FOR AGENDA

EBS/14/2

January 14, 2014

To: Members of the Executive Board

From: The Secretary

Subject: **Former Yugoslav Republic of Macedonia—Second Post-Program Monitoring Discussions**

Attached for consideration by the Executive Directors is a paper on the second post-program monitoring discussions with the former Yugoslav Republic of Macedonia, which is tentatively scheduled for discussion on **Wednesday, January 29, 2014**. Unless an objection from the authorities of the former Yugoslav Republic of Macedonia is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Ms. Vladkova Hollar (ext. 39695) and Mr. Gerard (ext. 39576) in EUR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Central Bank and the WTO Secretariat on Thursday, January 23, 2014; and to the European Bank for Reconstruction and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

SECOND POST-PROGRAM MONITORING DISCUSSIONS

January 13, 2014

KEY ISSUES

Context. Growth continues to strengthen, although the recovery is not yet broad-based. External and fiscal vulnerabilities have risen: private non-debt creating capital flows have slowed, and could leave the reserve path increasingly driven by an accumulation of external public debt; central government debt—although still moderate at 36 percent of GDP—has increased by about 15 percentage points since the beginning of the global financial crisis, in the context of growing broader public sector operations.

Fiscal Policy. The newly re-established medium-term strategy is welcome, as it highlights the government's policy priorities and helps shape stakeholder expectations. The targets are consistent with a gradual withdrawal of stimulus, and would produce stable baseline debt dynamics. However, should private demand recover faster than expected, frontloading the consolidation would stave off the emergence of imbalances and would boost policy credibility. Ensuring adequate fiscal space for priority infrastructure remains key.

Monetary and Financial Policies. Looser monetary policy in the second half of 2013 has not resulted in the hoped for pickup in private credit growth. Nonetheless, the strong recovery in H1 2013, high bank liquidity, and the decline in reserves (albeit not indicative of pressures on the peg) suggest an end to the easing cycle would be in order.

External Position. Capacity to service outstanding external debt obligations, including to the IMF, remains adequate. Despite still weak net FDI flows, increased activity in large foreign-owned companies is contributing to stronger exports. However, backward linkages will likely develop only slowly. In the absence of domestic spillovers, the structural improvement in the trade deficit will be gradual and growth could be uneven.

Approved By
Philip Gerson and Dhaneshwar Ghura

Discussions were held in Skopje, October 29–November 8, 2013. A team comprised of Ms. Vladkova-Hollar (head), Mssrs. Gerard and Impavido, Ms. Taheri Sanjani (all EUR), and Mssrs. Gitton and Nacevski (Res Rep office) met with Finance Minister and Deputy Prime Minister Stavreski, NBRM Governor Bogov, other officials, and private sector representatives. Mr. Hadzi-Vaskov (OED) joined some of the discussions. A joint press conference was held at the conclusion of the mission. Ms. Mahadewa and Mr. Peterson assisted in the preparation of the staff report.

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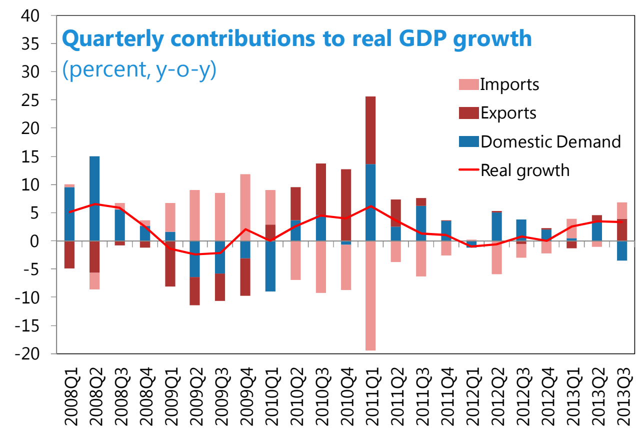
APPENDICES

RECENT ECONOMIC DEVELOPMENTS

1. **Growth is returning, and less tentatively than expected earlier**. Following 3.1 percent yoy growth in the first three quarters of the year[1], a stronger than expected recovery of about 2½ percent for 2013 is achievable. Private consumption growth turned positive in 2013, supporting an acceleration of domestic demand. However, a sustained improvement in investment, amid signs of a pickup in private credit, would be needed to balance the risks to the outlook, and help maintain growth momentum into next year. While European prospects remain uncertain, the contribution of external trade to growth has turned increasingly positive this year, with sizeable import compression accompanied by a pickup in exports in the second and third quarters.



Source: SSO; and IMF staff calculations.

2. **Headline inflation has decelerated with lower food and energy prices, but core inflation remains elevated**. After peaking at 4.2 percent (yoy) in June 2013, headline inflation decelerated to 1.3 percent in October. In contrast, the deceleration in core inflation during the first half of the year has given way to acceleration to 3.2 percent in October[2]. However, with the output gap not expected to fully close until 2017, price developments are likely to be moderate, and inflation is expected to return to around 2¼ percent at the end of 2013.

3. **Despite positive net balance of payment inflows, negative valuation effects have resulted in a decline of official reserve assets throughout 2013**.

- ***The trade deficit is expected to improve to 22 percent of GDP by the end of the year from 23.6 percent in 2012***, mainly due to weaker-than-anticipated imports, particularly fuel imports, while exports have been increasing since July, with a notable contribution from free-trade zones. Against the backdrop of declining private transfers to about 19 percent of

[1] Unusually large revisions to data for previous quarters in the context of the Q3 GDP data release have complicated the analysis of the driving factors of growth during 2013.

[2] The price increases are dispersed, and notable in medicine, air transport, and shoes and clothing. The authorities cite a mix of second-round effects and, for the latter category, measurement issues.

GDP, the current account deficit is projected to widen by about 0.4 percentage points, to 3.4 percent of GDP[3].

- ***After remaining muted in the first semester, net foreign direct investment has picked up recently and is expected to reach 3.3 percent of GDP***. These flows are now expected to be some 1.2 percentage points below the forecast at the time of the 2013 Article IV discussions. Nonetheless, they reflect a strengthening of net FDI relative to 2012, particularly as the scale of capital outflows in the form of profit repatriation and intercompany loans observed in 2012 has diminished.

- ***Foreign exchange reserves have declined.*** While robust net borrowing by the public sector has generated a sustained inflow of foreign exchange, sizable negative valuation effects affecting gold and foreign securities have resulted in an erosion of the stock of official reserve assets by about €185 million since end-2012.

4. The banking sector remains healthy, although profitability has been declining. As of the third quarter, capital ratios are high, with an average CAR of 17.3 percent (Tier 1 of 14.7 percent). Liquidity is, too, with a liquidity ratio above 32 percent of total assets. NPLs fell to 11.8 percent of total loans from 12.3 percent in June, reversing the previous trend increase. Moreover, recent stress tests conducted by the NBRM, partially based on macroeconomic scenarios, indicate that the banking sector is resilient to significant deposit withdrawals or to a sharp deterioration in the quality of loans. Yet profitability has been declining, with ROE down to about 1.8 percent on average, due to the practice of fully provisioning non-performing loans and impaired assets, in a context of uncertainty surrounding the situation of euro area parent banks.

5. Further monetary easing has been unable to revive credit growth. In the face of a deceleration in credit growth to about 3.1 percent in the first half of the year, in July the authorities reduced the central bank bill rate (the main policy instrument) and the 7-day deposit facility rate by 50 basis points, to 3.25 percent and 1.50 percent, respectively. At the same time, they lowered reserve requirements on loans in domestic currency, simultaneously tightening them on short-term FX deposits and FX-indexed loans, with the dual objectives of stimulating credit growth in local currency and encouraging long-term foreign capital funding of domestic banks. Yet credit growth has remained subdued so far, especially to the corporate sector—partly due to risk aversion, partly to portfolio cleaning.

6. Budget execution through October suggests that the new 2013 deficit target will likely be met. The higher cash deficit target established by the supplementary budget and approved by Parliament in November accomodates a MKD 1 billion increase in pensions as well as MKD 0.4 billion to clear arrears with foreign suppliers. Despite revenue underperformance of

[3] This represents a substantial upward revision of the current account balance projection relative to the 2013 Article IV Consultation, due to sizeable base effects. Statistical revisions related to activities in the free-trade zone have led to revisions of the official historical data on current account deficits to 2.5 percent of GDP in 2011 (from 3 percent) and 3 percent of GDP in 2012 (from 3.9 percent).

about 1.3 percent of GDP on a full year basis, expenditure compression in goods and services and capital expenditures—some of it automatic— suggest that the overall fiscal deficit target of 3.9 percent of GDP for 2013 is attainable.

OUTLOOK AND RISKS

7. Growth is expected to strengthen to 4 percent in medium term. Domestic demand will continue to be the main driver of growth. While unlikely to return to pre-crisis growth rates of about 6 percent, consumption is expected to recover to about 3–3 ½ percent growth. The contribution of net exports would strengthen only gradually, as imports increase in line with the rebound in both private consumption and foreign direct investment. Nevertheless, there are risks to this outlook, particularly from weak credit growth, which could impede the rebound in private consumption and investment (see ¶8), as well as broader risks to institutions and investment from continued uncertainty regarding the start of EU accession talks.[4] With no substantive policy distortions in the labor market (see SM/13/137) and generally good policies, stronger convergence growth seems to have been hampered primarily by slower accumulation of capital (text figure). The authorities' growth agenda is thus appropriately focused on building capital— where both public infrastructure and foreign investment flows play a key role.

8. Credit conditions are expected to improve in 2014, but risks are tilted to the downside. Credit expansion will likely accelerate, as some banks reach out to under-served market segments through refined monitoring and credit scoring methodologies that allow them to lend against cash flows, in contrast with the predominant strategy to only lend against collateral[5]. A supply-side analysis of potential space for expanding credit to the private sector—taking into account government financing needs—suggests scope for credit growth of around 4.5 percent in 2014. Risks to the credit outlook pertain to potential restructuring in Slovenian and Greek parent banks, whose local subsidiaries, with a 40 percent share of assets, are systemically important to the Macedonian banking system. The authorities underscored that a lengthy process of divestment of these Macedonian subsidiaries—should it become part of the restructuring process of their parent banks—risks a shift in strategy away from credit intermediation toward portfolio beautification, negatively affecting domestic demand.

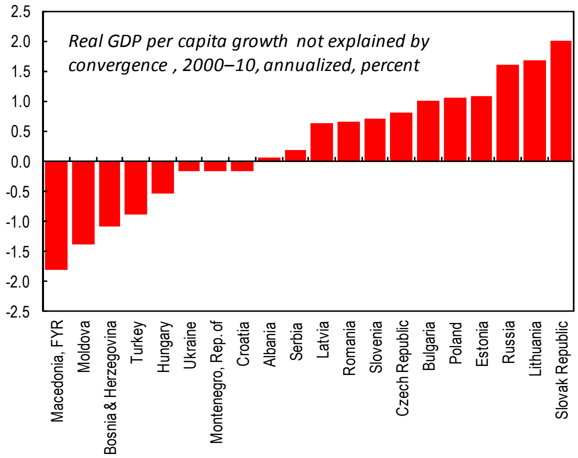
9. The current account is expected to deteriorate in 2014, mainly due to a further decline in private transfers. Import volume growth is projected to accelerate in line with both the setting up of new production capacities and the intensification of trade in the free-trade zones. Yet, export volume growth would outpace import growth, broadly stabilizing the trade

[4] The European Commission's latest communication on enlargement is available here: http://europa.eu/rapid/press-release_SPEECH-13-816_en.htm

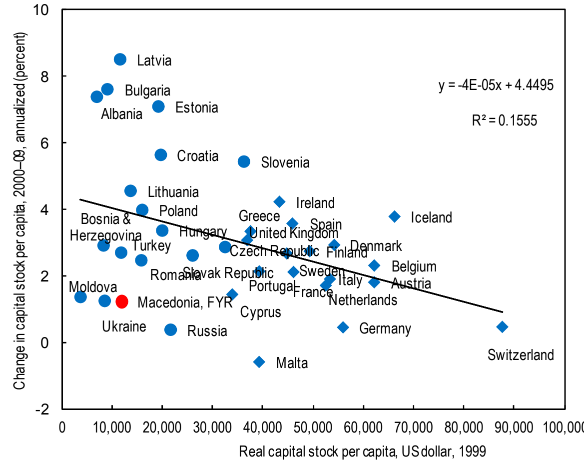
[5] (SM/13/137).

Convergence Growth and Bottlenecks

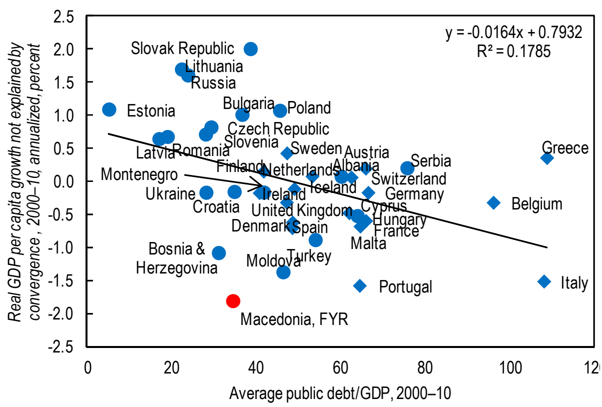
Growth has been weaker than would have been expected given initial income levels…



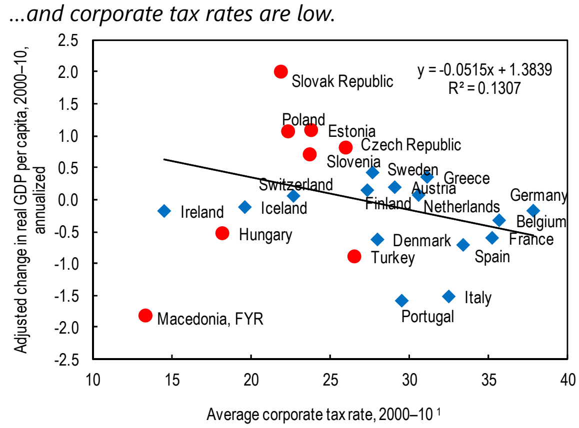
Modest capital flows and weaker investment rates seem to be the key culprits…



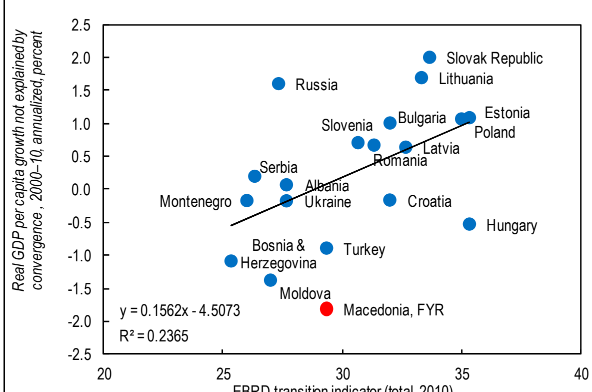
Government debt levels are moderate…



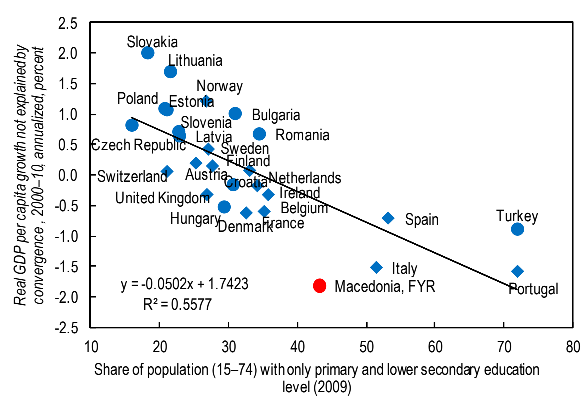
…and corporate tax rates are low.



Economic liberalization proceeded faster than in regional peers…



…although a high share of the population with only basic education may also be a constraint.

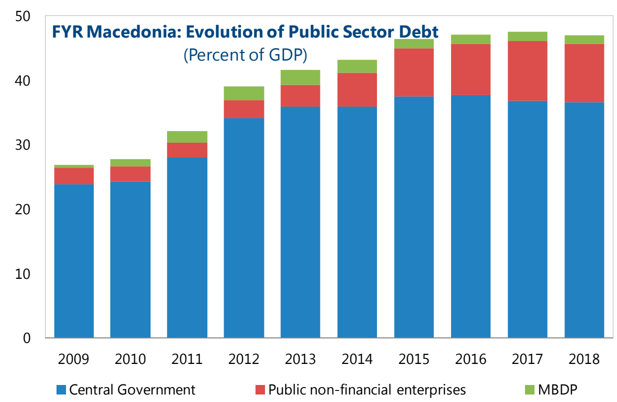


Sources: Adapted from International Monetary Fund, 2011, *Regional Economic Outlook: Europe—Navigating Stormy Waters* (Washington, October).

deficit and lowering the negative contribution of net exports to activity. However, with private transfers assumed to continue to normalize to about 18.5 percent of GDP, the current account deficit would widen to just under 4 ½ percent of GDP. Over the medium term, these dynamics of strong imports, catching-up exports, declining transfers and modest but steady foreign direct investment flows are expected to remain in place, widening the current account deficit through 2015 but gradually improving it thereafter.

