

Citizen Budget

Budget of the Republic of
Kosovo – **2018**



MINISTRIA E FINANCAVE
MINISTARSTVO ZA FINANSIJE
MINISTRY OF FINANCE



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You can find an electronic copy of the Citizen Budget at:
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Dear readers,

Given the importance of communicating with citizens on the management of public finances, it is a pleasure to present the Citizen Budget on the 2018 Budget of the Republic of Kosovo.

Since the largest amount of budget funds is collected through payment of taxes, it is our obligation to provide citizens of the Republic of Kosovo with simple and understandable information about the collection and spending of these funds.

We are convinced that the Citizen Budget on the 2018 Budget of the Republic of Kosovo will, on one hand, enable better understanding of the budget process as well as of the decisions we have taken in drafting the budget, and on the other hand, it will enable better management of public finances and harmonization with best international practices.

The priority of the Ministry of Finance in the budget planning process is fiscal consolidation through the harmonization of budget revenues and expenditures. Through these expenditures, services are provided for all citizens of the Republic of Kosovo, regardless of ethnicity, gender and age.

The Ministry of Finance foresees that in 2018, the real growth of the Gross Domestic Product shall be at the rate of 4.6%.

Projections on total budget revenues for 2018-2020 are based on forecasts for overall economic developments and the effects of these developments on the tax base. Thus, the total planned revenues for the 2018 budget amount to EUR 1,829 million, which is higher than the 2017 budget by about 6.0% (EUR 104 million), including the collection of tax debts.

On the other hand, total spending amounts to EUR 2,092 million, including EUR 12 million in designated donor grants. The sum of over EUR 1,589 million has been allocated to budget organizations at the central level, while allocations for the local level amount to over EUR 491 million.

Budget discipline and responsibility are indispensable for successful budget consolidation. Accordingly, we are convinced that the inclusive debate with the citizen regarding the priorities in public spending will enable long term economic development.

Bedri Hamza,
Minister of Finance

What is the Budget?

Every individual or family plans expenditures based on their available means, or a household calculates its living costs according to a budget - the income it generates and which she be spend on basic things, like food, clothing, rent payments, utilities, entertainment, recreation, etc.

Likewise, the Government plans its expenditures depending on the budget it designs and available funding. It plans how much of its revenue will be spent on the various needs of the state, such as public sector employees' wages, operating expenses of public institutions, education, health, pensions, employment incentives and poverty alleviation, capital expenditures, increasing the wellbeing of citizens, economic development, etc. Unlike an individual's or a family budget, the state budget is planned for a specific period called a "budget year". This year is composed of 12 months and according to the standards set in our country is the same as the calendar year, so it starts on January 1 and ends on 31 December.

The budget is a revenue and expenditure plan for a certain period of time in the future. The budget is also drafted and reassessed on a periodic basis. The Republic of Kosovo's budget is a document presented in the form of a law that plans state revenue and expenditure for the entire calendar year.

The Kosovo Budget is prepared by the Ministry of Finance (MoF), in coordination with budget organizations, and is approved by the Kosovo Assembly at the end of the year. The budget for the coming year is prepared during the current year through a series of actions known as the Budget Process.

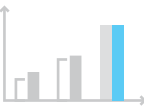
At the time when the Assembly approves budget allocations for the next fiscal year, these budget allocations become a law called the Law on the Budget for that particular year. This Law on the Budget law adopted by the Assembly provides budget organizations with the authorization to spend or transfer public funds, up to certain limits and for purposes set by law, during a given fiscal year.

What precedes the budget process?

Where are we now?



Where do we want to be?



How do we get there?



Economic situation in the country (macro-economic framework)

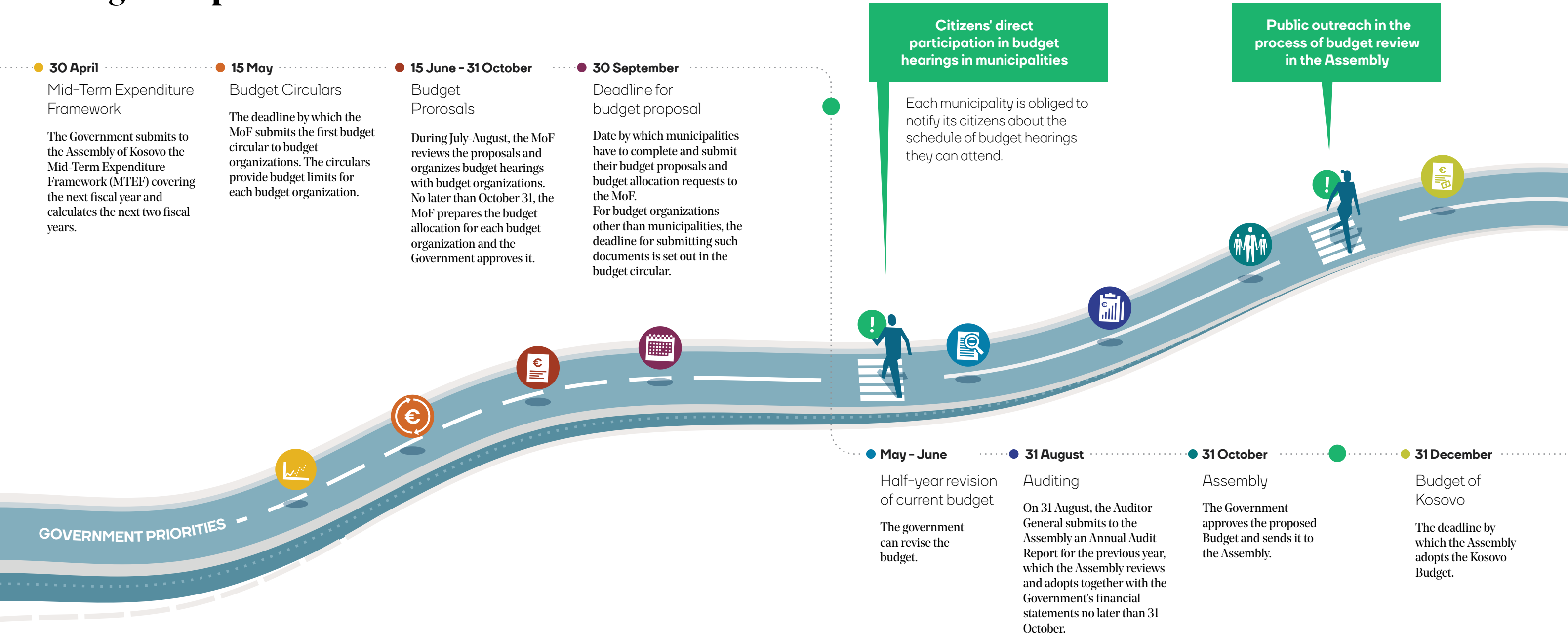
The ratio between revenue and expenditure requirements under existing policies

