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June 17, 2013

The Acting Chair's Summing Up
Former Yugoslav Republic of Macedonia—2013 Article IV Consultation and First Post-Program Monitoring
Executive Board Meeting 13/57
June 14, 2013

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their economic management, which has helped maintain financial and external stability despite difficult circumstances. While the economy is poised for a moderate recovery in 2013, underpinned by acceleration in public investment and FDI projects, it still faces a challenging external environment but with limited policy space. Directors called for continued commitment to sound policies and structural reforms. Efforts should focus on reducing risks to the outlook, preserving macroeconomic stability, generating stronger growth, and boosting income convergence and employment.

Directors agreed that the near-term policy mix should remain supportive to sustain the still fragile recovery, particularly given monetary policy constraints. However, as the crisis subsides, fiscal policy should be anchored in a well-articulated and credible medium-term strategy. The strategy should strike a balance between increasing growth and ensuring fiscal and debt sustainability, reducing debt and the deficit over time. They emphasized that a greater focus on multi-annual budgeting would provide a good framework for assessing fiscal space and avoiding payment arrears. Directors commended the clearance of arrears and encouraged the authorities to implement measures to improve fiscal management, including public financial management. With some infrastructure spending shifting off-budget, they urged tight control on the pace of indebtedness of public sector enterprises. Directors highlighted the need to analyze the evolution of, and risks to, the broader public sector debt in setting budgetary targets and prioritizing spending.

Directors took note that the exchange rate peg has served Macedonia well. They generally agreed that the still-weak growth, contained inflation, adequate reserves, and the absence of immediate balance of payments pressures may allow for an accommodative stance to stimulate credit growth. However, the central bank should stand ready to raise rates in the event that risks materialize and exchange rate pressures emerge.

Directors noted that the banking sector is sound, with high capital adequacy ratios and ample liquidity. Nonetheless, they emphasized that continued vigilance is necessary in light of potential shocks. It will also be important to monitor the increasing nonperforming loans.

Directors commended the authorities for the recent changes to the banking law, which have closed all but one of the identified gaps in the crisis management framework.

Directors welcomed the improvements in the business climate and the progress made in attracting foreign direct investment. Further structural reforms will be essential to generate sustainable strong growth, speed up income convergence, and reduce unemployment. Developing stronger linkages between FDI projects and the domestic economy, building the needed infrastructure, and strengthening education and training opportunities should be key priorities going forward.

It is expected that the next Article IV consultation with the Former Yugoslav Republic of Macedonia will be held on the standard 12-month cycle.