Macedonia

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B

Local Currency

Long-Term IDR	BB+
Country Ceiling	BBB−

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

Financial Data

Macedonia

(USDbn)	2013
GDP	10.3
GDP per head (USD 000)	4.9
Population (m)	2.1
International reserves	2.9
Net external debt (% GDP)	15.9
Central government total debt (% GDP)	35.1
CG foreign-currency debt	2.3
CG domestically issued debt (MKDbn)	30.7

Related Research

Macedonia (November 2012)
Global Economic Outlook (September 2013)

Analysts

Matteo Napolitano
+44 20 3530 1189
matteo.napolitano@fitchratings.com

Vincent Forest
+44 20 3530 1080
vincent.forest@fitchratings.com

Key Rating Drivers

Growth Improving, Risks Remain: Macedonia's 'BB+' Foreign-Currency Long-Term IDR balances projected improvements in GDP growth over the medium term against modest fiscal slippage and lingering political risk.

Growth to Continue: Real GDP grew by a strong 3.4% year on year in H113 after stagnating in 2012. A strong boost from construction in the first half is likely to dissipate in the rest of 2013, but Fitch Ratings forecasts GDP growth to average 2.7% for the whole year. The agency expects growth to strengthen in 2014-2015, as exports and public investment gather pace. However, the (official) unemployment rate, which despite recent improvements was a very high 28.8% in Q213, is only likely to fall further gradually.

Stable Macroeconomic Framework: The Macedonian denar's long-standing peg to the euro is backed by international reserves at the National Bank of the Republic of Macedonia (NBRM) totalling an estimated five months of current-account payments. Macedonia does not suffer from major external imbalances, with the current-account deficit (CAD) projected to remain broadly stable over 2013-2015 at below 4% of GDP, although this masks a large structural trade deficit financed primarily by current transfers.

Moderate Deficits, Some Slippage: The (central) government budget deficit was 3.9% in 2012, slightly above target. Fitch estimates that the deficit will be broadly in line with the official target of 3.5% in 2013, but that it will not fall to 3% until 2015 as the government keeps capital expenditure high. Under Fitch's baseline scenario, Macedonia's gross general government debt will rise modestly to around 36% in 2015, still below the 'BB' median.

Stable Banking Sector: Fitch does not consider the banking sector to represent a significant risk of contingent liabilities to the sovereign balance sheet. The sector is well capitalised, and non-performing loans, while rising, are fully provisioned against. However, two of the three largest banks have parents domiciled in Greece and Slovenia, which may present risks.

Political Risk Unchanged: NATO accession and EU membership negotiations are on hold pending resolution of the "name issue" with Greece. No meaningful progress has been achieved on the issue since Fitch's previous sovereign review. Relations between the Macedonian majority and the ethnic Albanian minority are stable, but Fitch cannot rule out that the continuing lack of a NATO or EU perspective could eventually lead to renewed tensions.

Rating Sensitivities

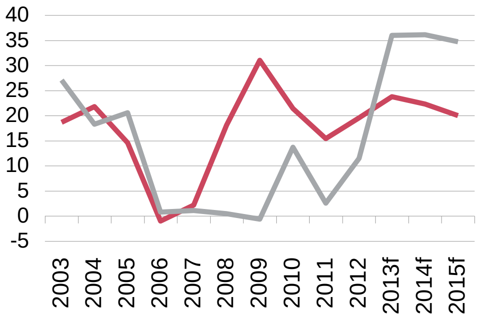
Stronger Trend Growth: Successful diversification of the economy that leads to stronger, sustainable economic growth and continuing improvement in labour market indicators would be positive for the rating.

Resolution of International Dispute: Agreement on the "name issue" would clear the path towards membership of international organisations, possibly leading to a positive rating action.

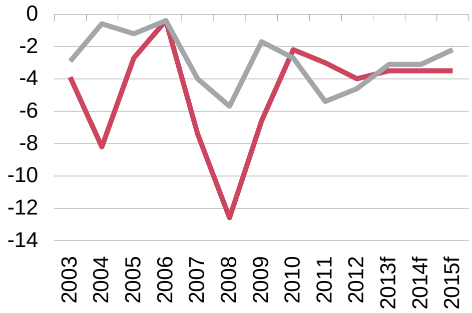
Fiscal Loosening: Significant fiscal loosening or crystallisation of contingent liabilities that jeopardises the stability of public finances and the currency peg could lead to a negative rating action.

