

## FYR of Macedonia

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SOVEREIGN RATING	Initial rating 14.09.2015	Monitoring 14.04.2016
Long-term rating:	BB- (ns)	BB- (ns)
Outlook:	Stable	Negative
Short-term rating:	B (ns)	B (ns)

- (ns) – not solicited rating

**BCRA – CREDIT RATING AGENCY AD (BCRA)** is the third fully recognized rating agency in the EU, registered pursuant to Regulation No. 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by the BCRA are valid throughout the EU and are fully equal to those, of the other agencies, recognized by the European Securities and Markets Authorities, without any territorial or other limitations.

“BCRA - CREDIT RATING AGENCY” AD rates the FYR of Macedonia with unsolicited sovereign long-term rating **BB- (ns)** and short-term **B (ns)** with negative outlook.

This sovereign rating was issued as an exception to BCRA’s announced sovereign calendar in order to avoid undue delay in drawing attention to the recent considerable escalation of the level of internal and external political instability in the Republic of Macedonia. In BCRA’s opinion, considering the events, it would be an undue delay to wait and update this sovereign rating after five months at the next scheduled date per the calendar.

BCRA’s officially adopted Sovereign Rating Methodology has been applied ([http://www.bcra-bg.com/files/file\\_330.pdf](http://www.bcra-bg.com/files/file_330.pdf)).

The report has been prepared and the rating – assigned, based on public information, made available by the National Bank of the Republic of Macedonia, the State Statistical Office, the Ministry of Finance, the World Bank, the International Monetary Fund, the European Commission, BCRA’s database etc. BCRA uses sources of information, which it considers reliable, however it cannot guarantee the accuracy, adequacy and completeness of the information used.

The political environment in the Republic of Macedonia over the last few years is unstable, with problems stemming from fundamental disagreements between the ruling party – VMRO-DPMNE<sup>1</sup> – and the opposition – SDSM<sup>2</sup>. The political crisis escalated towards late 2014 and early 2015 due to revelations of mass illegal wiretapping carried out by the ruling party, which the opposition declared it had in its possession and at intervals released tapes from unlawful recordings as a proof of wrongdoings by VMRO-DPMNE. In return, the police initiated criminal proceedings against SDSM's leader for spying in favour of foreign secret services and for attempting a coups d'état. Moreover, the contents of the tapes reveal severe wrongdoings against the rule of law and democracy, far-reaching structural weaknesses in the country, a de facto merging between the state and the ruling party, a lack of independence and politically motivated nominations in the judiciary, practically inexistent independent media outlets, corruption, conflicts of interest, etc. At the beginning of 2016 the prime minister of the FYR of Macedonia resigned from cabinet and gave way to early elections.

The juridical process for the conduct of early elections in the Republic of Macedonia required the country's sitting president to sign an election decree until mid-April 2016. Until the expiry of this period, however, the president Gjorge Ivanov instead acted in ways which led to rioting in the capital city Skopje. Ivanov declared amnesty for over fifty political figures both from the ruling and the opposition parties, which had been charged in the corruption scandal with mass wiretapping from early 2015, and in so doing, he discredited the actions of the specialized prosecution and elicited public outrage. The widespread protests in the capital cast doubt on the future political situation in the country. The above events are indicative of a lack of sustainable mechanisms, an insufficient democratic development and will among the political elites.

The complicated international situation also puts pressure on the safety and stability of the country, mostly due the fact that the Republic of Macedonia is situated on one of the busiest routes for Syrian refugees towards Central Europe. All the while, the country remains under continuous threat of ethnic and/or religious conflict between the

majority and the minorities. Separatist propensities in some regions (populated with ethnic Albanians) have also intensified the nationalist and xenophobic tensions during the past year and further destabilize the political system.

Despite the negative events with a geopolitical nature, the economy of the Republic of Macedonia continues to show a stable growth of over 3.0% year on year in the first three quarters of 2015. The main factor is household consumption, which is expected to remain high during the next year complemented by the government consumption and growth in exports of goods and services. On the other hand, imports of goods and services also report a slowdown during the year.

The trade balance of the country remains negative, but marks some contraction compared to 2014. The country continues to report a surplus in the services balance and the current account continues to be characterized by a deficit that has grown considerably in 2015. More significant changes in the financial account were observed in the portfolio investments, the group of other investments and reserve assets. Net FDI (foreign direct investments) decrease gradually in 2015, prompted by the uncertain political situation.

