International Credit Analysis

Republic of Macedonia

Ratings

Foreign Currency
Long-Term IDR* .... BB+
Short-Term IDR* .... B
Outlook .... Stable

Local Currency
Long-Term IDR* .... BB+
Rating Outlook .... Stable

Country Ceiling .... BB+

* IDR – Issuer Default Rating

Peer Group

BB+	Egypt El Salvador India **Macedonia** Panama
BB	Azerbaijan Colombia Costa Rica Peru Philippines
BB-	Brazil Indonesia Lesotho Serbia Turkey Ukraine Venezuela

Ratings History

Date	LTFC	LTLC
13 Jun 2006	BB+	BB+
1 Nov 2005	BB	BB

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Summary

Fitch Ratings has upgraded the foreign and local currency Issuer Default ratings (IDRs) of Macedonia (the former Yugoslav Republic of Macedonia) to ‘BB+’, with a Stable Outlook. The rating is supported by Macedonia’s sound fiscal policy and moderate debt levels as well as its status as an official EU candidate country since December 2005. Support for EU accession and economic reform, underpinned by the country’s relations with the IMF and other official creditors, makes broad policy continuity highly likely after parliamentary elections in July. Although Fitch believes the start of accession talks could be delayed until early 2008, that would not reverse the reform effort or alter pro-EU sentiment in Macedonia. Nevertheless, there is a risk of latent ethnic tensions re-igniting, which could affect stability, and this constrains the rating.

The government achieved a small budget surplus for the second successive year and is targeting a modest deficit of 0.6% of GDP in the medium term. General government debt was around 36% of GDP in January 2006, below the ‘BB’ median of 43%, but 94% is denominated in foreign currency. The current account deficit narrowed to 1.3% in 2005 from 7.7% in 2004, easing concerns over what had previously been one of the main rating weaknesses. This, coupled with the increase in foreign reserves, allowed interest rates to fall from 10% in October to 5.7% at end-April 2006. The GDP growth rate appears to have picked up but still remains a vital challenge, although the government is tackling structural problems such as high unemployment, a difficult business climate and corruption. The external debt burden and debt service are low.

Credit Outlook

The Outlook is Stable. Rising income levels, structural reforms and progress towards EU membership would strengthen creditworthiness.

Strengths

- Track record of low inflation and macroeconomic stability
- Sound fiscal policy, moderate public debt burden
- Moderate external debt and external debt service burden
- Relatively high human development for rating level
- Candidate Country for EU membership

Weaknesses

- Significant structural concerns including difficult business climate, sizeable trade deficit and high unemployment
- Risks of shocks to political stability
- Low rates of domestic savings, investment and greenfield foreign direct investment (“FDI”)
- High levels of euroisation, government debt vulnerable to exchange rate risk
- Under-developed domestic debt market

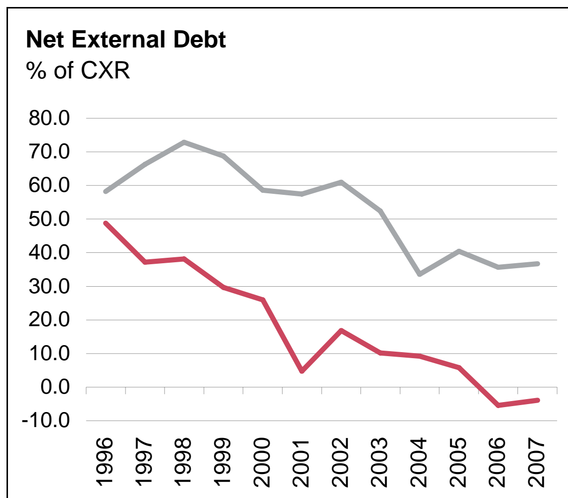
Key Indicators for Macedonia

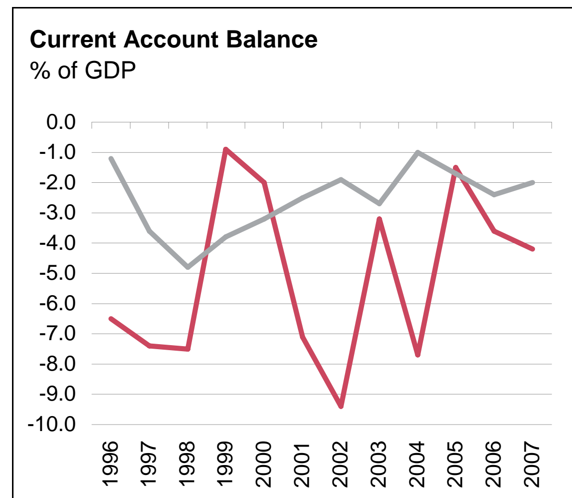
Population (2005): 2.0m **Population Growth Rate (2000-2005):** 0.3% p.a.
GDP (2005e): USD5.6bn **GDP per Head at Market Exchange Rates (2005e):** USD2,758
GNI Per Head at Purchasing Power Parity (2004): USD6,480 (= 16% of USA level)
Modern Sovereign Rescheduling History: Former Yugoslavia: 1984, 1985, 1988 (official creditors); 1983, 1984, 1985, 1988 (commercial banks). Republic of Macedonia: Paris Club official creditors: 1995 (classic terms) and 2000 (ad hoc); London Club commercial banks: 1997.