Peer Comparison

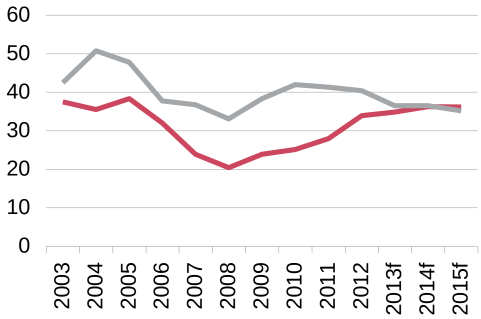
Net External Debt
% of CXR



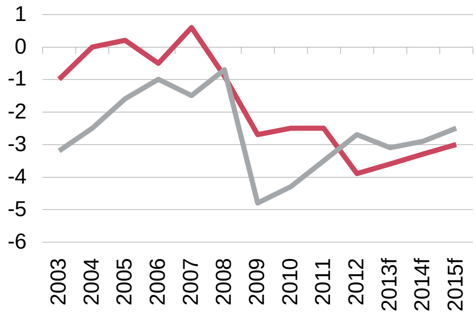
Current Account Balance
% of GDP



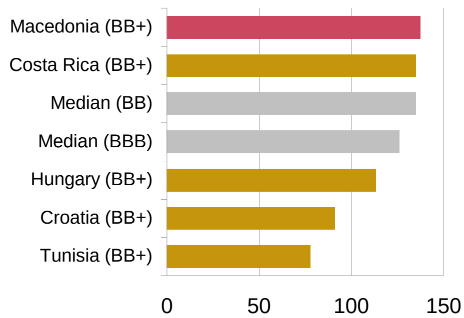
General Government Debt
% of GDP



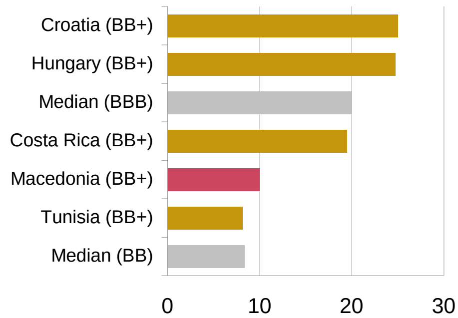
General Government Balance
% of GDP



International Liquidity Ratio, 2013
%



GDP per capita Income, 2013e
At market exchange rates, USA=100



Macedonia Medians

Related Criteria

Sovereign Rating Methodology (August 2012)

Peer Group

Rating	Country
BBB−	Azerbaijan
	Bulgaria
	Colombia
	India
	Indonesia
	Morocco
	Namibia
	Philippines
	Romania
	Turkey
	Uruguay
BB+	**Macedonia**
	Costa Rica
	Croatia
	Guatemala
	Hungary
	Portugal
	Tunisia

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
13 Jun 06	BB+	BB+
01 Nov 05	BB	BB

Rating Factors

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Neutral	Neutral	Neutral	Neutral
Trend	Positive	Stable	Stable	Stable

Note: Relative to ‘BB’ category (sovereigns rated ‘BB+’, ‘BB’ and ‘BB−‘)
Source: Fitch

Strengths

- The macroeconomic environment is stable, with volatility of GDP growth and inflation in line with the ‘BB’ medians, owing largely to the authorities’ broad success in maintaining the denar’s informal peg to the euro.
- The adoption of the policies necessary to support the peg (FX reserve accumulation and high interest rates) has kept Macedonia’s average inflation considerably lower than that of its peer group in recent years.
- Thanks to a strong position before the global financial crisis, the level of public debt remains moderate, at around 35% of GDP and 115% of revenue in 2013. Although these ratios have risen in recent years as fiscal deficits have risen, they remain below the medians for the ‘BB’ and ‘BBB’ categories.
- The banking sector is sound and well supervised. The system capital adequacy ratio (CAR) is well above the legal minimum (8%) and non-performing loans (NPLs) are fully covered by provisions.

Weaknesses

- Stronger GDP growth is held back by structural bottlenecks such as high unemployment. Although signs are beginning to appear that greater export capacity will boost Macedonia’s trend growth, it remains to be seen whether this will be sufficient to bridge wide regional income gaps.
- NATO accession and EU membership negotiations are on hold because of the “name issue” with Greece. No meaningful progress has been achieved on that matter since Fitch’s previous sovereign review in October 2012, and the agency expects no resolution in the near term.
- The accumulation of large fiscal arrears until Q113 suggests lingering weaknesses in fiscal governance, particularly regarding the public procurement process. The government is addressing these shortcomings.

Local Currency Rating

Macedonia’s Local-Currency Long-Term IDR is ‘BB+’, the same as its Foreign-Currency Long-Term IDR. The central bank’s capacity to generate local currency without negative economic consequences is restricted by the fixed exchange-rate regime. In 2013 the state again increased the proportion of funding it obtains domestically, but a deep and liquid domestic market for government securities will develop only gradually

Country Ceiling

Macedonia’s Country Ceiling of ‘BBB−’ reflects transfer and convertibility risk. EU accession aspirations and large current-account receipts from private transfers (including remittances sent home by Macedonians working abroad) are incentives for the government to maintain liberalised transfer and convertibility arrangements. Nevertheless, the presence of an informal currency peg limits the uplift of the Country Ceiling to one notch.

