# 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 | Negative |
| Local-Currency Long-Term IDR | Negative |

### Financial Data

**Macedonia**

| (USDbn) | 2015 |
|---|---|
| GDP | 9.9 |
| GDP per head (USD 000) | 4.7 |
| Population (m) | 2.1 |
| International reserves | 2.6 |
| Net external debt (% GDP) | 24 |
| Central government total debt (% GDP) | n.a. |
| CG foreign-currency debt | n.a. |
| CG domestically issued debt (MKDbn) | n.a. |

### Related Research

Macedonia (August 2015)

### Analysts

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## Key Rating Drivers

**Negative Outlook Unchanged:** Macedonia's ratings are supported by a healthy economic growth outlook, a favourable business climate and governance indicators that perform better than most 'BB' range peers. However, the Negative Outlook, unchanged from six months ago, reflects risks to political stability and the rising government debt/GDP ratio.

**Political Stability Risks:** In Fitch's view, the political outlook remains uncertain, with downside risks. Elections that were initially planned for April 2016 have now been postponed to June 2016. It remains to be seen whether the elections will have participation of all the main political parties, whether they are free and fair, if the losers accept the result, if the next administration adopts good governance standards, and whether political tensions ease.

**Rising Debt Ratio:** Fitch estimates that Macedonia's general government debt was 38.7% of GDP at end-2015, below the 'BB' median ratio of 43.6%. However, it is on a rising trend, increasing 14.4pp since 2010. Contingent liabilities in the form of government guarantees to state-owned entities are also increasing, reaching 8.6% of GDP at end-2015 from 3.2% of GDP at end-2010, pushing total public debt to 47.3% of GDP. This ratio will continue to increase in the medium term, with Fitch estimating 52.8% of GDP by end-2017.

**Modest Fiscal Consolidation:** Macedonia's general government fiscal deficit was 3.5% of GDP at end-2015, slightly above the original budget target of 3.4% but just below the July supplementary budget deficit target of 3.6%. It is in line with the 'BB' median deficit. For 2016 and 2017, Fitch forecasts Macedonia's fiscal deficits will narrow only modestly, despite strong GDP growth, to 3.4% and 3.1% of GDP, respectively.

**Macroeconomic Strengths:** A track record of low inflation and low macroeconomic volatility, underpinned by the longstanding exchange rate peg to the euro, supports the ratings. Real GDP is forecast by Fitch to be at 3.6% in 2016 and 2017. Active labour market programmes, increasing social welfare payments to improve standards of living and increasing infrastructure spending will support domestic-driven growth in 2016-2017.

**Banking Sector:** The exposure of Macedonia's banking sector to Greece has moderated. Including the two Greek-owned subsidiaries that account for 24% of Macedonia's banking system assets, Macedonian banks have remained well capitalised. A modest risk is the ratio of non-performing loans in the sector, which is relatively high at 10.8% (end-2015), although they appear to be well provisioned (103.1%, end-2015).

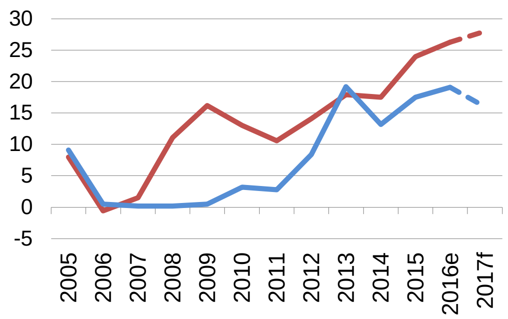
## Rating Sensitivities

**Political Stability:** Negative rating action could be triggered by heightened or prolonged political instability; for example, if there were a failure to fully implement the agreement brokered by Commissioner Hahn, if elections scheduled for April failed to ease tensions, or if there were a breakdown in ethnic relations.

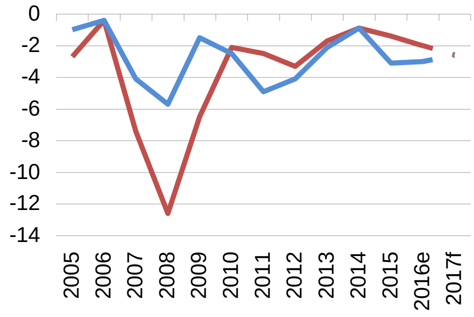
**Fiscal Finances:** Fiscal slippage or the crystallisation of contingent liabilities that jeopardised the stability of the public finances or currency peg would increase negative pressure on the rating. Conversely, the implementation of a credible medium-term fiscal consolidation programme consistent with a stabilisation of the public debt/GDP ratio could lead to positive rating pressure.