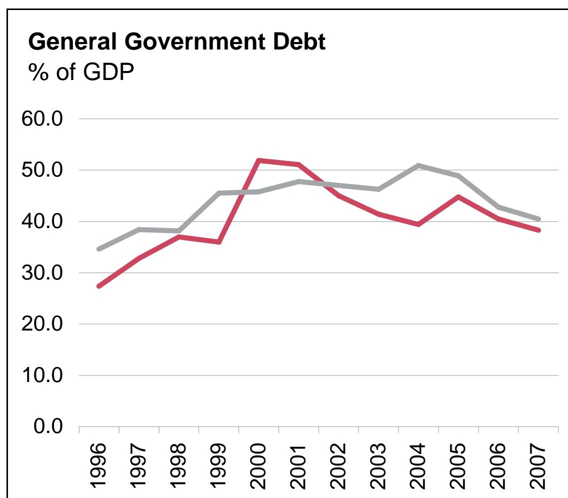
	2001	2002	2003	2004	2005e	2006f	2007f
Domestic Economy and Finance							
Real GDP Growth (%)	-4.5	0.9	3.8	4.1	4.0	4.0	4.0
Unemployment (% of Labour Force)	30.5	31.9	36.7	37.2	37.3	36.0	34.0
Consumer Prices (Annual Average % Change)	5.5	1.8	1.2	-0.4	0.5	2.9	2.0
Gross Domestic Savings (% of GDP)	5.2	0.5	3.0	3.0	3.1	3.1	3.2
Gross Domestic Investment (% of GDP)	19.1	20.7	19.8	20.1	20.5	20.8	21.2
Short-Term Interest Rate (%)(1)	13.7	12.6	8.2	9.0	8.5	5.5	5.5
Broad Money (% Change Dec to Dec)	32.1	15.7	15.8	16.1	15.2	20.5	23.0
MKD per USD (Annual Average)	68.04	64.35	54.32	49.41	49.28	49.43	49.76
REER (CPI, 2000=100)	100.1	99.7	101.5	102.3	99.8	99.8	99.8
REER: % Change (+ = Appreciation)	0.1	-0.4	1.9	0.7	-2.4	0.0	0.0
Public Finances							
General Government Balance (% of GDP)	-6.3	-5.6	-0.1	0.4	0.3	-0.6	-0.6
General Government Debt (% of GDP)	47.7	42.2	38.0	36.7	40.4	36.0	34.7
General Government Debt Maturities (% of GDP)(2)	3.7	3.6	3.8	3.3	3.7	7.9	4.9
General Government Debt/Revenue (%)	141.2	120.8	103.4	102.2	112.5	104.7	105.9
Interest Payments/Revenue (%)	5.5	4.2	2.8	2.4	2.6	3.2	3.1
Balance of Payments							
Current Account Balance (USDm)	-244	-358	-149	-415	-76	-184	-243
Current Account Balance (% of GDP)	-7.1	-9.4	-3.2	-7.7	-1.3	-3.1	-3.9
Current Account Balance plus Net FDI (USDm)	197.0	-280.2	-52.9	-259.0	20.2	162.5	-73.3
Current Account Balance plus Net FDI (% of GDP)	5.7	-7.4	-1.1	-4.8	0.4	2.7	-1.2
Gross Financing Requirement (% of Official Reserves)(3)	84.4	67.8	44.0	65.8	25.7	45.2	28.9
Current External Receipts CXR (USDm)	2,178	1,952	2,529	3,002	3,861	4,103	4,278
Current External Receipts CXR (Annual % Change)	-11.7	-10.4	29.6	18.7	28.6	6.3	4.3
Current External Payments CXP (USDm)	2,422	2,310	2,678	3,417	3,937	4,286	4,521
Current External Payments CXP (Annual % Change)	-4.6	-4.6	15.9	27.6	15.2	8.9	5.5
External Assets and Liabilities							
Gross External Debt (USDm)	1,544	1,679	1,869	2,091	2,282	2,296	2,410
Gross External Debt (% of GDP)	44.9	44.3	40.0	39.0	40.6	38.7	38.6
Gross External Debt (% of CXR)	70.9	86.0	73.9	69.7	59.1	56.0	56.3
Net External Debt (USDm)	102	329	259	276	223	-11	24
Net External Debt (% of GDP)	3.0	8.7	5.6	5.1	4.0	-0.2	0.4
Net External Debt (% of CXR)	4.7	16.8	10.2	9.2	5.8	-0.3	0.6
Public External Debt (USDm)	1,260	1,365	1,543	1,664	1,728	1,637	1,637
Public External Debt (% of GDP)	36.7	36.0	33.1	31.0	30.8	27.6	26.2
Net Public External Debt (% of CXR)	21.2	29.5	24.0	22.4	10.3	1.6	-0.1
Public FC Denominated & FC Indexed Debt (USDm)	1,734	1,880	2,116	2,236	2,224	2,200	2,122
Short-Term External Debt (% of Gross External Debt)	4.1	3.8	2.2	3.4	4.1	4.1	3.9
External Debt Service (% of CXR)	10.4	12.3	10.1	8.5	6.1	12.0	6.3
External Interest Service (% of CXR)	3.7	2.9	2.3	1.9	1.4	1.8	1.4
Liquidity Ratio (%)(4)	281.2	425.5	375.5	462.8	501.5	322.2	549.3
Official International Reserves Including Gold (USDm)	799	790	935	991	1,331	1,570	1,643
Official International Reserves in Months of CXP Cover	4.0	4.1	4.2	3.5	4.1	4.4	4.4
Official International Reserves (% of Broad Money)	91.5	66.3	56.7	47.6	63.8	59.3	51.5

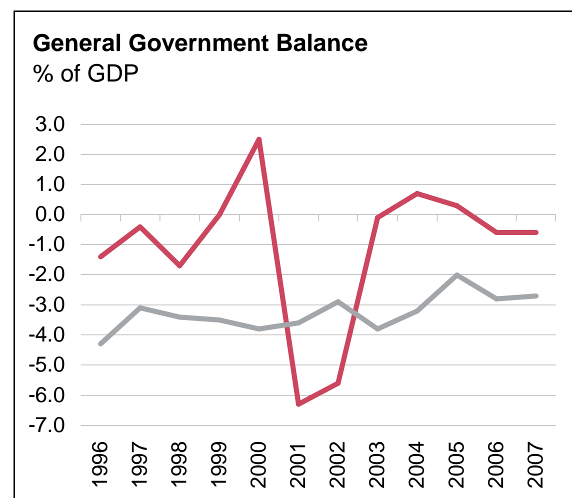
(1) 28 day CB bill rate (annual average)
(2) Maturities of medium- and long-term debt during the year *plus* short-term debt outstanding at the beginning of the year.
(3) Current account balance plus amortisation of medium- and long-term debt, over official international reserves.
(4) Official reserves incl. gold *plus* banks' foreign assets/debt service *plus* liquid external liabilities.

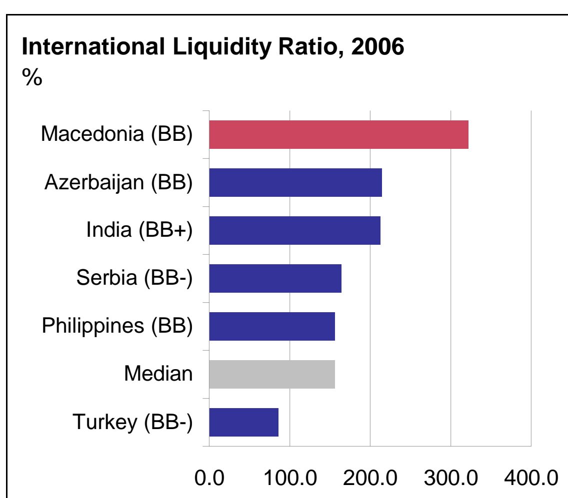
Peer Comparison

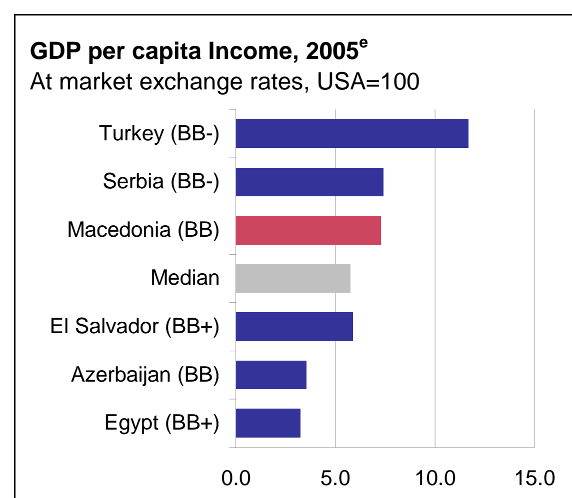












Macedonia — BB Median

Source: Fitch Sovereign Comparator

Rationale

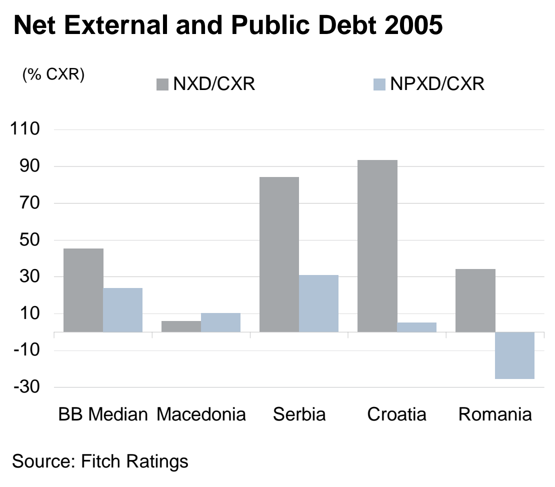
Macedonia's 'BB+' rating is underpinned by prudent fiscal policy and moderate debt levels. The government exceeded its fiscal policy targets in 2005, achieving a budget surplus for the second successive year. The authorities will be targeting a modest deficit of 0.6% of GDP in the medium term owing to the costs of pension reform and rising capital expenditure. The moderate fiscal easing is consistent with maintaining favourable debt dynamics. Fitch expects the 2006 budget to remain on course despite parliamentary elections in July.

