

PRUDENT POLICIES WILL BEST SERVE KOSOVO

Both competitiveness and fairness are best served by not raising public sector wages a second time.

Parliament is debating the 2015 budget this week. The goal, and it is the right goal, is to quickly have a budget in place so as to avoid a government shutdown at the end of January. One provision of the proposed 2015 budget that has attracted a lot of attention is the decision not to raise public sector wages. As is well known, public sector wages have already been hiked by 25 percent in April. In our view, not granting a second hike so soon after would be the right decision.

Since 2008, when Kosovo declared independence, average public sector wages have more than doubled, growing three to four times faster than in other West Balkan countries. Over the same period, public sector wages have grown more than twice as fast as Kosovo's overall economy—and it is the size of the overall economy that, in the end, determines what the government and the country can and cannot afford. By using a growing share of its income to pay salaries in the public sector, Kosovo is devoting fewer resources to education as well as to infrastructure and energy projects, all of which the country desperately needs. This also undermines competitiveness, reflected in Kosovo's limited exports. In addition, rapid public sector wage growth has deprived the private sector, the economy's key engine, of precious talent, as the public sector now offers both greater job security *and* higher wages at comparable skills. And there is a fundamental question of fairness: with wages and salaries taking up an ever growing share of the government's budget, Kosovo continues to have the most limited social assistance program in the region.

It is for the country to decide how to use its resources, and it is parliament's prerogative to set the allocation for public sector wages. The caution we would offer is that repeatedly promising more than one can afford is not the way to durably increase living standards. Rather, the road to prosperity lies in giving Kosovars and the world the confidence to invest capital and ideas in the country; prudent policies are one essential part of this package.

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