## Peer Comparison

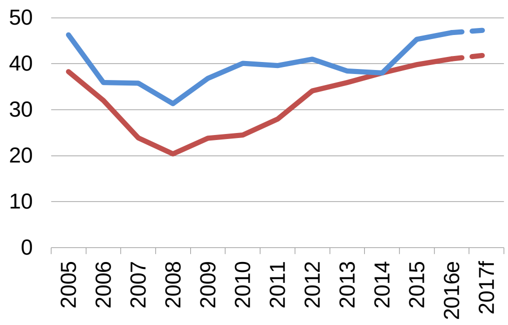
**Net External Debt**
% of GDP



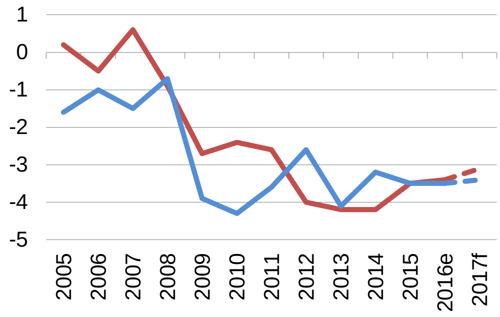

**Current Account Balance**
% of GDP




**General Government Debt**
% of GDP

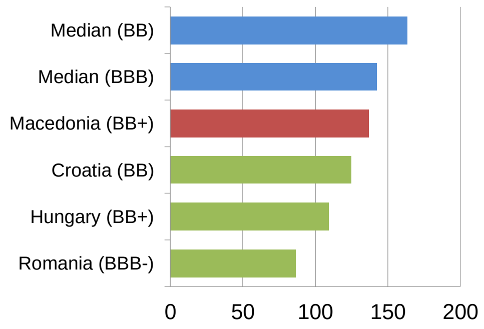



**General Government Balance**
% of GDP

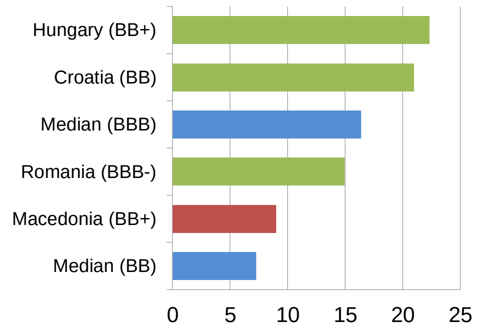



Macedonia Medians

**International Liquidity Ratio, 2016**
%




**GDP per capita Income, 2015e**
At market exchange rates, USA=100




### Related Criteria

Sovereign Rating Criteria (August 2014)
Country Ceilings (August 2015)

# Rating Factors

## Peer Group

| Rating | Country |
|---|---|
| BBB− | Aruba |
| | Bahrain |
| | Bulgaria |
| | India |
| | Indonesia |
| | Morocco |
| | Namibia |
| | Philippines |
| | Romania |
| | Russia |
| | South Africa |
| | Turkey |
| | Uruguay |
| | |
| BB+ | **Macedonia** |
| | Brazil |
| | Costa Rica |
| | Hungary |
| | Portugal |
| | Azerbaijan |
| | |
| BB | Bolivia |
| | Croatia |
| | Guatemala |
| | Paraguay |

## Rating History

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

## Summary: Strengths and Weaknesses

| Rating factor | Macroeconomic | Public finances | External finances | Structural issues |
|---|---|---|---|---|
| Status | Neutral | Neutral | Neutral | Strength |
| Trend | Stable | Negative | Stable | Negative |

Note: Relative to ‘BB’ category
Source: Fitch

### Strengths

- GDP per capita and levels of human development are above the ‘BB’ range medians.
- Macedonia scores favourably at 12th best in the world in the World Bank’s Ease of Doing Business survey.
- There is a track record of low inflation and macroeconomic stability, supported by the longstanding exchange rate peg to the euro.
- Gross and net government debt/GDP are a little below the ‘BB’ range medians, and interest costs are low.
- Investment is high at over 30% of GDP, partly reflecting a large public investment programme, which should support medium-term growth potential.
- The banking sector is well capitalised and liquid, although two banks are subsidiaries of Greek parents.
- The current account deficit is moderate and more than financed by FDI.

### Weaknesses

- Net borrowing by state-owned enterprises guaranteed by the government is on an increasing trend. This is leading to an upward trend in contingent liabilities for the sovereign, from 3.2% of GDP at end-2010 to 8.8% of GDP at end-2015.
- Political risks include governance concerns, ethnic tensions and delays to EU and NATO accession, which have stalled over the “name issue” with Greece.
- Net external debt, at 24% of GDP at end-2015, is above the ‘BB’ range median of 17.5%.
- Approximately 78% of government debt is denominated in foreign currency, of which over 75% is in euros. Euroisation is also prevalent in the banking system, underlining the importance of maintaining the exchange rate peg to the euro.
- Unemployment is high at 25.5%, albeit decreasing from 37% in 2005.

### Local-Currency Rating

Macedonia’s Local-Currency Long-Term IDR is ‘BB+’, the same as the Foreign-Currency Long-Term IDR. The exchange rate regime constrains the central bank’s capacity to generate local currency without negative economic consequences. The local-currency debt market is moderate in size (over 75% of government debt is in foreign currency), albeit deepening, limiting the capacity of the government to fund itself in the domestic market in local currency.

### Country Ceiling

Macedonia’s Country Ceiling is ‘BBB−’, reflecting transfer and convertibility risk. EU accession aspirations and large current account receipts from private transfers (including remittances from Macedonians working abroad) are incentives for the authorities to maintain liberalised transfer and convertibility arrangements. Nevertheless, the exchange rate peg limits the uplift of the Country Ceiling above the sovereign Foreign-Currency IDR to one notch.

