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Former Yugoslav Republic of Macedonia: First Review Under the Precautionary Credit Line

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on **June 22, 2011**, with the officials of the Former Yugoslav Republic of Macedonia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on **August 3, 2011**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement

- A Press Release summarizing the views of the Executive Board as expressed during its **September 2, 2011** discussion of the staff report for the former Yugoslav Republic of Macedonia

- A statement by the Executive Director for the former Yugoslav Republic of Macedonia

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

First Review Under the Precautionary Credit Line

Prepared by the European Department
(in Consultation with other Departments)

Approved by Juha Kähkönen and Jan Kees Martijn

August 3, 2011

Summary

Context. The economic recovery is slowly gaining pace, the financial system remains sound, and international reserves are broadly adequate. However, if downside risks in the euro area materialize, they could spill over to Macedonia. General elections were held June 5, 2011, in which the incumbent VMRO-DPMNE party and its Albanian coalition partner retained their parliamentary majority. The new government was inaugurated on July 28.

PCL. A PCL arrangement for Macedonia was approved on January 19, 2011, with access of 500 percent of quota (SDR 344.5 million) in the first year and an additional 100 percent of quota (SDR 68.9 million) in the second year. On March 30, 2011, the authorities purchased SDR 197 million (286 percent of quota) under the PCL, representing an actual balance of payments need, citing reduced market access and higher risks resulting from the announcement of early elections, which had not been anticipated at the time the arrangement was approved.

Review and qualification. The staff assessment is that Macedonia's performance was consistent with the program supported by the PCL. In particular, the indicative target on international reserves was met and the fiscal deficit target was missed by only a slight margin. The new government has reaffirmed its commitment to the program supported by the PCL and is taking actions to address remaining vulnerabilities, including those that gave rise to its purchase. To this end, the authorities agreed to a structural benchmark to improve debt management and committed to a higher target of international reserves for the second review. Staff assesses that Macedonia continues to meet the qualification criteria for access to PCL resources. It recommends that the Board complete the first review under the PCL arrangement.

Discussion. Skopje, June 14–22. A team comprised of Mr. McGrew (head), Ms. Shamloo, Messrs. Arregui and Tereanu (all EUR), Ms. Bi (SPR), and Mr. Tieman (Resident Representative) met with Finance Minister and Deputy Prime Minister Stavreski, Deputy Prime Minister Peshevski, NBRM Governor Bogov, other officials; the private sector; NGOs, media representatives; and others. At the conclusion of the visit a joint press conference was held with the finance minister and NBRM governor.

Publication intentions. The authorities have agreed to publication of the staff report.

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I. Recent Developments and Outlook

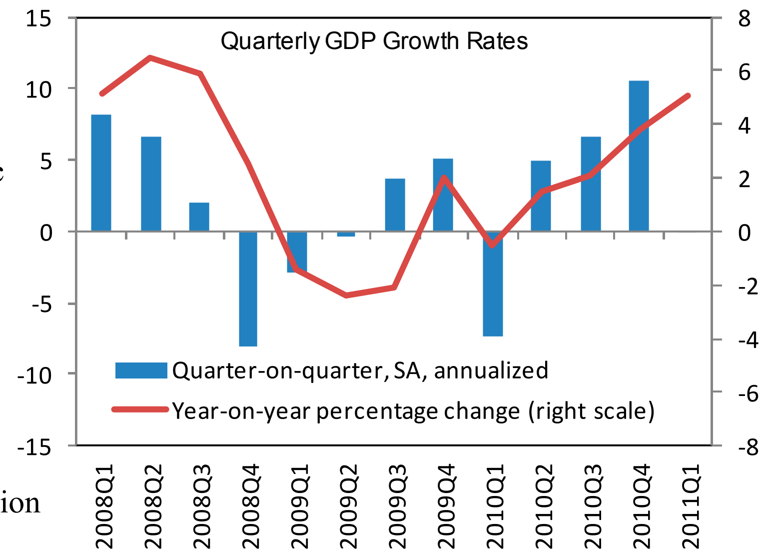
A. Political Developments

1. **The ruling coalition won a majority in the June 5 general elections.** While it lost some seats and fell short of their previous two-thirds majority, the coalition has a majority of 71 out of 123 seats. The new government continues to be led by Prime Minister Gruevski, and the economic team remains broadly unchanged. The government formally took office on July 28 for a period of four years.

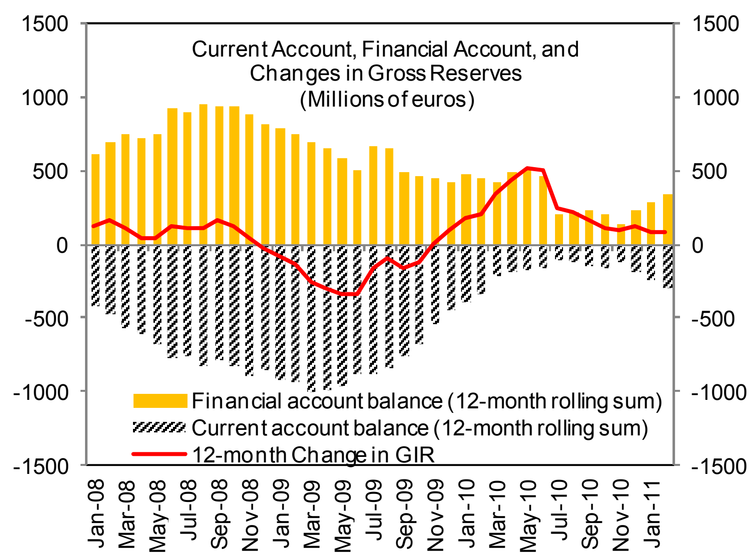
B. Economic Developments and Outlook

The 2011 economic outlook is broadly in line with the program. The main changes are somewhat lower growth (by ½ percent); a higher current account deficit (by 1 percent of GDP) matched by higher FDI; and higher inflation (by 1½ to 2 percentage points).

2. **Growth is expected to rise to 3 percent this year**. The 2010 recovery was led by a surge in exports that more than offset weak domestic demand. This year domestic demand is expected to kick in, supported by lower interest rates, the recent moderate resumption of bank credit, and employment gains. Headline inflation in 2010 was 1.6 percent but rose to 4.1 percent in June 2011, mostly due to food and fuel prices (core inflation was 1 percent). Staff expects annual inflation for 2011 to be 4 to 4½ percent.



3. **The current account deficit is expected to widen this year and to be financed largely by FDI.** Staff projects the deficit will widen to 5½ percent of GDP in 2011 in response to the pick-up in domestic demand and higher fuel prices, with FDI of some 5 percent of GDP providing most of the financing. Gross international reserves excluding the PCL purchase declined by €50 million in the first five months of 2011, and are expected to increase over the remainder of the year due to seasonal patterns and a



Sources: Authorities' data; and IMF staff estimates.

planned sovereign debt issuance. End-May reserves including the €220 million purchase stood at €1.88 billion (112 percent of end-2010 short-term debt at residual maturity). Net international reserves were €1.44 billion at end-May, €293 million above the indicative target under the PCL. The spreads of Macedonia's 2015 Eurobond over Bunds have narrowed since mid-2010, similar to the trend in other non-euro area countries in the region (Figure 2).

4. **The banking sector remains in overall sound shape, and credit growth is moderate.** As of end-March, 2011, the capital adequacy ratio remained stable at nearly 17 percent, while non-performing loans (NPLs) had started to decline. Deposits continued to provide the main source of bank funding, exceeding loans by a significant margin. Profitability turned negative in the first quarter of 2011 as provisioning against NPLs (primarily at one medium-sized bank) more than offset profits of the three large banks. Both deposits and private credit have been growing at moderate rates (some 8 percent year-on-year in May).

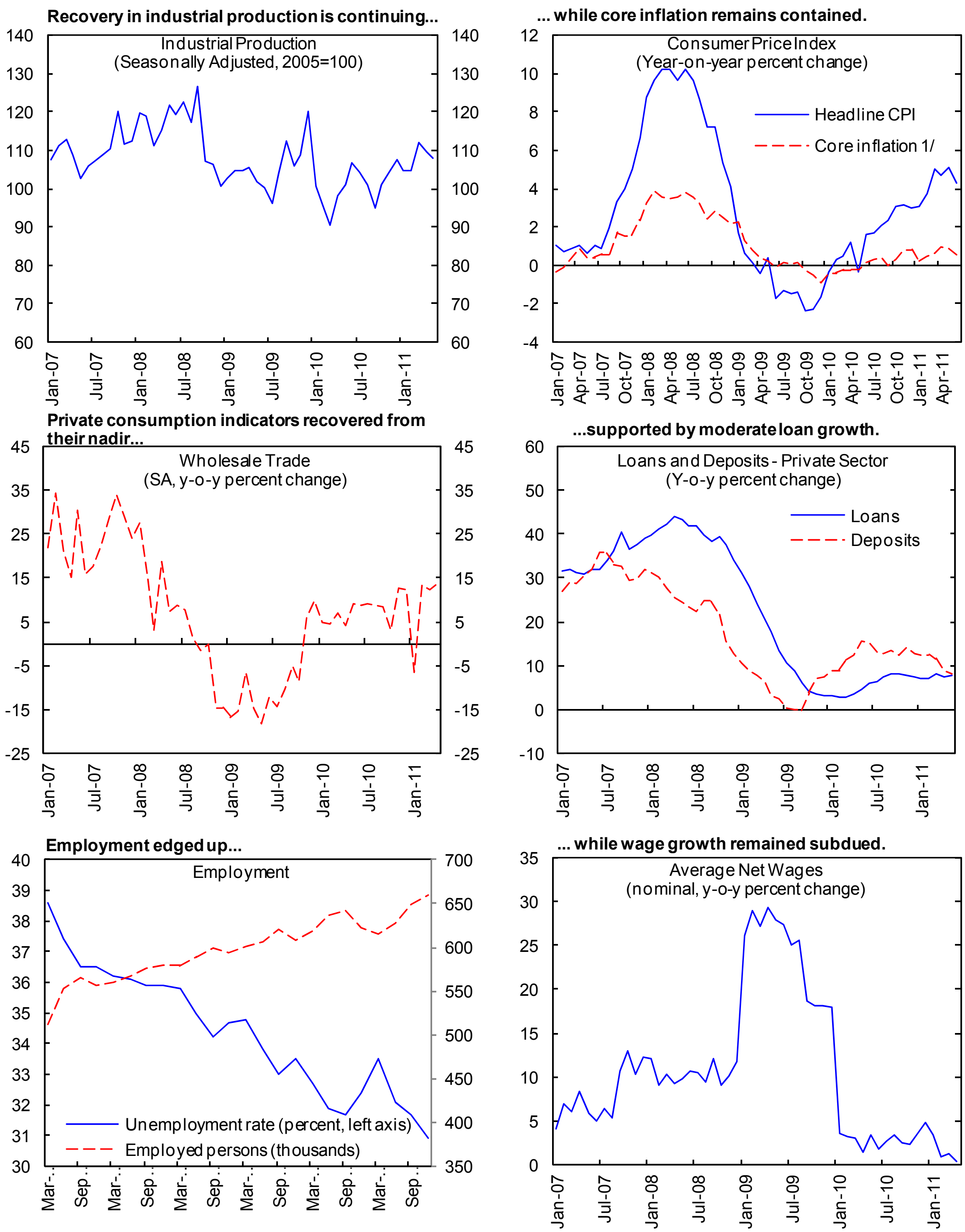
5. **The main risk continues to come from potential disturbances in the peripheral euro area economies.** With a quarter of the system's total assets, the share of Greek-owned banks is among the largest in the region (similar to Bulgaria and Albania). Greek banks in Macedonia are financed primarily by resident deposits, with minimal funding from their parents, and they do not hold Greek assets. Exposure through trade channels is moderate, with 7½ percent of 2010 exports (2½ percent of GDP) destined for Greece, while Greece is not a major source of remittances or FDI inflows. More broadly, if troubles in the periphery lead to significantly weaker growth and more distressed financial conditions in core euro area economies, this would damage growth prospects in Macedonia and could put renewed pressure on the fiscal and external accounts.

C. Policy Developments

6. **The authorities slightly exceeded their end-May 2011 indicative target for the fiscal deficit under the PCL.** The fiscal deficit was 6.46 billion denars (1.4 percent of annual GDP), 0.06 billion denars (0.01 percent of GDP) above the end-May indicative target. Tax revenues rose 7.3 percent in January-May relative to 2010 levels, somewhat below the annual 9.3 percent pace envisioned in the budget. Expenditures also grew at a slower pace than the annual budgeted increase, despite some front-loading of agricultural subsidies and the (modest) costs of holding the elections.

