

Прашања за интервју со Александар Тиeman, резидентен претставник на ММФ во Македонија

1. Како ја оценувате моменталната економска ситуација во Македонија и какви се вашите очекувања до крајот на годинава?

What is your assessment of the current economic situation in Macedonia and what are your expectations until the end of this year?

We think Macedonia's economy will grow about 2 percent this year. The recovery that was apparent in the first half of 2011 lost steam towards the end of the year, and growth in the beginning of 2012 has likely slowed. This growth slowdown is mainly due to the projected shallow recession in the euro area.

Around this baseline forecast, we see risks mainly on the downside. A deeper recession in the euro area would affect Macedonia through lower exports and remittances, and a slowdown of foreign direct investment (FDI).

In the longer term, we see the growth potential of the Macedonian economy at about 4 percent on average per year. In order to boost this growth potential and structurally reduce unemployment and raise living standards, more structural reform is necessary. The authorities' strategy in this regard appropriately focuses on investment in infrastructure and education, preserving low taxes and attracting FDI.

2. Владата објави нови антикризни мерки со кои тврди дека ќе им помогне на компаниите да ја пребродат кризата. Дали е тоа доволно, колку тие мерки реално може да ги ублажат ефектите од кризата?

The government has announced new anti-crisis measures claiming that they will help companies to overcome the crisis. Is that enough, how can these measures truly soften the effects from the crisis?

3. Една од новите владини мерки е и вработување на 4.000 луѓе во државниот сектор, а освен тоа, Владата планира и зголемување на платите на администрацијата. Дали ги оправдувате ваквите политики во време на криза?

One of the new measures is employing 4,000 people in the public sector and the government also plans to increase the administration salaries. Do you justify such policy in the time of crisis?

The current economic crisis has its origins outside of Macedonia. Therefore, the authorities have very limited means to influence the causes of the crisis. Nevertheless, the authorities can alleviate the consequences of the crisis on the domestic economy. In general terms, preserving a stable macroeconomic environment, with low taxes and an accommodative monetary policy, are important ingredients.

In terms of measures the authorities took in light of the crisis, I would highlight three things: the revised budget, the new monetary policy measures (on which more below) and the recently announced measures on employment.

With respect to the budget, the recent supplementary budget is more realistic than the original budget, as it is based on economic growth of 2.5 percent versus 4.5 percent in the original budget. Still, our forecast for revenue growth remains below that in the revised budget by about 1 percent of GDP. This suggests that further expenditure cuts may be needed later in the year in order to preserve the 2.5 percent fiscal deficit target.

The government recently announced a new set of anti-crisis measures. I understand that the new measures aim to lessen long-term unemployment by subsidizing employers who hire a long-term unemployed person, and employing unemployed persons directly at the local government level. In addition, the program aims to provide additional resources for small and medium-sized enterprises through the development bank; to legalize certain unregistered agricultural assets; and increase the heating subsidy for poor families. When implemented well, most of these measures would work in the right direction, not just during the crisis, but also in the longer term.

However, it is important to ensure that these measures can be paid for and do not come at the expense of reducing other needed activities, such as public investment, which is also an important source of job creation. In addition, the public administration needs comprehensive reform to ensure that the new workers are productively employed. And, in addition, these kinds of employment strategies should also be carefully aligned with other decentralization initiatives.

4. Задолжувањата на државата во последно време се интензивираат. Освен заемот од Дојче банк, Владата за еден месец позајми 232 милиони евра со записи. Дали тоа укажува дека состојбата во државната каса е лоша?

The government borrowings have intensified recently. Besides the loan from Deutsche Bank, the government within one month has also borrowed Euro 232 million in T-bills. Does that point out to the fact that the budget is in bad shape?

The government's borrowing strategy seems to be broadly in line with previous IMF advice. We have advised the government to access the external capital market early in the year and deepen the domestic debt market.

The government runs a budget deficit. Like any household, if you run a deficit, you need to finance it. Part of the financing for the 2012 budget was obtained in December 2011 through a commercial loan guaranteed by the World Bank. The remaining part of the deficit will be covered by the loan agreed with Deutsche Bank. In addition, this loan will enable the government to repay the €175 million Eurobond it concluded in 2009 and which it needs to pay back in January 2013. This sort of pre-financing is a prudent strategy that takes away an important risk.