Figure 1

## Strengths and Weaknesses: Comparative Analysis

| 2015 | Macedonia BB+ | BB Median[a] | BBB Median[a] | Romania BBB− | Hungary BB+ | Croatia BB |
|---|---|---|---|---|---|---|
| **Macroeconomic performance and policies** | | | | | | |
| Real GDP (5yr average % change) | 2.3 | 3.9 | 3.2 | 2.6 | 1.7 | -0.4 |
| Volatility of GDP (10yr rolling SD) | 2.3 | 2.2 | 2.8 | 3.9 | 3.1 | 3.7 |
| Consumer prices (5yr average) | 2.0 | 4.6 | 3.3 | 2.7 | 2.3 | 1.6 |
| Volatility of CPI (10yr rolling SD) | 2.6 | 2.8 | 1.8 | 2.5 | 2.6 | 1.7 |
| Unemployment rate (%) | 27.0 | 9.3 | 6.8 | 6.8 | 7.1 | 17.0 |
| Type of exchange rate regime | Peg | n.a. | n.a. | Managed float | Free float | Peg |
| Dollarisation ratio (% of bank deposits) | 43.4 | 38.3 | 32.2 | 34.4 | 21.0 | - |
| REER volatility (10yr rolling SD) | 1.9 | 5.1 | 4.9 | 5.5 | 5.1 | 2.2 |
| **Structural features** | | | | | | |
| GDP per capita (USD, mkt. exchange rates) | 4,682 | 4,047 | 9,198 | 8,307 | 12,403 | 11,665 |
| GNI per capita (PPP, USD, latest) | 12,600 | 10,270 | 17,600 | 19,030 | 23,830 | 20,560 |
| GDP (USDbn) | 9.9 | n.a. | n.a. | 179.4 | 122.3 | 49.6 |
| Human development index (percentile, latest) | 55.3 | 52.1 | 63.4 | 71.5 | 77.4 | 75.2 |
| Governance indicator (percentile, latest)[b] | 57.5 | 44.7 | 57.1 | 59.0 | 69.0 | 66.1 |
| Broad money (% GDP) | 59.2 | 55.2 | 67.0 | 38.5 | 58.2 | 72.6 |
| Default record (year cured)[c] | 1997 | n.a. | n.a. | 1984 | - | 1996 |
| Ease of doing business (percentile, latest) | 94.2 | 50.0 | 67.6 | 80.9 | 78.2 | 79.3 |
| Trade openness (avg. of CXR + CXP % GDP) | 80.3 | 52.5 | 41.1 | 53.4 | 117.3 | 53.0 |
| Gross domestic savings (% GDP) | 13.5 | 17.3 | 23.0 | 23.0 | 30.6 | 21.0 |
| Gross domestic investment (% GDP) | 30.9 | 21.7 | 22.2 | 24.1 | 21.8 | 18.0 |
| Private credit (% GDP) | 50.2 | 48.8 | 62.3 | 30.5 | 38.2 | 67.5 |
| Bank systemic risk indicators[d] | -/1 | n.a. | n.a. | 5/1 | 5/1 | 5/1 |
| Bank system capital ratio (% assets) | 16.1 | 13.9 | 15.5 | 18.7 | 17.3 | 21.0 |
| Foreign bank ownership (% assets) | 69.2 | 32.2 | 36.7 | 76.8 | 53.3 | 90.0 |
| Public bank ownership (% assets) | 4.0 | 24.4 | 24.4 | 8.6 | 37.0 | 5.0 |
| **External finances** | | | | | | |
| Current account balance + net FDI (% GDP) | 2.7 | 0.0 | 0.4 | 1.1 | 4.7 | 5.9 |
| Current account balance (% GDP) | -1.4 | -2.5 | -2.1 | -1.0 | 4.3 | 4.3 |
| Net external debt (% GDP) | 24.0 | 17.5 | 3.8 | 24.0 | 44.9 | 55.3 |
| Gross external debt ( % CXR) | 88.1 | 117.7 | 140.1 | 112.5 | 119.4 | 199.5 |
| Gross sovereign external debt (% GXD) | 36.2 | 46.8 | 27.6 | 36.9 | 31.3 | 35.0 |
| Sovereign net foreign assets (% GDP) | 1.7 | -2.2 | -0.2 | 2.9 | -9.4 | -7.4 |
| Ext. interest service ratio (% CXR) | 2.0 | 2.8 | 4.6 | 4.1 | 3.5 | 6.8 |
| Ext. debt service ratio (% CXR) | 20.2 | 8.9 | 13.5 | 23.7 | 13.8 | 35.6 |
| Foreign exchange reserves (months of CXP) | 4.0 | 4.2 | 5.6 | 5.6 | 3.7 | 7.1 |
| Liquidity ratio (latest)[e] | 136.8 | 155.6 | 158.1 | 86.5 | 109.4 | 124.8 |
| Share of currency in global reserves (%) | 0 | n.a. | n.a. | 0 | 0 | 0 |
| Commodity export dependence (% CXR, latest) | 9.8 | 19.1 | 20.7 | 17.7 | 14.2 | 15.8 |
| Sovereign net foreign currency debt (% GDP) | 4.2 | 1.2 | -6.0 | 0.2 | -12.1 | 31.0 |
| **Public finances[f]** | | | | | | |
| Budget balance (% GDP) | -3.5 | -3.5 | -2.7 | -1.2 | -2.3 | -5.0 |
| Primary balance (% GDP) | -2.5 | -1.7 | -0.6 | 0.6 | 1.2 | -1.4 |
| Gross debt (% revenue) | 123.6 | 199.9 | 171.6 | 122.0 | 158.2 | 205.4 |
| Gross debt (% GDP) | 38.7 | 43.6 | 42.7 | 39.4 | 75.1 | 89.0 |
| Net debt (% GDP) | 29.1 | 39.1 | 32.7 | 30.6 | 71.2 | 81.8 |
| Foreign currency debt (% total debt) | 77.5 | 50.8 | 36.8 | 61.9 | 31.1 | 68.7 |
| Interest payments (% revenue) | 3.2 | 8.4 | 8.1 | 5.7 | 7.4 | 8.3 |
| Revenues and grants (% GDP) | 32.2 | 26.1 | 28.8 | 32.3 | 47.5 | 43.3 |
| Volatility of revenues/GDP ratio | 3.3 | 5.4 | 6.0 | 2.9 | 3.4 | 1.7 |
| Central govt. debt maturities (% GDP) | 12.6 | 3.9 | 5.4 | 8.7 | 15.1 | 14.4 |

