



# REPUBLIC OF NORTH MACEDONIA

November 2022

## REQUEST FOR AN ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF NORTH MACEDONIA

In the context of the Request for an Arrangement Under the Precautionary and Liquidity Line, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 21, 2022, following discussions that ended on October 28, 2022, with the officials of Republic of North Macedonia on economic developments and policies underpinning the IMF arrangement under the Precautionary and Liquidity Line. Based on information available at the time of these discussions, the staff report was completed on November 4, 2022.
- A **Statement by the Executive Director** for Republic of North Macedonia.

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## IMF Executive Board Approves SDR 406.87 million (about €530 million) Precautionary and Liquidity Line for North Macedonia

### FOR IMMEDIATE RELEASE

- The IMF Executive Board approved on November 21 a two-year arrangement for North Macedonia under the Precautionary and Liquidity Line (PLL) in the amount of SDR 406.87 million (about €530 million). The PLL arrangement will support the authorities' policies to address the economic fallout from two consecutive global shocks; the Covid-19 pandemic and Russia's invasion of Ukraine.
- The approval of the PLL arrangement allows an immediate disbursement of SDR 84.18 million (about €110 million), which would be followed by another SDR 119.26 million (about €155 million) disbursement upon completion of the first review planned in May 2023. The authorities intend to draw on the PLL arrangement during the first year.
- North Macedonia qualifies for the PLL based on its sound economic fundamentals, strong institutional policy frameworks, track record of good economic performance and policy implementation, and commitment to maintain such policies in the future.

**Washington, DC – November 22, 2022:** The Executive Board of the International Monetary Fund (IMF) approved on November 21 North Macedonia's request for a two-year arrangement under the PLL for SDR 406.87 million (290 percent of North Macedonia's quota, equivalent to about €530 million). The authorities intend to draw the amounts available in the first year of the arrangement (SDR 203.44 million, or about €265 million), while treating the amounts available during the second year of the arrangement as precautionary.

North Macedonia has been hit by two consecutive global shocks. While recovering from the pandemic, the outlook deteriorated again following Russia's invasion of Ukraine and sharply rising global commodity prices. Given high dependence on energy imports, the external financing need has increased, while at the same time, global financial conditions have tightened, increasing the cost of market financing.

The authorities' policy priorities under the PLL arrangement include safeguarding public finances, reducing energy subsidies and improving energy efficiency while protecting the vulnerable, tackling high inflation, and preserving financial stability. The arrangement will help meet external financing needs in the next 12 months and provide insurance against downside risks in the following year.

The PLL was introduced in 2011 to meet more flexibly the liquidity needs of member countries with sound economic fundamentals and strong records of policy implementation but with some remaining vulnerabilities.

Following the Executive Board discussion, Mr. Bo Li, Deputy Managing Director and Chair, made the following statement:

“Prior to the pandemic, North Macedonia’s sound policy framework fostered solid and broad-based growth, with moderate public debt and external current account deficits. However, the macroeconomic situation deteriorated substantially due to the pandemic and the commodity price shock following Russia’s invasion of Ukraine. The two-year PLL arrangement of SDR 406.87 million (290 percent of North Macedonia’s quota, equivalent to about €530 million), will support the authorities’ policies and boost international reserves, and can also serve as catalyst to obtain other external financing.

“North Macedonia qualifies under the PLL because it has sound economic fundamentals and institutional policy frameworks, is implementing—and has a track record of implementing—sound policies, and remains committed to maintaining such policies.

“The government has taken action to limit the fiscal deficit in 2022 and consolidate public finances in 2023, while protecting those most affected by the commodity price shock. The authorities have introduced block tariffs for electricity and hiked electricity tariffs to mitigate the fiscal and external impact of the shock. They are committed to containing wage and pension benefit increases, given the limited fiscal space and the risks to inflation. To prevent high inflation from becoming entrenched, the National Bank of the Republic of North Macedonia (NBRNM) is tightening monetary policy.

“The authorities’ policy agenda under the arrangement focuses on continued deficit reduction over the medium term, underpinned by the newly introduced fiscal rules. They will scale up public investment, while carefully managing associated fiscal risks. To reduce the fiscal and external vulnerabilities to energy price shocks, they plan to phase out untargeted energy subsidies, while strengthening the targeted support for the vulnerable, and improve energy efficiency. The NBRNM is committed to continued tightening to address any persistent inflation differential with the euro area. These policies would strengthen fiscal and reserves buffers, allowing the country to exit from the PLL arrangement when it expires in 2024.”



# REPUBLIC OF NORTH MACEDONIA

## REQUEST FOR AN ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE

November 4, 2022

### EXECUTIVE SUMMARY

**Context.** North Macedonia's economy has been hit by two large external shocks. While recovering from the pandemic, the outlook deteriorated again following Russia's invasion of Ukraine and sharply rising energy and food prices. Given high dependence on energy imports, the external financing need has increased, while at the same time, global financial conditions have tightened, increasing the cost of market financing.

**Outlook and Risks.** Economic activity is projected to slow going into 2023, driven by a combination of external and domestic factors. A modest recovery in late 2023 is projected to follow, as global energy and food prices start to subside. Risks are firmly to the downside, with slower external demand resulting from a global recession, a sharper rise in international energy prices, and a further tightening of financial market conditions being the main ones.

**PLL Arrangement.** The authorities have requested a 24-month arrangement under the Precautionary and Liquidity Line (PLL) in the amount of 290 percent of quota (SDR 406.87 million). Staff assess that North Macedonia qualifies for the PLL, performing strongly in four out of five qualification areas and not substantially underperforming in the fiscal policy area. Economic fundamentals and policy frameworks are sound, and the authorities have a track record of implementing generally sound policies. The arrangement will support the authorities' policies to address the impact of the shocks on the fiscal and external positions.

**Access.** Staff estimate that there is an actual balance of payments need. The authorities intend to draw the full amount of 145 percent of quota (SDR 203.44 million) available in the first year of the arrangement. They intend to treat the other 145 percent of quota that would be made available during the second year of the arrangement on a precautionary basis.

**Process.** An informal Board meeting on a possible PLL arrangement was held on April 15, 2022.

Approved By  
**Oya Celasun (EUR)**  
**and Boileau Yeyinou**  
**Loko (SPR)**

A staff mission visited North Macedonia during April 27–May 4, 2022, July 12–15, 2022 and October 25–28, 2022 and held virtual meetings with the authorities. The mission met with Deputy Prime Ministers Grubi and Bytyqi, Finance Minister Besimi, Governor Angelovska Bezhoska, and other senior officials, as well as representatives from the private sector, the European Union, and international financial institutions. The staff team comprised Ms. Barkbu (head), Messrs. Ayerst, Cabezon, Gade, Mangov, Roldan (all EUR), Grohovsky (SPR), Ms. Eble (Resident Representative), and Ms. Kovachevska and Mr. Sulejmani (both IMF local economists). Mr. Miniane (incoming mission chief) also participated in the October mission. Messrs. Dresse, Tevdovski, and Verhelst (OED) attended most of the meetings. Ms. Lee, Tenali (both EUR), and Davceva-Mijoski (IMF local office) assisted the mission.

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