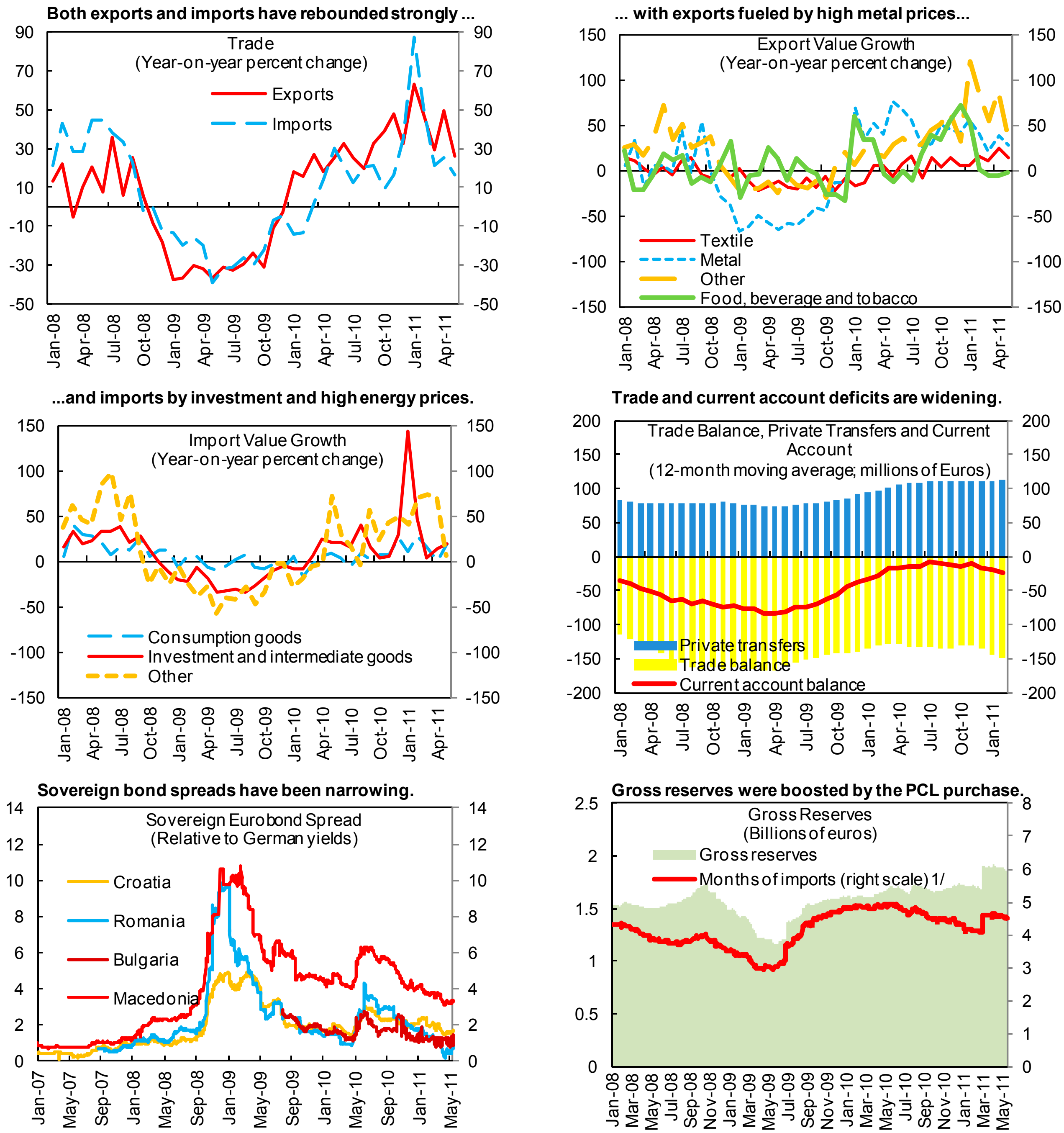
7. **The NBRM has held the policy interest rate steady at 4 percent since last December.** In the face of higher inflation from food and fuel prices and the prospect of further ECB rate increases, the NBRM is on hold after a series of cuts from a peak of 9 percent two years ago. Governor Bogov assumed office in May 2011 and reaffirmed the NBRM's commitment to follow policies that are consistent with the de facto exchange rate peg to the euro.

Figure 1. FYR Macedonia: Recent Economic Developments



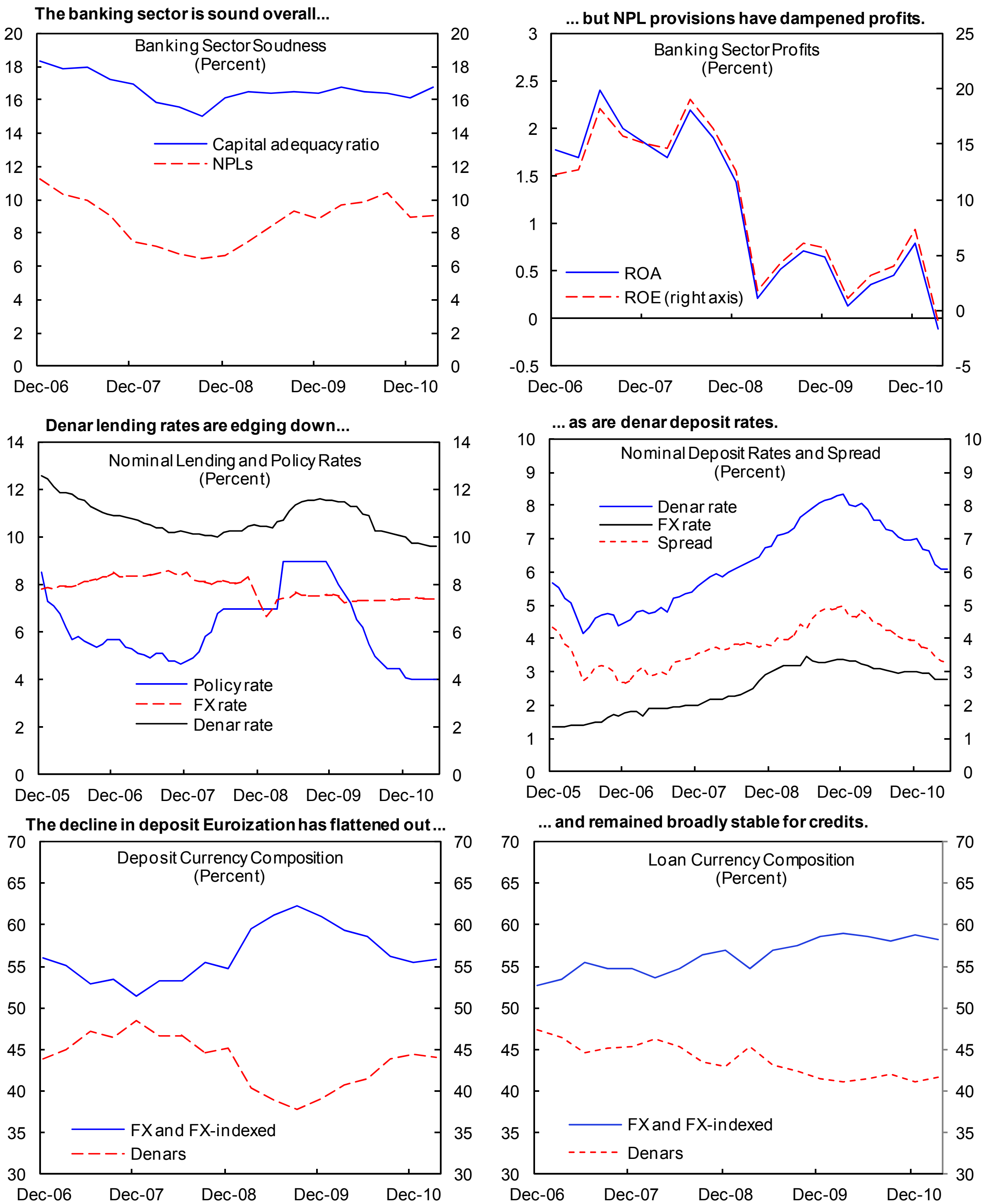
Sources: Haver, SSO, NBRM and IMF Staff estimates.
1/ Excluding food, tobacco, fuels and heating.

Figure 2. FYR Macedonia: External Sector Developments



Sources: Bloomberg; Authorities' data; and IMF staff estimates.
1/ 12-month moving average of imports.

Figure 3. FYR Macedonia: Banking Sector Developments



Sources: NBRM and IMF staff estimates.

II. POLICY DISCUSSIONS

A. Purchase Under the PCL and Improved Debt Management Strategy

8. **The authorities discussed the circumstances that gave rise to their decision to purchase under the PCL last March.** In their request, the authorities represented the emergence of an actual balance of payments need. Their meetings with external banks had led them to conclude that, due largely to the uncertain outcome of the impending elections, they faced impaired access to external markets, where at best they would pay a large premium over secondary market spreads on their outstanding debt. They noted that in a thinly traded market, secondary market spreads were not a reliable guide to the cost of issuing new debt. Moreover, they would have been unable to make credible commitments to foreign investors on a road show to support a bond issue. Finally, they believed that the advice of the anti-corruption commission against issuing a Eurobond prior to the election added to the risks. The authorities had also met with domestic banks to explore possibilities for tapping domestic markets to help meet financing needs. However, they concluded that this was not a feasible alternative, given the small size of the domestic T-bill market; the preference of domestic banks for 28-day central bank bills, which were better suited to their liquidity needs; and a reluctance of the large banks to increase their sovereign exposure, in some cases due to risk retrenchment by their parents.

9. **While acknowledging the uncertainties associated with the elections, staff emphasized the importance of developing more robust debt management practices and strategies to ensure more secure access to market financing.** With respect to external debt, the authorities should seek to increase liquidity of their debt instruments, manage rollover risk, and take advantage of favorable market conditions early to pre-finance future needs. With respect to domestic debt, the authorities should review institutional structures and market practices to ensure they are aligned with market development goals; lengthen the yield curve, even if this requires higher interest rates initially; tailor debt instruments to the needs of pension funds; and seek to enhance the liquidity of secondary market trading, which would help to increase domestic investor interest. To attain these objectives, close cooperation between the ministry of finance and the central bank would be essential.

10. **The authorities were confident that they would be able to meet future financing needs from market sources, now that the elections had been concluded, and they agreed with staff on the need to improve debt management.** They committed to publishing a report that will lay out a road map for debt management reform, developed in consultation with Fund staff, which will be a structural benchmark for the second review under the PCL arrangement. Key steps in the road map would be expected to provide the basis for future structural benchmarks under the arrangement. The authorities also requested technical assistance from the Fund in the area of debt management, and a Fund technical assistance mission is expected to visit Macedonia in the early fall.

11. **The authorities stated their intention to repay the PCL purchase early, provided market financing conditions are favorable.** However, they did not believe it was advisable

to repay this fall, in light of the continued level of external risk and the more immediate priority of securing market funding for the 2012 budget.

B. Fiscal Policy and Financing Plan

12. **The authorities reaffirmed their 2011 fiscal deficit target of 2.5 percent of GDP, an indicative target under the arrangement.** Staff noted that revenues through May were growing at a somewhat slower pace than the annual growth rate assumed in the budget, which could mean that adjustments would be needed to meet the target. The authorities were optimistic that revenue growth would improve as the economy picks up steam. Nonetheless, in the event that revenues fall short of budgeted levels, they were fully committed to reduce discretionary spending, and in the event of a significant shortfall, they would consider passing a supplementary budget calling for lower spending. In this context, the authorities noted their strong track record in achieving their deficit targets through expenditure restraint, including in 2009–10 when revenues performed poorly due to the economic downturn.

13. **The 2012 budget will focus on investment spending, while reducing the deficit moderately.** A key objective of the new government is to increase investment spending, including roads, railroads, gasification, and other energy infrastructure. Staff emphasized the importance of accommodating investment spending within an overall deficit of 2.2 percent of GDP, consistent with the undertakings in the PCL request. This gradual reduction in the deficit remains appropriate in light of the cyclical upturn, the need to build fiscal space for future downturns, and to stabilize debt ratios. Moreover, the risk of financing constraints such as those that emerged in 2011 argues for contained deficits. The authorities agreed that their 2012 budget would target a deficit of 2.2 percent of GDP, with further reductions in outer years. To make room for investment spending, current expenditure will be kept under tight control, including a continued freeze of public sector wages. The government has committed to raising the general wage level by 5 percent in December 2012 (effective in January 2013), which will partially compensate for the erosion in real wages since the onset of the wage freeze in 2009.

14. **The authorities plan to issue external debt in the fall to meet remaining needs for 2011 and pre-finance 2012 needs.** The debt issue would cover remaining 2011 amortization needs (€50 million) and at least a portion of the 2012 deficit. Amortization of domestic structural bonds in 2012 (€30 million) would be met through net T-bill issuance. The authorities affirmed that they would issue debt even if market conditions turn less favorable and interest rates rise from present levels (secondary market yields on the 2015 Eurobond maturity are currently around 5.5 percent, some 350 basis points over Bunds), so long as market access remained open. In this context, staff emphasized the importance of issuing preemptively to cover future needs rather than waiting in the hope that conditions would turn more favorable. The authorities agreed, while remarking that if conditions are unfavorable they would also look at the option of issuing T-bills to cover remaining 2011 needs.

Central government financing

	2011			2012		
	mn. EUR	percent of GDP		mn. EUR	percent of GDP	
Total Financing Requirement	**320**	**4.2**		**266**	**3.3**	
Deficit	189	2.5		178	2.2	
Gross Amortizations	130	1.7		88	1.1	
Domestic state bonds	80	1.1		30	0.4	
External	50	0.7		58	0.7	
Total Financing Sources	**320**	**4.2**		**266**	**3.3**	
Government deposits at the NBRM	-77	-1.0		-125	-1.5	
Domestic T-Bills Issuance (net)	0	0.0		40	0.5	
External	397	5.3		352	4.3	
o/w private	130	1.7	1/	300	3.7	2/
o/w official	267	3.5		52	0.6	
o/w IMF PCL	220	2.9		0	0.0	
Memo:						
Nominal GDP (mn EUR)	7,538			8,104		

Note:

1/ The assumed amount of the fall 2011 external borrowing (130 mn EUR) is used to cover remaining financing needs in 2011 and finance part of the deficit of 2012.