[a] Medians based on three-year centred averages
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] Republic of Macedonia: London Club commercial banks 1997
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year
[f] General government unless stated
Note: Acronyms used: Consumer price inflation (CPI), gross domestic product (GDP), current external receipts (CXR), current external payments (CXP), gross national income (GNI), purchasing power parity (PPP), standard deviation (SD), foreign direct investment (FDI)
Source: Fitch

## Key Credit Developments

### *Political Uncertainty Remains*

Macedonia is making progress in implementing the road-map brokered by European Commissioner Johannes Hahn last summer, which aims to ease political tensions and lead to free and fair elections scheduled for June 2016 (postponed from April 2016), after the country was hit by political shocks in 2015. Important milestones included the return of the opposition SDSM party to parliament back in September 2015 (which it had boycotted since elections in 2014), the appointment of a special prosecutor to investigate the wiretap and other allegations, the appointment of a transitional government and the resignation of former Prime Minister Nikola Gruevski in January 2016. However, all the main political parties have yet to agree on media and electoral reforms and on participating in elections.

The political outlook remains uncertain with downside risks, in Fitch's view. It remains to be seen if parliamentary elections will take place with the participation of all the main political parties, if they are free and fair, if the losers accept the result, if the next government rules in a manner consistent with good governance, and if political tensions ease.

### *Government Targets Gradual Fiscal Consolidations*

Macedonia's fiscal deficit in 2015 is estimated to have come in at around 3.5% of GDP, slightly better than the government's July supplementary budget target of 3.6% and slightly worse than the original budget target of 3.4%. For 2015, data at the central government level show receipts from taxes and contributions achieved 98% of budget plans. A weaker-than-expected growth environment meant a shortfall in VAT receipts (94% of budget plans), as well as personal income tax (98% of budget plans). However, there was an overperformance in the collection of excise duties (104% of budget plans) and social contributions (102% of budget plans). This offset the increase in government spending which accompanied a supplementary budget in August 2015. In total, total general government revenues in 2015 came in higher than the previous year, up 10.5%.

For 2016, Macedonia's government is targeting a fiscal deficit of 3.2% of GDP. Narrowing of the deficit from 2015 will depend mainly on the higher receipt of government revenues, which the authorities anticipate will be boosted by economic growth of around 4%, as well as from an improvement in the efficiency of tax collection. In total, the government projects the receipt of tax revenues and social contributions to increase 5.7%, while non-tax revenues are expected to increase 8.9%, supported by a higher absorption of EU funds. There are no revenue-raising measures through tax increases, which stays consistent with government strategy to keep low tax rates as a way of stimulating business activity and employment growth.

Government expenditure is expected to increase by 4.7% in 2016, mainly on account of higher capital spending (12.9%), as well as higher spending on wages (3.3%) and social welfare (5%). Such measures are consistent with government plans to set spending priorities accommodative for economic growth through higher infrastructure investment and providing support for targeted social groups (eg pensioners).

Against the government's projections, Fitch forecasts a more gradual narrowing of Macedonia's headline fiscal deficit – to 3.4% in 2016 and 3.1% in 2017. However, despite lower headline deficits, the structural fiscal deficit is expected to widen an average of 0.2pp annually until 2017, reaching 3.4% in 2016 from 3.2% in 2015, and then 3.6% in 2017. In the near term, to offset higher government spending, the authorities are dependent on improving tax collection to boost revenue receipts, which is subject to uncertainty. [1]

[1] Macedonia has operated with a flat tax system since 1 January 2008, a single corporate and personal income rate of 10%. Standard VAT is also low at 18%, with a preferential rate of 5% for specific goods and services.

