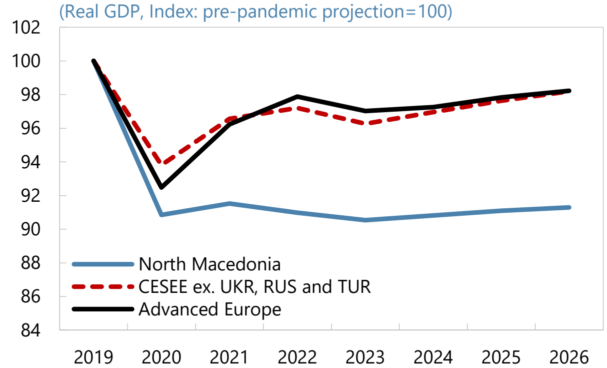
CONTEXT

1. The economy of North Macedonia has been hit by two large global shocks. Due to the Covid-19 pandemic, GDP contracted by 6 percent in 2020.[1] A strong policy response helped spur a recovery, but the war in Ukraine entails another setback for the economy. Sharply rising food and energy prices have created a cost-of-living crisis, and along with high uncertainty and tighter financing conditions, will reduce domestic demand. Lower external demand from trading partners and a prolongation of the global supply disruptions are dampening exports. By 2024, the output loss relative to the pre-pandemic path is expected to reach 9 percent, well above the averages for CESEE and Advanced European countries. The larger impact reflects several factors, including a higher share of energy and food in household spending, and smaller scope for policy support because of tight financing conditions, and lack of access to the Next Generation EU funds.

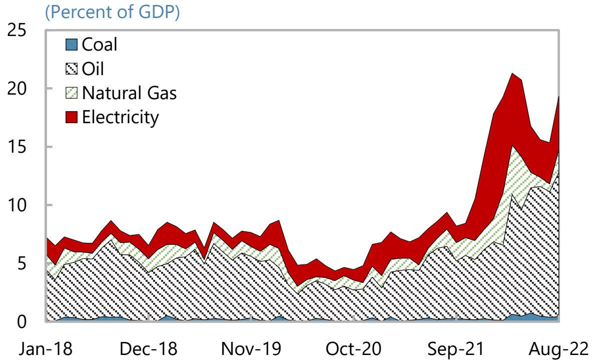
Cumulative Scarring, 2019-2026
(Real GDP, Index: pre-pandemic projection=100)



Sources: WEO; WEO Jan. 2020; and IMF staff calculations.

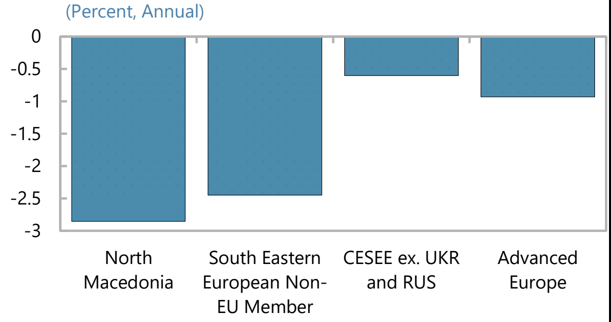
2. The terms of trade shock and weak external demand are creating balance of payments pressures. The energy trade deficit has ballooned, more than in other countries given the high dependence on energy imports. In early 2022, during a period of high energy imports, the National Bank of the Republic of North Macedonia (NBRNM) intervened in the foreign exchange market to support the de-facto exchange rate peg to the euro. It has, however, recovered reserves during the summer, due to inflows from remittances and government external market financing, bringing reserve coverage to about 100 percent of the ARA metric at end-October.

Energy Imports
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

Commodity Terms-of-Trade Shock, July 2022
(Percent, Annual)



Sources: IMF Commodity Terms-of-Trade Database and IMF staff calculations.

[1] A recent press release from the Statistics Office of North Macedonia informs that real GDP contracted by 4.7 percent in 2020, but the full dataset is not yet available. This report uses the most recently available GDP dataset.

3. The PLL arrangement will support the authorities' policies to address the shocks and help replenish macroeconomic buffers. To address the shocks, the authorities have put in place targeted fiscal support measures and tightened monetary policy. In addition, they have introduced increasing-block tariffs for electricity and hiked electricity and heating tariffs to reduce the fiscal and external vulnerability to the energy price shock. The PLL arrangement will help boost international reserves and can serve as catalyst to obtain other external financing, both from other IFIs and market sources.

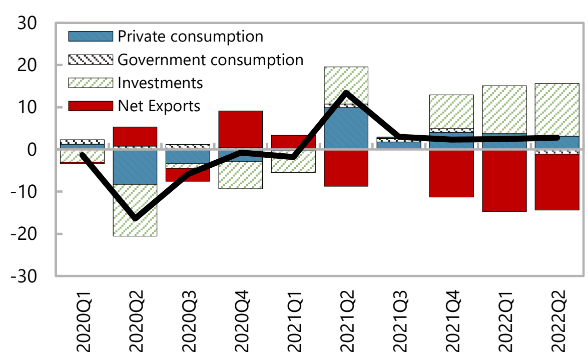
4. After political instability in 2021, there has been progress in advancing the legislative agenda this year. The current government was elected by parliament in January 2022 and retains a majority, building largely on the previous coalition that was formed after the 2020 parliamentary elections, and has passed important laws. The next elections will take place by July 2024.

5. Long awaited EU accession negotiations opened in July, providing a welcome anchor for reforms. North Macedonia first became a candidate country in 2005, but the start of negotiations was blocked by a veto from Greece until 2019, and subsequently from Bulgaria. In July 2022, the government signed a protocol with Bulgaria, which paved the way for opening accession talks. The protocol was subject to a parliamentary vote, but will require constitutional changes. Important reforms will be undertaken to prepare for EU accession, which are expected to increase the economy's growth potential.

RECENT DEVELOPMENTS

6. Growth remains solid, but momentum has slowed. Real GDP growth recovered to 4.0 percent in 2021 and averaged 2.6 percent year-on-year in the first half of 2022. Industrial production, although volatile, has remained solid and retail sales, adjusted for prices, have grown at healthy rates. While manufacturing sentiment has held up well, overall economic sentiment remains low, after taking a hit in early 2022, and consumer confidence continues to decline.

Contributions to GDP Growth

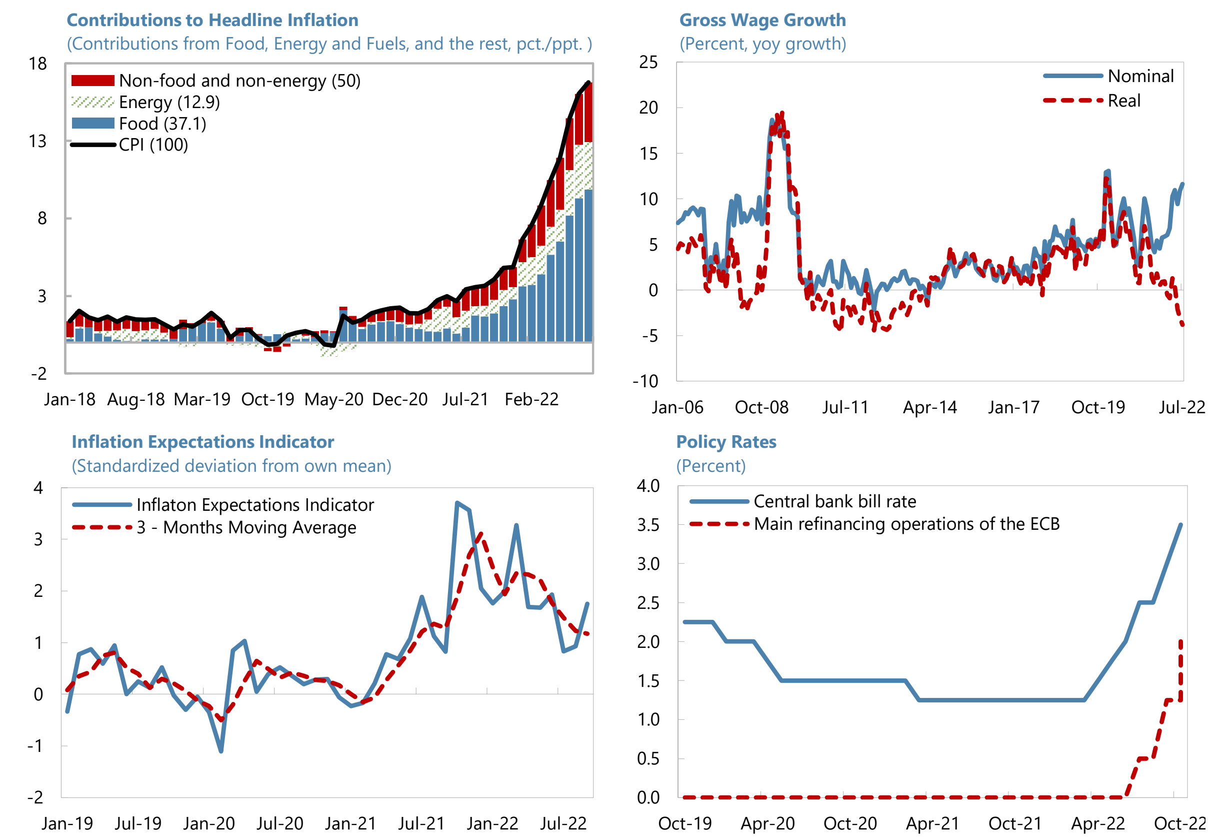


Sources: Haver Analytics; SSO; and IMF staff calculations.

7. Fiscal policy in 2022 has been re-oriented to address the cost-of-living crisis, while safeguarding public finances. The supplemental budget for 2022, adopted in July, targets an overall fiscal deficit of 5.3 percent of GDP, up from 4.3 in the initial budget adopted in 2021. It supports low-income households, limits temporarily the increase in end-consumer prices for electricity and heating in the regulated market, and helps build food reserves and protect domestic agricultural production. Higher revenues and lower capital spending, consistent with budget execution data, partly offset the additional spending. The temporary tax cuts on food and fuel products that were implemented following Russia's invasion of Ukraine were not extended when they expired in May. Budget execution data through October shows that the end-year target for the deficit is well within reach.

8. The NBRNM is tightening monetary policy to quell rising inflation expectations and protect the de-facto exchange rate peg. Headline inflation rose to 18.7 percent in September reflecting the high passthrough of the global energy and food price shock (Figure 1). Wage growth also increased, reaching 11.5 percent in July 2022, partly as a result of the March minimum wage hike. The NBRNM's monetary policy response started in late 2021, with unsterilized FX interventions. In April, it embarked on a policy rate tightening, and has raised the policy rate by 225 basis points with six consecutive hikes, thereby increasing the spread to the European Central Bank (ECB). It has also adjusted reserve requirement rates, both in June and September, to disincentivize shifts into euro deposits. As a result of these actions, inflation expectations have moderated and pressures on the exchange rate have abated.

Figure 1. North Macedonia: Price Developments and Monetary Policy



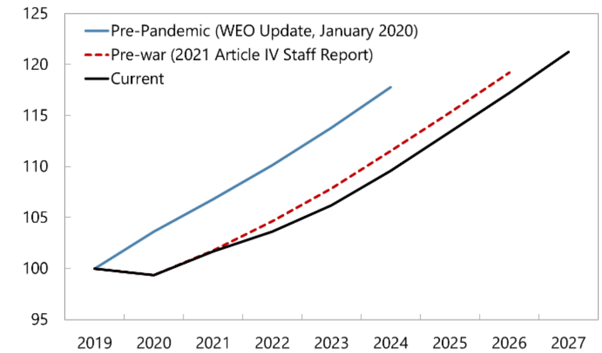
Source: Haver Analytics, SSO, European Commission, IMF staff calculations.

OUTLOOK AND RISKS

9. Real GDP growth is projected to remain subdued in 2022 and 2023. Higher commodity prices have significantly lowered households' purchasing power and—along with high uncertainty and tighter financing conditions—will reduce domestic demand. Lower external demand from trading partners and a prolongation of the global supply disruptions are expected to dampen exports. At the same time, the milestone agreement to join the EU provides a strong positive signal. Moreover, the recovery from the pandemic is still incomplete. On this basis, growth is expected at

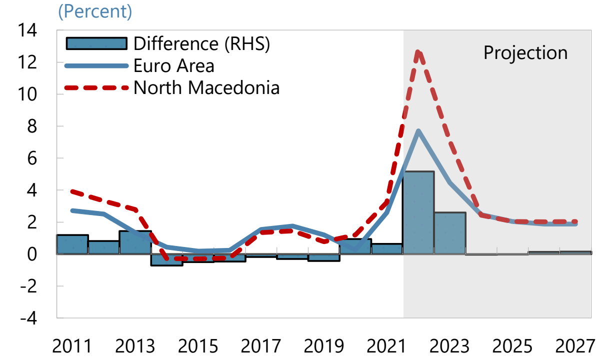
2.7 percent in 2022 and 2.9 percent in 2023—a 2½ percentage points cumulative downward revision relative to the forecast prior to the war in Ukraine. Over the medium term, growth would rise above potential for a few years, as public investment is scaled up and reforms progress toward EU accession.

Potential Output
(Real Index, 2019 = 100)



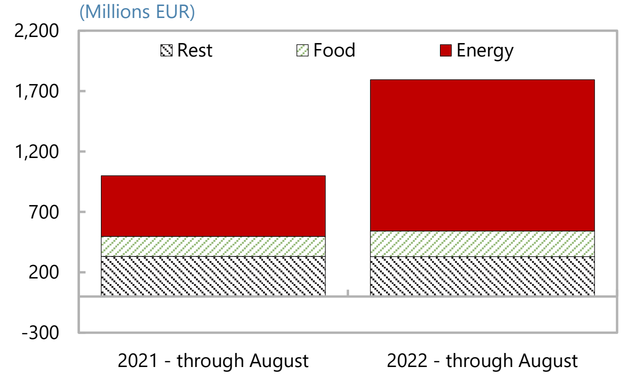
Sources: Haver Analytics, SSO, IMF staff calculations.

Headline Inflation
(Percent)



Sources: Haver Analytics; World Economic Outlook; and IMF staff calculations.

Trade Deficit - 2021 and 2022 (both through August)
(Millions EUR)



Sources: Haver Analytics; SSO; and IMF staff calculations.

10. Inflation is expected to peak in 2022, and come down in 2023 as global energy and food prices moderate. Inflation is projected at 12.9 percent on average in 2022. Still high inflation expectations, indexation, and high nominal wage growth are expected to create some domestic inflationary pressures in 2023, keeping inflation at 7.1 percent on average for the year. Over the medium term, inflation would gradually decline to around 2 percent by 2025, helped by the close link to euro area inflation under the de-facto peg.

11. The current account deficit is set to widen considerably this year, before narrowing somewhat in 2023. The trade deficit is projected to exceed 24 percent of GDP this year, compared to 20 percent in 2021, mostly reflecting higher energy prices. Some of the terms of trade shock is being mitigated by higher remittances. As a result, the current account deficit will rise to 7.5 percent of GDP this year before narrowing to 4.2 percent of GDP in 2023. In the financial account, the private sector is expected to continue accumulating foreign assets, as in other periods of heightened uncertainty, with a faster growth of household deposits in euros than in local currency. These balance of payments pressures are expected to be partly offset by FDI inflows and government borrowing.

12. With a challenging global environment, risks are to the downside and unusually large. Additional energy and food price shocks or a worsening security situation could further increase inflation and weaken the global growth outlook, and the global tightening in financial conditions could worsen the financing situation for emerging markets, as depicted in the adverse scenario (Box 3). A reemergence of domestic political instability could hamper the implementation of the authorities' policy program and weaken external market financing prospects. On the positive side, a

renewed push for reforms, reflecting the opening of EU accession talks, could boost capital inflows, confidence, and the reform momentum.

ASSESSMENT OF QUALIFICATION FOR THE PLL

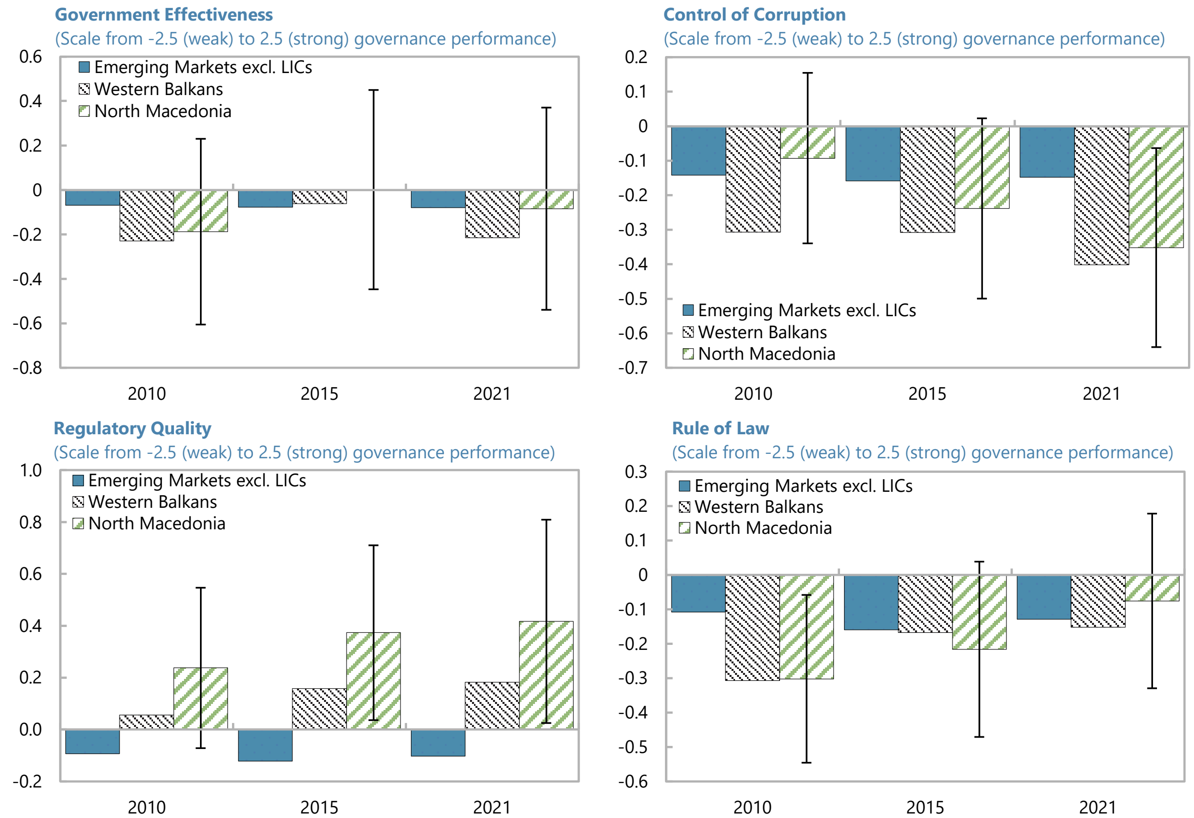
13. **Staff assess that North Macedonia meets the qualification criteria for a PLL arrangement.** The country's policies were assessed as generally positive by the Executive Board in the context of the Article IV consultation completed in February 2022. Executive Directors were overall supportive during the April 2022 informal meeting when PLL qualification was discussed on a preliminary basis.