Policies and programs the Government wishes to implement through budget expenditures

Realization of the Government Program



Budget Preparation Process

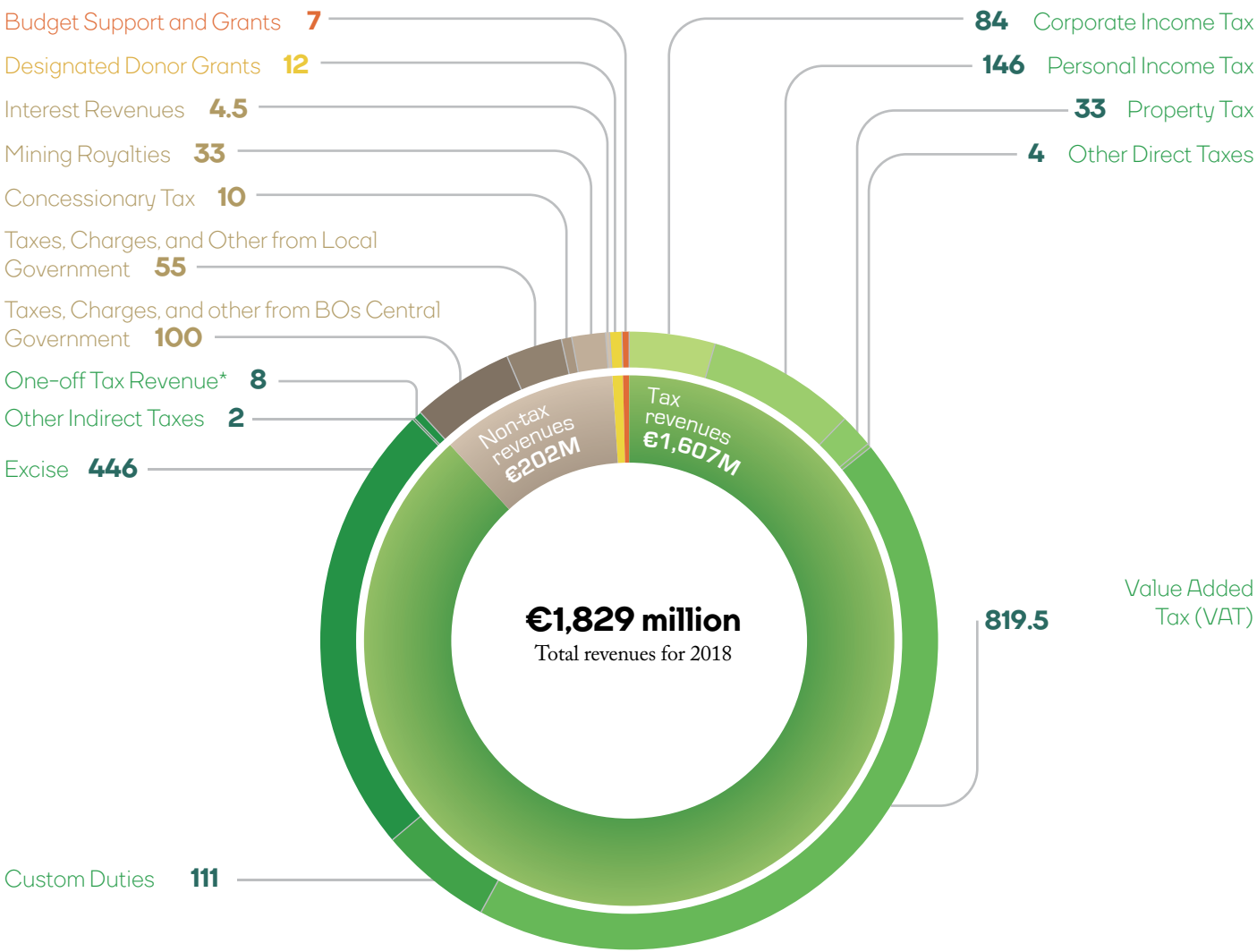
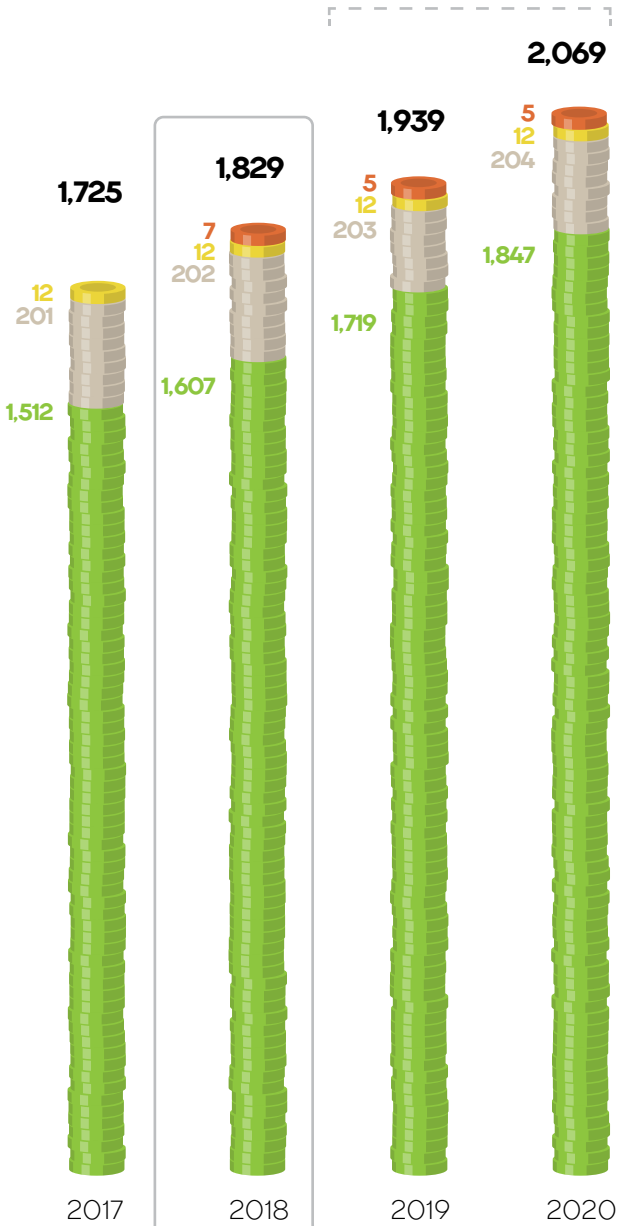


How is the Kosovo Budget filled?