Outlook and Key Issues

Fiscal Consolidation Postponed in Order to Support Growth

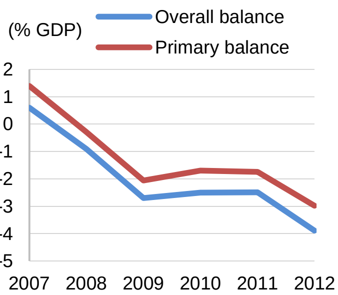
- The 2012 fiscal deficit[1] was 3.9% of GDP and Fitch estimates that it has narrowed modestly in 2013 to around 3.6%, slightly higher than the government's initial target. With total public revenue falling by 1.3% in nominal terms and public expenditure growing by 4.4% year on year in H113, mainly because of a one-off payment of arrears, the central government deficit grew to MKD13.8bn in H113 from MKD8.6bn one year earlier. This was despite robust GDP growth of 3.4% in H113.
- The budget overshoot in 2012 and 2013 was mainly due to large public investment and the payment of VAT arrears in Q412 and Q113. The government is introducing a system of commitment control in public procurement processes to prevent renewed excessive accumulation in arrears. Nevertheless, it does not project the deficit to moderate significantly before 2015-2016. The government intends to keep capital investment high in 2014, which will contribute to keeping the deficit above 3% of GDP.
- The government has made support to economic growth alongside macro-economic stability as a key objective of its fiscal policy, consequently delaying fiscal consolidation. The 2014 budget incorporates a 5% increase in pensions and a substantial increase in capital expenditure, notably in road and healthcare infrastructure.
- Additional capital spending could boost potential GDP growth. Moreover, Fitch considers Macedonia to have some fiscal space owing to lower public debt than the 'BB+' median. The postponement of fiscal consolidation therefore does not constitute a short-term threat to Macedonia's sovereign creditworthiness. Nevertheless, there is a risk that fiscal deficits could turn out larger than the government expects if there are GDP growth shortfalls.
- The government's commitment to maintaining a low-tax environment (general government revenue was 32.8% of GDP in 2012) means that fiscal consolidation will depend on GDP growth, with capital expenditure the main adjustment variable. Fitch expects fiscal stimulus, mainly in the form of investment in infrastructure, to be phased out by 2015, which would allow the debt-to-GDP ratio to stabilise below 40%. However, a similar commitment to start reining in the deficit by 2014 was made in 2012, indicating that fiscal room for manoeuvre is likely to be used again if GDP growth is disappointing.
- Macedonia's government debt ratio is unlikely to come under significant stress under Fitch's baseline scenario, and is expected to peak at around 36% of GDP in 2014-2015, still below the 'BB' median. However, the state-guaranteed debt of public enterprises has nearly doubled to 5.3% in mid-2013 from end-2009. Much of this increase has been financed via loans from multilateral institutions. A significant proportion of the cost of public investment is therefore not incorporated in the general government debt figures.
- The government aims to continue reducing its reliance on foreign borrowing, and to increase issuance of denar-denominated securities (simultaneously gradually extending their maturity) to fund its fiscal needs in coming years. Access to the World Bank's Policy-Based Guarantee programme to unlock commercial loans should help keep borrowing costs moderate.
- Fitch estimates the sovereign's gross borrowing need (the sum of the budget deficit and debt redemptions including treasury bills) at 13% of GDP in 2014, rising to 14.4% in 2015 as earlier IMF loans and a Eurobond come due.

Public Investment Boosts GDP Growth

- GDP growth averaged 3.4% in H113, mainly because of large public investment in infrastructure, which allowed the construction sector to jump by about 34.5% year on year and therefore to contribute more than 40% to total GDP growth. This boost is likely to dissipate in H213, although Fitch expects full-year growth to be 2.7%.
- The simplification of the taxation system, combined with several reforms of the social security and cadastre systems, could help bring the official unemployment rate closer to its actual level, estimated at 20%-25%.
- The government's continuing effort to maintain a low-tax and business-friendly environment has led to growing, albeit still modest FDI inflows, aimed at the technology development zones (TDZs) set up by the government. Investors in the TDZs, which now include several international automotive component companies, receive tax exemptions. This means that the effect on public finances of increased production in the TDZs is likely

Figure 1

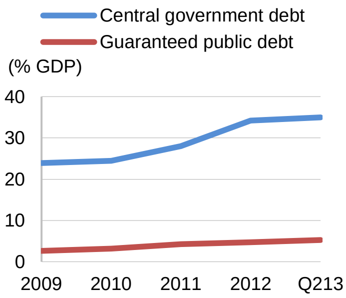
General Government Finances



Source: Min Fin

Figure 2

Public Debt and Guarantees

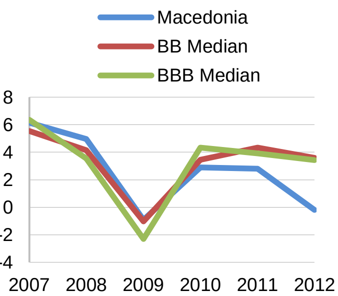


Source: Min Fin

Figure 3

Real GDP growth

(% change, yoy)



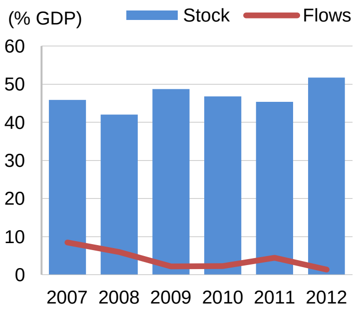
Source: Fitch

[1] Unless stated otherwise, all fiscal figures refer to the central government. Macedonia has recently begun producing annual general government fiscal data, but Fitch uses more detailed and timely central government data for its fiscal analysis

to be modest. Nevertheless, the effect on exports is already evident, with output from the TDZs already making up more than a fifth of Macedonia's total export value.