14. **Economic fundamentals and institutional policy frameworks are sound.**

- Following the shocks from the pandemic and the war in Ukraine, growth has slowed, inflation has increased, and the external balance has deteriorated, as in many other countries. However, economic fundamentals remain overall strong, and the authorities are taking the appropriate measures to mitigate the impact of the shock.
- The fiscal framework was further strengthened by the new organic budget law adopted in September 2022, which establishes fiscal rules and provides a basis to substantially improve the budget process. The government is implementing an action plan to address the recommendations of the IMF's 2020 Public Investment Management Assessment.
- Central bank independence is anchored in law, and a 2022 review under the IMF's central bank transparency code found that the NRBNM is implementing advanced transparency practices. The NRBNM's strong track record has cultivated a high level of public trust.
- Important progress has been made to strengthen the governance framework toward EU standards, although further actions are needed. Judicial independence has been improved, including through the 2020 Law on the Public Prosecutor's Office. The institutional framework for prevention of corruption has also been strengthened and there are proactive investigations, prosecutions, and final convictions in corruption cases, including at high levels. Parliament adopted a national strategy for prevention of corruption and conflict of interest in April 2021 and a new AML/CFT law in July 2022.
- Relative to other emerging market economies and Western Balkan countries, North Macedonia performs well on governance indicators such as government effectiveness, regulatory quality, and rule of law from the Worldwide Governance Indicators (Figure 2). The indicator for control of corruption improved between 2020 and 2021, but shows some deterioration after 2015, although not a at statistically significant level.

15. **The authorities are implementing, and have a track record of implementing, generally sound policies, and remain committed to maintaining such policies in the future.** The authorities responded timely and adequately to dampen the economic impact of the pandemic, and appropriately scaled back support as the need declined. In the context of the worsening in global financial conditions and the commodity price shock following the war in Ukraine, they

Figure 2. North Macedonia: Worldwide Governance Indicators



Source: Worldwide Governance Indicators; D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank); and IMF staff calculations. Note: The Worldwide Governance Indicators are perception-based indicators, and a cautious interpretation of the indicators is warranted. In its interpretation, staff also assess confidence bands on the indicators. Upper/lower 90 percent confidence band shown on North Macedonia.

requested a PLL arrangement. As laid out in their Written Communication, they are taking strong measures to address these shocks and are committed to taking any further action that becomes necessary. The process toward EU accession is expected to further strengthen the reform momentum.

16. North Macedonia performs strongly in four out of the five qualification areas and does not substantially underperform in the fiscal policy area.

External Position and Market Access. *North Macedonia performs strongly.*

- ***Criterion 1. Sustainable external position.*** Based on the latest external balance assessment (EBA-Lite) presented to the Board in February 2022, North Macedonia's external position is estimated to be broadly in line with medium-term fundamentals and desirable policies. At end-2021, gross external debt stood at 82 percent of GDP, of which about a third is short-term debt at remaining maturity and 40 percentage points represent public sector debt.

- ***Criterion 2. A capital account position dominated by private flows.*** Private capital flows constitute the largest share of capital flows, amounting to 73 percent, on average, in the three-year period from 2019 through 2021. Net cumulative FDI inflows in the last five years

represented about half of financial account flows. The net international investment position stood at -62 percent of GDP at end-2021, though the majority represents FDI liabilities (85 percent). Gross external debt of the banking sector is small, at 7.6 percent of GDP at end-June 2022.

- ***Criterion 3. A track record of steady sovereign access to international capital markets at favorable terms.*** Following its first Eurobond issuance in 2005, North Macedonia has accessed international capital markets regularly, with three Eurobond issuances totaling €1.9 billion over the last five years, more than ten times the Fund quota. The most recent issuance in March 2021 was at a 1.9 percent yield and a 7-year maturity (Text Table 1). Against the backdrop of the global tightening in financial conditions, sovereign spreads have increased considerably over the past months, currently at about 530 basis points on average across issuances but remaining in line with peers in the Western Balkans. In September, the government issued a 3-year registered marketable bond with an international bank worth €250 million, at a 375 basis points spread over the 6-month Euribor rate.

Text Table 1. North Macedonia: Eurobond Issuances to Date

(Million euros, basis points, percent)

	Issue Date	Due Date	Amount (€ million)	Spread with Bund (bps)	Yield-to-maturity (percent)	Coupon (percent)	Over-subscription
Eurobond I	2005	2015	150	N.A.	4.69	4.625	N.A.
Eurobond II	2009	2013	175	N.A.	10	9.875	N.A.
Eurobond III	2014	2021	500	362.2	4.25	3.975	2.4
Eurobond IV	2015	2020	270	526.1	5.125	4.875	2.2
Eurobond V	2016	2023	450	628	5.875	5.625	1.6
Eurobond VI	2018	2025	500	280.3	3	2.75	7
Eurobond VII	2020	2026	700	455.2	3.95	3.675	4.4
Eurobond VIII	2021	2028	700	236.9	1.866	1.625	2

Source: Ministry of Finance; Bond Radar; and IMF staff calculations.

- ***Criterion 4. A reserve position that is relatively comfortable when the arrangement is requested on a precautionary basis.*** There is an actual, not precautionary, BOP need in the first twelve months of the arrangement. Reserve coverage has been broadly adequate, with gross international reserves expected to represent 105 percent of the ARA metric for fixed exchange rate regimes on average over 2020–22, and not fall below 93 percent in any of the years. However, without Fund disbursements under the PLL arrangement, reserve coverage would be, on average during 2022–24, at 94 percent of the ARA metric in the baseline and 86 percent in the adverse scenario. The composition of private short-term debt, with about 87 percent representing trade credits and intercompany loans, is a mitigating factor.

Fiscal Policy. *North Macedonia does not substantially underperform in the fiscal area.*

- ***Criterion 5. Sound public finance, including a sustainable public debt position determined by a rigorous and systematic debt sustainability analysis.***

- The overall fiscal deficit averaged 2½ percent of GDP in the five years prior to the pandemic, before increasing to above 8 percent in 2020 on account of automatic stabilizers and the authorities' policy response. It was brought down to 5½ percent of GDP in 2021, while capital expenditure was scaled up from 2½ percent of GDP in 2020 to 3¼ percent of GDP in 2021. The recent measures taken in response to the energy and food price shock would bring the deficit to about 5¼ of GDP in 2022. The authorities are preparing fiscal measures to reduce the deficit to 3.4 percent of GDP by 2024 and are committed to further consolidation thereafter, consistent with the 3 percent of GDP deficit limit introduced with the organic budget law.
- Staff assess debt as sustainable in the medium term with a high probability. Public debt increased to close to 60 percent of GDP in 2020 and exceeded that threshold in 2021, reflecting the temporary increase in the deficit and the shock to GDP. Debt would remain below 60 percent of GDP during the projection period and gradually decline over the medium term, staying below the high-risk threshold in the baseline. However, as in the past, gross financing needs are large in years with Eurobond amortizations, hovering around the 15 percent of GDP benchmark. To address this, the authorities have taken steps to lengthen domestic debt maturities over the past decade. The interest burden is expected to gradually increase over the medium term, from 1.2 percent of GDP in 2022 to 2.3 percent of GDP in 2027, reflecting the global rise in yields.

Monetary Policy. *North Macedonia performs strongly.*

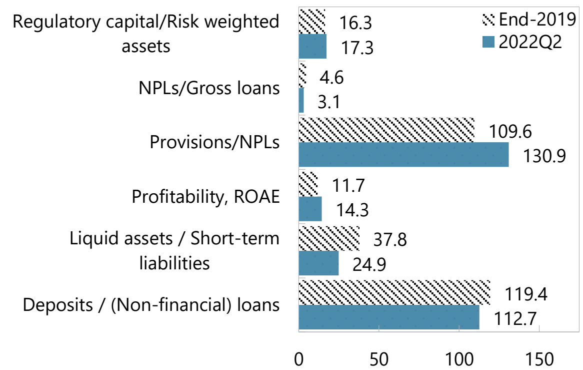
- ***Criterion 6. Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.*** North Macedonia has maintained a de-facto stabilized arrangement since 1997 and the central bank has a strong record of reacting adequately to maintain stability and defend the peg in times of turbulence. Helped by policy actions to increase the use of the denar, loan euroization has declined from about 55 percent in 2009 to 42 percent in September 2022. Deposit euroization has been reduced from about 65 percent in 2009 to 46 percent in September 2022, taking into account an uptick since 2021, which the NBRNM is mitigating through higher reserve requirements on banks' FX liabilities. Inflation has been low, averaging 1.6 percent over the past five years. The recent rise in inflation is mainly driven by global commodity prices. Inflation is currently somewhat higher than in other countries, reflecting the consecutive hikes in the regulated energy tariffs, full passthrough of fuel prices, no VAT rate reductions on food and fuel prices, and a large weight of food in the consumption basket. The passthrough of higher energy prices is important to help the country's adjustment to the terms of trade shock. At the same time, the NBRNM has increased the policy spread with the ECB.

Financial Sector Soundness and Supervision. *North Macedonia performs strongly.*

- ***Criterion 7. Sound financial system and the absence of solvency problems that may threaten systemic stability.*** The banking system is overall well capitalized, with a core Tier 1 capital ratio of 15.9 percent at end-June 2022. Banks benefit from stable funding (mainly local deposits) and liabilities of foreign banks to their parents remain low. NPLs declined to

3.1 percent at end-June 2022. Stress tests by the NBRNM indicate that the banking system could withstand a severe macro-financial shock. The 2021 Article IV consultation and recent missions did not identify any solvency problems that may threaten systemic stability.

Financial Soundness Indicators: Banking Sector, Latest
(Percent)



- ***Criterion 8. Effective financial sector supervision.*** The 2018 FSAP considered that the NBRNM's supervisory approach has a strong legislative and regulatory basis, and well developed onsite and offsite supervisory practices. Since then, the authorities have complied with many of the FSAP recommendations for financial sector supervision and taken steps to improve systemic risk monitoring, liquidity monitoring, and the crisis preparedness and crisis management framework. However, steps advocated by the FSAP to ensure the NBRNM's independence by excluding it from the scope of the law of administrative staff have not been fully completed. During 2021, the NBRNM received IMF technical assistance to strengthen its stress-testing framework. Further legislative actions are needed to give the NBRNM a formal macroprudential mandate, even if the adoption of the Financial Stability Law in July further strengthened coordination across institutions. In November 2021, the European Commission determined that the supervisory and regulatory framework of North Macedonia could be regarded as equivalent to that applied in the EU.

Data Adequacy. *North Macedonia performs strongly.*

- ***Criterion 9. Data transparency and integrity.*** North Macedonia has been a Special Data Dissemination Standard (SDDS) subscriber since 2011 and has adhered to the SDDS Plus since January 2019.

17. North Macedonia does not face any of the circumstances under which the Fund may not approve a PLL arrangement. More specifically, North Macedonia (i) has demonstrated a sustained ability to access international capital markets; (ii) needs to undertake moderate, but not large, fiscal and structural adjustments; (iii) has a public debt position that, with a high probability, is sustainable in the medium term; and (iv) does not have widespread bank insolvencies.

DURATION AND ACCESS LEVEL

18. The authorities have requested a two-year PLL arrangement. A two-year arrangement would be appropriate, given the uncertainty about the duration and impact of the war in Ukraine and the associated economic spillovers, and the time needed to replenish buffers.

19. The authorities intend to draw on the PLL arrangement at approval and the first review, given the actual balance of payments need. The program seeks to ensure that reserves exceed 100 percent of the ARA metric when the arrangement expires. The authorities are committed

to obtaining external market financing of €800 million in 2023 and €300 million in 2024, of which €450 million would be used to amortize a Eurobond coming due in mid-2023.[2] After this, staff estimate an external financing need of €110 million in 2022 and €235 million in 2023, which would be covered by Fund disbursements of approximately €265 million and an EU budget support grant of €80 million. There would be no additional financing need in 2024 in the baseline. This would allow reserve coverage at 93 percent of the ARA metric in 2022, improving to 100 percent in 2023 and 106 percent when the PLL arrangement expires in 2024. In addition, and not incorporated in the baseline, the EBRD has approved a €100 million liquidity line to the state-owned energy company, which is pending parliamentary approval, and additional financing could be provided for investment by the EU as part of its package to Western Balkan countries, expected in the first half of 2023. The EU is also considering the authorities' request for Macro-Financial Assistance.

20. The proposed access in the second year of the PLL arrangement would be precautionary given the potential financing need in an adverse scenario. In a scenario where global growth slows further and financial conditions tighten more, the budget deficit would increase, and Eurobond issuances could become more challenging, resulting in higher interest rates and lower volumes (see Box 3). In such an adverse scenario, the financing need would widen to about €345 million in 2023 and €155 in 2024, and the authorities would likely draw also in the second year of the PLL arrangement, in November 2023 and May 2024.

21. On this basis, staff propose an access level of 145 percent of quota each year of the PLL arrangement. Annual access to Fund financing under the PLL arrangement would be at the normal access limits. Given the expected purchases under the PLL arrangement in the baseline scenario, staff propose to phase the available amounts on a semi-annual basis.

CAPACITY TO REPAY THE FUND AND SAFEGUARDS

22. North Macedonia's capacity to repay the Fund is assessed as adequate. North Macedonia has 100 percent of quota outstanding, after drawing on the Rapid Financing Instrument in April 2020. Were the full amount available under the PLL arrangement to be drawn, North Macedonia's exposure to the Fund would peak at 315 percent of quota, or SDR 442 million in 2024 (Table 7). This would represent 13.9 percent of gross international reserves under the adverse scenario, or 3.6 percent of GDP. Nominal debt service to the Fund would peak in 2027, being equivalent to 4.8 percent of reserves and 2.0 percent of exports of goods and services. The authorities have an excellent track record in servicing their obligations, including from the Fund, and, as discussed above, regularly access international markets in normal times. The strength of the authorities' policies under the arrangement also mitigates the risks to the Fund.

[2] The baseline projections incorporate higher market rates on new debt in line with the current tight global financial conditions. The impact is not large, with interest payments staying below 2 percent throughout the program period and gradually increasing to 2.3 percent of GDP by 2027.

23. An update of the 2020 safeguards assessment has been initiated. The 2020 assessment found a relatively robust safeguards framework at the NBRNM. Notwithstanding this, staff recommended filling the vacancies on the Council and Audit Committee to restore independent oversight, which has been completed, and strengthening the autonomy and governance provisions in the National Bank law, which is still underway. The updated safeguards assessment, to be completed by the time of the first review of the PLL arrangement, will follow up on the priority recommendations.

POLICIES UNDER THE PLL ARRANGEMENT

A. Policy Commitments Under the PLL Arrangement

24. The PLL arrangement would bolster the recovery and support the authorities' efforts to strengthen macroeconomic and financial resilience in a difficult external environment. The authorities' policy efforts, laid out in their Written Communication (WCOM) will focus on: (i) safeguarding public finances (ii) improving energy efficiency and reducing energy subsidies while protecting the vulnerable; (iii) tackling high inflation; (iv) strengthening revenue collection and public investment management; (v) ensuring investment projects fit within a sustainable medium-term fiscal framework; and (vi) preserving financial stability.

B. Safeguarding Public Finances While Scaling Up Investment

25. The 2023 draft budget appropriately reduces the budget deficit to 4.6 percent of GDP (WCOM ¶15). Staff estimate that this will require fiscal measures of about ¾ percent of GDP (Text Table 2). This incorporates the impact of higher interest rates on debt payments, as well as a scaling up of public investment. In the 2023 budget, the authorities will streamline preferential treatments and exemptions in corporate and personal income tax and VAT, and reduce operating costs (Text Table 3). Energy subsidies will also be reduced through tariff adjustments. Moreover, the subsidy for social contributions on pay increases, introduced in 2019 to limit tax evasion of salaries, has been phased out, creating savings of about ½ percent of GDP in 2023. The authorities are committed to carefully managing public sector wage increases, given the limited fiscal space and to avoid further pushing up inflation. The consolidation should help prevent excessive demand pressures, thereby aiding monetary policy in its task of reducing inflation and narrowing the external current account deficit.

Text Table 2. North Macedonia: Overall Fiscal Balance, 2023, Decomposition
(Percent of GDP)

Overall Fiscal Balance in 2022	**-5.3**
Scaling-up of investment	-1.0
Subsidies	0.9
Lower subsidies to state-owned electricity company	*0.7*
Withdrawal of stimulus measures	*0.2*
Policy measures 1/	0.7
Other	0.1
Overall Fiscal Balance in 2023	**-4.6**

Source: IMF staff estimates.
1/ Cf. Text Table 3.

Text Table 3. North Macedonia: Fiscal Consolidation Measures in 2023
(Millions of denars, unless otherwise stated)

Revenue Measures	
Streamlining preferential treatments in:	
Corporate Income Tax (small and micro enterprises; donations to sports bodies; life insurance premiums)	1,156
Personal Income Tax (capital gains; interest on term deposits; life, voluntary pension, and private health insurance premiums)	739
Value-Added Tax (products for human consumption currently taxed at 5 percent, accommodation services)	2,713
Expenditure Measures	
Reducing operating costs (electricity consumption, travel and representation expenses, recourse to external consultants, rental and equipment costs)	1,500
Total	**6,108**
Total (percent of GDP)	**0.7**

Sources: Ministry of Finance; and IMF staff calculations.

