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July 27, 2015

**Statement by Ms. Tshazibana and Ms. Dlamini-Kunene on Republic of Kosovo  
(Preliminary)  
Executive Board Meeting  
July 29, 2015**

**We support Kosovo's request for a Stand-By Arrangement having considered the challenges faced by the country and the need for reforms to restore fiscal credibility and debt sustainability.** However, cognizant that some reform efforts achieved under the Staff-Monitored Program (in 2011) and a Stand-By Arrangement (from 2012) were undermined by the pre-election promises, we encourage the authorities to commit to full implementation of the program by ensuring strong political buy in and ownership. We thank Mr. Canakci and Mr. Mehmedi for his informative statement and make the following remarks.

**On the fiscal side, we encourage the authorities to adhere to the proposed fiscal rules. The rules will provide an operational framework for safeguarding fiscal sustainability post program and make the budget process more credible.** A steadfast privatization plan could contribute to improving fiscal balances and rebuilding fiscal buffers in the short run. In addition, tilting the composition of spending toward capital investment would set the stage for a more sustainable growth path. Further, enhancing controls in public procurement processes and strengthening public finance management will help minimize the prevalence of corruption and improve the quality of public spending.

**While the banking sector remains liquid and well capitalized, enhancing financial sector stability and encouraging deeper financial intermediation will remain critical for Kosovo over the medium term.** We note that the program will endeavor to strengthen the supervisory framework and reduce impediments to lending. We also note that parent banks are ready to assist their subsidiaries in the event of a liquidity crisis. That said, macroprudential policies will remain critical in augmenting the limited monetary policy in Kosovo. Hence we are encouraged by the assurances of the authorities' commitment in Mr. Canakci and Mr. Mehmedi's statement.

**Finally, we urge the authorities to continue structural reforms to reduce Kosovo's dependence on remittances and import oriented consumption.** Implementation of

structural reforms that will encourage investment and development of the tradable sector will mitigate the adverse effects of high unemployment and will help reduce the informal sector.