

**EXECUTIVE
BOARD
MEETING**

EBS/20/37

April 6, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of North Macedonia—Request for Purchase Under the Rapid Financing Instrument**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Friday, April 10, 2020
Proposed Decision:	Page 8
Publication:	Yes*
Questions:	Ms. Barkbu, EUR (ext. 38138) Mr. Poulain, EUR (ext. 39444) Mr. Mangov, EUR (ext. 36583)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Forthwith—European Central Bank After Board Consideration—European Bank for Reconstruction and Development, World Trade Organization

*The authorities have indicated that they consent to the Fund's publication of this paper.



REPUBLIC OF NORTH MACEDONIA

April 6, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

Context: North Macedonia's economic outlook has deteriorated substantially due to the COVID-19 pandemic. Real GDP is expected to decline by 4 percent due to a fall in both domestic and external demand. This, together with negative shocks to confidence and spillovers from global financial channels, has created an urgent balance of payments need. The elections planned for April 2020 have been postponed, implying that the caretaker government will remain in place for the next months. The Executive Board concluded the 2019 Article IV consultation on a lapse-of-time basis on January 22.

Policy Response: The authorities' policies aim at mitigating the economic and social impact of the crisis and supporting the recovery, while maintaining macroeconomic, financial, and external stability. Fiscal policy support is targeted and temporary, and focuses on protecting employment and poor households. Monetary policy is expected to remain accommodative for now, and the National Bank of the Republic of North Macedonia stands ready to act as needed to protect the de-facto exchange rate peg. Financial sector policies take a prudent approach, encouraging banks to restructure debt of affected borrowers, combined with intensified monitoring.

Request for Financial Assistance: The North Macedonian authorities are requesting financing under the Rapid Financing Instrument (RFI) equivalent to 100 percent of quota (SDR 140.3 million, about €176.7 million). Public debt is sustainable, although risks have increased, and there is adequate capacity to repay the Fund.

Approved By
Jörg Decressin (EUR)
 and
Vikram Haksar (SPR)

Discussions were held by teleconference during March 26–30, 2020. The mission discussed with Finance Minister Angelovska, Governor Angelovska Bezoska, and other senior officials. The staff team comprised Ms. Barkbu (head), Messrs. Poulain and Mangov (all EUR), Ms. Eble (Resident Representative), and Mr. Nacevski (IMF Local Economist). Mr. Doornbosch and Ms. Harutyunyan (OED) attended some of the meetings. Ms. Maneely and Ms. Tenali (EUR) assisted in the preparation of the report.

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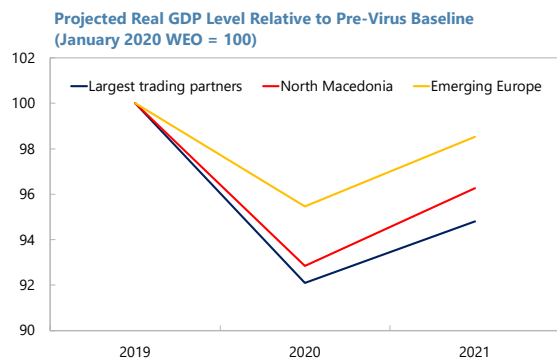
RECENT DEVELOPMENTS

1. Before the pandemic, the macroeconomic performance was favorable. Growth was solid and broad-based at 3.6 percent in 2019 and was expected to soften to 3.4 percent in 2020. The fiscal deficit reached 2 percent of GDP in 2019, keeping public debt stable at 47 percent of GDP, and was projected to widen to 2½ percent of GDP in 2020 mainly due to higher pension benefits and a public sector wage hike. The external position was broadly in line with fundamentals, and reserve coverage reached 114 percent of the Fund's Assessing Reserve Adequacy (ARA) metric in 2019. The banking system was well capitalized and liquid, and non-performing loans relatively low, but efforts were needed to mitigate the indirect credit risks from the high share of FX lending, the widespread use of adjustable-rate loans, and high lending concentrations. Over the past years, crucial governance and institutional reform have demonstrated the authorities' commitment to tackling long-standing challenges. As a result, in March, the EU finally agreed to start accession negotiations with North Macedonia, a major milestone.

IMPACT OF COVID-19

2. The rapid spread of COVID-19 is taking a major toll on the economy. North Macedonia has 555 confirmed cases of COVID-19, and has declared a state of emergency, closed its borders and imposed severe social-distancing restrictions to slow down the spread of the virus. While necessary, these containment measures are expected to curtail domestic economic activity. The downturn will be amplified by spillovers from the global recession. Financial market turbulence, combined with the postponement of the political elections, has made the prospects of the authorities' plan to issue a €500 million Eurobond in the summer more uncertain. At the same time, the government's financing need has increased.

3. Staff project real GDP to contract by 4 percent in 2020, a reduction by 7½ percentage points relative to the Article IV report published in January 2020. Private consumption is expected to fall as disposable income comes under pressure amid rising unemployment and as spending on travel, hospitality and entertainment is slashed due to regulatory restrictions. Private investment should also experience negative growth, as plans are delayed toward the end of the year, and exports are projected to decline, as the European automotive industry stops production. While in the baseline growth resumes in the second half of 2020, the output level will recover only slowly, and not converge to the pre-virus baseline even over the medium term.



Source: IMF WEO.
Note: Trading partners weighted by their share in North Macedonia's exports.

4. The fiscal position is expected to deteriorate. The containment measures will sharply reduce firms' profits, employment, and consumption, creating sizeable revenue shortfalls relative to

budgeted amounts. At the same time, spending on health, as well as unemployment and social benefits, is likely to be higher than budgeted. In addition, the authorities have taken measures to support economic activity. As a result, staff expect the general government deficit to increase to 6½ percent of GDP in 2020 before receding to about 3 percent in 2021.

5. Absent additional external financing, reserve coverage would fall as remittances and FDI inflows drop. Remittances and FX cash exchanges are expected to fall as migrants' income abroad shrink. With investment plans likely to be delayed, net FDI flows are also projected to contract. As a result, reserve coverage is expected to decrease to 87 percent of the ARA metric by end-2020, absent IMF and other external financing such as the potential Eurobond issuance.

6. In this context, the authorities have requested a purchase under the Rapid Financing Instrument (RFI) to address the urgent fiscal and balance of payments needs, see the attached Letter of Intent (LOI). The purchase will help provide the government with much needed liquidity, while helping to preserve international reserves, thus protecting the de-facto exchange rate peg.

ECONOMIC POLICIES

7. The authorities are taking actions to mitigate the economic impact, as outlined in their attached Letter. The government implemented in March a 0.2 percent of GDP package of targeted and temporary fiscal measures to provide cash-flow relief to affected firms and protect jobs (LOI ¶12). The National Bank of the Republic of North Macedonia (NBRNM) cut its policy rate, amid lower-than-expected inflation. The NBRNM has also taken steps to encourage banks to restructure loans to affected borrowers, subject to closer monitoring on a case-by-case basis (LOI ¶13). The NBRNM has lengthened the limit for classifying loans as NPLs from 90 to 150 days. While temporary, with the limit to return to 90 days by end-2020, staff consider that such a weakening of loan classification standards can hamper the proper assessment of credit risk, and encouraged the authorities to closely monitor developments and avoid any further relaxation of loan classification or provisioning standards.

8. In the near term, the focus should be on limiting the macro-financial and social impact of the crisis, while maintaining a sound policy framework to support the recovery.