The state collects revenues from its citizens and returns these revenues by providing services, such as building streets, hospitals, schools, providing health services, education and other services. The state collects revenues through tax revenues and non-tax revenues.

It is expected that during 2018 there will be a drop in revenues collected by customs, due to the abolition of customs duties on raw inputs for the production process and the effects of the Stabilization and Association Agreement, in its third year of implementation, but these impacts will be offset by the positive effects that lead to a rise in production, and the planned dynamics of financing and implementation of the Government's strategic priorities that serve as catalysts for improving the country's fiscal position and increasing the economic activity.

- Budget Support and Grants
- Designated Donor Grants
- Non-Tax Revenues
- Tax Revenues



€1,829 million
Total revenues for 2018

revenues in million euros

2018 Kosovo Budget Revenues

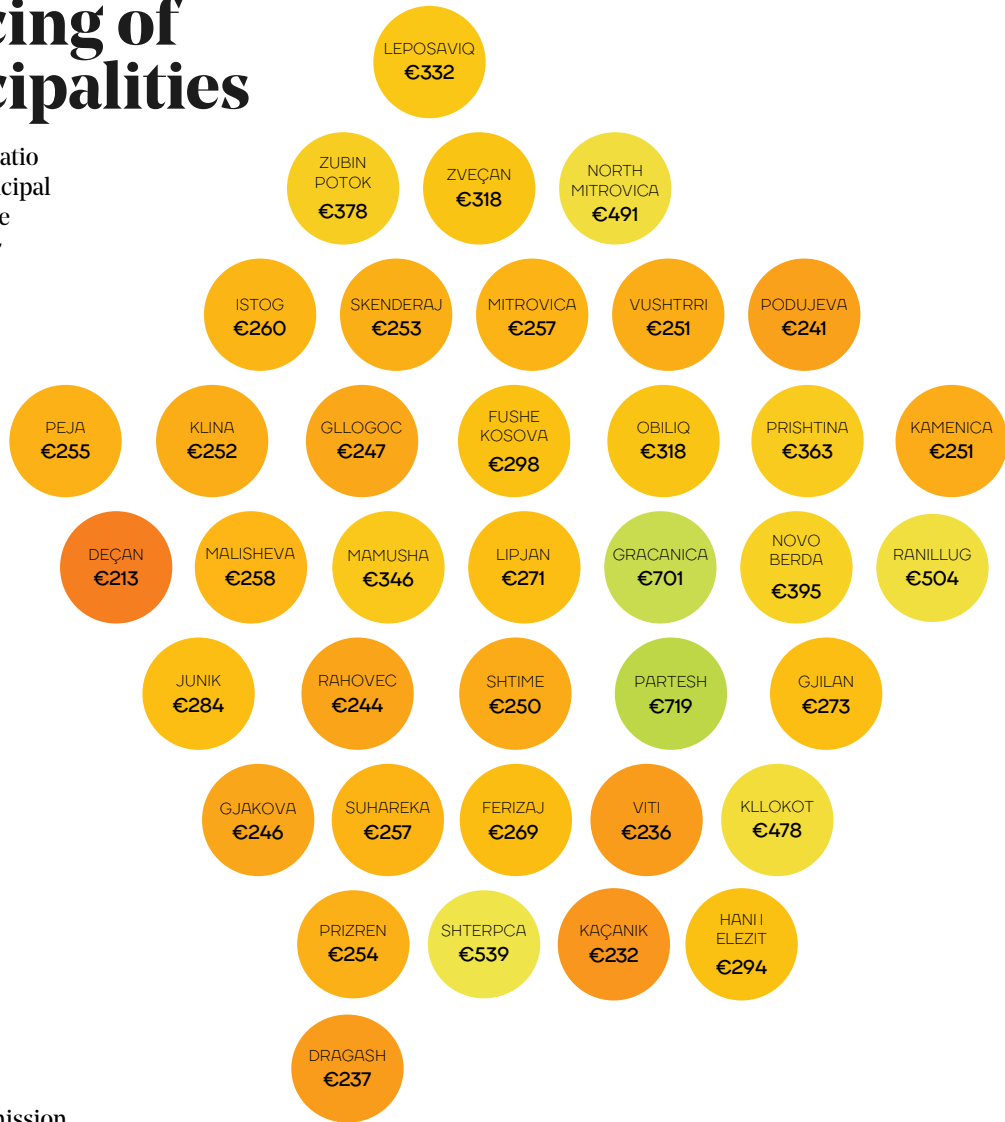
*One-off tax revenues consist of: one-off revenues from collection of tax debt and one-off tax revenue from SOE debts

Tax Returns for 2018 are €46 million

DISAGGREGATED

Per capita financing of Municipalities

calculated as the ratio between the municipal population and the total financing for the municipality.



The Grants Commission, on 04 April 2017, approved government grants and relative allocations to municipalities based on the criteria set out in the applicable laws and relevant administrative instructions regulating the municipal financing area.



€/PER CAPITA		RESIDENTS	MUNICIPALITY	FUNDING SOURCES	TOTAL FUNDING 2018
€719		1,787	Partesh		€1,284,350
€701		10,675	Gracanica		€7,484,556
€539		6,949	Shterpca		€3,746,219
€504		3,866	Ranillug		€1,949,633
€491		12,326	North Mitrovica		€6,052,721
€478		2,556	Klllokot		€1,221,386
€395		6,729	Novo Berda		€2,660,392
€378		6,616	Zubin Potok		€2,503,575
€363		198,897	Prishtina		€72,273,904
€346		5,507	Mamusha		€1,905,053
€332		13,773	Leposaviq		€4,576,826
€318		7,481	Zveçan		€2,379,533
€318		21,549	Obiliq		€6,851,925
€298		34,827	Fushe Kosove		€10,374,307
€294		9,403	Hani i Elezit		€2,766,745
€284		6,084	Junik		€1,730,462
€273		90,178	Gjilan		€24,646,974
€271		57,605	Lipjan		€15,631,989
€269		108,610	Ferizaj		€29,248,881
€260		39,289	Istog		€10,197,776
€258		54,613	Malisheva		€14,103,725
€257		59,722	Suhareka		€15,350,773
€257		71,909	Mitrovica		€18,446,444
€255		96,450	Peja		€24,554,896
€254		177,781	Prizren		€45,090,517
€253		50,858	Skenderaj		€12,889,268
€252		38,496	Klina		€9,694,955
€251		69,870	Vushtrri		€17,552,935
€251		36,085	Kamenicaa		€9,050,037
€250		27,324	Shtime		€6,824,492
€247		58,531	Glllogoc		€14,477,299
€246		94,556	Gjakovë		€23,266,603
€244		56,208	Rahovec		€13,698,232
€241		88,499	Podujeva		€21,372,176
€237		33,997	Dragash		€8,069,989
€236		46,987	Viti		€11,097,984
€232		33,409	Kaçanik		€7,737,844
€213		40,019	Deçan		€8,517,396

Funding sources of Municipalities

General Grant

10% of the total budgeted central budget revenues, excluding revenues from: sale of assets, borrowing, other extraordinary and dedicated revenues. Indicators used to allocate general grants to municipalities are:

- Number of population (89%)
- Geographical size of the municipality (6%)
- Number of minority population in the municipality (3%)
- Municipalities where the majority of the population is comprised of national minorities (2%)

Education Grant

It addresses pre-primary, primary and secondary education, taking into account the following elements:

- Number of registered students in 2016/2017;
- Student-teacher ratio for primary and secondary education

Health Grant

The criteria applied for the allocation of the specific health grant are:

- Visits per capita
- Services per capita
- Average cost of visit.

