Basic Components and Indicators in Assessing Country Risk (Selected CEFTA Countries)

Vera Karadjova[1] 🄳
Aleksandar Trajkov[2] 🄳

Abstract: *Country risk analysis has become extremely important in contemporary conditions. This paper briefly discusses concepts, definitions, basic components, and some quantitative methods used to address various issues related to country risk in selected CEFTA countries. The paper also presents the indicative calculation of some of the elements and indicators for the selected countries, based on relevant available data, and in order to make a comparative analysis. Having in mind that country risk is a specific and complex macroeconomic risk, its determination and analysis is additionally complicated in terms of contemporary global changes. In fact, that is a risk of a country as a whole, its macroeconomic policy and economic balance or unbalance, political stability or instability of a country, political disturbances and democratic processes, political system and legal system, etc. Therefore, country risk involves several kinds of risks, such as political risk, economic risk, foreign payments risk, financial transfers risk, etc. Globally, all those risks can be divided in three biggest groups: risks of macroeconomic unbalance of the country; risks of the political instability of the country; and risks of the system of the country (system risks). Due to its complexity, the paper will elaborate and quantify some of the basic indicators related to country risk, mostly related to trade exchange between selected countries in the CEFTA agreement. The procedures and methods of country risk analysis and measurement have similarities with those used for individual economic entities, but techniques for the country risk analysis are less developed and there was no generally accepted analysis method. The final assessment may be a combination of many external and internal models that are not mutually exclusive, and in that process can be analyzed a number of different factors that determine country risk. Among the factors that condition the country risk and that are necessary to be included in the analyses can be: country's foreign-financial position; external debt; debt management; assessment of the natural resources; the degree of technique and technology development, industrialization and automation of production, and so on. The paper will stress as most important indicators in assessing country risk: The Debt Service Ratio, Import ratio, Investment Ratio, Domestic Money Supply Growth, etc., which will be calculated using selected macro-economic data such as: GDP, GDP per capita, Real GDP grow, Inflation (CPI), Fiscal balance (% of GDP), Current account balance (% of GDP), Public debt/GDP (%), External debt/Exports of goods & services (%), Debt-service ratio (%), Foreign exchange reserves, Foreign direct investments (% of GDP), Exchange rate etc. The methodology of collecting and processing information and the degree of reliability of collected data greatly depends on the promptness and accuracy of the national institutions that present those data.*

The goal of the paper is: to point out the importance of country risk assessment, to determine and compute the basic indicators of country risk in some of the Southeastern Europe countries, to determine conditions and trends of country risk in selected countries, and to suggest some strategies for its reduction in conditions of the unstable environment and crisis disturbances.

[1]   Faculty of Tourism and Hospitality – Ohrid, Kej Makedonija 95, Ohrid, North Macedonia

[2]   Faculty of Tourism and Hospitality – Ohrid, Kej Makedonija 95, Ohrid, North Macedonia

1. INTRODUCTION

The assessment, identification and analysis of this complex risk are significantly important in contemporary conditions of business internationalization and exposure to global competition. Any economic subject in the creation of an effective strategy must begin with understanding and determination of infinite interactive forces that are constantly reshaping and changing the context in which the global concurrent strategies are functioning. Many external factors influence global business strategies, and generally four main spheres of influence can be differentiated – economic, technical, political and cultural. All of them directly or indirectly affect the country's risk, and the country's risk has a direct interaction with the inflow and outflow of goods and capital in the national economy.

Financial investments of any kind need continuous monitoring of standard business risks which are further multiplied by the country risk. The risk of the country as an additional factor must be taken into consideration by the companies' financial management when performing their investment function. The data of certain institutions that monitor the additional risk factors for a country are analyzed and published as final results in special reports and research papers with easy access for potential users. This data can be used to analyze and determine country risk. If necessary, the mentioned institutions undertake special activities for risk assessment by processing all relevant markers related to the risk assessment in case of investments in a certain national economy or certain economic branches and industries.

Country risk refers to the problems faced by financial and non-financial entities operating outside the borders of their country. In doing so, they face a complex and specific risk related to the country in which they export, lend or have receivables of any kind. Receivables from foreign entities are in any case riskier than receivables in the home country for many reasons of legal, economic, security or any other nature. Although the complexity of these risks may be covered by the term country risk, another form of risk related to foreign claims, although similar but not completely identical to country risk, can be identified as a sovereign risk. This form of risk occurs when a country's government takes measures that jeopardize the repayment of international obligations, which may include non-recognition of external debt obligations, suspension of payments of external obligations for a certain period to preserve the country's foreign exchange reserves, and similar. It is a risk arising from foreign government restrictions or preventing domestic debtors from repaying principal and interest on debts to foreign creditors. All business transactions involve a certain degree of risk. When business transactions occur across international borders, they have additional risks that are not present in domestic transactions. These additional risks, called country risks, usually involve risks arising from national differences in economic structures, policies, socio-political institutions, currencies, etc. The Country Risk Assessment (CRA) seeks to identify the potential for these risks to reduce the expected return on cross-border transfers of goods and capital.

