Armitage Stresses Further Need for Improvements in Business Climate and Transparency

Having guided the World Bank’s program in Kosovo since the country’s independence and its membership in the World Bank Group, outgoing Country Director and Regional Coordinator for Southeast Europe Jane Armitage has expressed her gratitude for the excellent collaboration during her 5-year mandate. Her contribution to, and the foundation laid for, Kosovo’s socio-economic development, not least relative to the enormous challenges in key sectors of the economy, such as energy, banking, or education, has been emphasized by, among others, President Atifete Jahjaga, Prime Minister Hashim Thaçi and key cabinet members, Assembly Speaker Jakup Krasniqi, Central Bank Governor Gani Gërguri. In her press conference, Ms. Armitage stressed that business environment reforms, including those begun under the umbrella of the multi-donor Sustainable Employment Development Policy Program, would have to continue and deepen. Against the backdrop of the “intensive privatization debate,” she encouraged the government to respond to calls for increased transparency and—as had recently been the case for the electricity distribution company—and publish privatization contracts: “This is highly welcome and should allow for a constructive dialogue among all relevant stakeholders on the inherent benefits and costs of the involvement of private-sector investors in key sectors of Kosovo’s economy.”

Public Financial Management Improvement Project Kicks-Off

The implementation of a World Bank-funded project component aimed at improving public financial management in a number of institutions was launched by the Government of Kosovo on October 18, 2012, at an event attended by public officials and donors working on deepening the reforms in this sector.

Public Financial Management Improvement Project (PSMP), was
Southeast Europe Economy Shrinks in 2012, Faces Risks in 2013—Kosovo Leads in Growth

The economic outlook remains gloomy and challenges daunting. Largely for reasons of external factors, the combined economies of the six Southeast European countries are expected to shrink by 0.6 percent in 2012, facing formidable risks going into 2013. According to the forecasts contained in the World Bank’s third edition of the South East Europe Regular Economic Report, published on December 18, 2012, growth is expected to rebound to a modest 1.6 percent, leaving governments with the twin tasks of fostering growth while consolidating public finances. Kosovo remains an outlier, with generally stronger fundamentals in terms of growth, budgetary deficits, and public debt, with large current-account deficits (and the implicit productivity implications) remaining the principal macroeconomic challenge. Relative to its neighbors in the region, Kosovo is projected to have the highest rates of economic growth in 2012 and 2013.

The report covers the six SEE6 countries and foresees the road to sustained recovery being arduous and with significant risks. Among the dark clouds on the 2013 horizon are the risks to recovery of the eurozone, policy inactivity in the US that would delay bringing its public finances under control, and high commodity prices—risks to which all SEE6 countries are highly vulnerable. The danger emanating from a new food price shock could deepen poverty and put pressure on the middle class. In the neighboring SEE6 countries more so than in Kosovo, public-sector arrears pose special challenges to fiscal management and the private sector, with policymakers being faced with and unfinished structural-reform agenda. In 2012, deteriorating external conditions, the impact of the severe winter on economic activity, and a continuing rise in unemployment took a toll on consumption, investments, and exports, explains the report. It also notes that credit recovery and fiscal consolidation are under threat, while non-performing loans are again on the rise. As a result, both within and outside the region, the environment has become much more difficult to navigate, and the policy trade-offs necessary to stabilize economies and reignite growth are tougher. Pressured by the external environment, more competitive global economy, and inadequate revenues, SEE6 governments are seeking ways to improve efficiency, strengthen infrastructure, reform labor markets, attract foreign direct investment, rebuild their export base, and ensure financing. Several countries improved their investment climates and moved up on the global Doing Business ratings, especially Kosovo and Serbia. But without further labor market reforms and significant infrastructure investments, especially in energy, it will be difficult to reduce unemployment, improve competitiveness, and achieve robust growth. Intensifying the privatization process is seen as one option that governments are increasingly considering as part of “a second wave of privatization”—a general effort to ease the financing constraint and improve competitiveness. SEE6 governments are therefore looking for sources of capital not only in the OECD countries but also in resource-rich and growing middle-income countries such as Turkey, Russia, China, and Azerbaijan. New privatizations should draw on the lessons learnt, highlighting the fundamental importance of transparency in the process. The report underlines that, if such accelerated reforms materialized, external support from the EU and global international financial institutions could help to ease the transition to a more sustained growth in medium term.