10. Reserve accumulation would resume in 2014, largely on account of public sector external borrowing. In view of a strong pipeline of foreign-financed projects in the tradable sector, mainly concentrated in the automotive industry, foreign direct investment is projected to strengthen, albeit to the modest level of 3.8 percent of GDP, covering about 80–85 percent of the projected current account deficit in the next two years. Sizable public sector medium-term external borrowing, largely reflecting the implementation of foreign-financed construction projects, is expected to dominate net inflows on the financial account. In the near term, absent disruptive valuation effects, these developments would allow for the resumption of reserve accumulation.

11. The growth of public sector debt continues to outpace that of central government debt. While general government debt remains close to central government debt, public sector debt has been progressively diverging from central government debt. The Public Enterprise for State Roads (PESR) has signed a EUR 550 million credit line with the Chinese Ex-Im bank to be disbursed over the 2014–18 period. The Macedonian Bank for Development Promotion (MBDP) has contracted an additional credit line of about EUR 100 million from the EIB for SME financing. Overall, staff projects public sector debt to increase from 44 to 52 percent of GDP in the period 2013–18 (text graph).



Sources: Ministry of Finance; and IMF staff calculations.
PESR debt is projected to increase from 1.5 to 6 percent of GDP in the period 2014-18, at a pace of about EUR100 million per year until 2018 for the Miladnovic-Stip and Kicevo-Ohrid motorways; debt of other SOEs is projected to decrease from 3.8 to 3.3 percent of GDP over the 2014-18 period, based on amortization of existing debt and no new investment activity.

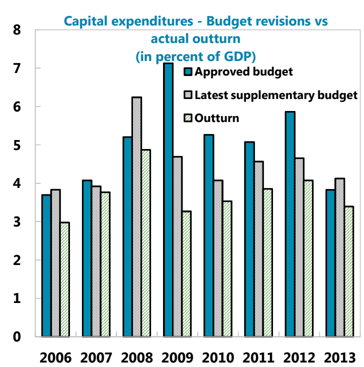
POLICY DISCUSSIONS

The authorities broadly agreed with staff's advice on the policy mix—namely that they should start shifting away from providing stimulus by ending monetary easing and by gradually withdrawing fiscal stimulus, proceeding apace with the economic recovery. Discussions focused on fiscal risks from operations of the broader public sector and the nature of the risks to the external position, particularly in the context of weaker private capital flows.

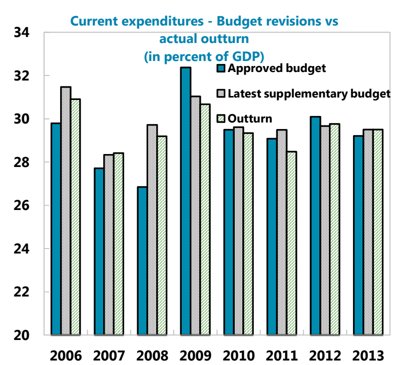
A. Fiscal Policy

12. Despite likely overstated budgetary space, the deficit target for 2014 appears attainable. While different factors have been at play, revenues have, on average, consistently underperformed budget forecasts. Looking forward, and relative to expected end-2013 outturns, revenues projections in the 2014 budget are likely overstated. However, about 1 percent of GDP of the difference relative to staff's projections comes from non-tax revenues and grants, the latter reflecting estimates by individual ministries of project-based grants and donations they can secure during the fiscal year. Expenditure authorization for these specific projects—on ministries' individual accounts and outside the core budget—can only be obtained once the availability of funds is confirmed; thus, underperformance on these revenue targets automatically curtails the execution of linked expenditures, providing the mechanism for adjustment.

13. Nonetheless, new current expense commitments may reinforce a less growth-friendly expenditure mix. The need to promote infrastructure development in Macedonia is clear. Yet, capital expenditure is low—including when compared with peers—and *ex post* shares of capital expenditure in total spending differ from the *ex ante* statement of policy priorities in the context of the annual budgets (text figure). In contrast, transfers rank among the highest among peers, and the draft 2014 budget includes a number of new current expenditure commitments, among which is a 5 percent ad hoc increase in pension benefits estimated to cost 0.5 percent of GDP. Thus, while the budget appropriately targets an acceleration of large capital expenditures—railways, gasification, hospitals—space for these outlays could continue to be constrained by increases in entitlement spending. The lack of timely granular information on the implementation of priority infrastructure projects makes it difficult to assess the degree to which such projects are protected from cuts and delays.



Sources: Ministry of Finance; and staff calculations.
2013 outturn is computed using staff projections



Sources: Ministry of Finance; and staff calculations.
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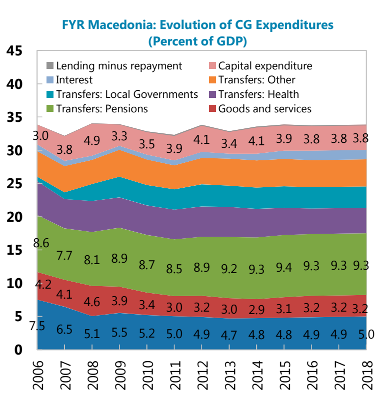
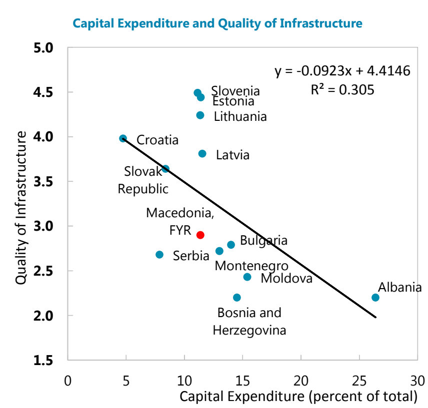


Sources: Ministry of Finance; and IMF staff calculations.



Sources: World Economic Forum; and IMF staff calculations
Average capital expenditure (2006-2013), in percent of total expenditure.

14. The return to publishing a medium-term fiscal strategy, in line with recommendations in the 2013 Article IV consultation, is a welcome step forward in anchoring expectations. The published medium-term fiscal strategy envisages a central government fiscal deficit decreasing from 3.9 percent to 2.6 percent of GDP in the period 2013–16.

- ***The planned fiscal path is consistent with reducing central government debt over the medium term and is broadly appropriate from a cyclical point of view***. Central government debt is projected to increase to 37.5 percent of GDP in 2016–17, before declining to just under 36 percent of GDP by 2018 (Appendix I). The negative fiscal impulse in 2014–16 is unlikely to jeopardize the recovery (text table), as the strong performance of exports from new capacity combined with an improved outlook for the euro area will likely sustain growth. Nonetheless, if private sector-led growth returns earlier than anticipated, some front-loading of the adjustment in 2014–15 would strengthen the credibility of the consolidation plan and build up fiscal buffers that would allow a countercyclical response to any future downturn.

FYR Macedonia: Cyclically-adjusted Fiscal Balances (percent, 2012-2018)

	2012	2013	2014	2015	2016	2017	2018
Primary fiscal balance 1/	-3.0	-3.1	-2.6	-1.8	-1.1	-1.1	-1.1
Cyclically-adjusted primary balance (HP) 2/	-2.6	-2.8	-2.4	-1.8	-1.2	-1.1	-1.1
Fiscal impulse (primary balance, HP) 2/	0.5	0.2	-0.4	-0.7	-0.6	0.0	-0.1
Memo:							
Output gap (HP) 2/	-1.2	-0.9	-0.5	-0.1	0.1	0.0	-0.2

Source: IMF staff estimates.
Note: HP stands for Hodrick-Prescott Filter. The fiscal impulse is the difference in the cyclically-adjusted balance between the previous and the current year (a negative fiscal impulse means a cyclically-adjusted contraction).
1/ Percent of GDP.
2/ Percent of potential GDP.

- ***The envisaged adjustment is attainable***. The primary gap is about 2 percentage points of GDP. While recent fiscal shortfalls may have weakened the credibility of the target—the primary balance forecasting error is higher than the average for other market access countries—the projected maximum cumulative adjustment in the cyclically-adjusted primary balance (CAPB) over any three-year period during the projection horizon is below the top quartile for reference market access countries (Appendix I).

- ***Financing requirements are declining and can be met under reasonable conditions***. Gross central government financing requirements are projected to decrease from almost 15 percent of GDP to 10 percent in 2015–16, mainly driven by a progressive lengthening of debt maturity. These financing requirements are likely to be met by a strong identified pipeline of external financing commitments from multilaterals (some 16 percent of GDP over 2014–18).

15. With a widening scope of public sector operations, a more comprehensive picture of public sector fiscal risks is needed. The scope of government operations in the pre-crisis period was largely limited to operations of the budgetary central government. However, with road infrastructure spending shifting off-budget, a greater role of the Macedonian Bank for Development Promotion (MBDP) in securing financing for SMEs, and investment in the energy sector including through state-owned ELEM, the authorities should analyze the evolution of, and risks to, the broader public sector fiscal position in setting budgetary targets and prioritizing spending. A retrospective look at the lessons from the global crisis suggests that coverage of public debt should be as broad as possible, with particular attention to entities that present significant fiscal risks, be they off-budget public entities or partnerships with the private sector[6]. A comprehensive picture of public sector fiscal risks would also facilitate monitoring by external lenders, particularly in the context of the strong pipeline of committed project financing from the EBRD, EIB, and the World Bank over the next few years.

Authorities' views

16. The authorities reiterated their commitment to priority infrastructure projects and noted that current expenditure has been reduced to minimum sustainable levels during the crisis. The Ministry monitors implementation of priority capital projects closely. In the energy sector, recent delays in implementation have been related to environmental monitoring as well as the need to reopen some tenders.

17. The authorities argued that the relevant debt concept—as per Maastricht criteria—is general government debt. A broader public debt concept, which would include operations of state-owned enterprises, suffers from a lack of specific benchmarks and thresholds against which debt levels can be assessed, as well as from a lack of comparability across countries, as a large number of countries report fiscal aggregates only at the general government level or at the budgetary central government level. Furthermore, the authorities argued that, absent any event of stress, public enterprises' borrowing should not be considered as government debt, but only as contingent liabilities.

18. In that light, the authorities stated that they remain aware and in control of fiscal risks. Their risk management strategy focuses on two key areas:

- *Strict control over indebtedness of public enterprises*. The Public Enterprise for State Roads submits a 5-year investment program that is subject to approval by the government and must pass the same scrutiny as that of any other budget user.

- *A long-dated and comprehensive analysis of capacity to pay*. In assessing the borrowing capacity of public sector enterprises, the Ministry of Finance conducts a long-term debt sustainability analysis (through 2025) which goes beyond the central government debt concept to include contingent liabilities from operations which carry government guarantees. The analysis is used to establish maximum borrowing limits, but is not made public, mostly due to the large degree of uncertainty associated with projections over that time frame.

[6] IMF, 2011, *Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis,* http://www.imf.org/external/np/sec/pn/2011/pn11118.htm

19. The authorities emphasized that data on government guaranteed debt are available to all stakeholders. Data on the size of debt liabilities which carry government guarantees are compiled on a monthly basis by the Ministry of Finance, and are complemented by data made available by the relevant public enterprises. Furthermore, all external loans that have been approved by Parliament are published in the official gazette.

B. Monetary Policy and External Sustainability

20. Amidst high bank liquidity, a less tentative economic recovery, and small declines in the reserve stock, a pause in monetary easing would be appropriate. Continued relaxation of the monetary policy stance has been unsuccessful in spurring private sector credit growth, particularly as high risk aversion in big banks binds. At the same time negative valuation effects have weakened the reserve position, in a context of high banking system liquidity, a stronger economic recovery, and elevated core inflation. While there is no evidence of pressures on the peg (the NBRM has been a net buyer on the foreign exchange market through November), preserving Macedonia's strong reserve position in the context of the peg to the euro would call for a pause in monetary easing.

21. Structurally large trade deficits continue to represent an important vulnerability. The trade deficit is forecast to gradually decline to about 21 percent of GDP, under the assumption that the import dependence of exports would improve alongside strengthening production capacity in the tradable goods sector. In the meantime, however, the current account could widen further, with private transfers (mostly remittances, but also unregistered exports of services) conservatively forecast to return to pre-crisis levels of about 16½ percent of GDP from the record level of 21 percent reached in 2012.

22. In that respect, while FDI has been a key driver of stronger export performance in 2013, it has played only a limited role in affecting structural change so far. The authorities' strategy of setting up technological industrial development zones (TIDZ)—building adequate infrastructure, granting tax breaks, streamlining red tape and ensuring direct access to high-level decision-makers to help address potential problems—is bearing fruit, with about one third of total foreign direct investment now being attracted in the zones. Exports from enterprises located in the zones represent about 25 percent of total exports in 2013, and have substantially strengthened the country's position in sub-segments of the automotive car industry. At the same time, the import dependence of these exports remains high, and domestic spillovers still nascent, limiting the pace of improvement of the trade balance (Box 1).

23. External debt dynamics appears resilient to shocks, but are more sluggish than in the past. Under the baseline, external debt is expected to stabilize at just under 64 percent of GDP before trending downward in 2016 under the combined effect of an improving trade balance, higher growth, fiscal consolidation, and steady, albeit modest, foreign direct investment flows. Scenario analysis indicates that even combined shocks of lower growth, a deteriorating current account and interest rate hikes would not jeopardize this trend (Figure 6). Nonetheless, risks remain—notably, the baseline dynamics are significantly weaker than under a scenario with

Box 1. Foreign Direct Investment, Growth, and Structural Change

The authorities' well-executed proactive strategy of attracting large foreign companies to the free-trade zones has resulted in clear positive outcomes on the labor market— through employment growth, notably at a regional level— and on diversification of the export basket. The latter in particular will have positive effects on external sustainability, but should be considered a necessary and not sufficient condition for the development of a resilient domestic tradable sector in the long run. Spillovers to the domestic productive sector would be key.

Well-executed strategy. What are winning components of the authorities' strategy, beyond fiscal incentives and the provision of physical infrastructure in the zones? Foreign investors place high value on the ease of the dialogue with high-level counterparties within the government—in addition to the Directorate of the TIDZ, the authorities have designated 3 ministers with an FDI portfolio, and open access to the Minister of the Economy as well as the Prime Minister's office.

Results and challenges. Foreign direct investment is having a non-negligible effect on balance of payments developments, particularly with respect to export performance, accounting for a large part of the acceleration in exports, and a notable diversification—in terms of both products and markets—in the export basket. Nonetheless, the development of backward linkages to the domestic economy will be challenging, for at least two reasons:

- From a human capital viewpoint, spillover effects are still somewhat limited, as labor-intensive firms are attracted by the low cost and plentiful supply of labor—a clear comparative advantage of the Macedonian economy—and provide the required on-the-job training for generally low-skilled tasks, including within the automotive industry supply chain. Nonetheless, anecdotal evidence suggests a gradual build-up of critical local managerial skills.

- From a technological transfer viewpoint, the small domestic component of production activities in the zones—estimated at less than 10 percent on average—originates largely from the very strict quality and security standards to be met by the intermediate goods used in the production process, which most local suppliers are not in a position to deliver yet. Currently, the main spillover effects accrue to local transporters and construction companies. Anecdotal evidence also suggests some transfer of customer service activities to Macedonia, based on strong foreign language skills of the local workforce.

key parameters at historical averages, a result largely driven by lower non-debt creating flows (Table 8). And with weaker private non-debt creating flows, the path of reserve accumulation would increasingly depend on the external public debt trajectory—requiring a careful calibration of the public debt management strategy so as to ensure adequate foreign exchange reserves as well as to reduce public debt vulnerabilities (see also Appendix I).

Authorities' views

24. The NBRM saw a slightly more balanced set of risks to the external position. The NBRM noted that a shortfall in either private transfers or FDI inflows would mechanically entail some import compression, as private transfers from migrants mainly finance private consumption, while the import content of foreign-financed investment projects remains substantial. This would reduce both financing requirements as well as the need for policy tightening in response to such a shock.

25. The authorities reiterated their readiness to tighten monetary policy if needed to support the peg. They noted that, for a number of idiosyncratic reasons, core inflation has recently not been a meaningful indicator, and that other measures—such as imports of consumption goods and foreign exchange market pressure—confirm that there is room to delay any tightening action. Nonetheless, they emphasized that they remain vigilant to pressures on the balance of payments, including from the near-term policy mix and the government's 2014 financing strategy, and would tighten monetary policy to preserve the sustainability of the peg is needed.

26. The authorities noted that while linkages between domestic suppliers and foreign investors would inevitably take time to establish, they continue to improve the operating environment for all firms. They highlighted ongoing efforts to boost the entrepreneurial spirit of local producers and to promote exports, notably at a regional level. Besides holding regular meetings with small exporters, the authorities noted the following steps taken to improve the business climate for all investors:

- ***Business-friendly tax regime***. Business taxes have remained low through the crisis; SMEs benefit from profit tax exemptions;

- ***Flow of credit to SMEs***. EIB credit lines secured by the Macedonian Bank for Development Promotion and intermediated by commercial banks have helped the flow of affordable financing to SMEs;

- ***Reducing costs***. Procedures to buy land and to open businesses have been streamlined; labor laws have become more flexible;

- ***Improving corporate liquidity.*** The authorities showcased the draft law on financial discipline (now approved by Parliament) which, through substantial financial sanctions, enforces a strict limitation on payment delays pertaining to transactions both between public and private entities, and among private entities themselves.