The country's risk assessment has micro and macroeconomic aspects. The first case is to assess the risk of a financial transaction or investment, where the debtor is an economic entity from a particular country, while the other has to determine the risk of investing in a particular country or the creditworthiness and security of the country as a debtor. The main purpose of the risk assessment of business activities with entities in another national economy is to provide the most comprehensive and accurate assessment of the country in which goods or capital will be placed. Therefore, when analyzing the risk of transactions between business entities of different countries, a substantial distinction should be made between: credit risk, country risk, sovereign risk and transfer risk. Risk

of state sovereignty is a specific aspect of a country's risk that combines the country's functions as a debtor or guarantor of debts incurred by its economic entities, according to which there is a possibility of its immunity from any court proceedings to settle liabilities. Of course, sanctions for such things exist and may arise in the form of restrictions and sanctions on the country in the international goods and capital markets. Risk transfer occurs in situations in which, despite its solvency in general business and financial terms, the borrower is unable to reconcile the debt in a particular currency (for remittances) due to systemic and other general restrictions on the availability of that currency (general moratorium on payments abroad, prohibition on certain cash transfers) which implies the inability to reach the foreign currency required to repay the debt or to fulfill any other obligation (dividend transfer, repatriation of capital, etc.).

As the composite Country Risk is made up of the mean average of several risk index components, the paper stresses the economic components of the Country Risk. Despite the differentials in the ranking systems (from different international organizations), the paper analyses and compares the main economic aspects of the selected CEFTA countries and despite the complexity of the country's risk, the paper tends to focus only on the economic issues, i.e. macroeconomic stability of the analyzed countries.

2.   METHODOLOGY OF DATA ANALYSIS

Among the significant factors that condition the Country risk and it is necessary to be included in the analyses can be mentioned:
-    country's foreign-financial position;
-    external debt;
-    debt management;
-    assessment of the natural resources;
-    the degree of technique and technology development,
-    industrialization and automation of production, and so on.

According to Saunders, A., & Cornett, M. M. (2006), "The credit rating of the country is an assessment of the future economic and political stability. It is determined by a great number of internal and external factors, so its systematization in the summary assessment requires a complex methodology procedure. One national economy could wholly or partly intervene about the internal factors that determine this category, but remains over the galaxy of external factors to which can not affect" (p. 441).

Due to its complexity, the paper elaborates and quantifies some of the basic indicators related to that risk, mostly related to trade exchange between selected countries in the CEFTA agreement. The procedures and methods of Country risk analysis and measurement have similarities with those used for individual economic entities, but techniques for the Country risk analysis are less developed and there was no generally accepted analysis method.

The final assessment may be a combination of many external and internal models that are not mutually exclusive, and in that process can be analyzed a number of different factors that determine Country Risk. Methodology of collecting and processing information and the degree of reliability of collected data greatly depends on the promptness and accuracy of the national institutions that present those data. The analyzes, estimates and assessments in the paper are mostly based on official data from the World Bank database (https://data.worldbank.org/indicator/).

3. A BRIEF HISTORY OF CEFTA

The Central European Free Trade Agreement (CEFTA) is an international trade agreement between countries, now mostly located in the Southeastern part of Europe. It was founded by representatives of Poland, Hungary and Czechoslovakia and later expanded to Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Moldova, Montenegro, North Macedonia, Romania, Serbia, Slovenia and the UNMIK (on behalf of Kosovo, following United Nations Security Council Resolution 1244).

The original CEFTA agreement was signed on 21 December 1992 in Kraków, Poland and came into force in July 1994. The agreement was initially signed by Poland, Hungary and Czechia and Slovakia (at the time parts of Czechoslovakia), i.e. by the Visegrád Group countries. The purpose of the CEFTA Agreement was to harmonize the economies of the participating countries with the market principles, to integrate into the Western European institutions and to join the European political, economic, security and legal systems. The agreement was to offer facilitation of trade between the signatory countries, facilitation of the flow of goods and capital, i.e. a kind of preparation for economic integration by respecting free-market principles.

The agreement was amended by the agreements signed on 11 September 1995 in Brno and on 4 July 2003 in Bled. Slovenia joined CEFTA in 1996, Romania in 1997, Bulgaria in 1999, Croatia in 2003 and Macedonia in 2006. We are currently talking about the 2006 CEFTA Agreement, taking into consideration the changes that have taken place in the meantime. Namely, all of the parties of the original agreement have now joined the EU and thus left CEFTA. Poland, the Czech Republic, Hungary, Slovakia, Slovenia joined the EU on 1 May 2004, Bulgaria and Romania on 1 January 2007. Croatia joined the EU on 1 July 2013. Therefore, it was decided to extend CEFTA to cover the rest of the Balkan states, which have already completed a matrix of bilateral free trade agreements in the framework of the Stability Pact for South Eastern Europe.