2/ The assumed Eurobond issuance of 2012 (300 mn EUR) covers the remaining deficit financing of 2012 and pre-financing of the Eurobond falling due in January 2013.

15. **The authorities reported that they are also in discussions with the World Bank on a Policy Based Guarantee (PBG), which would partially guarantee an external debt placement and reduce interest costs.** Staff advised that they should avoid a situation where they remain out of the market pending completion of the PBG, which could be delayed, and thereby miss an opportunity to issue when markets are open and rates are favorable. The authorities agreed that they would only seek a PBG if they were confident it could be finalized and financing realized in 2011.

C. Monetary Policy and International Reserves

16. **The authorities believed that the present level of the policy rate, at 4 percent, was appropriate, and that risks were tilted toward a future rate increase.** Staff shared the authorities' views, in light of the absence of pressures on foreign exchange reserves or signs of underlying price pressures. Key factors that the NBRM considers in setting rates include levels and trends in international reserves (the overriding factor), price pressures and the degree of slack in the economy, and interest rates in the euro area. In the view of staff:

- The present level of international reserves is broadly adequate, and underlying trends in the balance of payments are supportive.

- Core inflation remains near 1 percent and real wage growth over the past year has been contained. Credit growth has been moderate. Meanwhile the output gap remains negative, with projected 2011 GDP some 1.4 percent below potential.

- The NBRM does not react automatically when the ECB changes rates, because of the insulation provided by imperfect credit market integration and variations in the risk premium on denar liabilities. Nonetheless, a sustained movement in ECB rates would likely call for a policy response by the NBRM.

17. **In light of the favorable prospects for international reserves, the authorities agreed to an increase of €50 million in the end-November indicative target for NIR.** Assuming external sovereign debt issuance this fall, they expected NIR to end the year at some €250-300 million above the original program floor, which should provide an adequate buffer. They agreed with staff that raising the floor would send a positive signal of their intention to safeguard the stronger gross reserve position resulting from the PCL purchase.

D. Financial Sector Policies

18. **The authorities noted that they had made progress on the macro-prudential undertakings described in their PCL request.** They had passed a new NBRM law consistent with ECB and IMF advice and created a Financial Stability Council, which would improve contingency planning capabilities. They also remained committed to legal and regulatory changes to address the risk of court challenges to NBRM decisions on licensing, administration and closing of banks, close the gaps in their ability to impose fit and proper requirements on bank owners and managers, and expand the class of collateral eligible for emergency liquidity assistance from the NBRM. Staff agreed it was important to move forward with these changes, which would strengthen the authorities' ability to respond to future financial system disruptions. Staff also agreed that the NBRM's intention to review liquidity requirements, which were imposed in 2009 as a crisis measure, is appropriate. In this review the authorities will seek to ensure conservative liquidity buffers but not to set thresholds so high as to undermine the ability of banks—which rely primarily on deposits for funding—from making longer-term loans to the private sector.

III. Review of Qualification Criteria

19. **Macedonia continues to meet the qualification criteria identified in paragraphs 2(a) and 2(b) of the PCL Decision.** Economic fundamentals and policies remain sound, economic developments have proceeded broadly in line with program assumptions, and the authorities remain committed to the economic program outlined in their PCL request. Staff's assessment at the time the PCL was approved—that Macedonia performed strongly in three of the five PCL qualification areas (fiscal, monetary and financial sector) and moderately underperformed in the remaining two (external and data adequacy)—remains unchanged.

- **Fiscal policies remain sound.** The authorities kept the fiscal deficit during the first part of the year broadly in line with program targets and have reaffirmed their commitment to meet the end-year target and to reduce the deficit further next year. The fiscal deficit is moderate in international comparison. Government debt, at 25 percent of GDP at end-2010 (with an average interest rate of 3 percent) is moderate and should stabilize and then decline gradually, based on the authorities' medium-term budget objectives.

- **Monetary policy has supported the de facto peg against the euro and delivered low inflation over a long period.**[1] The new NBRM governor has stated that he is committed to a continuation of these policies, whereby monetary policy will be dedicated foremost to supporting the exchange rate and ensuring adequate international reserves.

- **The financial sector and bank supervision remain sound.** The banking system is relatively small, is financed predominantly by domestic deposits, and enjoys healthy capital ratios and liquidity buffers. Supervision is adequate, as assessed by the 2008 FSAP update.

- **External position and market access.** Macedonia scores well on measures of external position, but vulnerabilities in access to external financing persist. The current account deficit was below 3 percent of GDP in 2010. It is expected to widen this year to 5½ percent of GDP, but to be financed mostly by FDI, leaving reserves at broadly adequate levels. Exports are growing rapidly—by 30 percent year-over-year in value in 2010 and 44 percent in the first five months of 2011. CGER analysis does not indicate significant misalignment of the real exchange rate. External debt, at 59.2 percent of GDP at end-2010, is sustainable and is expected to decline gradually in the medium term. However, the authorities' decision to draw on the PCL when they judged external access to be inadequate illustrates the remaining vulnerability in the area of external access, which is subject to both domestic and external risks. The authorities' commitment to improve debt management policies and practices and to deepen the domestic debt market, supported by IMF technical assistance, will help to address this remaining vulnerability and will be subject to a structural benchmark for the second PCL review.

- **The authorities are committed to improving data adequacy.** The authorities have committed to subscribe to SDDS, and an IMF technical assistance mission has worked with the authorities to develop a road map and timeline that would lead to SDDS subscription by November 2012 at the latest. Progress to date includes setting up a national summary data page, starting to compile quarterly GDP in constant prices by production method, and agreement on a standard presentation for the reserves template data dissemination.

IV. Other Issues and Program Modalities

20. **A safeguards assessment was completed in May 2011.** It found that a good governance framework is in place, and that safeguards within the NBRM have been strengthened further since the 2005 assessment. Going forward, it recommended reinforcing existing governance practices, and implementing an internal risk management framework. To facilitate this, and to enhance oversight over audit activities, the NBRM Council has set up an independent audit committee, chaired by a non-executive Council member, in line with the assessment's main recommendation.

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[1] The de facto exchange rate arrangement is classified as "stabilized," and the de jure exchange rate regime is "floating."

21. **The timing of the first PCL review has been affected by the election calendar.** The first review under the PCL would normally be scheduled with the objective of completion by the Board immediately prior to the lapse of the six-month anniversary of the approval of the arrangement (July 19). However, this was not feasible due to the timing of the June 5 elections and the time needed to form the new government. The delay has provided an opportunity for the new economic team, which was formally installed on July 28, to sign off on the authorities' policy commitments. Due to the delayed review, Macedonia's right to make purchases under the arrangement lapsed on July 19 and will be restored only upon completion of the first review. The date for the second review is envisioned for January 18, 2012, immediately prior to the one-year anniversary of approval. The indicative targets and any other conditionality for the third and final review (envisioned for July 2012) will be set in the course of the second review.

22. **Macedonia's capacity to repay the Fund remains strong**. The main risks continue to stem from potential spillovers from financial stress in the euro area, calling for caution in macroeconomic and financial policies. Nonetheless, Macedonia's external debt position and service are expected to remain manageable, even if the PCL were to be fully drawn. Furthermore, the authorities' sustained track record of repayment, together with implementing sound policies and a sound institutional policy framework, provide additional assurances with respect to Macedonia's capacity to repay the Fund.

V. Staff Appraisal

23. **Macedonia remains on track with the economic program supported by the PCL.** Economic and financial sector developments have proceeded broadly as envisaged under the program. While the indicative target on the fiscal deficit was missed by 0.01 percent of GDP, the authorities' commitment to meet the end-year deficit target is credible in the view of staff, based on the small size of the deviation and the authorities' track record of meeting their fiscal deficit targets. Monetary policy remains supportive of exchange rate stability, and the indicative target on NIR was met with an ample margin.

24. **Macedonia continues to meet the PCL qualification criteria.** Staff's assessment is that performance is strong in three of the five qualification areas—fiscal policy, monetary policy, and financial sector soundness and supervision. There is moderate underperformance in the remaining two areas of external position and market access, and data adequacy. While the external position is solid, the purchase under the PCL illustrates the vulnerability on market access. The authorities are committed to addressing this remaining vulnerability through their initiative to improve debt management and secure more reliable access to external and domestic capital markets. Nonetheless, external risks remain high, and the PCL arrangement provides an important added buffer for Macedonia. The authorities are also committed to improve data quality and have put in place a plan that will lead to SDDS subscription within the program period.

25. **On the basis of Macedonia's performance to date under the PCL, and the authorities' commitments to continue their overall sound policies while addressing remaining vulnerabilities, staff recommends completion of the first review.**

Table 1. FYR Macedonia: Macroeconomic Framework, 2007−16
(Year-on-year percentage change, unless otherwise indicated)

	2007	2008	2009	2010	2011		2012	2013	2014	2015	2016
					Prog.	Proj.			Proj.		
Real GDP	6.1	5.0	-0.9	1.8	3.5	3.0	3.7	4.2	4.0	4.0	4.0
Real domestic demand	9.2	6.7	-3.3	-0.1	4.2	3.9	4.3	3.7	3.7	3.6	3.6
Consumption	7.7	6.9	-4.9	0.5	3.5	1.5	3.8	3.5	3.5	3.4	3.5
Private	7.7	6.9	-4.9	0.5	3.6	1.5	3.8	3.5	3.5	3.4	3.5
Public	0.2	8.1	0.6	-0.4	2.8	5.0	3.4	2.5	4.4	3.6	3.4
Gross investment	23.2	4.7	-0.6	-2.1	7.3	11.5	6.5	5.0	4.0	3.9	4.0
Exports (volume)	12.0	-7.0	-16.0	24.1	16.6	11.4	11.1	11.0	10.0	9.6	8.2
Imports (volume)	16.3	0.0	-15.3	11.4	13.9	10.6	10.0	8.1	7.9	7.5	6.5
Contributions to growth											
Domestic demand	10.8	8.1	-4.1	-0.1	5.1	4.5	5.1	4.4	4.4	4.2	4.2
Net exports	-4.6	-3.1	3.2	1.9	-1.6	-1.5	-1.4	-0.2	-0.4	-0.2	-0.2
Central government operations (percent of GDP)											
Revenues	32.2	32.5	30.5	30.1	31.5	30.9	31.5	31.7	31.8	32.0	32.0
Expenditures	31.6	33.4	33.2	32.5	34.0	33.4	33.7	33.6	33.3	33.5	33.5
Of which: capital	3.8	4.9	3.3	3.6	5.0	4.8	5.0	5.1	5.1	5.2	5.2
Balance	0.6	-0.9	-2.7	-2.5	-2.5	-2.5	-2.2	-1.9	-1.5	-1.5	-1.5
Savings and investment (percent of GDP)											
Domestic saving	17.7	14.0	19.2	22.7	21.7	21.9	21.9	22.7	23.1	23.1	23.0
Public	4.4	3.9	0.6	1.1	2.5	2.3	2.8	3.2	3.6	3.7	3.7
Private	13.3	10.0	18.6	21.5	19.2	19.6	19.1	19.5	19.5	19.4	19.3
Foreign saving	7.0	12.8	6.7	2.8	4.6	5.5	6.7	5.8	5.5	5.5	5.5
Gross investment	24.6	26.8	25.9	25.4	26.4	27.4	28.5	28.5	28.6	28.6	28.6
Consumer prices											
Period average	2.3	8.4	-0.8	1.6	2.5	4.4	2.0	2.0	2.0	2.0	2.0
End-period	6.7	4.1	-1.6	3.0	1.8	3.7	2.0	2.0	2.0	2.0	2.0
Memorandum items:											
Current account balance (percent of GDP)	-7.0	-12.8	-6.7	-2.8	-4.6	-5.5	-6.7	-5.8	-5.5	-5.5	-5.5
Gross official reserves (millions of euros)	1,524	1,495	1,598	1,715	1,846	2,041	2,357	2,481	2,774	2,994	3,205
in percent of ST debt	117	110	109	101	104	121	120	123	116	129	129
in months of prospective imports	3.6	4.4	4.2	3.5	3.7	3.7	4.0	4.0	4.2	4.2	4.2
Gross Central Government Debt (percent of GDP)	24.0	20.6	23.8	24.6	25.7	26.3	28.2	27.5	27.3	27.0	26.5
Foreign direct investment (percent of GDP)	8.5	6.1	2.0	3.2	3.5	4.9	5.0	5.0	5.5	5.5	5.5
External debt (percent of GDP)	47.6	49.2	56.4	61.9	57.8	62.5	64.1	62.4	62.4	61.2	59.4
Nominal GDP (billions of denars)	365	412	411	427	458	464	499	534	564	599	636
Nominal GDP (millions of euros)	5,965	6,720	6,703	6,944	7,483	7,538	8,104	8,675	9,175	9,734	10,339

Sources: NBRM; SSO; MOF; IMF staff estimates and projections.

