

ANNEX 1 to:

**Victims' Counsel Submission of a public redacted version of Annex 1 of
Victims' Counsel Submission of report pertaining to economic loss,
F00440/A01**

Public

Kosovo Specialist Chambers
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dr. Stefan Lerz

[REDACTED]

[REDACTED]

Your ref.: KSC-BC-2020-05

[REDACTED]

Calculation of material damage and economic loss in three cases

| | | |
|---------------|---|--------|
| Country | : | Kosovo |
| First victim | : | V08.05 |
| Second victim | : | V09.05 |
| Third victim | : | V10.05 |

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1 The question asked by the Panel

The question is:

... "to calculate the material damages and economic loss suffered by the alleged direct victims in the present case (Victims 08/05, 09/05 and 10/05)".

2 Results

The results are as follows:

[REDACTED]

[REDACTED]

[REDACTED]

All results can only be rough approximations of the real situations.

Legal interest or another kind of capitalization of past losses is not yet taken into account.

3 Approach

3.1 Calculation of income loss

A calculation of income losses generally requires specific information about the situation of the victims like salary sheets and employment contracts. In this case however, such information is not available. Therefore, this report has to use statistic information and has also to rely strongly on the starting points as given by the Victim's Counsel. As a result, the calculation can only be regarded as a rough approximation of the real situation.

The calculation of the income loss of a single victim will take place in the following way:

Firstly, the income loss will be calculated as a single net amount. Thus, if the victim has to pay taxes for getting compensated for the loss, these taxes should additionally be compensated. The only exception to this is capital gains tax on future interest payments. The calculations in this report take these tax payments already into account.

Secondly, the income loss consists of the sum of the yearly income losses up to the present plus the sum of future income losses which will be capitalized as described in the next chapter. It is important to note that the income losses up to the present will not be capitalized. If the Panel wishes to calculate additional payments, for the delay of the compensation of past losses, these should be added to the income losses as calculated in this report ¹.

Finally, the yearly income loss is equal to the difference between the calculated incomes with and without the incident.

3.2 Capitalization of future income loss

For the capitalization of future income losses, this report mainly follows the Dutch approach, which uses three factors: an estimation of future income growth, the interest rate and the mortality rate.

¹ In the Netherlands, these payments are usually calculated with the aid of Dutch legal interest rates, which are, of course, probably not applicable in Kosovo. At this point, it is not clear whether these payments should be calculated as well as if so, how this calculation has to take place.

As mentioned earlier, the calculations of income losses should be regarded only as rough approximations of the real situation. This is also valid for these factors.

Estimation of future income growth

In the Netherlands, this factor is often called inflation. However, this term might be misleading because the intention is not to take future increases of consumer prices into account, but future wage increases.

In this report, future income growth will simply be calculated as the average of the growth of average wages over the last ten years.

Interest rate

Interest rates are used because most of the future losses can temporarily be stored on saving accounts or buying bonds for example. The important point is in this context that the savings should not be risky. As an indicator for the interest rate, this report takes the interest rate on deposits for households as published by the Central Bank of Kosovo (Att. 1). Although this rate was in 2012 about 3,5% and in 2013 about 2,5%, it has been in the following years up to 2021 1% or even slightly lower. Based on the average over the last 10 years, it seems reasonable to use an interest rate of roughly 1%. It seems, however, also reasonable to assume the interest rate to rise in the near future. This is due to recent decision of the European Central Bank (ECB), which have been made public on June 8 2022 to rise the interest rate gradually. Although Kosovo is not a member of the EU, this decision affects Kosovo as well because the country does use the euro as a currency. For the time being this report therefore uses an interest of 2% instead of 1%. In doing so, it will not only be looked at the development in the past, but future increases of the interest rate will also be anticipated.

The interest payments are taxable capital gains. The capital gains tax in Kosovo equals 10% for all capital gains (Att. 2). Thus, if the gross interest rate is 2%, the net interest rate is 1,8%.

Mortality rate

By using a mortality rate, the calculation takes into account that a person might die before reaching the end date of the calculation.

This report uses the most recently published Dutch mortality rates for men as a proxy for the relevant rates in Kosovo (Att. 3).

Capitalization factor

For the capitalization of future income losses, a capitalization factor will be calculated which is based on the interest rate and the mortality rate. This calculation is described in the Appendix.

4 Answering the question of the Panel

Firstly, this report provides the statistical data and describes how it is used in the calculations. Then, the income losses of each victim are subsequently calculated. For each victim, the starting point is the situation as given by the Counsel. Then, this report describes the approach for the specific situation and finally provides the calculation itself.

4.1 Statistical data Kosovo

Average wages

As a proxy for the income of the victims, this report strongly relies on average wages in Kosovo. These are well documented by the Kosovo Agency of Statistics for the period from 2012 to 2021 (source Kosovo Agency of Statistics (Att. 4)).

In this period the average monthly gross income grew from € 383 in 2012 to € 414 in 2021, with an average growth rate of 2,7%. The deductions on salary for taxes and pension payments rose from 9,1% in 2012 to 10,7% in 2020 and then in 2021 quite sharply to 14%.

Average wages in Kosovo 2012-2021

| year | avg wage gross month | growth rate | avg wage net month | deductions on salary |
|---------|----------------------------|----------------|--------------------------|----------------------------|
| 2012 | 383 | | 348 | 9,1% |
| 2013 | 386 | 0,8% | 351 | 9,1% |
| 2014 | 403 | 4,4% | 365 | 9,4% |
| 2015 | 415 | 3,0% | 376 | 9,4% |
| 2016 | 422 | 1,7% | 382 | 9,5% |
| 2017 | 431 | 2,1% | 390 | 9,5% |
| 2018 | 453 | 5,1% | 409 | 9,7% |
| 2019 | 477 | 5,3% | 430 | 9,9% |
| 2020 | 466 | -2,3% | 416 | 10,7% |
| 2021 | 484 | 3,9% | 416 | 14,0% |
| average | | 2,7% | | |

Currency: euro

Based on this, the report estimates the gross salary for earlier years by using the average growth rate of 2,7% and the change of the deductions on salary, as a first approach, by 0,1 percentage points a year.

Personal Income Tax and pension contributions

The personal income tax rate in Kosovo is 10%, but there are lower rates for lower incomes. In addition, pension contributions of 10% of gross income are to be paid, recently 5% by the employee and 5% by the employer (Att. 2). For earlier years, this percentage changes similar to the relative change in the deductions on salary.

Pension benefits

Loss of income will include the loss of future pension benefits. This will be taken into account by simply adding the pension contributions to the net income. In this way, the pension contributions before retirement are used as an approximation for pension benefits after retirement.

Development of average income 2000 - 2021

Based on this, the average net salary per year plus pension benefits from 2000 to 2021 are calculated as follows:

Average net salary per year plus pension benefits from 2000 to 2021

| year | avg wage gross month | growth rate | avg wage net month | deductions on salary | pension benefits relative | pension benefits | total net month | total net year |
|------|----------------------------|----------------|--------------------------|----------------------------|---------------------------------|---------------------|-----------------------|----------------------|
| 2000 | 278 | | 256 | 7,9% | 5,6% | 16 | 272 | 3.262 |
| 2001 | 286 | 2,7% | 263 | 8,0% | 5,7% | 16 | 279 | 3.349 |
| 2002 | 293 | 2,7% | 270 | 8,1% | 5,8% | 17 | 287 | 3.439 |
| 2003 | 301 | 2,7% | 277 | 8,2% | 5,8% | 18 | 294 | 3.531 |
| 2004 | 309 | 2,7% | 284 | 8,3% | 5,9% | 18 | 302 | 3.625 |
| 2005 | 318 | 2,7% | 291 | 8,4% | 6,0% | 19 | 310 | 3.722 |
| 2006 | 326 | 2,7% | 299 | 8,5% | 6,1% | 20 | 318 | 3.821 |
| 2007 | 335 | 2,7% | 306 | 8,6% | 6,1% | 21 | 327 | 3.923 |
| 2008 | 344 | 2,7% | 314 | 8,7% | 6,2% | 21 | 336 | 4.028 |
| 2009 | 354 | 2,7% | 322 | 8,8% | 6,3% | 22 | 345 | 4.135 |
| 2010 | 363 | 2,7% | 331 | 8,9% | 6,3% | 23 | 354 | 4.246 |
| 2011 | 373 | 2,7% | 339 | 9,0% | 6,4% | 24 | 363 | 4.359 |
| 2012 | 383 | 2,7% | 348 | 9,1% | 6,5% | 25 | 373 | 4.475 |
| 2013 | 386 | 0,8% | 351 | 9,1% | 6,5% | 25 | 376 | 4.511 |
| 2014 | 403 | 4,4% | 365 | 9,4% | 6,7% | 27 | 392 | 4.705 |
| 2015 | 415 | 3,0% | 376 | 9,4% | 6,7% | 28 | 404 | 4.845 |
| 2016 | 422 | 1,7% | 382 | 9,5% | 6,7% | 28 | 410 | 4.926 |
| 2017 | 431 | 2,1% | 390 | 9,5% | 6,8% | 29 | 419 | 5.030 |
| 2018 | 453 | 5,1% | 409 | 9,7% | 6,9% | 31 | 440 | 5.284 |
| 2019 | 477 | 5,3% | 430 | 9,9% | 7,0% | 33 | 463 | 5.561 |
| 2020 | 466 | -2,3% | 416 | 10,7% | 7,6% | 36 | 452 | 5.419 |
| 2021 | 484 | 3,9% | 416 | 14,0% | 10,0% | 48 | 464 | 5.573 |