On 6 April 2006, at the South East Europe Prime Ministers Summit in Bucharest, a joint declaration on expansion of CEFTA to Albania, Bosnia and Herzegovina, Moldova, Serbia, Montenegro and UNMIK (on behalf of Kosovo) was adopted. The new enlarged agreement was initialed on 9 November 2006 in Brussels. On December 19, 2006 at the South East European Prime Ministers Summit in Bucharest, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and UNMIK (on behalf of Kosovo) signed an Agreement to amend and enlarge the Central European Free Trade – CEFTA 2006. Following the necessary ratification processes, CEFTA 2006 entered into force on 26 July 2007 for before mentioned five signatories, for Croatia on 22 August 2007, Serbia on 24 October 2007 and for Bosnia and Herzegovina on 22 November 2007. The agreement aimed to establish a free trade zone in the region by 31 December 2010. The speed with which the Parties ratified this ambitious agreement indicates the importance of this Agreement to economic development in the region.

This comprehensive Agreement's main objectives are, inter alia, to expand trade in goods and services and foster investment by means of fair, stable and predictable rules, eliminate barriers to trade between the Parties, provide appropriate protection of intellectual property rights in accordance with international standards and harmonize provisions on modern trade policy issues such as competition rules and state aid. It also includes clear and effective procedures for dispute settlement and facilitates the gradual establishment of the EU-Western Balkan countries zone of diagonal cumulation of origin, as envisaged in the European Commission's Communication

of 27 January 2006. The Agreement fully conforms to the WTO rules and procedures and EU regulations. Effectively implemented, the Agreement provides an excellent framework for the Parties to prepare for EU accession, thus continuing the tradition of the original CEFTA, whose founding members are now in the EU (https://cefta.int/cefta-parties/).

Having in mind that a large part of CEFTA countries' foreign trade is with EU countries, the Country risk assessment for the CEFTA 2006 Member States is extremely important. So, the paper has the intention to present indicative calculation of some of the elements and indicators for the selected countries, based on relevant available data, and in order to make a comparative analysis. The analysis in the paper refers to Albania, Bosnia and Herzegovina, N. Macedonia, Montenegro and Serbia.

4.   MAIN COMPONENTS AND INDICATORS OF COUNTRY RISK

Financial institutions that measure country risk analyzed groups of factors through the appropriate methodology for collecting data and qualitative and quantitative processing and publish an index or rating of the analyzed countries. In the paper *Country risk – conditions and trends in Macedonia, proposals for reduction in conditions of unstable environment*, the author stated, "The final assessment may be a combination of many external and internal models that are not mutually exclusive. In that process can be analyzed a number of different factors that determine country risk, and which will be the starting basis and which of them will be especially stressed depend on the analyzed country and on the institution that performs the analysis" (Karadjova, 2012, p. 472). The most commonly used approach for assessing the country risk by the largest financial institutions is to develop models based on key economic ratios for each country, similar to models for assessing the credit risk of individual entities (having in mind that models for a country as a whole are much more complex). Data for the components of Country risk which are an integral part in the assessing models' origin from the national institutions that present those data, and also can be used data and information published by international institutions that with their credibility stand behind their quality, such as the World Bank, IMF, Bank for International Settlements in Basel and other international financial institutions. The collected data are processed by any of the methods available, and according to Arsovski (1998), include: "quantitative method; qualitative methods; method of lists (check list); and structural qualitative method" (p. 82).

Risk assessment of individual countries by specialized institutions is done by using some of the above methods, but mostly through the combined use of two or three of them, where decisive moment is the right choice of parameters that should be assessed and inserted in the model. In doing so, factors belonging to the three basic components of country risk are taken into account: factors that determine *macroeconomic unbalance*; factors that influence *the risk of political instability of the country*; and factors that determine *the risk of the system of the country* (system risk) as third component of the country risk.

There are numerous indicators used in assessing the country risk and the analysis of many of them far outweigh the spatial capacity of a paper of this kind. Because of that, we stress our attention on some of the variables that are commonly included in models for the country risk assessment and form the basic indicators of country risk.

The Debt Service Ratio: Total debt service (% of exports of goods, services and income) is the sum of principal repayments and interest actually paid in foreign currency, goods, or services on long-term debt, interest paid on short-term debt, and repayments (repurchases and charges) to the IMF. Export as a primary mean of generating foreign currencies is correlated with the ability to settle debts. Karadjova (2012) found "the amount of repayment of debt in relation to earnings from export indicates the probability of payment delay" (p. 474).

$$DSR = \frac{\text{interest} + \text{debt amortization}}{\text{export}} \tag{1}$$

Import ratio: as a ratio of total import in the country and total foreign currency reserves.

$$IR = \frac{\text{total import}}{\text{total foreign currency reserves}} \tag{2}$$

Investment Ratio: The rate of investment determines the ratio of productive investments in relation to GDP, as opposed to consumption. Higher rate of investment implies more productive economy in future, and thus less risk of delay in payment of the debts. This implies a negative relationship between InvR and country risk. There is also an opposite view, that the high rate of investment may impose an atmosphere of borrowing of the country from domestic and foreign institutions in order to continue the trend of investment, which raises the threat of untimely debt payments. According to Acharya, S., & Diwan, I. (1993) "this view is an argument for a positive correlation between investment rates and the probability of reprogramming of debts, especially if the less developed countries (LDC) significantly invest in industries that are import competing" (p. 795-815).