Table 2. FYR Macedonia: Central Government Operations, 2006−11

	2006	2007	2008	2009	2010	2011	
						Budget	Proj.
	(Billions of denars)						
Total revenue	102.3	117.5	133.7	125.3	128.5	145.1	143.1
Tax revenue	89.2	101.3	112.6	106.9	109.3	119.4	118.1
Personal income tax	8.4	8.9	8.7	8.7	8.9	10.0	9.4
Corporate income tax	4.7	5.9	8.6	4.4	3.7	3.6	3.8
VAT	27.2	33.0	36.2	35.2	37.7	41.2	42.2
Excises	12.2	13.3	14.3	14.5	14.9	15.9	16.1
Custom duties	5.4	6.2	6.3	5.2	4.7	5.7	5.1
Other taxes	1.8	2.5	2.9	2.9	3.9	3.5	3.5
Social contributions (total)	29.4	31.6	35.8	35.9	35.5	39.4	37.8
Pension contributions	18.6	20.1	23.1	23.4	23.0	25.7	24.5
Unemployment contributions	1.4	1.5	1.8	1.8	1.7	1.8	1.8
Health contributions	9.4	10.0	10.9	10.7	10.9	11.9	11.6
Non tax revenue	9.9	10.4	12.9	12.6	12.1	14.8	14.5
Capital revenue	1.8	4.9	6.9	5.0	5.6	7.1	6.8
Of which: Telecom dividend	0.0	2.9	3.8	2.4	2.5	2.6	2.3
Grants	1.4	0.9	1.3	0.8	1.5	3.8	3.8
Total expenditure	104.0	115.4	137.5	136.2	139.0	156.7	154.7
Current expenditure	94.8	101.8	117.7	123.0	124.2	133.7	132.8
Wages and salaries	23.4	23.6	20.8	22.7	22.6	23.3	22.9
Goods and services	12.9	14.8	18.7	16.2	14.7	17.2	16.3
Transfers	55.3	60.5	75.5	81.7	83.7	90.0	90.4
Pensions	25.4	26.3	30.9	33.5	34.4	36.2	36.2
Health	15.8	16.1	19.1	18.7	19.3	21.3	21.3
Local governments	2.1	3.7	10.5	12.8	13.3	14.3	14.5
Other	12.0	14.4	15.0	16.7	16.6	18.2	18.5
Interest	3.1	2.9	2.6	2.4	3.2	3.2	3.2
Capital expenditure	9.3	13.7	20.1	13.4	15.3	23.3	22.3
Lending minus repayment	0.0	-0.2	-0.2	-0.2	-0.5	-0.4	-0.4
Overall fiscal balance	-1.7	2.2	-3.8	-10.9	-10.5	-11.6	-11.6
Financing	1.1	-3.6	2.4	10.9	10.5	11.6	11.6
Domestic	-9.8	7.6	-0.1	0.1	5.9	-5.1	-10.0
Central Bank	-7.2	12.7	3.2	-0.3	4.0	-0.1	-5.0
Other domestic financing	-2.6	-5.1	-3.3	0.4	1.9	-5.0	-5.0
Privatization receipts	20.3	-0.7	1.7	0.1	0.0	0.3	0.3
Foreign	-9.4	-10.5	0.8	10.7	4.6	16.4	21.3
Official	…	…	…	0.0	4.6	-0.1	13.3
Private	…	…	…	10.7	0.0	16.5	8.0
Memo items:							
Contributions to second pillar pensions	1.3	1.9	2.5	2.9	3.2	2.9	2.9
Gross debt (as share of GDP)	32.0	24.0	20.6	23.8	24.6	26.8	26.3
Nominal GDP (billions of denars)	320.1	365.0	411.7	410.7	427.2	454.6	463.7

Sources: IMF Staff and MoF estimates.

Note: Central government refers to the core government, plus consolidated extra-budgetary funds.

Table 2. FYR Macedonia: Central Government Operations, 2006−11 (continued)

	2006	2007	2008	2009	2010	2011	
						Budget	Proj.
				(Percent of GDP)			
Total revenue	32.0	32.2	32.5	30.5	30.1	31.9	30.9
Tax revenue	27.9	27.8	27.4	26.0	25.6	26.3	25.5
Personal income tax	2.6	2.4	2.1	2.1	2.1	2.2	2.0
Corporate income tax	1.5	1.6	2.1	1.1	0.9	0.8	0.8
VAT	8.5	9.0	8.8	8.6	8.8	9.1	9.1
Excises	3.8	3.6	3.5	3.5	3.5	3.5	3.5
Custom duties	1.7	1.7	1.5	1.3	1.1	1.3	1.1
Other taxes	0.6	0.7	0.7	0.7	0.9	0.8	0.7
Social contributions (total)	9.2	8.7	8.7	8.7	8.3	8.7	8.2
Pension contributions	5.8	5.5	5.6	5.7	5.4	5.7	5.3
Unemployment contributions	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Health contributions	3.0	2.7	2.6	2.6	2.6	2.6	2.5
Non tax revenue	3.1	2.8	3.1	3.1	2.8	3.3	3.1
Capital revenue	0.6	1.4	1.7	1.2	1.3	1.6	1.5
Of which: Telecom dividend	0.0	0.8	0.9	0.6	0.6	0.6	0.5
Grants	0.4	0.2	0.3	0.2	0.3	0.8	0.8
Total expenditure	32.5	31.6	33.4	33.2	32.5	34.5	33.4
Current expenditure	29.6	27.9	28.6	30.0	29.1	29.4	28.6
Wages and salaries	7.3	6.5	5.1	5.5	5.3	5.1	4.9
Goods and services	4.0	4.1	4.6	3.9	3.4	3.8	3.5
Transfers	17.3	16.6	18.3	19.9	19.6	19.8	19.5
Pensions	7.9	7.2	7.5	8.2	8.1	8.0	7.8
Health	4.9	4.4	4.6	4.6	4.5	4.7	4.6
Local governments	0.7	1.0	2.5	3.1	3.1	3.1	3.1
Other	3.7	4.0	3.6	4.1	3.9	4.0	4.0
Interest	1.0	0.8	0.6	0.6	0.7	0.7	0.7
Capital expenditure	2.9	3.8	4.9	3.3	3.6	5.1	4.8
Lending minus repayment	0.0	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
Overall fiscal balance	-0.5	0.6	-0.9	-2.7	-2.5	-2.5	-2.5
Financing	0.4	-1.0	0.6	2.7	2.5	2.5	2.5
Domestic	-3.1	2.1	0.0	0.0	1.4	-1.1	-2.2
Central Bank	-2.2	3.5	0.8	-0.1	0.9	0.0	-1.1
Other domestic financing	-0.8	-1.4	-0.8	0.1	0.4	-1.1	-1.1
Privatization receipts	6.3	-0.2	0.4	0.0	0.0	0.1	0.1
Foreign	-2.9	-2.9	0.2	2.6	1.1	3.6	4.6
Official	…	…	…	0.0	1.1	0.0	2.9
Private	…	…	…	2.6	0.0	3.6	1.7
Memo items:							
Contributions to second pillar pensions	1.3	1.9	2.5	2.9	3.2	2.9	2.9
Gross debt (as share of GDP)	32.0	24.0	20.6	23.8	24.6	26.8	26.3
Nominal GDP (bill. Denars)	320.1	365.0	411.7	410.7	427.2	454.6	463.7

Sources: IMF Staff and MoF estimates.

Note: Central government refers to the core government, plus consolidated extra-budgetary funds.

Table 3. FYR Macedonia: Balance of Payments, 2008−16
(Millions of euros, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
				Projection					
Current account	-862	-449	-191	-418	-540	-505	-505	-533	-573
Trade balance	-1763	-1551	-1468	-1696	-1854	-1889	-1988	-2108	-2207
Exports	2693	1921	2493	3257	3684	4038	4276	4628	4964
Imports	-4455	-3472	-3961	-4952	-5538	-5927	-6264	-6736	-7170
Services (net)	6	28	60	83	81	85	119	146	135
Income (net)	-91	-58	-149	-164	-189	-192	-202	-212	-223
Transfers (net)	985	1132	1366	1360	1422	1491	1565	1641	1721
Of which									
Official	49	36	32	39	36	36	37	36	36
Private	936	1097	1334	1321	1387	1456	1529	1605	1685
Of which: Cash exchange	774	927	1152	1134	1208	1265	1318	1373	1428
Capital and financial account	795	433	231	783	856	629	798	754	784
Capital account (net)	-12	20	9	9	0	0	0	0	0
Financial account	807	412	222	774	856	629	798	754	784
Direct investment (net)	409	137	220	372	405	434	505	535	570
Portfolio investment (net)	-51	104	-64	-33	331	32	159	136	37
Of which: Eurobond (net)	-16	152	-38	0	300	0	125	100	0
Other investment	448	172	65	435	120	163	134	83	176
Trade credits (net)	-4	158	39	29	61	72	76	87	93
MLT loans (net)	281	34	92	429	40	83	71	11	143
Public sector	36	7	38	347	-6	21	-16	-83	0
Disbursements	69	47	86	397	52	84	141	92	92
of which : IMF credit	0	0	0	220	0	0	0	0	0
Amortization	-32	-40	-48	-50	-58	-63	-157	-175	-93
of which : Repayment to the IMF	0	0	0	0	0	0	83	110	28
Banks (net)	-1	16	117	13	19	20	21	22	23
Non-Banks (net)	246	12	-64	70	28	42	65	72	120
ST loans (net)	-44	16	38	-19	32	35	37	39	41
Currency and deposits (net)	207	-62	-171	-35	-47	-62	-86	-94	-143
Of which: Commercial banks	251	-60	-81	8	-19	-20	-21	-22	-23
Other (net)	8	25	67	30	32	35	37	39	41
Errors and omissions	0	23	1	-32	0	0	0	0	0
Overall Balance	-68	7	40	333	316	124	293	221	210
				(Percent of GDP)					
Current account	-12.8	-6.7	-2.8	-5.5	-6.7	-5.8	-5.5	-5.5	-5.5
Of which									
Trade balance	-26.2	-23.1	-21.1	-22.5	-22.9	-21.8	-21.7	-21.7	-21.3
Private transfers	13.9	16.4	19.2	17.5	17.1	16.8	16.7	16.5	16.3
FDI (net)	6.1	2.0	3.2	4.9	5.0	5.0	5.5	5.5	5.5
				(Year-on-year percent change)					
Exports of G&S (Value)	11.4	-24.9	25.5	31.9	14.0	9.6	5.9	8.2	7.2
Volume	-7.0	-16.0	24.1	11.4	11.1	11.0	10.0	9.6	8.2
Price	19.7	-10.6	1.1	18.4	2.6	-1.3	-3.7	-1.3	-0.9
Imports of G&S (Value)	22.8	-20.9	13.1	26.6	12.9	7.5	5.3	7.4	6.8
Volume	0.0	-15.3	11.4	10.6	10.0	8.1	7.9	7.5	6.5
Price	22.8	-6.7	1.5	14.5	2.6	-0.5	-2.4	-0.1	0.4
Terms of trade (2008=100)	100.0	95.8	95.5	98.7	98.7	98.0	96.7	95.5	94.4
Memorandum Items:									
Nominal GDP	6720	6703	6944	7538	8104	8675	9175	9734	10339
ST debt at residual maturity (year-end)	1353	1467	1689	1689	1962	2019	2389	2324	2490
Gross foreign exchange reserves	1495	1598	1715	2041	2357	2481	2774	2994	3205
Months of prospective imports of G&S	4.4	4.2	3.5	3.7	4.0	4.0	4.2	4.2	4.2
Percent of short term debt (residual maturity)	110.5	108.9	101.5	120.9	120.1	122.9	116.1	128.9	128.7
External debt (percent of GDP)	49.2	56.4	61.9	62.5	64.1	62.4	62.4	61.2	59.4
Medium and long term	31.9	37.9	40.2	42.5	43.9	41.9	41.4	39.7	37.4
Short term	17.3	18.5	21.7	20.1	20.2	20.5	21.0	21.5	22.0
External debt service	1393	1438	1585	1849	1883	2170	2236	2609	2545
Percent of exports of G&S	41.2	56.6	49.8	44.0	39.3	41.3	40.2	43.4	39.4
Percent of exports of G&S and private transfers	31.9	39.2	34.8	33.3	30.3	32.2	31.4	34.1	31.1

Source: NBRM, IMF Staff Estimates.

Table 4. Macedonia, FYR: External Financing Requirements, 2008-16
(Millions of Euros unless specified otherwise)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
				Projection					
Gross financing requirements	2151	1780	1620	2107	2228	2292	2525	2772	2897
Current account deficit	862	449	191	418	540	505	505	533	573
Trade deficit	1763	1551	1468	1696	1854	1889	1988	2108	2207
Transfers and other deficit	-900	-1102	-1277	-1278	-1314	-1384	-1483	-1575	-1633
ST debt amortization (original maturity)	1131	1163	1242	1506	1512	1637	1779	1929	2094
MLT debt amortization 1/	157	168	187	184	177	150	240	310	229
Financing sources	2083	1786	1660	2440	2544	2416	2817	2992	3107
FDI (net)	409	137	220	372	405	434	505	535	570
Portfolio investment (net)	-51	104	-64	-33	331	32	159	136	37
o/w Eurobond issuance	0	175	0	0	300	175	125	250	0
ST debt disbursements	1163	1242	1506	1512	1637	1779	1929	2094	2271
Currency and deposits	207	-62	-171	-35	-47	-62	-86	-94	-143
MLT debt disbursements	439	202	278	613	218	233	311	321	372
Other 2/	-84	163	-110	11	0	0	0	0	0
Overall balance	-68	7	40	333	316	124	293	221	210
Total size of shock in adverse scenario									
Gross international reserves (GIR)	1495	1598	1715	2041	2357	2481	2774	2994	3205
Short-term debt (residual maturity)	1353	1467	1689	1689	1962	2019	2389	2324	2490
GIR as % of ST debt	110.5	108.9	101.5	120.9	120.1	122.9	116.1	128.9	128.7
Excess (+: buffer) / Shortfall (-: financing gap) of GIR relative to 85 percent of ST debt coverage	345	351	279	606	689	765	743	1019	1088
Financing gap in % of quota	0	0	0	0	0	0	0	0	0

Source: NBRM; and IMF Staff Estimates.

