North Macedonia elections: Heading into a run-off

The upcoming presidential elections are unlikely to see North Macedonia change course in its approach towards Western integration. The incumbent government's candidate, Stevo Pendarovski, is currently ahead in the polls which would further underpin the ongoing political path although a second round appears very likely

Presidential candidate of the ruling Social Democrats, Stevo Pendarovski (C) greets his supporters on a party convention in Skopje, North Macedonia

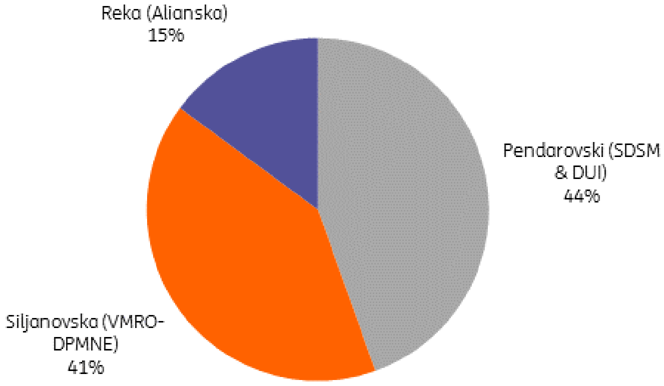
Source: Shutterstock

The successful passing of the name change deal in Skopje and Athens in January has been game-changing for the small country in the Balkans. Since then, North Macedonia is in the midst of the NATO ratification process and expected to start EU accession talks in the second half of 2019. We believe near-term obstacles are manageable although eventual EU membership remains distant with Montenegro and Serbia (which have already started accession talks) only expected to join by 2025.

Presidential elections due on 21 April are the first since the country has changed its name. Despite the mostly ceremonial role of the president, it's important for the leading coalition to prove that it still enjoys popular support.

The candidate backed by the government coalition parties (social democrats SDSM and ethnic Albanians DUI) is credited with a slight advance in the opinion polls, which is why a second round is quite likely. The social democrats are expected to secure the presidency after the run-off, but it depends a lot on the turnout of ethnic Albanians which is expected to be lower than Macedonians. Needless to say, opinion polls have recently displayed modest predictive power. There is also the material risk that the minimum turnout of 40% for the elections to be validated isn't reached. Run-off is scheduled in two weeks' time around 5 May.

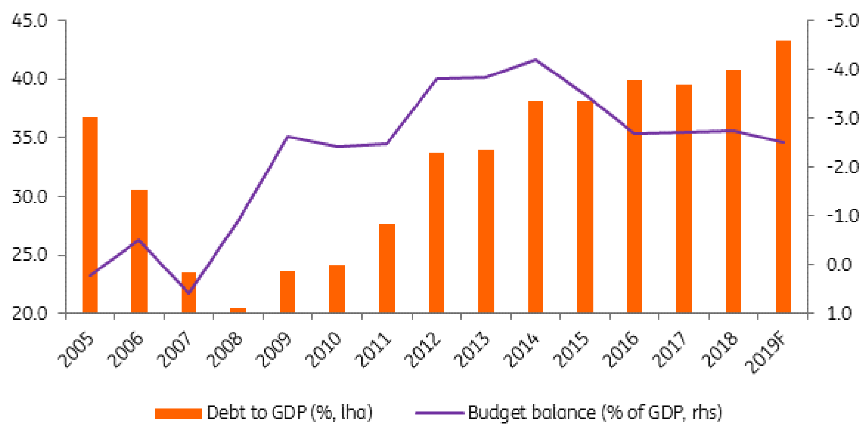
Heading into run-off



Source: IPIS, M-Prospect

Regardless of the election outcome, we see no obstacle to NATO membership and negotiation on EU accession processes. The government program for 2019-2020 sees some fiscal consolidation ahead with the budget deficit reaching -2.0% of GDP by 2021 from -2.5% target for 2019. As the economy is expected to run below its potential, the structural deficit is seen rising further. Provided that growth accelerates, government debt as a percentage of GDP is likely marking its top in 2019.

Slower fiscal consolidation ahead



Source: MinFin, SSO

Rating factors that could lead do an upgrade or downgrade

Agency (review date)	Upgrade Drivers	Downgrade Drivers
S&P BB- stable (6 September)	• Timely reform implementation, for instance as part of EU accession negotiations, to strengthen institutional arrangements and improve economic prospects • Stronger fiscal performance that places net general government debt firmly on a downward path	• Major political tensions or waning reform momentum, impairing growth and FDIs, and undermining longer-term growth prospects • Large fiscal slippages or off-budget activities that question the sustainability of public debt
Fitch BB positive (14 June)	• Improvement in governance standards and further reduction in political risk (e.g. progress towards EU accession and continuation of political stability) • Implementation of a medium-term fiscal consolidation programme (i.e. stabilisation of public debt/GDP ratio)	• Adverse political developments that affect governance standards and the economy • Fiscal slippage or crystallisation of contingent liabilities • Widening in the current account deficit that exerts pressure on FX reserves and/or the euro currency peg

Source: S&P, Fitch, ING