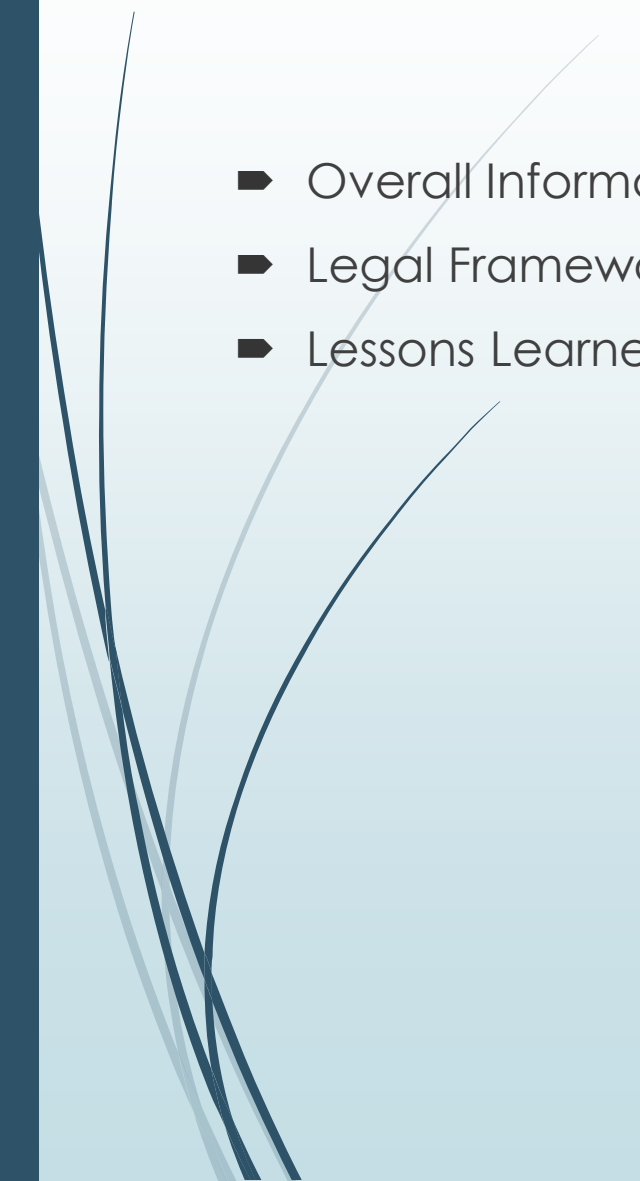
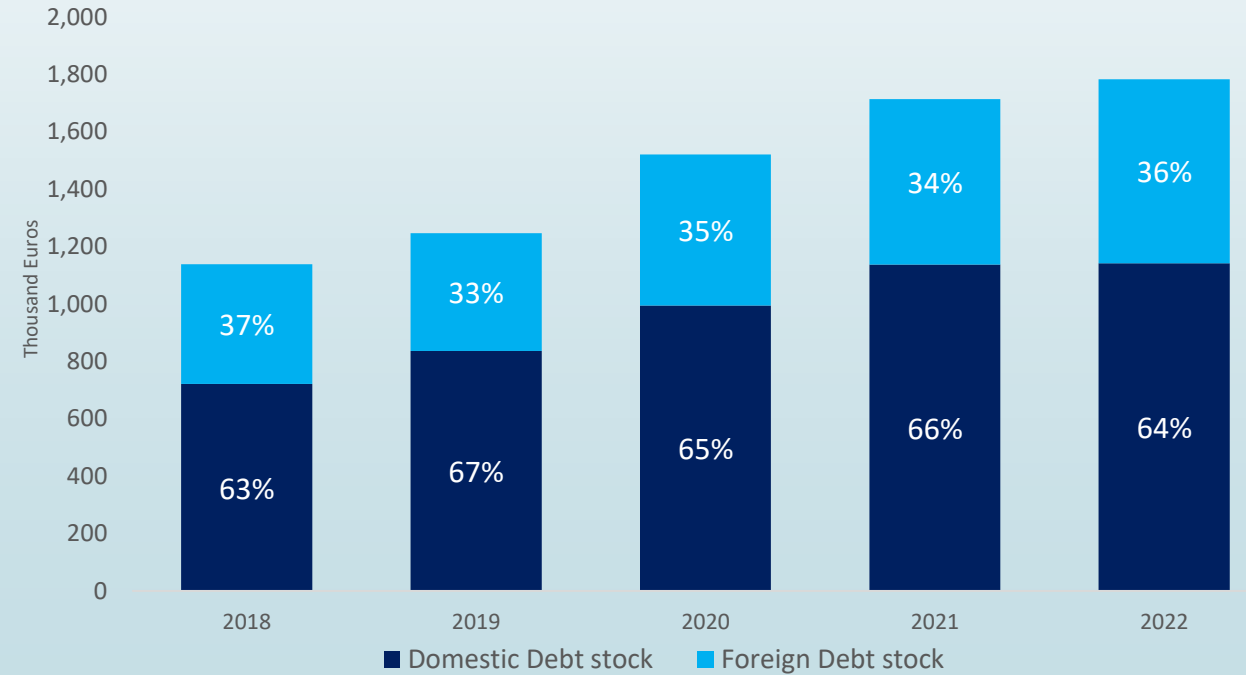
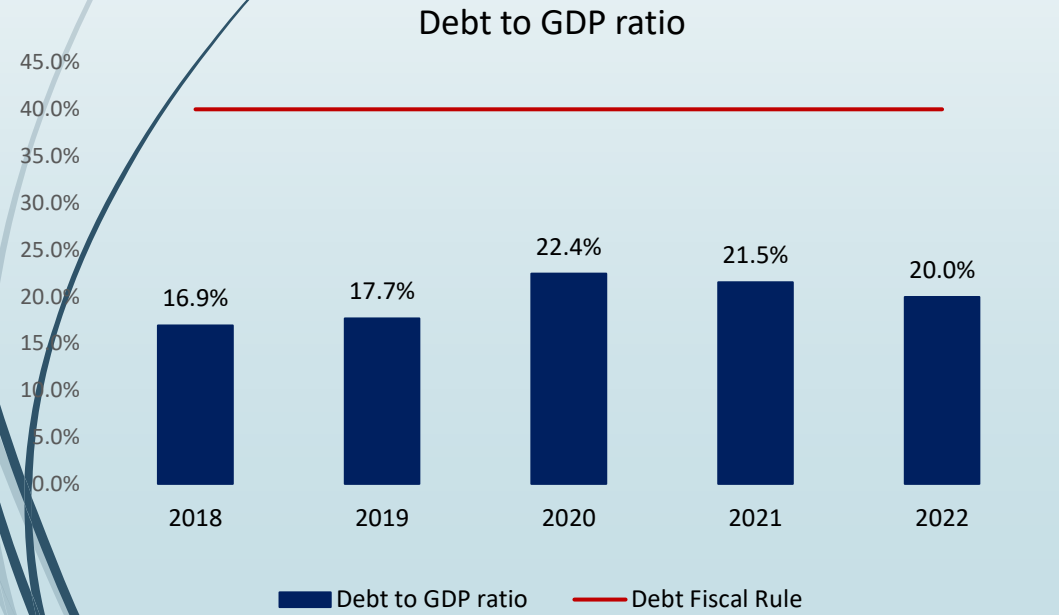