1/ Excludes: i) amortization of MLT intercompany loans, which is included in FDI (net), and ii) amortization of sovereign Eurobond, which is included in Porfolio investment (net).
2/ Includes capital account balance, net errors and omissions, and discrepancies between ST debt flows and stock data.

Table 5. FYR: Macedonia - Central Bank Survey 2007-2011
(Local Currency Billions unless specified otherwise)

	2007	2008	2009				2010				2011	
			1Q-09	2Q-09	3Q-09	4Q-09	1Q-10	2Q-10	3Q-10	4Q-10	1Q-11	4Q-11
NFA	94.4	91.0	77.2	73.2	89.0	93.2	94.2	100.3	99.3	100.6	112.2	120.8
Assets	95.0	91.9	78.2	73.9	93.5	97.8	98.9	105.2	104.2	105.5	116.9	125.5
Liabilities	-0.6	-1.0	-0.9	-0.7	-4.5	-4.6	-4.7	-4.9	-4.8	-4.9	-4.8	-4.8
NDA	-56.6	-50.1	-40.5	-35.8	-47.2	-47.3	-50.2	-52.9	-53.6	-51.6	-64.8	-67.0
Banks (net)	-21.0	-19.0	-7.7	-12.8	-15.5	-16.8	-23.2	-23.6	-27.6	-26.9	-28.5	-35.7
of which:												
NBRM Bills and 6MD	-21.0	-19.0	-7.1	-10.0	-12.9	-16.0	-23.0	-23.5	-26.6	-25.9	-28.5	-35.7
Central Government (net)	-19.6	-11.0	-13.6	-4.1	-12.2	-11.4	-6.9	-5.4	-5.0	-3.5	-15.2	-8.9
of which:												
Deposits at Central Bank	-20.8	-12.3	-14.9	-5.4	-13.5	-12.7	-8.2	-6.8	-10.4	-9.0	-20.6	-13.7
Denar	-15.3	-9.2	-12.4	-3.5	-1.5	-2.8	-4.2	-2.2	-3.5	-5.9	-2.9	-5.9
FX	-5.5	-3.1	-2.5	-2.0	-12.0	-9.9	-4.0	-4.6	-6.9	-3.1	-17.7	-7.8
State and Local Governments (net)	-1.6	-2.8	-2.7	-3.2	-3.5	-2.4	-2.6	-3.2	-3.4	-2.5	-3.5	-3.8
Other items (net)	-14.4	-17.2	-16.6	-15.7	-16.0	-16.7	-17.5	-20.7	-17.6	-18.7	-17.7	-18.5
Reserve Money	37.9	40.9	36.7	37.3	41.8	46.0	44.0	47.5	45.7	49.0	47.3	53.8
Currency in Circulation	17.9	17.6	14.6	14.2	14.5	16.3	14.8	15.7	15.9	17.0	15.9	18.7
Other	20.0	23.3	22.1	23.1	27.3	29.7	29.2	31.8	29.8	32.0	31.4	35.1
Cash in Vaults	2.0	3.2	2.6	2.6	2.7	3.2	3.2	2.8	2.9	3.2	2.8	3.3
Total Reserves	18.0	20.1	19.4	20.5	24.6	26.5	26.0	29.0	26.8	28.8	28.6	31.8
on Denar Deposits	10.7	10.3	8.8	9.3	12.6	14.2	13.8	16.3	13.8	15.7	15.1	17.3
on FX Deposits	7.3	9.8	10.6	11.2	12.0	12.2	12.2	12.7	13.0	13.2	13.5	14.5
(Contribution to annual growth in reserve money)												
NFA	30.4	-9.2	-45.6	-53.0	-34.3	5.6	46.2	72.8	24.8	16.0	40.8	41.2
NDA	-10.2	17.2	51.9	48.3	40.9	6.8	-26.4	-45.7	-15.3	-9.4	-33.2	-31.4
Reserve Money	20.2	8.0	6.4	-4.7	6.6	12.4	19.8	27.1	9.5	6.6	7.6	9.7
Memorandum Items:												
NBRM Bills (percent of GDP)	5.8	4.2	1.7	2.3	3.1	3.9	5.6	5.7	6.4	6.1	4.7	5.7
Govt Deposits at Central Bank (Percent of GDP)	5.7	3.0	3.6	1.3	3.3	3.1	2.0	1.6	2.5	2.1	4.8	3.0

Source: NBRM, Staff Estimates

Table 6. FYR: Macedonia - Monetary Survey 2007-2011
(Local Currency Billions unless specified otherwise)

	2007	2008	2009				2010				2011	
			1Q-09	2Q-09	3Q-09	4Q-09	1Q-10	2Q-10	3Q-10	4Q-10	1Q-11	4Q-10
NFA	109.1	91.0	80.9	77.5	92.2	94.8	92.9	100.0	97.1	99.9	110.8	117.0
Central Bank	94.4	91.0	77.2	73.2	89.0	93.2	94.2	100.3	99.3	100.6	112.2	120.8
Commercial Banks	14.6	0.0	3.7	4.3	3.2	1.5	-1.3	-0.4	-2.2	-0.7	-1.3	-3.8
NDA	66.7	104.5	109.4	114.5	103.6	112.5	117.8	120.4	124.8	132.7	123.9	141.3
Credit to Government (net)	-10.5	-8.4	-6.7	-2.2	-10.8	-4.8	-0.4	1.9	2.3	9.0	-3.7	2.6
From Banks (net)	10.6	5.5	9.5	5.2	4.9	9.0	9.0	10.4	10.8	15.0	14.9	15.2
of which: Credit (Tbills)	13.0	9.4	13.5	9.2	9.7	13.1	13.1	14.3	13.6	18.1	17.8	18.0
From Central Bank (net)	-21.2	-13.9	-16.2	-7.4	-15.7	-13.7	-9.5	-8.6	-8.5	-6.0	-18.7	-12.6
of which: Deposits	-20.8	-12.3	-14.9	-5.4	-13.5	-12.7	-8.2	-6.8	-10.4	-9.0	-20.6	-13.7
Credit to Private Sector (Gross)	130.4	174.8	177.8	176.9	176.9	180.2	182.8	187.6	191.2	193.4	197.6	210.9
From Banks	129.0	173.3	176.3	175.4	175.4	178.7	181.4	186.2	189.7	191.9	196.1	210.8
Denars	97.9	134.5	137.4	137.5	137.7	139.8	141.1	143.0	145.8	143.6	145.9	157.2
FX	31.0	38.8	38.9	37.9	37.7	38.9	40.3	43.2	44.0	48.3	50.3	53.5
From Central Bank	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.5	1.5	1.4	0.1
Other Items (net)	-53.1	-61.9	-61.6	-60.2	-62.6	-62.9	-64.6	-69.1	-68.7	-69.7	-69.9	-72.2
Broad Money (M3)	175.8	195.5	190.4	191.9	195.7	207.3	210.7	220.4	221.9	232.6	234.7	258.3
Currency in Circulation	17.9	17.6	14.6	14.2	14.5	16.3	14.8	15.7	15.9	17.0	15.9	18.7
Total Deposits	157.9	177.9	175.7	177.7	181.3	191.0	195.9	204.7	205.9	215.6	218.8	239.6
Denars	89.6	94.1	86.4	86.1	84.2	90.5	93.4	99.7	100.0	106.8	107.9	118.5
FX	68.3	83.8	89.3	91.6	97.1	100.5	102.5	105.0	105.9	108.8	110.8	121.2
						(Year-on-year percent change)						
Private Sector Credit	39.0	34.1	24.3	13.6	5.9	3.1	2.8	6.1	8.1	7.3	8.0	9.0
Broad Money	29.3	11.2	6.6	1.2	-1.1	6.0	10.7	14.8	13.4	12.2	11.4	11.1
Private Sector Deposits	31.9	12.7	7.9	2.4	-0.1	7.3	11.5	15.2	13.6	12.9	11.7	11.1
						(Contribution to annual growth in broad money)						
NFA	1.1	-10.3	-13.3	-14.1	-9.5	1.9	6.3	11.7	2.5	2.5	8.5	7.4
NDA	28.2	21.5	20.0	15.2	8.4	4.1	4.4	3.1	10.8	9.7	2.9	3.7
Broad Money	29.3	11.2	6.6	1.2	-1.1	6.0	10.7	14.8	13.4	12.2	11.4	11.1
						(Percent of GDP)						
Private Sector Credit	35.7	42.5	42.9	42.8	43.2	43.9	44.7	45.5	45.7	45.3	46.2	45.5
Broad Money	48.2	47.5	46.0	46.5	47.8	50.5	51.5	53.4	53.1	54.4	54.9	55.7
Private Sector Deposits	43.3	43.2	42.4	43.0	44.3	46.5	47.9	49.6	49.2	50.5	51.2	51.7
Memorandum Items:												
Money Multiplier	4.6	4.8	5.2	5.1	4.7	4.5	4.8	4.6	4.9	4.7	5.0	5.2
Reserve Requirement Ratio (% of deposits)												
Denars	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
FX Indexed	10.0	10.0	10.0	10.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
FX	10.0	10.0	10.0	10.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Velocity	2.1	2.1	2.2	2.2	2.1	2.0	1.9	1.9	1.9	1.8	1.8	1.8

Source: NBRM, Staff Estimates

Table 7. FYR Macedonia: Financial Soundness Indicators of the Macedonian Banking System, 2005-11

	2005	2006	2007	2008	2009	2010				2011
						2010Q1	2010Q2	2010Q3	2010Q4	2011Q1
Capital adequacy										
Regulatory capital/risk weighted assets	21.3	18.3	17.0	16.2	16.4	16.8	16.5	16.4	16.1	16.8
Tier I capital/risk weighted assets 1/	24.3	18.9	15.7	14.0	13.8	14.3	13.9	13.7	13.4	14.1
Equity and reserves to Assets	15.8	13.3	11.4	11.5	11.4	11.6	11.3	11.1	10.6	11.0
Asset composition										
Structure of loans										
Enterprises (loans to enterprises/total loans)	61.7	59.0	54.9	54.2	58.7	59.1	58.9	58.9	58.9	59.0
Households (loans to households/total loans)	30.6	33.4	37.7	38.5	37.9	37.4	37.5	37.4	37.1	36.6
Lending with foreign currency component to private sector	49.2	52.7	54.7	57.0	58.5	58.9	58.6	58.0	58.8	58.3
Foreign currency lending/total credit to private sector	25.4	26.3	24.6	22.9	22.6	23.0	23.9	23.8	25.8	26.2
Foreign currency indexed lending/total credit to private sector	23.8	26.4	30.1	34.1	35.9	35.9	34.7	34.2	33.0	32.1
NPLs 2/										
NPLs / gross loans	15.0	11.2	7.5	6.7	8.9	9.7	9.9	10.4	9.0	9.1
NPLs net of provision / own funds	2.9	0.7	-5.0	-6.2	-0.6	1.1	1.2	3.7	-0.3	-1.5
Provisions to Non-Performing Loans	94.2	98.3	114.3	118.1	101.4	97.7	97.6	93.0	100.7	103.3
Large exposures/own funds	189.7	194.7	181.4	118.0	213.3	175.4	180.3	190.3	200.4	182.1
Connected lending										
Banking system exposure to subsidiaries and shareholders / own funds	4.3	5.2	5.6	3.1	11.4	10.1	9.8	10.1	8.8	10.9
Banking system equity investments/own funds	7.0	6.3	4.9	3.9	1.5	1.5	1.4	1.3	1.5	1.4
Earning and profitability										
ROAA 3/	1.2	1.8	1.8	1.4	0.6	0.1	0.4	0.5	0.8	-0.1
ROAE 3/	7.5	12.3	15.0	12.5	5.6	1.1	3.2	4.0	7.3	-1.0
Interest margin/gross income 4/	53.8	57.1	57.0	58.9	62.6	64.5	63.9	63.5	61.8	63.5
Noninterest expenses/gross income 5/	68.1	63.6	60.3	64.0	64.5	64.3	66.9	67.3	68.2	73.7
Personnel expenses/noninterest expenses	42.1	41.1	38.4	36.5	36.9	37.1	36.2	36.3	36.1	34.5
Interest Rates										
Local currency spreads	6.5	6.3	4.5	3.2	2.8	2.3	2.6	2.4	2.3	3.0
Foreign currency spreads	6.5	6.7	6.5	4.2	4.2	4.1	4.2	4.4	4.4	4.6
Interbank market interest rate	8.7	4.9	3.1	5.3	6.2	4.4	3.3	2.6	2.7	2.2
Liquidity										
Highly liquid assets/total assets 6/	15.0	18.0	20.9	16.9	20.6	22.0	23.7	24.0	25.3	24.2
Highly liquid assets/total short-term liabilities 7/	21.7	25.2	28.2	24.0	30.1	32.8	35.6	36.0	38.5	37.4
Customer deposits/total (noninterbank) loans	142.3	137.1	128.3	107.7	108.2	109.1	111.2	109.8	114.3	113.4
Foreign currency deposits/total deposits	55.7	51.8	44.5	48.1	56.2	55.9	54.8	54.5	53.5	53.8
Including foreign exchange-indexed 8/	58.5	56.1	51.5	54.8	60.9	59.3	58.5	56.2	55.5	55.9
Central bank credit to banks/bank liabilities	0.2	0.1	0.1	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Sensitivity to market risk										
Net open foreign exchange position / own funds	51.6	47.0	38.2	25.1	13.0	13.4	12.8	14.3	18.9	11.9

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 shares and the difference between the amount of necessary and the amount of allocated reserves for potential losses.