Fitch views the risk to fiscal forecasts as on the downside. First, on account of our lower real GDP forecast, we expect receipt of revenues to come in slightly short of budget plans. Second, in light of upcoming elections scheduled for April 2016, we continue to see risks associated with the uncertain political environment that could affect economic activity. A situation similar to back in August 2015, when a supplementary budget[2] was adopted due to underperforming economic growth weakened by a volatile political environment, could risk a wider-than-expected fiscal deficit. Third, the government has in recent years shown a weakness of persistently overshooting budget targets.

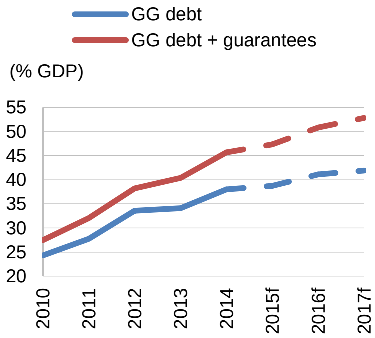
### *Higher Public Debt Ratio and Government Guarantees*

Macedonia's general government debt ratio is estimated by Fitch to have reached 38.7% of GDP at end-2015, up from 38% at end-2014 and 20.2% at end-2008. The rising debt burden reflects budget deficits, which in turn include large capital expenditure and foreign loans to co-finance key infrastructure projects. This trend will continue in the government's medium-term fiscal strategy. For 2016, Fitch is forecasting Macedonia's debt ratio to increase to 41.1% of GDP.

Macedonia's last Eurobond issuance was back in November 2015 when the government issued a EUR270m Eurobond with a yield of 5.125% and a maturity of five years (due January 2020). Demand for the bonds was at EUR632m. However, due to the political uncertainty which increased the cost of borrowing for the government, the size and maturity of the issuance had been revised down from initial plans for a EUR500m Eurobond with a 10-year maturity.

Figure 2

**Rising Public Debt**




Source: Ministry of Finance, Fitch

The rising trend in government guarantees to state-owned companies is increasing contingent liabilities. Since end-2010, government guarantees (mainly for public investment) have increased from 3.2% of GDP to approximately 8.6% of GDP at end-2015. They are forecast by the Ministry of Finance to increase to 9.7% of GDP at end-2016 and further to 10.6% of GDP at end-2017. Such an increase in the contingent liabilities of the sovereign indicates a more expansionary fiscal policy than that represented by the consolidated budget alone.

### *Stronger Economic Growth in 2016*

Fitch estimates that real GDP growth reached 3.2% in 2015. Quarterly data up to 3Q15 show a steady contribution to headline growth from domestic demand. Household consumption has been resilient, up 4.3% in 3Q15 from the previous year. Government consumption also increased in 3Q15, up 15.4% from the previous year. Meanwhile, gross capital formation picked up in 3Q15 to growth of 2.8% after a sharp contraction of 16% the previous quarter. Net export performance was stable in 3Q15, with imports up 1.6% and exports up 3.1%.

For 2016, Fitch is forecasting real GDP growth of 3.6%, led by domestic demand. Higher government spending, an improvement in employment and growth in real net wages will support household consumption and public investment. Private investment meanwhile is projected to remain steady, weighed down by the uncertain politics. Net export growth will also be positive but at low levels.

### *Stable Banking Sector*

The exposure of Macedonia's banking sector to Greece has moderated. Including the two Greek-owned subsidiaries that account for 24% of Macedonia's banking system assets, Macedonian banks have remained well capitalised, with a sector average Tier 1 capital adequacy ratio of 14.5%. Liquidity is also adequate, with liquid assets to total short-term liabilities in the sector around 51%. A modest risk is the ratio of non-performing loans in the sector, which is relatively high at 10.8% (end-2015), although this ratio appears to have peaked. Additionally, they appear to be well provisioned (103.1%, end-2015).

[2] In August 2015, Macedonia adopted a supplementary budget, which increased general government expenditures by MKD5.2bn (0.9% of GDP). At the time, Fitch viewed the 2015 budget revision as credible given the better-than-expected revenue performance.

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

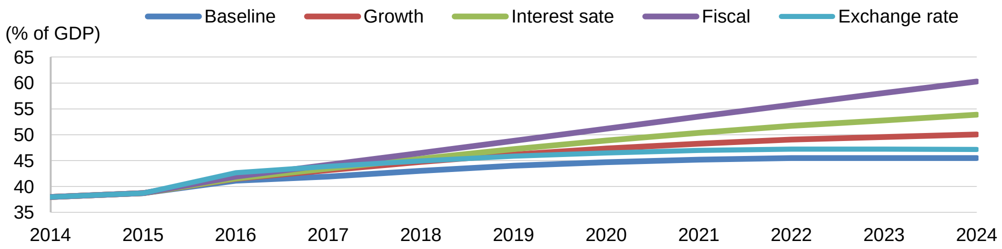
## Public Debt Dynamics

According to Fitch's baseline projections, gross general government debt will continue to gradually rise and remain below 46% of GDP by end-2022. The main risk to debt sustainability would be a failure to reduce the primary fiscal deficit.