26. **The medium-term consolidation will be supported by a strengthening of the fiscal governance framework.** Further consolidation is needed over the medium term to rebuild fiscal buffers and mitigate financing risks. Under the PLL arrangement, additional measures of about

½ percent of GDP will be implemented in 2024, to bring the deficit to 3.4 percent of GDP (WCOM ¶5). In the baseline projection, the deficit would thereafter gradually fall below 3 percent of GDP, the recently introduced deficit ceiling in the organic budget law. Beyond the assumed phasing-out of energy subsidies, further tax policy measures and savings in operating costs and subsidies will be needed to reduce the deficit. While this is consistent with the authorities' own plans, these measures still need to specified, agreed, and implemented. Staff recommend additional consolidation of about 1¾ percent of GDP after 2024, targeting a 1 percent of GDP deficit in normal times, to provide a safety margin with respect to the 3 percent of GDP deficit ceiling. The organic budget law will also ensure a strong and credible medium-term fiscal framework, through significant improvements to fiscal policymaking, budget preparation and execution, and fiscal reporting. In addition, improvements in revenue administration, in particular compliance risk management, should improve tax compliance and raise revenues (WCOM ¶9).

27. The authorities are taking action to manage fiscal risks associated with public investment projects. The authorities are committed to implementing the action plan formulated in response to the IMF's Public Investment Management (PIM) Assessment, including by establishing a PIM unit in the Ministry of Finance (WCOM ¶9). As part of the process to start the construction on the Corridor 8/10d highway, an independent and comprehensive feasibility study is underway to solidify the fiscal cost and manage fiscal risks (structural benchmark, January 2023, WCOM ¶6). The project, currently estimated to cost about 10 percent of 2022 GDP over 6 years, has been incorporated in the program baseline. If the feasibility study finds that the estimated fiscal cost is larger or the risk that it could endanger fiscal sustainability are considerable, the timeline of the project will be adjusted to fit within the medium-term fiscal framework, consistent with program targets and the fiscal rules, or parts of it could be implemented with IFI financing. It is important also to take into account that cost overruns could crowd out other government spending with potentially higher social or economic returns. Publication of audits and project monitoring reports by an independent advisor will help ensure transparency and accountability.

C. Navigating the Energy Price Shock and the Green Transition

28. The fiscal cost of energy subsidies is substantial, even if the authorities have passed on much of the energy price increase. Consumer prices are generally set to recover cost, though consumers in the regulated market for electricity and central heating are temporarily shielded from large variations through semi-annual adjustments. Electricity and central heating tariffs have increased by about 30 percent for the average consumer over the past year. Additionally, to incentivize lower electricity consumption while ensuring that everyone can afford a basic quantity of electricity, increasing-block tariffs were introduced in the regulated market for households (WCOM ¶7).

29. The authorities' commitment to phase out untargeted energy subsidies will meet the dual objectives of safeguarding public finances and reducing the external current account deficit. To reduce the need for budget transfers to the state-owned electricity company, the authorities intend to adjust tariffs further in January 2023 (WCOM ¶7). They have started developing

an action plan to phase out untargeted energy subsidies by 2025 and improve energy efficiency, while strengthening the targeted support for the vulnerable (structural benchmark, February 2023, WCOM ¶7). The authorities have expressed interest in the Resilience and Sustainability Trust, and the plan could be a starting point for prospective policy actions. Overall, the planned phasing-out of untargeted energy subsidies, together with the block tariff system, should incentivize energy savings and allow price signals to operate more efficiently, hereby reducing energy consumption and the energy trade deficit.

D. Addressing High Inflation and Guarding Against Financial Stability Risk

30. The NBRNM is tightening its monetary policy, to prevent high inflation from becoming entrenched and to support the de-facto exchange rate peg (WCOM ¶10). The tightening, through unsterilized FX sales, higher policy rates, and a higher reserve requirement on FX deposits than denar deposits, has contributed to an easing of inflation expectations and diminished pressures on FX reserves over the summer. Nevertheless, continued rate hikes will be needed, including because of the expected further rise in the ECB's policy rate. If the inflation differential with the euro area persists, for example due to the impact of indexation to past inflation of the minimum wage and pension benefits, the NBRNM will need to continue to tighten more than the ECB.

31. The NBRNM is using micro and macroprudential tools to mitigate financial stability risks. The banking system is overall well capitalized, with low non-performing loans (NPLs) and adequate provisions. However, in light of the global slowdown and tighter financial conditions, as well as large downside risks, the NBRNM has intensified its monitoring of banks and will continue strengthening its stress testing framework (WCOM ¶11). The Financial Stability Law adopted in July will strengthen macroprudential oversight, and together with amendments to the National Bank law to be submitted in November 2022, will grant the NBRNM a formal macro-prudential mandate (WCOM ¶12). In light of high mortgage lending and rising real estate prices, the NBRNM has introduced a 0.5 percentage points counter-cyclical capital buffer, effective in August 2023. New laws to strengthen the frameworks for deposit insurance and bank resolution are expected to be submitted to Parliament by June 2023 (WCOM ¶12).

32. It is essential to preserve the operational independence of the NBRNM, to enable it to effectively fight high inflation and preserve financial stability. The de-facto peg has served as an anchor of stability for the country over the past decades, and the NBRNM has an excellent track record in defending it, as well as strong accountability and transparency standards. With global developments challenging both price stability and financial stability, the NBRNM needs to be able to fully use all its instruments. Also, to maintain its high quality of staff, the NBRNM should also have the autonomy to determine the employment conditions. The authorities intend to ensure this through amendments to the National Bank law, and laws on administrative staff and public employees (WCOM ¶10).

E. Enhancing Competitiveness Through Labor Market and Governance Reforms

33. Part of the terms of trade shock from higher energy prices will likely be permanent, making it important for the labor market to adjust to preserve competitiveness. Going forward, the authorities will take into account productivity levels and trends when determining the increase in the minimum wage (WCOM ¶14). Ad-hoc increases in the minimum wage should be avoided. Moreover, to support reallocation in the aftermath of the two large economic shocks, the authorities are implementing policies to support job-to-job transitions and improve education outcomes.

34. Further governance reforms will strengthen the business environment and economic prospects more broadly. The authorities have undertaken important governance reforms over the past years, allowing the opening of EU accession negotiations. However, further actions will be needed over the next years to strengthen the rule of law and the control of corruption to meet EU standards, which should substantially boost growth prospects. Under the PLL arrangement, the authorities are committed to further enhancing the transparency of the procurement process, by connecting the procurement system with the newly created register of ultimate beneficial ownership (WCOM ¶9). Also, following the adoption of a new AML/CFT law in July, focus is now on its implementation. The authorities are committed to implement swiftly any recommendations from the ongoing MONEYVAL assessment (WCOM ¶13).

F. Exit Strategy

35. The proposed program would strengthen fiscal and reserve buffers, allowing for a smooth exit from the arrangement under the PLL. Staff estimate the fiscal deficit to narrow by the end of the arrangement, contributing to a gradual decline in public debt over the medium term. The level of gross international reserves would be above 100 percent of the ARA metric at end-2024 and through the projection horizon. The proposed program would over time make North Macedonia less dependent on energy imports and less vulnerable to swings in energy prices, which could also be further underpinned by reform actions under a prospective arrangement under the Resilience and Sustainability Trust. However, a successful exit from the PLL arrangement depends not only on the authorities' policies, but also reduction of external risks.

STAFF APPRAISAL

36. North Macedonia meets the qualification criteria for the PLL. The country has sound fundamentals and a track record of sound performance and policy frameworks. North Macedonia performs strongly in four out of the five qualification areas, and does not substantially underperform in any area, with public finances being the one area where improvements are needed to achieve a strong performance. Under the program, the authorities will gradually reduce the deficit, placing public debt a downward path over the medium term, manage fiscal risks, and strengthen public financial management.

37. North Macedonia has sustainable debt with high probability and adequate capacity to repay the Fund. Staff project public debt to remain below 60 percent of GDP during the projection period and gradually decline over the medium term. The proposed PLL arrangement would be for SDR 406.87 million (290 percent of quota), representing 4 percent of 2022 GDP. If the proposed arrangement were to be fully drawn, North Macedonia's capacity to repay the Fund would remain adequate assuming steady program implementation and continued market access. Moreover, the authorities have an excellent track record of servicing their debt obligations, further limiting the risk to the Fund.

38. Staff recommend approval of the authorities' request for a PLL arrangement for North Macedonia. The PLL arrangement would support the authorities' policies and give them time to replenish macroeconomic buffers. Staff support the authorities' efforts to safeguard public finances, maintain external stability, safeguard financial stability, and strengthen policy frameworks. The authorities are expected to draw on the arrangement during the first year, reflecting the impact of two consecutive shocks from the pandemic and Russia's invasion of Ukraine. In the second year, the arrangement would act as a backstop for fiscal and external financing needs should the shocks deepen relative to the baseline. Staff welcome the close dialogue with the authorities and their steadfast commitment to continue cooperating with the Fund.

Box 1. The Corridor 8 and 10d Highway Project

The Corridor 8/10d highway project is a top priority for the authorities, as part of their plan to scale up infrastructure investments. Corridor 8 is a European network road, which connects Bulgaria, through North Macedonia, with Albania. It is of strategic importance, by facilitating access from the Italian Adriatic coast through the Albanian port of Durrës to the Bulgarian Black Sea coast. The total length of the planned highway is approximately 135 km, consisting of four sections.

Parliament adopted a special law for the highway project, which was supported by all political parties. The law on Corridor 8/10d was adopted as a "*lex specialis*" in 2021. The law exempts the project from public procurement, and the typical safeguards that come with formal public procurement. To mitigate associated governance concerns, the authorities are hiring an independent advisor to monitor the project and will publish regular monitoring reports as well as audits.

The highway project is macroeconomically significant and the authorities are taking action to mitigate fiscal risks. The Fund has consistently advised North Macedonia to scale up public investment to close gaps in public infrastructure and boost convergence, while improving public investment management. Corridor 8/10d is expected to cost €1.3 billion (10 percent of 2022 GDP) and be completed over a 6-year period, which is incorporated in the baseline macroeconomic framework. Against the backdrop of sharp rises in construction costs and uncertainty associated with cost of large infrastructure investment projects, the authorities have requested a comprehensive and independent feasibility study from an international reputable company, including appraisal documentation, to firm up the estimate of the cost. Once the feasibility study is completed, it will be used to inform the contract. The authorities are currently selecting an independent financial transaction advisor, based on an international tender, to negotiate the project contract and supervise its implementation. Based on the results of the feasibility study, they are committed to take measures to adequately manage fiscal risks as well as costs, to ensure that they are consistent with the program targets and the medium-term fiscal framework. Nevertheless, staff and the authorities recognize the limitations of a feasibility study in estimating the cost, taking into account that such a study provides a snapshot at the preparation stage and is not an instrument to manage implementation risks.

The highway construction is expected to contribute to growth during 2023–27. To incorporate the road project in the macro-framework, staff used dynamic multipliers calibrated for the average Western Balkan country, assuming an even distribution over time of the current cost estimate.[1] On this basis, the average growth rate would be 0.3 percentage points lower without the project. However, given that the spending of the road project will be offset by other fiscal measures, including cuts to other capital expenditure, the growth effect overall remains positive but more modest. Similarly, the overall effects on fiscal balances, the external balance, and inflation are modest. Over the longer term, beyond the projection period, the road could have additional growth dividends, including by boosting trade and tourism.

[1] The methodology is described in "*Infrastructure in Central, Eastern, and South Eastern Europe. Benchmarking, Macroeconomic Effect, and Policy Issues*". European and Fiscal Affairs Departmental Paper Series, no. 20/11, as well as "*Scaling Up Investment*", Selected Issues Paper, 2021 Article IV Consultation with North Macedonia. The dynamic multipliers assume debt financing, and low investment efficiency.

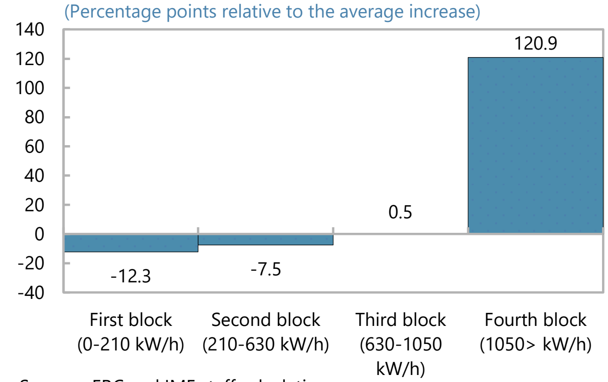
Box 2. Electricity Prices, Block-Tariff Reform, and Transition to Improved Energy Efficiency

Electricity prices for households and small firms are regulated. The electricity market was in principle fully liberalized in 2019. However, in order to ease the transition, it was decided to segment distribution into a liberalized and a regulated market. The regulated market has one 'universal supplier', EVN, who can in principle procure its electricity from any source, but most is procured through the state-owned generator, ESM (Power Plants of North Macedonia), at a price below the market price. Prior to the pandemic and current energy crisis, the 'universal supplier' model was due to be phased out, with ESM's obligation to provide a share of its output at subsidized prices to EVN steadily decreasing over time. However, this has been suspended, and ESM is currently obligated to supply 100 percent of its output to EVN to satisfy the need of the regulated market.

Government subsidies occur at the generation stage. Tariff-setting is designed to ensure that the universal supplier can achieve both cost recovery and a specified margin for any given price for electricity supply charged by ESM. Subsidized tariffs are provided to households through lower charges for electricity from ESM to EVN, with the government providing direct balance sheet support to ESM to cover losses. ESM is currently not making losses on its own electricity production, representing 75 percent of the electricity it procures for the regulated market. However, it is loss-making on the remaining 25 percent, which is procured from less efficient production facilities or imported at a very high import price.

In July 2022, the authorities introduced electricity block tariffs to incentivize energy savings. The block tariffs consist of four blocks with a higher marginal tariff as consumption increases. The aim is to ensure that all households can afford a basic quantity of electricity, through cross-subsidization, while motivating electricity savings, through lower consumption and greater efficiency. The effect is expected to be largest among the high users of electricity, who experience a step tariff increase. Higher electricity tariffs and the introduction of block-tariffs are expected to lead to a 5 percent reduction in electricity consumption in the regulated market in 2023 and 2024, everything else remaining equal.

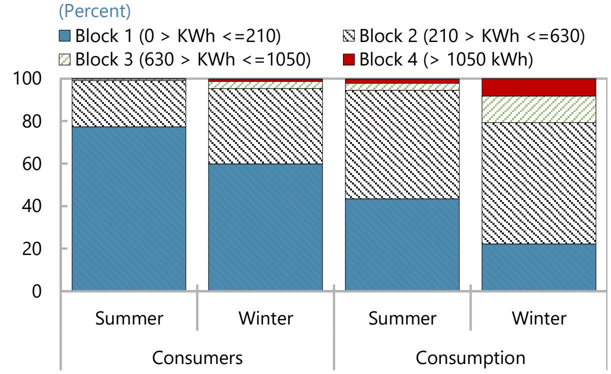
Marginal Increase in Electricity Block Tariffs
(Percentage points relative to the average increase)



Sources: ERC and IMF staff calculations.

Electricity-block tariffs will likely reduce the dependence on costly electricity imports. An important element in the introduction of block tariffs is to reduce marginal consumption, as it is the marginal consumption (in particular through imports) which leads to a loss for ESM. However, to eliminate fiscal subsidies, as long as ESM needs to supply more than 100 percent of its own production to satisfy the need of the regulated market, the price charged by ESM to EVN needs to be brought in line with its total production costs, including through purchases of electricity. The price charged by the ESM is estimated to be 40 percent below cost recovery, when also including all externally procured electricity. Therefore, consideration should also be given to bring the top marginal tariff, and over time the average tariff, in line with the market price, to provide an incentive for households and small consumers to move back to the liberalized market, and to recover the loss made by ESM in 2022.

Consumer and Consumption Shares Across Blocks
(Percent)



Sources: ERC and IMF staff calculations.

Box 3. Access Considerations Under an Adverse Scenario

The baseline scenario already represents a significant weakening since the 2021 Article IV consultation, reflecting the impact of the war in Ukraine. The downside scenario is therefore a "shock on a shock", modeled on the October 2022 WEO downside scenario, in which the war in Ukraine leads to a further decline in Russian oil and gas supplies, there are persistent disruptions to overheating labor markets in advanced economies, and global financial conditions tighten further. The impact would propagate to other countries through higher commodity prices, disruptions to supply chains, and tighter financial conditions. Growth declines by 1.5 percentage points globally and by 1.2 percentage points in the EU in 2023, relative to the baseline. For North Macedonia, GDP would be expected to fall by 1.2 percentage points relative to the baseline in 2023, reflecting weaker consumption due to a drop in real disposable income of households and lower investment due to lower confidence and tighter financing conditions, which are partly offset by stronger net exports, due to the relatively larger share of imports in GDP. GDP growth is somewhat higher in the outer years, recuperating some of the lost output.

Key assumptions for North Macedonia on the current account, foreign direct investment, and external market financing are informed by past shocks:

- **Current account.** Under the adverse scenario, weaker export growth is offset by weaker import growth, due to the high import content of exports and lower domestic demand. Mostly due to higher energy prices, the goods and services trade deficit deteriorates to close to 18 percent of GDP in 2023, representing a worsening of 0.5 percentage points of GDP relative to the baseline. In line with the experience with previous sharp global growth slowdowns, remittances would grow more slowly than GDP, implying a drop of 0.4 percentage points of GDP relatively to the baseline. Overall, the current account deficit would be 5.3 percent of GDP in 2023, compared to 4.2 percent of GDP in the baseline. The deviation from the baseline closes through the projection period.

- **Foreign direct investment.** While inward FDI has proven relatively resilient, it is also sensitive to global and domestic financial conditions. In the adverse scenario, FDI in 2023 drops by 0.4 percentage points of GDP compared to the baseline scenario.

- **External market financing.** In the adverse scenario, the external market financing in 2023 is reduced by €300 million to €500 million, and sovereign spreads are higher.

Under these severe shocks, the financing need would be fulfilled by drawing down reserves to 89 percent of the ARA metric by 2023, relative to 100 percent in the baseline, while also drawing on the PLL arrangement in the second half of 2023 and first half of 2024.