General government debt fell to around 36% of GDP in January 2006, following the buyback of the Brady bonds with the proceeds of the government's debut EUR150 million 10-year Eurobond issue in December. This is below the 'BB' range median of 43%. Fitch is forecasting a debt-to-revenue ratio of 105% in 2006, well below the 'BB' range median of 198%. Government deposits at the National Bank of Macedonia ("NBRM") could rise to 9% of GDP in 2006 (reducing net government debt to 27%) on the strength of privatisation proceeds: the successful privatisation of the national electricity distribution company ("ESM") in March raised the equivalent of around 5% of GDP and the sale of a 10% stake in Macedonia Telecom, the fixed-line monopolist, in June, raised USD75m.

Prudent fiscal policy and moderate amortisation mean that the government's near-term gross financing requirement is just 6% of GDP in 2006 (excluding the Brady buyback). However, the authorities recognise that the decline in funds from official creditors and the completion of the privatisation process will increase dependence on the capital markets. As well as establishing access to international markets with the eurobond issue, the government is continuing to build up the under-developed local debt market. 94% of Macedonia's government debt is denominated in foreign currency, making it vulnerable to exchange rate risk.

Macedonia's low external debt burden is another rating strength. The eurobond issue increased gross external debt ("GXD") to USD2.3bn in 2005 but Fitch expects it to decline to the equivalent of 39% of GDP by end-2006. Net external debt ("NXD") was just USD0.2bn in 2005, equivalent to 6% of current external revenue ("CXR"), which is well below the 'BB' range median of 28%. Fitch expects Macedonia to become a small net external creditor in 2006 as official reserves rise further. Overall, the structure of external debt is favourable, with a long maturity, making it less vulnerable to shocks.

Net External and Public Debt 2005



Source: Fitch Ratings

The current account deficit, which had averaged close to 6% of GDP over the five years to 2004, narrowed to just 1.3% in 2005, easing concerns over one of the main previous rating weaknesses. A large current account deficit can be a source of vulnerability, particularly in the context of a fixed exchange rate. Fitch notes that some capital inflows may be being misclassified as transfers and the IMF estimates that Macedonia's current account deficit could actually be as high as 4.4% of GDP. Nevertheless, this is still low compared with higher-rated regional peers such as Croatia (6%), Romania (8%) and Bulgaria (12%).

Macedonia's external liquidity position is strong and provides support to the rating. Gross foreign exchange reserves ("FXR") rose to USD1.3bn in 2005, equivalent to over four months' import cover. Fitch's liquidity ratio, which measures liquid foreign assets over liabilities falling due over the next 12 months, remains strong at 322% in 2006. Fitch expects gross FXR to rise to USD1.6bn at end-2006 with privatisation proceeds.

Macedonia has an impressive record of price stability. Consumer price inflation was just 0.5% in 2005 while the NBRM is projecting an average inflation rate of 3% in 2006. Price stability is underpinned by the peg of the nominal denar exchange rate against the euro, which has been in place since 1995, with only one 15% devaluation in 1997. Macedonia's high domestic interest rates had previously been a source of unease, implying a substantial risk premium on the denar. However, improvements in the current account and the increase in reserves have boosted confidence, allowing interest rates to fall from 10% in October 2005 to 5.7% at end-April 2006.

Although lower interest rates are expected to boost demand for denar-denominated credit, the projected

23% increase in private credit in 2006 is still moderate compared with some regional peers. The financial sector is well-capitalised, and almost entirely privately owned, with over half the system's capital in foreign hands. As such it represents only a moderate contingent risk to the sovereign. However, the extent of euroisation (around 48% of bank loans) means currency-induced credit risk could be substantial in the event of a devaluation.

While GDP growth is still below that of both regional and rating peers, data revisions reveal a higher recent rate of growth, of around 4%, which Fitch regards as encouraging. Official GDP growth figures are also likely to be understated owing to Macedonia's substantial grey economy.

However, growth is limited by substantial structural weaknesses, which constrain Macedonia's rating. Problems with corruption, judicial shortcomings, excessive bureaucracy, an inflexible labour market and ambiguities over property rights are some of the issues that impair the business climate. While the government is making significant changes to legislation to address these issues, it will take time for new laws to be implemented in practice. Official unemployment is a staggering 37% as of end-2005 and a persistent trade deficit of almost 20% of GDP reflects the narrow export base. Metals and textiles each account for around 30% of merchandise exports, rendering the trade balance vulnerable to commodity price shocks and competition. FDI receipts have been buoyed by privatisation but are still low compared with those of regional peers.

Nevertheless, Fitch is confident that structural reforms will continue. Macedonia gained EU candidate status in December 2005 and is awaiting a date to start accession negotiations. Furthermore, it has a three-year precautionary stand-by arrangement ("SBA") with the IMF and a three-year Programmatic Development Policy Loan ("PDPL") with the World Bank. Cross-party support for EU integration and economic reform makes it likely that these twin policy anchors will remain following parliamentary elections in July. While the outcome of the election is uncertain, Fitch expects broad policy continuity, although any irregularities in the conduct of the election could have an adverse impact on Macedonia's EU accession timetable.

The political situation remains an important component of the rating judgement. The government has successfully reinstated political stability following internal armed conflict in 2001 by implementing the Ohrid Framework Agreement ("FA"), which enjoys strong popular support. However, there is a risk that ethnic tensions could re-ignite at some point in the future. The goal of EU accession is a critical anchor to political stability. Fitch believes an EU decision to delay accession negotiations with Macedonia would not reverse the reform effort or alter pro-EU sentiment. However, a long delay or ultimate decision to deny accession would be a major shock, although this is unlikely.

■ Political and Social Situation

Imminent Parliamentary Elections

Parliamentary elections in early July are currently dominating Macedonia's political scene. Elected in 2002, the centrist majority coalition government formed by the Social Democratic Union ("SDSM"), ethnic Albanian Democratic Union of Integration ("DUI") and Liberal Democratic Party ("LDP") has achieved many rating positive actions, including entrenching macroeconomic stability, implementing structural reforms and overseeing a return to political stability following armed conflict between the government and ethnic Albanian groups in 2001.

While the election result is uncertain as a large number of voters appear to be undecided, Fitch expects a coalition to be built around either the SDSM or the Internal Revolutionary Organisation-Democratic Party for Macedonian National Unity ("VMRO-DPMNE"), supported by one of the two main ethnic Albanian parties (DUI or the Democratic Party for Albanians – DPA) and a number of smaller parties. Of the smaller parties, the New Social Democratic Party ("NSDP") led by Tito Petkovski, who broke away from SDSM, could be a sizeable coalition partner. If a large number of parties are needed to form a coalition government, this could prolong negotiations but a functioning government is expected to be in place by September.

Opinion Polls*

	% Votes
VMRO-DPMNE	26
SDSM	21
DUI	19
DPA	9
NSDP	8
Democratic Renewal of Macedonia ("DOM")	6
Party for Democratic Prosperity ("PDP")	5
VMRO-Narodna	3
Other (including DA, PEO and Agricultural Party)	2
LDP	1
Memo: Undecided, Won't Vote	53

* Decided voters, who intend to vote
Source: Institute for Democracy, Skopje; and Fitch

The main opposition party, VMRO-DPMNE, is marginally ahead of the SDSM in the polls. VMRO-DPMNE has its roots in ethnic Macedonian

nationalism and was in government (in coalition with DPA) at the time of the conflict in 2001. Nevertheless, broad support for measures addressing the grievances of ethnic Albanians following the conflict (under the Ohrid FA), as well as for EU integration and NATO membership should ensure general policy continuity.

Ethnic Tensions

Macedonia appears to have successfully reinstated political stability following the adoption of the Ohrid FA. Encouragingly, the resolution of ethnic minority issues appears to be much less of a concern to voters in the upcoming parliamentary elections than improving the state of the economy. While there has been some nationalistic rhetoric from both ethnic Albanian and Macedonian parties, international pressure and the general consensus in favour of EU integration should limit its manifestation in policy. Nevertheless, the new government will be responsible for continuing the implementation of key reforms mandated by the Ohrid FA (particularly those concerning the judiciary and the police force). Furthermore – although unlikely – the unresolved status of Kosovo still has the potential to cause instability, as could the outcome of former interior minister Ljube Boskovski's trial for war crimes at the International War Crimes Tribunal.

