Macedonia

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BB
Short-Term IDR	B

Local Currency

Long-Term IDR	BB
Short-Term IDR	B
Country Ceiling	BB+

Outlooks

Foreign-Currency Long-Term IDR	Positive
Local-Currency Long-Term IDR	Positive

Financial Data

Macedonia

(USDbn)	2018F
GDP	12.5
GDP per head (USD 000)	6
Population (m)	2.1
International reserves	3.2
Net external debt (% GDP)	30.2
Central government total debt (% GDP)	n.a.
CG foreign-currency debt	n.a.
CG domestically issued debt (MKDbn)	n.a.

Rating Derivation

Component	Outcome
Sovereign Rating Model (SRM)	BB+
Qualitative Overlay (QO)	-1
Macroeconomic	0
Structural features	-1
Public finances	0
External finances	0
Long-Term Foreign-Currency IDR (SRM + QO)	BB

Source: Fitch

Related Research

Macedonia (February 2018)

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Key Rating Drivers

Stable Political Environment: Macedonia's ratings are supported by a good track record of coherent macroeconomic and financial policy, which underpins its longstanding exchange rate peg to the euro. The Positive Outlook reflects a more stable political environment that has increased economic confidence, realigned policy direction towards EU accession and strengthened international relations.

EU, NATO Accession: The EU Council has now agreed to set out a path for opening accession negotiations in June 2019, while NATO has formally invited Macedonia to become its 30th member on the conditionality the name dispute is successfully resolved.

Referendum Challenges: A successful resolution to the name dispute will require a change in Macedonia's constitution, for which a referendum is planned to be held later this year. In Fitch Ratings' opinion, results of the referendum pose an uncertain political outlook. This will be a big test for the SDSM government, which faces strong opposition from former ruling party and nationalists VMRO-DPMNE.

Positive GDP Outlook: Fitch's latest baseline is for GDP growth of 2.7% in 2018, 3.1% in 2019 and 3.5% in 2020. A weak 1Q18 outturn has meant a downward revision to our previous 2018 forecast of 3.1%. However, an environment of continued political stability and gradual recovery in investment will increase medium-term growth.

Growing Debt Trajectory: For 2018, Fitch is forecasting Macedonia's fiscal deficit at 2.6% of GDP and general government debt at 42.3% of GDP. For 2019-2020, further measures in fiscal consolidation will be required. Fitch's latest debt dynamics project a gradual upward trending debt trajectory. Meanwhile, government guarantees on state-owned enterprises (9.9% of GDP for 2018) highlight a wider definition of general government liabilities.

Wider CADs: Macedonia's current account deficit (CAD) narrowed to 1.1% of GDP in 2017, from 2.8% of GDP in 2016. However, as the domestic recovery gains traction over the medium term, Fitch projects a widening of the CAD towards 2.6% of GDP. Wider CADs are expected to be comfortably financed by net inflows of FDI, but will also contribute towards increasing Macedonia's net external debtor position, which at 27.7% of GDP at end-2017 is significantly wider than most net external debtors in its current peer group.

Rating Sensitivities

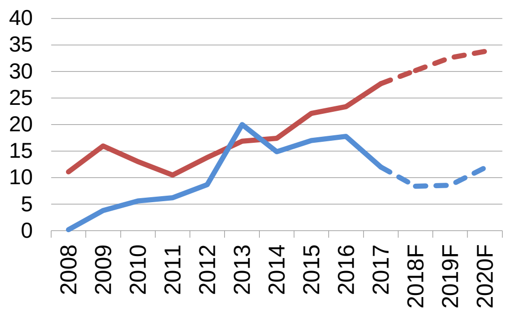
Political Developments: An improvement in governance standards and further reduction in political risk, for example through a track record of political stability, implementation of key institutional reforms and/or progress towards EU accession, would lead to an upgrade. A re-emergence of adverse political developments that affects governance standards, the economy and/or government policy direction could lead to a negative rating action.

Fiscal Finances: A medium-term fiscal consolidation programme consistent with a stabilisation of the public debt/GDP ratio could support a positive rating action. Fiscal slippage or the crystallisation of contingent liabilities that increases risks to the sustainability of the public finances could lead to a negative rating action.

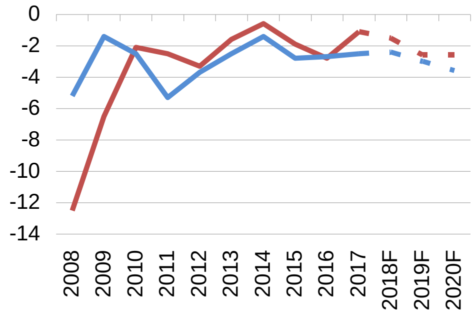
External Financing Risks: A widening in the CAD that exerts pressure on foreign currency reserves and/or the currency peg against the euro could lead to a negative rating action.

