



Republika e Kosovës
Republika Kosovo - Republic of Kosovo
Kuvendi - Skupština - Assembly

Law No. 04/L-194

**ON AMENDING AND SUPPLEMENTING LAW No. 03/L-048 ON
PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTABILITY
AMENDED AND SUPPLEMENTED BY LAWS No. 03/L-221 AND No.
04/L-116**

Assembly of Republic of Kosovo,

Based on Article 65(1) of the Constitution of the Republic of Kosovo,

Approves:

**LAW ON AMENDING AND SUPPLEMENTING LAW No. 03/L-048
ON PUBLIC FINANCIAL MANAGEMENT AND
ACCOUNTABILITY AMENDED AND SUPPLEMENTED BY LAWS
No. 03/L-221 AND No. 04/L-116**

Article 1

1. The term “**basic law**” used in provisions of this law includes Law No. 03/L-048 as amended and supplemented by laws No. 03/L-221 and law No. 04/L-116.
2. In the entire text of the basic law “**Ministry of Economy and Finance**” shall be replaced with “**Ministry of Finance**”.
3. In the entire text of the basic law “**Kosovo Consolidated Fund (KCF)**” shall be replaced with “**Consolidated Fund of the Republic of Kosovo (CFRK)**”.

4. In the entire text of the basic law “**Treasury Department**” shall be replaced with “**Treasury**”.

5. In the entire text of the basic law the term “**FMC Rules**” shall be replaced with term “**sub-legal acts**”.

Article 2

1. In Article 1 of basic law, following definitions shall be amended and reworded as in the following:

1.1. Definition “**Auditor General**” shall be reworded with the following text:

“**Auditor-General of Kosovo**” has the meaning set out in the Constitution of the Republic of Kosovo and the law in force in the Republic of Kosovo.

1.2. Definition “**Ministry**” shall be reworded with the following text:

“**Ministry**” means the Ministry of Finance.

1.3. Definition “**Minister**” shall be reworded with the following text:

“**Minister**” means the Minister of Ministry of Finance.

1.4. Definition of “**FMC rules**” shall be reworded with the following text:

“**Financial management and control (FMC)**” is a comprehensive system of policies, procedures, activities and responsibilities for managing and controlling the use of public funds which include revenue, expenditure, assets and liabilities, based on risk management, in order to provide assurance that the institution’s objectives will be achieved in a legal, economic, efficient and effective way.

1.5. Definition “**Finance Officer**” the word “**Internal Auditor**” will be deleted.

2. Article 1 of the basic Law, paragraph 1.1., the following new definitions shall be added:

“**GDP**” shall mean the total value of final goods and services produced within Kosovo during a fiscal year measured by the Kosovo Agency of Statistics established by Law No. 04/L-36 on Official Statistics of the Republic of Kosovo.

“**Forecasted GDP**” shall mean the GDP included in the Budget of the Republic of Kosovo.

“**Deficit Ceiling**” shall mean the ceiling defined in Article 12 (22A) of this Law.

“Excessive Deficit” shall mean a deviation from the Deficit Ceiling in excess of 0.5% of Forecasted GDP in a single fiscal year or cumulative over two (2) subsequent fiscal years.

“MTEF” shall mean the Medium Term Expenditure Framework in accordance with Article 19.1 of the basic Law.

“Overall Deficit” shall mean the deficit of the Budget of the Republic of Kosovo for this year, excluding expenditures of the Privatization Agency of Kosovo.

“Total Debt” shall mean all State and Municipal Debt as defined in Law No. 03/L-175 on Public Debt.

“Own Source Revenues of the Central Budgetary Organizations” shall mean any type of public money that has been assessed on a cost recovery basis and collected as fees and charges by Central Budgetary Organizations. However, this definition specifically excludes Dedicated Revenue for Independent Agencies

“Municipal Own Source Revenues” shall mean any item of public money that has been assessed and collected by a municipality from a source specified in Article 8 of the Law No.03/L-049 on Local Government Finance.

