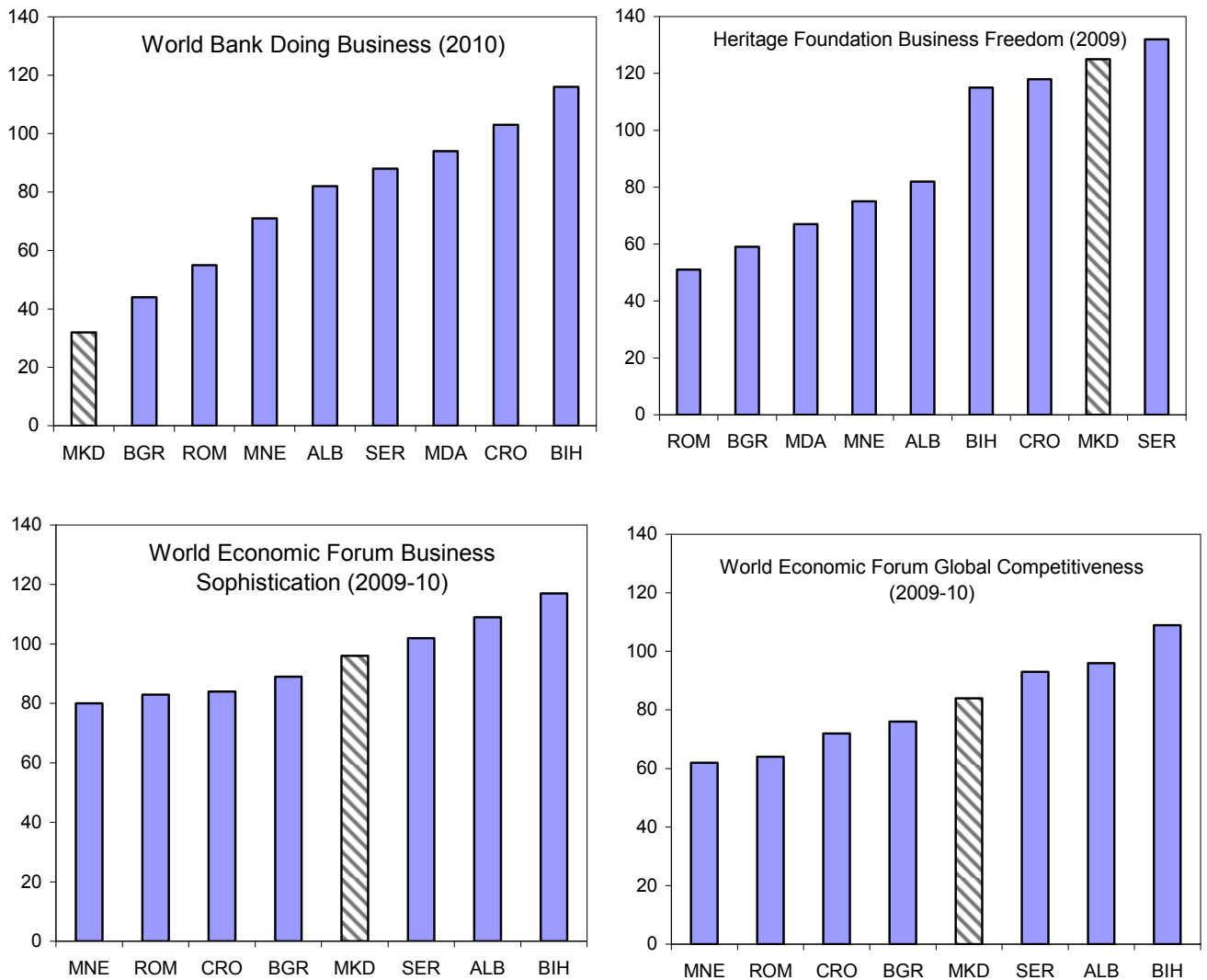


Table 12. FYR Macedonia: External Debt Decomposition

	2008		2009 Q2	
	In millions of Euros	In percent of GDP	In millions of Euros	In percent of GDP
Total external debt	3,318	51.0	3,451	53.2
Total external MLT debt	1,999	30.7	2,106	32.5
Private	1,096	16.9	1,201	18.5
Intecompany loans	325	5.0	388	6.0
Loans	737	11.3	768	11.8
Other	35	0.5	45	0.7
Public	903	14.2	905	14.0
Official creditors	663	10.2	669	14.0
Private creditors	240	3.7	236	3.6
Total external ST debt	1,319	20.3	1,344	20.7
Private	1,319	20.3	1,344	20.7
Intercompany debt	325	5.0	388	6.0
Trade credits	672	10.3	670	10.3
Other	323	5.0	440	6.8