Prospects for EU and NATO Membership

The EU Council (heads of state) decided to grant Macedonia candidate country status in December 2005, following a recommendation by the European Commission in November. However, the council decision did not give a start date for accession negotiations, stating instead that "further steps" would depend on the EU's capacity to absorb new members in addition to Macedonia's progress in implementing the priorities outlined in the European Partnership document, as well as its continued compliance with the Copenhagen political criteria and the Stabilisation and Association Agreement ("SAA"), which came into force in April 2004. The commission is to report on Macedonia's progress in late 2006.

The European Partnership document prioritised five key reforms for the Macedonian government. These are:

- ensuring free and fair elections (the upcoming parliamentary elections will serve as a benchmark);
- adopting the Law on Police (this has been delayed until after the elections);
- adopting and implementing judicial reforms (open to interpretation);
- simplifying company registration and licensing procedures (completed through the establishment of a functioning "one-stop-shop" for company registration); and
- ensuring implementation of the SAA, namely in the areas of customs (a technicality which has been resolved) and in liberalising the telecoms market (the government sold another 10% of its stake in Macedonia Telecom in June but the residual 37% will have to be sold after the elections as Macedonian law does not allow privatisations to take place during an election campaign).

The Macedonian government claims that its progress in fulfilling the priorities may well be sufficient for the commission to recommend starting accession negotiations in early 2007. However, Fitch believes this will be difficult and the commission could seek to reflect EU members' concerns about enlargement by insisting on further progress in the key priorities and another review in late 2007, leading to a start date in early 2008. Although the failure to obtain a date would be a setback for the government, it is unlikely to reverse the reform effort or alter pro-EU sentiment. And while EU enlargement fatigue adds uncertainty to the prospects of eventual accession, the EU is unlikely to make a near-term decision that would have adverse consequences for stability in this fragile region.

Macedonia is making progress towards NATO membership and has started contributing to NATO forces stationed around the world. Accession in 2008 is possible.

Corruption and Organised Crime

Corruption remains a problem in Macedonia. The judiciary and public administration in particular attract criticism, as do elected officials. [1] Encouragingly, reforms to tackle this problem in the judiciary, police force and health sector are under way. A European Bank for Reconstruction and Development ("EBRD")/World Bank survey of firms operating in Macedonia reported a decrease in bribes paid to public officials in 2005 compared with 2002, although the frequency of such payments may have increased [2]. Organised crime – including trafficking in women, drugs and arms and money laundering – is an issue throughout the Balkans. However, Macedonian firms reported a decrease in losses resulting from crime between 2002 and 2005[3].

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[1] UNDP Early Warning Report, March 2006

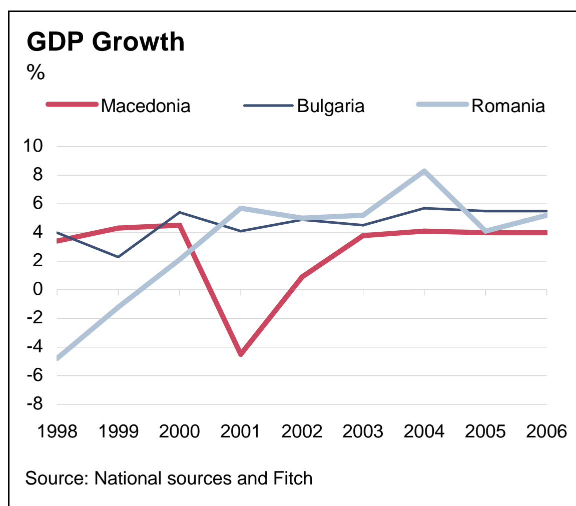
[2] EBRD/World Bank Business Environment and Enterprise Performance Survey ("BEEPS"), 2005

[3] Ibid.

Economic Transition

Income and Growth

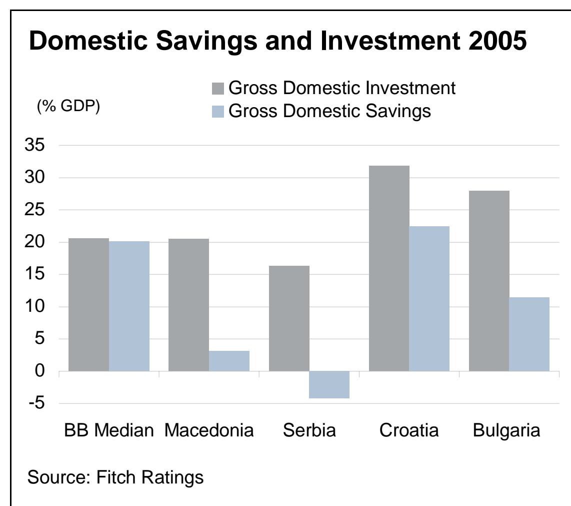
The country's key economic challenge is to continue to reform the structure and institutions of the economy, raise its growth rate and start to catch up with more advanced European countries. Levels of income, education and human development in Macedonia are rating strengths. GDP per capita was USD2,758 in 2005 at market exchange rates, above the 'BB' range median of USD2,479. Growth in 2005 was primarily driven by industrial production – which was 7% higher year on year as a large number of mines and metal smelters resumed production after privatisation and restructuring – and also strong exports. Exports of agricultural products and iron and steel, in particular, showed strong growth although the latter was partly the result of higher prices. The pace of export growth is expected to slow in 2006 although real GDP growth is projected to rise to 4% in 2006 as domestic demand increases on the back of lower interest rates.



Source: National sources and Fitch

While data revisions for 2003-05 have revealed a higher trend rate of growth of around 4%, this is still below the rates among regional and rating peers (although official GDP growth figures are likely to be understated owing to Macedonia's large grey economy). Real GDP growth was 4% in 2005, compared with a 'BB' range median of 5.5%. Attaining a higher-trend growth rate requires further structural reforms as well as improvements in the business climate to boost domestic investment and FDI. Macedonia's gross domestic savings (excluding transfers from abroad) and investment rates are low compared with those of regional peers. The country will need to raise both its investment rate and national savings if it is to grow strongly in the future without widening the current account deficit.

Macedonia's FDI receipts over the past three years have been roughly in line with the 'BB' range median but are low compared with regional peers. Furthermore, receipts have been buoyed by privatisation rather than greenfield investment. The country's small size and profile mean it is not an obvious target for FDI, although an improved business climate coupled with increasing investor confidence through EU candidacy could attract investment from abroad.



Source: Fitch Ratings

Investment and the Business Climate

Macedonia has a challenging business climate. Problems include corruption, ambiguities over property rights (which also hinder access to finance), high pay-roll taxes, burdensome bureaucracy and judicial shortcomings. Nevertheless, steps taken by the government to improve the business climate are encouraging. These include: new labour legislation to increase the flexibility of the labour market (July 2005); the establishment of a functioning "one-stop-shop" for company registration (January 2006); ongoing judicial reform; gradual tariff reduction due to trade liberalisation; and a new bankruptcy law (March 2006). Furthermore, declining interest rates should increase access to credit.

Encouragingly, the EBRD/World Bank found Macedonia's corporate governance legislation to be the closest to international benchmarks among the 27 transition countries. However, the confidence of Macedonian firms in the legal system's ability to protect their contract and property rights declined in the three years to 2005, while the average time needed to resolve overdue payments increased.[4] The implementation of judicial reforms remains a key challenge.

[4] EBRD/World Bank Business Environment and Enterprise Performance Survey ("BEEPS"), 2005

Macedonia's telecommunication tariffs are among the highest in the region, increasing the burden of doing business in the country. While the reduction of the government's residual stake in Macedonia Telecom and the law liberalising the telecommunications market (February 2005) are positive steps, Fitch believes the government's expectation that a second fixed-line operator will enter the market by end-2006 is optimistic given the dominance of the incumbent.