Currency: euro

Estimation of future income growth

As noted earlier, the average rate of growth of gross monthly income of 2,7% over the last ten years will be taken as an indicator for future income growth. It might be noted that the recent growth rate will decline when the standards of European higher income countries are reached. It will appear, however, that in the latest year of this report, the year 2045, the future income will only roughly double, which means that then the higher standards will still not be reached.

On the other hand, future growth rates may be higher for the same reason. However, taking this into account would lead to a highly speculative and unsubstantiated calculation.

Social security / income after the incident

The income after the incident [REDACTED] but expected to be very low as long as they [REDACTED]. It is possible that [REDACTED]. On the other hand, a look at the social security system of Kosovo shows that it is also possible that [REDACTED], which is recently equal to € 75 per month (Att. 5), [REDACTED]. If not, they might receive a Social Assistance Scheme (SAS) benefit of recently € 60 per month, if they are regarded as being poor and are living alone (Att. 6). Thus, the amounts as well as the differences seem to be very small as compared to average wages.

In the following, if the income is unknown, but expected to be very low, it will be assumed as a first approach that it will roughly be the same as the SAS-benefit for a person who is living alone:

SAS-benefits 2000-2021

| year | low net income month | low net income year |
|------|----------------------------|---------------------------|
| 2000 | 35 | 420 |
| 2001 | 35 | 420 |
| 2002 | 35 | 420 |
| 2003 | 35 | 420 |
| 2004 | 35 | 420 |
| 2005 | 35 | 420 |
| 2006 | 35 | 420 |
| 2007 | 35 | 420 |
| 2008 | 35 | 420 |
| 2009 | 40 | 480 |
| 2010 | 40 | 480 |
| 2011 | 40 | 480 |
| 2012 | 40 | 480 |
| 2013 | 40 | 480 |
| 2014 | 40 | 480 |
| 2015 | 50 | 600 |
| 2016 | 50 | 600 |
| 2017 | 50 | 600 |
| 2018 | 60 | 720 |
| 2019 | 60 | 720 |
| 2020 | 60 | 720 |
| 2021 | 60 | 720 |

Currency: euro

For future development, this report assumes the same growth rate as the growth rate of gross average wages, i.e. 2,7%.

4.2 Victim V08.05

3.2.1 Starting points

Sex: [REDACTED]
Year of birth: [REDACTED]
Year of incident: 1999
Year of pension age: [REDACTED]

Property damage or loss: [REDACTED]
Legal interest: [REDACTED]

Income without incident: [REDACTED]
[REDACTED]
Income with incident [REDACTED]

Remark

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

3.2.2 Approach

Income without incident: [REDACTED]
Income after incident: [REDACTED]
Last year of the calculation: [REDACTED]

[REDACTED]
[REDACTED]

Future losses are capitalized.

Legal interest or another kind of capitalization of past losses is not yet taken into account.

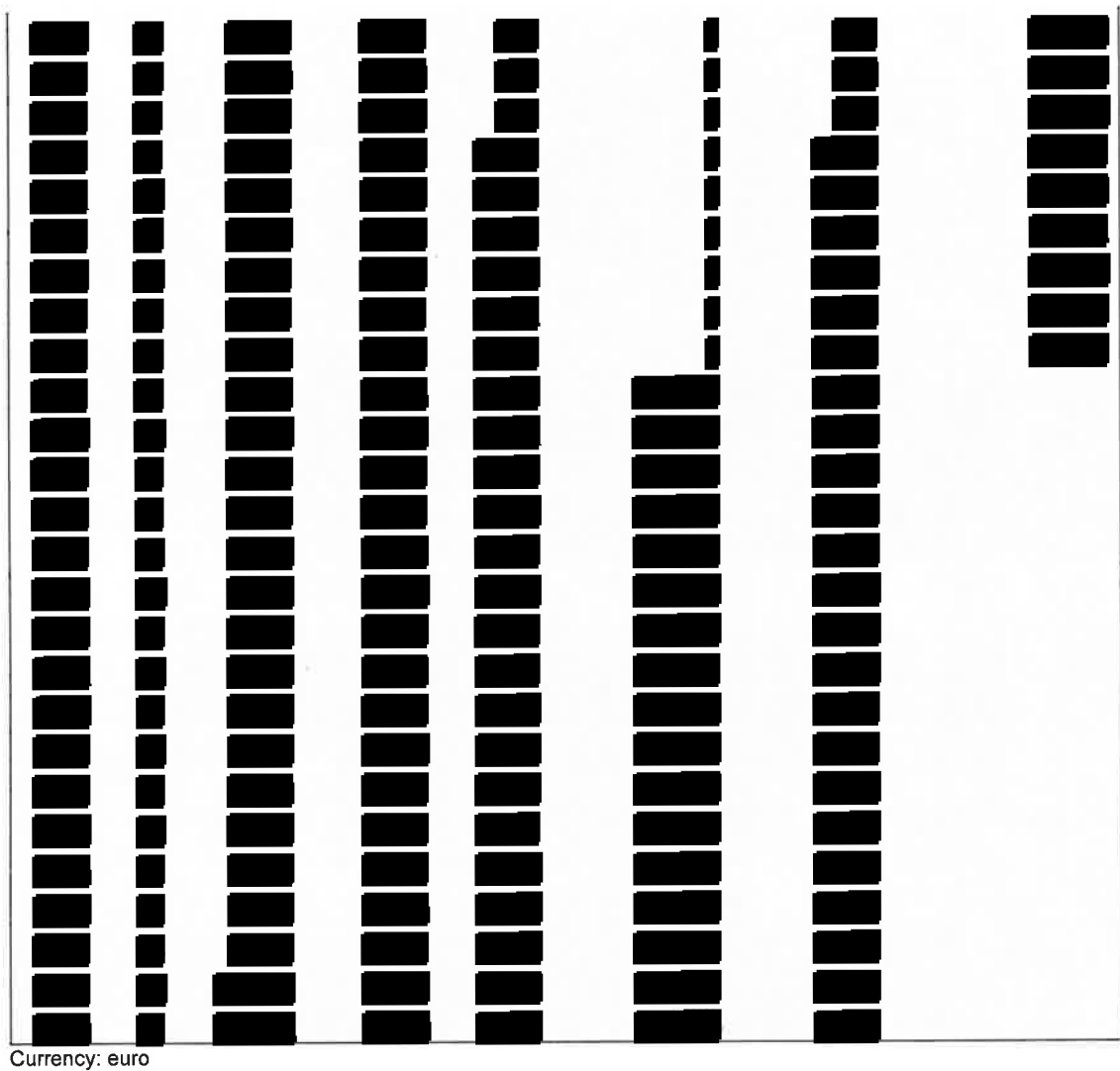
3.2.5 Income loss

Based on this approach, the loss of income equals € [REDACTED]

The last column "*income loss capitalized total until this year*" of the table below shows all the different results.