CAPACITY TO REPAY

27. Capacity to repay remains adequate, despite a weaker path of reserve accumulation over the next 18 months. At almost 30 percent of GDP in 2012, the stock of reserves provides a significant buffer against possible shocks, mitigating the observed impact of valuation effects. While projections for private foreign capital inflows have been revised downwards, medium- and long-term public sector borrowing should help Macedonia meet the heavy amortization schedule, particularly in 2015, while preserving reserve adequacy ratios. Risks around that baseline are balanced:

FYR Macedonia: External Financing Requirements

(Millions of euros, unless specified otherwise)

	2012	2013	2014	2015	2016
		Projections			
Gross financing requirements	2157	2307	2415	2718	2494
Current account deficit	226	267	369	508	490
ST debt amortization (original maturity)	1588	1725	1720	1760	1807
MLT debt amortization 1/	344	141	326	300	198
of which: Syndicated loan amortization	0	0	0	0	0
Sovereign Eurobond amortization	0	175	0	150	0
Financing sources	2157	2307	2415	2718	2494
FDI (net)	78	264	321	338	362
ST debt disbursements	1725	1720	1760	1807	1861
MLT debt disbursements	410	507	549	651	553
of which: Syndicated loan disbursment	75	0	0	0	0
Sovereign Eurobond disbursment	0	0	0	150	0
Other 2/	67	-373	-36	-44	-61
Net change in reserves (-: increase)	-123	189	-179	-184	-221
Gross international reserves (GIR)	2193	2004	2183	2367	2588
Short-term debt (residual maturity)	2041	2046	2210	2004	2202
GIR as % of ST debt	107.5	98.0	98.8	118.1	117.5
GIR as % of Fund New Metric	130.3	182.1	169.3	167.4	159.6

Sources: NBRM; and IMF staff estimates.

1/ Excluding the amortization of MLT intercompany loans, which is included in FDI (net).
2/ Including the capital account balance, net errors and omissions, currency and deposits, portfolio investments, and discrepancies between ST debt flows and stock data. In 2013, valuation effects are projected to decrease reserves by EUR 200 M. These are assumed to recover by 2014.

- Despite a strong identified pipeline of foreign direct investment, the baseline forecast is conservative. At 3¾ percent of GDP per year in the medium term, projected FDI flows are about one percentage point of GDP below their historical average;

- Public sector external borrowing is mainly linked to the implementation of investment projects, for which there are substantial identified lending commitments, mostly from official sources (¶14 and ¶15);

- The rollover rates of trade credit and intercompany loans, which account for the bulk of short-term external liabilities, have remained above 95 percent over the last four years, despite the global crisis. Rollover risks from the stock of medium- and long-term private external debt, which represented about 23 percent of GDP in 2012, also appear contained, as they mainly reflect debt financing of direct investment projects, thus involving naturally hedged borrowers with a real stake in the domestic economy.

STAFF APPRAISAL

28. Macroeconomic prospects are improving, even as the external environment remains weak. A pickup in activity to 3.1 percent yoy growth in the first three quarters of 2013 suggests a less fragile recovery than previously expected. Export growth has accelerated on the back of expanding FDI-related capacity; a better euro area outlook in 2014 should sustain that trend. Private consumption growth has turned positive, supporting a strengthening of domestic demand. A sustained improvement in domestic demand, and particularly investment, amid signs of a stronger pickup in private credit growth, would be needed to balance the risks to the outlook.

29. To preserve solid fundamentals, the focus of policies should start shifting away from providing stimulus.

- In that respect, the authorities' planned fiscal path is consistent with reducing central government debt over the medium term and is broadly appropriate from a cyclical point of view. Nonetheless, if private sector-led growth returns earlier than anticipated, some front-loading in 2014–15 would strengthen the credibility of the consolidation plan and build up fiscal buffers that would allow a countercyclical response to any future downturn.

- Amidst high banking system liquidity, a stronger economic recovery, and small declines in the reserve stock, a pause in monetary easing would be appropriate.

30. Large infrastructure needs require a carefully calibrated fiscal space. Fiscal adjustment needs to protect the execution of priority capital spending. The return to multiyear budget frameworks should help ensure a growth-friendly expenditure mix that helps address infrastructure gaps, particularly in roads, railways, and energy. Given the widening perimeter of public sector operations—namely SOEs—which are executing such investment, the authorities should continue to analyze the evolution of, and risks to, the broader public sector debt in setting budgetary targets and prioritizing spending. Prompt collection and dissemination of information on the implementation of strategic investment projects will also help in this respect.

31. Further good progress on public debt management would strengthen both the fiscal and external positions. The authorities have made important progress toward the recommendations of the 2011 Article IV consultation—increasing the size of domestic issuance, lengthening domestic maturities, and setting operational targets for variability as well as currency composition of central government debt. To further strengthen debt management, a broader perspective of public debt is appropriate (¶30). In addition, with weaker private non-debt creating flows, the path of reserve accumulation would increasingly depend on the external public debt trajectory—requiring a careful calibration of the public debt management strategy so as to ensure adequate foreign exchange reserves as well as to reduce public debt vulnerabilities.

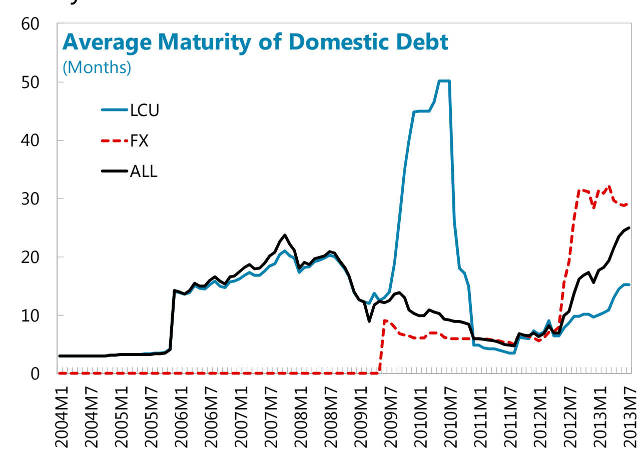
32. A structural improvement in the trade deficit is needed to ensure sustained and balanced growth and a sound external position. FDI flows have a key role to play. Existing operations are already starting to provide an impulse to exports and to job creation. To ensure more balanced growth, it would be important to continue to facilitate spillovers to the domestic productive sector. The emergence of a competitive and qualified domestic supply chain would help reduce imports and raise domestic value-added; innovation spillovers to domestic firms should strengthen the tradable sector. Closing infrastructure gaps so as to connect Macedonia efficiently to larger markets and continuing to ensure a stable operating environment for all firms—domestic and foreign, small and large—will help.

Appendix I. Debt Sustainability Analysis

Government debt dynamics—contingent on meeting the outlined medium-term fiscal targets—are stable under the baseline, but sensitive to growth and primary balance shocks. Fan charts suggest that the 10 to 90 inter-percentile range of debt-to-GDP ratio in 2018 is between 26 and 46 percent of GDP, while an asymmetric distribution with no upside shocks yields an inter-percentile range of 34 and 51 percent of GDP. The currency composition of debt remains the key debt profile vulnerability.

1. **Baseline central government debt levels are projected to peak at around 37.5 percent of GDP in 2016-17 and decline thereafter**. The primary balance is projected to decrease from 3.1 to 1.1 percent over the 2013–18 forecast horizon, below the debt-stabilizing primary balance of 1.6 percent. In cumulative terms, a slowly closing primary gap is the main debt creating flow, adding about 11 percentage points of GDP to debt over the same period. Effective interest rates are projected to remain on average constant over the forecast horizon as the impact of increasing debt levels in the first part of the period is offset by increasing favorable terms on external debt. Real GDP growth – expected to moderately increase from 2.2 to 4 percent over the medium term—offsets about ¾ of the effect of higher deficits. The availability of large government deposits at NBRM (some 4.3 percent of GDP at end-2012) to meet financing needs alleviates some of the pressure on gross debt.

2. **Maturity of domestic debt has increased, notably reducing rollover risk**. The government succeeded in increasing the maturity of domestic debt from 5 to 25 months in the last two years (text figure). Average maturity of outstanding debt is likely to increase further in the future as authorities plan to start issuing 10-year maturity notes and retire shorter maturity notes.



Source: FYR Macedonia Authorities; IMF staff calculations.

1. **The consolidation path planned by the authorities appears achievable** (Panel 2). Firstly, the maximum cumulative change in cyclically adjusted primary balance (CAPB) planned by the authorities in any given 3 years over the forecast horizon is below the top quartile of reference countries[1]. Secondly, the maximum 3-year rolling average CAPB that the government will maintain over the forecast horizon is also lower than the top quartile of reference countries. In other words, the planned cumulative change in primary balance of 2 percentage points in GDP over the forecast horizon is realistic and therefore, achievable.

[1] Reference countries are high debt countries with public debt greater than 60 percent of GDP.

1. **However, optimistic historical estimations of future primary balances suggest the need for further sensitivity analysis** (Panel 3). Staff has historically produced optimistic estimates of primary balances. Although this is mainly due to the surprise deterioration of balances in 2012 and subsequent intra-year revisions of budgetary targets, the importance of primary balances in driving debt dynamics suggests the need for further sensitivity analysis.

2. **Indeed, stress test scenarios confirm that the debt trajectory is sensitive to deviations from the consolidation path and fluctuations in real GDP growth** (Table 1 and panel 5). A slowdown in the consolidation path by 50 percent relative to baseline and consequent increase in interest rates by 25 bps for every 1 percent of GDP worsening in the primary balance reflecting likely higher financing and effective interest rate costs would increase the debt to GDP ratio by 2.9 percentage points above the baseline towards the end of the projection period. A slowdown in real GDP growth by 70 bps relative to baseline and consequent deterioration of primary balance would have a similar impact. Annual increases during the whole forecast period in pension entitlements as witnessed in 2013 and 2014 increase the debt to GDP ratio by 2.4 percentage points above the baseline towards the end of the projection period. Finally, in the context of capital expenditure shifting from the budget to SOEs, the central government has issued guarantees that, if fully called upon, would increase the debt to GDP ratio by 5.2 percentage points above the baseline towards the end of the projection period.

3. **The currency composition of debt remains an important vulnerability**. FX debt still represents 79 percent of public sector debt, which is also largely owned by non residents (63 percent). From a debt management strategy point of view, issuing foreign debt allows the country to maintain a stable reserve path against shocks stemming from volatile remittances and FDI flows, for example. However, the current large share of external debt could trigger a reassessment by markets of the stability of the peg, especially in a scenario where FX revenues from FDI, remittances and the export sector significantly underperform. An explicit debt management strategy designed to balance the risk posed by excessive FX liabilities, on the one hand, and the advantages of cheaper financing, on the other hand, would largely mitigate the risks associated with the current currency composition of debt.

4. **While the heat map identifies additional vulnerabilities, several mitigating factors are at play**. Gross central government financing needs are high and exceed the 10 percent vulnerability threshold in 2013. However, they are projected to decline well below that threshold in the medium term. Relatedly, the notable (8.5 percent of GDP) increase in short term debt in 2012 coincides with a period of substantial deepening of domestic debt markets—total domestic debt issuance nearly double over the 2011-12 period. Since then, the share of short term debt is projected to decrease in line with the authorities' maturity targets. Risk posed by the high share of debt held by non residents, also flagged by the heat map as a potential vulnerability, is mitigated by the fact that, with the exception of the one outstanding Eurobond issuance, a large portion of the debt is non-market long-term debt held by IFIs, limiting rollover risks.

Table 1. Debt Stress Test Scenarios

Name	Description	Impact on debt 1/
Primary Balance Shock	Minimum shock equivalent to 50% of planned adjustment (50% implemented), or baseline minus half of the 10-year historical standard deviation, whichever is larger. There is an increase in interest rates of 25bp for every 1% of GDP worsening in the primary balance.	2.9
Real GDP Growth Shock	Real GDP growth is reduced by 70 bps for 2014-18 relative to baseline to align it to historical scenario; revenue-to-GDP ratio remains the same as in the baseline; level of non-interest expenditures is the same as in the baseline; deterioration in primary balance leads to higher interest rate (see above); decline in growth leads to lower inflation (0.25 percentage points per 1 percentage point decrease in GDP growth).	2.2
Interest Rate Shock	Interest rate increases by difference between average real interest rate level over projection and maximum real historical level, or by 200bp, whichever is larger.	1.7
Real Exchange Rate Shock	Estimate of overvaluation or maximum historical movement of the exchange rate, whichever is higher; pass-through to inflation with default elasticity of 0.25 for EMs and 0.03 for AEs.	2.1
Combined Macro-Fiscal Shock	Shock size and duration based on the underlying shocks.	9.5
Debt guarantee shock	Central Government gurantees as of 2013 on SOEs borrowing fully called over 2014-18 forecast horizon. There is an increase in interest rates of 100bps for every 1% of GDP worsening in the primary balance.	5.2
Pension Shock	5% ad hoc annual increase in pension entitlements during the period 2015-18	2.4

Notes:

1/ Percentage points in excess of the baseline at the end of the projection period.

Macedonia, Former Yugoslav Republic of Public DSA Risk Assessment

Heat Map

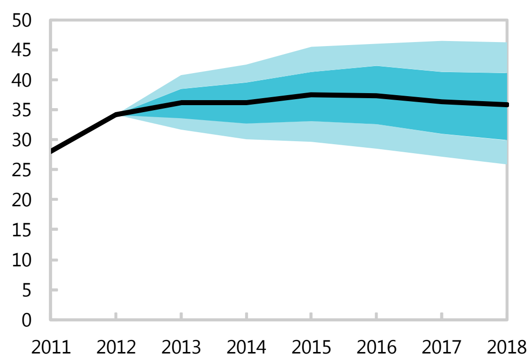
Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	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

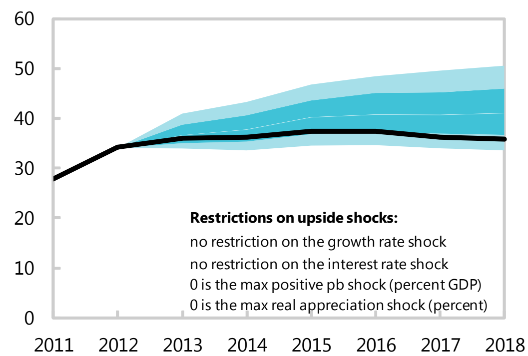
(in percent of GDP)

Baseline Percentiles: 10th-25th 25th-75th 75th-90th

Symmetric Distribution



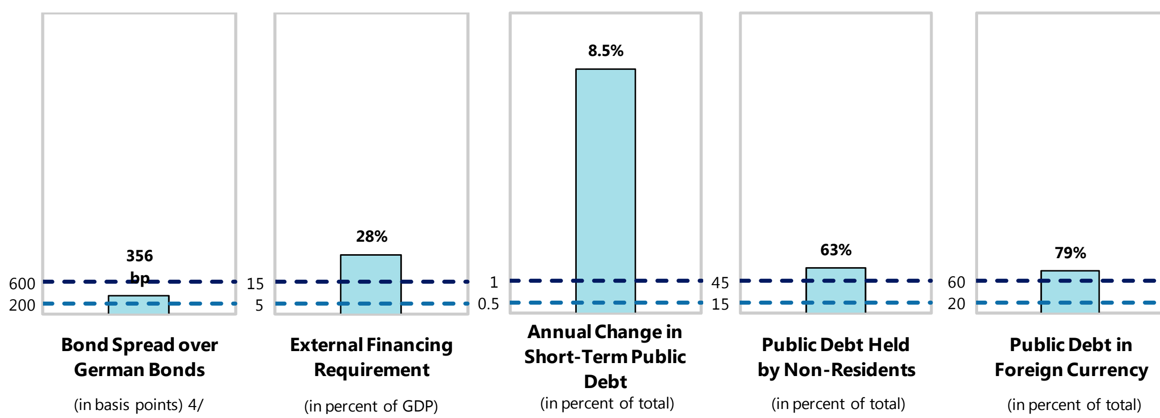
Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)

FYR Macedonia Lower early warning Upper early warning



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:

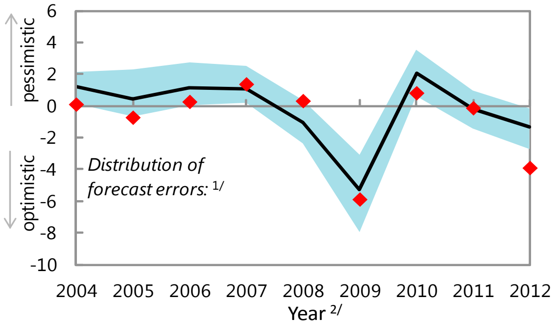
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

FYR Macedonia Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus all countries

