PRESS RELEASE

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Macedonia

"Standard & Poor" downgraded Macedonia's currency rating

The OHRID Institute for Economic Strategies and International Affairs announces that the Standard & Poor's Ratings Services took the first step toward a possible downgrade of Macedonia's currency ratings, saying deteriorating liquidity will impact the Eastern European country as external financing dries up and exports weaken.

The ratings agency said increased prices for imported energy, rapidly rising imports of capital goods and a fall in prices for metals and external demand for exported metals will lead to "rapid deterioration in Macedonia's current account deficit, to about 15% of [gross domestic product] in 2008, from 7.1% in 2007."

Those imbalances and the reduced availability of external financing could lead to weaker growth and pressure on Macedonia's exchange-rate peg to the euro. S&P noted the scenario is similar to recent experiences in other countries in Central and Eastern Europe.

Macedonia's hope to start membership talks with the European Union suffered a setback after irregularities and violence overshadowed its June elections. The E.U. issued a negative assessment in its November progress report, saying Macedonia wasn't meeting its political criteria.

A worsening of external liquidity indicators and falling levels of international reserves, potentially driven by an excessively expansionary fiscal policy, could eventually lead to the ratings being lowered.

S&P affirmed its long- and short-term foreign currency ratings of BB+ and B, respectively, and its local currency ratings of BBB- and A-3. BBB- is one step above junk territory.

Earlier this month, rival ratings agency Fitch Ratings cut its ratings outlook on Macedonia to stable from positive.

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