

Public Expenditures in the Education and Health Sector and Their Impact on Economic Development – the Case of the Republic of Kosovo

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Abstract

The purpose of this paper is the analysis of public expenditures in the education and health sectors in relation to economic development in Kosovo. The work is carried out with the quantitative methodology, which is based on secondary data. The research covers a long-term period with the data from 2000 to 2023. In the analysis of the impact of public spending in the education and health sector on the economic growth of Kosovo, the Autoregressive Distributed Lag (ARDL) model was used, which deals with time series data, in a long-term period of 24 years. Findings from the research show that public spending supports the hypothesis that the policy of public spending on education positively affects the economic growth of Kosovo, emphasizing the importance of sustainable investments in educational initiatives for long-term economic development. However, these findings do not provide sufficient support for the hypothesis that the public health spending policy significantly contributes to the economic growth of Kosovo.

Keywords

Economic development, education and health sector, public expenditures, Republic of Kosovo

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INTRODUCTION

Many authors have addressed topics related to public spending in the education and health sectors, as well as their impact on the economic development of different countries and different periods of time. The process of economic development of a country represents the measure of improving people's well-being or socio-economic development. The importance of public spending is in the long-term result and the long-term impact they will have on the economy. The economic development of Kosovo has faced many challenges in its journey as an independent state in the management of public expenditure policies of sectors with importance and impact on the country's development. Most studies report that economic development requires a sustainable policy of the health sector and the education sector within the country (Han, 2021; Qehaja, et al., 2022; Yfantopoulos, 2024). Researches show the necessity for the Kosovo government to give priority to the distribution of sufficient and effective health care funds in order to meet the needs of the population, effective and sufficient funds in the education sector in order to improve rankings within local and international institutions. Kosovo is characterized by the lack of educational and health policies, which has consequences in the proper functioning of these two very important sectors, and the lack of these policies creates challenges for sustainable economic development. Challenges which are closely related to the reformation of the country after the conflict with Serbia (Han, 2021; Kryeziu and Coşkun, 2018; Mansi et al., 2020).

This paper aims to analyze the role of public expenditure policies in the economic development of the country. This study offers the view on how the policies of Government Expenditure on Education (GSE) and Government Expenditure on Health (GSH) affect the economic development of Kosovo, during a long-term period with data from 2000 to 2023, i.e. 24 years research period. The economic challenge of managing expenditure policies in education and health offers us strategies for sustainable economic development. By increasing the management and quality of these sectors, Kosovo will be able to mark a country with better prospects by offering education and health at a better level. This will have a positive impact on improving social well-being, the standard of living, the level of education, reducing the trend of brain drain or professional medical and educational staff as the biggest challenge in recent years.

The main objective of this paper is to present the impact of public spending on the economic growth of Kosovo, where the research provides a statistical analysis through quantitative methodology, which is based on secondary data.

The research questions of the paper are:

1. What is the role of public education expenditures in the economic development of Kosovo?
2. What is the role of public health expenditures in the economic development of Kosovo?

While the research hypothesis are:

- H1: The policy of public spending on education has a positive impact on the economic growth of Kosovo.*
H2: The public health expenditure policy has a positive impact on the economic growth of Kosovo.

To evaluate the presented hypotheses, the Autoregressive Distributed Lag (ARDL) model was used. This model was chosen because of its ability to handle time series data, which spans a long-term period of 24 years, from 2000 to 2023. The data used in this study belong to the type of time series data since we have only one country that has been included in the empirical statistical analysis for a long period of time (24 years). The empirical analysis was based on the data from the Statistics Agency of Kosovo and the Ministry of Finance. The paper analyzes the role of public expenditure management in education and health in improving the standard of living and general development.

The paper is structured in six chapters, where the following part presents the literature review. The third part of the study contains the methodology, the fourth part presents the empirical results, the fifth part includes the discussions and the final part the conclusions and recommendations from the results.

