

International Monetary Fund

[Former Yugoslav Republic of Macedonia](#) and the IMF

Former Yugoslav Republic of Macedonia: Letter of Intent and Technical Memorandum of Understanding

Press Release:
[IMF Executive Board Completes First Review Under Stand-By Arrangement with the Former Yugoslav Republic of Macedonia](#)
April 20, 2006

March 31, 2006

The following item is a Letter of Intent of the government of Former Yugoslav Republic of Macedonia, which describes the policies that Former Yugoslav Republic of Macedonia intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Former Yugoslav Republic of Macedonia, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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Skopje, Macedonia
March 31, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato,

1. **Economic performance under the Stand-By Arrangement (SBA) has been strong.** After growing by 4.1 percent in 2004, the economy expanded at a 3.9 percent annualized rate in the first 3 quarters of 2005. Most importantly, employment growth has taken off, increasing by about 6 percent year-on-year in the third quarter of 2005. As in the recent past, average inflation in 2005 has remained muted at 0.5 percent. Despite higher oil prices, the trade balance has improved due to expanding exports and lower growth in consumption goods imports. With private transfers increasing sharply, the current account deficit has also narrowed substantially, to less than ½ percent of GDP. These positive developments, along with our achievement of EU candidate status, the upgrade in our credit rating, and the successful launch of our inaugural Eurobond, confirm our economic program's success.

2. **To build on these achievements, we are deepening and advancing the economic reform agenda.** Therefore, in addition to continuing with the macroeconomic policies that have yielded these impressive results, we have formulated a comprehensive agenda for structural reform in 2006. Our strong commitment to converge with EU standards and to opening negotiations for EU accession as soon as possible guides our reforms. The reforms described in this letter aim to maintain prudent macro policies, control health care spending, move the banking sector further in line with EU standards and best international practice, and facilitate private sector development and investment.

3. **We have made good progress in implementing our economic program:**

- **We achieved the program's entire set of fiscal and monetary targets for end-2005 (Table 1).** The 2005 budget ended the year in surplus, exceeding the program target by more than 1 percent of GDP. This prudent fiscal policy has played a key role in reducing the current account deficit, while improved financial market confidence has raised the demand for denar denominated assets, creating substantial capital inflows. As a result, the NIR target was exceeded by about €150 million, with roughly half of all foreign exchange inflows sterilized. This has allowed the NBRM to lower interest rates by 300 basis points since mid-2005.
- **We have also introduced a considerable number of structural reforms, in line with the benchmarks under the program (Table 2).** All public health institutions

have prepared budgets for 2006 approved by the Ministry of Health in line with HIF transfers which have become binding ceilings, meeting a key end-December performance criterion. The one-stop shop registration system is in place and already easing the cost of doing business. Most importantly, we have amended the constitution to allow for comprehensive judicial reform. The Public Revenue Office (PRO) has improved its organizational structure and preparations for the Large Taxpayer Office (LTO) are on track. We also started to tender for sale the residual state shares in commercial banks. In the monetary sphere, we have started the monetary issuance of treasury bills and repo operations at the NBRM. Finally, we completed strategic plans and functional analyses for all ministries, which will improve our 2007 budget process.

4. **Though some of our reforms have been delayed, we are now addressing these:**

- **We request waivers of non-observance for two structural performance criteria for December 31, 2005 that were missed.** We were unable to fill key positions at the PRO by the end of last year as its organizational restructuring process took longer than expected. However, we have now filled these positions. Our decision to prepare a more comprehensive reform in cooperation with the Fund and the World Bank meant that we were also unable to submit the new Banking Law to Parliament by end-2005.
- **We request a waiver of applicability for all quantitative performance criteria as of end-March 2006 due to data unavailability.**
- **We request a waiver of non-observance for the end-December 2005 quantitative performance criterion on the arrears of the Health Insurance Fund (HIF).** An audit of total health sector obligations indicated that HIF arrears increased in 2005, though there are signs that these started to fall at the end of the year. We are taking measures to progressively reduce the stock of HIF arrears to their end-2004 level.
- **Though a few structural benchmarks were delayed, we have now implemented all but one of these.** Instead of simply passing amendments, we prepared with the World Bank a whole new bankruptcy law, which Parliament passed in March. Again working with the World Bank, the NBRM adopted a Supervisory Development Plan. However, though we have prepared the 2006 court budget, preparing an analysis of the fiscal costs of judicial reform is taking more time.

5. **Against this favorable backdrop, we request the completion of the First Review.**

We believe that the policies described in this letter—which updates and supplements the policies laid out in our Letter of Intent of August 16, 2005—are adequate to achieve the objectives of our economic program. Most importantly, we believe this program will help us achieve our objective of EU accession. Nevertheless, we stand ready to take any further measures to keep our program on track. We will remain in close consultation with the Fund, in accordance with the Fund’s policies on such consultations. We will provide the Fund with

such information as it requests on policy implementation and achievement of program objectives. The forthcoming Second Review, scheduled for early September 2006, will provide an opportunity to assess progress in program implementation and reach understandings on any measures that may be needed to reach the program's objectives.

6. We reaffirm our intention not to make the purchase under the SBA that will become available upon observance of its performance criteria and completion of its reviews. To smooth our debt service profile, we also request to make all outstanding repurchases to the Fund falling due through end-2007 (equivalent to SDR 13,386,669) on an obligations schedule.

Economic policies for 2006

FYR Macedonia: Macroeconomic Framework, 2004-2006

	2004	2005		2006	
	Prel.	SR	Prel.	SR	Proj.
Real GDP growth	4.1	3.7	4.0	4.0	4.0
Inflation (average)	-0.3	1.2	0.5	1.8	1.8
Current account balance (in percent of GDP)	-7.7	-6.5	-1.4	-5.2	-3.7
excluding official transfers	-9.0	-7.8	-2.5	-6.1	-4.9
Central government deficit	0.4	-0.8	0.3	-0.6	-0.6
Broad money growth rate	16.1	17.7	14.9	18.4	19.1
Private sector credit growth rate	25.0	22.7	20.5	19.1	22.8

Source: MOF, NBRM, and Fund staff compilations.