### Debt Dynamics: Fitch's Baseline Assumptions

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2022 |
|---|---|---|---|---|---|---|---|
| Gross general government debt (% GDP) | 35.9 | 38.0 | 38.7 | 41.1 | 41.9 | 43.1 | 45.2 |
| Primary balance (% of GDP) | -3.1 | -3.2 | -2.5 | -2.4 | -2.2 | -2.0 | -1.1 |
| Real GDP growth (%) | 2.9 | 3.5 | 3.2 | 3.6 | 3.6 | 3.5 | 3.5 |
| Avg. nominal effective interest rate (%) | 3.0 | 3.0 | 3.3 | 3.4 | 3.7 | 3.9 | 4.2 |
| MKD/USD (annual avg.) | 46.4 | 46.4 | 55.6 | 57.4 | 57.4 | 57.4 | 57.4 |
| GDP deflator (%) | 0.5 | 7.1 | 1.2 | 2.0 | 2.4 | 2.5 | 2.5 |

### Sensitivity Analysis
Gross general government debt




Source: Fitch

### Debt Sensitivity Analysis: Fitch's Scenario Assumptions

| | |
|---|---|
| Growth | GDP growth 1% lower (half standard deviation lower) |
| Interest rate | Marginal interest rate 250bp higher |
| Fiscal | No change in primary balance from 2015 level |
| Exchange rate | 10% devaluation in 2016 |

## Forecast Summary

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016e | 2017f |
|---|---|---|---|---|---|---|---|
| **Macroeconomic indicators and policy** | | | | | | | |
| Real GDP growth (%) | 2.3 | -0.5 | 2.9 | 3.5 | 3.2 | 3.6 | 3.6 |
| Unemployment (%) | 31.4 | 31.0 | 29.0 | 28.0 | 25.5 | 25.0 | 24.0 |
| Consumer prices (annual average % change) | 3.9 | 3.3 | 2.8 | -0.3 | 0.5 | 2.0 | 2.0 |
| Short-term interest rate (bank policy annual avg.) (%) | 5.9 | 5.1 | 4.4 | 3.7 | 3.3 | 3.3 | 3.5 |
| General government balance (% of GDP) | -2.6 | -4.0 | -4.2 | -4.2 | -3.5 | -3.4 | -3.1 |
| General government debt (% of GDP) | 28.0 | 34.1 | 35.9 | 38.0 | 38.7 | 41.1 | 41.9 |
| MKD per USD (annual average) | 44.23 | 47.89 | 46.40 | 46.44 | 55.59 | 57.41 | 57.41 |
| Real effective exchange rate (2000 = 100) | 98.9 | 98.4 | 100.9 | 100.5 | 100.5 | 100.5 | 100.5 |
| Real private sector credit growth (%) | 4.4 | 1.8 | 3.4 | 10.1 | 7.5 | 6.9 | 6.9 |
| **External finance** | | | | | | | |
| Current account balance (% of GDP) | -2.5 | -3.3 | -1.7 | -0.9 | -1.4 | -2.0 | -2.6 |
| Current account balance plus net FDI (% of GDP) | 2.0 | -1.6 | 1.3 | 1.4 | 2.7 | 1.9 | 1.2 |
| Net external debt (% of GDP) | 10.6 | 14.1 | 17.9 | 17.5 | 24.0 | 26.3 | 28.0 |
| Net external debt (% of CXR) | 15.3 | 20.1 | 25.8 | 25.4 | 30.2 | 32.1 | 34.9 |
| Official international reserves including gold (USDbn) | 2.7 | 2.9 | 2.7 | 3.0 | 2.6 | 3.0 | 3.3 |
| Official international reserves (months of CXP cover) | 4.3 | 4.9 | 4.5 | 4.5 | 4.0 | 4.2 | 4.4 |
| External interest service (% of CXR) | 2.5 | 2.4 | 2.4 | 2.0 | 2.0 | 2.8 | 3.4 |
| Gross external financing requirement (% int. reserves) | 26.4 | 26.1 | 29.7 | 18.8 | 52.9 | 26.5 | 20.6 |
| **Real GDP growth (%)** | | | | | | | |
| US | 1.6 | 2.2 | 1.5 | 2.4 | 2.5 | 2.5 | 2.3 |
| China | 9.5 | 7.7 | 7.7 | 7.3 | 6.8 | 6.3 | 6.0 |
| Eurozone | 1.7 | -0.8 | -0.3 | 0.9 | 1.5 | 1.7 | 1.7 |
| World | 3.4 | 2.5 | 2.4 | 2.5 | 2.3 | 2.6 | 2.7 |
| **Oil** (USD/barrel) | 111.0 | 112.0 | 108.8 | 98.9 | 55.0 | 55.0 | 65.0 |