Box 3. Access Considerations Under an Adverse Scenario (continued)

Macro Variables in Baseline and Downside Scenario

	2022	2023	2024	2025	2026	2027
Baseline (Percent)						
Gross Domestic Product	2.7	2.9	3.9	3.9	3.8	3.8
Inflation	12.9	7.1	2.5	2.1	2.2	2.0
Current Account / GDP	-7.5	-4.2	-3.6	-3.5	-3.5	-3.5
Fiscal Balance / GDP	-5.3	-4.6	-3.4	-3.2	-3.0	-2.8
Downside Scenario (Percent)						
Gross Domestic Product	2.7	1.7	4.1	4.3	4.1	3.8
Inflation	12.9	9.9	0.5	2.1	2.2	2.0
Current Account / GDP	-7.5	-5.3	-3.7	-3.8	-3.8	-3.8
Fiscal Balance / GDP	-5.3	-5.0	-3.7	-3.4	-3.1	-2.9
Impact						
Gross Domestic Production (Deviation from Baseline, Percent	0.0	-1.2	-0.9	-0.5	-0.2	-0.2
Gross Domestic Product (p.p.)	0.0	-1.2	0.2	0.4	0.3	0.0

Source: WEO Fall Update 2022; IMF Staff Calculations

Shock Scenario

(Millions of euros, unless specified otherwise)

	2023	2024	Total
Gross Total Shock	**528**	**13**	**541**
Lower External Issuance (Eurobond)	300	0	300
WEO downside scenario	228	13	241
o/w Impact on trade balance	110	-4	105
o/w Impact on primary and secondary income	59	13	72
o/w Impact on FDI and trade credits	59	5	64

Sources: NBRNM; and IMF staff calculations.

Box 3. Access Considerations Under an Adverse Scenario (continued)

North Macedonia: External Financing Requirements

(Millions of euros, unless specified otherwise)

	2022	2023		2024		2025	2026	2027
	Baseline	Baseline	Downside	Baseline	Downside			
Gross financing needs	**1,347**	**1,500**	**1,669**	**1,033**	**1,042**	**1,478**	**1,764**	**1,108**
Current account deficit	996	622	791	584	592	597	638	686
MLT debt amortization 1/	350	878	878	449	449	881	1,126	422
Financing sources	**970**	**1,775**	**1,416**	**1,587**	**1,582**	**2,051**	**2,091**	**1,469**
FDI (net)	493	553	493	596	591	634	675	717
MLT debt disbursements	419	507	507	638	638	683	712	729
Government external financing	300	800	500	300	300	700	700	0
Other 2/	-242	-84	-84	53	53	34	4	23
Net change in reserves (-: increase)	**266**	**-510**	**-92**	**-554**	**-696**	**-574**	**-327**	**-361**
Financing gap	**110**	**235**	**345**	**0**	**155**	**0**	**0**	**0**
Precautionary and Liquidity Line (PLL)	110	155	265	0	155	0	0	0
European Union (Grant)	0	80	80	0	0	0	0	0
Remaining financing gap	0	0	0	0	0	0	0	0
Memorandum items								
Gross International Reserves (GIR)	3,377	3,887	3,470	4,442	4,165	5,015	5,342	5,703
as % of ARA Metric	93	100	89	106	99	110	113	113

Sources: NBRNM; and IMF staff estimates.

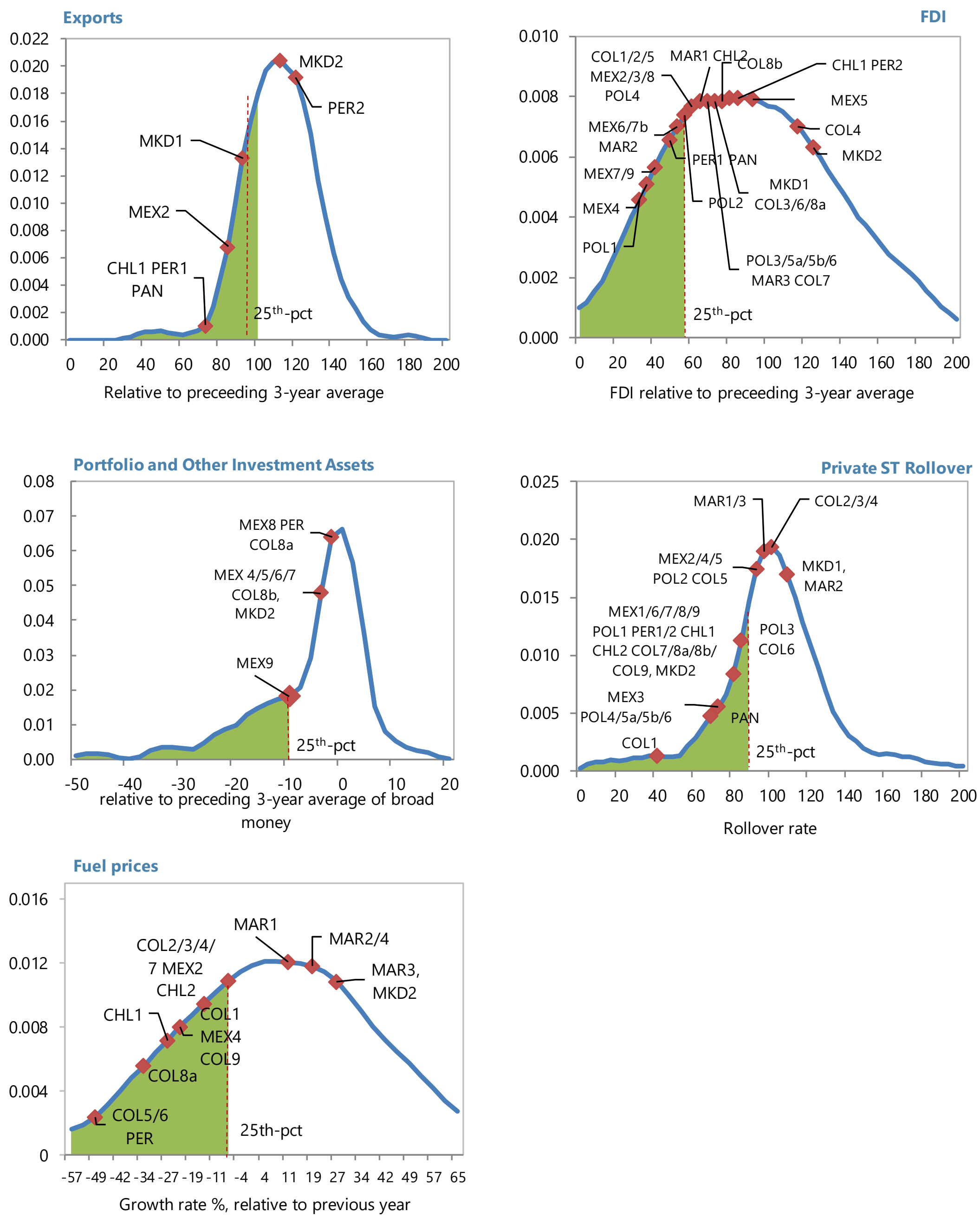
1/ Excluding the amortization of MLT intercompany loans, which is included in FDI (net).

2/ Including the capital account balance, trade credits and advances, currency and deposits, private portfolio investments, short-term loans, and net errors and omissions.

Box 3. Access Considerations Under an Adverse Scenario (concluded)

North Macedonia: Illustrative Adverse Scenario

(Probability density)



Source: IMF staff calculations.

Note: MKD1 refers to the 2010 PCL request. MKD2 refers to the 2022 PLL request, in line with the existing methodology. The MKD2 shocks are modeled in line with the adverse scenario of the World Economic Outlook, relative to the projected baseline. Some of the shocks may appear benign in the charts, as the methodology used for the baseline in the charts is not the projected baseline, but the historical three-year average period, which spans the pandemic period.

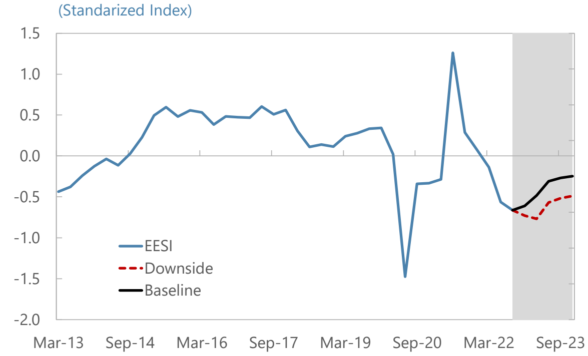
Box 4. External Economic Stress Index

The External Economic Stress Index (EESI) is based on five major variables which capture external risks for North Macedonia. The variables include *(i)* the real growth rate of euro area imports (a proxy for net exports in the current account); *(ii)* the real growth rate of GDP in Germany (a proxy for remittances, FDI, and other diaspora-related flows in the current and financial accounts); *(iii)* the Financial Conditions Index compiled by Banque de France (FCI, a proxy for risk premia and financial conditions); *(iv)* an index of prices of food commodities (from IMF GAS, a proxy for risks from further imported food prices); *(v)* an index of energy commodities (from IMF GAS, a proxy for risks from further imported fuel commodity price increases). The index is calculated as a weighted sum of standardized deviations of the above variables from their means, with signs reversed in the case of the FCI and price indices. The weights are estimated using the importance of each variable in GDP. The weight on euro area import growth corresponds to net exports in GDP. The weight of German real GDP growth corresponds to the share of remittances plus FDI in GDP. The weight of the FCI corresponds to the share of portfolio liabilities in the international investment position. The weight of the food commodity price index corresponds to the share of food in imports, and the weight of the energy commodity price index corresponds to the share of energy in imports.

External Risks	Channels	External Proxy Variables	Weights
External demand	Net exports	Euro area growth	0.15
	Food imports	Food commodity price index (-)	0.10
	Energy imports	Energy commodity price index (-)	0.11
Financial inflows	Remittances, FDI	Germany GDP growth	0.20
	Portfolio flows	Financial Conditions Index (-)	0.18

Baseline EESI is already unfavorable due to the effects of the Russian invasion of Ukraine. This reflects the sharp increase in commodity prices, as well as higher yields, following Russia's invasion of Ukraine. The adverse scenario reflects external risks in line with developments outlined in the adverse scenario, such as a further rise in fuel prices, a deeper economic contraction in external demand, combined with a higher risk premia. On average in 2022 and 2023, the EESI is -0.41 in the baseline and -0.55 in the downside, with the lowest value of -0.77 in the first quarter of 2023, compared to a pandemic minimum of -1.53 in the second quarter of 2020.

External Economic Stress Index
(Standarized Index)



Sources: Haver Analytics; WEO; BdF; and IMF staff calculations.
Note: Negative values indicate above-average stress.

Table 1. North Macedonia: Summary of Economic Indicators, 2019–27

(Percent, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Projections					
Output									
Real GDP 1/	3.9	-6.1	4.0	2.7	2.9	3.9	3.8	3.8	3.8
Domestic demand	5.2	-6.9	6.0	4.8	3.4	4.5	4.7	4.6	4.3
Exports	8.9	-10.9	12.3	6.5	6.1	7.8	8.0	6.3	6.2
Imports	10.1	-10.9	13.9	8.7	6.4	7.3	7.0	6.2	6.1
Contributions to growth 2/									
Domestic demand	6.9	-8.7	8.1	6.5	5.0	5.6	5.2	5.6	5.6
Net exports	-2.9	2.6	-4.2	-3.8	-2.0	-1.8	-1.3	-1.8	-1.8
Output gap (percent of potential GDP)	1.8	-3.8	-2.3	-1.8	-1.1	-0.8	-0.4	-0.2	0.1
Consumer prices									
Period average	0.8	1.2	3.2	12.9	7.1	2.5	2.1	2.2	2.0
End-period	0.4	2.3	4.9	14.2	4.2	1.9	2.1	2.2	1.9
Central government operations (percent of GDP)									
Revenues	29.4	28.9	30.2	29.9	30.5	30.4	30.6	30.9	30.9
Expenditures	31.4	37.1	35.6	35.2	35.1	33.8	33.8	33.8	33.7
Of which: capital expenditures	2.6	2.5	3.2	3.2	4.2	4.4	4.7	5.0	5.2
Balance	-2.0	-8.2	-5.4	-5.3	-4.6	-3.4	-3.2	-3.0	-2.8
Gross general government debt 3/	40.4	51.9	53.2	51.0	51.1	51.6	52.2	51.5	51.2
Public and publicly guaranteed debt 3/ 4/	48.1	59.6	60.6	58.3	58.7	58.9	59.3	58.3	57.8
Savings and investment (percent of GDP)									
National saving	31.3	26.0	30.7	29.6	32.1	33.1	33.6	34.2	35.0
Public	0.6	-5.8	-2.1	-2.1	-0.4	1.0	1.5	2.0	2.3
Private	30.7	31.8	32.8	31.7	32.5	32.2	32.1	32.2	32.6
Foreign saving	3.0	3.0	3.1	7.5	4.2	3.6	3.5	3.5	3.5
Gross investment	34.3	29.0	33.8	37.1	36.3	36.8	37.1	37.7	38.5
Credit									
Private sector credit growth	6.3	4.9	8.0	10.7	8.2	7.2	6.5	6.3	6.1
Balance of payments									
Current account balance (percent of GDP)	-3.0	-3.0	-3.1	-7.5	-4.2	-3.6	-3.5	-3.5	-3.5
Foreign direct investment (percent of GDP)	3.2	1.5	3.3	3.7	3.7	3.7	3.7	3.7	3.7
External debt (percent of GDP)	72.4	80.3	81.6	78.7	77.9	78.7	80.2	80.4	80.6
Gross official reserves (millions of euros)	3,263	3,360	3,643	3,377	3,887	4,442	5,015	5,342	5,703
in percent of IMF ARA Metric	112	113	110	93	100	106	110	113	113
in percent of ST debt	95	102	109	83	102	99	101	118	112
in months of prospective imports	5.1	4.2	3.8	3.4	3.7	3.9	4.1	4.1	4.1
Memorandum items:									
Nominal GDP (billions of denars)	693	656	723	822	921	992	1057	1124	1194
Nominal GDP (millions of euros)	11,262	10,635	11,736	13,336	14,937	16,098	17,146	18,240	19,379

Sources: NBRNM; SSO; MOF; World Bank; and IMF staff estimates and projections. National accounts are revised by SSO using ESA 2010.

1/ The SSO has published final annual GDP data for 2020 showing -4.7 percent in 2020, and preliminary annual data indicating 3.9 percent in 2021.

2/ The inconsistency between real GDP growth and contributions to growth results from discrepancies in the official data on GDP and its components.

3/ The historical debt ratios differ slightly from those reported by MoF due to using end-year debt in local currency divided by local currency GDP.

4/ Includes general government and non-financial SOEs.

Table 2a. North Macedonia: Central Government Operations, 2019–27

(Billions of denars, unless otherwise indicated)

	2019	2020	2021	2022			2023	2024	2025	2026	2027
				Budget	Supp. Budget	Proj.	Projections				
Total Revenues	203.9	189.8	218.5	238.9	245.8	246.0	280.9	301.4	323.1	346.8	369.4
Tax Revenues and Contributions	178.9	173.5	196.3	210.8	221.8	222.5	248.4	271.7	291.5	313.1	333.6
PIT	18.7	18.6	20.6	21.1	22.6	23.5	26.1	28.5	30.6	32.9	34.7
CIT	11.6	10.5	10.9	12.3	13.4	15.5	15.1	18.3	20.7	23.9	25.9
VAT (net)	52.1	46.9	58.2	62.2	68.4	67.1	77.3	84.9	91.0	97.7	104.4
Excises	26.1	22.5	25.5	28.8	26.9	25.5	30.7	33.1	35.3	37.5	39.9
Custom Duties	6.0	6.7	8.5	9.0	8.9	10.0	10.9	11.7	12.5	13.3	14.1
Other Taxes	2.3	1.7	2.0	3.1	2.9	2.7	3.0	3.2	3.5	3.7	3.9
Social Contributions	62.2	66.6	70.6	74.4	78.6	78.0	85.3	91.9	97.9	104.1	110.7
Non-Tax Revenues	18.8	11.4	14.4	19.2	17.0	16.5	19.7	21.2	22.6	24.0	25.5
Capital Revenues	2.4	1.8	1.9	3.3	2.2	2.2	2.5	2.6	2.8	3.0	3.2
Grants	3.9	3.1	5.9	5.6	4.8	4.9	10.4	5.9	6.3	6.6	7.1
Expenditures	217.5	243.6	257.3	272.4	288.5	289.4	323.3	335.1	356.8	380.3	403.0
Current Expenditures	199.7	227.5	233.9	234.2	256.2	263.4	285.0	291.8	307.6	324.4	341.5
Wages and salaries	27.8	29.8	31.0	32.7	33.2	32.1	34.7	36.3	37.7	39.3	40.8
Goods and services	16.3	15.4	20.1	20.7	23.0	23.0	23.5	22.0	21.9	21.3	21.2
Transfers	147.6	174.3	173.7	170.8	189.8	198.0	213.8	215.7	227.1	239.1	252.1
Pension fund expenditures	65.2	69.0	72.0	74.2	78.2	78.4	89.0	95.7	101.1	106.7	112.6
Health	30.8	34.7	35.1	36.1	38.2	38.2	42.1	45.4	47.9	50.9	54.1
Other	51.5	70.6	66.6	60.5	73.3	81.4	82.8	74.6	78.1	81.5	85.5
Interest	8.1	8.0	9.1	10.1	10.2	10.2	13.0	17.8	21.0	24.7	27.3
Capital Expenditures	17.8	16.1	23.4	38.2	32.2	26.0	38.3	43.3	49.2	55.9	61.5
Lending minus repayment 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	-13.6	-53.9	-38.8	-33.5	-42.7	-43.4	-42.3	-33.6	-33.7	-33.5	-33.6
Primary fiscal balance	-5.5	-45.8	-29.7	-23.5	-32.5	-33.2	-29.3	-15.8	-12.7	-8.8	-6.3
Financing	13.6	53.9	38.8	33.5	42.7	43.4	42.3	33.6	33.7	33.5	33.6
Domestic, net	9.9	14.2	13.6	18.3	-16.6	20.5	11.3	16.3	18.6	34.7	36.6
Central Bank deposits	1.2	-6.9	-3.5	-3.3	-38.1	9.2	-9.2	-7.7	-6.2	6.2	1.5
Other net domestic financing	8.7	21.1	17.0	21.6	21.6	11.3	20.6	24.0	24.7	28.6	35.1
Privatization receipts	0.7	1.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign, net	3.0	38.7	24.7	15.2	59.3	22.9	31.0	17.3	15.1	-1.2	-3.0
Memo items:											
Gross general government debt (percent of GDP) 2/	40.4	51.9	53.2	53.4		51.0	51.1	51.6	52.2	51.5	51.2
Nominal GDP (billions of denars)	693	656	723	773	804	822	921	992	1057	1124	1194
Stock of Central Bank deposits (billions of denars eop)	32	41	43			34	43	51	57	51	49
Public and publicly guaranteed debt (percent of GDP) 2/ 3/	48.1	59.6	60.6			58.3	58.7	58.9	59.3	58.3	57.8

Sources: MoF; and IMF staff estimates.

1/ Results from excluding: (i) revenues from lending; and (ii) lending guarantees from current expenditures.

2/ The historical debt ratios differ slightly from the numbers reported by MoF due to using end-year debt in local currency divided by local currency GDP.

