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## PUBLIC DEBT IN THE REPUBLIC OF KOSOVO DURING THE PERIOD (2009–2017) AND IMPACT ON THE NATIONAL ECONOMY

**Abstract.** Citizens of the Republic of Kosovo pay their taxes so that the state as an institution stemming from this society with its mechanisms, that is the budget as an instrument that reflects public finances, such as income (revenues) and expenditures, it facilitates the lives of these citizens, always creating a safe environment for life, providing quality services in education, health and a sound economic infrastructure. The objective of the paper is to analyze the public debt movements over the years, the purpose of using public debt instruments, and the adherence to the legal regulation on government access to public debts. The basic method used to address and study this issue was: analyzing and comparing public debt over the years, reviewing legal regulations, literature, government annual reports on public debts (Annual Reports, 2009–2017). The results of the public debt study for the period 2009/2017 have led to an increase in public debts over the years due to the financing of capital investments and the establishment of the social superstructure of Kosovo society. Also, during the analysis of the domestic and external public debt and its movement over the years about the percentage (%) of GDP, we have concluded that the public debt is in a growth trend, with particular emphasis on the domestic public debt. The main factor that has contributed to the increase of public debt is the increase of capital investments to stimulate the national economy, although, with the law on public debts the allowed public debt limit is 40% of GDP, 16.63% of General Electric Debt represents the trend of percentage growth given the fact that € 295,809,378 are assets that have not been disbursed/withdrawn under agreements reached with international financial institutions even though they were available to withdraw.

**Keywords:** public debt; relief; financing sources; domestic and external debt

### INTRODUCTION

#### Public Debt / Legal Basis

Public debt or government debt refers to the obligations of a government to pay a certain amount in a certain

future to bondholders issued by government or other related institutions. Public debt is different from private debt the latter consists of the obligations of individuals, business firms, or non-governmental organizations (Law on Public Debt, 2010). The Law on Public Debt

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gives the Government the right to borrow money, to provide loan guarantees, to pay the costs for obtaining the debt, and to pay the principal and the interest of its State Debt. In addition, it also intends to give the Minister of Finance the right and responsibility to take care of the entire management and administration of debts and authorized programs for loan guarantees of the Republic of Kosovo, including restrictions, development of a The Debt Management Program and the Debt Management Strategy in the Republic of Kosovo. The Law on Public Debt stipulates that, in any case, the amount of outstanding principal of the general debt shall not exceed 40 percent of the Gross Domestic Product (GDP) (The general debt is the sum of state debt and municipal debt.). In case the General Debt exceeds forty percent (40%) of Gross Domestic Product (GDP), the Government should submit to the Parliament the strategy to return the General Debt below the forty percent (40%) threshold within one year.

To increase transparency and management responsibility, the Ministry of Finance has drafted relevant secondary legislation, such as:

- Regulation QRK no. 22/2013 on Procedures for Issuing, and Managing State Debt, State Guarantees and Municipal Debt,
- Regulation MF-CBK No.01 / 2014 on the Primary and Secondary Market of Letters of Government of the Republic of Kosovo,
- Procedure for registration in KFMIS of public debt receipts and payments,
- Procedure for registration in KFMIS of international state debts and payments for certain projects.

Until after the declaration of Kosovo's independence, the Kosovo government has been unable to enter public debt as a result of the unresolved statute, and after the declaration of independence, it adopted the Law on Public Debt (January 2010) entitling the Government of Kosovo to receive public debts.

## PURPOSE OF ENTERING PUBLIC DEBT

The Government of Kosovo (Ministry of Finance) is the only entity authorized to enter into (incurred) State Debt for these purposes, as follows:

- to finance the State Budget deficit when expenditures authorized by law exceed, or are likely to exceed, the Minister's (adjudication) judgment, the revenue required to pay them,

- financing of investment projects which are considered to be national targets and are included in the Kosovo Budget and the Medium Term Expenditure Framework (MTEF),
- to refinance State Contracts (Debt on behalf of Central Government Institutions which the Republic of Kosovo is obliged to pay but will not include any obligation of other governmental entities, including but not limited to Municipalities, Public Enterprises or Bank Central Kosovo, Pristine) contracted earlier,
- to pay State Guarantees, in whole or in part, in case the borrowers fail to meet their loan obligations,
- to pay the cost of the State Debt Service, including, but not limited to, related costs, such as securities issuance, account maintenance, repurchase, and fiscal agency provisions,
- to pay the costs associated with a national emergency proclaimed by the Assembly (Law on Public Debt, 2010).

## SOURCES OF PUBLIC DEBT FINANCING

Public debt is divided into:

- Public External Debt, and
- Public Domestic Debt.

**A) The public/international** public debt ratified at the end of 2017 was €1,080.47 million. International Debt of the Republic of Kosovo is subject to agreements with foreign governments, government agencies, international financial organizations or organizations, and other foreign companies based on international agreements, treaties, conventions or other similar agreements that are subject to the laws of a legal jurisdiction except that of the Republic of Kosovo.