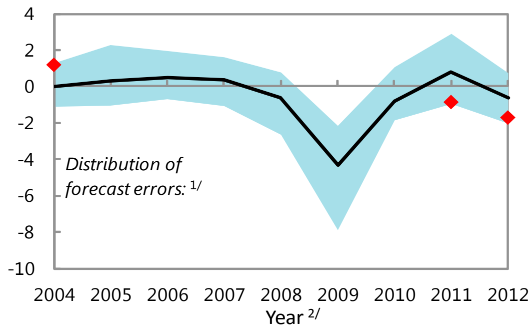
Real GDP Growth
(in percent, actual-projection)

FYR Macedonia median forecast error, 2004-2012: **0.08**
Has a percentile rank of: **46%**



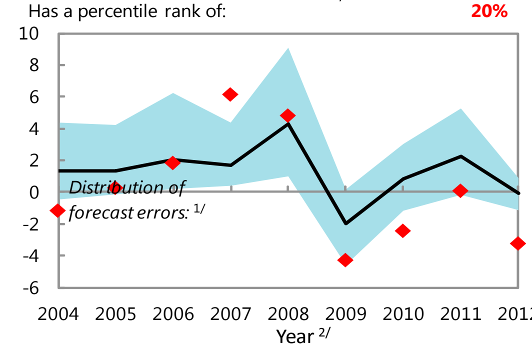
Primary Balance
(in percent of GDP, actual-projection)

FYR Macedonia median forecast error, 2004-2012: **-0.86**
Has a percentile rank of: **27%**



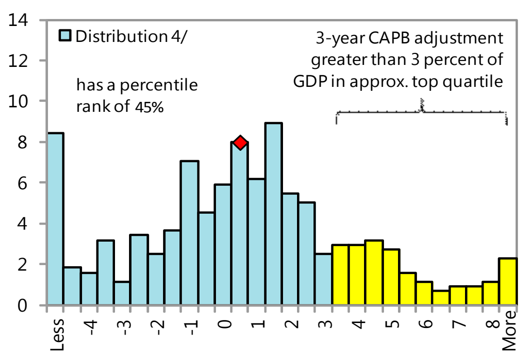
Inflation (Deflator)
(in percent, actual-projection)

FYR Macedonia median forecast error, 2004-2012: **0.09**
Has a percentile rank of: **20%**

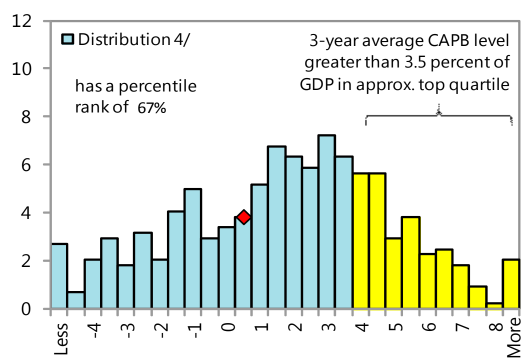


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



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/ Not applicable for Macedonia, Former Yugoslav Republic of.
4/ 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.

FYR Macedonia Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

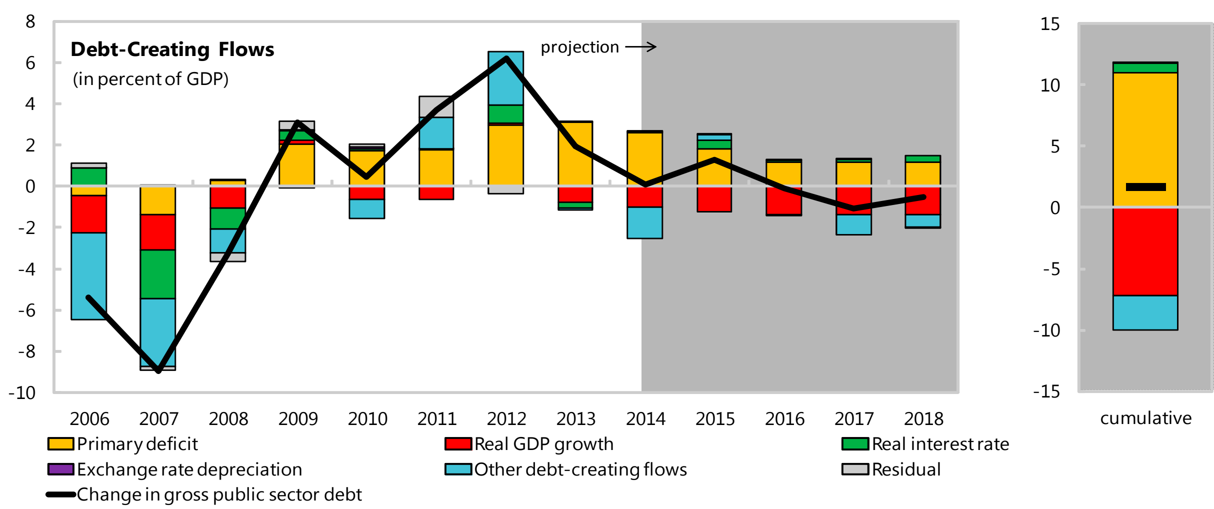
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2010 [2/]	2011	2012	2013	2014	2015	2016	2017	2018
Nominal gross public debt	25.1	27.9	34.1	36.1	36.2	37.5	37.4	36.3	35.8
Public gross financing needs	0.4	7.6	8.7	15.0	11.1	10.7	9.4	7.2	8.3
Real GDP growth (in percent)	3.6	2.9	-0.4	2.5	3.0	3.6	3.9	4.0	4.0
Inflation (GDP deflator, in percent)	4.4	3.0	0.1	4.0	3.0	1.8	3.0	2.9	2.2
Nominal GDP growth (in percent)	8.2	5.9	-0.3	6.6	6.2	5.5	7.0	7.1	6.4
Effective interest rate (in percent) [4/]	3.0	3.3	3.3	3.3	3.2	3.1	3.4	3.5	3.3

As of June 30, 2013		
Sovereign Spreads		
Spread (bp) 3/		388
CDS (bp)		401
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	BB-	BB-
Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-2.8	3.71	6.18	2.0	0.1	1.3	-0.1	-1.1	-0.5	1.7	
Identified debt-creating flows	-2.9	2.68	6.55	2.0	0.1	1.3	-0.1	-1.1	-0.5	1.7	
Primary deficit	0.4	1.7	3.0	3.1	2.6	1.8	1.1	1.1	1.1	11.0	-1.6
Primary (noninterest) revenue and grants	32.1	29.7	30.0	28.9	29.6	30.3	30.4	30.4	30.4	180.1	
Primary (noninterest) expenditure	32.6	31.4	32.9	32.0	32.2	32.1	31.6	31.6	31.6	191.1	
Automatic debt dynamics [5/]	-1.4	-0.6	1.0	-1.1	-1.0	-0.8	-1.3	-1.2	-1.0	-6.4	
Interest rate/growth differential [6/]	-1.4	-0.6	1.0	-1.1	-1.0	-0.8	-1.3	-1.2	-1.0	-6.4	
Of which: real interest rate	-0.4	0.1	0.9	-0.3	0.0	0.4	0.1	0.2	0.3	0.8	
Of which: real GDP growth	-1.0	-0.7	0.1	-0.8	-1.0	-1.2	-1.4	-1.4	-1.4	-7.2	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-1.9	1.5	2.6	-0.1	-1.5	0.3	0.0	-1.0	-0.6	-2.9	
Privatization receipts (negative)	-1.4	-0.1	0.0	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	-0.6	1.6	2.6	-0.1	-1.5	0.3	0.0	-1.0	-0.6	-2.8	
Residual, including asset changes [8/]	0.0	1.0	-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 central government.

2/ Based on available data.

3/ Bond Spread over German Bonds.

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

5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = 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 denominator in footnote 4 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

8/ For projections, this line includes exchange rate changes during the projection period.

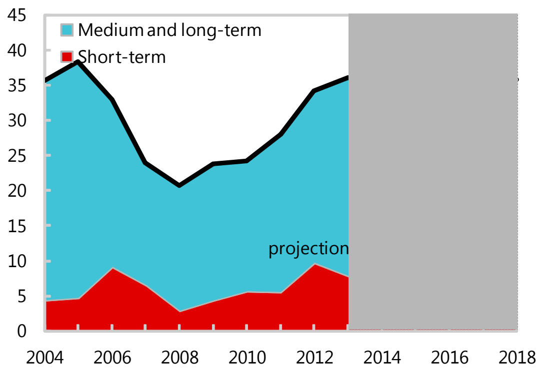
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

FYR Macedonia Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

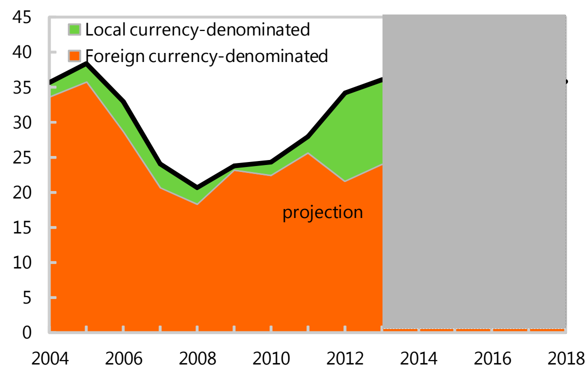
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

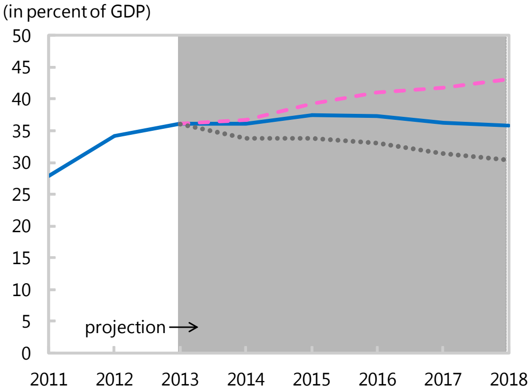


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

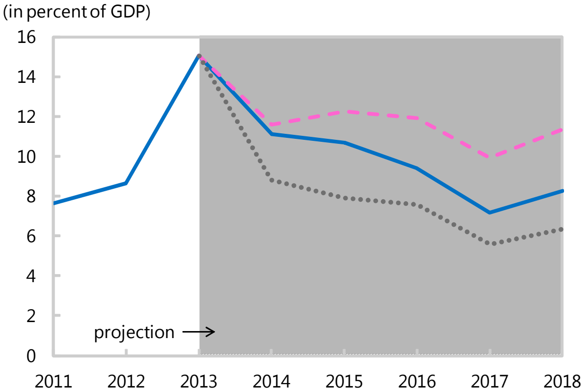
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

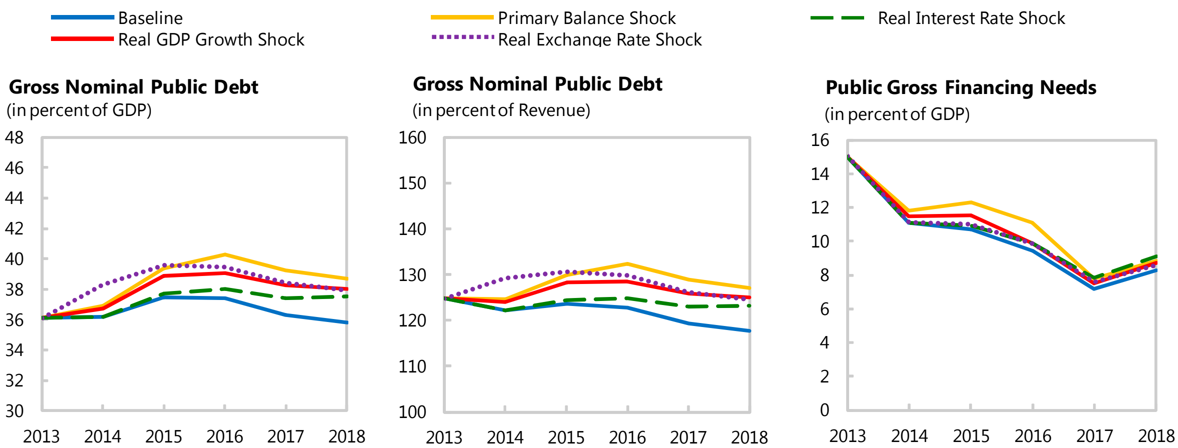
Baseline Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	2.5	3.0	3.6	3.9	4.0	4.0
Inflation	4.0	3.0	1.8	3.0	2.9	2.2
Primary Balance	-3.1	-2.6	-1.8	-1.1	-1.1	-1.1
Effective interest rate	3.3	3.2	3.1	3.4	3.5	3.3
Constant Primary Balance Scenario						
Real GDP growth	2.5	3.0	3.6	3.9	4.0	4.0
Inflation	4.0	3.0	1.8	3.0	2.9	2.2
Primary Balance	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1
Effective interest rate	3.3	3.2	3.1	3.4	3.5	3.5

Historical Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	2.5	3.2	3.2	3.2	3.2	3.2
Inflation	4.0	3.0	1.8	3.0	2.9	2.2
Primary Balance	-3.1	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	3.3	3.2	2.9	3.0	3.1	2.7

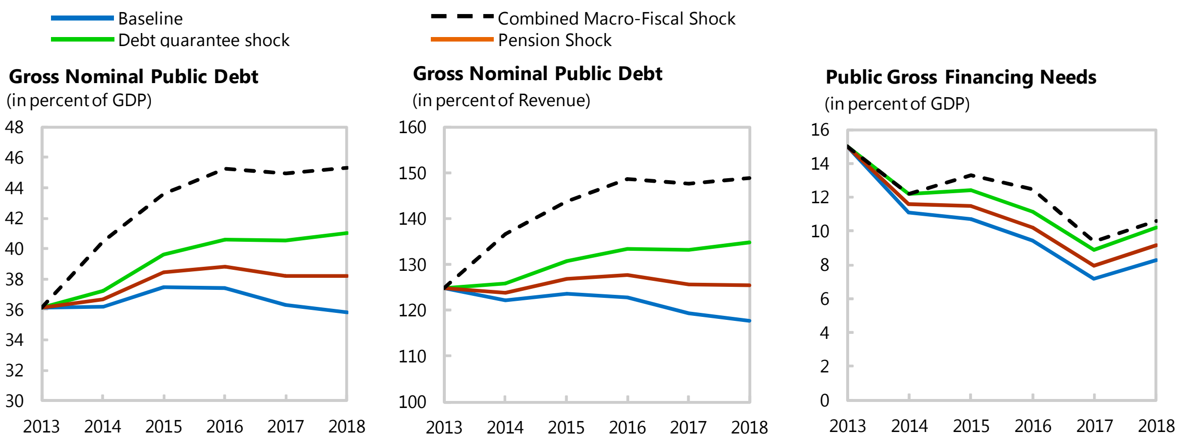
Source: IMF staff.

FYR Macedonia Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



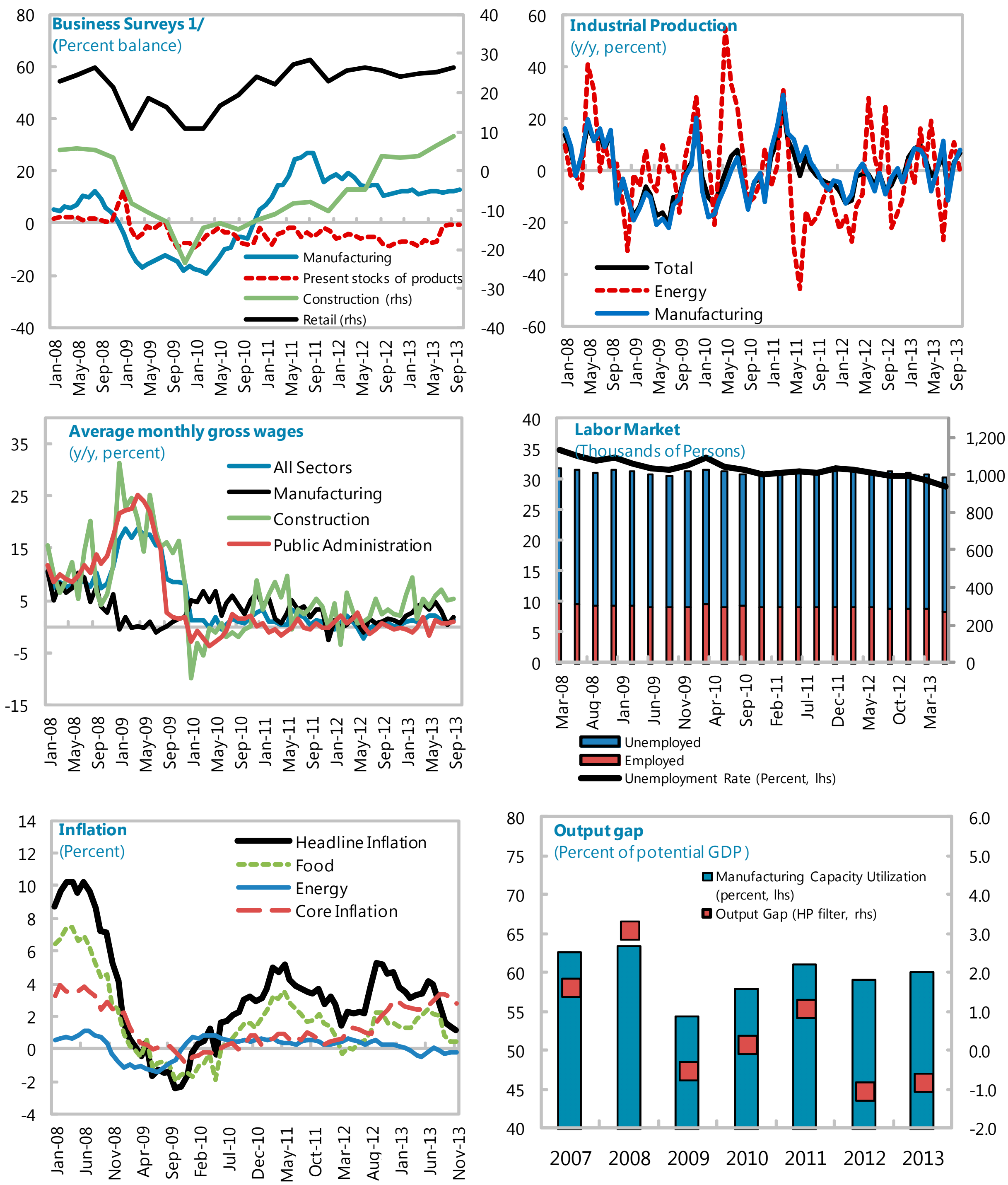
Underlying Assumptions
(in percent)