$$InvR = \frac{\text{investment in fixed assets}}{\text{GDP}} \tag{3}$$

VAREX – Variance of Export Revenue: The variability of revenue from export is positively correlated with the probability for delay of payments

$$VAREX = \sigma^2 ER \tag{4}$$

Domestic Money Supply Growth: Rapid growth of money supply in the country (ΔM) in relation to the initial level (M) indicates the occurrence of inflation and depreciation of the domestic currency. Inflation refers to a positive correlation between money supply growth and the probability of delay of payments.

$$MG = \frac{\Delta M}{M} \tag{5}$$

Once we consider the following key variables, follows their summing, and the calculated probability of postponing repayment of liabilities (p). Generally, it would look like this:

$$p = f \frac{\begin{matrix} DSR & IR & InvR & VAREX & MG... \end{matrix}}{\begin{matrix} + & ...+... & + \text{ or} - ... & +... & +... \end{matrix}} \tag{6}$$

As a result, we get a summary indicator of the risk exposure of a national economy. For more accurate decision-making, it is desirable to compare this indicator with the indicators of risk exposure, i.e. the country risk ranking according to several agencies that perform ranking by different methodology.

5.   ANALYSIS RESULTS

The analysis of the results of the country risk assessment for the five selected countries from the CEFTA 2006 Agreement refers to the assessment of the most important factors, variables and indicators needed to measure the country risk. The paper does not intend to calculate an integral indicator through which a single measure of country risk will be presented, because of two reasons: (1) it is too complex process and methodology that goes beyond the scope of such a paper, both in methodological and spatial content; (2) such a calculation with a partially different methodology, but still based on the same database is made by large credible international financial institutions and publishes a list of available credit ratings of countries in the world. It is a sufficient basis for comparative analysis and analysis of the factors and variables that affected the results obtained. In that sense, the paper proposes some of the basic indicators with which parallel observation of the existing credit ratings of the analyzed countries can be compared, primarily by emphasizing only the economic variables among three basic components that form the overall credit rating of countries. All this in order to focus even more precisely on that part of the economic variables that have a direct impact on trade and capital flows.

In the *Barometer country and sector risks barometer Q3 2021* as a Coface economic publication dated on October 2021, it is stated: "The CEE region is among the regions experiencing a surge in investment. Indeed, the CEE region could benefit from near-shoring trends thanks to competitive labor costs, educated and skilled workforce as well as the geographical proximity to Western Europe" (p. 4).

6.   MAJOR MACROECONOMIC INDICATORS (SELECTED CEFTA COUNTRIES)

Follows an overview of the major macroeconomic indicators for the five selected CEFTA countries (Albania, Bosnia and Herzegovina, N. Macedonia, Montenegro and Serbia) during the period 2018-2021. Those indicators are included in the calculation of the country risk rang and through them tendency of the rang can be followed and the changes in risk exposure can be predicted. Data presented covers major macroeconomic indicators for the analyzed countries where 2020 data are estimated, and 2021 are forecast (adapted from https://www.coface.com/Economic-Studies-and-Country-Risks/North-Macedonia).

In addition to this ranking, the rankings of other economic analyzes show a similar rating of the analyzed countries. Considering that they all calculate the rating based on the same relevant input information and differ greatly in the detail of the methodology and in the markings for individual ratings, previously mentioned is only the rating given by the Coface group. Among other things, the choice of Coface is due to the fact that since its establishment in 1946 the company has been engaged in export credit insurance and undertaking risks in the international movement of goods and it is a European company (French company) which is among the top 10% of insurance companies in the world. According to them, 80% of businesses are faced with unpaid receivables, and 25% of insolvencies are due to unpaid invoices. So, the connection is among the missions of the company to protect from different forms of defaulting (risk increases dramatically in international trade, having in mind the country risk in addition) and the need to facilitate trade between CEFTA countries. Another global leader in trade credit insurance whose rating can be mentioned and compared to others is Euler Hermes. According to them (2021), Country Risk Ratings for the five selected countries are: Albania D 3 (Sensitive); Bosnia and Herzegovina D 3 (Sensitive); North Macedonia C 2 (Medium); Montenegro D 4 (High); and Serbia B 2 (Medium). (https://www.eulerhermes.com/en_global/discover-euler-hermes/our-strategy.html).