Source: NBRM and IMF Staff Estimates

Figure 6. Regional Rankings for Competitiveness and Business Environment 2009–10



Source: World Bank, World Economic Forum and Heritage Foundation

INTERNATIONAL MONETARY FUND
FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Staff Report for the 2009 Article IV Consultation

Informational Annexes

Prepared by the European Department
(In consultation with other departments)

November 24, 2009

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Annex I—FYR Macedonia: Statistical Issues

As of November 12, 2009

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. Areas that would benefit most from further improvement are national accounts, government finance statistics, and the balance of payments.

National accounts: National accounts statistics are available on an annual basis and quarterly data are available from the first quarter of 2006. Despite recent improvements, GDP statistics continue to have large discrepancies between the official quarterly and annual GDP estimates, the lack of official levels of GDP according to the expenditure side, inconsistencies between the production and the expenditure approaches to GDP, and inconsistencies between GDP subcomponents and the behavior of a variety of indirect economic indicators. Employment data from the company survey continue to be unreliable, and wage data suffer from inconsistencies in definitions as a result of the recent social insurance reform.

Price statistics: The CPI series are rebased every year and this has caused small discrepancies in historical data.

Government finance statistics: The consolidated central government data are affected by unreliable source data on extra-budgetary funds, hospital arrears, and special revenue accounts, including foreign financed projects. This has resulted in sometimes large discrepancies between the above-the-line and below-the-line items. Data on state enterprises are limited. Macedonia does not report government finance statistics to the Fund for publication in either the *Government Finance Statistics Yearbook* (GFSMY) or the *International Financial Statistics* (IFS).

Monetary sector: EUR receives a monthly electronic report of monetary statistics, covering the balance sheet of the central bank, the commercial banks and other depository corporations. The foreign currency shares of the loans and deposits do not accurately reflect the foreign exchange risk as the bank data do not identify the foreign currency indexed loans or deposits.

External sector: The compilation and coverage of balance of payments statistics have improved in recent years and most of the recommendations from the 2004 ROSC mission and the late 2006 STA mission were implemented. Some areas for improvement remain, including trade credit data which tend not to be consistent with relevant indirect economic indicators. Balance of payments data are compiled on a monthly basis.

II. Data Standards and Quality	
FYR Macedonia participates in the General Data Dissemination System (GDDS).	Data ROSC published on September 29, 2004
III. Reporting to STA (Optional)	
No data are being reported for publication in the <i>Government Finance Statistics Yearbook</i> or in the <i>IFS</i> .	

FYR MACEDONIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(as of November 12, 2009)

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of publication ⁷	Memo Items:	
						Data Quality – Methodological soundness ⁸	Data Quality – Accuracy and reliability ⁹
Exchange Rates	Current	11/12/09	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	11/6/09	11/11/09	D	W	Q		
Reserve/Base Money	Sept. 09	11/3/09	M	M	M	O, LO, LO, O	O, LO, O, O, O
Broad Money	Sept. 09	11/3/09	M	M	M		
Central Bank Balance Sheet	Sept. 09	11/3/09	M	M	M		
Consolidated Balance Sheet of the Banking System	Sept. 09	11/3/09	M	M	M		
Interest Rates ²	Sept. 09	10/30/09	M	M	M		
Consumer Price Index	Oct. 09	11/03/09	M	M	M	O, O, O, LO	LO, O, LNO, O, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Jun. 09	07/09/09	Q	Q	Q		
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Sept. 09	10/06/09	Q	Q	Q	LO, LNO, LO, O	LO, LO, LO, LO, LNO
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Mar. 09	May 09	Q	Q	I		
External Current Account Balance	Aug. 09	11/06/2009	M	M	M		
Exports and Imports of Goods and Services	Sept. 09	11/11/2009	M	M	M	O, LO, O, LO	LO, O, LO, O, LO
GDP/GNP	Jun. 09	09/22/09	Q	Q	Q	O, LO, O, LO	LO, O, LNO, O, O
Gross External Debt	Jun. 09	09/30/2009	Q	Q	Q		
International Investment Position ⁶	2007	Dec 2008	A	A	A		

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Currency and maturity composition is reported only on request.

