

1. The world economy is facing one of the worst crises and at such a volatile time it's very hard to give any predictions. But what does the IMF expect about the global economy this year?

A: The IMF published revised growth projections for the world economy and the major economies yesterday. World growth was revised downward to between minus 1 and minus 0.5 percent for 2009. For the eurozone—important for Macedonia, both as a source of remittances and as a key export destination—the number was reduced to minus 3.2 percent for 2009.

2. It seems that the world economic model is fundamentally broken and that the well known policies on the recession aren't working. What should be done in order to stabilize financial markets and overcome the economic crisis?

A: The crisis has exposed weaknesses in financial sector supervision that will need to be addressed. Immediate action is needed on two fronts—to restore financial sectors to health, and to bolster demand to sustain a durable recovery in global activity. Cleaning bank balance sheets—through various approaches, tailored to individual institution and country circumstances—will be critical to restore confidence in financial institutions.

3. It is obvious that the role and functions of the IMF need to be changed. What is the new role of the IMF in this economic crisis?

Already, the IMF has provided significant financial support to more than 10 countries since late last year, and is discussing support with many more. This includes support programs that are in place or under discussion for several European countries including Hungary, Ukraine, Serbia, Latvia, Romania, and Belarus.

Looking forward, the G-20 Ministers of Finance met in London, on March 14, and called for a number of actions related to the IMF. **First**, the G-20 called for a significant expansion of IMF resources to help ensure it has adequate funds to assist countries in dealing with the current crisis. Already, Japan has provided a \$100 billion loan, and significant contributions from others are expected. **Second**, the G-20 emphasized the need for a global fiscal expansion to support flagging demand, and called upon the IMF assess 'actions taken and actions required'. And **third**, it called for a greater voice of emerging and developing countries in the IMF. As the G-20 represent the vast majority of shareholders in the Fund, these issues will be top priorities for the IMF.

The Fund is also in the process of reforming its lending facilities to make them more flexible and raising its normal limits for lending to members

4. Where is Macedonia in the IMF scenarios and estimations ?

The latest IMF report on Macedonia, prepared in late 2008 and published in February, projected 2009 output growth at 3 percent. But Macedonia will obviously not escape the consequences of the deepening global downturn. In the next revision, to be published in

the April World Economic Outlook, growth projections around the world, including Macedonia, will be reduced.

5. As a representative of the IMF in Macedonia you can closely evaluate effects of this economic crisis on the Macedonian economy. Where do you see the biggest challenges and dangers for Macedonia?

The direct impact of the crisis on Macedonia's financial sector has been limited so far. But the crisis has weakened Macedonia's external position, via a number of channels. First, metals production—a major exporter—fell almost 80 percent year-on-year in January. Second, private transfers fell sharply in 2008, by more than 10 percent relative to 2007. This reflects a number of factors: declining economic activity in the eurozone, as well as uncertainties in Macedonia. Third, the international credit crunch led to a contraction in foreign direct investment, from more than 250 million euro in the first half of the 2008 to about euro 160 million in the second half of the year. As a result of these developments, the current account deficit increased to 14 percent of GDP in 2008, and international reserves declined from €1.7 billion at end-September 2008 to €1.5 billion at the end of the year.

6. What is the biggest threat for the macroeconomic stability of the Macedonian economy?

The challenge of the external deficit needs to be addressed by both monetary and fiscal policy. The prudential measures announced by the NBRM in December should help reduce credit growth and imports. But the government ran a fiscal deficit of 11 billion denar (3 percent of annual GDP) in December 2008 alone—this will worsen the external deficit. The accelerated government spending took the cumulative budget balance for the year from a 2 percent surplus at end-November to a 1 percent deficit at end-December. Moreover, parliament approved a 2009 budget with a deficit of 2.8 percent of GDP—a further fiscal expansion. Revenue projections are based on the very optimistic assumption that economic growth this year will reach 5½ percent—a desirable objective, but incredibly difficult to achieve given the current world recession. If a more realistic projection is used, execution of the expenditure side of the budget would result in an even higher deficit.

7. Lately, there has been certain speculations about the stability of denar and the negative aspects of its fixed exchange rate. How seriously is Macedonian currency endangered and do you think that now is the moment to consider the policy of fixed exchange rate to be modified?

The pegged exchange rate regime has served Macedonia well and has been appropriate for Macedonia's small open economy, in particular in light of trade concentration towards the euro area, and partial euroization of the financial sector. But the regime needs to be supported by both monetary and fiscal policy. A fixed exchange rate regime means that the exchange rate is not available to help redirect demand and spending from foreign goods to domestically produced goods. Hence it requires strong policy efforts to contain the economy's overall spending.

8. How seriously may current crisis affect the budget and process of collecting the planned revenues in the treasury?

In the first two months of this year, revenue (in denar terms) came in about 2 percent lower than in 2008. According to the 2009 budget, revenue should be about 14 percent higher than last year. Hence a large fiscal gap can be expected for 2009.

9. What is your opinion about the government plan to invest 8 billion Euros in the infrastructure projects? How real is this in the time of worst economic and financial crisis?

Under current conditions, it will be very difficult to attract new investors—but I understand that the plans refer to the period 2009-2016.

For the medium term, the need for higher public investment is clear. Borrowing to finance growth is normal for an emerging economy--as long as debt levels remain sustainable, and sufficient international reserves are maintained. The problem is that, under current government plans, over the medium term, external debt and reserves are projected to fall short of internationally accepted comfort levels.

10. What would be your advice to the Macedonian government about the way Macedonia should response to this crisis in order to avoid the worst possible consequences?

In the face of the crisis, Macedonia needs to adopt a comprehensive and consistent plan to maintain macroeconomic stability. Any such stabilization plan will have to include a significant tightening of fiscal policy. While many advanced countries are trying to support demand through more expansionary monetary and fiscal policies, in Macedonia the room for such policies is constrained by an already large overhang of public and private spending over incomes, reflected in a large current account deficit, and by the challenge of finding financing for fiscal deficits. The 2009 budget should be revised and tightened as soon as possible.