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Statement by an IMF Mission to the Former Yugoslav Republic of Macedonia

An International Monetary Fund (IMF) mission headed by Wes McGrew visited Skopje from June 14-22. The purpose of the visit was to discuss economic policies with the authorities and assess economic and financial conditions in the context of the first review under the Precautionary Credit Line (PCL). The team would like to thank the Macedonian authorities for their hospitality and open discussions.

The economic recovery that began last year is continuing, and the mission expects growth to be 3 percent this year, supported by robust growth of exports and investment spending. Inflation has risen on the back of higher food and fuel prices, but these pressures have stabilized and should recede, while core inflation remains low. Macedonia's external balances remained contained and should be financed largely by foreign direct investment, with international reserves remaining at adequate levels. The financial sector remains in sound overall shape, with strong capital adequacy levels, ample liquidity, and stabilization of non-performing loans. This broadly favorable outlook remains subject to risks from adverse external developments, calling for vigilance and attention to preserving adequate buffers.

Based on preliminary data, it appears that economic policies have been consistent with the authorities' program supported by the PCL, including the fiscal deficit and level of foreign exchange reserves. The authorities reaffirmed their commitment to achieve their fiscal deficit target of 2½ percent of GDP in 2011, and to reduce the deficit to close to 2 percent of GDP in 2012. In the area of monetary policy, the current stance appears consistent with stability of the exchange rate and containment of inflation and it will be important for the National Bank to remain ready to adjust policies as necessary to safeguard those objectives.

The mission discussed with the authorities their decision to draw upon the PCL and their financing and debt management strategies for 2011 and 2012. The authorities' decision reflected their assessment that market conditions were unfavorable due in large part to the early elections, including difficulty in executing their planned Eurobond issuance. They agreed that market uncertainties had receded with the conclusion of the elections and affirmed their intention to meet future fiscal and external financing needs from market sources, including both external and domestic debt issuance. The mission supports the authorities' intention to strengthen their debt management and financing strategies with the goal of ensuring more secure access to private external financing and deepening the domestic debt markets.

Notwithstanding improved conditions, Macedonia continues to face risks from external developments. In this context, the PCL can help to buttress market confidence and augment reserve buffers in the event of unexpected adverse external developments. On the basis of the authorities' record in the first part of this year and their continued commitment to achieving the goals of their economic program for the remainder of 2011, the mission will recommend completion of the first PCL review to IMF management.

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