“Current expenditures” shall mean required payments other than for capital assets or for goods or services to be used in the production of capital assets, and unrequired payments for purposes other than permitting the recipients to acquire capital assets, compensating the recipient for damage or destruction of capital assets, or increasing the financial capital of the recipient.

“Capital expenditures” shall mean payments for the acquisition of fixed capital assets, strategic or emergency stocks, land, or intangible assets, or unrequired payments for the purpose of permitting the recipient to acquire such assets, compensating the recipients for damage or destruction of capital assets, or increasing the financial capital of the recipients.

“Privatization proceeds” shall mean any proceeds which may flow to the Budget of the Republic of Kosovo as a result of the privatization of Publicly Owned Enterprises and/or proceeds from the Privatization Agency of Kosovo, excluding PAK dedicated revenues

“Bank balances” shall mean the sum of all money that are held as part of the Treasury Single Account, at any point in time, including the reserves for the Emergency Liquidity Assistance as per paragraph 5. of Article 18 of the basic law.

“Investment Grade” – is the assessment of an internationally recognized rating agency (Standard and Poor’s, Moody’s and Fitch) which determines that the debt instrument has relatively small risk of non-payment. Governments or other institutions, whose instruments are classified as investment grade, are considered to have sufficient financial

capacity to fulfill their obligations for payment on time and in full on all debt instruments.

“Supranational Financial Institution” – A supranational financial institution is formed by two or more sovereign states to promote economic development and financial stability for the member countries.

“State Debt” – Debt incurred on behalf of the Central Governmental Institutions that the Republic of Kosovo is obligated to pay, but shall not include any obligation of certain other governmental entities, including but not limited to municipalities, public enterprises, or the CBK.

“Government Securities” – instruments of State Debt issued on an interest-bearing basis, on a discount basis, or indexed and upon such terms and conditions as the Minister of Finance may determine.

Article 3

After Article 1 of the basic Law, a new Article 1A shall be added with the following text:

Article 1A Purpose

1. The purpose of this Law is:

1.1. to establish the fiscal policy principles and legal framework for the preparation and implementation of the Budget of the Republic of Kosovo, which shall aim to maintain debt at sustainable levels through consistency between budget balances, debt levels, and medium-term economic growth; and

1.2. to vest the Minister with the authority and responsibility for the preparation and implementation of the Budget of the Republic of Kosovo and amendments thereto to avert or to compensate an Excessive Deficit or to reinstate the Deficit Ceiling.

Article 4

In Article 4 of the basic Law, paragraph 4.9., in the third and fifth row, the phrase **“as well as the implementation of the FMC Rules”** shall be deleted.

Article 5

1. Title of Article 5 of the basic Law “**Budget Department**” shall be replaced with the title “**Budget Departments**”.

2. Article 5 of the basic Law, paragraph 5.1 shall be reworded as following:

5.1. within the Ministry of Finance will be established: i) Budget Department and ii) Municipal Budget Department.

3. Article 5 of the basic Law, paragraph 5.2, the phrase “**except if it is assigned otherwise by the Minister, unit of the central budget within Budget Department is authorized**” shall be replaced with the phrase “**Budget Department is authorized**”.

4. Article 5 of the basic Law, paragraph 5.2, after point (iv) is added another new point (v) with the following text:

(v) assessment of the financial impact of the government policies.

5. Article 5 of the basic Law, paragraph 5.2, point (v) shall be renumbered as (vi).

6. Article 5 of the basic Law, paragraph 5.3, shall be reworded as following:

5.3. Municipal Budget Department is authorized and responsible for (i) preparation of the Municipalities Budget Proposal, (ii) preparation of the part on Mid Term Municipal Budget Framework as integral part of MTEF, (iii) support (help) on implementation of the Budget for the Municipalities of the Republic of Kosovo, (iv) review and assessment of the requests for amendment of the budget appropriations and (v) exercise of all other responsibilities which are assigned to the Municipal Budget Department with the legal framework. This department will insure support to the municipalities aiming support on fulfillment of the obligations assigned by legal frame.