- **Fiscal policy support should be well-targeted and temporary.** In this vein, the authorities have announced an additional package of measures, including a wage subsidy to protect employment in the private sector (about 1 percent of GDP) and transfers to poor households during the second quarter of 2020 (LOI ¶12). To help offset the costs, they will defer capital expenditure, and implement temporary cuts to the public sector wage bill and purchase of goods and services. Given the country's large infrastructure needs, cuts to capital expenditure should be temporary. Bolstering the capacity of the health care system to address the COVID-19 shock should remain a priority.
- **The NBRNM needs to balance the need to support the economy through providing liquidity, with the objective of protecting the exchange rate peg.** Inflation remains low, at

0.7 percent year-on-year in February, and is expected to move into negative territory in the next months. The NBRNM has intervened in the past month to stabilize the exchange rate and should stand ready to take action as necessary to protect the peg.

- **Preserving financial stability remains a priority.** Over the past years, banks have strengthened their liquidity and capital positions, with the banking system's capital adequacy ratio at 16.3 percent at end-2019. These buffers now provide an important line of defense against potential losses. To facilitate prudent restructuring and support banks' ability to finance the economy during the downturn, staff encourages the NBRNM to explore further steps that make use of the flexibility in the regulatory framework, such as permitting banks to draw down the capital conservation buffer that is designed to be used in periods of stress. This would require careful capital and liquidity planning by banks, together with enhanced monitoring and reporting by the NBRNM. The NBRNM should clarify that freed-up resources cannot be used to distribute dividends, pay out cash bonuses or initiate share buybacks. The NBRNM should continue to monitor banks' liquidity intensively and stand ready to act as needed to address any stress.

MODALITIES OF FUND FINANCIAL SUPPORT

9. **The pandemic has created an urgent balance of payments need** (LOI 13). The downturn has increased the general government deficit. Some of the government's net financing need can be covered through domestic and external banks, and by drawing down government deposits at the central bank. Moreover, the EU and the World Bank are expected to contribute with at least €95 million in budget support and for measures to alleviate the social and economic impact of the pandemic, though discussions are at an early stage. On this basis, staff project a remaining fiscal and external gap of about €213 million, after Fund financial assistance (Text Table 1 and Table 6). The RFI purchase would help keep reserve coverage at 93 percent of the ARA metric at end-2020 (Text Table 2). A potential Eurobond issuance would help close this gap.

Text Table 1. Fiscal and External Financing, 2020–21 (€ million)

	2020	2021
Total Financing Requirement (Gross)	1,969	1,923
Central Government Deficit	727	371
Gross Amortizations	1,242	1,552
Domestic	803	821
External	439	732
Private	360	644
Official	79	88
Total Financing Sources (Gross)	1,485	1,923
Government deposits at the NBRNM (budget account)	100	-20
Flow from Denar budget account	45	-9
Flow from FX budget account	55	-11
Domestic	1,178	1,239
External	207	704
Private	120	555
Official	87	149
Fiscal and External Gap	484	0
IMF – RFI	177	0
European Union/World Bank	95	0
Remaining unidentified financing	213	0

Text Table 2. Reserve Coverage under Different Scenarios

	Gross International Reserves	Coverage
	(in million euro)	(in percent of ARA metric)
2019	3,263	114
Current (March 31, 2020)	3,017	103
2020 projections		
w/o Exceptional External Financing	2,525	87
with RFI purchase only	2,701	93
with financing gap closed	3,009	103

Sources: NBRNM and IMF staff estimates

10. Staff consider RFI access at the annual limit (100 percent of quota) as appropriate. Fund support would be disbursed to the central bank and on-lent to the government, to cover COVID-19-related spending. In light of the health emergency, the authorities are not in a position to design or implement a Fund-supported program at this time. Given the authorities' commitments and policy plans (LOI 14), as well as the country's track record of economic policies and relations with the Fund, staff expect that the authorities will cooperate with the Fund and pursue economic policies appropriate for addressing the impact of the virus.

11. The DSA finds that debt under the current baseline is sustainable, but that risks have increased significantly. Public debt is projected to stabilize at about 55 percent of GDP in the medium term and remain below the high-risk threshold also in the stress tests. However, financing needs in 2020–21 exceed the high-risk thresholds. Financing needs would also be a substantial source of downside risk in the event of further shocks, including potential contingent liabilities. The authorities are committed to consolidate public finances over the medium term, which is necessary to place debt firmly on a downward path.

12. North Macedonia's capacity to repay the Fund is adequate. The proposed RFI purchase represents 1.6 percent of 2020 GDP and 5.8 percent of projected 2020 international reserves (Table 7). Repurchases and charges are projected to peak in 2024 at 2.4 percent of projected reserves and 1 percent of projected exports of goods and services. On March 6, S&P maintained its BB- rating for North Macedonia with a stable outlook. The authorities have an excellent track record in servicing their obligations and proven ability to access international markets in normal times.

13. Finally, the authorities have committed to undergoing a safeguards assessment (LOI 16). The NBRNM will provide staff with its most recently completed external audit reports and authorize the external auditors to hold discussions with staff. IMF funds will be disbursed into the government's account at the NBRNM and the government and the NBRNM have prepared a memorandum of understanding regarding the repayment of the funds.

RISKS

14. Downside risks are exceptionally large, mainly associated with the economic and financial impact of the pandemic. The baseline assumes that the containment measures are gradually lifted in the second half of 2020, triggering a growth rebound in the second half of the year. A prolongation or more severe spread of COVID-19 could plunge the country into a deeper and more long-lasting recession. While private transfers (including remittances) have increased in past crises, they could fall more than anticipated, increasing the external financing need. A larger-than-projected drop in government revenue may increase the government's financing need. If the shock proves much larger than the shocks assumed in the DSA, it could also jeopardize debt sustainability. A protracted period of global financial volatility and risk aversion may further delay the authorities' ability to tap financial markets, putting additional pressure on international reserves and the exchange rate peg. The upcoming elections could trigger uncertainty. On the upside, the recently agreed opening of EU accession negotiations could provide a welcome boost in confidence, additional EU financing, and renewed reform impetus in the next years.

STAFF APPRAISAL

15. In view of the urgent external financing need, staff support the authorities' request for a purchase under the RFI. Economic activity is expected to contract sharply in 2020 caused by the rapidly evolving COVID-19 crisis, before rebounding in 2021, although the uncertainty around the forecast is unusually large. The authorities have already taken strong measures to slow the spread of the virus and mitigate the immediate economic and social impact, but the fiscal deficit is expected to widen sharply while domestic financing sources are limited. The proposed purchase in the amount of SDR 140.3 million, equivalent to 100 percent of quota, will support the authorities' efforts and contribute to filling the external financing requirements in 2020.

16. The authorities remain committed to ensuring macroeconomic stability and debt sustainability. Staff judge public debt to be sustainable under the current baseline and the country to be able to repay its obligation to the Fund. However, the government's financing needs are elevated in the near term and could rise significantly in the face of further shocks. It will be essential for the authorities to take measures as needed to mitigate risks and preserve macroeconomic, financial and external stability. Once the COVID-19 crisis has been overcome, the authorities' strong commitment to rebuilding fiscal buffers and implementing the structural reform agenda will help preserve debt sustainability and speed up income convergence. Staff stand ready to assist the authorities in addressing both the immediate and medium-term policy challenges.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board.

1. The Republic of North Macedonia has requested a purchase in an amount equivalent to SDR 140.30 million (100 percent of quota) under the Rapid Financing Instrument.
2. The Fund notes the intentions of the Republic of North Macedonia as set forth in the letter from the Minister of Finance, the Deputy Minister of Finance and the Governor of the National Bank of the Republic of North Macedonia, dated April 6, 2020, and approves the purchase in accordance with the request.

Box 1. North Macedonia: Debt Sustainability Assessment

Bottomline: North Macedonia's debt is assessed as sustainable in the current baseline. However, from a liquidity perspective, financing needs exceed the high-risk threshold in the baseline scenario and more so in the stress scenarios.