7. The improvement in economic performance is set to continue in 2006. All indicators suggest that we comfortably met our 2005 real GDP growth target of 3.8 percent. With lower interest rates likely to strengthen domestic demand, we expect growth to rise to around 4 percent in 2006. Higher energy prices and an increase in cigarette taxes should cause inflation to pick up to around 2 percent. Last year's agreement on moderate increases in public sector wages should keep private sector wage inflation in check. With domestic demand increasing, and private transfers set to stabilize, the current account deficit is likely to widen slightly.

8. In light of the better than expected outcome on reserve accumulation, we have set slightly more ambitious monetary targets than had been envisaged under the original program (Table 1). From end-June the net international reserve and net domestic asset targets will be raised to lock in roughly two-thirds of our end-2005 overperformance in reserves, to prevent this from leading to excessive monetary expansion. This should increase

international reserves to slightly more than four months of imports. We have also increased modestly the size of the privatization adjuster given uncertainties over the timing and size of these receipts. If capital inflows and over-performance of foreign reserve accumulation continues, we will maintain our prudent monetary policy.

Fiscal policy and public sector reforms

9. **We are committed to deliver on our 2006 fiscal deficit target of 0.6 percent of GDP.** Though still prudent, the program target represents a fiscal easing of around 1 percent of GDP compared to the 2005 outcome. Current expenditures are held roughly constant in real terms, so that they fall as a share of GDP, reflecting tight wage policy and lower transfers. Extra fiscal costs related to higher than expected enrollment in the second pillar pension are offset by a low estimate in our budgeted telecom dividend. Nevertheless, we stand ready to take measures later in the year should this threaten our deficit target. With parliamentary elections taking place in 2006, we are determined to maintain budget discipline.

10. **Although health sector obligations and arrears have increased since end-2004, there are signs that these stabilized in the second half of 2005:**

- **As of end-2005, Health Insurance Fund (HIF) arrears measured using the program definition** (obligations that are due but not paid by more than sixty days) were 317 million denars above their end-2004 level, breaching the performance criterion. New measurement, however, shows that the end-2004 stock of arrears (using the program definition) was 1,040 million denars lower than reported in the program document. On a flow basis, there was an improvement in the last three months of 2005, as total HIF obligations fell by 545 million denars, while arrears measured on the program definition fell by 56 million.
- **Developments in overall health sector debts are harder to interpret**, but here too there are signs that, with the introduction of international tendering and receipt of payments from the pension fund, these may have stabilized. Preliminary and unaudited results suggest that these increased during the first nine months of the year, before falling in the last quarter of 2005. We are still working to validate and clean up the database. With the submission of HCI final accounts to the HIF, we will soon have a clear picture of total health sector obligations and arrears.

11. **Immediate action will be taken to ensure that total health sector arrears are controlled in 2006, with a view towards building a full-fledged treasury system for the health sector.**

- **Starting in 2006, public health care institutions (HCIs) are operating within hard budget ceilings**, which are based on their actual expenditure profile in 2003-2005. The Health Insurance Fund (HIF) will make equal (1/12th seasonally adjusted)

monthly transfers of the annual allocation to each HCI with the cost of drugs and supplies procured directly by HIF tender debited from the monthly allocations. The HIF has also started to publish monthly budget execution reports which include transfers to the HCIs (structural benchmark).

- **We will place a budget control officer by June 30, 2006 in each of the top 15 HCIs according to debt outstanding (new structural benchmark).** Until June 2007 these budget control officers will be HIF staff paid by HIF and will apply standard ex-ante controls over commitments and payments in HCI budgets. The budget control officers will report to HIF and will keep the HCI Director fully informed. The budget control officers are also expected to strengthen HCI financial management.
- **The budget control officers will be required to report monthly to HIF, MOF and MOH on the status of the debt stock and the age of arrears of the HCI and the changes since the prior month.** This will use the format employed by the HIF in its regular monthly report on debt and arrears by category of debt and by institution. The individual monthly debt and arrears reports will be consolidated by HIF in the regular monthly format and posted on its web site in addition to the individual and consolidated financial statements of the HCIs.
- **A budget officer from the MOF staff, reporting to the Minister of Finance and the Minister of Health, will be established in the HIF** with responsibility for exercising all ex ante controls over commitments and expenditures against the HIF budget economic categories by end-September (new structural benchmark).
- **To mitigate risks of HCIs building up arrears despite fixed budget ceilings, the Minister of Health will strengthen accountability of HCI Directors for financial performance by rigorously exercising his right under existing legislation of dismissal in the case of imprudent use of funds.**
- **The HIF Board will review the progress of the HIF and the HCIs in managing their stock of debt and arrears** as a regular part of their monthly financial oversight activities.
- **Audit procedures for HCIs will be clarified.** The 7 pilot HCIs (which include the 5 largest HCIs) will be audited by the State Audit Office once every 3 years.
- **In light of these improvements in control, we propose to convert the performance criterion on HIF arrears to an indicative target.**

12. **We are making contingent plans to increase resources to the HIF.** Surplus revenues from a new five denars a pack tax on tobacco in 2006 will potentially be made available for reallocation to the HIF in a supplementary budget; these will be used only to finance the thirteen existing national health programs. However, this additional allocation

will be contingent on realized revenues exceeding the VAT and excise tax revenues targeted in the 2006 budget.

13. **We have made considerable progress in implementing our broad-based reform of tax administration.** In tandem with our macro-fiscal objectives, we aim to improve the quality of our fiscal management. In this regard, with technical support from the Netherlands and the Fund's Fiscal Affairs Department, we have embarked on a 3-year program to strengthen the effectiveness and efficiency of revenue administration, including collection of social contributions, to boost revenues and support essential government expenditures:

- **A new Law on Tax Administration Procedures**, which expands taxpayer protections and broadens PRO's authority to levy fines and seize assets without court intervention, was passed by Parliament and becomes effective on April 1.
- **We are using technical assistance** to improve arrears collection, taxpayer registration, audit, performance measurement, and base harmonization for personal income tax and social contribution collections.
- **The PRO has redesigned its organizational chart along functional lines.** The PRO anticipates filling the positions most critical to the reforms by end-March, a three month delay compared to the end-December performance criterion.
- **Preparations for establishing a Large Tax Payer Office (LTO) at the PRO and Large Contributor Office (LCO) at the Pension Fund by July are on track.** The 100 largest taxpayers and contributors have been identified, organizational charts completed, and office space and computer equipment for the LTO have been secured. We expect to open the LTO and LCO on July 1, 2006; their establishment by end-July 2006 is a structural performance criterion.
- **Given complexities in implementation, we are modifying our plan to approve a harmonized PIT and social contributions tax base by June 2006.** We will now proceed in two phases. The first phase, to be completed by year-end, will harmonize the bases for social contributions; the second will harmonize this with the base for personal income tax.
- **In support of the first phase, by end-June we will prepare a strategy paper (agreed with the Fund) identifying key parameters for harmonization of social contribution bases (new structural benchmark).** This will include a single and simple minimum wage base, use of gross wages in rate calculations, common definitions of employer and employee, common lists of beneficiaries and a common definition of employment income. Consistent with this strategy paper, we will submit legislation harmonizing the bases for social contributions to Parliament by end-September (new structural benchmark). Implementation of the new legislation at the start of 2007 will be set as a new performance criterion during the Second Review.