OSR (Own Source Revenues) Projections

for Municipalities in 2018 are based on macro-fiscal estimates and are in the amount of EUR 82 million. These revenues are added to municipal funding in addition to municipal grants. Distribution of revenue projections is based on property tax, municipal taxes, fines, fees, revenues from construction permits as well as other municipal revenues.

The amount of €790,440 borrowing in education is included in the total Education Grant

The amount of €40,350 is included in the general grant and is allocated to the Historic Center of Prizren and the Cultural Center of Zym village

The amount of €2,511,838 borrowing in education is included in the total Health Grant

The amount of €22,743 is included in the total General Grant for the Council of Great Hoga

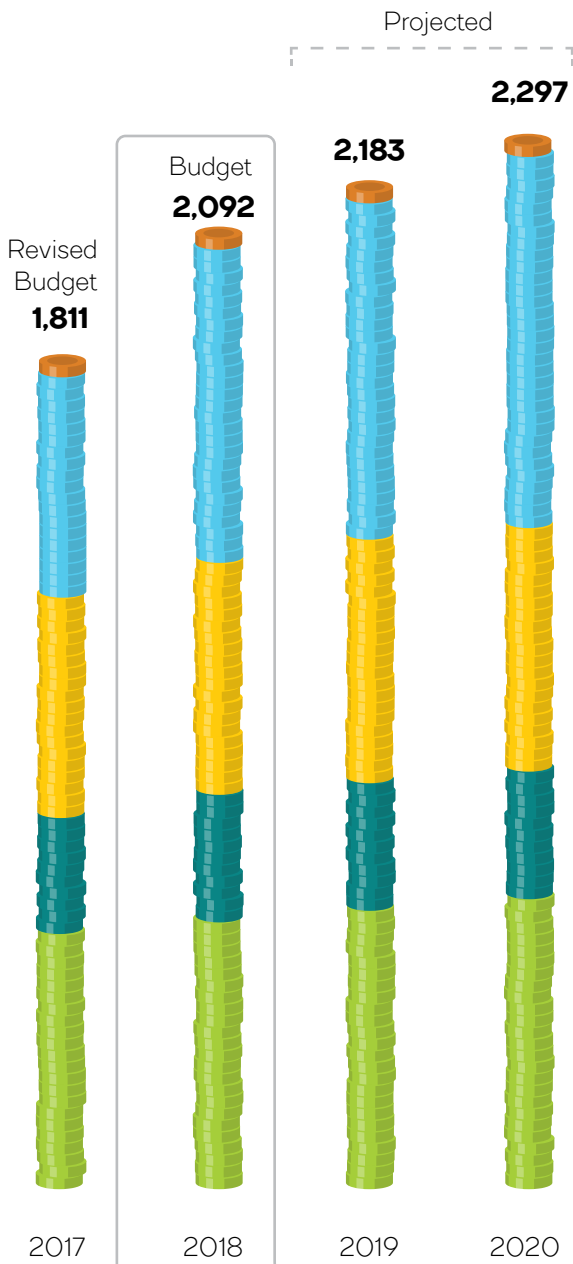
Where does the state spend our money?

Revenues collected in the Kosovo Budget are spent according to the priorities set by the Government and adopted by the Assembly. Budget expenditures for 2018 are planned to increase by EUR 281 million or 15.5% more compared to the 2017 Budget Revision.

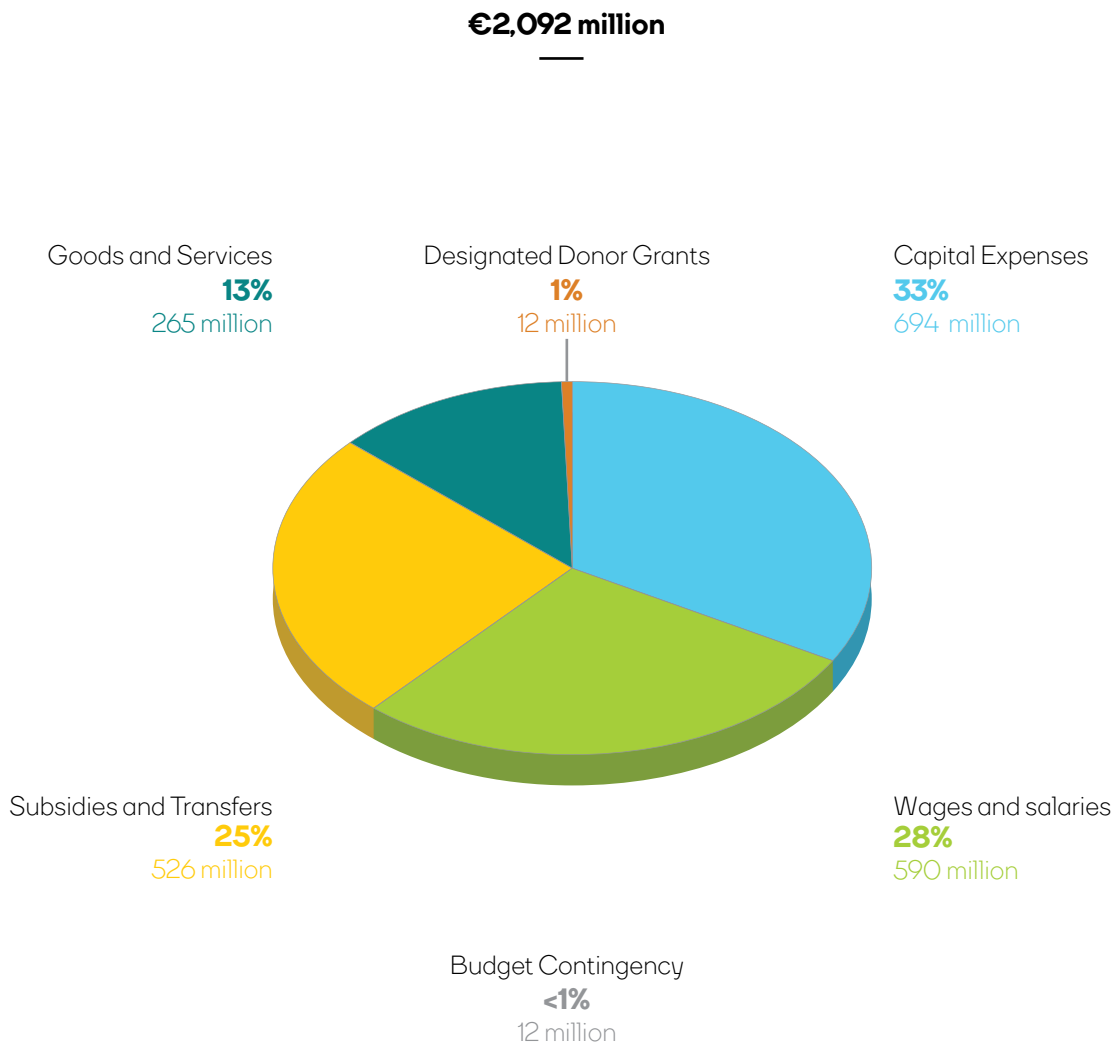
Current expenditures are planned to be 5.9% higher, while capital expenditures will increase significantly, or will be 38.5% higher compared to the 2017 revision. This increase was supported by the increase of regular revenues by EUR 48 million or 9.6%, as well as the financing from concessional borrowing and KPA liquidation funds totaling EUR 148 million.