Figure 4

Inward FDI



Source: UNCTAD and Fitch

Current-Account Deficit to Remain Moderate

- Exports grew by 2.9% year on year and imports were stagnant in 7M13, allowing the trade deficit to narrow by 5%, although it remains high at EUR935m. Private current transfers, which include remittances and transactions at cash exchange houses and traditionally finance a large portion of the trade deficit, slowed over the same period. This contributed to a widening in the CAD. However, Fitch expects CADs to remain moderate at below 4% of GDP in coming years as export capacity is increased and the economies of Macedonia's key EU trading partners recover.
- Fitch expects FDI inflows to continue growing in the coming years, boosting export growth and diversification. In 7M13 net FDI inflows financed 78% of the CAD. Their impact on GDP growth, employment and public revenue has so far been moderate but could increase over time.

Banking Sector Appears Sound

- Fitch does not consider the banking sector to represent a significant risk of contingent liabilities to the sovereign balance sheet. Despite low profitability, the sector is well capitalised, with a Tier 1 capital adequacy ratio of 14.7% in mid-2013. Non-performing loans rose to 11.8% of the total but are fully provisioned against, and around 29% of total assets were highly liquid at end-H113, equal to nearly half of banking sector short-term contractual liabilities. However, the system is highly concentrated, with three banks accounting for around two-thirds of sector assets, deposits and loans, and two of them having parents domiciled in Greece and Slovenia, which may pose residual risks.

Forecast Summary

	2009	2010	2011	2012	2013f	2014f	2015f
Macroeconomic indicators and policy							
Real GDP growth (%)	-0.9	2.9	2.8	-0.2	2.7	3.2	3.5
Unemployment (%)	32.2	32.0	31.4	31.0	28.6	28.2	27.8
Consumer prices (annual average % change)	-0.7	1.6	3.9	3.3	3.0	3.2	3.6
Short-term interest rate (%)[a]	8.5	5.7	-	-	3.5	4.5	5.5
General government balance (% of GDP)	-2.7	-2.5	-2.5	-3.9	-3.6	-3.3	-3.0
General government debt (% of GDP)	23.9	24.5	28.0	34.2	35.1	36.5	36.4
MKD per USD (annual average)	44.1	46.5	44.2	47.9	47.2	47.2	47.2
Real effective exchange rate (2000=100)	104.2	101.7	103.5	99.4	99.4	99.4	100.4
External finance							
Current account balance (USDbn)	-0.6	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4
Current account balance (% of GDP)	-6.6	-2.1	-3.0	-4.0	-3.5	-3.5	-3.6
Current account balance plus net FDI (% of GDP)	-4.6	0.1	1.5	-2.6	-0.6	0.4	1.3
Net external debt (USDbn)	1.5	1.2	1.1	1.3	1.6	1.7	1.6
Net external debt (% of GDP)	16.2	13.0	10.6	13.7	15.9	15.1	13.6
Net external debt (% of CXR)	31.0	21.4	15.4	19.6	23.8	22.3	20.0
Official international reserves including gold (USDbn)	2.3	2.3	2.7	2.9	2.9	3.3	3.6
Official international reserves (months of CXP cover)	5.0	4.6	4.3	4.9	4.8	5.1	5.2
External interest service (% of CXR)	2.1	2.3	2.6	2.4	2.8	2.7	2.7
Gross external financing requirement (% int. reserves)	40.5	31.8	28.5	28.6	35.4	27.4	32.1
Memo: Global forecast summary							
Real GDP growth (%)							
US	-2.8	2.5	1.9	2.8	1.6	2.6	3.0
Japan	-5.5	4.7	-0.6	2.0	1.8	1.5	1.2
Euro area	-4.4	2.0	1.6	-0.7	-0.4	0.9	1.3
World	-2.2	3.9	3.2	2.6	2.3	2.9	3.2
Commodities							
Oil (USD/barrel)	61.9	79.6	111.0	112.0	105.0	100.0	100.0

[a] Central bank bill rate (annual average)
Source: Fitch

Comparative Analysis: Macroeconomic Performance and Policies

Macroeconomic Performance

	2013						
	Costa Rica BB+	Croatia BB+	Hungary BB+	Macedonia BB+	Tunisia BB+	BB median	BBB median
Real GDP (5yr average % change)	3.3	-2.4	-1.0	1.5	2.2	3.2	2.9
Volatility of GDP (10yr rolling SD)	2.8	4.0	3.3	2.3	2.3	2.3	3.0
Consumer prices (5yr average)	5.7	2.3	4.1	2.2	4.6	4.7	3.8
Volatility of CPI (10yr rolling SD)	3.7	1.2	1.7	2.5	1.2	2.8	1.8
Years since double-digit inflation	5.0	15.0	15.0	18.0	-	n.a.	n.a.
Unemployment rate	10.0	21.0	10.8	29.0	16.0	16.0	6.9
Type of exchange rate regime	Crawling band	Peg	Free float	Peg	Managed float	n.a.	n.a.
Dollarisation ratio[a]	42.9	79.2	-	52.8	4.8	66.8	29.8
REER volatility (10yr rolling SD)	4.7	2.2	5.2	2.2	1.5	5.6	5.0