Unemployment and Labour Market

The official unemployment rate in 2005 was 37.3%. Although this figure is overstated, given the extensive grey economy and the incentive to register for health benefits, it is still a serious economic problem. The official employment rate was 34% in 2005. Agriculture and public services (administration, health and education) each accounted for 19% of employment and manufacturing for 22%. Unemployment is predominantly long term and is higher among the less educated and the young. While the slow pace of industrial restructuring during transition is a factor in the high unemployment rate, it is not the primary cause.[5] Rather, unemployment reflects weak GDP growth, an inflexible labour market and a mismatch of skills, as well as the closure of loss-making state-owned enterprises ("SOEs").

Nevertheless, unemployment did decline slightly in Q205. This may partly have been attributable to the new labour law (July 2005), which made hiring and firing easier and liberalised part-time and fixed-term contract work. The high unemployment rate appears to be a key issue for voters in the upcoming parliamentary elections.

Financial Sector

The banking sector does not appear to be a major risk to sovereign creditworthiness as it is moderate in size, well capitalised and predominantly privately owned. Furthermore, just over half of the system's capital is under foreign ownership, as are two of the country's three largest banks. Fitch expects foreign parent banks could provide support in the event of a crisis, limiting the contingent liability to the sovereign[6]. The government has sold most of its residual shares in commercial banks, leaving only 8% of the banking system's capital in state hands.

Credit growth to the private sector slowed a little in 2005, although it remained brisk, at 20%. Fitch expects the pace to rise to 23% in 2006. This is still moderate compared with a projected 35% in Romania and 50% in Serbia. Furthermore, the expansion in Macedonia is being funded through deposit growth rather than external borrowing, and is therefore not increasing the level of external indebtedness. And with the level of lending to the private sector at just 27% of GDP in 2005, credit growth is from a low base compared to 45% of GDP in Bulgaria and 61% in Croatia.

Nevertheless, some weaknesses exist. The system is concentrated, with the top three banks accounting for 66% of assets. However, these banks are regarded as having good corporate governance, while some smaller banks, although profitable, have less adequate corporate governance systems. The slow pace of restructuring at these banks and delays in their sale to foreign investors is, in part, attributable to a fragmented shareholding structure. Banking supervision is hampered by weak legislation. The adoption of a new Banking Law, which seeks to improve bank governance and raise minimum capital requirements, has been delayed until after the upcoming parliamentary elections.

Key Facts: Banking system

End-2005	
M3 (% GDP)	39.1
NPL Ratio	7.5
Capital Adequacy Ratio	21.3
Private Sector Credit (% GDP)	26.6
Private Sector Credit Growth (%)	19.7
Total Bank Deposits (% GDP)	35.4
Foreign Currency Bank Deposits (% GDP)	19.1
Public Ownership, % of Capital	8.1
Foreign Ownership, % of Capital	52.5

Source: IMF, National Bank of Republic of Macedonia and Fitch Ratings

Despite this, there are positive developments. Before the elections, the government expects to pass legislation strengthening the NBRM's supervisory powers and enabling it to levy penalties on banks for non-compliance without seeking court approval. The NBRM is to increase its bank supervision staff and expects to start reporting regularly on financial stability from 2007.

Lending remains challenging owing to the unfavourable business climate and slow pace of restructuring in the real sector. The new bankruptcy law and judicial reform should address the difficulty of enforcing creditor rights, although it will take time for implementation to bed down. Non-performing loans fell to 7.5% in 2005 (2004: 9%). High operating costs, including high loan loss provisions,

[5] World Bank FYR Macedonia Country Economic Memorandum, Tackling Unemployment, September 2003

[6] Fitch currently has public ratings for only one bank in Macedonia (ProCredit Macedonia, which holds around 2% of banking sector assets and is rated 'BB') and so does not have a Bank Systemic Indicator for the country.

dampen profitability. Nevertheless, return on equity ("RoE") and return on assets ("RoA") improved to 8.1% and 1.3%, respectively, at end-2005 from 6.2% and 1.1% at end-2004.

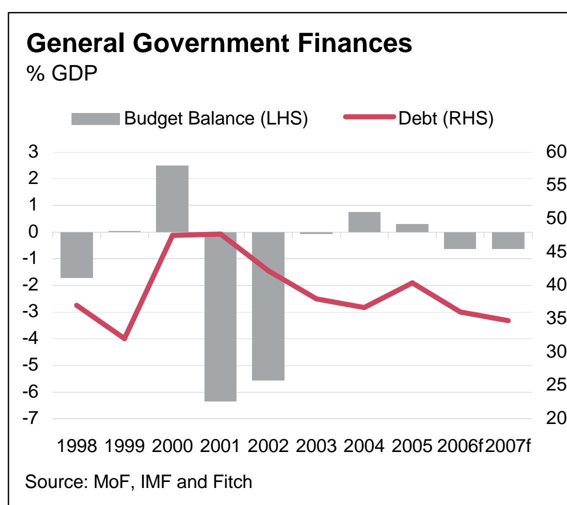
The banking sector has a high degree of euroisation, with 58.5% of deposits and 47.5% of loans denominated in or linked to foreign currency. However the declining denar interest rate and growing confidence in the currency could spur the growth of denar-denominated deposits and loans. While the system as a whole has a net external creditor position of USD608m many individual borrowers are unhedged, exposing the banks to foreign-currency-induced credit risk in the event of a denar devaluation. The NBRM has tightened regulations on foreign exchange lending to help mitigate this risk.

Public Finance

Macedonia exceeded its fiscal policy targets in 2005, running a surplus of 0.3%, as opposed to a target deficit of 0.8%. This occurred despite an exceptional payment of 0.4% of GDP to recapitalise the NBRM and lower-than-expected grants. It was mainly driven by tax revenues outperforming forecasts and lower-than-expected transfers, as well as some exceptional factors, namely a large dividend from Macedonia Telecom and delays in procurement and capital expenditure owing to lower-than-expected grants.

This year the government will loosen fiscal policy slightly, targeting a 0.6% deficit in 2006 and in the medium term. The IMF views this easing as consistent with the government's low debt ratios and appropriate given the transitional costs arising from pension reform, declining import duties caused by trade liberalisation and rising capital expenditure as the government begins co-financing EU projects in 2007. Furthermore, dividends from the country's fixed-line operator will decrease as the government sells its residual stake. Fitch does not expect significant slippage from the fiscal target despite the upcoming parliamentary elections. Outturns in Q106 suggest that the budget is on track. Macedonia's fiscal policy remains a rating strength, as the country has averaged a balanced budget between 1997 and 2005.

Fitch expects Macedonia's SBA, which is in place until 2008, to continue to provide an anchor for fiscal discipline after the July elections. While a coalition government led by the SDSM would be almost certain to maintain a prudent fiscal stance, a victory by VMRO-DPMNE is also unlikely to change the existing policy course.



Nevertheless, without reforms, the structure of public expenditure could leave the government with little room to manoeuvre in the event of shocks. Coupled with the expected decline in revenue from social security contributions, customs duties and dividends, the inflexible structure of public expenditure – some 77% of which goes on transfers, wages and interest payments – could pressure the government into reducing capital investment in the event of a negative shock. Initiatives to reform tax administration should improve collection. However, high pay-roll taxes discourage employment in the formal sector and hinder efforts to broaden the tax base.

Public pensions cost around 9% of GDP and the system is running a deficit of around 2.5% of GDP. The reform of the pension system will add a private, mandatory fully funded scheme ("second pillar"), as well as a voluntary scheme ("third pillar") to the existing pay-as-you-go public pension. While the establishment of a three-pillar pension system will strengthen public finances in the long term, the transfer of part of the social security contributions to the second pillar during the transition period could increase the budget deficit by as much as 0.6% of GDP each year from 2006 to 2008 and by 0.8% in 2011 (though this is taken into account in the government's medium-term fiscal projections). Contributions to the second-pillar fund began in January 2006 and take-up rates were higher than expected. Macedonian government bonds or short-term treasury bills make up 80% of the assets of the two newly established pension companies, although their portfolios are expected to become more diversified over time.