In addition to borrowing externally, we think the government needs to develop the domestic debt market. This means borrowing, in denars, at longer maturities and increasing volumes. As there is much excess liquidity in the financial system, in our judgment, increased borrowing volumes would be unlikely to crowd out lending to the private sector. In fact, the government has this calendar year borrowed some € 160 million net on the domestic market, mainly in the form of 3 and 6 month T-bills. This is in addition to the external borrowing discussed above. Such increased issuance volume is in line with our advice on debt market development. However, in order to develop the yield curve and reduce roll-over risk, we would advise to lengthen maturities, and pay the higher interest rates that go with longer maturities. Generally speaking, domestic borrowing in local currency is less risky than external borrowing. Increased liquidity and depth of the domestic market will allow for better management of risks, and establishing a reference yield curve will generate positive externalities for the private sector.

Such market development requires a medium-term comprehensive strategy, and involves many incremental steps. The recently started issuance of 5-year treasury bonds is a welcome development, as is the introduction in April of a

weekly repo auction by the National Bank. Another important ingredient is committing to paying market interest rates, which vary with market circumstances. However, the recently introduced restrictions preventing the second pillar pension funds from investing in Macedonian Eurobonds is an unwelcome development, as it both weakens the Eurobond market and limits the investment opportunities of these funds, going against principles of risk diversification and maximization of returns.

5. Најголем дел од парите што ги собира од даноци и придонеси, и од тие што ги позајмува, Владата ги троши за тековни потреби. Со последниот ребаланс на Буџетот, повторно најмногу се скратија парите за капитални инвестиции. Каква е Вашата препорака до Владата, како да се промени структурата на Буџетот и повеќе пари да се инвестираат во инфраструктура и зошто е тоа важно?

Most of the money from tax revenues and contributions, as well as from the loans, the government is using for current expenditures. With the latest supplementary budget, again most of the cuts were in the area of capital investments. What is your suggestion to the Government, how should the budget structure be changed so that more money can be invested in infrastructure and why is that important?

Designing a country's budget always involves difficult choices. The Macedonian authorities want to maintain a low tax environment, with modest budget deficits and low public debt. In addition, they would like to further reduce social contributions in order to boost employment. At the same time, there is a need for substantial investment in infrastructure and education, and the government has publicly talked about plans to increase public sector salaries and pensions. But you need to collect each denar in spending from the citizens in taxes, and even then, you can only spend each denar once. Therefore, a budget requires the authorities to make trade-offs between competing priorities, and explain the resulting choices to the citizens.

In order to be better equipped to make the choices involved in drafting a budget, the country would benefit from a greater focus on medium-term budget planning. Such planning should be based on medium and long-term priorities and a realistic assessment of available fiscal space, and would allow for difficult trade-offs to be made.

Investment in infrastructure and education are obviously important in order to raise the long-term growth potential of the Macedonian economy. Higher growth allows for faster convergence to European living standards and lower unemployment. The government seems clearly aware of these issues, and has raised its investment budget substantially over the years. Even with the cut to capital expenditure envisaged in the supplementary budget, this item is still projected to increase substantially this year. Over the medium-term, it is important to create enough space in the budget to accommodate these investment needs.

The government needs to carefully weigh current expenditures against capital investment. In this regards, we think public administration reform, aimed at improving efficiency and containing the public sector wage bill, would help to create fiscal space. In addition, discretionary pension increases, over and above the indexation formula, should be avoided, and the current policies of public wage restraint should be continued.

6. Планира ли ММФ да сугерира зголемување на стапката на ДДВ во земјава за да се зголемат приходите во државната каса? Во кои услови ќе и го предложите ова решение на Владата?

Does the IMF plan to suggest the VAT increase in our country so the budget revenues could increase as well? In which situation you would suggest this solution to the Government?

No. We have not discussed VAT or other tax increases with the authorities. While the central government budget, at some 32 percent of GDP, is modest by regional standards, this is the result of a clear choice to be a relatively low-tax economy, and run modest deficits. This, of course, does limit the government in terms of expenditure, and therefore requires the authorities to make sometimes difficult choices between competing priorities, as explained above.