1 LITERATURE REVIEW

Numerous studies by authors from different countries address the impact of public spending policies on education and health on the economic development of different countries. Based on the findings, many authors also research the impact of public education and health spending policies on the economic development of the Republic of Kosovo. Below are presented some of the views of the studies on the impact of public spending on the economic development of different countries, especially Kosovo. The study by Martins and Veiga (2014) concluded that the composition of public expenditures had an impact on development. While in their analysis Barilee and Leyira Christain (2021) point out that education expenses are viewed critically and that the government should devote more resources to education, while the operation of the health sector has an advantage for economic development. The research of Montenegro and Shenai (2019) provides the main findings that spending on education contributes to economic development and subsequently to economic growth. According to the research carried out by the authors Manullang et al. (2024) there is an evidence that public spending on health and education is the main fiscal instrument to improve the quality of life of citizens, which contributes to human development. While the study of West African countries by Ogbonnaya-Udo and Chukwu (2020) asserts that government spending has an insignificant but positive effect on economic development (represented by the human development index) and recommends that spending on education, health and security should be increased and that these funds should not end up in private pockets.

Percival and Sondorp (2010) measure the success of health reforms in Kosovo accomplished with the help of the international community aimed to rebuild health systems in post-conflict periods, concluding that there are measures that have not been systematically examined. In the analysis, the paper demonstrates that the external nature of the reform process, the compressed time period for the reform and the weak state capacity are factors that minimized the success of the reform program. A research carried out by the authors Qehaja et al. (2022) for the countries of the Western Balkans shows that there is a positive and statistically significant relationship between government spending and economic development. The study finds that the coefficient for government spending on education is positive, while the coefficient on government spending on health is negative. Kryeziu and Coşkun (2018) analyzed that Kosovo faced challenges of imbalances in the distribution of power and illegitimacy of governing institutions during the period of state building administered by international organizations. In the post-independence period, in the ongoing political tension between local parties, efforts to create functioning institutions have not yielded good results and that Kosovo has not been able to create a functional economy and overcome economic challenges. The Han (2021) study on the education and health sector and reforms after the conflict with Serbia claims that Kosovo's weak education system, as a result of overcrowding in schools, where students do not have personalized teaching, results in stressed students and teachers which, consequently, produce low rankings. Poor funding for schools and hospitals, poor work standards and low salaries for teachers, are some of the examples of reforms in improving unfavorable conditions such as the lack of equipment in schools and hospitals in Kosovo. The research conducted by Bartlett (2009) shows that conflicts in the Western Balkan region were characterized by deindustrialization and high unemployment, political unrest, instability, etc. The paper argues that low inflows of international capital, due to high country risk, have hindered technological achievement and weakened international competitiveness and therefore economic development follows a path of low-skill growth. The research Mansi et al. (2020) asserts that from the economic growth of recent years that the countries of the Western Balkans have shown, we notice that the poverty rate and income inequality have marked a great decrease. The paper further highlights that governance and unemployment, the investment environment, innovative capacities are the main factor in reducing the poverty rate, income inequality and thus contribute to sustainable development. Making comparisons in the European Union and the countries of the Western Balkans, the study argues that income inequality and economic growth affect the poverty rate. However,