Primary Balance Shock	2013	2014	2015	2016	2017	2018
Real GDP growth	2.5	3.0	3.6	3.9	4.0	4.0
Inflation	4.0	3.0	1.8	3.0	2.9	2.2
Primary balance	-3.1	-3.3	-3.0	-2.2	-1.1	-1.1
Effective interest rate	3.3	3.2	3.1	3.6	3.7	3.5
Real Interest Rate Shock						
Real GDP growth	2.5	3.0	3.6	3.9	4.0	4.0
Inflation	4.0	3.0	1.8	3.0	2.9	2.2
Primary balance	-3.1	-2.6	-1.8	-1.1	-1.1	-1.1
Effective interest rate	3.3	3.2	3.8	4.5	5.0	5.0
Combined Shock						
Real GDP growth	2.5	2.3	2.9	3.2	3.3	3.3
Inflation	4.0	2.9	1.6	2.8	2.8	2.1
Primary balance	-3.1	-3.3	-3.0	-2.2	-1.1	-1.1
Effective interest rate	3.3	3.4	3.8	4.5	5.0	5.1
Debt guarantee shock						
Real GDP growth	2.5	3.0	3.6	3.9	4.0	4.0
Inflation	4.0	3.0	1.8	3.0	2.9	2.2
Primary balance	-3.1	-3.7	-2.8	-2.1	-2.0	-2.0
Effective interest rate	3.3	3.2	3.4	3.9	4.1	4.1

Real GDP Growth Shock	2013	2014	2015	2016	2017	2018
Real GDP growth	2.5	2.3	2.9	3.2	3.3	3.3
Inflation	4.0	2.9	1.6	2.8	2.8	2.1
Primary balance	-3.1	-2.9	-2.4	-1.1	-1.1	-1.1
Effective interest rate	3.3	3.2	3.1	3.5	3.6	3.4
Real Exchange Rate Shock						
Real GDP growth	2.5	3.0	3.6	3.9	4.0	4.0
Inflation	4.0	6.4	1.8	3.0	2.9	2.2
Primary balance	-3.1	-2.6	-1.8	-1.1	-1.1	-1.1
Effective interest rate	3.3	3.4	3.1	3.3	3.5	3.3
Pension Shock						
Real GDP growth	2.5	3.0	3.6	3.9	4.0	4.0
Inflation	4.0	3.0	1.8	3.0	2.9	2.2
Primary balance	-3.1	-3.1	-2.3	-1.6	-1.6	-1.6
Effective interest rate	3.3	3.2	3.1	3.4	3.5	3.4

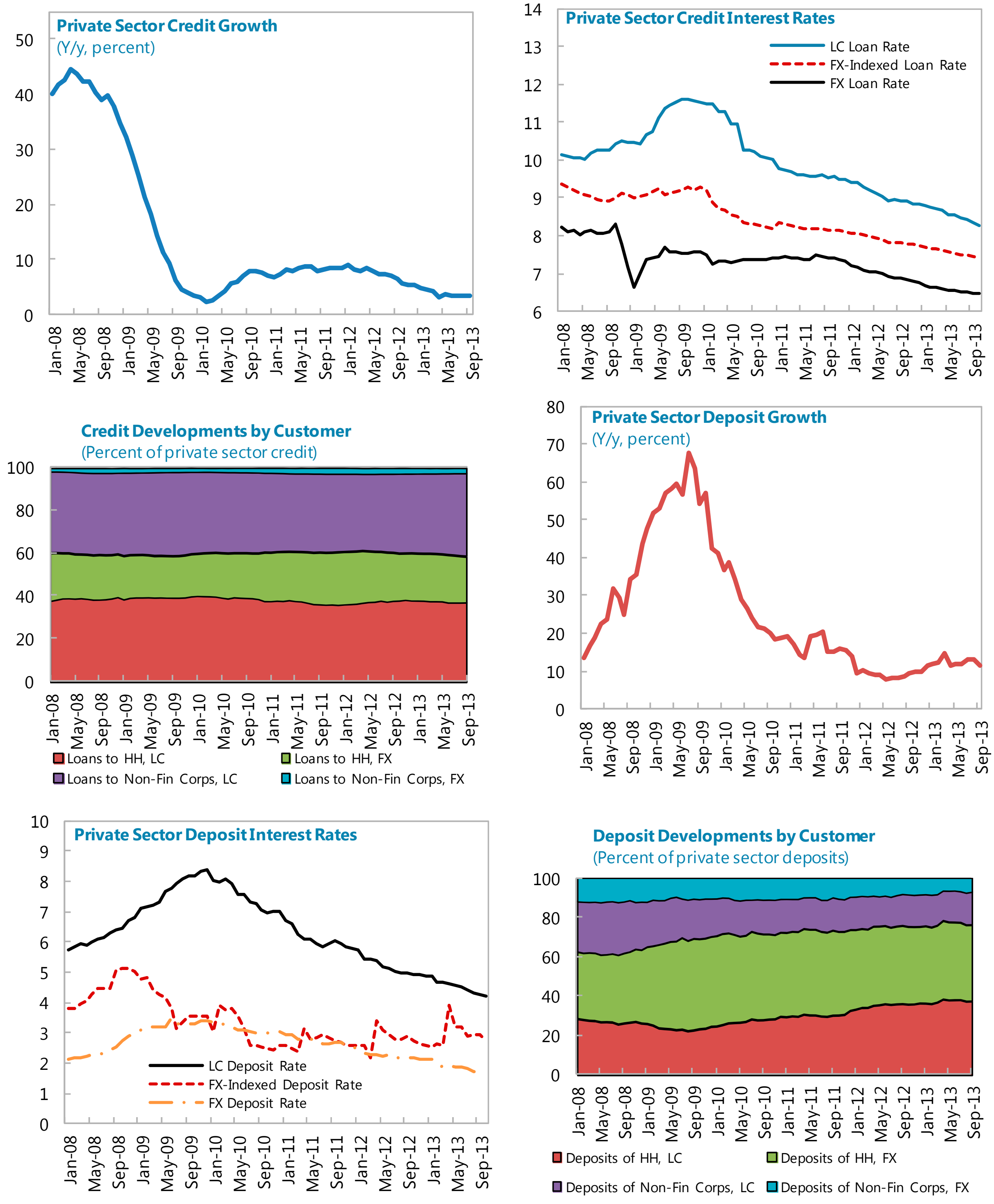
Source: IMF staff.

Figure 1. FYR Macedonia: Real Sector Developments, 2008–2013



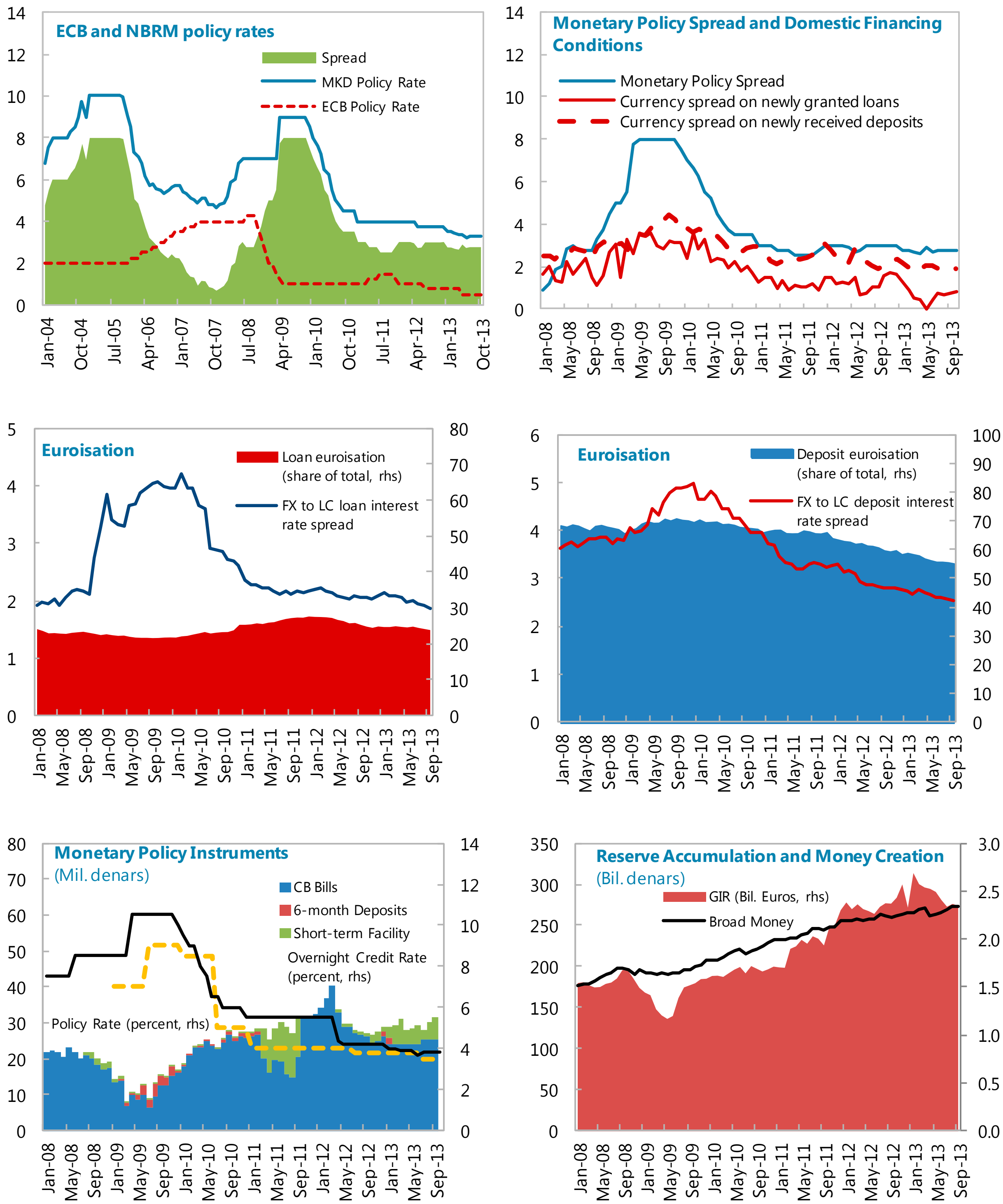
Sources: Haver; SSO; and IMF staff calculations.
1/ Note: the percent balance is the difference in percentage shares between the 'positive' and 'negative' assessments on the current business situation.

Figure 2. FYR Macedonia: Credit Developments, 2008–2013
(Percent, unless otherwise indicated)



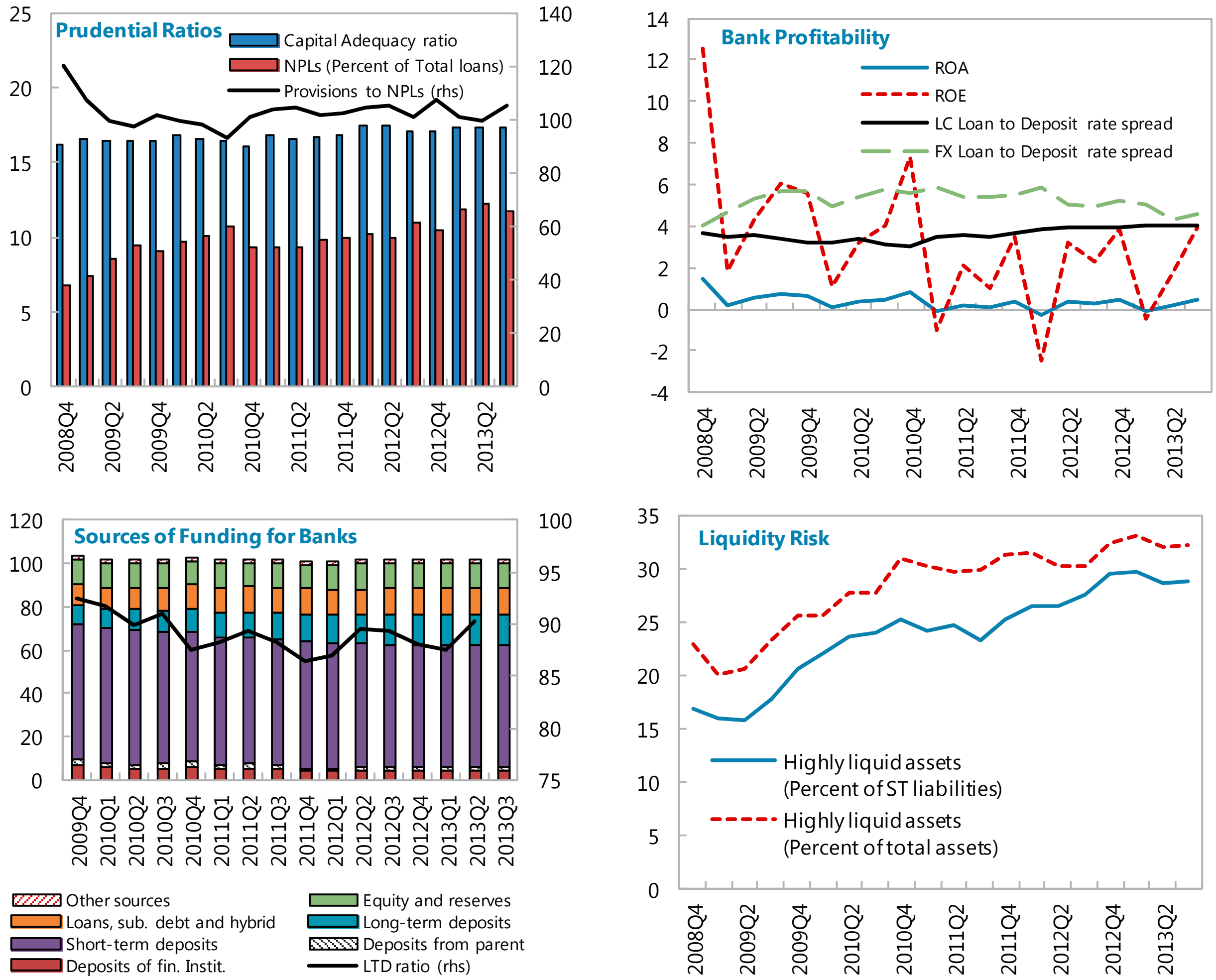
Sources: NBRM; and IMF staff calculations.