Peer Comparison

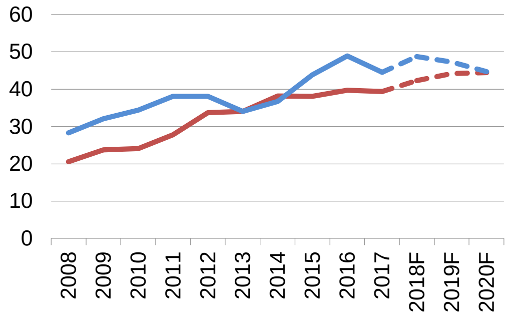
Net External Debt
% of GDP



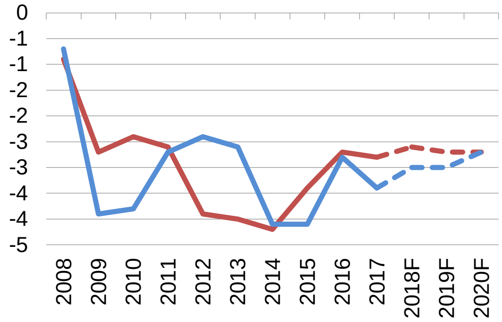
Current Account Balance
% of GDP



General Government Debt
% of GDP

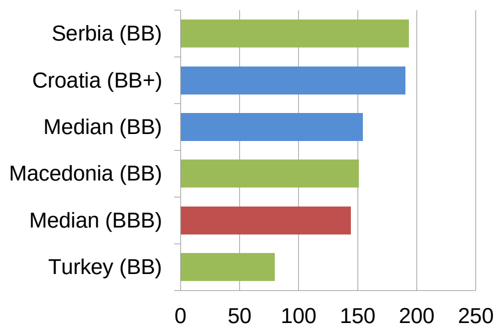


General Government Balance
% of GDP

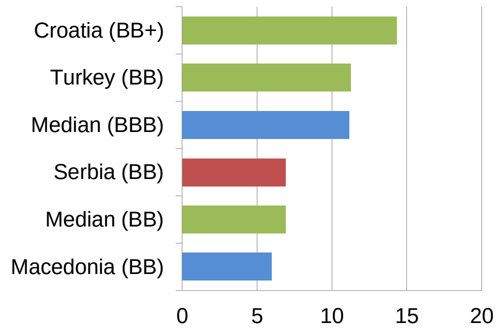


Macedonia
Median(BB)

International Liquidity Ratio, 2018
%



GDP per Capita Income, 2017e
(At market exchange rates, USA = 100)



Note: Medians based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Related Criteria

Country Ceilings Criteria (July 2018)
Sovereign Rating Criteria (July 2018)

Rating Factors

Peer Group

Rating	Country
BB+	Azerbaijan
	Croatia
	Cyprus
	Namibia
	South Africa
BB	Macedonia
	Costa Rica
	Guatemala
	Paraguay
	Serbia
	Vietnam
	Turkey
BB−	Bahrain
	Bangladesh
	Bolivia
	Brazil
	Dominican Republic
	Georgia
	Seychelles

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
19 Aug 16	BB	BB
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	Neutral
Trend	Stable	Stable	Stable	Positive

Note: Relative to 'BB' category
Source: Fitch

Strengths

- Macedonia's indicators in governance and human development perform better than the median of 'BB' category rated peers. Further progress by the government towards addressing corruption and rule of law, in line with EU policies, will support further improvement in both indicators.
- Macedonia's Ease of Doing Business indicator is significantly stronger than both the median of 'BB' and 'BBB' rated peers, a reflection of its highly open economy and export-oriented Technological and Industrial Development Zones. A high "ease of doing business" also supports stable net inflows of FDI.
- Macedonia has a track record of low inflation, stable growth and financial stability, underpinned by a credible and coherent macroeconomic and financial policy consistent with the longstanding exchange rate peg to the euro.
- Commodity dependence is low, reducing the country's vulnerability to shocks.
- Macedonia is an EU accession candidate country. Further anchoring of policies towards the EU political and economic framework would strengthen structural features of the rating.

