



REPUBLIC OF NORTH MACEDONIA

INFORMATIONAL ANNEX

April 2023

This Informational Annex on Republic of North Macedonia was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country, the 2021 Article IV Consultation. It is based on the information available at the time it was completed on January 28, 2022.

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REPUBLIC OF NORTH MACEDONIA

January 28, 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department
(In Consultation with Other Departments)

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FUND RELATIONS

(As of December 31, 2021)

Missions. Article IV, by videoconference, November 23–December 10, 2021. Concluding statement is available at: <https://www.imf.org/en/News/Articles/2021/12/16/north-macedonia-staff-concluding-statement-of-the-2021-article-iv-consultation>

Staff team. Ms. Barkbu (head), Messrs. Gade, Mangov, and Roldan (all EUR), and Ms. Eble (Resident Representative) and Kovachevska Stefanova (IMF Local Economist).

Discussions. The staff team met Finance Minister Besimi, Governor Angelovska Bezhoska, Labor and Social Policy Minister Shahpaska, other senior officials, and representatives from the banking, business, political, and international communities.

Membership Status: Joined 12/14/1992; Article VIII

General Resources Account:	<u>SDR Million</u>	<u>Percent of Quota</u>
Quota	140.30	100.00
Fund holdings of currency	140.30	100.00
Reserve position	0.00	0.00

SDR Department:	<u>SDR Million</u>	<u>Percent of Allocation</u>
Net cumulative allocation	200.09	100.00
Holdings	1.06	0.53

Outstanding Purchases and

Loans:	<u>SDR Million</u>	<u>Percent of Quota</u>
Emergency assistance (RFI)	140.30	100.00

Latest Financial Commitments:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved</u> (SDR Million)	<u>Amount Drawn</u> (SDR Million)
RFI	04/10/2020	04/15/2020	140.30	140.30
PLL ^{1/}	01/19/2011	01/18/2013	413.40	197.00
Stand-By	08/31/2005	08/30/2008	51.68	10.50
Stand-By	04/30/2003	08/15/2004	20.00	20.00

^{1/} Formerly PCL.

Projected Payments to the Fund (Expectation Basis)¹

(SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
Principal		35.08	70.15	35.08	
Charges/Interest	1.64	1.60	0.97	0.28	0.16
Total	1.64	36.68	71.12	35.36	0.16

Exchange Arrangement:

The de jure exchange rate arrangement is floating. Under the Law on Foreign Exchange Operations (Article 33), the denar exchange rate is freely determined on the basis of supply and demand in the foreign exchange market. However, the National Bank of the Republic of North Macedonia (NBRNM) participates in the foreign exchange market (Article 34), in order to achieve the goals of the monetary and foreign exchange policies. The NBRNM implements the monetary strategy of targeting the nominal exchange rate against the euro. The intermediary objective of the monetary policy is to maintain a stable denar exchange rate. Thus, the NBRNM maintains a stable exchange rate within a narrow band of bid-ask exchange rates determined by the Committee for Operational Monetary Policy. The de facto exchange rate arrangement is classified as a stabilized arrangement. North Macedonia has accepted the obligations of Article VIII, Sections 2, 3 and 4 and currently maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Article IV Consultations:

The first consultation with the Republic of North Macedonia was concluded in August 1993. The last consultation was concluded on January 22, 2020 (IMF Country Report 20/24). North Macedonia is on the standard 12-month Article IV consultation cycle.

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Table 1. Republic of North Macedonia: Technical Assistance Since 2016		
Purpose	Department	Date
Public Debt Management	MCM/WB	January 2017
Public Expenditure and Financial Accountability	FAD/WB	December 2021
Public Financial Management	FAD	September 2019
Public Investment Management	FAD	February 2020 July 2021
Public-Private Partnership Law	FAD	January 2021
Cash Management (in the context of broader PFM reforms)	FAD	October 2017
Organic Budget Law	FAD	December 2017
Fiscal Rule and Fiscal Council	FAD	February 2018
Fiscal Transparency Evaluation	FAD	April 2018
Credit Guarantee Scheme	FAD	July 2020
Tax Policy	FAD	January 2017 September 2017
Tax Administration	FAD	April 2016 May 2016 July 2016 May 2017 September 2017 March 2018 December 2018 March 2019 May 2019 January 2021
Tax IT System Improvement	FAD	May 2017 September 2017 May 2021
Taxpayer Registration	FAD	November 2018
Tax Treaty Policy	FAD	October 2019
Tax Audit Function	FAD	February 2016 November 2016 March 2017 February 2018 March 2020 May 2021
Tax Arrears Management	FAD	September 2018 November 2019 April 2021 December 2021
Taxpayer Services	FAD	November 2021
Management Reporting System and KPIs	FAD	March 2021
Large Taxpayers Office	FAD	March 2016 October 2019

