FOR AGENDA

EBS/14/3
Correction 1

January 29, 2014

To: Members of the Executive Board

From: The Secretary

Subject: **Former Yugoslav Republic of Macedonia—Ex Post Evaluation of Exceptional Access Under the 2011 Precautionary and Liquidity Line Arrangement**

The attached corrections to EBS/14/3 (1/15/14) have been provided by the staff:

Evident Ambiguity

Page 10, para. 10, line 6: for "year-on-year" read "in the year to December 2010"

Page 10, footnote 5, line 1: for "(NPLs)" read "(NPLs, loans to nonfinancial institutions only)"

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 10, para. 10, line 5: for "7 percent" read "7.4 percent"

Page 10, footnote 5, line 2: for "10.4 percent" read "10.6 percent"

Page 10, footnote 6, line 1: for "23 percent of system assets" read "21.4 percent of system assets as of end-December 2012"

Page 10, footnote 6, line 3: for "holds 3 percent of system assets" read "held 1.7 percent of system assets as of end-December 2012"

Page 18, para. 28, line 5: for "deposit outflows" read "currency conversion of bank deposits"

Page 20, text table, line 7: for "External fund/Total liabilities 53.5 50.8 47.3"
read "External fund/Total liabilities 11.6 10.4 10.7"

Page 25, para. 45, first bullet, line 3: for "an outflow" read "a currency conversion"

Page 47, Table 11, line 38, Central bank credit to banks/bank liabilities, 2012 column: for "0.4" read "0.8"

Typographical Error

Page 20, text table, line 4: for "Liquid assets/Total liabilities" read "Liquid assets/Total assets"

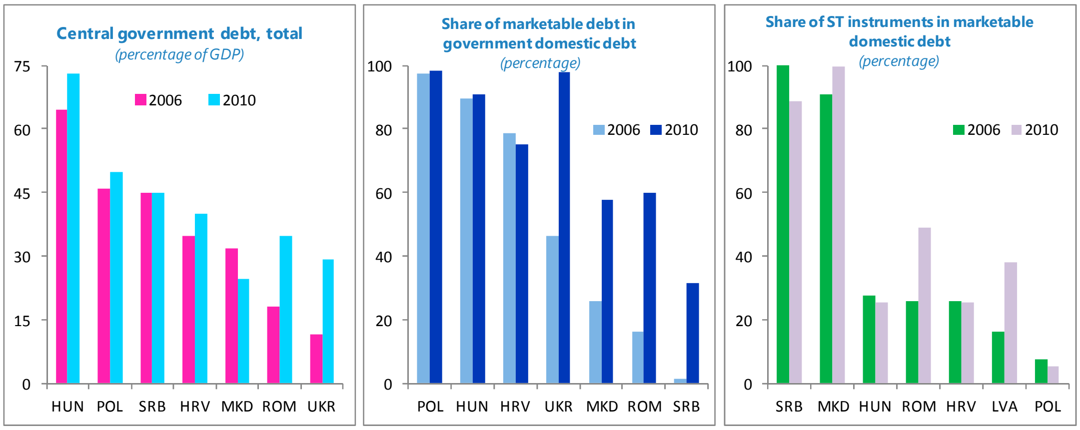
Questions may be referred to Ms. Carare, ICD (ext. 39749).

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

Att: (5)

Other Distribution:
Department Heads

Government Debt: Regional Comparisons



Source: IMF

5. Monetary and financial sector policies also contributed to macroeconomic stability. The central bank has been maintaining a peg to the euro, a strategy that delivered low inflation. The legal framework for the financial sector was comprehensively revised in line with international best practice. A new banking law was introduced to strengthen bank governance, increase minimum capital requirements, and tighten provisions on connected lending. A clear framework for consolidated supervision and for corrective action and/or resolution of weak or insolvent banks was established. Banks increased their profitability and lending, and remained well capitalized.

