level with the previous year, as financing for residential services after transferring the competences through budget planning process 2016 by MLSW to the municipalities listed in the table is the same as the previous year.

Projections of own source revenues for 2017 compared with the previous year are approximately at the same level.

Table 8: Medium Term Expenditure Framework 2017-19 for municipalities

Description	2016	2017	2018	2019
1. Government Grants	338.32	354.61	360.31	367.91
General Grant	134.91	149.20	154.90	162.50
General Grant		145.20		
Contingency for correction of formula		4.00		
Specific Grant for Health	42.08	44.11	44.11	44.11
Specific Grant for Education	161.33	163.43	163.43	163.43
2. Grants for enhanced competencies	2.60	2.60	2.60	2.60
Secondary healthcare	2.60	2.60	2.60	2.60
3. Transfer of Residential Services	0.24	1.62	1.62	1.62
Residential services: Deçan, Ferizaj, Istog, Kamenicë, Lipjan, Shtime and Vushtrri	0.24	1.62	1.62	1.62
4. Municipality's revenues	80.00	79.00	79.00	80.00
TOTAL MUNICIPAL FINANCING	421.16	439.96	445.66	454.26

4.3 Structure of expenditures by economic categories for municipalities 2017-2019

The structure of operating economic categories for municipalities covering 2017 is at the same level compared with 2016 with an increase of €2.1 million within the economic category of Goods and Services, while the economic category of Capital Expenditures increased by €15.8 million as a result of increase in general grant for 2017 compared with 2016.

Table 9: Structure of expenditures for the municipal budget 2017-2019

Economic Categories	2016	2017	2018	2019
Staff	43,832	43,844	43,844	43,844
Wages and Salaries	246,432,392	248,228,404	249,305,605	250,382,805
Goods and Services	38,223,000	40,322,300	40,322,300	40,322,300
Utilities	9,797,595	9,797,595	9,797,595	9,797,595
Subsidies and Transfers	8,667,743	8,667,743	8,667,743	8,667,743
Reserves				
Capital expenditures	117,090,589	132,951,730	137,574,529	145,097,329
Total	420,211,319	439,967,772	445,667,772	454,267,772