factors that contribute to the poverty rate for both cases are governance and unemployment, while the investment environment and education will change based on the economic growth and political stability of the countries. Popović, and Erić (2018) estimate that high rates of economic growth require continuous investment, from investment sources that are national savings and foreign investments. The study asserts that the national level of savings in the Western Balkans is not sufficient to finance radical changes, so external resources, especially foreign direct investment, are necessary for further development. The findings of the study Arenliu Qosaj and Bourdeaux (2024) provide the measurement of the change in the health outcomes of the countries of the Western Balkans alongside the health policies recommended by the EC related to the EU membership. The study shows that from 2000 to 2019, citizens of Western Balkan countries paid more and their governments paid less for health care. The governments of Albania, Kosovo, Montenegro and North Macedonia spent less than the recommended minimum of 5% of their GDP on healthcare. The study shows increasing trends in healthcare professional rates but remains lower than the EU average and may be exacerbated by healthcare workforce migration. The study concludes that addressing the growth of health human resources, especially for Albania and Kosovo, deserves attention. The authors Musah et al. (2024) analyze the short- and long-term effects of public education funding on the quality of education in sub-Saharan Africa. They claim that the education sector plays an important role in improving the welfare of society, which is why governments invest large sums of money in education. The findings of their study show that increased spending on public education improves the quality of education in sub-Saharan Africa in the short and long term. They recommend that the country should make sufficient budget allocations to improve educational quality. Li et al. (2024) presents a relationship between the coordinated development of spending on public education, the accumulation of human capital and economic growth which is a prerequisite for the virtuous cycle of regional economic development. The authors recommend that the Chinese government should establish a long-term mechanism to ensure a certain level of investment in public education in the future, which is essential for the accumulation of human capital. Yfantopoulos (2024) shows that Southern and Central Eastern European countries need policy interventions to improve access and health outcomes. The findings indicate that public health interventions should be undertaken by International Organizations and National Governments to bridge the gap in health investment, improving access, addressing health inequalities and reducing the burden of high payments for medicines and health care services.

2 RESEARCH METHODOLOGY AND DATA

In order to analyze public expenditures and the impact of public expenditures in two important sectors of the economy; the education and health sector in the economic growth of Kosovo, the quantitative methodology, which is based on secondary data, has been used. So, the research includes only the Republic of Kosovo in a long-term period with the data from 2000 to 2023, i.e. 24 years research period. Since only one country is included in the empirical statistical analysis, while the data are over a long period of time (24 years), then the data are characterized by the type of time-series data. Where these 24 years are the maximum data available for the state of the Republic of Kosovo.

In the analysis of the impact of public expenditures in the education and health sector on the economic growth of Kosovo, the Autoregressive Distributed Lag (ARDL) model was used. This model was chosen because of its ability to handle time-series data, which spans a long-term period of 24 years, from 2000 to 2023. The quantitative methodology based on secondary data has allowed the examination of short-term interactions. and the long-term relationship between public spending and economic growth, providing a deep understanding of the impact of the education and health sectors. The data for the research were obtained from the Statistics Agency of Kosovo (ASK) and the Ministry of Finance, Labor and Transfers (MFPT), where the study data is characterized by the type of time series data. The ARDL model is suitable

for this analysis because of its flexibility in handling the integration of different variables and providing accurate results even when the variables have different levels of integration.

The model is defined as follows:

$$GDP_t = \beta_0 + \beta_1 GSE_t + \beta_2 GSH_t + \varepsilon_t. \quad (1)$$

The ARDL model for the study specified as:

$$\Delta GDP_t = \beta_0 + \beta_1 GSE_{t-1} + \beta_2 GSH_{t-2} + \varepsilon_t. \quad (2)$$

The dependent variable of the study is the economic growth (GDP), while the two independent variables of the study are; government expenditure on education (GSE) and government expenditure on health (GSH). The parameters β_1 , and β_2 represent the elasticities of the variables in the model in relation to economic growth, t represents time and ε is the error term. To ensure the robustness of our time-series analysis, we utilized the Augmented Dickey-Fuller (ADF) test to examine the stationarity of the data series for GDP, government spending on education (GSE), and government spending on health (GSH) over the 24-year period from 2000 to 2023. The ADF test is a widely used statistical test that helps determine whether a time series is stationary or contains a unit root, indicating non-stationarity. Stationarity is a crucial property for time-series data as it implies that the statistical properties of the series, such as mean and variance, are constant over time, ensuring reliable and consistent model estimations. By applying the ADF test, we can identify the order of integration for each variable, which is essential for the correct specification of the ARDL model. The test involves estimating a regression and checking if the lagged level of the series significantly influences its first differences, allowing us to distinguish between variables that are stationary at level (I(0)) and those that require differencing to become stationary (I(1)). This step is pivotal in confirming the appropriateness of the ARDL model for our analysis, as it can handle variables integrated at different levels, thus providing accurate insights into the short-term and long-term impacts of public expenditures on education and health on Kosovo's economic growth.