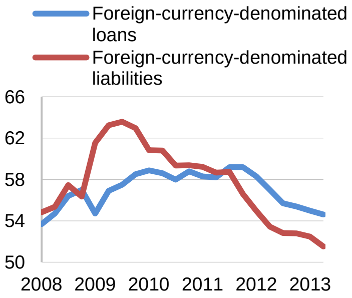
[a] 2012 data
Source: Fitch

Strengths

- The macroeconomic environment is stable, with volatility of GDP growth and inflation in line with the 'BB' medians, owing largely to the authorities' broad success in maintaining the denar's informal peg to the euro.
- The adoption of the policies necessary to support the peg (FX reserve accumulation and high interest rates) has kept Macedonia's average inflation considerably lower than that of its peer group in recent years.
- Commitment to the peg has fostered remarkable stability in Macedonia's real effective exchange rate (REER), the medium-term volatility of which is well below the median for 'BB' and 'BBB' rated countries.

Figure 5

Dollarisation
(% of total loans and liabilities)



Source: NBRM

Weaknesses

- Stronger GDP figures are prevented by structural bottlenecks such as high unemployment. There are signs that greater export capacity will boost Macedonia's trend growth, but it is uncertain whether this will be sufficient to bridge wide regional income gaps.
- The unemployment rate is exceptionally high relative to rating peers, and underlines the size of the shadow economy.
- Although it is coming down gradually and is now below the 'BB' median, dollarisation is high, at 51.5% of total banking-sector liabilities in mid-2013. This reduces the flexibility of monetary policy to counter macroeconomic shocks, while increasing vulnerability to crises of confidence in the banking sector.

Commentary

The official unemployment figure (around 28.8%) remains significantly higher than the actual unemployment figures, which are variously estimated at 20%-25%. Although the official rate has gone down in recent months as the government establishes comprehensive measures and cleans up registers, this might not indicate the start of a durable downward trend, as most current and expected FDI projects are only modestly labour intensive.

Comparative Analysis: Structural Features

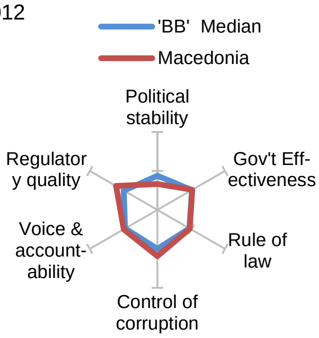
Macedonia

	2013						
	Costa Rica BB+	Croatia BB+	Hungary BB+	Macedonia BB+	Tunisia BB+	BB median	BBB median
GNI per capita PPP (USD, latest)	12,590	19,760	20,200	11,570	9,360	6,890	15,480
GDP per capita (USD, mkt exchange rates)	10,042	13,287	13,144	4,920	4,327	4,392	10,739
Human Development Index (percentile, latest)	67.2	75.2	80.6	58.0	50.0	47.0	65.6
Ease of Doing Business (percentile, latest)	40.8	54.9	71.2	88.1	73.4	52.0	66.1
Trade openness (CXR and CXP % GDP)	32.2	49.6	98.5	68.0	59.9	51.0	44.5
Gross domestic savings (% GDP)	17.6	20.7	25.6	5.1	15.7	17.1	21.9
Gross national savings (% GNP)	16.7	-	-	25.3	19.3	18.4	22.0
Gross domestic investment (% GDP)	21.4	20.0	16.9	28.8	28.9	21.1	22.7
Private credit (% GDP)	50.9	64.3	51.9	46.5	71.8	39.7	59.0
BSR indicators[a]	bb/1	bb1	bb1		b/1	n.a.	n.a.
Bank system CAR[a]	13.9	14.6	14.7	17.1	11.9	17.7	14.5
Foreign bank ownership (% assets)[a]	30.6	81.2	91.1	-	33.3	71.2	25.3
Public bank ownership (% assets)[a]	65.4	9.3	3.5	-	28.9	17.1	18.3
Default record (year cured)[b]	1990	1996	-	1997	-	n.a.	n.a.

[a] 2012 data
[b] Modern sovereign debt 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
Source: Fitch and World Bank

Figure 6

Governance Indicators
2012



Source: World Bank

Strengths

- Macedonia's GDP per capita is higher than the 'BB' median measured at purchasing power parity (PPP).
- Macedonia's economy is open. A number of large foreign investments into the automotive, electronics and pharmaceutical sectors will diversify the economy in coming years.
- Reform of the business environment in recent years earned Macedonia a steady rise in the World Bank's Ease of Doing Business survey, where the country is now ranked 23rd.
- The banking sector is sound and well supervised. The system capital adequacy ratio is well above the legal minimum (8%) and non-performing loans are fully covered by provisions.

Weaknesses

- A far larger gap between gross domestic and gross national savings than in other 'BB' rated countries remains. This is because of the large amount of "private transfer" flows, the nature of which is not fully clear and could point to a source of potential instability.
- The absence of resolution of the "name issue" with Greece has put NATO accession and EU membership negotiations on hold. No meaningful progress has been achieved since Fitch's previous sovereign review in October 2012, and no resolution is expected in the near term.

