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January 13, 2016

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

We thank staff for the comprehensive report and *Messrs.* Canakci and Mehmedi for their informative Buff statement. We broadly share staff's appraisal, but would like to make the following remarks for emphasis.

We command the authorities of Kosovo for reaching all structural benchmarks and support the completion of the first review under the SBA and request for modification of the performance criterion. At the same time, despite providing double than required privatization funds to the Budget, we encourage the authorities to push forward with the remaining transfer of funds to the government by the Privatization Agency of Kosovo (PAK). While we find the pace of the program implementation satisfactory, we encourage the authorities to stay committed to their policy choices, especially those aimed at keeping fiscal rigor and implementation of structural reforms. *Given the recent rise of the political uncertainty, we would appreciate if staff could comment on how they assess the risk that these developments could lead to potential delays of important, still pending policy decisions?*

We encourage the authorities to remain committed to the comprehensive fiscal consolidation, addressing both revenue generation and (current) expenditure side. We appreciate the modification of the investment clause of the fiscal rule, allowing for prudent fiscal flexibility for growth generating capital projects. We especially recognize the efforts of authorities to align the public wage bill with the economic developments in the medium term. This measure will provide a solid fiscal anchor, and prevent a potential reversal of the ongoing policy, which could lead to an unsustainable increase in current expenditure like in 2014 (after the previous Stand-by Arrangement was ended). However, we note that the chosen indicator for alignment (last year's nominal GDP growth) is the most flexible compared with the other indicators (real GDP growth, minimum wage formula and CPI) suggested in the last Article IV with Kosovo. We believe that the public sector wage growth should not exceed productivity growth levels, and therefore we would appreciate further efforts of the authorities with gathering data on public sector productivity.

We appreciate that the CBK made decisive progress toward strengthening resilience of the banking system. We commend advancement of the emergency liquidity assistance (ELA) regulation, in addition to the completion of the pending banks' on-site assessment. At the same time, given the governance deficiencies characteristic for newly established institutional frameworks, we stress the importance for further reforms in the collateral recovery enforcement and court proceedings. In addition, we welcome further strengthening of the macroprudential framework aimed at efficiently addressing the limitations of the monetary policy choices available under the unilateral euroization regime.

Although on the right track, further advancement of structural reforms is needed as it is a prerequisite for gaining non-price competitiveness. Kosovo's growth prospects are commendable, but still insufficient to lower heavy remittance and transfer dependency of disposable income levels. In order to boost competitiveness, we support the authorities' commitment to put the improvement of the business environment and reducing corruption high on their agenda. We take note of the progress made in enhancing governance capacity by developing a centralized procurement system and adoption of a new procurement law. At the same time, we urge for persisting further actions pertaining to strengthening governance framework. Therefore, we share staffs encouragement to the Kosovar authorities to implement anticorruption safeguards in the judiciary, fill vacant seats at the Procurement Review Board as well as to adopt complementary measures to enhance Kosovo's AML/CFT framework.