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**Statement by Ms. Tangcharoenmonkong, Mr. Nguyen, and Mrs. Waqabaca on Republic
of Kosovo
(Preliminary)
Executive Board Meeting
July 29, 2015**

1. Despite its relatively higher average growth performance than countries in the Western Balkans in recent years, Kosovo still faces significant challenges, including a large infrastructure gap, high unemployment and low per capita income. A shift of its growth drivers towards more investment and the tradable sector is needed to lift medium-term prospects and improved social and macroeconomic performance. The current favorable political setting provides a timely opportunity to put in place policies and reforms necessary to safeguard fiscal and debt sustainability and preserve financial stability while improving the conditions for more resilient growth. **We lend our support to the request for a 22-month Stand-By Arrangement (SBA)** which would support the authorities' continuing efforts to strengthen the macroeconomic framework and accelerate the implementation of reforms. We thank staff for a well written report and Mr. Canakci and Mr. Mehmedi for their helpful Buff Statement.

2. **Growth-friendly fiscal consolidation is appropriate given the need to create fiscal space and boost growth.** We note the authorities' commitment to prioritize fiscal adjustments aimed at strengthening public finances, reducing current expenditures and improving the composition of the budget. The implementation of planned public sector wage reforms and amendment to the investment clause of the fiscal rule are critical in this regard. Reducing the relatively high labor costs and aligning wages to productivity while narrowing the large infrastructure gap, are essential to improving the country's competitiveness and unlocking the economy's growth potential. Nevertheless, given the social pressures that can potentially arise from these reforms, careful risk management and an effective communication strategy are needed to ensure broad support for the authorities' National Economic Reform Program (ERP) 2015–2018 and achievement of program targets. Ensuring credibility in the implementation of the Medium-Term Expenditure Framework (2016–18) will be important to ensure that near-term fiscal measures are aligned with medium-term fiscal and debt sustainability objectives and in compliance with the fiscal rule.

3. **Improving the resilience and supportive role of the financial sector in the economy is essential.** Despite the overall soundness and stability of the financial system, credit penetration remains low and gaps prevail in the liquidity as well as regulatory and supervisory framework, limiting the financial sector's contribution to growth. As such, setting structural benchmarks to strengthen the ELA framework and fully adopting a risk-based supervisory framework are appropriate. Importantly, removing the legal and structural impediments to debt and insolvency resolution processes and credit provision while improving the business environment, will encourage greater private sector participation in the economy. We see an important role in the Fund's continued assistance to further strengthen the macro-prudential framework, financial safety net, crisis preparedness and crisis management. We particularly encourage measures that will boost the financial sector's support for SMEs.

4. **The implementation of structural reforms is key to unlocking the new growth model driven by investment and the tradable sector.** It is therefore important to improve private sector productivity and competitiveness. Success in the Fund-supported program will help reinforce the implementation of the authorities' ERP 2015 to boost growth and job-creation. Reforms to improve skills training and raise female labor participation are vital to increasing employment. We welcome the upgrading of the education curricula to address market needs and reduce skills mismatch as stated in the Buff. Revamping the vocational educational system, in particular, will also help address this issue. We are encouraged to see coordination efforts among relevant ministries. Active dialogue with international partners is also important as their support remains critical in providing the much needed investments in key sectors of the economy.

5. With these remarks, we wish the authorities success in their economic reform endeavors.