



Public Expenditure and Salaries in the Public Sector: The Case of Kosovo

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Abstract

The paper deals with issues related to the budget, including public spending and salaries in the Republic of Kosovo. The importance of the paper consists in addressing issues related to public spending and salaries in the Republic of Kosovo. The budget represents the main instrument of public financing. Within the framework of government policies, the issue of government spending is considered quite important. The purpose of the study is to analyze the performance of the structure of public spending, as well as salaries for recent years. In order to maintain fiscal stability, attention should be paid to how much spending burdens the budget and where their expenses are directed. In this regard, the manner of spending budget funds and the orientation of government spending for productive purposes and investment projects remains important. Methodology: For the finalization of this paper, the presented material has the following support: domestic and foreign literature, as well as reports and publications from the Ministry of Finance, which deals with issues of public spending, including salaries in the Republic of Kosovo. Likewise, local statistical sources, analysis and synthesis methods, separate tabular and graphical methods, comparative methods, etc. were used. Results: Special attention is paid to the comparison of public expenditures and salaries in Kosovo over the years. Through this study, we aim that the conclusions and recommendations given are taken into consideration and serve the actors in the field of public finance.

Keywords: Public expenditures; Budget; Salaries; Gross domestic product (GDP)

Introduction

When talking about public spending and wages, we must bear in mind that their volume, structure and use are not the same in all countries. Public spending varies depending on the economic and financial situation of each country. Within the framework of government policies, the issue of government spending is considered quite important. In this paper, the main objectives consist of:

- Analysis of the progress and structure of public spending and wage levels in Kosovo in recent years.
- To analyze wages in Kosovo in recent years.

Until recent years, fiscal policy as an integral part of economic policy was not sufficiently in function of stimulating the private sector, but mainly oriented towards filling the budget coffers.

The research questions of this study include:

Q1: How much does public spending affect the economy?

Q2: What is the participation of public spending and wages in GDP (Gross Domestic Product)? The study is structured as follows. Section 1 presents the introduction, including the main purpose of the paper, research questions. In Section 2, the literature review is presented. Section 3 demonstrates the methodology and methods. Section 4 of the paper provides the result and discussion, as well as the correlation between public spending and gross domestic product (GDP). Section 5 concludes the study.

Methodology Used

To achieve the objectives within this study, the analysis method and the comparative method are mainly used, examining in dynamics the issue related to the performance of public expenditures and salaries in the Republic of Kosovo. To finalize this paper, the presented material has the following support: (a)

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Domestic and foreign literature, as well as reports and publications from the Ministry of Finance, which address issues of public expenditures in the Republic of Kosovo. (b) Domestic statistical sources were used, the method of analysis and synthesis, tabular and graphical separately, comparative methods, etc.

Literature Review

The state, through the public revenues it collects, performs its public function and covers public expenses. There are differences in the financial activity of the public sector and the private sector. The financial activity of the state (public sector), which is entrusted with meeting public needs, differs fundamentally from the financial activity of private individuals and legal entities (private sector). Unlike companies in the private sector whose main objective is to maximize profit, organizations such as government departments, municipal authorities and public companies in the public sector are not primarily profit-oriented. Their financial objectives are mainly secondary compared to their social objectives, which can range from providing housing or education to collecting taxes. There are different views on measuring the size of the public sector. There are two main ways to measure it [1].

1. The share of expenditures as a percentage of GDP devoted to the public sector.
2. The number of people (their percentage) in the total labor force.

The first way includes the share of public expenditures in relation to Gross Domestic Product-GDP and the other way includes the number of employees in the public sector. Measuring the size of the government by the volume of its annual expenditures, where three basic types are distinguished [2]:

1. Purchase of goods and services. The government purchases a wide variety of items, everything from missiles to forest security services from rangers.
2. Transfers of income to people, businesses, or other governments. The government takes income from some individuals or organizations and gives it to others. Examples are welfare programs, such as food stamps and subsidies given to farmers for the production (or non-production) of certain goods.
3. Interest payments. The government often borrows to finance its activities, and like any borrower, must pay interest for this privilege.

The financing of the public sector and the provision of public services is conditioned by the level of development of the economic sector of the respective country, on which the level of provision of financial means for financing public needs depends. Therefore, the financing of the public sector also depends on the economic sector or economic indicators [3]. From this we can say

that the level of financing of the public sector is determined by the level of development of the economic sector.

