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July 27, 2015

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

We support Kosovo's request for a 22-month Stand-By Arrangement (SBA). Shifting from the current remittance-based growth model to one that is increasingly driven by investment and trade is necessary, to generate sufficient economic growth and jobs in the medium-term. At the same time, macrofinancial stability must be maintained. The program will provide crucial support to the Kosovar authorities in achieving this, by facilitating efforts to (i) boost productive capacity and competitiveness through structural reforms, and (ii) bolster economic resilience through measures to improve fiscal policy, rebuild government bank balances, and strengthen the financial safety net and supervisory frameworks. We broadly agree with staff's assessment and confine ourselves to the following remarks:

Fiscal consolidation, combined with improving the composition of spending, is paramount. We are concerned that for years the public wage bill has increased, while urgently needed capital spending has decreased. 2014 saw a continuation of this problematic pattern, and the fiscal situation and outlook deteriorated. We therefore endorse the fiscal policy envisaged under the program, which will (i) curb budget deficits in consistency with the fiscal rule, thus maintaining debt sustainability, and (ii) preserve capital expenditure and make room for further donor-financed investment. We welcome that a revised mid-year budget was recently approved by the parliament as a prior action for the program, as mentioned in the Buff statement of Messrs Canakci and Mehmedi. Moreover, we support the introduction of a public wage rule and the requested modification of the fiscal rule. With regard to the latter, we welcome technical support by the Fund.

We welcome the planned reforms to the public procurement process and the authorities' efforts to fight corruption. We agree that the recent adoption of a general procurement law in line with international best practice provides a good starting point in this regard. Continued progress under the program will be essential, to further enhance the business environment and thus build on recent improvements in the World Bank's Doing Business and governance

indices. Apart from that, we join staff in encouraging the authorities to undergo a comprehensive AML/CFT assessment against the revised 2012 FATF standard, to further strengthen the AML/CFT regime.

Maintaining political support will be critical for success. Conducting structural reforms and restraining unproductive fiscal spending is indispensable, to improve the medium-term growth prospects of the Kosovar economy and preserve macrofinancial stability. To this end, politically difficult measures will have to be taken. The grand coalition formed in December 2014 provides a window of opportunity to implement such measures. We welcome the authorities' strong commitment to the program goals. Meanwhile, we stress the need for sustained political support for the reform agenda beyond the program, particularly in the run-up to the elections in 2018.