Table 1 Definition of variables

Nr.	Variable	Type	Unit
1	Economic growth	Dependent	%
2	Government expenditure on education	Independent	% of Gross domestic product
3	Government expenditure on health	Independent	% of Gross domestic product

Source: Authors

3 EMPIRICAL RESULTS

The GDP data for the Republic of Kosovo from 2000 to 2023 reveals a pattern of economic variability, marked by periods of both significant growth and contraction. In the early 2000s, Kosovo experienced moderate GDP growth, with a notable exception in 2002, where the GDP contracted by 0.70%. This was followed by a period of substantial growth from 2005 to 2008, reaching a peak growth rate of 7.29% in 2007. The global financial crisis in 2008 led to a deceleration in growth, with the GDP growth rate reducing to 3.60% in 2009 and further to 3.31% in 2010.

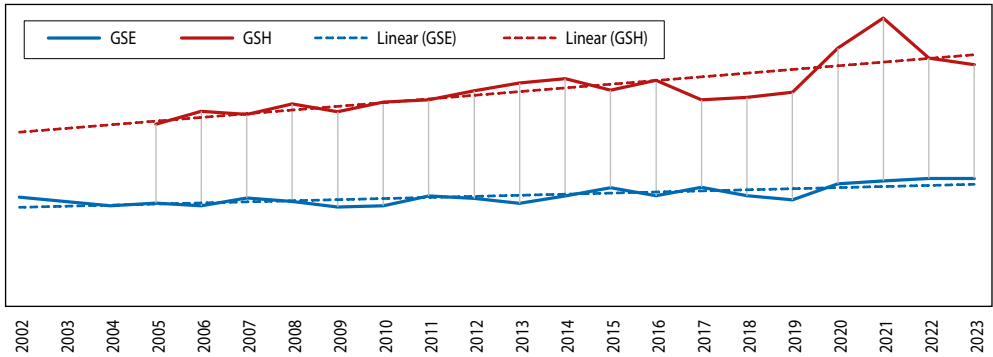
The post-crisis period saw a series of fluctuations, with the GDP growth rate generally hovering between 2.81% and 4.38% from 2011 to 2018. Notably, there was a significant slowdown in 2014, with growth reducing to 1.22%. Despite this, the economy showed resilience, recovering to a growth rate of 4.94% by 2019. The COVID-19 pandemic had a severe impact on Kosovo's economy in 2020, resulting in a contraction of 6.89%. However, the economy rebounded strongly in 2021 with a remarkable growth rate of 10.70%, indicative of a robust recovery phase. This recovery was followed by a stabilization period with growth rates of 5.20% in 2022 and 3.05% in 2023.

Table 2 Data for economic growth, government spending on education and health in Kosovo (2000–2023)

Year	GDP	GSE	GSH
2000	26.90		
2001	26.97		
2002	-0.70	4.15	
2003	5.98	3.98	
2004	2.61	3.80	
2005	6.03	3.91	7.14
2006	4.50	3.80	7.67
2007	7.29	4.12	7.54
2008	6.30	3.98	7.97
2009	3.60	3.75	7.65
2010	3.31	3.80	8.05
2011	4.38	4.20	8.14
2012	2.81	4.10	8.51
2013	3.44	3.90	8.83
2014	1.22	4.20	9.01
2015	4.10	4.54	8.54
2016	4.07	4.21	8.94
2017	4.23	4.56	8.14
2018	3.81	4.21	8.24
2019	4.94	4.04	8.45
2020	-6.89	4.70	10.26
2021	10.70	4.82	11.49
2022	5.20	4.92	9.85
2023	3.05	4.92	9.58

Source: Statistics Agency of Kosovo

According to the results presented in the following figure, government spending on health is higher compared to government spending on education. In the period 2002–2023, we have positive growth trends for these two types of government spending, although the trend is more positive for health spending.