The unemployment rate reports a slight decline but remains high. The long-term unemployment is also a problem since its share in the overall unemployment is considerable. The incomes report a real increase as a result of their nominal increase and a decline in the price level of the country. The main reasons for deflationary processes during 2015 are the weak economic activity and low price levels in its main trade partners, low petroleum prices at the international markets, as well as the decline in the prices of the transport and communication services within the country.

The government budget deficit as a ratio to GDP decreased in 2015, as the European Commission forecasts it remains above 3% by 2017. At the end of 2015 and at the beginning of 2016, the government takes certain changes in the fiscal sector. The expenditures increase due to the growth in pensions and benefits, and growth in capital expenses to improve the infrastructure in the country. With revenues, there is an increase in the revenues from profit tax and excise duty, while the VAT revenues report lower collection rate compared to a year earlier.

The government debt marks a slight increase during 2015 but remains considerably

<sup>1</sup> The Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity

<sup>2</sup> Social Democratic Union of Macedonia

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below 60% of the GDP, which is a favourable factor for assessing the leverage level of the country.

**Outlook:**

The negative outlook of the Sovereign Rating of the FYR of Macedonia reflects the BCRA's opinion that in the following years, the current political crisis would have unfavourable effect on the country's general economic indicators and its creditworthiness.

BCRA would consider upgrading the Sovereign Rating and/or improving the rating Outlook for the FYR of Macedonia if there is stabilization of the political situation in the country, including achieving a consensus on the elections among the leading political parties, and if the country shows progress in its international engagements.

**Regulatory announcements**

**Rating initiative**

*This is an unsolicited sovereign rating. Neither the rated entity, nor a related third party has participated in the credit rating process. BCRA did not have access to the accounts, management and other relevant internal documents for the rated entity or a related third party.*

Please, visit [www.bcra-bg.com](http://www.bcra-bg.com) to review BCRA's full policy on unsolicited credit/sovereign ratings.

**Summary of the minutes of the Rating Committee:**

The members of the Rating Committee evaluated a number of rating factors in accordance with the **Sovereign Rating Methodology**. Special attention was afforded to the matters related to the political crisis in the country, as well as the uncertainty around the expected early elections, currently scheduled to take place in June 2016. The members discussed the intensifying pressures from the refugee flows on the country's borders and the likely negative effects thereby. The members noted that the main economic indicators have remained unchanged since the last review of the sovereign rating in March 2016.



		<i>in billion EUR [1]</i>						
		2015	2014	2013	2012	2011	2010	2009
<b>General government budget</b>	<b>Revenues</b>	-	2.54	2.45	2.43	2.39	2.30	2.22
	<b>Expenditures</b>	-	2.90	2.78	2.73	2.58	2.47	2.40
	<b>Budget balance</b>	-	-0.36	-0.33	-0.30	-0.19	-0.17	-0.18
	<i>Surplus   Deficit (as % of GDP)</i>	-	-4.2	-3.9	-3.8	-2.5	-2.4	-2.6
<b>General government debt</b>	<b>Public debt</b>	3.92	3.92	3.28	2.91	2.41	1.94	1.77
	Public and guaranteed debt (as % of GDP), of which:	43.7	46.0	40.5	38.3	32.0	27.2	26.2
	<i>Guaranteed debt (domestic and external) (% of GDP)</i>	7.6	7.7	6.3	4.7	4.3	3.2	2.6
<b>Gross external debt</b>		6.35	5.99	5.22	5.17	4.85	4.11	3.78
<i>as % of GDP</i>		69.9	70.2	64.3	68.2	64.2	57.8	55.9
<b>Gross foreign reserves (stock, end of period)</b>		2.26	2.44	1.99	2.19	2.07	1.71	1.60
<b>International investment position</b>		-4.77	-4.55	-4.56	-4.18	-3.97	-3.63	-3.61

\*Preliminary data for 2014.

\*\*Estimated data for 2015.

[1] Values in EUR are calculated using the exchange rate for MKD/EUR for the corresponding period.

[2] The values are calculate by using the GDP per capita measure In LCU (Local currency units) in current prices according to the World bank data and the exchange rate for MKD/EUR for the corresponding period given by the NBRM.

[3] [Export - Import] (national statistics; in current prices); values in EUR are calculated using the exchange rate for MKD/EUR for the corresponding period.

[4] The data are in accordance with foreign trade statistics (from NBRM).