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GRAY/15/2467

July 27, 2015

**Statement by Mr. Hurtado on Republic of Kosovo
(Preliminary)
Executive Board Meeting
July 29, 2015**

We appreciate the staff's comprehensive report as well as the helpful and informative Buff Statement by Messrs Canakci and Mehmedi.

We take note of the need to adopt a credible and solid fiscal stance which should lead to debt sustainability, and we recognize the challenge of doing so by changing the composition of public spending from current expenditure to much-needed public investment in infrastructure.

We support the approval of the Stand-By Arrangement for the Republic of Kosovo under the conditions included in the Proposed Decision.

One of the characteristics of the labor market, according to last May's Article IV review, is that productivity is low relative to wages, or that unit labor costs are high. *We would like to ask staff about the measures contemplated by the program to alleviate this beyond wage moderation.*

Despite increasing bank profitability, it is stated that the correction of structural obstacles to bank lending –inefficient court processes, difficult collection procedures, etc.- is critical to support healthy bank activity. To what extent is success in these areas dependent on Legislature decisions? *Staff comments on this will be appreciated.*

There is a significant risk in implementing the fiscal adjustment related to politics (paragraph 31). *Could staff please comment on possible mitigation factors?*

Finally, the current account deficit, which is quite substantial, is financed in good part by errors and omissions for 2014-15, and the latter remains important in the subsequent years

(Table 1). To the extent that remittances are already part of the current account, *what explains the persistence of high levels of positive errors and omissions in the projections?*

We wish the authorities success in their future endeavors.