Source: Fitch

## Fiscal Accounts Summary

| (% of GDP) | 2012 | 2013 | 2014 | 2015 | 2016e | 2017f |
|---|---|---|---|---|---|---|
| **General government** | | | | | | |
| **Revenue** | **32.6** | **31.8** | **29.8** | **32.2** | **32.1** | **31.8** |
| **Expenditure** | **36.6** | **36.0** | **34.0** | **35.8** | **35.6** | **34.9** |
| O/w interest payments | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 0.9 |
| | | | | | | |
| Primary balance | -3.0 | -3.2 | -3.2 | -2.5 | -2.4 | -2.2 |
| **Overall balance** | **-4.0** | **-4.2** | **-4.2** | **-3.5** | **-3.4** | **-3.1** |
| | | | | | | |
| **General government debt** | **33.5** | **34.1** | **38.0** | **38.7** | **41.1** | **41.9** |
| % of general government revenue | 104.6 | 113.0 | 127.4 | 123.6 | 127.9 | 131.6 |
| | | | | | | |
| Central government deposits | 5.0 | 4.9 | 5.5 | 7.3 | 6.9 | 6.3 |
| Net general government debt | 23.8 | 26.5 | 28.8 | 29.1 | 30.9 | 32.4 |
| | | | | | | |
| **Central government** | | | | | | |
| **Revenue** | **30.1** | **29.6** | **27.8** | | | |
| O/w grants | - | - | - | | | |
| **Expenditure and net lending** | **34.0** | **33.6** | **32.0** | | | |
| O/w current expenditure and transfers | 29.9 | 30.1 | 24.5 | | | |
| - Interest | 0.9 | 1.0 | 1.0 | | | |
| O/w capital expenditure | 4.1 | 3.5 | 3.4 | | | |
| | | | | | | |
| Current balance | 0.2 | -0.6 | 3.3 | | | |
| Primary balance | -2.9 | -3.1 | -3.2 | | | |
| **Overall balance** | **-3.9** | **-4.1** | **-4.2** | | | |
| | | | | | | |
| Central government debt | 33.4 | 33.9 | 37.8 | | | |
| % of central government revenues | 113.0 | 121.1 | 136.3 | | | |
| | | | | | | |
| **Central government debt (MKDbn)** | **155.8** | **169.5** | **198.6** | | | |
| By residency of holder | | | | | | |
| Domestic | 57.3 | 71.6 | 70.9 | | | |
| Foreign | 98.6 | 97.9 | 127.7 | | | |
| By currency denomination | | | | | | |
| Local currency | 33.7 | 37.2 | 44.3 | | | |
| Foreign currency | 122.2 | 132.4 | 154.3 | | | |
| In USD equivalent (eop exchange rate) | 2.6 | 3.0 | 3.1 | | | |
| Average maturity (years) | 4.2 | 4.2 | 4.3 | | | |
| **Memo** | | | | | | |
| Nominal GDP (MKDbn) | 466.7 | 499.6 | 525.8 | 549.3 | 580.5 | 615.9 |

Source: Ministry of Finance and Fitch estimates and forecasts

## External Debt and Assets

| (USDbn) | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| **Gross external debt** | **5.5** | **6.3** | **6.8** | **7.2** | **7.3** | **6.9** |
| % of GDP | 58.4 | 60.3 | 71.2 | 70.4 | 64.3 | 70.1 |
| % of CXR | 96.1 | 87.4 | 101.8 | 101.7 | 93.3 | 88.1 |
| | | | | | | |
| **By maturity** | | | | | | |
| Medium- and long-term | 4.2 | 4.7 | 5.2 | 5.9 | 6.1 | 5.8 |
| Short-term | 1.2 | 1.6 | 1.6 | 1.3 | 1.2 | 1.1 |
| % of total debt | 22.2 | 24.8 | 23.6 | 18.5 | 15.9 | 16.0 |
| | | | | | | |
| **By debtor** | | | | | | |
| **Sovereign** | **1.6** | **2.3** | **2.4** | **2.3** | **2.7** | **2.5** |
| Monetary authorities | 0.1 | 0.4 | 0.3 | 0.1 | 0.1 | 0.0 |
| General government | 1.5 | 1.9 | 2.1 | 2.2 | 2.6 | 2.5 |
| **Banks** | **0.8** | **0.7** | **0.8** | **0.8** | **0.7** | **0.7** |
| **Other sectors** | **3.1** | **3.2** | **3.6** | **4.0** | **3.9** | **3.7** |
| | | | | | | |
| **Gross external assets (non-equity)** | **4.2** | **5.2** | **5.5** | **5.4** | **5.3** | **4.6** |
| International reserves, incl. gold | 2.3 | 2.7 | 2.9 | 2.7 | 3.0 | 2.6 |
| Other sovereign assets nes | 0.1 | 0.4 | 0.2 | 0.1 | 0.1 | 0.1 |
| Deposit money banks' foreign assets | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 |
| Other sector foreign assets | 1.1 | 1.4 | 1.6 | 1.8 | 1.5 | 1.2 |
| | | | | | | |
| **Net external debt** | **1.2** | **1.1** | **1.3** | **1.8** | **2.0** | **2.4** |
| % of GDP | 13.0 | 10.6 | 14.1 | 17.9 | 17.5 | 24.0 |
| Net sovereign external debt | -0.8 | -0.7 | -0.7 | -0.5 | -0.3 | -0.2 |
| Net bank external debt | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 |
| Net other external debt | 2.0 | 1.9 | 2.0 | 2.2 | 2.4 | 2.5 |
| | | | | | | |
| **Net international investment position** | **-4.8** | **-5.1** | **-5.5** | **-6.3** | **-5.5** | **-5.8** |
| % of GDP | -51.6 | -49.3 | -57.5 | -61.5 | -48.8 | -58.5 |
| | | | | | | |
| **Sovereign net foreign assets** | **0.8** | **0.7** | **0.7** | **0.5** | **0.3** | **0.2** |
| % of GDP | 8.1 | 7.1 | 7.6 | 4.8 | 3.0 | 1.7 |
| | | | | | | |
| **Debt service (principal & interest)** | **0.7** | **0.5** | **0.5** | **0.8** | **0.6** | **1.6** |
| Debt service (% of CXR) | 11.6 | 7.3 | 8.1 | 12.0 | 7.3 | 20.2 |
| Interest (% of CXR) | 2.3 | 2.5 | 2.4 | 2.4 | 2.0 | 2.0 |
| | | | | | | |
| Liquidity ratio (%) | 144.6 | 175.9 | 165.1 | 148.6 | 186.0 | 136.8 |
| Net sovereign FX debt (% of GDP) | -6.3 | -6.7 | -4.5 | 2.2 | 0.9 | 4.2 |
| **Memo** | | | | | | |
| Nominal GDP | 9.3 | 10.4 | 9.6 | 10.2 | 11.3 | 9.9 |
| Inter-company loans | 1.2 | 1.0 | 1.3 | 1.6 | 1.6 | 1.5 |

