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)	2017
GDP	11.3
GDP per head (USD 000)	5.5
Population (m)	2.1
International reserves	2.8
Net external debt (% GDP)	24.5
Central government total debt (% GDP)	39.2
CG foreign-currency debt	3.7
CG domestically issued debt (MKDbn)	93.8

Related Research

Global Economic Outlook (December 2017)

Macedonia (August 2017)

Analysts

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Key Rating Drivers

Political Risk Eases: Fitch Ratings has revised the Outlook on Macedonia's long-term ratings to Positive from Negative to reflect the stabilisation of the domestic political situation and improvement in international relations, after a prolonged political crisis between 2014 and 2017. The Social Democrat-led coalition government is making progress in implementing its "Plan 3-6-9" programme aimed at restoring the independence and transparency of public institutions. Municipal elections in October gave it a strong mandate and reduced opposition to reforms.

EU Accession Upside: The government has restarted negotiations with Greece about the official name of Macedonia. Diplomatic signals are positive, but Macedonia will need to compromise on its name in order to unlock NATO and EU accession, in Fitch's view. Macedonia hopes to join NATO and open EU accession negotiations later in 2018.

Fiscal Consolidation Progress: The 2017 central government budget deficit was 2.7% of GDP, as the government under-executed on expenditure to meet the deficit target in light of lower-than-expected revenues, enhancing its credibility. It is targeting a budget deficit of 2.7% of GDP in 2018, and then a reduction to 2.5% in 2019, 2.3% in 2020 and 2.0% in the medium term. Fitch estimates that public debt (including guarantees) declined to 47.4% of GDP at end-2017, the first fall in the ratio for nine years after rising from 23% in 2008.

Growth Recovery Forecast: GDP growth slowed sharply to an average of −0.4% in the first three quarters of 2017, from 2.9% in 2016, as political uncertainty weighed on investment. Fitch expects growth to have averaged 0.5% in 2017, implying a rebound in 4Q17 based on a pick-up in industrial production, exports and credit growth. We expect growth to recover to 3.1% in 2018 and 3.3% in 2019. The country has a track record of low inflation.

External Finances: Fitch estimates the current account deficit narrowed to 1.7% of GDP in 2017, from 2.8% in 2016, financed by FDI. Exports of goods and services grew a robust 13.1% in the first three quarters (USD terms, yoy), compared with 8.6% for imports. Net external debt was estimated at 24.5% of GDP at end-2017, above the 'BB' range median of 12.1%.

Structural Credit Factors: GDP per capita and governance are broadly in line with 'BB' range medians. The business climate is favourable, which supports net inflows of FDI and a dynamic export performance. The banking sector is stable.

Rating Sensitivities

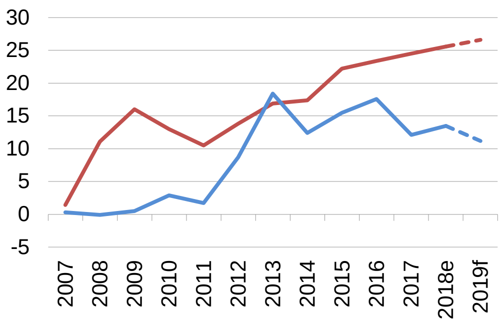
Political Developments: An improvement in governance standards and further reduction in political risk, for example through a track record of political stability, implementation of key institutional reforms and/or progress towards EU accession, could lead to an upgrade. But a re-emergence of political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

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

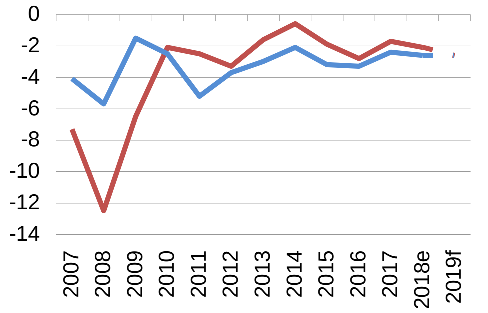
External Financing Risks: A widening in the current account deficit that exerts pressure on foreign-currency reserves and/or the currency peg could lead to negative rating action.