Figure 3. FYR Macedonia: Monetary Policy Developments, 2004–2013
(Percent, unless otherwise indicated)



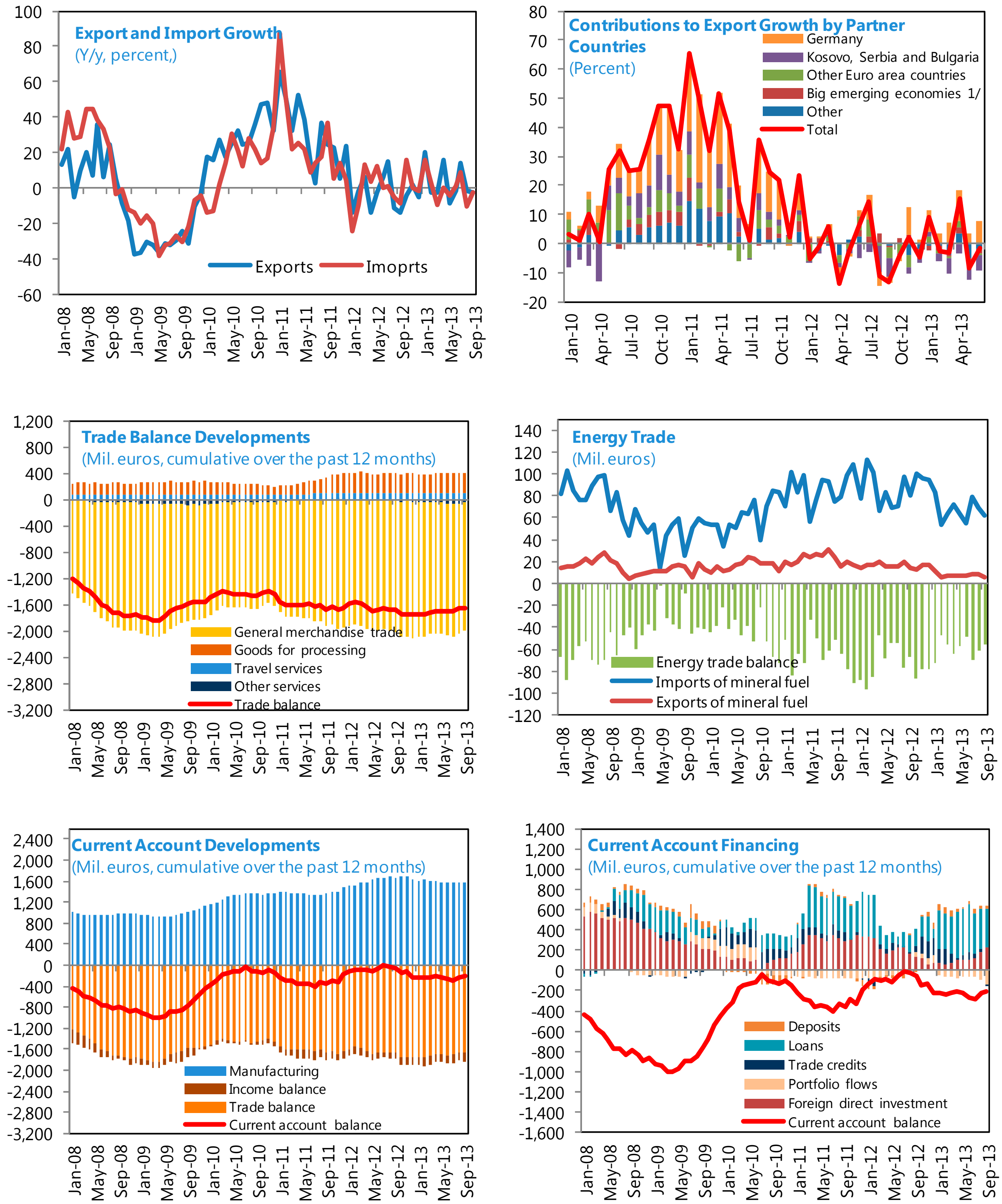
Sources: NBRM; Haver Analytics; and IMF staff calculations.

Figure 4. FYR Macedonia: Banking Sector Developments, 2008–2013
(Percent, unless otherwise indicated)



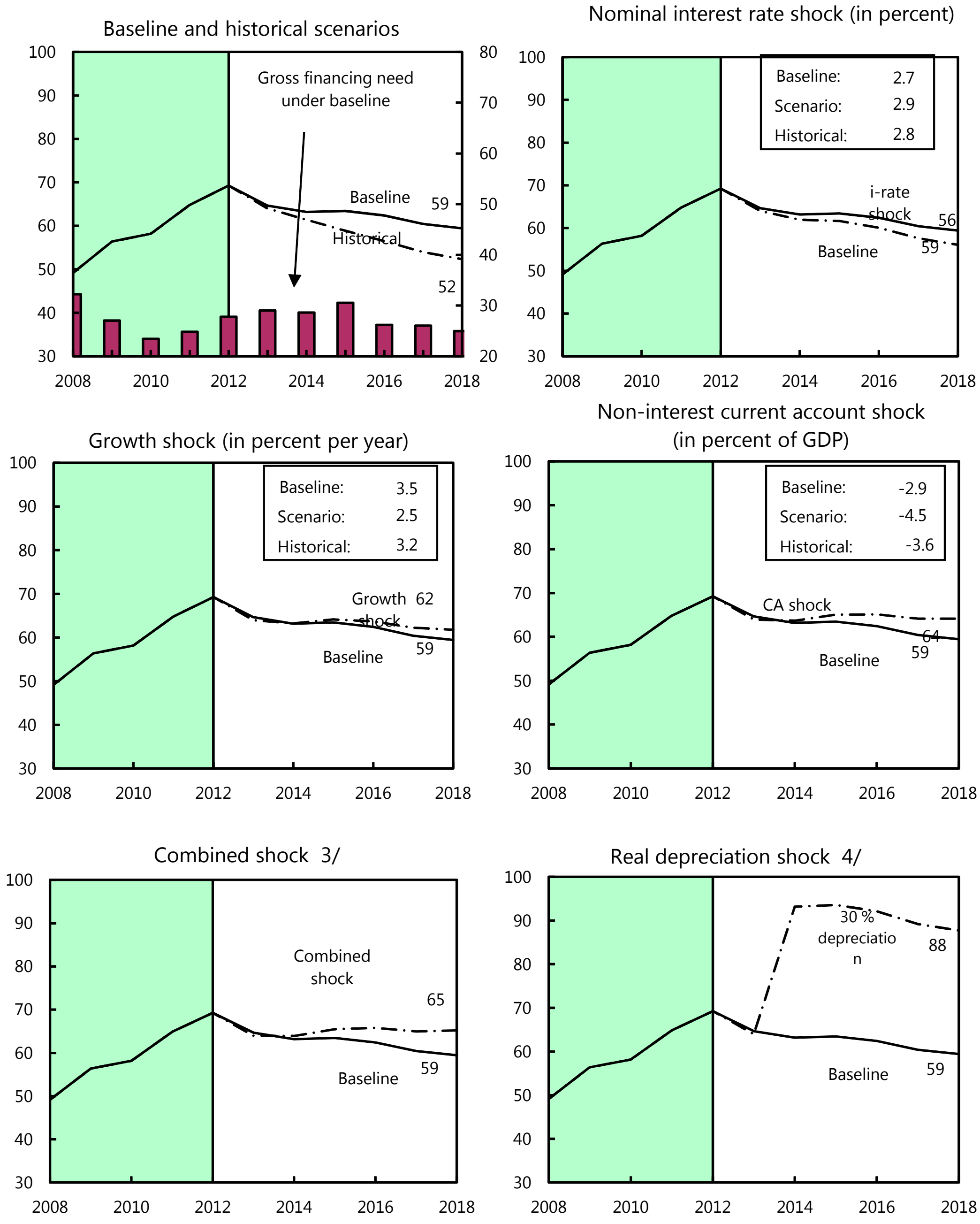
Sources: NBRM; and IMF staff calculations.

Figure 5. FYR Macedonia: External Sector Developments, 2008–2013



Sources: NBRM; and IMF staff calculations.
1/ Brazil, China, India, Russia and Turkey.

Figure 6. FYR Macedonia: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2014

Table 1. FYR Macedonia: Macroeconomic Framework, 2010–2018

(Year-on-year percentage change, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
						Proj.			
Real GDP	2.9	2.9	-0.4	2.5	3.0	3.6	3.9	4.0	4.0
Real domestic demand	0.3	5.3	1.9	0.1	3.8	3.7	3.5	3.6	3.6
Consumption	0.9	3.4	-1.7	3.1	3.4	3.3	3.1	3.3	3.3
Private	1.5	4.0	-1.7	3.3	3.4	3.4	3.4	3.4	3.4
Public	-2.1	0.6	-1.8	2.1	3.5	2.9	1.7	2.7	2.2
Gross investment	-2.0	13.5	16.1	-10.1	5.2	5.0	4.8	4.8	4.8
Exports (volume)	24.6	10.4	0.0	4.0	11.0	10.0	9.0	8.4	7.9
Imports (volume)	10.6	13.2	4.3	-1.0	10.0	8.2	6.8	6.5	6.2
Contributions to growth									
Domestic demand	0.4	6.2	2.3	0.1	4.5	4.4	4.2	4.3	4.3
Net exports	2.5	-3.3	-2.6	2.4	-1.5	-0.8	-0.3	-0.3	-0.3
Central government operations (percent of GDP)									
Revenues	30.3	29.7	30.0	28.9	29.6	30.3	30.4	30.4	30.4
Expenditures	32.7	32.2	33.8	32.8	33.2	33.4	33.0	33.0	33.0
Of which: capital	3.5	3.9	4.1	3.4	4.1	3.9	3.8	3.8	3.8
Balance	-2.4	-2.5	-3.9	-3.9	-3.6	-3.1	-2.6	-2.6	-2.6
Savings and investment (percent of GDP)									
Domestic saving	23.5	23.7	26.4	25.0	24.6	24.0	24.9	25.5	25.5
Public	1.1	1.4	0.2	-0.5	0.4	0.9	1.2	1.2	1.2
Private	22.4	22.3	26.2	25.5	24.1	23.2	23.6	24.3	24.3
Foreign saving	2.0	2.5	3.0	3.4	4.4	5.7	5.1	4.4	4.1
Gross investment	25.5	26.2	29.4	28.4	29.0	29.7	30.0	29.9	29.7
Consumer prices									
Period average	1.5	3.9	3.3	2.8	2.3	2.3	2.3	2.3	2.3
End-period	3.0	2.8	4.7	2.2	2.3	2.3	2.3	2.3	2.3
Memorandum items:									
Current account balance (percent of GDP)	-2.0	-2.5	-3.0	-3.4	-4.4	-5.7	-5.1	-4.4	-4.1
Gross official reserves (millions of euros)	1,715	2,069	2,193	2,004	2,183	2,367	2,588	2,793	3,088
in percent of ST debt	103	112	107	98	99	118	118	124	138
in months of prospective imports	3.7	4.4	4.5	3.6	3.6	3.5	3.6	3.6	3.7
Gross Central Government Debt (percent of GDP)	24.2	27.9	34.1	35.9	35.9	37.4	37.7	36.8	36.6
Gross Central Gov. & PESR Debt (percent of GDP)	24.2	27.9	34.1	35.9	37.4	40.2	41.6	41.7	42.3
Public Sector Gross Debt (percent of GDP) 2/	27.8	32.1	39.0	41.6	43.2	46.4	47.0	47.5	47.0
Foreign direct investment (percent of GDP)	2.2	4.5	1.0	3.3	3.8	3.8	3.8	3.8	3.8
External debt (percent of GDP)	58.2	64.8	69.3	64.6	63.2	63.4	62.4	60.4	59.4
Nominal GDP (billions of denars)	434	460	459	489	519	547	586	627	667
Nominal GDP (millions of euros)	7,057	7,475	7,456	7,946	8,435	8,898	9,519	10,192	10,839

Sources: NBRM; SSO; MOF; IMF staff estimates and projections.

1/ The Road Fund was converted into the Public Enterprise for State Roads (PESR) in January 2013.

2/ Total Public Sector (including MBDP, municipalities, public sector non-financial enterprises; w/o NBRM).

Table 2. FYR Macedonia: Central Government Operations, 2010–2014

(Billions of denars)

	2010	2011	2012	2013			2014
				Budget	Revised	Proj.	
Total Revenues 1/	131.6	136.4	137.5	147.4	148.7	141.3	153.6
Tax Revenues and Contributions	112.4	118.7	117.4	125.6	125.2	121.9	132.5
PIT	8.9	9.5	9.6	10.4	10.3	10.0	10.7
CIT	3.7	3.9	3.7	4.0	4.0	4.7	4.9
VAT (net)	37.7	42.2	38.5	45.2	45.1	41.1	46.0
Excises	14.9	15.5	16.6	14.7	14.6	16.0	16.7
Custom Duties	4.7	3.8	4.1	3.9	3.9	3.8	3.5
Other Taxes 2/	3.9	4.0	4.3	4.6	4.5	4.4	5.7
Social Contributions	38.7	39.8	40.8	42.8	42.6	41.9	45.0
Pensions	26.1	26.9	27.5	28.7	28.6	28.2	30.6
Unemployment	1.7	1.7	1.7	1.9	1.9	1.8	1.9
Health	10.9	11.2	11.5	12.2	12.1	11.9	12.5
Non-Tax Revenues 3/	12.1	12.7	12.4	13.4	13.7	12.5	13.9
Capital Revenues 4/	5.6	3.9	4.6	4.8	4.8	3.9	3.9
Of which: Telecom dividend	2.5	2.3	2.5	2.5	2.5	2.5	
Grants	1.5	1.1	3.0	3.5	5.0	3.0	3.3
Expenditures 1/	142.2	147.9	155.2	165.1	167.9	160.2	172.5
Current Expenditures 5/	127.4	130.9	137.1	146.9	148.4	144.2	151.9
Wages and salaries	22.6	23.1	22.7	23.1	23.0	22.9	23.6
Goods and services	14.7	13.9	14.6	17.4	17.6	14.9	14.8
Transfers	86.9	90.4	95.5	102.3	*103.7*	102.6	108.3
Pensions	37.6	39.2	40.9	44.0	45.0	45.0	48.1
Health	19.3	20.5	20.9	21.9	22.3	21.5	22.6
Local Governments	13.3	14.1	15.4	15.6	15.6	15.5	16.5
Other	16.6	16.6	18.3	20.7	20.7	19.6	20.8
Interest	3.2	3.5	4.2	4.1	4.1	3.7	5.3
Capital Expenditures	15.3	17.7	18.8	18.7	20.2	16.6	21.2
Lending minus repayment 6/	-0.5	-0.8	-0.6	*-0.6*	-0.6	-0.6	-0.6
Unidentified adjustment	0.0	0.0	0.0			0.0	0.0
Overall fiscal balance	-10.5	-11.5	-17.8	-17.7	-19.3	-18.9	-18.9
Financing	10.5	11.5	17.8	17.7	19.3	18.9	18.9
Domestic	5.9	-9.4	13.6	13.7	13.7	8.3	16.0
Central Bank deposits	4.0	-7.3	-12.0	12.0	5.5	0.3	7.9
Other domestic financing	1.9	-2.1	25.7	1.7	8.2	8.0	8.1
Privatization receipts	0.0	0.3	0.1	0.1	0.1	0.1	0.0
Foreign	4.6	20.6	5.1	3.9	5.5	10.5	2.8
Memo items:							
Gross debt (as share of GDP)	24.2	27.9	34.0			35.9	35.9
Nominal GDP (billions of denars)	434.1	459.8	460.5	488.8	488.8	488.8	518.9
Stock of government deposits at the NBRM (EUR mln eop)	11.5	7.7	19.5			19.1	11.2

Sources: IMF Staff and MoF estimates.

Notes:

1/ Excluding revenues from lending.

2/ Including Tax Revenues (SRA).

3/ Excluding profits from financial institutions.

4/ Including profits from financial institutions.

5/ Excluding lending guarantees.

6/ Resulting from excluding: (i) revenues from lending from total expenditure; and (ii) lending guarantees from current expenditures.

Table 2. FYR Macedonia: Central Government Operations, 2010–2014 (concluded)

(Percent of GDP)

	2010	2011	2012	2013			2014
				Budget	Revised	Proj.	
Total Revenues 1/	30.3	29.7	29.8	30.1	30.4	28.9	29.6
Tax Revenues and Contributions	25.9	25.8	25.5	25.7	25.6	24.9	25.5
PIT	2.0	2.1	2.1	2.1	2.1	2.0	2.1
CIT	0.9	0.8	0.8	0.8	0.8	1.0	0.9
VAT (net)	8.7	9.2	8.4	9.2	9.2	8.4	8.9
Excises	3.4	3.4	3.6	3.0	3.0	3.3	3.2
Custom Duties	1.1	0.8	0.9	0.8	0.8	0.8	0.7
Other Taxes 2/	0.9	0.9	0.9	0.9	0.9	0.9	1.1
Social Contributions	8.9	8.7	8.9	8.8	8.7	8.6	8.7
Pensions	6.0	5.8	6.0	5.9	5.9	5.8	5.9
Unemployment	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Health	2.5	2.4	2.5	2.5	2.5	2.4	2.4
Non-Tax Revenues 3/	2.8	2.8	2.7	2.7	2.8	2.6	2.7
Capital Revenues 4/	1.3	0.9	1.0	1.0	1.0	0.8	0.7
Of which: Telecom dividend	0.6	0.5	0.6	0.5	0.5	0.5	
Grants	0.3	0.2	0.7	0.7	1.0	0.6	0.6
Expenditures 1/	32.7	32.2	33.7	33.8	34.4	32.8	33.2
Current Expenditures 5/	29.3	28.5	29.8	30.1	30.4	29.5	29.3
Wages and salaries	5.2	5.0	4.9	4.7	4.7	4.7	4.5
Goods and services	3.4	3.0	3.2	3.6	3.6	3.0	2.9
Transfers	20.0	19.7	20.7	20.9	21.2	21.0	20.9
Pensions	8.7	8.5	8.9	9.0	9.2	9.2	9.3
Health	4.4	4.5	4.5	4.5	4.6	4.4	4.4
Local Governments	3.1	3.1	3.3	3.2	3.2	3.2	3.2
Other	3.8	3.6	4.0	4.2	4.2	4.0	4.0
Interest	0.7	0.8	0.9	0.8	0.8	0.8	1.0
Capital Expenditures	3.5	3.9	4.1	3.8	4.1	3.4	4.1
Lending minus repayment 6/	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Unidentified adjustment							
Overall fiscal balance	-2.4	-2.5	-3.9	-3.6	-3.9	-3.9	-3.6
Financing	2.4	2.5	3.9	3.6	3.9	3.9	3.6
Domestic	1.4	-2.0	3.0	2.8	2.8	1.7	3.1
Central Bank deposits	0.9	-1.6	-2.6	2.5	1.1	0.1	1.5
Other domestic financing	0.4	-0.5	5.6	0.4	1.7	1.6	1.6
Privatization receipts	0.0	0.1	0.0	0.0	0.0	0.0	
Foreign	1.1	4.5	1.1	0.8	1.1	2.2	0.5
Memo items:							
Gross debt (as share of GDP)	24.2	27.9	34.0			35.9	35.9
Nominal GDP (billions of denars)	434.1	459.8	460.5	488.8	488.8	488.8	518.9
Stock of government deposits at the NBRM (EUR mln eop)	11.5	7.7	19.5			19.1	11.2

Sources: IMF Staff and MoF estimates.