Article 6

1. Article 6 of the basic law, paragraph 6.2. shall be replaced with the following text:

6.2 A Central Harmonization Unit (CHU) shall be established in the Ministry of Finance as a unit, which directly reports to the Minister of Finance. The CHU shall consist of two Units: Central Unit for Harmonization of Internal Audit, whose responsibilities shall be defined in accordance with the Law on Internal Audit; and Central Harmonization Unit for Financial Management and Control, which shall:

- a) develop strategic documents and guidelines in the field of FMC in accordance with internationally accepted standards, practices and regulations in the European Union;
- b) draft secondary legislation related to FMC, which shall be signed by Minister of Finances;
- c) draft policies for developing, improving and monitoring FMC;
- d) define the content of training programmes and coordinating the training programmes in the area of FMC,
- e) assess the adequacy and effectiveness of FMC systems in the budget organisations;
- f) prescribe the form of annual reports, procedures and deadlines for reporting on FMC;
- g) monitor the implementation of regulations in the area of FMC on the basis of annual reports received from the budget organisations;
- h) prepare consolidated annual reports on FMC and submitting them to the Minister of Finance;
- i) coordinate and support professional training in the field of FMC in the budget organisations.

2. In Article 6 of the basic law, paragraphs 6.3, 6.4, 6.5 and 6.6 shall be deleted from the text of the law.

Article 7

1. Article 9 of basic law, paragraph 1. shall be amended and reworded as following:

9.1 Funds from the Consolidated Fund of Republic of Kosovo may only be invested in one or more Authorized Investments, which shall consist exclusively of the following:

- a) an interest-bearing current account at the CBK;
- b) a time deposit at the CBK;
- c) a money market fund if:
 - i. it is subject to the rules and regulations of the US Securities and Exchange Commission or an EU Supervisory Institution; and

- ii. its portfolio consists solely of investment grade assets;
- d) a bond or other debt security that has been issued by, or is guaranteed by, the United States or an EU member country and that is rated as an investment grade instrument by an internationally recognized credit rating agency;
- e) a deposit with any commercial bank in Kosovo that is insured by the deposit insurance of the CBK if:
 - i. such bank is rated investment grade; or
 - ii. its majority shareholders are rated investment grade by an internationally recognized credit rating agency;
- f) a deposit with any foreign bank that is recognized under the laws of an EU member country and that is rated investment grade by an internationally recognized rating agency;
- g) a repurchase agreement whose underlying purchased securities consist solely of bonds or other securities described in item (f) above and that are held by a third party custodian;
- h) a bond or other debt security issued by supranational financial institutions if such institution's instruments are rated investment grade by an internationally recognized credit rating agency.

Article 8

Article 11 of the basic Law, paragraph 11.5, will be completely deleted.

Article 9

Article 14 of the basic law, paragraph 7. shall be reworded as follows:

14.7. If during the operation of managerial oversight, internal controls, internal audit and /or external audit found that there was a systematic failure to perform the duty of a Chief Financial Officer or Certifying Officer, the Chief Administrative Officer undertakes takes disciplinary measures up to dismissal of the person concerned by the respective positions. Financial officials dismissed in this way can not be appointed as financial officials in any Budget Organization.

Article 10

1. Article 20 of the basic Law, paragraph 20.2, point (ii), after the phrase “**for a municipality,**” the phrase “**its share in the Deficit Ceiling**” shall be added.
2. Article 20 of the basic Law, paragraph 20.4, point (iii), after the phrase “**in the case of a municipality**”, the phrase “**its share in the Deficit Ceiling and**” shall be added.