Weaknesses

- The general government debt-to-GDP ratio (estimated at 42.3% for 2018) is projected to increase to above the median ratio (39.0%) of 'BB' rated peers. A large share of government debt is also denominated in foreign currency (79.7%, 1Q18), albeit predominately in euros. Euroisation is also present in the banking sector, accounting for around 43% of total deposits.
- Macedonia's net external debt-to-GDP and net liability international investment position is wider than the majority of 'BB' rated sovereigns.
- Unemployment is structurally high (21.9%, end 2017), partly reflecting a large informal economy.

Local-Currency Rating

Macedonia's Long-Term Local-Currency IDR is 'BB'. The credit profile does not support an upward notching of the Long-Term Local-Currency IDR above the Long-Term Foreign-Currency IDR. In Fitch's view, neither of the key factors cited in the criteria that would support an upward notching are present: strong public finance fundamentals relative to external finances or previous preferential treatment of local-currency creditors. Furthermore, the exchange rate regime constrains the central bank's capacity to generate local currency without negative economic consequences

Country Ceiling

Macedonia's Country Ceiling is 'BB+'. EU accession aspirations and large current account receipts from private transfers are incentives for the authorities to maintain liberalised transfer and convertibility arrangements. Nevertheless, the exchange rate peg currently limits any uplift of the Country Ceiling above the sovereign Long-Term Foreign-Currency IDR to one notch.

Strengths and Weaknesses: Comparative Analysis

2018	Macedonia BB	BB median[a]	BBB median	Croatia BB+	Turkey BB	Serbia BB
Macroeconomic performance and policies						
Real GDP (5yr average % change)	2.6	4.2	3.7	2.3	5.1	1.4
Volatility of GDP (10yr rolling SD)	1.7	2.5	2.9	3.2	4.3	2.1
Consumer prices (5yr average)	0.5	5.7	4.2	0.4	9.1	2.0
Volatility of CPI (10yr rolling SD)	1.7	3.5	2.4	1.3	1.5	3.5
Unemployment rate (%)	21.6	9.2	7.9	10.0	9.3	15.5
Type of exchange rate regime	Peg to Euro	n.a.	n.a.	Crawl-like arrangement	Floating	Floating
Dollarisation ratio (% of bank deposits)	42.5	39.4	16.9	82.3	27.2	69.1
REER volatility (10yr rolling SD)	1.6	6.8	5.2	1.8	6.2	6.0
Structural features						
GDP per capita (USD, mkt exchange rates)	5,999	6,894	11,172	14,338	11,261	6,908
GNI per capita (PPP, USD, latest)	14,310	14,310	20,090	22,630	23,990	13,700
GDP (USDbn)	12.5	n.a.	n.a.	59.9	924.3	48.6
Human development index (percentile, latest)	56.6	52.0	67.3	75.9	62.0	64.7
Governance indicator (percentile, latest)[b]	47.3	43.7	58.5	66.1	41.7	51.3
Broad money (% GDP)	60.4	47.1	59.2	70.7	53.7	49.0
Default record (year cured)[c]	1997	n.a.	n.a.	1996	1982	2005
Ease of doing business (percentile, latest)	94.8	51.4	71.3	73.6	68.8	77.8
Trade openness (avg. of CXR + CXP % GDP)	73.7	47.2	46.2	56.6	28.2	62.7
Gross domestic savings (% GDP)	17.9	17.5	22.5	23.1	27.2	12.8
Gross domestic investment (% GDP)	31.0	21.9	23.9	20.6	29.3	22.0
Private credit (% GDP)	48.9	35.1	57.1	56.5	67.7	41.8
Bank systemic risk indicators[d]	-/1	n.a.	n.a.	-/1	bb/1	-/1
Bank system capital ratio (% assets)	15.7	15.5	14.9	23.2	15.1	22.5
Foreign bank ownership (% assets)	70.3	35.4	35.7	90.1	25.0	76.7
Public bank ownership (% assets)	3.0	16.3	13.4	6.1	34.0	18.1
External finances						
Current account balance + net FDI (% GDP)	1.0	0.8	0.4	4.4	-4.2	0.5
Current account balance (% GDP)	-1.5	-2.6	-1.9	2.5	-5.5	-6.3
Net external debt (% GDP)	30.2	9.6	6.2	22.2	31.9	20.5
Gross external debt (% CXR)	106.5	113.4	115.6	130.0	203.4	102.1
Gross sovereign external debt (% GXD)	37.3	47.3	31.7	44.2	21.8	48.5
Sovereign net foreign assets (% GDP)	-5.4	-2.8	2.7	2.5	-0.2	-9.1
Ext. interest service ratio (% CXR)	2.3	3.9	4.3	3.9	5.1	3.5
Ext. debt service ratio (% CXR)	12.4	13.4	15.3	27.7	31.8	16.6
Foreign exchange reserves (months of CXP)	4.2	4.4	4.9	7.3	4.3	4.1
Liquidity ratio (latest)[e]	150.7	154.2	143.7	190.3	79.4	193.2
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	10.3	21.7	20.7	12.6	18.5	19.2
Sovereign net foreign currency debt (% GDP)	7.3	2.3	-5.1	21.0	-1.4	19.8
Public finances[f]						
Budget balance (% GDP)	-2.6	-2.7	-2.4	0.4	-1.8	0.5
Primary balance (% GDP)	-1.1	-0.3	-0.3	2.9	-0.2	3.0
Gross debt (% revenue)	134.0	155.3	129.9	160.8	83.9	138.0
Gross debt (% GDP)	42.3	39.0	36.1	73.9	27.1	60.2
Net debt (% GDP)	36.6	32.8	30.2	67.9	23.6	52.2
Foreign currency debt (% total debt)	78.3	61.4	35.5	73.7	35.7	70.0
Interest payments (% revenue)	4.6	9.4	7.0	5.4	6.8	5.7
Revenues and grants (% GDP)	31.5	24.7	32.1	46.0	32.3	43.6
Volatility of revenues/GDP ratio	3.3	6.2	6.6	4.9	2.0	3.5
Central govt. debt maturities (% GDP)	10.4	5.1	5.5	7.8	3.6	9.4