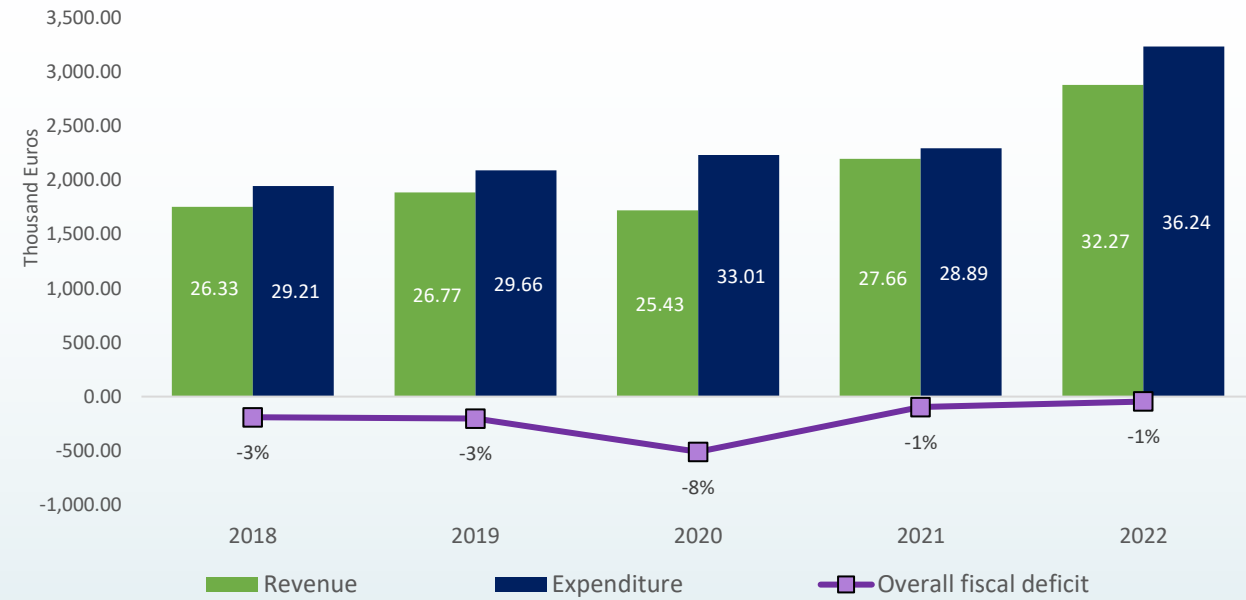
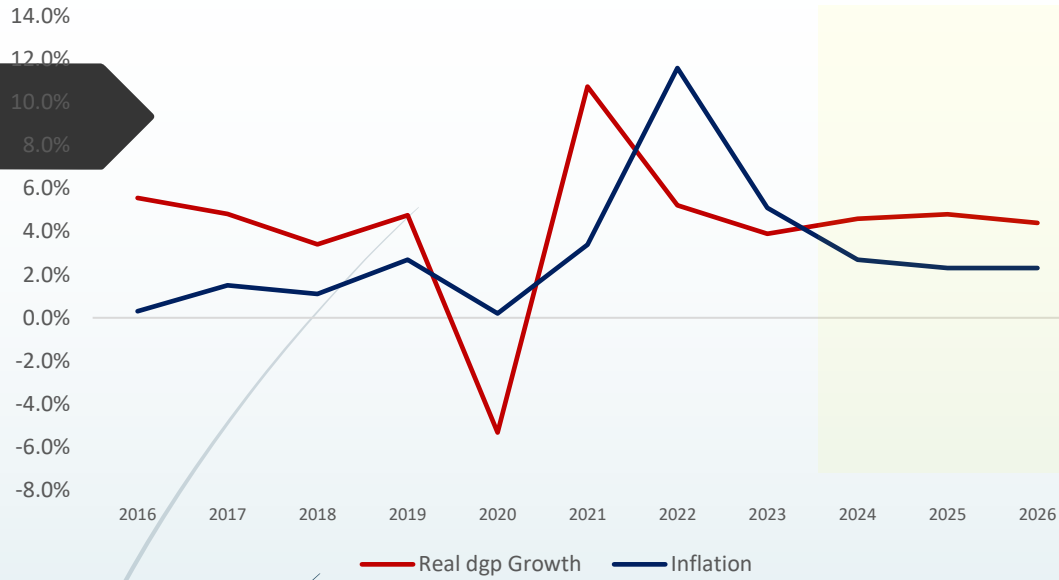