Peer Comparison

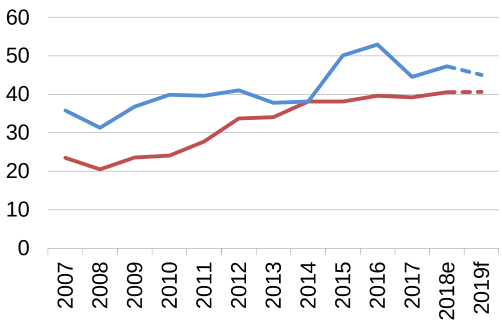
Net External Debt
% of GDP



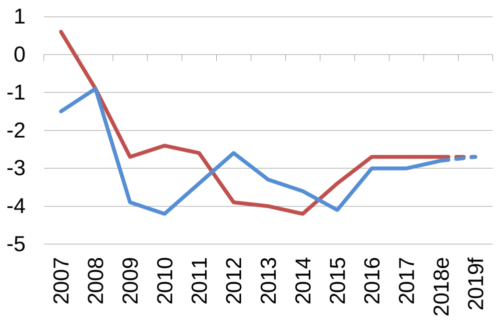
Current Account Balance
% of GDP



General Government Debt
% of GDP

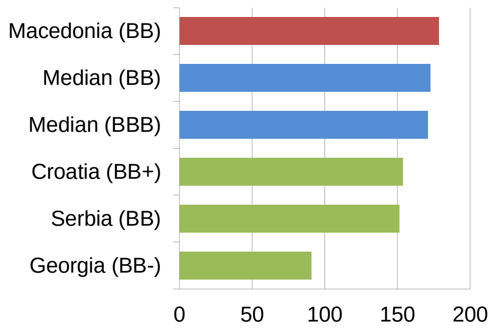


General Government Balance
% of GDP

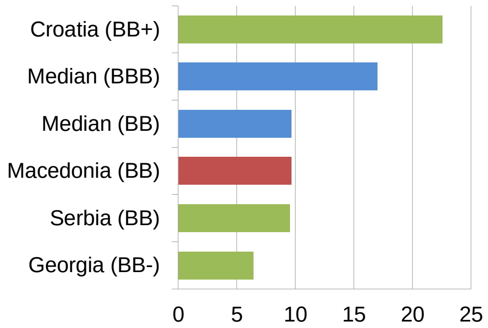


Macedonia Medians

International Liquidity Ratio, 2018
%



GDP per capita Income, 2017e
At market exchange rates, USA=100



Related Criteria

Sovereign Rating Criteria (July 2017)
Country Ceilings Criteria (July 2017)

Rating Factors

Peer Group

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

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 Ease of Doing Business indicator is significantly stronger than the 'BB' range median, which supports net inflows of FDI and a dynamic export performance.
- The country 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.
- General government debt/GDP is below the 'BB' range median. However, it rose rapidly between 2008 and 2016, and is similar if government guarantees are included.
- Commodity dependence is low, reducing the country's vulnerability to shocks.
- Macedonia is an EU accession candidate country.

Weaknesses

- Fitch assesses risks to political stability as higher than in most 'BB' peers, as evident in the extended 2014-2017 political crisis, although the situation is now normalising. Macedonia recorded the largest percentage drop in the World Bank governance indicator over 2014-2016, out of all Fitch-rated sovereigns except Mozambique (RD).
- A large share of government debt is denominated in foreign currency (79%, 3Q17), albeit predominantly in euros. Euroisation is also present in the banking sector with 43% of deposits.
- Net external debt/GDP and the net liability internal investment position are higher than in most 'BB' peers.
- Unemployment is structurally high, at 22.1% (3Q17), partly reflecting a large grey economy, but is on a downward trend.

Local-Currency Rating

Macedonia's Long-Term Local-Currency IDR is 'BB'. The credit profile does not support an upward notch 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 notch are present, namely 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+', 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 currently limits any uplift of the Country Ceiling above the sovereign Long-Term Foreign-Currency IDR to one notch.

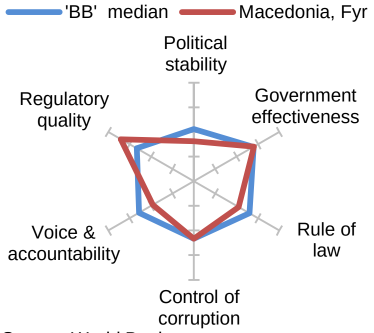
Strengths and Weaknesses: Comparative Analysis