Income loss of victim V08.05

| year | age | total net without incident | total net with incident | income loss | capitalization factor | income loss capitalized | income loss capitalized total starting this year |
|------|-----|-------------------------------------|----------------------------------|----------------|--------------------------|-------------------------------|--|
| 1970 | 20 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1971 | 21 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1972 | 22 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1973 | 23 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1974 | 24 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1975 | 25 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1976 | 26 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1977 | 27 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1978 | 28 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1979 | 29 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1980 | 30 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1981 | 31 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1982 | 32 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1983 | 33 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1984 | 34 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1985 | 35 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1986 | 36 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1987 | 37 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1988 | 38 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1989 | 39 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1990 | 40 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1991 | 41 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1992 | 42 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1993 | 43 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1994 | 44 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1995 | 45 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1996 | 46 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1997 | 47 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1998 | 48 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 1999 | 49 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2000 | 50 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2001 | 51 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2002 | 52 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2003 | 53 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2004 | 54 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2005 | 55 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2006 | 56 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2007 | 57 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2008 | 58 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2009 | 59 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2010 | 60 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2011 | 61 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2012 | 62 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2013 | 63 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2014 | 64 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2015 | 65 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2016 | 66 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2017 | 67 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2018 | 68 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2019 | 69 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2020 | 70 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2021 | 71 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2022 | 72 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2023 | 73 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2024 | 74 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2025 | 75 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2026 | 76 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2027 | 77 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2028 | 78 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2029 | 79 | 1000 | 1000 | 0 | 1 | 0 | 1000 |
| 2030 | 80 | 1000 | 1000 | 0 | 1 | 0 | 1000 |



4.3 Victim V09.05

3.3.1 Starting points

Sex: [REDACTED]
Year of birth: [REDACTED]
Year of incident: 1999
Year of pension age: [REDACTED]

Property damage or loss: [REDACTED]
Legal interest: [REDACTED]

Income without incident: [REDACTED]
Income with incident: [REDACTED]

3.3.2 Approach

Income without incident [REDACTED]
Income after incident: [REDACTED]
Last year of the calculation: [REDACTED]

[REDACTED]
[REDACTED]

Future losses are capitalized.
Legal interest or another kind of capitalization of past losses is not yet taken into account.

Point of attention

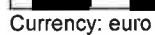
[REDACTED]
[REDACTED]
[REDACTED]

3.3.5 Income loss

Based on this approach, the loss of income equals € [REDACTED] last column "*income loss capitalized total until this year*" of the table below shows all the different results. [REDACTED]

Income loss of victim V09.05

| year | age | total net without incident | total net with incident | income loss | capitalization factor | income loss capitalized | income loss capitalized total until this year |
|------|-----|-------------------------------------|----------------------------------|----------------|--------------------------|-------------------------------|---|
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4.4 Victim V10.05

3.4.1 Starting points

Sex: [REDACTED]
Year of birth: [REDACTED]
Year of incident: 1999
Year of pension age: [REDACTED]

Property damage or loss: [REDACTED]
Legal interest: [REDACTED]

Income without incident: [REDACTED]
Income with incident: [REDACTED]

Remark

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

3.4.2 Approach

Income without incident: [REDACTED]
Income after incident: [REDACTED]
Last year of the calculation: [REDACTED]

[REDACTED]
[REDACTED]

Legal interest or another kind of capitalization of past losses is not yet taken into account.

3.4.5 Income loss

Based on this approach, the loss of income equals € XXXXXXXXXX

Income loss of victim V10.05

[illegible]

Currency: euro

4.5 Signature

■■■■■, The Netherlands, June 22, 2022

A handwritten signature in black ink, appearing to read 'Stefan Lerz'.

dr. Stefan Lerz

4.6 Appendix: the capitalization factor

The capitalization factor is used for the capitalization of future income losses. The calculation of this factor will be described here.

To begin with, the capitalization factor consists of two elements: the interest rate factor which is based on the interest rate of 1,8% and the survival rate factor which is based on the mortality rate.

Interest rate factor

Starting with the interest rate of 1,8%, the interest rate is not equal to the interest *factor*. For example over one year, in 2023, the interest rate factor equals $1/(1+1,8\%)$, which means that the income loss over one year can be slightly lower than calculated, because the difference will be paid as interest.

For following years the factor takes interest on interest into account. This means, that the factor over two years equals $1/(1+1,8\%)^2$, over three years $1/(1+1,8\%)^3$ and so on.

Survival rate factor

Although this factor is based on mortality rates, it is used to determine the survival rates, because we want to calculate the probability whether a person will still be alive in a future year. The survival rate equals 1 minus the mortality rate. For example, If a man is next year 49 years old, his mortality rate is roughly 0,21%, which means that his survival rate equals roughly 99,79%. After he has reached age 49, his survival rate until age 50 equals 99,76%. In the same way, survival rates can be calculated for each year of his lifetime.

However, these rates are always the chance that the man survives one other year. If we want to know the chance that a man of age 48 reaches 50 years, both chances have to be multiplied. The survival rate *factor* is then $99,76\% \times 99,79\% = 99,55\%$. Therefore, the survival rate factor gives the probability that a person reaches a certain age in the future.

Capitalization factor

The capitalization factor equals interest rate factor times survival rate factor.

An example of the calculation of the capitalization factor is given below for victims [REDACTED]

[REDACTED]

[illegible]

[illegible]

Attachments

- 1) Interest rate on deposits for households as published by the Central Bank of Kosovo
- 2) Information about taxes and pension contributions as published by the Tax Administration of Kosovo
- 3) Mortality rates as provided by the Dutch *Actuarieel Genootschap*
- 4) Averages wages from 2012 to 2021 as published by the Kosovo Agency of Statistics
- 5) Information about pensions as published by the World Bank
- 6) Information about social security information as published by the World Bank

Attachment 1

Quarterly Assessment of the Economy

No. 37, Q IV/2021



Summary

Economic activity in euro area marked an increase of 5.3%, in 2021. The recovery of economic activity has been driven mainly by domestic demand, as a result of the improvement of the pandemic situation, the easing of restrictive measures as well as the supportive fiscal and monetary policy. Economic growth lost its momentum in Q4 2021, mainly due to the new variant of the corona virus "Omicron" and the return of measures in different countries, as well as rising energy prices and obvious problems in the supply chain. Due to the uncertainties caused by the war in Ukraine, the ECB revised its macroeconomic projections in March 2022, presenting three scenarios for economic growth and the growth rate of inflation. The baseline scenario suggests that the real GDP growth in 2022 will be 3.7%, followed by a slower growth of 2.8% in 2023 and 1.6% in 2024.

Also in the region countries, there has been a high growth of economic activity until September 2021, a dynamic that turns out to have weakened in the fourth quarter of the year. Serbia and North Macedonia reported an increase in economic activity of 7.0% and 2.3%, respectively, while other countries have not yet published their estimates. The IMF estimates for 2021 suggest an increase in economic activity of 5.3% for the countries of the Western Balkans, while the forecasts realized in October 2021 suggested a slowdown in growth of 4.4% in 2022. As the risks associated with the pandemic have declined, the war in Ukraine will be reflected in an even slower growth in the countries of the region.

According to preliminary estimates of KAS, Kosovo marked an economic growth of 10.5%, in 2021. This high growth of economic activity was mainly attributed to the improvement of the health crisis - a dynamic that was reflected in the easing of restrictive measures and increased income from abroad (mainly from diaspora), and stimulating financial and fiscal policies. Only in Q4 2021, real GDP growth turned out to have been 6.4%, supported by the growth of domestic demand while net exports had a negative contribution to the generated economic activity.

The increase in aggregate demand as a result of the economic recovery, associated with external inflationary pressures as a result of rising energy prices and commodity prices imported from partner countries was translated into rising overall prices in Kosovo as well. Consumer price index increased by 3.4% in 2021, while the highest increase in consumer prices was recorded in Q4 2021 when the average inflation rate of 6.4% was recorded.

The growth of economic activity in the reporting period was accompanied by the improvement of the performance of budget revenues during 2021.

Only in Q4 2021, budget revenues increased by 12.9%, while budget expenditures increased by only 0.7%. Public debt has continued with double-digit growth of 13.1% and has reached the value of EUR 1.68 billion, while as a percentage of GDP, it has reached 23.3%, in Q4 2021.

