Honored Mayors,

Municipal Budget Circular 2013/02 is intended to replenish Budget Circular 2013/01 sent in May 2012.

Background and Purpose

Under article 20 of the LPFMA, the Minister of Finance is authorized and responsible for the budget circular issued to all budget organizations, setting out guidelines for the preparation of the Budget of the Republic of Kosovo.

Budget Circular 2013/01 has provided initial guidance and indicative timelines for the purpose of preparing the proposed municipal budget and appropriations requests for the years 2013-2015. First Circular for municipalities provided initial guidelines, indicative timetable and initial funding ceilings for the preparation of the proposed municipal budget and request for appropriations for 2013-2015.
Expenditure ceilings

The Government of the Republic of Kosovo is committed primarily to maintain fiscal and budget stability and support medium term sectoral priorities.

According to the Grants Commission's decision based on LLGF, municipalities are obliged that from the municipal general grant to help in financing pre-university education sector and in the health sector for the fiscal year.

Government program with the IMF continues to have a major impact on the size and structure of the budget. In line with the recommendations and structural benchmarks of the IMF program, the profile structure of expenditures by economic categories will have the flexibility to plan the expenditure from municipal own revenues for 2013. Thus, municipalities in the budget drafting for 2013 will have flexibility in planning their own revenues through economic categories excluding economic category Wages & Salaries. Control over wages and salaries, is particularly important as it is in special focus of the IMF.

Number of employees remains at the previous year level and therefore monetary measures for wages and salaries will include increase only in cases when for this, there is a prior decision by the Assembly or the Government of the Republic of Kosovo.

Regarding other current expenses (goods and services, utilities and subsidies and transfers) from government grants remain at current level for each municipality.

There are no ceilings on capital expenditure, in fact this is a leftover of the total funding resources available, minus current expenses.

In the table below - Table 1, attached you will find the number of employees for 2013 for each municipality, the monetary amount for wages and salaries from government grants and own source revenues and current expenditures by government grants as well as undistributed own revenues that you will distribute according to needs and your requests in economic categories (excluding wages and salaries).

Budgeting at the school level

By extending the financial autonomy of schools, municipalities make budgetary delegation at the school level. Municipalities will implement the delegated budget to schools as required by Article 29, paragraph 3.1 of the Law on Pre-University Education, as well as the allocation of budget amount to each school in a municipality shall be determined by a municipality-school financial formula that meets requirements set by Administrative Instruction 02/2011. Municipalities involved in the decentralization of the budget at the school level should prepare their budgets for execution for all schools in cooperation with MEST-MoF-MPA.
Municipal Medium Term Expenditure Framework

It is strongly recommended that municipalities formulate their plans for the 2013 annual budget within the context of access to the Municipal Medium Term Expenditure Framework (municipal MTEF). Detailed preparation of the document of municipal MTEF should be considered as one of the first steps in the budget process aimed at providing strategic guidance and policy oriented to annual budget decisions. Municipalities are advised to strive for the use of the MTEF process for identifying and emphasizing the link between development strategic priorities and municipal fiscal / budget strategy, including information on program performance for the period of next three years. Timetable for the preparation of municipal MTEF should be provided and harmonized within the calendar needs of internal municipal budget processes, in a way that allows the MTEF document slip through appropriate consultations with citizens, approval of the Municipal Assembly and inform the municipal budget for 2013. Final municipal MTEF should be officially published for public access, with a copy submitted to the Department of Municipal Budget in the Ministry of Finance. Guidance provided in this Circular shall supersede budget deadlines for the preparation of municipal MTEF issued in the first Budget Circular.

Distribution of municipal budget at the local level

Municipal authorities are obliged to distribute Circular to all municipal officials engaged in the budget drafting process.
All local authorities are responsible for organizing their commitments and activities in accordance with the budget drafting calendar, in order to ensure full support in preparing the budget, the final alignment with the budgetary guidelines, approval of municipal assemblies and submitting the right time municipal budgets in MoF.

Public Investment Program and the Budget Data Management System

Budget planning for capital projects should be done through the PIP electronic system, also through the budget development system (BDMS) should be done the planning the budget for operational costs (staff number, wages and salaries, goods and services, utilities, subsidies and transfers)
In electronic systems BDMS and PIP shall not be allowed in no case exceeding the limits of the budget circular issued in 2013.

The budget submission to the MoF for the year 2013-2015 will be conducted through electronic systems (PIP and BDMS) in three languages.
Training and additional information

Third budget circular will be issued soon, which among other will have special focus on the transfer of fire-fighters staff and accompanying budget from municipalities to the Ministry of Internal Affairs and the transfer of market inspectors and accompanying budget in the Ministry of Trade and Industry.

Municipal budget department in the MoF will provide training to municipalities on the development of municipal budgets for the years 2013-2015.

Respectfully,

Bedri Hoxha
Minister
<table>
<thead>
<tr>
<th>Table 1. Expenditure ceilings for 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Department, Program, Activity</strong></td>
</tr>
<tr>
<td>--------------------------------------</td>
</tr>
<tr>
<td><strong>Education</strong></td>
</tr>
<tr>
<td><strong>Health</strong></td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
</tr>
<tr>
<td><strong>Other</strong></td>
</tr>
</tbody>
</table>

**Notes:**
- Column 10: Estimated expenditure (in millions)
- Column 11: Total expenditure (in millions)
- Column 12: Expenditure ceilings (in millions)
- Column 13: Total ceiling (in millions)
- Column 14: Ceiling ratio (as % of total ceiling)

**Total Ceiling:**
- Total ceiling for all departments and activities

**Introduction:**
- Explanation of the budget ceiling mechanism

**Conclusion:**
- Summary of the budget ceiling implementation

**Appendix:**
- Detailed budget ceiling calculations