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July 27, 2015

**Statement by Mr. Yambaye and Mr. Nguema-Affane on Republic of Kosovo
(Preliminary)
Executive Board Meeting
July 29, 2015**

The last Board meeting on Kosovo in May 2015 clearly stressed the need for implementing economic and financial reforms in order to enhance competitiveness and safeguard macro-fiscal stability with a view to improving medium-term growth prospects and reducing unemployment. The authorities' initial actions in that regard were noteworthy at that time and given the additional actions taken since then, notably the adoption of a revised budget, we support the authorities' request for a Fund arrangement to support their National Economic Reform Program 2015 (NERP) aimed at lifting Kosovo's growth potential and creating jobs, as indicated in the authorities' LOI.

A successful implementation of the fiscal program will be essential to restore credibility in the fiscal rule which limits fiscal deficit to 2 percent of GDP. We welcome the revised budget for 2015 which envisages additional adjustment through both revenue-enhancing and expenditures-reducing measures while preserving public investment, in line with the MTEF. We note the authorities' intention to further improve the composition of expenditures beyond 2015 in order to restore the government bank balances and preserve debt sustainability. 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. In light of the large infrastructure needs, we support the plan to modify the investment clause in the fiscal rule in order to allow for IFI-financed growth-enhancing projects, and to further improve the public procurement process.

We note the authorities' intention to make further strides in improving the financial sector's regulatory and supervisory framework, through further enhancing banking supervision and strengthening the financial safety net, crisis preparedness, and crisis management. We find the emphasis placed on adopting a risk-based supervision, enhancing collaboration for crossborder supervision and strengthening the ELA framework appropriate in that regard. We agree that significant efforts should be made to lift impediments to a greater contribution of

the financial sector to the private sector. We note the actions envisioned in that regard, notably in the judicial system, as indicated by Mr. Canakci and Mr. Mehmedi in their statement.

Additional structural reforms to improve the business climate, increase the country's competitiveness and support private sector development are clearly needed to benefit from the recently adopted Stabilization and Association Agreement between Kosovo and the EU, and transition towards an investment- and export-driven economy. We note the actions underway or envisaged in this regard, notably to upgrade the energy infrastructure, and reform the labor market and education system, as elaborated in Mr. Canakci and Mr. Mehmedi's statement. We welcome the reactivation of the National Council on Economic Development to coordinate the reform efforts.

With these remarks, we wish the Kosovar authorities success in their reform endeavors.