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February 10, 2021

**Statement by Mr. Pösö and Ms. Ekelund on Republic of Kosovo
(Preliminary)
Executive Board Meeting
February 12, 2021**

We thank staff for the report and Mr. Palotai for his informative Buff statement. Kosovo has been hit hard by the pandemic, with the third wave further stretching the capacity of its health system. We **broadly agree with staff's analysis and policy recommendations** and would like to raise a few points for emphasis.

Kosovo has received warranted **external support from international partners**, including a purchase under the IMF's Rapid Financing Instrument (RFI), Macro-Financial Assistance (MFA) from the EU, and a loan from the Council of Europe Development Bank. The swift implementation of this support is an important demonstration of solidarity with Kosovo at a time of unprecedented crisis. The MFA consists of a loan of up to EUR 100 million, of which a first tranche (EUR 50 million) was disbursed in early October 2020. The disbursement of the second MFA tranche will be conditional on fulfilling several economic policy conditions related to the strengthening of public finance and financial stability, addressing youth unemployment, improving good governance, and strengthening the fight against corruption.

We note that the financing program for 2021 outlined in the staff report *includes uncommitted IFI lending for EUR 160 million. Can staff provide any updates of the status of this lending?* Also, in case downside risks materialize, we note staff's recommendation to accommodate the larger fiscal deficit through **additional financing**. We take positive note of the BUFF stating that technical discussions for a UCT program were successfully concluded in December, and that a formal request might be expected after the general election in mid-February.

We agree that the suspension of the fiscal rule over 2020–21 was warranted given the extraordinary circumstances. We share staff's assessment that this needs to be combined with a clearly communicated commitment for its gradual reinstatement once the economic

recovery is underway, as the **fiscal rule is an important anchor for policy**. We also concur with staff when strongly advising against increasing the general debt ceiling to 50 percent of GDP. Regarding the financial sector, it is reassuring that strong pre-COVID-19 capital and liquidity buffers have contributed to continued stability in the banking sector and the NPLs have remained low through 2020, even if expected to rise somewhat during 2021.

Kosovo faces several structural challenges that the pandemic has exacerbated. Continuous efforts are needed to **enhance governance and the business environment**, restructure inefficient public enterprises, strengthen the anti-corruption regime, and improve the tax administration. We welcome the authorities full concurrence with the need to conduct an ex-post audit of all resources spent in response to the COVID-19 crisis and to publish the results in the audit reports of the 2020 and 2021 budgets. Better targeted social benefits could further contribute to a more inclusive growth. It is problematic that Kosovo has the lowest employment to working age population ratio in the region. We agree with staff's argument that investing in early education and calibrating maternity benefits could help incentivize women to participate more in the labor force.

We note that risks related to **political uncertainty** are prominent in the Risk Assessment Matrix (RAM) and hope that this will not prove to hinder needed reforms, included related to the implementation of the FSSR recommendations to improve the governance and functioning of the Central Bank of Kosovo (CBK). We call for prompt actions to restore the CBK Board's capacity to make decisions and take positive note of the statement in the BUFF that the CBK remains committed to continue strengthening its capacities and systems.

With these remarks, we wish the Kosovar authorities all success in these challenging times.