2/ Includes loans to financial and nonfinancial sector.

3/ Adjusted for unallocated provisions for potential loan losses. Since 31.03.2009 these items have been adjusted for unrecognized impairment.

4/ Interest margin is 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 extraordinary expenses.

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 31.03.2009, the figure refers only to FX indexed deposits.

Table 8. FYR Macedonia: Fiscal Debt Sustainability Framework, 2006-16

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2006	2007	2008	2009	2010			2011	2012	2013	2014	2015	2016	
								I. Baseline Projections						Debt-stabilizing primary balance 10/
Public sector debt 1/	32.0	24.0	20.7	23.8	24.6			**26.3**	**28.2**	**27.5**	**27.3**	**27.0**	**26.5**	**-0.5**
o/w foreign-currency denominated	19.6	14.7	13.7	16.5	16.9			20.2	22.4	21.2	21.2	20.2	19.0	
Change in public sector debt	-7.5	-8.0	-3.3	3.1	0.8			1.7	1.9	-0.8	-0.2	-0.3	-0.5	
Identified debt-creating flows (4+7+12)	-3.9	-3.3	-1.7	2.6	1.6			0.6	0.4	0.0	0.0	-0.1	-0.1	
Primary deficit	-0.4	-1.4	0.3	2.1	1.7			1.8	1.3	0.8	0.5	0.4	0.4	
Revenue and grants	32.0	32.2	32.5	30.5	30.1			30.9	31.5	31.7	31.8	32.0	32.0	
Primary (noninterest) expenditure	31.5	30.8	32.8	32.6	31.8			32.7	32.8	32.5	32.3	32.4	32.4	
Automatic debt dynamics 2/	2.3	-3.1	-2.0	0.6	-0.1			-1.2	-1.0	-0.8	-0.5	-0.5	-0.5	
Contribution from interest rate/growth differential 3/	-2.1	-3.1	-2.1	0.6	-0.2			-1.2	-1.0	-0.8	-0.5	-0.5	-0.5	
Of which contribution from real interest rate	-0.3	-1.4	-1.0	0.5	0.2			-0.6	0.0	0.3	0.6	0.5	0.5	
Of which contribution from real GDP growth	-1.8	-1.7	-1.1	0.2	-0.4			-0.7	-0.9	-1.1	-1.0	-1.0	-1.0	
Contribution from exchange rate depreciation 4/	4.4	0.0	0.0	-0.1	0.1			0.0	0.0	0.0	0.0	0.0	0.0	
Other identified debt-creating flows	-5.7	1.2	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-6.3	0.2	-0.4	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.6	1.0	0.4	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3)	-3.7	-4.7	-1.6	0.5	-0.8			1.1	1.5	-0.8	-0.2	-0.2	-0.4	
Public sector debt-to-revenue ratio 1/	100.1	74.5	63.7	77.9	81.9			85.2	89.5	86.6	85.8	84.3	82.7	
Gross financing need 5/	7.7	7.4	5.0	6.5	7.4			8.4	7.1	9.0	8.4	10.1	8.4	
in billions of Euros	0.4	0.4	0.3	0.4	0.5	10-Year Historical Average	10-Year Standard Deviation	0.6	0.6	0.8	0.8	1.0	0.9	Projected Average
Key Macroeconomic and Fiscal Assumptions														
Real GDP growth (in percent)	5.0	6.1	5.0	-0.9	1.8	2.5	3.3	3.0	3.7	4.2	4.0	4.0	4.0	4.0
Average nominal interest rate on public debt (in percent) 6/	2.7	2.8	3.0	2.9	3.2	2.9	0.4	3.1	3.6	4.0	4.0	4.1	4.3	4.0
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-0.6	-4.6	-4.4	2.2	1.1	-0.6	2.4	-2.3	0.0	1.3	2.3	2.1	2.1	1.5
Nominal appreciation (increase in US dollar value of local currency, in percent)	-15.3	0.0	-0.3	0.4	-0.5	1.3	11.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	3.3	7.4	7.4	0.7	2.2	3.6	2.4	5.3	3.7	2.8	1.7	2.0	2.1	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	3.8	11.6	-1.5	-0.6	2.6	6.1	5.9	4.2	3.3	3.1	4.6	3.9	3.8
Primary deficit	-0.4	-1.4	0.3	2.1	1.7	0.7	2.2	1.8	1.3	0.8	0.5	0.4	0.4	0.7
								II. Stress Tests for Public Debt Ratio						Debt-stabilizing primary balance 10/
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2011-2016 7/								**26.3**	**27.8**	**26.9**	**26.6**	**26.3**	**25.8**	**-0.8**
A2. No policy change (constant primary balance) in 2011-2016								**26.3**	**28.7**	**28.9**	**30.1**	**31.1**	**31.9**	**-0.6**
B. Bound Tests														
B1. Real interest rate is at baseline plus one standard deviations								**26.3**	**28.5**	**28.1**	**28.2**	**28.2**	**27.96**	**-0.2**
B2. Real GDP growth is at baseline minus one-half standard deviation								**26.3**	**29.2**	**29.9**	**31.7**	**34.0**	**36.51**	**-0.1**
B3. Primary balance is at baseline minus one-half standard deviation								**26.3**	**29.3**	**29.7**	**30.6**	**31.3**	**31.82**	**-0.6**
B4. Combination of B1-B3 using one-quarter standard deviation shocks								**26.3**	**29.1**	**29.3**	**30.0**	**30.6**	**30.99**	**-0.2**
B5. One time 30 percent real depreciation in 2012 9/								**26.3**	**38.1**	**37.0**	**36.7**	**36.2**	**35.54**	**-0.7**
B6. 10 percent of GDP increase in other debt-creating flows in 2012								**26.3**	**38.2**	**37.2**	**36.9**	**36.4**	**35.66**	**-0.7**

1/ Consolidated general government gross debt.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ Defined as general government deficit, plus amortization of medium and long-term general government debt, plus short-term debt at end of previous period.

6/ Derived as nominal interest expenditure divided by previous period debt stock.

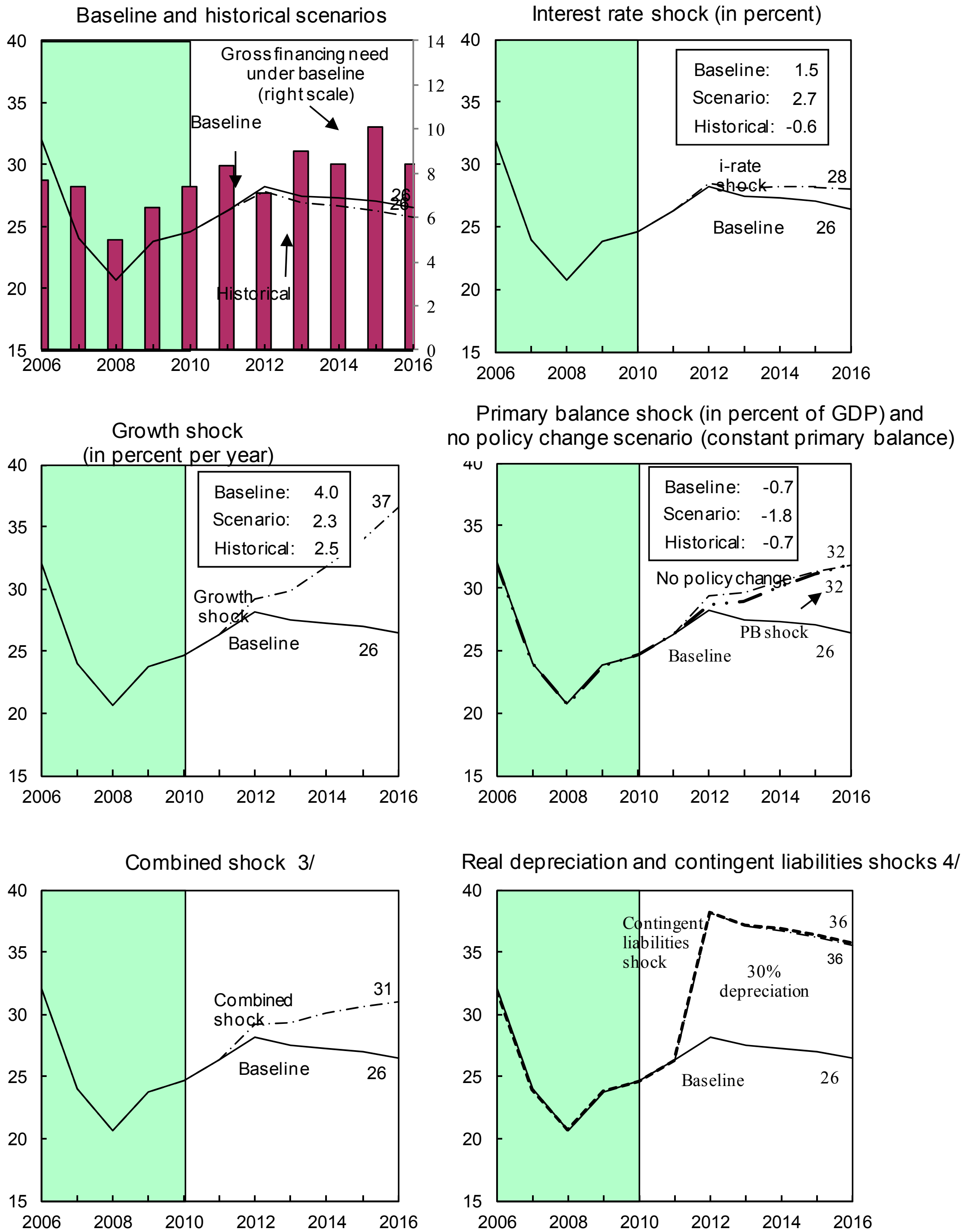
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ The implied change in other key variables under this scenario is discussed in the text.

9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

10/ 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.

Figure 4. FYR Macedonia: Public Debt Sustainability: Bound Tests 1/ 2/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 9. FYR Macedonia: External Debt Sustainability Framework, 2006-16
(In percent of GDP, unless otherwise indicated)

	Actual					10-Year	10-Year	Projections					
	2006	2007	2008	2009	2010	Historical Average	Standard Deviation	2011	2012	2013	2014	2015	2016
Baseline: External debt	47.9	47.6	49.2	56.4	61.9			**62.5**	**64.1**	**62.4**	**62.4**	**61.2**	**59.4**
Change in external debt	-4.7	-0.2	1.5	7.2	5.5			0.6	1.6	-1.7	0.0	-1.2	-1.8
Identified external debt-creating flows (4+8+9)	-10.4	-7.2	4.5	6.8	-1.6			0.3	0.1	-1.1	-1.6	-1.6	-1.5
Current account deficit, excluding interest payments	-0.6	5.4	11.5	5.4	1.0			3.4	4.3	3.4	3.1	3.2	3.4
Deficit in balance of goods and services	19.1	19.3	26.1	22.7	20.3			21.4	21.9	20.8	20.4	20.2	20.0
Exports	45.5	50.9	50.3	37.9	45.9			55.7	59.1	60.5	60.6	61.8	62.4
Imports	64.6	70.2	76.4	60.6	66.1			77.1	81.0	81.3	81.0	82.0	82.4
Net non-debt creating capital inflows (negative)	-7.1	-8.3	-3.0	-0.1	-2.4			-3.5	-4.4	-4.4	-4.8	-4.8	-4.8
Automatic debt dynamics 1/	-2.7	-4.4	-4.0	1.4	-0.2			0.4	0.2	-0.1	0.0	-0.1	-0.2
Contribution from nominal interest rate	1.5	1.5	1.3	1.3	1.7			2.1	2.4	2.4	2.4	2.3	2.1
Contribution from real GDP growth	-2.4	-2.6	-2.1	0.4	-1.0			-1.7	-2.2	-2.5	-2.3	-2.3	-2.3
Contribution from price and exchange rate changes 2/	-1.8	-3.3	-3.2	-0.3	-1.0			...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	5.8	7.0	-3.0	0.5	7.2			0.3	1.5	-0.6	1.6	0.4	-0.3
External debt-to-exports ratio (in percent)	105.2	93.6	97.7	148.9	135.0			112.2	108.5	103.2	103.0	99.0	95.2
Gross external financing need (in billions of US dollars) 4/	1.7	2.2	3.3	3.0	2.9			3.6	3.7	4.1	4.3	4.9	5.0
in percent of GDP	31.8	37.6	49.1	44.2	41.8			47.9	46.1	47.3	46.9	49.8	48.3
Scenario with key variables at their historical averages 5/								**62.5**	**64.8**	**64.5**	**65.7**	**65.9**	**65.4**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	5.0	6.1	5.0	-0.9	1.8	2.5	3.3	3.0	3.7	4.2	4.0	4.0	4.0
GDP deflator in US dollars (change in percent)	3.5	7.4	7.3	0.6	1.8	3.4	2.4	5.3	3.7	2.8	1.7	2.0	2.1
Nominal external interest rate (in percent)	3.0	3.7	3.1	2.6	3.1	3.2	0.6	3.7	4.1	4.0	4.0	3.9	3.7
Growth of exports (US dollar terms, in percent)	15.6	27.6	11.4	-24.9	25.5	7.4	17.2	31.9	14.0	9.6	5.9	8.2	7.2
Growth of imports (US dollar terms, in percent)	14.8	23.9	22.8	-20.9	13.1	7.4	14.6	26.6	12.9	7.5	5.3	7.4	6.8
Current account balance, excluding interest payments	0.6	-5.4	-11.5	-5.4	-1.0	-4.7	3.7	-3.4	-4.3	-3.4	-3.1	-3.2	-3.4
Net non-debt creating capital inflows	7.1	8.3	3.0	0.1	2.4	4.4	3.7	3.5	4.4	4.4	4.8	4.8	4.8

