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July 27, 2015

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

1. We thank staff for a well-written report and Mr. Canakci and Mr. Mehmedi for their informative buff statement. We support the Kosovar authorities' request for a 22-month SBA with access of 250 percent of quota to support the implementation of their economic reform program. Promoting higher and more sustainable economic growth and job creation in Kosovo would hinge on economic reforms to enhance the economy's resilience to shocks and boost external competitiveness. Towards that end, we note that the program rightly seeks to support a growth friendly fiscal consolidation, bolster financial sector stability, and improve the environment for private businesses in the tradable sector. We also take good note of the authorities' commitment to strong program implementation and to address any potential risks to the program as emphasized in Mr. Canakci's statement.

2. On fiscal management, we are encouraged that the fiscal adjustment envisaged under the program to safeguard fiscal sustainability does not compromise the space for critical development spending. In particular, we note that the adjustment focuses on improving the composition of public spending through streamlining recurrent spending. We are also encouraged to learn from Mr. Canakci's statement that the authorities are enacting measures to improve tax and customs administration and to broaden the tax base, which should help enhance the space available for high priority development spending. We look forward to learn about the progress on the implementation of these measures in the context of the upcoming program reviews.

3. On financial sector policy, we take positive note of the progress made by the authorities to strengthen banking supervisory and regulatory framework, including the steady move toward a risk-based supervision. In view of the central bank limited capacity to act as a lender of last resort in the context of a euroized economy, the program rightly seeks to build on this progress in collaboration with Fund staff to further strengthen the emergency liquidity assistance framework in line with international standards and to fully adopt risk-based supervision by early 2016. We are also encouraged that initiatives to address structural

bottlenecks to bank lending will be monitored under the program and we look forward to the outcomes of staff's planned comprehensive diagnostic of this issue in the coming months.

4. Finally on structural reforms, we concur that fiscal reforms should be an integral part of the authorities' reform package to improve the business environment and boost external competitiveness in view of the central role of fiscal policy in Kosovo. In this context, we welcome the reforms envisaged under the program to improve public procurement practices and introduce formula to link public sector wages to productivity trends. We also welcome the modification of the investment clause of the fiscal rule to allow for more flexibility for funding critical development spending subject to the safeguards outlined in the staff report to ensure prudent use of this flexibility and preserve debt sustainability.

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