Borrowing Capacity of Macedonian Municipalities – Comparative Analysis with the Practices of EU and South-East European Countries

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Abstract

Acquiring capital for municipal development is essential for its growth and financial stability. Municipalities (depending on the degree of fiscal decentralization) have limited range of possibilities for acquiring capital. These possibilities are divided into two major groups (depending on the source of financing) i.e. external sources and own sources. External sources for acquiring capital and financial assets for the municipalities can be summarized to national government capital grants and grants from other government and non-governmental institutions. Internal sources for acquiring capital are local taxes, service charges and fees, accumulated cash savings, annual operating surpluses and borrowing. Borrowing as a form of financing depends on the fiscal capacity of the municipalities. As a fiscal capacity, immediate depends from the municipal own revenues, and most of them have low level of economic activities, a high level of unemployment and high level of migration, they are faced with a problem of obtaining funds for doing their legal competences and duties. Projecting the future revenues of the municipalities and discounting them to present value can also be the key remark into the determination of municipal borrowing capacity. The main goal of this article is to show the borrowing capacity of the municipalities of the Republic of Macedonia and to make a comparative analysis with some South-East-European and developed EU countries in order to make a consistent platform for comparison and revealing directions for sustainable development, taking into consideration other positive practices in regional development.

Key Word: Borrowing, Borrowing Capacity, Municipalities, Public Financing, Debt Ratio.

Introduction

The municipalities need for additional capital investment and growth often require additional finance besides the typical own revenues generated by the municipalities. One of the sources for acquiring additional capital for the municipalities is borrowing or lending additional finances. The nature of the capital expenditures for infrastructural or other capital investment usually makes the borrowing the most suitable alternative source for acquiring additional finance. But borrowing as a form of financing is also limited source for the municipalities. Acquiring too much financial assets in the form of borrowing, can impact the financial stability of the municipality and also impact the ability for further providing financial assets form this type of source. Besides the impact on the financial stability, acquiring too much capital in the form of borrowing can cause over-indebtedness of the municipality, thus lowering its solvency. Lowering the solvency also lowers the credit rating of the municipalities therefore making the possibility
for borrowing additional capital even harder, thus creating more problems for the financial stability and further growth of the municipalities.

In order to maintain solvency and financial stability, municipalities must retain from over-indebtedness and acquire additional financial assets in accordance with their borrowing capacity. Borrowing capacity shows the limit of borrowing for the municipalities in accordance with their financial condition. This article reviews and compares the borrowing capacities of Macedonian municipalities and municipalities of south-east European countries and municipalities of countries members of European Union. The comparison is based on different practices and condition of borrowing capacity of the municipalities in previously stated countries. It also concerns the possibilities and challenges of maintaining and increasing the borrowing capacity of the municipalities of selected countries in future.

The main subject of the research in this article is the borrowing capacities of the municipalities in Republic of Macedonia, municipalities of south-east European countries and municipalities of the countries members in European Union. Borrowing capacities of the municipalities of previously stated countries were subjected to comparison in order to determine the similarities and differences of the borrowing capacities of the municipalities of the countries in different stage of economic growth, which presents the main objective of this article. Two other objectives are be presented in this article, in order to conduct an overhaul research, i.e. stating the perspectives and possibilities of further increasing the borrowing capacities of the researched municipalities and determination of the importance of credit rating of the municipalities for borrowing financial assets.

**Methodology**

The research in this article is conducted using both quantitative and qualitative methods for research. The main quantitative method used in the research is statistical method. Statistical method is used to collect the data necessary for calculation of borrowing capacity of the municipalities of Republic of Macedonia. The input data for calculating the debt ratio and borrowing capacity of Macedonian municipalities is gathered and calculated through balance sheets, cash flow sheets and income sheets of the Macedonian municipalities. Data was gathered from 80% of the municipalities of Republic of Macedonia, i.e. 64 municipalities of 80 totals were covered for the purpose of the research. The data for the borrowing capacities of the municipalities of South-east European countries and the countries of European Union was gathered using online sources, research in the field and other written sources.

Qualitative method that is used in the research for this article is comparative method. The comparative method is used to compare the borrowing capacities, credit ratings and method and practices for managing the borrowing capacities of the Macedonian municipalities and municipalities of South-east European countries and the countries of European Union. Besides the comparative method, other qualitative methods are used in the process of research and conclusion findings, such as: analytical method, method of deduction and method of induction.