The overall structure of government expenditures by economic categories has moved towards increasing capital expenditures, including the expenditures that are expected to be financed by International Financial Institutions and the liquidation of assets of socially owned enterprises, which, according to the fiscal rule, are not calculated at the overall level of the budget deficit.

- Wages and Salaries
- Goods and Services
- Utilities
- Subsidies and Transfers
- Capital Expenditures
- Other



2018 Kosovo Budget Expenditures















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Capital Investments

Even over the next three years, the largest investments in the category of capital expenditures will be those for road infrastructure. However, it can be noticed that more funding has been provided for investments in environment, health, education, sports and community sectors, good governance, internal affairs and the Security Force in the medium term.

Thus, the Kosovo budget and other sources of funding will be invested on:

	Prishtina – Hani e Elezit Motorway	~117 million / 2018
	Prishtina – Gjilan – Konqul Motorway	126 million / 3 years
Expansion, rehabilitation and construction of roads		
	Prishtina – Peja	148 million / 3 years
	Prishtina-Mitrovica	68 million / 3 years
	Komoran – Drenas-Skenderaj	54 million / 3 years
	Dollc-Gjakova	57 million / 3 years
	Prishtina-Podujeva	24.4 million / 3 years
	Rehabilitation of regional roads	28 million / 2018, 2019
	Rehabilitation of railway Fushë Kosove – Hani i Elezit	42 million / 3 years
	Wastewater plant in the Municipality of Prishtina	~48 million / 3 years
	Impl. of Energy Efficiency Measures in buildings	17.5 million / 3 years
	Enlargement of the "Adem Jashari" Airport Runway and establishment of the Landing System	32.6 million / 3 years
	National football stadium	23.9 million / 3 years
	Development, Integration and Return of Communities	~18 million / 3 years
	Development of the Health Information System, Medical Devices for Hospital Service Programs, First construction phase of Emergency Center in Prishtina and the Hospital Facility in Ferizaj	>25 million / 3 years
	Construction of two faculties in Mitrovica and Faculty of Economics and Law in Prishtina	~13 million / 2018
	Police equipment and vehicles, tactical and armored vehicles for the Kosovo Security Force and Police	~28 million / 3 years
	Construction and rehabilitation of irrigation and animal protection systems	~9 million / 3 years
	Increasing traffic safety through vertical and horizontal signage	8.7 million / 3 years

Transfers

Pension and Social Welfare Schemes

398.4 million € 

Currently, only the Social Assistance Scheme benefits over 26,000 households, with over 106,000 members

Subsidies

Ministry of Agriculture, Forestry and Rural Development

47.7 million € 

In 2017, a total of 44,765 farmers benefited from the total amount. A similar number of beneficiaries is expected for 2018.

¹Milk cows, sheep and goats; beekeeping; egg-laying chicken; turkey; milk by quality categories; hogs; reported bovine and aquaculture (fishery).

²Wheat; grain seeds; rye, barley; corn; sunflower; orchards; vegetables; viticulture; wineries; production of seedlings of fruit and vines and organic farming.

³Milk processing; meat processing; processing of fruits and vegetables and wine production.

⁴Investment in the fruit sector; vegetables; greenhouses (including potatoes); meat; grapes and eggs.