3/ Includes general government and non-financial SOEs.

Table 2b. North Macedonia: Central Government Operations, 2019–27

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022			2023	2024	2025	2026	2027
				Budget	Supp. Budget	Proj.			Projections		
Total Revenues	29.4	28.9	30.2	30.9	30.6	29.9	30.5	30.4	30.6	30.9	30.9
Tax Revenues and Contributions	25.8	26.4	27.1	27.3	27.6	27.1	27.0	27.4	27.6	27.9	27.9
PIT	2.7	2.8	2.8	2.7	2.8	2.9	2.8	2.9	2.9	2.9	2.9
CIT	1.7	1.6	1.5	1.6	1.7	1.9	1.6	1.8	2.0	2.1	2.2
VAT (net)	7.5	7.1	8.0	8.1	8.5	8.2	8.4	8.6	8.6	8.7	8.7
Excises	3.8	3.4	3.5	3.7	3.3	3.1	3.3	3.3	3.3	3.3	3.3
Custom Duties	0.9	1.0	1.2	1.2	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Other Taxes	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Social Contributions	9.0	10.1	9.8	9.6	9.8	9.5	9.3	9.3	9.3	9.3	9.3
Non-Tax Revenues	2.7	1.7	2.0	2.5	2.1	2.0	2.1	2.1	2.1	2.1	2.1
Capital Revenues	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	0.6	0.5	0.8	0.7	0.6	0.6	1.1	0.6	0.6	0.6	0.6
Expenditures	31.4	37.1	35.6	35.2	35.9	35.2	35.1	33.8	33.8	33.8	33.7
Current Expenditures	28.8	34.7	32.3	30.3	31.9	32.0	31.0	29.4	29.1	28.9	28.6
Wages and salaries	4.0	4.5	4.3	4.2	4.1	3.9	3.8	3.7	3.6	3.5	3.4
Goods and services	2.3	2.4	2.8	2.7	2.9	2.8	2.5	2.2	2.1	1.9	1.8
Transfers	21.3	26.6	24.0	22.1	23.6	24.1	23.2	21.7	21.5	21.3	21.1
Pension fund expenditures	9.4	10.5	9.9	9.6	9.7	9.5	9.7	9.6	9.6	9.5	9.4
Health	4.4	5.3	4.8	4.7	4.8	4.6	4.6	4.6	4.5	4.5	4.5
Other	7.4	10.8	9.2	7.8	9.1	9.9	9.0	7.5	7.4	7.2	7.2
o/w Subsidies to state-owned electricity company						2.2	1.5	0.0	0.0	0.0	0.0
Interest	1.2	1.2	1.3	1.3	1.3	1.2	1.4	1.8	2.0	2.2	2.3
Capital Expenditures	2.6	2.5	3.2	4.9	4.0	3.2	4.2	4.4	4.7	5.0	5.2
o/w Corridor 8 Road Project					0.5	0.0	1.7	1.5	1.4	1.6	1.1
Lending minus repayment 1/											
Overall fiscal balance	-2.0	-8.2	-5.4	-4.3	-5.3	-5.3	-4.6	-3.4	-3.2	-3.0	-2.8
Primary fiscal balance	-0.8	-7.0	-4.1	-3.0	-4.0	-4.0	-3.2	-1.6	-1.2	-0.8	-0.5
Financing	2.0	8.2	5.4	4.3	5.3	5.3	4.6	3.4	3.2	3.0	2.8
Domestic, net	1.4	2.2	1.9	2.4	-2.1	2.5	1.2	1.6	1.8	3.1	3.1
Central Bank deposits	0.2	-1.0	-0.5	-0.4	-4.7	1.1	-1.0	-0.8	-0.6	0.5	0.1
Other domestic financing	1.3	3.2	2.4	2.8	2.7	1.4	2.2	2.4	2.3	2.5	2.9
Privatization receipts	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign, net	0.4	5.9	3.4	2.0	7.4	2.8	3.4	1.7	1.4	-0.1	-0.3
Memo items:											
Gross general government debt (percent of GDP) 2/	40.4	51.9	53.2	53.4		51.0	51.1	51.6	52.2	51.5	51.2
Nominal GDP (billions of denars)	693	656	723	773	804	822	921	992	1057	1124	1194
Stock of Central Bank deposits (billions of denars eop)	32	41	43			34	43	51	57	51	49
Public and publicly guaranteed debt (percent of GDP) 2/ 3/	48.1	59.6	60.6			58.3	58.7	58.9	59.3	58.3	57.8

Sources: MoF; and IMF staff estimates.

1/ Results from excluding: (i) revenues from lending; and (ii) lending guarantees from current expenditures.

2/ The historical debt ratios differ slightly from the numbers reported by MoF due to using end-year debt in local currency divided by local currency GDP.

3/ Includes general government and non-financial SOEs.

Table 3a. North Macedonia: Balance of Payments, 2019–27

(Millions of euros, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Projections					
Current account	-335	-318	-366	-996	-622	-584	-597	-638	-686
Trade balance	-1,949	-1,804	-2,370	-3,277	-3,178	-3,230	-3,336	-3,529	-3,708
Exports	5,347	4,820	6,000	6,856	7,085	7,803	8,534	9,132	9,798
Imports	7,296	6,623	8,371	10,133	10,263	11,033	11,870	12,661	13,506
Services (net)	336	424	496	554	617	682	751	824	873
Primary Income (net)	-520	-411	-521	-612	-686	-769	-834	-888	-943
Secondary Income (transfers, net)	1,798	1,473	2,029	2,339	2,625	2,733	2,822	2,955	3,092
Of which									
Official	43	110	139	117	214	130	112	110	106
Private	1,755	1,363	1,891	2,221	2,411	2,604	2,710	2,845	2,987
Capital account (net)	8	11	7	11	13	13	14	15	13
Net lending (+) / Net borrowing (-)	-327	-307	-359	-985	-609	-571	-582	-622	-672
Financial account	-627	-428	-438	-719	-1,119	-1,125	-1,156	-949	-1,033
Direct investment (net)	-363	-155	-388	-493	-553	-596	-634	-675	-717
Portfolio investment (net)	151	-284	-116	-260	-331	-261	-146	53	51
Of which: Eurobonds amortizations 1/	0	178	500	0	450	0	500	700	0
Of which: Eurobonds disbursements 1/	0	700	700	300	800	300	700	700	0
Other investment	-415	11	65	35	-236	-268	-376	-327	-367
Trade credits (net)	-263	-208	-121	-137	-130	-193	-206	-219	-233
MLT loans (net)	-209	-276	-123	-173	-313	-188	-301	-283	-305
Public sector	-62	-116	-49	-72	-153	19	-45	20	49
Disbursements	177	378	150	173	298	186	216	217	195
of which : IMF credit	0	166	0	110	155	0	0	0	0
Amortization	-99	-259	-98	-101	-145	-206	-171	-237	-244
of which : Repayment to the IMF	0	0	0	0	-43	-87	-43	-94	-133
Banks	-43	-51	-66	-73	-88	-41	-56	-69	-75
Other sectors	-104	-109	-8	-29	-71	-166	-200	-235	-279
ST loans (net)	-16	7	-126	-61	-3	-13	-16	-16	-14
Currency and deposits (net)	73	489	433	405	210	126	147	191	184
Other (net)	0	-1	2	0	0	0	0	0	0
Errors and omissions	76	-7	62	0	0	0	0	0	0
Overall Balance	376	114	141	-266	510	554	574	327	361
Memorandum items:									
ST debt at residual maturity (year-end)	3,447	3,295	3,330	4,086	3,816	4,487	4,984	4,545	5,089
Gross foreign exchange reserves	3,263	3,360	3,643	3,377	3,887	4,442	5,015	5,342	5,703
Percent of IMF ARA Metric	112.2	113.1	109.8	93.1	99.5	105.5	109.6	113.4	113.2
Months of prospective imports of G&S	5.1	4.2	3.8	3.4	3.7	3.9	4.1	4.1	4.1
Percent of short-term debt (residual maturity)	94.7	102.0	109.4	82.6	101.9	99.0	100.6	117.5	112.1
External debt (percent of GDP)	72.4	80.3	81.6	78.7	77.9	78.7	80.2	80.4	80.6
External debt service	2,468	3,023	2,574	2,621	3,393	3,136	3,821	4,329	3,900
Percent of exports of G&S	35	48	33	30	36	31	34	36	31
Percent of exports of G&S and transfers	28	40	27	24	29	24	28	29	25

Sources: NBRNM; and IMF staff estimates.

1/ Includes other external market financing by the government.

Table 3b. North Macedonia: Balance of Payments, 2019–27

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Projections					
Current account	-3.0	-3.0	-3.1	-7.5	-4.2	-3.6	-3.5	-3.5	-3.5
Trade balance	-17.3	-17.0	-20.2	-24.6	-21.3	-20.1	-19.5	-19.3	-19.1
Exports	47.5	45.3	51.1	51.4	47.4	48.5	49.8	50.1	50.6
Imports	64.8	62.3	71.3	76.0	68.7	68.5	69.2	69.4	69.7
Services (net)	3.0	4.0	4.2	4.2	4.1	4.2	4.4	4.5	4.5
Primary Income (net)	-4.6	-3.9	-4.4	-4.6	-4.6	-4.8	-4.9	-4.9	-4.9
Secondary Income (transfers, net)	16.0	13.9	17.3	17.5	17.6	17.0	16.5	16.2	16.0
Of which									
Official	0.4	1.0	1.2	0.9	1.4	0.8	0.7	0.6	0.5
Private	15.6	12.8	16.1	16.7	16.1	16.2	15.8	15.6	15.4
Capital account (net)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net lending (+) / Net borrowing (-)	-2.9	-2.9	-3.1	-7.4	-4.1	-3.5	-3.4	-3.4	-3.5
Financial account	-5.6	-4.0	-3.7	-5.4	-7.5	-7.0	-6.7	-5.2	-5.3
Direct investment (net)	-3.2	-1.5	-3.3	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7
Portfolio investment (net)	1.3	-2.7	-1.0	-2.0	-2.2	-1.6	-0.9	0.3	0.3
Of which: Eurobonds amortizations 1/	0.0	1.7	4.3	0.0	3.0	0.0	2.9	3.8	0.0
Of which: Eurobonds disbursements 1/	0.0	6.6	6.0	2.2	5.4	1.9	4.1	3.8	0.0
Other investment	-3.7	0.1	0.6	0.3	-1.6	-1.7	-2.2	-1.8	-1.9
Trade credits (net)	-2.3	-2.0	-1.0	-1.0	-0.9	-1.2	-1.2	-1.2	-1.2
MLT loans (net)	-1.9	-2.6	-1.0	-1.3	-2.1	-1.2	-1.8	-1.6	-1.6
Public sector	-0.6	-1.1	-0.4	-0.5	-1.0	0.1	-0.3	0.1	0.3
Disbursements	1.6	3.6	1.3	1.3	2.0	1.2	1.3	1.2	1.0
of which : IMF credit	0.0	1.6	0.0	0.8	1.0	0.0	0.0	0.0	0.0
Amortization	-0.9	-2.4	-0.8	-0.8	-1.0	-1.3	-1.0	-1.3	-1.3
of which : Repayment to the IMF	0.0	0.0	0.0	0.0	-0.3	-0.5	-0.3	-0.5	-0.7
Banks	-0.4	-0.5	-0.6	-0.5	-0.6	-0.3	-0.3	-0.4	-0.4
Other sectors	-0.9	-1.0	-0.1	-0.2	-0.5	-1.0	-1.2	-1.3	-1.4
ST loans (net)	-0.1	0.1	-1.1	-0.5	0.0	-0.1	-0.1	-0.1	-0.1
Currency and deposits (net)	0.7	4.6	3.7	3.0	1.4	0.8	0.9	1.0	1.0
Other (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.7	-0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	3.3	1.1	1.2	-2.0	3.4	3.4	3.3	1.8	1.9
			(Percentage change, year-on-year)						
Exports of G&S (Value)	7.9	-10.1	23.6	14.1	5.3	9.7	8.9	7.1	7.1
Volume	8.9	-10.9	12.3	6.5	6.1	7.8	8.0	6.3	6.2
Price	-0.9	0.8	10.1	7.1	-0.8	1.8	0.8	0.8	0.8
Imports of G&S (Value)	9.7	-11.0	25.8	20.2	2.6	7.5	7.4	6.6	6.6
Volume	10.1	-10.9	13.9	8.7	6.4	7.3	7.0	6.2	6.1
Price	-0.4	-0.1	10.4	10.5	-3.5	0.2	0.4	0.4	0.5

Sources: NBRNM; and IMF staff estimates.

1/ Includes other external market financing by the government.

Table 4. North Macedonia: Monetary Survey, 2019–27
(Billions of denars, unless specified otherwise)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Projections					
NFA	192.4	195.2	195.9	180.7	211.3	245.6	281.2	301.1	323.4
Central Bank	195.7	202.6	203.1	186.7	218.2	252.3	287.7	307.8	330.0
Commercial Banks	-3.3	-7.4	-7.2	-6.0	-6.8	-6.7	-6.5	-6.7	-6.6
NDA	211.6	241.1	278.8	317.4	323.9	327.8	331.4	350.5	368.9
Credit to Government (net)	17.0	35.4	47.1	62.6	63.8	68.4	74.8	95.4	114.6
From Banks (net)	42.7	70.1	74.9	81.1	91.6	103.8	116.4	130.8	148.5
of which: Credit	44.2	71.7	76.8	82.7	93.2	105.5	118.0	132.5	150.2
From Central Bank (net)	-25.7	-34.7	-27.8	-18.5	-27.8	-35.5	-41.6	-35.5	-33.9
of which: Deposits	-31.8	-40.5	-43.0	-33.8	-43.0	-50.7	-56.9	-50.7	-49.2
Credit to Private Sector (gross)	343.4	360.1	388.9	430.4	465.7	499.1	531.4	565.0	599.1
From Banks	342.5	359.2	388.1	429.6	464.9	498.3	530.6	564.1	598.3
Denars	200.7	210.5	230.7	255.4	276.3	296.2	315.4	335.4	355.7
FX	141.9	148.7	157.4	174.2	188.5	202.1	215.2	228.8	242.6
From Central Bank	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other Items (net)	-148.7	-154.4	-157.2	-165.6	-190.6	-219.6	-249.8	-279.8	-314.8
Broad Money (M3)	404.0	436.2	474.8	498.1	535.2	573.5	612.6	651.6	692.3
Currency in Circulation	36.1	43.7	44.5	50.5	56.6	61.0	65.0	69.1	73.4
Total Deposits	367.9	392.5	430.3	447.6	478.6	512.4	547.6	582.5	618.9
Denars	225.5	235.5	245.5	245.7	271.0	297.6	324.6	345.3	366.9
FX	142.5	157.1	184.8	201.9	207.6	214.9	222.9	237.2	252.0
				(Percentage change, year-on-year)					
Private Sector Credit	6.3	4.9	8.0	10.7	8.2	7.2	6.5	6.3	6.1
Broad Money	8.2	8.0	8.8	4.9	7.4	7.2	6.8	6.4	6.2
Private Sector Deposits	7.8	6.7	9.6	4.0	6.9	7.1	6.9	6.4	6.2
				(Contribution to annual growth in broad money)					
NFA	3.1	0.7	0.2	-3.2	6.1	6.4	6.2	3.3	3.4
NDA	5.1	7.3	8.7	8.1	1.3	0.7	0.6	3.1	2.8
				(Percent of GDP)					
Private Sector Credit	49.6	54.9	53.8	52.4	50.6	50.3	50.3	50.3	50.2
Broad Money	58.3	66.5	65.6	60.6	58.1	57.8	58.0	58.0	58.0
Private Sector Deposits	53.1	59.8	59.5	54.5	52.0	51.7	51.8	51.8	51.8
Memorandum items:									
Money Multiplier	3.1	3.1	3.3	3.6	3.5	3.3	3.1	3.0	2.9
Reserve Requirement Ratio (percent of deposits)									
Denars	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
FX Indexed	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
FX	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Velocity	1.7	1.5	1.5	1.7	1.7	1.7	1.7	1.7	1.7

Sources: NBRNM; and IMF staff estimates.

Table 5. North Macedonia: Central Bank Survey, 2019–27
(Billions of denars, unless specified otherwise)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections			
Net foreign assets	195.7	202.6	203.1	186.7	218.2	252.3	287.7	307.8	330.0
Assets	200.7	207.4	226.7	210.3	241.8	275.9	311.3	331.4	353.6
Liabilities	-5.0	-4.8	-23.6	-23.6	-23.6	-23.6	-23.6	-23.6	-23.6
Net domestic assets	-65.7	-62.7	-58.8	-47.6	-63.5	-77.9	-90.7	-91.1	-90.9
Central Government (net)	-25.7	-34.7	-27.8	-18.5	-27.8	-35.5	-41.6	-35.5	-33.9
of which:									
Deposits at Central Bank	-31.8	-40.5	-43.0	-33.8	-43.0	-50.7	-56.9	-50.7	-49.2
Denar	-18.2	-18.0	-21.0	-16.8	-21.0	-24.4	-27.2	-24.4	-23.7
FX	-13.6	-22.5	-22.1	-17.0	-22.1	-26.3	-29.7	-26.3	-25.5
Banks (net)	-27.3	-14.1	-17.3	-13.5	-18.4	-23.6	-29.1	-34.3	-34.4
Other items (net)	-12.7	-13.9	-13.7	-15.5	-17.4	-18.8	-20.0	-21.3	-22.6
Monetary base	129.9	139.9	144.4	139.1	154.6	174.4	197.0	216.7	239.1
Currency in circulation	43.3	50.0	51.4	57.5	63.5	67.9	71.9	76.0	80.4
Liabilities to banks	78.1	81.5	85.1	73.4	82.9	98.4	116.9	132.5	150.6
Required reserves	48.5	36.2	49.0	50.1	53.5	57.3	61.3	65.2	69.2
Excess reserves	29.6	45.3	36.1	23.3	29.4	41.1	55.6	67.4	81.4
Liabilities to other sectors	8.5	8.4	7.9	8.3	8.2	8.1	8.2	8.1	8.1
				(Contribution to annual growth in monetary base)					
Net foreign assets	22.7	5.3	0.4	-11.4	22.6	22.1	20.3	10.2	10.3
Net domestic assets	-0.8	2.3	2.8	7.7	-11.5	-9.3	-7.4	-0.2	0.1
				(Percentage change, year-on-year)					
Monetary base	21.9	7.6	3.2	-3.6	11.1	12.8	12.9	10.0	10.3
Memorandum items:				(Percent of GDP)					
Central Bank bills	3.6	1.5	1.4	1.2	1.6	2.0	2.4	2.7	2.5
Central government deposits at Central Bank	4.6	6.2	5.9	4.1	4.7	5.1	5.4	4.5	4.1

Sources: NBRNM; and IMF staff estimates.