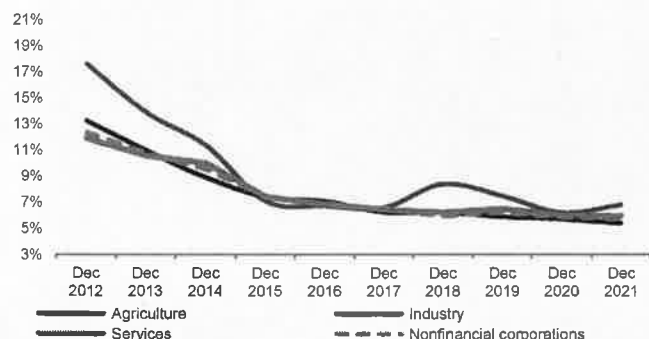
The activity generated within the external sector turns out to have had the main weight in the overall economic activity in the country in 2021. The increase of income from diaspora through major channels such as remittances, travel expenses and real estate purchases was translated into a growth of overall demand in the country, supporting both consumption and investment growth, in 2021. The increase in domestic demand resulted in an increase in imports, which worsened the balance of goods, despite the increase in exports. Only in Q4 2021, the trade deficit in goods increased by 34.4% and reached the level of EUR 1.0 billion, while the balance of services reached the value of EUR 139.2 million from EUR 95.2 million, in Q4 2020.

The financial system was characterized by increased activity in all its constituent segments. The sound banking sector (high degree of capitalization, liquidity and high quality of the loan portfolio) played an important role in financing economic activity throughout 2021. The increase in bank lending was supported by both the financial measures taken by the CBK, the mitigation of risks perceived by the banking sector, the increase in total deposits and the increase in demand with the increase of the absorption capacity in the country. For 2022, banks expect a more controlled lending growth of about 15.6%, an increase that will be supported mainly by deposits that are expected to grow by about 5.0%. The pension sector closed 2021 with a high level of return on investments, despite fluctuations in foreign markets as a result of the pandemic. Contributions collected from the contributors continued to grow at a steady pace, albeit at a lower intensity. The year 2022 is accompanied by many uncertainties, and the performance of financial markets is subject to the impact that economic sanctions will have on Russia as a result of the war started in Ukraine and other chain effects. The insurance sector expanded as a result of the higher level of written premiums compared to 2020, while during 2022, it is expected to grow at a lower rate (pre-pandemic level). The growth of the microfinance sector was made possible primarily by borrowing from financial institutions (mainly from abroad), which continue to have the highest share in total liabilities, followed by own capital and accounts payable.

Quarterly Assessment of the Economy No. 37, Q IV/2021

2021, interest rates on loans to nonfinancial corporations stood at 5.7% (5.9% in December 2020) (chart 22).

Chart 22. Interest rate on loans to nonfinancial corporations

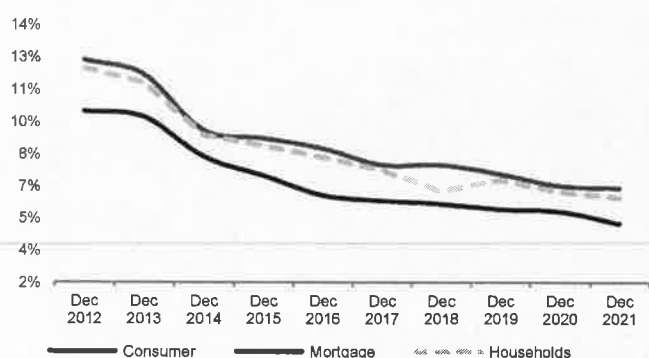


Source: CBK.

Interest rate on loans to services and industry sectors are more favorable compared to loans to agriculture sector.

Higher interest rates on loans to the agriculture sector are a result of the higher risk that this sector bears, although in the recent years there has been a decrease in the cost of financing also for this sector (chart 22).

Chart 23. Interest rate on loans to households



Source: CBK.

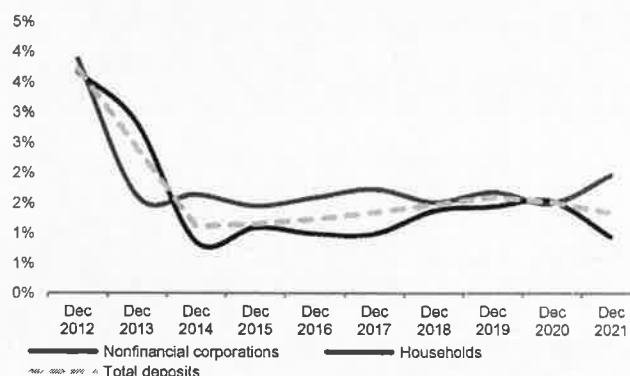
Interest rates on loans to households continued with the same declining trend as of nonfinancial corporations. Interest rates on this segment stood at 6.0%, in December 2021. A more favorable interest rate

was marked by mortgage loans - reflecting the high increase of new mortgage loans during 2021. While, interest rates on consumer credit were higher than the segment's average, albeit compared to previous periods, there has been marked a significant decline (chart 23).

1.3.2 Interest rates on deposits

Interest rates on deposits continue to remain low, with more favorable rates for nonfinancial corporations (2.0%) compared to those for households (0.9%) (chart 24).

Chart 24. Interest rates on deposits



Source: CBK.

Performance of the Banking Sector

The banking sector, until December 2021, realized a profit with a value of EUR 117.5 million, which is for EUR 37.6 million higher compared to the statement as of end-December 2020 (chart 25). The highest profit realized in this period reflects the performance of income (which increased by 15.4%) and expenditures (which marked a marginal increase of 2.6%).

Within income, interest income is the category with the largest share (70.4%) and marked an annual increase of 6.9%, an increase mainly attributed to interest

Attachment 2

Source: Tax Administration of Kosovo as found in june 2022 at:
<https://www.atk-ks.org/en/portfolio/informata-te-pergjithshme-per-tatimet-ne-kosove/>

There the following can be found:

All laws and administrative instructions are available on Official Gazette of Kosovo, on the link: <http://gzk.rks-gov.net/default.aspx>

Tax rates in Kosovo:

| Tax Type | Turnover threshold | Tax Rate |
|--|--------------------|-----------------------|
| Value Added Tax - VAT | 30,000 euro | 8% and 18% |
| Corporate Income Tax - CIT | under 50,000 euro | 3% 9% |
| Manufacturing, trading and transporting industry, etc. Service industry | under 50,000 euro | 9% 9% |
| Personal Income Tax - PIT | over 50,000 euro | 10% |
| Corporate Income Tax - CIT | over 50,000 euro | 10% |
| Personal Income Tax - PIT | over 50,000 euro | 10% |
| Annual income from 0 to 960 | | 0% |
| Annual income from 960 - 3000 | | 4% |
| Annual income from 3,000 to 5,400 | | 8% |
| Annual income from 5,400 and over | | 10% |
| Tax on Wages (monthly) | | 0% 4% 8% 10% |
| Annual income from 0 to 80 | | 0% |
| Annual income from 80 - 250 | | 4% |
| Annual income from 250 - 450 | | 8% |
| Annual income from 450 and over | | 10% |
| Tax on Rents, Interest and Royalties | | 10% |
| Tax on special categories | | 3% |
| Tax on non-residents | | 5% |

...

Tax rates for Personal Income Tax:

| Tax rate | Monthly income in € | Annual income in € |
|----------|---------------------|--------------------|
| 0% | 0 to 80 | 0 to 960 |
| 4% | 80 to 250 | 960 to 3000 |
| 8% | 250 to 450 | 3000 to 5400 |
| 10% | 450 and over | 5,400 and over |

Taxpayers with annual gross income over 50,000€ and those who have voluntary opted to be taxed on real income, are taxed by above-mentioned rates, and taxpayers with annual gross income of 50,000€ or less, are taxed with 3% on gross income (for the activities of: trade, transport, agriculture and similar commercial activities) or 9% (for the activities of: services, professional, artisanal, entertainment and similar activities). In addition to tax, these (self-employed) taxpayers are obliged to pay Pension Contributions, too.

The wages of employees are taxed by the primary employer under the following tax rates (0%; 4%; 8% and 10%), and the wages of employees are taxes with 10% by the secondary employer.

Any employee, the citizen of Kosovo, is obliged to pay 5% from gross income on behalf of Pension Contributions. Also, the principal and secondary employer of the employee, which is Kosovo citizen, contributes with 5% on gross wage of the employee for the pension contributions.