Fiscal Rules in Kosovo

- Overall Information on Kosovo
 - Legal Framework on Fiscal Rules
 - Lessons Learned from Kosovo experience
- 

Despite the challenging external conditions, Kosovo macro-fiscal position remains robust



Fiscal Rules Legal Framework

- ▶ Fiscal Rule on **public debt to GDP**- introduced in 2009, caps the total state debt including state guarantees to the level of forty (40%) percent of the GDP.
- ▶ Fiscal Rule on **deficit ratio to GDP**-instituted in 2013, include a ceiling on the overall fiscal deficit at 2% of GDP. Exclusions for capital projects financed by international entities are granted. The rule provide flexibility for temporary suspension in cases of economic recession, or natural disasters. An automatic correction mechanism is in place to rectify any excessive deficit within the next three fiscal years.
- ▶ The fiscal rule for **public sector wages and salaries** –introduced in 2018 , foresees the annual increase on total bill for wages and salaries cannot be higher than the latest published nominal GDP growth rate. In the event of a cyclical recession, the rule allows the wage bill to increase by up to 0.5 percent. With the implementation of the new law on wages and salaries for public sector employees, legal caps have been established for ten different types of allowances outlined in the legislation.
- ▶ There are other '**mini fiscal rules**' such as legal caps for different categorical benefits within the social schemes.
- ▶ In case of any revision of the Budget law within the fiscal year, the revision have to be **deficit neutral**.

Lessons Learned

- ▶ **Important role of unilateral Euroization** – fiscal rules also serve as an anchor to establish adequate liquidity buffers.
- ▶ **The participation of civil staff in the design of fiscal rules** has been advantageous for maintaining compliance with the rules.
- ▶ **Top down planning of the Fiscal Space**- Expenditure allocation planning is done with the condition of compliance with fiscal rules, enabling better maintenance and monitoring.
- ▶ **Political commitment vital**- Although Kosovo doesn't have an independent Fiscal Body to monitor compliance, Kosovo managed to return to fiscal rule implementation in 2021, despite the pandemic related exemption being valid until 2022.