Figure 1 Comparison of government spending on health and education in the Republic of Kosovo

Source: Kosovo Statistics Agency, processed by authors

The average economic growth in the Republic of Kosovo during the period 2000–2023 is 5.74%, while regarding government spending, the average spending on education (2002–2023) is 4.21% of the gross domestic product, while the average government spending on health (2005–2023) is 8.63% of the gross domestic product value.

Table 3 Descriptive statistics of variables

Variable	Obs	Mean	Std. dev.	Min	Max
GDP	24	5.744	7.237	–6.888	26.974
GSE	22	4.21	0.372	3.75	4.92
GSH	19	8.632	1.061	7.14	11.49

Source: Authors calculations

The ADF test results reveal that the GDP series is stationary, implying stability and mean reversion over time. In contrast, both the Government Spending on Education (GSE) and Government Spending on Health (GSH) are non-stationary, indicating that these series are affected by permanent shocks and do not revert to a long-term mean. Understanding the stationarity of these series is crucial for economic modeling and forecasting, as it affects how past data can be used to predict future values and the nature of any interventions or policy measures.

Table 4 Augmented Dickey Fuller Test

Variables	Test Statistic	1%	5%	10%	MacKinnon approximate p-value for Z(t)
GDP	–4.609	–3.75	–3.00	–2.63	0.0001
GSE	–1.157	–3.75	–3.00	–2.63	0.6918
GSH	–1.743	–3.75	–3.00	–2.63	0.4089

Source: Authors calculations

The analysis of Government Spending on Education (GSE) reveals significant results. The model includes two lags for GSE. The first lag has a coefficient of 10.69 with a standard error of 1.08, resulting in a high t-statistic of 9.92 and a p-value of 0.064. Although this p-value is just above the conventional significance level of 0.05, it suggests that the first lag of GSE is quite influential. The second lag has a coefficient of 3.82, a standard error of 0.87, and a t-statistic of 4.37, with a highly significant p-value of 0.000. This indicates a strong effect of the second lag of GSE on the dependent variable, showing that past values of GSE significantly influence its current level.

For Government Spending on Health (GSH), the model also includes two lags. The first lag of GSH has a coefficient of 2.59 with a standard error of 0.59, leading to a t-statistic of 4.35 and a p-value of 0.144, which is not statistically significant at conventional levels. The second lag has a much smaller coefficient of 0.35, with a standard error of 0.61, yielding a t-statistic of 0.57 and a p-value of 0.671, indicating it is far from significant. These results suggest that past values of GSH do not significantly predict its current level, implying a weak lagged effect.

Table 5 Results of coefficients

Variables	Lags	Coefficient	Std. error	t-Statistic	Prob.
GSE	1	10.69	1.08	9.92	0.064
	2	3.82	0.87	4.37	0.000
GSH	1	2.59	0.59	4.35	0.144
	2	0.35	0.61	0.57	0.671
F				102.710	
Prob>F				0.077	
R-Squared				0.999	
Adj R-Squared				0.990	
Log Likelihood				14.370	
Root MSE				0.360	

Source: Authors calculations

4 DISCUSSION

The analysis of Government Spending on Education (GSE) in Kosovo suggests a significant relationship between education public expenditure policy and economic growth. Both the first and second lags of GSE exhibit notable coefficients, with the second lag showing a particularly strong effect on economic growth. Despite the first lag's p-value slightly surpassing the conventional significance level, its high t-statistic implies substantial influence. These findings support the hypothesis that education public expenditure policy positively impacts Kosovo's economic growth, emphasizing the importance of sustained investment in educational initiatives for long-term economic development. The view that government spending on education has a positive relationship with economic development is reinforced by the findings of the works (Qehaja et al., 2021; Montenegro and Shenai, 2019). Also, regarding the fact that the education

sector plays an important role in improving the welfare of society, and that the increase in spending on public education improves the quality of education in the short and long term, our results are similar to (Musah et al., 2024).