Table 1. Country risk assessment and Business climate for selected countries

Albania		2018	2019	2020 (e)	2021 (f)
POPULATION 2.9 MILLION	GDP growth (%)	4.1	2.2	-7.5	3.5
GDP PER CAPITA 5,323 US$	Inflation (yearly average, %)	2.0	1.4	1.4	1.7
COUNTRY RISK ASSESSMENT **D**	Budget balance (% GDP)	-1.3	-2.0	-8.4	-4.7
BUSINESS CLIMATE **C**	Current account balance (% GDP)	-6.8	-7.6	-11.7	-8.5
	Public debt (% GDP)	69.5	67.7	83.3	83.2

Bosnia and Herzegovina		2018	2019	2020 (e)	2021 (f)
POPULATION 3.3 MILLION	GDP growth (%)	3.7	2.7	-6.5	3.0
GDP PER CAPITA 6,015 US$	Inflation (yearly average, %)	1.4	0.6	-0.8	0.4
COUNTRY RISK ASSESSMENT **D**	Budget balance (% GDP)	1.3	1.3	-4.2	-2.7
BUSINESS CLIMATE **B**	Current account balance (% GDP)	-3.7	-3.5	-4.4	-5.0
	Public debt (% GDP)	34.3	32.8	38.9	40.4

North Macedonia		2018	2019	2020 (e)	2021 (f)
POPULATION 2.1 MILLION	GDP growth (%)	2.7	3.6	-4.4	5.0
GDP PER CAPITA 6,109 US$	Inflation (yearly average, %)	1.5	0.8	0.9	1.5
COUNTRY RISK ASSESSMENT **C**	Budget balance (% GDP)*	-1.8	-2.0	-6.7	-4.5
BUSINESS CLIMATE **A4**	Current account balance (% GDP)	-0.1	-2.8	-3.4	-2.5
	Public debt (% GDP)**	40.6	40.1	50.2	50.5

Montenegro		2018	2019	2020 (e)	2021 (f)
POPULATION 0.6 MILLION	GDP growth (%)	5.1	3.6	-12.0	5.5
GDP PER CAPITA 8,826 US$	Inflation (yearly average, %)	2.6	0.4	-0.1	0.7
COUNTRY RISK ASSESSMENT **C**	Budget balance (% GDP)	-6.2	-2.4	-10.4	-4.9
BUSINESS CLIMATE **A4**	Current account balance (% GDP)	-17.0	-15.2	-14.2	-13.6
	Public debt (% GDP)	71.9	79.3	90.8	88.1

Serbia		2018	2019	2020 (e)	2021 (f)
POPULATION 7.0 MILLION	GDP growth (%)	4.4	4.2	-2.5	5.5
GDP PER CAPITA 7,382 US$	Inflation (yearly average, %)	2.0	1.9	1.5	1.9
COUNTRY RISK ASSESSMENT **B**	Budget balance (% GDP)	0.8	0.0	-8.1	-1.6
BUSINESS CLIMATE **A4**	Current account balance (% GDP)	-4.8	-6.9	-6.4	-6.5
	Public debt (% GDP)	54.5	52.8	59.5	57

Source: adapted from
https://www.coface.com/Economic-Studies-and-Country-Risks/North-Macedonia

By the Ratings Table of KnowYourCountry as a global research tool designed to provide the data and information for Compliance or Business Development, among 245 countries the position of our group of five is: 225th – Albania – score 46.11; 194th – Bosnia and Herzegovina – score 60.81; 138th – Macedonia, North – score 67.57; 158th Montenegro – score 65.56; and 166th – Serbia – score 64.75 (where score means lower 80-100; lower-med 70-80; medium 60-70; med-higher 50-60; high <50). Four analyzed countries are in a group of medium risk, except Albania which has high risk. (https://www.knowyourcountry.com/country-ratings-table (last update 9 January 2022)

It is important to take into consideration OECD and World Bank Country risk ranking. According to OECD Country Risk Classifications of the Participants to the Arrangement on Officially Supported Export Credits (Valid as of: 22 October 2021), Current Prevailing Classification for Albania is 5; for Bosnia and Herzegovina is 7; for North Macedonia is 5; for Montenegro is 7; and for Serbia is 4. (https://www.oecd.org/trade/topics/export-credits/documents/cre-crc-current-english.pdf)

According to World Bank 2020, ranking is as follows:
– Albania – Country Risk Rating D3 – GDP USD 14.8bn (World ranking 125),
– Bosnia and Herzegovina – Country Risk Rating D3 – GDP USD 19.8bn (World ranking 113),
– North Macedonia – Country Risk Rating C2 – GDP USD 12.27bn (World ranking 135),
– Montenegro – Country Risk Rating D4 – GDP USD 4.77bn (World ranking 159),
– Serbia – Country Risk Rating B2 – GDP USD 52.96bn (World ranking 84).

All the rankings taken into account show very similar results in terms of the order of the five CEFTA countries whose risk is subject of interest, and on that is a credible and relevant basis for the conclusions in the last part of the paper.

7. METER TENDENCY OF COUNTRY RISK

Following the country risk meter tendency, several indications are taken in consideration: Debt service on external Debt total, Total reserves (% of total external debt), GDP per capita growth (annual %), Unemployment, total (% of total labor force) (national estimate), and Net investment in nonfinancial assets (% of GDP). All data are adopted by the relevant information from the World Bank data service, for a period of more than 10 years (2010-2020).

