

## THE IMF WILL ASSIST MACEDONIA

MACEDONIA IS LIKELY TO NEED TIGHTER MONETARY POLICY, TIGHTER FISCAL POLICY OR HIGHER EXTERNAL FINANCING, SAYS THE DIRECTOR OF THE EUROPEAN DEPARTMENT OF THE IMF, MAREK BELKA

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Interview by Sonja Madzovska

### **What does the analysis of the IMF show: are the initial signs of recovery from the global economic crisis already present?**

The global economy remains in recession, but the rate of decline is moderating, and we are getting closer to a return to growth. First quarter GDP outcomes were very weak. However, recent data suggest that the rate of decline in consumption, trade, and manufacturing is easing, while consumer confidence has moved off its lows and retail sales have generally firmed. But advanced economy banking systems remain under stress and the risks are on the downside.

### **Recently the IMF projected that even those initial signs of recovery will be in vain unless banks from the Euro zone maintain stability. Is there any danger of this happening?**

To secure recovery and a return to self-sustaining growth, policymakers need to take further decisive action, especially in the financial sector. Credit conditions have eased, but a more proactive strategy is needed to deal with a weakened financial system, involving a review of capital needs to manage the recession, a cleansing of the financial system of its impaired assets, and a restructuring of weakened institutions. The priority is to clean banks' balance sheets. Until this happens, financial systems will remain under a cloud of uncertainty and cross-border lending will not likely recover.

### **At one point of time the opinion prevailed that countries of the region (emerging Europe) may get stuck in a huge crisis should foreign banks withdraw, discontinuing the inflow of funds from mother to daughter banks. What is your view, has the worst been avoided?**

In emerging economies in Europe, funding markets have shown signs of normalization, and sovereign issuers have begun to regain access to the market. Still, capital flows to emerging market countries—in particular bank lending—remain tentative, and emerging economy corporates still face large rollover risks. As for Macedonia, the banking system appears to be relatively robust. Credit growth is likely to slow sharply from last year's fast pace as banks face tighter liquidity conditions, but balance sheets appear strong enough to weather the downturn without major damage. Of course vigilance is always needed, and the authorities should respond promptly to any problems that might arise.

### **The International Monetary Fund has announced that it will continue providing**

**assistance to all the countries in which the economies were affected the most by the actual global economic crisis. What is the new role of the IMF?**

We are prepared to provide substantial funding in support of solid economic programs that respond to the challenges at hand.

**Are you satisfied with the Fund's activities in fighting the global economic crisis?**

Yes, I think what we have now is the new IMF. On the IMF's disposal are more resources; the amount of resources tripled; some countries still provide new resources. As the world economy has become engulfed in the worst crisis in many generations, the IMF has mobilized on many fronts to support its members, increasing its lending, using its cross-country experience to advise on policy solutions, and introducing reforms to modernize its operations and become more responsive to member countries' needs. The IMF has responded quickly to the global economic crisis, with lending commitments reaching a record level of \$157 billion, including a sharp increase in concessional lending to the world's poorest nations. The Fund's monitoring, forecasts, and policy advice, informed by a global perspective and by experience from previous crises, have been in high demand. The IMF has overhauled its general lending framework to make it better suited to country needs and streamlined conditions attached to loans. The IMF is creating a broad financial safety net to limit the spread of the crisis by garnering pledges for a tripling of IMF resources, as endorsed by the G-20. The IMF is contributing to the ongoing effort to draw lessons from the crisis for policy, regulation, and reform of the global financial architecture.

**Macedonia has cooperated with the IMF for more than ten years now. Has this engagement helped our country to maintain macroeconomic stability and to implement reforms? At the moment Macedonia does not have an arrangement with the Fund. The government appears not prepared to conclude a new arrangement. What is your recommendation?**

After a turbulent period in the early 1990s, Macedonia has come a long way in improving and maintaining macroeconomic stability. For many years, inflation has been low, fiscal deficits small, and the exchange rate stable. Key steps to liberalize prices and the foreign trade regime were taken in the 1990s, and privatization of state owned enterprises was also largely achieved in the 1990s. The government that took office in August 2006 focused on deregulation of the economy. Of course, the ongoing international financial and economic crisis poses challenges—in the case of Macedonia, the main concern is the high current account deficit, of around 13 percent of GDP last year, with a similar deficit projected for this year. To reduce external pressures, Macedonia is likely to need some combination of tighter monetary policy, tighter fiscal policy, and higher external financing. The Fund stands ready to support Macedonia in whatever way is most helpful. The Fund is willing to discuss with the authorities the provision of technical assistance, policy advice, or financial support.

**The IMF provides inexpensive loans to countries to overcome the crisis. However, it**

**also establishes conditions to the governments of such countries. If Macedonia concludes an arrangement with the Fund, what are the terms you would offer to Macedonian authorities?**

If requested by the authorities we would support an economic program that is proposed by the Macedonian government which addresses Macedonia's challenges and has good prospects of success. The specifics would depend on discussions with the authorities.

**In Macedonia, key problems are the risk of a devaluation of the national currency, the large foreign trade deficit, as well as the budget deficit. What measures would you recommend to overcome these problems?**

This would need to be worked out with the authorities. Sound fiscal and monetary policies would be central.

**How would you comment on the contradictory policies led by the government and the NBRM?**

Both the central bank and the government have already taken important steps in response to economic developments. The NBRM has gradually tightened monetary policies, including by increasing interest rates and reserve requirements. This should help reduce external pressures. The revised budget, approved by parliament last week, reduces expenditures in response to falling revenues. This is a step in the right direction. In this regard, most policy actions were proper, so I don't see contradictory policies. As world growth gradually picks up, pressures should gradually ease. Meanwhile the authorities should be prepared to take additional measures if needed.

**The IMF projected a fall of the GDP in Macedonia by two percent, whereas our government insists that there will be an increase of one percent this year. Who do you think will be right at the end?**

We think it is unlikely that the Macedonian economy will grow this year, in light of data that have been published to date—declining tax revenues, declining industrial production—and also in light of growth trends elsewhere in the region. Having said that, let me stress that growth projections are subject to considerable uncertainty. In the end, what matters most is not who is most accurate in growth projections—what matters is to have a comprehensive and sound plan, to maintain macroeconomic stability. Such a plan can be based on different growth projections.

**How do you view the economic prospects of Macedonia over the medium term compared to other countries in the region?**

Medium term prospects are good. Continued macroeconomic stability, ongoing structural reforms that improve the business climate and considerable potential to catch up with the European economy can be expected to lead to solid growth rates when world economic conditions return to normal.