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

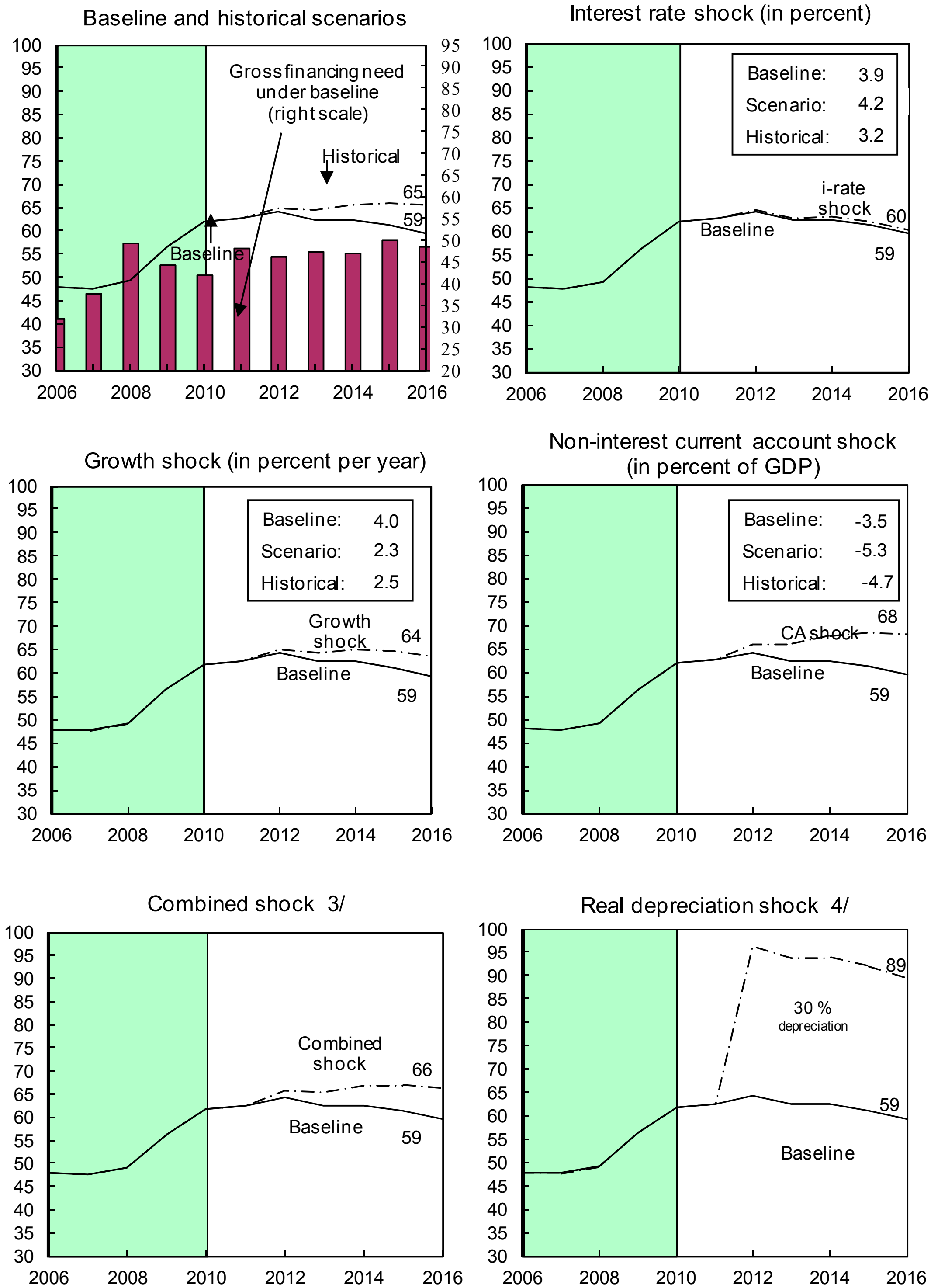
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 5. FYR Macedonia: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Table 10. Macedonia—Capacity to Repay Indicators 1/

	2010	2011	2012	2013	2014	2015	2016	2017
Exposure and Repayments (In SDR millions)								
GRA credit to Macedonia 2/	-	344.5	413.4	413.4	321.1	123.0	8.6	0.0
(In percent of quota)	-	500.0	600.0	600.0	466.0	178.5	12.5	0.0
Charges due on GRA credit 3/	-	3.2	10.6	10.7	10.6	6.5	1.5	0.4
Debt service due on GRA credit 4/	-	3.2	10.6	10.7	103.0	204.4	115.7	8.9
Debt and Debt Service Ratios 5/								
In percent of GDP								
Total external debt	58.4	59.3	61.1	59.6	59.8	58.7	57.1	55.6
External debt, public	16.9	20.2	22.4	21.2	21.2	20.2	19.0	18.7
Total public debt	24.6	26.3	28.2	27.5	27.3	27.0	26.5	26.0
GRA credit to Macedonia	-	5.2	5.9	5.5	4.1	1.5	0.1	0.0
Total external debt service 6/	22.4	24.6	23.3	25.3	24.5	27.1	25.0	25.2
Public external debt service 6/	1.2	1.3	1.4	3.6	2.5	4.2	1.7	1.7
Debt service due on GRA credit	-	0.0	0.1	0.1	1.3	2.5	1.3	0.1
In percent of Central Government Revenues								
Public external debt service 6/	4.0	4.1	4.5	11.4	7.9	13.0	5.4	5.3
Debt service due on GRA credit	-	0.2	0.5	0.5	4.1	7.7	4.1	0.3
In percent of Gross International Reserves								
Total external debt	236.7	219.0	210.2	208.6	197.7	190.8	184.1	181.3
External debt, public	68.5	74.5	77.0	74.0	70.1	65.5	61.2	61.0
GRA credit to Macedonia	-	19.3	20.1	19.2	13.5	4.8	0.3	0.0
Debt service due on GRA credit	-	0.2	0.5	0.5	4.3	8.0	4.3	0.3
In percent of Exports of Goods and Services								
Total external debt service 6/	48.9	44.0	39.4	41.9	40.5	43.9	40.0	40.5
Public external debt service 6/	2.6	2.2	2.4	6.0	4.2	6.8	2.8	2.7
Debt service due on GRA credit	-	0.1	0.3	0.2	2.2	4.0	2.1	0.2
In percent of Total External Debt								
GRA credit to Macedonia	-	8.8	9.6	9.2	6.8	2.5	0.2	0.0
In percent of Total External Debt Service								
Debt service due on GRA credit	-	0.2	0.6	0.6	5.3	9.1	5.3	0.4
In percent of Total Public External Debt								
GRA credit to Macedonia	-	25.9	26.1	26.0	19.2	7.3	0.5	0.0
In percent of Total Public External Debt Service								
Debt service due on GRA credit	-	3.9	10.7	4.0	51.7	58.9	76.5	5.6

Sources: Macedonian authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawings.
2/ Repurchases are assumed to be made as scheduled.
3/ Includes GRA basic rate of charge, surcharges and service fees.
4/ Includes charges due on GRA credit and payments on principal.
5/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed PCL.
6/ Interest on and amortization of medium and long-term debt.

Table 11. FYR Macedonia: Schedule and Terms Under the Precautionary Credit Line Arrangement

Review date	Conditions for access	Indicative targets				Structural benchmark		Credit available 3/			
		Central government overall fiscal deficit, ceiling (billions of denar) 1/	Outcome	Net international reserves (billions of Euro) 2/	Outcome	Debt management reform	Outcome	Million SDR	Million Euros 4/	Percent of Quota	Percent of Total Access
January 19,2011 5/	Board approval of the PCL	N/A		N/A				344.5	383.4	500	83.3
September 2, 2011 6/	First review, based on May 31, 2011 indicative targets	6.4	6.46	1.15	1.44			147.5	164.2	214	35.7
January 18, 2012	Second review, based on November 30, 2011 indicative targets and a structural benchmark	11.6		1.40		Publish a report laying out a road map for debt management reform, in consultation with Fund staff		216.4 7/	240.8	314	52.3
July 18, 2012	Third review, based on May 31, 2012 indicative targets (and structural benchmarks, if applicable)	To be set in the second review		To be set in the second review		To be set in the second review		216.4	240.8	314	52.3
Total								413.4	460.1	600	100.0

Source: Fund staff estimates.

1/ For the first review, the target is calculated as (i) 5/12 of the annual deficit target of denar 11.59 billion; plus (ii) 5/12 of the telecom dividend (anticipated to be denar 2.6 billion), which is expected to be received after May 31, plus (iii) a 10 percent margin to account for unanticipated lumpiness of revenues and expenditures.

2/ For the second review, the target is set at a level that assumes the government will issue external debt to private investors (including a Eurobond or syndicated loan) in the amount of €190 million by November 30, 2011. In the event that it does not issue such external debt by that date, or issues in an amount smaller than €190 million, the NIR target for November 30 will be adjusted downward by the shortfall of actual issuance relative to the amount of €190 million, with the downward adjustment limited to a maximum of €100 million.

3/ Credit available assuming no more purchase other than the one on March 30, 2011 of SDR 197 million (about €220 million).

4/ SDR/Euro exchange rate of 0.8985 as of July 6, 2011.

5/ Corresponds to the date of approval of the PCL arrangement.

6/ The first review was originally scheduled to be completed by July 18, 2011. However, this was not feasible due to the timing of the June 5, 2011 elections, and the inauguration of the new government on July 28. Therefore, the tentative date for Board discussion was set for September 2, 2011.

7/ SDR 68.9 million will be available on January 19, 2012.

ATTACHMENT: REQUEST FOR THE COMPLETION OF THE FIRST REVIEW UNDER THE PRECAUTIONARY CREDIT LINE ARRANGEMENT

Skopje, Macedonia
July 29, 2011

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Ms. Lagarde,

Macedonia remains committed to sound economic policies. Our performance during the first half of this year has been consistent with the economic program contained in our letter requesting approval of the Precautionary Credit Line (PCL) arrangement. The uncertainties and adverse conditions that motivated our purchase under the PCL have abated with the successful conclusion of the general elections in June and with the increasing signs of economic recovery, and we are confident that we will be able to meet our balance of payments and fiscal financing needs on private markets.

Economic recovery is gathering pace. Last year growth turned positive, though at a low rate. This year the continued growth of exports and strong investment are expected to boost growth to 3½ percent. Inflation has risen recently due to food and commodity prices, but core inflation remained contained at 1.3 percent in May, and we expect price pressures will gradually decline. Stronger growth and more robust investment are expected to cause the current account deficit to rise to 5½ - 6 percent of GDP this year, after 2.8 percent in 2010. However, this will be financed by private flows, including FDI, and we anticipate that international reserves will rise modestly from current levels over the rest of this year. Meanwhile, our financial sector remains in sound overall shape. Capital adequacy ratios remained above 16 percent in the first quarter, with a tier one ratio of 14 percent. Non-performing loans have receded from their peak of 10.4 percent last September to somewhat over 9 percent in March 2011 and are expected to decline gradually.

Our fiscal policies this year have been broadly consistent with the understandings in our PCL arrangement. The cumulative deficit through May was 6.46 billion, slightly exceeding the 6.4 billion indicative target under the arrangement, notwithstanding the unanticipated though modest costs of holding elections. Expenditures have been oriented towards capital spending, which increased close to 50 percent over the same period of last year, while nominal growth of the public sector wage bill has been contained to 1 percent. We are confident in our ability to achieve our annual 2011 fiscal deficit target of 2.5 percent of GDP under the PCL, and we stand ready if necessary to contain expenditures to achieve the target. We reaffirm that we will reduce our fiscal deficit to 2.2 percent of GDP in 2012, in line with the understandings in our PCL request.

In the area of monetary policy, we have kept our benchmark interest rate unchanged at 4 percent since last December. Our reserves are at broadly adequate levels and comfortably above the indicative target set under the PCL. Based on current circumstances, we judge our benchmark rate to be at an appropriate level, but we stand ready to adjust it as necessary to achieve our goals of exchange rate and price stability.

