NEWS RELEASE

07-I-047
September 13, 2007

JCR has assigned the following debts of

Republic of Macedonia

Foreign Currency Long-term Senior Debts: "BB+" (Double B plus)/Stable

Local Currency Long-term Senior Debts: "BBB-" (Triple B minus)/Stable

*The rating on the long-term senior debts is an assessment of an obligor (issuer)'s financial capacity to pay its overall financial obligations. It would differ from the rating on any specific financial obligation which takes into account the nature and provisions of the obligation and its senior/subordinate status, as well as its standing in bankruptcy or liquidation. (The short-term senior debts rating is an assessment of an obligor's financial capacity to pay its overall financial obligations due within one year)

<Rationale>

The ratings of Republic of Macedonia (Former Yugoslav Republic of Macedonia) are primarily supported by the continued economic and fiscal stability underpinned by the government's prudent economic and fiscal policies, the implementation of comprehensive structural reforms geared for further economic expansion and Macedonia's recognition as a candidate status for EU membership.

On the other hand, the ratings are constrained by the fact that the country's industrial transformation is still at a primary stage, with per-capita GDP (in PPP terms) estimated at around EUR 6,000, its exceptionally high unemployment rate in excess of 30% and large structural trade deficit.

The outlook of the ratings is stable. JCR holds that the recognition as an EU membership candidate and the standby arrangement with the IMF will expedite further progress on reform initiatives. With EU membership negotiations expected to start in 2008, the government will make further reform efforts to pave the way for the planned EU accession in 2010. The economy is likely to accelerate moderately on strong investment amid massive FDI inflows spurred by the country's prospective EU accession and improvement on the business climate and the maintenance of prudent economic and fiscal policies. While Macedonia's geopolitical risks over the status of neighboring Kosovo remain unsolved for the present, its domestic socio-political situation will stay stabile, given the continued adherence to the Ohrid Framework Agreement.

(1) The economy still at a development stage but is open and has strong ties with European countries.

Macedonia is a small and open economy still at a primary stage of development, with its per-capita GDP (in PPP terms) estimated at around EUR 6,000 (roughly 26% of the EU average). In 2006, the country's nominal GDP came to EUR 5.0 billion. Its population totaled 2 million. The country's key industries are manufacturing, trade and agriculture. Its economic openness is high, with the ratio of exports/imports to GDP about 100%. The main export commodities are basic materials, which account for nearly half the total exports. Major destinations are Serbia, Germany and Greece. More than 60% of the exports is bound for EU 27. Macedonia is a multi-ethnic country with its population comprising 64% of Macedonians, 25% of Albanians and 4% of Turks. It is also a multi-religious society, where 65% of the population belongs to the Macedonian Orthodox and Muslims comprise 33%. Parliamentary democracy functions as evidenced by the administrative changes that took place in the five parliamentary elections held since the country's independence in 1991.

(2) Socio-political stability regained in Macedonia and neighboring countries

Since its independence, Macedonia underwent severe economic disruptions including ones that followed the major conflicts among members of former Yugoslavia and the U.N. economic sanctions in the 1990s, the Greek trade embargo over a dispute about the country's name in 1994 and the uprising by ethnic Albanians in 2001. However, successive governments pushed ahead with economic and fiscal reform programs and other wide-ranging reform initiatives aimed at restoring socio-political stability. In this process, Macedonia introduced an economic stabilization program in 1993 in cooperation with the IMF and the World Bank, concluded the Stabilization and Association Agreement with the EU aimed at future EU membership in 2001, signed the Ohrid Framework Agreement aimed to enhance the status of ethnic Albanians in the same year and won recognition as an EU membership candidate in December 2005. It also signed the Central European Free Trade Agreement in 2006 and is aspiring to join the NATO in 2008. These reform efforts have produced some good results. The economy has returned to a moderate growth track since the socio-political situation in Macedonia and neighboring countries began stabilizing in 2002.