6. This strong policy mix led to manageable gross external financing requirements and a build-up in reserves, but in 2008 vulnerabilities appeared. The current account deficits were financed by FDI and portfolio investment inflows. The gross financing requirements over this period came mainly from building buffers in reserves to maintain the peg, financing of a small government deficit at times, and large debt amortization payments (Tables 6–8). Reserves gradually increased, but by 2008 the reserve cover deteriorated owing to a significant widening in the current account deficit while other financing sources remained roughly unchanged.

B. Initial Fallout from the Global Crisis

7. The global trade collapse and sudden stop in capital markets at the end of 2008 brought the economy to an abrupt halt. As elsewhere, by the end of 2008 the collapse in export demand and increased risk aversion in the global financial markets led to a sudden stop in external financing sources. As credit growth decelerated rapidly, the economy began to contract, leading to a decline in tax revenues. The sustainability of the exchange rate peg became uncertain with rapid currency substitution and cash outflows of residents. Uncertainties about the spring 2009 presidential and municipal elections aggravated the situation. The central bank ran down foreign exchange reserves: by May 2009, its reserves had fallen below EUR 1.2 billion (75 percent of short-term debt), a loss of almost a third compared to the October 2008 peak.

C. Strong Policy Response Mitigated the Impact of the Crisis

8. Monetary tightening helped preserve external sustainability and the peg. In addition to its foreign exchange intervention, the central bank raised its policy rate from 7 to 9 percent in April 2009 to stem balance of payment pressures and preserve an adequate level of official reserves. Reserve and liquidity requirements were tightened. As external and domestic conditions improved, the central bank began reducing its policy rate in December 2009, bringing it back down to 4.5 percent by September 2010 (Tables 9–10).

9. Fiscal policy struck a balance between cushioning the economy, and keeping public finances sound. As the economic downturn took a toll on general government revenues the government imposed a public sector wage freeze. A small fiscal stimulus was injected into the economy in 2009 through increases in some current and capital expenditures. In 2010 the fiscal policy stance became broadly neutral, as discretionary spending was cut in the face of lower than expected revenues. The overall fiscal deficit expanded to about 2.7 percent of GDP in 2009, and it declined slightly to 2.4 percent of GDP in 2010. Public sector debt jumped about 4 percent to 28 percent. Early in 2010 the government incurred payment arrears on VAT refunds and government invoices, but cleared them by October.

10. The banking system remained sound, and progress continued on structural reform. Throughout the crisis, the banking sector remained sound, relying on domestic sources of funding, preserving strong capital adequacy and liquidity ratios, and keeping non-performing loans in check with adequate provisioning (Table 11).[5] The two Greek owned banks, representing 26 percent of system assets, were healthy overall.[6] However, credit growth remained subdued at 7.4 percent in the year to December 2010, from a low base. On the structural front, the authorities made some progress in improving the business environment, and implemented some measures at attracting foreign direct investment.

11. After the initial shock, the economy recovered well. Exports recovered rapidly starting in the second half of 2009, though private domestic demand grew more slowly. As private transfers also recovered, the current account deficit improved markedly, stabilizing at 2 percent of GDP by

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[5] Reliance on foreign financing (excluding capital) was low, at 8.4 percent of assets. Non-performing loans (NPLs, loans to nonfinancial institutions only) rose from 6.8 percent of loans at end-2008 to 10.6 percent at end-September 2010 as a result of the economic downturn, but they were 93 percent covered by provisions.

[6] Stopanska Bank is the largest bank in FYR Macedonia with 21.4 percent of system assets, as of end-December 2012, and is systemically important. Its capital ratio was above the system average. This bank does not rely on its parent for funding, and has not experienced deposit outflows. The second Greek bank, Alpha Bank, holds 1.7 percent of system assets, as of end-December 2012, and has been hit harder by the downturn, but it reorganized its portfolio and lending practices, received a capital injection from its parent, and consolidated.

