КОМЕНТАР
COMMENT

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On the Statement from the consultations for the 2015 Article IV of the IMF Executive Board

28. August 2015

Following the mission on the consultations for the preparation of Article IV, the International Monetary Fund assessed the Macedonian economy as stable with solid growth. Despite the positive assessment of the economic growth, of the attracting foreign investment and of the (state) investment in infrastructure, the statement suggests several potential flashpoints for the Macedonian economy, which mainly stem from the management of the public finances and the fiscal policy stance.

Finance Think considers that several important indications in the statement of the IMF deserve serious consideration by the policymakers:

- **The speed of increase of the public debt.** Although Macedonia is a country with moderate public indebtedness, the statement puts strong emphasis on the speed of increase of the public debt in a relatively short time period – from 23% of GDP in 2008 to 46% in 2014. The emphasis on the term *"sharp growth [of the public debt]"* indicates that the concerns of the Fund in respect of (growing) public debt require urgent and serious attention;
- **The space to the targeted public space.** The Fund gives a soft recommendation that placing targeted public debt at 60% of GDP (by a Constitutional regulation) should serve only as a guide, and must not be understood as creating fiscal space that should be immediately used. This recommendation becomes clear if we consider that the Fund recommends lower operational target for the public debt, which is likely not much above the current level of about 44% of GDP. The latter, in turn, gives a clear indication that the Fund does not support further increase of the public borrowing.
- **The downward rigidity of the budget deficit.** Over this and the previous year, the realization of the budget deficit was / will be around / above 4% of GDP, which non-negligibly outpaces the target of 3.5% of GDP. This target preceded the target of 2.5% of GDP, which has become unsustainable at the time of cashing out the VAT arrears. The Fund suggests a return to more sustainable levels of deficit (under 3%) as an important step toward creating fiscal space ("buffer policy"), which will allow fiscal policy to act if a new economic shock occurs. Namely, the Fund suggests that this space, at this time, is significantly limited / used and should be re-created;
- **The role of the private sector.** Following the previous point, the fiscal expansion crowds out the private sector, which in conditions of acceleration of the economy, may increase in interest rates. Therefore, there is a clear concern of the Fund that the fiscal policy cannot be the driver of the growth for a long time, and that this role should be gradually transferred to the private sector, primarily through decreasing the budget deficit to reasonable levels.
- **Rationalization of the spending.** The Fund suggests that it is necessary to completely turn the fiscal policy to finance productive public investment and ultimately abolish the unproductive spending. Rationalization should consequently lead to a reduction in the current budgetary expenditures, in the budget deficit and to relax the pressure onto the public debt.