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

## External Debt Service Schedule on Medium- and Long-Term Debt – 25 February 2016

| (EURm) | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020+ |
|---|---|---|---|---|---|---|---|
| **Sovereign: central government debt service** | 178.5 | 421.5 | 262.3 | 226.8 | 251.0 | 198.2 | 367.9 |
| Amortisation | 136.8 | 360.3 | 203.2 | 151.6 | 170.9 | 108.1 | 272.6 |
| Official bilateral | 6.3 | 7.0 | 8.0 | 8.0 | 8.0 | 8.1 | 6.5 |
| Multilateral | 130.5 | 203.3 | 65.2 | 68.6 | 67.9 | 73.0 | 84.1 |
| o/w IMF | 86.0 | 153.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 130.0 | 75.0 | 95.0 | 27.0 | 182.0 |
| Bonds placed in foreign markets | 0.0 | 150.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | |
| Interest | 41.7 | 61.2 | 59.1 | 75.2 | 80.1 | 90.1 | 95.3 |

Sources: Ministry of Finance, Central Bank and Fitch

## Balance of Payments

| (USDbn) | 2012 | 2013 | 2014 | 2015 | 2016e | 2017f |
|---|---|---|---|---|---|---|
| **Current account balance** | **-0.3** | **-0.2** | **-0.1** | **-0.1** | **-0.2** | **-0.3** |
| % of GDP | -3.3 | -1.7 | -0.9 | -1.4 | -2.0 | -2.6 |
| % of CXR | -4.8 | -2.5 | -1.3 | -1.8 | -2.5 | -3.2 |
| | | | | | | |
| **Trade balance** | **-2.6** | **-2.5** | **-2.5** | **-2.4** | **-2.5** | **-2.6** |
| Exports, fob | 3.0 | 3.2 | 3.7 | 3.9 | 4.2 | 4.5 |
| Imports, fob | 5.5 | 5.6 | 6.1 | 6.3 | 6.7 | 7.1 |
| | | | | | | |
| **Services, net** | **0.4** | **0.5** | **0.5** | **0.4** | **0.4** | **0.4** |
| Services, credit | 1.4 | 1.5 | 1.7 | 1.6 | 1.7 | 1.7 |
| Services, debit | 1.0 | 1.0 | 1.2 | 1.2 | 1.3 | 1.3 |
| | | | | | | |
| **Income, net** | **-0.2** | **-0.3** | **-0.2** | **-0.2** | **-0.2** | **-0.2** |
| Income, credit | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Income, debit | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| O/w: Interest payments | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| | | | | | | |
| **Current transfers, net** | **2.1** | **2.1** | **2.1** | **2.1** | **2.1** | **2.1** |
| | | | | | | |
| **Capital and financial accounts** | | | | | | |
| Non-debt-creating inflows (net) | 0.2 | 0.1 | -0.2 | 0.1 | 0.1 | 0.1 |
| O/w equity FDI | 0.2 | 0.2 | -0.2 | 0.2 | 0.2 | 0.2 |
| O/w portfolio equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| O/w other flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in reserves | 0.2 | 0.0 | 0.5 | -0.1 | 0.4 | 0.3 |
| **Gross external financing requirement** | 0.7 | 0.9 | 0.5 | 1.6 | 0.7 | 0.6 |
| **Stock of international reserves, incl. gold** | 2.9 | 2.7 | 3.0 | 2.6 | 3.0 | 3.3 |

Sources: IMF and Fitch estimates and forecasts

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