

BUFF/15/70

July 29, 2015

**The Acting Chair's Summing Up
Republic of Kosovo—Request for Stand-By Arrangement
Executive Board Meeting 15/78
July 29, 2015**

Executive Directors welcomed the authorities' commitment to the new program's priorities of supporting macrofinancial stability and increasing the country's growth prospects. Given Kosovo's euroized economy, they stressed the need for a durable fiscal adjustment to keep deficits within the fiscal rule, improve the composition of the budget, rebuild government bank balances to adequate levels, and further shore up financial regulation and supervision. Restoring robust and inclusive growth over the medium term will require sustained efforts to improve competitiveness and the business environment.

Directors supported the growth-friendly fiscal adjustment under the program, which will preserve fiscal credibility while creating space for high-quality investment. They welcomed the passage of the mid-year budget, and stressed the importance of sustaining efforts to improve budget composition by deflating unproductive current spending. Along with revenue-enhancing measures, this will be necessary to reach the program's fiscal targets and rebuild government bank balances to adequate levels. At the same time, noting Kosovo's relatively low debt and large development needs, Directors supported the authorities' plans to modify the fiscal rule's "investment clause" to create additional space for well-vetted, donor-financed capital projects. They underscored the need for strong oversight and monitoring of these projects to maximize their benefits, while preserving fiscal credibility and protecting debt sustainability.

Directors noted Kosovo's broadly sound banking sector, and agreed with the planned efforts to shore up regulation and supervision, and to help banks better support economic growth. Directors welcomed plans to adopt an emergency liquidity assistance regulation in line with international best practice and to fully roll out risk-based supervision to all banks. They also looked forward to the development of a macro-prudential toolkit and the operationalization of the financial stability committee. Directors welcomed the authorities' request for a Fund technical diagnostic on potential legal and judicial impediments to credit provision, with an eye toward improving access to finance in a country where credit penetration remains low. They also supported further strengthening of the AML/CFT regime.

Directors stressed the need for measures to improve competitiveness and the business environment, and raise long-term growth and employment prospects. They agreed that plans to cap growth in the public sector wage bill relative to well-defined indicators should help

tackle Kosovo's historical challenge of unrestrained public sector wage increases, which have undermined the private sector's efforts to attract and retain talent. Directors also welcomed reforms to the public procurement process that should lead to a more transparent business environment, and supported plans to improve the education system.