Healthcare expenditure was 5.5% of GDP in 2005. The system is in need of reform to reduce inefficiency and mismanagement and, according to the World Bank, would also serve as a litmus test for

the authorities' commitment to tackling corruption. The government is taking steps to limit the build-up of payment arrears and to improve financial control and reporting, and accountability. Hard budget ceilings on healthcare institutions were imposed in 2006.

Fiscal decentralisation came into effect in July 2005. Municipalities receive a transfer from the central budget, including a share of value-added tax ("VAT") revenues, and can also raise their own revenues. Municipalities must run balanced budgets until July 2007, when they will be allowed to borrow from domestic sources (up to limits defined in the Law on the Financing of Municipalities), although borrowing from abroad will be subject to government approval. Administrative units from central government have been transferred to the municipal level to ensure that the experience of budgeting at local level is not lost.

Macedonia's fiscal transparency appears relatively strong. Medium-term fiscal and public debt strategies are now approved along with annual budgets. The government will start reporting in accordance with GFSM 2001, which is broadly compatible with ESA95 standards, in 2007.

Macedonia's public debt burden is moderate and compares favourably with that of its peers. The general government debt ratio fell from 40% of GDP at end-2005 to around 36% in January 2006 after the buyback of the London Club debt (EUR136m). This is below the 2006 'BB' range median of 43% and just above the 'BBB' range median of 34%. Macedonia's revenue base is also strong. Fitch forecasts a general government debt to revenue ratio of 105% in 2006. The government successfully privatised the state-owned electricity distribution company (ESM) in March 2006, raising EUR225m (5% of GDP).

The government's net debt-to-GDP ratio is on a strong downward trend. Its deposits at the NBRM climbed to over 7% of GDP at end-2005 owing to the budget surplus and the issue of the eurobond, so net debt was only 33% of GDP. Government deposits could rise to over 9% of GDP in 2006 with privatisation proceeds, providing a large liquidity buffer and reducing net debt to just 31% of GDP.

General government guarantees (mainly on public enterprise external debts) were only 3% of GDP in 2005. However, municipalities have some arrears to suppliers, which are a contingent liability for the sovereign. Payment plans have been put in place after negotiations between local and central government and creditors. As a result, the ministry of finance estimates municipal debt to have declined from MKD2.9bn at end-2004 to MKD1.4bn (0.5% of GDP) at end-2005. Just under two-thirds (64%) of the debt is to construction companies. Another contingent liability is denationalisation claims. The government's fifth denationalisation bond, issued in 2006, was smaller than expected, at EUR34m. The sixth and final denationalisation is expected to be around EUR60m. Denationalisation bonds were first issued in 2002 in compensation for property seized by the state between 1945 and 1990. The government does not intend to issue any other bonds, but would cover any further liabilities by non-cash payments.

The government's current public debt management (2006-08) aims to reduce the public debt-to-GDP ratio to below 38% (Fitch forecasts Macedonia's public debt-to-GDP ratio at 44% of GDP in 2006), increase the proportion of fixed-rate debt, and reduce the proportion of foreign-currency-denominated debt. It also aims to decrease external borrowing and to extend the maturity of domestic debt.

Public Finances: Sources and Uses

(% GDP)	2005	2006f	2007f
Uses	3.5	8.5	5.5
Budget Balance	0.3	-0.6	-0.6
Amortisation	3.7	5.2	4.9
Domestic	2.5	3.2	4.0
External	1.2	1.9	0.9
Debt Pre-Payment	0.0	2.7	0.0
Sources	3.5	8.5	5.5
Gross Borrowing	6.3	4.9	4.6
Domestic	0.9	2.0	3.4
External	5.4	2.9	1.2
Privatisation	0.2	5.8	2.2
Change in Deposits and Other	-3.0	-2.3	-1.3

Source: MoF, IMF and Fitch Ratings estimates and forecasts

94% of Macedonia's government debt is denominated in foreign currency, and is therefore vulnerable to exchange rate risk. 56% of the debt is fixed and 44% bears a floating interest rate. Maturity structures are favourable, with the average maturity of the debt portfolio standing at over 13 years at end-2005. Government debt maturities are estimated at 8% of GDP in 2006, counting the London Club buyback. However, this still compares favourably with peers – Croatia's ('BBB-') government debt maturities were 18% in 2005, for example. Macedonia's debt-service costs are low, reflecting the predominance of international financial institutions ("IFI") and bilateral creditors. Interest payments accounted for less than 3% of general government expenditure in 2005.

Prudent fiscal policy and moderate amortisation mean that the government's near-term gross financing requirement is low, at only 6% of GDP in

2006 (excluding the Brady buyback). Indeed, the build-up of government deposits at the NBRM indicates that there is currently excess financing of the budget and ample financing flexibility. However, in the future, rising amortisation, the completion of the privatisation process and the steady decline in lending from official creditors will leave the authorities more dependent on the capital markets. Recognising this, they have established access to the international capital markets via the debut eurobond issue in December and are also continuing to develop the domestic debt market.

The government issued its first two-year bond in November 2005. While the volume of issuance remains low and the stock of treasury bills in 2005 was around 1.5% of GDP, interest rates have been declining in response to increased demand, lower interest rates on central bank bills and the establishment of an over-the-counter ("OTC") market in government securities in 2005, which has facilitated secondary trading.

■ Monetary & Exchange Rate Policy

By law, price stability is the primary objective of monetary policy. Although this is not quantified by law, the NBRM publishes its projected inflation rate for the following year. The peg of the nominal denar exchange rate against the euro is the main intermediate target for achieving price stability. The peg has been stable since 1997 and has been effective in containing inflationary pressures: annual consumer price index ("CPI") inflation has averaged 2.2% since 1996.

CPI inflation was lower than expected in 2005 at just 0.5% as the expected rise in electricity tariffs following the privatisation of the distributor did not occur. The effect of high oil prices was more than offset by lower food prices (which make up just under 40% of the CPI basket). The NBRM's projected rate for CPI inflation in 2006 is 3%. The expectation of a moderately higher inflation rate is based on the rise in taxes on tobacco in 2006, higher-than-expected food prices and higher global oil prices. The low inflation rate is underpinned by the denar exchange rate peg, prudent fiscal policy and the twin effects of tariff liberalisation (lower customs duties and foreign competition). However, the NBRM will need to monitor the impact of falling interest rates on credit and money growth to avoid excessive monetary expansion.

Macedonia increased FXR to 4.1 months' coverage of imports in 2005, helped by the eurobond issue. With the credibility of the exchange rate bolstered by rising reserves, the NBRM was able to begin easing monetary policy. In October 2005 it changed its system of auctioning central bank bills, allowing the market to determine interest rates. Interest rates fell from 10% in October to 5.7% at end-April 2006 in response to growing confidence and improvements in the current account. The accumulation of reserves and the decline in interest rates have increased confidence in the exchange rate peg.

Private sector credit is expected to grow by around 23% in 2006 (2005: 20%) as lower interest rates boost demand for denar-denominated credit. This, coupled with a continuation of strong capital inflows in the form of privatisation receipts and transfers, will require the NBRM to sterilise excess liquidity of around MKD3bn in 2006 at an estimated cost of around 0.2% of GDP. The NBRM has various instruments to sterilise excess liquidity, including bank reserve requirements (currently 10%) and open market operations. The phasing-out of central bank bills with a view to conducting open market operations with treasury bills alone is dependent on the development of the secondary market for government securities. The OTC market and the introduction of repo operations should hasten this process.

Strong balance-of-payments inflows could put the denar under pressure to appreciate. Fitch continues to view the fixed exchange rate as an appropriate policy for Macedonia, while recognising that it involves risks such as encouraging excessive unhedged borrowing and attracting speculative capital flows. The NBRM retains some restrictions on short-term capital flows to protect the denar against speculation.