Table 2. Debt service on external Debt total, (TDS, current, USD)

Year	Country Code				
	ALB	BIH	MKD	MNE	SRB
2010	380521784.7	570387024.2	623959637.6	97616232.8	4306782758
2011	482510828.6	1472876326	941339688.2	879571153.5	5209732021
2012	540687624.6	1157351298	679197473.1	971261965.7	6033289463
2013	551609619.2	1391078048	912532696.9	1178360902	8448744317
2014	732660493.9	1497869359	978775107.3	1144223513	8344161055
2015	1179900721	1930997980	1041199829	1288369843	4261186146
2016	590406592	1230873786	870327901.3	1265127787	5951483189
2017	513040675.9	1352041734	876694124.1	1165275133	4963021656
2018	1086080378	2040536045	1290525945	1696780111	5722062645
2019	649306814.6	1544590351	721883617.8	1530081335	7305323462
2020	1149299977	1667480366	1158246751	1605790251	6225266571

Table 3. Total reserves (% of total external debt)

Year	Country Code				
	ALB	BIH	MKD	MNE	SRB
2010	46.7330053	30.8703906	44.1299888	12.2991339	40.4395759
2011	38.1142608	34.406654	43.5040233	7.10804363	49.2244414
2012	35.2070333	33.773688	44.694591	7.42666093	41.9164212
2013	32.07198	36.1683353	40.784887	8.11813566	42.5371284
2014	31.3096122	37.1508221	40.9828283	10.0081234	36.5291483
2015	37.1552097	41.2513469	36.5124617	10.8703518	36.2445527
2016	36.5021801	44.1619324	36.6290796	12.7622149	36.3964229
2017	36.6127666	49.6888778	32.7921677	14.0766337	34.7334642
2018	39.425063	51.3693258	37.893373	14.9804991	37.6189452
2019	39.3817925	54.4752514	40.6233364	18.3368135	41.7723629
2020	44.3620967	61.0447935	38.9024588	21.9525112	37.4620915

Table 4. GDP per capita growth (annual %)

Year	Country Code				
	ALB	BIH	MKD	MNE	SRB
2010	4.223037747	1.695002033	3.273547673	2.546296431	1.136804338
2011	2.821557928	2.181253882	2.253618657	3.120042697	2.845009607
2012	1.585156475	0.724336969	-0.54213276	-2.80562054	-0.1983789
2013	1.187203907	4.15191548	2.836514677	3.447970213	3.39452352
2014	1.985426103	2.911120618	3.543588015	1.684977575	-1.12639733
2015	2.516852986	4.674687895	3.778198064	3.332361603	2.311015889
2016	3.480117005	4.462656369	2.778461545	2.925518488	3.88118476
2017	3.897710666	4.240509741	1.021084718	4.704660993	2.645985862
2018	4.328395578	4.601625193	2.833131374	5.102520615	5.067594881
2019	2.609888198	3.545337395	3.149341015	4.096247368	4.809425014
2020	-2.75081634	-3.73878437	-4.52842078	-15.1166811	-0.44921072

Table 5. Unemployment, total (% of total labor force) (national estimate)

Year	Country Code				
	ALB	BIH	MKD	MNE	SRB
2010	14.09	27.31	32.02	19.65	19.22
2011	13.48	27.58	31.38	19.7600002	22.97
2012	13.38	28.01	31.02	19.8099995	24
2013	15.87	27.49	29	19.5900002	22.15
2014	18.05	27.52	28.03	18.0499992	19.22
2015	17.19	27.69	26.07	17.5499992	17.66
2016	15.42	25.41	23.72	17.7299995	15.26
2017	13.62	20.53	22.38	16.0799999	13.48
2018	12.3	18.4	20.74	15.1899996	12.73
2019	11.47	15.69	17.26	15.1300001	10.39
2020		15.8699999	17.2	17.8799992	9.01

Table 6. Net investment in nonfinancial assets (% of GDP)

Year	Country Code				
	ALB	BIH	MKD	MNE	SRB
2010		1.567933692	1.707539058	/	1.652087582
2011	5.109592466	2.099763582	2.226047317	/	1.529027647
2012	4.39538996	2.228285957	3.069189613	/	1.742584411
2013	3.912928137	3.396230033	2.542036271	/	/
2014	4.034152026	3.755953757	2.531626538	/	/
2015	4.10938033	1.476230644	2.464562419	/	/
2016	3.877773153	1.818769604	1.938378658	/	/
2017	/	/	/	/	/
2018	/	/	/	/	/
2019	/	/	/	/	/
2020	/	/	/	/	/

Source: adapted from https://data.worldbank.org/indicator/

Debt service on external Debt total, (TDS, current, USD) – where total debt service is the sum of principal repayments and interest actually paid in currency, goods, or services on long-term debt, interest paid on short-term debt, and repayments (repurchases and charges) to the IMF. Data are in current U.S. dollars. International reserves to total external debt stocks – as total reserves (% of total external debt). GDP per capita growth (annual %) – in which annual percentage growth rate of GDP per capita is based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP per capita is gross domestic product divided by midyear population. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy

plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Unemployment, total (% of total labor force) (national estimate) – where unemployment refers to the share of the labor force that is without job but available for and seeking employment. Definitions of labor force and unemployment differ by country. Net investment in nonfinancial assets (% of GDP) – where net investment in government nonfinancial assets includes fixed assets, inventories, valuables, and non-produced assets. Nonfinancial assets are stores of value and provide benefits either through their use in the production of goods and services or in the form of property income and holding gains. Net investment in nonfinancial assets also includes consumption of fixed capital. The following figures give a comparative graphic overview of the trend of some of the listed indicators for the selected countries.
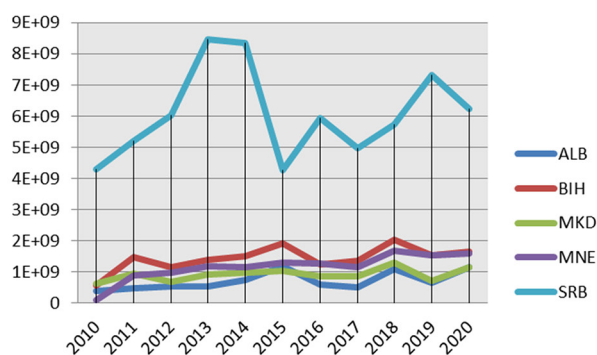
Figure 1. Debt service on external Debt
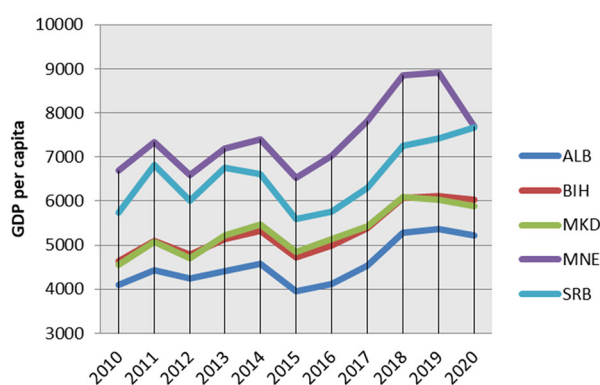**Source:** own comparison

Figure 2. GDP per capita
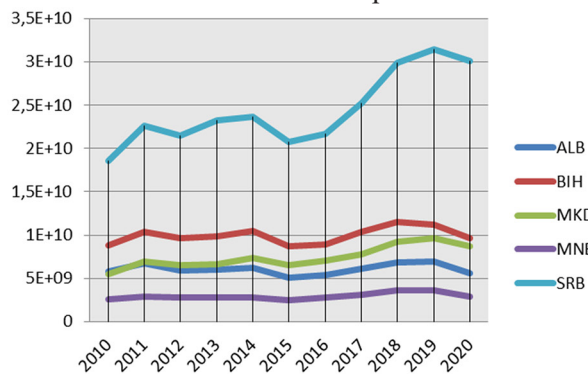**Source:** own comparison

Figure 3. Imports of goods and services
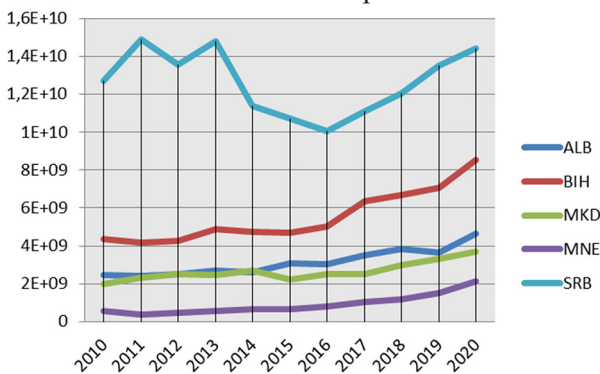**Source:** own comparison

Figure 4. Total reserves minus gold
Source: own comparison

Having in mind the previously presented data and graphical reviews of the tendency of some of the basic indicators for the countries under analysis, it is possible to further analyze and interpret the ratings of the mentioned countries already cited in this paper, as well as the ratings calculated and published by other institutions.

8. CONCLUSION

Considering the extreme complexity of the country risk assessment process and the large number of components that are an integral part of the synthesized result, as well as different ranking systems, the emphasis in this paper is put on the markers: GDP per capita, GDP growth (%), Inflation (yearly average, %), Budget balance (% GDP), Current account balance (% GDP),

Public debt (% GDP), Debt service on external Debt, Total reserves (% of total external debt), Unemployment, total (% of total labor force), net investment in nonfinancial assets (% of GDP), Imports of goods and services.

Numerous combinations of all the listed economic indicators further complicate the assessment, but the intention of this paper is only to make a comparative analysis of the indicated markers in the selected countries and in the direction of strengths/weaknesses analysis. Such a review of strengths/weaknesses is an important basis for developing solutions and strategies to reduce the risk of the country, in order to improve the flow of goods, services and capital. At the same time, it is not out of room to emphasize once again that the already extensive set of components and indicators of the country risk are only those that refer to the macroeconomic balance (un-balance) of the country, completely leaving out of interest other components of the total country risk score (Risk of political instability of the country and Risk of the system of the country – most often referred to as system risk).