We have passed the new NBRM law and made operational the Financial Stability Council, which should help to improve our crisis preparedness. We remain committed to making legal changes to address the risk of court challenges to NBRM decisions on licensing, administration and closing of banks and to close gaps in our ability to impose fit and proper requirements on bank owners and managers, and we are making progress in our efforts to widen the class of assets that banks may use to access liquidity support from the NBRM. In the area of data adequacy, we have developed a roadmap for SDDS subscription by not later than November 2012, drawing upon IMF Technical Assistance. In accordance with this roadmap, we have set up a national data dissemination page, started to compile GDP data by production method, and agreed with the IMF statistics department on the presentation of the reserves template we regularly publish. We are confident that we will be successful in implementing the remaining actions in the roadmap, leading to SDDS subscription by 2012.

Our purchase last March under the PCL was made in the context of early general elections that were motivated by unanticipated political events. This created an environment of uncertainty that reduced our access to external and domestic markets to meet our balance of payments and fiscal financing needs. We explored alternatives to the PCL, meeting with external and domestic bankers to seek a solution based on market financing. Notwithstanding stable secondary market yields on our external debt, we concluded that market conditions were unfavorable and that private financing would be available only at significantly higher interest rates that would send a negative signal, increase risks to external stability, and threaten the incipient economic recovery. The PCL purchase allowed us to meet external and domestic financial obligations without putting pressure on our foreign exchange reserves.

The elections were successfully concluded on June 5, giving the government a new four-year mandate and removing political uncertainties. Looking forward, we are confident that we will be able to meet our financing needs from market sources and will not need to make any further purchases under the PCL. In this context, we are confident that we will meet our end-November floor for net international reserves (indicative target under the PCL) with a comfortable margin and request an increase in the floor by €50 million[1]. We are also

[1] We also request that the adjustor to the NIR floor be modified so as to include all sovereign external debt issues to the private sector rather than only Eurobonds. The modified language will read: "The indicative target on NIR is set at a level that assumes the government will issue external debt to private investors (including a Eurobond or syndicated loan) in the amount of €190 million by November 30, 2011. In the event that it does not issue such external debt by that date, or issues in an amount smaller than €190 million, the NIR target for November 30 will be adjusted downward by the shortfall of actual issuance relative to the amount of €190 million, with the downward adjustment limited to a maximum of €100 million."

committed to looking for opportunities to repay our PCL purchase early, provided that financing conditions are favorable.

With the support of the PCL purchase, we have largely met our fiscal financing needs for 2011. To cover remaining needs for 2011 and finance our 2012 fiscal deficit, we plan to issue debt in the fall of 2011 through a Eurobond or syndicated loan which may be supported by a World Bank Policy Based Guarantee. In the event of unfavorable external market conditions, we will meet residual 2011 needs through domestic debt issuance and issue a Eurobond in 2012 to finance the 2012 budget. We also intend to increase the size of the domestic T-bill market in 2012 as part of our plan to deepen domestic debt markets. We plan to issue a Eurobond in the second half of 2012 to pre-finance the January 2013 maturity of our €175 million Eurobond. This financing strategy will be reflected in our 2012 budget. We are fully confident that our financing plans for the 2012 budget are robust, and we are prepared if necessary to pay higher interest rates than currently prevail, to secure adequate financing. In this context, our PCL arrangement will support our financing plans by improving investor confidence and providing an extra buffer for the event of an extreme scenario that results in a substantial deterioration of access to market financing and significant balance of payments pressures.

In order to reduce our exposure to future volatility in external financing conditions, we are committed to strengthening our debt management strategy for both external and domestic financing. On the external side, our goals include improving the liquidity of our debt instruments, increasing the security of market access, and managing rollover risk. On the domestic side we will seek to deepen our T-bill market, so that it can play an increasing role in fiscal financing and provide a more robust alternative to external financing in the event of adverse external conditions. To this end, we have requested technical assistance from the IMF, whose objectives will be to help us design strategies, institutional arrangements, and market practices to achieve these goals. We are committed to developing a plan that lays out the steps and timetable for achieving our debt management reform goals, in consultation with the IMF, and we request that publication of this plan be set as a structural benchmark for completion of the second review under our PCL arrangement.

We believe that the policies described in this letter are adequate to achieve the objectives of the program, and we stand ready to take further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of revisions to policies described in this letter, in accordance with the Fund's policies on such consultation.

In summary, prospects for growth and stability are favorable, and political uncertainties have receded. We are confident that we will be able to meet our financing needs through market sources during the PCL program period and are committed to improving the resilience of our financing and debt management strategies. Nonetheless, we continue to face risks from external developments, and the security provided by the PCL remains important for preserving confidence and augmenting our buffers. The understandings in this letter, together with our December 30, 2010 letter requesting approval of the PCL and its attachment, define our economic program supported by the PCL arrangement. On this basis, we would like to request the completion of the first review under the PCL.

/s/	/s/
Zoran Stavreski	Dimitar Bogov
Vice Prime Minister and	Governor of National Bank of
Minister of Finance	The Republic of Macedonia

Statement by the Staff Representative on the Former Yugoslav Republic of Macedonia
Executive Board Meeting
September 2, 2011

This statement provides information that has become available since the issuance of the staff report (EBS/11/126). The new information does not alter the thrust of the staff appraisal.

1. **The cumulative fiscal outturn through July 2011 was 1.9 percent of projected annual GDP**. This suggests that the authorities may need increased restraint on discretionary spending for the remainder of the year to meet their 2011 budget deficit target of 2.5 percent of GDP.

2. **Inflation in July 2011 was 3.8 percent**. This figure is consistent with the staff report projections of 4.4 (average) and 3.7 percent (end-year).

3. **GDP grew 5.1 percent year-on-year in the first quarter of 2011**. This is broadly consistent with the staff projection of annual growth in 2011 of 3 percent.

4. **Gross international reserves were €1.86 billion (about 107 percent of end-2010 short-term debt at residual maturity) on August 19.** Net international reserves (under the program exchange rate) were €1.37 billion on August 19, about €65 million above the new end-November target (assuming no official borrowing from private external markets by then). The trade deficit in June remained stable at about €130 million, with both year-on-year export and import growth declining, possibly reflecting the easing of metal and fuel prices.

5. **Macedonian government Eurobond yields have not been notably affected by sovereign debt market pressures in the Eurozone thus far**. The yield on Macedonia's Eurobond maturing in 2015 was 5.5 percent on August 25, similar to the average in June and July and lower than the average for the previous months of the year. Spreads over German bunds have increased by almost 1 percentage point during the last month, as German yields have fallen with investor flight to safe havens.

Press Release No. 11/322
FOR IMMEDIATE RELEASE
September 2, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review under the Precautionary Credit Line with the Former Yugoslav Republic of Macedonia

The Executive Board of the International Monetary Fund today completed the first review of Macedonia's performance under an economic program supported by a two-year Precautionary Credit Line (PCL) arrangement reaffirmed Macedonia's continued qualification to access PCL resources. The arrangement was approved on January 19, 2011 (see Press Release No. 11/14) in the amount equivalent to SDR 413.4 million (about €463.3 million, 600 percent of quota). The access under the arrangement in the first year is equivalent to SDR 344.5 million (about €386.1 million, 500 percent of quota), rising in the second year to cumulatively SDR 413.4 million. In March 2011, the Macedonian authorities drew SDR 197 million (about €220.8 million, 286 percent of quota) of the resources available to them in the first year under the PCL (see Press Release No. 11/98)

Following the Executive Board's discussion, Ms. Nemat Shafik, Deputy Managing Director and Acting Chair said:

"Macedonia continues to pursue sound economic policies that are consistent with the program supported by the Precautionary Credit Line (PCL) arrangement. Growth has picked up, underlying inflation remains low, international reserves have been broadly stable, and the 2011 fiscal deficit target under the program is within reach."

"Nonetheless, Macedonia's decision in March 2011 to make a purchase under the PCL arrangement highlighted remaining external vulnerabilities. The authorities are strengthening debt management policies and practices, focusing both on improving access to external funding and on developing the domestic public debt market. This will help to ensure that Macedonia is able to meet its financing needs from private market sources in the future. In this context, the authorities intend to publish an action plan on debt management reforms and will draw upon IMF technical assistance for this initiative."

"Despite sound policies and fundamentals, Macedonia remains exposed to unusually high levels of risk related to global growth and financial conditions as well as regional developments. This calls for continued vigilance and further efforts to address remaining vulnerabilities and improve data adequacy. The PCL plays a valuable role in supporting market confidence by signaling Macedonia's commitment to prudent policies and strengthening its reserve buffers. While Macedonia is not expected to require further purchases under the PCL, the availability of these resources provides additional insurance against adverse external developments."

Statement by Age Bakker, Executive Director for Former Yugoslav Republic of Macedonia and Mihai Nicolae Tanasescu, Senior Advisor to Executive Director September 2, 2011

Political and economic developments

General elections were held June 5, 2011, in which the incumbent VMRO DRMNE party and its Albanian coalition partner retained their parliamentary majority. The new government was inaugurated on July 28 for a period of four years.

Macedonia has sound economic fundamentals. As elsewhere, the country was affected by the global economic crisis, but recovery from the 2009 recession is underway. Last year growth turned positive, and was led by a surge in exports. This year continued growth of exports and strong investment are expected to boost growth to 3.5 percent. This economic recovery is supported also by lower interest rates, and by recent moderate resumption of bank credit. Risks related to growth projections still exist however, especially in case export demand fails to continue recovering as expected. Vulnerabilities in euro zone countries could spill over to Macedonia through the current and capital accounts, and could hamper access to international capital markets. On the upside, progress towards EU accession would improve prospects for attracting foreign investment.

Inflation has risen recently due to food and commodity prices, but core inflation remained contained at around 1 percent and is expected to remain low.

The external position is solid, but stronger growth and more robust investment are expected to cause the current account deficit to rise to 5.5 percent of GDP this year, after 2.8 percent in 2010. On the positive side, the current account deficit will be financed largely by FDI, and international reserves are expected to rise from current levels over the rest of the year. Net international reserves were 1.44 billion euros at end-May, well above the indicative target under the PCL.

Fiscal policy and financing needs

In recent years the authorities have had a track record of sound fiscal policies, and fiscal policies this year have been consistent with the PCL program. Despite exceeding the fiscal deficit target by 0.01 percent of GDP, the authorities are fully committed to achieving the annual fiscal deficit target of 2.5 percent of GDP, and are ready to take the necessary steps to contain expenditures to achieve the target. At the same time, the Macedonian authorities will reduce the fiscal deficit to 2.2 percent of GDP in 2012. Over the medium term the authorities plan to reduce the fiscal deficit to 1.5 percent of GDP, which will stabilize public debt near 25 percent of GDP and help protect international reserves and the peg.

With the support of the PCL purchase, the authorities largely met their external and fiscal financing needs for 2011. To cover remaining fiscal needs for 2011 and finance part of the 2012 fiscal deficit, the authorities plan to issue debt in the fall of 2011 through a

Eurobond or syndicated loan which may be supported by a World Bank Policy Based Guarantee. In the event of unfavorable external market conditions in the latter part of 2011, the Macedonian authorities will issue debt on the domestic markets. They also intend to increase the size of the domestic T-bills market in 2012. At the same time, the authorities intend to launch a new Eurobond in the second half of 2012 to pre-finance the January 2013 maturity of the 175 million euros Eurobond issued in 2009.

The authorities' decision to purchase under the PCL reflected the lack of access to private debt markets, due in large part to electoral uncertainties, which have now been resolved. Looking forward, the authorities do not expect to make further purchases under the PCL, and are confident that they will be able to access external markets, even if they are required to pay a premium over current interest rates. The authorities are also committed to developing deeper external and domestic markets for Macedonian public debt, which will help to address remaining vulnerabilities, and they welcome IMF technical assistance in this area.

The authorities remain committed to looking for opportunities, when market conditions are favorable, to repay their PCL purchase early. However, they consider that early repayment is not advisable this year in light of the considerable uncertainties still prevalent in the world economy and the importance of first securing financing for 2012 fiscal financing needs.

Monetary policy and financial sector

The National Bank of the Republic of Macedonia (NBRM) continues to play a central role in ensuring the stability of the exchange rate peg, and in maintaining low inflation. The NBRM has kept the interest rate unchanged at 4 percent since last December, and the reserves are at broadly adequate levels and comfortably above the indicative target set under the PCL. In light of the favorable prospects for international reserves, the authorities agreed to an increase of 50 million euros in the end-November indicative target for NIR, which would provide an adequate buffer, and will send a positive signal to the markets on the authorities' intention to safeguard the stronger reserve position resulting from the PCL purchase. The authorities will remain vigilant to keep monetary policy the main anchor in keeping a stable exchange rate regime backed by an adequate level of international reserves.

The financial sector and bank regulatory framework are both sound, and the banks are well capitalized. At end-March 2011 the capital adequacy ratio was around 17 percent, providing a significant buffer against shocks. NPLs started to decline from their peak of 10 percent last September and are expected to continue declining gradually.

Finally, we would like to express the authorities' commitment to continuing to implement sound policies. However, external risks remain very high due to question marks over global growth prospects and financial turbulence in the euro area. The authorities consider the PCL a significant additional buffer that will improve market confidence and provide an extra buffer for the event of an extreme scenario that results in deterioration of access to market financing and significant balance of payments pressure.