Table 1. Republic of North Macedonia: Technical Assistance Since 2016 (concluded)		
Personal Income Taxation	FAD	December 2021
Property Tax System	FAD	September 2017 April 2018
Transfer Pricing and Related International Issues	FAD	September 2017 December 2018
Tax Compliance Management	FAD	October 2016 November 2016 October 2018 October 2019 February 2020 October 2021
Value Added Tax		August 2021
Government Finance Statistics	STA	June 2016 November 2016 February 2017 July 2017 November 2017 March 2018 June 2018 November 2018 March 2019 July 2019 November 2019 September 2020 April 2021 October 2021
External Sector Statistics	STA	April 2017
Sectoral Financial Accounts and Balance Sheet Statistics	STA	October 2018
Stress Testing the Banking Sector	MCM	June/July 2021
Emergency Liquidity Assistance	MCM	February 2021
Central Bank Governance	MCM	September 2020
National Bank Law	LEG	October 2020 March 2021
Regional Advisors		
Revenue Administration	FAD	2015-
Public Financial Management	FAD	2015-
FSAP Participation and ROSCs (since 2003)		
FSAP	MCM/WB	May-June 2003
FSAP update	MCM/WB	March 2008 April 2018 July 2018 September 2018
Central Bank Transparency Review		
Central Bank Transparency Review (Pilot)	MCM/LEG	June 2021

IMF–WORLD BANK COLLABORATION

Background

The Bank and the Fund country teams on the Republic of North Macedonia maintain close collaboration, seeking synergies and harmonizing policy recommendations. The teams broadly agree in their assessment of the economic situation in the country.

Key Areas of World Bank Involvement

- The World Bank Country Partnership Framework (CPF) for the period 2019–2023 was adopted in April 2019. The strategic objective of the CPF is to support North Macedonia’s ability to achieve faster, inclusive, and sustainable growth and provide its citizens with greater opportunities for a better life. The CPF is consistent with the Systematic Country Diagnostic (SCD) analysis and recommendations.
- The CPF focuses on three areas: (i) export-led growth: Improve the environment for a competitive private sector, (ii) inclusive growth: expand skills and opportunities for the most vulnerable, and (iii) sustainable growth: enhance sustainability and build resilience to shocks. Focus Area I aims to remove some of the bottlenecks that prevent the emergence of a dynamic and competitive private sector by improving connectivity and access to markets (the first CPF objective) through activities that support “hard” and “soft” trade connectivity and strengthen local firms’ technological uptake, innovation, access to finance, and capacities. Focus Area II supports the development of human capital and skills to boost labor productivity and encourage more inclusive labor market participation. The CPF aims to also improve the quality and relevance of education (the second CPF objective), as well as the access to and quality of social services (the third CPF objective). Focus Area III aims to mitigate fiscal and environmental vulnerabilities to enhance fiscal sustainability by strengthening fiscal and public financial management (the fourth CPF objective) and environmental sustainability by helping accelerate the transition to a more sustainable energy mix (the fifth CPF objective).
- As per the 2021 Performance and Learning Review of the CPF, progress in the three areas is uneven, with notable results achieved in the areas of improvement of market accessibility, connectivity, education, as well as health and social services, including for the most vulnerable, which were most hit by the Covid-19 pandemic. Progress toward enhancing sustainability and building resilience to shocks has been limited by the impact of the Covid-19 crisis, and more remains to be done to strengthen sustainability of public finances. Similarly, progress toward increasing energy efficiency and renewable energy related outcomes has been modest.
- To date, eight new IBRD projects have been approved, for a total of US\$508.6 million and three other projects are currently under preparation. Currently, the World Bank portfolio includes nine active projects totaling US\$480 million, of which 70 percent remain undisbursed due to: young age of the portfolio (most of the active projects have been approved since the

inception of the CPF), limited fiscal space, and delayed effectiveness in case of most recent approvals following the impact of the pandemic and of the 2020 elections. To date, no project is at risk and, overall, all projects are being implemented according to their original schedule, as confirmed by a solid disbursement ratio above 30 percent in FY21.

**Table 1. Republic of North Macedonia: IBRD Lending
FY 19–23**

	Focus Area I Export-Led Growth: Improve the Environment for a Competitive Private Sector	Focus Area II Inclusive Growth: Expand Skills and Opportunities for the Most Vulnerable	Focus Area III Sustainable Growth: Enhance Sustainability and Build Resilience to Shocks	Total amount
Current Portfolio from CPS FY19–FY23	Western Balkans Trade and Transport Facilitation Project (IPF, US\$30 million) Local Roads Connectivity Project (IPF, US\$78 million) and Additional Financing (IPF, US\$44.8 million) Agriculture Modernization (IPF, US\$50.5 million)	Social Insurance Modernization Project (IPF, US\$15.7 million) Primary Education Improvement Project (IPF, US\$25 million)	Public Finance and Competitiveness DPO (US\$139.3 million) Public Sector Energy Efficiency (IPF, US\$27.4 million) Emergency Covid-19 Response (IPF, US\$98.5 million)	US\$508.6 million
Proposed lending FY22–FY23			Building Effective, Transparent, and Accountable Public Finances (IPF, US\$18 million) Municipal Finance (IPF, US\$50 million) Air Quality Improvement Project (IPF, US\$20 million)	About US\$88 million
Note: IPF = Investment Project Financing.				