Baseline

Public sector debt is expected to stabilize at about 55 percent of GDP over the medium term, below the 70 percent of GDP high-risk threshold. Gross financing needs will temporarily exceed the 15 percent of GDP high-risk threshold in 2020 and 2021 due to the COVID-19 crisis.

Public debt is set to increase markedly in 2020, reflecting the sharp but temporary rise in the general government deficit due to the COVID-19 crisis, before gradually stabilizing over the medium term. The authorities are committed to consolidate over the medium term, which would place debt on a downward path.

The peak in gross financing needs in 2020–21 reflects the higher deficit and repayment of Eurobonds and syndicated bank loans.

Stress Tests

The public sector debt level does not breach the high-risk threshold in any of the stress test scenarios. However, as in the baseline, gross financing needs exceed the threshold in 2020–21. Additionally, in the combined macro-fiscal shock, gross financing needs exceed the threshold also in 2023. Forecast error analysis suggests no systematic bias in historical projections.

The stress tests demonstrate the risks associated with the government's high public financing needs, as well as the considerable share of FX-denominated debt. The primary balance shock assumes that only half of the projected yearly reduction in the primary deficit materializes after the sharp increase in 2020, which represents a severe downside scenario relative to the baseline where the COVID-19 shock is temporary.

Assumptions

Real GDP is expected to contract by 4 percent in 2020, driven by a sharp fall in both domestic and external demand, then recover toward the pre-COVID-19 baseline over the medium term. Headline inflation is projected to be negative in 2020 and only gradually increase to 2 percent over the medium term. The fiscal deficit is projected to increase sharply in 2020, due to automatic stabilizers and measures taken to support the economy.

Private consumption is expected to contract as disposable income comes under pressure amid rising unemployment and as spending on travel, hospitality and entertainment is slashed due to regulatory restrictions. Private investment plans are expected to be delayed, due to uncertainty, and exports would contract due to weak global demand. Downside risks are exceptionally large, mainly reflecting uncertainty about the duration and spread of the pandemic, globally and in North Macedonia.

Coverage and Contingent Liabilities

North Macedonia's public debt includes guaranteed debt of state-owned enterprises. The stress test scenarios include a standard scenario where contingent liabilities related to the banking system materialize.

Publicly guaranteed debt of state-owned enterprises rose from 2½ percent of GDP in 2008 to about 8 percent of GDP in 2019, mainly due to public transport infrastructure projects by the public roads company.

**Figure 1. North Macedonia: Public Sector Debt Sustainability Analysis (DSA)—
Baseline Scenario**

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections						As of March 30, 2020		
	2009-2017 ^{2/}	2018	2019	2020	2021	2022	2023	2024	2025	Sovereign Spreads	EMBIG (bp) 3/	
Nominal gross public debt	37.5	47.6	47.8	55.5	55.7	56.0	55.8	55.8	55.8			
Public gross financing needs	15.9	13.3	10.5	19.9	18.0	12.4	13.3	10.8	13.3			
Real GDP growth (in percent)	2.1	2.7	3.6	-4.0	7.0	4.5	4.0	3.5	3.5			
Inflation (GDP deflator, in percent)	2.3	3.9	2.4	2.7	1.5	2.0	2.0	2.0	2.0			
Nominal GDP growth (in percent)	4.5	6.7	6.0	-1.4	8.6	6.6	6.1	5.6	5.6			
Effective interest rate (in percent) ^{4/}	3.1	2.9	2.8	2.8	2.8	2.8	2.7	2.7	2.8			
										Sovereign Spreads		
										EMBIG (bp) 3/	289	
										5Y CDS (bp)	n.a.	
										Ratings	Foreign	Local
										Moody's	n.a.	n.a.
										S&P's	BB-	BB-
										Fitch	BB+	BB+

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025		
Change in gross public sector debt	2.5	1.4	0.2	7.8	0.2	0.3	-0.2	0.0	0.0	8.0	primary
Identified debt-creating flows	2.4	0.9	0.0	7.8	0.2	0.3	-0.2	0.0	0.0	8.0	balance ^{9/}
Primary deficit	2.7	1.2	1.7	6.6	3.0	2.2	1.4	1.4	1.4	15.9	-1.4
Primary (noninterest) revenue and grants	29.1	28.6	29.2	27.6	29.3	29.4	29.4	29.4	29.5	174.6	
Primary (noninterest) expenditure	31.8	29.8	30.9	34.2	32.3	31.6	30.8	30.8	30.8	190.5	
Automatic debt dynamics ^{5/}	-0.6	-1.7	-1.4	2.0	-3.0	-2.0	-1.8	-1.5	-1.5	-7.7	
Interest rate/growth differential ^{6/}	-0.6	-1.7	-1.4	2.0	-3.0	-2.0	-1.8	-1.5	-1.5	-7.7	
Of which: real interest rate	0.2	-0.5	0.2	0.1	0.6	0.3	0.3	0.4	0.4	2.1	
Of which: real GDP growth	-0.8	-1.2	-1.6	1.9	-3.6	-2.4	-2.1	-1.9	-1.9	-9.9	
Exchange rate depreciation ^{7/}	0.0	0.0	0.0	
Other identified debt-creating flows	0.2	1.4	-0.3	-0.9	0.2	0.2	0.1	0.1	0.1	-0.1	
Privatization receipts (negative)	0.0	0.0	-0.1	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 held for liquidity purposes	0.3	1.5	-0.2	-0.9	0.2	0.2	0.1	0.1	0.1	-0.1	
Residual, including asset changes ^{8/}	0.1	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

Source: IMF staff.

1/ Public sector is defined as non-financial public sector.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+gr)]$ times previous period debt ratio, with r = interest rate; π = 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 numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, 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.

Heat Map

Debt level ^{1/}

Gross financing needs ^{2/}

Debt profile ^{3/}

Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

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.

