Interview

Jesmin Rahman, IMF Mission Chief for Macedonia

IMF Will Not Give Up On Macedonia

Jesmin Rahman, IMF Mission Chief says that governance reforms need to be amongst the new government's top priorities

The International Monetary Fund (IMF) decided last year to discontinue the Resident Representative in Macedonia, but that does not mean that we are "giving up" on the country. On the contrary, IMF is very much engaged in Macedonia and is closely monitoring the situation in the country, says in this interview for BIRN, Jesmin Rahman, IMF Mission Chief for Macedonia.

She says that the period of uncertainties that has been present for more than two years is impacting confidence and growth, but also policy decisions.

"What do we see as main dangers? I would mention two things" says Rahman.

"Macedonia has worked very hard to establish its image as a low-cost, investor-friendly country. This has brought in notable foreign direct investment benefitting exports. Investors, do not like unpredictability and political instability. There is a risk that investor interest, including from foreign investors may wane significantly as uncertainties drag on."

Rahman in her first interview for Macedonian audience, says that potential danger is also a possible setback to Macedonia's EU aspirations.

"Joining the EU has been a long-standing goal of the country. A failure to address key institutional and governance reforms may significantly delay the achievement of that goal," stresses Rahman from the IMF Headquarters in Washington replying to our questions.

Domestic political crisis may impact borrowing costs

Talking about if there is any danger of Macedonia failing to access the international market due to delay in establishing a government, Rahman stresses that “there are uncertainties regarding borrowing costs depending on how the domestic situation plays out as well as how investor sentiment reacts to the rise in the US interest rates.”

According to the IMF estimation, this year’s gross fiscal financing needs of the country will be around 14 percent of GDP (that is approximately equal to EUR 1.4 billion).

“So we do anticipate the government to tap the international market this year as well. In the past, we have seen Macedonia’s spreads going up in tandem with turbulence in other emerging markets in the region. These factors will most likely affect the government’s decision to borrow abroad, “says Rahman.

Given this fact, it has been anticipated that the public debt will continue to raise above 50% of GDP, what is actually the red line for Macedonia that the IMF has set in one of their last reports, and Rahman expresses concern about the fast build up.

“Public debt as a share of GDP has risen from 23 percent before the global financial crisis to an estimated 46 percent in 2016. That is a doubling of debt in a matter of 8 years. Most of this increase has funded higher current spending as opposed to capital spending which tends to increase a country’s growth potential. So our worry is about the fast build up and its use,” points out Rahman.

Furthermore, she said that there is no universally-agreed safe debt threshold for all countries or even for all emerging market countries. According to her, one has to use a number of judgments to decide what makes sense for any particular country.

“The pace of debt accumulation and use of resources that I just mentioned are two components. In terms of overall limit, analytical and cross-country studies tend to suggest the prudent range for public debt for emerging market economies to be around 50-60 percent of GDP. For Macedonia, we recommend the lower end of this range given the fixed exchange rate regime and future fiscal liabilities arising from population aging and infrastructure investment needs, “points out Rahman once again repeating the upper limit that the IMF suggests regarding the level of public debt in Macedonia.

She says that the authorities were contemplating adopting a set of fiscal rules as of January 1 2017 to enshrine fiscal responsibility in a constitutional law. “The crisis has put a hold to all preparations related to the adoption of the fiscal rules”, says Rahman.

Governance reforms to improve Macedonia’s image

Discussing on most urgent economic reforms the new government will have to make, the IMF mission chief for Macedonia points on the necessary reform priorities in the three areas.

“First, labor market reforms are of first order. At 24 percent, Macedonia has one of the highest unemployment rates in Europe. A vast majority of these unemployed are long-term and low-skilled stressing the need for investment in training and other job-oriented active labor market policies as well education policies to better match skills”, says Rahman.

According to her, governance reforms are also critical to improve Macedonia’s image as an investment destination and retain skilled labor at home.

“This requires actions in all areas: rule of law, voice and accountability, and control of corruption. A third priority is to create fiscal policy space through increased tax and expenditure efficiencies to counter economic downturns but also make room for infrastructure and aging-related spending”, says Rahman.

Having in mind the prolonged political crisis and uncertainties for forming the government, Rahman says that “the IMF is projecting a pick-up in growth on the assumption of the return of political stability and formation of the new government”.

“In our 2016 staff report, we projected real GDP growth to reach 3.2 percent in 2017 after a dip this year. With labor market recovery and credit growth, we think this growth rate is still achievable. However, with political uncertainties dragging on, there are significant downside risks”, says Rahman.

IMF is closely monitoring the situation in Macedonia

The IMF mission last time visited the country in September last year for performing the regular consultations related to Article IV (Article IV mission). The team plans a short staff visit in summer possibly after the formation of the new government

Rahman says that there have been seven visits by the IMF experts from Washington in the past six months, to discuss and deliver technical assistance in several areas: tax administration, debt management and governance finance statistics.

“I would say the IMF is very much engaged in Macedonia and far from “giving up”. We are following economic and political developments on a regular basis and maintaining close contacts with the authorities. The decision to discontinue the Resident Representative in August 2016 was driven by the fact that there was no longer an IMF program. The IMF has taken similar decisions for other European countries over the past years where a larger field presence became less necessary”, says Rahman and adds that still the IMF has decided to maintain a fully-staffed local office to ensure effective and continued surveillance as well as to facilitate technical assistance work for the country.