■ External Finance

Balance of Payments and Financing

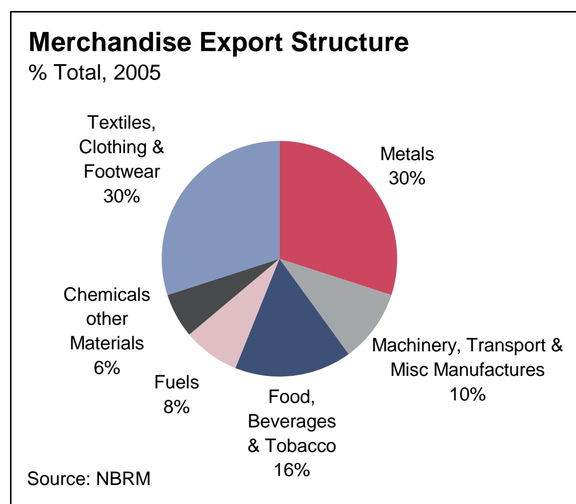
Macedonia's current account deficit narrowed to just 1.3% of GDP at end-2005 from 8% last year. The main driver of this improvement was the surge in transfers, which were equivalent to 19% of GDP (2004: 15%). While official transfers have been declining, private transfers – namely remittances from migrants – have risen sharply and account for 94% of the total.

However, data compilation techniques could be over-estimating the volume of remittances. As most private transfers are recorded from foreign exchange bureaux within the country, they could be capturing capital account flows or the conversion of "mattress" savings to denars rather than remittances. The IMF estimates that Macedonia's underlying current account deficit could actually be as high as 4.4% of GDP. While this could be a potential source of future vulnerability, the level is not unusual for a country at

Macedonia's stage of development and it is, moreover, driven by the private sector rather than by government borrowing. Furthermore, it is lower than the deficits recorded by Croatia (6% of GDP), Serbia (9%) and Romania (8%) in 2005.

Nevertheless, Macedonia has a sizeable and persistent trade deficit. Although this narrowed slightly in 2005 as a result of slower import growth, it remains substantial, at 19% of GDP. While high oil prices contribute to the deficit, it is essentially a result of Macedonia's narrow export base. In 2005, metals accounted for around 30% of the country's exports, which, together with its reliance on other basic materials, renders the country vulnerable to commodity price shocks. Textile exports fell relative to total exports in 2005. The government is drafting a strategy to strengthen the textile industry in the face of increased competition from China. Macedonia could receive FDI of around 10% of GDP in 2006 if planned privatisations go ahead. However, the country currently attracts little greenfield FDI.

Merchandise Export Structure
% Total, 2005



Source: NBRM

Macedonia's external financing position appears comfortable over the next couple of years. Stripping out the repayment of the Brady bonds, which was completed in January with the proceeds of the eurobond, Macedonia's external amortisation in 2006 is expected to be around 4.5% of GDP and its external debt service ratio just 8% of CXR. On the same basis, the country's gross external financing requirement in 2006 is moderate, at USD0.4bn (28% of official reserves), despite a larger current account deficit (3.1%) resulting from slower export growth and higher domestic demand.

Macedonia has an ongoing arrangement with the World Bank for loans to support its balance of payments. The country can also draw on its SBA, although the Macedonian authorities regard this as

External Finances: Sources and Uses

(USDm)	2005	2006f	2007f
Uses	255	602	453
Current Account Balance	-76	-184	-243
MLT Amortisation	179	258	210
Public	87	146	111
Private	92	111	99
Debt Pre-Payments	0	160	0
Sources	255	602	453
Gross MLT Borrowing	527	429	321
Public Sector	325	198	102
Private Sector	202	231	219
FDI, Net	96	346	170
Portfolio Equity, Net	46	41	43
Net Lending Abroad	-40	0	0
Capital Account	-2	0	0
Net Change in Short-Term Debt	17	0	0
Errors & Omissions	-13	0	0
Change in FX Reserves (- = Increase)	-376	-214	-81

Source NBRM, IMF and Fitch Ratings estimates and forecasts

precautionary (after an initial disbursement in 2005). Furthermore, the country's debut eurobond in late 2005 has established access to the international capital markets, increasing its financing options.

Macedonia's external liquidity position is strong and provides support to the rating. Gross FXR increased to USD1.3bn in 2005, equivalent to 4.1 months' import cover. Short-term debt is low, at around 4% of GXD. Macedonia's external liquidity ratio, which measures liquid foreign assets over liabilities falling due over the next 12 months, is a comfortable 322% in 2006, counting the Brady buyback (208% excluding banks' foreign assets)[7]. Even if residents' foreign currency bank deposits are counted as a liability in the ratio (to simulate withdrawal in a crisis situation) the ratio still remains well over 100%. Fitch expects gross FXR to rise to USD1.6bn at end-2006 (equivalent to 4.4 months' import cover) with privatisation proceeds.

External Debt Structure

Macedonia's external debt burden is relatively low and supports the rating. GXD was USD2.3bn at end-2005 (after the eurobond issue), equivalent to 41% of GDP and 59% of CXR. Fitch expects GXD to decline relative to both GDP and CXR in 2006. Net external debt was just USD0.2bn in 2005, equivalent to under 6% of CXR – well below both the 'BB' and 'BBB' range medians of 28% and 34%, respectively. Fitch expects Macedonia to become a small net external creditor in 2006 as official reserves climb.

The structure of Macedonia's external debt is quite favourable, which means that it should be sustainable and reasonably resilient to shocks.

[7] Without the Brady buyback, Macedonia's external liquidity ratio would have been 430% in 2006.

Public sector debt accounts for 76% of GXD (3% of which corresponds to non-resident holdings of domestic debt – Fitch regards this as external debt) while 5% is owed by commercial banks and 19% by the non-bank private sector. The banking sector is a net external creditor of around 11% of GDP. The maturity of the debt is long while the share of short-term debt is also very low, at only 4%, and is wholly owed by the private sector. Interest rates are low, as over half of GXD is to IFIs and bilateral creditors (46% and 9%, respectively). In terms of currency, around 51% of GXD is in euro, 27% in US dollars and 20% in SDRs. There is therefore some exposure to an appreciation in the US dollar, although this could decline in the medium term as the government is aiming to increase the euro component of its external debt.

Fiscal Accounts Summary

% of GDP	2002	2003	2004	2005	2006f	2007f	2008f
Revenue & grants	**34.9**	**38.1**	**36.5**	**36.4**	**35.1**	**33.5**	**33.0**
o/w tax revenue	33.0	30.4	30.8	30.5	29.7	28.5	29.0
non-tax revenue	1.6	6.1	4.9	3.8	4.1	4.0	3.6
grants	0.0	1.3	0.6	0.5	0.7	0.8	0.3
Expenditure & net lending	**40.5**	**38.2**	**36.1**	**36.2**	**35.7**	**34.1**	**33.6**
o/w wages & salaries	7.8	8.5	8.3	8.3	8.2	5.4	5.1
current purchases	6.3	4.9	4.5	4.6	4.2	3.8	4.0
current transfers & subsidies	21.1	19.3	18.9	18.6	18.2	19.6	19.7
interest	1.5	1.1	0.9	0.9	1.1	1.1	1.1
capital expenditure	3.6	4.1	3.2	3.7	3.9	4.1	3.7
other	0.2	0.4	0.3	0.0	0.1	0.2	0.0
Primary balance	**-4.1**	**1.0**	**1.3**	**1.2**	**0.5**	**0.4**	**0.5**
Overall balance	**-5.6**	**-0.1**	**0.4**	**0.3**	**-0.6**	**-0.6**	**-0.6**
Financing:	5.6	0.1	-0.4	-0.3	0.6	0.6	0.6
Domestic, net	4.8	-0.5	-0.6	-4.4	2.3	0.3	0.7
Domestic securities	-1.7	-1.7	-1.5	-1.6	-1.3	-0.6	-0.5
Bank deposits & loans	5.9	0.9	0.7	-3.0	-2.3	-1.3	1.1
Privatisation proceeds	0.6	0.3	0.2	0.2	5.8	2.2	0.0
External, net	0.7	0.6	0.2	4.2	-1.7	0.3	-0.1
Disbursements	2.6	2.7	1.4	5.4	2.9	1.2	1.1
Amortisation	1.9	2.1	1.2	1.2	4.6	0.9	1.2
General Government debt	**42.2**	**38.0**	**36.7**	**40.4**	**36.0**	**34.7**	**31.9**
Domestic	17.0	16.2	16.4	17.2	16.2	16.1	14.7
External	30.9	27.8	26.2	30.8	27.5	25.8	24.1
Government debt (% of revenue)	120.7	99.8	100.4	110.8	102.6	103.3	96.9
Public enterprise debt	2.9	2.9	3.2	3.2	3.2	3.2	3.0
Public debt	47.9	44.0	42.7	48.0	43.7	42.0	38.8
memo:							
Interest service (% of revenue)	4.2	2.8	2.4	2.6	3.2	3.1	3.4
Foreign currency debt (% total public debt)	94.3	93.1	89.1	86.9	84.6	81.8	78.6
Government deposits in banking system	7.1	4.1	4.2	7.3	9.1	9.6	7.9
"Net" public debt (Debt less deposits in banks)	40.8	39.9	38.5	40.9	34.8	32.3	30.9

