

*The rapid pace of debt accumulation over the last few years is of concern!*

1. *The latest IMF report on Macedonia raised a lot of dust, for the government it is positive and represents recognition of the work of the government, while for the opposition it is just the opposite? What is your assessment? What is the main message that this report was supposed to send?*

We aim at giving a fair assessment on the economic environment and policies. That is probably why one can find both positive, as well as negative elements. The IMF Board praised the authorities' efforts to promote broad-based growth, noting the support provided by public investment, improved credit conditions, and robust exports and foreign direct investment. At the same time, the Board encouraged the authorities to strengthen fiscal policy performance to shield the economy from domestic and external risks and implement policies to improve the environment for domestic private sector.

2. *What are the biggest challenges for the Macedonian economy notified in the latest IMF report?*

Reducing unemployment, especially among the youth, should remain a major policy objective for the country. IMF recommended training and education as a key priority to address skill mismatches, and the need to strengthen business connections between newly-established foreign enterprises and domestic firms. Reaping positive spillovers from foreign investments is crucial to speed up the structural transformation of the economy.

3. *What are the good sides of the Macedonian economy that the IMF praises in the report?*

The authorities' policies have helped the economy contain spillovers from the Greek crisis. Strengthening the surveillance of the financial sector is an important example of these pro-active policies. Also in a medium-term perspective, good policies have helped ensuring broad stability of the currency and the economy over the past years, including during the global crisis. Our report also praises strong export performance over the past decade and its contribution to growth. In spite of a low potential due to the small size of the economy, the country' FDI strategy since the late 2000s has borne fruit in terms of diversifying exports and increasing employment. But thus far the benefits for the domestic private sector have been relatively small given the limited linkages between large FDIs and the rest of the economy.

4. *Your recommendation is that the authorities cut unproductive spending and that part of the revenues be saved for reducing the budget deficit, but actually with the last supplementary budget current expenditures have been increased. How much the government listens to the IMF advices?*

We indeed believe that achieving the targets set by the authorities in the 2015 supplementary budget – particularly keeping deficit at 3.6% of GDP – would require further measures. This includes for example, collecting tax arrears and scaling back the planned increase in goods and services spending. The authorities are yet to implement a fiscal policy anchored in a medium-term fiscal strategy that ensures a gradual consolidation and stabilizes public debt, what has been our key recommendation in 2014 and 2015 consultations. Indeed overall there is the feeling that the attention to the IMF advice in the areas of fiscal policy and public finance has been limited over the past few years.

5. *In this report for the first time you openly suggest the public debt of the country not to exceed 50% of GDP, while the draft Constitutional rule provides that it can reach up to 60% of GDP. Why it is dangerous for Macedonia to cross the red line?*

The rapid pace of debt accumulation over the last few years is of concern. At about 44 percent of GDP, the current level of public sector debt can limit the capacity of fiscal policy to effectively address challenges in the future. The envisaged fiscal rule to set an absolute cap for the public debt at 60 percent and for the budget deficit at 3 percent of GDP would be a welcome step. But as done in other countries in the region, the 60 percent public debt limit should be complemented by a lower operational target, or debt brake at 50 percent of GDP. This would ensure adequate policy space to counter shocks.

One also has to bear in mind the longer-term fiscal liabilities of demographic nature, such as spending for health care and pension. A lower debt limit would help authorities address such fiscal pressures in the future. This is why the IMF advises for a more prudent fiscal approach, particularly given that fiscal policy space built up before the 2008 crisis has largely been depleted since.

6. *The authorities claim that FDIs will create some 30,000 new jobs in the next 2 to 3 years. What's your assessment?*

Foreign investments and active labor market policies have a positive impact on activity rates and employment. But policies need time to work their way through to the economy. So it is difficult at this stage to make any credible projections.

*7. In the last report you mention the Przino agreement. How important to you is the realization of this agreement? What would be the consequences for the economy if the agreement fails?*

This is very reassuring and indeed critical for confidence that the Przino agreement has so far been implemented as planned. In our view, an escalation of political uncertainty would have a negative impact on economic sentiment, affecting both domestic and foreign private investment as well as private consumption. Political uncertainty could also negatively affect the fiscal side through higher costs and lower access to financing. This is also why we are advising the authorities a more prudent fiscal policy.

*8. Your projection for economic growth this year and next year is 3.2%. How realistic is this rate at a time of political crisis and new early parliamentary elections?*

At this stage, GDP growth is projected to remain robust and broad-based in the near term, supported by investment, exports in the free trade zones and private consumption. But we see the domestic political situation and the ongoing financial crisis in Greece as big downside risks. We saw a growth deceleration in the second quarter of 2015 reflecting these factors. A return to uncertainty on both fronts could weaken prospects.

*9. What is the economic impact of the refugee crisis on Macedonia?*

Macedonia, like many other European countries, is grappling with the influx of refugees. Though the influx so far has proven to be transitory, if the situation gets protracted, public finances could be increasingly affected, especially with the arrival of winter and bad weather.