⁶Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

⁸Reflects the assessment provided in the data ROSC or the Substantive Update (published on September 29, 2004, and based on the findings of the mission that took place during February 18 – March 3, 2004) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁹Same as footnote 8, except referring to international standards concerning source data, assessment and validation of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Annex II—FYR Macedonia: Fund Relations
(as of October 31, 2009)

Mission. Skopje, October 15–27, 2009. Concluding statement is available at: <http://www.imf.org/external/np/ms/2009/102709.htm>

Staff team. Wes McGrew (head), Geoff Gottlieb (EUR), Ferhan Salman (SPR), Gabriela Dobrescu (FAD) and Alexander Tieman (Resident Representative).

Discussions. The staff team met Deputy Prime Minister Peshevski, Deputy Prime Minister and Finance Minister Stavreski, National Bank of the Republic of Macedonia Governor Gošev, other senior officials, and representatives of the banking, business, civil society, political and international communities.

Publication. The Macedonian authorities have not yet decided on publication of this staff report.

I.	Membership Status:	Joined 12/14/92; Article VIII			
II.	General Resources Account:	<u>SDR Million</u>	<u>Percent of Quota</u>		
	Quota	68.90	100.00		
	Fund holdings of currency	68.90	100.00		
	Reserve Position	0.00	0.00		
III.	SDR Department:	<u>SDR Million</u>	<u>Percent of Allocation</u>		
	Net cumulative allocation	65.62	100.00		
	Holdings	58.09	88.53		
IV.	Outstanding Purchases and Loans:	None			
V.	Latest Financial Arrangements:				
	<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
	Stand-By	08/31/2005	08/30/2008	51.68	10.50
	Stand-By	04/30/2003	08/15/2004	20.00	20.00
	EFF	11/29/2000	11/22/2001	24.12	1.15

VI. **Projected Payments to the Fund (Expectations Basis)¹**

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal					
Charges/Interest	<u>0.01</u>	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>
Total	<u>0.01</u>	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>	<u>0.03</u>

VII. **Exchange Arrangement:**

The currency of the FYR Macedonia is the denar. FYR Macedonia maintains a managed floating exchange rate system with a de facto stabilized arrangement against the Euro. Households can transact through commercial banks or through foreign exchange bureaus that act as agents of banks; enterprises can transact through the banking system. The reserve requirement on all foreign currency deposits is set at 13 percent.

At end-October 2009, the official exchange rate was 41.38 denars per U.S. dollar and 61.17 denars per Euro. FYR Macedonia has accepted the obligations of Article VIII, Sections 2, 3, and 4 with effect from June 19, 1998.

VIII. **Article IV Consultations:**

The first consultation with FYR Macedonia was concluded in August 1993. The last consultation was concluded on December 1, 2008 (SM/08/329). FYR Macedonia is on the standard 12-month consultation cycle.

IX. **Technical Assistance (since 2005):**

Purpose	Department	Date
Tax Administration	FAD	July 2009
National Accounts	STA	June 2009
Contingency Planning and Crisis Preparedness	MCM	February 2009

¹ This schedule presents all currently scheduled payments to the IMF, including repayment expectations and repayment obligations. The IMF Executive Board can extend repayment expectations (within predetermined limits) upon request by the debtor country if its external payments position is not strong enough to meet the expectations without undue hardship or risk.

Government Finance Statistics	STA	October 2008
Balance of Payments Statistics	STA	October 2008
National Accounts Statistics	STA	April 2007, January, May, September, December 2008
Export and Import Deflators	STA	December 2007
GFS 2001	STA	November 2007
Expenditure Rationalization	FAD	July 2007
Central Bank Law	MCM	July 2007
Tax Policy	FAD	June 2007
National Accounts Statistics	STA	April 2007
Liquidity, Cash and Debt Management	MCM	April 2007
Tax Administration	FAD	October 2006
Balance of Payments Statistics	STA	October 2006
Tax Policy	FAD	September 2006
Government Finance Statistics	STA	June 2006
Banking Law	LEG, MCM	June 2006
Banking Reform	MCM	November 2005
Credit Growth	MCM	October 2005
National Accounts	STA	July 2005
BOP Statistics	STA	July 2005
Tax Administration	FAD	May 2005
Reserve Management	MCM	May 2005
Monetary Statistics	STA	

April 2005

Resident Experts

Banking Supervision	MCM	May 2006-present
Tax Administration	FAD	October 2006-present
Monetary Policies	MCM	October 2004- April 2005

X. FSAP Participation and ROSCs (since 2003)

Purpose	Department	Date
FSAP update	MCM/WB	March 2008
Fiscal ROSC	FAD	February 2005
Data ROSC	STA	February 2004
FSAP	MCM/WB	May 2003 and June 2003

XI. Resident Representative

The Fund has had a resident representative in Skopje since 1995. Mr. Alexander Tieman has held this position since August 2009.