⁵Investment in farm irrigation

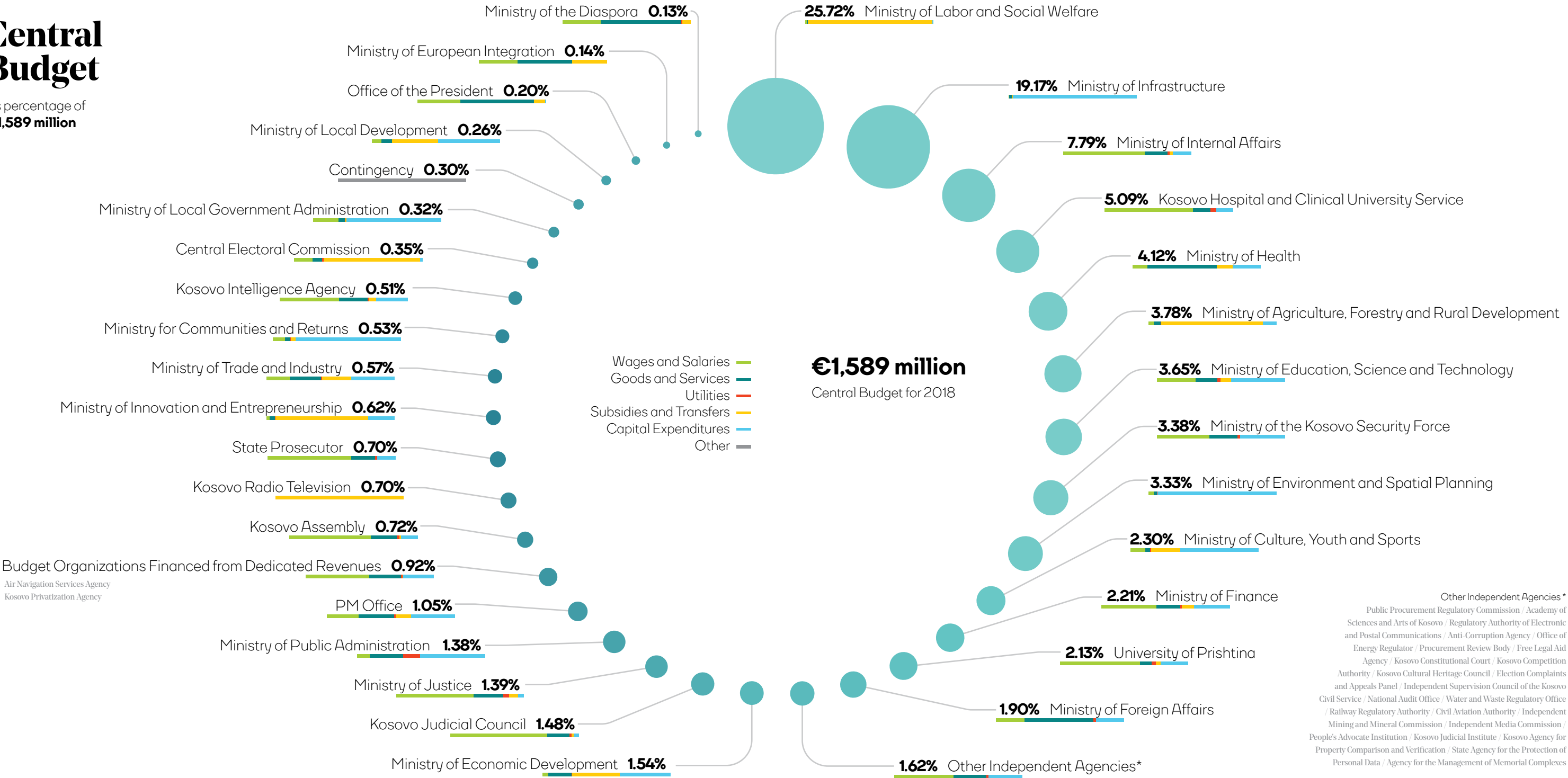
⁶Investment in honey production; collection, processing and promotion of non-wood products; processing and testing of cultivated agricultural products; development and promotion of craft activities; and the development and promotion of rural tourism.

Pensions and Compensations	255 million
Basic Pensions	115 million
Disability Pensions	20 million
Early Pensions (Trepça)	4.3 million
KPC – Early Pensions	2.6 million
Basic Pensions – Contributors	89.9 million
Work Disability Pension	1.8 million
Family Pension	2.9 million
Paraplegic and Tetraplegic	1.4 million
Law on the Blind	5.5 million
KSF Member Pensions	1.3 million
Funding of 90's MPs	0.3 million
Compensations for political prisoners	10.5 million
Social Assistance and Services	41.5 million
Social Assistance Scheme	31.3 million
Social Services	4.5 million
Banking Provisions Social Cases	1.2 million
Utilities Social Cases	4.5 million
Employment Agency	3.8 million
War Pensions and Compensations	97.7 million
War Disability Pensions	38 million
Law on Veterans	58.7 million
Implementation of Law 04/L-054 on Veterans	1 million

Direct Payments (44,348 beneficiaries in 2017)	25.6 million
Payments for the livestock sector ¹	9.2 million
Payments for crops ²	16.4 million
Grants/farmer projects (417 beneficiaries in 2017)	22 million
Payments for individual beneficiaries ³	3.9 million
Restruc. Physical Potential ⁴	14.5 million
Res. Management Irrigation agri ⁵	1.3 million
Farm Diversification ⁶	2.2 million

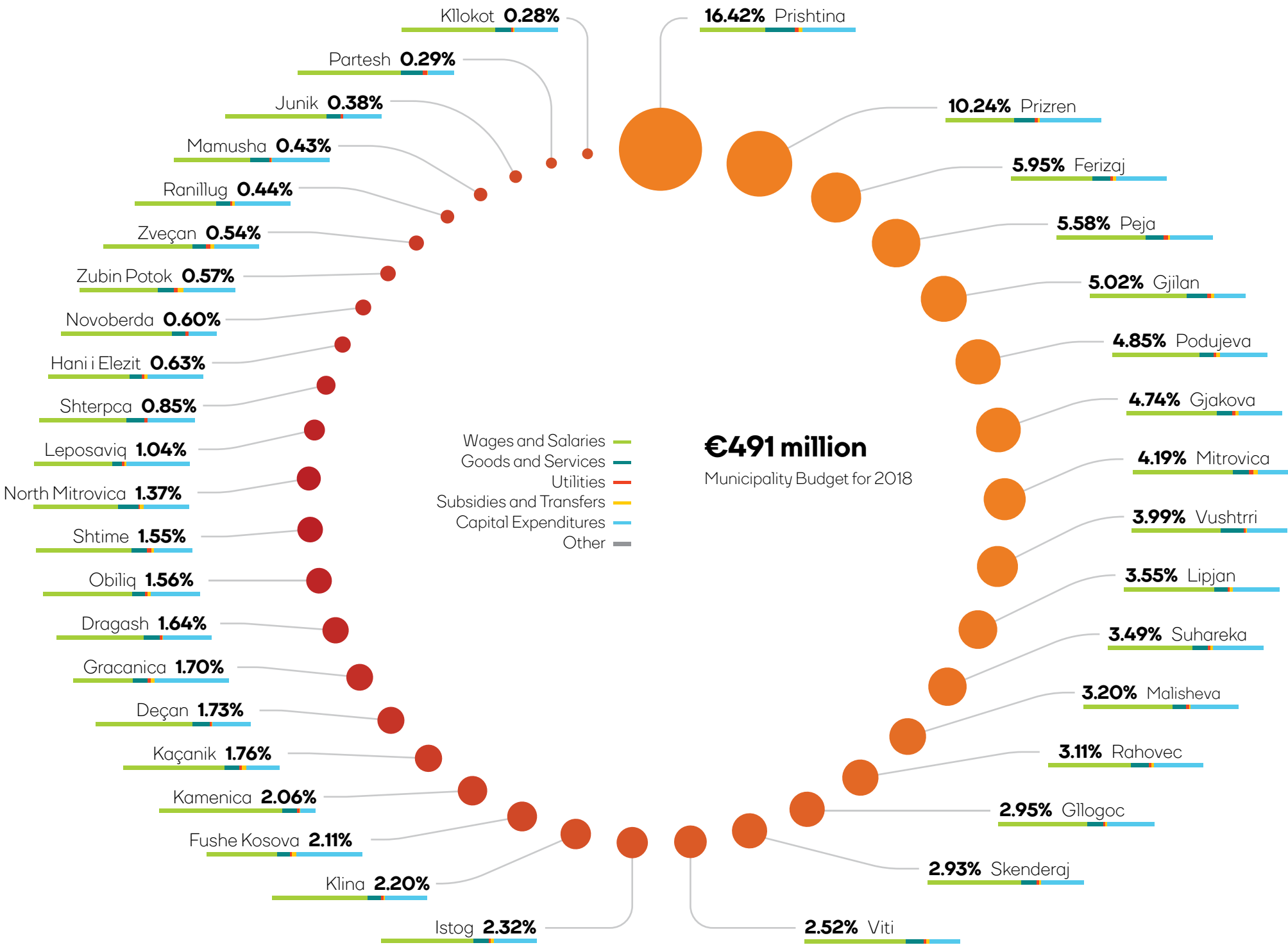
Central Budget

As percentage of
€1,589 million



Municipality Budget

As percentage of
€491 million



Gross Domestic Product (GDP)