2017	Macedonia BB	BB Median[b]	BBB Median[b]	Croatia BB+	Serbia BB	Georgia BB−
Macroeconomic performance and policies						
Real GDP (5yr average % change)	2.8	3.5	3.2	1.5	1.2	3.6
Volatility of GDP (10yr rolling SD)	1.9	2.3	2.6	3.1	2.5	3.1
Consumer prices (5yr average)	0.7	3.1	1.8	0.6	3.1	2.9
Volatility of CPI (10yr rolling SD)	2.8	2.4	1.9	1.9	4.0	3.7
Unemployment rate (%)	23.0	9.7	5.6	11.0	12.9	11.0
Type of exchange rate regime	Peg to euro	n.a.	n.a.	Crawl like	Floating	Floating
Dollarisation ratio (% of bank deposits)	43.8	35.5	31.0	82.3	69.1	70.6
REER volatility (10yr rolling SD)	2.1	4.9	4.1	2.4	6.5	5.0
Structural features						
GDP per capita (USD, mkt exchange rates)	5,453	5,759	10,642	13,085	5,712	3,849
GNI per capita (PPP, USD, latest)	14,480	14,480	19,030	22,880	13,680	9,450
GDP (USDbn)	11.3	n.a.	n.a.	54.9	40.1	15.0
Human development index (percentile, latest)	56.6	57.7	67.9	75.9	64.7	63.1
Governance indicator (percentile, latest)[c]	47.3	47.8	59.2	66.1	51.3	63.1
Broad money (% GDP)	58.3	64.2	66.4	72.7	53.6	47.4
Default record (year cured)[d]	1,997	n.a.	n.a.	1,996	2,005	2,004
Ease of doing business (percentile, latest)	94.8	57.2	72.4	73.6	77.8	95.8
Trade openness (avg. of CXR + CXP % GDP)	71.5	50.3	47.0	57.6	66.3	67.9
Gross domestic savings (% GDP)	17.5	18.5	24.1	25.9	11.0	18.6
Gross domestic investment (% GDP)	32.0	21.7	22.2	22.8	18.3	29.8
Private credit (% GDP)	48.1	61.6	56.4	59.1	44.9	64.5
Bank systemic risk indicators[e]	-/1	n.a.	n.a.	-/1	-/1	bb/2[a]
Bank system capital ratio (% assets)	16.2	15.3	15.9	20.0	22.5	15.1
Foreign bank ownership (% assets)	70.3	31.4	26.0	89.7	76.7	88.5
Public bank ownership (% assets)	3.0	30.1	13.8	6.3	18.1	0.0
External finances						
Current account balance + net FDI (% GDP)	0.3	0.2	1.2	5.7	1.1	-2.4
Current account balance (% GDP)	-1.7	-2.9	-1.2	3.9	-4.6	-10.0
Net external debt (% GDP)	24.5	14.1	-0.8	25.6	15.1	63.5
Gross external debt (% CXR)	99.3	125.6	130.1	132.8	98.9	167.1
Gross sovereign external debt (% GXD)	33.2	34.6	32.6	39.9	55.1	29.4
Sovereign net foreign assets (% GDP)	0.4	0.4	4.2	2.9	-7.4	-12.6
Ext. interest service ratio (% CXR)	2.3	4.0	4.6	4.0	3.4	7.1
Ext. debt service ratio (% CXR)	11.8	12.6	15.4	29.5	17.0	22.5
Foreign exchange reserves (months of CXP)	4.1	4.3	7.0	6.5	4.8	3.0
Liquidity ratio (latest)[f]	178.5	164.9	172.4	153.5	151.2	90.6
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	9.6	19.7	17.8	13.1	20.5	25.4
Sovereign net foreign currency debt (% GDP)	8.1	-0.6	-7.1	26.6	28.7	15.6
Public finances[g]						
Budget balance (% GDP)	-2.7	-3.0	-2.6	0.3	0.5	-3.9
Primary balance (% GDP)	-1.3	-0.4	-0.6	3.3	3.4	-2.5
Gross debt (% revenue)	126.3	180.6	164.8	166.4	141.0	156.4
Gross debt (% GDP)	39.2	47.4	40.7	77.5	63.6	44.5
Net debt (% GDP)	35.4	42.6	30.9	71.5	58.6	39.8
Foreign currency debt (% total debt)	79.1	50.8	39.1	73.5	88.0	75.5
Interest payments (% revenue)	4.4	9.6	7.1	6.4	6.4	4.9
Revenues and grants (% GDP)	31.1	29.6	28.8	46.6	45.1	28.5
Volatility of revenues/GDP ratio	3.6	5.2	5.8	5.0	4.1	3.1
Central govt. debt maturities (% GDP)	9.3	7.5	3.9	12.3	8.8	9.3

