

BEST'S COUNTRY RISK REPORT

Macedonia (FYR)

CRT-4

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Macedonia (FYR), a CRT-4 country, has high levels of economic and financial system risk and a moderate level of political risk. Political uncertainty and rising levels of government debt continue to weigh on Macedonia's economic potential by reducing the levels of foreign direct investment.
- GDP growth is forecast at 2.8% in 2018, following stagnant growth in 2017. Improving external demand conditions and diminishing tensions among ethnic groups should help spur economic growth this year.
- A.M. Best categorizes the majority of countries below as CRT-1 and CRT-2. Notable exceptions are many of the Eastern European countries such as Belarus, Romania, and Ukraine.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Eastern Europe

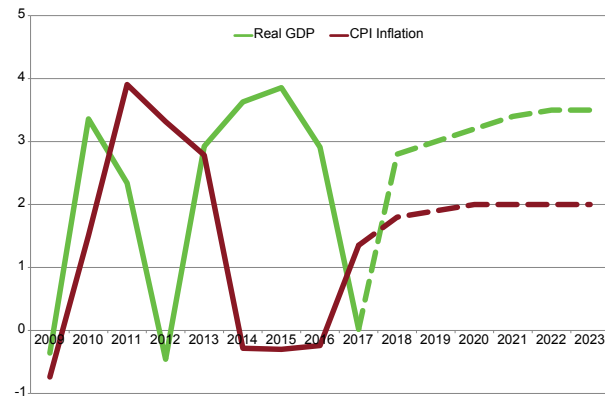
- The Eastern European countries are at various stages of bringing their legal, economic, and political frameworks to be more in line with European Union standards. The region has a great deal of economic potential, as it further integrates with the global markets of the European Union, but all of its countries would ultimately benefit from more transparent and less cumbersome regulatory environments.
- Economic growth in 2017 was robust and is expected to continue in 2018 on growing domestic consumption, fueled by rising wage and falling unemployment rates. Additionally, funds provided by the EU's Structural and Investment Funds will continue to drive public spending.
- Although many Eastern European countries are classified as emerging markets or frontier markets, reforms have enhanced economic stability and regional political power.
- Risks for the region include the potential for tightening global financial conditions, currency volatility, an increase in government influence on state-run institutions potentially undermining independence, and high levels of corruption.

Vital Statistics 2017		
Nominal GDP	USD bn	11.37
Population	mil	2.1
GDP Per Capita	USD	5,474
Real GDP Growth	%	0.0
Inflation Rate	%	1.4
United Nations Estimates		
Literacy Rate	%	97.8
Urbanization	%	57.3
Dependency Ratio	%	41.6
Life Expectancy	Years	76.4
Median Age	Years	37.9
Insurance Statistics		
Insurance Regulator	Insurance Supervision Agency	
Premiums Written (Life)	USD mil	26
Premiums Written (Non-Life)	USD mil	138
Premiums Growth (2016 - 2017)	%	5.1
Regional Comparison		
		Country Risk Tier
Macedonia		CRT-4
Albania		CRT-4
Bulgaria		CRT-4
Bosnia and Herzegovina		CRT-5
Romania		CRT-3
Slovenia		CRT-2

Source: IMF, UN, Swiss Re, Axco and A.M. Best



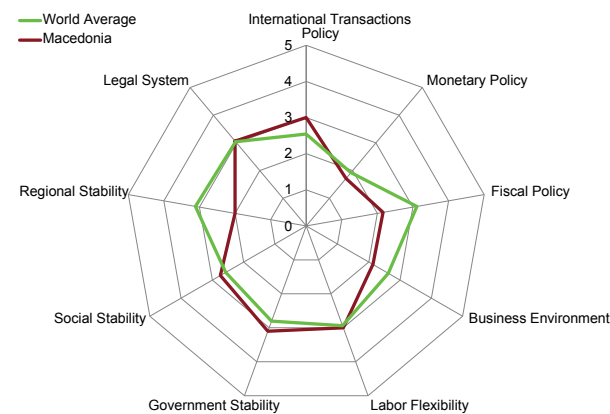
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

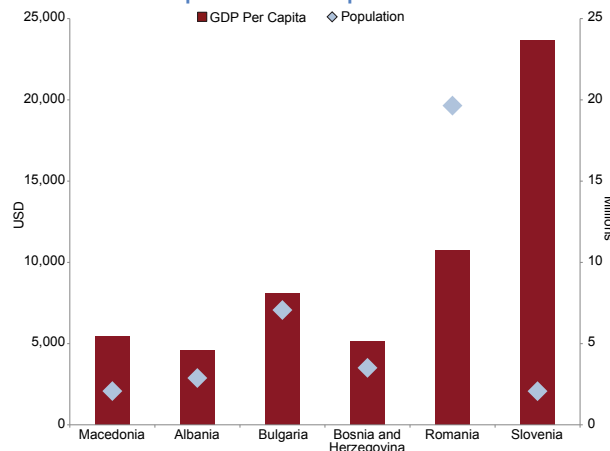
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Macedonia's economy is tightly linked with Western Europe owing to trade relationships and investment links. Europe's general economic uptick will be a tailwind for the economy. The country's main exports include machinery, equipment, tobacco, and chemicals. The tourism sector has grown in recent years.
- High levels of unemployment (over 20%) have plagued the economy. GDP per capita was approximately USD5,500 in 2017. However, unemployment statistics may be somewhat overstated, given the country's extensive informal economy.
- To attract foreign investment, Macedonia implemented the "3-6-9" plan, to improve the country's business operating environment. The actions undertaken included reforms to the judicial system and enhancing transparency in institutions in charge of media, budget, and security.

Political Risk: Moderate

- The country's political system is a multiparty democratic republic with presidential elections held every five years. The next election is scheduled for April 2019.
- The current coalition government, led by the Social Democrats, was confirmed in 2017. The government hopes to implement various reform measures, including improving the efficiency of public administration and strengthening the independence of the judiciary. Historically, the country's political situation can be volatile.
- In July 2018, NATO invited the country to start accession talks with the group next year. EU membership is unlikely before 2028, given the scope of reforms required by the organization.
- The former Yugoslavia state is expected change its name to "The Republic of North Macedonia," ending a decades-long disagreement. The vote on the referendum will be later this year. If passed, the referendum would end a 27-year dispute.
- The country has high levels of corruption. According to the most recent Corruption Perceptions Index, Macedonia ranks 107 out of 180 countries.

Financial System Risk: High

- The insurance industry is regulated by the Insurance Supervision Agency.
- Monetary policy conditions remain accommodative. As of July of 2018, the current policy rate is 3.0%.
- According to the IMF, the financial sector is liquid, profitable, and well-capitalized. In 2017, the country adopted Basel III standards. High liquidity is due partly to a slowdown in credit growth to the non-financial sector and the banks' limited preference to increase sovereign holdings.