Table 10. FYR Macedonia: External Debt Decomposition, 2011

	Millions of euros	Percent of GDP
Total External Debt	4,875	66.7
Total External MLT Debt	3,225	44.1
Private	1,695	23.2
Intecompany Loans	569	7.8
Loans	1,076	14.7
Other	50	0.7
Public 1/	1,531	20.9
Official Creditors	1,326	18.1
Private Creditors	205	2.8
Total External ST Debt	1,649	22.6
Private	1,406	19.2
Intercompany Debt	321	4.4
Trade Credits	817	11.2
Arrears	161	2.2
Other	106	1.5

Sources: NBRM and IMF Staff Estimates
1/ Public includes general government and monetary authorities.

Annex. Former Yugoslav Republic of Macedonia: Risk Assessment Matrix

Nature/Source of Main Threats	Overall Level of Concern	
	Likelihood of Realization of Threat in the Next 1–2 years (high, medium or low)	**Expected Impact if Threat is Realized** (high, medium, or low)
A deeper or more prolonged recession in the euro area	**Medium** The euro area remains exposed to significant downside growth risks.	**Medium** This could result in negative spillovers to Macedonia through reduced exports, remittances, and FDI. The result would be lower growth, and BoP pressures could emerge that would require pro-cyclical interest rate hikes and fiscal cuts.
Significant intensification of the euro area crisis	**Low** While the probability is low, persistent volatility in euro area financial markets suggests risks exist.	**High** This could lead to pressures on the denar exchange rate due to its peg to the euro, leading to outflows of bank deposits and pressures on foreign reserves. Given the high degree of euroization, the exchange rate peg is crucial for the stability of the financial system.
Intensified stress and threat of insolvencies in the Greek banking system.	**Medium** Prospects for the Greek economy and banking system remain subject to considerable risks.	**Medium** With a quarter of the system's total assets, the share of Greek-owned banks is among the largest in the region. While there is minimal reliance on funding from Greek parents, a confidence shock and destabilizing deposit outflows cannot be excluded.

INTERNATIONAL MONETARY FUND

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 16, 2012

Prepared By European Department
(In consultation with other departments)

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STATISTICAL ISSUES

(As of April 30, 2012)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance and monitoring purposes. Areas that would benefit most from further improvement are national accounts and government finance statistics.
National accounts: Quarterly GDP data in constant pricesfrom the production approach have been published since September 2011.. Employment data from the company survey continue to be unreliable. **Price statistics:** The CPI series are rebased every year and this has caused small discrepancies in historical data.
Government finance statistics: Data coverage on government below-the-line financing from National Bank deposits is inadequate, as a result of different coverage of accounts between the Ministry of Finance and the National Bank – the government does not regularly report Treasury Single Account and budgetary FX account balances. In addition, data on arrears, including those on public hospitals, as well as data on state enterprises, which are not part of the central government, 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.
External sector: Balance of payment data are compiled on monthly basis. The compilation and coverage have improved in recent years, and most of the recommendations from the 2004 ROSC mission and the late 2006 STA mission were implemented

II. Data Standards and Quality	
FYR Macedonia participates in the General Data Dissemination System (GDDS), and, since November 2011, in the Special Data Dissemination Standard (SDDS).	Data ROSC published on September 29, 2004

III. Reporting to STA (Optional)
No data are being reported for publication in the *Government Finance Statistics Yearbook* or in the *IFS*.

Former Yugoslav Republic of Macedonia: Table of Common Indicators Required for Surveillance

(as of April 30, 2012)

	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]	Memo Items: Data Quality – Accuracy and Reliability[9]
Exchange Rates	4/27/12	4/30/12	D	W	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	4/27/12	5/2/12	D	W	Q		
Reserve/Base Money	4/16/12	4/18/12	W	W	M	O, LO, LO, O	O, LO, O, O, O
Broad Money	Mar. 12	4/20/12	M	M	M		
Central Bank Balance Sheet	Mar. 12	4/20/12	M	M	M		
Consolidated Balance Sheet of the Banking System	Mar. 12	4/20/12	M	M	M		
Interest Rates[2]	Mar. 12	4/30/12	M	M	M		
Consumer Price Index	Apr. 12	5/3/12	M	M	M	O, O, O, LO	LO, O, LNO, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Oct. 11	12/26/11	A	A	A	LO, LNO, LO, O	LO, LO, LO, LO, LNO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Mar. 12	4/25/12	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar. 12	Apr. 12	M	M	M		
External Current Account Balance	Jan. 12	4/12/12	M	M	M	O, LO, O, LO	LO, O, LO, O, LO
Exports and Imports of Goods and Services	Feb. 12	4/06/12	M	M	M		
GDP/GNP	Dec. 11	3/23/12	Q	Q	Q	O, LO, O, LO	LO, O, LNO, O, O
Gross External Debt	12/31/11	3/30/12	Q	Q	Q		
International Investment Position[6]	2010	Dec 11	A	A	A		