The Results

After the war, Kosovo began to build public institutions with the support of international institutions and at the same time the fiscal system for financing public needs. Kosovo, with a low level of development, initially and continuously oriented fiscal policy instruments towards filling the state budget for financing public needs, thus maintaining the fiscal character of fiscal policy. Since, for the realization of state functions that must provide services to meet public needs, financial resources are needed. The bearers of financial activity are financial bodies (tax authorities, Ministry of Finance), which have legal powers to provide financial resources for financing public expenditures. The second method includes the number of population (their percentage) in the total labor force. The following table reflects the number of employees and the average salary in the public sector in Kosovo (Table 1) (Figure 1,2). In Kosovo, in the public sector, in terms of the number of employees and the category of salaries and allowances during the period 2022-2024, there has been an increase in both the number of employees and the category of salaries and allowances. From the table and graph, it can be seen that, in 2022, there were 82,148 employees in the public sector, reaching 84,679 employees in 2024. Meanwhile, the category of salaries and allowances in 2022 was 653.4 million euros, reaching 805.4 million euros in 2024 (Table 2) (Figure 3).

The table and graphs above reflect the wage level in Kosovo in the period 2022-2024. The wage level in Kosovo, including by sectors: The public sector, public enterprises and the private sector, has had an increasing trend in the period 2022-2024. Average gross wages by sectors: The highest wage level in Kosovo was in public enterprises. In 2024, in public enterprises, the average gross wage per employee was 783 Euros. The public sector, in 2024, had an average gross wage per employee of 755 Euros. While, the private sector was the sector with the lowest average gross wage per employee with 598 Euros. Regarding the wage level in Kosovo in 2022, the average gross monthly wage was 521 Euros (446 Euros average monthly net wage), increasing the average gross monthly wage to 639 Euros in 2024 (552 Euros average monthly net wage). The average gross monthly salary for an employee in Kosovo during 2024 was 639 Euros, increasing by 12.1% compared to 2023.

Regarding the legal functioning of public finances and the budget system, it was initially based on Regulation No. 2000/17, while in May 2003, the Assembly of Kosovo adopted Law No. 2003/2, On Public Finance Management and Accountability. While, in the further development of public finances, it is worth noting that after

the declaration of Kosovo's Independence in 2008, the Assembly of Kosovo adopted Law No. 03/L-048, On Public Finance Management and Accountability.

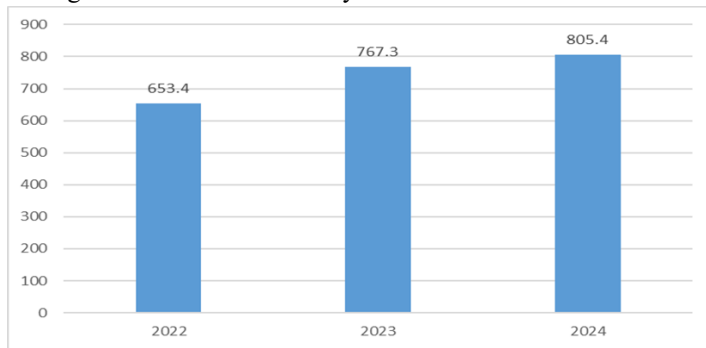


Figure 1: Salaries and allowances in the public sector in the period 2022-2024 - million euros.

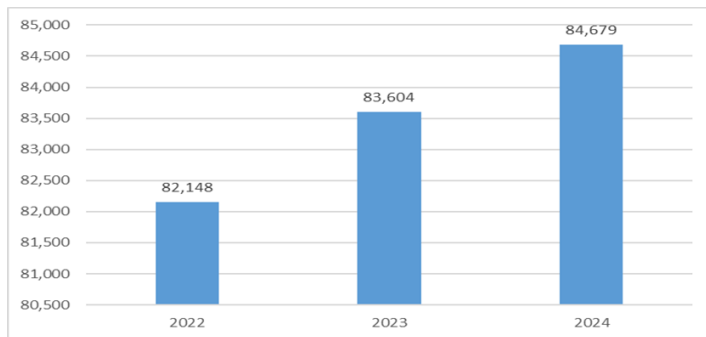


Figure 2: Number of wage earners in the public sector in the period 2022-2024.