[a] Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (e.g. current account and fiscal balance)
[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 Stability; Increased Confidence in Policy Direction

A more stable political environment has increased economic confidence, realigned policy direction, and strengthened international relations. Credible progress has been made by PM Zaev's SDSM led government in acting on urgent policy commitments following the deep political 2014-2017 crisis; dismissing Fitch's previous concerns that progress could be hampered by a large VMRO-DPMNE opposition.

The government has successfully implemented the majority of initiatives set out under its "3-6-9" reform plan in restoring transparency, independence and confidence in public institutions. Fiscal transparency has also improved, although the fiscal framework could be strengthened. Meanwhile, progress has been made to enhance the business environment for SMEs. Furthermore, progress towards EU and NATO memberships has been steadfast.

On 17 June 2018, governments of both Macedonia and Greece signed an agreement on the solution of the 27-year name dispute and the establishment of a strategic partnership between the countries. According to the agreement, a proposal has been made for Macedonia to be renamed "Republic of North Macedonia". This will require a change in Macedonia's constitution by end-2018, for which a referendum will be held.

The agreement has already been ratified by Parliament in a second vote held on 5 July with a simple majority of 69 (out of 120 MPs), after President Gjorge Ivanov vetoed the deal in late June. Since then, Greece has also notified the EU that it supports the opening of the accession negotiations, and NATO that it supports an accession invitation. The response has been positive, with the EU Council agreeing to set out a path for opening accession negotiations in June 2019, and NATO formally inviting Macedonia to become its 30th member in this month's summit (conditional on resolving the name issue).

Higher GDP Dependent on Investment Recovery and Structural Reform

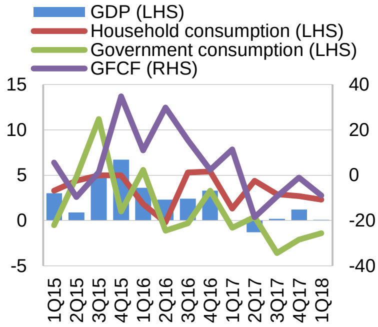
GDP growth for 1Q18 slowed to 0.1% yoy compared to 1.2% the previous quarter; it was weighed down by contracting investment, with a weak construction sector recording successive quarters of negative growth since 1Q17. With the exception of government consumption (which is negative due to a consolidating public sector), growth in household consumption and in tradeable sectors is stable.

Fitch has revised down its 2018 real GDP forecast to 2.7% from 3.1% previously due to the first quarter GDP outturn and a longer-than-expected drag from the construction sector. High frequency indicators in retail sales, industry output and credit growth continue positive trends. Fitch still anticipates investment to pick up in 2H18, mainly benefiting from a low base. The political crisis had stalled progress in various key infrastructure projects, with some bilateral initiatives halted due to funding uncertainties (eg Kicevo-Ohrid motorway). Resuming these projects would present an upside risk to Fitch's real GDP growth forecast of 3.1% and 3.5% in 2019 and 2020, respectively.