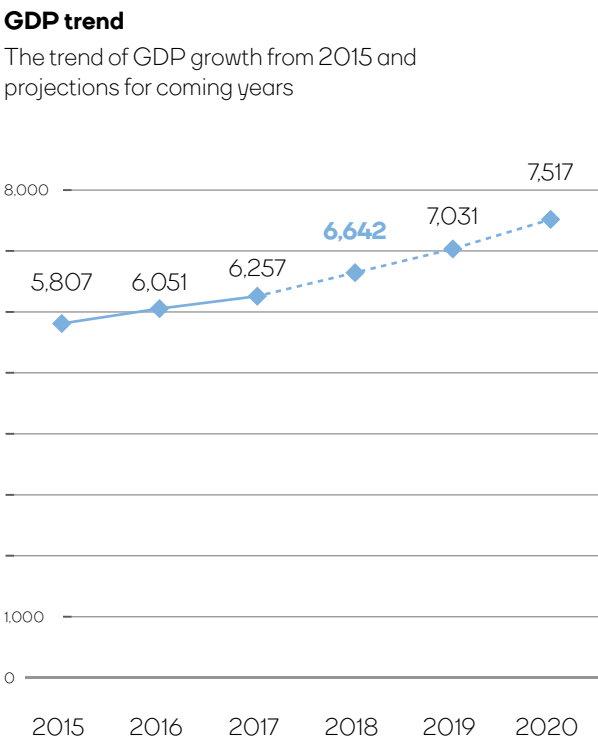
2018 GDP (projection)

€6,642 million

GDP growth from 2017

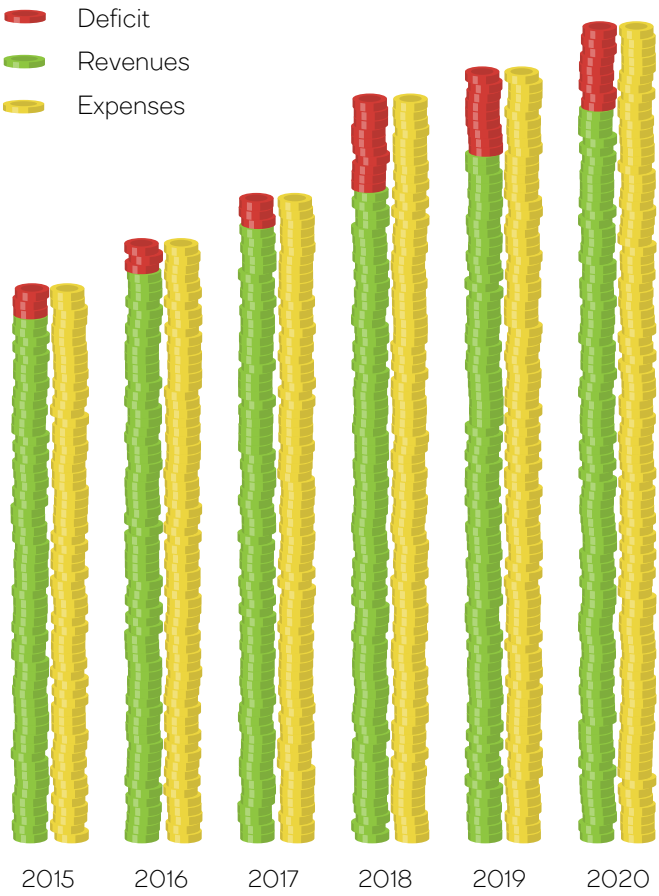
4.6%^a Projected growth in real terms compared to 2017

€6,257 million - BPV 2017



Kosovo Deficit

Ideally, revenues and income are balanced with expenditures, meaning the state spends as much as the revenues it collects. When revenues and incomes are greater than expenditures and transfers, then we have a budget surplus. If expenditures and transfers are greater than revenues and incomes then we deal with a budget deficit. To cover the budget deficit, just like the family budget, the state has to borrow money. The total budget deficit in line with the fiscal rule is expected to be 1.8% of the GDP or about EUR 122 million. This deficit is envisaged to be covered by the accumulated budget balance, domestic debt, and borrowing from international financial institutions.



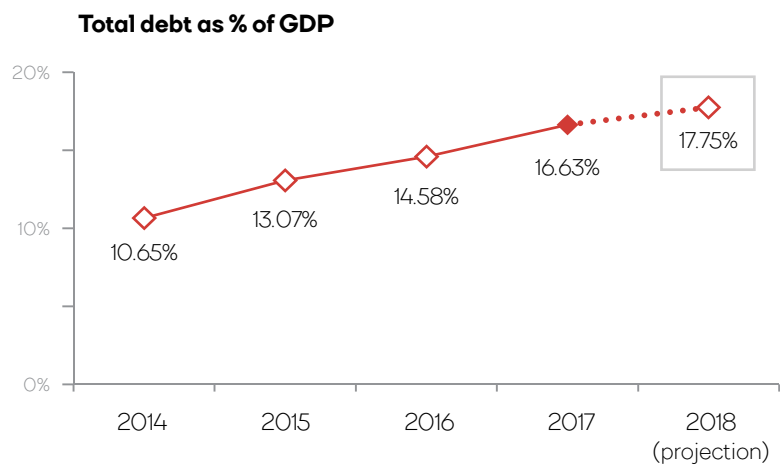
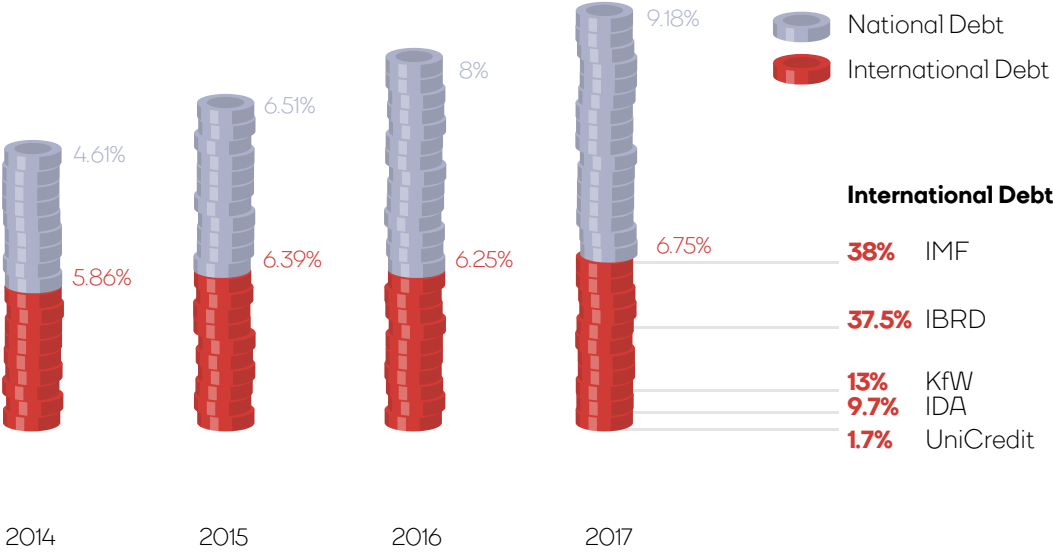
Borrowing