- **We plan to fully harmonize PIT and social contributions by end-2007.** A final decision on the possible inclusion of allowances in taxable income, including the abolition of the minimum base, will be guided by future Fund technical assistance. By June 2007 we will prepare a strategy (structural benchmark); implementation by the start of 2008 will be set at a subsequent review as a structural performance criterion.

14. **We intend to further improve the quality and efficiency of our fiscal spending and control mechanisms:**

- **The World Bank began a Public Expenditure Review (PER) in February,** and we expect to receive a preliminary study on short-term expenditure reform by late summer. These preliminary findings will help guide our 2007 budget discussions, and may be included as conditionality in the program.
- **We will continue the work on the systematization of line ministries.** In line with the first review's structural benchmark, we have finalized a functional analysis for all line ministries and prepared strategic plans on how to implement its findings. However, only the Ministry of Finance and the Ministry of Environment provided high quality strategic plans on time for the 2006 budget process. With the support of DFID, other line ministries have been improving their strategic plans. At a minimum, the Ministry of Economy's and the Ministry of Labor and Social Protection's strategic plans will be ready to be incorporated in the 2007 budget process (reset structural benchmark).
- **We will start the regular monitoring and reporting exercises and pre-accession fiscal surveillance required for EU membership.** We have already been included in the Candidate Countries' Economies Quarterly (CCEQ) exercise, starting from the last quarter of 2005. In 2007 we will start regular participation in the fiscal notification exercise, where we will present certain fiscal data in accordance with ESA95 standards. In the meantime we will start consultations with EUROSTAT and submit preliminary fiscal deficit and government debt data using our current methodology. We will begin regular reporting to the Pre-Accession Fiscal Surveillance exercise, and participate in EU fiscal subcommittees. We plan to request technical assistance from the IMF to move to GFS 2001 as an intermediate step before moving to ESA95 standards.
- **We have established two new units required for the decentralized management of EU funds:** a National Fund Unit within the Treasury Department and a CFCU Unit within the Budget Department that will be fully staffed by end-April.
- **We will start to report budget execution data at the general government level by April 2006.**

15. **We have substantially upgraded the debt management function at the Ministry of Finance.** The public debt department—which took an active role in the successful

Eurobond issue—already has front and back office staff, and will be fully staffed once the middle office function is established by end-2006. The department has finished work on a debt management strategy, which defines the government's public sector borrowing policy, setting three-year targets and including portfolio diversification, risk, and term structure objectives. In order to meet these objectives, we will purchase debt management software that meets the specifications recommended by EAR and the IMF by end-2006.

Monetary and financial sector reform policies

16. **The NBRM will continue to support our economic program by maintaining a pegged exchange rate regime backed by adequate international reserves.** The NBRM's monetary program for 2006 is consistent with average broad money growth of about 20 percent, in line with a gradual decline in velocity. The degree of euroization is expected to fall slightly as demand for denar assets remains strong. Gross official reserves are projected to end 2006 at about €1.3 billion, increasing reserve cover to just over 4 months of the following year's imports of goods and non-factor services. We expect the sizable inflows of capital experienced in 2005 will continue in 2006, reflecting confidence in our macroeconomic policies and increased real currency demand. To ensure the continued success of the pegged exchange rate, we stand ready to continue our policy of sterilizing inflows through the issuance of central bank bills and treasury bills for monetary policy purposes.

17. **To ensure a prudent monetary policy stance in 2006, we will lock in two-thirds of our 2005 monetary over-performance, relative to the existing program target.** Recent declines in interest rates on central bank bills are expected to raise demand for private sector (especially denar) credit, which we now project to grow at more than 20 percent in 2006. Together with continued capital inflows, this is expected to contribute to similarly robust broad money growth. To prevent the increase in reserves from resulting in excessive monetary expansion we will raise the NIR target from end-June 2006 (and tighten the NDA target accordingly) to lock-in two-thirds of the projected over-performance; at the same time, we are increasing the privatization adjuster by €50 million in light of uncertainties over the precise timing and size of privatization receipts this year. As a result, we expect to sterilize an additional 3 billion denars on average throughout 2006.

18. **The government remains committed to safeguarding Central Bank independence and strengthening its financial soundness:**

- **By end-June, we will amend the NBRM Law and other legislation to:** (i) let the NBRM retain 70 percent of its profits when general reserves are below the statutory limit, and then 15 percent after that; (ii) limit the right of appeal to the NBRM Council to internal NBRM decisions, appeals of external decisions will go directly to the courts; and (iii) protect the governor's decisions in the areas of bank licensing, receivership and bankruptcy from reversal by the courts, though successful appeals

still might seek financial compensation. This strengthens the reforms envisaged in the existing structural benchmark in the program.

- **In parallel with our revision of the Banking Law, we will seek other legal amendments to limit the reversal of the governor's decisions** in matters of financial regulation and supervision, and to ensure that court review is limited to ensuring the procedural aspects were met. The goal is to bring financial regulation and supervision more closely in line with EU standards and best international practice. An agreed draft should be prepared by end-September and submitted to Parliament by end-December.
- **We will submit a revised National Bank Law, consistent with EU standards, next year.**

19. **We are preparing a comprehensive revision of the legal framework to improve the soundness of the banking system.** After consultations between the Ministry of Finance and the NBRM, we produced a new draft of the Banking Law that addresses a number of important areas, including governance issues, clarification of the roles of the Audit and Risk Management Committees, accuracy of financial reporting, increased capital requirements, and enhanced licensing requirements. However, we have now decided to include additional provisions to bring the Law closer in line with EU standards and international best practice, and to engage in more extensive consultations with the banking community. As a result, the end-December performance criterion on submitting a new law to Parliament was missed. To assist us in completing the new and more comprehensive law, we have requested further technical assistance from the Fund. The Ministry of Finance and the NBRM will complete a draft agreed with the staff (focused on, inter alia, bank governance, consolidated supervision, the framework for corrective actions and resolution of weak or insolvent banks, connected lending and harmonization with EU legislation) by end-September 2006 (structural benchmark). Submission of the new law to Parliament by end-December 2006 will be set as a performance criterion at the Second Review. We will also review the Law on Deposit Insurance to make it consistent with the new Banking Law, including setting an appropriate target for Deposit Insurance Fund reserves and ensuring that insurance can be paid promptly.