Table 1. North Macedonia: Summary of Economic Indicators, 2016–25
(Percent, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Projections									
Real GDP	2.8	1.1	2.7	3.6	-4.0	7.0	4.5	4.0	3.5	3.5
Real domestic demand	5.0	0.2	0.3	4.4	-1.7	6.6	4.3	3.7	3.1	3.0
Consumption	2.1	1.2	3.4	3.7	-0.9	4.6	3.0	2.9	2.6	2.5
Private consumption	3.9	2.1	3.7	3.5	-2.2	5.3	3.5	3.3	3.1	2.9
Gross investment	12.5	-2.2	-7.3	6.6	-3.7	12.0	7.8	5.8	4.3	4.1
Exports (volume)	9.1	8.3	15.6	8.3	-5.5	13.5	9.7	8.7	8.2	8.0
Imports (volume)	11.1	5.2	9.1	9.0	-2.8	11.3	8.2	7.3	6.7	6.5
Contributions to growth 1/										
Domestic demand	6.0	0.5	0.8	5.6	-2.7	8.0	5.2	4.5	3.8	3.6
Net exports	-3.2	0.6	2.0	-2.1	-1.3	-1.0	-0.7	-0.5	-0.2	-0.1
Output gap (percent of potential GDP)	1.3	-0.5	-0.3	0.6	-6.0	-2.0	-0.7	0.0	0.0	0.0
Central government operations (percent of GDP)										
Revenues	28.4	29.1	28.6	29.2	27.6	29.3	29.4	29.4	29.4	29.5
Expenditures	31.1	31.8	30.4	31.2	34.1	32.4	32.2	32.2	32.2	32.3
Of which: capital	2.9	3.2	1.8	2.6	1.8	2.5	2.6	2.7	2.8	2.8
Balance	-2.7	-2.7	-1.8	-2.0	-6.5	-3.1	-2.8	-2.8	-2.8	-2.8
Savings and investment (percent of GDP)										
National saving	29.7	31.9	31.8	31.3	31.3	34.2	35.5	36.4	36.8	37.0
Public	0.2	0.5	0.1	0.6	-4.7	-0.5	-0.2	0.0	0.0	0.0
Private	29.5	31.4	31.7	30.7	36.0	34.7	35.7	36.5	36.8	37.0
Foreign saving	2.9	1.1	0.1	2.8	2.2	1.3	1.8	1.9	1.9	1.9
Gross investment	32.5	33.0	31.9	34.1	33.5	35.5	37.3	38.3	38.7	38.9
Consumer prices										
Period average	-0.2	1.4	1.5	0.8	-0.9	0.8	1.2	1.6	2.0	2.2
End-period	-0.2	2.4	0.8	0.4	-0.4	1.0	1.4	1.7	2.2	2.2
Private sector credit growth	0.0	5.3	7.3	6.3	0.5	8.4	7.1	6.4	6.0	5.7
Memorandum items:										
Current account balance (percent of GDP)	-2.9	-1.1	-0.1	-2.8	-2.2	-1.3	-1.8	-1.9	-1.9	-1.9
Gross official reserves (millions of euros)	2,613	2,336	2,867	3,263	3,009	3,119	3,351	3,534	3,768	3,967
in percent of IMF ARA Metric	109	92	104	114	103	105	105	108	107	109
in percent of ST debt	104.0	82.8	94.7	84.5	71.9	89.0	83.1	97.5	91.1	101.1
in months of prospective imports	4.5	3.6	4.0	5.0	4.2	4.0	3.9	3.8	3.8	3.7
Gross general government debt (percent of GDP) 2/	39.8	39.5	40.6	40.2	46.4	45.9	46.0	46.3	46.8	47.2
Gross Central Gov. & PESR Debt (percent of GDP) 1/	44.3	44.2	46.0	46.2	53.9	54.3	54.5	54.4	54.4	54.4
Public and publicly guaranteed debt (percent of GDP) 2/	46.7	46.2	47.6	47.8	55.5	55.7	56.0	55.8	55.8	55.8
Foreign direct investment (percent of GDP)	3.3	1.8	5.6	2.6	1.3	3.3	3.5	4.0	4.0	4.0
External debt (percent of GDP)	74.7	73.6	73.3	72.2	74.8	71.1	70.6	70.0	69.6	68.9
Nominal GDP (billions of denars)	595	617	658	698	688	747	796	845	892	942
Nominal GDP (millions of euros)	9,656	10,014	10,698	11,341	11,182	12,144	12,949	13,736	14,507	15,321

Sources: NBRNM; SSO; MOF; World Bank; and IMF staff estimates and projections. National Accounts are revised by SSO, using ESA 2010

1/ The inconsistency between Real GDP growth and contributions to growth results from discrepancies in the official data on GDP and its

2/ The historical debt ratios differ slightly from the numbers reported by MoF due to using end-year debt in local currency divided by local currency

3/ Includes general government and public sector non-financial enterprises debt.

Table 2a. North Macedonia: Central Government Operations, 2016–25
(Billions of denars, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenues	169.0	179.4	188.4	203.9	222.3	189.5	219.1	234.1	248.4	277.5
Tax Revenues and Contributions	150.4	157.5	171.0	178.9	197.2	167.4	193.6	207.0	219.6	245.4
PIT	14.2	15.3	17.6	18.7	20.3	18.0	19.5	20.7	22.0	24.6
CIT	10.8	11.4	14.7	11.6	16.0	6.5	15.2	17.0	18.0	20.1
VAT (net)	45.9	47.9	49.3	52.1	55.7	48.7	56.1	60.7	64.4	72.1
Excises	22.2	23.1	25.1	26.1	28.9	25.3	27.1	28.6	30.4	34.1
Custom Duties	4.8	5.2	5.6	6.0	6.2	5.5	6.1	6.6	7.0	7.8
Other Taxes	2.2	1.9	2.2	2.3	3.0	2.3	2.5	2.6	2.8	3.1
Social Contributions	50.3	52.9	56.5	62.2	67.0	61.2	67.2	70.7	75.0	83.6
Pensions	33.8	35.6	38.0	41.9	45.4	41.5	45.5	47.8	50.8	56.6
Unemployment	2.2	2.3	2.4	2.6	2.8	2.6	2.8	2.9	3.1	3.4
Health	14.3	15.0	16.1	17.6	18.9	17.2	19.0	19.9	21.1	23.6
Non-Tax Revenues	12.97	13.4	12.3	18.8	17.3	16.1	17.5	18.7	19.8	22.1
Capital Revenues	2.0	1.3	2.2	2.4	2.2	2.3	2.5	2.7	2.9	3.2
Grants	3.6	7.2	3.0	3.9	5.6	3.6	5.4	5.8	6.1	6.8
Expenditures	185.0	196.3	200.0	217.5	239.7	234.2	241.9	256.3	271.8	303.9
Current Expenditures	168.4	176.7	187.9	199.7	215.9	221.5	222.9	235.4	248.8	277.3
Wages and salaries	26.0	26.2	26.4	27.8	30.6	28.8	31.5	33.3	35.2	39.4
Goods and services	16.8	15.3	14.6	16.3	20.6	17.5	18.3	19.3	20.4	22.8
Transfers	118.9	126.8	139.3	147.6	156.5	166.8	163.5	172.4	182.1	191.7
Pension fund expenditures	54.6	58.1	61.2	65.2	68.9	68.9	70.0	73.9	77.9	82.2
Health	25.6	27.0	28.9	30.8	33.7	34.6	34.2	36.2	38.4	40.5
Other	38.7	41.6	49.1	51.5	53.9	63.4	59.3	62.3	65.8	68.9
Interest	6.8	8.4	7.7	8.1	8.3	8.4	9.6	10.3	11.0	11.8
Capital Expenditures	17.0	19.9	12.1	17.8	23.8	12.7	19.0	20.9	23.1	26.7
Lending minus repayment 1/	-0.4	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	-16.1	-16.9	-11.6	-13.6	-17.4	-44.7	-22.8	-22.2	-23.5	-26.4
Primary fiscal balance	-9.3	-8.5	-3.9	-5.5	-9.1	-36.3	-13.2	-11.9	-12.4	-13.8
Financing	16.1	16.9	11.6	13.6	17.4	44.7	22.8	22.2	23.5	26.4
Domestic, net	-3.4	21.3	-5.3	9.9	-1.0	29.2	24.5	4.2	24.3	30.4
Central Bank deposits	-5.3	10.5	-9.6	1.2	-1.1	6.2	-1.3	-1.3	-1.3	-1.3
Other net domestic financing	1.9	10.8	4.3	8.7	0.1	23.1	25.8	5.4	25.5	31.7
Privatization receipts	0.2	0.4	0.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Foreign, net	19.3	-4.8	16.6	3.0	18.3	15.5	-1.7	18.0	-0.8	-4.1
Memo items:										
Gross general government debt (in percent of GDP) 2/	39.8	39.5	40.6	40.2	40.9	46.4	45.9	46.0	46.3	47.2
Nominal GDP (billions of denars)	595	617	658	698	740	688	747	796	845	942
Stock of government deposits at the NBRM (billions of denars eop)	33	22	35	32		26	27	28	29	31
Public and publicly guaranteed debt (in percent of GDP) 2/ 3/	46.7	46.2	47.6	47.8	52.9	55.5	55.7	56.0	55.8	55.8

Sources: MoF and IMF staff estimates.

1/ Results from excluding: (i) revenues from lending; and (ii) lending guarantees from current expenditures.

2/ The historical debt ratios differ slightly from the numbers reported by MoF due to using end-year debt in local currency divided by local currency GDP.

3/ Includes general government and non-financial SOEs.

