КОМЕНТАР

COMMENT

No.41

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On the Statement from the Consultations of the IMF Executive Board on Article IV - 2025

February 26, 2025

Following a mission to consult on the preparation of Article IV, **the International Monetary Fund** assessed that the growth of the Macedonian economy is gaining momentum. The GDP growth projection for 2025 is 3.3%, which aligns with our most recent projection of 3.5% (see Macro-Monitor from December 2024). However, due to structural risks arising from external factors and population decline caused by emigration, the assessment suggests that the economy's potential growth **has decreased to 3%.**

Finance Think believes that several significant points in the IMF Statement warrant serious attention from policymakers:

- **Fiscal Risks Related to Potential Revenue Shortfalls.** Finance Think had already raised concerns about this risk in FT Comment No. 40 on The Budget Proposal for the Republic of North Macedonia for 2025 (November 19, 2024), stating: *"Finance Think identifies a significant risk in the design of budget revenues, with a projected nominal growth rate of 12.8%, which is more than double the combined real GDP growth rate and inflation rate."* Given this, we anticipate that the budget deficit for the year may exceed projections, unless capital investment execution compensates for the shortfall.

- **The persistent budget deficit will contribute to a further increase in public debt, which has already crossed the psychological threshold of 60% of GDP.** The IMF emphasizes the need for a credible Fiscal strategy that ensures compliance with fiscal rules. This is entirely consistent with the findings of our Policy Study No. 53: Fiscal Discipline and Efficiency of Fiscal Rules in North Macedonia –

The Road to Sustainability (November 2024), where we highlighted the necessity of strict adherence to fiscal rules as part of a medium-term fiscal consolidation strategy to support economic growth.

- **In the context of fiscal consolidation, the IMF is considering efforts to combat the informal economy in a serios manner, by improving the efficiency of the Public Revenue Administration.** These efforts are positively evaluated for their potential to expand the tax base and strengthen budget revenues, although they will take time to produce full effects. Our Policy Study No. 50: A Granular Examination of the Informal Economy in North Macedonia – Insights into Informal Workers, Undeclared Work, and Unregistered Household Income (March 2024) provided recommendations in this area, which can be leveraged to initiate a serious effort to address the shadow economy.

- **The IMF has taken a clear stance regarding further increases in pensions, public sector wages, and the minimum wage.** Specifically: *"The Fund recommends suspending further pension increases in September 2025 and restoring a rules-based pension system in 2026, indexing pensions only to inflation, to support fiscal consolidation while protecting the purchasing power of pensioners."* The Fund also advises limiting public sector wage growth to the inflation rate in the short term and avoiding ad-hoc increases in the minimum wage to prevent additional inflationary pressures. These recommendations fully align with the findings of Policy Study No. 53.

- **The IMF warns that materialization of fiscal risks could hinder further monetary easing.** Given the persistence of inflation, particularly in food prices, the IMF advises against further monetary loosening at this time. More importantly, the Fund clearly highlights inflationary risks stemming from domestic factors, stating: *"NBRNM should remain vigilant regarding inflationary risks from domestic factors, including increases in wages and pensions, as well as heightened external risks due to trade uncertainties."* This position is entirely in line with our observations in FT Comment No. 40, where we noted: *"On the other hand, the 14.8% increase in expenditures for the Pension and Disability Insurance Fund is a direct result of the realized (September 2024) and planned (March 2025) linear increases in pensions. These two factors are particularly significant as they weaken fiscal consolidation and continue to reflect the expansive nature of fiscal policy, making them a primary source of inflationary risk in 2025."*