Commentary

In recent months the European Commission has acknowledged progress in some aspects of Macedonia's EU accession process, but also highlighted shortcomings. These include alleged government pressure on media outlets, and a deeply polarised domestic political scene. Evidence of the latter was the fraught period before the approval of the 2013 budget law in late December 2012, when there were clashes between government and opposition supporters.

Comparative Analysis: External Finances

Macedonia

	2013					Last 10 years	
	Costa Rica BB+	Croatia BB+	Hungary BB+	Macedonia BB+	Tunisia BB+	BB median	BBB median
GXD (% CXR)	114.4	206.5	160.5	104.1	97.8	104.4	106.9
GXD (% GDP)	34.0	102.2	160.1	69.0	54.9	41.8	48.3
NXD (% CXR)	4.4	122.8	64.9	23.8	52.0	3.8	11.3
NXD (% GDP)	1.3	60.8	64.8	15.8	29.2	1.9	3.9
GSXD (% GXD)	28.9	20.0	34.4	34.6	55.9	49.1	30.5
NSXD (% CXR)	-30.0	-9.5	18.2	-10.1	19.1	2.8	-9.2
NSXD (% GDP)	-8.9	-4.7	18.1	-6.7	10.7	1.6	-5.0
SNFA (USDbn)	4.4	2.7	-23.0	0.7	-5.1	-0.1	3.6
SNFA (% GDP)	8.9	4.7	-17.5	6.7	-10.7	-1.4	5.1
Ext. debt service ratio (% CXR)	20.9	50.3	16.6	12.4	26.8	13.1	15.4
Ext. interest service ratio (% CXR)	5.0	4.8	5.6	2.8	2.6	3.6	4.2
Liquidity ratio (latest)	135.0	91.1	113.4	137.5	78.0	169.4	136.6
Current account balance (% GDP)	-5.0	-0.3	2.4	-3.5	-7.6	-2.7	-1.8
CAB plus net FDI (% GDP)	-0.9	2.0	3.3	-0.6	-4.6	1.2	0.7
Commodity dependence (% CXR, latest)	15.8	14.9	14.4	13.4	17.2	21.9	27.6
Sovereign net FX debt (% GDP)	-6.9	7.8	-5.0	-5.5	10.7	-0.1	-7.3

Source: Fitch

Strengths

- Macedonia's international liquidity ratio is broadly in line with the 'BB' and 'BBB' medians.
- The sovereign is a net external creditor, reflecting moderate government debt and the NBRM's foreign exchange reserves.
- As a result of its modest external indebtedness and access to external finance on favourable terms, Macedonia's interest service ratio is below the 'BB' and 'BBB' medians.
- Domestic banks are not reliant on foreign financing and are not significantly indebted abroad on a net basis. This compares favourably with many banking systems in the region.

Weaknesses

- Macedonia runs large trade deficits, upwards of 20% of GDP, as a result of its historically undiversified production base. This is mitigated by private transfers (estimated to comprise of workers' remittances and residents' transactions at cash-exchange houses).
- The government has shelved plans for a Eurobond in the near future. It is taking advantage of World Bank guarantees to borrow on more advantageous terms than via a Eurobond and is making use of the abundant liquidity in the domestic banking sector.

Comparative Analysis: Public Finances

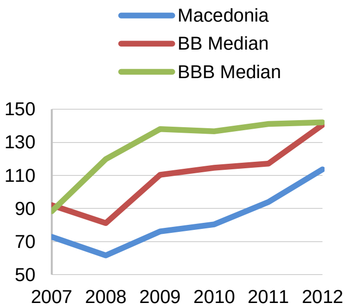
Macedonia

	2013					Last 10 years	
	Costa Rica BB+	Croatia BB+	Hungary BB+	Macedonia BB+	Tunisia BB+	BB median	BBB median
Budget balance (% GDP)	-4.6	-4.7	-2.8	-3.6	-6.7	-2.3	-2.6
Primary balance (% GDP)	-2.1	-1.7	1.5	-2.8	-4.9	-0.3	-0.2
Revenues and grants (% GDP)	14.2	38.0	46.2	30.2	24.6	26.8	32.8
Volatility of revenues/GDP ratio	0.8	3.2	7.2	6.0	5.5	6.2	5.8
Interest payments (% revenue)	17.1	7.9	9.3	2.8	7.1	8.6	6.8
Debt (% revenue)	226.3	153.2	171.4	115.2	189.8	158.1	127.1
Debt (% GDP)	32.1	58.2	79.1	34.8	46.7	39.5	36.8
Net debt (% GDP)	31.0	55.9	73.9	30.8	45.5	32.5	30.2
FC debt (% total debt)	30.5	56.5	36.8	68.6	65.6	61.0	34.9
CG debt maturities (% GDP)	5.9	9.9	17.8	11.0	3.7	5.1	5.5
Average duration of CG debt (years)	4.9	-	-	-	0.0	3.9	5.3

[a] GG if not otherwise specified
Source: Fitch

Figure 7

General government debt
(% of revenue)



Source: Fitch

Strengths

- The level of public debt remains moderate, at around 35% of GDP and 115% of revenue in 2013, thanks to a strong position before the global financial crisis. Although these ratios have risen in recent years as fiscal deficits have risen, they remain below the medians of the 'BB' and 'BBB' categories.
- The ratio of interest payments to general government debt is low relative to the 'BB' and 'BBB' medians, because Macedonia's sovereign debt is still largely concessional.
- The risk to the sovereign of contingent liabilities arising from the banking or corporate sectors is low. State guarantees represented about 5.3% of GDP in mid-2013, although they have risen in recent years.