Article 11

Article 21 of the basic Law, paragraph 21.1, point “a” shall be replaced with the following text:

a) an overview of the economic environment in which the budget was prepared and recommendations for a short and medium term fiscal strategy, which, if required shall include fiscal adjustments, to address issues described in point i. and ii. of this paragraph. Fiscal adjustments shall be realized on a shorter time horizon in the event of increased revenue. In particular any revenue receipts in excess of budgeted revenues shall be used in full to compensate for Excessive Deficits and to reinstate the Deficit Ceiling:

- i. to compensate within three (3) fiscal years an Excessive Deficit; or
- ii. to reinstate the Deficit Ceiling after an increase thereof in accordance with Article 12 (22B) of this Law, either within three (3) fiscal years if the excess deficit was less than 1% point or within five (5) fiscal years in case of a higher excess deficit.

Article 12

After Article 22 of the basic Law, new Articles 22A and 22B shall be added:

Article 22A Setting and Adjusting the Deficit Ceiling

22.A.1. No Law on Budget Appropriations shall include an Overall Deficit exceeding 2% of Forecasted GDP.

22.A.2. Each municipality’s Deficit Ceiling in accordance with paragraph 1. of this Article shall be proportionate to its share of expenditures in the last Appropriations Law.

22.A.3. With a view to maintaining a Total Debt significantly below the Debt Ceiling laid down in Law on Public Debt, every fifth fiscal year, the Assembly shall review and if needed it may adjust:

a) the Deficit Ceiling consistent with the Debt Ceiling and the medium-term GDP growth forecasted in the most recent MTEF, and

b) the enforcement procedures and key parameters underlying the Deficit Ceiling.

22.A.4. The Deficit Ceiling may be adjusted earlier if such adjustment shall aim to stabilize the forecasted total debt level significantly below the Debt Ceiling in the following cases:

a) an Excessive Deficit has not been compensated within three (3) fiscal years or

b) the Deficit Ceiling has been increased pursuant to Article 12 (22B) of this Law for two (2) fiscal years within three (3) consecutive fiscal years;

22.A.5. For the purpose of compliance with the deficit ceiling from paragraph 1. of this Article, Expenditures of the Privatization Agency of Kosovo shall be disregarded, as well as budget expenditures which may arise from:

a) expenditure of central and municipal own source revenues carried over from the previous year, according to Article 27 of the basic Law;

b) unspent budget appropriations from the previous year, which may be used as sources of financing for new budget appropriations in the category of capital expenditures; and

c) other revenue receipts in excess of budgeted revenues from the previous year, without prejudice to Article 31.3 of the Law on Local Government Finance, which may be carried forward to the following year for new budget appropriations, but only for capital expenditures.

22.A.6. Privatization Proceeds and their expenditure shall be disregarded for purposes of compliance with the Deficit Ceiling. These Proceeds may only be used for projects included in the capital program as prescribed in Article 21 of the basic Law, if the level of usable government bank balance amounts to at least 4.5% of forecasted GDP.

Article 22B

Temporarily Increasing the Deficit Ceiling

22.B.1. The Assembly may increase the Deficit Ceiling if any or a combination of the following events, including the specified financial and economic consequences, is forecasted to have a major impact on the Overall Budget in the fiscal year that these events occur or in the following fiscal year:

a) for any period of six (6) months within a fiscal year, the nominal tax revenue collection is equal or below tax revenues collected during the same period in the

previous fiscal year, excluding the effects of policy measures and one-off tax revenues; or

b) a State of Emergency within the meaning of Article 131.1 of the Constitution, including a natural disaster; or

c) a banking system crisis as identified jointly by the Minister and the CBK Governor, at the proposal of the CBK; or

d) a State Guarantee within the meaning of Law No. 03/L-175 on Public Debt will need to be paid for by the Government and its impact on total expenditures is larger than 1.5% of forecasted GDP.

22.B.2. Increasing the Deficit Ceiling in accordance with paragraph 1. of this Article should not exceed the fiscal impact of relevant events for period of fiscal impacts of such events. In any case, the Deficit Ceiling will not be increased for a period exceeding five (5) consecutive fiscal years.

