

SUR/17/95

November 15, 2017

**The Acting Chair's Summing Up**  
**Former Yugoslav Republic of Macedonia—2017 Article IV Consultation**  
**Executive Board Meeting 17/90**  
**November 13, 2017**

Executive Directors agreed with the thrust of the staff appraisal. They noted the negative impact of the prolonged political crisis on economic growth and the limited progress on structural reforms. They noted that the formation of the new government is a turning point for the Macedonian economy, and underscored this as an opportunity to rebuild policy space and revive reforms.

Directors emphasized the need for fiscal consolidation, in light of the rapid rise in public debt and high gross financing needs. They welcomed the authorities' intention to reduce the overall deficit gradually to 2 percent of GDP in the medium term, but stressed that this should rely on durable measures. They recommended strengthening tax administration, and increasing property and energy taxation to boost revenues. At the same time, they noted the importance of improving spending efficiency through subsidy rationalization and better targeting of social spending, and ensuring pension sustainability. Directors also supported the authorities' plan to strengthen public finance management and increase fiscal transparency.

Directors agreed that an accommodative monetary policy remains appropriate given the still-negative output gap, low inflation, and external stability. However, they emphasized that the monetary stance should be appropriately tightened as inflation developments warrant or in case of a loss of market confidence, and urged close monitoring.

Directors noted that the banking system remains well capitalized, liquid, and profitable. They commended the authorities for strong policy actions that restored stability after a period of financial turbulence, and the recent adoption of Basel III capital standards. They stressed that continued vigilance is important in light of a high degree of financial euroization and moderate deleveraging risks. Directors recommended that the authorities continue to complement monetary policy with macro-and micro-prudential measures to counter financial stability risks.

Directors urged the authorities to intensify the pace of structural reforms to increase employment and boost productivity. They welcomed the authorities' plan to support employment and social inclusion, which need to be carefully targeted. To preserve competitiveness and fiscal sustainability, they stressed the need to keep wage growth in line

with productivity developments. In light of an aging population, they noted the importance of increasing labor force participation, particularly that of women, through a mix of tax, social assistance, and family leave policies, as well as active labor market policies. Directors advised further improvements in governance and public administration, trade-enabling logistics, and skills to boost FDI inflows.

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