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

[2] Weighted interest rates on loans and deposits in domestic banks. Separately, data is submitted on the rates on central bank bills (policy rate) and treasury bills, notes, and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. Data including local governments is normally published annually but is also received on an ad-hoc basis during missions.

[5] Currency and maturity composition is reported only on request.

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

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

[8] Reflects 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).

[9] Same 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.

FUND RELATIONS

(As of April 30, 2012)

Missions. Article IV and PLL review mission, Skopje, November 30–December 13, 2011. Concluding statement is available at: http://www.imf.org/external/np/ms/2011/121311.htm.

Staff team. Wes McGrew (head), Nicolas Arregui, Maral Shamloo, Eugen Tereanu, (all EUR), Ran Bi (SPR), and Alexander Tieman (Resident Representative).

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

Publication. The Macedonian authorities have indicated that they agree with publication of this staff report.

I.	**Membership Status:**	Joined 12/14/92; Article VIII	
II.	**General Resources Account:**	SDR Million	Percent of Quota
	Quota	68.90	10.00
	Fund holdings of currency	265.90	385.92
	Reserve position	0.00	0.00
III.	**SDR Department:**	SDR Million	Percent of Allocation
	Net cumulative allocation	65.62	100.00
	Holdings	1.55	2.36
IV	**Outstanding Purchases and Loans:**	SDR Million	Percent of Allocation
	Precautionary and Liquidity Line [1/]	197.00	285.92

[1/] formerly Precautionary Credit Line (PCL)

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PLL [1/]	01/19/2011	10/18/2013	413.40	197.00
Stand-By	08/31/2005	08/30/2008	51.68	10.50
Stand-By	04/30/2003	08/15/2004	20.00	20.00

[1/] formerly PCL

VI. Projected Payments to the Fund (Expectation Basis)

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal			73.88	98.50	24.63
Charges/Interest	1.77	2.35	2.23	1.27	0.25
Total	1.77	2.35	76.11	99.77	24.88

VII. Exchange Arrangement:

The currency of the FYR Macedonia is the denar. The 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 foreign currency deposits is set at 13 percent, while that on FX-indexed denar deposits is set at 20 percent.

At end-December 2011, the official exchange rate was 47.7 denars per U.S. dollar and 61.5 denars per euro. The 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 the FYR Macedonia was concluded in August 1993. The last consultation was concluded on January 19, 2011 (IMF Country Report 11/42). The FYR Macedonia is on the standard 12-month consultation cycle.

IX. Technical Assistance (since 2006):

Purpose	Department	Date
Assessing the Budgeting Framework and Investigation of Payment Arrears	FAD	March 2012
Macroeconomic Modeling at NBRM	MCM	March, November 2009; September and November 2010; May and November 2011; February 2012
Domestic Debt Market Development	MCM	October 2011
National Accounts	STA	August 2011
Tax Administration	FAD	June 2011
Medium-Term Budgeting	FAD	May 2011
Safeguards Assessment	FIN	February 2011
Stress Testing	MCM	February 2011
SDDS Subscription	STA	December 2010
Tax Administration	FAD	April 2010
Public Financial Management	FAD	September 2009
Tax Administration	FAD	July 2009
National Accounts	STA	June 2009
Contingency Planning and Crisis Preparedness	MCM	February 2009
Government Finance Statistics	STA	October 2008
Balance of Payments Statistics	STA	October 2008
National Accounts Statistics	STA	April 2007; January, May, September, and December 2008

Export and Import Deflators	STA	December 2007
GFS 2001	STA	December 2007
Expenditure Rationalization	STA	November 2007
Central Bank Law	FAD	July 2007
Tax Policy	MCM	July 2007
National Accounts Statistics	FAD	June 2007
Liquidity, Cash and Debt Management	STA	April 2007
Tax Administration	MCM	April 2007
Balance of Payments Statistics	FAD	October 2006
Tax Policy	FAD	September 2006
Government Finance Statistics	STA	June 2006
Banking Law	LEG, MCM	June 2006
Resident Experts		
Tax Administration	FAD	October 2006–August 2011
Banking Supervision	MCM	May 2006–May 2008

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.

