

6. Modeling the dynamics of total public sector debt is beyond the current scope of the DSA. Public sector debt includes the central government, sub-national governments such as municipalities, public agencies, state-owned enterprises, and public financial institutions such as the development banks and the National Bank. However, as most of these debts are ultimately guaranteed by the government, and hence are either direct or contingent claims on the sovereign (as is the case for example for government guarantees), the broader public debt concept is indeed relevant for debt sustainability. At end-2012 total public debt (excluding NBRM debt) stood at 38.7 percent of GDP, or 4.9 percentage points above central government debt. While it would be useful to assess the debt dynamics of this broader category of the public sector, insufficient information on the medium-term plans—including deficit projections—of all these entities, and particularly of public corporations, constrains such an exercise.

Annex II. FYR Macedonia: Risk Assessment Matrix¹

Nature/Source of Main Threats	Likelihood of Risk	Expected Impact of Risk (high, medium, or low)
1. Financial stress in the euro area re-emerges and bank-sovereign links re-intensify (triggered by a stalled or incomplete delivery of euro area policy commitments)	Medium	<p>Low/Medium</p> <ul style="list-style-type: none"> • Financial channels for transmission are relatively limited. Public sector external financing requirements are met for 2013, and banks are funded mainly by resident deposits. • Real channels dominate. Any further drag on growth in the euro area would be transmitted through strong trade links. Direct exports to the euro area account for 50 percent of total exports. Indirect exposure to the euro area is even higher, given large export shares to Kosovo, Serbia, and Bulgaria. The high import content of exports and the increased reliance on specialized exports facing more robust demand, mitigate to some degree the effects on the balance of payments.
2. Protracted period of slower European growth	Medium	<p>Medium</p> <ul style="list-style-type: none"> • Setbacks in the implementation of FDI plans would lead to weaker than expected investment, reducing medium term potential growth. Debt dynamics would worsen.
3. Stress in the Greek or Slovenian parent banks	Low	<p>High</p> <ul style="list-style-type: none"> • Confidence shocks could result in deposit outflows—particularly corporate deposits which have shown volatility in past episodes of stress. This could put pressure on the peg and require sharp tightening of monetary policy. <p>Mitigating Factors:</p> <ul style="list-style-type: none"> • High bank liquidity, as well as the NBRM’s capacity to supply the system with ample liquidity on a short notice should serve to stabilize the system. • Deposit insurance coverage limits are adequate. The authorities could consider expanding the coverage of the Deposit Insurance Fund, which currently includes only deposits of natural persons.

¹ The Risk Assessment Matrix shows events that could materially alter the baseline path discussed in this report.



FORMER YUGOSLAV REPUBLIC OF MACEDONIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION AND FIRST POST-PROGRAM MONITORING DISCUSSIONS—INFORMATIONAL ANNEX

May 30, 2013

Prepared By

European Department

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FUND RELATIONS

(As of April 30, 2013)

Missions. Article IV and first Post-Program Monitoring mission, Skopje, April 3-16, 2013. Concluding statement is available at: <http://www.imf.org/external/np/ms/2013/041613.htm>

Staff team. Ivanna Vladkova Hollar (head), Marc Gerard, Alexis Meyer Cirkel, (all EUR), and Alexander Tieman (Resident Representative).

Discussions. The staff team met Deputy Prime Minister and Minister of Finance Stavreski, National Bank Governor Bogov, 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.

Membership Status:

Joined 12/14/92; Article VIII

General Resources Account:

	<u>SDR Million</u>	<u>Percent of Quota</u>
Quota	68.90	100.00
Fund holdings of currency	265.90	385.92
Reserve position	0.00	0.00

SDR Department:

	<u>SDR Million</u>	<u>Percent of Allocation</u>
Net cumulative allocation	65.62	100.00
Holdings	2.60	3.96

Outstanding Purchases and Loans:

	<u>SDR Million</u>	<u>Percent of Allocation</u>
Precautionary and Liquidity Line ^{1/}	197.00	285.92

^{1/} Formerly Precautionary Credit Line (PCL)

Latest Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount</u>	<u>Amount</u>
			<u>Approved</u>	<u>Drawn</u>
			(SDR Million)	(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**Projected Payments to the Fund (Expectation Basis)**

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

	Forthcoming				
	2013	2014	2015	2016	2017
Principal		73.88	98.50	24.63	
Charges/Interest	<u>1.62</u>	<u>2.04</u>	<u>1.14</u>	<u>0.20</u>	<u>0.04</u>
Total	1.62	75.91	99.64	24.82	0.04

Exchange Arrangement:

The currency of the FYR of Macedonia is the denar. The FYR of 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 2012, the official exchange rate was 46.7 denars per U.S. dollar and 61.5 denars per euro. The FYR of Macedonia has accepted the obligations of Article VIII, Sections 2, 3, and 4 with effect from June 19, 1998.

Article IV Consultations:

The first consultation with the FYR of Macedonia was concluded in August 1993. The last consultation was concluded on June 1, 2012 ([IMF Country Report 12/133](#)). The FYR Macedonia is on the standard 12-month Article IV consultation cycle, while Post-Program Monitoring is expected to take place every 6 months.

