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Joint Statement by Mr. Trabinski, Mr. Chikada, Mr. Kuretani, and Mr. Makhammadiev on Republic of Kosovo (Preliminary) Executive Board Meeting February 12, 2021

We thank staff for the comprehensive report and Mr. Palotai for his informative Buff statement. While Kosovo's economy has been hit hard by the pandemic, we welcome that the authorities rightly implemented fiscal and financial policies and have mitigated the impact of the shock on households and firms. In the medium term, we concur with staff that the authorities need to address several structural constraints. We agree with staff's assessment and policy recommendations and offer the following comments for emphasis.

The accommodative fiscal stance in the short term is appropriate but we encourage the authorities to prepare for a post-pandemic consolidation. While the fiscal rule is suspended, a clear commitment to its reinstatement after the pandemic is required. This would support the credibility of the fiscal framework and contain the increase of public debt. *In this regard, we would appreciate staff's clarification on whether the authorities have any plans on calibrating the fiscal rule in the future.* We note the relatively strong policy response to the pandemic but concur with staff's recommendation to make Covid-related spending more transparent and targeted. Relatedly, we look forward to the full roll-out of e-procurement. We also share staff's view that early withdrawals of pension savings should be avoided. We note the significant size of uncommitted IFI financing for 2021 and see merit in contingency planning, including reducing tax expenditures and non-priority spending. Moreover, we encourage the authorities to contain the proliferation of social transfers. To this end, a holistic review of social benefits and their streamlining are warranted. On the revenue side, we share staff's view that exemptions and special tax regimes should be addressed.

The central bank needs to monitor a possible deterioration in bank asset quality in view of regulatory forbearance on loan classification. In this regard, maintaining strong prudential standards and accounting requirements are critical. As to the central bank's governance, we support staff recommendations regarding filling vacancies at the Board and reviewing the CBK's organizational structure. We note that staff's modified reserve adequacy metric indicates the lower-than-adequate level of international reserves. We thus encourage the authorities to maintain international reserves at an adequate level while pursuing structural reforms to decrease reliance on diaspora-related financial flows.

We encourage the authorities to undertake wide-ranging reforms to accelerate the transition to a well-functioning market economy. These reforms include strengthening the rule of law, developing an effective judiciary system, reducing corruption, privatizing public sector enterprises, simplifying business procedures, and implementing labor market reforms. While we acknowledge that combating the recession is a priority, we urge the authorities to improve employment opportunities for women and the youth through reducing the education gap, improving quality of education, skills training, and improving the availability of childcare. We note that the public wage bill has gone up, undermining the competitiveness of the private sector. This calls for the implementation of employment policies that would promote fair compensation. Finally, we encourage the authorities to tackle weaknesses in the AML/CFT framework.