Analysis of Government Spending on Health (GSH) presents less compelling evidence regarding its impact on economic growth. While the first lag of GSH displays a coefficient suggesting a potential relationship, its statistical significance is marginal. Moreover, the second lag fails to demonstrate any significant effect on economic growth, indicating a weak relationship between past health spending policy and current economic performance. Thus, the results do not provide sufficient support for the hypothesis that public health spending policy significantly contributes to the economic growth of Kosovo. These results contradict the findings of Barilee and Leyira Christain (2021) that the functioning of the health sector means an advantage for economic development.

Although this research has offered a valuable knowledge to understand the dynamics of public spending in the two most important sectors, it shows the need for further studies to examine these relationships in more depth and to explore other possible influencing factors which are not addressed in this study. It can guide policy makers in formulating effective policies to manage the country's economic growth and development. For example, restrictive measures against the mismanagement of public spending, increasing public spending towards these sectors, especially in the field of education, in the most efficient way can encourage economic growth as well as economic development as a whole. If these policies are used in a strategic and effective way, they may raise the standard of living, the economic development of the Republic of Kosovo and the reduction of poverty.

CONCLUSIONS

The efficiency of public spending in the economic development of a country depends on the quality of institutions and governance with public spending, administrative corruption and the informal economy. The level of corruption and mismanagement of public spending is the evidence of low efficiency of government spending. The importance of public expenditure allocation lies in the fact that the government is able to ensure that capital expenditure and current expenditure are properly managed so that they increase the country's education and health capacity. The government should direct spending towards the most productive sectors for the economy: such as education and health, targeting projects that increase the level of health and education services. Kosovo needs stability and sustainable economic development of development sectors and increased institutional supervision in order to reduce the level of mismanagement of public money. Based on the findings of the paper, we conclude that good governance with public participation, the investment environment, and innovative capacities are the main factors that contribute to the long-term sustainable development and poverty reduction.

Furthermore, when we compare these two types of spending, we notice that government spending on health is higher compared to government spending on education. In the period 2002–2023, there were positive trends in the growth of both types of government spending, although the trend was more positive for health spending. The average economic growth in the Republic of Kosovo during the period 2000–2023 was 5.74%. As for government spending, the average spending on education (2002–2023) was 4.21% of the gross domestic product, while the average government spending on health in (2005–2023) was 8.63% of the value of the gross domestic product.

The results of this study in the Republic of Kosovo for a period of 24 years (2000–2023) reveal that the country's government must create long-term mechanisms to ensure a higher level of investment and monitoring in the education system, which is essential for economic growth (GDP) and economic development.

The paper has statistical support for the first hypothesis, "The policy of public spending on education has a positive impact on the economic growth of Kosovo" and also finds agreement with the findings

of other authors. But, without overlooking the interventions in the policies of the health sector and the improvement of care services and the increase of the health standard in general. Based on the results presented in the paper, we recommend that Kosovo should create long-term policies to generate jobs in the health system, policies to increase wages and reduce the rate of migration of the health workforce to EU countries.

Policy makers and stakeholders in the country can use these findings to address strategies aimed at promoting policies for the development of education, which is one of the key factors in the country's economic growth and development. Especially their statistically significant impact requires us to prioritize them and increase them in order to promote sustainable economic development and address economic challenges. On the other hand, the importance of Government Expenditures for Health is seen as a need for policy intervention to improve the results in the health sector, reduce the mismanagement of services and health care, which would result in the improvement of the health standard in general and the reduction in the migration rate of the country's health workforce.

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