Technical Assistance (since 2006):

Purpose	Department	Date
FX Reserves Modeling	RES/MCM	February 2012
Public Financial Management	FAD	November 2012
Provisioning Regulation	MCM	November 2012

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

STA TA Evaluation	STA	September 2012
National Accounts	STA	September 2012
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 and November 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

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

Resident Representative

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

IMF-WORLD BANK COLLABORATION

Background

The Bank and the Fund country teams on the Former Yugoslav Republic of Macedonia maintained close collaboration, seeking synergies and harmonizing policy recommendations. Close coordination has resulted in largely shared views of the economic situation in the country, particularly in the context of the latest Public Expenditure Policy Based Guarantee (PEPBG), for which the Fund provided an Assessment Letter in November 2012. The area of public financial management has been at the center of discussions over the last year, and the measures supported by the PEPBG on public finance management have benefited from the findings and recommendations of the recent IMF TA mission.

Key Areas of World Bank Involvement

The World Bank program in FYR Macedonia focuses on three pillars: (i) faster growth by improving competitiveness; (ii) more inclusive growth by strengthening employability and social protection, and continued improvement of social programs; and (iii) more sustainable resource use and an analysis of options for “greener” economic growth. Because FYR Macedonia’s future growth and development depends fundamentally on the pace of EU accession, virtually every intervention in the program is designed to help it prepare for the EU membership.

- A series of two budget support operations (Competitiveness DPL) has been made available to the Government with the aim to improve the competitiveness of the economy to develop a stronger export-oriented enterprise sector. The first of these has been approved and is under implementation; the second loan is under preparation.
- The World Bank also provided recently two Policy Based Guarantees for two loans the Government contracted with commercial Banks, together in the amount of €380 million. The Policy Based Guarantees supported critical reforms needed to strengthened robustness of public financial management and help mitigate the impact of the euro zone turmoil.
- The Real Estate Cadastre and Registration Project (US\$26 million) is supporting the digitalization of cadastral maps and securing land and real estate titles. The Regional and Local Roads Program Support Project (US\$105 million) is helping with the rehabilitation of the regional and local roads and provides institutional support to improve the management of roads. The World Bank finances the energy sector through the Electric Power Development Energy Community of South East Europe Project APL3 (US\$44 million) to improve the transmission grid, including an interconnection with Serbia. Local development is assisted through the Municipal Services Improvement Project (US\$75 million), which is helping to improve transparency, financial sustainability and delivery of targeted municipal services in selected municipalities. The World Bank is also active in the human development sector through the Conditional Cash Transfer Project (US\$25 million).

Appendix: Macedonia: Bank and Fund Planned Activities in Macrocritical Structural Reform Areas, June 2012–May 2014

Title	Products	Provisional Timing of Missions	Expected Delivery Date
1. Fund work program	2 nd Post-Program Monitoring Report	September/October 2013	December 2013
	Article IV consultation and 3 rd Post-Program Monitoring Report	Spring 2014	June 2014
	Technical assistance on budget procedures	September/October 2013 (tentative)	TA report after the mission
	Technical Assistance to help the SSO improve its National Account statistics	Ongoing through a resident advisor (based in Sarajevo)	TA reports after each mission
	Technical assistance to the Public Revenue Office on modernizing revenue administration	Multiple short-term expert visits, the first one scheduled for June 2013 (tentative)	TA reports after each mission
	Technical assistance to further improve macroeconomic forecasting at the NBRM	2 short-term missions, Fall 2013 and Spring 2014	TA reports after each mission
2. Bank work program	Macro-monitoring	Continuous and periodic missions, next mission planned in May 2013.	BTORs and Aide memoires after mission
	South eastern Europe Regular Economic Update	Continuous and periodic missions, next mission planned in May 2013.	Editions published every June and December
	Policy Based Guarantee supervision and assessment	Ongoing, most recent mission in March 2013.	Implementation Completion Report expected in June 2013.
	Public Expenditure Policy Based Guarantee	Continuous and periodic missions, most recently in	BTORs and Aide memoires after

6/10/13

Title	Products	Provisional Timing of Missions	Expected Delivery Date
	supervision	March 2013.	mission
	Treasury and Revenue forecast practitioner exchange	MOF Treasury and Revenue forecast team invited to visit Washington DC later in 2013	Continuous
	Real Estate Cadaster and Registration project supervision	Continuous	Project closing December 2014
	Municipal Services Improvement project supervision	Continuous	Project closing November 2017
	Regional and Local Roads Program Support project supervision	Continuous	Project closing December 2015
	CCT project supervision	Continuous	Project closing February 2014
	ECSEE APL 3 supervision	Continuous	Project closing March 2014
	Balkan Financial Sector Technical Assistance Facility (TA to NBRM and MoF on bank resolution; LoLR etc.)	TBD	
	Green Growth and Climate Change Analytic and Advisory Services	TBD	August 2013