Notes:

1/ Excluding revenues from lending.

2/ Including Tax Revenues (SRA).

3/ Excluding profits from financial institutions.

4/ Including profits from financial institutions.

5/ Excluding lending guarantees.

6/ Resulting from excluding: (i) revenues from lending from total expenditure; and (ii) lending guarantees from current expenditures.

Table 3. FYR Macedonia: Balance of Payments, 2010–2018

(Millions of euros, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
				Projections					
Current account	-144	-189	-226	-267	-369	-508	-490	-452	-449
Trade balance	-1448	-1648	-1757	-1752	-1921	-2093	-2179	-2217	-2290
Exports	2530	3211	3107	3262	3861	4258	4791	5254	5772
Imports	-3978	-4859	-4863	-5014	-5781	-6351	-6970	-7471	-8062
Services (net)	37	97	46	63	99	113	155	198	240
Income (net)	-100	-131	-148	-151	-159	-167	-175	-210	-252
Transfers (net)	1367	1494	1632	1573	1612	1639	1710	1777	1853
Of which									
Official	31	77	60	56	64	60	60	61	61
Private	1337	1417	1572	1517	1547	1578	1649	1715	1793
Of which: Cash exchange	1155	1237	1389	1422	1510	1570	1649	1724	1799
Capital and financial account	203	512	328	418	548	692	711	657	744
Capital account (net)	12	9	20	0	0	0	0	0	0
Financial account	191	503	308	418	548	692	711	657	744
Direct investment (net)	159	337	78	264	321	338	362	387	412
Portfolio investment (net)	-57	-76	77	-181	-4	-3	-2	-1	-1
Of which: Eurobonds disbursements	0	0	0	0	0	150	0	0	0
Of which: Eurobonds amortizations	0	0	0	-175	0	-150	0	0	0
Other investment	89	242	153	334	231	357	351	271	333
Trade credits (net)	71	-13	170	29	73	77	82	88	94
MLT loans (net)	67	463	67	366	223	351	355	273	326
Public sector	39	367	62	326	128	227	221	123	157
Disbursements	98	457	161	402	298	430	332	402	392
of which : IMF credit	0	221	0	0	0	0	0	0	0
Amortization	-59	-89	-99	-76	-170	-203	-111	-279	-235
of which : Repayment to the IMF	0	0	0	0	86	115	29	0	0
Banks (net)	94	53	-24	15	42	53	57	65	75
Non-Banks (net)	-66	43	29	25	52	71	77	85	94
ST loans (net)	62	-27	-4	32	34	36	38	41	43
Currency and deposits (net)	-171	-232	-115	-93	-98	-107	-125	-131	-130
Of which: Commercial banks	-81	-98	113	0	0	0	0	0	0
Other (net)	60	50	35	0	0	0	0	0	0
Errors and omissions	1	9	18	-140	0	0	0	0	0
Overall Balance	61	332	120	11	179	184	221	205	295
				(Percent of GDP)					
Current account	-2.0	-2.5	-3.0	-3.4	-4.4	-5.7	-5.1	-4.4	-4.1
Of which									
Trade balance	-20.5	-22.1	-23.6	-22.0	-22.8	-23.5	-22.9	-21.7	-21.1
Private transfers	18.9	19.0	21.1	19.1	18.3	17.7	17.3	16.8	16.5
FDI (net)	2.2	4.5	1.0	3.3	3.8	3.8	3.8	3.8	3.8
				(Year-on-year percent change)					
Exports of G&S (Value)	25.9	24.8	-2.1	5.0	18.3	10.3	12.5	9.7	9.9
Volume	24.6	10.4	0.0	4.0	11.0	10.0	9.0	8.4	7.9
Price	1.1	13.0	-2.1	1.0	6.6	0.3	3.2	1.2	1.8
Imports of G&S (Value)	12.9	20.3	1.4	3.1	15.3	9.8	9.8	7.2	7.9
Volume	10.6	13.2	4.3	-1.0	10.0	8.2	6.8	6.5	6.2
Price	2.1	6.2	-2.8	4.1	4.8	1.5	2.8	0.6	1.6
Terms of trade (2008=100)	94.5	100.5	101.2	98.2	99.8	98.6	99.0	99.6	99.8
Memorandum Items:									
Nominal GDP	7057	7475	7456	7946	8435	8898	9519	10192	10839
ST debt at residual maturity (year-end)	1666	1846	2041	2046	2210	2004	2202	2254	2245
Gross foreign exchange reserves 1/	1715	2069	2193	2004	2183	2367	2588	2793	3088
Months of prospective imports of G&S	3.7	4.4	4.5	3.6	3.6	3.5	3.6	3.6	3.7
Percent of short-term debt (residual maturity)	102.9	112.1	107.5	98.0	98.8	118.1	117.5	123.9	137.6
External debt (percent of GDP)	58.2	64.8	69.3	64.6	63.2	63.4	62.4	60.4	59.4
Medium and long-term	39.6	43.6	46.1	43.0	42.3	43.1	42.9	41.5	41.0
Short-term	18.6	21.2	23.1	21.6	20.9	20.3	19.5	18.9	18.4
External debt service	1608	1796	1970	2170	2181	2356	2159	2363	2423
Percent of exports of G&S	50.1	44.8	50.2	52.7	44.7	43.8	35.7	35.6	33.2
Percent of exports of G&S and private transfers	35.1	32.6	35.4	38.1	33.6	33.6	27.8	28.1	26.5

Sources: NBRM; and IMF staff estimates.

1/ In 2013, negative valuation effects are projected to decrease the stock of gross foreign exchange reserves by 200 million euros.

Table 4. FYR: Macedonia - Monetary Survey, 2010–2018

(Billions of denars, unless specified otherwise)

	2010	2011	2012				2013				2014	2015	2016	2017	2018
			1Q-12	2Q-12	3Q-12	4Q-12	1Q-13	2Q-13	3Q-13	4Q-13					
NFA	99.9	124.7	121.7	115.4	124.1	126.1	128.6	114.3	119.6	115.8	117.8	121.2	124.8	129.4	135.5
Central Bank	100.6	122.5	122.5	119.6	124.7	128.9	132.8	121.8	122.5	118.8	120.8	124.1	127.7	132.3	138.4
Commercial Banks	-0.7	2.2	-0.9	-4.2	-0.6	-2.8	-4.2	-7.6	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
NDA	132.7	130.3	136.0	143.1	136.4	140.2	141.9	152.0	154.2	171.7	196.6	214.6	236.7	260.0	283.8
Credit to Government (net)	9.0	-1.8	1.9	4.9	-0.8	1.9	5.0	6.5	7.7	13.7	27.6	31.7	35.5	46.1	54.1
From Banks (net)	15.0	14.0	14.6	22.3	22.0	29.1	32.4	32.9	34.0	35.8	41.7	47.4	51.5	56.0	60.0
of which: Credit (Tbills)	18.1	16.7	17.3	25.5	24.6	31.7	34.3	34.7	35.8	37.6	43.5	49.2	53.3	57.7	61.8
From Central Bank (net)	-6.0	-15.8	-12.7	-17.4	-22.8	-27.2	-27.4	-26.4	-26.3	-22.1	-14.1	-15.8	-16.0	-9.9	-5.9
of which: Deposits	-9.0	-19.1	-15.4	-20.3	-25.7	-30.4	-30.4	-29.3	-29.2	-25.0	-17.1	-18.7	-18.9	-12.8	-8.8
Credit to Private Sector (Gross)	193.4	208.2	211.8	217.3	218.2	218.9	220.0	224.1	225.5	231.5	241.5	254.5	271.1	287.5	305.4
From Banks	191.9	208.1	211.7	217.2	218.1	218.8	220.0	224.1	225.4	231.4	241.5	254.5	271.0	287.4	305.4
Denars	143.6	150.6	153.6	159.8	162.7	164.4	165.0	168.3	171.3	174.6	182.2	192.0	204.5	216.9	230.4
FX	48.3	57.6	58.1	57.4	55.4	54.4	55.0	55.8	54.1	56.8	59.3	62.5	66.6	70.6	75.0
From Central Bank	1.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Items (net)	-69.7	-76.0	-77.7	-79.1	-80.9	-80.6	-83.1	-78.6	-79.0	-80.0	-80.0	-80.0	-80.0	-80.0	-80.0
Broad Money (M3)	232.6	255.0	257.6	258.5	260.5	266.3	270.5	266.3	273.8	287.5	314.5	335.8	361.4	389.4	419.3
Currency in Circulation	17.0	19.3	17.9	18.8	19.2	20.1	20.7	20.1	20.0	21.4	22.8	24.0	25.7	27.5	29.2
Total Deposits	215.6	235.7	239.8	239.6	241.3	246.2	249.8	246.2	253.8	266.1	291.7	311.8	335.8	361.9	390.1
Denars	106.8	122.3	128.0	129.0	131.9	135.1	137.4	138.4	142.7	149.2	163.6	174.9	188.3	203.0	218.8
FX	108.8	113.5	111.8	110.7	109.4	111.1	112.4	107.8	111.0	116.9	128.1	136.9	147.5	158.9	171.3
							(Year-on-year percent change)								
Private Sector Credit	7.3	7.7	7.2	7.4	6.4	5.2	3.9	3.1	3.3	5.7	4.3	5.4	6.5	6.1	6.2
Broad Money	12.2	9.7	9.8	8.0	6.3	4.4	5.0	3.0	5.1	8.0	9.4	6.8	7.6	7.7	7.7
Private Sector Deposits	12.9	9.3	9.6	7.8	5.9	4.4	4.2	2.7	5.2	8.1	9.6	6.9	7.7	7.8	7.8
							(Contribution to annual growth in broad money)								
NFA	2.5	10.7	4.6	4.4	5.3	0.5	2.7	-0.4	-1.7	-3.8	0.7	1.1	1.1	1.3	1.6
NDA	9.7	-1.0	5.1	3.5	1.0	3.9	2.3	3.5	6.8	11.8	8.7	5.7	6.6	6.5	6.1
							(Percent of GDP)								
Private Sector Credit	44.5	45.3	46.0	47.5	47.5	47.7	48.1	48.3	48.1	47.4	46.6	46.5	46.3	45.9	45.8
Broad Money	53.6	55.5	55.9	56.5	56.7	58.1	59.1	57.4	58.4	58.8	60.6	61.3	61.7	62.1	62.9
Private Sector Deposits	49.7	51.3	52.1	52.4	52.5	53.7	54.6	53.1	54.1	54.4	56.2	57.0	57.3	57.7	58.5
Memorandum Items:															
Money Multiplier	4.7	4.8	5.3	5.0	4.9	4.8	4.9	5.0	5.2	4.9	5.0	5.0	5.1	5.1	5.2
Reserve Requirement Ratio (% of deposits)															
Denars	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
FX Indexed	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
FX	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Velocity	1.9	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6

Sources: NBRM; and IMF staff estimates.

Table 5. FYR: Macedonia - Central Bank Survey, 2010–2018

(Billions of denars, unless specified otherwise)

	2010	2011	2012				2013				2014	2015	2016	2017	2018
			1Q-12	2Q-12	3Q-12	4Q-12	1Q-13	2Q-13	3Q-13	4Q-13					
NFA	100.6	122.5	122.5	119.6	124.7	128.9	132.8	121.8	122.5	118.8	120.8	124.1	127.7	132.3	138.4
Assets	105.5	141.6	145.5	139.3	145.9	143.3	156.2	148.2	144.5	140.8	142.8	146.1	149.7	154.3	160.5
Liabilities	-4.9	-19.1	-22.9	-19.7	-21.2	-14.4	-23.5	-26.3	-22.0	-22.0	-22.0	-22.0	-22.0	-22.0	-22.0
NDA	-51.6	-68.9	-73.7	-67.4	-71.8	-73.0	-77.5	-68.4	-70.2	-60.5	-58.0	-57.6	-56.5	-56.1	-57.1
Banks (net)	-26.9	-32.2	-40.4	-28.1	-25.7	-26.1	-29.9	-29.3	-31.3	-25.7	-31.1	-29.1	-27.9	-33.5	-38.5
of which:															
NBRM Bills and short-term facilities	-25.9	-32.2	-40.4	-29.8	-27.1	-27.1	-31.2	-29.3	-31.3	-25.7	-30.1	-28.1	-26.9	-23.5	-21.5
Central Government (net)	-3.5	-13.4	-9.9	-14.6	-20.1	-24.9	-24.8	-23.8	-23.8	-19.6	-11.6	-13.3	-13.5	-7.4	-3.4
of which:															
Deposits at Central Bank	-9.0	-19.1	-15.4	-20.3	-25.7	-30.4	-30.4	-29.3	-29.2	-25.0	-17.1	-18.7	-18.9	-12.8	-8.8
Denar	-5.9	-7.0	-4.4	-9.9	-13.2	-19.5	-8.2	-11.1	-14.4	-14.2	-10.7	-11.4	-11.5	-8.8	-6.9
FX	-3.1	-12.1	-11.0	-10.4	-12.5	-10.9	-22.1	-18.2	-14.8	-10.8	-6.4	-7.3	-7.4	-4.1	-1.9
State and Local Governments (net)	-2.5	-2.3	-2.7	-2.8	-2.7	-2.3	-2.6	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Other items (net)	-18.7	-20.9	-20.6	-21.9	-23.3	-19.7	-20.2	-12.8	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7	-12.7
Reserve Money	49.0	53.6	48.8	52.2	52.9	55.9	55.3	53.4	52.3	58.3	62.8	66.5	71.1	76.2	81.4
Currency in Circulation	17.0	19.3	17.9	18.8	19.2	20.1	20.7	20.1	20.0	21.4	22.8	24.0	25.7	27.5	29.2
Other	32.0	34.3	30.9	33.4	33.7	35.8	34.6	33.3	32.3	36.9	40.0	42.5	45.5	48.7	52.1
Cash in Vaults	3.2	3.5	3.2	3.3	3.3	3.9	3.8	4.0	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Total Reserves	28.8	30.9	27.7	30.0	30.4	32.0	30.8	29.3	28.2	32.8	36.0	38.4	41.4	44.6	48.1
on Denar Deposits	15.7	16.7	14.7	16.9	17.4	18.9	17.7	16.3	15.7	19.0	20.9	22.3	24.0	25.9	27.9
on FX Deposits	13.2	14.1	13.0	13.1	13.0	13.0	13.2	13.0	12.6	13.8	15.1	16.1	17.4	18.7	20.2
							(Contribution to annual growth in reserve money)								
NFA	16.0	44.7	21.9	23.5	33.6	11.9	21.0	4.3	-4.2	-18.1	3.4	5.3	5.4	6.5	8.1
NDA	-9.4	-35.2	-18.9	-15.8	-19.9	-7.7	-7.7	-1.9	3.0	22.4	4.3	0.6	1.6	0.6	-1.2
Reserve Money	6.6	9.5	3.1	7.7	13.7	4.3	13.3	2.3	-1.2	4.2	7.7	5.9	7.0	7.1	6.9
Memorandum Items:															
NBRM Bills (percent of GDP)	6.0	7.0	8.8	6.2	5.7	5.7	5.2	5.2	5.5	4.4	5.1	4.4	3.9	3.1	2.6
Govt Deposits at Central Bank (Percent of GDP)	2.1	4.2	3.4	4.4	5.6	6.6	6.6	6.4	6.3	5.4	3.5	3.6	3.5	2.2	1.4

Sources: NBRM; and IMF staff estimates.