Table 6. North Macedonia: External Financing Requirements, 2022–27

(Millions of euros, unless specified otherwise)

	2022	2023		2024		2025	2026	2027
	Baseline	Baseline	Downside	Baseline	Downside			
Gross financing needs	**1,347**	**1,500**	**1,669**	**1,033**	**1,042**	**1,478**	**1,764**	**1,108**
Current account deficit	996	622	791	584	592	597	638	686
MLT debt amortization 1/	350	878	878	449	449	881	1,126	422
Financing sources	**970**	**1,775**	**1,416**	**1,587**	**1,582**	**2,051**	**2,091**	**1,469**
FDI (net)	493	553	493	596	591	634	675	717
MLT debt disbursements	419	507	507	638	638	683	712	729
Government external financing	300	800	500	300	300	700	700	0
Other 2/	-242	-84	-84	53	53	34	4	23
Net change in reserves (-: increase)	**266**	**-510**	**-92**	**-554**	**-696**	**-574**	**-327**	**-361**
Financing gap	**110**	**235**	**345**	**0**	**155**	**0**	**0**	**0**
Precautionary and Liquidity Line (PLL)	110	155	265	0	155	0	0	0
European Union (Grant)	0	80	80	0	0	0	0	0
Remaining financing gap	0	0	0	0	0	0	0	0
Memorandum items								
Gross International Reserves (GIR)	3,377	3,887	3,470	4,442	4,165	5,015	5,342	5,703
as % of ARA Metric	93	100	89	106	99	110	113	113

Sources: NBRNM; and IMF staff estimates.

1/ Excluding the amortization of MLT intercompany loans, which is included in FDI (net).

2/ Including the capital account balance, trade credits and advances, currency and deposits, private portfolio investments, short-term loans, and net errors and omissions.

Table 7. North Macedonia: Indicators of Capacity to Repay the Fund Under the Stress Scenario, 2022–29

(Under Obligated Repurchase Schedule)

	2022	2023	2024	2025	2026	2027	2028	2029
	Projections 1/ 2/							
Fund Repurchases and Charges								
In millions of SDRs	2.4	50.8	92.8	57.5	93.3	189.3	140.3	35.2
In millions of Euro	3.1	66.7	121.9	75.5	122.5	248.7	184.3	46.2
In percent of Gross International Reserves	0.1	1.9	2.9	1.6	2.5	4.8	3.4	0.8
In percent of Exports of Goods and Services	0.0	0.7	1.2	0.7	1.0	2.0	1.4	0.3
In percent of GDP	0.0	0.4	0.8	0.4	0.7	1.3	0.9	0.2
In percent of Government Revenue	0.1	1.5	2.5	1.4	2.2	4.1	2.9	0.7
In percent of External Debt	0.0	0.6	1.0	0.6	0.8	1.6	1.1	0.3
In percent of External Debt Service	0.1	2.0	3.9	2.0	2.8	6.2	4.4	1.0
In percent of Quota	1.7	36.2	66.1	41.0	66.5	134.9	100.0	25.1
Fund Credit Outstanding (end of period)								
In millions of SDRs	224.5	392.9	442.0	406.9	335.0	161.3	29.8	0.0
In millions of Euro	295.0	516.2	580.7	534.6	440.1	212.0	39.2	0.0
In percent of Gross International Reserves	8.7	14.9	13.9	11.4	8.9	4.1	0.7	0.0
In percent of Exports of Goods and Services	3.3	5.6	5.7	4.9	3.7	1.7	0.3	0.0
In Percent of GDP	2.2	3.5	3.6	3.1	2.4	1.1	0.2	0.0
In percent of Government Revenue	7.4	11.3	12.0	10.2	7.8	3.5	0.6	0.0
In percent of External Debt	2.8	4.5	4.6	3.9	3.0	1.4	0.2	0.0
In percent of External Debt Service	11.3	15.2	18.5	14.0	10.1	5.3	0.9	0.0
In Percent of Quota	160.0	280.0	315.0	290.0	238.8	115.0	21.2	0.0
Memorandum Items (in millions euro)								
Gross International Reserves	3,378	3,470	4,165	4,693	4,929	5,153	5,392	5,645
Exports of Goods and services	8,834	9,244	10,102	11,014	11,822	12,692	13,626	14,628
Nominal GDP	13,332	14,950	15,997	17,142	18,311	19,452	20,636	21,893
Government Revenue	3,992	4,554	4,851	5,232	5,640	6,005	6,371	6,759
External Debt	10,499	11,406	12,600	13,681	14,559	15,435	16,374	17,371
External Debt Service	2,621	3,390	3,135	3,818	4,353	3,991	4,234	4,491
Quota (in millions of SDRs)	140.3	140.3	140.3	140.3	140.3	140.3	140.3	140.3

Source: NBRNM, SSO, IMF Finance department, and IMF staff estimates.

1/ Projections assume a first purchase of 60 percent of quota on November 21, 2022, a second purchase of 85 percent of quota at the first review on May 19, 2023, a third purchase of 60 percent of quota on November 22, 2023, and a fourth purchase of 85 percent of quota on May 22, 2024.

2/ Projections under the stress scenario described in the report.

Table 8. North Macedonia: Financial Soundness Indicators of the Banking System, 2013–22

(Percent)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022Q2
Capital adequacy										
Regulatory capital/risk weighted assets	16.8	15.7	15.5	15.2	15.7	16.5	16.3	16.7	17.3	17.3
Tier I capital/risk weighted assets	14.4	13.7	13.9	13.9	14.2	15.0	14.8	15.3	15.8	15.9
Equity and reserves to Assets	11.3	10.8	10.8	10.6	10.8	10.8	11.0	11.6	11.6	12.4
Asset composition										
Structure of loans										
Enterprises (loans to enterprises/total loans)	55.4	55.2	53.9	51.3	50.2	49.3	47.6	46.2	46.3	46.5
Households (loans to households/total loans)	37.7	38.7	40.0	42.9	44.8	46.4	48.4	49.7	49.4	48.6
Lending with foreign currency component to private sector	52.7	49.4	46.5	44.9	42.5	41.4	42.3	42.3	41.2	41.8
Foreign currency lending/total credit to private sector	23.8	22.4	20.5	18.0	16.5	15.5	14.8	14.6	14.7	15.5
Foreign currency indexed lending/total credit to private sector	28.9	27.0	25.9	27.0	26.1	25.9	27.5	27.7	26.5	26.3
NPLs 1/										
NPLs/gross loans	10.9	10.8	10.3	6.3	6.1	5.0	4.6	3.3	3.1	3.1
NPLs net of provision/own funds	-1.8	-3.0	-5.3	-5.5	-3.7	-5.2	-2.4	-6.9	-5.4	-4.9
Total Provisions/NPLs	103.3	104.7	108.4	114.9	110.7	118.9	109.6	141.1	134.1	130.9
Provisions for NPLs/NPLs	80.1	81.9	86.7	80.9	77.2	76.3	67.7	73.2	66.3	66.0
Large exposures/own funds	188.5	233.1	212.4	185.4	176.3	218.2	256.2	281.5	256.3	220.8
Connected lending										
Banking system exposure to subsidiaries and shareholders/own	4.2	4.3	3.4	8.4	3.8	3.8	4.0	3.9	3.3	3.2
Banking system equity investments/own funds	1.7	2.6	2.6	2.0	1.9	1.2	1.3	0.8	1.0	0.9
Earning and profitability										
ROAA 2/	0.6	0.8	1.1	1.5	1.4	1.7	1.3	1.3	1.5	1.7
ROAE 2/	5.7	7.4	10.4	13.6	13.5	16.0	11.7	11.3	12.9	14.3
Interest margin/gross income 3/	62.2	63.5	62.8	62.7	60.6	57.9	58.3	56.8	52.9	54.1
Noninterest expenses/gross income 4/	62.8	58.1	54.7	53.2	52.5	50.5	55.0	53.0	53.1	53.9
Personnel expenses/noninterest expenses	35.0	35.5	35.8	35.2	34.8	37.4	36.6	36.7	34.3	33.8
Interest Rates										
Local currency spreads	3.9	4.3	4.6	4.3	4.1	3.9	3.7	3.7	3.6	3.5
Foreign currency spreads	5.2	5.3	4.8	4.5	4.3	3.9	3.7	3.6	3.6	3.5
Interbank market interest rate	2.2	1.5	1.2	1.0	1.1	1.1	1.1	1.1	1.1	1.3
Liquidity										
Highly liquid assets/total assets 5/	27.3	25.5	24.3	25.7	23.2	22.6	24.0	21.5	21.4	17.0
Highly liquid assets/total short-term liabilities 6/	47.6	45.5	42.4	44.5	40.1	39.2	41.3	35.7	34.4	27.0
Liquid assets/total assets	31.2	29.8	28.2	28.9	27.1	26.7	26.9	23.3	23.0	19.4
Liquid assets/total short-term liabilities	54.5	53.2	49.2	50.1	46.9	46.4	46.2	38.6	37.0	30.9
Customer deposits/total (noninterbank) loans	112.7	113.4	110.3	114.9	114.0	116.0	119.4	121.9	122.2	112.7
Foreign currency deposits/total deposits	44.9	42.3	42.1	43.0	42.7	42.3	40.7	41.8	44.8	47.2
Including foreign exchange-indexed 7/	45.5	42.8	42.4	43.1	43.1	42.5	40.8	41.9	45.0	47.4
Sensitivity to market risk										
Net open foreign exchange position/own funds	15.6	17.5	11.1	14.5	6.2	3.8	6.0	10.1	2.1	0.8

Source: NBRNM.

1/ Includes loans to financial and nonfinancial sector.

2/ Adjusted for unallocated provisions for potential loan losses.

3/ Interest margin represents interest income less interest expense. Gross income includes net interest income, fees and commissions income.

4/ Noninterest expenses include fees and commissions expenses, operating expenses and other expenses excluding extraordinary expenses.

5/ Highly liquid assets are defined as cash and balance with the NBRM, treasury bills, NBRM bills, and correspondent accounts with foreign banks. Assets in domestic banks are excluded from total assets.

6/ Short-term liabilities are defined as deposits and other liabilities with a maturity of one year or less (without deposits and borrowings from domestic banks).

7/ FX indexed deposits include deposits and other FX indexed liabilities.

Table 9. North Macedonia: Proposed Schedule of Reviews and Available Credit Under the PLL Arrangements, 2022–24

		Credit Available	
Availability Date	**Condition**	**Millions of SDRs (cumulative)**	**Percent of Quota (cumulative)**
November 21, 2022	Approval of PLL Arrangement	84.18	60
May 19, 2023	Completion of First Review	203.44	145
November 22, 2023	Completion of Second Review	287.62	205
May 22, 2024	Completion of Third Review	406.87	290
Total		**406.87**	**290**

Source: IMF staff.

Annex I. Debt Sustainability Assessment (DSA)

Bottomline: North Macedonia's debt is assessed as sustainable in the medium term with a high probability.	
Baseline	
Public sector debt is expected to remain below 60 percent of GDP during the projection period and gradually decline over the medium term, therefore staying below the 70 percent of GDP high-risk threshold. Gross financing needs will hover around the 15 percent of GDP high-risk threshold in years with Eurobond amortizations.	Public debt is set to slightly increase in 2023–25, with still high fiscal deficits offsetting a still favorable interest-growth rate differential, before gradually declining in the outer years. The authorities are committed to consolidate over the medium term, which would place debt more firmly on a downward path. The peak in gross financing needs in 2023 and 2025–26 reflects the higher deficit (2023) and repayment of Eurobonds (2023, 2025–26).
Stress Tests	
Macroeconomic and fiscal shocks can significantly increase public debt and gross financing needs relative to the baseline. These exceed the relevant high-risk thresholds in some scenarios. Forecast error analysis suggests no systematic bias in historical projections.	The stress tests demonstrate the risks associated with the government's high public financing needs, as well as the considerable share of FX-denominated debt. Among all stress test scenarios, North Macedonia has the highest vulnerability to the real GDP growth shock of one standard deviation in 2023–24, a combined macro-fiscal shock, as well as a contingent liability shock. Under these stress test scenarios, public sector debt would rise close to or above the 70 percent of GDP high-risk benchmark in the medium term, with gross financing needs exceeding 20 percent of GDP in 2023 in the contingency liability shock. It is important to note that the first year of the pandemic (2020) is not treated as an outlier in the scenarios, which increases the size of the simulated shocks.
Assumptions	
Real GDP growth is expected to slow to 2.7 percent in 2022 and 2.9 percent in 2023, driven by weaker than previously expected domestic and external demand, then rebound and gradually converge to potential over the medium term. Headline inflation is projected to exceed 10 percent in 2022, before gradually declining to around 2 percent by 2027. The fiscal deficit is projected to remain broadly unchanged in 2022, due to the measures taken by the authorities to mitigate the impact of higher energy and food prices.	Higher commodity prices, rising uncertainty, and tighter financing conditions would weigh on domestic demand, while lower external demand, and a prolongation of the global supply disruptions, would dampen exports. The balance of risks remains tilted to the downside.
Coverage and Contingent Liabilities	
North Macedonia's public debt includes guaranteed debt of nonfinancial state-owned enterprises. The stress test scenarios include a standard scenario where contingent liabilities related to the banking system materialize.	Publicly guaranteed debt of nonfinancial state-owned enterprises has risen steadily over the past decade, reaching 7 percent of GDP in 2021, mainly due to public transport infrastructure projects by the public roads company.

Figure 1. North Macedonia: Public Sector - Debt Sustainability Analysis Baseline Scenario

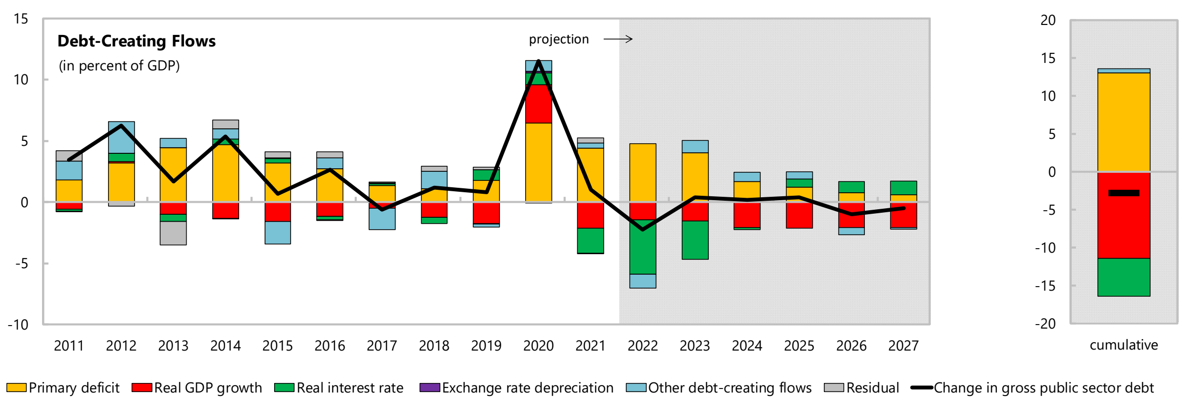
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of October 28, 2022		
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027	Sovereign Spreads		
Nominal gross public debt	42.2	59.6	60.6	58.3	58.7	58.9	59.3	58.3	57.8	EMBIG (bp) 3/		539
Public gross financing needs	13.2	19.6	16.9	12.3	15.0	11.0	13.6	14.5	10.7	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	2.6	-6.1	4.0	2.7	2.9	3.9	3.8	3.8	3.8	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	2.6	0.9	6.1	10.6	8.8	3.8	2.6	2.5	2.3	Moody's	n.a.	n.a.
Nominal GDP growth (in percent)	5.3	-5.3	10.3	13.6	12.0	7.8	6.5	6.4	6.2	S&Ps	BB-	BB-
Effective interest rate (in percent) [4/]	3.0	2.7	2.5	2.6	3.0	3.6	3.9	4.3	4.5	Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing
Change in gross public sector debt	2.4	11.5	1.0	-2.3	0.4	0.2	0.4	-1.0	-0.5	-2.8	primary
Identified debt-creating flows	2.3	11.6	0.6	-2.3	0.4	0.2	0.4	-1.0	-0.5	-2.8	balance [9/]
Primary deficit	2.7	6.5	4.4	4.8	4.0	1.7	1.2	0.8	0.6	13.0	-1.1
Primary (noninterest) revenue and grants	28.7	28.9	30.2	29.9	30.5	30.4	30.6	30.9	30.9	183.2	
Primary (noninterest) expenditure	31.4	35.4	34.6	34.7	34.6	32.0	31.8	31.6	31.5	196.2	
Automatic debt dynamics [5/]	-0.9	4.2	-4.2	-5.9	-4.7	-2.3	-1.4	-1.2	-1.0	-16.4	
Interest rate/growth differential [6/]	-0.9	4.1	-4.2	-5.9	-4.7	-2.3	-1.4	-1.2	-1.0	-16.4	
Of which: real interest rate	0.1	1.0	-2.0	-4.4	-3.2	-0.2	0.7	0.9	1.1	-5.0	
Of which: real GDP growth	-1.0	3.1	-2.1	-1.5	-1.5	-2.1	-2.1	-2.1	-2.1	-11.4	
Exchange rate depreciation [7/]	0.0	0.1	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.5	0.9	0.4	-1.1	1.0	0.8	0.6	-0.5	-0.1	0.6	
Privatization receipts (negative)	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Changes in cash, deposits, and securities held for liquidity purposes	0.5	1.0	0.5	-1.1	1.0	0.8	0.6	-0.5	-0.1	0.6	
Residual, including asset changes [8/]	0.1	-0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as non-financial public sector.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