The IMF estimates Macedonia's medium-term growth at around 3.8%, which is plausible under the current normalised political environment and projected recovery in investment activity. However, higher potential growth could be achieved with further advancement of structural reform. Macedonia scores highly in "ease of doing business" indicators against the median of its 'BB' rated category peer group. However, this largely reflects the high concentration of investment into Macedonia's Technological-Industrial Development Zones, which have limited pass through into the local economy. Encouragingly, the government has recently created new incentives to improve the business environment of local SMEs, but further reforms are needed to improve the labour market, where a large informal sector, skills mismatches and low labour productivity growth remain.

GDP and Domestic Activity

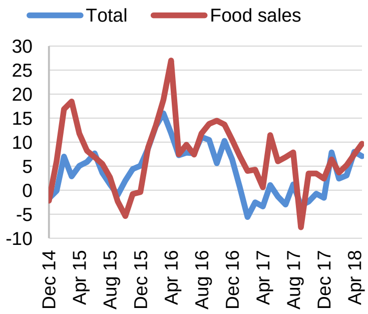
(yoy %)



Source: State Statistical Office Macedonia

Retail Sales

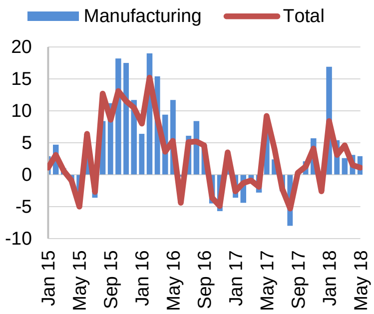
(yoy %)



Source: State Statistical Office Macedonia

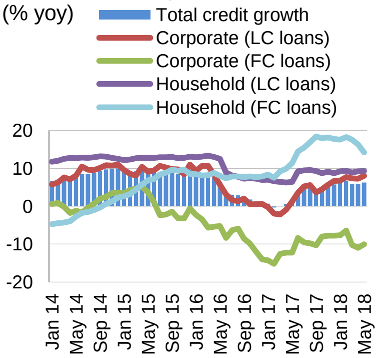
Industrial Output

(yoy %)



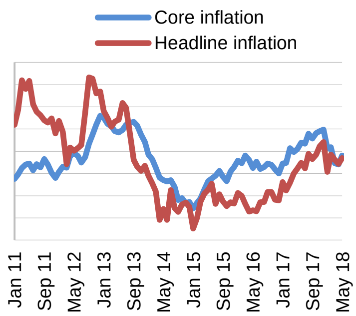
Source: State Statistical Office Macedonia

Credit Activity
(% yoy)



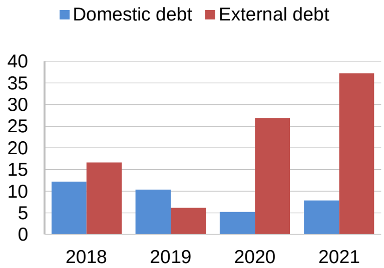
Source: National Bank of Macedonia

Inflation Developments
(% yoy)



Source: National Bank of Macedonia

General Government Debt Service
(Medium-term debt in MKDbn)



Source: Ministry of Finance

Stable Inflation Outlook; Positive Credit Trends

Inflation in 1H18 averaged 1.5%, compared to an annual average of 1.4% in 2017. Higher international oil prices have led to higher inflation in the transportation component of the CPI basket, although this has been offset by still low and stable inflation in food and services, as well as negative price developments in utilities.

Even with the economic recovery and higher oil prices, Fitch expects inflation to remain contained in 2018. After a pick-up in 2017, core inflation eased in 1H18, averaging 1.8%. Meanwhile, inflation expectations have been anchored by exchange rate stability. Fitch's latest forecast is for average inflation of 2.0% in 2018. For 2019-2020, we expect higher average inflation of around 2.2%, driven by both demand and supply-side factors (e.g. from higher wage growth, demand for imported goods and services and higher global commodity prices). A moderate inflation outlook means we expect monetary policy to remain accommodative, with no tightening of interest rates in the near term.

Macedonia's banking sector is well capitalised (average capital adequacy ratio 16.4%, 1Q18) and liquid, with a system loan-to-deposit ratio at 87% (1Q18). Improving asset quality is underpinned by declining non-performing loans (4.9% at 1Q18 vs 6.3% at end-2017) that are well provisioned for (123.9% at 1Q18). Trends in both loan growth and deposits have been positive, befitting from a more stable political and economic environment.