STATISTICAL ISSUES

(As of January 18, 2022)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has some shortcomings but is broadly adequate for surveillance. Areas that would benefit most from further improvement are national accounts and government finance statistics.</p>
<p>National accounts: The quality of national account measurement needs to be improved. In 2013, by Decision of the Government of the Republic of North Macedonia, amendments were made to the National Classification of Activities—NKD Rev.2 and entailed significant changes in the decomposition of historical data. The primary objective of the Classification of Activities is to provide a basis for comparing statistical data of the Republic of North Macedonia on European and world level, i.e., in its content and structure is completely harmonized with the European Classification of Activities NACE Rev.2. The National Bank of the Republic of North Macedonia (NBRNM) developed experimental financial accounts statistics and published a set of financial accounts position stock data in December 2020.</p> <p>Price statistics: Improvements to the CPI have been introduced in accordance with international standards and EU regulations to align the Classification of Individual Consumption According to Purpose (COICOP).</p>
<p>Government finance statistics (GFS): North Macedonia's GFS data has been improving over recent years, assisted by ongoing GFS Technical Assistance. The authorities disseminate both monthly central government operations, and quarterly general government operations, as well as quarterly debt data on their own website and on their SDDS National Summary Data Page. While this data is disseminated in a national presentation, on a cash basis, and does not cover the whole of general government as defined in <i>GFSM 2001/14</i>, the data is of generally good quality.</p> <p>The authorities report detailed data on revenues and expenditures of general government and its subsectors for inclusion in the Annual GFS database (formerly the <i>Government Finance Statistics Yearbook</i>) and are taking steps toward publishing general government data in the <i>GFSM 2014</i> presentation for inclusion in <i>International Finance Statistics</i>. The authorities report central government debt data to the <i>IMF / World Bank Quarterly Public Sector Debt Database</i>.</p>
<p>Monetary and financial statistics: The NBRNM compiles monetary data in line with the recommendations of the 2016 <i>Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)</i>. Data are reported through the Standardized Report Forms for the central bank, other depository corporations, and other financial corporations to the IMF's Statistics Department on a regular and timely basis.</p>

North Macedonia reports data on several series indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance: The NBRNM compiles and reports all core and eight encouraged Financial Soundness Indicators (FSIs) for deposit-takers on a quarterly basis and annual data for eight additional encouraged FSIs for other sectors, all of which are published on the IMF's FSI website.

External sector: External sector statistics meet international standards. In addition to quarterly balance of payments data, the authorities compile and disseminate quarterly international investment position (IIP) data, reserve assets and foreign currency liquidity data, and external debt statistics. Also, North Macedonia participates in the Coordinated Direct Investment Survey and in the Coordinated Portfolio Investment Survey. The authorities are working to resolve the long-standing discrepancy between the changes in IIP stock and the corresponding balance of payments transactions for currency and deposits assets of nonfinancial sectors.

II. Data Standards and Quality

The Republic of North Macedonia is an adherent to the Special Data Dissemination Standard Plus (SDDS Plus) since January 28, 2019, and its metadata are posted on the Dissemination Standards Bulletin Board (DSBB). Four data categories are under SDDS Plus transition plans: sectoral balance sheets, general government operations, general government gross debt, and debt securities.

The Republic of North Macedonia's latest SDDS Plus Annual Observance Report is available on the [DSBB](#).

A Data ROSC was published on [September 29, 2004](#).

Republic of North Macedonia: Table of Common Indicators Required Surveillance					
(As of January 18, 2022)					
	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	01/14/22	01/14/22	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Nov. 2021	01/06/22	M	M	M
Reserve/Base Money	Nov. 2021	01/06/22	M	M	M
Broad Money	Nov. 2021	12/21/21	M	M	M
Central Bank Balance Sheet	Nov. 2021	12/30/21	M	M	M
Consolidated Balance Sheet of the Banking System	Nov. 2021	12/21/21	M	M	M
Interest Rates ²	Nov. 2021	12/30/21	M	M	M
Consumer Price Index	Dec. 2021	01/10/22	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Sep. 2021	11/15/21	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Dec. 2021	01/04/22	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Sep. 2021	10/29/21	Q	Q	Q
External Current Account Balance	Sep. 2021	11/30/21	M	Q	Q
Exports and Imports of Goods and Services	Sep. 2021	11/30/21	M	Q	Q
GDP/GNP	Sep. 2021	12/07/21	Q	Q	Q
Gross External Debt	Sep. 2021	12/30/21	Q	Q	Q
International Investment Position ⁶	Sep. 2021	12/30/21	Q	Q	Q
<p>¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.</p> <p>² Weighted interest rates on loans and deposits in domestic banks. Separately, data is submitted on the rates on central bank bills (policy rate) and treasury bills, notes, and bonds.</p> <p>³ Foreign, domestic bank and domestic nonbank financing.</p> <p>⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. Data including local governments is normally published quarterly but is also received on an ad-hoc basis during missions.</p> <p>⁵ Currency and maturity composition is reported only on request.</p> <p>⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.</p> <p>⁷ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).</p>					