[b] Medians based on three-year centred averages
[c] 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
[d] Republic of Macedonia: London Club commercial banks 1997
[e] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[f] 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
[g] 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

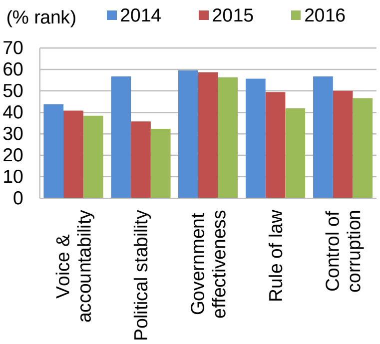
Key Credit Developments

Governance Indicators
Percentile rank



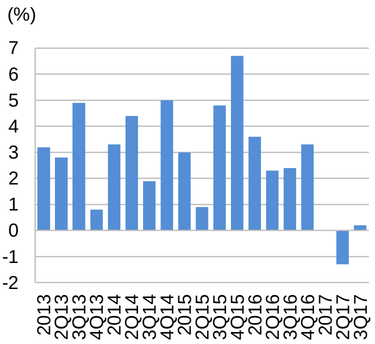
Source: World Bank

Fall in Governance



Source: World Bank

Growth Yet to Recover



Source: State Statistical Office

Political Normalisation After Prolonged Crisis

The domestic political situation is stabilising, and key international relations are improving, following a prolonged political crisis that started after disputed elections in 2014 and intensified in 2015 after allegations of abuses of power by the VMRO-DPMNE government that ruled the country from 2006 to 2016.

The coalition government led by the Social Democrats (SDSM) with the ethnic Albanian Democratic Union for Integration party, which was formed in May 2017 after a political stand-off and violence following elections in December 2016, is making progress in implementing its "Plan 3-6-9" reform programme[1]. The plan aims to realign Macedonia's policies towards EU accession, join NATO and restore the independence and transparency of public institutions.

Municipal elections in October delivered a strong mandate to the SDSM, which won 57 mayoralties to five for VMRO-DPMNE, and reduced opposition to government reforms. A special prosecutor's office is investigating the illegal wiretaps allegations that came to light in 2015. A proposed law making Albanian an official language in public institutions was vetoed by the president. But a second vote in parliament to override the veto appears likely.

The new government has restarted negotiations with Greece under the auspices of the UN over the dispute about the official name of Macedonia. Diplomatic signals are positive, but Macedonia will need to compromise on its name in order to unlock NATO and EU accession, in Fitch's view. This could be politically difficult. It could also require a change in the constitution, which could mean a referendum. Nevertheless, diplomatic signals suggest a deal is possible.

Relations with the EU have improved markedly under the new government as it focuses on reforms to the rule of law and judiciary. Macedonia hopes to secure a positive recommendation in the coming months from the European Commission to the EU Council for a date to open EU accession negotiations later in 2018, although that would require a breakthrough on the "name issue". The EU assessment would also likely be pivotal for NATO accession. The EU announced a EUR72.3 million grant in December in a signal of positive relations.

Economic Outlook to Strengthen After Sharp Slowdown in 2017

GDP growth slowed sharply in 2017 as the period of political instability took its toll. Real GDP growth was just 0.2% yoy in 3Q17, after −0.7% in 1H17, well down on the average of 2.9% in 2016. The slowdown was led by investment, which contracted an average of 5.5% in the first three quarters of 2017, after growth of 13.3% in 2016, due to political uncertainty and delays to some public projects.

Fitch expects GDP growth to have averaged 0.5% in 2017, below the government's revised forecast of 1.6% and the IMF's forecast of 1.9%, but still implying a sharp rebound in 4Q17. High-frequency indicators of industrial production, exports and credit growth all strengthened in 4Q17. We expect growth to recover to 3.1% (government and IMF 3.2%) in 2018 and 3.3% in 2019, as the normalisation of the political situation leads to an improvement in economic confidence. Fitch expects this to support investment, while exports continue to grow robustly, helped by rising capacity and buoyant European cyclical conditions.