**Borrowing Capacity, Creditworthiness and Credit Ratings**

Borrowing as a form of acquiring additional capital is of utmost importance for the municipalities which cannot acquire additional capital from their own and external resources. Borrowing allows the municipalities to evolve and add to their infrastructure, offer more quality and quantity of public goods and services, and achieve additional benefits. There are several reasons for the municipalities to consider borrowing to fund municipal infrastructure (Handbook for municipalities, 2009):

- **Borrowing allows the delivery of infrastructure to be accelerated**
- **Borrowing allows infrastructure costs to be shared with future beneficiaries**
- **Borrowing can mean saving on infrastructure cost**
• Borrowing can increase the municipal management on financial sustainability
• Borrowing builds a credit history

Borrowing additional capital doesn’t essentially mean that the financial assets obtained from the loan by the municipalities will be used for capital investment and infrastructure. They can also be used to improve the quality and quantity of public goods and services. However, the usage of the additional acquired capital has to be managed properly by the municipalities in order to create benefit for the municipality. Additional capital obtained by the means of the loan must not be used for settlement of current liabilities and expenses. The financial assets should be used in a manner where it will bring the most benefit for the municipality (profit wise investment, improvement of the existing infrastructure or capital investment into new infrastructural objects), not in the manner to cover some of the current expenses or backlog liabilities.

Financial management is essential for correct usage of the loan assets for municipalities. Not using the loan properly by the municipalities can cause a more devastating effect on their financial capacities and their financial structure. This can also happen if municipalities acquire too much additional assets or acquire assets on higher interest rates that they can afford. Municipalities should have in mind the link between the benefits that can be obtained with the right investment of the loaned capital and the cost of capital expressed with the interest rate. Lack of financial management in the municipalities will also have an impact on borrowing additional assets in the future, because the municipality will be considered less creditworthy.

Creditworthiness is closely linked with borrowing capacity of municipalities. A municipality that is considered creditworthy will have an easier access to additional funds, and also will have lower costs of acquiring finance than municipalities that are considered less creditworthy. Creditworthiness of the municipalities is determined by consulting a variety of factors (such as: ability of the municipality to repay the loan, operating costs and revenues of the municipality, total own revenues of the municipality, credit history of the municipality, political and economic risk of the municipality etc.) but its main goal is to indicate the risk of the municipality. Creditworthiness is usually presented with symbols also known as credit ratings which are assigned to the municipalities by independent credit ratings agencies. A credit rating is a current opinion of the creditworthiness of the obligor with respect to a specific financial obligation, a specific class of financial obligations or a specific financial program (Dr. Bernd Schmid, 2004). Credit rating makes the decision easier for the loaners as they can more accurately determine the risk factors, which exist in the municipalities that would like to gain additional finance in the form of a loan.

Other advantages of the credit ratings besides the above mentioned can be seen as (Clifford Gomez, 2013) (Dr. Alok Goyal Mridula Goya, 2010) and:

• Acquiring more potential sources for financing – The quantity of potential lenders for financial assets can increase as a result of acquired credit rating of the municipalities;

• Lower costs for financing – Credit rating can lower the costs of financing for the municipalities that have a credit rating. Firstly the costs of finding suitable loaner will decrease due to a larger number of potential investors gain through the acquired credit rating, and second the costs of capital as a form of interest rate can decrease as a result of positive credit rating;

• Increased marketing for the municipalities – Credit ratings can be seen as a marketing tool for the municipalities

• Reducing the chances of uninformed decision making - Acquired credit ratings can help possible investors make better decisions regarding their possible investment. Credit ratings show the potential risks of the municipalities and reduce the chances of risk of the investment;

• Reflect the current financial condition of the municipalities – Credit ratings can be an indicator for the financial stability of the municipalities. Higher credit ratings can be an indicator of financial
stability of the municipalities, and lower credit ratings can indicate that municipalities have unstable or somewhat impaired financial condition. The reflection of the financial condition seen through credit ratings is that more relevant because ratings are made by independent credit ratings agencies making them more objective and relevant to current financial condition of the municipalities;

- Increased socio-economic development of the municipalities – Acquired credit ratings can lead to increased socio-economic development of the municipalities through attracting potential investors and donors. Additional financial assets can accelerate the development of the municipality and thus increase the socio-economic condition of the municipality;

- Increased financial control and monitoring of the municipalities – Credit ratings can be used as a tool for controlling and monitoring the financial condition of municipalities. The national or other levels of government can use the credit ratings to monitor and control the financial conditions of the municipalities.