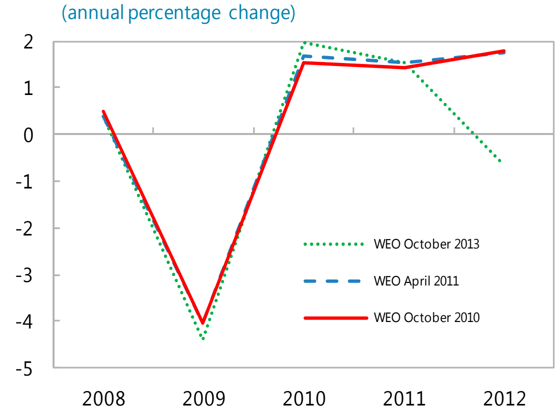
FYR Macedonia: External Sector Forecasts and Outcomes, 2010–2012

	2010	2011			2012		
		Prog.	1st review	Actual	Prog.	1st review	Actual
				(percent of GDP)			
Current account deficit	-2.0	-4.6	-5.5	-2.5	-5.4	-6.7	-3.0
Trade balance	-20.5	-22.3	-22.5	-22.1	-22.9	-22.9	-23.6
Private transfers	19.0	18.3	17.5	18.9	18.2	17.1	21.1
FDI	2.2	3.5	4.9	4.5	3.2	5.0	1.0
MLT Loans	0.9	1.1	5.7	6.2	1.3	0.5	0.9
Public sector	0.6	0.4	4.6	4.9	0.5	-0.1	0.8
Banks	1.3	0.2	0.2	0.7	0.2	0.2	-0.3
Currency and deposits (net)	-2.4	-0.7	-0.5	-3.1	-0.7	-0.6	-1.5
Overall balance (Million Euros)	61	198	333	332	295	316	120
Reserves/short-term debt (at remaining maturity)	103	104	121	112	103	120	107
Reserves/months of prospective imports	3.7	3.7	3.7	4.4	3.9	4.0	4.5
Reserves (millions of euros)	1,715	1,846	2,041	2,069	2,141	2,357	2,193

Sources: FYR Macedonia IMF staff reports.

26. **The economy entered a shallow recession in 2012, due to much lower than expected external demand.** In 2012 real GDP contracted by 0.4 percent, as opposed to growing at 4.5 percent as had been projected. The turmoil in the European sovereign bond market dragged on and affected trade and external financial conditions. Credit to the private sector declined, as banks tightened credit conditions and increased provisioning for non-performing loans (as elsewhere). Inflation was higher than expected, contributing also to an unanticipated contraction in private consumption. Nominal GDP was considerably lower than expected.

Euro Area Real GDP Growth Vintages
(annual percentage change)



Source: IMF WEO

27. **The overall cash deficit in 2012 was higher than anticipated, as revenues fell owing to worse than expected economic activity.** The initial target of the deficit, 2½ percent of GDP was relatively ambitious. As the economic situation deteriorated in 2012 instead of improving, as expected at the program request or the First Review, revenues fell. The government continued the policy implemented under the previous recession, trying to strike a balance between cushioning the economic contraction and preserving debt sustainability. Cash expenditures were not compressed to the same extent, but instead turned out more or less as initially envisaged. The government started

clearing some arrears.[12] The cash deficit ended up at 3.9 percent of GDP. With growth and revenues much lower than expected, but expenditures held constant, a small fiscal impulse estimated at ¾ percent of GDP was injected in the economy.

28. The external sector continued to perform well. The current account widened slightly compared to 2011, due to the further weakening of external trade. However, this turned out to be better than anticipated since the deterioration in the trade balance was smaller than the increase in private transfer compared to expectations. As FDI and portfolio inflows proved disappointing and in a context of continued currency conversion of bank deposits, reserves increased modestly (by EUR 124 million compared with 2011 outturn). Reserve cover remained appropriate, although it slipped compared to 2011, at 107 percent of short-term debt.