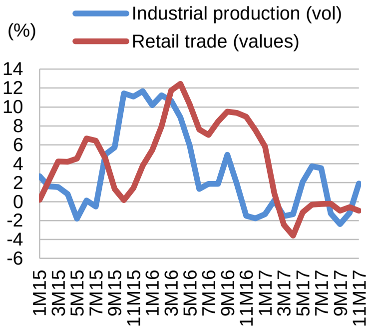
Over the medium term, reforms to improve governance and to the rule of law should serve to improve the business environment and growth prospects. The IMF estimates potential growth at around 3.8%.

Consumer price inflation averaged 1.4% in 2017, after mild deflation over 2014-2016, supported by higher wages as well as fuel and service sector price rises. The national bank's

[1] The Alliance for Albanians left the coalition in January, leaving the government without a formal majority in parliament. But the government still appears able to secure a majority in parliament.

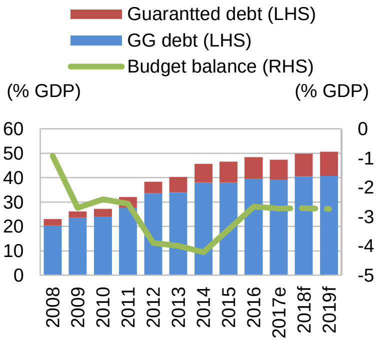
High Frequency Indicators

3-months on year earlier



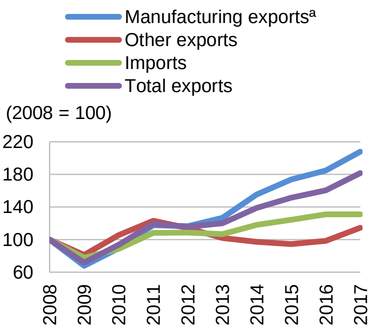
Source: State Statistical Office

Rising Public Debt



Source: Ministry of Finance and Fitch

Robust Export Growth



[a] Includes chemicals
Source: National Bank and Fitch

policy interest rate at 3.25% involves a premium above the ECB and could be eased modestly if inflation remains low, balance of payments trends favourable and political stability maintained.

Fiscal Consolidation Under Way While Transparency Improves

Preliminary outturns suggest the 2017 central government budget deficit was MKD16.9 billion, equivalent to 2.7% of estimated GDP. This is below the government's supplementary budget target of 2.9% and in line with 2016 deficit. The general government deficit is likely to be similar or only marginally higher. The government under-executed on expenditure (96.7% of planned in the supplementary budget) to meet the deficit target in light of lower-than-expected revenues (97.3% of planned), enhancing confidence in its commitment to fiscal targets.

The new government reported estimated "hidden" arrears of public institutions of EUR360 million (3.6% of 2017 GDP). This includes intra-public sector flows and normal payments due to suppliers, but could imply that the deficit on a commitments basis has been higher than previously reported. The government reports that overdue VAT refunds have been cleared and other arrears will be met from normal allocations consistent with budget targets.

The government is planning a central government budget deficit of 2.7% of GDP in 2018, which Fitch views as credible. It projects revenues up 7.7% on 2017, with higher diesel excise taxes contributing around 0.3% of GDP. Expenditure would also increase by 7.7%, with a re-orientation towards capital spending, pensions, unemployment benefits and active employment policies, financed by slower growth in expenditure on wages and goods and services.

The government targets a reduction in the budget deficit to 2.5% of GDP in 2019, 2.3% in 2020 and 2.0% in the medium term. It plans to accommodate election pledges to raise wages, employment subsidies, pensions and financial support to companies by reducing procurement costs, better targeting social transfers and agricultural subsidies, and raising taxes on high-value properties and marginal income tax rates for high earners.

Fitch estimates general government debt at 39.2% of GDP at end-2017, and government guarantees of non-financial SOEs were an additional 8.2% of GDP, taking total public debt to 47.4% of GDP. This would be the first decline in the ratio (from 48.5% in 2016) in nine years from 23% in 2008, albeit helped by a decline in deposits of around 1.7% of GDP. Macedonia issued a seven-year EUR500 million Eurobond with a coupon of 2.75% in January, of which EUR92 million was used to buy back part of the 2020 Eurobond, lowering a repayment hump.

The government's Public Financial Management Reform Programme 2018-2021 sets out a detailed and ambitious reform programme, including proposals to introduce fiscal rules (in 2018), set up a fiscal council, improve data and forecasting capacity and budget planning, enhance revenue mobilisation and expenditure control (including a new procurement law), improve debt management capacity, and increase reporting and external oversight.