Table 2b. North Macedonia: Central Government Operations, 2016–25
(Percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenues	28.4	29.1	28.6	29.2	30.0	27.6	29.3	29.4	29.4	29.5
Tax Revenues and Contributions	25.3	25.5	26.0	25.6	26.6	24.3	25.9	26.0	26.0	26.0
PIT	2.4	2.5	2.7	2.7	2.7	2.6	2.6	2.6	2.6	2.6
CIT	1.8	1.8	2.2	1.7	2.2	0.9	2.0	2.1	2.1	2.1
VAT (net)	7.7	7.8	7.5	7.5	7.5	7.1	7.5	7.6	7.6	7.7
Excises	3.7	3.7	3.8	3.7	3.9	3.7	3.6	3.6	3.6	3.6
Custom Duties	0.8	0.8	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Other Taxes	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Social Contributions	8.5	8.6	8.6	8.9	9.1	8.9	9.0	8.9	8.9	8.9
Non-Tax Revenues	2.18	2.2	1.9	2.7	2.3	2.3	2.3	2.3	2.3	2.3
Capital Revenues	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	0.6	1.2	0.5	0.6	0.8	0.5	0.7	0.7	0.7	0.7
Expenditures	31.1	31.8	30.4	31.2	32.4	34.1	32.4	32.2	32.2	32.3
Current Expenditures	28.3	28.7	28.6	28.6	29.2	32.2	29.8	29.6	29.4	29.4
Wages and salaries	4.4	4.2	4.0	4.0	4.1	4.2	4.2	4.2	4.2	4.2
Goods and services	2.8	2.5	2.2	2.3	2.8	2.5	2.4	2.4	2.4	2.4
Transfers	20.0	20.6	21.2	21.2	21.1	24.3	21.9	21.6	21.5	21.5
Pension fund expenditures	9.2	9.4	9.3	9.4	9.3	10.0	9.4	9.3	9.2	9.2
Health	4.3	4.4	4.4	4.4	4.6	5.0	4.6	4.5	4.5	4.5
Other	6.5	6.8	7.5	7.4	7.3	9.2	7.9	7.8	7.7	7.7
Interest	1.1	1.4	1.2	1.2	1.1	1.2	1.3	1.3	1.3	1.3
Capital Expenditures	2.9	3.2	1.8	2.6	3.2	1.8	2.5	2.6	2.7	2.8
Lending minus repayment 1/	-0.1	0.0	0.0			0.0	0.0	0.0	0.0	1.0
Overall fiscal balance	-2.7	-2.7	-1.8	-2.0	-2.3	-6.5	-3.1	-2.8	-2.8	-2.8
Primary fiscal balance	-1.6	-1.4	-0.6	-0.8	-1.2	-5.3	-1.8	-1.5	-1.5	-1.5
Financing	2.7	2.7	1.8	2.0	2.3	6.5	3.1	2.8	2.8	2.8
Domestic	-0.6	3.5	-0.8	1.4	-0.1	4.2	3.3	0.5	2.9	3.2
Central Bank deposits	-0.9	1.7	-1.5	0.2	-0.1	0.9	-0.2	-0.2	-0.1	-0.1
Other domestic financing	0.3	1.7	0.7	1.2	0.0	3.4	3.4	0.7	3.0	3.4
Foreign	3.2	-0.8	2.5	0.4	2.5	2.3	-0.2	2.3	-0.1	-0.4
Memo items:										
Gross general government debt (in percent of GDP) 3/	39.8	39.5	40.6	40.2	40.9	46.4	45.9	46.0	46.3	47.2
Nominal GDP (billions of denars)	595	617	658	698	739.9	688	747	796	845	942
Stock of government deposits at the NBRM (billions of denars eop)	33	22	35	32		26	27	28	29	31
Public and publicly guaranteed debt (in percent of GDP) 2/ 3/	46.7	46.2	47.6	47.8	52.9	55.5	55.7	56.0	55.8	55.8

Sources: MoF and IMF staff estimates.

1/ Results from excluding: (i) revenues from lending; and (ii) lending guarantees from current expenditures.

2/ The historical debt ratios differ slightly from the numbers reported by MoF due to using end-year debt in local currency divided by local currency GDP.

3/ Includes general government and non-financial SOEs.

Table 3a. North Macedonia: Balance of Payments, 2016–25
(Millions of euros, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Projections									
Current account	-275	-105	-15	-314	-243	-159	-229	-261	-269	-286
Trade balance	-1813	-1787	-1735	-1966	-1816	-1960	-2109	-2242	-2327	-2411
Exports	3529	4075	4881	5325	4803	5326	5854	6416	7066	7769
Imports	5342	5862	6616	7292	6619	7286	7963	8657	9393	10180
Services (net)	341	375	362	340	315	377	422	467	505	552
Primary Income (net)	-384	-398	-451	-448	-442	-480	-532	-584	-647	-723
Secondary Income (transfers, net)	1581	1705	1809	1762	1700	1904	1991	2098	2200	2297
Of which										
Official	91	113	109	38	78	75	64	72	70	69
Private	1490	1592	1699	1724	1622	1829	1927	2026	2129	2228
Capital account (net)	11	18	12	5	10	11	11	11	11	12
Net lending (+) / Net borrowing (-)	-265	-87	-3	-309	-232	-147	-217	-250	-259	-274
Financial account	-610	49	-544	-616	22	-257	-450	-433	-493	-473
Direct investment (net)	-317	-180	-604	-291	-145	-401	-453	-549	-580	-613
Portfolio investment (net)	-429	19	-320	151	264	48	-198	-96	-160	-4
Other investment	136	210	380	-476	-97	96	202	213	246	144
Trade credits (net)	-37	-75	102	-318	-11	-12	-13	-19	-15	-15
MLT loans (net)	-94	51	-1	-217	-318	-36	5	6	66	-14
Public sector	90	51	100	-62	-431	28	-43	63	110	66
Disbursements	96	97	69	163	691	204	159	68	68	68
of which : IMF credit	0	0	0	0	177	0	0	0	0	0
of which : unidentified external financing	0	0	0	0	213	0	0	0	0	0
Amortization	-199	-145	-166	-99	-261	-232	-116	-131	-177	-133
of which : Repayment to the IMF	0	0	0	0	0	0	0	-44	-88	-44
ST loans (net)	-12	-14	-6	-15	-11	-7	-6	-7	-6	-22
Currency and deposits (net)	279	248	286	74	243	151	216	233	200	196
Other (net)	0	0	0	0	0	0	0	0	0	0
Errors and omissions	-8	-10	8	68	0	0	0	0	0	0
Overall Balance	337	-146	549	375	-254	110	232	183	235	198
Memorandum Items:										
ST debt at residual maturity (year-end)	2513	2821	3027	3863	4182	3505	4034	3623	4137	3925
Gross foreign exchange reserves	2613	2336	2867	3263	3009	3119	3351	3534	3768	3967
Percent of IMF ARA Metric	109	92	104	114	103	105	105	108	107	109
Months of prospective imports of G&S	4.5	3.6	4.0	5.0	4.2	4.0	3.9	3.8	3.8	3.7
Percent of short-term debt (residual maturity)	104.0	82.8	94.7	84.5	71.9	89.0	83.1	97.5	91.1	101.1
External debt (percent of GDP)	74.7	73.6	73.3	72.2	74.8	71.1	70.6	70.0	69.6	68.9
External debt service	1740	1908	2228	2468	3306	3629	2960	3496	3092	3613
Percent of exports of G&S	35.4	34.6	34.5	35.5	52.2	51.5	38.3	41.5	33.6	36.0
Percent of exports of G&S and transfers	27.2	26.9	27.3	28.5	41.6	40.9	30.7	33.5	27.3	29.5

Sources: NBRNM; and IMF staff estimates.