Table 6. FYR Macedonia: Financial Soundness Indicators of the Macedonian Banking System, 2007–2013
(Percent)

	2007	2008	2009	2010	2011	2012	2013		
							2013Q1	2013Q2	2012Q3
Capital adequacy									
Regulatory capital/risk weighted assets	17.0	16.2	16.4	16.1	16.8	17.1	17.3	17.3	17.3
Tier I capital/risk weighted assets 1/	15.7	14.0	13.8	13.4	14.1	14.5	14.7	14.7	14.6
Equity and reserves to Assets	11.4	11.5	11.4	10.6	11.0	11.2	11.1	11.2	11.3
Asset composition									
Structure of loans									
Enterprises (loans to enterprises/total loans)	54.9	54.2	58.7	58.9	58.2	56.9	56.7	56.2	55.5
Households (loans to households/total loans)	37.7	38.5	37.9	37.1	36.5	36.4	36.5	37.1	37.9
Lending with foreign currency component to private sector	54.7	57.0	58.5	58.8	59.2	55.4	55.0	54.6	53.5
Foreign currency lending/total credit to private sector	24.6	22.9	22.6	25.8	28.2	25.5	25.5	25.4	24.5
Foreign currency indexed lending/total credit to private sector	30.1	34.1	35.9	33.0	31.0	29.8	29.5	29.2	29.1
NPLs 2/									
NPLs/gross loans	7.5	6.7	8.9	9.0	9.5	10.1	11.4	11.8	11.2
NPLs net of provision/own funds	-5.0	-6.2	-0.6	-0.3	-0.9	-3.7	-0.1	0.4	-2.7
Provisions to Non-Performing Loans	114.3	118.1	101.4	100.7	101.9	107.1	100.1	99.4	104.7
Large exposures/own funds	181.4	118.0	213.3	200.4	189.6	205.1	208.0	195.4	195.0
Connected lending									
Banking system exposure to subsidiaries and shareholders/own funds	5.6	3.1	4.6	6.3	4.6	3.5	1.5	1.3	1.9
Banking system equity investments/own funds	4.9	3.9	1.5	1.5	1.6	1.8	1.7	1.6	1.6
Earning and profitability									
ROAA 3/	1.8	1.4	0.6	0.8	0.4	0.4	0.0	0.2	0.4
ROAE 3/	15.0	12.5	5.6	7.3	3.4	3.8	-0.4	1.8	3.9
Interest margin/gross income 4/	57.0	58.9	62.6	61.8	60.0	60.7	62.5	62.9	63.3
Noninterest expenses/gross income 5/	60.3	64.0	64.5	68.2	69.7	65.3	62.9	62.2	62.1
Personnel expenses/noninterest expenses	38.4	36.5	36.9	36.1	34.1	33.1	35.3	35.5	35.6
Interest Rates									
Local currency spreads	4.5	3.2	2.8	2.3	3.2	3.5	3.6	3.6	3.7
Foreign currency spreads	6.5	4.2	4.2	4.4	4.8	4.6	4.8	4.6	4.8
Interbank market interest rate	3.1	5.3	6.2	2.7	2.2	2.1	1.9	2.0	2.0
Liquidity									
Highly liquid assets/total assets 6/	20.9	16.9	20.6	25.3	25.3	29.4	29.6	28.7	28.8
Highly liquid assets/total short-term liabilities 7/	28.2	24.0	30.1	38.5	39.6	48.2	49.1	49.0	49.9
Liquid assets/total assets	34.7	22.9	25.6	30.9	31.2	30.2			
Liquid assets/total short-term liabilities	46.8	32.4	37.4	46.9	48.9	49.3			
Customer deposits/total (noninterbank) loans	128.4	107.7	108.2	114.3	115.7	113.5	114.2	110.8	113.3
Foreign currency deposits/total deposits	44.5	48.1	56.2	53.5	50.8	47.3	47.3	45.8	45.7
Including foreign exchange-indexed 8/	51.5	54.8	60.9	55.5	52.7	48.3	48.2	46.2	47.0
Central bank credit to banks/bank liabilities	0.1	0.01	0.01	0.01	0.01	0.4			
Sensitivity to market risk									
Net open foreign exchange position/own funds	38.2	25.1	13.0	18.9	21.3	11.4	7.3	12.1	16.1

Sources: NBRM's Financial Stability Unit.

1/ Until 2007Q3 Tier I Capital includes common shares, non-cumulative preference shares, general reserves and undistributed profits, net of uncovered loss from previous years, current loss and goodwill. Starting from 2007Q4, Tier I Capital includes nominal value of common and non-cumulative preference shares, premiums from common and noncumulative preference shares, general reserves and distributed profits, positions as a result of consolidation, net of uncovered loss from previous years, current loss and intangible goods, owned common and non-cumulative preference shares and the difference between the amount of necessary and the amount of allocated reserves for potential losses.

2/ Includes loans to financial and nonfinancial sector.

3/ Adjusted for unallocated provisions for potential loan losses. Since 2009Q1 these items have been adjusted for unrecognized impairment.

4/ Interest margin represents interest income less interest expense. Gross income includes net interest income, fees and commissions income (gross, not net) and other gross income excluding extraordinary income.

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

6/ 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.

7/ 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).

8/ FX indexed deposits include deposits and other FX indexed liabilities. However FX indexed deposits comprise the majority of these items. Since 2009Q1, the figure refers only to FX indexed deposits.

Table 7. FYR Macedonia: Capacity to Repay Indicators, 2013–2018

	2013	2014	2015	2016	2017	2018
Exposure and Repayments (Millions of SDR)						
GRA credit to Macedonia 1/	197.0	123.1	24.6	0.0	0.0	0.0
(In percent of quota)	286	179	36	0	0	0
Charges 2/	2.1	2.0	1.1	0.2	0.1	0.1
Repurchase	0.0	73.9	98.5	24.6	0.0	0.0
Debt and Debt Service Ratios						
In percent of GDP						
Total external debt	66.4	64.8	65.0	63.9	61.8	60.7
External debt, public	22.5	21.7	22.2	22.2	21.2	20.6
Total public debt	35.9	37.4	40.2	41.6	41.7	42.3
GRA credit to Macedonia	2.8	1.7	0.3	0.0	0.0	0.0
Total external debt service	27.4	25.9	26.5	22.7	23.2	22.4
Public external debt service	3.4	2.4	4.4	1.7	3.4	2.8
Debt service due on GRA credit	0.0	1.0	1.3	0.3	0.0	0.0
In percent of Central Government Revenues						
Public external debt service	11.8	8.0	14.5	5.7	11.1	9.3
Debt service due on GRA credit	0.0	3.4	4.1	1.0	0.0	0.0
In percent of Gross International Reserves						
Total external debt	246.1	235.5	232.1	224.1	215.8	204.8
External debt, public	83.2	78.8	79.3	78.0	74.0	69.5
GRA credit to Macedonia	10.5	6.0	1.1	0.0	0.0	0.0
Debt service due on GRA credit	0.0	3.6	4.5	1.0	0.0	0.0
In percent of Exports of Goods and Services						
Total external debt service	52.8	44.8	43.9	35.8	35.7	33.3
Public external debt service	6.6	4.1	7.2	2.7	5.2	4.2
Debt service due on GRA credit	0.0	1.7	2.1	0.5	0.0	0.0
In percent of Total External Debt						
GRA credit to Macedonia	4.3	2.6	0.5	0.0	0.0	0.0
In percent of Total External Debt Service						
Debt service due on GRA credit	0.0	3.9	4.7	1.3	0.0	0.0
In percent of Total Public External Debt						
GRA credit to Macedonia	12.6	7.7	1.4	0.0	0.0	0.0
In percent of Total Public External Debt Service						
Debt service due on GRA credit	0.0	42.1	28.7	16.9	0.0	0.0

Sources: Macedonian authorities; Finance Department; World Economic Outlook; and IMF staff estimates.

1/ Repurchases are assumed to be made as scheduled.

2/ Includes GRA basic rate of charge, surcharges and service fees.

Table 8. FYR Macedonia: External Debt Sustainability Framework, 2008–2018

(Percent of GDP, unless otherwise indicated)

	2008	2009	2010	2011	2012			Projections 2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	49.2	56.4	58.2	64.8	69.3			**64.6**	**63.2**	**63.4**	**62.4**	**60.4**	**59.4**	**-5.1**
2 Change in external debt	1.5	7.2	1.8	6.7	4.4			-4.6	-1.5	0.2	-1.0	-2.0	-1.0	
3 Identified external debt-creating flows (4+8+9)	2.1	3.4	-2.2	-4.2	1.1			-0.9	-0.5	0.5	-0.2	-1.0	-1.2	
4 Current account deficit, excluding interest payments	11.5	5.7	0.6	0.8	1.4			1.7	2.8	4.1	3.5	2.9	2.6	
5 Deficit in balance of goods and services	26.1	23.0	20.0	20.8	22.9			21.2	21.6	22.2	21.3	19.8	18.9	
6 Exports	50.4	38.0	45.5	53.6	52.7			51.9	57.8	60.5	63.6	65.1	67.3	
7 Imports	76.5	61.1	65.5	74.4	75.6			73.1	79.4	82.7	84.9	85.0	86.2	
8 Net non-debt creating capital inflows (negative)	-5.3	-3.6	-1.4	-3.5	-2.1			-2.7	-3.0	-3.0	-3.0	-3.0	-3.0	
9 Automatic debt dynamics 1/	-4.0	1.2	-1.4	-1.5	1.8			0.0	-0.2	-0.5	-0.7	-0.8	-0.7	
10 Contribution from nominal interest rate	1.4	1.1	1.4	1.7	1.7			1.6	1.6	1.6	1.6	1.6	1.6	
11 Contribution from real GDP growth	-2.1	0.5	-1.6	-1.6	0.3			-1.6	-1.8	-2.2	-2.3	-2.3	-2.3	
12 Contribution from price and exchange rate changes 2/	-3.2	-0.3	-1.3	-1.7	-0.1			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-0.6	3.9	4.0	10.9	3.3			-3.7	-1.0	-0.3	-0.8	-1.0	0.2	
External debt-to-exports ratio (in percent)	97.6	148.2	127.8	120.9	131.5			124.6	109.3	104.9	98.1	92.7	88.3	
Gross external financing need (in billions of euros) 4/	2.2	1.8	1.7	1.9	2.1			2.3	2.4	2.7	2.5	2.7	2.7	
in percent of GDP	32.2	27.0	23.4	24.8	27.8			29.0	28.6	30.5	26.2	26.0	24.9	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**64.0**	**61.4**	**58.8**	**56.5**	**54.0**	**52.3**	**-6.7**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	5.0	-0.9	2.9	2.9	-0.4	3.2	2.3	2.5	3.0	3.6	3.9	4.0	4.0	
GDP deflator in euros (change in percent)	7.3	0.7	2.3	3.0	0.1	3.2	3.4	4.0	3.0	1.8	3.0	2.9	2.2	
Nominal external interest rate (in percent)	3.2	2.2	2.6	3.2	2.6	2.8	0.6	2.5	2.6	2.7	2.7	2.7	2.7	
Growth of exports (euro terms, in percent)	10.3	-24.7	25.9	24.8	-2.1	11.7	15.9	5.0	18.3	10.3	12.5	9.7	9.9	
Growth of imports (euro terms, in percent)	21.7	-20.3	12.9	20.3	1.4	10.1	13.5	3.1	15.3	9.8	9.8	7.2	7.9	
Current account balance, excluding interest payments	-11.5	-5.7	-0.6	-0.8	-1.4	-3.6	3.8	-1.7	-2.8	-4.1	-3.5	-2.9	-2.6	
Net non-debt creating capital inflows	5.3	3.6	1.4	3.5	2.1	4.9	2.8	2.7	3.0	3.0	3.0	3.0	3.0	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in euro terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Appendix II. Draft Press Release

Press Release No. 14/xx
FOR IMMEDIATE RELEASE
January xx, 2014

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes Second Post-Program Monitoring Discussions and Ex-Post Assessment of Exceptional Access with the former Yugoslav Republic of Macedonia

On January 29, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Second-Post Program Monitoring Discussions (PPM)[1] with the former Yugoslav Republic of Macedonia. The Executive Board also discussed the Ex-Post Evaluation (EPE) of Exceptional Access Under the 2011 Precautionary and Liquidity Line Arrangement.[2]

Following a contraction of 0.4 percent in 2012, growth is restarting, and less tentatively than expected earlier, with activity expanding 3.1 percent in the first three quarters of 2013. However, a sustained improvement in investment amid signs of a pickup in private credit would be needed to balance the risks to the outlook, and to help maintain growth momentum into next year.

The trade deficit has improved, and is projected at 22 percent of GDP at end-2013, from 23.6 percent in 2012, mainly due to weaker-than-anticipated imports, while exports have been increasing, with a notable contribution from free trade zones. With private transfers weakening from historic highs to 19 percent of GDP, the current account deficit is projected to widen slightly, to 3.4 percent of GDP. Net foreign direct investment has picked up recently and is expected to reach 3.3 percent of GDP— a strengthening relative to 2012—particularly as capital outflows in

[1] Post-Program Monitoring provides for more frequent consultations between the Fund and members whose arrangement has expired but that continue to have Fund credit outstanding, with a particular focus on policies that have a bearing on external viability. There is a presumption that members whose credit outstanding exceeds 200 percent of quota would engage in Post-Program Monitoring.

[2] The requirement for ex post evaluations (EPEs) was agreed by the IMF Executive Board in September 2002 for members using exceptional access in capital account crises, and extended to any use of exceptional access in February 2003. The aim of an EPE, which must be completed within a year of the arrangement ending, is to determine whether justifications presented at the outset of the individual program were consistent with IMF policies and to review performance under the program.

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the form of profit repatriation and intercompany loans that were observed in 2012 have diminished.

Despite marginally net positive balance of payment flows, sizable negative price effects affecting gold and foreign securities have resulted in an erosion of the stock of official reserve assets by about €200 million since end-2012. Nonetheless, at over 25 percent of GDP, the stock of foreign exchange reserves provides a significant buffer, and capacity to repay remains adequate.

The banking sector remains healthy, with high capital and liquidity ratios, although profitability has been declining. Non-performing loans have fallen to 11.8 percent of total loans, reversing the previous trend increase. In the face of a deceleration in credit growth to about 3 percent in the first half of 2013, in July the National Bank of the Republic of Macedonia reduced the central bank bill rate (the main policy instrument) and the 7-day deposit facility rate by 50 basis points, to 3.25 percent and 1.50 percent, respectively. Yet credit growth has remained subdued, especially to the corporate sector—partly due to bank risk aversion, partly to continued portfolio cleaning.

The return to publishing a medium-term fiscal strategy, in line with recommendations in the 2013 Article IV consultation, is a good step forward in anchoring expectations. The 2014 budget is appropriately contractionary, and the deficit target appears attainable. While the authorities aptly target an acceleration of large capital expenditures—railways, gasification, hospitals—space for these outlays could be constrained by increases in entitlement spending.

Central government debt remains moderate, at about 36 percent of GDP, but public sector debt has been progressively diverging from central government debt, as infrastructure needs are met by investment and borrowing by public enterprises, and as financing for SMEs is provided through external lines of credit extended to the Macedonian Bank for Development Promotion. Overall, staff projects public sector debt to increase from 44 to 52 percent of GDP in the period 2013–18.

The ex-post evaluation of exceptional access reviewed the former Yugoslav Republic of Macedonia's engagement with the IMF under the 2011 two-year Precautionary and Liquidity Line (PLL) arrangement. Macedonia made a purchase under the PLL of SDR 197 million (286 percent of quota) in March 2011.

The EPE finds that the PLL effectively insured Macedonia against external shocks and helped the government adhere to their planned policies without the need for a large adjustment. This reduced the costs to the country when economic growth turned out much lower than expected. However, the purchase highlighted weaknesses in debt management practices, and arrears were accumulated after the First Review under the PLL, when the arrangement was no longer active. The authorities have since taken steps to address these issues.

Ex post, although the former Yugoslav Republic of Macedonia's alternatives to drawing under the PLL were costlier, they would have contributed to a stronger track record of access to market financing, and would have arguably helped Macedonia take advantage of lower yields in 2012 and after the program had run its course. In hindsight, the program request could have flagged risks coming from domestic developments, namely, the risk of early elections and an erosion of the quality of fiscal institutions.

Executive Board Assessment[3]

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[3]At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Former Yugoslav Republic of Macedonia: Selected Economic Indicators					
	2009	**2010**	**2011**	**2012**	**2013**
	Annual percentage change, unless otherwise specified				
Real GDP	-0.9	2.9	2.9	-0.4	2.5
Real domestic demand	-3.3	0.3	5.3	1.9	0.1
Consumption	-3.9	0.9	3.4	-1.7	3.1
Gross Investment	-0.7	-2.0	13.5	16.1	-10.1
Net Exports 1/	3.2	2.5	-3.3	-2.6	2.4
CPI inflation (annual average)	-0.8	1.5	3.9	3.3	2.8
Unemployment rate (annual	32.2	32.0	31.4	31.0	28.7
	In percent of GDP				
Current account balance	-6.8	-2.0	-2.5	-3.0	-3.4
Trade balance	-23.3	-20.5	-22.1	-23.6	-22.0
Exports of goods	28.8	35.9	43.0	41.7	41.1
Imports of goods	52.1	56.4	65.0	65.2	63.1
Private Transfers	16.4	18.9	19.0	21.1	19.1
External debt	56.4	58.2	64.8	69.3	64.6
Gross investment	26.2	25.5	26.2	29.4	28.4
Domestic saving	19.4	23.5	23.7	26.4	25.0
Public	0.6	1.1	1.4	0.2	-0.5
Private	18.8	22.4	22.3	26.2	25.5
Foreign saving	6.8	2.0	2.5	3.0	3.4
Central government gross debt	23.8	24.2	27.9	34.1	35.9
Central government balance	-2.7	-2.4	-2.5	-3.9	-3.9
Memorandum items:					
Nominal GDP (billions of denars)	411	434	460	459	489
Nominal GDP (billions of euros)	6.7	7.1	7.5	7.5	7.9
GDP per capita (euros)	3265	3430	3629	3615	…

Sources: NBRM; SSO; MOF; IMF staff estimates

1/ Contribution to growth