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Attachment 3

Ruw (levering CBS)

GB 2015-2020 AG afronding

| Leeftijd | Man | Vrouw | | Man | Vrouw |
|----------|-----------|-----------|--|-----------|-----------|
| 0 | 0,0037761 | 0,0031353 | | 0,0037761 | 0,0031353 |
| 1 | 0,0002221 | 0,0002166 | | 0,0002221 | 0,0002166 |
| 2 | 0,0001506 | 0,0000969 | | 0,0001506 | 0,0000969 |
| 3 | 0,0001223 | 0,0000748 | | 0,0001265 | 0,0000761 |
| 4 | 0,0001144 | 0,0000786 | | 0,0001023 | 0,0000711 |
| 5 | 0,0000801 | 0,0000727 | | 0,0000882 | 0,0000656 |
| 6 | 0,0000792 | 0,0000697 | | 0,0000735 | 0,0000647 |
| 7 | 0,0000695 | 0,0000642 | | 0,0000667 | 0,0000645 |
| 8 | 0,0000649 | 0,0000527 | | 0,0000639 | 0,0000628 |
| 9 | 0,0000540 | 0,0000676 | | 0,0000615 | 0,0000598 |
| 10 | 0,0000600 | 0,0000804 | | 0,0000658 | 0,0000593 |
| 11 | 0,0000842 | 0,0000431 | | 0,0000749 | 0,0000612 |
| 12 | 0,0000911 | 0,0000678 | | 0,0000862 | 0,0000648 |
| 13 | 0,0000893 | 0,0000687 | | 0,0001060 | 0,0000738 |
| 14 | 0,0001522 | 0,0000858 | | 0,0001324 | 0,0000842 |
| 15 | 0,0001761 | 0,0001022 | | 0,0001635 | 0,0001007 |
| 16 | 0,0001627 | 0,0001192 | | 0,0002013 | 0,0001277 |
| 17 | 0,0002745 | 0,0001701 | | 0,0002462 | 0,0001423 |
| 18 | 0,0002838 | 0,0001625 | | 0,0002931 | 0,0001590 |
| 19 | 0,0003589 | 0,0001682 | | 0,0003230 | 0,0001733 |
| 20 | 0,0003763 | 0,0001771 | | 0,0003588 | 0,0001802 |
| 21 | 0,0003497 | 0,0001663 | | 0,0003841 | 0,0001794 |
| 22 | 0,0003951 | 0,0001867 | | 0,0003852 | 0,0001768 |
| 23 | 0,0003901 | 0,0002015 | | 0,0003973 | 0,0001777 |
| 24 | 0,0003993 | 0,0001650 | | 0,0004032 | 0,0001827 |
| 25 | 0,0004010 | 0,0001776 | | 0,0004149 | 0,0001913 |
| 26 | 0,0004459 | 0,0002065 | | 0,0004305 | 0,0002061 |
| 27 | 0,0004489 | 0,0002085 | | 0,0004391 | 0,0002199 |
| 28 | 0,0004583 | 0,0002699 | | 0,0004553 | 0,0002410 |
| 29 | 0,0004587 | 0,0002734 | | 0,0004770 | 0,0002687 |
| 30 | 0,0004913 | 0,0002952 | | 0,0004917 | 0,0002931 |
| 31 | 0,0005109 | 0,0002983 | | 0,0005166 | 0,0003169 |
| 32 | 0,0005559 | 0,0003403 | | 0,0005440 | 0,0003382 |
| 33 | 0,0005925 | 0,0003556 | | 0,0005790 | 0,0003573 |
| 34 | 0,0005754 | 0,0004047 | | 0,0006174 | 0,0003812 |
| 35 | 0,0007059 | 0,0004107 | | 0,0006497 | 0,0004129 |
| 36 | 0,0006545 | 0,0004198 | | 0,0006839 | 0,0004486 |
| 37 | 0,0007521 | 0,0004948 | | 0,0007206 | 0,0004800 |
| 38 | 0,0007637 | 0,0005049 | | 0,0007710 | 0,0005227 |
| 39 | 0,0007967 | 0,0006191 | | 0,0008352 | 0,0005716 |
| 40 | 0,0008941 | 0,0006181 | | 0,0009030 | 0,0006419 |
| 41 | 0,0010061 | 0,0006798 | | 0,0010014 | 0,0007135 |
| 42 | 0,0011329 | 0,0008114 | | 0,0011012 | 0,0007920 |
| 43 | 0,0012319 | 0,0008969 | | 0,0012258 | 0,0008837 |
| 44 | 0,0013654 | 0,0010126 | | 0,0013533 | 0,0009803 |
| 45 | 0,0014505 | 0,0010475 | | 0,0014770 | 0,0010944 |
| 46 | 0,0016309 | 0,0012387 | | 0,0016033 | 0,0012006 |

| | | | | | |
|----|-----------|-----------|--|-----------|-----------|
| 47 | 0,0017490 | 0,0013061 | | 0,0017536 | 0,0013227 |
| 48 | 0,0019072 | 0,0014901 | | 0,0019290 | 0,0014721 |
| 49 | 0,0021096 | 0,0015625 | | 0,0021316 | 0,0016365 |
| 50 | 0,0023467 | 0,0018226 | | 0,0023756 | 0,0018330 |
| 51 | 0,0027068 | 0,0021535 | | 0,0026443 | 0,0020401 |
| 52 | 0,0029444 | 0,0022813 | | 0,0029516 | 0,0022897 |
| 53 | 0,0033083 | 0,0024983 | | 0,0032883 | 0,0025525 |
| 54 | 0,0036744 | 0,0028420 | | 0,0036445 | 0,0028523 |
| 55 | 0,0040235 | 0,0031680 | | 0,0040373 | 0,0031325 |
| 56 | 0,0044216 | 0,0034568 | | 0,0044795 | 0,0034488 |
| 57 | 0,0049728 | 0,0038323 | | 0,0049929 | 0,0038195 |
| 58 | 0,0055123 | 0,0042080 | | 0,0055472 | 0,0042234 |
| 59 | 0,0062735 | 0,0045719 | | 0,0061949 | 0,0046517 |
| 60 | 0,0069915 | 0,0051593 | | 0,0069122 | 0,0051147 |
| 61 | 0,0076127 | 0,0055894 | | 0,0076933 | 0,0056192 |
| 62 | 0,0084721 | 0,0062862 | | 0,0085232 | 0,0061536 |
| 63 | 0,0095123 | 0,0067268 | | 0,0094023 | 0,0067179 |
| 64 | 0,0102854 | 0,0072210 | | 0,0103208 | 0,0073215 |
| 65 | 0,0113972 | 0,0079223 | | 0,0113396 | 0,0079037 |
| 66 | 0,0124577 | 0,0086203 | | 0,0124394 | 0,0085812 |
| 67 | 0,0135502 | 0,0093034 | | 0,0136424 | 0,0093210 |
| 68 | 0,0149716 | 0,0101780 | | 0,0150018 | 0,0101855 |
| 69 | 0,0164997 | 0,0109393 | | 0,0165010 | 0,0111372 |
| 70 | 0,0181400 | 0,0124116 | | 0,0182157 | 0,0121845 |
| 71 | 0,0204308 | 0,0134840 | | 0,0202067 | 0,0133909 |
| 72 | 0,0224504 | 0,0147084 | | 0,0224867 | 0,0148030 |
| 73 | 0,0245158 | 0,0162804 | | 0,0250047 | 0,0164020 |
| 74 | 0,0282405 | 0,0181768 | | 0,0277638 | 0,0182587 |
| 75 | 0,0311404 | 0,0203902 | | 0,0308732 | 0,0202832 |
| 76 | 0,0345979 | 0,0229418 | | 0,0344793 | 0,0227589 |
| 77 | 0,0382419 | 0,0255563 | | 0,0386874 | 0,0255853 |
| 78 | 0,0427789 | 0,0288516 | | 0,0435577 | 0,0288548 |
| 79 | 0,0492155 | 0,0323705 | | 0,0490176 | 0,0327015 |
| 80 | 0,0563177 | 0,0373238 | | 0,0553795 | 0,0371332 |
| 81 | 0,0628072 | 0,0421619 | | 0,0629022 | 0,0423570 |
| 82 | 0,0716092 | 0,0488898 | | 0,0715675 | 0,0486184 |
| 83 | 0,0805954 | 0,0561446 | | 0,0811262 | 0,0559609 |
| 84 | 0,0907506 | 0,0637712 | | 0,0918040 | 0,0644890 |
| 85 | 0,1055588 | 0,0743880 | | 0,1038782 | 0,0743317 |
| 86 | 0,1175157 | 0,0862249 | | 0,1175827 | 0,0858674 |
| 87 | 0,1316020 | 0,0987535 | | 0,1325896 | 0,0985711 |
| 88 | 0,1493926 | 0,1128717 | | 0,1483574 | 0,1132383 |
| 89 | 0,1656670 | 0,1301033 | | 0,1654169 | 0,1295510 |
| 90 | 0,1842441 | 0,1472127 | | 0,1834936 | 0,1471724 |
| 91 | 0,2029933 | 0,1645736 | | 0,2033250 | 0,1659868 |
| 92 | 0,2201234 | 0,1884720 | | 0,2248475 | 0,1859052 |
| 93 | 0,2485174 | 0,2077696 | | 0,2460523 | 0,2084043 |
| 94 | 0,2703358 | 0,2302432 | | 0,2696169 | 0,2308261 |
| 95 | 0,2922371 | 0,2514315 | | 0,2916737 | 0,2548769 |
| 96 | 0,3173102 | 0,2784358 | | 0,3149384 | 0,2798537 |