COORDINATION OF IMF AND WORLD BANK WORK PLANS

1. **At discussion in May 2011, IMF and World Bank country teams for FYR Macedonia agreed that growth is returning to Macedonia, but that the country continues to face challenges that include the need to raise potential growth and tackle high unemployment.** Coming out of the 2009 recession, growth in 2010 reached just 1.8 percent, but has been gradually accelerating since mid-2010 and is projected to rise to 3 percent in 2011 with domestic demand adding to the sound export performance. In keeping with returning growth, fiscal revenues are broadly in line with the budget. Financing for this year's deficit has been secured by drawing € 220 million from the IMF precautionary credit line. The banking sector remains broadly in good shape, with the quality of its loan portfolio starting to recover from the 2009-10 deterioration. Balance of payments pressures remain subdued, as the current account deficit remains moderate and official foreign exchange reserves are above pre-crisis levels and broadly adequate by most standard metrics. The exchange rate peg to the Euro, while beneficial for stability, will continue to require disciplined economic policies. While external financing needs appear manageable, a slowdown in main economic partners or further pressures on oil and food prices may renew pressures on the balance of payments. Against this background Macedonia's main macroeconomic challenges are to avoid procyclical fiscal policies and maintain fiscal sustainability by meeting the government's deficit targets; pursue monetary and fiscal policies that are supportive of the exchange rate regime, price stability and of economic growth; and safeguard the stability of the financial system, including through continued sound supervision and regulation as well as contingency planning. Beyond the current year, maintaining fiscal sustainability while securing adequate budget financing remain important challenges. In the medium-run, raising potential growth by pursuing structural reform remains essential.

2. **Based on this shared assessment, the teams identified six areas of structural reform as macrocritical** in light of their importance for stimulating private sector activity, and ensuring fiscal and external sustainability and financial sector stability.

- **Public expenditure management and public finance.** Improving budget planning and the structure of public spending are key areas for improvement. Accurate revenue and expenditure forecasts, based on prudent growth assumptions, are needed to ensure realistic budgets and avoid supplementary budgets 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. The domestic public debt market needs to be developed over the medium term to provide a larger and more reliable domestic source of fiscal financing and reduce reliance on external funding.

- **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 by unifying the collection of social contributions (pension, health and unemployment) and integrating them with personal income tax collection, resulting in significant improvement in compliance.

- **Social sector spending. Pension reform.** Considerable reforms have been implemented to put the system on a sustainable financial basis. Still, with the recent reduction in contribution rates and changes to the pension indexation formula, the budgetary transfers made to the Pension and Disability Insurance Fund (PDIF) increased. 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 people in society. Efforts are needed to ensure that an increasing share of transfers reach the poor. Health Sector. Pressures recently re-emerged in the health sector as the contribution rate was lowered while the basic benefits package remained underfunded and costs increased. The authorities recognize the need to improve the long-run sustainability of the basic benefits package and several options for its redefinition are being considered based on a actuarial analysis supported by the World Bank.

- **Improving competitiveness.** The business climate improved in Macedonia in recent years, but a number of challenges remain which will require strong, concerted medium-term efforts. Areas where further efforts can pay off include streamlining administrative procedures, improving contract enforcement, and facilitating foreign trade, particularly further simplifying procedures and promoting their usage. Advances are needed in safeguarding property rights and the rule of law, and facilitating competition through improved market entry and exit. Though the burden of excessive regulations has been reduced it still impedes economic activity in certain areas and there is some evidence that policy uncertainty has increased.

- **Financial sector.** Continued strong financial sector supervision and planned improvements in 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 in banks that are not viable. Full implementation in practice of the MoU on crisis coordination and cooperation between the NBRM, the Finance Ministry (MoF), and other agencies, remains important to provide a quick response to threats. Increased attention should be put to non-banking financial sector institutions over the upcoming period to ensure that risks remain manageable.

- **Electricity sector.** The new Energy Law goes a long way towards full compliance with the country's obligations under the Energy Community Treaty. The adoption of secondary legislation and full implementation of the Law will create a more transparent regulatory framework and ensure a tariff structure that reflects 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. In view of financial and environmental considerations, end-use energy efficiency improvement, use of PPPs and renewable energy sources should be promoted.