Table 3b. North Macedonia: Balance of Payments, 2016–25
(Percent of GDP, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Projections									
Current account	-2.9	-1.1	-0.1	-2.8	-2.2	-1.3	-1.8	-1.9	-1.9	-1.9
Trade balance	-18.8	-17.8	-16.2	-17.3	-16.2	-16.1	-16.3	-16.3	-16.0	-15.7
Exports	36.5	40.7	45.6	47.0	43.0	43.9	45.2	46.7	48.7	50.7
Imports	55.3	58.5	61.8	64.3	59.2	60.0	61.5	63.0	64.7	66.4
Services (net)	3.5	3.7	3.4	3.0	2.8	3.1	3.3	3.4	3.5	3.6
Primary Income (net)	-4.0	-4.0	-4.2	-4.0	-4.0	-4.0	-4.1	-4.3	-4.5	-4.7
Secondary Income (transfers, net)	16.4	17.0	16.9	15.5	15.2	15.7	15.4	15.3	15.2	15.0
Of which										
Official	0.9	1.1	1.0	0.3	0.7	0.6	0.5	0.5	0.5	0.4
Private	15.4	15.9	15.9	15.2	14.5	15.1	14.9	14.7	14.7	14.5
Capital account (net)	0.1	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Net lending (+) / Net borrowing (-)	-2.7	-0.9	0.0	-2.7	-2.1	-1.2	-1.7	-1.8	-1.8	-1.8
Financial account	-6.3	0.5	-5.1	-5.4	0.2	-2.1	-3.5	-3.2	-3.4	-3.1
Direct investment (net)	-3.3	-1.8	-5.6	-2.6	-1.3	-3.3	-3.5	-4.0	-4.0	-4.0
Portfolio investment (net)	-4.4	0.2	-3.0	1.3	2.4	0.4	-1.5	-0.7	-1.1	0.0
Other investment	1.4	2.1	3.6	-4.2	-0.9	0.8	1.6	1.5	1.7	0.9
Trade credits (net)	-0.4	-0.8	1.0	-2.8	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
MLT loans (net)	-1.0	0.5	0.0	-1.9	-2.8	-0.3	0.0	0.0	0.5	-0.1
Public sector	0.9	0.5	0.9	-0.5	-3.9	0.2	-0.3	0.5	0.8	0.4
Disbursements	1.0	1.0	0.6	1.4	6.2	1.7	1.2	0.5	0.5	0.4
of which : IMF credit	0.0	0.0	0.0	0.0	1.6	0.0	0.0	0.0	0.0	0.0
of which : unidentified external financing	0.0	0.0	0.0	0.0	1.9	0.0	0.0	0.0	0.0	0.0
Amortization	-2.1	-1.4	-1.5	-0.9	-2.3	-1.9	-0.9	-1.0	-1.2	-0.9
of which : Repayment to the IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.6	0.3
ST loans (net)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	0.0	-0.1
Currency and deposits (net)	2.9	2.5	2.7	0.7	2.2	1.2	1.7	1.7	1.4	1.3
Of which: Commercial banks	-0.2	-0.1	0.3	-1.4	-0.4	-0.5	-0.7	-0.5	-0.5	-0.5
Other (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.1	-0.1	0.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	3.5	-1.5	5.1	3.3	-2.3	0.9	1.8	1.3	1.6	1.3
(Percentage change, year-on-year)										
Exports of G&S (Value)	11.2	12.0	17.1	7.7	-8.9	11.3	9.5	9.0	9.3	9.1
Volume	9.1	8.3	15.6	8.3	-5.5	13.5	9.7	8.7	8.2	8.0
Price	1.9	3.4	1.3	-0.5	-3.6	-2.0	-0.2	0.3	1.0	1.0
Imports of G&S (Value)	8.4	8.3	13.1	9.6	-8.6	10.2	8.9	8.3	8.2	7.9
Volume	11.1	5.2	9.1	9.0	-2.8	11.3	8.2	7.3	6.7	6.5
Price	-2.5	2.9	3.7	0.6	-6.0	-1.1	0.7	1.0	1.4	1.4

Sources: NBRNM; and IMF staff estimates.

Table 4. North Macedonia: Monetary Survey, 2016–25

(Billions of denars, unless specified otherwise)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Projections									
NFA	158.5	144.0	180.7	192.4	176.7	183.5	197.7	208.9	223.3	235.4
Central Bank	155.6	138.9	171.5	195.7	180.0	186.7	201.0	212.2	226.5	238.7
Commercial Banks	2.9	5.1	9.2	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3
NDA	163.7	193.0	192.7	211.6	223.1	251.3	265.9	282.9	296.1	313.1
Credit to Government (net)	2.5	14.8	-1.6	10.7	24.9	24.0	20.0	20.5	19.1	20.4
From Banks (net)	32.6	34.0	35.4	42.7	47.1	47.4	44.7	46.4	46.3	48.8
of which: Credit (Tbills)	34.0	35.3	37.0	44.2	48.9	49.3	46.6	48.2	48.1	50.7
From Central Bank (net)	-30.1	-19.1	-37.0	-32.0	-22.2	-23.4	-24.7	-25.9	-27.2	-28.4
of which: Deposits	-32.6	-21.9	-35.4	-31.8	-25.6	-26.9	-28.1	-29.4	-30.6	-31.9
Credit to Private Sector (Gross)	285.8	300.9	322.9	343.4	345.0	374.1	400.7	426.2	451.8	477.5
From Banks	284.8	299.9	322.0	342.5	344.2	373.3	399.8	425.4	450.9	476.7
Denars	160.0	175.0	191.8	200.7	201.6	218.7	234.2	249.2	264.2	279.2
FX	124.8	124.9	130.2	141.9	142.6	154.6	165.6	176.2	186.8	197.4
From Central Bank	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other Items (net)	-124.7	-122.7	-128.6	-142.4	-92.4	-92.4	-100.4	-109.4	-120.4	-130.4
Broad Money (M3)	322.2	337.0	373.4	404.0	399.8	434.8	463.6	491.8	519.4	548.5
Currency in Circulation	28.2	30.0	32.2	36.1	35.6	38.7	41.2	43.7	46.2	48.8
Total Deposits	294.0	307.0	341.2	367.9	364.2	396.1	422.4	448.0	473.2	499.7
Denars	172.8	181.5	205.2	225.5	223.2	242.7	258.8	274.6	290.0	306.2
FX	121.2	125.5	136.0	142.5	141.0	153.4	163.5	173.5	183.2	193.5
(Percentage change, year-on-year)										
Private Sector Credit	0.0	5.3	7.3	6.3	0.5	8.4	7.1	6.4	6.0	5.7
Broad Money	6.0	4.6	10.8	8.2	-1.0	8.7	6.6	6.1	5.6	5.6
Private Sector Deposits	5.8	4.4	11.1	7.8	-1.0	8.7	6.6	6.1	5.6	5.6
(Contribution to annual growth in broad money)										
NFA	6.9	-4.5	10.9	3.1	-3.9	1.7	3.3	2.4	2.9	2.3
NDA	-0.9	9.1	-0.1	5.1	2.8	7.1	3.4	3.7	2.7	3.3
(Percent of GDP)										
Private Sector Credit	48.0	48.7	49.1	49.2	50.2	50.1	50.3	50.4	50.6	50.7
Broad Money	54.2	54.5	56.7	57.9	58.1	58.2	58.2	58.2	58.2	58.2
Private Sector Deposits	49.4	49.7	51.9	52.7	53.0	53.0	53.0	53.0	53.0	53.0
Memorandum Items:										
Money Multiplier	4.9	4.8	4.5	4.4	4.7	4.7	4.7	4.7	4.7	4.7
Reserve Requirement Ratio (% of deposits)										
Denars	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
FX Indexed	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
FX	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Velocity	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7

Sources: NBRNM; and IMF staff estimates.