Weaknesses

- Domestic issuance rose in 2012 and 2013, in line with IMF recommendations. However, the government's reliance on World Bank-guaranteed bilateral commercial loans suggests limited access to international bond markets, constraining fiscal financing flexibility.
- The accumulation of large fiscal arrears until Q113 suggests weaknesses in fiscal governance, particularly in relation to the public procurement process. The government is addressing these.

Figure 8

Fiscal Accounts Summary

(% GDP)	2010	2011	2012	2013f	2014f	2015f
Central government						
Revenue	**30.4**	**29.8**	**30.1**	**30.5**	**31.4**	**29.2**
Expenditure	**32.9**	**32.3**	**34.0**	**34.1**	**34.6**	**32.2**
O/w interest payments	0.7	0.8	0.9	0.8	0.8	1.0
Primary balance	-1.7	-1.7	-3.0	-2.8	-2.4	-2.0
Overall balance	**-2.5**	**-2.5**	**-3.9**	**-3.6**	**-3.3**	**-3.0**
Central government debt	**24.5**	**28.0**	**34.2**	**35.1**	**36.5**	**36.4**
% of central government revenue	80.4	94.0	113.7	115.2	116.4	124.5
Central government deposits	0.5	2.9	5.2	4.0	4.1	3.1
Net central government debt	24.0	25.2	29.1	31.1	32.5	33.3
Central government debt (MKDbn)	**106.3**	**128.9**	**157.0**	**170.5**	**188.5**	**201.8**
By residency of holder	30.4					
Domestic	-	-	-	-	-	-
Foreign	32.9	-	-	-	-	-
By place of issue	32.2					
Domestic	0.7	30.2	30.3	30.7	33.9	36.3
Foreign	7.6	98.7	126.7	139.8	154.6	165.4
By currency denomination						
Local currency	-1.8	34.7	41.4	-	-	-
Foreign currency	-1.7	95.1	106.6	110.1	120.6	120.9
In USD equivalent (eop exchange rate)	-2.4	2.0	2.3	2.3	2.6	2.6
By maturity						
Less than 12 months (residual maturity)	24.5	-	-	-	-	-
Average maturity (years)	80.4	5.0	4.2	-	-	-
Average duration (years)	1.2	1.2	1.0	-	-	-
Memo	106.3					
Nominal GDP (MKDbn)	434.1	460.0	458.6	485.1	516.7	554.0