Annex III—Coordination of IMF and World Bank with Programs on FYR Macedonia

1. **IMF and World Bank country teams for FYR Macedonia agreed that FYR Macedonia faces an environment of significant difficulties including balance of payments pressures, recession, and falling tax revenues.** Against this background Macedonia's main macroeconomic challenges are to achieve balance of payments adjustment without an exchange rate or banking crisis; and to avoid excessively procyclical fiscal or monetary policies while ensuring medium-term fiscal and external sustainability. To meet these challenges will require fiscal and monetary policies that are adequate to maintain the current account deficit at levels that will prevent loss of reserves, and to ensure the fiscal deficit is consistent with near-term financing constraints and medium-term public debt sustainability; and close monitoring of the financial sector.
2. **Based on this shared assessment, the teams identified six areas of structural reform as macrocritical** in light of their importance for fiscal sustainability and financial sector stability.
 - **Tax administration.** Continued reforms in this area will help to improve compliance and reduce informality, contributing to a broader and more stable tax base that allows lower tax rates and adequate fiscal financing. Macedonia has already achieved major gains in unifying the collection of social contributions (pension, health, and unemployment) and integrating them with personal income tax collection, resulting in significant improvement in compliance.
 - **Pension reform.** Reforms to the system in recent years put the system on a sustainable financial basis, but recently contribution rates were lowered, the pension indexation formula was made more generous, and a discretionary element was added to the rules-based system.
 - **Social safety net.** The social safety net is complex, with a large number of overlapping programs that are not well-targeted and fail to reach some of most vulnerable elements in society. Efforts are needed to ensure spending cuts do not weaken the social safety net.
 - **Budget planning.** Accurate revenue and expenditure forecasts are needed to ensure realistic budgets and avoid supplementary budgets and under-execution of the budget that result from revenue underperformance or underestimation of spending. Moreover, further expanding the medium-term elements of the fiscal framework would help to anchor fiscal policy around the goal of public debt sustainability.
 - **Financial sector.** Stronger financial sector supervision and contingency planning will help to ensure the authorities are able to monitor the health of the system carefully

and respond appropriately to problems that emerge. This includes powers of the banking regulator to impose fit and proper requirements on bank owners and to intervene banks that are not viable. A framework for cooperation between the NBRM, the Finance Ministry, and other agencies, along the lines recommended by the February 2009 IMF technical assistance mission, is also important to provide for a quick response to threats.

- **Electricity sector.** It will be important over time to revise the tariff structure to better reflect the costs of service delivery. This will help eliminate hidden and cross-subsidies that are poorly targeted, encourage inefficient patterns of consumption, damage incentives for investment, and impose fiscal or quasi-fiscal costs. New investment in generation capacity is also needed in light of inadequate domestic supplies and the high price of energy imports. In view of financial and environmental considerations, use of PPPs and renewable energy sources should be promoted. Privatization of power generation and reforms to create a more modern and transparent regulatory framework will be helpful in this regard.

3. **The teams agreed on the following division of labor.**

- The Fund, which has a full-time resident advisor in place (funded by the Dutch government) as well as a full program of technical assistance missions, will retain the lead in tax administration reform. Priorities for the coming year include reviewing the progress in modernizing revenue administration and addressing compliance problems that have emerged with the economic slowdown, and coordinating technical assistance with other donors.
- The Bank will support the Government in undertaking an analysis of the recent changes to the pension system and their implications for its financial sustainability and will work with the authorities to make needed adjustments to preserve the system's sustainability and prevent a drain on general tax revenues.
- Social safety net. The Bank will continue to advise the government on measures to consolidate various programs and improve targeting through its Social Protection Implementation Loan (SPIL) and Conditional Cash Transfers (CCT) operations. Future priorities include introduction of a registry of programs and beneficiaries, initiating a conditional cash transfer system to ensure compliance with requirements for mandatory secondary school enrollment, consolidation of benefits, etc. Once implemented, these activities should result in better administration and targeting of social programs.
- Both the Fund and the Bank will encourage the authorities to implement realistic, predictable, and transparent budget procedures. The Fund will also encourage the