(3) Economic growth moderate yet stable

Annual economic growth rates averaged a moderate 4.0% in the past three years. Inflation remained exceptionally low thanks to the denar currency's de facto pegging to the euro and the maintenance of prudent fiscal and monetary polices. Consumer price inflation rates averaged 1.1% in the past three years. In 2006, the economy grew 4.0%, led by domestic demand centering on consumer spending. The inflation rate accelerated to 3.2% in 2006 on the hike of the tobacco tax rate and higher food prices. Without such one-off factors, however, inflation remained subdued. The current account deficit, which soared above 7% of GDP in 2004, narrowed markedly to 0.4% in 2006, thanks to an increased transfer account surplus brought by bigger remittances by migrant workers. The combined volume of foreign direct investment and portfolio investment mainly spurred by privatization surpassed the current account deficit in the past two years, contributing to expanding the foreign exchange reserves. At the end of 2006, the reserves stood at a level enough to cover around five months of imports. The external debt remained low, with its ratio to GDP staying below 40% at the end of 2006. The country's financial system stayed stable as banks kept their capital ratio adequate against their relatively larger nonperforming loans.

(4) Further reforms are needed to attain higher economic growth

While the economy has regained stability, some problems remain to be resolved to ensure higher growth. First of all, labor forces are not effectively used as illustrated by the exorbitant 35.9% unemployment rate registered in 2006. Secondly, although the outstanding balance of FDI inflows has already topped 30% of GDP, such inflows remain low in recent years when those related to privatization are excluded. Thirdly, while the current account deficit stood at a mere 0.4% of GDP in 2006, the sizable structural trade deficit in excess of 20% of GDP had to be mainly offset by remittances by migrant workers. The chronic trade deficit primarily stems from the country's weak export base and high dependence on imports.

In a bid to resolve these problems, the government has been carrying out comprehensive structural reforms by setting an annual economic growth target at around 6-6.5% under its medium-term economic plan (2007-2009). Its reform initiatives range from corporate restructuring and improvement of the business environment to revamping of the labor market, budgetary system and financial system. In particular, the government has inaugurated Invest Macedonia, an agency for foreign investment, for the purpose of promoting FDI inflows. To this end, it reduced the taxes (unified the corporate and personal income tax rate at 12% in 2007 and pledged to lower the rate to 10% in 2008 and abolish the tax on reinvestment gains), simplified administrative procedures and reformed the judicial system. JCR holds that although government ambitious program which envisages medium term economic growth between 6-6.5 % may not be attained in the immediate future, the economic growth rate will gradually turn higher than the 4% level, bolstered by increased investment stemming from progress on structural reforms and massive EU subsidies.

(5) Prudent fiscal policy will be maintained as government debt stays lower

Macedonia's expenditure structure is rather rigid but its revenue base is strong in comparison to the level of its economic development. The central government fiscal deficit exceeded 5% of GDP in 2001 and 2002 on increased expenditures necessitated by the deterioration of the socio-political situation at home. However, the fiscal balance has been almost restored since 2003 as the government pursued a prudent fiscal policy amid recovering socio-political stability. The central government deficit in 2006 was marginal at 0.6% of GDP. The deficit is expected to rise slightly to 1% of GDP in 2007 due mainly to the tax cuts and an increased capital spending. With the fiscal balance in the first five months of 2007 in surplus by 1.3% of GDP, a full-year deficit may prove smaller than what the government has projected under its budget plan. Under its medium-term fiscal plan (2007-2009), the government has put priority on stability and further expansion of the economy, accession to the EU and NATO, and reduction of the unemployment. It is aiming to keep the fiscal deficit at 1.5 % of GDP. To this end, it plans to implement various reform programs including tax cuts, reform on the healthcare system and spending rationalization through cutbacks on current expenditures.

The government debt has been kept at relatively lower levels. Its ratio to GDP fell to 33.4% at the end of 2006 from 39.7% the year before. The government has been making efforts to trim its debt through efficient debt management policy. Following the buyback and write-off of its London Club debt in 2006, it completed repayment of the entire IMF debt and the Paris Club and made partial payment of World Bank debt in 2007. The debt balance is expected to fall below 30% of GDP at the end of 2007.

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