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January 13, 2016

**Statement by Mr. Geadah and Ms. Choueiri on Republic of Kosovo
(Preliminary)
Executive Board Meeting
January 15, 2016**

1. We thank staff for their report and Messrs. Canakci and Mehmedi for their helpful Buff statement.
2. Kosovo's performance under the Stand-by Arrangement has been strong since the approval of the program. All performance criteria and indicative targets were met with comfortable margins, and all structural benchmarks for the first review were also met. The program continues to appropriately aim at maintaining fiscal sustainability while shifting the country's growth model toward greater investment and trade. Given the authorities' continued commitment to the program's objectives, notwithstanding an increase in political tensions that could delay program implementation, we support the proposed decision.
3. The authorities should be commended for a strong fiscal performance, particularly their ability to halt the growth in current spending following the sharp increases in the run-up to the 2014 elections. As a result, and with tax revenues in line with forecasts, a large fiscal adjustment is on track to be achieved in 2015. We take a positive note of the fact that the outstanding Privatization Agency of Kosovo (PAK) transfers and the sale of telecommunications licenses are now a prior action for this review and a structural benchmark for the next review, respectively. The authorities reiterated their commitment to their 2016 fiscal target, which entails further consolidation. We concur with staff that the new public wage bill rule, once adopted by parliament, will gear public spending toward more productive uses by anchoring public wages to economic developments,.
4. Important measures aimed at strengthening Kosovo's banking sector were adopted, namely a new emergency liquidity assistance framework and the expansion of risk-based supervision to the three remaining banks for which it has not yet taken place. We also welcome the authorities' commitment to develop a macroprudential framework with Fund assistance. While credit growth has increased substantially this year, the report notes that credit penetration remains low relative to Kosovo's development needs and lending remains

focused on just a few sectors. In this connection, staff raised concerns about structural impediments to credit provision in our last discussion, and indicated that they planned to undertake a technical diagnostic mission to more fully explore these issues. *Can staff share the main findings of this mission, if it did take place, and indicate whether additional measures, alongside the proposed reform of the contract enforcement process, are needed?*

5. Continued decisive implementation of the structural reform agenda is needed to enhance competitiveness, raise potential growth, and boost employment. The expansion of the investment clause under the fiscal rule, when approved by parliament, would help promote needed infrastructure projects. Pursuing the reform of the public procurement process, building on recent measures, will help improve the business environment. We would like to emphasize the need to improve the availability, quality and frequency of national account data.