20. **We have started to strengthen banking supervision in the NBRM.** We agreed on a Supervisory Development Plan (SDP) with the World Bank in January, completing our structural benchmark with a one-month delay. Besides strengthening supervisory activities, the plan will help the NBRM migrate to a more risk based, anticipatory approach to banking supervision. To facilitate implementation and evolution of the plan, we are engaging an MFD resident advisor who should be in place by May. Together with the SDP, the advisor will be guided by the World Bank's Bank ROSC and by the Fund's technical assistance note on private sector credit growth. As recommended in these reports, we will adopt an action plan by end-June aimed at implementing the recommendations—particularly on organization, staffing and training—in these reports. To support this process, we will add ten supervision and banking regulation staff by the end of 2006 (new structural benchmark); we stand ready

to add more resources as needed. The NBRM also stands ready to use its new powers to impose penalties to help enforce its supervision actions.

21. At the same time, we will apply a number of measures immediately to improve the quality of bank supervision:

- **We will enforce the existing requirement of accurate and timely electronic data submission** through the imposition of financial penalties, once the legal grounds are established.
- **Prudential regulations** requiring a gradual write-off of foreclosed assets and a mandatory general provision of 1 percent on A-type loans—while keeping the voluntary provision of 2 percent—will be introduced by end-June (new structural benchmark).
- **The current guidelines for foreign exchange loans will be tightened** by including additional lending requirements for foreign currency loans. These new requirements will apply to both foreign currency and foreign currency-indexed loans.
- **We will consult bank auditors more frequently in bank evaluations.**
- **Further efforts will be made on completing work on bank-peer group comparisons**, an early warning system, stress testing, as well as a centralized analysis of large debtors.

22. We are taking steps to enhance bank intermediation, and to strengthen credit culture and market discipline. The NBRM and the government will by end-2006: (i) issue accounting guidelines, a chart of accounts and formats for banks' financial statements in line with IFRS by end-2006 (new structural benchmark); (ii) require banks to publish their annual audited balance sheet on the NBRM webpage; and (iii) require audit reports to include comments on the adequacy and quality of lending policies, risk management, the internal control environment, and quality of internal control. The new Banking Law will allow the NBRM to set additional accounting guidelines and request further information and disclosures from financial institutions that are needed for prudential purposes. By June 2007 we will upgrade the credit registry by reducing the loan threshold, switching to monthly reporting, shortening the data processing period, making financial and other data accessible to banks, and linking it to the central registry (new structural benchmark).

23. In line with EU recommendations, we will strengthen insurance sector supervision by making it independent. The insurance sector is expanding. To allow the sector to develop further, we will review the legal framework for conducting insurance business and strengthen its supervisory framework based on the findings of a recent technical assistance mission by the World Bank.

Privatization and regulatory reform

24. **The ambitious privatization and regulatory reform programs are on track, albeit with some minor delays:**

- **Privatization of the state-owned electricity distribution company is moving forward.** The government has separated the company's generation, distribution and transmission assets, and launched an international tender for the distribution arm (ESM) alone. The successful bidder was selected and ownership transferred in March 2006. The generation component is planned to be sold in 2007, while the transmission grid, MEPSO, has already been spun-off into a separate company that will remain state owned. While the newly established companies did not request any tariff increase, we will continue to ensure the independence of the energy regulatory commission when it considers future requests for electricity price increases.
- **Given sale restrictions under the original privatization covenants, the government's residual shares in the telecommunication sector will now be sold in installments.** The first package (of at least 10 percent of Makedonski Telekomunikacii AD) will be sold by end-June (structural performance criterion). The remainder—except for a small minority share of no more than 7 percent—will be sold by end-2006 (structural performance criterion).
- **The Ministry of Finance has started the process of selling the government's residual shares in commercial banks (structural benchmark for end-December 2005).** Due to concerns over the effect these sales could have on stock prices, however, we are selling shares in 3 separate packages. The first package of bank stocks was tendered and sold in December 2005. The second package was sold on the stock exchange in mid-February and the third is scheduled to be sold by mid-April.
- **We are aiming to improve the quality of new and existing regulations affecting business activity.** To this end, the government has established with the assistance of the World Bank, and will soon staff, a unit for regulatory impact assessments within the General Secretariat. We will also introduce a legal framework for regulatory impact assessments, a necessary step in developing and implementing a comprehensive approach to regulatory reform.

25. **We are committed to liberalizing markets for communications and transportation.** This should reduce costs for businesses and consumers, integrate Macedonia more fully into the world economy, and promote convergence of living standards:

- **In February 2005 we passed a liberalized Law on Electronic Telecommunications that introduced full competition into the telecommunications market.** With the supplementary regulations and bylaws completed, we will now fully enforce the new Law and fulfill the requirements of our

Stabilization and Association Agreement with the EU. Consistent with this, we will allow interconnection without discrimination and unbundle the local loop. We will show a quantitative improvement in liberalization (to be measured, *inter alia*, by the number of new VOIP and other service providers, new fixed line competition (expected by end-September), and additional mobile telephone licenses) by end-June (new structural benchmark) and end-December (new structural benchmark). The result should be a lower price structure, that is more closely in line with the rest of Europe.

- **We will also liberalize the market for air transport**, consistent with our commitment to meeting the EU acquis.

Labour market reform

26. **We will continue to liberalize the labor market.** The new Law on Labour Relations in 2005 has started to show an effect. Temporary employment has increased in 2005 and there are also indications of enhanced labor market mobility. We reconsidered our intention to change the Law on the Chamber of Commerce (structural benchmark) as the current law allows sufficient flexibility for employers to join new employers' associations. Next steps in the implementation of the new Law on Labour Relations include the negotiation of a new public sector collective agreement by end-May 2006 and the timely licensing of new trade unions and employers associations. For the public collective wage agreement, we intend to abolish the complexity factors which determined wage scaling in the past. The new law on mediation will also facilitate the resolution of conflicts between employers and employees.