29. Moderate weaknesses in fiscal institutional capacity that were not apparent at the launch of the PCL gradually became clearer at the end of 2011 and in 2012, prompting efforts to address them. The PCL request staff report took into account the generally positive findings of the 2006 fiscal transparency ROSC, and subsequent efforts both to upgrade medium-term budgeting capacity and to make use of IMF and EU technical assistance to implement further improvements. On the other hand, the 2011–12 experience revealed weaknesses in several areas, which the authorities have since been addressing:

- *Public debt management*, as indicated by FYR Macedonia's need to draw on the PCL in March 2011, was targeted for improvement at the PCL First Review, with a structural benchmark on publication of a road map for reform in consultation with Fund staff. An IMF technical assistance mission in October 2011 and Selected Issues paper for the 2011 Article IV consultation recommended measures to develop the domestic debt market. Since then the authorities made progress in lengthening domestic debt maturities and in deepening domestic debt markets.

- *Treasury operations*, as indicated by the buildup of arrears in 2011. The 2012 and 2013 Article IV reports discussed subsequent corrective measures under way to improve Treasury reporting procedures for multi-annual liabilities and for liabilities arising from signed contracts; an IT upgrade is also in progress.

- *Medium-term budgeting*, which was suspended. The PCL request staff report (January 2011) noted that the authorities annually prepared a three-year fiscal strategy. But the 2013 Article IV

[12] In December 2012, the government recognized a stock of 1.2 percent of GDP of accumulated arrears (by September 2012), taking the commitment to clear them in 2012 and in the first months of 2013.

staff report noted that the last such strategy document, covering 2011–13, was published in December 2010. The authorities argued that the suspension of the strategy documents reflected the extreme uncertainty facing policymakers through the global downturn, but planned to provide parliament with a new medium-term fiscal and debt management strategy before the 2014 budget.

- *Government finance statistics*, which cover central government but are not readily available for general government.
- *Overly optimistic revenue assumptions*, which contributed to a lower quality budget implementation than expected: the government reduced expenditures but also incurred arrears.

30. The authorities did not request the completion of the Second Review. Several concurrent factors would have made the completion of the Second Review challenging even if it had been requested (slippages in public financial management, weaknesses in the public debt management practices, the short time to set and assess conditionality for a Third and subsequent Reviews etc). There were extensive discussions with the authorities on the need for public financial management and debt management reforms to improve fiscal institutions, reduce fiscal financing vulnerabilities, and increase transparency regarding arrears. Ultimately the authorities made the decision not to seek completion of the PLL review. Nonetheless, they pursued several of the Fund staff's recommendations in the area of arrears prevention and debt management (including tapping the domestic T-bill market).

31. Owing mainly to weak activity, public debt and external debt increased by 10 percentage points during the program period but remained sustainable. Central government debt increased from 24 percent of GDP in 2010 to 34 percent in 2012. This mostly reflected deteriorating activity rather than loose fiscal policy (the cumulative fiscal impulse was only around 1 percent of GDP over 2011–12). Gross external debt (public and private) increased from 58 percent of GDP in 2010 to 69 percent in 2012. In the staff's most recent baseline scenarios (second PPM staff report), public debt and external debt are each projected to remain sustainable, and broadly stable in the medium term (Figures 3 and 4, and Tables 13 and 14). Capacity to repay the Fund remained intact from the program request until the latest analysis (second PPM staff report).

32. Financial stability was maintained due to the resilient structure of bank funding, notwithstanding a trend increase in non-performing loans. With banks mainly financed by domestic deposits, no deleveraging took place during the regional financial turmoil. Confronted with a steady increase in non-performing loans, banks further increased provisioning, thus preserving satisfactory capital adequacy ratios broadly in line with program requirements, albeit at the cost of a decline in profitability. Yet banks also seem to have turned increasingly risk averse alongside the economic downturn, maintaining record high liquidity ratios by purchasing central bank bills, which probably took a toll on credit to the private sector, and impeded the domestic market financing of the deficit.

