DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

The contents of this document are preliminary and subject to change.

GRAY/15/2418

July 27, 2015

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

We would like to thank staff for an informative report and Messrs. Canakci and Mehmedi for their helpful Buff statement. As discussed recently in the Article IV consultation Board meeting, the Republic of Kosovo is in many respects in a solid position, but at the same time, the country faces some significant challenges. The fiscal position needs to be strengthened and the growth model needs to be diversified. To tackle this dual challenge and to cover the balance of payments needs over 2015-17, we support the request for a Stand-By Arrangement and the program objectives. As we had the opportunity to discuss the economic situation in the Republic of Kosovo in detail on the occasion of the Article IV consultation Board meeting, we limit ourselves to remarks on the fiscal policy, a key element of the program.

Fiscal consolidation to bring the budget deficit down and within the bounds of the fiscal rule will ensure credibility, debt sustainability and restore government bank balances to an adequate level. The planned measures to reduce the 2015 deficit from 3.9 percent to 2.4 percent seem appropriate. Also the plans to further adjust in 2016 are sensible. The combination of the fiscal rule and the new wage rule provide some protection against fiscal slippages, but we would like to stress that continuation on a prudent path is important, especially in the run up to next elections.

We support the modification of the investment clause of the fiscal rule. Allowing for new donor-financed capital projects, in addition to privatization-financed projects, creates more room for development projects. We support the safeguards that spending under the clause can only take place unless the deficit is below 2 percent of GDP and government bank balances are above 4.5 percent of GDP. We understand from the staff report that the government's bank balances will only return to 4.5 percent of GDP by the end of 2016, which means that only after 2016 the planned projects can be implemented. *Could staff elaborate on how this affects the program objectives, as these investments are seen as priority spending?*