**B) Domestic Debt / for Domestic** Debt financing, the Minister is the sole authorized agent to issue government-issued Government bonds, such as treasury bills and bonds, only in electronic negotiable form. Domestic debt started in 2012 and by the end of 2017, it had increased to €574.27 million.

## THE GENERAL PUBLIC

Debt Kosovo's total state debt was created in 2009, at that time it consisted only of the Consolidated C (Consolidated Credit C – is a loan inherited from the former Yugoslavia as part of the Kosovo State Debt) Credit in the World Bank. The current general debt is made up of

**Table 1.** General Debt (amounts are in million Euros)

Description	2009	2010	2011	2012	2013	2014	2015	2016	2017
International Debt	249.01	260.08	253.71	336.60	323.76	326.35	371.17	373.77	422.15
Internal Debt	0.00	0.00	0.00	73.31	152.51	256.52	377.78	478.97	574.27
General Debt	249.01	260.08	253.71	409.92	476.27	582.87	748.95	852.74	996.42
State Guarantees	0.00	0.00	0.00	0.00	0.00	10.00	10.00	20.00	44.00
General Debt + Guarantees	249.01	260.08	253.71	409.92	476.27	592.87	758.95	872.74	1,040.42
General Debt (% of GDP)	6.12	5.91	5.27	8.10	8.94	10.65	13.07	14.58	16.63
GDP by KAS	4,070	4,402	4,815	5,059	5,327	5,567	5,807	5,985	6,257

Source: Ministry of Finance (2017).

**Table 2.** International Debt

Description	2009	2010	2011	2012	2013	2014	2015	2016	2017
International Debt	249.01	260.08	253.71	336.60	323.76	326.35	371.17	373.77	422.15
Centra Govoment	249.01	260.08	253.66	336.46	321.73	316.54	339.87	323.93	365.18
Sub-Borrowed Debt (Debt that is contracted by the Government, but that with a trilateral agreement has the right to subordinate it to a public sector entity)	–	–	0.05	0.14	2.03	9.81	31.30	49.83	56.97
International Debt (% e GDP-së)	6.12%	5.91%	5.27%	6.65%	6.08%	5.86%	6.39%	6.25%	6.75%
GDP By KAS	4,070	4,402	4,815	5,059	5,327	5,567	5,807	5,985	6,257

Source: Ministry of Finance (2017).

international debt, domestic debt, and state guarantees. The debt trend over the years we see the following.

According to the Law on Public Debt, in any case, the amount of outstanding principal of the general debt should not exceed 40 percent (40 percent) of Gross Domestic Product (GDP). In this regard, the share of total debt by the end of 2017 was 16.63% about GDP within the legal framework.

**International Foreign / International Debt** by the end of 2017, International Debt was €422 million, or 40.6% of total debt, while in international GDP terms it was 6.75%.

From the table, we note that the international debt in 2017 has increased to 48.38 million Euros. Below we see creditors' debt, withdrawals, unpaid debts, unpaid debt, and debt repayment.

**Table 3.** Domestic Debt

Internal Debt (neto)	2012	2013	2014	2015	2016	2017
New Emissions	73.31	79.2	104.01	121.26	101.19	95.3
Debt stock	73.31	152.51	256.52	377.78	478.97	574.27
Internal Debt (% e GDP-së)	1.45%	2.86%	4.61%	6.51%	8.00%	9.18%
GDP	5,059	5,327	5,567	5,807	5,985	6,257

Source: Ministry of Finance (2017).

**Public Internal Debt** / started in 2012 and by the end of 2017, it has increased to 574.27 million Euros or 9.18% of GDP. The value issued during 2017 was to re-finance instruments maturing in 2017 in the amount of 310 million and new instruments planned under the 2017 Budget Law in the amount of Euro 95.3 million.

In 2017, 19 instruments of securities amounting to 404.95 million Euro were issued. Of these instruments, 11 were bonds worth 215 million with a maturity of 2 to 7 years and eight (8) treasury bills worth 189.95 million euros with a maturity of 91 days to 364 days.

#### THE PURPOSE OF PUBLIC BENEFITS FROM DEBT

Taking public benefits from receiving debts for financing projects from external borrowing shows that there is stagnation in their realization. The government has entered negotiations for projects that are not ready for funding. In the table below we identified 11 projects

for which the public benefits would be great as if they were implemented according to the plans and credit agreements.

From the table presented above, we notice that there are significant delays in attracting/ disbursing the loan to realize projects financed through borrowing. These delays have been the result of a poor project feasibility study and delays in the field for the timely realization of these projects.