Judicial reform

27. **With the passage of key constitutional amendments in 2005, we are ready to move to the next phase of judicial reform.**

- **By end-March we will decide on the use of specialized courts and departments**, the number of courts and court structure. We are doing this with the assistance of USAID after a complete statistical analysis of current court caseloads.
- **By mid-2006 we will adopt a new Law on Courts and the new Law on the Judicial Council** to apply a new system of judicial appointments that strengthen the independence of the judiciary in line with the adopted constitutional amendments.
- **By end-July 2006 we will adopt a new Law on Misdemeanors** which will allow administrative bodies to impose penalties on misdemeanor cases without prior court involvement (structural benchmark)
- **We enacted a Law on the Academy of Judges in January 2006.** We have already equipped and modified a new judicial training center, and will open an academy for judges and prosecutors by October 1, 2006.

- **We will make the Law on Enforcement operational by June 1, 2006** which will reduce the work load for courts.

28. **We will staff the Judicial Budget Council (JBC) and an analysis of the fiscal cost of judicial reform will be undertaken.** An additional eight budget officers will be employed by the court budget office by end-April. With the assistance of USAID's DPK court modernization project, we have been able to finance four additional management, finance, and IT positions within the JBC. The delay in staffing the JBC caused us to miss the end-December structural benchmark on submitting a cost estimate on court reform with the 2006 budget submission. With this problem now solved, the JBC will now provide a detailed fiscal analysis by end-September 2006 (new structural benchmark) which will be used to determine our court budget request for the 2007 budget.

Enhancing the business environment

29. **A number of other structural reforms related to improving the business and investment environment are in progress.** These include:

- **The structural benchmark on parliamentary approval of the new Bankruptcy Law** was not met due to inter-governmental discussions and consultations with World Bank experts. The Parliament passed the Law in March. It incorporates comments by World Bank staff.
- **The Law on Audit has been approved by Parliament** and the institute for the qualification and certification of auditors will be established by end-March. We are also working with support from the World Bank's BERIS project on removing remaining obstacles to private sector development.
- **The number and complexity of licensing requirements for different activities will be reduced.** By end-September 2006, the government will publish a list of all licenses administered by line ministries and government agencies, together with their justification (new structural benchmark); those that are not needed will be abolished by end-March 2007 (new structural benchmark). The government will also establish procedures that will scrutinize line ministries' proposals for new licenses in the future.
- **Our plan to enhance transparency of the government's involvement in private sector activities through an annual report has been postponed until end-2006 (reset structural benchmark).** As the management of the government's assets (including equity shares and real estate) is spread over several agencies (Ministry of Finance, Ministry of Economy, Pension Fund, Agency for the management of Public Property), the preparation of a report on the government's economic activities was delayed. However, we are committed to finalize the first annual report by end-2006 which will include a list of the state's equity holdings, a justification for the state's involvement and plans for privatization.

Statistics

30. **We are making improvements in the compilation of national statistics.** By end-March, the State Statistical Office (SSO) will publish on its website annual national accounts using a new methodology developed with support of IMF TA. By end-June, we will publish quarterly GDP data in the new methodology and also start reporting quarterly expenditure GDP data (real and nominal). We intend to strengthen labor market data. Also, by end-December, we will complete a study on improving the methodology for compiling private transfers, for which we are requesting technical assistance.

Sincerely,

/s/
Nikola Popovski
Minister of Finance

/s/
Vlado Bučkovski
Prime Minister

/s/
Petar Gošev
Governor
National Bank of the Republic of Macedonia

Attachments

TECHNICAL MEMORANDUM OF UNDERSTANDING

This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative benchmarks), established in the Letter of Intent (LOI) and describes the methods to be used in assessing the program performance with respect to these targets.

A. Government and Public Sector

1. For the purpose of this TMU, the term “central government” covers: central government as defined in the Annual Budget Document, (including Special Revenue Accounts), Employment Fund, Health Insurance Fund, Pension Insurance Fund, Road Fund, and agencies and institutions that are currently treated by the Ministry of Finance as part of government and which correspond to the classification followed by the National Bank of the Republic of Macedonia (NBRM) in its monthly submissions to the Fund of balance sheets of the central bank and the consolidated accounts of the commercial banks. The authorities will inform the Fund staff of any new funds, or other special budgetary and extrabudgetary programs that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF’s *Manual on Government Financial Statistics*, and will ensure that these will be incorporated within the definition of central government.

2. The term “general government” covers the central government as defined in ¶1 and the municipalities which are classified as part of general government according to the budget documents and which are included by the National Bank of the Republic of Macedonia (NBRM) in its monthly submissions to the Fund of balance sheets of the central bank and the consolidated accounts of the commercial banks.

B. Net International Reserves of the NBRM

3. **Net international reserves** (NIR) of the NBRM are defined as the difference between NBRM’s reserve assets and its reserve liabilities.

4. **Reserve assets** are defined as liquid and usable foreign convertible currency claims on nonresidents plus monetary gold. Reserve assets of the NBRM thus include monetary gold, SDRs, foreign currency cash, securities, deposits abroad, and the reserve position at the Fund. Excluded from reserve assets are any assets that are frozen, pledged, used as collateral, or otherwise encumbered, claims in foreign exchange arising from transactions in derivative assets (futures, forwards, swaps, and options), and precious metals other than gold.

5. **Reserve liabilities** are defined as all foreign exchange liabilities of the NBRM to nonresidents and residents, including all credit outstanding from the Fund, arrears on principal or interest payments to commercial banks, suppliers, or official export credit agencies, and future and contingent commitments to sell foreign exchange arising from

transactions in derivative assets (futures, forwards, swaps, and options). Central government's foreign exchange deposits at the NBRM are excluded from reserve liabilities.

6. For program purposes, all foreign currency-related assets and liabilities are valued at program exchange rates as defined in Section J.

7. The schedule of end-quarter floors on net international reserves (NIR floors) has been established in Table 1 of the LOI. The changes in the NIR will be measured in euros excluding valuation effects calculated according to the methodology described in Section J.

Adjustors

8. The NIR floors are set based on the assumption that balance of payments financing will amount to the baseline shown in Table 1.