33. Structural reforms continued under the program. The government pursued structural reforms to improve the business climate, and adopted a new Energy Law to strengthen the long-term prospects of the energy sector, besides continuing to invest in infrastructure and education, and to promote FDI.

FYR Macedonia: Banking Sector Outcomes, 2010-2012

	2010	2011	2012
CAR	16.1	16.8	17.1
CAR Tier 1	13.4	14.1	14.5
ROE	7.3	3.4	3.8
Liquid assets/Total assets	25.3	25.3	29.4
Liquid assets/Short-term liabilities	38.5	39.6	48.2
Loan to deposit ratio	87.5	86.4	88.1
External funding/Total liabilities	11.6	10.4	10.7
NPL/Gross loans	9.0	9.5	10.1
Provisions to NPL	100.7	101.9	107.1

Sources: FYR Macedonia IMF staff reports.

PROGRAM DESIGN

A. External and Fiscal Financing

34. The 2011 deficit financing need was not trivial. The government's capacity to finance its deficit, as envisaged under the original program, relied on its ability to issue its Eurobond in the first half of 2011. This turned out to be a point of vulnerability. The PCL purchase of EUR 221 million (3 percent of GDP) covered the planned Eurobond issuance of EUR 190 million plus a small buffer. It also covered about a third of FYR Macedonia's gross fiscal financing need for 2011 and represented more than the overall fiscal deficit financing need for 2011. Based on its initial discussions with banks in March 2011, in the pre-election period, the government represented that the necessary issuance would have been hard to obtain or prohibitively costly. In the absence of sufficient external sources of deficit financing, the government noted that the domestic market would have not been able to absorb a large quantity of government securities in addition to the planned redemptions. At the time the largest banks were consolidating at the regional basis and limiting new exposure to sovereign risk. However, the banking system was liquid, and banks were investing in central bank bills, at a 4.2 percent yield. With the benefit of hindsight, offering a higher interest rate than the central bank was offering, and coordinating the issuance of Treasury bills with the liquidity operations of the central bank would have allowed the government to finance domestically a larger part of the deficit than initially planned. In the end this deficit financing strategy was pursued in 2012, but not in 2011.

Stand-By Arrangement, even of a precautionary nature. Moreover, FYR Macedonia did not request such arrangement; it requested a PCL. The PCL/PLL is designed to insure qualified countries against external shock. A domestic political shock triggered the PCL purchase in FYR Macedonia as it affected the government's capacity to finance the deficit through external market sources, as initially planned, and therefore presented a balance of payments need. The deterioration of the quality of fiscal institutions was not apparent at the outset of the program, and FYR Macedonia qualified for a PCL (see next section). Since these slippages were not present at the outset of the program, stronger conditionality was not needed. It is therefore not clear that a precautionary Stand-By Arrangement would have produced better outcomes, even if it would have been an option requested by authorities.

CONSISTENCY WITH FUND RULES AND PRACTICES

A. Review of Qualification Criteria for Exceptional Access

45. FYR Macedonia met all four criteria for exceptional access to Fund resources. Taking these criteria in turn:[15]

1. *The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current or capital account resulting in a need for Fund financing that cannot be met within the normal limits.* At the outset of the program, FYR Macedonia did not experience actual balance of payments pressures. However, staff's ex ante stress scenario as well as the episode of "sudden stop" in private capital inflows experienced in 2008–09 indicated potential for FYR Macedonia to face financing needs beyond normal access limits due to (i) a possible risk of much lower growth than expected (due to lower external demand), and (ii) lower net capital flows.

   - At the program request, staff's stress scenario assumed a 1 percentage point downward shock to real GDP growth in the European Union (EU). Compared with the baseline, the shock led to a wider trade deficit for FYR Macedonia, lower transfers and FDI, a currency conversion of bank deposits, and a loss of access to sovereign debt markets in 2011–12.