Concerning all the factors necessary for determination of the credit rating, Moody’s as an independent rating agency, gave their opinion of credit ratings of 6 Macedonian municipalities i.e.:

- Municipality of Gevgelija B1
- Municipality of Gostivar B1
- Municipality of Kumanovo B1
- Municipality of Stip B1
- Municipality of Veles B1
- Municipality of Ilinden B2

According to the credit ratings of the municipalities of the Republic of Macedonia it can be determined that they are municipalities with low creditworthiness. This credit rating can be closely observed and linked to the credit rating of the state which is determined to BB-, by Standard and Poor’s credit rating agency. This type of credit rating is considered as highly speculative and usually indicates to an unstable financial condition of the municipalities. The reasons behind the low creditworthiness of the Macedonian municipalities indicated by the credit rating can be seen in:

1. Low financial borrowing capacities;
2. Big dependence of the central government funds;
3. Inflexible budget;
4. Low management efficacy;
5. Necessity for infrastructural development, etc.

Furthermore, on 25.07.2014 Moody’s has withdrawn the credit ratings of the 6 Macedonian municipalities. In relegation to the previously stated benefits of the credit ratings a comparison table is given that represents the credit ratings of the municipalities and the countries of the south-east Europe and European Union countries.

According to the data in table one the highest credit rating goes to Germany and the bonds issued by German states and the lowest rating goes to Bosnia and Herzegovina and the bonds issued by this state. Republic of Macedonia as presented before has no credit ratings of the municipalities, i.e. it was withdrawn by the credit agency. Also Republic of Macedonia has only acquired credit rating from the Standard and

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1 Own Research based on municipalities balance and cash flow sheets
Poor’s rating agency and its equivalent according to the Moody’s credit rating can be translated as Ba3, which is 2nd lowest credit rating from the presented credit ratings.

Table 1 Credit ratings for countries of south-east Europe and European Union countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Country’s credit rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>B1 Negative</td>
</tr>
<tr>
<td>Slovenia</td>
<td>Ba1 Negative</td>
</tr>
<tr>
<td>Portugal</td>
<td>B1 Stable</td>
</tr>
<tr>
<td>Slovakia</td>
<td>A2 Positive</td>
</tr>
<tr>
<td>France</td>
<td>A1 Negative</td>
</tr>
<tr>
<td>Germany</td>
<td>Aaa Stable</td>
</tr>
<tr>
<td>Chez Republic</td>
<td>A1 Stable</td>
</tr>
</tbody>
</table>

Source: www.moodys.com

As was previously stated credit rating are closely connected to the capacity for borrowing of the municipalities. The borrowing capacity of the municipalities of the previously given states is presented and discussed in the next chapter of this research. The discussion and research in the chapter that follows are made towards completing the main goal of this paper.

**Borrowing Capacity, Practices and Possible Perspectives for the Municipalities of the Countries of South-East Europe and European Union Countries**

Borrowing as a form of financing depends on fiscal and borrowing capacity of the municipalities. On the other hand, borrowing capacity of the municipalities depends on the realized own revenues of the municipalities and the operating surplus of the municipality. Those municipalities which don’t realize enough revenues to overcome current liabilities are faced with an operating deficit. Such municipalities can only rely on government grants for funding capital project, as for the municipalities who realize operating surplus; they can turn to borrowing for acquiring additional capital. It does not necessary mean that they have low borrowing capacity. Projecting the future revenues of the municipalities and discounting them to present value, presents one way into the determination of municipal borrowing capacity. Therefore, maximum borrowing capacity of the municipalities can be determined by the present value of its future operating surpluses or operating deficits. In the case of discounting the interest rate offered by the banks for municipality loans should be used for bringing the future operating surpluses of the municipalities to present value.

