

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

GRAY/21/449

February 10, 2021

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

We thank staff for the report and Mr. Palotai for the helpful Buff statement. We commend the authorities for the swift actions taken to address the health and economic impacts of the COVID-19 pandemic. We agree that political developments and delays in vaccination rates are causing risks to be tilted to the downside. We appreciated staff's focus on structural reforms to mitigate the potential longer-term scarring from the crisis. **The authorities will need to show a commitment to implement such reforms as they consider a new EFF.**

We agree that the authorities should continue to offer fiscal support as long as necessary to respond to the pandemic, but should resume gradual fiscal consolidation once the crisis abates. It will be critical for Kosovo to preserve fiscal buffers over the medium term given its status as a euroized economy. We are concerned that the 2021 financing program assumes €160 million of IFI financing that remains uncommitted. The authorities should develop contingency plans in case this financing does not materialize, particularly given the political uncertainties that could hinder IFI disbursements. We agree with staff's recommendation to raise the investment clause debt ceiling to 40 percent of GDP to finance growth-enhancing capital investment, while keeping the general debt ceiling at 40 percent of GDP.

We share staff's concerns that the central bank's foreign exchange reserves are projected to steadily decline well below the IMF's reserve adequacy metric through 2025. We welcome that staff customized the reserve adequacy metric in the external sector assessment to better reflect the situation in Kosovo. We also note that a large part of the current account gap was explained by the cost of policy actions to address the pandemic,

which should reverse course over the next few years. *What are the authorities' plans to build back reserves?*

We urge the authorities to move forward with implementing recommendations from the 2020 Financial Sector Stability Review, including by expeditiously filling vacancies at the Central Bank of Kosovo and enhancing the operational procedures for using Emergency Liquidity Assistance. The authorities have taken appropriate actions to support the flow of credit and to safeguard banks' capital positions during the pandemic by establishing limited loan payment moratoriums, allowing regulatory forbearance, and suspending dividends. We echo staff's guidance to maintain close supervision of banks as the authorities lift regulatory forbearance. We welcome efforts to improve the macroprudential toolkit of the central bank. We also underscore the need to address deficiencies in the AML/CFT framework, and to pursue reforms related to audits, procurement, and publicly owned enterprises.

We welcome the authorities' interest in structural reforms to address long-term impediments to private sector growth. Youth and women's unemployment rates are particularly concerning and necessitate sustained efforts to close education gaps. We urge the authorities to improve the business environment and external competitiveness by prioritizing Kosovo's enhanced international integration, including through the Stabilization and Association Agreement. We welcome IMF capacity development to support the authorities' efforts to reform social security and public wages.