   - The potential for a stress scenario to materialize remained present through 2011 and 2012, given the ongoing potential for negative shocks to EU growth and sovereign debt markets throughout this period.

[15] Except for the first criterion, which needs to be considered separately, a country qualifying for a PCL or PLL will also meet the exceptional access criteria.

- Subsequent developments highlighted risks in FYR Macedonia's external environment, and the plausibility of the original stress scenario assumptions; (i) EU output contracted by 0.3 percent in 2012 instead of growing by some 2.1 percent as envisaged by the April 2011 WEO forecast, with activity particularly weak in southeastern Europe, and (ii) while FYR Macedonia's financial sector remained resilient, European sovereign debt markets remained volatile in 2012, FDI turned out much lower than expected, and net outflows of currency and deposits were larger than expected.

2. *A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term.* At the program request, debt was relatively low and sustainable. It was expected to increase in 2011–12, and it was projected to remain within sustainable bounds thereafter (26 percent of GDP by 2015). The second PPM staff report notes in the Appendix of Debt Sustainability Analysis that "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."

3. *The member has prospects of gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding.* This criterion was also met, even allowing for temporary disruption to market access during February–March 2011 owing to domestic political uncertainty, and another spike in sovereign bond spreads in December 2011 as a result of euro area spillovers.

4. *The policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.* The overarching objective of the program, to provide insurance to FYR Macedonia against external shocks, was met. Economic adjustment was not an objective of the program, which envisaged a continuation of already-sound policies and, given the conjuncture, neutral macroeconomic policy settings. The 2013 Article IV staff report found that FYR Macedonia had maintained external and financial stability despite a difficult environment.

B. Review of Qualification Criteria for the PCL/PLL

46. The Decision on the PCL—and its successor the Precautionary and Liquidity Line (PLL)[16]—sets both general and specific criteria for assessment (Appendix I). To qualify for the PCL/PLL, a country must meet the general criteria of sound economic policies and institutions (paragraph 2a of the Decision), and perform strongly in at least three of the five specific criteria as outlined below, with no substantial underperformance in any of the five (Decision paragraph 2b). A

[16] In contrast to the PCL, the PLL is available to countries with an actual balance of payments need at the time of program approval.

Table 11. FYR Macedonia: Financial Soundness Indicators of the Banking System, 2007–2012

(In Percent)

Table 11. FYR Macedonia: Financial Soundness Indicators of the Macedonian Banking System, 2007-2012

(Percent)