Balance of payments financing is defined as the sum of: (i) gross disbursement of foreign loans or grants to the central government or the NBRM for balance of payments financing, including issuance of Eurobonds, minus the planned prepayment of foreign loans; (ii) privatization proceeds and lump sum proceeds from concession fees in foreign currency; and, (iii) proceeds from the restitution of foreign assets of the former SFRY. Project loans and grants, and purchases from the IMF are not considered balance of payments financing for this purpose.

9. If balance of payments financing deviates from the baseline path shown in Table 1, the NIR floors of the NBRM will be adjusted as follows:

- The NIR floor will be adjusted upward (downward) to the same extent as any upward (downward) deviation in grants and loan disbursements from bilateral and multilateral donors, with the provision that the downward adjustment to the floor will not exceed the equivalent of EUR 30 million on a cumulative basis.
- The NIR floors will be adjusted upward (downward) by the amount of any prepayment of external debt falling short of (exceeding) the baseline.
- The NIR floors will be adjusted upward for any lump sum proceeds from concession fees in foreign currency exceeding the baseline defined in Table 1.
- The NIR floors will be adjusted upward for the restitution of foreign assets of the former SFRY as a result of succession proceeds exceeding the baseline defined in Table 1.

10. The NIR floors of the NBRM for end-June 2006, end-September 2006, and end-December 2006 (Table 1 of the LOI) will be adjusted upward (downward) for any excess (shortfall) in privatization receipts over EUR 245 million. In no case the downward adjustment for the shortfall in privatization receipts will exceed EUR 100 million.

C. Net Domestic Assets of the NBRM

11. **Net domestic assets** (NDA) of the NBRM are defined as reserve money minus the net foreign assets (NFA) of the NBRM.
12. **Reserve money** is defined as currency in circulation (outside banks), vault cash of banks, and required and excess reserve deposits of banks in denars and in foreign currency held at the NBRM or at the NBRM accounts abroad.
13. **Net foreign assets** (NFA) of the NBRM are defined as reserve assets plus those foreign assets of the NBRM that are excluded from reserve assets under the definition in ¶4 of this TMU, minus foreign exchange liabilities of the NBRM to nonresidents (as defined in ¶5).
14. The schedule of end-quarter ceilings on the net domestic assets (ceilings for NDA) has been established in Table 1 of the LOI.

Adjustors

15. If balance of payments financing deviates from the baseline path, the ceiling for the NDA of the NBRM will be adjusted as follows:
 - The NDA ceilings will be adjusted downward (upward) to the same extent as any upward (downward) deviation in grants and loan disbursements from bilateral and multilateral donors, with the provision that the upward adjustment to the floor will not exceed the equivalent of EUR 30 million.
 - The NDA ceiling will be adjusted downward (upward) by the amount of any prepayment of external debt falling short of (exceeding) the baseline defined in Table 1.
 - The ceilings for the NDA of the NBRM will be adjusted downward for lump sum proceeds from concession fees in foreign currency exceeding the baseline defined in Table 1.
 - The ceilings for the NDA of the NBRM will be adjusted downward for the restitution of foreign assets of the former SFRY as a result of succession proceeds exceeding the baseline defined in Table 1.
16. The ceilings for the NDA of the NBRM for end-June 2006, end-September 2006, and end-December 2006 (Table 1 of the LOI) will be adjusted downward (upward) for any excess (shortfall) in privatization receipts over EUR 245 million. In no case the upward adjustment for the shortfall in privatization receipts will exceed EUR 100 million.

D. Net Domestic Assets of the Banking System

17. **Net domestic assets** (NDA) of the banking system, which includes the NBRM and the deposit money banks, are defined as broad money (M3) minus the net foreign assets (NFA) of the banking system.
18. **Broad money** (M3) includes currency in circulation, demand deposits, quasi-deposits, and non-monetary deposits (time deposits over 12 months and restricted deposits) of the non-central government denominated in denars and in foreign currency.
19. **NFA of the banking system** are defined as the banking system's foreign assets minus foreign liabilities.
20. The schedule of end-quarter indicative ceilings on the net domestic assets of the banking system has been established in Table 1 of the LOI.

Adjustors

21. The ceilings on the NDA of the banking system will be subject to the same adjustors as the ceilings on the NDA of the NBRM.

E. Net Credit to the Central Government from the NBRM

22. **Net credit to the central government** from the NBRM is defined as credit in denars and foreign currency to the central government from the NBRM minus total central government deposits in denars and foreign currency with the NBRM. For the purpose of this program, accounts of the central government include all accounts recorded as central government accounts in the monetary statistics reported by the NBRM in accordance with the definition of central government[¶]. Excluded from this definition are any T-bills issued for monetary policy purposes and corresponding government deposits at the NBRM, and the unclaimed portion of the payment of principal and interest on frozen foreign currency deposits.
23. The ceiling for end-March 2006 has been established for the cumulative change in the net credit from the NBRM to the central government from the actual level as of end-December 2004. Quarterly ceilings for June, September and December have been established for the cumulative changes in net credit from the NBRM to the central government from the actual level at end-December 2005 (Table 1 of the LOI).

Adjustors

24. The ceilings on net credit to the central government from the NBRM will be subject to the same adjustors as the ceilings for the NDA of the NBRM.

F. Government Fiscal Balances

25. Quarterly floors for the cumulative changes in central government fiscal balances will be determined and monitored from the financing side beginning end-December 2005 (Table 1 of the LOI). The financing flows will be measured as a sum of domestic financing, foreign financing, and privatization proceeds.

26. **Domestic financing** for the central government includes net credit from the domestic banking system (excluding any T-bills issued for monetary policy purposes and corresponding government deposits at the NBRM, and the unclaimed portion of the repayment of frozen foreign currency deposits), net placement of securities outside the domestic banking system and other net credit from the domestic non-banking sector, and net variation in domestic arrears, as defined in ¶36 below. **Foreign financing** for the central government (converted using the valuation methodology described in Section J) includes disbursements of external loans received by the central government, including disbursements received for foreign financed projects of budget users and extrabudgetary funds, and restitution of foreign assets of the former SFRY as a result of succession proceedings minus amortization due or pre-paid, and rescheduled debt service payments programmed to be paid out. **Privatization proceeds** for the central government include privatization proceeds and lump sum proceeds from concession fees in denars and foreign currency.