| | | | | | |
|-----|-----------|-----------|--|-----------|-----------|
| 97 | 0,3301336 | 0,3100495 | | 0,3382311 | 0,3053226 |
| 98 | 0,3596034 | 0,3185804 | | 0,3612957 | 0,3309528 |
| 99 | 0,3632712 | 0,3478808 | | 0,3838855 | 0,3564038 |
| 100 | 0,4072398 | 0,3770859 | | 0,4057735 | 0,3813431 |
| 101 | 0,4289593 | 0,3846283 | | 0,4267615 | 0,4054643 |
| 102 | 0,4316310 | 0,4227951 | | 0,4466863 | 0,4285013 |
| 103 | 0,5123457 | 0,4307846 | | 0,4654234 | 0,4502390 |
| 104 | 0,5492958 | 0,4736842 | | 0,4828879 | 0,4705192 |
| 105 | 0,4857143 | 0,4381271 | | 0,4990327 | 0,4892409 |
| 106 | 0,6250000 | 0,5128205 | | 0,5138449 | 0,5063572 |
| 107 | 0,6666667 | 0,4965517 | | 0,5273410 | 0,5218686 |
| 108 | 0,0000000 | 0,7042254 | | 0,5395616 | 0,5358148 |
| 109 | 1,0000000 | 0,4166667 | | 0,5505654 | 0,5482656 |
| 110 | 0,0000000 | 0,8000000 | | 0,5604242 | 0,5593125 |
| 111 | 0,0000000 | 0,0000000 | | 0,5692180 | 0,5690601 |
| 112 | 0,0000000 | 0,0000000 | | 0,5770313 | 0,5776203 |
| 113 | 0,0000000 | 0,0000000 | | 0,5839496 | 0,5851066 |
| 114 | 0,0000000 | 0,5000000 | | 0,5900568 | 0,5916302 |
| 115 | 0,0000000 | 1,0000000 | | 0,5954338 | 0,5972974 |
| 116 | 0,0000000 | 0,0000000 | | 0,6001570 | 0,6022075 |
| 117 | 0,0000000 | 0,0000000 | | 0,6042977 | 0,6064519 |
| 118 | 0,0000000 | 0,0000000 | | 0,6079212 | 0,6101136 |
| 119 | 0,0000000 | 0,0000000 | | 0,6110875 | 0,6132673 |
| 120 | 0,0000000 | 0,0000000 | | 0,6138504 | 0,6159797 |

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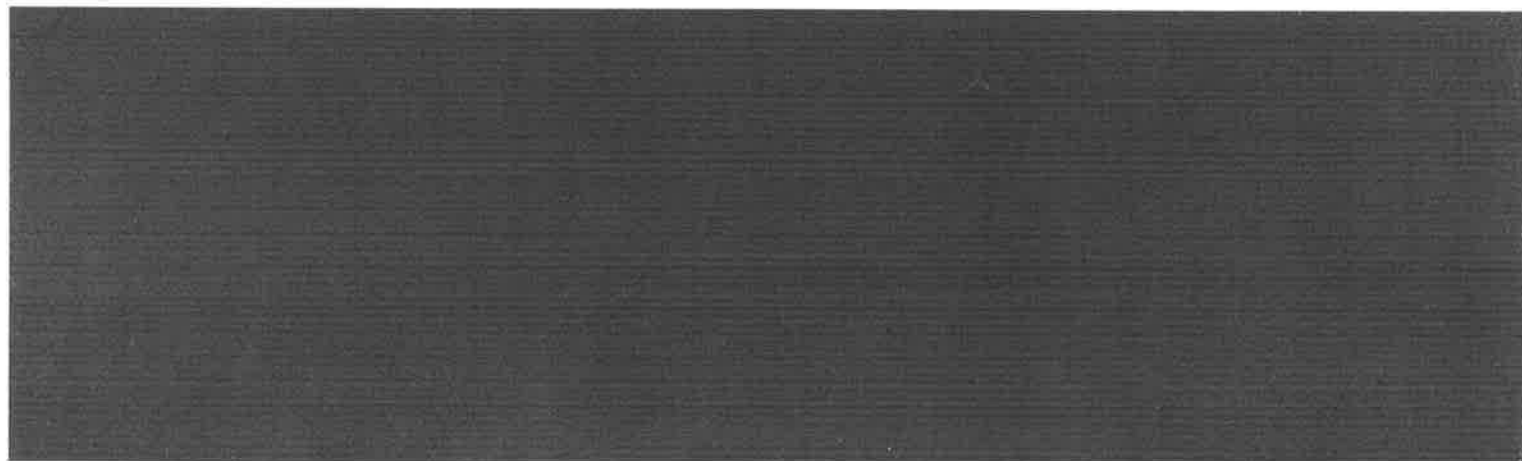
Attachment 4



Republika e Kosovës
Republika Kosova-Republic of Kosovo
Qeveria - Vlada – Government
Ministria e Financave, Punës dhe Transfereve –Ministartstvo za Finansija, Rada i Transfera
Ministry of Finance, Labor and Transfers
Agjencia e Statistikave të Kosovës - Agencija Statistike Kosova – Kosovo Agency of Statistics

Social Statistics

Wage Level in Kosovo, 2020

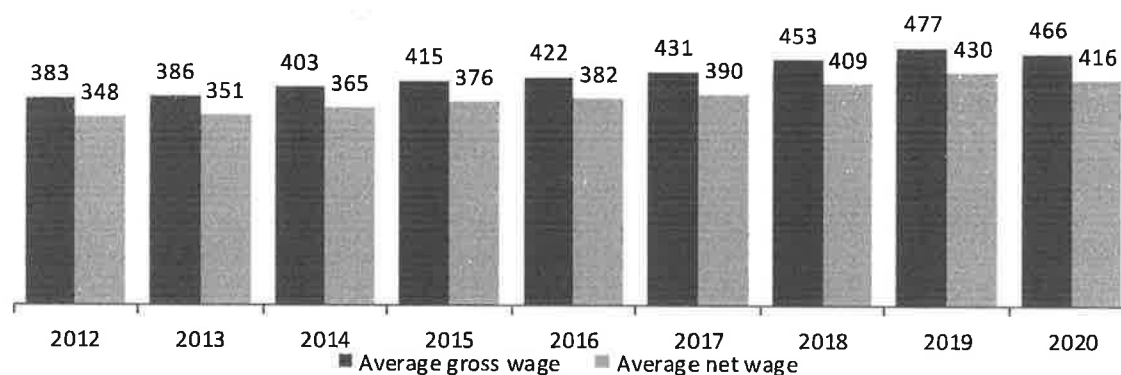


Average wage level in Kosovo

In 2012, the average gross wage in Kosovo was 383 Euros, while in 2019 it was 477 Euros, while in 2020 there was a decrease to 466 Euros, i.e. with a decrease of 11 Euros from the previous year. While, the net wage from 348 Euros, as it was in 2012, increased to 430 Euros in 2019, while in 2020 there was a decrease to 416 Euros, i.e. with a decrease of 14 Euros from the previous year.³

Table 1: Average gross and net wage level (in Euro) by years 2012 - 2020

| Year | Kosovo | | Public Sector | | Public Enterprises | | Private Sector | |
|------|--------|-----|---------------|-----|--------------------|-----|----------------|-----|
| | Gross | Net | Gross | Net | Gross | Net | Gross | Net |
| 2012 | 383 | 348 | 407 | 366 | 561 | 502 | 337 | 308 |
| 2013 | 386 | 351 | 411 | 370 | 573 | 512 | 340 | 310 |
| 2014 | 403 | 365 | 473 | 423 | 656 | 583 | 329 | 301 |
| 2015 | 415 | 376 | 509 | 454 | 674 | 598 | 328 | 300 |
| 2016 | 422 | 382 | 525 | 467 | 686 | 609 | 340 | 310 |
| 2017 | 431 | 390 | 532 | 474 | 699 | 620 | 356 | 324 |
| 2018 | 453 | 409 | 573 | 509 | 721 | 639 | 376 | 342 |
| 2019 | 477 | 430 | 584 | 519 | 766 | 677 | 411 | 372 |
| 2020 | 466 | 416 | 624 | 552 | 769 | 680 | 380 | 342 |



