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July 28, 2015

**Statement by Mr. Choi and Mr. Remengesau on Republic of Kosovo
(Preliminary)
Executive Board Meeting 15/78
July 29, 2015**

We thank staff for their excellent report and Mr. Canakci and Mr. Mehmedi for their informative Buff statement. We broadly agree with staff's assessment of the current economic development of Kosovo and support Kosovo's request for Fund support under a Stand-By Arrangement.

Adopting a credible and solid fiscal stance should lead to debt sustainability. We agree with staff that fiscal consolidation is strongly needed to bring back confidence and safeguard a sustainable debt position. We therefore encourage the authorities to keep the fiscal deficit below 2 percent in the medium term. In order to meet this target, we stress the importance of broadening the tax base and improving tax collection efforts. We also agree that low public debt could help Kosovo secure external funding to finance budget deficit. In particular, we would like to emphasize the importance of freezing public sector wage bills and limiting current spending. We welcome the focus on containing the wage bill through a wage freeze and the approval of a public wage rule that will govern future wage increases. Given the large infrastructure needs, we also support modification of the investment clause in the fiscal rule to allow for IFI-financed growth-enhancing projects and to further improve the public procurement process.

We welcome the positive progress in the financial sector to strengthen banking supervision and regulatory framework. We highly encourage staff to strengthen the capacity of the central bank through strengthening the emergency liquidity assistance framework to provide greater transparency and certainty. Addressing structural bottlenecks to bank lending will help support private sector investments.

We agree with staff that, given Kosovo's heavy reliance on remittance, more efforts to develop the investment and tradable sector-led economy are necessary. In this regard, we support staff's proposal to improve the business environment and reform the procurement process to reduce corruption. As indicated by the Buff statement, we would like to highlight the importance of enhancing the quality of the education system and revamping the

vocational training system to make it responsive to the market needs and reduce skills mismatch.