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

- **The Bank recently began an assessment of the FYR Macedonia's competitiveness**. In particular, the assessment will try to identify policy measures to: (i) facilitate the expansion of exports, as well as expand the range of products and service exported; (ii) upgrade the quality and value added of export; and (iii) support sectors that have the potential to generate jobs. The findings of this assessment will feed into the upcoming Macedonia Competitiveness Development Policy Loan series.

- **The Bank also started the preparation of the new Country Economic Memorandum** which should help define an overall growth strategy for Macedonia by integrating sustainability and green growth into the main objectives of stronger growth, job creation and attracting FDI and EU accession. The objective is to support the Government in: (i) assessing the economic costs and benefits of a shift to greener growth taking into account projected climate change; and with this knowledge, (ii) prioritizing actions for implementation.

- **The Fund will retain the lead in tax administration reform.** It has a full-time resident advisor in place (until August 2011, funded by the Dutch government) as well as a full program of technical assistance missions. Priorities for the coming year include reviewing the progress in modernizing revenue administration, addressing compliance problems that have emerged with the economic slowdown, increasing training for Public Revenue Office staff, and coordinating technical assistance with other donors.

- **The Bank will continue the dialogue with the Government** in order to reassure the sustainability of the pension system and prevent a drain on general tax revenues.

- **An Institutional Development Fund (IDF) will also support institutional development** in of the Ministry of Health in setting up a modern accreditation system to help monitor and evaluate the quality of care provided by health sector institutions with standards, procedures and capacity to meet international standards. The accreditation of health facilities will be used as a tool for continuous quality improvement and ensuring the protection of patients' rights.

- **Social safety net.** The Bank will continue to advise the government on measures to improve the functioning of the social safety net through its Conditional Cash Transfers (CCT) operation and the Programmatic Poverty Assessment analytical work. Immediate priorities include introduction of a cash benefit management information system and continued implementation of a conditional cash transfer program to ensure compliance with requirements for mandatory secondary school enrollment. Streamlining and consolidation of cash benefits and their improved administration and targeting are expected over the medium-term.

- **Both the Fund and the Bank will encourage the authorities to implement realistic, predictable, and transparent budget procedures.** The Fund will also encourage the authorities to anchor fiscal policies in a credible medium-term fiscal framework and is prepared to offer technical assistance for that purpose. In addition, the Fund will provide technical assistance on domestic debt market development.

- **A considerable part of the World Bank's portfolio is providing support to improve the business environment**. Infrastructure improvements are supported under the Regional and Local Roads Project, Municipal Services Improvement Project and the Second Trade and Transport Facilitation Project. At the same time, the Real Estate Cadastre and Registration Project, the Legal and Judicial Implementation Project and the Agriculture Strengthening and Accession Project support development and reform of institutions to support growth. The ongoing Technical Assistance for Higher Education aims to assist the authorities in building skills, while a planned regional report will also evaluate Research & Development practices in the country. An innovative regional Disaster Management will provide financial protection from losses caused by climate change and geo-hazards.

- **The Fund and Bank have both been involved in financial sector reform,** including through the November 2008 joint FSAA update as well as the extensive dialogue during the preparation of the 2009 World Bank First Development Policy Loan (DPL1). The Fund has also provided technical assistance in the area of contingency planning, stress testing of the banking system, and macro modeling. The Bank, through the Policy-based Guarantee (PBG) and the Balkan Financial Sector Technical Assistance Facility will: i) (with input from IMF staff) assist the authorities in reviewing the bank resolution framework and the operational capacity of the Deposit Insurance Fund and ii) provide advice on the operational rules for the Financial Stability Committee and the design of a solvency test in case of Lender of Last Resort request. The Bank will also work with the authorities to improve the framework for Motor Third Party Liability (MTPL) insurance

- **The Bank has the lead on electricity sector reform.** It will continue to encourage the adoption over time of realistic prices of electricity and elimination of subsidized rates. As part of the dialogue, the Bank is advising the government on promoting use of alternative ways of financing energy sector investments (PPPs, including by having IFC as a transaction advisor in a large hydropower concession project) as well as diversifying energy sources (use of gas, renewables, wind etc.). The Bank is also providing assistance to strengthen the Energy Regulatory Commission. The Bank's Energy Community of South East Europe Adaptable Programmatic Loan 3 (ECSEE APL3) and the Lukovo Pole Renewable Energy Project support improvements of interconnectivity and the transmission grid and reliability of production. Finally, the recently restructured Global Environment Facility project promotes energy efficiency in the public sector.