Table 5. North Macedonia: Central Bank Survey, 2016–25
(Billions of denars, unless specified otherwise)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Projections									
NFA	155.6	138.9	171.5	195.7	180.0	186.7	201.0	212.2	226.5	238.7
Assets	160.7	143.7	176.4	200.7	185.1	191.8	206.1	217.4	231.8	244.0
Liabilities	-5.1	-4.8	-4.9	-5.0	-5.1	-5.1	-5.2	-5.2	-5.3	-5.3
NDA	-90.1	-67.3	-87.7	-101.3	-94.9	-93.7	-102.1	-107.5	-116.3	-122.5
Banks (net)	-41.1	-35.9	-39.1	-54.3	-54.1	-51.6	-58.7	-62.9	-70.4	-75.4
of which:										
NBRM Bills and short-term facilities	-36.5	-35.9	-39.1	-54.3	-54.3	-54.3	-54.3	-54.3	-54.3	-54.3
Central Government (net)	-26.6	-16.1	-29.5	-25.7	-19.6	-20.8	-22.1	-23.3	-24.6	-25.8
of which:										
Deposits at Central Bank	-32.6	-21.9	-35.4	-31.8	-25.6	-26.9	-28.1	-29.4	-30.6	-31.9
Denar	-11.0	-13.9	-15.5	-18.2	-15.4	-16.0	-16.5	-17.1	-17.6	-18.2
FX	-21.7	-8.0	-19.9	-13.6	-10.2	-10.9	-11.6	-12.3	-13.0	-13.7
State and Local Governments (net)	-3.5	-3.0	-7.5	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3	-6.3
Other items (net)	-18.9	-12.3	-11.6	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0
Reserve Money	65.5	69.7	82.9	91.8	85.1	93.1	98.9	104.7	110.3	116.2
Currency in Circulation	28.2	30.0	32.2	36.1	35.6	38.7	41.2	43.7	46.2	48.8
Other	37.4	39.7	50.6	55.7	49.5	54.4	57.7	60.9	64.1	67.4
Cash in Vaults	6.2	6.2	7.6	7.2	7.4	7.6	7.8	8.0	8.2	8.4
Total Reserves	31.1	33.5	43.0	48.5	42.1	46.8	49.9	52.9	55.9	59.0
on Denar Deposits	17.0	19.4	27.4	32.1	26.0	29.3	31.2	33.1	35.0	36.9
on FX Deposits	14.1	14.1	15.6	16.4	16.1	17.5	18.6	19.8	20.9	22.1
(Contribution to annual growth in reserve money)										
NFA	34.9	-25.5	46.7	29.2	-17.0	7.9	15.3	11.3	13.7	11.0
NDA	-27.9	34.7	-29.2	-16.4	6.9	1.4	-9.0	-5.5	-8.4	-5.7
(Percentage change, year-on-year)										
Reserve Money	7.1	6.3	18.9	10.8	-7.3	9.3	6.3	5.8	5.4	5.4
(Percent of GDP)										
Memorandum Items:										
NBRM Bills	3.9	4.0	3.8	3.5	6.2	6.3	5.8	5.4	5.1	4.9
Government Deposits at Central Bank	5.5	3.5	5.4	4.6	3.7	3.6	3.5	3.5	3.4	3.4

Sources: NBRNM; and IMF staff estimates.

Table 6. North Macedonia: External Financing Requirements, 2020–25
(Percent)

	2020	2021	2022	2023	2024	2025
	Projections					
Gross financing needs	1,073	1,259	605	1,113	654	1,134
Current account deficit	243	159	229	261	269	286
MLT debt amortization 1/	830	1,101	376	852	385	848
Financing sources	335	1,369	837	1,296	889	1,333
FDI (net)	145	401	453	549	580	613
MLT debt disbursements (excluding exceptional)	484	1,137	696	866	588	863
Other 2/	-295	-168	-313	-120	-280	-142
Net change in reserves (-: increase)	254	-110	-232	-183	-235	-198
Financing gap	484	0	0	0	0	0
IMF - RFI	177	0	0	0	0	0
Other IFIs	95	0	0	0	0	0
Remaining unidentified financing	213	0	0	0	0	0
<i>Memo items</i>						
Gross International Reserves (GIR)	3,009	3,119	3,351	3,534	3,768	3,967
as % of Fund ARA Metric	103	105	105	108	107	109
Gross International Reserves (GIR) w/o exceptional	2,525	2,635	2,867	3,050	3,284	3,483
as % of Fund ARA Metric	87	89	90	93	93	96

Sources: NBRNM; and IMF staff estimates.

1/ Excluding the amortization of MLT intercompany loans, which is included in FDI (net).

2/ Including the capital account balance, currency and deposits, portfolio investments, short-term loans, and net errors and omissions.

Table 7. North Macedonia: Indicators of Capacity to Repay the Fund, 2020–25
(Percent)

	2020	2021	2022	2023	2024	2025
	Projections					
Fund Repurchases and Charges						
In millions of SDRs	2.4	2.9	2.9	37.9	71.9	35.7
In millions of Euro	3.0	3.6	3.6	47.7	90.6	45.0
In percent of Gross International Reserves	0.1	0.1	0.1	1.3	2.4	1.1
In percent of Exports of Goods and Services	0.0	0.1	0.0	0.6	1.0	0.4
In Percent of GDP	0.0	0.0	0.0	0.3	0.6	0.3
In percent of External Public debt	0.1	0.1	0.1	1.5	2.7	1.3
In percent of Quota	1.7	2.1	2.1	27.0	51.3	25.5
Fund Credit Outstanding (end of period)						
In millions of SDRs	140.3	140.3	140.3	105.2	35.1	0.0
In millions of Euro	176.7	176.7	176.7	132.5	44.2	0.0
In percent of Gross International Reserves	5.9	5.7	5.3	3.8	1.2	0.0
In percent of Exports of Goods and Services	2.8	2.5	2.3	1.6	0.5	0.0
In Percent of GDP	1.6	1.5	1.4	1.0	0.3	0.0
In percent of External Public debt	5.9	5.9	5.4	4.1	1.3	0.0
In percent of Quota	100.0	100.0	100.0	75.0	25.0	0.0
Memorandum Items (in millions euro)						
Gross International Reserves	3,009	3,119	3,351	3,534	3,768	3,967
Exports of Goods and services	6,335	7,050	7,718	8,414	9,198	10,036
Nominal GDP	11,182	12,144	12,949	13,736	14,507	15,321
External Public Debt	3,014	2,986	3,279	3,266	3,406	3,340
Quota (in millions of SDRs)	140.3	140.3	140.3	140.3	140.3	140.3

Source: NBRNM, SSO, IMF Finance department, and IMF staff estimates.

Table 8. North Macedonia: Financial Soundness Indicators of the Banking System, 2012–19
(Percent)