Strong Export Growth Narrows Current Account Deficit

Fitch estimates that the current account deficit narrowed to 1.7% of GDP in 2017, from 2.8% in 2016. Exports of goods and services grew a robust 13.1% the first three quarters (USD terms, yoy), compared with 8.6% for imports. Macedonia has gained market share in its main export market, the EU, and moved up the value-added chain, as evident in the rising share of exports of machinery and transport equipment and chemical products.

Banks are well capitalised, liquid and profitable. Credit to the private sector is moderate at 48% of GDP, although euroisation of deposits and loans creates some risks in the event of pressure on the denar. Household denar deposits increased by 7.3% in 2017, outstripping the growth in foreign-currency deposits, reasserting the trend in de-euroisation after a reversal in 2016. The non-performing loan ratio declined to 6.3% in 2017, from 6.6% in 2016.

Fitch uses stylised projections for a sovereign's gross general government debt (GGGD)/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

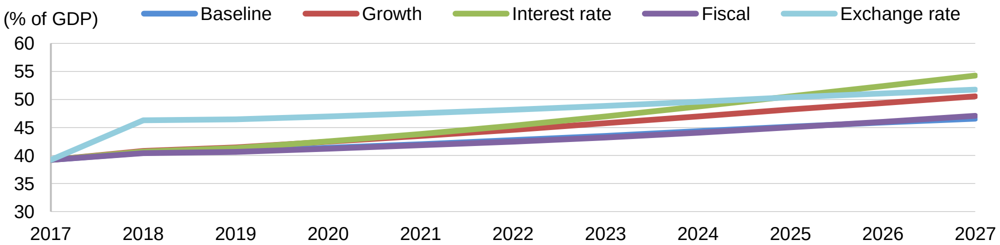
According to Fitch's baseline projections, GGGD would increase gradually as interest costs rise in line with global rates. Government guarantees on state-owned enterprise debt are equivalent to around 8.5% of GDP and are projected by the government to rise to 10.9% by 2020, meaning that public debt including guarantees is significantly above general government debt and is projected to rise faster.

Debt Dynamics: Fitch's Baseline Assumptions

	2017	2018	2019	2020	2021	2022	2027
Gross general government debt (% GDP)	39.2	40.5	40.7	41.4	42.0	42.7	46.6
Primary balance (% of GDP)	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4	-1.0
Real GDP growth (%)	0.5	3.1	3.3	3.5	3.5	3.5	3.3
Avg. nominal effective interest rate (%)	3.6	3.6	3.5	3.6	3.7	3.8	4.6
MKD/USD (annual avg.)	54.7	53.7	53.7	53.7	53.7	53.7	53.7
GDP deflator (%)	3.1	1.5	2.0	2.0	2.0	2.0	2.0

Sensitivity Analysis

Gross general government debt



Source: Fitch debt dynamics model

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 2017 level
Exchange rate	25% devaluation at end-2017

Forecast Summary

	2013	2014	2015	2016	2017e	2018f	2019f
Macroeconomic indicators and policy							
Real GDP growth (%)	2.9	3.6	3.9	2.9	0.5	3.1	3.3
Unemployment (%)	29.0	28.0	26.1	23.7	23.0	22.0	21.5
Consumer prices (annual average % change)	2.8	-0.3	-0.3	-0.2	1.4	2.0	2.0
Short-term interest rate (bank policy annual avg.) (%)	3.3	3.3	3.3	3.7	3.3	3.2	3.2
General government balance (% of GDP)	-4.0	-4.2	-3.4	-2.7	-2.7	-2.7	-2.7
General government debt (% of GDP)	34.0	38.1	38.1	39.6	39.2	40.5	40.7
MKD per USD (annual average)	46.40	46.44	55.54	55.73	54.67	53.74	53.74
Real effective exchange rate (2000 = 100)	99.6	99.4	97.1	97.2	97.7	99.7	101.7
Real private sector credit growth (%)	3.4	10.1	9.8	1.2	4.3	2.0	2.0
External finance							
Current account balance (% of GDP)	-1.6	-0.6	-1.9	-2.8	-1.7	-2.1	-2.6
Current account balance plus net FDI (% of GDP)	1.2	1.7	0.4	0.5	0.3	0.4	0.5
Net external debt (% of GDP)	16.9	17.4	22.2	23.4	24.5	25.6	26.6
Net external debt (% of CXR)	25.8	25.3	32.1	34.0	34.7	36.2	37.2
Official international reserves including gold (USDbn)	2.7	3.0	2.5	2.8	2.8	3.1	3.2
Official international reserves (months of CXP cover)	4.5	4.5	4.2	4.3	4.1	4.2	4.1
External interest service (% of CXR)	2.4	2.0	2.1	2.2	2.3	2.2	2.3
Gross external financing requirement (% int. reserves)	27.9	30.2	40.0	44.4	34.6	37.4	33.9
Real GDP growth (%)							
US	1.7	2.6	2.9	1.5	2.3	2.5	2.2
China	7.8	7.3	6.9	6.7	6.9	6.4	6.1
Eurozone	-0.3	1.2	2.0	1.8	2.0	1.8	1.4
World	2.6	2.8	2.7	2.5	2.9	3.1	3.0
Oil (USD/barrel)	108.8	98.9	53.0	45.1	55.0	52.5	55.0