We have suggested that over the medium-term, the government consolidate its budget. In order to keep the public debt at sustainable levels, we recommend that, over the medium term, the fiscal deficit be reduced to below 1.5 percent of GDP. Higher deficits will lead to ever increasing debt. In contrast, low deficits in good times create space for counter-cyclical policies during downturns.

7. Знаете ли колкав е реално проблемот со долговите на државата кон приватните компании, бидејќи никој од министрите јавно не сака да зборува

за тоа, а компаниите зборуваат дека тоа веќе им создава многу големи проблеми во работењето. Сте зборувале ли досега со Владата како тоа може да се надмине?

Do you know how really big is the problem with the money that the state owes to private companies, since none of the ministers wants to talk about that publicly, and the companies say that this has already created very big problems in their working. Have you so far discussed that with the Government and how can that be solved?

While it is clear that government payment and VAT refund arrears are widespread, we do not have numbers on the exact scale and scope of the problem. We have discussed the issue of arrears extensively with the government, and advise that the government should make the total amount of arrears public and commit to reduce this amount over time. This advice is along the lines of the policy employed successfully by the Bulgarian authorities to deal with their payment arrears over the last few years. In addition, we think the practice of seeking to reschedule amounts due to private suppliers for goods and services already delivered should be discontinued, because it is not transparent and suppliers may feel they have little choice if they want continued access to government contracts.

We have also suggested that the government strengthen its commitment control systems and the enforcement of budget laws and procedures. This would prevent budget users from making commitments that are not matched by budget appropriations. It would also ensure that annual budgets provide funding for existing multi-year contracts, and hence would go some way towards preventing the re-occurrence of payment arrears in the future.

8. Тешкиот пристап до кредити за компаниите е исто така еден од поголемите проблеми. Наместо во кредити, банкарите ги инвестираат парите во државни и благајнички записи. Очекувате ли да се зголеми кредитирањето откако Народната банка донесе нови мерки во таа насока? Каде е според Вас проблемот што банките во изминатиов период избегнуваат да ги кредитираат компаниите?

One of the major problems is also the difficult approach to loans by companies. Instead of loans, the banks invest in T- or CB-bills. Do you expect the crediting to increase after the NBRM has adopted new measures in that direction? What is in your opinion the problem due to which the banks are not very much in favor of giving loans to companies?

The overarching goal of monetary policy in Macedonia is to preserve the exchange rate peg against the euro. We believe the exchange rate peg has served Macedonia well over the years, delivering low inflation, a stable real exchange rate, and moderate volatility of output. It has also provided a framework for disciplined macroeconomic policies and helped to preserve competitiveness.

The National Bank recently introduced a new set of measures for the conduct of monetary policy. In addition, against the background of significant increases in foreign exchange reserves, favorable balance of payments developments, low core inflation, and low growth, and based on a new set of macroeconomic projection, in early May, the NBRM decided to lower the benchmark interest rate from 4 to 3.75 percent.

All these measures together will likely improve credit conditions somewhat. However, we believe the effect on bank lending will not be large. Our judgment is based on the fact that bank liquidity was already very high before the recent measures. We therefore think that modest credit growth is primarily reflecting low or low-quality demand by borrowers, perhaps combined with a more cautious approach to risk by the banks.

Another factor that may be constraining lending at the margin is the maximum interest rate the bank can charge. This rate, for consumer loans defined as the benchmark rate plus 8 percentage points, and currently at 12 percent, makes it very difficult to lend to people without good credit histories. Without this maximum rate, this group of people could perhaps obtain loans at a higher interest rate to compensate for the risk their deficient credit history poses. A similar issue holds for loans to companies, where the maximum rate is currently 14 percent, and hence the more risky projects have trouble getting financing.

9. Какви се последните анализи на ММФ за актуелната криза во Европа? Како кризата ќе се одрази во Македонија?

What are the latest IMF analyses on the current crisis in Europe? How could this crisis affect Macedonia?