	2012	2013	2014	2015	2016	2017	2018	2019 Q3
Capital adequacy								
Regulatory capital/risk weighted assets	17.1	16.8	15.7	15.5	15.2	15.7	16.5	16.9
Tier I capital/risk weighted assets	14.5	14.4	13.7	13.9	13.9	14.2	15.0	15.4
Equity and reserves to Assets	11.2	11.3	10.8	10.8	10.6	10.8	10.8	11.4
Asset composition								
Structure of loans								
Enterprises (loans to enterprises/total loans)	56.9	55.4	55.2	53.9	51.3	50.2	49.3	47.0
Households (loans to households/total loans)	36.4	37.7	38.7	40.0	42.9	44.8	46.4	49.0
Lending with foreign currency component to private sector	55.4	52.7	49.4	46.5	44.9	42.5	41.4	42.1
Foreign currency lending/total credit to private sector	25.5	23.8	22.4	20.5	18.0	16.5	15.5	14.4
Foreign currency indexed lending/total credit to private sector	29.8	28.9	27.0	25.9	27.0	26.1	25.9	27.7
NPLs 1/								
NPLs/gross loans	10.1	10.9	10.8	10.3	6.3	6.1	5.0	4.8
NPLs net of provision/own funds	-3.7	-1.8	-3.0	-5.3	-5.5	-3.7	-5.2	-2.2
Provisions to Non-Performing Loans	107.1	103.1	104.6	108.4	114.8	110.6	119.0	108.7
Large exposures/own funds	205.1	188.5	233.1	212.4	185.4	176.3	218.2	231.5
Connected lending								
Banking system exposure to subsidiaries and shareholders/own funds	3.5	4.2	4.3	3.4	8.4	3.8	3.8	4.1
Banking system equity investments/own funds	1.8	1.7	2.6	2.6	2.0	1.9	1.2	1.4
Earning and profitability								
ROAA 2/	0.4	0.6	0.8	1.1	1.5	1.4	1.7	1.5
ROAE 2/	3.8	5.7	7.4	10.4	13.6	13.5	16.0	13.5
Interest margin/gross income 3/	60.7	62.2	63.5	62.8	62.7	60.6	57.9	59.7
Noninterest expenses/gross income 4/	65.3	62.8	58.1	54.7	53.2	52.5	50.5	54.8
Personnel expenses/noninterest expenses	33.1	35.0	35.5	35.8	35.2	34.8	37.4	37.0
Interest Rates								
Local currency spreads	3.5	3.6	4.0	4.2	3.9	3.8	3.9	3.7
Foreign currency spreads	4.6	4.8	4.9	4.6	4.2	3.9	3.4	3.3
Interbank market interest rate	2.1	2.2	1.5	1.2	1.0	1.1	1.1	1.1
Liquidity								
Highly liquid assets/total assets 5/	29.4	27.3	25.5	24.3	25.7	23.2	22.6	24.0
Highly liquid assets/total short-term liabilities 6/	48.2	47.6	45.5	42.4	44.5	40.1	39.2	41.9
Liquid assets/total assets	32.4	31.2	29.8	28.2	28.9	27.1	26.7	27.2
Liquid assets/total short-term liabilities	53.0	54.5	53.2	49.2	50.1	46.9	46.4	47.4
Customer deposits/total (noninterbank) loans	113.5	112.7	113.4	110.3	114.9	114.0	116.0	118.8
Foreign currency deposits/total deposits	47.3	44.9	42.3	42.1	43.0	42.7	42.3	42.0
Including foreign exchange-indexed 7/	48.3	45.5	42.8	42.4	43.1	43.1	42.5	42.1
Sensitivity to market risk								
Net open foreign exchange position/own funds	11.4	15.6	17.5	11.1	14.5	6.2	3.8	5.1

Source: NBRNM's Financial Stability Unit.

1/ Includes loans to financial and nonfinancial sector.

2/ Adjusted for unallocated provisions for potential loan losses.

3/ Interest margin represents interest income less interest expense. Gross income includes net interest income, fees and commissions income.

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

5/ 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.

6/ 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).

7/ FX indexed deposits include deposits and other FX indexed liabilities.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
 Managing Director
 International Monetary Fund
 Washington, D.C., 20431
 U.S.A.

Skopje, April 6, 2020

Dear Ms. Georgieva:

1. We welcome the proactive approach the IMF has taken at the global level to help countries combat the impact of the COVID-10 pandemic. The Republic of North Macedonia so far has 555 confirmed COVID-19 cases. To slow down the spread of the disease, the Government declared a state of emergency on March 18, closed external borders, and imposed social-distancing restrictions. Together with the global economic downturn, these measures, while necessary to control the outbreak, will take a heavy toll on economic activity. Furthermore, global financial conditions have tightened, at a time when we experience significant fiscal revenue shortfalls and urgently need additional external financing to take the appropriate public health measures and cushion the impact of the shock on our people and economy.

2. The Government is implementing important temporary measures to limit the social and economic impact by protecting the liquidity of companies, preserving jobs and providing social care for the jobless and vulnerable households:

- We have already legislated fiscal measures to help protect jobs and poor households, and mitigate firms' cash-flow problems. Companies and individuals who have business activity in affected sectors have been exempted from advanced monthly payments of corporate income tax through June. Also, affected firms will receive a subsidy for the social security contributions, subject to maintaining employment at the pre-virus level. Additional funding has been allocated to the Development Bank, allowing it to establish a credit line to affected micro, small and medium-sized enterprises at favorable conditions and a zero interest rate. Moreover, budget users have been allowed to make reallocations in their budget up to 70 percent at the expenditure item, compared to 20 percent in normal times, to better adapt to the rapidly evolving circumstances.
- A second set of measures was announced on April 1, to prevent layoffs and set the conditions right for the recovery once the global outbreak abates. A wage subsidy equal to the minimum wage is planned to affected companies to help them maintain jobs. The measure is expected to protect 200,000 to 250,000 jobs. Also, vulnerable households who were part of the informal

economy and lost their income will receive financial support. We expect around 20,000 households to benefit from this measure. To offset these costs, there will be targeted and temporary cuts on the expenditure side, including in capital expenditure, the public sector wage bill, and the purchase of goods and services, both at central and local level. State-owned enterprises will also reduce expenditure. Finally, an additional €50 million will be made available from the Development Bank to commercial banks at favorable terms.

3. The National Bank of the Republic of North Macedonia (NBRNM) has cut its policy rate to support the economy, and reduced the base for the reserve requirement in domestic currency by the amount of newly extended or restructured loans to firms in affected sectors. It has also revised its credit risk regulation, to allow for greater regulatory flexibility, while preserving the prudent approach in order to ensure the stability of the banking system. The regulatory changes allow banks to restructure debts of the high-quality borrowers affected by the pandemic, thus providing for more favorable credit terms and easing of financial strains.

4. The health of our people and the fight against COVID-19 is our top priority. The Government will allocate additional funds to health spending as necessary to address the health emergency. At the same time, the Government and the NBRNM remain firmly committed to preserving monetary, external and financial stability, and stand ready to take any additional measures as needed, in consultation with the IMF, to meet these objectives, while supporting the recovery. We are committed to re-build fiscal buffers once the current crisis has been overcome in order to ensure debt sustainability.

5. Against this background, the Government of North Macedonia requests financing from the IMF under the Rapid Financing Instrument (RFI) in the amount equivalent of SDR 140.3 million (about €176.7 million), corresponding to a purchase of 100 percent of North Macedonia's quota. This IMF assistance will help finance the health and macroeconomic stabilization measures and meet the urgent balance of payments needs arising from the COVID-19 outbreak. It is our expectation that the support will have a catalytic effect in helping secure additional official, as well as market financing, to close the fiscal gap and ease the pressure on our balance of payments in 2020. We have already requested additional financing from the World Bank and the European Union.

6. In line with the IMF's safeguards policy, we stand ready to collaborate with IMF staff in undertaking a safeguards assessment, providing IMF staff with the NBRNM's most recently completed external audit reports, and authorizing our external auditors to hold discussions with IMF staff. Given the budget financing constraints, we intend to use the domestic-currency equivalent of the IMF purchase for budgetary financing. We have prepared a memorandum of understanding between the government and the NBRNM establishing a framework on the modalities for repayment to the Fund.

7. We will maintain the dialogue with the IMF to explore solutions to North Macedonia's balance of payments difficulties and will avoid measures or policies that would compound these difficulties. The country will comply with the provisions of the IMF's Articles of Agreement, including those related to imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions and also bilateral payments under Article VIII, and will implement public policies under that framework and avoid additional trade restrictions for balance of payment purposes.

8. We authorize the IMF to publish this letter and the staff report for the request for a purchase under the RFI.

Sincerely yours,

/s/

Nina Angelovska
Minister of Finance

/s/

Anita Angelovska Bezhoska
Governor of National Bank

/s/

Gordana Dimitrieska-Kocoska
Deputy Minister of Finance