The state borrows in the financial market from international financial institutions, such as: The European Bank for Reconstruction and Development (EBRD), the German Development Fund (KfW), the World Bank (IDA) or other banks, which is called external debt.

Until the end of 2018, the state foreign debt stock is expected to reach 505.15 million Euros or 7.60% of the Gross Domestic Product (GDP)

Until the end of 2018, the domestic debt is expected to reach EUR 674.27 million or 10.15% of the GDP

Overall Debt Stock



Glossary and Definitions of Public Finance Management

Public finances - represent state activity in relation to the collection of public money or public revenues, on the one hand, and the realization of public expenditures on the other. In broader terms, it is the study of the role of the Government in the economy.

Budget - Comprehensive income and expenditure plan for a specified period - usually one year.

Gross Domestic Product - is an economic indicator that represents the nominal value of all material goods and services produced within a period (usually a year) in a state's economy.

Budget Circular(s) - Documents that deal with the MoF's policies regarding various aspects of the budget process, the information required by budget organizations to participate in the budget process, the procedural fiscal requirements they should followed, and the detailed instructions for their performance.

Budget Revision - Amending the Law on the Budget of the Republic of Kosovo, usually in the second half of the year.

Budget Boundaries - are the limits within which a Budget Organization should prepare its budget.

Budget Organization - means an authority or public enterprise that, under the Law on Budgetary Allocations, directly receives a budgetary allocation, which is not part of another general budget allocation to an other public authority or enterprise.

Budget deficit - the amount by which state expenditures exceed state revenues in a fiscal year.

Budget surplus - the amount by which state revenues exceed state expenditures in a fiscal year.

Public policies - are the activities of the Government and public authorities in order to achieve the economic and social objectives that are in the best interest of the society. Some of the examples of public policy areas are education, health, unemployment, protection, etc.

Mid-Term Expenditure Framework MTEF - is a document of government policy priorities aimed at orienting the allocation of budgetary funds during the upcoming budget process. It supports predictability in the budget process by ensuring that the budget is based on the medium-term macroeconomic and fiscal projections (usually over a 3 year period).

Public Revenue - all revenues generated by mandatory payments of taxpayers, legal entities and natural persons who use certain public goods or public services, as well as all other realized realized by budget beneficiaries.

Privatization Revenue - means any revenue into the Budget of the Republic of Kosovo as a result of the privatization of publicly owned enterprises and/or revenues from the Kosovo Privatization Agency, excluding the dedicated revenues of the KPA.

Excise - a consumption tax, which is calculated on certain goods such as tobacco, vehicles, fuel, alcoholic beverages, coffee etc.

Taxation - is a state obligation entities and goods are subjected to, pursuant to state administrative laws. The state collects payments from taxpayers for property tax, goods and services expenses, and income and assets of natural persons and companies.

Value Added Tax (VAT) - is a tax on consumption of goods and services at all stages of production and sale, from raw material to final product. VAT is the main tax in Kosovo.

Tax - is a compulsory contribution to be paid by any person who directly benefits from a public service.

Non-tax Revenues - type of public revenues collected by legal or natural persons for the use of public goods (fees), provision of certain public services (tax), for violation of contractual or legal provisions (penalties and fines), as well as on income realized through public funds.

Fiscal policy - presents decisions or actions taken by the authorities in relation to public revenue and expenditure, with a view to influencing economic movements and achieving fiscal policy objectives.

Fiscal Rules - the set of principles that ensure medium and long term sustainability and transparency of a country's public finances.

Fiscal Consolidation - a series of measures by which the sum of state revenues and expenditures is balanced.

State guarantee - an insurance instrument by which the Republic of Kosovo guarantees the fulfillment of the obligations for which a guarantee is given.

Donations - Non-refundable designated revenues, which are realized on the basis of a written contract between providers and recipients of donations;

Dividend - is the regular payment that a company makes to its owners from the company's profits.

European Union Financial Assistance - EU funds used for the purposes of and implemented according to the rules set out in the agreement between the Republic of Kosovo and the European Union.

Investment Clause - an instrument that enables the Government to finance capital projects of wider public interest, above the deficit of 2% of the GDP, provided that these projects are funded by International Financial Institutions and Development Agencies.

Expenditure categories - Categories "Wages and Salaries", "Goods and Services", "Utilities", "Subsidies and Transfers", "Capital Expenditures" and "Contingency".

Subsidies - State-provided funds to assist companies, natural persons or particular sectors of the economy, like agriculture.

Capital Expenditures - means payments for the purchase of fixed capital assets, strategic or emergency stocks, land or intangible assets, or non-recoverable payments that allow the recipient to purchase those assets, to compensate the recipient for the impairment or destruction of capital assets, or to increase the recipient's financial capital.

Investments based on the investment clause - capital expenditures specified for the purposes of the Investment Clause; expenditures for capital projects financed by supra-national financial institutions, the European Union or its institutions, or foreign governments or their development agencies.

Audit - official examination of the financial accounts of natural persons, legal entities or state.

Accountability - the ability to explain and justify choices and activities, as well as to describe what has occurred. Government accountability to citizens is a fundamental principle of good governance.

Transparency - means "Sharing Information and Acting Openly." Together, transparency and accountability form the basic principles of good governance.



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