27. The **general government fiscal balance** includes, in addition to the central government fiscal balance, the financing position of the municipalities included in the definition of general government in ¶2. It is expected that, quantitative targets for the general government fiscal balance will be set on the occasion of the 3rd semi-annual program review, provided that sufficiently comprehensive and reliable data on municipalities' finances will have become available.

Adjustors

28. The floor on central government fiscal balance for end-March 2006 will be adjusted upward by any shortfalls of gross external financing for central government's foreign financed projects spending (including the Road Fund) with respect to the cumulative baseline of EUR 43.0 million from end-2004.

29. The floor on the central government fiscal balance for end-June, end-September and end-December 2006 will be adjusted upward by any shortfalls of gross external financing for central government's foreign financed projects spending (including the Road Fund) with respect to the following cumulative baseline from end-2005:

End-June 2006	EUR 19.3 million;
End-September 2006	EUR 32.4 million;
End-December 2006	EUR 35.3 million.

G. Central Government Wage Bill

30. The ceiling on the central government wage bill includes central government wages and salaries, including allowances.

31. Annual ceilings have been established for the central government wage bill (Table 1 of the LOI).

H. Debt

32. For assessing fiscal sustainability for program purposes, the standard analysis of the consolidated central government's debt sustainability will be complemented with an analysis that will include debt contracted and guaranteed by central and general governments and available information on government's contingent liabilities, such as external debt contracted by public and state owned enterprises without explicit government guarantees.

33. The limit on medium and long-term debt (Table 1 of the LOI) applies to the contracting or guaranteeing by any branch of the government or the NBRM of new nonconcessional external debt with an original maturity of more than one year. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 by the Executive Board of the IMF¹, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are changes in indebtedness resulting from refinancing credits and rescheduling operations (including the deferral of interest on commercial debt), credits extended by the IMF and the BIS, and credits on concessional terms, defined as those with a grant element of 35 percent or more calculated using the OECD Commercial Interest Reference Rates (CIRRs) applicable for the program period. Specifically, the discount rates for debts with maturities less than 15 years will be based on the average CIRR of the previous 6 months, and for debts with maturities of 15 years and more the average CIRR of the previous 10 years. Debt falling within the limit shall be valued in euro at the exchange rate prevailing at the time the contract or guarantee becomes effective.

34. The limit on short-term debt (Table 1 of the LOI) applies to the outstanding stock of short-term government and government-guaranteed external debt and the NBRM with an original maturity of up to and including one year. The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 by the Executive Board of the IMF. Excluded from this

¹ *Decision No. 6230-(79/140) August 3, 1979, as amended by Decision Nos. 11096-(95/100), October 25, 1995, and 12274-(00/85), August 24, 2000.* Under the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000 by the Executive Board of the IMF the definition of "debt" has been broadened with respect to the conventional definition to include, among other things, such instruments as financial leases.

performance criterion are changes in indebtedness resulting from rescheduling operations (including the deferral of interest on commercial debt), and normal import-related credits. Debt falling within the limit shall be valued in euro at the program exchange rates. There was no official short-term debt or guarantees on outstanding short-term debt as of end-December 2004.

I. External and Domestic Payments Arrears

35. External payments arrears consist of the total past-due amounts of debt service obligations (interest and principal) on government, government-guaranteed, and the NBRM external debt, excluding arrears on external debt service obligations pending the conclusion of debt rescheduling agreements.² Under the program, the nonaccumulation of external payments arrears is a continuous performance criterion. As of end-December 2004 there were no outstanding external payment arrears as defined above.

36. Central government domestic arrears, excluding those to suppliers, are defined to include all payment delays to: (i) banks for bond payments (including for the repayment of frozen foreign currency deposits); (ii) individuals for Social Assistance Program payments; (iii) central government employees including for wages and salaries, and food and travel allowances; (iv) benefit recipients of the Child Care Program; (v) local governments. The definition excludes the customary lag in paying wages, social assistance and child allowance payments, and transfers to the extra-budgetary funds (in the following month after they accrue). According to the definition here, and as reported to IMF staff, as of end-December 2004 there were no central government domestic arrears, excluding those to suppliers. Under the program, the outstanding stock of domestic arrears, as defined above, will not exceed at any time the amount outstanding as of end-December 2004.

37. Central government domestic arrears to suppliers are defined as obligations to suppliers of the core budget users and the Health Fund, which are due but not paid by more than 60 days and are non-disputed. As defined here, and as reported to Fund staff, the stock of arrears to suppliers stood at 979 million denars as of end-December 2004. Under the program, the outstanding stock of domestic arrears, as defined above, will not exceed the amount outstanding as of end-December 2004.

38. A separate sub-ceiling is set for the Health Fund arrears, as defined above in ¶37 and as reported to Fund staff. Under the program the aggregate outstanding stock of arrears will not exceed the amount outstanding as of end-2004. (The aggregate stock of these arrears stood at 670 million denars as of end-December 2004).

² Amounts are only considered past-due after the contractual grace period expired.

J. Valuation

Valuation of the NBRM balance sheet and the monetary survey

39. For the programmed foreign exchange projections, the program exchange rates were applied.

40. For program purposes, all foreign currency-related assets and liabilities will be evaluated at program exchange rates. For 2006, the program exchange rates are those that prevailed on December 31, 2004. In particular, EUR1 = 61.3100 denars, US\$1= 45.0676 denars; SDR1= 69.9903 denars, and EUR1=1.3604 U.S. dollars.

41. Performance will be measured in constant exchange rates. For this methodology, assets and liabilities of the banking system will be valued as follows: The stocks of assets and liabilities denominated in foreign currencies outstanding at December 31, 2005 are valued at the program exchange rates defined above. Gold is valued at the price fixed in the London market at end-December 2004 (US\$ 438.00 per ounce). Changes in assets and liabilities will also be valued at these exchange rates. The exchange rate effects on the foreign currency denominated assets and liabilities of commercial banks will be estimated on the basis of their currency composition, as provided by the NBRM banking supervision department.

Valuation of NIR

42. For the programmed foreign exchange projections, the program exchange rates were applied.

43. For program monitoring, the NBRM estimates the valuation effects on the NIR of the NBRM as follows. On a daily basis all foreign currency denominated balances are converted into Euros using the middle rates from the NBRM official exchange rate list for the same day. These balances are compared to the balances in Euros at the end of the previous day calculated in the same way (i.e., using the middle rates from the NBRM official exchange rate list for that day). The change in the daily Euro denominated balances, so calculated, is compared to the recorded daily transaction flows converted in Euros using the same methodology. Any difference between the two values is attributed to valuation effects.