#### CONCLUSIONS AND RECOMMENDATIONS

Conclusions on public debt are as follows:

1. Based on general debt data (both international and domestic), there is a tendency to increase public debt (borrowing), wherein 2009 the total debt was 6.12% of GDP, while in 2017 it was 16.63%, so there is an increase of 10.51% compared to 2009/2017. Even though the public debt limit is 40% of GDP, the rate

**Table 4.** Realization of project realization (in million €)

No	Creditor	Credit	Year of ratification	Implementing OB	Credit amount / Euro	Withdrawals until 2016	Withdrawals until 2017	Unpaid amount	% e Un fulfilled
1	BIZh	Financing the M2 Milloshevo - Mitrovica Road Improvement Project	2013	MI	15.67	–	0.10	15.57	99
2	FOZHN	M2 Motorway Extension Project Milosevic-Mitrovica.	2014	MI	16.64	–	–	16.64	100
3	FSZh	Project for the Highway Prishtina-Mitrovica.	2014	MI	13.31	–	–	13.31	100
4	IDA	Health Project	2015	MoH	19.60	0.09	2.11	17.40	89
5	IDA	Project for Energy Efficiency and Renewable Energy.	2015	MED	23.87	0.94	2.75	20.18	85
6	IDA	Project for Improving the Education System in Kosovo.	2016	MEST	9.38	0.05	0.28	9.05	96
7	EBRD	Rehabilitation of Regional Roads.	2016	MI	29.00	–	–	29.00	100
8	EIB	Rehabilitation of the Railway Line 10.	2016	MI, INFRAKOS	42.00	–	–	42.00	100
9	KfW	Improving the Transmission Network.	2014	KOSTT	20.50	9.27	–	11.23	55
10	EBRD	Railway Rehabilitation Project 10.	2016	INFRAKOS	39.90	–	–	39.90	100
11	KfW	Project for Energy Efficiency Measures in Municipalities.	2016	Municipalities (Ferizaj, Prishtina, Gjakova Gjilani)	2.50	–	–	2.50	100
<b>Total</b>					<b>232.37</b>	<b>10.35</b>	<b>5.24</b>	<b>216.78</b>	<b>93</b>

Source: Audit Report on Financial Management and Controls on Public Debt, 2017.

of 16.63% of the General Debt stock is a percentage increase, given the fact that €295,809,378 are non-disbursed assets / withdrawn under agreements reached with international financial institutions even though they were available to withdraw.

2. With the growing trend of public debts, special attention should be paid to external debt, avoiding foreign exchange exposure and variable interest rates. Delays in the realization of projects directly reflect the non-withdrawal of credit, as a result of the committed and unused funds the Government will pay or is expected to pay additional payments (commitment fee). On the other hand, the trend of increasing domestic debts, especially the increase in the use of bonds and the reduction of treasury bills, affects the increase in interest rates (debt cost).
3. Late completion of capital projects or their implementation to realize the profit /benefit that creates the prerequisites for economic development or economic incentive and creation of favorable conditions for the return of borrowed funds.
4. With public debt other than budget deficit financing, it also aims to finance investment projects that are

considered to be national incentives for growth or investment growth in different spheres.

5. Therefore, institutions that manage public debt must create adequate mechanisms in strict supervision so that public debt is within the legal parameters provided on the one hand and on the other hand the borrowed funds to be allocated to projects planned within the time limits to these projects should be completed so that this economic benefit from those investment projects and not this additional cost for the country's economy.

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## DŁUG PUBLICZNY W REPUBLICE KOSOWA W LATACH 2009–2017 I JEGO WPŁYW NA GOSPODARKĘ NARODOWĄ

**Abstrakt.** Obywatele Republiki Kosowa płacą swoje podatki na rzecz państwa jako instytucji wywodzącej się ze społeczeństwa, posiadającej swoje mechanizmy (tj. budżet, będący instrumentem odzwierciedlającym finanse publiczne, dochody (przychody) i wydatki). Zadaniem tej instytucji jest ułatwianie życia obywatelom, poprawa bezpieczeństwa środowiska, zapewnianie wysokiej jakości usługi w zakresie edukacji, zdrowia i solidnej infrastruktury gospodarczej. Celem artykułu jest analiza zmian długu publicznego na przestrzeni lat, stosowanych instrumentów jego obsługi oraz przestrzeganie regulacji prawnych dotyczących dostępu rządu do niego. Podstawową metodą zastosowaną w artykule była analiza i porównanie długu publicznego w badanych latach, przegląd regulacji prawnych, literatury oraz rocznych raportów rządowych dotyczących długu publicznego. Wyniki badania za okres 2009–2017 wskazały na wzrost długu publicznego w tym okresie w związku z finansowaniem inwestycji kapitałowych oraz tworzeniem nadbudowy społecznej społeczeństwa Kosowa. Analizując dług publiczny w przekroju krajowym i zewnętrznym w ujęciu procentowym (% PKB), autorzy stwierdzili, że ma on tendencję wzrostową, zwłaszcza w odniesieniu do długu wewnętrznego. Głównym czynnikiem, który przyczynił się do jego wzrostu, były inwestycje kapitałowe prowadzone w celu pobudzenia gospodarki narodowej, mimo że zgodnie z ustawą o długu publicznym dopuszczalny jego limit wynosi 40% PKB. Wskaźnik General Electric Debt wynosi 16,63% i wskazuje trend wzrostu procentowego, uwzględniając fakt, że kwota aktywów, które nie zostały wypłacone/wycofane w ramach umów zawartych z międzynarodowymi instytucjami finansowymi, mimo dostępności takiej opcji, wyniosła 295 809,378 USD.

**Słowa kluczowe:** dług publiczny, ulgi, źródła finansowania, zadłużenie krajowe i zewnętrzne