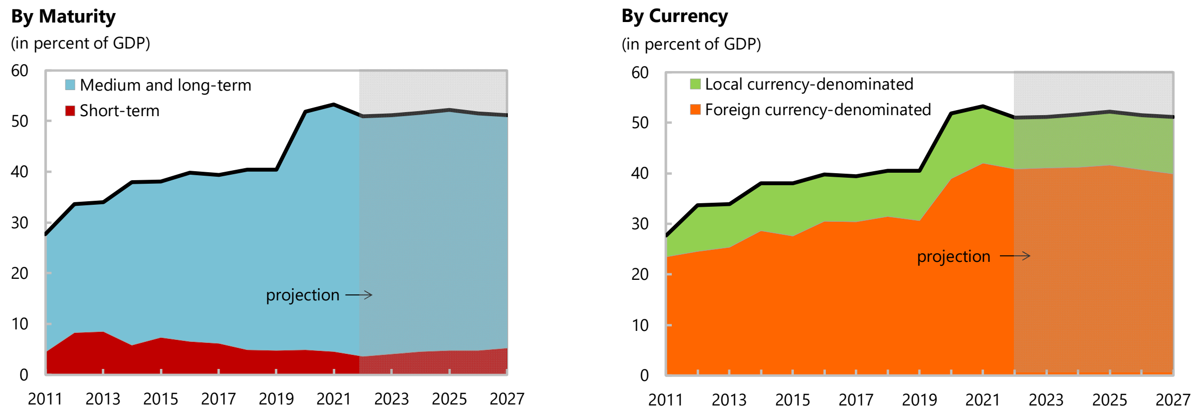
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

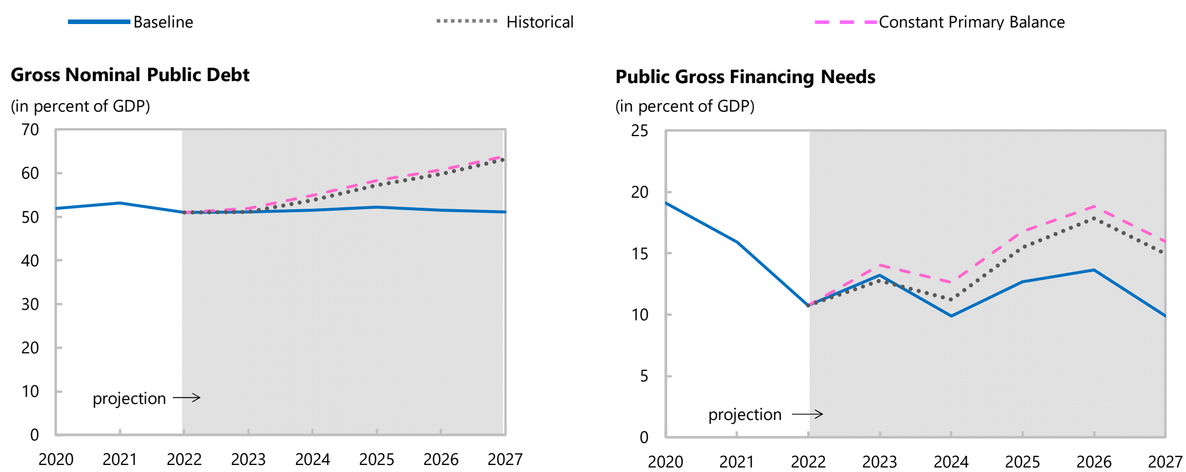
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. North Macedonia: Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



Underlying Assumptions

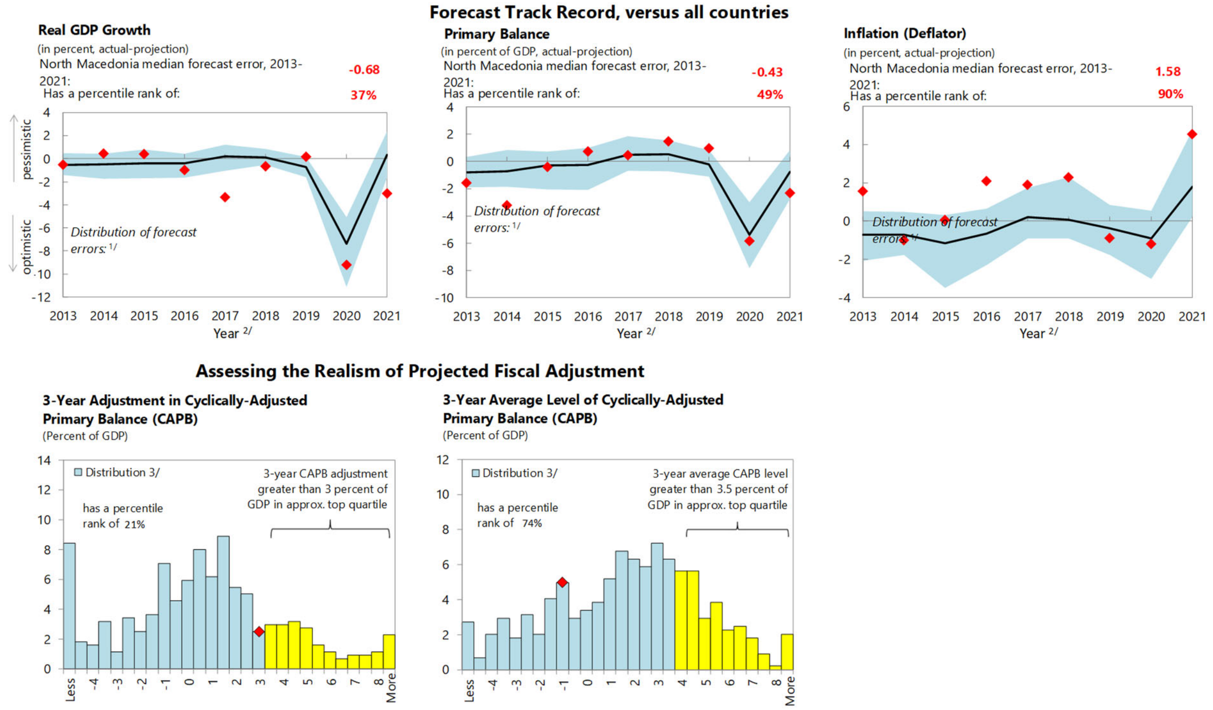
(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	2.7	2.9	3.9	3.8	3.8	3.8
Inflation	10.6	8.8	3.8	2.6	2.5	2.3
Primary Balance	-4.0	-3.2	-1.6	-1.2	-0.8	-0.5
Effective interest rate	2.7	3.1	3.8	4.1	4.5	4.7
Constant Primary Balance Scenario						
Real GDP growth	2.7	2.9	3.9	3.8	3.8	3.8
Inflation	10.6	8.8	3.8	2.6	2.5	2.3
Primary Balance	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0
Effective interest rate	2.7	3.1	3.8	4.1	4.5	4.8

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	2.7	1.9	1.9	1.9	1.9	1.9
Inflation	10.6	8.8	3.8	2.6	2.5	2.3
Primary Balance	-4.0	-2.7	-2.7	-2.7	-2.7	-2.7
Effective interest rate	2.7	3.1	4.2	4.7	5.3	5.7

Source: IMF staff.

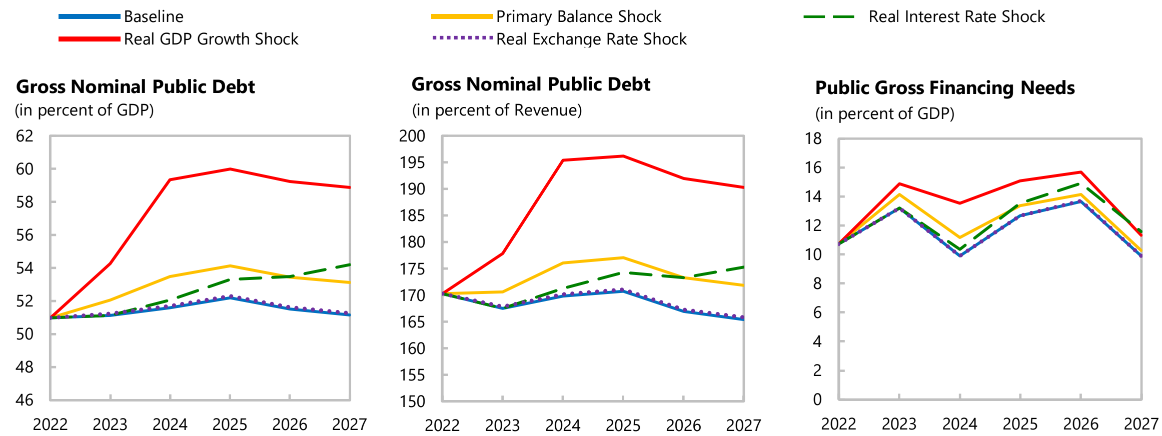
Figure 3. North Macedonia: Public Debt Sustainability Analysis – Realism of Baseline Assumptions



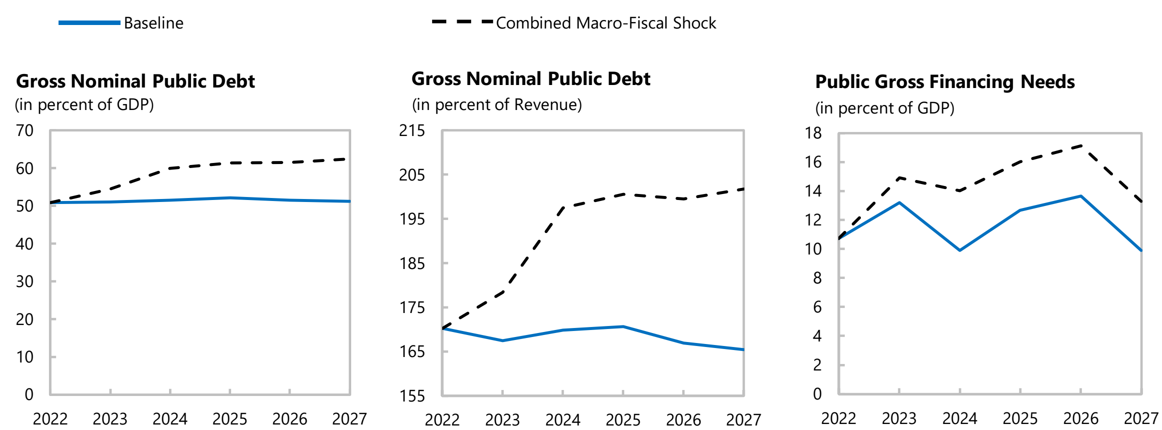
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. North Macedonia: Public Debt Sustainability Analysis – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	2.7	2.9	3.9	3.8	3.8	3.8
Inflation	10.6	8.8	3.8	2.6	2.5	2.3
Primary balance	-4.0	-4.1	-2.5	-1.2	-0.8	-0.5
Effective interest rate	2.7	3.1	3.9	4.2	4.6	4.8
Real Interest Rate Shock						
Real GDP growth	2.7	2.9	3.9	3.8	3.8	3.8
Inflation	10.6	8.8	3.8	2.6	2.5	2.3
Primary balance	-4.0	-3.2	-1.6	-1.2	-0.8	-0.5
Effective interest rate	2.7	3.1	4.7	5.4	6.3	6.9
Combined Shock						
Real GDP growth	2.7	-0.2	0.7	3.8	3.8	3.8
Inflation	10.6	8.0	3.0	2.6	2.5	2.3
Primary balance	-4.0	-4.5	-4.1	-1.2	-0.8	-0.5
Effective interest rate	2.7	3.1	4.8	5.6	6.4	7.1

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	2.7	-0.2	0.7	3.8	3.8	3.8
Inflation	10.6	8.0	3.0	2.6	2.5	2.3
Primary balance	-4.0	-4.5	-4.1	-1.2	-0.8	-0.5
Effective interest rate	2.7	3.1	3.9	4.4	4.7	4.9
Real Exchange Rate Shock						
Real GDP growth	2.7	2.9	3.9	3.8	3.8	3.8
Inflation	10.6	8.9	3.8	2.6	2.5	2.3
Primary balance	-4.0	-3.2	-1.6	-1.2	-0.8	-0.5
Effective interest rate	2.7	3.1	3.8	4.1	4.5	4.7

Source: IMF staff.

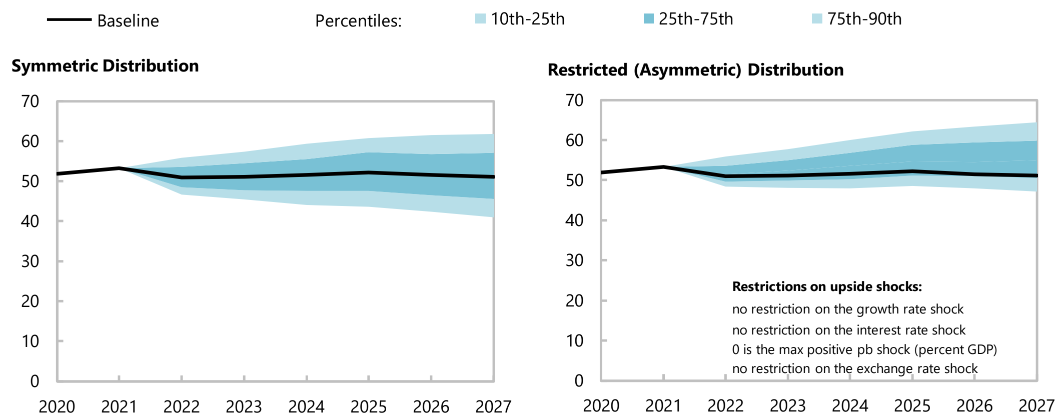
Figure 5. North Macedonia: Public Debt Sustainability Analysis – Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

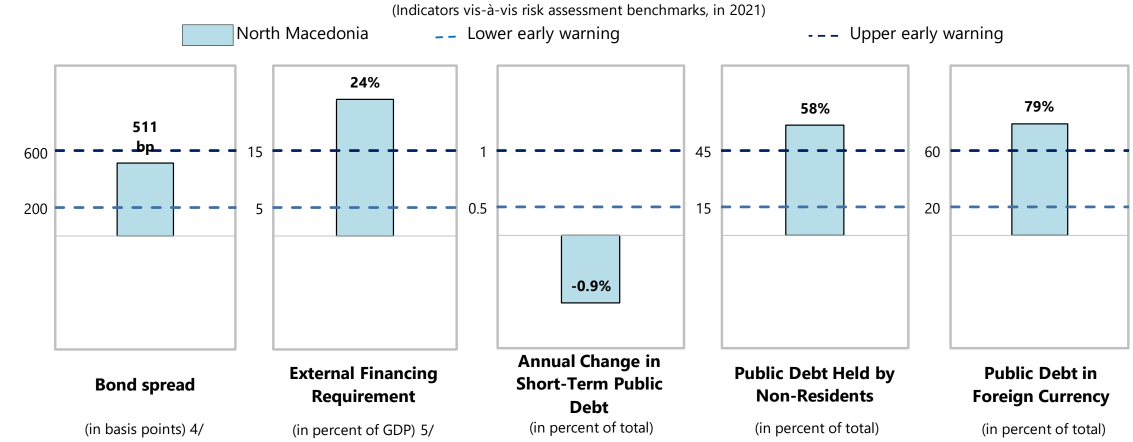
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 30-Jul-22 through 28-Oct-22.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 6. North Macedonia: Public Sector Debt Sustainability Analysis (DSA) Adverse Scenario

(in percent of GDP unless otherwise indicated)

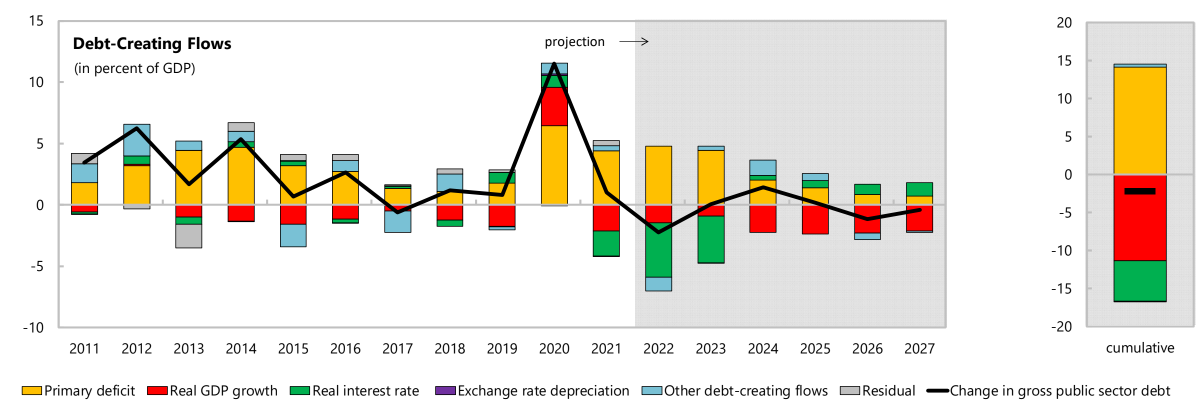
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	42.2	59.6	60.6	58.4	58.4	59.8	60.0	58.8	58.4
Public gross financing needs	13.2	19.6	16.9	12.3	15.4	11.9	14.1	15.1	11.7
Real GDP growth (in percent)	2.6	-6.1	4.0	2.7	1.7	4.1	4.3	4.1	3.8
Inflation (GDP deflator, in percent)	2.6	0.9	6.1	10.6	10.2	2.8	2.8	2.6	2.3
Nominal GDP growth (in percent)	5.3	-5.3	10.3	13.6	12.1	7.0	7.2	6.8	6.2
Effective interest rate (in percent) [4/]	3.0	2.7	2.5	2.6	3.0	3.7	3.9	4.2	4.4

As of October 28, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		539
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	BB-	BB-
Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	2.4	11.5	1.0	-2.2	0.0	1.4	0.2	-1.1	-0.4	-2.2	
Identified debt-creating flows	2.3	11.6	0.6	-2.2	0.0	1.4	0.2	-1.1	-0.4	-2.2	
Primary deficit	2.7	6.5	4.4	4.8	4.4	2.0	1.4	0.9	0.7	14.2	-1.1
Primary (noninterest) revenue and grants	28.7	28.9	30.2	29.9	30.5	30.3	30.5	30.8	30.9	182.9	
Primary (noninterest) expenditure	31.4	35.4	34.6	34.7	34.9	32.3	31.9	31.7	31.6	197.1	
Automatic debt dynamics [5/]	-0.9	4.2	-4.2	-5.9	-4.7	-1.8	-1.8	-1.5	-1.0	-16.7	
Interest rate/growth differential [6/]	-0.9	4.1	-4.2	-5.9	-4.7	-1.8	-1.8	-1.5	-1.0	-16.7	
Of which: real interest rate	0.1	1.0	-2.0	-4.4	-3.8	0.4	0.6	0.8	1.1	-5.3	
Of which: real GDP growth	-1.0	3.1	-2.1	-1.4	-0.9	-2.2	-2.4	-2.3	-2.1	-11.4	
Exchange rate depreciation [7/]	0.0	0.1	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.5	0.9	0.4	-1.1	0.3	1.3	0.6	-0.5	-0.1	0.4	
Privatization receipts (negative)	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Changes in cash, deposits, and securities held for liquidity purposes	0.5	1.0	0.5	-1.1	0.3	1.3	0.6	-0.5	-0.1	0.4	
Residual, including asset changes [8/]	0.1	-0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as non-financial public sector.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Appendix I. Written Communication

Skopje, November 4, 2022

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva:

1. In the years leading up to the Covid-19 pandemic, North Macedonia experienced solid and broad-based growth and macroeconomic stability, with public debt below 50 percent of GDP, and a moderate current account deficit. Due to the pandemic, output fell by 4.7 percent in 2020, but a strong policy response brought the economy back on a recovery path. However, following Russia's invasion of Ukraine, sharply rising energy and food prices and weaker global confidence, combined with tighter global financial conditions, have substantially worsened the growth outlook, widened the current account deficit, and increased financing costs. In the supplemental budget approved by parliament in July 2022, real GDP growth was expected to moderate to 3.2 percent in 2022 and recover to 4.5 percent in 2023. Nevertheless, as a result of significant and protracted external shocks, GDP growth is now expected to be lower, at 2.7 percent in 2022 and 2.9 percent in 2023. Economic activity would still exceed the pre-pandemic level in 2022. In April 2022, the National Bank of the Republic of North Macedonia (NBRNM) forecasted inflation at 8.8 percent on average for 2022. As pressures from imported prices are more pronounced than initially expected, we expect to revise up the inflation forecast, in line with the IMF's forecast, currently 12.9 percent for 2022 and around 7 percent for 2023 as global energy and food prices moderate.