Widening Current Account; Higher net FDI inflows

Macedonia has benefitted from the favourable cyclical upswing of key export partners (e.g. Germany, Serbia and Bulgaria). Export growth of both goods and services remain robust. Due to slow recovery in investment activity, Fitch expects a marginal narrowing of the trade deficit for this year. However, we still forecast a widening of the CAD in 2018 to 1.5% of GDP from 1.1% of GDP in 2017, led by higher profit repatriation from foreign companies.

As the domestic economic recovery gains traction, Fitch forecasts Macedonia's CAD to widen towards 2.6% of GDP in 2019-2020; higher imports of investment-related goods and a normalisation of the cyclical upswing of trading partners will widen the trade deficit, while increased profitability of foreign companies will keep a wider primary income deficit via profit repatriation and lower inflow of remittances will weigh on the second income surplus. Stable net inflows of FDI are expected to adequately finance the CAD. Fitch estimates average net FDI inflows of 3.0% over the medium term. Structure of FDI inflows have improved in recent years, with the majority as equity and re-invested earnings.

Increasing Public Debt

For 2018, the government targets a fiscal deficit 2.7% of GDP, envisioning revenues and expenditures up 7.7% each from 2017, on the basis of real GDP growth of 3.2%. In comparison, Fitch forecasts a slightly lower deficit at 2.6% of GDP. Our lower GDP forecast means we project lower revenue growth. While based on the slow resumption of public investment projects, we estimate lower government spending. This is consistent with latest budget data up to May 2018, which shows a double-digit contraction in capital expenditure yoy. While consistent with higher economic recovery, receipts have increased under corporate profit tax, social contributions, VAT, and excise and import duties.

Fitch estimates general government debt at 42.3% of GDP at end-2018 from 39.2% of GDP at end-2017. Despite an estimated narrowing of the primary fiscal deficit, a higher debt ratio reflects larger external borrowing. Gross borrowing in 2018 is planned at EUR854 million (8.1% of GDP), of which around two-thirds will be from the external market. In January 2018, Macedonia issued a seven-year EUR500 million Eurobond with a coupon of 2.75%, of which EUR92 million was used to buyback part of a 2020 Eurobond. The Macedonian government last issued on international markets in July 2016, a seven-year EUR450 million Eurobond with a yield of 5.63%.

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

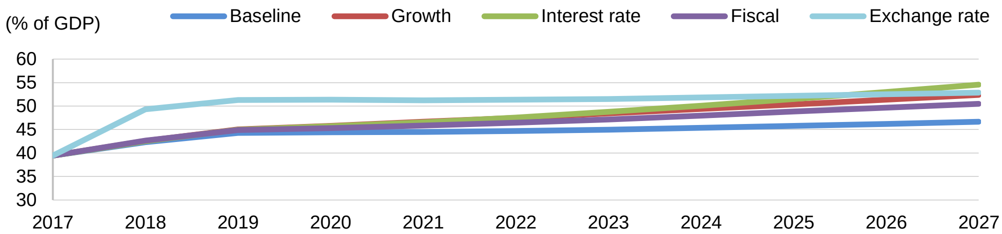
According to Fitch's baseline projections, gross general government debt should increase gradually as interest costs rise in line with global rates. Government guarantees on SOE debt are equivalent to around 9.9% of GDP (estimated 2018) and are projected by the government to peak at 11.3% of GDP in 2019, meaning that public debt including guarantees is significantly above general government debt.

Debt Dynamics: Fitch's Baseline Assumptions

	2017	2018	2019	2020	2021	2022	2027
Gross general government debt (% of GDP)	39.4	42.3	44.2	44.4	44.5	44.7	46.6
Primary balance (% of GDP)	-1.5	-1.1	-1.2	-1.2	-1.0	-1.0	-1.0
Real GDP growth (%)	0.0	2.7	3.1	3.5	3.8	3.5	3.3
Avg. nominal effective interest rate (%)	3.6	3.9	3.7	3.6	3.7	3.7	4.1
MKD/USD (annual avg.)	54.7	52.0	53.7	53.7	53.7	53.7	53.7
GDP deflator (%)	3.5	2.0	2.2	2.2	2.0	2.0	2.0

Sensitivity Analysis

Gross general government debt



Source: Fitch

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	Long-term real GDP growth at 2.0%
Interest rate	Marginal interest rate 250bp higher
Fiscal	No change in primary balance from 2017 level
Exchange rate	30% devaluation at end-2017