Source: Ministry of Finance and Fitch estimates and forecasts

Figure 9

External Debt and Assets

(USDbn)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013f
Gross external debt	**2.8**	**3.0**	**3.3**	**4.2**	**4.7**	**5.4**	**5.5**	**6.3**	**6.8**	**7.2**
% of GDP	50.3	49.8	50.3	51.2	47.4	58.4	58.4	60.3	71.1	69.6
% of CXR	91.4	90.6	83.1	78.6	76.8	111.7	95.8	87.7	101.5	104.1
By maturity										
Medium- and long-term	2.2	2.3	2.6	2.8	3.4	4.0	4.1	4.5	5.0	5.5
Short -term	0.6	0.7	0.7	1.3	1.3	1.4	1.4	1.7	1.8	1.7
% of total debt	21.4	22.2	22.3	32.2	27.9	26.2	25.2	27.6	26.5	23.6
By debtor										
Monetary authorities	**0.1**	**0.1**	**0.1**	**0.0**	**0.0**	**0.1**	**0.1**	**0.4**	**0.3**	**0.3**
General government	**1.5**	**1.6**	**1.5**	**1.3**	**1.3**	**1.6**	**1.6**	**2.3**	**2.4**	**2.5**
O/w central government	-	-	-	-	-	-	-	-	-	-
Banks	**0.2**	**0.2**	**0.4**	**0.6**	**0.5**	**0.7**	**0.8**	**0.7**	**0.8**	**0.8**
Other sectors	**1.1**	**1.2**	**1.5**	**2.3**	**2.8**	**3.1**	**3.1**	**3.2**	**3.6**	**3.9**
Gross external assets (non-equity)	**2.1**	**2.5**	**3.3**	**4.1**	**3.6**	**3.9**	**4.2**	**5.2**	**5.5**	**5.5**
International reserves, incl. gold	1.0	1.3	1.9	2.3	2.1	2.3	2.3	2.7	2.9	2.9
Other sovereign assets nes	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.4	0.2	0.2
Deposit money banks' foreign assets	0.8	0.8	0.9	1.0	0.6	0.7	0.8	0.8	0.8	0.8
Other sector foreign assets	0.3	0.4	0.6	0.8	0.9	0.9	1.1	1.4	1.6	1.6
Net external debt	**0.7**	**0.5**	**0.0**	**0.1**	**1.1**	**1.5**	**1.2**	**1.1**	**1.3**	**1.6**
% of GDP	12.0	8.0	-0.6	1.5	11.1	16.2	13.0	10.6	13.7	15.9
% of CXR	21.8	14.6	-1.0	2.2	18.1	31.0	21.4	15.4	19.6	23.8
Net sovereign external debt	0.5	0.2	-0.4	-0.9	-0.8	-0.7	-0.8	-0.7	-0.7	-0.7
% of GDP	8.5	4.1	-6.4	-11.4	-8.3	-7.3	-8.1	-7.1	-7.6	-6.7
Net bank external debt	-0.7	-0.5	-0.5	-0.4	0.0	0.0	0.0	0.0	0.1	0.1
Net other external debt	0.9	0.8	0.9	1.4	1.9	2.2	2.0	1.9	2.0	2.3
Net international investment position	**-2.5**	**-2.3**	**-2.5**	**-3.5**	**-4.6**	**-5.2**	**-4.7**	**-5.1**	**-5.5**	**-6.1**
% of GDP	-45.5	-39.2	-37.9	-43.2	-46.8	-55.8	-50.8	-48.9	-57.8	-59.1
Sovereign net foreign assets	**-0.5**	**-0.2**	**0.4**	**0.9**	**0.8**	**0.7**	**0.8**	**0.7**	**0.7**	**0.7**
% of GDP	-8.5	-4.1	6.4	11.4	8.3	7.3	8.1	7.1	7.6	6.7
Debt service (principal & interest)	**0.3**	**0.2**	**0.6**	**0.5**	**0.4**	**0.3**	**0.7**	**0.5**	**0.5**	**0.9**
Debt service (% of CXR)	8.3	7.2	14.3	10.2	5.8	7.2	11.6	7.3	8.1	12.4
Interest (% of CXR)	1.7	1.8	2.3	2.5	2.2	2.1	2.3	2.6	2.4	2.8
Liquidity ratio (%)	225.9	217.8	168.4	215.0	187.6	161.4	144.6	160.7	152.5	137.5
Net sovereign FX debt (% of GDP)	18.9	11.8	0.7	-5.1	-3.6	-0.8	-5.2	-6.5	-6.3	-5.5
Memo										
Nominal GDP	5.5	6.0	6.6	8.2	9.8	9.3	9.3	10.4	9.6	10.3
Gross sovereign external debt										
Inter-company loans	0.3	0.3	0.4	0.6	1.0	1.2	1.2	1.1	1.4	1.5

Sources: NBP, IMF, World Bank and Fitch estimates and forecasts

Figure 10

Debt Service Schedule on Medium- and Long-Term External Debt at 30 Sep 2013

(EURm)	2011	2012	2013	2014	2015
Sovereign					
Principal	50.4	56.6	225.2	148.3	331.3
O/w IMF	-	-	-	83.8	111.8
Interest	38.4	47.3	40.7	41.4	44.1
Total sovereign debt service	**88.8**	**103.9**	**265.8**	**189.8**	**375.3**

Sources: Ministry of Finance, IMF and Fitch

Figure 11
Balance of Payments

(USDbn)	2010	2011	2012	2013f	2014f	2015f
Current account balance	**-0.2**	**-0.3**	**-0.4**	**-0.4**	**-0.4**	**-0.4**
% of GDP	-2.2	-3.0	-4.0	-3.5	-3.5	-3.6
% of CXR	-3.5	-4.3	-5.7	-5.2	-5.2	-5.2
Trade balance	**-2.0**	**-2.7**	**-2.6**	**-2.6**	**-2.7**	**-2.7**
Exports, fob	2.6	3.3	3.0	3.2	3.6	4.1
Imports, fob	4.6	6.0	5.6	5.7	6.2	6.9
Services, net	**0.2**	**0.5**	**0.3**	**0.2**	**0.4**	**0.4**
Services, credit	1.0	1.5	1.4	1.2	1.4	1.5
Services, debit	0.9	1.0	1.0	1.0	1.1	1.1
Income, net	**-0.1**	**-0.2**	**-0.2**	**-0.1**	**-0.1**	**-0.1**
Income, credit	0.2	0.2	0.2	0.3	0.3	0.3
Income, debit	0.3	0.4	0.4	0.4	0.4	0.4
O/w: Interest payments	0.1	0.2	0.2	0.2	0.2	0.2
Current transfers, net	**1.8**	**2.1**	**2.1**	**2.1**	**2.0**	**2.0**
Memo						
Non-debt-creating inflows (net)	0.2	0.6	0.2	0.1	0.4	0.5
O/w equity FDI	0.2	0.6	0.2	0.2	0.4	0.5
O/w portfolio equity	0.0	0.0	0.0	0.0	0.0	0.0
O/w other	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves (-=increase)	0.1	0.4	0.2	0.0	0.4	0.3
Gross external financing requirement	0.7	0.7	0.8	1.0	0.8	1.1
Stock of international reserves, incl. gold	2.3	2.7	2.9	2.9	3.3	3.6

Sources: IMF and Fitch estimates and forecasts

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