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Statement by Mr. Ostros and Ms. Jonsdottir on Republic of Kosovo
(Preliminary)
Executive Board Meeting
July 29, 2015

We support the Kosovar authorities' request for a Stand-By Arrangement amounting to 250 percent of quota. A sustainable growth model for Kosovo requires a shift from remittances and consumption to capital investment, particularly in the tradeable sector. Amid a run-down of government bank balances, the program will support the rebuilding of buffers through the compression of unproductive current spending, while structural reforms foster the development of private sector initiatives. The plan also allows for a reorientation towards capital expenditure. Only by increasing competitiveness and expanding the productive and export base would per capita income be significantly impacted in the longer term. We thank staff for the report and agree with the staff appraisal.

The program's aim to maintain the integrity of the fiscal rule is welcome. While we regret the deterioration of current expenditures in the run-up to the last elections, we note that the grand coalition has a comfortable majority of seats in parliament and hence there is every reason to expect strong ownership and firm implementation of the necessary actions. Further expenditure and revenue measures for 2015 are estimated by staff to yield 1.5 percent of GDP in adjustment while preserving capital expenditure. We welcome that with the approval of the revised mid-year budget, all prior actions have been met, as mentioned in Mr. Canakci and Mr. Mehmedi's Buff statement. We support the proposed public wage rule to become effective when public wages have reached the appropriate levels in real terms, although we look forward to further information on the chosen macroeconomic indicators. *Staff comments are welcome*.

We agree that Kosovo's infrastructure needs should be accommodated by a modification of the investment clause of the fiscal rule. In addition to privatization receipts, new donor-financed capital projects would be exempted when considering the fiscal deficit. However, we emphasize the importance of adhering to the proposed safeguards, honoring the required underlying deficit and government bank balances, public debt ceilings and the good use of fiscal space that is reflected in the required majority for approval in parliament.

While the financial sector is sound, with ample liquidity and decreasing NPLs, bank intermediation could be strengthened and the financial safety net improved. This would require establishing an emergency liquidity assistance framework in line with international best practice and assisting the authorities in adopting risk-based supervision. Efforts to strengthen legal frameworks, including a new bankruptcy law and the increased provision of training for the judiciary in addition to privatized debt collection are likely to alleviate bottlenecks and lead to lower interest rate spreads. We welcome the Fund's intention to map out legal and structural impediments to credit provision.

Tackling perceptions of corruption would foster private sector development. We note Kosovo's significantly improved rankings on the World Bank's Doing Business and governance indices in recent years. In addition to public sector wages more in line with private sector developments and a stronger financial intermediation role for the banks, which will support private sector development, we particularly welcome the new public procurement process which is likely to decrease perceptions of corruption even further. We look forward to further implementation of the general procurement law as the process becomes increasingly centralized and will bring in municipalities and publicly-owned enterprises, as well as the adoption of mandatory e-procurement for all central government agencies that is expected to be legislated by the second review.