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January 13, 2016

**Statement by Mr. Alshathri and Mr. Abdel-Rahman on Republic of Kosovo
(Preliminary)
Executive Board Meeting
January 15, 2016**

1. We thank staff for a well-written report and Mr. Canakci and Mr. Mehmedi for their helpful buff statement. We support the completion of the first review under the Stand-By Arrangement and the associated decision. We take positive note of staff assessment that the program is on track, with all end-August 2015 performance criteria and indicative targets were met by comfortable margins. Furthermore, all structural benchmarks for the first review have been met. we broadly concur with the thrust of staff appraisal and would like to offer a few remarks.

2. We welcome the progress made on fiscal reforms, which should help underpin fiscal discipline going forward while protecting critical development spending by improving the allocation of fiscal resources. In particular, we take note of the authorities' efforts to streamline recurrent spending, including through new public wage rule. *Could staff clarify why the nominal GDP growth of the latest year is used in the rule rather than a three or five year average, which would have limited pro-cyclicality by ensuring that the wage bill responds to permanent trends rather than cyclical changes in the nominal GDP?* We also commend the Kosovar authorities for the notable progress achieved in developing a centralized procurement system and the adoption of a new procurement law in line with international best practices. Efforts on this front should continue with a view to enhance the efficiency and governance of the procurement process, including by filling the vacant seats on the Public Procurement Review Board and the roll-out of e-procurement.

3. On a related note, we welcome the expansion of the investment clause in the fiscal rule as an important step towards addressing Kosovo's development needs without compromising fiscal discipline. As staff rightly noted, translating this amendment into productive investment would hinge on efforts to strengthen the authorities' investment management capacity. Hence, we are encouraged to learn from Mr. Canakci's statement that the authorities have been taking steps in this direction, including establishing the National

Investment Committee and the request of TA from the Fund on conducting a comprehensive assessment of Kosovo's public investment management institutions and practices.

4. We take positive note of the authorities' ongoing efforts to enhance financial sector stability and promote Kosovo's financial safety nets. These efforts should be sustained along with the envisaged reform measures to address structural impediments to provision of productive bank lending, including by upgrading Kosovo's contract enforcement system. Such efforts are crucial in order to promote banking system role in enhancing the economy's dynamism in a way that would reduce credit costs, deepen intermediation, and improve access to credit

5. Finally, in order to ensure smooth program implantation going forward, we encourage the authorities to press ahead with their efforts to resolve blockages in Parliament to allow the legislative process to proceed in order to avoid unwarranted delays in the implementation of key reforms under the program. Furthermore, policy making under the program would benefit from sustained efforts to improve the quality and timelines of national accounts data as noted by staff.

With these remarks, we wish the Kosovar authorities further success.