Another way of determining the borrowing capacity of the municipalities is the ratio of expected operating revenue or total assets of the municipalities of the municipalities to expected debt, which also show the

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3 “Proceedings of the XIV International symposium Symorg”, University of Belgrade Faculty of Organizational sciences, Zlatibor 2014, pg. 637
4 https://www.moodys.com/research/Moodys-changes-outlook-on-Slovenias-Ba1-sovereign-rating-to-stable--PR_290569
5 https://www.moodys.com/research/Moodys-upgrades-ratings-of-five-Portuguese-mortgage-covered-bonds-programmes--PR_299528
6 https://www.moodys.com/research/Moodys-changes-outlook-on-Slovakias-A2-rating-to-stable-from--PR_283459
8 https://www.moodys.com/research/Moodys-changes-outlook-on-Germanys-Aaa-government-bond-rating-to--PR_292481
municipality borrowing capacity. The closer this ratio is to one a slight change in operating results of the municipalities can result in serious problems towards the debt repayment.

**Debt Ratio = Total Debt / Total Assets**

The Debt Ratio measures the proportion of total assets that are financed by creditor’s funds (R. Charles Moyer, James McGuigan, Ramesh Rao and William Kretton, 2012). Debt ratio covers all the debt of single entity including short and long term debt, it is also measured in percentage. Lower result for this indicator means that the municipalities have bigger borrowing capacity, i.e. have less used borrowing capacity. Higher debt ratio could indicate that the municipality have used the larger amount of its borrowing capacity, and possibly could end up with more than sufficient financial problems when servicing the debt. Also a higher debt ratio could indicate low proportionate equity base, i.e. a small amount of municipalities own finance is used for investing in assets. Municipalities with high debt ratio i.e. low borrowing capacity could also have significant problems when acquiring additional capital in the form of borrowing or issuing municipal bonds. The borrowing capacity of the municipalities could also affect the credit rating of the municipalities. For instance low borrowing capacity indicates that the municipality has large debt in relation to total assets i.e. the main form of acquiring assets by the municipality is realized through the form of borrowed capital.

Another means of calculating the maximum borrowing capacity of the municipality can be calculated with the derived from the formula given above. This indicator shows the borrowing capacity of the municipality i.e.:

**Used borrowing capacity = Total Debt / Operating surplus**

This formula shows the participation of the debt in the total operating surplus of the municipalities. The larger the participation the lower the maximum borrowing capacity will be and also lower participation of total debt in an operating surplus of the municipalities indicates larger borrowing capacity. So the municipalities which have acquired a considerable amount of assets throughout borrowing will have lower borrowing capacity because of the amount of their debt. Nevertheless if they manage to realize a higher operating surplus, the municipalities can still show a high indicator of maximum borrowing capacity. However, according to the previously stated formula, the bigger the percentage of borrowing capacity would mean low participation of the total debt in operating surplus.

For further analysis of the borrowing capacity of the municipalities a table is presented for the borrowing capacity of the municipalities of the Republic of Macedonia following the period from year 2009 till 2013.

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average debt ratio of the municipalities of Republic of Macedonia in %10</td>
<td>0.5%</td>
<td>1.2%</td>
<td>1.6%</td>
<td>3.4%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Debt ratio of City of Skopje Capital of Republic of Macedonia in %</td>
<td>1.5%</td>
<td>15.1%</td>
<td>8.8%</td>
<td>13.2%</td>
<td>10.8%</td>
</tr>
</tbody>
</table>

Source: Own Research based on municipalities balance and cash flow sheets

According to the data presented in the table 2 the average debt ratio of the Macedonian municipalities is determinate to neglecting results. The results of the debt indicator show that the Macedonian municipalities acquire a small amount of assets from borrowing, i.e. only 3% of the assets are financed from borrowed capital. Compared to the average of Macedonian municipalities the city of Skopje has a significantly higher

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10 Data from 64 municipalities of 80 totals was used for the purpose of this research, summing up for 80% of the statistical sample. (City of Skopje was excluded from the sample)
debt ratio, which indicate that a larger amount (more accurate 10.8% of the obtained assets in 2013) are financed with borrowed capital. The results of the debt indicator show that the Macedonian municipalities are not acquiring capital in the form of borrowing to finance their current assets. This situation can be foreseen as a result of two different conditions. Firstly the low result on the debt indicator can be considered a result of high amount of finance acquired from own sources or government transfers. And the second reason for the low results on the debt indicator could be seen as a result of low creditworthiness of the Macedonian municipalities. For more accurate review of the borrowing capacity of Macedonian municipalities another table is presented concerning the borrowing capacity of Macedonian municipalities.