Forecast Summary

	2014	2015	2016	2017	2018f	2019f	2020f
Macroeconomic indicators and policy							
Real GDP growth (%)	3.6	3.9	2.9	0.0	2.7	3.1	3.5
Unemployment (%)	27.6	24.6	23.1	21.9	21.6	21.2	21.0
Consumer prices (annual average % change)	-0.3	-0.3	-0.2	1.4	1.8	2.0	2.0
Short-term interest rate (bank policy annual avg.) (%)	3.3	3.3	3.7	3.3	3.0	3.0	3.2
General government balance (% of GDP)	-4.2	-3.4	-2.7	-2.8	-2.6	-2.7	-2.7
General government debt (% of GDP)	38.2	38.1	39.7	39.4	42.3	44.2	44.4
MKD per USD (annual average)	46.44	55.54	55.73	54.67	52.01	53.74	53.74
Real effective exchange rate (2000 = 100)	99.6	97.3	97.4	97.9	99.7	101.7	103.7
Real private sector credit growth (%)	10.1	9.8	1.2	4.1	4.6	2.9	2.9
External finance							
Current account balance (% of GDP)	-0.6	-1.9	-2.8	-1.1	-1.5	-2.6	-2.6
Current account balance plus net FDI (% of GDP)	1.7	0.4	0.5	1.1	1.0	0.4	0.4
Net external debt (% of GDP)	17.4	22.1	23.4	27.7	30.2	32.6	33.8
Net external debt (% of CXR)	25.2	32.1	34.0	37.0	41.3	42.9	44.4
Official international reserves including gold (USDbn)	3.0	2.5	2.8	2.8	3.2	3.6	3.8
Official international reserves (months of CXP cover)	4.5	4.2	4.3	3.9	4.2	4.3	4.3
External interest service (% of CXR)	2.0	2.1	2.2	2.1	2.3	2.3	2.4
Gross external financing requirement (% int. reserves)	30.2	40.0	44.4	32.0	39.5	32.4	40.4
Real GDP growth (%)							
US	2.6	2.9	1.5	2.3	2.8	2.5	2.1
China	7.3	6.9	6.7	6.9	6.6	6.3	6.1
Eurozone	1.3	2.1	1.8	2.4	2.3	1.8	1.5
World	2.8	2.8	2.5	3.3	3.3	3.2	3.0
Oil (USD/barrel)	98.9	52.4	45.1	54.9	70.0	65.0	57.5

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2015	2016	2017	2018f	2019f	2020f
General government						
Revenue	**31.0**	**30.3**	**30.9**	**31.5**	**31.6**	**31.3**
Expenditure	**34.4**	**33.0**	**33.7**	**34.1**	**34.3**	**34.0**
O/w interest payments	1.2	1.2	1.4	1.5	1.5	1.5
Primary balance	-2.3	-1.5	-1.5	-1.1	-1.2	-1.2
Overall balance	**-3.4**	**-2.7**	**-2.8**	**-2.6**	**-2.7**	**-2.7**
General government debt	**38.1**	**39.7**	**39.4**	**42.3**	**44.2**	**44.4**
% of general government revenue	123.0	130.7	127.8	134.0	139.9	141.9
Central government deposits	5.0	5.7	3.8	5.6	6.7	6.3
Net general government debt	33.1	34.0	35.7	36.6	37.5	38.1
Central government						
Revenue	**28.8**	**28.3**	**29.0**			
O/w grants	-	-	-			
Expenditure and net lending	**32.3**	**31.0**	**31.7**			
O/w current expenditure and transfers	29.0	28.1	28.5			
- Interest	1.2	1.1	1.4			
O/w capital expenditure	3.3	2.8	3.2			
Current balance	-0.1	0.2	0.5			
Primary balance	-2.3	-1.5	-1.4			
Overall balance	**-3.5**	**-2.7**	**-2.7**			
Central government debt	37.6	39.4	39.2			
% of central government revenues	130.4	139.3	135.2			
Central government debt (MKDbn)	**210.3**	**235.9**	**243.0**			
By residency of holder						
Domestic	82.3	85.7	96.8			
Foreign	128.0	150.2	146.2			
By currency denomination						
Local currency	53.8	51.3	52.0			
Foreign currency	156.5	184.6	191.0			
In USD equivalent (eop exchange rate)	2.8	3.2	3.7			
Average maturity (years)	4.3	4.6	4.6			
Memo						
Nominal GDP (MKDbn)	559.0	598.9	619.8	649.3	684.5	724.2

Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	2013	2014	2015	2016	2017	2018f
Gross external debt	**7.2**	**7.3**	**6.9**	**7.6**	**8.9**	**9.7**
% of GDP	66.5	64.1	68.3	70.8	78.1	77.7
% of CXR	101.7	92.8	99.2	102.7	104.3	106.5
By maturity						
Medium- and long-term	5.9	6.1	6.0	6.6	7.6	8.4
Short -term	1.3	1.2	0.9	1.0	1.3	1.3
% of total debt	18.5	15.9	13.3	13.0	14.1	13.2
By debtor						
Sovereign	**2.3**	**2.7**	**2.4**	**2.7**	**3.1**	**3.6**
Monetary authorities	0.1	0.1	0.1	0.1	0.1	0.1
General government	2.2	2.6	2.3	2.6	3.1	3.5
Banks	**0.8**	**0.7**	**0.6**	**0.6**	**0.7**	**0.7**
Other sectors	**4.0**	**3.9**	**3.9**	**4.2**	**5.0**	**5.4**
Gross external assets (non-equity)	**5.4**	**5.3**	**4.6**	**5.1**	**5.7**	**5.9**
International reserves, incl. gold	2.7	3.0	2.5	2.8	2.8	3.2
Other sovereign assets nes	0.1	0.1	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	0.8	0.8	0.7	0.7	0.8	0.8
Other sector foreign assets	1.8	1.5	1.5	1.6	2.1	2.2
Net external debt	**1.8**	**2.0**	**2.2**	**2.5**	**3.1**	**3.8**
% of GDP	16.9	17.4	22.1	23.4	27.7	30.2
Net sovereign external debt	-0.5	-0.3	-0.1	0.0	0.3	0.7
Net bank external debt	0.1	0.0	-0.1	-0.1	-0.1	-0.1
Net other external debt	2.2	2.4	2.4	2.6	2.9	3.2
Net international investment position	**-6.3**	**-5.5**	**-5.6**	**-5.9**	**-7.2**	**-8.3**
% of GDP	-58.1	-48.7	-55.2	-54.7	-63.7	-66.2
Sovereign net foreign assets	**0.5**	**0.3**	**0.1**	**0.0**	**-0.3**	**-0.7**
% of GDP	4.5	3.0	1.1	0.2	-3.0	-5.4
Debt service (principal & interest)	**0.8**	**0.9**	**1.1**	**1.0**	**0.9**	**1.1**
Debt service (% of CXR)	11.3	11.7	16.5	13.0	11.0	12.4
Interest (% of CXR)	2.4	2.0	2.1	2.2	2.1	2.3
Liquidity ratio (%)	151.8	157.3	163.1	169.9	179.9	150.7
Net sovereign FX debt (% of GDP)	2.1	0.9	3.0	3.8	8.2	7.3
Memo						
Nominal GDP	10.8	11.4	10.1	10.7	11.3	12.5
Inter-company loans	1.6	1.6	1.8	2.1	2.5	2.7

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

Balance of Payments

(USDbn)	2015	2016	2017	2018f	2019f	2020f
Current account balance	**-0.2**	**-0.3**	**-0.1**	**-0.2**	**-0.3**	**-0.4**
% of GDP	-1.9	-2.8	-1.1	-1.5	-2.6	-2.6
% of CXR	-2.8	-4.0	-1.5	-2.0	-3.4	-3.4
Trade balance	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.2**	**-2.2**
Exports, fob	3.4	3.8	4.6	5.3	5.8	6.3
Imports, fob	5.4	5.8	6.6	7.3	7.9	8.5
Services, net	**0.4**	**0.4**	**0.5**	**0.5**	**0.5**	**0.6**
Services, credit	1.5	1.5	1.7	1.7	1.7	1.8
Services, debit	1.1	1.2	1.2	1.2	1.2	1.2
Income, net	**-0.3**	**-0.4**	**-0.5**	**-0.5**	**-0.5**	**-0.6**
Income, credit	0.2	0.2	0.2	0.2	0.2	0.2
Income, debit	0.5	0.6	0.6	0.7	0.7	0.8
O/w: Interest payments	0.1	0.2	0.2	0.2	0.2	0.2
Current transfers, net	**1.8**	**1.7**	**1.9**	**1.9**	**1.9**	**1.9**
Capital and financial accounts						
Non-debt-creating inflows (net)	0.0	0.3	0.2	0.2	0.2	0.2
O/w equity FDI	0.0	0.3	0.3	0.2	0.3	0.3
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	0.4	-0.2	0.4	0.4	0.2
Gross external financing requirement	1.2	1.1	0.9	1.1	1.0	1.5
Stock of international reserves, incl. gold	2.5	2.8	2.8	3.2	3.6	3.8

Source: IMF and Fitch estimates and forecasts

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