

BUFF/14/8

February 3, 2014

**The Acting Chair's Summing Up  
Former Yugoslav Republic of Macedonia—Second Post-Program Monitoring  
Discussions; Ex Post Evaluation of Exceptional Access Under the 2011 Precautionary  
and Liquidity Line Arrangement  
Executive Board Meeting 14/10  
January 29, 2014**

Executive Directors agreed with the thrust of the staff appraisal for the second post-program monitoring discussions. They noted that Macedonia's economic growth has continued to strengthen and inflation has decelerated. In the period ahead, it will be important to address external and fiscal vulnerabilities and gradually tighten fiscal and monetary policies while fostering balanced and sustainable growth.

Directors welcomed the re-established medium-term fiscal strategy, which outlines a gradual withdrawal of stimulus starting in the 2014 fiscal year. Given the importance of public infrastructure in unlocking growth potential, Directors emphasized the need to ensure fiscal space for priority capital expenditure. They also called for further improvements in public financial and debt management, building on the progress to date. In this connection, they encouraged the authorities to monitor a broad concept of public debt encompassing off-budget spending by public enterprises.

Directors agreed that further monetary easing is not needed in the context of a stronger-than-expected economic recovery and high banking liquidity. They encouraged the authorities to continue to carefully monitor balance of payments pressures and welcomed their readiness to tighten monetary policy as needed to preserve the currency peg. They underscored, in this regard, the importance of maintaining a robust international reserves position.

Directors commended the authorities' efforts to attract foreign direct investments (FDI) and noted their positive impact on exports and job creation. They stressed the need to continue to facilitate spillovers of FDI to the domestic productive sector to ensure more balanced and sustained growth. Continued efforts to improve job skills and qualifications will also be important.

Directors welcomed the staff's ex post evaluation of exceptional access under the 2011 Precautionary and Liquidity Line (PLL) arrangement. Most Directors agreed that the PLL was the right instrument for Macedonia at the time of its approval by providing effective insurance against external shocks without the need for a large adjustment. However,

a number of Directors noted that fiscal institutional weaknesses became apparent after the arrangement's approval, and that the purchase was used in response to a domestic rather than external shock. In light of this, they considered that a different policy and financing mix could have helped Macedonia establish a stronger track record of market access. Directors generally saw merit in flagging domestic risks even in programs designed to insure only against external shocks. Overall, Directors agreed that the experience has underlined the importance of maintaining sound policies, strong institutions, and governance.