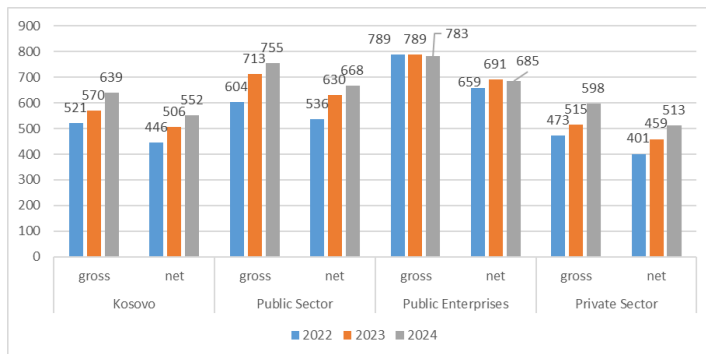


Figure 3: Average wage level by sectors (in Euros), in the period 2022-2024.

In the Republic of Kosovo, public finances currently function based on the Constitution and the Law on Public Finance Management and Accountability, as well as other legal acts. Article 120 of the Constitution of the Republic of Kosovo, in the chapter on public finances, describes the following competencies:

1. Public expenditures and the collection of public revenues must be based on the principles of accountability, effectiveness, efficiency and transparency.

2. The administration of fiscal policy at all levels of government will be in accordance with the conditions for low inflation and sustainable economic development and job creation.
3. Public borrowing is regulated by law and must be in accordance with economic stability and fiscal sustainability.

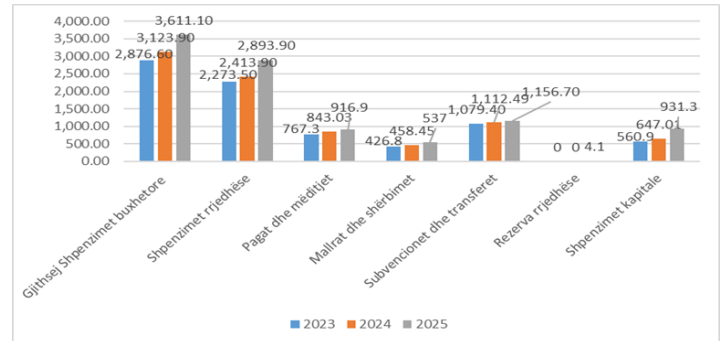


Figure 4: Structure of public expenditure in the Republic of Kosovo.

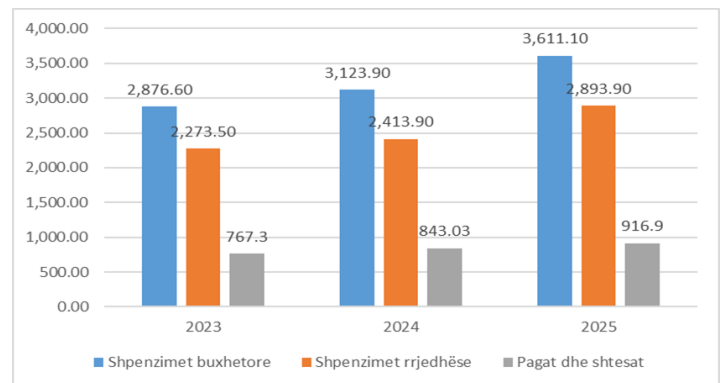


Figure 5: Public spending in the category of salaries and allowances for the period 2023-2025.

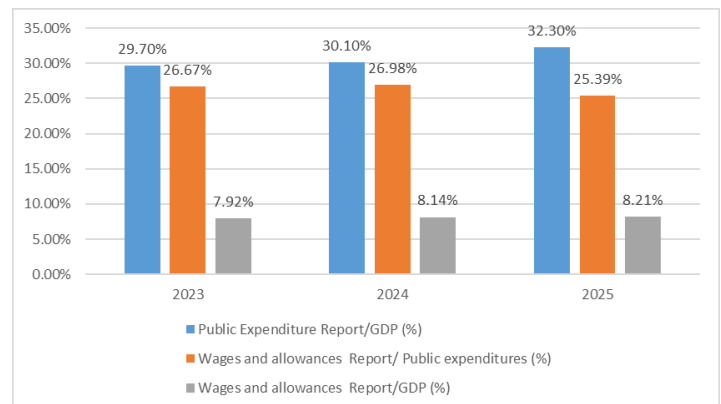


Figure 6: Public expenditure ratio in BPV.