* All figures refer to the consolidated general government
Source: Ministry of Finance, IMF and Fitch Ratings estimates and forecasts

Amortisation Schedule on Medium- and Long-Term Debt

(USDm)	2004	2005	2006	2007	2008	2009
Public Sector	**96**	**87**	**307**	**111**	**116**	**123**
IMF	20	11	13	29	14	6
Other Multilateral Creditors	8	17	22	30	48	65
Bilateral Creditors	47	41	29	29	28	28
Eurobonds	0	0	0	0	0	0
London Club	11	11	222	0	0	0
Other	11	8	20	23	26	24
Private Sector	**104**	**92**	**111**	**99**	**61**	**53**
Total	**200**	**179**	**418**	**210**	**177**	**176**

Source: Ministry of Finance, National Bank of Republic of Macedonia and Fitch Ratings estimates

Balance of Payments

(USDm)	2002	2003	2004	2005f	2006f	2007f	2008f
Current account balance*	**-358**	**-149**	**-415**	**-76**	**-184**	**-243**	**-255**
% of GDP	-9.4	-3.2	-7.7	-1.3	-3.1	-3.9	-3.9
% of CXR	-18.3	-5.9	-13.8	-2.0	-4.5	-5.7	-5.7
Trade balance	**-804**	**-848**	**-1,112**	**-1,058**	**-1,214**	**-1,293**	**-1,324**
Exports, fob	1,112	1,363	1,672	2,040	2,193	2,335	2,522
(annual % change)	-3.7	22.5	22.7	22.0	7.5	6.5	8.0
Imports, fob	**1,916**	**2,211**	**2,785**	**3,097**	**3,407**	**3,628**	**3,846**
(annual % change)	14.0	15.3	26.0	11.2	10.0	6.5	6.0
Services, net	**-22**	**-10**	**-54**	**-34**	**-30**	**-32**	**-23**
Services, credit	253	327	408	472	495	520	546
Services, debit	275	337	462	506	525	552	569
Income, net	**-30**	**-32**	**-39**	**-49**	**-17**	**4**	**14**
Income, credit	51	60	85	98	150	158	158
Income, debit	81	92	124	147	167	153	143
o/w: interest payments	56	57	56	55	75	61	51
Current transfers, net	**498**	**741**	**791**	**1,065**	**1,078**	**1,078**	**1,078**
Capital & financial account	**266**	**230**	**435**	**465**	**398**	**324**	**359**
Capital account	8	-7	-5	-2	0	0	0
Non-debt creating flows, net	**78**	**97**	**171**	**142**	**387**	**213**	**257**
Equity Direct investment, net	78	96	156	96	346	170	212
Portfolio equity investment, net	0	1	15	46	41	43	45
External borrowing, net	**-68**	**144**	**263**	**365**	**11**	**111**	**102**
Debt securities	0	3	-1	177	-160	0	0
General government	11	28	38	56	61	19	-5
Monetary authorities	-154	0	0	5	-10	-28	-13
Commercial banks	-5	-34	-24	47	20	20	20
Other private sector	80	147	249	80	100	100	100
Net lending abroad	**247**	**-4**	**6**	**-40**	**0**	**0**	**0**
Net errors and omissions	-30	-26	8	-13	0	0	0
Overall balance = chg in reserves (-=increase)	**122**	**-56**	**-28**	**-376**	**-214**	**-81**	**-104**
memo:							
Current account excl official transfers (%GDP)	-12.1	-5.4	-9.0	-2.5	-4.0	-4.6	-4.5
Gross borrowing (incl. short-term)	179	407	505	616	523	415	373
Gross external financing requirement	542	348	615	255	602	453	432
Stock of International reserves, excl. gold	722	898	905	1,229	1,443	1,524	1,628

* Official grants included in current account
Source: IMF, National Bank of the Republic of Macedonia and Fitch Ratings estimates and forecasts

External Debt & Liquidity

(USDm)	2002	2003	2004	2005f	2006f	2007f	2008f
Gross external debt	**1,679**	**1,869**	**2,091**	**2,282**	**2,296**	**2,410**	**2,501**
% of GDP	44.3	40.0	39.0	40.6	38.7	38.6	38.0
% of CXR	86.0	73.9	69.7	59.1	56.0	56.3	55.7
By maturity:							
Medium- and long-term	1,615	1,827	2,019	2,188	2,202	2,316	2,407
Short -term	64	42	72	94	94	94	94
% total debt	3.8	2.2	3.4	4.1	4.1	3.9	3.8
By debtor:							
Public sector	1,365	1,543	1,664	1,728	1,637	1,637	1,614
o/w General government	1,135	1,257	1,350	1,469	1,370	1,389	1,384
Monetary authority	67	68	63	62	52	24	11
Public enterprises	119	162	190	139	154	160	166
Non-bank private sector	314	326	427	554	659	773	887
Banks	204	240	353	433	518	612	706
By creditor:							
IMF	67	68	62	62	52		
Other multilateral	689	858	999	990	1016		
Bilateral	292	272	252	205	197		
Eurobonds	0	0	0	177	181		
London Club	254	234	233	222	0		
Commercial banks other	205	202	238	265	262		
other private creditors	85	160	223	260	299		
unidentified creditor	87	75	84	0	0		
Gross external assets*	**1,350**	**1,610**	**1,815**	**2,060**	**2,306**	**2,386**	**2,491**
International reserves, incl. gold	790	935	991	1,331	1,570	1,643	1,740
Deposit money banks' foreign assets	560	675	824	729	736	743	751
Net external debt	**329**	**259**	**276**	**223**	**-11**	**24**	**10**
% of GDP	8.7	5.6	5.1	4.0	-0.2	0.4	0.2
% of CXR	16.8	10.2	9.2	5.8	-0.3	0.6	0.2
Debt service (principal & interest)	**240**	**256**	**256**	**234**	**493**	**271**	**228**
Debt service (% of CXR)	12.3	10.1	8.5	6.1	12.0	6.3	5.1
Interest service (% of CXR)	2.9	2.3	1.9	1.4	1.8	1.4	1.1
Liquidity ratio (%)	**425**	**376**	**463**	**502**	**322**	**549**	**629**
excl. banks' foreign assets	236	220	269	274	208	374	433
excl. banks' foreign assets & incl.banks' resident FCDs							
memo:							
Public Foreign Currency & FC indexed debt	1,880	2,116	2,236	2,224	2,200	2,122	1,994

* Non-bank private sector external assets are not taken into account
Source: IMF, World Bank, National Bank of the Republic of Macedonia and Fitch Ratings estimates and forecasts

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