

SU/23/13

January 26, 2023

**The Acting Chair’s Summing Up
Republic of Kosovo—2022 Article IV Consultation
Executive Board Meeting 23/7
January 25, 2023**

Executive Directors agreed with the thrust of the staff appraisal. They noted that following an economic rebound, spillovers from Russia’s war in Ukraine, including high food and energy prices and tightening financial conditions, are weighing on growth, and the outlook remains uncertain with risks tilted to the downside. Directors commended the authorities’ swift policy response, which helped cushion the impact of the terms of trade shock on households and firms. Looking ahead, they encouraged continued commitment to prudent policies combined with a revitalized structural reform agenda to unlock growth. Continued close Fund engagement can help Kosovo advance its reform efforts and rebuild policy buffers.

Directors welcomed the authorities’ efforts to replenish fiscal buffers. They agreed that a return to the fiscal rule deficit ceiling in 2023 could support a soft landing without exacerbating inflationary pressures. Directors emphasized that measures to mitigate the impact of higher energy prices should be temporary, well targeted, and encourage efficient energy use. While welcoming an increase in public investment, Directors urged the authorities to improve its absorption and address public investment management shortcomings. Directors commended the progress toward reducing informality and encouraged exploring additional revenue measures.

Directors recommended that public spending be better balanced between social transfers and promoting economic transformation and resilience. They agreed that the phased implementation of the law regulating public wages would ensure talent retention while keeping the wage bill within its legal ceiling. Directors emphasized that early withdrawals from Kosovo’s Pension Savings Trust should be avoided.

Directors welcomed the resilience of the banking system, which has remained liquid and well-capitalized. Noting the uncertain outlook, they urged continued close monitoring of bank asset quality and liquidity, and emphasized the importance of enhancing surveillance of the housing market. Directors welcomed the authorities’ commitment to implement the recommendations from the 2019 Financial Sector Stability Review and 2021 Safeguards Assessment. They underscored the key role of an independent and accountable central bank in maintaining financial stability.

Directors urged the authorities to address infrastructure and governance gaps, further enhance transparency, and reduce corruption, which remain essential to improve Kosovo's business environment and increase potential growth. They called for addressing weaknesses in the AML/CFT framework. Directors also underscored the importance of boosting green energy generation capacity to increase energy security and decrease emissions.

It is expected that the next Article IV consultation with the Republic of Kosovo will be held on the standard 12-month cycle.