Table 3 Used borrowing capacities for municipalities of Republic of Macedonia

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average borrowing capacity of the municipalities of Republic of Macedonia in %</td>
<td>1.5%</td>
<td>3.5%</td>
<td>4.8%</td>
<td>9.5%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Borrowing capacity of City of Skopje capital of Republic of Macedonia in %</td>
<td>5.1%</td>
<td>15.65%</td>
<td>8.76%</td>
<td>13.1%</td>
<td>10.8%</td>
</tr>
</tbody>
</table>

Source: Own Research based on municipalities balance and cash flow sheets

Results presented in table 3 indicate that Macedonian municipalities have used only significantly small part of their borrowing capacity. In year 2013 the average debt of Macedonian municipalities is covered by only 10% of the operating surplus indicating that Macedonian municipalities and city of Skopje have not used the borrowing capacity, i.e. they can still borrow funds and be considered creditworthy. In regard to the conclusion from tables 2 and 3 it can be determined that municipalities of Republic of Macedonia have unused borrowing capacity. The reasons behind this situation can be seen in the high amount of government transfers and low interest of the financial market for crediting Macedonian municipalities. Also the high risk considered by the rating agencies and the low acquired credit rating of the municipalities add to the results of the debt ratio and the borrowing capacity given in the tables 2 and 3. Below a table is presented which shows the indicators of the borrowing capacity and debt ratios of the municipalities of south-east European countries and European Union countries.

Table 4 Debt Ratio of the municipalities of south-east European countries and European Union countries

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Serbia</td>
<td>16%</td>
<td>21%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>4.1%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Portugal</td>
<td>12.5%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>3.0%</td>
<td>3.2%</td>
</tr>
<tr>
<td>France</td>
<td>15.4%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>5.4%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Chez Republic</td>
<td>5.0%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>


Data from 64 municipalities of 80 totals was used for the purpose of this research, summing up for 80% of the statistical sample. (City of Skopje was excluded from the sample)

Near 50% of the total revenues of the municipalities are acquired from the government transfers. (Own Research based on municipalities balance and cash flow sheets)

See page 5
As it can be seen from the previously presented table the municipalities of Serbia have the largest debt ratio according to the data of the indicator. The country with the smallest municipal debt ratio is Slovakia with only 3%, meaning that only 3% of the total assets are financed by loan acquired capital. According to the data presented in table number 4 it can be determined that municipalities of Republic of Macedonia have low debt ratio that corresponds with the debt ratio of the municipalities of South-European countries and European Union countries. Despite the equivalent of the debt indicator, the reasons behind it are not the same. Macedonian municipalities, as stated before show low debt ratio because of the low ability for acquiring financial assets in the form of borrowing. Their potential risks and low credit ratings give the municipalities little opportunities for borrowing. Despite the reasons behind low debt ratio of Macedonian municipalities, the municipalities of European countries show positive results on this indicator because of the high efficiency of the debt management.

According to the gathered data it can be determined that overall sub national borrowing remains as a minor source of revenue for the Macedonian municipalities. However, the role of municipal borrowing would be expected to increase with greater needs for local investments and significant borrowing capacity at the disposal. Despite the low overall borrowing of the Macedonian municipalities, larger cities such as the city of Skopje have higher percentage of debt ratio and used borrowing capacity. But the general opinion still stands, municipalities of the Republic of Macedonia acquire fewer financial assets in the form of borrowing in regard to their total amount of assets.