Graph 1: Average gross and net wage level (in Euro) by years 2012 - 2020

³ See footnote 1. The impact of the pandemic in the Republic of Kosovo

Average gross and net salary by year, variable and gross/net

| | Kosovo | |
|-------------|--------|-----|
| | gross | net |
| 2012 | 383 | 348 |
| 2013 | 386 | 351 |
| 2014 | 403 | 365 |
| 2015 | 415 | 376 |
| 2016 | 422 | 382 |
| 2017 | 431 | 390 |
| 2018 | 453 | 409 |
| 2019 | 477 | 430 |
| 2020 | 466 | 416 |
| 2021 | 484 | 432 |

Latest update:
20220608 00:00

Source:
Kosovo Agency of Statistics

Contact:
[REDACTED]
Head of Sector
[REDACTED]

Units:
Euro

Internal reference code:
tab01

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Attachment 5

Kosovo: Pension Policy Challenges in 2020¹

Executive Summary

Kosovo's pension system started from scratch after its conflict with Serbia. It is based on a fully funded Defined Contribution (DC) scheme and a universal basic pension. However, the government has subsequently introduced a significant number of unfunded schemes and war-related benefits. These additional benefits are straining the costs of the system and threaten its sustainability, while introducing significant fragmentation and unclear incentives to participate in the contributory system.

The government should move toward building a unified pension system, consisting of multiple complementary pillars that are adequately financed in a sustainable manner in the long term. The system should provide adequate lifetime benefits and care as incentives to contribute. Institutional strengthening will be needed to manage the system and avoid excessive cost increases in the future.

1. Main Indicators

The pension system in Kosovo comprises a universal basic pension financed by general revenue, a mandatory defined contributions system based on individual savings, a rarely used voluntary savings scheme, and a series of categorical and special benefits defined both for specific populations and related to the war.²

Given its components, we can characterize the pension system in Kosovo as consisting of two parts: A 'core' multipillar scheme comprising the basic universal pension (Pillar 0), mandatory DC scheme (2nd pillar) and voluntary savings (3rd pillar) on one hand, and a series of categorical benefits on the other.

The main components of old-age benefits in the pension system are as follow:

- **Basic Pension:** Universal benefit to all citizens 65 years old or older residing in Kosovo.
- **Mandatory savings:** 10 percent contribution rate into individual accounts managed by an independent public entity (Kosovo Pensions Savings Trust, KPST). Provides monthly pension of €200 until account depletion (no lifetime pension).
- **Ex-contributory benefit:** Benefit for citizens 65 years or older who contributed at least 15 years in the former Yugoslav system. Benefit schedule in 4 tiers according to education (as proxy for income).
- **Early retirement schemes:** There are separate early retirement benefits with different rules that apply to Trepca miners, Kosovo Protection Corps (KPC), and Kosovo Security Force (KSF).

¹ This note was prepared under World Bank's Advisory Services and Analytics (ASA) activity for Western Balkans Pensions in Q1 2020. It does not capture the developments during and after the global Covid-19 pandemic and its potential impact on the pension system in Kosovo. Analysis of the effects of Covid-19 on pensions in Kosovo, policy responses undertaken by the authorities, and further policy options will be carried through follow-up ASA for Western Balkans and other World Bank programs and activities.

² See Annex 1 for a description of all pension benefits currently existing in Kosovo.

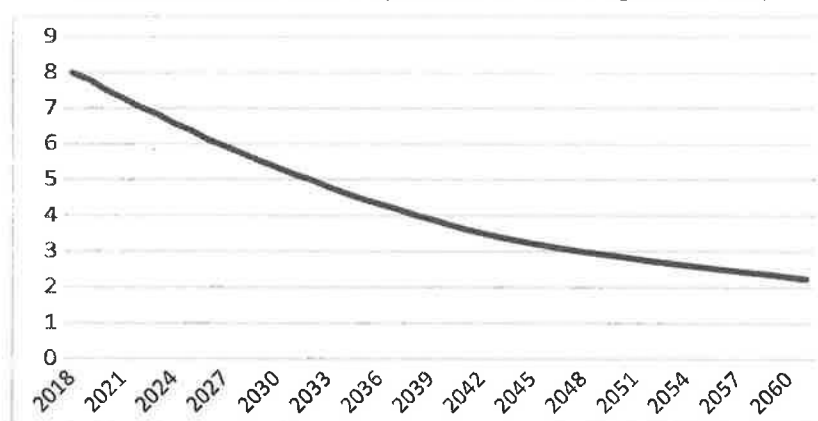
In addition, the government has introduced pension benefits for the permanently disabled, blind, paraplegic, and tetraplegic, as well as a series of permanent pension benefits to victims or participants in the war for independence.

Table 1: Pension Parameters in Kosovo

| | |
|------------------------------------|--|
| Retirement age | 65 years for men and women. |
| Pension calculation | From KPST: If balance < €3,000, lump sum If €3,000 < balance < €20,000, pension is €200 per month until account depletion. If balance > €20,000 pension is 1% of balance until account depletion. Additionally, basic pension of €90 or ex-contributory benefit if qualified. |
| Indexation postretirement | None |
| Eligibility for disability pension | Declared disabled by Ministry of Labour and Social Welfare (MLSW). No minimum contribution. |
| Level of disability pension | From KPST: Full account withdrawal From MLSW: €90 for permanently disabled |
| Eligibility for survivor's pension | From KPST: Death before pension withdrawals, legal beneficiaries inherit balance. |
| Level of survivor's pension | Full balance paid in lump sum. |
| Contribution rates | 10% of gross salary —5% by employer and 5% by employee. |

Given its composition, traditional measures used to assess the performance of the Defined Benefits (DB) pension systems, such as the accrual rate, do not apply in the Kosovo context. For example, if we look at the pension system support ratio measured as contributors/beneficiaries, we find that there were 7.83 active contributors at the end of 2018 for every individual that had retired from the system (Figure 1). However, it has to be considered that this system was established in 2002. This number is close to the overall ratio of 8 inhabitants between 15 years and 64 years for each inhabitant age 65 years or more observed in the general population. However, demographic transition will rapidly age the country. It is estimated that by 2026 there will be 6 individuals in the working age group for every individual age 65 years or older, falling to 4 by 2038, and reaching 3 in 2047. This demographic trend means that Kosovo will be hard-pressed to finance meaningful pension benefits for its elderly population if it relies extensively on intergenerational transfers (for example, taxation and Pay-as-you-go (PAYG) contributions).

Figure 1: Support ratio (Population 15–65 to Population 65+)



Source: Kosovo Agency of Statistics, Population Projections.

Annex 1

Description of existing pension programs in Kosovo from the ‘Concept Document for Regulating and Managing the Field of Pensions and Benefits from Social Security’, published for consultation by the MLSW, October 2018.

Table A1: Summary of Pension Schemes

| Scheme | Criteria | Monthly Amount |
|---|---|---|
| Pensions regulated by Law No. 04 / L-131 on State Pension Funds | | |
| Basic Pension Scheme | Age 65 years Permanent residence in Kosovo Citizenship of Kosovo Presentation to MLSW every 6 months | €75 ⁶ |
| Ex-Contributor Pension⁷ | Age 65 years Permanent residence in Kosovo Presentation to MLSW every 6 months At least 15 years contribution to the pension system in the former Yugoslavia before 1999 Recognition of work experience in 1989–1999 education, healthcare workers, and so on Categorization of users according to the qualification structure: 1) Low-level pensioners 2) Secondary school retirees 3) High school graduates 4) Pensioners with superior education. | €158 €172 €186 €230 |
| Pension Scheme of Permanent Disability | Age 18–65 years D is for permanent disability (100%) Permanent residence in Kosovo After 1, 3, or 5 years (depending on the assessment), the beneficiary submits to the Medical Commission for medical reassessment | €75 |
| The Early Pension Scheme of the ‘Trepça’ Complex | Permanent residence in Kosovo Age 50–65 years A proven contribution of at least 10 years in the mining sector (includes the period of dismissal during the 1990s) Limited work ability up to 50% To have no income from employment or self-employment | €105 ⁸ |
| Pension Scheme of Kosovo Protection Corps Members (KPC) <i>Law No. 03 / L-100 on Pensions of Members of the Kosovo Protection Corps</i> | Minimum age: 45 years Service in KPC for at least 5 years Pensions are paid after the age of 65 years, together with the basic pension and the contributing pension. | 45 years of age—50% of the last salary of the KPC 50 years old—70% of the last salary from the KPC Survivors (family) can benefit: spouse 60% and children 20% (regardless of |