Having in mind this approach, all presented relevant data and graphs following a period longer than a decade show that the analyzed countries have many similarities in economic indicators and similar ratings, with a slightly better position of Serbia. Serbia has a significantly better po-sition compared to the other four countries in reference to Debt service on external Debt, despite the fact that from 2020 there is a downward trend in this indicator.

Albania has the lowest GDP per capita, N. Macedonia and Bosnia and Herzegovina are very similar in this indicator, and Serbia and Montenegro are reaching the same point in 2020. Ser-bia also bounces significantly in comparison to the rest four analyzed countries in reference to Imports of goods and services and Total reserves. In terms of these indicators, the position of Montenegro is the lowest, although all countries except Serbia have the same trend following the corresponding indicator.

In the strengths/weaknesses analysis of the selected countries (according to the economic com-ponent of the country risk) on the side of strengths for Albania can be mentioned: low labor costs, moderate level of inflation, flexible exchange rate coupled with a strong lek against the euro and substantial reserves, fiscal deficits in check since 2016, considerable inflow of re-mittances, long coastline, multi-mineral reserves (oil, chromium, copper, iron-nickel, silicates, coal), hydroelectric and tourism potential. On the side of weaknesses: small, open and poorly diversified economy, unfavorable demography (ageing and immigration), high level of unem-ployment, low-skilled workforce, large informal economy, low GDP per capita and low living standards, continued large current account deficits, high public and external debt levels.

As strengths/weaknesses for Bosnia and Herzegovina can be mentioned: stable exchange rate and fairly low inflation, significant transfers from expatriate workers, comfortable level of foreign exchange reserves, manageable external debt-service, limited transfer risks, tourism and hydroe-lectric potential; and as weaknesses – weak business environment, lack of public investment, low diversity and low added value of exports, high external debt stock, large informal sector, wide-spread poverty and high unemployment, high emigration, high vulnerability to external shocks.

Bosnia and Herzegovina strengths: strong tourism and hydroelectric potential, use of the euro which facilitates trade and contributes to relative financial stability, inflation under control; weaknesses: small economy vulnerable to external shocks, small market, unfavorable demo-

graphics, high unemployment, high poverty, large informal economy, under-diversified economy, heavy dependence on tourism, huge trade deficit, high current account deficits, large fiscal deficits, limited external competitiveness and country's ability to deal with external shocks, very high gross external debt.

Strengths of N. Macedonia are: solid monetary policy, denar pegged to the euro, low inflation, relatively prudent fiscal policy, high levels of remittances from expatriate workers, wage competitiveness, good conditions for attracting foreign investment, low tax rates, easy processes to start a business, position at the meeting point of two European corridors, while as a weaknesses can be listed: high structural unemployment, lack of productivity, large informal economy, sustained emigration by young people, moderate level of foreign exchange reserves, high external debt burden, including arrears, underdeveloped road and rail infrastructure, inadequate transport, energy, health and education infrastructure.

Serbia as a country with the best credit rating in the analyzed group of countries have the following strengths: food self-sufficiency, natural resources (coal, bauxite, copper, zinc, gold), strong growth potential, rising automotive industry, comfortable level of foreign exchange reserves, relative currency stability, low labor cost, generous state subsidies for foreign companies, continued substantial FDI inflows. As for weaknesses, there are: landlocked with poor road infrastructure, deficient infrastructure (roads, railways), massive and inefficient public sector, high rate of unemployment, youth unemployment, large informal sector, increasing public debt, high external debt burden, including external arrear.

This strengths/weaknesses analysis sets out the arguments for the current credit rating and confirms the ranking of the analyzed countries in the CEFTA Agreement, but can also serve as a starting point for developing strategies for long-term and stable addressing of weaknesses in order to increase foreign trade and capital flow.

REFERENCES

Acharya, S., & Diwan, I. (1993). *Debt Conversion Schemes of Debtor Countries as a Signal of Creditworthiness: Theory and Evidence*: International Economic Review 34.

Arsovski, D. (1998). *Risks in banking*. Skopje: Economy Press. (in Macedonian language)

Coface economic publications. (2021). *Country and sector risks barometer Q3 2021*. October 2021, p. 4.

Euler Hermes. (2021). *Country Risk Ratings*, Economic Research Department. December 2021 Review.

Karadjova, V. (2012). Country risk – conditions and trends in Macedonia, proposals for reduction in conditions of unstable environment. ELSEVIER, *Procedia – Social and Behavioral Sciences*. 44, 1877-0428, 470 – 481. https://doi.org/10.1016/j.sbspro.2012.05.052

Saunders, A., & Cornett, M. M. (2006). *Financial Institutions Management – A Risk Management Approach*. New York/NY, United States: McGraw – Hill International Edition, (5th ed.).

https://data.worldbank.org/indicator/

https://cefta.int/cefta-parties/

https://www.coface.com/Economic-Studies-and-Country-Risks/North-Macedonia

https://www.eulerhermes.com/en_global/discover-euler-hermes/our-strategy.html

https://www.knowyourcountry.com/country-ratings-table (last update 9 January 2022)

https://www.oecd.org/trade/topics/export-credits/documents/cre-crc-current-english.pdf