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July 27, 2015

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

We thank staff for the candid report and Mr. Canakci and Mr. Mehmedi for their informative Buff statement.

We support Kosovo's request for a 22-month Stand-By Arrangement (SBA) for SDR 147.5 million (250 percent of quota) aimed at strengthening macro-prudential stability, stabilizing the country's balance of payments and promoting sustainable growth.

Ensuring the credibility of the fiscal rule and improving the budget composition is at the core of the program: current spending needs to be curbed while investments preserved and boosted. We welcome the authorities' commitment to avoid in the future large discretionary increases in current spending (as with public wages in the periods preceding the elections in 2011 and 2014) also by means of adopting rule-based mechanisms that regulate the increases in the public sector wages and of introducing a centralized e-procurement process to improve public governance (structural benchmarks).

We also see merit in the measures underway to strengthen the financial supervisory framework, moving towards risk-based supervision, the adoption of a new legal framework for Emergency Liquidity Assistance, and the development of a macroprudential toolkit that will strengthen the role of the CBK.

We encourage the authorities to undertake reforms that would support credit supply to the economy. This would also help emancipate the economy from excessive reliance on remittances from the Diaspora, which, in the long term, could prove detrimental to stimulate entrepreneurial activities.

Finally, we echo staff in recommending the authorities to further strengthen the AML/CFT framework and consider undergoing a comprehensive anti-money laundering assessment against the new FATF risk-based methodology.