6 Increased to €90 in 2019.

7 Increased by 15 percent in 2019.

8 Increased by 20 percent in 2019.

| Scheme | Criteria | Monthly Amount |
|---|--|---|
| | | number, up to 18 years of age, 26 years if the latter goes to school) of the pension paid to the KPC pensioner . |
| Pension Scheme for Members of the Kosovo Security Force (KSF) <i>Law no. 04 / L-084 on Pensions of Members of the Kosovo Security Force</i> | Minimum age: 50 years or 55 years (in the case of officers) Minimum 20 years contribution Former KPC members continuing KSF service may retire after 3 years of service in KSF. | 60% of the last salary, 40% of the final salary up to the age of 50, and then 60% (in the case of KPC service) Survivors (family) can benefit: spouse 60% and children 10% (up to 40%, regardless of number, up to 18 years of age, 26 years if the latter continues education) of the pension that was paid to the KSF pensioner. |
| Pension Scheme for Blind Persons <i>Law no. 04 / L-092 on Blind Persons</i> | Beneficiaries: blind persons regardless of age | Not less than €125 (+ €125 for the personal assistant if the Commission deems it necessary) Amount to be set based on minimum wages. |
| Other pension schemes - start implementing in 2017 | | |
| Labor Invalidity Pension <i>Law No. 04 / L-131 on State Pension Funds (Still not implemented)</i> | Beneficiaries: 1. Persons under the age of 65 who have received the same pension before 1999 2. Persons suffering from work injury resulting in permanent disability (100%) (<i>criterion for benefit for work injuries after 1999</i>) | €75 |
| Familiar Pensions <i>Law No. 04 / L-131 on State Pension Funds (Still not implemented)</i> | Beneficiaries: 1. Persons who received family pensions before 1999 2. Families that survive the family member who has been insured and contributed to the system before 1999 for at least 15 years 3. Families of persons who die from accidents at work or occupational diseases, irrespective of their contributions to the system before 1999. Retirement for employment or self-employment is forbidden. | €75 + 20% for each child under 18 years or even 26 years in case of study |
| Pension Scheme for Tetraplegic Persons and Paraplegics <i>Law no. 05 / L-067 on the Status and Rights of Paraplegic and Tetraplegic Persons</i> | Beneficiaries: persons with paraplegia and tetraplegia | €170 (+€170 reimbursement for the guardian, + 50% of additional compensation depending on the condition of the disability) |

Stamp error corrected on 31 January 2023

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Attachment 6

Report No: AUS0000628

Kosovo Social Assistance Scheme Study

Assessment and Reform Options

March 2019

Social Protection and Jobs Global Practice

Europe and Central Asia Region



WORLD BANK GROUP

Box 2 Subjectivity issues with the existing SAS PMT formula

Capacity assessment of the Centres for Social Work (CSWs) carried out during September-November 2017 for the project Targeting health insurance exemptions identified the following issues with design of the poverty test through qualitative research:

- The PMT indicators do not always correlate with the poverty status and evaluation of some allows for arbitrary judgements by the Verification Teams (e.g. window/door type, furniture);
- Difficulty in verifying land ownership as land tenure is rarely transferred to successors upon the owner's death;
- Difficulty in verifying vehicle ownership due to lack of data exchange with Car Registry of the Ministry of Internal Affairs;
- Exclusionary power of land ownership and vehicle ownership even though they do not determine whether a family is poor;
- Difficulty in verifying employment status and income from employment due to the high rate of informality in the country.

Source: Qualitative research with MLSW SAS Officials, SAS Unit Heads, SAS Unit Officials, and CSW Directors during September-November 2017.

Benefit formula, Rates and Duration

The Social Assistance Scheme provides a flat rate benefit. Unlike many other LRIS schemes, SAS is **not** a guaranteed minimum income scheme. It does not complement other public transfers or incomes of applicants with the objective to bring recipients to a pre-defined guaranteed minimum income standard. Instead, it is a fixed amount flat rate benefit.³⁸ Law No.4/L-096 stipulates that the monthly amount of SAS is set based on the number of family members and based on the cost of the minimum food basket.

Since inception of the SAS, there have been several reforms to the calculation of the benefit amount. Until reform of the SAS in 2012, a ceiling/cap was applied to the benefit amount for households with more than 7 members (Table 1). With the amendments from 2012 the benefit formula points range from 40 for a one-member family to 120 for a family/household of 15 members, with each point corresponding to one Euro of benefit. In addition, these amendments expanded the scope of the benefit: (1) the ceiling for households with more than 7 members was lifted, and the benefit amount adjusted for household size by adding 5 Euros to the monthly amount for each additional person for households with 3 or more household members; and (2) a monthly child allowance of an additional 5 Euros for each child under 18 years was introduced.

³⁸ AI No.15/2012 on the Calculation of Monthly Social Assistance Amounts.

Table 1: Trends in social assistance monthly benefits by household size, (nominal values)

| Household size | 2003 | 2009 | 2012* | November, 2015* | January, 2018* |
|----------------|------|------|-------|-----------------|----------------|
| 1 member | € 35 | € 40 | € 40 | € 50.0 | € 60.0 |
| 2 members | € 50 | € 55 | € 55 | € 68.8 | € 82.5 |
| 3 members | € 55 | € 60 | € 60 | € 75.0 | € 90.0 |
| 4 members | € 60 | € 65 | € 65 | € 81.3 | € 97.5 |
| 5 members | € 65 | € 70 | € 70 | € 87.5 | € 105.0 |
| 6 members | € 70 | € 75 | € 75 | € 93.8 | € 112.5 |
| 7 members | € 75 | € 80 | € 80 | € 100.0 | € 120.0 |
| 8 members | € 75 | € 80 | € 85 | € 106.3 | € 127.5 |
| 9 members | € 75 | € 80 | € 90 | € 112.5 | € 135.0 |
| 10 members | € 75 | € 80 | € 95 | € 118.8 | € 142.5 |
| 11 members | € 75 | € 80 | € 100 | € 125.0 | € 150.0 |
| 12 members | € 75 | € 80 | € 105 | € 131.3 | € 157.5 |
| 13 members | € 75 | € 80 | € 110 | € 137.5 | € 165.0 |
| 14 members | € 75 | € 80 | € 115 | € 143.8 | € 172.5 |
| 15 members | € 75 | € 80 | € 120 | € 150.0 | € 180.0 |

Source: MLSW administrative data and SAS legislation.

*Note: Monthly amounts do not include child allowance.

Although there has not been any formal inflation indexation of the SAS benefit, discretionary increases of the benefit amount have more than offset benefit erosion and led to an increase in the real value of SAS. Due to Kosovo using the Euro as its currency, cumulative inflation of food and non-alcoholic beverages between 2002 and 2017 has only been 41 percent. During the same period, the government increased the amount of the SAS benefit four times (Table 1). Depending on household size, the cumulative increase of the benefit amount totaled to between 60 and 140 percent, far outweighing inflation.

The SAS benefit covers a lower share of the consumption needs of large families compared with smaller families. By design, the equivalence scale of the SAS assumes disproportionately high economies of scale for larger families. Beyond the second family member, the incremental benefit amount is only EUR 7.5 per month for adults and Euro 12.5 for children. As a result, the incremental benefit amount in response to an additional family member is smaller than that envisaged by the most common equivalence scales and does not reflect adult equivalent family size. Most other countries in the region apply more generous scales³⁹. Comparison of current SAS benefit levels by family size and characteristics with benefit levels based on OECD modified scales shows that the adequacy of the SAS decreases with family size (Figure 8). The SAS benefit covers 88 percent of consumption needs of families with 2 adults and 1 child based on the modified OECD equivalence scales and for families of 4 adults and 2 children SAS coverage of consumption needs diminishes to 66 percent.

³⁹ In the Western Balkan region, Serbia and Albania apply OECD equivalence scales in the design of their LRIS benefits. The remaining countries apply national scales which are overall more generous than the SAS scale. Exception is the LRIS in Montenegro where the increment for the second family member is 0.2.