Nevertheless such imbalances in the sub national borrowing can become a financial stress in years to come. Already the credit ratings of the municipal bonds of the Macedonian municipalities were withdrawn, and the possibilities to go out on the financial market and acquire additional capital are limited. This may cause further disposition of the financial stability of the Macedonian municipalities. Lack of funding can significantly decrease the investments of the Macedonian municipalities in the infrastructure project therefore decreasing the possibility of constant economic growth. The necessity of additional capital for the Macedonian municipalities is essential, but also must be dealt with cautiously. If the market for acquiring additional finances for Macedonian municipalities becomes more flexible a phenomena of over-indebtedness might occur. Acquiring finances is essential for the growth of the municipalities but debt management is a toll for efficiently managing the borrowed assets. If such strategy is not rightly placed the municipalities can sink into a negative spiral of over-burdening the debt, which can become a greater stress for their solvency and self-sustainability in years to come.

Despite the low possibilities of acquiring capital of Macedonian municipalities, the municipalities of the south-east European countries are faced with another challenge. After the financial crisis the national debt and sub national debt has increased. Higher debt ratios have made negative impact on the credit ratings of the municipalities make them less creditworthy. Even now some of the municipalities of the south-east European countries and municipalities of the countries of European Union have special restrictions concealing the possibilities of acquiring additional capital in the form of borrowing¹⁴. However the borrowing capacity and the possibilities of financing thought the method of borrowing are much more versatile and available for municipalities of south-east European countries and municipalities of the countries of European Union in comparison to the Macedonian municipalities. The reasons for this could be found in the more developed financial markets and higher financial capacity of the European municipalities. Borrowing is essential for the growth of every municipality, but it also can represent a significant burden for them. Acquiring additional capital and broadening the possibilities for financing is essential for the sub-national government sector, but it must be handled with caution in order to sustain the solvency, financial stability and creditworthiness of the municipalities. The discussions presented according to the findings of this article have achieved the main goal presented in the abstract and the introduction of this article.

Conclusion

Municipalities realize their economic growth mainly through the process of infrastructure investment. This is also vital for regional development. The primary sources of infrastructural funding are internal transfers intended for such purposes or funding through the method of borrowing. It is not desirable for the self-sustaining municipalities use its own resources for funding various infrastructure investments. The amount of financial assets necessary for such investments could interfere with the financial management of the municipality and create a financial gap in the budgets of the municipalities. In order to realize the sufficient infrastructure projects necessary for continued growth of the municipalities, they turn to borrowing as a best alternative source of financing.

Borrowing is closely linked with the creditworthiness of the municipalities, usually stated through acquiring credit ratings. Credit rating shows the potential risks and borrowing capacities of the municipalities. Municipalities which acquired higher credit ratings have more chances to gather additional financial assets in the form of borrowing, but they also should be aware of their borrowing capacity and debt ratio. Municipalities with low borrowing capacities i.e. high debt ratio should look for alternative source of financing rather than continues borrowing. High debt ratio indicates that the municipalities have already financed the majority of their assets using the various forms of borrowing and have low borrowing capacities (decreased possibility for further acquiring financial assets in the form of borrowing).

According to the research municipalities of Republic of Macedonia have shown results of low debt ratio and low usage of their potential borrowing capacity. They could acquire additional financial assets in form of borrowing, but the market according to their acquired credit rating finds them less creditworthy. That is the main reason behind the lower debt ratio of Macedonian municipalities. In order to redeem themselves from the current position and involve themselves more on the financial markets (local and global) the Macedonian municipalities must first become more self-sufficient rendering more capital from their own resources. That will make them more creditworthy and will give them more frequent access to the financial markets, and to the assets necessary for infrastructural growth. However, as shown before there are some disparities in the sub-national borrowing in Republic of Macedonia. City of Skopje has higher indicator of debt ratio than the average debt ratio of Macedonian municipalities. That is because of the higher economic growth of different regions of Republic of Macedonia, which considers as another reason for low creditworthiness of the Macedonian municipalities.

Nevertheless borrowing in any form must be handled with precise strategy and efficient financial management. Excessive borrowing could cause financial stress for the municipalities as in the case of some of the European municipalities. The importance of acquiring capital through borrowing for financing infrastructural projects is necessary. But borrowing can be cause for financial destabilization of the sub-national and national level. That is why in the perspective the main concern for the Macedonian municipalities should be accomplishing self-sufficiency and higher rating for creditworthiness in order to become more involved in the forms of acquiring financial assets through borrowing. However, following the practice of European municipalities, efficient borrowing strategy and debt management is also necessary for maintaining solvency, creditworthiness and constant growth.

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