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2014	2015	2016	2017e	2018f	2019f
General government						
Revenue	**29.7**	**31.0**	**30.3**	**31.1**	**31.7**	**31.9**
Expenditure	**33.9**	**34.4**	**33.0**	**33.8**	**34.5**	**34.7**
O/w interest payments	1.0	1.2	1.2	1.4	1.4	1.4
Primary balance	-3.2	-2.3	-1.5	-1.3	-1.3	-1.3
Overall balance	**-4.2**	**-3.4**	**-2.7**	**-2.7**	**-2.7**	**-2.7**
General government debt	**38.1**	**38.1**	**39.6**	**39.2**	**40.5**	**40.7**
% of general government revenue	128.2	122.9	130.6	126.3	127.6	127.3
Central government deposits	9.1	5.0	5.7	3.8	3.9	3.2
Net general government debt	29.0	33.1	33.9	35.4	36.6	37.4
Central government						
Revenue	**27.7**	**28.9**	**28.3**	**29.0**	**29.6**	**29.8**
O/w grants	-	-	-	-	-	-
Expenditure and net lending	**31.9**	**32.4**	**31.0**	**31.7**	**32.3**	**32.5**
O/w current expenditure and transfers	28.5	29.0	28.1	28.5		
- Interest	1.0	1.2	1.1	1.4		
O/w capital expenditure	3.3	3.3	2.8	3.2		
Current balance	-0.9	-0.1	0.2	0.5		
Primary balance	-3.2	-2.3	-1.5	-1.4		
Overall balance	**-4.2**	**-3.5**	**-2.7**	**-2.7**	**-2.7**	**-2.7**
Central government debt	37.9	37.9	39.5	39.0	40.3	40.4
% of central government revenues	137.0	131.3	139.6	134.8	136.1	135.6
Central government debt (MKDbn)	**199.6**	**211.6**	**235.8**	**242.2**	**261.7**	**276.4**
By residency of holder						
Domestic	70.9	82.3	85.8			
Foreign	128.7	129.3	150.0			
By currency denomination						
Local currency	44.8	54.1	51.3			
Foreign currency	154.8	157.5	184.5			
In USD equivalent (eop exchange rate)	3.1	2.8	3.2			
Average maturity (years)	4.2	4.3	4.6	4.6		
Memo						
Nominal GDP (MKDbn)	527.6	559.02	598.9	620.4	649.3	684.1

Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	2012	2013	2014	2015	2016	2017e
Gross external debt	**6.8**	**7.2**	**7.3**	**6.9**	**7.6**	**8.0**
% of GDP	70.0	66.5	64.1	68.4	70.8	70.2
% of CXR	101.8	101.7	92.9	99.2	102.8	99.3
By maturity						
Medium- and long-term	5.2	5.9	6.1	6.0	6.6	6.9
Short -term	1.6	1.3	1.2	0.9	1.0	1.1
% of total debt	23.6	18.5	15.9	13.3	12.9	13.3
By debtor						
Sovereign	**2.4**	**2.3**	**2.7**	**2.4**	**2.7**	**2.6**
Monetary authorities	0.3	0.1	0.1	0.1	0.1	0.1
General government	2.1	2.2	2.6	2.3	2.6	2.6
O/w central government	2.1	2.2	2.6	2.3	2.6	2.6
Banks	**0.8**	**0.8**	**0.7**	**0.6**	**0.6**	**0.6**
Other sectors	**3.6**	**4.0**	**3.9**	**3.9**	**4.2**	**4.7**
Gross external assets (non-equity)	**5.5**	**5.4**	**5.3**	**4.6**	**5.1**	**5.2**
International reserves, incl. gold	2.9	2.7	3.0	2.5	2.8	2.8
Other sovereign assets	0.2	0.1	0.1	0.0	0.0	0.0
Deposit money banks' foreign assets	0.8	0.8	0.8	0.7	0.7	0.7
Other sector foreign assets	1.6	1.8	1.5	1.5	1.6	1.8
Net external debt	**1.3**	**1.8**	**2.0**	**2.2**	**2.5**	**2.8**
% of GDP	13.8	16.9	17.4	22.2	23.4	24.5
Net sovereign external debt	-0.7	-0.5	-0.3	-0.1	0.0	-0.1
Net bank external debt	0.1	0.1	0.0	-0.1	-0.1	-0.1
Net other external debt	2.0	2.2	2.4	2.4	2.6	2.9
Net international investment position	**-5.5**	**-6.3**	**-5.5**	**-5.6**	**-5.9**	
% of GDP	-56.5	-58.1	-48.7	-55.2	-54.7	
Sovereign net foreign assets	**0.7**	**0.5**	**0.3**	**0.1**	**0.0**	**0.1**
% of GDP	7.5	4.5	3.0	1.1	0.2	0.4
Debt service (principal & interest)	**0.6**	**0.8**	**0.9**	**1.1**	**1.0**	**0.9**
Debt service (% of CXR)	9.0	11.3	11.7	16.5	13.0	11.8
Interest (% of CXR)	2.4	2.4	2.0	2.1	2.2	2.3
Liquidity ratio (%)	160.2	151.8	157.3	163.3	169.9	178.5
Net sovereign FX debt (% of GDP)	-2.7	2.1	1.0	3.3	3.9	8.1
Memo						
Nominal GDP	9.7	10.8	11.4	10.1	10.7	11.3
Inter-company loans	1.3	1.6	1.6	1.8	2.1	2.3

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

External Debt Service Schedule on Medium- and Long-Term Debt at End-2017

(EURm)	2016	2017	2018	2019	2020	2021	2022+
Sovereign: Total debt service	**266.4**	**235.7**	**349.4**				
Amortisation	199.0	147.0	262.0				
Official bilateral	8.1	7.6	8.0				
Multilateral	60.9	64.1	67.3				
O/w IMF	0.0	0.0	0.0				
Other	130.0	75.3	95.0				
Bonds placed in foreign markets	0.0	0.0	91.7[a]				
Interest	67.4	88.7	87.4				

[a] Early repayment of 2020 Eurobond
Source: Ministry of Finance, Central Bank and Fitch

Balance of Payments

(USDbn)	2014	2015	2016	2017	2018e	2019f
Current account balance	**-0.1**	**-0.2**	**-0.3**	**-0.2**	**-0.3**	**-0.3**
% of GDP	-0.6	-1.9	-2.8	-1.7	-2.1	-2.6
% of CXR	-0.9	-2.8	-4.0	-2.3	-3.0	-3.6
Trade balance	**-2.5**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.1**
Exports, fob	3.7	3.4	3.8	4.3	4.8	5.3
Imports, fob	6.2	5.4	5.8	6.3	6.8	7.4
Services, net	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Services, credit	1.7	1.5	1.5	1.6	1.6	1.6
Services, debit	1.2	1.1	1.2	1.2	1.2	1.2
Income, net	**-0.2**	**-0.3**	**-0.4**	**-0.5**	**-0.5**	**-0.5**
Income, credit	0.2	0.2	0.2	0.2	0.2	0.2
Income, debit	0.4	0.5	0.6	0.6	0.6	0.7
O/w: Interest payments	0.2	0.1	0.2	0.2	0.2	0.2
Current transfers, net	**2.1**	**1.8**	**1.7**	**1.8**	**1.8**	**1.9**
Capital and financial accounts						
Non-debt-creating inflows (net)	-0.2	0.0	0.3	0.3	0.2	0.2
O/w equity FDI	-0.2	0.0	0.3	0.2	0.2	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	0.5	-0.2	0.4	-0.1	0.3	0.1
Gross external financing requirement	0.8	1.2	1.1	1.0	1.0	1.0
Stock of international reserves, incl. gold	3.0	2.5	2.8	2.8	3.1	3.2

Source: IMF and Fitch estimates and forecasts

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