22.B.3. Notwithstanding paragraph 2. Article 12 (22A) of this Law, the share of municipalities in the Deficit Ceiling shall remain unchanged in the event that the Deficit Ceiling is temporarily increased in accordance with paragraph 1. of this Article, unless the Assembly decides to increase the individual share of one or more municipalities up to the full extent of paragraph 2. Article 12 (22A) of this Law.

Article 13

1. Article 25 of the basic Law, after paragraph 25.1, a new paragraph 25.2. shall be added with the following text:

25.2. Notwithstanding paragraph 1. of this Article, the Minister shall prepare proposed amendments to the Law on Budget Appropriations, except to provisions therein that relate to independent agencies, if without such amendments an Excessive Deficit is forecasted to be incurred.

2. Article 25 of the basic Law, paragraphs 25.2 through 25.4 shall be renumbered as paragraphs 25.3 through 25.5.

3. Article 25 of the basic Law, in renumbered paragraph 25.4, after point “c” a new point “d” shall be added:

d) a discussion how the proposed amendments will help to avert an Excessive Deficit;

Article 14

Article 26 of the basic Law, paragraph 26.1, after the phrase “**Budget of the Republic of Kosovo**” the phrase “, **including in particular compliance with the Deficit Ceiling,**” shall be added.

Article 15

Article 27 of the basic Law, shall be amended as follows:

Article 27 Expiry of Budget Appropriations

All budget appropriations for the fiscal year shall expire in the midnight on December 31, excluding budget appropriations which relate to unspent own source revenues by municipalities, or any other budget organization, which are allowed by Law, and carried forward to the following year.

Article 16

Article 32 of basic law, after paragraph 32.2 a new paragraph 32.3 with the following text shall be added:

32.3. Notwithstanding paragraph 1. of Article 32 of the basic Law, the Kosovo Cadastral Agency (KCA) will provide free of charge all the requested data, in both electronic and physical format, that are required by the Ministry of Finance and any other state institution, that are to be used for property tax-ground assessment by parcel and cadastral areas.

Article 17

Article 35 of the basic Law, paragraph 35.1, in point “a” the phrase “**a natural disaster**” shall be replaced with the phrase “**natural disaster within the meaning of Article 131 of the Constitution of the Republic of Kosovo**”.

Article 18

1. Article 45 of the basic Law, paragraph 45.2, at the end of the sentence, the phrase “**and an Excessive Deficit is not forecasted**” shall be added.

2. Article 45 of the basic Law, paragraph 45.3, after the phrase “**Law on Appropriations**” the phrase “**or expenditures are forecasted to exceed the amounts specified in the Law on Appropriations**” shall be added.

Article 19

1. Article 46 of the basic Law, paragraph 46.1, point a) point “ii” shall be replaced as follows:

(ii) a discussion of compliance with the Deficit Ceiling, including:

- causes of deviations and the financing of deficits, if any, or
- causes of budget surpluses and investment of such surpluses, if any;

2. Article 46 of the basic Law, paragraph 46.1, point b) after point “iv” a new point “v” shall be added:

(v). A plan discussing fiscal adjustments to compensate an Excessive Deficit or to reinstate the Deficit Ceiling after an increase thereof in accordance with Article 12 (22B) of this Law.

Article 20

Article 47 of the basic Law, paragraph 47.1, after the first sentence the following sentence shall be added:” **The Auditor General’s audit shall also include an assessment of compliance with the Deficit Ceiling and related conditions and requirements under this Law**”.

Article 21

Article 48 of the basic Law, paragraph 48.3, at the end of the last sentence, the sentence “**a statement regarding compliance with the Deficit Ceiling and related conditions and requirements under this Law**” shall be added.

Article 22

After Article 80A of the basic Law, a new Article 80B shall be added with the following:

Article 80B
Implementation, Sub-legal Acts

The Minister shall have the power to issue sub-legal acts as may be necessary to effectively implement this Law.

Article 23
Entry into force

This Law shall enter into force fifteen (15) days after its publication in the Official Gazette of the Republic of Kosovo.

Law No. 04/L-194
12 July 2013

President of the Assembly of the Republic of Kosovo

Jakup KRASNIQI