	2007	2008	2009	2010	2011	2012
Capital adequacy						
Regulatory capital/risk weighted assets	17.0	16.2	16.4	16.1	16.8	17.1
Tier I capital/risk weighted assets 1/	15.7	14.0	13.8	13.4	14.1	14.5
Equity and reserves to Assets	11.4	11.5	11.4	10.6	11.0	11.2
Asset composition						
Structure of loans						
Enterprises (loans to enterprises/total loans)	55	54	59	59	58	57
Households (loans to households/total loans)	38	39	38	37	37	36
Lending with foreign currency component to private sector	55	57	59	59	59	55
Foreign currency lending/total credit to private sector	25	23	23	26	28	26
Foreign currency indexed lending/total credit to private sector	30	34	36	33	31	30
NPLs 2/						
NPLs/gross loans	7.5	6.7	8.9	9.0	9.5	10.1
NPLs net of provision/own funds	-5.0	-6.2	-0.6	-0.3	-0.9	-3.7
Provisions to Non-Performing Loans	114.3	118.1	101.4	100.7	101.9	107.1
Large exposures/own funds	181.4	118.0	213.3	200.4	189.6	205.1
Connected lending						
Banking system exposure to subsidiaries and shareholders/own funds	5.6	3.1	4.6	6.3	4.6	3.5
Banking system equity investments/own funds	4.9	3.9	1.5	1.5	1.6	1.8
Earning and profitability						
ROAA 3/	1.8	1.4	0.6	0.8	0.4	0.4
ROAE 3/	15.0	12.5	5.6	7.3	3.4	3.8
Interest margin/gross income 4/	57.0	58.9	62.6	61.8	60.0	60.7
Noninterest expenses/gross income 5/	60.3	64.0	64.5	68.2	69.7	65.3
Personnel expenses/noninterest expenses	38.4	36.5	36.9	36.1	34.1	33.1
Interest Rates						
Local currency spreads	4.5	3.2	2.8	2.3	3.2	3.5
Foreign currency spreads	6.5	4.2	4.2	4.4	4.8	4.6
Interbank market interest rate	3.1	5.3	6.2	2.7	2.2	2.1
Liquidity						
Highly liquid assets/total assets 6/	20.9	16.9	20.6	25.3	25.3	29.4
Highly liquid assets/total short-term liabilities 7/	28.2	24.0	30.1	38.5	39.6	48.2
Liquid assets/total assets	34.7	22.9	25.6	30.9	31.2	32.4
Liquid assets/total short-term liabilities	46.8	32.4	37.4	46.9	48.9	53.0
Customer deposits/total (noninterbank) loans	128.4	107.7	108.2	114.3	115.7	113.5
Foreign currency deposits/total deposits	44.5	48.1	56.2	53.5	50.8	47.3
Including foreign exchange-indexed 8/	51.5	54.8	60.9	55.5	52.7	48.3
Central bank credit to banks/bank liabilities	0.1	0.01	0.01	0.01	0.01	0.8
Sensitivity to market risk						
Net open foreign exchange position/own funds	38.2	25.1	13.0	18.9	21.3	11.4

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

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

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

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 12. FYR Macedonia: Conditionality Under the PCL Arrangement, 2011–2012

Indicative targets			
Target date	Time frame for assessment	Target	Outcome
Central government overall fiscal deficit, ceiling (billions of denar) 1/			
May 31, 2011	First Review of the PCL	6.40	6.46
November 30, 2011	Second Review 3/	11.60	10.54 4/
Net international reserves (billions of euros) 2/			
May 31, 2011	First Review	1.15	1.44
November 30, 2011	Second Review 3/	1.30 5/	1.35
Structural benchmark			
Publish a report laying out a road map for debt management reform, in consultation with Fund staff	Second Review 3/	Not assessed during the PCL. The authorities did not publish a report but consulted with Fund staff on reforms, including the introduction of regular auctions of 5-year domestic bonds in September 2011. MCM provided TA on debt management in October 2011.	

Performance criteria (continuous)

Standard performance criteria as specified in Attachment A of Decision No. 10464-(93/130), related to:
trade and exchange restrictions;
bilateral payments arrangements;
multiple currency practices; and
non-accumulation of external debt payment arrears. 6/

Sources: MoF, NBRM, and Fund staff estimates.

1/ Covers the central government as defined in the Annual Budget Document. Defined to include arrears in central government payments, including of non-disputed VAT refunds.
2/ Defined as the difference between the NBRM's reserve assets and its reserve liabilities. Targets originally set assuming that the government would issue a eurobond in the amount of €190 million during the course of 2011.
3/ Outcomes were not assessed during the PCL, since the Second Review did not take place.
4/ Reported outcome refers to cash-basis deficit only. The 2011 Article IV staff report, paragraph 12 (SM/12/104), reported that the deficit was somewhat larger on an accrual basis due to arrears. However, exact data on arrears incurred by the central government during January-November 2011 are not readily available.
5/ Original target: EUR 1.35 billion. The First Review increased the target by EUR 50 million, but also included a downward adjustor of up to EUR 100 million in the event of shortfall in planned issuance of external debt to private investors by end-November 2011.
6/ The 2011 Article IV staff report, paragraph 12 (SM/12/104), reported that the government failed to make payments totaling €7.6 million due to an external supplier of medical equipment in the second half of 2011 and eventually reached agreement to make the overdue payments (plus interest) in January 2012.