We think that, over the last few years, the European authorities have done a lot of work to contain the crisis. However, progress has been incremental and we

feel the euro area still needs to show more collective determination to reach cooperative solutions. [

As we have seen over the last few years, the euro area crisis has already affected Macedonia significantly. Without the crisis, economic growth in Macedonia no doubt would be higher than the 2 percent we currently forecast for 2012. In case stress coming from the euro area would intensify further, this would also affect Macedonia, through different channels. First, we would see exports decline. At the same time, import would likely decline, cushioning the effects on the trade balance somewhat. Second, we could see remittances decline significantly. This has traditionally been an important source of funds, offsetting the trade deficit in the balance of payments. Lower exports and remittances could quickly lead to a large rise in the current account deficit and put pressure on foreign exchange reserves. Third, foreign direct investment could decrease. In an uncertain environment, many companies might reconsider or at least postpone their investment plans.

To guard against these risks, the Macedonian authorities have preserved a stable macroeconomic environment. The National Bank has built up a substantial stock of foreign exchange reserves, while the government has preserved public debt at a modest level, by running modest fiscal deficits. In addition, the authorities supervise the financial sector well, and closely monitor developments. These are all important achievements that, taken together, serve as a buffer against risks.

10. Проценките на ММФ за Македонија до 2017 година покажуваат просечен економски раст од околу 3%. Дали е тоа доволно за земја во развој? Што треба да направи Владата за да ги подобри перформансите на економијата и да се остварат повисоки стапки на економски раст?

The IMF assessments for Macedonia until 2017 show an average economic growth of about 3%. Is that sufficient for a developing country? What should the Government do in order to improve the economy performance and to achieve higher economic growth?

We estimate the growth potential of Macedonia to be about 4 percent per year. This means that, once the crisis is behind us, the economy should be able to growth at about 4 percent on average without creating major imbalances or fueling inflation. While higher than average growth in Europe, this is not enough. Given its level of wealth, Macedonia should be able to grow faster, enabling a faster convergence to European standard of living.

Further reforms are needed to achieve such faster growth. Some recent successes include improvements in the business environment and success in attracting FDI to new areas of manufacturing. Ingredients for faster future growth include a focus on the interrelated goals of improving education and reducing unemployment. Better education, with a specific focus on vocational training, improves the skills of the workforce. This kind of human capital is maybe the most important asset of any country. In addition, long-term unemployed people lose skills, and hence become harder to employ with every year that passes. Active labor market policies, which encourage employers to hire unemployed workers and incentivize these workers to accept work, are part of the solution to this problem. Such policies include on-the-job training and internships.

We understand the government is pursuing these kinds of policies on education and unemployment. But it will take time for these policies to achieve results. There is no “magic bullet” that will solve the unemployment problem overnight. Still, by laying the foundations for better skills and higher human capital Macedonia is preparing itself for faster future growth.

11. Кој ќе биде новиот шеф на мисијата на ММФ во Македонија и што може да очекува земјата од ММФ во наредниот период?

Who will be the new IMF mission chief to Macedonia and what can this country expect from the IMF in the period to come?

As you know, Mr. Wes McGrew has been the IMF mission chief for Macedonia for the last three years. After the IMF Board meeting in which the latest reports on Macedonia (available from <http://www.imf.org/skopje>) was discussed on June 1st, Wes has moved on to a new job at the IMF. The new mission chief is Ms. Delia Velculescu. She will lead the next mission to Macedonia, which is tentatively scheduled for the fall of this year.

As always, the IMF is here to help with analysis of the macro economy, technical assistance on a range of topics, and financial support in case countries face unexpected balance of payment problems. In April, the government announced it had reached agreement on a foreign bank loan that would meet its fiscal financing needs for 2012 and into 2013, and it would therefore not need to draw on resources from the Precautionary and Liquidity Line (PLL). The authorities informed IMF staff that they would not pursue completion of the second review of the PLL, and would allow the arrangement to expire in January

2013. This means that, while the credit line formally remains in place until expiration, the authorities currently do not have access to draw on these funds. Nevertheless, we remain engaged with Macedonia, and, as the IMF resident representative here in Skopje, I work with the authorities on a daily basis to contribute to the goals above. In addition, I regularly present the IMF's views on global or regional issues to the Macedonian public and authorities.

At the end, let me thank you very much for this interview. I appreciate the opportunity to present the IMF's views on the Macedonian economy in your magazine.