In addition, Article 65 of the Constitution of the Republic of Kosovo, among other things, gives the Assembly of Kosovo the competence to approve the state budget. Public expenditures are monetary funds, financial funds, which serve to finance state needs.

The science of finance offers three main answers about public expenditures [4]:

- a. How much are state expenditures;
- b. How to meet them in the best and most sufficient way; and
- c. To what limit can public expenditures be reached without hindering the state economy and its development.

Public expenditure represents the expenditure of financial resources to meet public needs that are created by the collection of public revenues. Public expenditure is closely related to public revenues and depends on them, since public revenues are the source of financing public services. Expenditures incurred by the state to fulfill its objectives and functions are also known as public expenditures [5].

Table 1: Number of employees and salaries and allowances in the public sector in Kosovo, in the period 2022-2024.

Description	2022	2023	2024
Salaries and allowances	653.4	767.3	805.4
Number of wage earners in the public sector	82,148	83,604	84,679

Source: Ministry of Finance, Labor and Transfers, Annual Financial Report for 2024, Prishtina, 2025, pp. 89-90. Law No. 08/L-332 on Budget Allocations for the Budget of the Republic of Kosovo for 2025, pp. 20.

Table 2: Average salary level in Kosovo in the period 2022-2024-in euros.

	Kosovo		Public Sector		Public Enterprises		Private Sector	
	gross	net	gross	net	gross	net	gross	net
2022	521	446	604	536	789	659	473	401
2023	570	506	713	630	789	691	515	459
2024	639	552	755	668	783	685	598	513

Source: Kosovo Agency of Statistics, Series 5: Social Statistics, Wage Level in Kosovo 2024, Prishtina, 2025, p. 9.

Table 3: Structure of public expenditure in the Republic of Kosovo.

Description	2023	2024	2025
Total Budget Expenditures	2,876.6	3,123.9	3,611.1
Current Expenditures	2,273.5	2,413.9	2,893.9
Wages and salaries	767.3	843.03	916.9
Goods and services	426.8	458.45	537.0
Subsidies and transfers	1,079.4	1,112.49	1,156.7
Current reserve	0.0	0.0	4.1
Capital expenditures	560.9	647.01	931.3

Source: Law No. 10/L-001, On Budget Allocations for the Budget of the Republic of Kosovo for 2026, p. 29.

Table 4: Public expenditure in the category of wages and salaries and allowances for the period 2023-2025, in million euros.

Description	2023	2024	2025
Budget Expenditures	2,876.6	3,123.9	3,611.1
Current Expenditures	2,273.5	2,413.9	2,893.9
Wages and salaries	767.3	843.03	916.9

Source: Law No. 10/L-001, On Budget Allocations for the Budget of the Republic of Kosovo for 2026, p. 29.

Table 5: Share of public spending and wages in the GDP.

Years	GDP	Public expenditures	Public Expenditure Report/GDP (%)	Wages and allowances	Wages and allowances Report/ Public expenditures (%)	Wages and allowances Report/GDP (%)
2023	9,680.1	2,876.6	29.7%	767.3	26.67%	7.92%

2024	10,350.4	3,123.9	30.1%	843.03	26.98%	8.14%
2025	11,156.2	3,611.1	32.3%	916.9	25.39%	8.21%

Source: Law No. 10/L-001, On budget allocations for the Budget of the Republic of Kosovo for the year 2026, pg. 29-30.

Table 6: Data are expressed in EUR millions over the period 2022– 2024.