2. In this context, we are requesting IMF support for our policy efforts in the form of a 24-month Precautionary and Liquidity Line (PLL) arrangement in the amount of SDR 406.87 million (290 percent of quota), or approximately euro 530 million, of which SDR 84.18 million (60 percent of quota) would become available upon IMF Executive Board approval of the arrangement. We intend to draw the amounts that become available at approval and at the first review, and treat the arrangement as precautionary thereafter. The drawn amounts will be channeled to the government's account at the NBRNM and used for budget financing. The European Bank for Reconstruction and Development has approved a loan for liquidity support of €100 million for ESM (Power Plants of North Macedonia) during 2022-2023, which is pending parliamentary approval. The European Union (EU) will provide budget support of €80 million in early 2023, as a grant to help address the impact of high energy prices on vulnerable households and firms. We intend to continue discussions with the European Commission about potential Macro-Financial Assistance and with the World Bank on reforms that could be supported by a Development Policy Operation. We maintain market access and, to ensure that the program is fully financed, we plan to obtain additional external market financing of at least €800 million over the next 12 months. On top, we have a €400 million repo line with the ECB, through mid-January 2023, which can provide euro liquidity to the NBRNM.

3. Looking ahead, our policy efforts will focus on: (i) safeguarding public finances; (ii) strengthening revenue collection and public investment management; (iii) ensuring investment projects fit within a sustainable medium-term fiscal framework; (iv) improving energy efficiency and reducing energy subsidies while protecting the vulnerable; (v) tackling high inflation; and (vi) buttressing financial stability.

4. Our fiscal policy supports economic growth, protects priority investment, and safeguards public finances. The supplemental budget for 2022 targets a fiscal deficit of 5.3 percent of GDP. Given the sharp increase in global energy prices, we are supporting households and firms by limiting the increase in end-consumer prices for electricity and heating. The subsidy on social contributions on pay increases was phased out as planned in October 2022. We will not increase the stock of payment arrears to the private sector, and will use unused allocations under the 2022 budget primarily to clear arrears.

5. We will reduce the budget deficit to 4.6 percent of GDP in 2023, through measures on both the revenue and expenditure side, of about ¾ percent of GDP. We will further reduce the budget deficit to 3.4 percent of GDP in 2024.

- We have embarked on a tax policy reform, aimed at improving the quality of the tax system and strengthening revenue mobilization. The IMF has provided valuable advisory and capacity building support in finalizing the upcoming tax reform package focused on consolidating the tax base and increasing the fairness of the tax system, among other priorities outlined in the government's strategy for tax system reform 2021-2025. The process of designing the reform package is based on inclusivity and wide stakeholder engagement and has been recently opened for public consultation, prior to amending the legislative framework. On this basis, the draft budget for 2023 will be followed by a legislative proposal to streamline preferential treatments and exemptions in corporate and personal income tax and value-added tax that will yield savings of approximately ½ percent of GDP.
- On the expenditure side, we will curb operating costs by reducing electricity consumption, travel and representation expenses, recourse to external consultants, as well as rental and equipment costs, and will monitor implementation by budget users on a quarterly basis. Given the tight fiscal constraints, and also taking into account that wage increases could lead to even higher inflation, we will not provide any broad-based permanent public sector wage increases in 2023 beyond the minimum wage adjustments.
- The draft 2023 budget includes an envelope to cover the losses in the energy sector. Any anti-crisis support to households and companies will be strictly targeted and temporary. Unused budget allocations from lower-than-anticipated global energy prices will be used to reduce the fiscal deficit and we will consult with Fund staff ahead of any major reallocations between capital and current spending.

6. We plan to gradually scale up investment. To solidify the estimate of the fiscal cost and manage fiscal risks of the Corridor 8/10d road project, we have requested an independent and comprehensive feasibility study from a reputable international company and will share it with IMF staff, together with relevant documentation for project appraisal (structural benchmark for end-

January 2023). We will discuss the results of the feasibility study with IMF staff and ensure that the project fits within the agreed medium-term fiscal framework. We will use the results of the feasibility study to prepare the contract for the project. An independent advisor will review the contract to ensure that it reflects all project deliverables and that associated costs and risks are clearly allocated to the contracting parties. The estimated fiscal cost of the project (€1.3 billion) has been incorporated in the medium-term fiscal framework. If the feasibility study finds that the likely fiscal cost is significantly higher or risks do not appear manageable, we will adjust the timeline of the project implementation in order to fit into a sustainable medium-term fiscal framework, and/or implement a part of the project with IFI involvement and financing, consistent with the program targets and the fiscal rules of the organic budget law. The independent advisor will regularly monitor the project, prior to signing the contract and during the course of the project, and report to the government on a monthly basis or more frequently, including with updated project costs. We will ensure transparency and accountability through publication of project monitoring reports and audits.

7. We are taking steps to increase incentives for a more efficient energy use through electricity prices that better reflect costs, while protecting the vulnerable.

- On July 1, 2022, we implemented increasing-block tariffs for electricity, by charging a significantly higher tariff for consumption that is beyond basic needs, while increasing the weighted average electricity tariff by about 18 percent. This helps ensure that every household can afford a basic quantity of electricity, while significantly reducing the budget subsidies to high-usage consumers. It also provides an incentive for investments in greater energy efficiency. Overall, we expect that these reforms will reduce the loss of the electricity companies by €60 million (0.5 percent of GDP) in 2022. We plan to adjust tariffs further in January 2023 to take into account market prices and to further reduce the loss and related budget transfers consistent with the budget deficit target.
- We will continue increasing electricity tariffs to gradually eliminate the need for untargeted government subsidies by the end of 2025 and further improve energy efficiency. We will incentivize, through tariff adjustments, small- and medium-sized enterprises (“small consumers”) to move to the liberalized electricity market. We will also review the experience with block tariffs and expand the existing programs for energy vulnerable customers in coverage and adequacy. We will prepare an action plan covering these aspects, building on the ongoing collaboration with the World Bank and the IMF, to be adopted by the government and published by February 2023 (structural benchmark).

8. We adopted, in September 2022, an organic budget law that has been prepared in consultation with the European Commission, the World Bank, and the IMF. This law brings significant improvements to budget preparation and execution and fiscal reporting. It establishes a fiscal rule, effective 2023, setting a ceiling for the fiscal deficit of 3 percent of GDP and general government debt of 60 percent of GDP, with limited escape clauses; expands the coverage of the general government to include non-market state-owned enterprises by 2027; and foresees annual reporting of tax expenditures as part of the annual budget. Further, it establishes a fiscal council tasked with assessing the government’s macroeconomic and budgetary projections and monitoring adherence to the rules.

9. We will continue our efforts to improve revenue collection and enhance public financial management:

- Revenue administration. We are committed to adopting a modern approach to revenue administration and tax compliance. In particular, the Public Revenue office will strengthen its centralized compliance risk management (CRM), including by establishing a CRM committee, staffing the existing CRM unit appropriately, and creating a single reform governance structure within the organization by December 2022. We will not provide any tax amnesties.
- Public investment management (PIM). Based on the IMF's 2020 PIM assessment, we adopted a PIM action plan to improve the efficiency of allocation and the implementation of infrastructure projects. We will adopt the legal acts for the establishment of a PIM Department in the Ministry of Finance by December 2022.
- Public procurement. All procurements conducted through the dedicated electronic portal include the contract as a part of the award notification. To further enhance transparency, we will connect the procurement system with the newly created register of ultimate beneficial ownership by January 2023.

10. High inflation mostly reflects global factors, but inflation expectations have also increased and nominal wage growth is high. We have therefore embarked on a monetary policy normalization. During October 2021-June 2022, we intervened in the foreign exchange market, absorbing denar liquidity. Moreover, we have raised the policy rate by 225 basis points on a cumulative basis since April. We have also increased the differential between the rate of the reserve requirement on banks' euro and denar liabilities at two instances, effective in June and September, to encourage banks to raise the rates offered for denar deposits. We will continue the monetary policy tightening, and stand ready to act as needed to address any large and persistent inflation differential with the euro area or significant pressures on international reserves. We will preserve central bank independence. In particular, following up on the recommendations of the 2020 Safeguards Assessment, we will take steps to ensure that the NBRNM has the autonomy to determine the employment conditions of its staff, through amendments to the relevant legislation.

11. Reflecting a strong supervisory and regulatory framework, the banking system remains well-capitalized and liquid and has been resilient to the tightening in global financial conditions. We remain committed to continuously improving the implementation of the supervisory framework, including bank stress testing. We are closely monitoring risks in the financial system, including from rising real estate prices, banks' mortgage and FX lending, and higher interest rates. To guard against a build-up of such risks, we have introduced a 0.5 percent counter-cyclical capital buffer for banks' exposure to the domestic economy, effective August 2023, and will take any further action that would become necessary.

12. We are taking legislative action to improve macroprudential oversight and strengthen the financial safety net, thereby bolstering the financial system's resilience to shocks. A Financial Stability Law to strengthen coordination on macroprudential policy and oversight was adopted in July 2022. We will also submit to parliament amendments to the National Bank law, by November 2022, granting a formal macroprudential mandate to the NBRNM. Subsequently, the NBRNM will present

a macroprudential strategy for the overall financial sector for adoption by the Financial Stability Committee. New laws to strengthen frameworks for deposit insurance and bank resolution are also under preparation, with World Bank technical assistance, with the aim of submitting the legislative package to parliament by June 2023.

13. We continue our efforts to improve the AML/CFT framework. A new AML/CFT law was adopted in July 2022. MONEYVAL is currently undertaking an assessment of the AML/CFT framework, with a final report scheduled for 2023, and we will follow up swiftly on any recommendations.

14. To enhance growth prospects, we aim to reduce skills shortages and reverse the decline in labor force participation by strengthening education outcomes and support job-to-job transitions. Future increases in the minimum wage will take into consideration productivity levels and trends, to preserve jobs and competitiveness.

15. We will provide IMF staff with the data and information it requests for the purpose of monitoring program implementation. In line with the requirements of the PLL arrangement, we will also observe the standard criteria on trade and exchange restrictions, bilateral payment agreements, multiple currency practices, and the non-accumulation of payment arrears on external debt.

16. We believe that the policies contained in this communication are adequate for achieving the macroeconomic and financial objectives of the program, but we will take any additional measures that may be appropriate for this purpose. We will consult with IMF staff on the adoption of these measures, and in advance of revisions to the policies contained in this communication, in accordance with the IMF's policies on such consultation. By continuing to reinforce the economy's resilience, including by further strengthening fiscal and external buffers, we believe that North Macedonia should be well positioned to exit the PLL arrangement when it expires in November 2024. Reaffirming commitment to our policy of transparency, we consent to the IMF's publication of this Communication, the Technical Memorandum of Understanding, and the accompanying Executive Board documents.

/s/

Fatmir Besimi
Minister of Finance

/s/

Anita Angelovska Bezhoska
Governor of the National Bank

Table 1. North Macedonia: Structural Benchmarks

Measure	Timing
Adoption and publication of a government action plan to gradually eliminate the need for government subsidies for electricity services and further improve energy efficiency (¶7)	End-February 2023
Comprehensive and independent feasibility study of Corridor 8/10d road project, shared with IMF staff (¶6)	End-January 2023

Table 2. North Macedonia: Quantitative Indicative Targets and Continuous Performance Criteria

(End of period, million denars, unless otherwise indicated)

	March 2023	September 2023	March 2024
Indicative Targets			
Floor on the central government cash balance	-17,560	-29,538	-10,881
Non-accumulation of domestic payment arrears	0	0	0
Floor on net international reserves (million euros)	2,919	2,862	2,759
Continuous Performance Criteria			
Non-accumulation of new external debt payment arrears	0	0	0

Source: IMF staff estimates and projections.

Attachments (I)

Technical Memorandum of Understanding

Attachment I. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) sets out the understandings regarding the definitions of the performance criteria and indicative targets that will be applied under the PLL arrangement. It also describes the methods to be used in assessing the program's performance and the information requirements to ensure adequate monitoring of the targets.

Indicative Targets

Central Government Cash Balance

For the purpose of the program, the central government covers the central government as defined in the Annual Budget Document (including Special Revenue Accounts, the Pension and Disability Fund, the Health Insurance Fund and the Employment Agency, which are treated by the Ministry of Finance as part of the consolidated central government).

The central government cash balance from "above the line" is defined as total revenue (tax revenue, social security contributions, non-tax revenue, capital revenue, grants) minus total expenditure recorded on a cash basis. The Ministry of Finance will inform IMF staff of the creation or reclassification of any funds, programs, or entities in a timely manner. Privatization receipts are classified as a financial transaction and are recorded "below the line" ("other inflows") in the central government fiscal accounts. Privatization receipts are defined in this context as financial transactions.

The central government cash balance from "below the line" is defined as inflows (net domestic borrowing, foreign loans, change in government deposit (a positive sign means drawdown; a negative sign means accumulation), other inflows) minus outflows (repayment of domestic structural bonds, repayment of foreign loans (principal), other outflows).

For the purpose of the program, the central government cash balance will be measured from above the line.

The floor on the central government cash balance in each year will be measured cumulatively from the start of that year.

The floor on the central government cash balance at end-March 2023 will be adjusted downward (upward) in the event of a shortfall (surplus) of multilateral program financing (specifically related to planned EU financing) relative to baseline projections as detailed in Table III. The adjustor is cumulative from end-December 2022.

Table 3. North Macedonia: Multilateral Program Financing

(Baseline Projection, cumulative) 1/

End-March 2023	80

1/ In millions of euros.

Reporting: The Ministry of Finance will report to the IMF in monthly and cumulative flows from January 1 of each year the central government cash balance, from both above and below the line, on a monthly basis no later than one week after the end of the month.

Domestic Arrears

For the purpose of the program, domestic arrears of the public sector are defined as liabilities of public sector entities to natural persons, domestic legal entities, citizens' associations, and other non-profit organizations that are overdue and unpaid as of the end of the relevant reporting period, as per the rulebook on the reporting and disclosure of liabilities of the public sector adopted by the Ministry of Finance on May 16, 2018,[1] as well as the stock of VAT refund claims that have not been settled (through a cash refund, netting out against obligations of taxpayers, or an official decision to reject the claims) within 30 days after the VAT refund claim has been submitted to the Public Revenue Office, as of the end of the reporting period.

The change in the stock of domestic arrears will be measured relative to the stock at end-December 2022.

Reporting: The Ministry of Finance will report the stock of domestic arrears on a monthly basis, no later than one week after the end of the month based on the information from the budget users about their arrears and the Public Revenue Office for the stock of VAT refund claims.

Net International Reserves (NIR)

For the purpose of the program, NIR is defined as the difference between NBRNM's reserve assets and its reserve-related liabilities. Reserve assets include monetary gold, SDRs, foreign currency cash, securities, deposits abroad, and the reserve position at the Fund. Reserve-related liabilities are defined as all foreign exchange liabilities of the NBRNM to nonresidents and residents (excluding central and local government foreign exchange deposits at the NBRNM), including all credit outstanding to the Fund, arrears on principal or interest payments to commercial banks, suppliers, or official export credit agencies, and future and contingent commitments to sell foreign exchange arising from transactions in derivative assets (future, forwards, swaps, and options). The exchange rate that will be used to monitor NIR during the first year of the program is Macedonian denar (MKD) 61.4950 per euro, the rate prevailing on October 1, 2022. Foreign currency accounts denominated in currencies other than the euro and monetary gold will be valued in euros at the exchange rates and gold prices prevailing on October 1, 2022.

The floor on NIR of the NBRNM will be adjusted downward (upward) in the event of a shortfall (surplus) of multilateral program financing (specifically related to planned EU financing) relative to baseline projections as detailed in Table III. The adjustor is cumulative from end-December 2022.

[1] https://peo.finance.gov.mk/Home/downloadPravilnikPEO?Length=4

Reporting: The NBRNM will report on international reserves to the IMF on a daily basis.

Continuous Performance Criteria

External Debt Payment Arrears

For the purpose of the program, an external debt payment arrear is defined as a payment by public sector entities to nonresidents, which has not been made within the due date (including grace period, if any). This includes direct and guaranteed debt by the general government. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or for which a restructuring agreement is being sought are excluded from this definition. The performance criterion will apply on a continuous basis throughout the program period.

Other Continuous Performance Criteria

During the period of the program, North Macedonia will not (i) impose or intensify restrictions on the making of payments and transfers for current international transactions; (ii) introduce or modify multiple currency practices; (iii) conclude bilateral payments agreements that are inconsistent with Article VIII; and (iv) impose or intensify import restrictions for balance of payments reasons.

Other Reporting Requirements

The Ministry of Finance will report to the IMF in monthly and cumulative flows from January 1 the profits and losses of ESM (Power Plants of North Macedonia), as well as the expected profits and losses for the remainder of the year, on a monthly basis no later than four weeks after the end of the month.

Assuming the approval of this arrangement by the IMF Executive Board on November 21, 2022, the reviews will be completed no later than May 19, 2023, for the first review, November 22, 2023, for the second review, and May 22, 2024, for the third review.