Valuation of the fiscal deficit

44. For the programmed foreign exchange projections, the program exchange rates were applied.

45. For fiscal deficit measuring purposes, the foreign currency component of deficit financing will also be converted into denars at constant program exchange rates.

K. Monitoring and Reporting Requirements

46. Performance under the program will be monitored from information provided to the IMF by the NBRM and the Ministry of Finance. All data will be monthly, unless otherwise specified, and should be submitted by the authorities to the IMF staff within 30 days of the end of each month, for the minimum of three consecutive months prior to the IMF Board discussion on the arrangement, unless otherwise specified. In addition, data on performance at the program test dates will be submitted with a cover letter signed by an authorized official.

47. The following information will be supplied to the IMF by the Ministry of Finance: (i) fiscal table for the consolidated central government (i.e., including special revenue accounts and the extra-budgetary funds) (40 days after the end of each month); (ii) monthly information on privatization receipts (including detailed description of cash payments in local and foreign currency and payments with government bonds); (iii) data on workers registered as unemployed with the unemployment fund; (iv) information on guarantees given on new debt, on new debt contracted by the government, government agencies, and public enterprises and on debt stock in gross and net terms; (v) information on domestic arrears, including to suppliers and distinguishing between court disputed and non-disputed arrears; (vi) data on outlays on structural reforms and public administration reforms; (vii) data on the claimed and unclaimed portion of the repayment of frozen foreign currency deposits; and (ix) information on the local government fiscal accounts (starting April 2006). In addition, the MOF, in coordination with the NBRM, will provide quarterly reports on the reconciliation of monetary and fiscal data on net government position vis-à-vis the banking system, and data on the holders of government securities broken down between banks and non-bank entities.

49. The NBRM will supply: (i) balance sheets of the NBRM and the consolidated accounts of the commercial banks—both should include details of the credit and deposits position of funds and other government entities as listed in ¶1 (20 days after the end of the month); (ii) the monetary survey; (iii) data on components of NIR of the NBRM as defined in section B, valued in euros adjusted for valuation changes; (iv) statement from the Road Fund indicating its balances (in denars and foreign currency) at the NBRM and at the commercial banks separately; (v) the foreign exchange cash flow of the NBRM, including the level of official reserves, if necessary, reconciled with the NBRM balance sheet data for NFA; (vi) daily and monthly closing and average exchange rates; (vii) detailed data on exports and imports; (viii) information on all overdue payments on short-term external debt and on medium- and long-term external debt; (ix) data on foreign borrowing including gross disbursements, amortization, and interest payments by debtors (central government, agencies and public enterprises); (x) information on lending by domestic money banks according to credit ratings of borrowers; (xi) data on off-balance sheet activity of domestic money banks; (xii) data on each domestic money banks' compliance with prudential regulations will be provided on a quarterly basis; (xiv) detailed reporting on commercial banks assets and liabilities, including breakdowns by currency and maturity, on a quarterly basis; (xv) report on commercial banks total credit exposure by currency, currency indexation and sector, on a quarterly basis; (xvi) monthly information on commercial banks lending and deposits

indexed to foreign currencies; (xvii) monthly information on deposit and lending interest rates. Monthly data on all components of balance of payments will be submitted within 2½ months of the end of each month. By the end of the following months, the NBRM will provide preliminary trade data based on customs information. Data on stock of external debt will be provided on a quarterly basis, within 30 days of the end of the quarter. For the reports under points X, XII, XIV and XV, data for the period ending in March and September will be provided within 50 days of the end of the period; data for the period ending in June will be provided within 70 days of the end of period; and the end of the year data will be provided within 100 days of the end of period.

50. The State Statistics Office (SSO) office will supply monthly updates on CPI, PPI, industrial production, wages, employment, and import and export data. The SSO will also prepare quarterly GDP data three months after the end of the quarter. In case of changes in the statistical methodology, the SSO will provide data in the new and old methodology for at least one reporting point. The SSO will also provide updates when historic time series get corrected. All submissions will be in electronic form.

Table 1. Balance of Payments Financing Assumptions, 2005-2006 1/
(quarterly flows in millions of euros, unless otherwise indicated)

	Financing Assumptions for PCs up to end-March 2006			
	Jun-05	Sep-05	Dec-05	Mar-06
Grants	6.3	0.0	7.0	0.0
The Netherlands	6.3	0.0	7.0	0.0
Other	0.0	0.0	0.0	0.0
Loans	19.2	6.8	185.6	11.2
IBRD/IDA	14.7	0.0	22.1	0.0
Euro Bond	0.0	0.0	150.0	0.0
EBRD (ESM pre-privatization loan)	4.5	6.8	13.5	11.2
Privatization proceeds in foreign currency	0.0	0.0	0.0	250.0
Lump-sum proceeds from concession fees	0.0	0.0	0.0	0.0
Restitution of foreign assets of the former SFRY	0.0	0.0	6.5	0.0
Prepayment of foreign loans (minus)	0.0	0.0	0.0	-120.1
Total				
Quarterly flows	25.5	6.8	199.0	141.2
Cumulative from end-December 2004	25.5	32.3	231.3	372.5
	Financing Assumptions for PCs from end-June 2006 to end-December 2006			
	Mar-06	Jun-06	Sep-06	Dec-06
Grants	0.0	0.0	0.0	7.0
The Netherlands	0.0	0.0	0.0	7.0
Other				
Loans	13.5	11.3	0.0	22.1
IBRD/IDA	0.0	0.0	0.0	22.1
Euro Bond	0.0	0.0	0.0	0.0
EBRD (ESM pre-privatization loan)	13.5	11.3	0.0	0.0
Privatization proceeds in foreign currency	0.0	165.0	0.0	85.0
Lump-sum proceeds from concession fees	0.0	0.0	0.0	0.0
Restitution of foreign assets of the former SFRY	0.0	0.0	0.0	0.0
Prepayment of foreign loans (minus)	-120.1	0.0	0.0	0.0
Total				
Quarterly flows	-106.6	176.3	0.0	114.1
Cumulative from end-December 2004	-106.6	69.7	69.7	183.8

Sources: Data provided by the authorities; and IMF staff estimates.

1/ At program exchange rates.