Years	Public expenditures X1	GDP Y1	X1-X	(X1-X) ²	Y1-Ȳ	(Y-Ȳ) ²	(X1-X)*(Y1-Ȳ)
2022	2,539.6	8,895.7	-468.3	219,304.89	-990.8	981,684.64	463,991.64
2023	2,876.6	9,680.1	-131.3	17,239.69	-206.4	42,600.96	27,100.32
2024	3,607.5	11,083.6	599.6	359,520.16	1,197.1	1,433,048.41	717,781.16
Total	3,007.9	9,886.5	0.00	596,064.74	-0.01	2,457,334.01	1,208,873.12

In the framework of government policies, the issue of government expenditure is considered a very important issue. In order to maintain fiscal sustainability, attention should be paid to how much expenditure burdens the budget and where their expenditure is directed. In this regard, the manner of spending budgetary resources and the orientation of government expenditure for productive purposes remains particularly important (Table 3) (Figure 4). Total public expenditure from 2.8 billion euros in 2023 has increased to 3.6 billion in 2025. Public expenditure as part of the state finance system serves to finance, respectively meet state needs. Wages and salaries are economic categories that consist of payments in cash, but not in goods. In public expenditure, the category of wages and salaries constitutes the most important part of current budget expenditure (Table 4) (Figure 5).

The table and graph reflect the progress of budget spending including current expenditures and salaries and allowances in the period 2023-2025. Regarding salaries and allowances, an increasing trend is observed, where in 2023 salaries and allowances were 767.3 million euros, increasing in 2025 the category of salaries and allowances to 916.9 million euros. The following table shows the share of public spending and wages in the Gross Domestic Product-GDP in Kosovo (Table 5) (Figure 6). The financing of the public sector and the provision of public services is conditioned by the level of development of the economic sector of the respective country, which depends on the level of provision of financial means for financing public needs.

Results- Kor relation between Gross Domestic Product and Public expenditures

Public expenditures are a key issue in economic discussions and at the same time an extremely intensive area of research. Correlational analyzes were used in this article to measure the strength of the relationship between the independent variable public expenditures (X) and the GDP dependent variable (Y). The

result of the correlational study is obtained by the correlation coefficient. The correlation coefficient values are between - 1 and + 1. Its + 1 value indicates that both variables are in complete linear relation and in the same direction which means that all points lie in a straight line with coefficient positive angle. Whereas the value - 1 of the correlation coefficient indicates that the variables are in complete linear relation and in the opposite direction. For correlation analyzes, it has been argued that the correlation coefficient is a summary measure describing the degree of the statistical relationship between two variables; the dependent variables and the independent variables (Leroux, 2009). Indicators of the Correlation Analysis of Public expenditures and GDP are presented by the Correlation Coefficient (r), the Determination Coefficient (r²) and Alliance/the Contingency Coefficient (ka). On the basis of correlational analyzes we analyze the impact of public expenditures on GDP. For Public expenditures and GDP, the correlation analysis covers the period from 2022 to 2024 [6] (Table 6).

$$r = \frac{\sum(X1 - X) * (y1 - \bar{Y})}{\sqrt{\sum(X1 - X)^2 * \sum(Y1 - \bar{Y})^2}}$$

$$r = \frac{1,208,873.12}{\sqrt{596,064.74 * 2,457,334.01}} = \frac{1,208,873.12}{1,464,730.12} = 0.82$$

Covariance- The covariance of choice is defined as fol

$$S_{xy} = \frac{\sum(x1 - x) * (y1 - \bar{Y})}{n - 1}$$

Correlation coefficient

The correlation coefficient is r = 0.82 From this we see that we have a positive average correlation, and that there is a positive average correlation between public expenditures and GDP.

Determination coefficient:

r² = (0.82)² = 0.67 From here it results that 67.00% of the public expenditures variation is explained by the variation of GDP.

Alliance coefficient:

$K_a = 1 - r^2 = 1 - 0.67 = 0.33$ It results that 33.00% are other unexplained factors affecting public expenditures.

Conclusions and Recommendations

The budget is a state financial document, which reflects budget revenues according to financial sources, on the one hand, and budget expenditures, according to bearers and destination of expenditures, on the other hand. The level of public expenditures is closely related to public revenues. This means that the state receives public money for collective purposes and to meet public needs [7-17].

The results of the analysis show that public spending remains one of the important factors for the economy as a whole.

In the framework of the work related to public expenditures in the Republic of Kosovo, we present some of the conclusions and recommendations as follows:

Conclusions

Public spending in Kosovo continues to grow, with current spending showing a greater increase compared to capital spending.

Recommendations

- The structure of public spending should be reviewed by increasing the capital expenditure category.
- Public expenditures should be mainly oriented towards the financing of public investments and development projects.

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